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Strategic Management

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PREFACE

Dear Students,

Welcome to the world of knowledge – JK Shah Classes

I have the pleasure of presenting this study material to you. It contains exhaustive theory for Strategic Management. The questions are selected so carefully from wide ranging sources. It is in alignment with the study materials issued by the ICAI including RTP, MTP Suggested answers. The material is so exhaustive that it leaves out nothing.

The subject will be taught by eminent professors who are highly experienced and well versed with the job.

The coaching is very exhaustive and concept based. Also the coaching is very systematic, well planned and absolutely time bound. I am sure you will feel that the study is a pleasurable job and not a painful exercise.

I wish you a very happy study time.

Best of Luck

Prof. J. K. Shah
Chartered Accountant

INDEX

1 INTRODUCTION TO STRATEGIC MANAGEMENT

Concept 1: Concept of Management:

To understand the concept of strategic management, we need to have a basic understanding of the term management. The term 'management' is used in two senses, such as:

1. **People view;**

   It is used with reference to **a key group in an organisation in-charge of its affairs**. In relation to an organisation, management is the chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating **the disorganised resources of manpower, money, materials, and technology into a functioning whole.**

   An organisation becomes a unified functioning system when management systematically mobilises and utilises the diverse resources efficiently and effectively.

   The survival and success of an organisation depends to a large extent on the competence and character of its management. Management has to also facilitate organisational change and adaptation for effective interaction with the environment.

2. **Functional view;**

   The term 'Management' is also used with reference **to a set of interrelated functions and processes carried out by the management of an organisation to attain its objectives.**

   These functions **include** Planning, Organising, Directing, Staffing and Control. **The functions or sub-processes of management are wide-ranging but closely interrelated.** They range all the way from determination of the goals, design of the organisation, mobilisation and acquisition of resources, allocation of tasks and resources among the personnel and activity units and installation of control system to ensure that what is planned is achieved.

Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner. Influence is backed by power, competence, knowledge and resources. Managers formulate organisational goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes in the environment.

Concept 2: Strategy:

Introduction;

The term strategy has been derived from the **Greek word 'strategos'** which means generalship.

Business today is like fighting a war and businessmen have to respond to the dynamic and hostile (i.e., unfriendly) environment. Every businessman makes use of strategies to face the tricks of his enemy (i.e., rivals).

Strategy may be **defined as a long-range blueprint of an organisation**, what it wants to be? (**i.e., desired image**), what it wants to do? (**i.e., direction**) and where it wants to go? (**i.e., destination**).

Policy and Strategy are quite interrelated, but the interesting thing to study is how they differ. Where a policy is a thought process, **it talks about what should be done in a particular situation, or what should be the reaction to a given circumstance**. The strategy part of it explains the real actions, **strategy talks about how the policy would be followed.**

For example, the policy of an organisation could be to not drop their prices to fight competition. The strategy could be to give more quantity for the same price, or give some other product as a freebie to attract customers without dropping their price.

Strategy is **consciously considered** and **flexibly designed scheme of** corporate intent and action to mobilise resources, to direct human effort and behaviour, to handle events and problems, to perceive and utilise opportunities, and to meet challenges and threats for corporate survival and success.

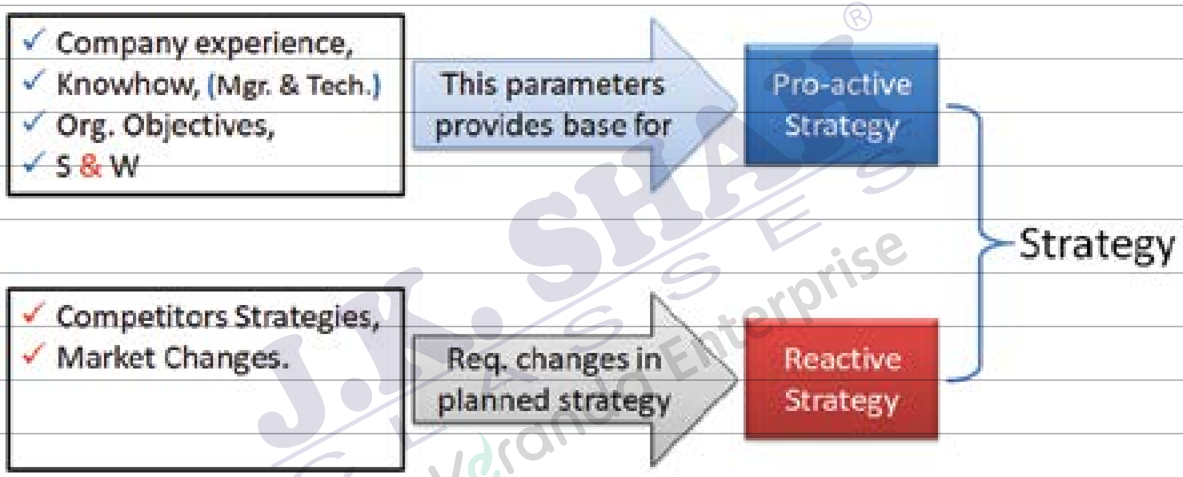
Strategy is the game plan that the management of a business uses to take market position, conduct its operations, attract and satisfy customers, compete successfully, and achieve organizational objectives.

Definition of Strategy;

Strategy is defined by William F. Glueck as, "A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved".

2.1 Classification of Strategy based on approach;

1. Proactive approach (i.e., Proactive strategy), and
2. Reactive approach (i.e., Reactive strategy).



Q. "Strategy is partly proactive and partly reactive." do you agree?

Ans: Yes,

In Proactive Strategy, organizations will analyse possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner.

However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

There can be significant deviations between what was visualized and what actually happens. Strategies need to be modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands.

It is **based on unanticipated events** such as Competitor's strategies, Market changes require changes in planned strategy is known as Reactive Strategy. **Reactive strategy** is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

Hence, strategy is partly proactive and partly reactive.

2.2 Characteristics of Strategy;

- **Ways to win over enemy:**

  A typical **dictionary defines** the word 'strategy' as something that has to **do with war and ways to win over enemy.**

- **Forward looking:**

  Strategy is **forward looking** it defines in broad terms the action which an organisation proposes to take in future.

- **Designed to move to the desired future position:**

  Strategy is **designed to move** an organisation from its current position **to the desired future position.**

- **Pragmatic and flexible:**

  Strategy needs to pragmatic **(i.e., practical)** and **flexible** as per the situation.

- **Strategy is partly proactive and partly reactive:**

  Proactive refers to actions on the part of managers to improve the company's market position, competitive advantage and financial performance by deciding and planning in advance.

  However, if a company's strategy is **developed as a response to unanticipated developments**, it is known as reactive strategy. For E.g., Airtel changing its tariff rates on introduction of JIO.

- **Strategy is not a substitute:**

  Strategy is not a substitute for sound, alert and responsible management. It provides a directions and support to the management. Strategy formulation should be complemented (i.e., supported) with strategy implementation to achieve objectives.

- **Strategy can never be perfect, flawless and optimal:**
  Means strategies **may fail** if there are loopholes in formulation or implementation of strategy. Similarly, it may also fail due to changes in environment. In a sound strategy, allowances are made for possible miscalculations and unanticipated events.

- **Strategy is not a bundle of tricks and magics:**
  Strategic management is **not a bundle of tricks and magic**. It is a deliberate managerial process as it involves critical thinking and commitment of resources to action.

- **Application of strategy:**
  Every organisation whether it is large or small requires strategies. These organisations irrespective of their sizes face similar business environment and face competition. In **large organisations**, strategies are formulated at the **corporate, business** (divisional) and **operational** (functional) levels. **Corporate strategies** are formulated by the **top managers.**

Q. "Strategic management is a bundle of tricks and magic. Do you agree?

Ans: No, the term 'strategic management' refers to the managerial process of;

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

Hence, strategic management is not a bundle of tricks and magic.

Concept 3: Strategic Management:

Introduction;

In a hyper competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So, to meet changing conditions in their industries, companies need to be farsighted and visionary, and must develop long-term strategies. Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth of the company.

Definition of Strategic Management;

"The **art and science** of formulating, implementing and evaluating cross-functional decisions that enable an organization **to achieve its objectives**."

3.1 The overall objectives of strategic management are twofold;

i. To create competitive advantage;

So that the company can outperform the competitors in order to have dominance over the market.

ii. **To guide** the company successfully through all changes in the environment.

To put the concept in a few words, the term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and finally initiating corrective adjustments where deemed appropriate. The process does not end, it keeps going on in a cyclic manner.

3.2 Importance (Benefits) of Strategic Management;

Introduction;

Formulation of strategies and their implementation have become **essential for all organizations for their survival and growth** in the present turbulent business environment.

'Survival of fittest 'as promoted by Charles Darwin is the only principle of survival for organization, **where** 'fittest' are not the 'largest' or 'strongest' organizations but **those who can change and adapt** successfully to **the changes in business environment.**

Many business giants have followed the path of extinction failing to manage drastic changes in the business environment. For E.g., Bajaj Scooters, LML Scooters, Murphy Radio, BPL Television, Nokia, kodak and so on. Thus, it becomes essential to study Business Strategy.

The major benefits of strategic management are:

- **Direction to the company:**

  The strategic management **gives a direction** to the company to move ahead. It **defines the goals and mission**. It helps management to **define realistic objectives and goals** which are in line with the vision of the company.

- **Proactive instead of Reactive:**

  Strategic management **helps** organisations **to be proactive** instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within unpredictable environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

- **Framework for all major decisions:**

  Strategic management **provides framework for all major decisions** of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. In other words, it provides better guidance to entire organisation on the crucial point - what it is trying to do.

- **Futuristic:**

  Strategic management seeks (i.e., attempt) to prepare the organisation to face the future and **act as pathfinder** to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means to reach them.

- **Corporate Defence Mechanism:**

  Strategic management **serves as a corporate defence mechanism** against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.

- **Enhance Longevity:**

  Strategic management **helps** to enhance the longevity (i.e., durability) of the business. With the state of competition and dynamic environment it may not be possible for organisations to survive in long run. It helps the organization to take a clear stand in the related industry and makes sure that it is not just surviving on luck.

- **Developing Core Competence and Competitive Advantage:**

  Strategic management **helps** the organisation **to develop certain core competencies** and **competitive advantages** that would facilitate assist in its fight for survival and growth.

3.3 Limitations (Drawbacks) of Strategic Management;

Introduction;

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines.

- **Strategic management is a costly process;**

  Strategic management **adds a lot of expenses** to an organization. **Expert strategic planners need to be engaged**, efforts are made for analysis of external and internal environments devise strategies and properly implement.

  These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete. Strategic Management requires experts and these experts are costly resources. Thus, the process as a whole required good amount of funds to be spent

- **Strategic management is a time-consuming process;**

  Organisations spend a lot of time in preparing, **communicating the strategies that may impede daily operations** and negatively impact the routine business.

- **Environment is highly complex and turbulent (i.e., unstable);**

  It is **difficult to understand the complex environment** and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully (i.e., inadequately go wrong) and jeopardise (i.e., causing harm to) all strategic plans.

  The **environment affects as the organisation** has to deal with suppliers, customers, governments and other external factors. Thus, relying on a business strategy blindly could go absolutely wrong if the environment is turbulent.

- **In a competitive scenario;**

  In a competitive scenario, where all organisations are trying to move strategically, it is **difficult to clearly estimate the competitive responses** to a firm's strategies.

Concept 4: Strategic Intent;

Definition;

Strategic Management is defined as a dynamic process of; formulation, implementation, evaluation, and control of strategies to realise the organization's strategic intent.

Introduction;

The intentions with which organisational manager's **plans the future course of action,** that intention is **known as strategic intent.** Strategic intent is the **base of all the activities** every manager **at all levels** is doing **to achieve organisational goals.**

It is the **fire within the organisational officers which keeps them moving more closer to the objectives and goals** instead they face the hardest challenge and unfriendly business environment.

As a name suggesting that "intent" related to future. **Clarity** in strategic intent is extremely important for the future success and growth of the enterprise, **irrespective of its nature and size.**

Senior managers must define "**what they want to do**" and "**why they want to do**". This "why they want to do" underlies the end result that is likely to be achieved through "what they want to do". This end result is referred to as "strategic intent"

Strategic intent can be understood as the **philosophical base** of strategic management.

Strategic intent **provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.** Strategic intent could be in the form of vision and mission statements for the organisation at the **corporate level.** It could be expressed as the business definition and business model at the **business level** of the organisation.

4.1 Element of Strategic Intent;

1. Vision: Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organisation's aspirations and provides a glimpse of what the organisation would like to become in future. Every sub system of the organisation is required to follow its vision.

2. Mission: Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. It is designed to help potential shareholders and investors understand the purpose of the firm. A mission statement helps to identify, 'what business the firm undertakes.' It defines the present capabilities, activities, customer focus and role in society.

3. Goals and Objectives: These are the base of measurement. Goals are the end results, that the organisation attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan, over the particular period. However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

   The vision, mission, business definition, and business model explain the philosophy of the organisation but the goals and objectives represent the results to be achieved in multiple areas of business.

   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. Let us understand a bit more about values from a business perspective.

4. Values/ Value System: Values are the deep-rooted principles which guide an organisation's decisions and actions. Collins and Porras succinctly define core values as being inherent and sacrosanct; they can never be compromised, either for convenience or short-term economic gain. Values often reflect the values of the company's founders—Hewlett-Packard's celebrated "HP Way" is an example. They are the source of a company's distinctiveness and must be maintained at all costs.

Concept 5: Vision:

Introduction;

The **most important issue** organisational managers need to work on is clarity of destination i.e., where they want the organisation to be in specified time period. **Where to go is the most important question** and should be always asked before planning how to go.

Strategic vision thus points out a particular direction, charts a strategic path to be followed in future, and moulding organizational identity.

Definition;

A Strategic vision is **a road map of a company's future** – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

- ✓ Vision implies the **blueprint** of the company's future position.
- ✓ A strategic vision shows management's aspirations for the business, providing a view of "**where we are going**".
- ✓ It describes where the organisation **wants to land.**
- ✓ Every **sub system of the organization** is required to follow its vision.

Some examples of Vision are✍

ICAI;

"To be World's leading accounting body, A regulator and developer of trusted and independent professionals, with world class competencies in accounting, assurance, taxation, finance and business advisory services."

Tesla;

"to create the most compelling car company of the 21st century by driving the world's transition to electric vehicles."

Walt Disney

"to make people happy."

Amazon;

"to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online."

5.1 Essentials of a strategic vision;

- The entrepreneurial challenge in developing a strategic vision is **to think creatively** about how to prepare a company **for the future.**
- Forming a strategic vision is an exercise in **intelligent entrepreneurship.**
- A well-articulated strategic vision **creates enthusiasm** among the members of the organisation.
- The best-worded vision statement clearly **enhances the direction** in which organization is headed.

Concept 6: Mission

Introduction;

A company's mission statement is typically **focused on its present business** and **answer to the basic question** scope – i.e., "**who we are?** And **what we do?**"

Mission statements broadly describe organizations;

- Present capabilities,
- Customer focus,
- Activities, and
- Business makeup.

It has been observed that many firms **fail to conceptualise and articulate the mission and business definition** with the required clarity. Such **firms are seen to fumble** in the identification of opportunities and **fail** in formulating strategies to make use of opportunities.

Firms working to manage their organisation strategically cannot be lax (meaning cannot be careless i.e., लापरवाह or बेपरवाह) in the matter of mission and business definition, as the two ideas are absolutely central to strategic planning.

✓ Mission statement should reflect the **philosophy** of the organizations that is perceived by the senior managers.

✓ A good mission statement **should be precise, clear, feasible, distinctive and motivating.**

✓ The mission is a statement which **defines the role that an organization plays in the society.**

Some examples of Mission are

- **ICAI** will leverage technology and infrastructure and partner with its stakeholders to:
- Impart world class education, training and professional development opportunities to create global professionals.
- Develop an independent and transparent regulatory mechanism that keeps pace with the changing times.
- Ensure adherence to highest ethical standards.
- Conduct cutting edge research and development in the areas of accounting, assurance, taxation, finance and business advisory services.
- Establish ICAI members and firms as Indian multi-national service providers.

Tesla;
"to accelerate the world's transition to sustainable energy."

Walt Disney
"to entertain, inform and inspire people."

Amazon;
"We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience."

6.1 Why an organization should have a mission?

- To **ensure unanimity** of purpose within the organization.
- To **develop a basis, or standard,** for allocating organizational resources.
- To provide **a basis for motivating** the use of the organization's resources.
- To **establish a general tone** or organizational climate.
- To serve as a **focal point for** those who can identify with the organisation's purpose and direction.
- To **facilitate the translation of objective and goals** into a work structure **involving** the assignment of tasks to responsible elements within the organisation.
- To **specify** organizational purposes and the **translation** of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

6.2 Points (tips) to be considered (or useful) while writing mission statement;

- ✓ One of the roles of a mission statement is **to give the organisation its own special identity,** business emphasis and path for development – one that typically sets it apart from other similarly positioned companies.
- ✓ **A company's business is defined by what needs it is trying to satisfy,** which customer groups it is targeting and the technologies and competencies it uses and the activities it performs.
- ✓ Good mission statements **should be unique** to the organisation for which they are developed.
- ✓ The mission of a company **should not be to make profit.** Surpluses may be required for survival and growth, but cannot be mission of a company.

6.3 What is our mission? And what business are we in?

The well-known management experts, **Peter Drucker** and **Theodore Levitt** were among the first to agitate (i.e., concern) these issues through their writings. They emphasised that as the first step in the business planning endeavour (i.e., effort), every business firm must clarify the corporate mission and define accurately the business the firm is engaged in. They also explained that towards facilitating this task, the firm should raise and answer certain basic questions concerning its business, such as:

- What is our mission?
- What is our ultimate purpose?
- What do we want to become?
- What kind of growth do we seek?
- What business are we in?
- Do we understand our business correctly and define it accurately in its broadest connotation?
- Whom do we intend to serve?
- What human need do we intend to serve through our offer?
- What brings us to this particular business?
- What would be the nature of this business in the future?
- In what business would we like to be in, in the future?

At the time these two experts raised this issue, **the business managers of the world did not fully appreciate the importance of these questions;** those were the days when business management was still a relatively simple process even in industrially advanced countries like the US. It was only in subsequent years that captains of industry all over the world understood the significance of the seemingly simple questions raised by Drucker and Levitt.

Corporate mission;

The corporate mission is an **expression of the growth ambition of the firm.** It is, in fact, the **firm's future visualised.** It provides a dramatic picture of what the company wants to become. It is the **corporation's dream crystallised.** It is **a colourful sketch** of how the firm wants its future to look, irrespective of **the current position. In other words, the mission is a grand design of the firm's future.**

Mission amplifies what brings the firm to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business firm. In other words, **the mission serves as a justification for the firm's very presence and existence; it legitimises the firm's presence.**

Mission is also an expression of the vision of the corporation, its founder/ leader. To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

It represents the common purpose, which the entire firm shares and pursues. **A mission is not a confidential affair to be confined at the top;** it has to be open to the entire company. All people are supposed to draw meaning and direction from it. **It adds zeal to the firm and its people.** A mission is not a fad-it is a tool to build and sustain commitment of the people to the corporation's policies. A mission is not rhetoric - it is the corporation's guiding principle.

Every organisation function through a network of goals and objectives. Mission statement is the foundation from which the network of goals is built. The mission serves as a proclamation to insiders and outsiders on what the corporation stands for. **A mission, however, is not a PR document;** while it legitimises the corporation's existence and role in society, its main purpose is to give internal direction for the future of the corporation.

According to Peter Drucker, every organisation must ask an important question "What business are we in?" and get the correct and meaningful answer. The answer should have marketing or external perspective and should not be restated to the production or generic activities of business. The table given below will clarify and highlight the importance of external perspective.

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

Concept 7: Goals and Objectives:

Introduction;

Business organisation translates their vision and mission into goals and objectives.

Goals and Objectives are the **base of measurement.** As such the term objectives are synonymous with goals, however, some authors make an attempt to distinguish the two.

- **Goals** are the **end results**, that the organization attempts to achieve. Goals are **open-ended** attributes that **denote the future states** or **outcomes.**
- **Objectives** are **time-based measurable targets,** which help in the accomplishment of goals. Objectives are **close-ended** attributes which are precise and **expressed in specific terms.**

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

However, in practice, **no distinction is made between goals and objectives** and both the terms are used interchangeably.

Objectives are organization's performance targets. The results and outcomes it wants to achieve. **Objective function as yardsticks** for tracking an organization's performance and progress.

7.1 Characteristics of Objectives;

All organisations have objectives. The pursuit of objectives is a **never-ending process** such that organisation sustain themselves. **Objectives provide meaning and sense of direction to organisational endeavour.**

Organisational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also **act as benchmarks** for guiding organisational activity and for evaluating how the organisation is performing.

Objectives **with strategic focus** relate to outcomes that **strengthen an organisation's overall business position and competitive vitality.**

Objectives, to be meaningful to serve the intended role, must possess the following characteristics.

- Objectives should **define** the **organization's relationship with its environment.**
- Objectives should be **facilitative** towards achievement of mission and purpose.
- Objectives should be **measurable** and **controllable.**
- Objectives should provide the **basis for strategic decision-making.**
- Objectives should provide **standards for performance appraisal.**
- Objectives should be **concrete** and **specific.**
- Objectives should be **related to a time frame.**
- Objectives should be **challenging.**
- Different objectives should **correlate with each other.**
- Objectives should be **set within the** constraints (i.e., **scope**) of organisational resources and external environment.

7.2 Long-term Objectives;

Introduction;

As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets.

Long-term objectives represent the results expected from pursuing certain strategies, Strategies represent the actions to be taken to accomplish long-term objectives. The **time frame** for objectives and strategies should be consistent, usually from **two to five years.**

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

1.	Profitability.	2.	Productivity.
3.	Competitive Position.	4.	Employee Development.
5.	Employee Relations.	6.	Technological Leadership.
7.	Public Responsibility.		

Objectives should be <u>quantitative</u>, <u>measurable</u>, <u>realistic</u>, <u>understandable</u>, <u>challenging</u>, <u>hierarchical</u>, and <u>obtainable</u> **among organizational units.** Each objective should also be associated with a time line.

Objectives are commonly stated in terms such as growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility.

7.3 Short-range objectives then serve as steps toward achieving long term objective?

Short-range objectives can be identical to long-range objectives if an organisation is already performing at the targeted long-term level. For instance, if a company has an ongoing objective of 15 percent profit growth every year and is currently achieving this objective, then the company's long range and short-range objectives for increasing profits coincide.

The most important situation in which short-range objectives differ from long-range objectives occurs when managers are trying to elevate organisational performance and cannot reach the long-range target in just one year.

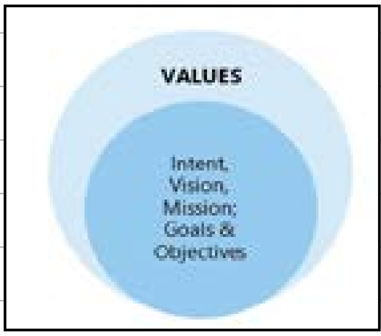
Hence, short-range objectives then serve as steps toward achieving long term objective.

Concept 8: Values:

"Business, as I have seen it, places one great demand on you: it needs you to self- impose a framework of ethics, values, fairness and objectivity on yourself at all times." - Ratan N Tata, 2006 (Source: TATA Group Website)

A few common examples of values are – Integrity, Trust, Accountability, Humility, Innovation, and Diversity. But why are values so important? A company's value sets the tone for how the people of think and behave, especially in situations of dilemma. It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success. Employees prefer to work with employers whose values resonate with them - the ones they can relate to in their daily work and personal life. Interestingly, majority of consumers say that they would 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.

For reference, a lot of values were put to actions during Covid 19 pandemic when leaders of the organisations put people before everything else. It projected how deep the foundation of the oragnisations' were and how important it was for them to uphold their core values.

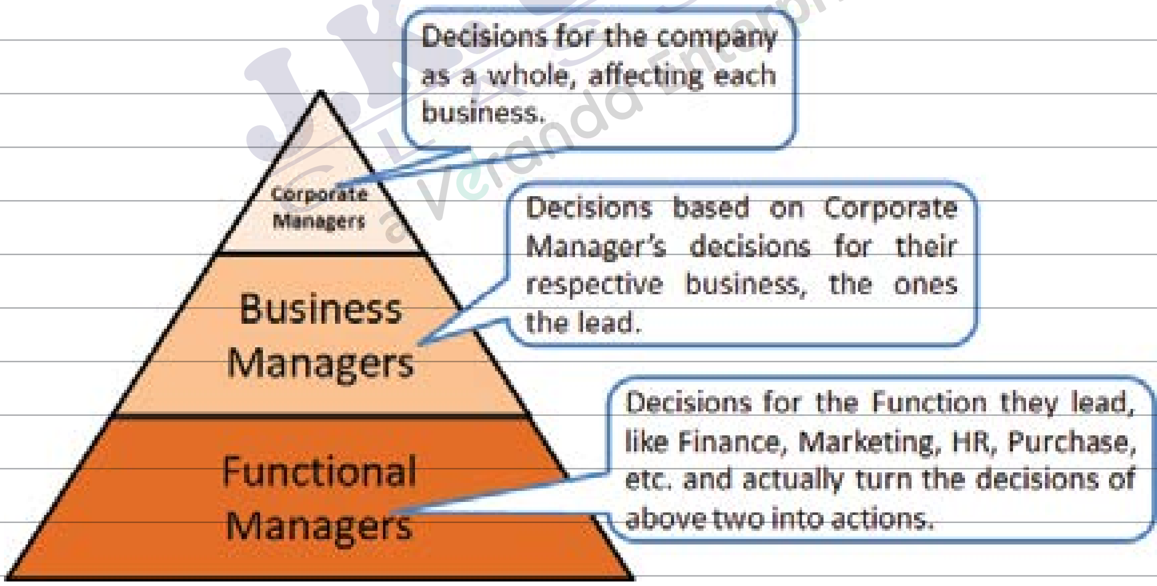


The above graphic represents the interconnection of Intent, Vision, Mission, Goals and Values; Values remain the center/core of Vision, Mission, Goals and putting all them to action. Vision is followed by Mission, followed by Goals and finally executing via real actions.

Concept 9: Strategic levels in Organisations:

Introduction;

A typical large organization is a multi-divisional 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. It has separate divisions which work within themselves to sustain each of these businesses.

General managers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility.

9.1 Corporate level of management consists of;

1. The Chief Executive Officer (CEO),
2. Other Senior Executives,
3. The Board of Directors (BOD) and
4. Corporate Staff.

Those individuals are mainly strategic decision-making authority of the organisation.

Q. What tasks are performed by a strategic Manager? Or, The role of corporate level management includes.

Ans: The primary task of the strategic manager is conceptualising, designing and executing company strategy. For this purpose, his tasks include;

- To oversee the development of strategies for the whole organization.
- To set corporate vision, mission and goals,
- Determining what business, it should be in,
- Allocation of resources,
- Formulating strategies and implementing strategies that span (i.e., to cover or to reach) individual businesses,
- Providing leadership for the organization as a whole, etc...

9.2 Distinction between strategic levels of the organisation;

i. Corporate Level;

Consist of?

Chief executive officer and other top-level executives. These individuals participate in strategic decision making within the organization.

Role's;

The role of corporate-level managers is to oversee the development of strategies for the whole organization.

This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span (i.e., cover or to reach) individual businesses, and providing leadership for the organization as a whole.

ii. **Business Level;**

Consist of?

General Manager or Divisional Manager and Staff.

Role's;

To translate the general statements (i.e., general strategies) into concrete strategies of their individual businesses.

The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. Such divisions are called Strategic Business Units (SBUs).

In other words, The development of strategies for individual business areas. To support corporate strategy.

iii. **Functional Level;**

Consist of?

Functional Manager's like, Finance Manager's, HR Manager's, etc...

Role's;

Responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on.

To develop functional strategies in their area that help fulfil the strategic objectives set by business and corporate level general managers. Functional managers provide most of the information to formulate realistic and attainable strategies.

2 STRATEGIC ANALYSIS: EXTERNAL ENVIRONMENT

Concept 1: Strategic Analysis:

Introduction;

Understanding the business environment before starting the business is known as strategic analysis. Strategic analysis is **conscious efforts made by the business managers in understanding the internal factors (S & W) and external forces (O & T)** which are related to the business organization.

All business managers should perform situational analysis **before they start planning** for the organization.

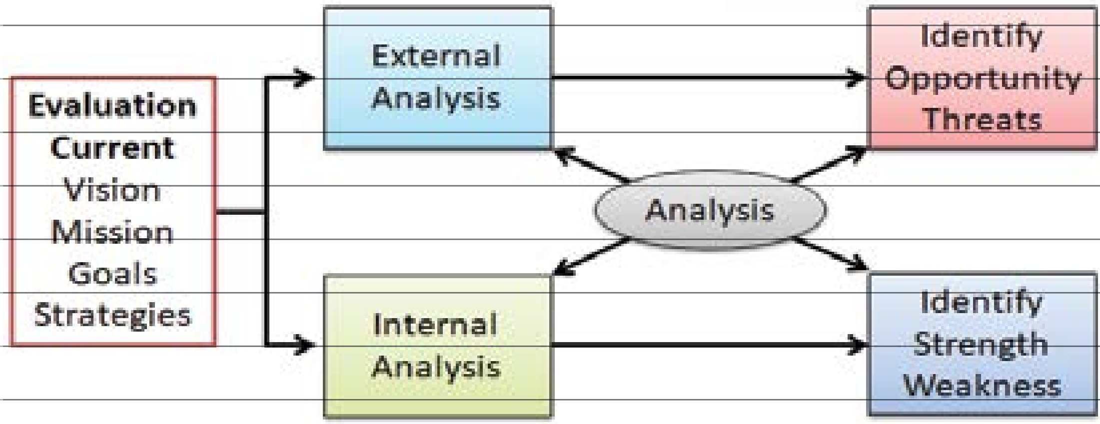
Strategy formulation is **not a task** in which managers can get by with intuition, opinions, instincts, and creative thinking. **But it is a judgment** about what strategies to pursue need to flow directly from analysis of;

- A firm's external environment,
- Its internal resources, and
- Capabilities.

The two most important situational considerations (factors) are:

(i) Industry and Competitive Conditions, and

(ii) An organisation's **own** competitive capabilities, resources, internal strengths, weaknesses, and market position.



For developing sound and meaningful long-term strategy strategist must perform strategic appraisal of the external and internal situation, to evaluation of alternatives, to the choice of strategy.

Efforts made in formulation of strategies **without perceptive analysis of businesses factors and forces** will increase the chance of developing faulty strategy which will decrease the chance of improving the performance of the organization, will lead to little prospect of developing competitive advantage and unachieved vision, mission and objectives and goals.

Issues (limitations) to consider for Strategic Analysis:

(a) Strategy evolves over a period of time;

Development of strategy requires detailed analysis of all the aspects of internal and external factors and forces. This is time consuming process.

An important aspect of strategic analyses is to consider the possible implications of routine decisions.

Strategy of a firm, at a particular point of time, is result of a series of small decisions taken over an extended period of time.

(b) Balance of external and internal factors;

The process of strategy formulation is often described as one of the matching the internal potential of the organization with the environmental opportunities.

In reality, as perfect match between the two may not be feasible. There are constraints that limit the choice such as existence of a big competitor.

(c) Risk;

Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degree.

In strategic analysis, the principle of maintaining balance is important. However, the complexity and intermingling (i.e., inter mix) of variables in the environment reduces the strategic balance in the organisation.

An important aspect of strategic analysis is to identify potential imbalances or risks and assess their consequences.

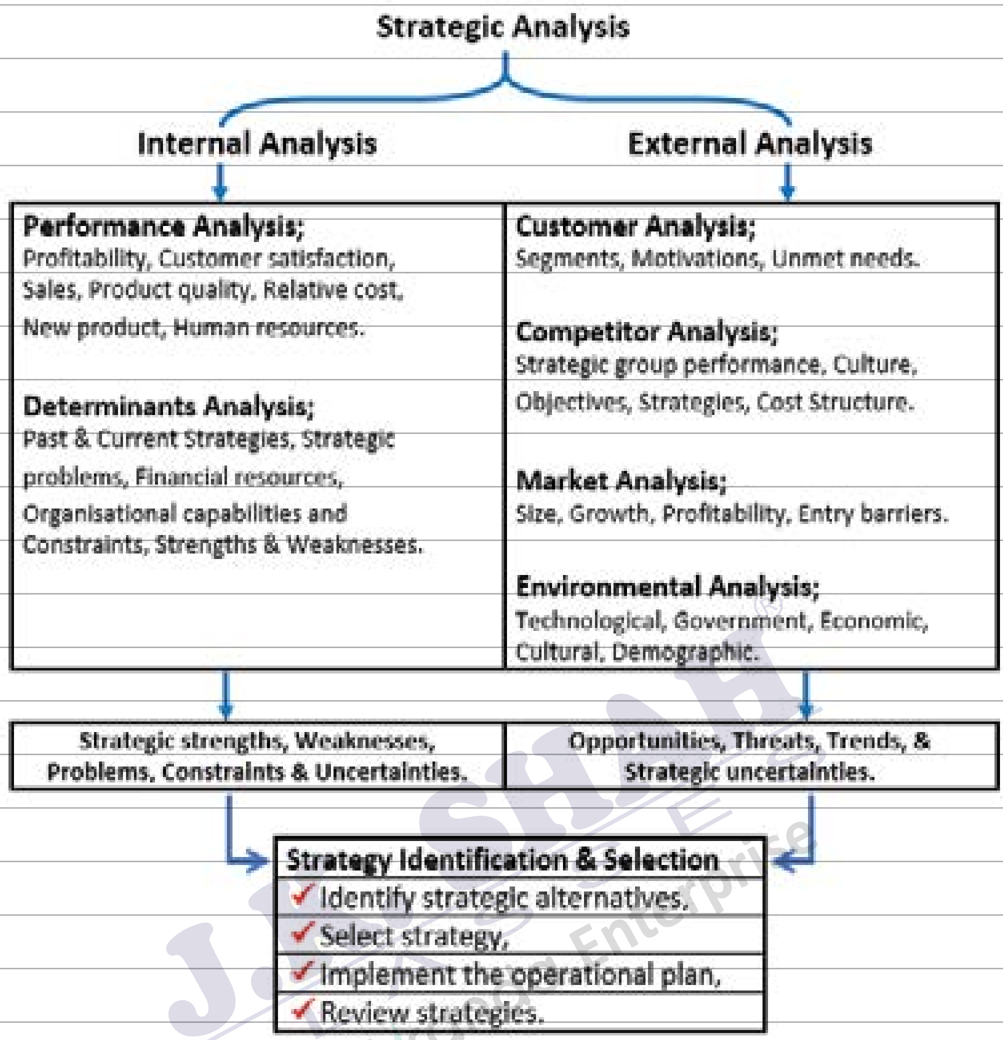
External risk is on account of inconsistencies between strategies and the forces in the environment.

Internal risk occurs **on account of forces** that are either within the organization or are **directly interacting** with the organization **on a routine basis.**

1.1 Types of Risk;

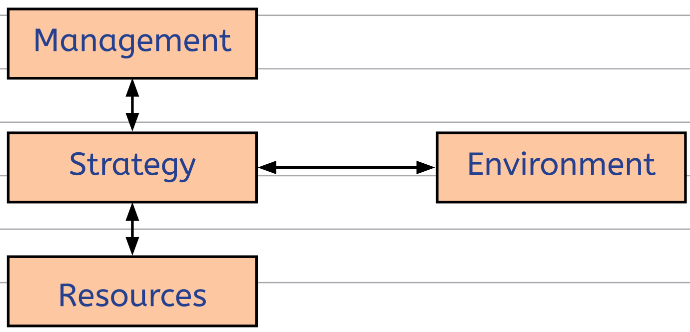
		Time	
		Short Term	**Long Term**
Strategic Risks	**External**	An **error in interpreting** the environment, causes **strategic failure.**	**Changes in the environment** lead to **obsolescence of strategy.**
	Internal	Organizational **capacity is unable to cope up** with strategic demands.	**Inconsistencies** with the **strategy are** developed on account of **changes** in internal capacities & preferences.

1.2 Framework of Strategic Analysis;



Concept 2: Strategy and Business Environment

In strategic analysis, the principle of maintaining balance is important. However, the complexity and intermingling (i.e., inter mix) of variables in the environment reduces the strategic bal



The business environment is highly dynamic and continuously evolving. Strategists provide an interface between the organizational abilities and the opportunities and challenges it must deal within the larger environment.

> The term "business environment" refers to all external factors, influences, or situations that in some way affect business decisions, plans, and operations.
> Organisational success is determined by its business environment, and even more from its relationship with it.

Strategic management is involved with choosing a long-term direction in relation to these resources and opportunities. There is a close and continuous interaction between a business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. It helps the business in the following ways:

(i) Determine opportunities and threats: The interaction between the business and its environment would explain opportunities and threats to the business. 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.

(ii) Give direction for growth: The interaction with the environment enables the business to identify the areas for growth and expansion of their activities. Once the business is aware and understands the changes happening around, it can plan and strategise to have successful business.

(iii) Continuous Learning: The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm of business.

(iv) 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. Understanding the needs of the environment help to showcase that the business is aware and responsive to the needs. It creates a positive image and helps it to prosper and win over the competitors.

(v) Meeting Competition: It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly. The idea is to flourish and beat competition for its products and services.

Business strategies relate organisational resources to challenges and opportunities in the larger environment. The changes happening in the external environment challenge organisations to find novel and unique strategies to remain in business and succeed. As the world is getting smaller and competition is increasing, organisations have an increasing pressure to develop their businesses and strengthen their competitiveness. Strategic analysis covering internal and external environment is highly relevant and important for the strategists in organisations in order to achieve competitive advantage, as well as ensure high performance for survival and growth.

Strategic decisions are significant aspects of business management and are essential for the success and continued existence. Two crucial aspects for the success include are the function of top management and the method of formulating strategic decisions. Improvement of strategic decisions is constant endeavour for strategist. Due to the contemporary environment's changes and the challenges that managers must overcome when making decisions, there is interest in enhancing strategic decision-making. The environment is far more dynamic and unpredictable than it used to be.

> To flourish, a business must be aware of, assess, and respond to the many opportunities and threats present in its environment. In order to succeed, the business must not only be aware of the numerous aspects of its surroundings but also be able to handle and adapt to them. The business must continuously evaluate its environment and modify its operations in order to thrive and expand.

Concept 3: 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. Business strategists should always be adequately informed on developments occurring in their company, its industry, and within micro and macro environment of business. For making any strategic decision, they should be able to comprehend the facts available and challenge the underlying assumptions.

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

- Micro environment
- Macro environment

Micro-environment is related to small area or immediate periphery of an organization. It influences an organization regularly and directly. Micro environment consists of suppliers, consumers, marketing intermediaries, competitors, etc. These are specific to the said business or firm and affect its working on a direct and regular basis. Within the micro or the immediate environment in which a firm operates we need to address the following issues:

- The employees of the firm, their characteristics and how they are organised.
- The existing customer base on which the firm relies for business.
- The ways in which the firm can raise its finance.
- Who are the firm suppliers and how are the links between the two being developed?
- The local community within which the firm operates.
- The direct competition and their comparative performance.

The factors in micro environment often relate an organization to the macro issues influencing the way a firm reacts in the market place. 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.

Concept 4: Elements of Macro Environment

Macro environment has broader dimensions as it consists of economic, socio- cultural, technological, political and legal factors. The classification of the relevant environment into components or sectors helps an organization to cope with its complexity, comprehend the different influences operating, and relating the environmental changes to its strategic management process.

> "The environment includes factors outside the firm which can lead to opportunities for, or threats to the firm. Although, there are many factors, the most important of the factors are socio-economic, technological, supplier, competitors, and government."
>
> Gluek and Jauch

The external environment of an organisation is made up of all the individuals, teams, organisations, agencies, and factors that it routinely interacts with when conducting business. In addition to carrying out transactions, it develops and puts into action pertinent plans and policies to address environmental changes. It negotiates its way into the future as well.

Demographic Environment

Demographics are the characteristics of a population that have been classified and explained according to certain criteria, such age, gender, and income, in order to understand the features of a specific group. Demographical analysis considers factors such as race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education. Data about these qualities across homes and within a demographic variable are of importance to both businesses and economists. Marketers and other social scientists regularly divide up populations based on their demographic makeup. India has relatively younger population as compared to many other countries. Many multinationals are interested in India considering its population size.

Considering demographics is of immense importance for any business. Business Organizations need to study different demographic factors. Particularly, they need to address following issues:

- What demographic trends will affect the market size of the industry?
- What demographic trends represent opportunities or threats?

The size, age distribution, geographic dispersion, ethnic mix, and income distribution of a population are all of great importance to the organisation. Identifying the implications of changing demographic characteristics or population components for a future strategic competitiveness is often a challenge for strategists.

Socio-Cultural Environment

A general factor that influences almost all enterprises in a similar manner. It represents a complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth. It differs from demographics in the sense that it is not the characteristics of the population, but it is the behaviour and the belief system of that population.

Socio-cultural environment consists of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the operations of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated. The core beliefs of a particular society tend to be persistent. It is difficult for a business to change these core values, which becomes a determinant of its functioning. This means, that businesses have to adjust to social norms and beliefs to operate successfully. The social environment primarily affects the strategic management process within the organization in the areas of mission and objective setting, and decisions related to products and markets.

Economic Environment

Economic conditions have a direct bearing over the business strategies. The economic environment 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 for resources that have an effect on the supply of inputs and outputs of the business, their costs, and the dependability, quality, and availability.

Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability. Income distribution pattern determine the business possibilities. The important point to consider is to find out the effect of economic prospect, growth and inflation on the operations of the business.

> 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.

The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market, interest rates, disposable income, unemployment, inflation, etc. All these factors generally tell the state of the economy. Whether it is doing good or is it performing poorly.

Political-Legal Environment

Political-legal environment takes into account 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, political stability, the political ideology and practises of the ruling party, the effectiveness and purposefulness of governmental agencies, and the scope and type of governmental intervention in the economy and industry. It is partly general to all similar enterprises and partly specific to an individual enterprise.

Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business. A business has to 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. However, in any country businesses must have a good working knowledge of the major laws protecting consumers, competitions and organizations. Businesses must understand the relevant laws relating to companies, competition, intellectual property, foreign exchange, labour and so on.

Technological Environment

Nationalism supports measures aimed at enhancing the position of a country in International business. Presently, there is immense thrust on nationalism in Indian business through policies like Make in India and Aatmanirbhar Bharat. Production Linked Incentives scheme, another step in the direction, rewards businesses for increased sales of goods produced domestically. The scheme encourages foreign businesses to open businesses in India, and at the same time incentivises domestic businesses to open or expand their manufacturing facilities, create more jobs, and lessen India's reliance on imports.

A highly important factor in the present times is technology. Technology has changed the way people communicate and do things. Technology has also changed the ways of how businesses operate now. Technology and business are linked and are interdependent on one another. Businesses help society access the outcomes of technological research and development, raising everyone's standard of living.

As a result, business leverages technology. Businesses use new discoveries to adapt themselves for the advancement of society.

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.

Technology is leading to many new business opportunities as well as making obsolete most of the existing business products and services. Technology can act as opportunity, when a business effectively adopts technological innovations to their strategic advantage. However, at the same time technology can act as a threat too. Artificial intelligence, machine learning, robotic process automation is some of the new technological tools that businesses are adopting and can act as both opportunity and threat to a business.

PESTLE– A tool to Analyse Macro Environment

The term PESTLE is often used to describe a framework for analysis of macro environmental factors. PESTEL analysis is frequently used to assess the business environment in which a firm operates. Political, economic, social, and technological (PEST) analysis was the name given to the framework in the past; however, later, the framework has been expanded to include environmental and legal factors as well. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy.

'PESTLE analysis is an increasingly used and recognized analytical tool, and it is an acronym for:

P - political
E - economic
S - socio-cultural
T - technological
L - legal
E - environmental

The PESTLE analysis is simple to understand and quick to implement. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

The Key Factors:

- **Political factors** are how and to what extent the government intervenes in the economy and the activities of business firms. Political factors may also influence goods and services which the government wants to provide or be provided and those that the government does not want to be provided. Furthermore, governments have great influence on the health, education and infrastructure of a nation.

- **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.

- **Social factors** affect the demand for a company's products and how that company operates.

- **Technological factors** can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

- **Legal factors** affect how a company operates, its costs, and the demand for its products, ease of business.

- **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.

  On the basis of these, it should be possible to identify a number of key environmental influences, which are in effect, the drivers of change. These are the factors that require to be considered in making meaningful decisions. Take a look at the table given below:

Political	Economic
• Political stability	• Economy situation and trends
• Political principles and ideologies	• Market and trade cycles
• Current and future taxation policy	• Specific industry factors
• Regulatory bodies and processes	• Customer/end-user drivers
• Government policies	• Interest and exchange rates
• Government term and change	• Inflation and unemployment
• Thrust areas of political leaders	• Strength of consumer spending

Social	Technological
• Lifestyle trends	• Replacement technology/solutions
• Demographics	• Maturity of technology
• Consumer attitudes and opinions	• Manufacturing maturity and capacity
• Brand, company, technology image	• Innovation potential
• Consumer buying patterns	• Technology access, licensing,
• Ethnic/religious factors	patents, property rights and
• Media views and perception	copyrights

Legal	Environmental
• Business and Corporate Laws	• Ecological/environmental issues
• Employment Law	• Environmental hazards
• Competition Law	• Environmental legislation
• Health & Safety Law	• Energy consumption
• International Treaty and Law	• Waste disposal
• Regional Legislation	

Concept 5: Internationalisation of Business

5.1 To be specific, a global company has three characteristics:

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

5.2 Why do companies go global?

There are several reasons why companies go global. These are discussed as follows:

- The first and foremost reason is need **to grow**. It is basic need of organisations. **Often finding opportunities in the other parts of the globe** organisation extend their businesses and globalise.

- There is **rapid shrinking of time and distance across the globe** thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes.

- It is being realised that the **domestic markets are no longer adequate** and rich. **For instance,** Japanese have flooded the U.S. market with automobiles and electronics because the home market was not large enough to absorb whatever was produced.

- Companies often set up overseas plants **to reduce high transportation costs.** **For instance,** 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.

- There can be varied other reasons such as need **for reliable or cheaper source** of raw-materials, cheap labour, etc...
  For instance, 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.

- The rise of services to constitute the largest single sector in the world economy: and regional economic integration, which has involved both the world's largest economies as well as certain developing economies.
  For instance, Manufacturing of Hyundai cars in India will help to improve Indian economy by generating more and more employment.

- The trend is towards increased privatization of manufacturing and services sectors, less government interference in business decisions and more dependence on the value-added sector to gain market place competitiveness.

- The **trade tariffs** and **custom barriers are getting lowered**, resulting in increased flow of business.

- Globalization has made companies in different countries **to form strategic alliances** to ward off economic and technological threats (i.e., to avoid being hit by economic and technological threats) and **leverage their respective comparative and competitive advantages.**

Concept 6: Understanding Product And Industry

Businesses sell products. 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:

- **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. Alternatively, an intangible product is not a physical good, such as telecom services, banking, insurance, or repair services.

- **Product has a price.** Businesses determine the cost of their products and charge a price for them. The dynamics of supply and demand influence the market price of an item or service. The market price is the price at which quantity provided equals quantity desired. The price that may be paid is determined by the market, the quality, the marketing, and the targeted group. In the present competitive world price is often given by the market and businesses have to work on costs to maintain profitability.

On account of competition, businesses are not able to fix market price by adding profit margin on the costs. Rather, they work on reducing the costs given the prevailing market price.

- **Products have certain features that deliver satisfaction.** A product feature is a component of a product that satisfies a consumer need. Features determine product pricing, and businesses alter features during the development process to optimise the user experience. Products should be able to provide value satisfaction to the customers for whom they are meant. Features of the product will distinguish it in terms of its function, design, quality and experience. A customer's cumulative experience with a product from its purchase to the end of its useful life is an important component of a product feature.

- **Product is pivotal for business.** The product is at the centre of business around which all strategic activities revolve. The product enables production, quality, sales, marketing, logistics and other business processes. Product is the driving force behind business activities.

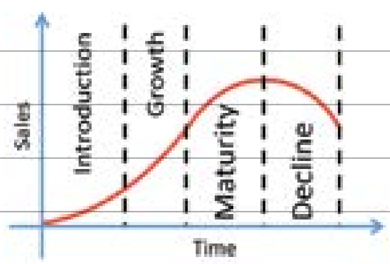
- **A product has a useful life.** Every product has a usable life after which it must be replaced, as well as a life cycle after which it is to be reinvented or may cease to exist. We have observed that fixed line telephone instruments have largely been replaced by mobile phones.

Concept 7: Product Life Cycle

Introduction;

PLC indicate **S-shaped** curve. PLC, which exhibits (i.e., indicate) the **relationship of sales** with respect to **time** for a product that passes through the four successive stages of product life cycle.

The different stages in a product life cycle are:



- ✓ Introduction **(Slow sales growth),**
- ✓ Growth **(Rapid market acceptance),**
- ✓ Maturity **(Slowdown in growth), and**
- ✓ Decline **(Sharp downward fall).**

Product life cycle (PLC) has to do with the life of a product in the market with respect to business/commercial costs and sales measures. PLC is a **useful concept for guiding strategic choice.**

(i) Introduction Stage;

At the introduction stage in which **competition** is almost **negligible, prices are relatively high** and **markets are limited**. The **growth in sales is at a lower rate** because of **lack of knowledge** on the part of customers.

(ii) Growth Stage;

The demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

(iii) Maturity Stage;

In this stage, the **competition gets tough** and market gets stabilised. **Profit comes down** because of stiff competition. At this stage, organisations have to **work for maintaining stability.**

(iv) Decline Stage;

The **sales and profits fall down sharply** due to some new product replaces the existing product. So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.

The main advantage of PLC:

- It can be used to diagnose a portfolio of products (or businesses).
- Particular attention is to be paid on the businesses that are in the declining stage.
- A combination of strategies can be implemented on various SBU's.

Conclusion;

In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

Concept 8: Value Chain Analysis:

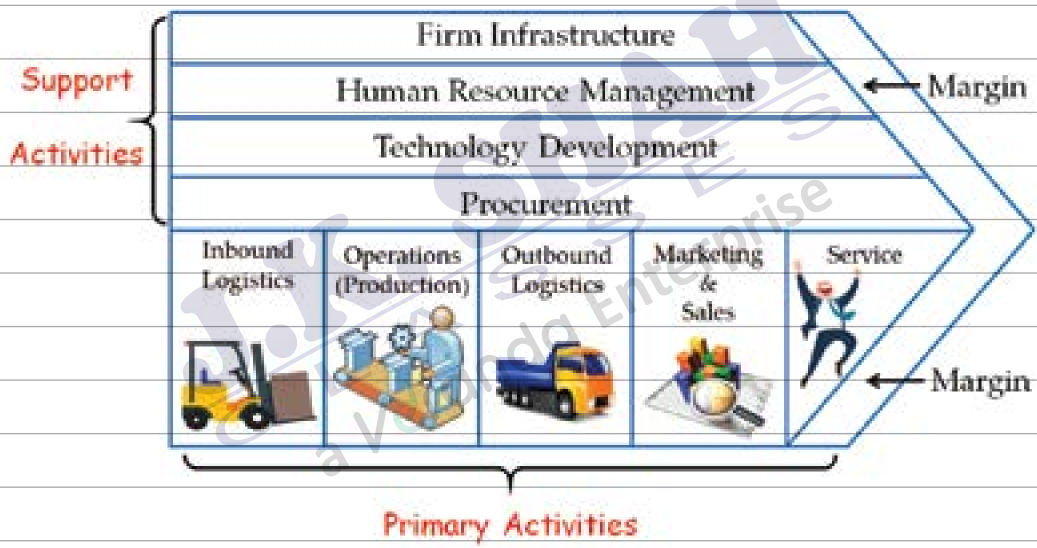
Introduction;

A value chain is a **set of activities** that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market.

Value chain analysis has been **widely used as a means of describing the activities within and around an organization**, and relating them to an assessment of the competitive strength of an organization. **In other words**, its ability to provide value-for-money products or services.

Value chain analysis was **originally introduced as an accounting analysis** to shed light (i.e., to reveal information) on the 'value added' of separate steps in complex manufacturing processes, **in order to determine** where cost improvements could be made, value creation improved.

The **two basic steps** of **identifying separate activities** and **assessing the value added from each** were linked to an analysis of an organization's competitive advantage by Michael Porter.



One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of Man (people), Machines, Material, and Money. These **resources are of no value unless deployed into activities** and organised into systems and routines which ensure that products or services are produced which are **valued by the final consumer** i.e., user.

In other words, it is these competences to perform particular activities and the ability to manage linkages between activities which are the source of competitive advantage for organizations. **Porter argued** that an understanding of strategic capability must start with an identification of these separate value activities.

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

- **Inbound logistics;** These are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, warehousing, inventory control, transport etc...

- **Operations;** It comprise the transformation of the inputs into the final product form. This includes production, machining, assembly, packaging, testing, etc...

- **Outbound logistics;** It involve the collecting, storing, and distributing the product to the buyers.
  For tangible products this would be processing of orders, warehousing of finished goods, materials handling, transport, etc...
  In the **case of services**, it may be more concerned with arrangements for bringing customers to the service, **if it is a fixed location, for example sports events.**

- **Marketing and sales;** It deals with how buyers can be convinced to purchase the product. Provides the means whereby users are made aware of the product or service and are able to purchase it. This would include sales administration, advertising, promotion, distribution, etc...

- **Service;** It involves how to maintain the value of the product or service after it is purchased. Through installation, repair, maintenance, training, etc..

Each of these groups of primary activities are linked to support activities. These can be divided into four areas:

- **Procurement;** It concerned with the tasks of purchasing inputs such as raw materials, equipment, and even labour.

- **Technology Development;** These activities are intended to improve the product (through R&D in product design) and the process (through process development), or with a particular resource (e.g., raw materials improvements).

- **Human Resource Management;** This is a particularly important area which to reach all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.

- **Firm Infrastructure;** The activities which are not specific to any activity area. The systems of planning, finance, quality control, information management, etc.... are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

8.1 Use of Value Chain Analysis for Identifying Core Competences:

Introduction;

Value chain analysis is **useful in describing the separate activities** which are necessary to support an organization's strategies and how they **link together both inside and outside the organization.**

Although a threshold competence in all of these activities is necessary to the organization's successful operation, it is **important to identify those competences which critically support the organization's competitive advantage.** These are known as the core competences and will differ from one organization to another depending on how the company is positioned and the strategies it is pursuing.

For E.g., Japanese manufacturers were developing competences in defect-free manufacture. Which became critical success factors in allowing them to achieve global sales.

Value chain analysis is a **reminder that the long-term competitive position** of an organization is concerned with **its ability to sustain value for-money products or services,** and it can be helpful in identifying those activities which the organization must undertake at a threshold level of competence and those **which represent the core competences of the organization.**

Core competences may also be the basis on which the organization stretches into new opportunities. So, in deciding which competences are core, this is another criterion which should be used - the ability to exploit the competence in more than one market or arena.

However, in order to do this, it is necessary to identify the basis on which an organization has gained competitive advantage and hence which are the core competences in sustaining this advantage.

8.2 Managing linkages:

Introduction;

Core competences in separate activities may provide competitive advantage for an organization, but nevertheless **over time it may be imitated by competitors.**

Core competences are likely to be **stronger and more difficult to imitate if they relate to the management of linkages** within the organization's value chain (i.e., internal linkages) and linkages into the supply and distribution chains (i.e., external linkages).

It is the **management of these linkages which provides 'leverage'** and levels of performance which are difficult to match by the competitors.

The ability to co-ordinate the activities of specialist teams or departments may create competitive advantage through improving value for money in the product or service. Specialization of roles and responsibilities is common in most organizations and is one way in which high levels of competence in separate activities is achieved. **However,** it often results in a set of activities which are incompatible - different departments pulling in different directions - adding overall cost, diminishing value in the product or service.

This management of internal linkages in the value chain could create competitive advantage in a number of ways:

- There may be important linkages between the **primary activities.**
  For E.g., a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer.

- Linkages between different **support activities** may also be the basis of core competences.
  For E.g., the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies.

- The management of the linkages between a **primary activity and a support** activity may be the basis of a core competence.
  For E.g., Computer-based systems provides better infrastructure to facilitate quick sales and service especially in transport (Ola, Uber, etc...) & hotel (Oyo, Make My Trip, etc...) business.

External Linkages;

In addition to the management of internal linkage, competitive advantage may also be gained by the ability to co-ordinate the organization's own activities with those of suppliers, channels or customers i.e., **external linkage.**

Again, this could occur in a number of different ways:

- **Vertical integration;**

  Firm attempts to improve performance through ownership of more parts of the value system, making more linkages internal to the organization. However, the practical difficulties and costs of coordinating a wider range of internal activities can outweigh the theoretical benefits.

- **Closely monitoring the suppliers;**

  Within manufacturing industry, the competence in closely specifying requirements and controlling the performance of suppliers (sometimes linked to quality checking and/or penalties for poor performance) can be critical to both quality enhancement and cost reduction.

- **By applying concept of TQM;**

  A more recent philosophy has been total quality management, which seeks to improve performance through closer working relationships between the specialists within the value system. For example, many manufacturers will now involve their suppliers and distributors at the design stage of a product or project.

Concept 9: Porter's Five Forces Model

Five competitive forces in an industry as identified by Michael Porter;

1. Threat of new entrants:

New entrants can reduce an industry's profitability, because they add new production capacity, leading to increase in supply of the product, sometimes even at a lower price and can substantially erode (i.e., **diminish) existing firm's market share position.**

However, New entrants **are always a powerful source of competition.** The new capacity and product range they bring in **throws up a new competitive pressure. The bigger the new entrant,** the more severe the competitive effect. New entrants also **place a limit on prices and affect the profitability of existing players,** which is known as Price War.

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

2. **Bargaining power of customers (buyers):**

The bargaining power of the buyers **influences not only the prices that the producer can charge but also influences costs and investments of the producer.** This is because powerful buyers usually bargain for better services which involves more investment on the part of the producer.

This force **becomes heavier depending on the possibility of buyers forming groups or cartels.** Mostly, this is a phenomenon (i.e., situation) seen in industrial products. Quite often, users of industrial products come together formally or even informally, and exert (i.e., apply) pressure on the producer.

For E.g., Car manufacturer companies can exert (i.e., apply) pressure on the tyre manufacturer.

Buyers can sometimes apply considerable pressure on existing firms to secure lower prices or better services. This leverage is particularly evident when;

- Buyers **have full knowledge** of the sources of products and their substitutes. Thus, challenging the price being charged by producer.
- They **spend a lot of money on the industry's products** i.e., they are big buyers. Thus, in a position to demand favourable terms of contract.
- The **industry's product is not** perceived (i.e., **recognised) as critical** to the buyer's needs and buyers are more concentrated than firms supplying the product. They can **easily switch** to the substitutes available.

3. **Bargaining power of suppliers:**

Quite often, suppliers too, exercise considerable bargaining power over purchasing companies. The **more specialised the offering** from the supplier, **greater may be its effect.** Further, when the suppliers are limited in number, they may openly display their bargaining power.

The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry, **and therefore,** an industry's attractiveness and profitability.

For E.g., increase in cost of fuel, such as petrol, diesel etc. will impact input cost of many industries.

Suppliers can **influence the profitability** of an industry in a number of ways. Suppliers **can command** bargaining power over a firm when:

- Their **products are crucial** to the buyer and substitutes are not available.
- They can **erect high switching costs.**
- They are **more concentrated** than their buyers. Meaning less suppliers, more buyers.

4. Rivalry among current players (competitors):

Rivalry between existing players is quite obvious. This is what is normally understood as competition. **For any player, the competitors influence strategic decisions at different strategic levels.** The impact is more evident at functional level, like in the prices being charged, more aggressive advertising, and building pressures on costs, product and so on.

The intensity of rivalry in an industry is a significant determinant **of an industry's attractiveness and profitability.** The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus, can directly affect the profitability.

"The **more intensive the rivalry,** the **less attractive is the industry".** Rivalry among competitors tends to be cutthroat and industry profitability low when;

- An industry has **no clear leader.**
- **Competitors** in the industry **are numerous.**
- Competitors **operate with high fixed costs.**
- Competitors **face high exit barriers.**
- Competitors have **little opportunity to differentiate their offerings.**
- The industry faces **slow or diminished growth.**

Note: For detail explanation of above-mentioned points refer concept 1.5

5. Threats from substitutes:

Substitute products are a **latent (hidden, indirect)** but existing source of competition in an industry. In many cases they grow to become a major constituent of competition.

Substitute products that offer a price advantage and/or performance improvement to the consumers, can drastically alter the competitive character of an industry. Surprisingly, they can bring it about all of a sudden.

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.

For E.g., Real estate, insurance, bonds and bank deposits for example are clear substitutes for common stocks, because they represent alternate ways to invest funds.

For E.g., the threat of substitutes is great in many high-tech industries as well. Introduction of digital film-less cameras virtually replaces the film cameras and threatened the existence of Eastman Kodak and Fuji Film.

Further, the introduction of smart phones has replaced cameras to a great extent.
For E.g., the rapidly changing education landscape, with the emergence of online courses and degrees, is a perfect example of a substitute to the existing educational system, with better approachability and access.
***Study Note:** Write any 1 out of 3 examples illustrated above in exam.

Conclusion: The above discussed five forces together determine an industry's attractiveness/profitability. This is so because these forces influence the causes, that underlie industry attractiveness/profitability.

9.1 Steps to implementing Porter's Five Forces Model

1. **Identify** the specific competitive pressures associated with each of the five (5) forces.
2. **Evaluate** how strong the pressures comprising each of the five (5) forces (it could be intense, strong, moderate to normal, or weak). and
3. **Determine** whether the collective strength of the five (5) competitive forces is conducive beneficial to earning attractive profits.

9.2 Barriers to Entry

A firm's profitability tends to be higher **when** <u>other firms are blocked from entering into the industry.</u> This achieved through barriers to entry.

New entrants can **reduce industry profitability** because they add new production capacity leading to increase supply of the product even at a lower price and can

substantially destroy existing firm's market share position.

Porter's five forces model considers new entrants as a **powerful source of competition.**

To discourage new entrants, existing firms can try to raise barriers to entry. Barriers (restrictions) to entry represent economic forces (or 'hurdles') that slow down or delay or prevent entry by other firms.

Common barriers to entry include:

1. **Capital Requirements:** When a large amount of capital is required to enter an industry, **firms lacking funds are effectively barred from the industry,** thus enhancing the profitability of existing firms in the industry. This makes the entry of new companies into this sector very difficult.

   For E.g., huge investments are required to build production facilities and establish brand awareness amongst people for entry into the **pharmaceutical industry.** This makes entry of new companies into this sector very difficult.

2. **Economies of Scale:** Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer **to the decline in the per-unit cost of production** as volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs. This tends to discourage new entrants. This acts as a barrier for new entrants.

   For E.g., in the semiconductor industry, large companies, such as IBM, Intel, and Samsung enjoy substantial economies of scale in the production of advanced microprocessors, communication chips and integrated circuits that power most consumer electronics, personal computers (PCs) and cellular phones. This acts as a barrier for new entrants.

3. **Product Differentiation:** Product differentiation refers to the physical or **perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.**

   For E.g., Firms in the **personal care products and cosmetics industries** actively engage in product differentiation to enhance their products' features. Differentiation works to **reinforce (i.e., prevent) entry barriers** because the cost of creating genuine product differences may be too high for the new entrants.

4. **Switching Costs:** To succeed in an industry, **new entrant must be able to** persuade (i.e., **influence) existing customers of other companies to switch to its products.**

To make a switch, buyers may need to test a new firm's product, negotiate new purchase contracts, and train personnel to use the equipment, or modify facilities for product use. Buyers often incur substantial financial costs in switching between firms. **When such switching costs are high, buyers are often reluctant to change.**

For E.g., 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. **In other words,** Microsoft has marketed its operating system in such a manner that it almost impossible for companies to sell a new operating system and break into the customer loyalty of Microsoft.

5. **Brand Identity:** The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products (i.e., non FMCG products) that carry a high unit cost to the buyer. **New entrants often encounter significant difficulties in building up the brand identity,** because to do so they must commit substantial resources over a long period of time. The gestation (i.e., development) period of customer loyalty is quite high, when customers identify themselves with existing brands.

For E.g., During the 1970s, Japanese companies such as Toyota, Nissan, and Honda had to spend huge sums on new product development and promotional activities to overcome the American consumer's preference for domestic cars.

In India, it was a huge challenge for foreign 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.

6. **Access to Distribution Channels: The unavailability of distribution channels** for new entrants **poses** (i.e., create) **another significant entry barrier.** Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to create a barrier to entry to rivals.

Often, **existing firms have significant influence over the distribution channels** and can delay or restrict their use by new firms.

For E.g., Because of control over distribution channels in India by HUL, Godrej and P&G etc., small entrepreneurs find it very difficult to sell their products through the existing channels. **Similarly,** with advent (i.e., emergence) of Patanjali and its strong nation-wide distribution channel, new Ayurvedic FMCG companies are facing a challenge.

7. **Possibility of Aggressive Retaliation (counter-attack):** Sometimes the mere threat of **aggressive retaliation** (counter-attack) **by existing firm** can discourage entry by other firms into an existing industry.

   For E.g., Introduction of products by a new firm may lead existing firms to **reduce their product prices** and **increase their advertising budgets.** The same way Hindustan Unilever and Colgate Palmolive spent huge sums of money in advertisement to fight Patanjali's Dant Kanti Toothpaste.

9.3 The intensity of rivalry, its impact on industry profitability

The rivalry among existing players is **quite obvious.** This is what is normally understood as competition. For any player, the **competitors influence strategic decisions** at different strategic levels.

"The more intensive the rivalry, the less attractive is the industry". Rivalry among competitors tends to be cutthroat and industry profitability low when;

1. **Industry Leader:**

   A strong industry leader **can discourage price wars by disciplining initiators of such activity.** Because of its greater financial resources, a leader can generally withstand in a price war. Knowing this, smaller rivals often avoid initiating such a contest.

   For E.g., India's domestic air travel industry has no definite leader, and hence, we often see cut throat price wars.

2. **Number of Competitors:**

Even when an industry leader exists, **the leader's ability to apply pricing discipline diminishes with the increased number of rivals in the industry** as communicating expectations to players becomes more difficult.

For E.g., majorly in unorganised sectors like handicrafts, due to huge number of producers, the internal rivalry is immense.

3. **Fixed Costs:**

When organisations operate with high fixed costs, they feel strong motivation to utilize their capacity and therefore are inclined (i.e., ready) to cut prices when they have excess capacity. Price cutting causes profitability to fall for all firms in the industry as firms attempt to produce more to cover costs that must be paid regardless of industry demand. For this reason, profitability tends to be lower in industries.

For E.g., Airline, Telecommunications, etc... characterized by high fixed costs.

4. **Exit Barriers:**

Rivalry among competitors declines, if some competitors leave an industry. Profitability therefore tends to be higher in industries with few exit barriers. **When barriers to exit are powerful**, competitors desiring exit may refrain from leaving. Their continued presence in an industry exerts downward pressure on the profitability of all competitors. **The crux is, if an organisation cannot exit, it would fight for its survival, and thus, intensify competition.**

For E.g., Assets of a firm considering exit may be highly specialized and therefore of little value to any other firm. Therefore, such firm may not be able to find a buyer for its assets. This discourages exit.

5. **Product Differentiation:**

Firms can sometimes insulate (i.e., isolate or **separate) themselves from price wars by differentiating** their products from those of rivals. **As a consequence, profitability tends to be higher in industries that offer opportunity for differentiation.**

Profitability tends to be lower in industries involving undifferentiated commodities such as, memory chips, natural resources, processed metals and railroads.

For E.g., ONGC and Indian Oil, cannot offer major product differentiation in their products. Hence, the level of competition would always be high.

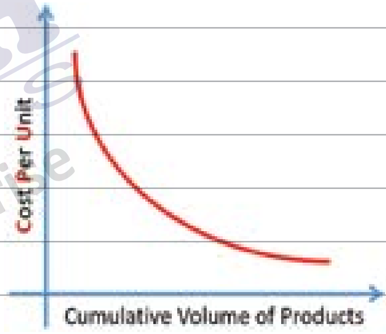
6. **Slow Growth:**

Industries whose growth is slowing down tend to face more intense rivalry. As industry growth slows, **rivals must often fight harder to grow or even to keep their existing market share.** The resulting intensive rivalry tends to reduce profitability for all.

Concept 10: Experience Curve

Introduction;

Experience curve is an important concept applying a portfolio approach.



The concept is **akin (similar) to a learning curve** which explains the efficiency increase gained by workers through repetitive productive work.

Experience curve is based on the commonly observed phenomenon (i.e., situation) that **unit costs decline as a firm accumulates experience** in terms of a cumulative volume of production. It is based on the concept, "we learn as we grow".

The implication (i.e., assumption) is that **larger firms in an industry would tend to have lower unit costs** as compared to those for smaller companies, thereby gaining a competitive cost advantage.

Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production. **For example,** in the contemporary (i.e., present) Indian automobile industry, the experience curve phenomenon (i.e., situation) seems to be working in Maruti Suzuki.

The concept of experience curve is relevant for a number of areas in strategic management.

- Considered a barrier for new firms,
- Used to build market share,
- Discourage competition.

Experience Curve has following features:

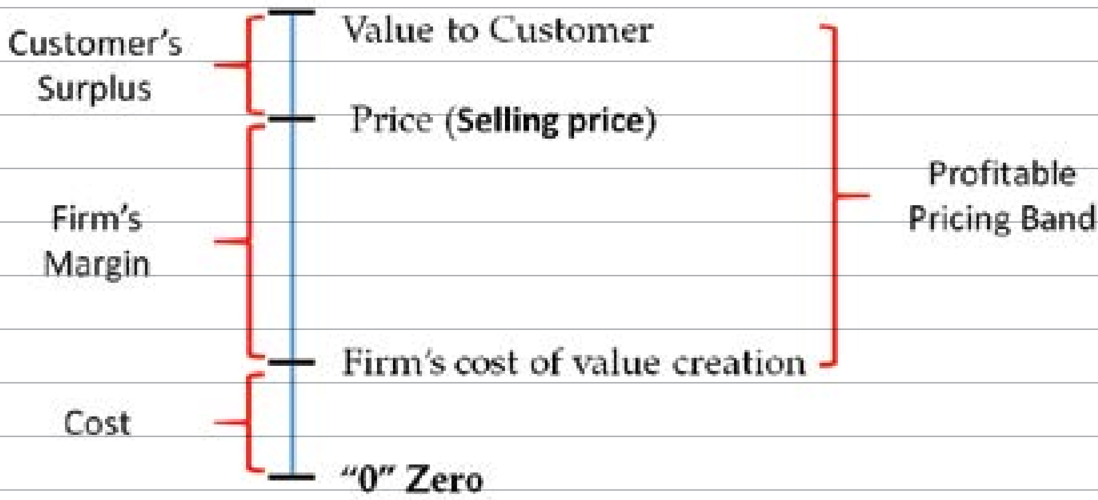
- As business organisation grow, they gain experience.
- Experience may provide an advantage over the competition.
- Experience is a key barrier to entry.
- Large and successful organisation possess stronger "experience effect".

Concept 11: Value Creation

Introduction;

The concept of value creation was introduced primarily for providing products and services to the customers with more worth.

Value is **measured by a product's,** features, quality, availability, durability, performance, by its services **for which customers are willing to pay**. Further, the concept took more space in the business and organizations started discussing about the value creation for stakeholders.



Many businesses now focus on value creation both in the context of creating better value for **customers** purchasing its products and services, as well as for stakeholders in the business who want to see their investment in business appreciate in value.

Ultimately, this concept gives business a competitive advantage in the industry and **helps them earn above average profits/returns.**

Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on **three factors:**

(i) The value customers place on the company's products;

(ii) The price that a company charges for its products; and

(iii) The costs of creating those products.

The **value customers place** on a product **reflects the utility** they get from a product the happiness or satisfaction gained from consuming or owning the product.

Utility must be distinguished from price. Utility is something that customers get from a product. It is a function of the attributes of the product, such as its performance, design, quality, and point-of-sale and after-sale service.

Thus, we can say that the value creation is an activity or performance by the firm to create **value that increases the worth** of goods, services, business processes or even the whole business system.

Ultimately, this concept gives **business a competitive advantage** in the industry and **helps them earn above average profits or returns.**

For E.g.,

- ✓ Customer never purchase shoes,
  but he purchases comfort.

- ✓ Customer never purchase spectacles,
  but he purchases the vision.

Concept 12: Market and Customer

A market is a place for interested parties, buyers and sellers, where items and services can be exchanged for a price. The market might be physical, such as a departmental store where people engage in person. They may also be virtual, such as an online market where buyers and sellers do not meet in person but tools of technology to strike a deal. In addition to this broad definition, the term market can apply to a wide range of contexts.

For example, it might be used to describe the stock exchange, where securities are traded. It may also refer to a group of individuals trying to buy a specific commodity or service in a specific place, such as grain or vegetable market where farmers come to sell their produce. It may also be used to define a business or industry, such as the global oil market.

While the market is a place, business strategist work on marketing to improve the chances of success. The term "marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution. Often market activities are categorised and explained in terms of four Ps of marketing – product, place, pricing, and promotion. 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.

The orientation of product marketing has evolved and acquired different dimensions centred around product, production, sales and customers. Businesses that have product orientation think that buyers will choose those products that have the best quality, performance, design, or features. Next, there are production- oriented businesses that believe that customers choose low price products. Sales- oriented businesses believe that if they spend enough money on advertisement, sales and promotion, customers can be persuaded to make a purchase.

In a customer or market-oriented approach strategists prioritise efforts on their customers. In order to create better value propositions for customers, businesses gather, disseminate, and use customer and competitive information. A customer- centric business is one that continuously learn from its customers' needs and market dynamics. In the present times success, many business lies in customer centric approaches.

12.1 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. The terms customer and consumer are practically synonymous and are frequently used interchangeably. There is, however, a thin distinction. Individuals or businesses that consume or utilise products and services are referred to as consumers. Customers are the purchasers of products and services in the economy, and they might exist as consumers or only as customers. In homes groceries are often bought by a parent and consume by all the members of family.

Businesses routinely research the characteristics of their consumers in order to fine- tune their marketing strategies and adjust their inventory to attract the most customers. Customers are frequently categorised based on demographics like as age, race, gender, ethnicity, economic level, and geographic region, which may all assist businesses in developing a profile of a perfect customer.

12.2 Customer Analysis

Customer analysis is an essential marketing component of any strategic business plan. It identifies target clients, determines their wants, and then defines how the product meets those needs. Thus, it involves the examination and evaluation of consumer needs, desires, and wants.

Customer analysis includes the administration of customer surveys, the study of consumer data, the evaluation of market positioning strategies, development of customer profiles, and the selection of the best market segmentation techniques. Using the facts generated by customer analysis, an effective profiling of customers may be established. Customer profiles can reveal demographic information about customers. A number of parties, including buyers, sellers, distributors, salespeople, managers, wholesalers, retailers, suppliers, and creditors, can assist in gathering information to effectively assess the needs and desires of consumers. Successful businesses constantly monitor the behaviour of existing and prospective customers.

12.3 Customer Behaviour

Customer behaviour 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 communicate with customers in an effective manner. Understanding the behaviours of customers enables businesses to establish effective marketing and advertising campaigns, provide products and services that meet their needs, and retain customers for repeat sales.

Consumer behaviour may be influenced by a number of things. These elements can be categorised into the following three conceptual domains:

- **External Influences:** External influences, like advertisement, peer recommendations or social norms, have a direct impact on the psychological and internal processes that influence various consumer decisions. The focus of external effects is on the numerous elements that have an impact on customers as they choose 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.
- **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.

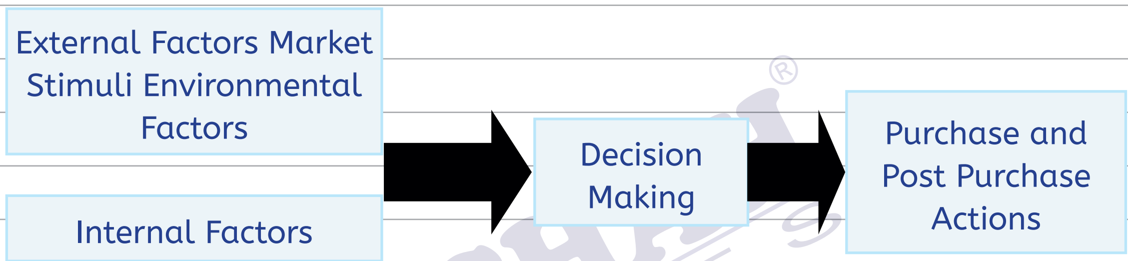


Figure: Process of consumer behaviour

- **Decision Making:** A rational consumer, as decision maker would seek information about potential decisions and carefully integrate this with the existing knowledge about the product. After weighing the 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

This behaviour of making decisions happens very frequently. However, it mostly applies when the purchase is one that is significant to the customer, such as when the product could have a significant influence on their health or self-image. The process is extremely 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. The consumer's reaction may vary depending upon the satisfaction. 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.

Concept 13: Competitive Strategy:

Strategy is formed and developed by organisational managers for **achieving basic objectives** of management i.e., survival, stability, efficiency, growth, profitability and prosperity. But along with above mentioned business objectives one of the most **important objectives of framing strategies is to fight competition.**

In simple words, strategies formed for **fighting and sustaining external competition** is known as Competitive strategies.

Competitive **strategy** of a firm **evolves out of consideration of several factors that are external to it.** The external environment affects the internal environment of the firm.

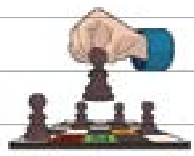
A continuous change in this environment provides new opportunities and creates new challenges in terms of threats for the organisation.

The objectives of a competitive strategy are;

- Generate competitive advantage,
- Increase market share, and
- Beat competition.

A competitive strategy consists of moves (steps) to...

✓ Attract customers.
✓ Withstand competitive pressures.
✓ Strengthen market position.



Having a **competitive advantage is necessary for a firm to compete** in the market. Competitive advantage **comes from a firm's ability** to perform activities more effectively than its rivals. But what is more important is whether the competitive advantage is sustainable? By knowing if it is a leader, challenger, or follower, it can adopt appropriate competitive strategy.

13.1 Competitive Landscape

Introduction;

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

Competitive landscape is about **identifying and understanding the competitors** and at the same time, it permits the comprehension (i.e., knowledge) of their vision, mission, core values, niche market, strengths and weaknesses.

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

An **in-depth investigation** and analysis of a firm's competition allows it to **assess the competitor's strengths and weaknesses** in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage. Competitive advantage comes from a **firm's ability** to perform activities more effectively than its rivals.

Thus, understanding the competitive landscape is important to build upon a competitive advantage.

Steps to understand the Competitive Landscape;

1. **Identify** the competitor,
2. **Understand** the competitors,
3. Determine the **strengths** of the competitors,
4. Determine the **weaknesses** of the competitors,
5. Put all of the information **together**.

1. **Identify the competitor:**

   The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.

   This answers the question:

   - Who are the competitors?

2. Understand the competitors:

Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

This answers the question:

- What are their product and services?

3. Determine the strengths of the competitors:

What is the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business?

This answers the questions:

- What are their financial positions?
- What gives them cost and price advantage?
- What are they likely to do next?
- How strong is their distribution network?
- What are their human resource strengths?

4. Determine the weaknesses of the competitors:

Weaknesses can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

This answers the question:

- Where are they lacking?

5. Put all of the information together:

At this stage, the strategist should put together all information about competitors and draw inference (i.e., conclusion) about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm.

This answers the questions:

- What will the business do with this information?
- What improvements does the firm need to make?
- How can the firm exploit the weaknesses of competitors?

Concept 14:Key Success Factors; (KSF's)

Introduction;

These are the **key elements that affect the ability of a firm or industry** to prosper in the market. **KSFs** are those things that most affect industry members' ability to prosper in the marketplace between competitive success or failure.

For E.g., JIO Cost efficient i.e., Economical for customers is a KSF's in telecom industry at present.

Some of the successful key factors are;

- Core competitions,
- Business outcome (Result),
- Competitive capabilities,
- Internal & External recourses,
- Strategy in production, marketing, etc...

KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success and they form (i.e., create) the rule that figure whether a company will be financially or competitively successful.

Misdiagnosing the industry factors critical to long-term competitive success greatly **raises the risk of a misdirected strategy.** In contrast, an organisation with perceptive understanding of industry KSFs can gain sustainable competitive advantage by training its strategy on industry KSFs and devoting its energies to being distinctively better than rivals on one or more of these factors. Indeed, business organisations that stand out on a particular KSF enjoy a stronger market position for their, **efforts-being distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage.**

How to find out or identify the KSF's of an industry?

1. On what **basis do customer select** between the competing brands of sellers? What product **attributes are crucial**? Such as quality, durability, etc...
2. What competitive **capabilities does a seller need to have** to be competitively successful, better human capital, quality of product or quantity of product, cost of service, etc...?
3. **What does it take for seller** to achieve a sustainable competitive advantage, something that can be sustained for long term?

For E.g., in apparel i.e., outfit manufacturing, the KSFs are;

- Appealing **designs and colour combinations** (to create buyer interest) and
- **Low-cost manufacturing efficiency** (to permit attractive retail pricing and ample profit margins).

Conclusion;

Key success factors **vary from industry** to industry and even from **time to time** within the same industry as driving forces and competitive conditions change.

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

3 STRATEGIC ANALYSIS INTERNAL ENVIRONMENT

Concept 1: Introduction

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, administrative apparatus- lines of authority & power, responsibility, accountability and organizational culture- intangible aspects of working- relationships, philosophy, values, ethics- that shape an organization's identity.

In other words, the internal environment is specific to each organisation. It is based on its structure and business model and includes all stakeholders like top management, investors, employees, board of directors, investors, etc.

Internal environment also involves understanding of the ethics, principles, work environment, employee friendliness, confidence of investors and other philosophical and cultural aspects of business, which aim for the success of the organisation.

Thus, it is even more important to understand the internal environment from a strategic analysis perspective.

Concept 2: Understanding Key Stakeholders

Who are Stakeholders and how do we identify them?

A firm may be viewed as a coalition of stakeholders- all those individuals and entities that have a stake in its success and can impact it as well. They may be the employees, shareholders, investors, suppliers, customers, regulators and so on. This view of the firm is in contrast to the earlier view of the firm that was considered to be an extension of the owners and shareholders alone.

Thus, it may be reiterated that the stakeholders can be defined as any person/group of individuals, internal or external, that has an interest in, or impact on the business or corporate strategy of the organisation. They have the power to influence the strategy or performance of that organisation.

Generally, stakeholders include management, employees, shareholders, customers and vendors. Additionally, other individuals and groups, such as governments, labour unions and local groups, which are often considered as stakeholders depending on their impact on the particular organisation. Each stakeholder or stakeholder group will be affected by the business strategy that the organisation chooses and implements.

It is important to first identify the key stakeholders. 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. While, shareholders, whose main concern is quick profits, may be more hesitant to support the organisation spending funds on something that they may not see the return in the near future.

Since the expectations of key stakeholders can influence the organisation's strategy, a clash of objectives may have unfavourable consequences for the organisation.

Example of Key Stakeholders and their requirements for an OTT Platform

Stakeholders	Requirements
Shareholders	• Innovation and continuous creative content • Total shareholder return (RoI) • Corporate social responsibility • Top rankings of the organisation • Highest market share
CEO and Board of Directors	• Prestige • Market share • Revenue and profit growth • Market rankings
Major Vendors (Production Houses)	• Growth • Stability of ordering • Stable margins

Consumers (Viewers)	• New content - Innovation • Better deals - Pricing Benefits • Value for money • Continuous supply
Employees	• Wages and benefits • Stability of employment • Pride of working for a reputed organisation

2.1 Mendelow 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.

Managing a project is extremely complicated as it involves managing the competing interests of various stakeholders. Who needs to know what and when, who needs to give their feedback and who has the final approval can be confusing. However, managing stakeholders is critical to the success of a project. This is where a stakeholder analysis matrix i.e. Mendelow's Matrix can help.

Mendelow suggests that one should analyse stakeholder groups based on Power (the ability to influence organisation strategy or resources) and Interest (how interested they are in the organisation succeeding). A thing to remember is that all stakeholders may seem to have lots of power and organisation may hope they would have lots of interest too. But in reality, some stakeholders will hold more Power than others, and some stakeholders will have more Interest than others.

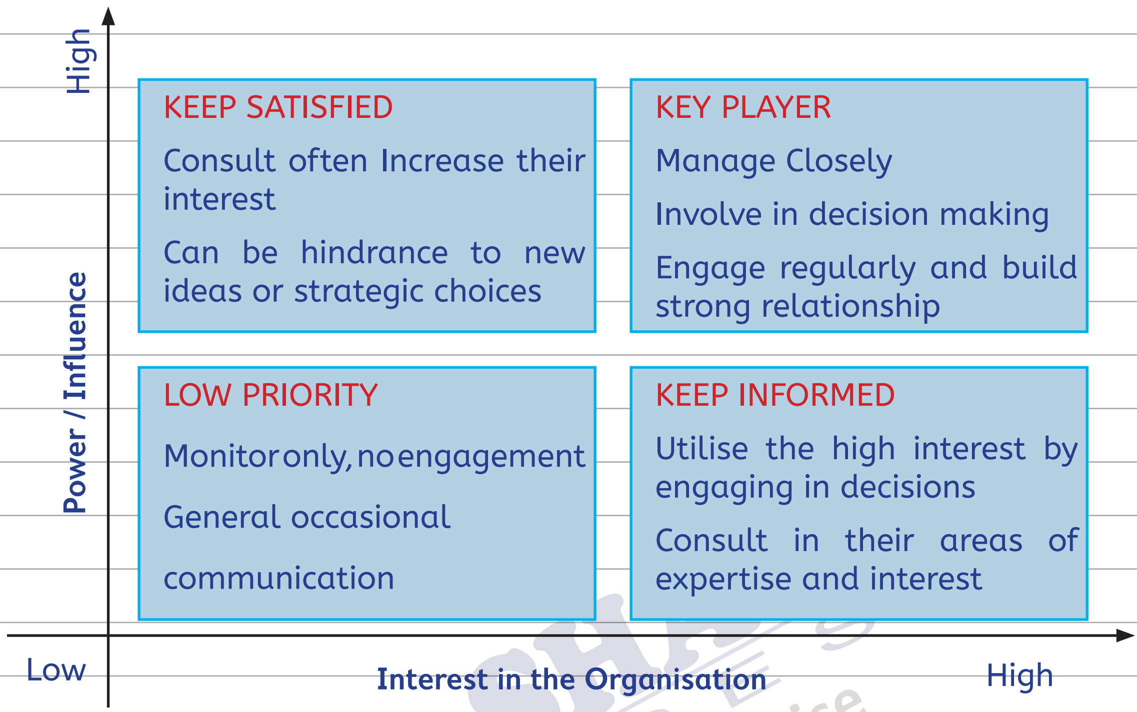
For example, a big shareholder is likely to have high power and high interest in the organisation, whereas a big competitor would have high power to impact strategy, but potentially less Interest in success of rival organisation.

Developing a Grid of Stakeholders

Mendelow's Matrix is based on Power and Interest. It suggests to identify which stakeholders are incredibly important. Metrics to define the importance being High Power and High Interest which management would need to manage closely, while investing a lot of time and resources.

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.

However, those stakeholders with low power and low interest like research institutes seeking an organisation data should be monitored rarely and minimum effort expended on them in terms of time and money.



In the above figure, we see categorisation of stakeholders into four groups by Mendelow's;

- **KEEP SATISFIED Stakeholders:** High power, less interested people - Organisation should put in enough work with these people to keep them satisfied with their intended information on a regular basis. **For example,** banks, government, customers, etc.

- **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.

- **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.

- **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.

An important thing that strategists should be aware of, is the importance to remember that environment is highly dynamic and certain things might happen that can cause stakeholders to suddenly move between quadrants.

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 and TRIK Group (Investors), MSME Ministry, Customers from NorthEast India, Sellers from Rajasthan, Jandhan Bank (Lender), and Kumar S and Sharma T (Sr. Managers in the Co.)

Keep Satisfied	Key Players
Low Priority	Keep Informed

Concept 3: STRATEGIC DRIVERS

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

It 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. Some of these components are interlinked, such as markets and products/services, and channels and key customers in each channel.

There can be varied ways to assess the current performance of a business and it is highly subjective based on the managements metrics and ways of doing business. It can either be profit driven, purpose driven or any other metrics that the management seems to fit in. But in general, the key strategic drivers of an organisation include:

- industry and markets
- customers
- products/services
- 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. There are many ways to do this but require analysis and understanding of the environment.

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

Is market the same for all businesses?
Market refers to all the buyers and sellers of a particular product/service and so it would be incorrect to say that market is the same for all businesses. 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 Strategic Group Mapping

Introduction;

The next step in examining the industry's competitive structure is to **study the market positions of rival companies**. Identifying the strongest and weakest companies help understand what techniques can be implemented and which ones are to be avoided. One technique for revealing the competitive positions of industry participants is strategic group mapping, which is **useful analytical tool** for comparing the market positions of each firm separately or for grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in-depth.

For example, Smart Phone industry has numerous options to select from. Thus, grouping them into categories based on various parameters can be really insightful and time saving

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

Companies in the same strategic group can resemble one another in any of the several ways:

- They may have comparable product-line breadth,
- Sell in the same price or quality range,
- Emphasize the same distribution channels,
- Depend on identical technological approaches,
- Use essentially the same product attributes to appeal to similar types of buyers, or
- Offer buyers similar services and technical assistance.

An industry may contain 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.

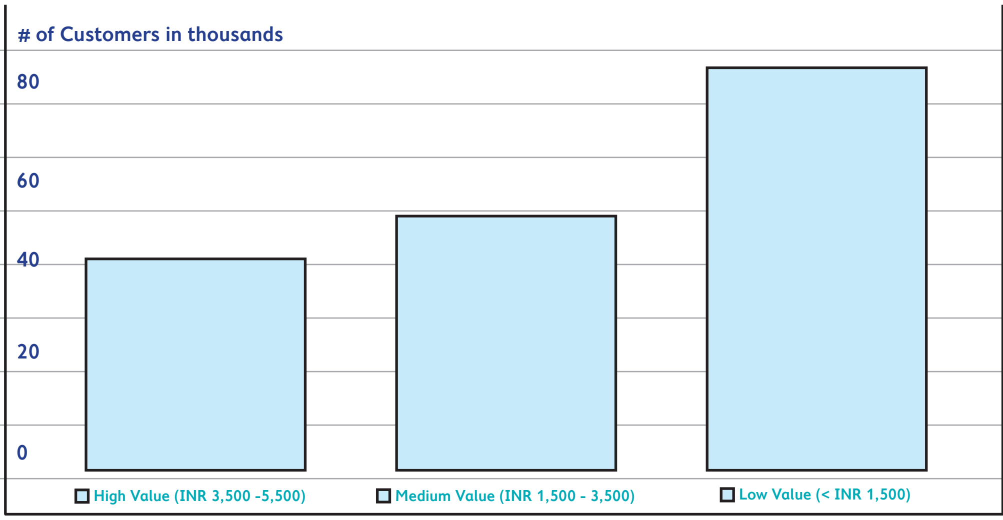
The procedure for constructing a Strategic Group Mapping;

1. Identify the competitive characteristics that differentiate firms in the industry. Typical variables are (mean competitive characteristics can be based on)
   - price or/and quality range (high, medium, low),
   - geographic coverage (local, regional, national, global),
   - degree of vertical integration (none, partial, full),
   - product-line breadth (wide, narrow),
   - use of distribution channels (one, some, all), and
   - degree of service offered (no-frills, limited, full).
2. Plot the firms on a two-variable map using pairs of these differentiating characteristics.
3. Assign firms that fall in about the same strategy space to the same strategic group.
4. Draw circles around each strategic group, making the circles proportional to the size of the group's respective share of total industry sales revenues.

3.2. Customers

Understanding the different types of customers to whom the organisation's products/ services are sold or provided, is not only important but also the first step in deciding the product/service. Different customers may have different needs and require different sales models or distribution channels.

Consider the example 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.



As customers are often responsible for the generation of profits obtained by an organisation, it is important to be able to collect and display data in order to show customer trends and profitability. Issues with customers can be identified, and target areas for growth can be pursued based on the findings.

Another interesting concept is the difference between Customer and Consumer - while a customer is the one buys a product/service, the consumer is the one who finally uses/consumes the bought product or service. **For example -** A parent buying stationery products for their kids might be the customers, but consumers of stationery are the kids who would actually use it. Thus, understanding both is important for the marketers.

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

Customer versus Consumer
A simple bifurcation yet extremely important for strategy build up. 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. But for strategy teams especially marketing teams it is important to understand the customer and consumer separately. **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.

3.3 Product

Products and services are closely linked and interrelated with the markets that the organisation wants to serve. In this component of the strategic drivers' analysis, business identifies the key products/ services that the organisation offers and how those products/services are performing. It attempts to answer the general question: What business are we in and what should be done to win over competition in each product/service we serve.

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

The products can also be classified on the basis of industrial or consumer products, essentials or luxury products, durables or perishables.
There are products that have wide range of quality and workmanship and these also change over time since products and markets are infinitely dynamic. An organization has to capture such dynamics through a set of policies and strategies. Some products have consistent customer demand over long period of time while others have short life spans.

Products can also be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Organizations seek to hammer into customers' minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. 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.

Organizations formalize product differentiation through designating 'brand names' to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products and even firms' image is built around brands through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

For a new product, pricing strategies for entering a market need to be designed and for that matter at least three objectives must be kept in mind:
- Have customer-centric approach while making a product.
- Produce sufficient returns through a reasonable margin over cost.
- Increasing market share.

Products and services need heavy investment in reaching out to customers. Over the years, a number of marketing strategies have been evolved, which are given to handle marketing strategically and fight the competition in the market.

3.4 Strategic Marketing Techniques

- **Social Marketing;**

  It refers to the **design, implementation,** and **control of programs** seeking to increase the acceptability of a **social ideas, cause,** or **practice among a target group.**

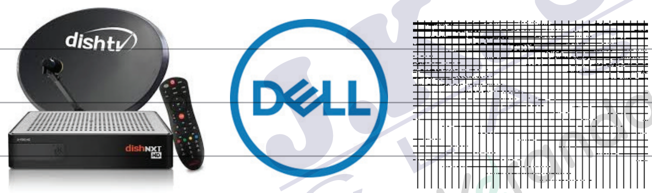
  For E.g., the publicity campaign for **prohibition of smoking in Delhi** explained the place where one **can** and **can't smoke.**

- **Augmented Marketing;**

  It is provision of **additional customer services** and **benefits** built around the core and actual products that is being offered. It can be in the form of introduction of hi-tech services like **movies on demand, online computer repair services, secretarial services,** etc...

  Such innovative offerings **provide a set of benefits that promise to elevate** (i.e., to improve) **customer service** to unprecedented (i.e., exceptional) levels.

  For E.g.,



- **Services Marketing;**

  It is applying the concepts, tools, and techniques, of marketing to **services. Services is any activity or benefit** that one party can offer to another that is **essentially intangible** and **does not result in the ownership of anything.** This marketing requires different marketing strategies since it has peculiar (i.e., specific or unique) characteristics of its own such as intangibility, inseparability, variability and perishability.

  For E.g., Hair Styling, Counselling, Advice from a lawyer, etc...

Note: Just for conceptually clarity
Intangibility; Service cannot be seen, tasted, felt, heard or smelled before purchase.
Inseparability; Service cannot be separated from their providers.
Variability; Quality of services depends on who provides them and when, where and how?
Perishability; Service cannot be stored for later sale or use.
*Not covered in our syllabus

- **Direct Marketing;**

  Marketing through various **advertising media** that **interact directly with consumers,** generally calling (i.e., influence) for the consumer to make a direct response.

  Direct marketing **includes** catalogue selling, e-mail, telecomputing, electronic marketing, shopping, and TV shopping.

  For E.g., Sugar free green tea for calorie-conscious consumer.

- **Person Marketing;**

  People are also marketed. Person marketing consists of activities undertaken **to create, maintain or change attitudes and behaviour** towards particular person.

  For E.g., politicians, sports stars, film stars, etc...
  Market themselves to get votes, or to promote their careers.

- **Place Marketing;**

  Place marketing involves activities undertaken **to create, maintain** or **change attitudes and behaviour** towards particular places say.

  For E.g.,

  ✓ Business sites marketing,

  ✓ Tourism marketing.

- **Organization Marketing;**

  It consists of activities undertaken **to create, maintain** or **change attitudes and behaviour of target audiences** towards an organization. Both **profit** and **non-profit organizations** practice organization marketing.

For E.g.,

SAHARA INDIA PARIWAR   HONDA   Unilever

- **Relationship Marketing;**

  The process of **creating, maintaining,** and **enhancing strong, value-laden** (i.e., value based) **relationships** with customers and other stakeholders.

  For E.g., Airlines offer special lounges at major airports for frequent flyers.

Thus, providing special benefits **to select customers** to strengthen bonds. It will go a **long way in building relationships.**

- **Enlightened Marketing;**

  It is a marketing **philosophy holding that** a company's marketing should support the best long-run performance of the marketing system; its five principles include;

  1. Customer-oriented Marketing,
  2. Innovative Marketing,
  3. Value Marketing,
  4. Sense-of-mission Marketing, And
  5. Societal (relating to society) Marketing.

- **Concentrated Marketing;**

  It is a **market-coverage strategy** in which a firm goes after a large share of one or few sub-markets.

  For E.g., Patanjali Ayurveda, Kent, etc...

- **Differential Marketing;**

  It is a **market-coverage strategy** in which a firm decides to target several market segments and designs separate offer for each.

For E.g., Hindustan Unilever Limited has;

Popular Segment   **Premium Segment**

- Lifebuoy
- Dove
- Lux
- Pears
- Rexona

- **Synchro Marketing;**

  When the demand for a product is **irregular** due to season, some parts of the day, or on hour basis, **causing idle capacity** or **overworked capacities**, synchro-marketing can be **used to find ways to alter the pattern of demand** through flexible pricing, promotion, and other incentives.

  For E.g., Products such as **movie tickets** can be sold at lower price over week days to generate demand.

- **De–Marketing;**

  It includes marketing strategies **to reduce demand temporarily** or **permanently.** The **aim is not to destroy demand,** but only to reduce or shift it.

  This happens when there is overfull demand. Here demarketing can be applied **to regulate demand.**

  For E.g., buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are overcrowded on Saturdays, Sundays and holidays.

3.5 Channels

Channels are the distribution system by which an organisation distributes its product or provides its service. To understand the concept of channels let us see some **examples** of how the following companies distribute their products and services;

- Lakme - sells its products via retail stores, intermediary stores (like Nykaa, Westside, Reliance Trends), as well as online mode like amazon, flipkart, nykaa online and its own website.
- Boat Headphones - only online via e-commerce platforms like flipkart and amazon
- Coca Cola - retail shops across the nation, in each district, each town as well as online mode via dunzo, blinkit, etc.

All the above are the channels via which companies sell their products and services to the customers. The wider and stronger the channel the better position a business has to fight and win over competition. Also, having robust channels of business distribution help keep new players away from entering the industry, thus acting as barriers to entry.

There are typically three channels that should be considered: sales channel, product channel and service channel.

- **The sales channel -** These are the intermediaries involved in selling the product through each channel and ultimately to the end user. The key question is: Who needs to sell to whom for your product to be sold to your end user? **For example,** many fashion designers use agencies to sell their products to retail organisations, so that consumers can access them.

- **The product channel -** The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores.

- **The service channel -** 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.

Channel analysis is important when the business strategy is 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. Thus, analysis of channels that suit one's products and customers is of utmost importance.

For example - 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.

Another example being - 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) and so and so forth. Thus, channels, the partners in growth, play a crucial role in internal strategic alignment.

Ever been to a hill station or a desert or a far-off location on vacation, and still had access to bottled water and cold drinks?
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.

Concept 4: Core Competence

Introduction;

Core competencies are capabilities that serve as a **source of competitive advantage** for a firm over its rivals.

An organization's **combination of technological and managerial know-how, wisdom** and **experience** are a complex set of capabilities and resources that can **lead to a competitive advantage** compared to a competitor.

C.K. Prahalad and **Gary Hamel** have advocated a concept of core competency, which is a widely-used concept in management theories.

Competency is defined as a;

"Combination of skills and techniques rather than individual skill or separate technique."

Core Competency is defined as a;

"The collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies."

For core competencies, it is characteristic to have a combination of skills and techniques, **which makes the whole organization utilize** these several separate individual capabilities.

The optimal way to define core competence is to consider it as **sum of 5 – 15 areas of developed expertise.**

Therefore, core competencies **cannot be built on one capability or single technological knowhow,** instead, it has to be the integration of many resources.

4.1 According to C.K. Prahalad and Gary Hamel, Major core competencies are identified in three (3) areas;

(i) Competitor differentiation,

(ii) Customer value, and

(iii) Application to other markets (i.e., Application of competencies within the organisation).

(i) Competitor Differentiation,

The company can consider having a core **competence if the competence is unique and it is difficult for competitors to imitate** (i.e., Copy or Follow). This can provide a company an edge (i.e., advantage) compared to competitors. It allows the company to provide better products or services to market **with no fear that competitors can copy it.**

The company has to **keep on improving these skills in order to sustain its competitive position**. Companies operating in the same market would have the equal skills and resources, if one company can perform this significantly better; the company has obtained a core competence.

(ii) Customer Value,

When purchasing a product or service it **has to deliver a fundamental benefit for the end customer** in order to be a core competence. It will include all the skills needed to provide fundamental benefits. **The service or the product must have real impact on the customer as the reason to choose to purchase them.**

(iii) Application to other markets (i.e., Application of competencies within the organisation).

Core competence must be **applicable to the whole organization;** it cannot be only one particular skill or specified area of expertise.

Therefore, although some special capability would be essential or crucial for the success of business activity, **it will not be considered as core competence, if it is not fundamental from the whole organization's point of view.**

Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organisation to open up potential markets to be exploited.

Examples

Hindustan Unilever Limited (HUL)

Marketing and Sales is a core competence.

Wal-Mart

Focused on lowering its operating costs.

Conclusion;

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

Core competencies are the knowledge, skills, and facilities necessary to design and produce core products. Core competencies are **created by superior integration of technological, physical and human resources.** They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities.

Core Competence-based diversification reduces risk and investment and increases the opportunities for transferring learning and best practice across business units.

4.2 Why to identify and develop a core competency? (Core competency fulfils three criteria);

Introduction;

Core competencies are capabilities that serve as a **source of competitive advantage** for a firm over its rivals.

Core competencies **distinguish a company competitively** and **reflect its personality**. These competencies **emerge over time** through an organizational process of accumulating and learning how to deploy different resources and capabilities.

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. **That failure is due to the inability of management** to conceive of a company as other than a mere collection of discrete businesses.

A Core competency fulfils three criteria:

(i) It should **provide potential access** to a wide variety of markets.

(ii) It should **make a significant contribution** to the perceived (i.e., to see) **customer benefits** of the end product.

(iii) It should be **difficult to imitate** for competitors i.e., rivals.

For E.g., *Note; Only for understanding purpose.

Core Competencies as to;	Small retail shops	Big retail stores	Supermarkets
	Extended working hours, Easy credit, Free home deliveries, Amicable style of the owner, Etc...	Securing supplies at lower cost, In-house activity management, Computerized stock ordering, Computerized billing systems, Own brand labels, Etc...	Locational advantage, Quality assurance, Customer ease in shopping, Etc...

4.3 How to build Core Competencies?

Introduction;

Core competencies are capabilities that serve as a **source of competitive advantage** for a firm over its rivals.

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

(i) Valuable,

(ii) Rare,

(iii) Costly to Imitate (i.e., copy or follow), and

(iv) Non – Substitutable

(i) Valuable,

Valuable capabilities are the ones that allow the firm to **exploit opportunities** or avert i.e., **prevent the threats** in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities.

For E.g., Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. **Human capital** is important in creating value for customers.

(ii) **Rare,**

Core competencies are **very rare capabilities** and very few of the competitors possess this.

Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that **differ from** those shared with **competitors**.

(iii) **Costly to imitate (copy or follow),**

Costly to imitate means such capabilities that competing firms are **unable to develop easily.**

For E.g., intel has enjoyed a first mover advantage more than once because of its rare fast R&D cycle time capability that brought **SRAM** (**S**tatic **R**andom-**A**ccess **M**emory) and **DRAM** (**D**ynamic **R**andom-**A**ccess **M**emory) integrated circuit technology, and brought microprocessors to market well ahead of the competitor. The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

(iv) **Non – Substitutable,**

Capabilities that **do not have strategic equivalents** are called non-substitutable capabilities.

This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

For E.g., Tata and Apple,

Firms tried to imitate Tata's **low-cost strategy** but most have been unable to duplicate Tata's success. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.

Competitors are deeply aware about Apple's **operating system's** (iOS) **successful model.** However, to date, no competitor has been able to imitate Apple's capabilities. These are also protected through copyrights.

Conclusion;

To sum up, we can say that only when a capability is valuable, rare, costly to imitate, and non-substitutable, it is a core competence and a source of competitive advantage. Over a time, core competencies must be supported. Core competencies are a source of competitive advantage only when they allow the firm to create value by exploiting opportunities in its external environment.

4.4 A core competence is identified by the following tests;

(i) **Leverage Test:** Does it provide potential access to a wide variety of markets?

(ii) **Value Enhancement Test:** Does it make a significant contribution to the perceived (i.e., to see) customer benefits of the end product?

(iii) **Imitability Test:** can it be imitated? Does it reduce the threat of imitation by competitors?

4.5 Advantages of identifying core competencies;

- Provide competitive advantage,
- Ensure profits,
- Helps firm stretches into new opportunities,
- Help in maintaining progress, etc...

Conclusion;

Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organisation to open up potential markets to be exploited.

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

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

Concept 5: SWOT Analysis

Introduction;

The identification and analysis of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis. SWOT Analysis is quite helpful in formulating a company's strategy" Concept of SWOT identify by Kurt Levin in 1950's.

For the generation of a series of strategic alternatives or choices, it is necessary to analyse the firm's internal strengths and weaknesses and its external opportunities and threats.

The major purpose of SWOT analysis is to enable the **management to create a firm–specific business model** that will best align, fit, or match an organisational resources and capabilities to the demands of the environment in which it operates.

Strength	Weakness
Opportunity	Threat

✓ **Strength:** Strength is an **inherent capability** of the organization which it can use to **gain strategic advantage** over its competitors.

✓ **Weakness:** A weakness is an **inherent limitation** or constraint of the organization which **creates strategic disadvantage** to it.

✓ **Opportunity:** An opportunity is a **favourable condition** in the organisation's environment which **enables it to strengthen its position.**

✓ Threat: A threat is an **unfavourable condition** in the organisation's environment which causes a risk for, or damage to, the organisation's position.

The organization's performance in the marketplace is significantly influenced by the three factors:

(i) The organization's correct market position.

(ii) The nature of environmental opportunities and threat.

(iii) The organization's resource capability to capitalize the opportunities and to protect against the threats.

The significance of SWOT analysis lies in the following points:

- ✓ It provides a logical framework of analysis.
- ✓ It guides the strategist in strategy identification.
- ✓ It presents a comparative account.

Conclusion;

SWOT analysis helps managers to craft a business model that will allow a company to gain a competitive advantage in its industry.

Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, global competitive environment that characterizes most industries today.

Concept 6: Competitive Advantage

(i) **Durability:** The period over which a competitive advantage is sustained depends in part on the **rate at which a firm's resources and capabilities deteriorate** (i.e., decline). For example, in industries where the rate of product innovation is fast, product patents are quite likely to become obsolete.

(ii) **Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals.

The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The **easier it is to transfer resources and capabilities** between companies, the less sustainable will be the competitive advantage which is based on them.

(iii) **Imitability:** If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability.

For Example, in financial services, innovations lack legal protection and are easily copied.

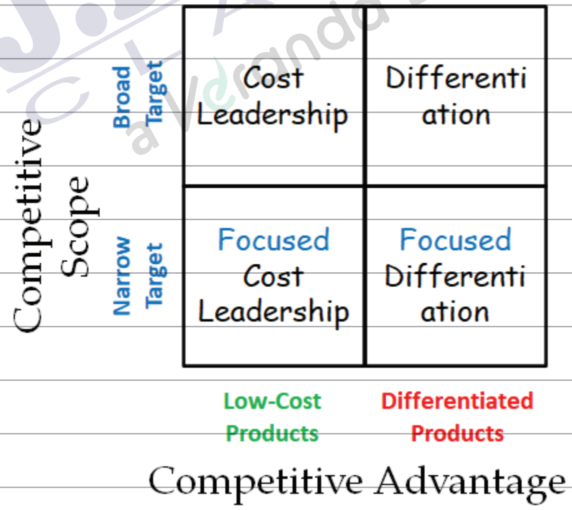
(iv) **Appropriability:** It refers to the ability of the firm's owners to appropriate the **returns on its resource base.** Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources. **This means**, that rewards are directed to from where the funds were invested, rather than creating an advantage with no actual reward to people to invested capital.

Concept 7: Michael Porter's Generic Strategies;

Introduction

According to Porter, strategies **allow** organizations **to gain competitive advantage** from **three** different bases: Focus, Differentiation, and Cost leadership Porter called these base generic strategies.

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



Cost leadership

It emphasizes **producing standardized products** at **a very low per-unit cost** for consumers who are **price-sensitive.**

For E.g., Air Asia, the low cost in airline industry.

Differentiation

It is a strategy aimed at producing products and services considered **unique industry wide** and directed **at consumers** who are relatively **price-insensitive.**

For E.g., Apple Inc. (iPhone, iMac, etc.)

Focus;

It means producing products and services that fulfil the needs of **small groups of consumers with very specific requirements.**

For E.g., Rolls-Royce sells limited number of high-end, custom-built cars.

Porter's strategies imply different organizational arrangements, control procedures, and incentive systems. **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.

7.1 Cost Leadership Strategy;

Meaning;

It is emphasizes **producing standardized products** at a very low per-unit cost for consumers who are **price-sensitive.** It is a low-cost competitive strategy that **aims at broad mass market.**

It requires **aggressive attempt of cost reduction** in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs.

Because of its lower costs, the cost leader is able to charge a lower price for its products than its competitors and **still make satisfactory profits.**

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

A number of **cost elements** affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors. **Other cost elements** such as R&D costs associated with new product development or modification of existing products, labour costs, tax rates, energy costs, and shipping costs.

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

- when the market is composed of many price-sensitive buyers,

- when there are few ways to achieve product differentiation,
- when buyers do not care much about differences from brand to brand,
- when there are a large number of buyers with significant bargaining power.

The basic idea is to under-price competitors and thereby gain market share driving some of the competitors out of the market.

A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts.

For E.g., McDonald's fast-food restaurants have successfully followed low-cost leadership strategy.

7.1.1 Achieving Cost Leadership Strategy;

To achieve cost leadership, following are the actions that could be taken:

- **Prompt forecasting** of demand of a product or service.
- **Optimum utilization of the resources to get cost advantages.**
- **Achieving economies of scale;** leads to lower per unit cost of product/service.
- **Standardisation of products** for mass production to yield lower cost per unit.
- **Invest in cost saving technologies** and try using advance technology for smart working.
- Resistance to differentiation till it becomes essential.

7.1.2. Advantages of Cost Leadership Strategy;

- **Entrants** – Low-cost leaders create **barriers to market entry** through its continuous focus on efficiency and reducing costs.

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

- **Suppliers** – Cost leaders are able to **absorb greater price increases** before it must raise price to customers.

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

- **Substitutes –** Low-cost leaders are more likely to **lower costs to induce customers to stay with their product,** invest to develop substitutes, purchase patents.

7.1.3. Disadvantages of Cost Leadership Strategy;

- Cost advantage **may not last long as competitors may imitate** (i.e., follow) cost reduction techniques.

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

- Cost leaders tend to keep their costs low by minimizing advertising, market research, and research & development, **but this approach can prove to be expensive in the long run.**
- **Technological advancement** is a great **threat** to the cost leader.

7.2 Differentiation Strategy;

Meaning;

It is a 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 broad mass market** and involves the creation of a product or service that is perceived (i.e., recognised) by the customers as **unique.** The **uniqueness can be associated** with product design, brand image, features, technology, and dealer network or customer service. Because of differentiation, the business **can charge a premium** for its product.

Differentiation **does not guarantee competitive advantage,** especially **if** standard products sufficiently meet customer needs or if rapid imitation (i.e., copy) by competitors is possible.

Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the customers' desired attributes. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty, because consumers may become strongly attached to the differentiated features.

For E.g., Lexus, the luxury vehicle division of the Japanese automaker Toyota.

- **Basis of Differentiation**
  - **Product;** Innovative products that meet customer needs can be an area where a company has an advantage over competitors. **For E.g.,** Motorola Razr (2019, Folding device).
  - **Pricing;** It can fluctuate based on its supply and demand, and also be influence by the customer's ideal value for the product. **For E.g.,** Movie ticket during weekends or of premier show.
  - **Organization;** Maximizing the power of a brand, or using the specific advantages that an organization possesses can be instrumental to a company's success. **For E.g.,** Apple Inc.

7.2.1 Achieving Differentiation Strategy;

To achieve differentiation, following are the measures that could be adopted by an organization to incorporate:

- **Offer utility** to the customers and match the products with their tastes and preferences.
- **Elevate** (i.e., improve) the **performance** of the product.
- **Offer the high-quality product/service** for buyer satisfaction.
- **Rapid product innovation** to keep up with dynamic environment.
- Taking steps for **enhancing brand image and its brand value.**
- Fixing product **prices based on the unique features** of the product and buying capacity of the customer.

7.2.2 Advantages of Differentiation Strategy;

- **Entrants –** Innovative features are an expensive offer. So, **new entrants generally avoid these features** because it is tough for them to provide the same product with special features at a comparable price.
- **Buyers –** They **do not negotiate for price** as they get special features and also, they have fewer options in the market.
- **Suppliers –** Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.

- **Rivalry -** Brand loyalty acts as a **safeguard against competitors.** It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.

- **Substitutes –** Substitute products **can't replace differentiated products** which have **high brand value and enjoy customer loyalty.**

7.2.3 Disadvantages of Differentiation Strategy;

- In long term, **uniqueness is difficult to sustain.**
- **Charging too high a price** for differentiated features may cause the customer to switch-off to another alternative.

  For E.g., As we see a shift of iPhone users to other android flagship smart phones.
- Differentiation fails to work if its basis is something that is not valued by the customers.

  For 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.

7.3 Focus Strategy;

Meaning;

It means producing products and services that **fulfil the needs of small groups of consumers.**

A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors.

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 rival firms are not attempting to specialize in the same target segment.

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

For E.g., within the market for women's shoes are many different segments such as shoes for vegan women would be a niche market.

➢ **Focused cost leadership;**

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

➢ **Focused differentiation;**

A focused differentiation strategy requires offering unique features that **fulfil the demands of a narrow market.** Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.

For E.g., Rolls-Royce sells limited number of high-end, custom-built cars.

7.3.1 Achieving Focused Strategy;

To achieve focused cost leadership/differentiation, following are the measures that could be adopted by an organization:

- **Selecting specific** niches (**slot**) which are not covered by cost leaders and differentiators.
- **Creating superior skills** for catering to such niche markets.
- **Generating high efficiencies** for serving such niche markets.
- **Developing innovative** ways in managing the value chain.

7.3.2 Advantages of Focused Strategy;

- **Premium prices can be charged** by the organisations for their focused product/ services.
- Due to the tremendous expertise about the goods and services that organisations following focus strategy offer, **rivals and new entrants may find it difficult to compete.**

7.3.3 Disadvantages of Focused Strategy;

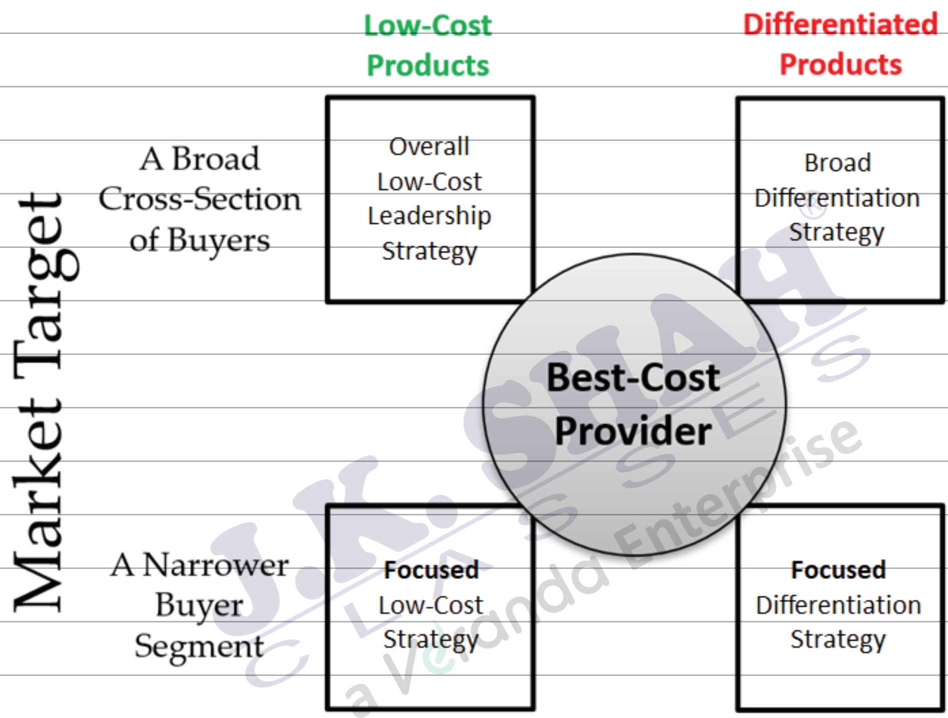
- The firms **lacking in distinctive competencies may not be able to pursue focus strategy.**
- Due to the **limited demand** of product/services, **costs are high which can cause problems.**
- In <u>long run</u>, the niche (**slot**) could disappear or be **taken over by larger competitors by acquiring the same distinctive competencies.**

Concept 8: Best-Cost Provider Strategy

Introduction;

The new model of best cost provider strategy is a further development of three generic strategies. It is **directed towards giving customers more value for the money** by emphasizing both low cost and upscale differences.

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



Best-cost provider strategy involves **providing customers more value for the money by emphasizing low cost and better-quality difference.** It can be done through:

✓ Offering products **at lower price** than what is being offered by rivals for products **with comparable quality and features.**

or

✓ Charging **similar price** as by the rivals for products with much **higher quality and better features.**

For E.g., 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.

4 STRATEGIES CHOICES

Concept 1: Typologies of Strategies:

Introduction;

Businesses follow different types of strategies; **to enter the market** and **to stay and grow in the market.**

A **large number of strategies with different nomenclatures** (i.e., combination) have been **employed by different businesses** and also suggested by different authors on strategy.

William F Glueck and **Lawrence R Jauch** discussed **four generic strategies**

1. Stability,
2. Expansion (Growth),
3. Retrenchment and
4. Combination.

These strategies have also been called **Grand Strategies, Directional Strategies** and **Corporate Strategies** by many other authors.

Michael E. Porter suggested competitive strategies (which is also known as Porter's Three Generic strategies) including; **Cost Leadership, Differentiation, Focus Cost Leadership and Focus Differentiation** which could be used by the corporates **for their different business units.** (We'll learn in chapter 5)

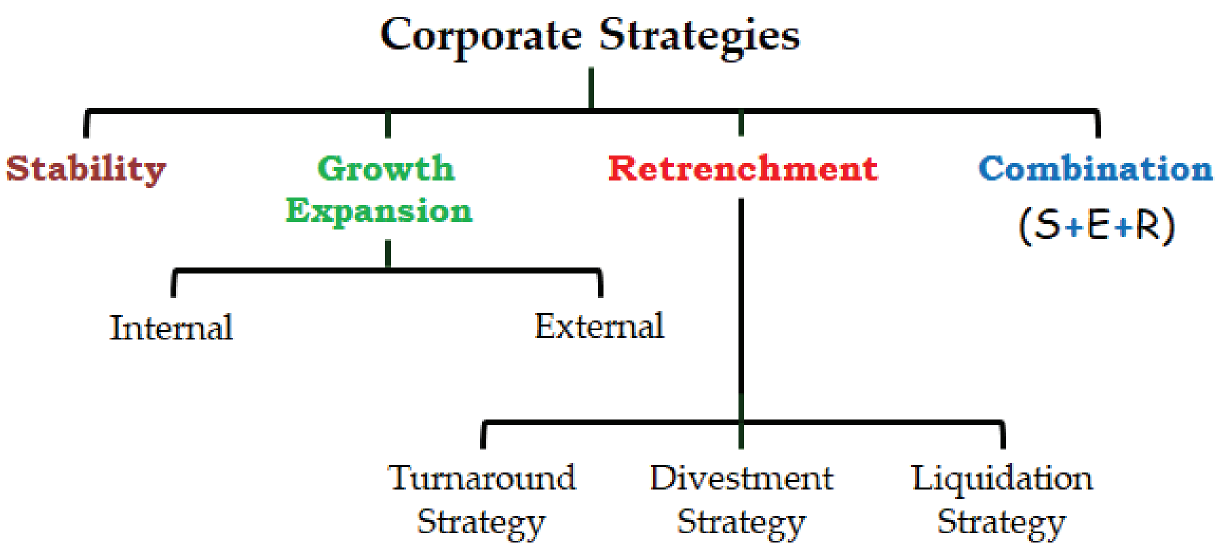
Besides these, we come across **Functional Strategies** are meant **for** strategic management of **distinct functions** such as Marketing, Financial, Human Resource, Logistics, Production etc. (We'll learn in chapter 6)

In fact, **big corporates follow an elaborate system** of strategy formulation, implementation and control at different levels in the company **to survive and grow** in the turbulent business environment.

For E.g., a **start-ups** 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. **However,** majority of start-ups are launched on a small scale and their main strategy is to penetrate the market and to reach the breakeven stage at the earliest and later pursue growth strategy.

While a going concern can continue with the competitive strategy or resort to collaborative strategy to ensure business growth.

Concept 2: Overview of Corporate Strategies;



Strategy	Basic Feature
Stability	The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
Expansion	Here, the firm seeks (attempt) significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.

Retrenchment	The firm retrenches some of the activities in some business(es), or drops the business as such through sell-out or liquidation.
Combination	The firm combines the above (Stability, Growth and Retrenchment) strategic alternatives in some permutation or combination so as to suit the specific requirements of the firm.

Concept 3: Stability Strategy:

Introduction;

A firm opting for stability strategy **stays with the same business, same product market posture and functions, maintaining same level of effort as at present.**

One of the important **goals** of a business enterprise is **stability,** strategy is to stabilise - it may be opted **to safeguard** its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

Stability strategy applied when?

- This strategy is typical for **those firms** whose product has reached the **maturity stage** of product life cycle.
- Those firms who have a sufficient market share but need to retain that.
- **Small organizations** may also follow stability strategy **to consolidate their market position** and prepare for the launch of growth strategies.
- After rapid expansion, a firm might want to stabilize and consolidate itself.

Stability strategy **should not be confused with 'do nothing'** strategy (it mean "do-nothing new strategy"). It involves **keeping track of new developments** to ensure that the strategy continues to make sense.

3.1 Characteristics of Stability Strategy;

- A firm opting for stability strategy **stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.**
- The **attempt is to enhance functional efficiencies** in an incremental way, through better deployment and utilization of resources.

- Stability strategy **does not involve a redefinition of the business** of the corporation.
- It is basically a **safety-oriented, status quo (i.e., to maintain same state of affairs)** oriented strategy.
- The **risk** is also **less** and It **does not warrant much of fresh investments**
- It involves **minor improvements** in the product and its packaging.
- The **firms** with modest (i.e., **limited**) **growth objective choose stability strategy.**
- While opting for **stability strategy**, the organization can concentrate on its resources and existing businesses or products and markets, thus **leading to building of core competencies**.

3.2 Major Reasons for Stability Strategy;

- A product has reached the **maturity stage** of the product life cycle.
- The **environment faced is relatively stable.**
- Where it is **not advisable to expand** as it may be **perceived as threatening.**
- The **staff feels comfortable** with the status quo as it involves less changes and **less risks.**
- **After rapid expansion**, a firm might want to stabilize and consolidate itself.

Concept 4: Growth/ Expansion Strategy:

Introduction;

The firm **attempt significant growth-maybe within the current businesses; maybe by entering new business** that are related to existing businesses; or by entering new businesses that are **unrelated** to existing businesses.

Growth/ Expansion strategy is **implemented by redefining the business** by enlarging the scope of business and substantially increasing investment in the business.

It is often **characterised by** significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught (i.e., attack) into new products, new technology and new markets, innovative decisions and action programmes and so on.

Expansion also **includes** diversifying, acquiring and merging businesses. This strategy may take the enterprise along **relatively unknown and risky paths, full of promises** and **pitfalls.**

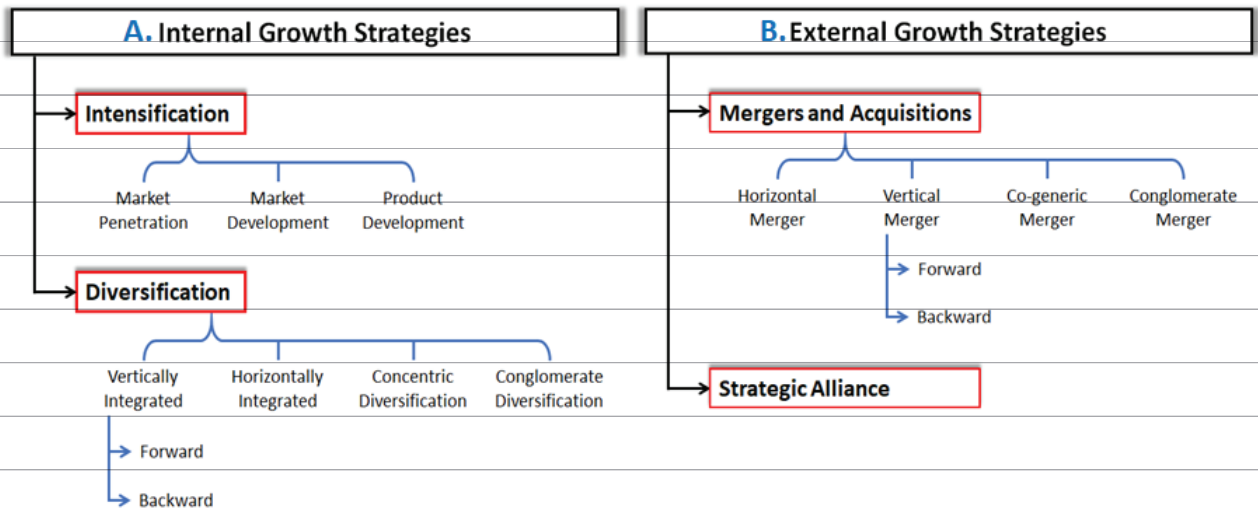
4.1 Characteristics of Growth/Expansion Strategy;

- Expansion strategy **involves a redefinition of the business** of the corporation.

- Expansion strategy is the **opposite of stability strategy.** While in stability strategy, rewards are limited, in expansion strategy they are very high. In the matter of risks, too, the two are the opposites of each other.
- Expansion strategy **leads to business growth.** A firm with a huge growth ambition can meet its objective only through the expansion strategy.
- The process of renewal of the firm through fresh investments and new businesses/ products/markets is facilitated only by expansion strategy.
- Expansion strategy is a **highly versatile** strategy; it offers several permutations and combinations for growth. A firm opting for the expansion strategy can generate many alternatives within the strategy by altering its propositions regarding products, markets and functions and pick the one that suits it most.
- Expansion strategy holds within its **fold two major** strategy routes: Meaning There are two routes for expansion strategy;
  1. Intensification,
  2. Diversification.

4.2 Major Reasons for Growth/Expansion:

- It may become essential when **environment demands increase in pace** of activity.
- Expansion may **lead to greater control over the market** vis-a-vis (w.r.t.) competitors.
- **Advantages** from the **experience curve and scale of operations** may accrue.
- Psychologically, **Strategists may feel more satisfied with the prospects of growth from expansion;** Chief executives may take pride in presiding over organizations perceived to be growth-oriented.



A. Internal Growth Strategies

Concept 5: Expansion through Intensification;

Introduction;

Expansion or growth through intensification means that the **organisation tries to grow internally by intensifying its operations either** by market penetration or by market development or by product development are emphasised to develop new products, enter new markets and embracing new technology.

In other words, an internal growth strategy **involves re-defining of business definition** by substantially scaling the level of operations through internal development. **Firm tries to cash on its internal capabilities and internal resources**. The firm can intensify by adopting any of the following strategies

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

Concept 6: Expansion through Diversification;

Introduction;

Diversification is **defined as** entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. **This is also an internal growth strategy.**

Innovative and creative firms always look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship. Entrepreneur **feel** that diversification offers **greater prospects of growth and profitability than expansion.**

For some firms, diversification is a **means of utilising their existing facilities and capabilities** in a more effective and efficient manner. They may have excess capacity in manufacturing facilities, investible funds, marketing channels, competitive standing, market prestige, managerial and other manpower, research and development, raw material sources and so forth.

Another reason for diversification lies in its **synergistic advantage.** It may be possible to improve the sales and profits of existing products by adding suitably related or new products, because of linkages in technology and/or in markets.

Diversification can be **related or unrelated to existing businesses** of the firm. Based on the nature and extent of their relationship to existing businesses, diversifications have been classified into **four broad categories:**

(i) Vertically integrated diversification,

 a. Forward Integration, and

 b. Backward Integration.

(ii) Horizontally integrated diversification,

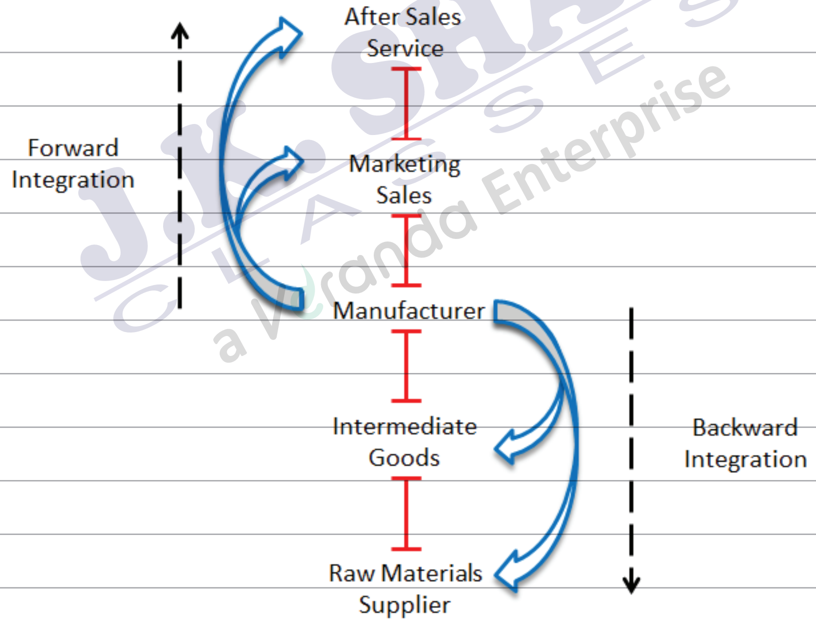
(iii) Concentric diversification, and

(iv) Conglomerate diversification.

(i) Vertically Integrated Diversification:

In vertically integrated diversification, firms **opt to engage in businesses that are related to the existing business** of the firm. The firm **remains vertically within the same process sequence** moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

The characteristic feature of vertically integrated diversification is that here, the **firm does not jump outside the vertically linked** product-process chain.



Forward and Backward Integration:

Forward and backward integration forms part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain.

➔ **BACKWARD INTEGRATION;**

- It is a step towards, **creation of effective supply** by entering business of input providers.
- Strategy employed to expand profits and gain **greater control over production** of a product.
- Whereby a company will **purchase or build a business that will increase its own supply capability** or **lessen its cost of production.**
- **For E.g.,** a large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.

➔ **FORWARD INTEGRATION:**

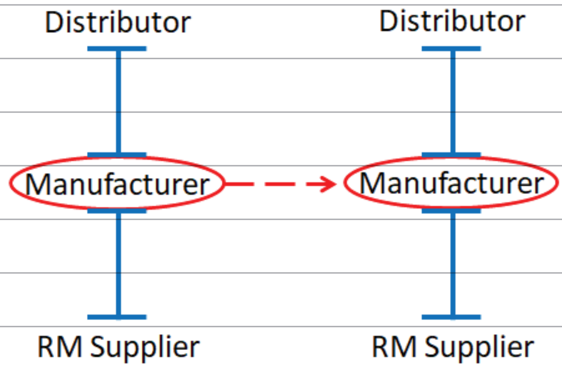
- It is **moving forward in the value chain** and entering business lines that use existing products.
- Forward integration will also take place where organizations **enter into businesses of distribution channels.**
- **For E.g.,** a coffee bean manufacture may choose to collaborate with a coffee cafe.

(ii) Horizontal Integrated Diversification:

It is a type of integration strategies pursued by a company in order to strengthen its position in the industry. A corporate that implements this type of strategy usually collaborate with another company that is in the same production stage.

A firm gets horizontally diversified by integrating through the **acquisition of one or more similar business operating at the same stage** of the production-marketing chain. They can also integrate with the firms producing or manufacturing **complementary products, by-products or taking over competitors' products.**

In other words, Horizontal integration is the process of a company increasing production of goods or services at the same part of the supply chain.



For E.g., offering **'AKG'** earphone **(complementary product)** with Samsung premium device.

(iii) **Concentric Diversification:**

Concentric diversification too amounts to **related diversification.** In concentric diversification, **the new business is linked to the existing businesses** through process, technology or marketing.

The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, **there are benefits of synergy with the current operations.**

However, concentric diversification **differs from vertically integrated diversification** in the nature of the linkage the new product has with the existing ones. **While in vertically integrated diversification**, the new product falls within the firm's current process-product chain, **in concentric diversification**, there is a departure from this vertical linkage. **The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/ product chain.**

For E.g., One Plus, Nokia, Xiaomi, other cell phone manufacturing companies have started manufacturing Smart TV, Android TV.

(iv) **Conglomerate Diversification:**

In conglomerate diversification, **no linkages related to** product, market or technology **exist;** the **new** businesses/products are disjointed from the existing businesses/ products in every way; **it is a totally unrelated diversification.**

In process/technology/function, **there is no connection between the new products and the existing ones.** Conglomerate diversification has **no common thread** at all with the firm's present position.

For E.g., a cement manufacturer diversifies into the manufacture of steel and rubber products.

B. External Growth Strategies

Concept 7: Expansion through Mergers and Acquisitions;

Introduction;

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

Merger and acquisition in simple words are **defined as a process of combining two or more organizations together.**

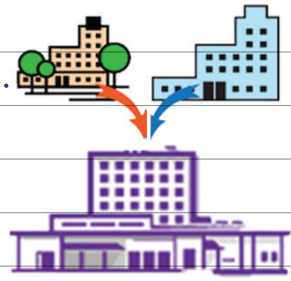
It is an attractive and tempting proposition in the sense that it circumvents (i.e., bypass or avoid) the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the **marriage will be mutually beneficial,** a happy and lasting affair.

Apart from the urge (i.e., wish) to grow, **acquisitions and mergers are resorted (i.e., opted) to for purposes of achieving a measure of synergy between the parent and the acquired enterprises.** Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. **Only positive synergistic effects are relevant** in this connection which denotes that the positive effects of the merged resources are greater than the effects of the individual resources before merger or acquisition.

There is a **thin line of difference between** these terms but the impact of combination is completely different in all the cases. **Some organizations prefer to grow through;**

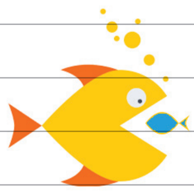
- Mergers,
- Acquisition, or
- Takeover.

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



In such a case the **deal gets finalized on friendly terms and both the organizations share profits in the newly created entity.**

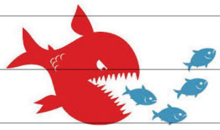
For Instance, Formation of **Brook Bond Lipton India Ltd.** through the **merger of Brook Bond** and **Lipton India.**



Acquisition, when one organization takes over the other organization and controls all its business operations, it is known as acquisitions.

In this process of acquisition, **one financially strong organization overpowers the weaker one.**

For Instance, WalMart acquired Flipkart of India.



Takeover, A deal in case of an acquisition is often done **in an unfriendly manner,** it is more or less a **forced association** where the powerful organization either consumes the operation or a company in a weaker position is forced to sell its entity.

For Instance, **in 2000**, **Tata Tea** took over Tetley Tea.

7.1 Types of Mergers;

1. Horizontal Merger;

Horizontal merger is **a combination of firms engaged in the same industry.** It is a merger with a direct competitor.

The **principal objective** behind this type of merger is **to achieve economies of scale** in the production process by shedding (i.e., removing) duplication of installations and functions, **widening** the line of products, **decrease** in working capital and fixed assets investment, **getting rid of competition** and so on.

For Instance, formation of **Brook Bond Lipton India Ltd.** through the merger of **Brook Bond** and **Lipton India.**

2. Vertical Merger:

It is a merger of two organizations that are operating in the **same industry but at different stages of production** or **distribution system.** This often **leads to increased synergies** with the merging firms.

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

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

Vertical merger **results in** many operating and financial economies. 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.

For Instance, Disney acquired Pixar for approximately $7.4 billion in 2006.

3. Co-generic Merger:

In Co-generic merger two or more merging **organizations are associated in some way** or the other **related** to the production processes, business markets, or basic required technologies.

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

It offers great opportunities to businesses to **diversify around a common set of resources** and strategic requirements.

For Instance, an organization in the white goods category such as refrigerators can diversify by merging with another organization having business in kitchen appliances.

4. Conglomerate Merger:

A conglomerate merger is the combination of firm's operating in different industries". Conglomerate mergers can serve various purposes, including **extending corporate portfolio** and extending a product range.

Conglomerate mergers are the **combination of organizations that are unrelated** to each other. There are **no linkages** with respect to customer groups, customer functions and technologies being used.

There are **no important common factors between the organizations** in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these factors.

For Instance, Reliance Brands a subsidiary of RIL acquires Hamleys Toys of UK for ₹620 crore.

Concept 8: Expansion through Strategic Alliance;

Introduction;

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

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

Strategic alliances are **often formed in the global marketplace** between businesses that are based in different regions of the world.

8.1 Advantages of Strategic Alliance;

Strategic alliances usually are only formed **if they provide an advantage to all** the parties in the alliance. These advantages can be broadly categorised as follows:

1. Organizational:

Strategic alliance **helps to learn necessary skills and obtain certain capabilities** from strategic partners.

Strategic partners may also **help to enhance productive capacity, provide a distribution system, or extend supply chain.**

Strategic partners may provide a goods or service that complements thereby creating a synergy.

Having a strategic partner who is well-known and respected also helps add legitimacy (i.e., sincerity) and creditability (i.e., trustworthiness) to a new venture.

2. **Economic:**

There can be **reduction in costs and risks** by distributing them across the members of the alliance.

Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline.

Partners can **take advantage of co-specialization,** creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.

3. **Strategic:**

Rivals can join together to cooperate **instead of compete.** Vertical integration can be created where partners are **part of supply chain.**

Strategic alliances may also be **useful to create a competitive advantage** by the pooling of resources and skills.

This may also help with **future business opportunities** and the development of new products and technologies.

4. **Political:**

Sometimes strategic alliances are formed with a local foreign business **to gain entry into a foreign market** either because of legal barriers to entry.

Forming strategic alliances with politically-influential partners may also help improve your own influence and position.

8.2 Disadvantages of Strategic Alliance;

Strategic alliances do come with some disadvantages and risks;

- The major disadvantage is **sharing.**
  - ✓ **sharing of resources and profits,**
  - ✓ **sharing of knowledge and skills.**

- Strategic alliances may also create a **potential competitor.**

1. **The major disadvantage is sharing.**

   Strategic alliances **require sharing of resources & profits** and also sharing **knowledge & skills** that otherwise organisations may not like to share. Sharing knowledge and skills can be **problematic** if they **involve trade secrets. Agreements can be executed to protect trade secrets,** but they are only as good as the willingness of parties to abide by the agreements or the courts willingness to enforce them.

2. **Strategic alliances may also create a potential competitor.**

   An ally (i.e., group) may become a competitor in future when it decides to separate out.

Concept 9: Retrenchment Strategy:

Introduction;

It is followed when an organization **substantially reduces the scope of its activity.** In other words, the strategy followed, when a firm decides to **eliminate its activities** through a considerable reduction in its business operations.

This is done through an attempt **to find out the problem areas** and **diagnose the causes of the problems.** Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies.

Retrenchment Strategy can be;

Turnaround Strategy; If the organization **chooses to focus on ways and means to reverse the process of decline,** it adopts at turnaround strategy.

For E.g., Idea Cellular decided to merged with Vodafone in order to stay in the market.

Divestment Strategy; If it **cuts off the loss - making units,** divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy.

For E.g., In 2013, BSNL decided to discontinue the Telegram Service.

Liquidation Strategy; If none of these actions work (i.e., turnaround or divestment), then it may choose to **abandon the activities totally,** resulting in a liquidation strategy.

For E.g., Subhiksha was an Indian retail chain with 1600 outlets selling groceries, fruits, vegetables, medicines and mobile phones. It began operations in 1997, and was closed down in 2009 owing to financial mismanagement and a severe cash crunch.

9.1 Characteristics of Retrenchment Strategy:

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

Concept 10: Turnaround Strategy;

Introduction;

If the organization **chooses to focus on ways and means to reverse the process of decline,** it adopts at turnaround strategy.

Retrenchment may be done either internally or externally. For **internal retrenchment** to take place, emphasis is laid on improving internal efficiency, **known as turnaround strategy.**

There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive.

These danger signals are:

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

10.1 Action Plan for Turnaround;

For turnaround strategies to be successful, it is important to focus on the short and long-term financing needs as well as on strategic issues. A workable action plan for turnaround would involve the following stages.

1. **Assessment of current problems:**
   - ✓ The first step is to **assess the current problems** and get to the root causes and the extent of damage the problem has caused.
   - ✓ **Once the problems are identified,** the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

2. **Analyze the situation and develop a strategic plan:**
   - ✓ **Before you make any major changes; determine the chances of the business's survival.** Identify appropriate strategies and develop a preliminary action plan. For this **one should look for** the viable core businesses, adequate bridge financing and **available organizational resources.**
   - ✓ Analyze the strengths and weaknesses in the areas of competitive position. Once major problems (i.e., threats) and opportunities are identified, **develop a strategic plan** with specific goals and detailed functional actions.

3. **Implementing an emergency action plan:**
   - ✓ **If** the organization is in a **critical stage, an appropriate action plan must be developed** to stop the bleeding and enable the organization to survive.
   - ✓ The **plan typically includes** human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune (i.e., to cut) product lines and accelerate high potential products.
   - ✓ A **positive operating cash flow must be established** as quickly as possible and enough funds to implement the turnaround strategies must be raised.

4. **Restructuring the business:**
   - ✓ The **financial state** (i.e., condition) **of the organization's core business is particularly important.** If the core business is irreparably damaged, then the outlook for the entire organization may be bleak (i.e., unprotected).

- ✓ **Prepare** cash forecasts, analyze assets and debts, review profits and analyze other key financial functions **to position the organization for rapid improvement.**
- ✓ During the turnaround, the **'product mix' may be changed,** requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive.
- ✓ **Some facilities might be closed;** the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.
- ✓ The **'people mix'** or **morale building is another important ingredient** in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

5. Returning to normal:

- ✓ In the final stage of turnaround strategy process, the **organization should begin to show signs of** profitability, return on investments and enhancing economic value-added.
- ✓ **Emphasis is placed on a number of strategic efforts** such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

10.2 The important elements of turnaround strategy are as follows:

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

10.3 Major Reasons for Turnaround Strategy; (MTP May 2020)

- ✓ Turnaround is **needed when an enterprise's performance decline** to a point that it needs a radical change of direction in strategy, and possibly in structure and culture as well.

- ✓ It requires a **highly targeted effort to return** an organization **to profitability** and **increase positive cash flows** to a sufficient level.
- ✓ It is **used when both threats and weaknesses adversely affect** the health of an organization so much that its basic survival is difficult.
- ✓ The **overall goal** of turnaround strategy is **to return** an underperforming or distressed company to **normalcy** in terms of acceptable levels of profitability, solvency, liquidity and cash flow.
- ✓ To achieve its **objectives,** turnaround strategy must **reverse causes of distress,** resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and **overcome internal constraints and unfavourable industry characteristics.**

Concept 11: Divestment Strategy;

Introduction;

Divestment strategy involves the **sale or liquidation of a portion of business**, or a major division, profit centre or SBU. It cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy.

Divestment is usually a **part of rehabilitation or restructuring plan** and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

11.1 A divestment strategy may be adopted due to various reasons:

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

11.2 Characteristics of Divestment Strategy;

- This strategy involves divestment of some of the activities in a given business of the firm or sell-out of some of the businesses as such.
- Divestment is to be viewed as an integral part of corporate strategy without any stigma attached.
- Like expansion strategy, divestment strategy, too, involves a redefinition of the business of the corporation.
- Compulsions for divestment can be many and varied, such as;
  a) Obsolescence of product/process
  b) Business becoming unprofitable and unviable
  c) Inability to cope up with cut throat competition
  d) Industry overcapacity
  e) Failure of existing strategy.

Concept 12: Liquidation Strategy;

Introduction;

A retrenchment strategy considered the **most extreme and unattractive is liquidation strategy,** which involves closing down a firm and selling its assets.

If none of these actions work i.e., turnaround or divestment, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

It is considered as the **last resort** because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities, etc...

Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but **medium-and large-sized companies rarely liquidate in India.** The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation.

Selling assets for implementing a liquidation strategy may also be **difficult** as buyers are difficult to find. Moreover, the firm **cannot expect adequate compensation as most assets,** being unusable, are considered as scrap.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition.

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

When liquidation is evident an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap (i.e., to obtain or realize) the maximum benefits for the firm and its shareholders through the process of liquidation.

12.1 Major Reasons for Liquidation Strategy;

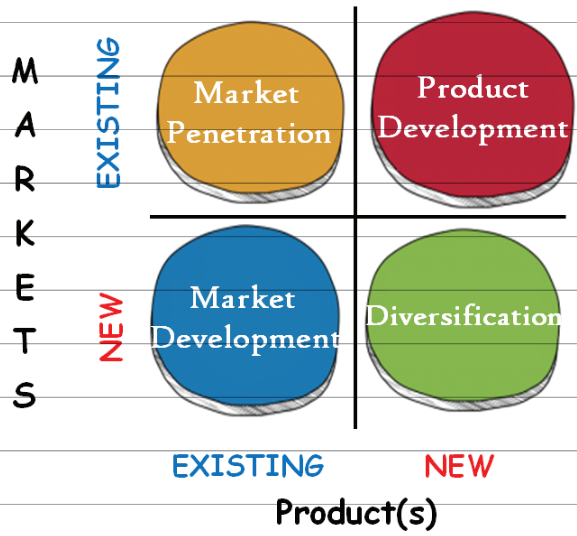
- The management **no longer wishes to remain in business** wholly due to continuous losses and unviability.
- The **management feels** that business could be made **viable by liquidation of unprofitable activities.**
- A **business** that had been acquired **proves to be a mismatch** and cannot be integrated within the company.
- **Intensity of competition** and the **inability of a firm to cope** with it may cause it to liquidate.
- A **better alternative** may be available for investment.
- **Technological up-gradation is required** if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to liquidate.
- Constant **negative cash flow** from business(es),

Concept 13: Igor Ansoff's Product Market Growth Matrix:

Introduction;

The Ansoff's product market growth matrix **(proposed by Igor Ansoff)** is a useful tool that helps businesses decide their product and market growth strategy. With the **use of this matrix a business can get a fair idea about how its growth** depends upon it markets (i.e., offers) in new or existing products in both new and existing markets.

Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a **portfolio-planning tool** for identifying growth opportunities for the company.



Market Penetration:

- ✓ Market penetration refers to a growth strategy where the business **focuses on** selling **existing products into existing markets.**
- ✓ It is achieved by making **more sales to present customers** without changing products in any major way.
- ✓ Penetration might require greater **spending on advertising** or personal selling.
- ✓ **Risk** involved in this strategy is **less** as compared to other strategies.
- ✓ **For E.g.** A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.

Market Development:

- ✓ Market development refers to a growth strategy where the business seeks (i.e., attempts) to **sell its existing products into new markets.**
- ✓ It is a strategy for company growth by **identifying and developing new markets** for current company products.
- ✓ This strategy may be achieved through **new geographical markets**, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.
- ✓ **Risk** involved in this strategy is **moderate** as compared to other strategies.
- ✓ For E.g. One of India's premier utility vehicles manufacturing company ventures to foray (i.e., attempt to enter) into foreign markets.

Product Development:

- ✓ Product development refers to a growth strategy where **business aims to introduce new products into existing markets.**
- ✓ It is a strategy for company growth by **offering modified or new products** to current markets.
- ✓ This strategy **may require the development of new competencies** and requires the business to develop modified products which can appeal to existing markets.
- ✓ **Risk** involved in this strategy is moderate as compared to other strategies.
- ✓ **For E.g.** A renowned geared scooters manufacturing company launches ungeared scooters in the market.

Diversification:

- ✓ Diversification refers to a growth strategy where a business markets **new product in new markets.**
- ✓ It is a strategy by starting up or acquiring businesses outside the company's current products and markets.
- ✓ Typically, the business is moving into markets in which it has **little or no experience.**
- ✓ **Risk** involved in this strategy is **high** as compared to other strategies.
- ✓ For E.g. A business giant in hotel industry decides to enter into dairy business.

Concept 14: ADL Matrix:

Introduction;

The ADL matrix (derived its name from **A**rthur **D. L**ittle) is a portfolio analysis technique that is **based on product life cycle.**

The approach forms a two-dimensional matrix;

- Where on '**X**' **Axis** it represents life cycle of the industry. (**Environmental assessment**)
  Stage of industry maturity is an environmental measure that **represents a position in industry's life cycle.**
- Where on '**Y**' **Axis** it represents competitive position of the firm. (**Business strength assessment**)
  Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions.

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

1. **Dominant:**
   This is a comparatively rare position and in many cases is attributable either to a monopoly or a **strong and protected technological leadership.**

2. **Strong:**
   By virtue of this position, the firm has a **considerable degree of freedom over its choice of strategies** and is often able to act without its market position being unduly threatened by its competitions.

3. **Favourable:**

This position, which generally comes about when the industry is fragmented (break into pieces) and **no one competitor stand out clearly,** results in the market leaders a **reasonable degree of freedom.**

4. **Tenable:**

Although the firms within this category **are able to perform satisfactorily** and can justify staying in the industry, they are generally helpless (vulnerable) in the face of increased competition from stronger and more proactive companies in the market.

5. **Weak:**

The **performance** of firms in this category is generally **unsatisfactory although the opportunities for improvement do exist.**

➢ **Limitations of ADL Matrix;**

- There is **no standard life cycle length.**
- **Determining** the current industry **life cycle phase is difficult.**
- **Competitors may** influence the length of the life cycle.

It is four by five matrix as follows;

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

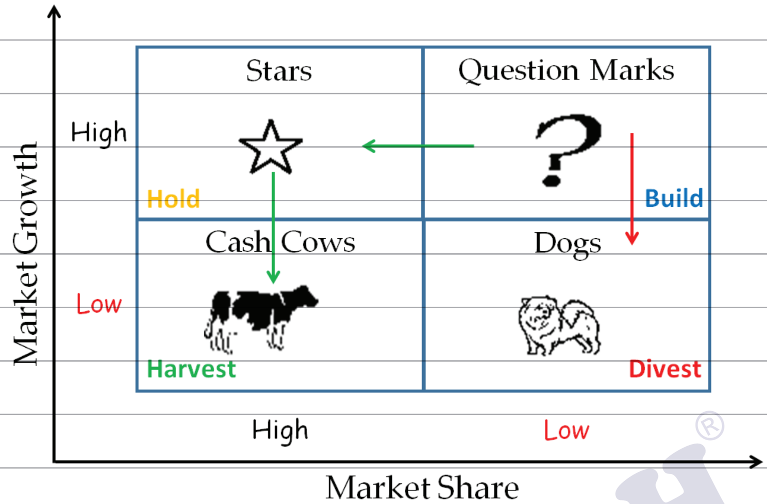
Concept 15: BCG Growth-Share Matrix:

Introduction;

The BCG Growth-Share Matrix is a portfolio planning model developed by Bruce Henderson of the Boston Consulting Group in the early 1970's.

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

- The Vertical Axis ('y' Axis) represents **market growth** rate and **provides a measure of market attractiveness.**
- The Horizontal Axis ('x' Axis) represents **relative market share** and **serves as a measure of company strength in the market.**



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

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

Stars; (high growth, high market share businesses or products)

- They are products or SBUs that are growing rapidly.
- They also need heavy investment to maintain their position and need finance their rapid growth potential.
- They represent best opportunities for expansion.

Cash Cows; (low growth, high market share businesses or products)

- Cash Cows are products which give high returns at low investment. Excess revenue generated by such products, will be milked (i.e., invested) into another product or business.
- They generate cash and have low costs.
- They are established, successful, and need less investment to maintain their market share.
- In long run when the growth rate slows down, stars become cash cows.

Question Marks; (high growth potential, low market share businesses or products)

- Question marks are products which may give high returns but at the same time may also flop and may have to be taken out of the market. **This uncertainty gives the quadrant the name "Question Mark".**

- Sometimes called problem children or wildcats.
- They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash.
- Question marks **if left unattended** are capable of becoming cash traps.
- Since growth rate is high, increasing it should be relatively easier.
- It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

Dogs; (low growth, low market share businesses or products)

- They may generate enough cash to maintain themselves, but do not have much future.
- Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

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

1. **Build: (Suitable for turning a "question mark" into a star)**
   Here the objective is to **increase market share**, even by forgoing short-term earnings in favour of building a strong future with large market share.
2. **Hold: (Suitable for Star)**
   Here the objective is to **preserve market share**. In other words, here the company invests just enough to keep the SBU in its present position.
3. **Harvest: (Suitable for Cash Cow)**
   Here the objective is to **increase short-term cash flow** regardless of long-term effect.
4. **Divest: (Suitable for Dog's)**
   Here the objective is to **sell or liquidate** the business **because resources can be better used elsewhere.**

15.2 Limitations of BCG Matrix;

The growth-share matrix has done much to help strategic planning; however, there are some problems and limitations with the technique.

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

- BCG matrix led the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise (i.e., faulty) expansion into hot, new, risky ventures or divesting established units too quickly.

Concept 16: General Electric Matrix ["Stop – Light" Strategy Model];

Introduction;

This model has been used by General Electric Company (**developed by GE** with the assistance of the consulting firm **McKinsey & Company**). This model is also known as **Business Planning Matrix. GE Nine-Cell Matrix** and **GE Model.**

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

The lights that are used at crossings to manage traffic are:

Green	Go
Yellow	Caution
Red	Stop

This model is similar to the BCG growth-share matrix. However, there are differences. **Firstly**, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. **Secondly**, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

This model uses two factors while taking strategic decisions:

Axis's	**Factors**
'x' axis	Business Strength
'y' axis	Market Attractiveness

The **Market attractiveness** is measured by a number of factors like:

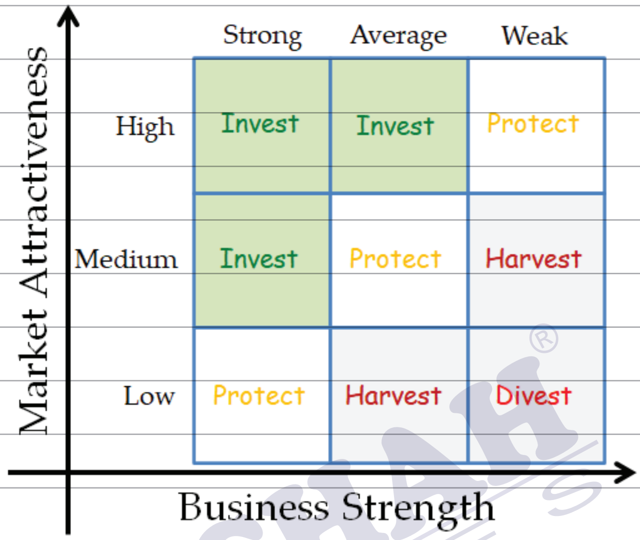
- ✓ Size of the market,
- ✓ Market growth rate,
- ✓ Industry profitability,
- ✓ Overall risk of returns in the industry,
- ✓ Competitive intensity,
- ✓ Availability of Technology,
- ✓ Pricing trends,
- ✓ Distribution structure,

Etc...

The **Business strength** is measured by a number of factors like:

- ✓ Market share,
- ✓ Market share growth rate,
- ✓ Profit margin,
- ✓ Production capacity,
- ✓ Distribution efficiency,
- ✓ Brand image,
- ✓ Customer loyalty,
- ✓ Technological capability,

Etc...



Strategy to be opt;

- ✓ If a product falls in the **green section**, the business is at advantageous position. To reap (i.e., acquire) the benefits, the strategic decision can be to expand, to invest and grow.
- ✓ If a product is in the **amber or yellow zone**, it needs caution and managerial discretion (i.e., preference) is called (meaning required) for making the strategic choices.

  In other words, Firm will look forward to protect existing business or product. Here, no fresh investment is willing to have, rather firm is willing to have the security of the given investment. So that does not result in losses.
- ✓ If a product is in the **red zone**, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

5 STRATEGY IMPLEMENTATION & EVALUATION

Concept 1: Strategic Management Model:

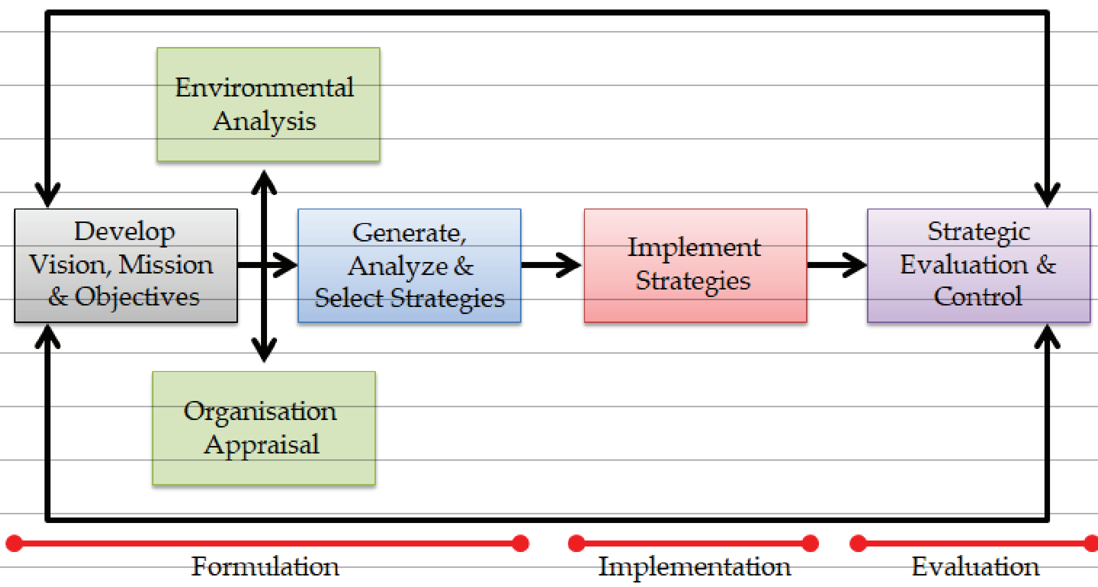
Introduction;

Identifying an organization's vision, mission, goals and objectives, is the **starting point for strategic management process.**

The strategic management process is **dynamic** and **continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components.** Therefore, strategy formulation, implementation, and evaluation activities should be performed on a **continual basis**, not just at the end of the year or semi-annually. The strategic management process **never really ends.**

The strategic management process can best be studied and applied using a model. **Every model represents some kind of process.** Strategic Management Model (Fred R David) is a widely accepted, comprehensive.

This model like any other model of management does not guarantee sure-shot success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic management process are shown in the model.



Strategists do not go through the process in lockstep fashion. Generally, there is **give-and-take among hierarchical levels** of an organization.

Many organizations conduct formal meetings semi-annually to discuss and update the firm's **vision & mission, opportunities & threats, strengths & weaknesses, strategies, objectives, policies, and performance.**

Creativity (i.e., response) from participants is encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

1.1 Stages in Strategic Management;

Crafting and executing strategy are the **heart** and **soul** of managing a business enterprise.

1. **Developing a strategic vision and formulation of statement of mission, goals and objectives,**

   First a company must determine what directional path the company should take and what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect.

2. **Environmental and organizational analysis,**

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

   i. **Environmental scanning;**

   External environment of a firm consists of economic, social, technological, market and other forces which affect its functioning. The firm's external environment is dynamic and uncertain.

   ii. **Organisational analysis;**

   Organisational analysis involved a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on.

3. **Formulation of strategy,**

   The strategic alternatives may be designated as stability strategy, growth/ expansion strategy and retrenchment strategy. A company may also follow a combination these alternatives called combination strategy.

   Note: The above all are corporate level strategies will be covered in chapter no. 4.

4. **Implementation of strategy,**

Implementation and execution are an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. It is the most demanding and time-consuming part of the strategy-management process.

5. **Strategic evaluation and control.**

The final stage of strategic management process – evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/or strategy-execution methods.

1.2 Principal aspects of strategy-execution process;

Introduction;

Good strategy execution involves creating strong "**fits**" between **strategy and organizational capabilities,** between **strategy and the reward structure,** between **strategy and internal operating systems,** and between **strategy and the organization's work climate and culture.**

In most situations, strategy–execution process includes the following principal aspects;

- ✓ **Developing budgets** that steer (i.e., direct) ample (i.e., adequate) resources into those activities critical (i.e., important) to strategic success.
- ✓ **Staffing the organization** with the needed skills and expertise, carefully building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- ✓ **Ensuring** that policies and operating procedures **facilitate** rather than restrain or slowdown effective execution.
- ✓ **Using the best-known practices** to perform core business activities and pushing for continuous improvement.
- ✓ Installing information and operating systems that **enable** company **personnel to better carry out** their strategic roles day in and day out.
- ✓ **Motivating people** to pursue the target objectives energetically.
- ✓ **Creating** a company **culture and work climate helpful** to successful strategy implementation and execution.
- ✓ **Exerting** (i.e., look for) the **internal leadership** needed to drive implementation forward and keep **improving strategy execution.**

✓ When the organization **encounters** barrier or weaknesses, **management** has to see that they are **addressed and rectified quickly.**

Concept 2: Strategy Formulation and Implementation:

2.1 Corporate Strategy

Planning entails choosing what has to be done in the future (today, next week, next month, next year, over the next couple of years, etc.) and creating action plans. An essential element of effective management is adequate planning. Choosing a path of action to achieve defined goals is a part of planning.

The game plan that really directs the company towards success is called "corporate strategy". Planning may be operational or strategic. Senior management develops strategic plans for the entire organisation after evaluating the organization's strengths and weaknesses in light of potential possibilities and dangers in the outside world. They involve gathering and allocating resources in order to achieve organisational goals. But operational plans on the other hand are made at the middle and lower-level management. They provide specifics on how the resources are to be used effectively to achieve the goals.

Corporate Strategy

Strategic Planning: | Operational planning

Characteristics of Strategic planning		Characteristics of Operational planning
Shapes the organisation and its resources.		Deals with current deployment of resources.
Assesses the impact of environmental variables.		Develops tactics rather than strategy.
Takes a holistic view of the organisation.		Projects current operations into the future.
Develops overall objectives and strategies.		Makes modifications to the business functions but fundamental changes.
Is concerned with the long-term success of the organisation.		Is the responsibility functional managers.
Is a senior management responsibility.		

Strategic Planning: The game plan that really directs the company towards success is called "corporate strategy". The success of the company depends on how well this game plan works. Because of this, the core of the process of strategic planning is the formation of corporate strategy. The formation of corporate strategy is the result of a process known as strategic planning.

- Strategic planning is the process of determining the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use and disposition of resources.
- Strategic planning involves a fact of interactive and overlapping decisions leading to the development of an effective strategy for the firm.
- Strategic planning determines where an organisation is going over the next year or more and the ways for going there.
- The process is organisation-wide or focused on a major function such as a division or other major function.

Strategic uncertainty and how to deal with it?

Strategic uncertainty refers to the unpredictability and unpredictability of future events and circumstances that can impact an organization's strategy and goals. It can be driven by factors such as changes in the market, technology, competition, regulation, and other external factors. Dealing with strategic uncertainty can be challenging and organizations need to have the flexibility, resilience, and agility to quickly respond to changes in the environment and minimize its impact. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

- **Flexibility:** Organizations can build flexibility into their strategies to quickly adapt to changes in the environment.
- **Diversification:** Diversifying the organization's product portfolio, markets, and customer base can reduce the impact of strategic uncertainty.
- **Monitoring and Scenario Planning:** Organizations can regularly monitor key indicators of change and conduct scenario planning to understand how different future scenarios might impact their strategies.
- **Building Resilience:** Organizations can invest in building internal resilience, such as strengthening their operational processes, increasing their financial flexibility, and improving their risk management capabilities.

- **Collaboration and Partnerships:** Collaborating with other organizations, suppliers, customers, and partners can help organizations pool resources, share risk, and gain access to new markets and technologies.

Impact of uncertainty: Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential businesses., a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty. The impact of a strategic uncertainty will depend on the importance of the impacted SBU to a firm. Some SBUs are more important than others. The importance of established SBUs may be indicated by their associated sales, profits, or costs. However, such measures might need to be supplemented for potential growth as present sales, profits, or costs may not reflect the true value.

2.2 Strategic Planning:

Planning means **deciding what needs to done in the future** (today, next week, next month, next year, over the next couple of years, etc...) **and generating blueprints for action.** Good planning is an important constituent of good management. Planning **involves determination of the course of action to attain the predetermined objectives.** It bridges the gap between where we are to where we want to go. **Thus**, planning is **future oriented** in nature.

2.2.1 Types of Planning's;

1. Strategic Planning,
2. Operational Planning.

1. Strategic Planning;

Strategic plans are **made by the senior management for the entire organization** after taking into account the organization's strength and weaknesses in the light of opportunities and threats in the external environment.

Strategic planning is the **game plan** that actually steers (i.e., drive) the firm towards success. The **degree of aptness** (i.e., correctness) of this game plan **decides the extent of the firm's success.** That is why formulation of corporate strategy forms the crux of the strategic planning process.

Strategic planning determines where an organization is going over the next year or more and the ways for going there.

It is the process of determining the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use of resources. **In other words,** they involve acquisition and allocation of resources for the attainment of organisational objectives.

2. **Operational Planning;**

Operational plans on the other hand are **made at the middle and lower-level management.** They specify details on how the resources are to be utilized efficiently for the attainment of objectives.

Conversion of virtual goals in to actual are the prime responsibility of the operational level managers.

Operational level managers should be efficient enough to understand the overall vision of the organisation and work accordingly to fulfil it within the allocated time.

2.2.2 A major functions (task) of planning's;

1. Dealing with uncertainty;
   - Through scenario analysis.

2. Impact of uncertainty;
   - Positive → represent opportunity,
   - Negative → represent threat.

1. **Dealing with uncertainty;**

Uncertainty in business is been developed **because of continuous changes in the business environment.** These changes force business organisation to change their strategies and to create a fit between newly happened change and its new plan to achieve the same objective.

As discussed above these changes in the business environment develops uncertainty and connected risk associated with it.

Strategic uncertainty, which has **far reaching implications, is a key construct in strategy formulation.**

A typical external analysis will emerge with dozens of strategic uncertainties. **To be manageable, they need to be grouped into logical clusters** or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

Sometimes, Strategic uncertainty is **represented by a future trend or event that has inherent unpredictability.** Information gathering and additional analysis will not be able to reduce the uncertainty.

In that case, **scenario analysis can be employed.** Scenario analysis basically accepts the uncertainty as given and uses it to drive a description of two or more future scenarios. **Strategies are then developed for each.** One outcome could be a decision to create organisational and strategic flexibility so that as the business context changes the strategy will adapt.

2. **Impact with uncertainty;**

Each element of strategic uncertainty involves potential trends or events that could have an **impact on** present, proposed, and even potential **businesses.**

For E.g., a trend toward **Aayurvedic Products** may present opportunities for a firm producing or manufacturing **herbal product** on the basis of a strategic uncertainty.

Similarly, a trend toward **natural foods** may present opportunities for a firm producing or manufacturing **juices** on the basis of a strategic uncertainty.

The impact of a strategic uncertainty will depend on the importance of the impacted SBU to a firm. Some SBUs are more important than others. The importance of established SBUs may be indicated by their associated sales, profits, or costs. **However,** such measures might need to be supplemented for potential growth as present sales, profits, or costs may not reflect the true value.

2.2.3 Characteristics of corporate planning

1. **Characteristics of Strategic planning;**
   - Shapes the organisation and its resources.
   - Assesses the impact of environmental variables.
   - Takes a holistic view of the organisation.
   - Develops overall objectives and strategies.
   - Is concerned with the long-term success of the organisation.
   - Is a senior management responsibility.

2. **Characteristics of Operational planning;**
   - Deals with current deployment (i.e., utilisation) of resources.
   - Develops tactics rather than strategy.
   - Projects current operations into the future.
   - Makes modifications to the business functions but not fundamental changes.
   - Operational planning is the responsibility of functional managers.

2.3 Strategy Implementation:

Introduction;

Strategy implementation **concerns the managerial exercise** of putting a freshly chosen (i.e., selected) strategy into action.

Strategy implementation **deals with the managerial exercise of** supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results.

Strategic implementation is **concerned with translating** a strategic decision into action.

The **allocation of resources** to new courses of action will need to be undertaken, and there **may be a need for adapting the organization's structure** to handle new activities as well as training personnel and devising appropriate systems.

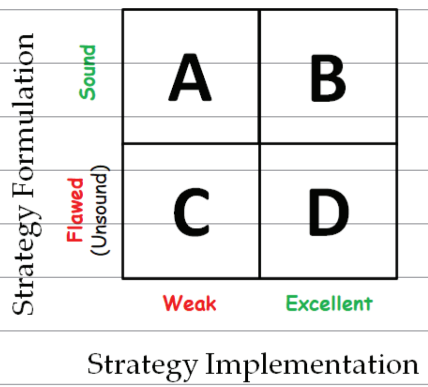
2.3.1 Relationship with strategy formulation;

Introduction;

Many managers **fail** to distinguish between strategy formulation and strategy implementation. Yet, it is crucial to realize the difference between the two because they both require very different skills. Also, a company will be **successful only** when the Strategy **formulation is sound** and **implementation is excellent**. There is no such thing as successful strategic design.

Often people, **blame the strategy model** for the **failure** of a company while the main flaw might lie in failed implementation.

Thus, Organization success is a function of good strategy and proper implementation.



Square A;

It is the situation where a company apparently has formulated a very competitive strategy, but is **showing difficulties in implementing it successfully.**

This can be **due to various factors**, such as the lack of experience, lack of resources, missing leadership and so on.

In such a situation the company will aim at moving from square A to square B, given they realize their implementation difficulties.

Square B;

It is the **ideal situation** where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.

This can be achieved with the help **various factors**, such as the **availability of resources, excellent leadership, strategy supportive structure**, and so on.

Square C;

It is denoting for companies that **haven't succeeded in coming up with a sound strategy formulation** and in addition are **bad at implementing** their flawed strategic model.

Their **path to success** also goes through **business model redesign** and **implementation** readjustment.

Square D;

It is the situation where the strategy formulation is flawed, but the **company is showing excellent implementation skills.**

When a company finds itself in square D the **first thing**, they have **to do is to redesign their strategy** before readjusting their implementation skills.

Conclusion;

It needs to be emphasized that 'strategy' is **not synonymous** with **'long-term plan'** but **rather consists of an enterprise's attempts to reach some preferred future state** by adapting its competitive position as circumstances change.

While a **series of strategic moves** may be planned, competitors' actions will mean that the **actual moves will have to be modified** to take account of those actions.

2.3.2 Distinguish between Strategy Formulation vs Strategy Implementation;

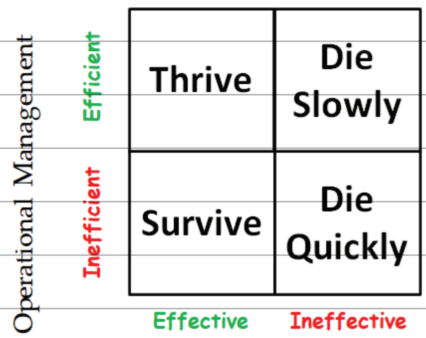
- Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation).
- Although inseparably linked, strategy implementation is fundamentally different from strategy formulation.
- Strategy formulation and implementation can be contrasted in the following ways:

Strategy Formulation	Strategy Implementation
Focus on;	
Strategy formulation focuses on effectiveness.	Strategy implementation focuses on efficiency.
Process;	
Strategy formulation is preliminary an intellectual process.	Strategy implementation is preliminary an operational process.
Required;	
Strategy formulation requires conceptual, Integrating and analytical skills.	Strategy implementation requires special skills in motivating and leadership skills.
Co-ordination;	
Strategy formulation requires co-ordination among the executives at the top level.	It requires co-ordination among the executives at the middle and lower level.
Decision-making;	
Strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making.	Strategy implementation is mainly an administrative task based on strategic as well as operational decision-making.

2.3.3 Relationships of Effectiveness and Efficiency;

Introduction;

In contrast to this view of strategy there is **another approach to management practice,** which has been followed in many organizations. In organizations that lack strategic direction there has been a tendency to look inwards in times of stress, and for management to devote their attention to cost cutting and to shedding unprofitable divisions.



Strategic Formulation

In other words, the focus has been on efficiency (i.e., the relationship between inputs and outputs, usually with a short time horizon) rather than on effectiveness (which is concerned with the attainment of organisational goals - including that of desired competitive position).

- **Cell 1 (Thrive);**
  It is well placed and thrives i.e., succeed, since it is achieving what it aspires to achieve with an efficient output-input ratio.

- **Cell 2 (Die Slowly);**
  It is a worse place to be than is cell 3. Due to ineffective strategy formulation.

- **Cell 3 (Survive);**
  It is a better place to be than is cell 2. As strategy formulation is effective, organisation need to improve operational efficiency.

- **Cell 4 (Die Quickly);**
  It is doomed i.e., unfortunate, unless it can establish some strategic direction.

Conclusion;

Even the most technically perfect strategic plan will serve little purpose if it is not implemented effectively. Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

2.3.4 Distinguish between Effectiveness vs Efficiency;

Effectiveness	Efficiency
Nature;	
Strategic in nature.	Operational in nature.
Viewpoint;	
From strategy formulation viewpoint.	From strategy implementation viewpoint.
Concerned with;	
Concerned with "to do the right thing". i.e., act correctly	Concerned with "to do the thing right". i.e., act orderly

Focus on;	
Focus on linkage between firm and environment.	Focus within the firm.

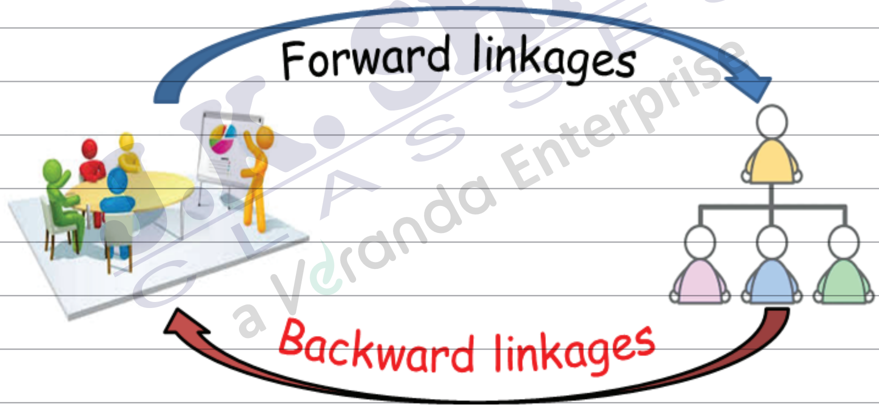
2.4 Linkages

Introduction;

It is to be noted that the division of strategic management **into different phases** (i.e., steps) is only for the purpose of orderly study. **In real life**, the formulation and implementation processes are **intertwined** (i.e., interconnected).

Two types of linkages exist between these two phases of strategic management.

- The **forward linkages** deal with the impact of strategy formulation on strategy implementation,
- While the **backward linkages** are concerned with the impact in the opposite direction.



1. Forward linkages;

The different elements in strategy formulation starting with **objective setting** through external and internal environmental analysis, determines the course that an organization adopts for itself.

With the **formulation of new strategies, or reformulation of existing strategies,** many changes have to be affected within the organization.

For instance, the organizational structure has to undergo (i.e., face) a change in the light of the requirements of the modified or new strategy. The style of leadership has to be adapted to the needs of the modified or new strategies.

In this way, the formulation of strategies has forward linkages with their implementation.

2. **Backward linkages;**

Just as implementation is determined by the formulation of strategies, the **formulation process is also affected by factors** related with implementation.

While dealing with strategic choice, remember that **past strategic actions also determine the choice of strategy.**

Organizations **tend to adopt those strategies** which can be **implemented with the help of the present structure** of resources combined with some additional efforts. **Such incremental changes,** over a period of time, take the organization from where it is to where it wishes to be.

2.5 Issies in Strategy Implementation

Introduction;

The different issues involved in strategy implementation cover practically everything that is included in the discipline (i.e., aspect) of management studies.

A **strategist**, therefore, **has to bring a wide range of knowledge, skills, attitudes**, and **abilities.** The implementation tasks **put to test the strategists' abilities to** allocate resources, design organisational structure, formulate functional policies, **and** to provide strategic leadership.

- **Strategies, have to be activated through implementation;**

  The strategic plan developed **by the organization proposes** the manner in which the strategies could be put into action. **Strategies**, by themselves, do not lead to action. They are, in a sense, a statement of intent. Implementation tasks are meant to realise the intent. Strategies, **therefore**, have to be activated through implementation.

- **Strategies should lead to formulation of different kinds of programmes;**

  A programme is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation.

- **Programmes lead to the formulation of projects;**

  A project is a highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds based on capital budgeting by organizations. Thus, research and development programme may consist of several projects, each of which is intended to achieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

Implementation of strategies is **not limited to formulation of plans, programmes, and projects.** Projects would also require resources. After resources have been provided, it would be essential to see that a proper organizational structure is designed, systems are installed, functional policies are developed, and various behavioural inputs are provided so that plans may work.

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

- ✓ Project implementation,
- ✓ Procedural implementation,
- ✓ Resource allocation,
- ✓ Structural implementation,
- ✓ Functional implementation,
- ✓ Behavioural implementation, etc...

It should be noted that the **sequence does not mean that each of the above activities are necessarily performed one after another.**

Many activities can be performed simultaneously, certain other activities may be repeated over time; and there are activities, which are **performed only once.**

Thus, there **can be overlapping and changes in the order** in which these activities are performed.

2.5.1 Management issues in strategy implementation;

Introduction;

Implementation **problems can arise** because of this shift in responsibility, especially if strategic decisions **come as a surprise** to middle and lower-level managers.

Managers and employees are **motivated more** by perceived (i.e., by recognizing) self-interests than by **organizational interests.**

Management issues in strategy implementation includes:

- ✓ Establishing annual objectives,
- ✓ Devising policies,
- ✓ Allocating resources,
- ✓ Altering an existing organizational structure,
- ✓ Restructuring and reengineering,
- ✓ Revising reward and incentive plans,

- ✓ Minimizing resistance to change,
- ✓ Developing a strategy – supportive culture,
- ✓ Adapting production (i.e., operations) processes, and
- ✓ Developing an effective human resource system.

Conclusion;

Managers and employees throughout an organization should **participate early and directly in strategy – implementation activities.**

Their **role** in strategy implementation **should build upon prior involvement** in strategy – formulation activities.

Firms should **provide training** for both managers and employees **to ensure** that they have **and maintain** the **skills** necessary to be world-class performers.

Concept 3: Strategic Change;

Introduction;

The **changes in the environmental forces** often require businesses to **make modifications** in their existing strategies and **bring out new strategies.**

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

3.1 Specify the steps that are needed to introduce strategic change in an organization;

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

1. Recognize the need for change;

- The first step is to **diagnose** which aspects of the **corporate culture** that are strategy **supportive or not.**
- This **basically means** going for environmental scanning involving appraisal of both internal and external capabilities may be through **SWOT analysis**. The **idea** (i.e., purpose) is to determine **where the gap lies** and scope for change exists.

2. Create a shared vision to manage the change;

- Objectives and vision of **both** individuals and organization **should match.** There **should be no conflict between them.**
- This is possible only if the management and the organization members **follow a shared vision.**

- Senior managers **need to constantly and consistently communicate the vision** not only to inform but also to overcome resistance.

3. **Institutionalize the change;**
   - This is basically an **action stage which requires implementation of changed strategy.**
   - Creating and sustaining a different attitude towards change is essential to ensure that the firm **does not slip back into old ways of thinking** or doing things.
   - All these changes should be set up as a practice to be followed by the organization and be able to transfer from one level to another as a well settled practice.
   - **Any** discrepancy or **deviation** should be **brought to the notice** of persons concerned so that the necessary corrective actions are taken. **It takes time** for the changed culture to prevail.

3.2 Kurt Lewin's Model of Change;

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

1. **Unfreezing the situation;**
   - Unfreezing is the **process of breaking down the old attitudes** and behaviours, customs and traditions, so that they start with a clean slate.
   - This **can be achieved by** making announcements, holding meetings and promoting the new ideas throughout the organization.
   - The process of unfreezing simply **makes the individuals aware of the necessity for change** and prepares them for such a change.
   - Lewin proposes that the **changes should not come as a surprise** to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering.

2. **Changing to the new situation;**
   - Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined.

- H.C. Kellman has proposed three methods for reassigning new patterns of behaviour.
  - ✓ Compliance,
  - ✓ Identification, and
  - ✓ Internalisation.

3. Refreezing;

- Refreezing occurs **when the new behaviour becomes a normal way of life.** The new behaviour must **replace the former behaviour completely** for successful and permanent change to take place.
- In order for the new behaviour to become permanent, it must be continuously reinforced so that this new acquired behaviour does not diminish.

Conclusion;

Change process is not a one–time application but a **continuous process** due to dynamism and ever-changing environment.

The process of unfreezing, changing and refreezing is a <u>cyclical one</u> and remains continuously in action.

Study note; When specifically, question asked about steps and does not mention for Kurt Lewin's Model of Change then answer as per 4.1 and when Kurt Lewin's Model of Change asked then answer as per 4.2.

3.3 Methods for reassigning new patterns of behavior as proposed by H.C. Kellman;

Introduction;

In order to accept such change, organization members behaviour patterns need to be redefined.

H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

1. Compliance;

It is achieved by **strictly enforcing the reward and punishment** strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.

2. **Identification;**

Identification occurs when members are **psychologically impressed** upon to **identify themselves with some given role models** whose behaviour they would **like to adopt and try to become like them.**

3. **Internalization;**

Internalization involves **some internal changing of the individual's thought processes** in order to adjust to the changes introduced. They have given **freedom to learn and adopt new behaviour** in order to succeed in the new set of circumstances.

3.4 How does digital transformation work?

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

Change management enters into the picture here. Organizations can plan, prepare for, and carry out changes to their operations, including digital transformations, with the aid of the discipline of change management. When implemented correctly, change management may assist firms in overcoming the obstacles posed by the digital transition and reaping the full rewards of their investment.

But how does change management appear when applied to digital transformation? Change management in the digital transition consists of four essential elements:

1. Defining the goals and objectives of the transformation
2. Assessing the current state of the organization and identifying gaps
3. Creating a roadmap for change that outlines the steps needed to reach the desired state
4. Implementing and managing the change at every level of the organization

To navigate a digital transformation successfully, each of these elements is necessary. But what matters most is how they collaborate to support organisations in achieving their goals.

How does change management work?

Change management is a process or set of tools and best practices used to manage changes in an organization. It assists in making changes in a safe and regulated manner, reducing the possibility of detrimental effects on the company. Any sort of organisation, including enterprises, organisations, governmental bodies, and even families, can utilise change management to manage changes.

Change management models and methods come in a wide variety, but they all have key things in common. These include creating a clear vision for the change, involving stakeholders in the process, coming up with a plan for putting the change into action, and keeping an eye on the results. Although change management is frequently viewed as a difficult and complicated process, it is vital for ensuring that digital transformation projects are successful.

The role of change management in digital transformation

Digital transformation is a process of organizational change that enables an organization to use technology to create new value for customers, employees, and other stakeholders. A good change management strategy is necessary for a successful digital transformation.

Change management is the process of planning, implementing, and monitoring changes in an organization. It provides organizations in achieving their objectives while reducing risks and disruptions. For any organisation undergoing a digital transition, change management is crucial.

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

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

A crucial component of any digital transition is change management. Why it gains more importance in the current times is because organizations can improve their chances of success by approaching change in a proactive and organized manner.

3.5 Change Management Strategies for Digital Transformation

One of the most important area of focus for guaranteeing a successful transformation is change management. Businesses nowadays increasingly find themselves responsible for managing more than simply their staff, clients, and products. Additionally, they are handling the introduction of new technology, the unexpected emergence of new market opportunities, and changes in customer preferences regarding the brands they choose, interact with, and hold to. In essence, modern firms must be able to manage change. They must modify their management techniques in order to achieve this. The five best practices for managing change in small and medium-sized businesses are:

1. **Begin at the top:** A focused, invested, united leadership that is on the same page about the company's future is reflected in change that begins at the top. The culture that will motivate the rest of the organisation to accept change can only be generated and promoted in this way.

2. **Ensure that the change is both necessary and desired:** The fact that decision-makers are unaware of how to properly handle a digital transformation and the effects it will have on their firm is one of the main causes of this. If a corporation doesn't have a sound strategy in place, introducing too much too fast can frequently become a major issue down the road.

3. **Reduce disruption:** Employee perceptions of what is required or desirable change can differ by department, rank, or performance history. It's crucial to lessen how changes affect staff. The introduction of new tactics or technologies intended to improve management and corporate operations causes employee concern about change. It is possible to reduce workplace disruption by:
   a. Getting the word out early and preparing for some interruption.
   b. Giving staff members the knowledge and tools, they need to adjust to change.
   c. Creating an environment that encourages transformation or change.
   d. Empowering change agents to provide context and clarity for changes, such as project managers or team leaders.
   e. Ensuring that IT department is informed of changes in technology or infrastructure and is prepared to support them.

4. **Encourage communication:** Create channels so that workers may contact you with queries or complaints. Encourage departmental collaboration to propagate ideas and innovations as new procedures take root. Communication promotes efficiency and has the power to influence culture, just like your vision. The people who will be affected the most by these changes are reassured that they are not in danger through effective communication, which keeps everyone on the same page.

5. **Recognize that change is the norm, not the exception:** Change readiness may be defined as "the ability to continuously initiate and respond to change in ways that create advantage, minimize risk, and sustain performance." In order to keep up with the customers, businesses must also adapt their operations. They must prepare for change in advance and expect them. It may run into difficulties because change is not a project but rather an ongoing process.

3.6 How to manage change during digital transformation?

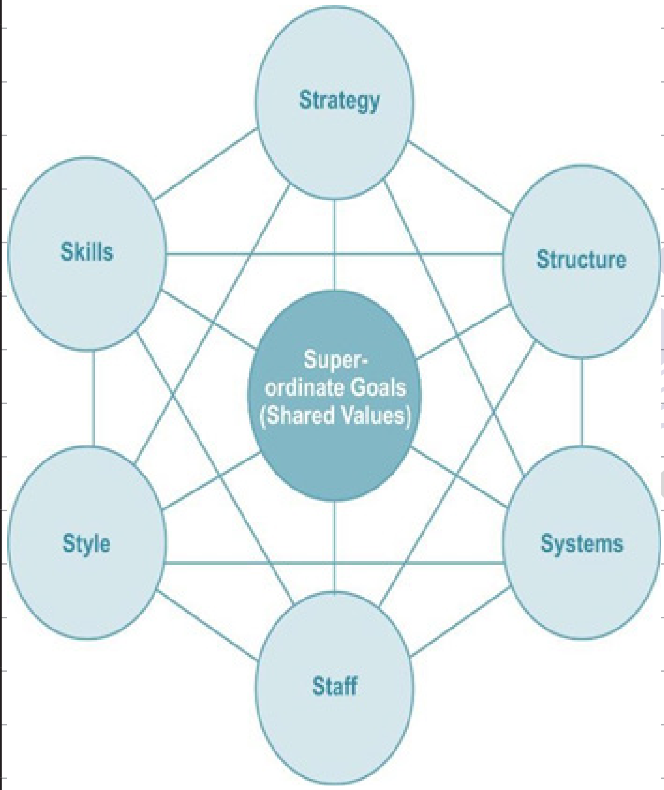
Any organisation may find the work of digital transformation challenging and overwhelming. To ensure that a digital transition is effective, change management is essential. Here are some pointers for navigating change during the digital transformation:

1. **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.
2. **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, including employees, clients, and other parties.
3. **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.
4. **Implement changes gradually:** Changes should ideally be implemented gradually rather than all at once. In order to avoid overwhelming individuals with too much change at once, this will give people time to become used to the new way of doing things.
5. **Offer assistance and training:** Workers will need guidance in the new procedures, software applications, etc.

In conclusion, effective completion of the massive project known as digital transformation depends on meticulous planning and change management. Digital transformation efforts are more likely to fail without change management. Organizations can successfully integrate a new digital system by planning for and managing the changes that must take place. Any project involving digital transformation must include it.

Concept 4: Orgranisational Framework;

The 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 the 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 in order to maintain an effective balance.



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 elements refers to employees development and relevant processes, performances and 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. The following elements are the hard elements in an organization.

- **Strategy:** the direction of the organization, a blueprint to build on a core competency and achieve competitive advantage to drive margins and lead the industry
- **Structure:** depending on the availability of resources and the degree of centralisation or decentralization that the management desires, it choses from the available alternatives of organizational structures.

- **Systems:** the development of daily tasks, operations and teams to execute the goals and objectives in the most efficient and effective manner.

The Soft elements are difficult to define as they are more governed by the culture. But these soft elements are equally important in determining an organization's success as well as growth in the industry. The following are the soft elements in this model;

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

But like any other strategic model, this model has its limitations as well;

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

Concept 5: Organization Structure:

Introduction;

A competitive advantage is created when there is a proper match between Strategy and **structure.**

Selecting the organizational structure and controls that result in effective implementation of chosen strategies is a **fundamental challenge for managers, especially top-level managers.** Changes in corporate strategy often require changes in the way an organization is structured **for two major reasons.**

Structure largely dictates;

1. **How operational objectives** and policies will be **established** to achieve the strategic objectives?
2. **How resources** will be **allocated** to achieve strategic objectives?

Every firm is **influence by numerous external and internal forces.** But **no firm** could change its structure in response to each of these forces, because to do so would lead to disorder (i.e., chaos).

However, when a firm changes its strategy, the **existing organizational structure** may become **ineffective. Symptoms** of an **ineffective** organizational structure include;

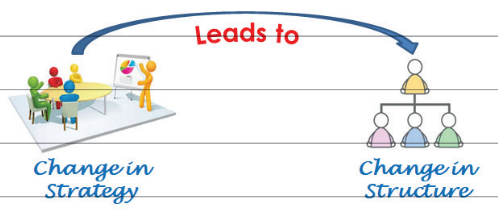
- ✓ Too many levels of management,
- ✓ Too many meetings attended by too many people,
- ✓ Too much attention being directed toward solving interdepartmental conflicts,
- ✓ Too large a span of control, and
- ✓ Too many unachieved objectives.
- ✓ Changes in organisational structure can facilitate strategy implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to make bad products sell.

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. (#Forward & Backward Linkages Chapter 8)

But a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished.

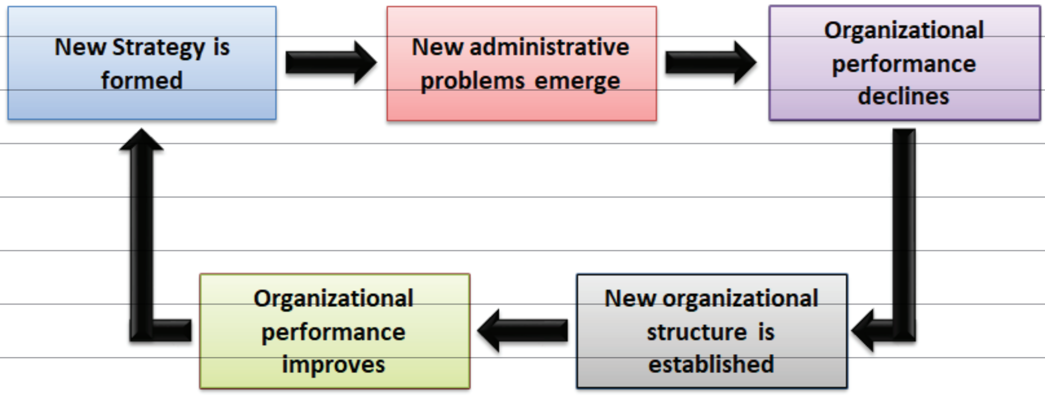
Concept 6: Chandler's - Strategy Structure Relationship:

According to Chandler, Changes in strategy lead to changes in organizational **structure.**



➢ Structure should be designed or redesigned **to facilitate the strategic pursuit of a firm** and, **therefore**, **structure** should **follow strategy.**

Chandler's Strategy – Structure Relationship;

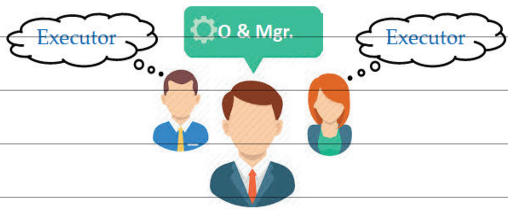


Chandler found a particular structure sequence to be often repeated as organizations grow and change strategy over time. There is no one optimal organizational design or structure for a given strategy. **What is appropriate for one organization may not be appropriate for a similar firm,** although successful firms in a given industry do tend to organize themselves in a similar way

Concept 7: Simple Structure;

Introduction;

Simple organizational structure is most appropriate for companies that follow a **single – business strategy** and offer a line of products in a **single geographic market**. The simple structure also is appropriate for companies implementing **focused** cost leadership or **focused** differentiation strategies.



- A **simple structure is an organizational form** in which the owner-manager makes all major decisions directly and monitors all activities, while the company's staff merely serves as an executor.

Characteristics of Simple Structure;

- **Little** specialization of tasks, (As staff merely serves as an executor)
- **Few rules,**
- **Little** formalization,
- **Unsophisticated** information systems, and
- **Direct involvement** of owner-manager in all phases of day-to-day operations.

Advantages of Simple Structure;

- ✓ **Communication** is frequent and direct,
- ✓ **New products** tend to be **introduced** to the market **quickly,**
- ✓ **Few of the coordination problems** that are common in larger organizations exist. (mean less coordination problems compare to other form of organisation structure)
- ✓ Greater structural **flexibility.**
- ✓ A **broad-based openness to innovation.**
- ✓ An **ability to respond** more rapidly to environmental changes.

Issues in Simple Structure;

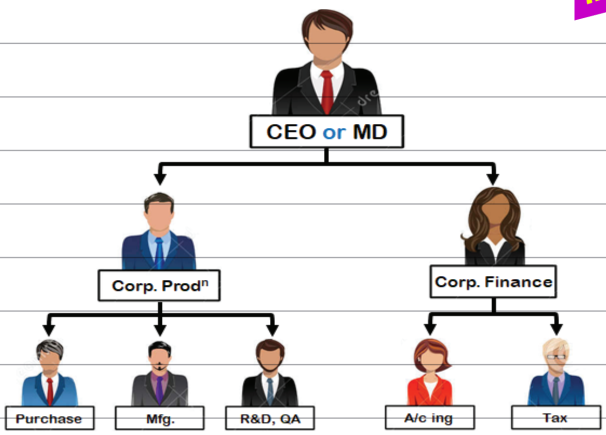
When small companies grow larger. As a result of this growth, the company outgrows the simple structure. Generally, there are significant increases in the amount of competitively relevant information that requires processing. More extensive and complicated information processing requirements **place significant pressures on owner – managers.** (Often due to a lack of organizational skills or experience or simply due to lack of time).

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

Concept 8: Functional Structure;

Introduction;

A widely used structure in business organisations is functional type because of its simplicity and low cost. A functional structure **groups tasks and activities by business function**, such as production (operations), marketing, finance, accounting, R&D, and management information systems.



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The functional structure consists of a <u>chief executive officer or a managing director and supported by corporate staff</u> with <u>functional line managers</u> in dominant functions such as production, financial accounting, marketing, R&D, engineering, and human resources. The functional structure enables the company to overcome the growth-related constraints of the simple structure, enabling or facilitating communication and coordination.

Advantages of Functional Structure;

- ✓ **Promotes specialization of labour**
- ✓ **Encourages efficiency,**
- ✓ **Minimizes** the need for an **elaborate control system**, and
- ✓ Allows rapid decision making.

There also are some **potential problems.**

Differences in functional specialization and orientation **may delay communications** and **coordination.**

- ➢ Thus, the chief executive officer must integrate functional decision- making and coordinate actions of the overall business across functions.

Functional specialists often **may develop a narrow perspective**, and **losing sight** of the company's strategic vision and mission.

- ➢ When this happens, this problem can be overcome by implementing the **multidivisional structure**

.

Concept 9: Divisional Structure;

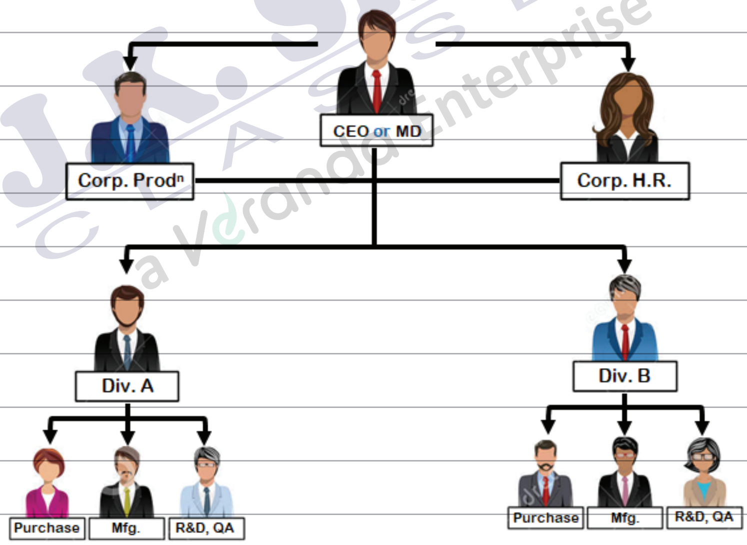
Introduction;

As a firm, grows year after year it faces **difficulty in managing** different products and services in **different markets**. Some form of divisional structure generally becomes necessary to motivate employees, control operations, and compete successfully in diverse locations.

The divisional structure can be organized in one of the **four ways;**

1. By Geographic Area,
2. By Product or Service,
3. By Customer, or
4. By Process.

With a divisional structure, functional activities are **performed both** centrally and, in each division, separately.



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Advantages of Divisional Structure;

- ✓ Accountability is clear. Mean divisional managers can be held responsible for sales and profit levels.
- ✓ Employee morale is generally higher in a divisional structure than it is in centralized structure as managers and employees can easily see the results of their good or bad performances.

- ✓ It creates career development opportunities for managers.
- ✓ Allows local control of local situations, leads to a competitive climate within an organization.
- ✓ Allows new businesses and products in be added easily.

Disadvantages of Divisional Structure;

- ✓ **Divisional structure is costly,**
  - Each division requires functional specialists who must be paid.
  - **Second,** there exists some duplication of staff services, facilities, and personnel; **for instance,** functional specialists are also needed centrally (at headquarters) to coordinate divisional activities.
  - **Third,** managers must be well qualified because the divisional design forces delegation of authority better-qualified individuals requires higher salaries.

- ✓ **Difficult to maintain consistency,**
  - It requires an elaborate, headquarters-driven control system.
  - Certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, companywide practices.

1. By geographic area; (For E.g., UL)

It is appropriate for organizations whose strategies are formulated to fit the particular needs and characteristics of customers in different geographic areas.

This type of structure can be most appropriate for organizations that have similar branch facilities located in widely dispersed areas.

➢ **Advantage of divisional structure by geographic area;**

It allows local participation in decision making and improved coordination within a region.

2. By product or services; (For E.g., P&G, General Motors)

It is most effective for implementing strategies when **specific products or services need special emphasis.**

Also, this type of structure is widely used when an organization offers only a few products or services, when an organization's products or services differ substantially.

- **Advantage of divisional structure by product or services;**

  It allows strict control over and attention to product lines.

- **Limitation of divisional structure by product or services;**

  It may also require a more skilled management force and reduced top management control.

3. By customers; (For E.g., Airlines, Banks)

When a few major customers are of prime importance and many different services are provided to these customers, then a divisional structure by customer can be the most effective way to implement strategies.

Like; **Airline companies** have two major customer divisions: passengers and freight or cargo services.

Like; **Banks** are often organised in divisions such as personal banking corporate banking.

- **Advantage of divisional structure by customers;**

  This structure allows an organization to cater effectively to the requirements of clearly defined customer groups.

4. By process;

It is **similar to a functional structure**, because activities are organised according to the way work is actually performed. **However**, a key difference between these two designs is that **functional departments are not accountable for profits or revenues**, whereas divisional process departments are evaluated on these criteria.

- **Advantage of divisional structure by process;**

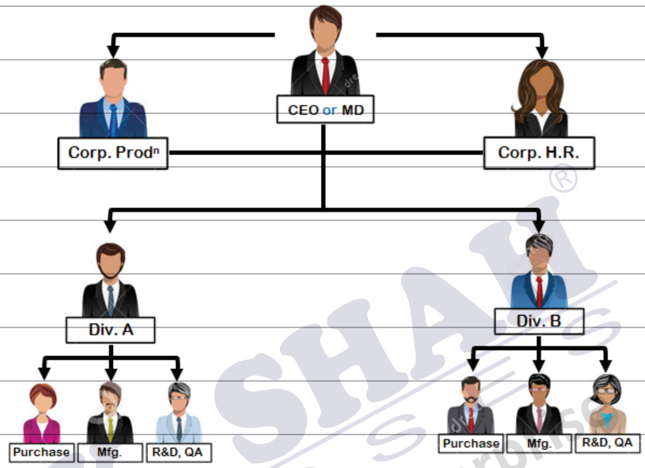
  Is accountable for profits or revenues.

Concept 10: Multi – Divisional Structure; (M Form Structure);

Introduction;

Multidivisional or M-form structure was **developed in the 1920s**, in response to coordination and control related problems in large firms. Functional departments often **had difficulty dealing with distinct product lines and markets**, especially in coordinating conflicting priorities among the products. **Such as, costs were not allocated to individual products, so it was not possible to assess** an individual product's **profit contribution**. **Loss of control** meant that optimal allocation of firm resources between products was difficult. **Top managers** became **overinvolved** in solving **short-run problems (such as coordination, communications, conflict resolution)** and **neglected** long-term strategic issues.

Multidivisional (**M-form**) structure is composed of **operating divisions** where **<u>each division represents a separate business</u>** to which the top corporate officer **delegates responsibility for day-to-day operations** and business unit strategy to division managers. By such delegation, the **corporate office is responsible** for formulating and implementing overall corporate strategy and **manages divisions** through strategic and financial controls.



Study Note: Organisational structure is same as Divisional structure only key difference is here divisional head responsible for day-to-day operations and business unit strategy.

Multidivisional structure calls (ask) for:

- Creating separate divisions, each representing a distinct business,
- Each division would house its functional hierarchy,
- Division managers would be given responsibility for managing day-to-day operations,
- A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions.

Advantages of Multi – Divisional Structure;

✓ **Enable** the firm **to more accurately monitor** the performance of individual businesses,
✓ **Simplifying** control problems,
✓ **Facilitate comparisons** between divisions,
✓ **Improving the allocation** of resources and
✓ Stimulate (i.e., **encourage**) **managers of poorly performing divisions** to seek ways to improve performance.

Issues in Multi – Divisional Structure;

- ✓ Multi – Divisional structure is costly due to duplication of specialists and functions.
- ✓ Inconsistent decision making, each division may take its own decision.

Concept 11: Strategic Business Unit Structure; (SBU Structure)

Introduction;

The concept is **relevant to multi-product, multi-business enterprises**. It is **impractical** for an enterprise to **provide separate strategic planning treatment to each** one of its products or businesses. It **has to necessarily group** the products or businesses **into a manageable number of strategically related business units** and then take them up for strategic planning.

An SBU is a **grouping of related businesses**, which is **willing to respond** to composite planning treatment.

As per this concept, a multi-business enterprise **groups its** multitude of **businesses into a few distinct business units in a scientific way**. The **purpose** is **to provide effective strategic planning treatment to each one** of its businesses or products.

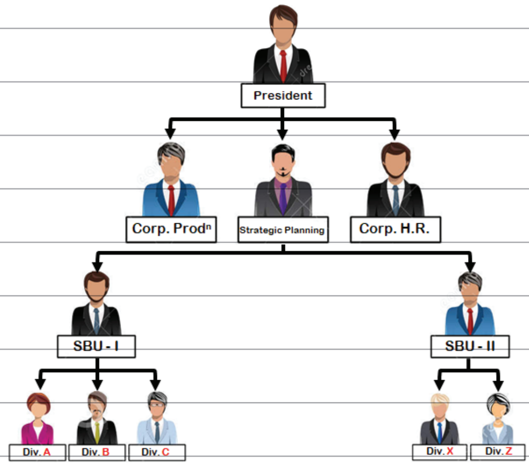
The three most important Characteristics of SBU's;

- SBU is a **single business** or **collection of related businesses** that can be planned for separately,
- SBU has its **own set of competitors.**
  E.g., Realme, Vivo and Oppo, etc...
- SBU has a **manager** who is **responsible** for strategic planning and profit.

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers.

By such delegation, the **corporate office is responsible** for formulating and implementing overall corporate strategy and **manages SBU's** through strategic and financial controls.

A strategic business unit (SBU) structure **consists of at least three levels**, with a **corporate headquarters at the top, SBU groups at the second level**, and **divisions grouped** by relatedness within each SBU at the **third level**.



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Individual SBUs are **treated as profit centres** and controlled by corporate headquarters.

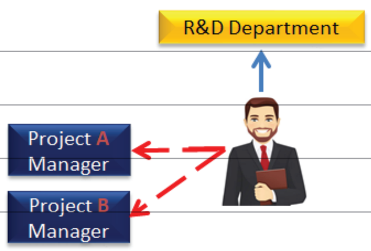
Advantages of SBU Structure;

- ✓ **Establishing coordination** between divisions having common strategic interests.
- ✓ **Facilitates strategic management and control** on large and diverse organizations.
- ✓ **Fixes accountabilities** at the level of distinct business units.
- ✓ **Allows strategic planning** to be done **at the most relevant level** within the total enterprise.
- ✓ Makes the **task of strategic review** by top executives more objective and **more effective.**
- ✓ **Helps allocate corporate resources** to areas with **greatest growth opportunities.**

Concept 12: Matrix Structure;

Introduction;

Most organizations find that organising around either functions (in the functional structure) or around products and geography (in the divisional structure) provides an appropriate organizational structure. **The matrix structure,** in contrast, may be very appropriate when organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms.



- ➢ A matrix structure is the <u>**most complex**</u> of all designs because it depends upon both vertical and horizontal flows of authority and communication (**hence the term matrix**).

In contrast, functional and **divisional** structures **depend** primarily on **vertical flows of authority** and communication.

In matrix structures, functional and product forms are **combined simultaneously at the same level of the organization.** Employees have **two superiors;**

1. A functional manager. (Home department, reasonably permanent).
2. A product or project manager (usually temporary).

Matrix structure combines the **stability of the functional structure** with the **flexibility of the division by product form.** People from these **functional units** are often **assigned temporarily** to one or more product units or projects. The **product units or project** are usually temporary and **act like divisions.**

Despite its complexity, the matrix structure is widely **used in many industries,** including;

- Construction,
- Healthcare,
- Research, and
- Defence.

The matrix structure is **often found** in an organization or within an SBU **when the following 3 conditions exists;**

1. **Ideas** need to be **cross – fertilized** across projects or products,
2. **Resources are scarce,** and
3. Abilities to process information and to make decisions need to be improved.

Advantages of Matrix Structure;

- ✓ Project objectives are clear.
- ✓ Workers can see the visible results of their work.
- ✓ Shutting down a project is accomplished relatively easily.
- ✓ It is very useful when the external environment is very complex and changeable.
- ✓ It reflects the benefit of both functional and divisional structure.
- ✓ Employee can adopt best practice from one division in another division.

Disadvantages of Matrix Structure;

- ✓ A matrix structure can result in higher overhead because it has more management positions.
- ✓ It contributes to overall complexity include dual lines of budget authority.
- ✓ Dual reporting channels i.e., a violation of the unity command principle.
- ✓ Dual sources of reward and punishment, shared authority.
- ✓ A need for an extensive and effective communication system. and
- ✓ Might be a continuous battle for power between product and functional manger.

12.1 For development of matrix structure Davis and Lawrence, have proposed 3 distinct phases:

1. Cross-functional task forces;

Initially **it involves people from different functions** forming a temporary task force under charge of project manager.

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

2. Product (brand) management;

If the **cross-functional task forces** become more **permanent**, the project manager **becomes a product or brand manager** and a second phase begins.

In this arrangement, **function is still the primary organizational structure**, but product or brand managers act as the **integrators of semi-permanent products or brands.**

3. Mature matrix;

The third and **final phase** of matrix development involves a **true dual-authority structure. Both** the functional and product **structures are permanent.**

All employees are connected to both a vertical functional superior and a horizontal product manager. **Both** (functional and product managers) **have equal authority and must work well together to resolve disagreements** over resources and priorities.

Concept 13: Network Structure;

Introduction;

The network organization is **a series of independent firms or business units linked together by a common system** that designs, produces, and markets (i.e., offers) a product or service. Network structure could be termed as "non-structure" by its virtual **elimination** of in-house business function. Many activities are **outsourced.** A corporation organized in this manner is often **called a virtual organization because** it is composed of a series of project groups or collaborations linked by **constantly changing non-hierarchical, cobweblike networks.**

The network structure becomes **most useful** when the **environment of a firm is unstable** and is expected to remain so (i.e., unstable). Under such conditions, **there is usually a strong need for innovation and quick response. Instead of having salaried employees**, it may contract with people for a specific project or length of time. **Long-term contracts with suppliers and distributors** replace services that the company could provide for itself **through vertical integration.**

Electronic markets and sophisticated (i.e., advanced) information systems **reduce the transaction costs** of the marketplace, thus justifying a **"buy" over a "make" decision.**

Rather than being located in a single building or area, an **organization's business functions are scattered at different geographical locations.** The organization is, in effect, only a shell (i.e., cover), with a small headquarters **acting as a "broker"**, electronically connected to some completely owned divisions, partially owned subsidiaries, and other independent

Companies like **Airtel** use the network structure in their operations function by subcontracting manufacturing to other companies in low-cost.

Other **E.g.,**

Advantages of Network Structure;

Network structure provides an organization with **increased flexibility and adaptability** to cope with rapid technological change and **shifting patterns of international trade and competition.**

It allows a company to **concentrate on its distinctive competencies,** while **gathering efficiencies from other firms** who are concentrating their efforts in their areas of expertise.

Disadvantages of Network Structure;

The availability of **numerous potential partners** can be a **source of trouble.**

Contracting out functions to separate suppliers (distributors) may keep the firm from **discovering any synergies by combining activities.**

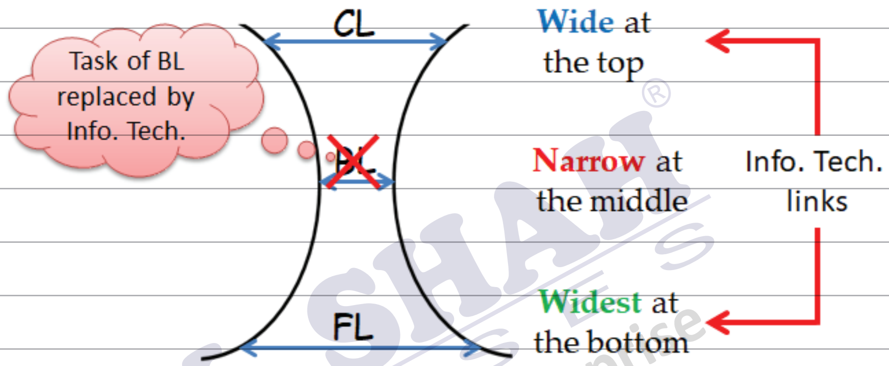
It a particular firm **overspecializes on only a few functions; it runs the risk of choosing the wrong functions** and thus becoming non-competitive.

Concept 14: Hourglass Structure;

Introduction;

In the **recent year's information technology** and communications have **significantly altered the functioning of organizations.** The **role played by middle management is diminishing** as the tasks performed by them are increasingly being **replaced by the technological tools.**

Hourglass organization structure **consists of three layers** with **constricted middle layer.** The structure has a short and **narrow middle management level. Information technology** links the top and bottom levels in the organization taking away many tasks that are **performed by the middle level managers.**



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A shrunken (i.e., **narrow**) **middle layer coordinates diverse lower-level activities.** Contrary to traditional middle level managers who are often specialist, the **managers in the hourglass structure** are **generalists** and perform wide variety of tasks. They would be **handling cross-functional (i.e., multi-functional) issues** emerging such as those from marketing, finance or production.

Advantages of Hourglass Structure;

Reduced costs.

Helps in **enhancing responsiveness** by simplifying decision making.

Decision making authority is shifted close to the source of information so that it is faster.

Disadvantages of Hourglass Structure;

The **promotion opportunities** for the lower levels **diminish significantly.**

Continuity at same level **may bring monotony** and **lack of interest** and it **becomes difficult to keep the motivation levels high.**

- Organisations try to overcome these problems by assigning challenging tasks, transferring laterally (i.e., horizontally) and having a system of proper rewards for performance.

Concept 15: Strategy Supportive Culture;

Introduction;

Every organisation has a **unique** organizational culture. It has its **own philosophy** and **principles**, its own history, values, and rituals, its own ways of approaching problems, making decisions, and its own work climate. Its own established beliefs and thought patterns, and practices that define its corporate culture.

15.1 How is it both strength and weakness of an organisation?

Introduction;

The situation which often **distinguishes good organizations from bad ones** could be summed up as 'corporate culture'. Corporate **culture refers to** a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Every corporation **has a culture that exerts powerful influences** on the behaviour of managers.

Culture **affects** not only the way managers behave within an organization but **also the decisions they make** about the organization's relationships with its environment and its strategy.

"Culture is a strength that can also be a weakness". This statement can be explained by splitting it in to two parts.

Culture as a strength:

As a strength, culture can facilitate communication, decision - making & control and create cooperation & commitment. An organization's culture could be strong and cohesive (act of togetherness) when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organization.

Culture as a weakness:

As a weakness, culture may obstruct the smooth implementation of strategy **by creating resistance to change.** An organization's culture could be characterized as weak when many subcultures exist, **few values and behavioural norms are shared and traditions are rare.** In such organizations, **employees do not have a sense of commitment** and **loyalty** with the organisation.

15.2 Role of culture in promoting better strategy execution?

Introduction;

The situation which often **distinguishes good organizations from bad ones** could be summed up as 'corporate culture'. Corporate **culture refers to** a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Every corporation **has a culture that exerts powerful influences** on the behaviour of managers.

Culture **affects** not only the way managers behave within an organization but **also the decisions they make** about the organization's relationships with its environment and its strategy.

Strong culture promotes good strategy execution when there's fit and impedes (i.e., **constrain**) execution when there's negligible fit.

Role of culture in promoting better strategy execution:

- **A culture grounded in** values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy supportive manner, adding significantly to the power and effectiveness of strategy execution.
- **A culture built around such business principles as** listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making authority is very conducive (i.e., helpful) to successful execution of a strategy of delivering superior customer value.
- Strategy-supportive cultures shape the mood, temperament, and motivation the workforce, positively affecting organizational energy, work habits and operating practices, the degree to which organizational units cooperate, and how customers are treated.
- **A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive (i.e., helpful) to effective strategy execution;** it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish.

- **Employees are stimulated** (i.e., motivated) to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to fruition.

15.3 Steps to change a company's problem culture;

Introduction;

Changing a company's culture to align it with strategy is among the toughest management tasks--easier to talk about than do.

Changing problem cultures is very difficult because of the heavy anchor of deeply held values and habits. It **takes** concerted management action over a period of **time to replace an unhealthy culture with a healthy culture** or to root out certain unwanted cultural obstacles and introduce ones that are more strategy supportive.

Steps to change a company's problem culture;

1. The **first step is to diagnose** which aspect of the present culture is strategy supportive and which are not.
2. Then, **managers have to talk openly and directly** to all concerned about those aspects of the culture that have to be changed.
3. The **talk has to be followed swiftly by visible, aggressive actions** to modify the culture actions that everyone will understand are intended to establish a new culture more in tune with the strategy.
4. The menu (i.e., plan) of culture changing actions includes **revising policies and procedures,** altering incentive compensation, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

Conclusion;

The task of making culture supportive of strategy is not a short-term exercise. It takes time for a new culture to emerge and prevail; it's unrealistic to expect an overnight transformation. The bigger the organization and the greater the cultural shift needed to produce a culture-strategy fit, the longer it takes. In large companies, changing the corporate culture in significant ways can take two to five years. In fact, it is usually tougher to reshape a deeply ingrained culture that is not strategy-supportive than it is to instil (i.e., inject) a strategy-supportive culture from scratch in a brand-new organization.

Concept 16: Strategic Leadership;

Introduction;

Strategic leadership **sets the firms direction by developing and communicating vision of future,** formulate strategies **in the light of internal and external environment, brings about changes required** to implement strategies and **inspire the staff** to contribute to strategy execution. A manager as a strategic leader has to play many **leadership roles to play**; Visionary, Policy Maker, Motivator, Culture Builder, Crisis Manager, Resource Acquirer and Allocator, etc...

A Strategic leader has several responsibilities, including the following:

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

Thus, the strategic leadership skills of a company's managers represent resources that affect company performance. And these resources must be developed for the company's future benefit.

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

Introduction;

A strategic leader is a **change agent to initiates strategic changes** in the organisations and **ensure that the changes successfully implemented**. For the most part, major change efforts have to be top-down and vision-driven. Leading change has to start with diagnosing the situation and then deciding which of several ways to handle it. Managers have five leadership roles to play in pushing for good strategy execution.

1. Staying on top of what is happening, **closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.**

2. **Promoting a culture of esprit de corps** (a sense of unity and of common interests and responsibilities shared by organisational members) that mobilizes and **energizes** organizational **members to execute strategy** in a competent fashion and perform at a high level.

3. Keeping the organization **responsive to changing conditions, alert for new opportunities, creating with innovative ideas**, and **ahead of rivals in developing competitively valuable competencies and capabilities.**

4. **Ethical leadership** and insisting that the company conduct its affairs like a model corporate citizen.

5. **Pushing corrective actions** to improve strategy execution and overall strategic performance.

16.2 Approaches to leadership style;

Introduction;

Strategic leadership is the **ability of influencing others** to voluntarily make decisions that enhance prospects **for the organisation's long-term success** while maintaining short-term financial stability.

It includes determining the **firm's strategic direction**, aligning the firm's strategy with its culture, modelling and communicating **high ethical standards**, and **initiating changes** in the firm's strategy, when necessary.

Strategic leadership **sets the firm's direction** by developing and communicating a vision of future and inspire organization members to move in that direction.

Unlike strategic leadership, **managerial leadership** is generally **concerned with the short-term**, day-to-day activities. **Two basic approaches** to leadership can be transformational leadership style and transactional leadership style.

1. Transformational Leadership style;

Such a leadership **motivates followers** to do more than originally affected to do **by stretching their abilities** and **increasing their self-confidence**, and also **promote innovation** throughout the organization.

Transformational leaders **offer** excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit (i.e., obtain) more dramatic changes in organizational performance.

- ✓ **Uses charisma** and **enthusiasm** to inspire people to exert them for the good of the organization.
- ✓ Transformational leadership style may be appropriate in **turbulent environments.**
- ✓ In industries at the **very start or end** of their **life-cycles.**

- ✓ In poorly performing organizations when there is a need to inspire a company to embrace (i.e., to accept, include) major changes.

2. Transactional Leadership style;

Focuses more on designing systems and controlling the organization's activities and are **more likely to be associated with improving the current situation.** Transactional leaders try to build on the existing culture and enhance current practices.

Transactional leadership style prefers a more formalized approach to motivation, setting clear goals with **explicit rewards or penalties** for achievement or non-achievement.

The style is better suited in persuading people to work efficiently and run operations smoothly.

- ✓ Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status.
- ✓ Transactional leadership style may be appropriate in static environment.
- ✓ In mature industries, and in organizations that are performing well.
- ✓ It is suitable for well performed organizations.

Concept 17: ~~Strategic~~ Organisation Control;

Introduction;

Controlling is one of the **important functions of management**, and is often regarded as the core of the management process. It is a function intended **to ensure** and make possible the performance of planned activities and to **achieve the pre-determined goals and results.** Control is **intended to regulate and check.** It is also to ensure that **what is planned is translated into results,** to **keep a watch** on proper use of resources, on safeguarding of assets and so on.

The controlling **function involves;**

- **Monitoring the activity** and **measuring results against pre-established standards,**
- **Analysing and correcting deviations** as necessary and maintaining or adapting the system.

It is intended to enable the organisation to **continuously learn from its experience** and to **improve its capability** to cope with the demands of organisational growth and development.

The process of control has the following elements:

- ✓ **Objectives** of the business system which could be **operationalized** into measurable and controllable standards.

- ✓ A **mechanism** for monitoring and measuring the performance of the system.
- ✓ A mechanism;
    - for **comparing** the actual results with reference to the standards.
    - for **detecting deviations** from standards. and
    - for **learning new insights** on standards, themselves.
- ✓ A **mechanism for feeding back corrective, adaptive information** and **instructions to the system, for effecting the desired changes** to set right the system to keep it on course.

Primarily there are 3 types of organizational control;

1. Operational control, (5.1)
2. Management control (5.2) and
3. Strategic control. (5.3)

17.1 Operational Control;

Introduction;

Operational control systems are **designed to ensure that day-to-day actions are consistent** with established plans and objectives. It focuses on events in a recent period. Operational control systems are derived from the requirements of the **management control system.**

The thrust (i.e., **impact**) of operational control is **on individual tasks** or transactions as against total or more aggregative management functions. **For example**, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.

Many of the control systems in organisations are operational and **mechanistic in nature.** A **set of standards**, plans and instructions are formulated. Some of the examples of operational controls can be;

- Stock control, (maintaining stocks between set limits)
- Production control, (manufacturing to set programs)
- Quality control, (keeping product quality between agreed limits)
- Cost control, (maintaining expenditure as per standards)
- Budgetary control. (keeping performance to budget)

17.2 Management Control;

Introduction;

When compared with operational control, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation. For example, inventory management, marketing, etc..

The **basic purpose** of management control is the **achievement of enterprise goals** – short range and long range – in a most effective and efficient manner.

It is defined by Robert Anthony; as 'the **process** by which managers **assure** the **resources are obtained** and **used effectively and efficiently** in the accomplishment of the organisation's objectives.

17.3 Strategic Control;

Introduction;

According to **Schendel and Hofer** "Strategic control **focuses on the dual questions** of whether:

(i) the strategy is being implemented as planned; and

(ii) the results produced by the strategy are those intended."

There is often a **time gap** between the stages of strategy formulation and its implementation. A strategy might be **affected on account of changes** in internal and external environments of organisation. There is a **need for warning** systems to track a strategy as it is being implemented.

Strategic control is defined;

Strategic control is the **process of evaluating strategy** as it is formulated and implemented. It is **directed towards identifying problems and changes** in premises and making necessary adjustments.

1. Premise Control;

The premise control is focussed. A strategy is **formed on the basis of certain assumptions** or premises (i.e., theories) about the complex and turbulent organizational environment. **Over a period** of time these premises **may not remain valid.**

Premise control is a **tool for systematic** and **continuous monitoring** of the environment to verify the validity and accuracy of the premises on which the strategy has been built.

It primarily involves monitoring two types of factors:

(i) Environmental factors (Micro and Macro factors) and

(ii) Industry factors. (i.e., Five forces)

It is **neither feasible** nor desirable **to control all types of premises in the same manner.** Different premises may require different amount of control. **Thus,** managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

2. Strategic Surveillance;

Contrary (i.e., opposed) to the premise control, **the strategic surveillance is unfocussed.** It **involves general monitoring** of various sources of information **to uncover unanticipated information** having an impact on the organizational strategy.

Strategic surveillance **may be loose form of strategic control,** but is capable of uncovering information relevant to the strategy. It **involves casual environmental browsing;** reading financial and other newspapers, business magazines, attending meetings, conferences, discussions and so on can **help in strategic surveillance.**

3. Special alert control;

At times, **unexpected events** may force organizations to reconsider their strategy. **Sudden changes in** government, natural calamities, unexpected merger (acquisition) by competitors, industrial disasters and other such events **may trigger an immediate and intense review of strategy.**

To cope up with such eventualities, the **organisations form crisis management** teams to handle the situation.

4. Implementation control;

Managers implement strategy **by converting major plans into concrete, sequential actions that form incremental steps.** Implementation control is directed towards assessing the need for changes in the overall strategy in **light of unfolding events and results.**

Strategic implementation control is **not a replacement to operational control.** Unlike operational control, **it continuously monitors the basic direction of the strategy**. The two basic forms of implementation control are:

(i) **Monitoring strategic thrusts,**

Monitoring strategic thrusts (i.e., impact) helps managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

(ii) **Milestone reviews.**

All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

Concept 18: Strategic Performance Measures

A company's performance depends heavily on execution of strategy. Companies that continuously outperform their competitors are those who execute well. Executives in a variety of businesses should explore about utilizing strategic performance measurement (SPM). SPM is a method that increases line executives' understanding of an organization's strategic goals and offers a continuous system for tracking progress towards these objectives using clear-cut performance measurements. SPM helps to eliminate silos by establishing a common language among all divisions of the organisation so they may communicate openly and productively.

Strategic performance measures are key indicators that organizations use to track the effectiveness of their strategies and make informed decisions about resource allocation. The measures provide a snapshot of the organization's performance, enabling leaders to assess whether their strategies are aligned with their goals and objectives and to make necessary adjustments to improve their performance.

Key performance measures and indicators must be created, selected, combined into reports and acted upon so that strategy implementation can have tangible outcomes. Firstly, there needs to be a clear cause and effect relationship between the indicators and strategic outcomes. Secondly, KPIs need to be carefully chosen because they will influence the behaviour of people within the organisation. However, managers should be aware of paralysis by over analysis.

Managing the political aspects of implementing a strategy

People involved in the planning process for the implementation of a strategy may be affected by two sets of forces. The "rational" forces of openness, communication, and self-analysis can exist on the one hand. On the other hand, there could be political forces concerned with preserving empires and fostering internal rivalry that urge knowledge retention, selective communication, and caution. When these two techniques conflict, the politically acceptable aspects may end up in the explicit strategy while the sensitive elements may form an unspoken plan that contains the implicit strategy.

Types of Strategic Performance Measures

There are various types of strategic performance measures, including:

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

Study note;

Toward More Holistic Measures of Strategic Performance

Development of management thought and practice has persistently pushed the frontier 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 4th P to add a spiritual dimension named ‘Purpose.’