CA Intermediate
(New Syllabus)

SM Handwritten Notes

Chapter 1
Introduction to Strategic Management

By CA Mohnish Vora (MVSIR)

SM Chapter 1 – Introduction to Strategic Management

❖ The term '**management**' is used in two senses-

1) **Key group** in an organisation in-charge of its affairs
   - It is **Chief Organ** entrusted with task of making organization a **purposeful** & **productive** entity, by **bringing together** & **integrating disorganised resources** of manpower, money, material, & technology, which are then **combined into a functioning whole**.
   - **Survival & success** of org. depends on **competence & character** of its management.

2) Set of **inter-related functions** & processes
These functions include **Planning**, **Organising**, **Directing**, **Staffing** and **Control**.
They range all the way from- **MT: Control MAD Goals**
   - **installation of control system** to ensure what is planned is achieved.
   - **mobilisation** and **acquisition** of resources,
   - **allocation of tasks** & **resources** among personnel
   - **design** of the organization &
   - determination of the **goals**.

❖ **Strategy**

1) It is the **game plan** that the management of a business uses to- **MT: C²OMA**
   → **conduct** its operations,
   → **compete** successfully,
   → achieve organizational **objectives**
   → take **market position**, &
   → **attract** and **satisfy** customers.

2) It is also a **long-range blueprint** of an organization's **MT: 3 D**
   - **desired image** (what it **wants to be**)
   - **Direction** (what it **wants to do** & **how** it wants to do things)
   - **Destination** (**where** it wants to go).

3) It is consciously considered & flexibly designed **scheme of corporate intent & action-**
MT: Utilise M²DH
   - 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.

4) Strategy provides an **integrated framework for the top management-** **MT: SWOT**
   - to make full **use of resources** & **strengths**, and
   - to **offset** corporate **weaknesses**.
   - to **search** for, **evaluate** & **exploit** beneficial **opportunities**,
   - to perceive & **meet potential threats** & crisis,

❖ Strategy Definitions by-

1) **Ignor Ansoff**- The **common thread** among the organization's **activities** and **product markets** that **defines the essential nature** of business that the organization was or planned to be in future

2) **William Glueck**- A **unified**, **comprehensive** and **integrated plan** designed to **assure** that the **basic objectives** of the enterprise are **achieved**.

❖ **Strategy is no substitute for sound, alert and responsible management.**

- **Strategy** can **never be perfect, flawless and optimal**.
- It is the very nature of strategy that it is **flexible** & **pragmatic** to take care of **sudden emergencies** & **avoid failures**
- In a sound strategy, **allowances are made for possible miscalculations** & unanticipated event

❖ **Strategy is partly proactive and partly reactive**

- A company's strategy is typically a **blend** of:
  - ✓ **Proactive actions** on part of managers to **improve company's market position** & **financial performance**
  - ✓ **Reactions** to **unanticipated developments** and **fresh market conditions** in the dynamic business environment.

- **Proactive** → **planned** strategy, & **reactive** → **adaptive** reaction to changing circumstances

- A company's **current strategy flows from both**-
  - ✓ **previously initiated actions** and business approaches that are working well enough to merit continuation, as well as
  - ✓ **newly initiated managerial decisions** & actions that strengthen company's overall position and performance.

- Crafting a strategy involves stitching together-
  - **proactive/intended strategy** → **based on prior successful experience** &
  - **reactive/adaptive strategy** → **adapting** to environment when **market** & **competitive conditions** take **unexpected turn** or **some aspect of co's strategy hit a stonewall**

❖ **Strategic Management**

Strategic management is made up of several distinct activities:

- developing **vision** & **mission**; **MT: Analysis from Strategy POV**
- strategic **analysis**;
- developing **objectives**;
- **creating**, **choosing**, & **implementing** strategies; and
- measuring & evaluating **performance**.

❖ **Strategic Management Process**

➢ **Strategic management process** is set of **activities** that **managers undertake** to put their firms in **best possible position** to **compete successfully** in marketplace.

➢ It refers to the managerial process of- MT: VOICES
- developing a strategic **vision**
- setting **objectives**
- crafting a **strategy**
- **implementing** and **evaluating** the strategy
- **corrective** adjustments wherever required

❖ **Objectives of Strategic Management**

1) To **create competitive advantage** (something unique and valued by the customer), so that the company can **outperform the competitors** in all aspects of organisational performance.
2) To **guide** the company successfully **through all changes** in the environment. That is to **react in the right manner**

❖ **Importance/Benefits of Strategic Management** MT: Facebook pe Frame wali DP C²yu Lagate hai ?

1) SM **prepares organisation to face the future** → act as **pathfinder to various opportunities**. Identify available opportunities & **ways & means to reach them**.
2) SM **provides frameworks for all major decisions** → on businesses, products, markets, organisational structure etc. Provides **guidance** on - **what it is trying to achieve**.
3) SM **gives a direction** → to move ahead. Helps **define goals & mission.** It helps in defining **realistic objectives** & goals **in line with vision** of company.
4) SM helps org. to be **proactive instead of reactive**. Heps to **analyse & take actions** instead of being mere spectators. Orgs are able to **control their own destiny** in a better manner.
5) SM serves as a **corporate defence mechanism** against mistakes & pitfalls. It helps to **avoid costly mistakes** in product market choices or investments.
6) SM helps org. to **develop core competencies** & **competitive advantages** that would facilitate its fight for **survival and growth**
7) SM helps to **enhance the longevity** of business. It helps org to **take a clear stand** in related industry and makes sure that it is not just surviving on luck. **Actions over expectations** is what SM ensures.

❖ **Limitations of Strategic Management** MT: Costly ETC

1) SM is a **costly process**. **Expert strategic planners** need to be engaged, efforts are made for analysis of environments, devise & implement strategies which can be costly for org.
2) It is **difficult to clearly estimate the competitive responses** to a firm's strategies. Difficult to know strategic planning of competitors → as such **decisions are taken within closed doors.** For eg, Apple removing 3.5mm audio jack from iPhones. → all major speaker brands had to put concentrated efforts to develop their own true wireless speakers (TWS).

❖ **Limitations of Strategic Management**

3) SM is a **time-consuming process**. Org spend lot of time in→ **preparing** & **communicating** the strategies → may **impede daily operations** and **negatively impact the routine business**.

4) Environment is **highly complex & turbulent** thus it is **difficult to understand environment.** The org. **estimate** about future may go **wrong** & jeopardise all strategic plans.
For eg, Two-Wheeler Electric Vehicles brands → got huge push from govt.→ but customers are reluctant to purchase EVs due to safety concerns → incidents of battery catching fire.

❖ **Strategic Intent**

➢ It refers to purposes of **what the organisation strives for**, senior managers must define-
  - ✓ "**what** they want to do" and
  - ✓ "**why** they want to do".

"**Why they want to do**" represents **strategic intent** of the firm.

➢ **Clarity** in strategic intent is very **important for future success & growth**

➢ It is-
  - ✓ the **philosophical base** of SM.
  - ✓ a statement that provides a **perspective of the means**, which will lead org, **reach its vision** in the long run.
  - ✓ an idea of **what organisation desires to attain in future**.
  - ✓ answers the question- **what organisation strives or stands for?**

❖ **Elements of Strategic Intent**

➢ Strategic intent could be in the form of-
  - ➢ **vision** & **mission** statements for organisation at **corporate level** &
  - ➢ **business definition** and **business model** at the **business level**
  - ➢ expression of aims to be achieved operationally, i.e., **goals** and **objectives**

❖ **Vision**

➢ Vision is the **blueprint of the company's future position**
  - ✓ It shows **management's aspirations** for business,
  - ✓ Provides a **panoramic view** of "**where we want to go**" &
  - ✓ a **rationale for why this makes good business sense**.

➢ A clearly articulated strategic vision **communicates management's aspirations to stakeholders** & helps **steer the energies of company personnel in a common direction**.

➢ Vision thus points out- MT: DIP
✓ a **particular direction**,
✓ **charts a strategic path** to be followed in future, & ✓ **moulding organisational identity**.

❖ **Essentials of a strategic vision** MT: CEED

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

❖ **Mission**

- A mission is an answer to the basic question-
  - ✓ **what business are we in? ; &**
  - ✓ **what we do**?
- **It describe** an organisations **present** MT: ABC
  - **activities,**
  - **business makeup,**
  - **capability & customer focus**

❖ **Why should an organisation have a mission?** MT: PUT BMW in Focus

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

❖ **Following points are useful while writing a mission of a company OR Major components of a good mission statement**

1) Mission statement should give org its own-
   - ✓ **special identity**,
   - ✓ **business emphasis** &
   - ✓ **path for development** – one that sets it apart from other similar cos.
2) Mission should specify-
   - ✓ **what needs org is trying to satisfy**,
   - ✓ which **customer groups it is targeting** &
   - ✓ **technologies & competencies it uses** &
   - ✓ **activities it performs**

   Above points are important because they indicate the boundaries of org's operations
3) It should be **unique** to the org.
4) Mission should **not be to make profit**.

❖ As per **Peter Drucker** & **Theodore Levitt** an org should raise & answer certain basic questions before starting its business, such as: **MT: PUB⁴G MSN²**

1) What is our **ultimate purpose**?
2) Do we **understand our business correctly** and define it accurately in its broadest connotation?
3) What do **we want to become**?
4) What **business** are we in?
5) In what **business** would we like to be in, in the **future**?
6) **What brings us** to this particular business?
7) What kind of **growth** do we seek?
8) What is our **mission**?
9) **Whom** do we intend to serve?
10) What human **need** do we intend to serve through our offer?
11) What would be the **nature** of this business in the **future**?

❖ **Other Important Points regarding Mission (IMP for MCQs)**

➢ Mission is-

- ✓ an expression of the **growth ambition of firm**
- ✓ colourful sketch of **how firm wants its future to look**
- ✓ **justification for firm's** existence &
- ✓ it **legitimises** firm's presence.
- ✓ what co. wants to **become**,
- ✓ **grand design** of firm's future,
- ✓ firm's **dream crystallised**,
- ✓ firm's **future visualized**,

➢ As per **Peter Drucker**, every organisation must ask an important question- "**What business are we in?**" and get correct & meaningful answer.

- ✓ The answer should have **marketing or external perspective** and should not be restated to production or generic activities of business.

Eg- Lakme – What business are we in?

Production-oriented answer: In the factory, we make cosmetics.

Marketing-oriented answer: In the retail outlet, we sell hope.

❖ **Goals & Objectives**

➢ Organisations translate their vision & mission into goals & objectives.

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

- ✓ Eg- Providing excellent customer service

❑ **Objectives** are **close-ended attributes** which are **precise** & expressed in **specific** terms.

- ✓ They transalate goals to → short-term & long-term perspective
- ✓ They are **performance targets** –results org wants to achieve.
- ✓ They function as **yardsticks** (benchmark) for tracking an org's **performance**.
- ✓ **pursuit of objectives** is an **unending process** such that org sustain themselves.
- ✓ They provide **meaning & sense of direction** to organisational endeavour.
- ✓ Eg- Reduce delivery time by 25% in 3 months

❖ **Characteristics of Objectives** MT: S²MART & Challenging Performance

1) Should be **concrete** and **specific**.
2) Should provide the basis for **strategic decision-making**.
3) Should be **measurable** and **controllable**.
4) Should be facilitative towards **achievement of mission and purpose**.
5) Objectives should **define** the organisation's **relationship with its environment**.
6) Should be related to a **time frame**.
7) Should be **challenging**.
8) Should provide **standards for performance appraisal**.
9) Different objectives should **correlate with each other**.
10) Should be **set within the constraints of organisational resources** & external environment.

❖ **Need for both short-term and long-term objectives**

- As a rule, co.'s set of objectives include both short-term & long-term performance targets.
- Having **quarterly/annual (short-term) objectives** focuses attention on delivering **immediate performance improvements**.
- Targets to be achieved within **3 to 5 years**' prompt considerations of **what to do now** to put co. in position to perform better down the road.
- Eg- A co. that has an objective of doubling its sale within 5 years can't wait until 3rd or 4th year to begin growing its sales & customer base.
- By spelling out short-term performance targets, mgt. **indicates speed** at which **longer-range targets are to be approached**.

Long-term objectives (LTO)	Short-term objectives (STO)
LTO are established in **seven areas** **OR Key areas** in which the strategic planner should **concentrate his mind to achieve desired results**. ✓ **Profitability** ✓ **Productivity** ✓ **Public Responsibility** ✓ **Employee Development** ✓ **Employee Relations** ✓ **Competitive Position** ✓ **Technological Leadership** **Strategies** represent **actions to be taken** to accomplish long-term objectives. The **time frame** for objectives and strategies → consistent, **2 to 5 years**.	STO can be **identical** to LTO if an organisation is already performing at the targeted long-term level. A situation where STO **differ** from LTO- ✓ when **managers are trying to elevate organisational performance** or ✓ **cannot reach the long-range target in just 1 year**. STO serve as **steps toward achieving LTO**.

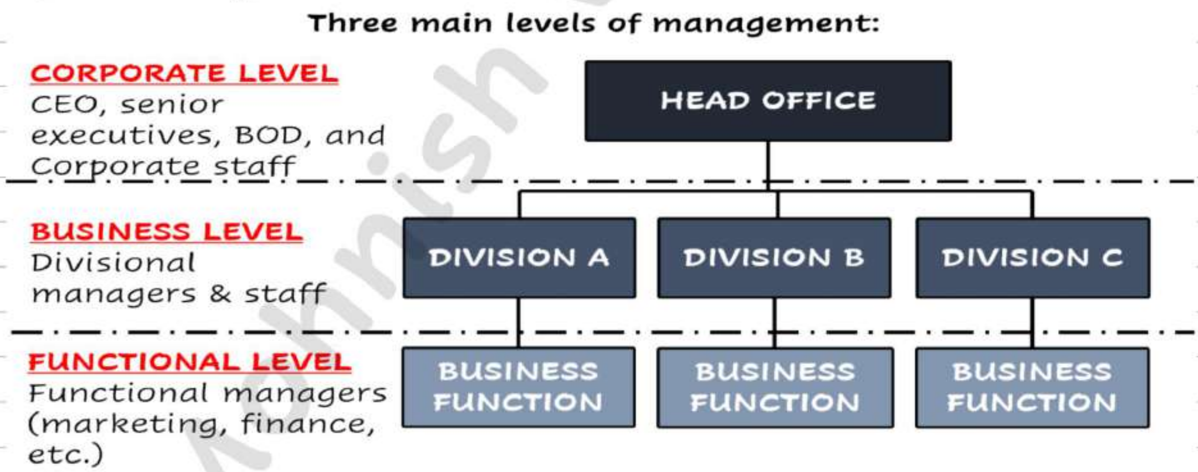
❖ **Values**

- Values are **deep-rooted principles** which **guides decisions & actions**.
- As per Collins & Porras **core values** → **inherent & sacrosanct**
- Values **sets the tone** for **how people will think** and **behave**, especially in situations of **dilemma**.
- Creates a sense of **shared purpose** → build strong foundation and focus on **longevity**.
- **Employees** prefer to work with employers whose values **resonate** with them, that they **can relate to** in daily work & life.
- **Consumers** prefer to buy products from cos. that have a **purpose** that **reflects their own value and belief system**.
- Hence, values have both **internal** as well as **external** implications.
- For eg- HP Way, many cos. put values in action during Covid-19

❖ **Intent vs Values – Which is a broader concept?**

- **Intent** is the **purpose of doing business**
- **Values** are **principles** that **guide decision making** of business.
- They both go hand in hand, while the **intent is driven by values**.
- So **values** more or so is **wider than Intent**

❖ **Strategic Levels in Organisation**



❖ **Strategic Business Units (SBUs)**

- If a co. provides **several kinds of products**-
  - ✓ it often **duplicates functions like production, sales, HR, finance etc** &
  - ✓ creates a series of **self-contained divisions** (each of which contain its own set of functions) to **manage each different product** or service.

- The **general managers** of these divisions then become **responsible** for **their particular product** line. They are responsible for deciding **how to create competitive advantage** & achieve **higher profitability**

- Such divisions are called **Strategic Business Units (SBUs)**.

- ❖ **Corporate Level Managers (CLM)**
- ➢ CLM consists of CEO & other senior executives, BOD, and corporate staff.
- ➢ They **participate in strategic decision making** & **oversee development of strategies**
- ➢ There role includes- MT: Formulating & Implementing MBA Leadership
  1) **formulating & implementing strategies** that span individual businesses,
  2) defining **mission & goals** of organization,
  3) determining **what businesses** it should be in,
  4) **allocating resources** among the different businesses,
  5) providing **leadership** for the organization as a whole.
- ➢ CLM **link** between **people who oversee strategic development** & **those who own it** (shareholders).
- ➢ They are **guardians of shareholders' welfare**. It is their responsibility to ensure that **strategies** are **consistent with maximizing shareholders' wealth**.

- ❖ **Business Level Managers (BLM)**
- ➢ Development of **strategies** for competing in **individual business areas**, (like FMCG, hotel, financial services etc) → responsibility of BLM
- ➢ The **principal general manager** at business level, or BLM, is the **head of the division (SBU)**.
- ➢ BLM's strategic role is to **translate general statements of direction & intent** that come from the corporate level **into concrete strategies** for individual businesses.

- ❖ **CLM vs. BLM**

1) **CLM** provide an **organisation level view of strategy** & **what they want to achieve**, but it is on **BLM** to **ensure** that their particular **business achieves it**.
2) **CLM** is concerned with **strategies** that **span individual businesses**, **BLM** are concerned with strategies that are **specific to a particular business**.

- ❖ **Functional Level Managers (FLM)**
- ➢ FLMs → responsible for **specific business functions** (HR, purchasing, product development, etc) that constitute a company or one of its divisions.
- ➢ FLM's sphere of responsibility is confined to **one organizational activity**, whereas **general managers oversee the operation of a whole company** or division.
- ➢ **Develop functional strategies** in their area that **fulfill strategic objectives** set by CLM & BLM
- ➢ FLM **provide information** → helps BLM & CLM to **formulate realistic & attainable strategies**.
- ➢ They are **closer to the customer** than general manager is
- ➢ FLM **themselves may generate important ideas** that may become major strategies
- ➢ Also responsible for → **strategy implementation, i.e. execution** of CLM & BLM plans.

- **Top Down Approach or Bottom-Up Approach?**
- **Top-down approach** to decision making → **decision made solely by leadership at top (CLM)**,
- **Bottom-up approach** → gives **all teams across the levels a voice** in decision making

- **Other IMP Point**
- The **corporate level** decides **what business wants to achieve**,
- While the **business level** draws **ideas** & **plan** to execute the same,
- Which eventually flow down to **functional level** to **execute** & **achieve** results.

- **3 major types of networks of relationship between the levels and also amongst the same levels of a business OR Oganisational Structure**

1) Functional & Divisional Relationship

- **Independent relationship**, where **each function** or a division is run **independently headed** by the **function/division head**, who is a **BLM**, reporting directly to **business head**, who is CLM.
  - ✓ **Functions** maybe like Finance, Human Resources, Marketing, etc., while
  - ✓ **Divisions** depend on products like for a toys manufacturer - kids toys, teenager toys, etc.

2) Horizontal Relationship

- All positions, from top mgt to staff-level employees, are in **same hierarchical position**.
- A flat structure where **everyone is considered at same level**. This leads to-
  - ✓ **openness and transparency** in work culture and
  - ✓ focused more on **idea sharing** and **innovation**.
- It is **more suitable for startups** where need to share ideas with speed is more desirable.

3) Matrix Relationship

- It is a **grid-like structure** of levels in an org., with **teams formed with people from various departments** that are built for **temporary task-based projects**.
- Helps to **manage huge conglomerates** → where its **impossible to track & manage every single team independently**.
- Here, there are **more than one BLMs for each functional level teams**.
- It is complex for smaller organisations, but extremely **useful for large organisations.**

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Chapter 2
Strategic Analysis: External Environment

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SM Chapter 2 - Strategic Analysis: External Environment

- The process of strategic formulation begins with a strategic analysis.
  - Its **objective** is to **compile information** about **internal & external environments** → to assess possibilities while formulating strategic objectives & contemplating strategic activities.
  - In this chapter various aspects of external environment are covered with the perspective of strategic analysis.
  - We will also understand how to **identify, and tackle strategies to adapt within complex and turbulent external environment.**

- Strategy formulation is not a task in which managers can get by with intuition, opinions, instincts, or creative thinking. **Judgments about what strategies to pursue** need to flow directly from
  - ***analysis of a firm's external environment*** and
  - **its internal resources and capabilities.**

- **Environmental scanning** is a natural and continuous activity for every business
  - ✓ **Informal structure**- learn about changes in tax regulations through T.V. news
  - ✓ **Formal structure**- learn about changes in tax regulations through a well-established reading material from experts.
- The capacity to collect important information in informal settings usually separates great entrepreneurs and managers.
- Using just informal techniques exposes the organisation to missed opportunities & unanticipated hazards.
- A **systematic approach** to environmental assessment is **essential for managing risk and uncertainty.**

- The **strategic analysis** is a component of business planning that-
  - has a **methodical approach**,
  - **makes the right resource investments, and**
  - **may assist business in achieving its objective**.
  - forces to think about rivals & aids in the evaluation of business plans to stay ahead of the competition.

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

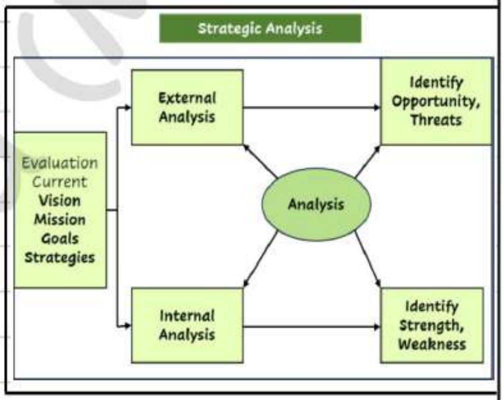
- The **analytical sequence** is from **strategic appraisal** of the external and internal situation to **evaluation of alternatives** of strategies, to the **final choice of strategy**.

- Accurate diagnosis of business situation is necessary for managerial preparation to-
    - Decide on **sound long-term direction**,
    - **Setting appropriate objectives**, and
    - **crafting a winning strategy**.

- **Without perceptive understanding** of strategic aspects of a company's external internal environments, the chances are greatly increased that **managers will finalize a strategic game plan** that
    - doesn't fit the situation well,
    - that holds little prospect for building competitive advantage, &
    - is unlikely to boost co. performance.

- **Two major limitations of strategic analysis-**

1) It gives a **lot of innovative options but doesn't tell which one to pick**. The options can be overlapping, confusing or difficult to implement.
2) It can be **time-consuming** at times, hurting overall organisational functioning & also strain other efficient innovations such as developing new product or service.



- **Issues to consider for Strategic Analysis**

1) **Strategy evolves over a period of time:**
    - Each strategic decision must **balance different factors** that impact strategy.
    - A key element of strategic analysis is the **probable outcomes** of everyday decisions. A current strategy is **result of several little choices** taken over a long period of time.
    - Management **radically changes strategy** when they **speed up organisational growth**.
    - Strategy is **influenced by experience**, & is to be **updated** when results become clear. It therefore evolves with time.

2) **Balance of external and internal factors:**
    - Strategic analysis requires creating a **balance** between many **challenges**, as a perfect fit between them is unlikely. Mgt. must consider **opportunities**, **influences**, & **constraints** while taking a strategic decision.
    - There are factors **driving a decision**, such as **entering a new market**. Concurrently, there are constraints that **limit the option**, such as the **presence of a large opponent**. These limiting constraints will have various **implications**
    - While **some** of these aspects are **under our control**, while some are not.

3) **Risk:**
    - In strategic analysis, the principle of maintaining balance is important. However, the **complexity** and **intermingling** of variables in the environment **reduces the strategic balance** in the organisation.

- **Competitive markets**, **liberalization**, **globalization**, **booms**, **technological advancements etc** affect business & pose risk at varying degrees.
- An impotant aspect of strategic analysis is to **identify potential imbalances** or risks and **assess their consequences**.

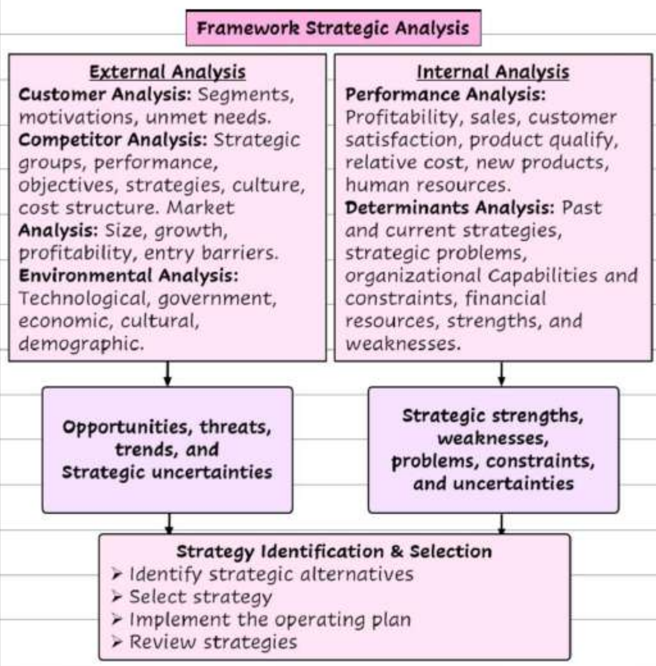
- **External risk** - **inconsistencies** between **strategies** & **forces in the environment**.
- **Internal risk** - Occurs on account of forces that are either **within** the organization or are **directly interacting** with the organization on a **routine basis**.

Strategic Risk	Time: Short Time	Time: Long Time
External	Errors in interpreting the environment cause strategic failure	Changes in the environment lead to obsolescence of strategy.
Internal	Organizational capacity is unable to cope up with strategic demands.	Inconsistencies with strategy are developed on account of changes in internal capacities & preferences

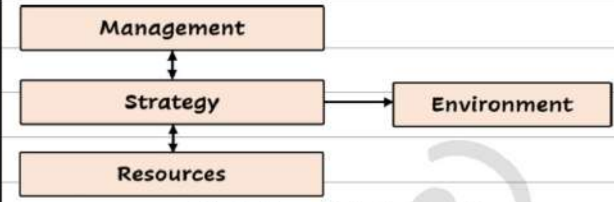
- Industries **differ** in their economic **characteristics**, **competitive situations**, & **future profit prospects**. The **economic character** of industries varies according to-
  - ✓ **overall size** & market **growth** rate,
  - ✓ **pace of technological change**,
  - ✓ **geographic boundaries** of the market (from local to worldwide),
  - ✓ **number & size** of buyers and sellers,
  - ✓ whether products are virtually **identical** or highly **differentiated**,
  - ✓ extent to which costs are affected by **economies of scale**, and
  - ✓ types of **distribution channels** used to access buyers,
  - ✓ marketing opportunities, disposable income of prospective buyers,
  - ✓ government support, etc.

  Competitive forces can be **moderate** in one industry and **fierce**, even **cut-throat**, in another.

- In some industries competition focuses on-
  - ✓ who has the **best price**, or
  - ✓ **quality & reliability** (as in monitors for PCs and laptops) or
  - ✓ **product features and performance** (as in mobile phones) or
  - ✓ **quick service and convenience.** (as in online shopping and fast foods) or
  - ✓ **brand reputation** (as in laundry detergents and soft drinks) etc.



❖ **Business Environment** refers to all **external factors**, influences, or situations that in some way **affect business decisions, plans, and operations**. It is **highly dynamic** and **continuously evolving**.



Strategy and Environment

❖ **Importance of Business Environment** MT: COLD Image

➢ Business Environment helps the business in the following ways-

1) **Meeting Competition**

- It helps org. to **analyse** the **competitors' strategies** & formulate their own strategies accordingly.
- Thus helping business to **flourish** and **beat competition**

2) **Determine opportunities and threats**

- It helps to find **new wants** of consumers, **changes in laws**, changes in **social behaviours**, and tells what new products competitors are bringing, thus lead to determining opportunities & threats.

3) **Continuous Learning**

- The managers are **motivated** to **continuously update their knowledge**, understanding and **skills** to meet the predicted changes in environment.

4) **Give direction for growth**

- It helps to **identify areas for growth & expansion** of their activities.
- Once the business understands changes happening around, it can plan and strategise to have successful business.

5) **Image Building**

- Environmental understanding helps organizations to improve their image by showing their sensitivity to the environment in which they operate.
- **For eg**, in view of **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 needs of environment → showcase that organization is **aware & responsive** to needs of people & it creates a **positive image** & win over competitors.

❖ Strategic analysis covering internal & external environment is important for strategists to achieve competitive advantage & ensure high performance for survival & growth. To flourish, a business must be aware of, assess, & respond to opportunities & threats in its environment & also be able to handle and adapt to them.

❑ Two crucial aspects for success include-

1) function of top management, and 2) **method of formulating strategic decisions**.

- **Business Environment** can be classified as-
  - I. External Environment
  - II. Internal Environment (Will discuss in Chp 3)

- The classification of environment into components helps an organization to-
  - ✓ **cope with its complexity**,
  - ✓ **comprehend the different influences** operating, &
  - ✓ **relating** the environmental **changes** to its **strategic management process**.

- The **external environment** can be categorised in **two major types** as follows:
  1) Micro environment
  2) Macro environment

- **Micro-environment**
- It is related to **small area** or **immediate periphery** of an organization.
- It consists of **consumers, market, intermediaries, competitors**, **suppliers,** etc. These are **specific** to the business & affect its working on a **direct** & **regular** basis.
- Within micro or immediate or task environment→ we need to **address the following issues:**
  - ✓ The **direct competition** and their comparative performance.
  - ✓ Who are the **suppliers** and how are the links between the two being developed?
  - ✓ The **local community** within which the firm operates.
  - ✓ 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**.

  MT: Competitors supply LEEF

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

- **Macro environment**
- It is the portion of environment that **affects** how organisation operates & is **beyond its direct control** and influence. It has broader dimensions as it consists of **economic, socio-cultural, technological, political and legal factors**.

- "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 factors are socio-economic, technological, supplier, competitors, and government." **- Gluek and Jauch**

Element of Macro Env.	Important Points
Political-Legal	➢ It consists elements like- ✓ **general level of political development**, ✓ **degree** to which **business & economic issues have been politicised**, ✓ **degree of political morality**, ✓ **state of law and order**, ✓ **political stability,** ✓ **political ideology** and ✓ **practises of the ruling party**, ✓ **effectiveness** and **purposefulness** of **governmental agencies**, and ✓ scope & type of governmental intervention in economy & industry. ➢ It is **partly general** to all similar enterprises & **partly specific** to an individual enterprise. ➢ Business is highly **guided and controlled by government policies**. Hence **type of government** running a country is a powerful influence. ➢ A business has to consider **changes in regulatory framework** & their impact on business. **Taxes and duties** are also critical areas ➢ Businesses prefer a country with **sound legal system**. They must have a **good working knowledge & understand** the major relevant laws. ➢ **Nationalism supports measures** aimed at enhancing the position of a country in International business. Eg- **Make in India** and **Aatmanirbhar Bharat**. Also, Production Linked Incentives scheme, → rewards businesses for increased sales of goods produced domestically, & also encourages foreign businesses to open businesses in India.
Economic	➢ **Economic environment** refers to the **overall economic situation** around the business & at the regional, national and global levels. ➢ It includes **conditions in the markets for resources** that have an effect on supply of inputs/outputs of the business, their costs etc. ➢ Economic environment determines the **strength and size** of the market. The **purchasing power** in an economy depends on **current income, prices, savings, credit availability etc**. Income distribution pattern determine the business possibilities. ➢ Here we 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 **influence business** organizations. These include **GDP, per capita income, markets, availability of capital, foreign exchange reserve, interest rates, disposable income, unemployment, inflation**, etc. ➢ All these factors generally tell the state of the economy. (Good/Poor)

Demographic	➢ Demographics are **characteristics of a population** in an area like- age, gender, income- in order to **understand features of a specific group**. ➢ It includes factors such as **race, age, income, education, possession of assets, house ownership, job position, ethnic mix, region, and the degree of education**. ➢ Marketers divide up populations based on their demographic makeup. Like- **India has relatively younger population** as compared to many other countries. Many multinationals are interested in India considering its population size. ➢ Org. need to **address following issues** related to demographic env: ➢ What demographic trends will **affect market size** of industry? ➢ What demographic trends represent **opportunities or threats**?
Socio-Cultural	➢ It includes factors such as **social traditions, values and beliefs, level and standards of literacy, ethical standards & state of society, the extent of social stratification, conflict, cohesiveness** etc. ➢ It **differs from demographics** → it is **not** characteristics of population, but it **behaviour & belief system** of population. ➢ **Socio-cultural environment** consists of **factors related to human relationships** & **impact of social attitudes** and cultural values which has bearing on the operations of the organization. ➢ The **core beliefs** of a particular society tend to be **persistent**, which are difficult to change. Thus org. have to **adjust to social norms** and beliefs to operate successfully. ➢ Social environment affects the strategic management process- in areas of **mission** & **objective** setting, & **decisions related to products & markets**.
Technological	➢ Technology has **changed the way** people **communicate**, **do things** & **ways of how businesses operate now**. ➢ Technology and business are **inter-linked** and **inter-dependent** on one another. Businesses help society access the outcomes of technological R&D, 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.** ➢ **reduce paperwork,** ➢ **schedule payments more efficiently**, ➢ are able to **coordinate inventories efficiently and effectively**. ➢ This helps to **reduce costs** & **shrink time and distance**, thus, capturing a competitive advantage for the company. ➢ The **technological advancements** require a business to drastically **alter** its operational, production and marketing strategies. ➢ Technology leads to **new** business opportunities & makes most of the existing business **obsolete**. ➢ **Technology can act as opportunity**, when a **business effectively adopts technological innovations to their strategic advantage**. ➢ **Technology can also act as a threat**. Artificial intelligence, machine learning, robotic process automation - new technological tools that businesses are adopting & can act as both opportunity & threat.

❖ **PESTLE Analysis**

➢ Used for analysis of **macro** environmental factors.

➢ Earlier traditional framework was **PEST** analysis. [**E for Economic**]

➢ Advantage - encourages management into **proactive & structured thinking** in its decision making.

➢ PESTLE stands for-

- **P- Political** → (how & to what extent government intervenes in economy & activities of business firms.)
- **E- Economic** → (**interest rates, exchange rate, money supply**, **inflation**, **credit flow**, **per capita income**, **growth rates** have a bearing on business decisions)
- **S- Social** → (affect **demand** for a company's products and **how that company operates**)
- **T- Technological** → (can determine **barriers to entry**, **minimum efficient production level** and influence **outsourcing decisions.** It also includes **Intellectual property rights & copyrights**)
- **L- Legal** → (affect **how a company operates**, its **costs**, and the **demand** for its products, **ease of business**)
- **E- Environmental** → (affects industries such as **tourism, farming & insurance.** Growing awareness to **climate change** affects how org. operate - it is **creating new markets** & **destroying existing ones**)

➢ **SWOT** Analysis is much **broader** than **PESTLE** Analysis.

❖ **Internationalization of Business**

➢ Act of designing goods/services in a way that facilitates expansion into international market. It enables a business to **enter new markets** for **greater earnings** & **cheap resources**. Also, expanding internationally enables a business to **achieve greater economies of scale** and **extend the lifespan** of its products.

❖ **Characteristics of a global business** MT: ORS

1) It is a **conglomerate** of multiple units (located in different parts of the globe) but **all linked by common ownership**.

2) Multiple units draw 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**.

❖ **The steps in international strategic planning are as follows-** MT: Reverse DOSE

1) **Evaluate global opportunities and threats** and **rate them** with the internal capabilities.
2) Describe the **scope** of the firm's global commercial operations.
3) Create firm's global business **objectives**.
4) Develop **distinct corporate strategies** for global business & whole organization

❖ **Why do businesses go global?** MT: DR ne CA SE GST ka Cost pucha

1) When **domestic markets are no longer adequate**. Competition present domestically may not exist in some international markets.
2) **Need for reliable or cheaper source of raw-materials**, cheap labour, etc. Advantage of availability of **vast pool of talent**.
3) The **collapse of international trade barriers** redefines the roles of state & industry. The trend is towards **increased privatization** of manufacturing & services sectors and **less government interference**. **Trade tariffs & custom barriers** are getting **lowered.**
4) Globalization has made cos. in different countries to **form strategic alliances** to **ward off** economic & technological **threats** & leverage their respective competitive advantages.
5) The **rise of services to constitute the largest single sector** in the world economy; and regional economic integration, which involved world's largest & developing economies.
6) When **exporting organisations** find foreign markets to **open up or grow big**, they open **overseas manufacturing plants & sales branches** for **higher sales** & **better cash flow**.
7) The **need to grow** - is basic need of every org. **Finding opportunities** in the **other parts of the globe** lead to extending businesses globaly.
8) There is rapid **shrinking of time & distance** across the globe, because of **faster communication**, **speedier transportation**, **growing financial flow of funds** and rapid **technological changes**.
9) Companies set up overseas plants to **reduce high transportation costs**. It may be cheaper to produce near the market to reduce the time and costs involved in transportation.

❖ **International Environment**

➢ An **assessment of the external environment** is the **first step** toward internationalisation. It allows org. to **discover opportunities in the global market** and evaluate its feasibility.

➢ Assessments of the international environment can be done at **three levels**:

1) **Multinational environmental analysis**

❑ It involves **identifying**, **anticipating**, & **monitoring** significant components of the global environment on a large scale.

❑ **Governments** may have **free** or **interventionist tendencies** in economies that needs to be carefully considered.

2) Regional environmental analysis

- It is a more **in-depth evaluation** of the **critical factors** in a **specific geographical area**. It emphasizes on **discovering market opportunities** for goods, services, or innovations in the **chosen location**.

3) Country environmental analysis

- Study of **economic**, **legal**, **political**, and **cultural dimensions** is required in order for planning to be successful. The analysis must be **customized** for each of the countries to develop effective **market entrance strategies**.

❖ <u>Understanding Product & Industry</u>

- Business products have certain **characteristics** as follows: **MT: P^2UT Features**

1) Product has a price

✓ Org. determine **cost** of their products & charge a **price** for them.

✓ The forces of **supply and demand** influence the market price.

✓ The market price is the price at which **quantity provided equals quantity desired**.

✓ Price is determined by **market**, **quality**, **marketing**, & **targeted group**.

2) Product is pivotal for business.

✓ Product is at the **centre** of business around which all strategic activities revolve.

✓ The product enables production, quality, sales, & other business processes.

✓ Product is the **driving force behind business activities**.

3) 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.

✓ Eg- **fixed line telephone instruments** have been **replaced by mobile phones**.

4) Products are either tangible or intangible.

✓ **Tangible** product → **handled, seen, and physically felt**, such as a car, book, pen, etc.

✓ **Intangible** product → **not a physical good**, such as telecom service, banking, insurance etc

5) 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 development process to **optimise the user experience**.

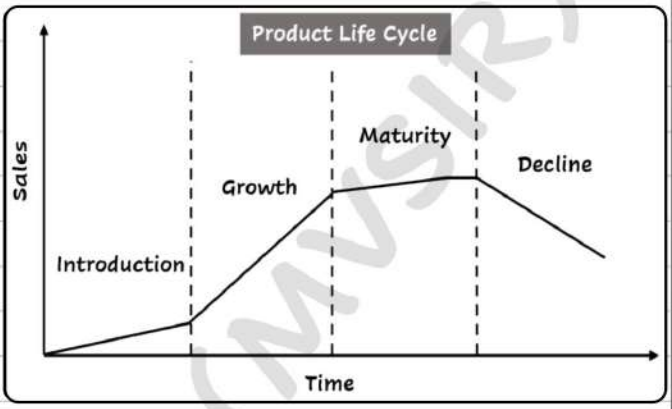
✓ Products should **provide value satisfaction** to customers.

✓ Features of the product will **distinguish** it in terms of its **function**, **design**, **quality** and **experience**. A customer's **cumulative experience** from purchase to end of useful life is an important component of a product feature.

❖ **Product Life Cycle (PLC)**

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

1st Phase
Introduction Stage (slow sales growth)
➢ **competition** is almost **negligible**, ➢ **prices** are relatively **high**, and ➢ **markets** are **limited**. ➢ The **growth** in sales is at a **lower rate** because of **lack of awareness** on the part of customers.



2nd Phase	3rd Phase	4th Phase
Growth Stage (rapid market acceptance)	**Maturity Stage** (slowdown in growth rate)	**Decline Stage** (sharp downward drift in sales)
➢ demand **expands rapidly**, ➢ prices **fall**, ➢ competition **increases**, ➢ market **expands**. ➢ Customer **has knowledge** about the product and shows **interest** in purchasing it.	➢ the competition gets **tough**, ➢ market gets **stablised**. ➢ **Profit comes down** because of stiff competition. ➢ Organisations have to **work for maintaining stability**	➢ Sales & profits **fall down sharply** due to some new product replaces existing product. ➢ **Combination of strategies** can be implemented to stay in market either by **diversification** or **retrenchment**.

❑ The **main advantage of PLC approach** → used to **diagnose a portfolio of products/businesses** in order to **establish the stage** at which each of them exists.

❑ For eg-

- ✓ **Expansion** → for businesses in the **introductory & growth** stages.
- ✓ **Mature businesses** → **used as sources of cash for investment** in other businesses
- ✓ A **combination** of strategies like **selective harvesting**, **retrenchment**, etc. may be adopted for **declining** businesses.

❖ **Value Chain Analysis (Given by Michael Porter)**

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

➢ When you do a value chain analysis, you must analyse how each stage in the process **adds or subtracts value** from the end product or service.

- **Value chain analysis** is used to **improve the sequence of operations**, **enhancing efficiency** and **create a competitive advantage**.

- It was **originally introduced** as an **accounting analysis** to show the '**value added' of separate steps in complex manufacturing processes**, in order to determine where **cost improvements** could be made and/or **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 org.'s **competitive advantage** by **Michael Porter**.

Primary Activities				
Inbound logistics	**Operations**	**Outbound logistics**	**Marketing and sales**	**Services**
These are the activities concerned with • **receiving**, • **storing** and • **distributing** the **inputs** to product/service This includes materials handling, stock control, transport etc. Like, **transportation** and **warehousing**.	Operations **transform** these **inputs** into the **final product-** • machining, • packaging, • assembly, • testing, etc. **Convert raw materials in finished goods**.	It involves- • **collecting**, • **storing &** • **distributing** the **product to customers**. For **tangible products**→ • **warehousing**, • **materials** • **handling**, • **transport**, etc. For **services** → **arrangements for bringing customers to service**, if it is a fixed location (eg- sports event)	It provides the means whereby consumers are **made aware of the product** & are able to purchase it. This would include • **sales administration**, • **advertising**, • **selling** etc. In **public services**, **communication networks** which help users' access a particular service are often important.	Services are all those activities, which • **enhance** or • **maintain** the **value of a product**, Such as- • **installation**, • **repair**, • **training** • **spares**.

Each of the above groups of primary activities are linked to support activities. <u>Support Activities</u> can be divided into four areas-			
Procurement	**Technology development**	**Human resource management**	**Infrastructure**
Refers to processes for **acquiring the various resource inputs** to primary activities. As such, it occurs in many parts of the organization.	All value activities have a 'technology', even if it is simply know-how. The **key technologies** are **concerned** with- • **product** (R&D product design) • **processes** (process development) • **particular resource** (raw materials improvements)	It is an area which **transcends** all primary activities. It involves activities like • **recruiting**, • **managing**, • **training**, • **developing** • **rewarding people**	The systems of • **planning**, • **finance**, • **quality control**, • **information mgt** are important to an org's performance in its primary activities. It also consists of **structures & routines** of org. which **sustain its culture**.

❖ **Industry Environment Analysis**

➢ The goal here, is to **estimate the amount of competitive pressures** the business is presently facing and is expected to face in the near future.

❑ **Porter's Five Forces Model**

➢ It is a simple but efficient way for-
- ✓ determining the **key sources of competition** in business or industry.
- ✓ systematically diagnosing the **significant competitive pressures** in a market and **assess its strength & importance**.

➢ Understanding the variables that affect industry helps to **adapt strategy**, **boost profitability**, and **stay ahead of competition**

➢ The model holds that the **state of competition** in an industry is a **composite** of competitive pressures operating in **five areas** of the overall market:

1) Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on **among rival sellers in the industry.**
2) Competitive pressures associated with the **threat of new entrants** into the market.
3) Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own **substitute products**.
4) Competitive pressures stemming from **supplier bargaining power** and **supplier-seller collaboration**.
5) Competitive pressures stemming from **buyer bargaining power** and **seller-buyer Collaboration**

➢ The strategists can use the five-forces model to determine what competition is like in a given industry by undertaking the following steps:
- ✓ **Step 1**: Identify **specific competitive pressures** associated with each of five forces.
- ✓ **Step 2**: Evaluate **how strong the pressures** comprising each of the five forces are (fierce, strong, moderate to normal, or weak).
- ✓ **Step 3**: Determine whether the **collective strength** of the five competitive forces is **conducive to earning attractive profits**.

I. **The Threat of New Entrants**

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

➢ **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.

- **To discourage new entrants, existing firms** can try to **raise barriers to entry** (hurdles that slow down entry of other firms). **Common barriers to entry include-** MT: BAD SPEC

1) **B**rand Identity

- Brand identity is **important for infrequently purchased products that carry a high unit cost** to the buyer. New entrants often find difficulties in building up the brand identity, because to do so they **require substantial resources over a long period**.

2) **A**ccess to distribution channels

- The **unavailability of distribution channels** for **new entrants** poses another **entry barrier**. Despite the internet, many existing firms may have **significant influence over their distribution channels** & can **impede their use by new firms**.

3) Product **d**ifferentiation

- It refers to **physical** or **perceptual differences**, or **enhancements**, that makes a **product unique** in eyes of customers. Differentiation is an entry barriers as **cost** of creating **genuine product differences** may be **too high** for the **new entrants**.

4) **S**witching costs

- To succeed in an industry, new entrant must be able to **persuade 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 (and psychological) **costs** in switching.
- When such **switching costs** are **high**, **buyers** are often **reluctant** to **change**.

5) **P**ossibility of aggressive retaliation by existing players

- Sometimes mere **threat of aggressive retaliation** by **incumbents** can **deter entry** by other firms into an existing industry. Eg, **introduction** of **products** by a **new firm** may lead **incumbents firms** to **reduce** their **product prices** and **increase their advertising budgets**.

6) **E**conomies of scale

- It refers to **decline in per-unit cost of production as volume grows**. A large firm that enjoys economies of scale can produce **high volumes** at **lower costs**. This **discourages new entrant**.

7) **C**apital 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.**

II. **Bargaining Power of Buyers**

- This force will become heavier depending on the possibility of **buyers forming groups.**
- Quite often **users of industrial products come together** and **exert pressure on the producer**
- **The bargaining power of the buyers** influences-
  - ✓ the **prices** that producer can charge &
  - ✓ **costs** & **investments** of producer as powerful buyers **bargain for better services**

- Buyers of an industry's products or services can sometimes exert considerable **pressure** on **existing firms**. This leverage is particularly evident when:
  a) Buyers have **full knowledge** of **sources of products** & **their substitutes**.
  b) They spend a lot of money on industry's products i.e. they are **big buyers.**
  c) The industry's product is not perceived 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**.

III. **Bargaining Power of Suppliers**

- The **more specialised the offering** from the supplier, **greater is his clout**. And, if the suppliers are also **limited** in **number**, they have **better chance** to use their bargaining power.

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

❑ Suppliers can command bargaining power over a firm when:
  a) Their **products are crucial to the buyer** and **substitutes** are **not available**.
  b) They can **erect high switching costs**.
  c) They are **more concentrated than their buyers**.

IV. **The Nature of Rivalry in the Industry (Exsiting Competitors)**

- The **intensity of existing rivalry** in an industry is a **significant determinant of industry attractiveness** and **profitability**.
- It can influence the **costs of suppliers, distribution**, and of **attracting customers** and thus directly affect profitability.
- The **more intensive the rivalry**, the **less attractive is industry**.

❑ **Rivalry among competitors** tends to be **cutthroat** and **industry profitability low** under various conditions: **MT: FINE PG**

1) **Fixed Costs:** When **rivals operate** with **high fixed costs**, they feel strong motivation to **utilize their capacity** and thus **cut prices** when they have **excess capacity**. Price cutting causes profitability to fall, as all firms produce more to cover costs that must be paid regardless of industry demand.
2) **Industry Leader**: A strong industry leader can **discourage price wars** by **disciplining initiators** of such activity.

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

4) **Exit Barriers:** Rivalry among competitors declines if some competitors leave an industry. **Profitability** is **higher** in industries with **few exit barriers**. **Assets** of a firm considering exit may be **highly specialized** and therefore of little value to any other firm. Such a firm can thus find **no buyer for its assets**. This **discourages exit**. When barriers to exit are powerful, **competitors refrain from leaving** & their continued presence leads to downward pressure on profitability of all competitors.

5) **Product Differentiation**: Firms can sometimes **insulate themselves from price wars** by **differentiating their products**. **Profitability** tends to be **lower** in industries involving **undifferentiated products** like, **memory chips**, **natural resources, processed metals etc**

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 → leading to **reducing profitability for all**.

V. **Threat of Substitutes**

- Substitute products offering a **price advantage** or **performance improvement** to the consumer can **drastically alter** the **competitive character** of an industry.
- For eg- **coir suffered at the hands of synthetic fibre**.
- Wherever substantial **investment** in **R&D** is taking place, threats from substitute products can be expected.
- Substitutes, too, usually **limit the prices and profits in an industry**.
- **To predict profit pressure** from this source, firms must **search for products** that **perform the same**, or nearly the same, **function** as their **existing products**.
- For eg- **Real estate, insurance, bonds** and **bank deposits** are clear substitutes for **common stocks**, because they represent **alternate ways to invest funds.**

❖ **Attractiveness of Industry**

- If an industry's **overall profit prospects** are **above average**, the industry can be considered **attractive** & vice-versa.
- However, **attractiveness is relative, not absolute.**
  - ✓ Industry is **unattractive** to **weak competitors**, &
  - ✓ may be **attractive** to **strong competitors**.

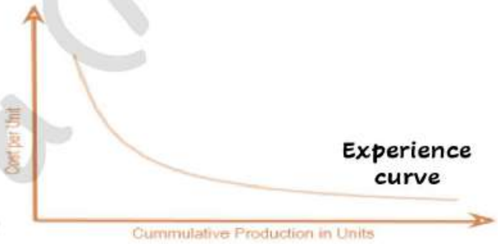
❖ **Experience Curve (EC)**

- Experience curve is **similar to learning curve** which explains the **efficiency gained by workers through repetitive productive work**.

- EC is based on the commonly observed phenomenon that **unit costs decline as a firm accumulates experience** in terms of a cumulative volume of production. It is based on the concept, "**we learn as we grow".**

- The implication 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**.



- 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"**.

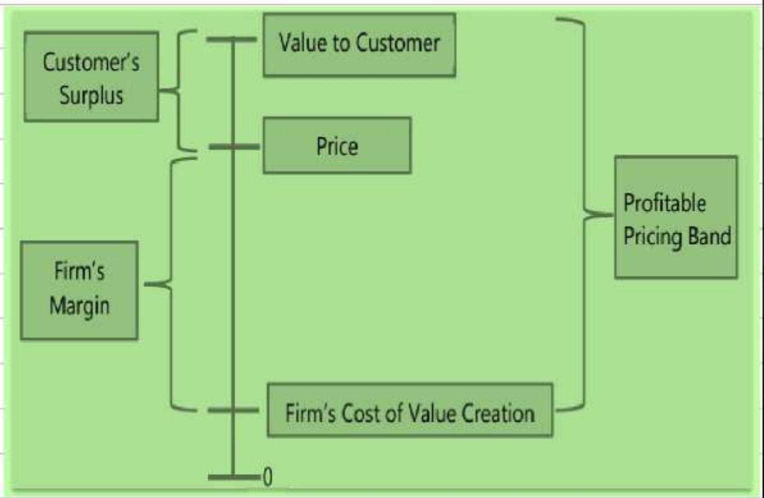
- As a business **grows**, it **understands the complexities** and **benefits from its experiences**.

- The concept of EC is important in strategic management. For eg- EC is considered a **barrier for new firms** contemplating entry in an industry. It is also **used to build market share and discourage competition.**

❖ **Value Creation**

- 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 and by its services** for which customers are **willing to pay.**



- 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**

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

- Thus, it is basically the **value consumer wants to pay**, **over & above** the **price** that the **business wants to charge**. This **excess amount is called value creation**, wherein the consumers value the product or service more than it actually costs them.

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

❖ **Other Important Points**

- **Competitive advantage** leads to **superior profitability**. At the most basic level, how profitable a company becomes depends on **three factors**:
  1) the **value customers place** on the company's **products**; (depends on utility)
  2) the **price** that a **company charges** for its products; and
  3) the **costs of creating** those products.

- **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.**

❖ As per **Michael Porter,** a company can generate **competitive advantage in two different ways,** either through-
  1) **differentiation** (**capability** to provide **superior & special value** in form of product's **special features** & **quality** or in form of **after-sales customer service→** can demand **higher price**) **or**
  2) **cost advantage**

Market

A market is a place for interested parties, **buyers & sellers**, where **goods** & **services** can be **exchanged for a price**. It might be-
1) **Physical→** departmental store
2) **virtual** → online market

❖ **Marketing**
- It includes a **wide range of operations**, like **research**, **designing**, **pricing**, **promotion**, **transportation**, and **distribution**.
- **4 Ps of marketing** – **product, place, pricing**, and **promotion**.
- Above activities help to **identify customer needs** → to **meet their demands** and **deliver satisfaction**.
- **Main goals of marketing are-**
  1) Delivering the best customer experience &
  2) Establishing, maintaining, and growing relationships with customers

❖ **Business Orientation**

➢ The orientation of product marketing has evolved and acquired different dimensions Businesses that have-

1) **Product orientation** → buyers will **choose those products** that have the **best quality, performance, design, or features**.

2) **Production oriented** businesses → believe that **customers choose low price products.**

3) **Sales-oriented** businesses → believe that if they spend **enough money on advertisement, sales and promotion**, customers can be persuaded to make a purchase.

4) In a **customer** or **market-oriented** approach strategists **prioritise efforts on their customers**. A customer-centric business is one that **continuously learn from its customers' needs and market dynamics**.

❖ **Customer**

➢ **Customers** are the people who **actually pay** money to buy products. Customers **may or may not** be a **consumer**.

➢ **Consumer** is the one who **ultimately consumes** or uses the product. Eg- A father buys a chocolate (as a customer) for his daughter who will be a consumer.

❖ **Customer Analysis**

➢ Customer analysis involves
- ✓ **identifying target clients**,
- ✓ **determining** their **wants**, &
- ✓ defining **how their product will meet those needs**.

➢ It includes:
- ✓ the administration of **customer surveys**,
- ✓ the **study** of **consumer data**,
- ✓ the **evaluation** of **market positioning** strategies,
- ✓ development of **customer profiles** (shows **demographic information** about customer)
- ✓ the selection of the **best market segmentation techniques**.

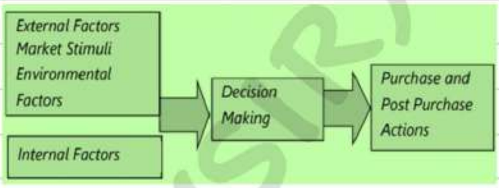
❖ **Customer Behaviour**

➢ It examines **elements** like **shopping frequency**, **product preferences**, and the **perception of your marketing**, **sales**, and **service offerings**.

➢ Understanding customer behaviour →
- ✓ **establish effective marketing** and **advertising campaigns**,
- ✓ **provide products** that meet **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**:

1) **External Influences**: Like **advertisement**, **peer recommendations** or **social norms**, have a **direct impact** on **psychological** and **internal processes** that influence various consumer decisions. These aspects are divided into **two groups** –
   - ✓ the **company's marketing efforts** and
   - ✓ the **numerous environmental elements**.



2) **Internal Influences**: These are **psychological factors internal to customer**.

3) **Decision Making:** A rational consumer, as decision maker would seek information about potential decisions & after **weighing the advantages** and **disadvantages** of each option, they would **make a decision**.

➢ **The stages of decision making process** can be described as:
   1) **Problem recognition**, i.e., identify an existing need or desire that is unfulfilled
   2) **Search for desirable alternative** and list them
   3) **Seeking information** on available alternatives and **weighing their pros and cons.**
   4) **Make a final choice**

➢ The above mostly applies during **significant purchases** → like when product has a significant influence on their **health or self-image**. Eg car, television or refrigerator in contrast to purchase of ice creams or soft drinks.

❖ **Post-decision Processes:**

➢ After making a decision & purchasing a product→ **final phase** in decision-making process is **evaluating the outcome**.

➢ The **consumer's reaction may vary** depending upon the **satisfaction**.

➢ A **happy customer** may make **repeat purchase** & **recommend to others**, while

➢ A customer with **dissonance** will **neither purchase product again nor recommend** to others

❖ **Competitive Strategy**

➢ Competitive strategy is concerned with **how to compete** in the business areas in which the organization operates.

➢ The competitive strategy of a firm is analysed using **two criteria**:
   - ✓ the **creation** of competitive advantage and
   - ✓ the **protection (sustainance)** of competitive advantage.

➢ Having a **competitive advantage over competitors** means being **more profitable in long run**.

❖ **Competitive Landscape**

➢ Competitive landscape is about-

✓ **identifying & understanding the competitors** and

✓ it **involves understanding of their vision**, **mission**, values, strengths & weaknesses.

➢ Understanding of competitive landscape requires an application of "**competitive intelligence**" – (ability to gather & use info collected about competitors, to gain advantage in industry)

Steps to understand the competitive landscape	It answers the question
1) Identify the competitor Identify the competitors in the firm's industry and **have actual data** about their **respective market share**.	➢ **Who** are the competitors and how big are they?
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	➢ 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**?	➢ 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 (and strengths) can be identified by going through **consumer reports** and **reviews** appearing in various media. Consumers are often willing to give their opinions, when the products are either **great** or **very poor**.	➢ Where are they **lacking**?
5) Put all of the information together Strategist should put together all information about competitors and **draw inference** 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.	➢ 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?

❖ **Key Success Factors (KSFs)**

➢ **An industry's Key Success Factors (KSFs)** are those things that most **affect industry members' ability to prosper in the market-place.** KSFs include, cost structure, technology, distribution system and so on.

➢ KSFs help to shape whether a company will be **financially** and **competitively successful**.

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

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

➢ **For example,** in apparel manufacturing, the KSFs are-

✓ appealing designs and colour combinations (to create buyer interest) and
✓ low-cost manufacturing efficiency (to permit attractive retail pricing & ample profit margins).

❑ 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**.

CA Intermediate
(New Syllabus)

SM Handwritten Notes

Chapter 3
Strategic Analysis: Internal Environment

By CA Mohnish Vora (MVSIR)

SM Chapter 3 - Strategic Analysis: Internal Environment

❖ **Internal environment**

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

➢ It is **specific to each organization** & is based on its **structure** & **business model**

➢ It **includes all stakeholders** like top management, investors, employees, BOD,etc.

➢ It also involves **understanding** of **ethics, principles, work environment, employee friendliness, confidence of investors** and other aspects etc.

❖ **Understanding Key Stakeholders**

➢ All those individuals/entities who **have**
- ➢ **a stake (interest) in org.'s success** and/or
- ➢ have **power to influence strategy** or **performance** of organisation

Eg- **employees**, **shareholders**, **investors**, **suppliers**, **customers**, **regulators** etc.

➢ It is important to identify the **key stakeholders**. Each stakeholder exerts a **different level of influence** & **different levels of interest** in org.

❖ **Mendelow's Matrix**

➢ Aka. **Stakeholder Analysis matrix** or **Power-Interest matrix**→ **framework** to help **manage key stakeholders**.

➢ Managing an org. is complicated → involve **managing competing interests of stakeholders-**
- ✓ Who needs to **know what** and when,
- ✓ Who needs to give their **feedback** &
- ✓ Who has the **final approval**

can be **confusing**.

➢ Mendelow suggests that one should **analyse stakeholder groups** based on-
- ✓ **Power** (ability to influence organization's strategy or resources) &
- ✓ **Interest** (how interested they are in the organisation succeeding).

Power / Influence (Low → High) vs. Interest in the Organisation (Low → High)

	Low Interest	High Interest
High Power	**KEEP SATISFIED** ➢ Keep them satisfied **with their intended information** on a **regular basis**. ➢ **Consult often** ➢ Increase their interest ➢ Can be **hindrance to new ideas** or strategic choices ➢ **For eg,** banks, government, customers, etc	**KEY PLAYER** ➢ Manage Closely ➢ Involve in decision making ➢ **Engage regularly** and build strong relationship (take their advice) ➢ Keep them informed **with all information** on a **regular basis** ➢ **For eg,** Shareholders, CEO, Board of Directors
Low Power	**LOW PRIORITY** ➢ Monitor only, no engagement (**no actions to satisfy** their expectations) ➢ General occasional communication ➢ **Minimal efforts** to be spent on them ➢ **Keep an eye** → check if their **levels of interest or power change** ➢ **For eg,** magazines, media etc	**KEEP INFORMED** ➢ **Utilise their high interest** by engaging in decisions ➢ **Consult** in **their areas of expertise** & interest ➢ Adequately inform → ensure that **no major issues** arise. ➢ Real time **feedback** & area of improvemnt ➢ **For eg**, employee, vendor, legal experts, etc.

➢ Environment is dynamic & **certain things might happen** → **cause stakeholders** to suddenly **move between quadrants**. **For eg**, an org. might **contravene a regulation**, say GST compliance → then **regulatory body** (GST Dept.) will move from

High Power, Low Interest **to** **High Power, High Interest**.

This would require a **different way of managing** & **communicating** with this stakeholder.

➢ So, it's always worth **re-analysing** Mendelow's grid in event of a change in environment.

❖ **Strategic Drivers**

❑ In assessing current performance of business, **strategic drivers** consider what **differentiates** an organisation from its competitors.

❑ In general, the **key strategic drivers** of an organisation include: MT: IPCC

- **I. Industry and markets**
- **II. Products/services**
- **III. Customers**
- **IV. Channels**

I) **Industry and Markets**

➢ Group of companies in **similar type of business** are **grouped together** into **industries**.

- ✓ Industry grouping is **based on primary product** that co. makes or sells.
- ✓ **For eg**, Maruti, Mahindra, Tata Motors, TVS, Bajaj Auto, are all selling automotives as their primary product → Automotive 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 eg**, for a **FMCG brand** selling Shampoos, Dairy Products, Washing Powder, etc. - **each product line** will have a **separate market to cater to** and build relevant strategies.

❖ **Strategic Group Mapping**

- A **strategic group** consists of those **rival firms** which have **similar competitive approaches** and positions in the market. A tool to study the **market positions of rival companies** by grouping them into like positions is **strategic group mapping**.

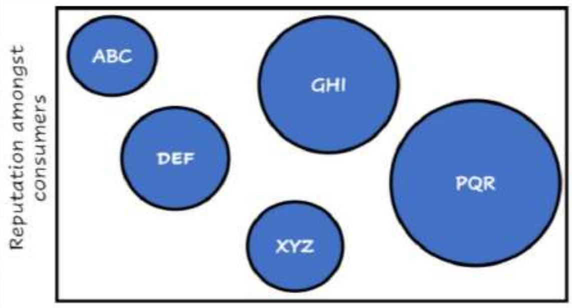
- The **procedure** for constructing a **strategic group map** and deciding which firms belong in which strategic group is straightforward:

1) **Identify competitive characteristics** that differentiate firms in industry. Typical variables are-
   - ✓ **price/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)

1) **Plot** the firms on a **two-variable map** using pairs of these differentiating characteristics.

2) **Assign** firms that **fall in same strategy**, space to the same strategic group.

3) **Draw** circles around **each strategic group**, making circles **proportional to size** of group's **respective share of total industry sales** revenues.



Explanation of Diagram (Strategic Group Mapping)

II) **Product/Services**

- In this component of the strategic drivers' analysis, business-
  - ✓ identifies its **key** products/ services &
  - ✓ how those products/services are **performing**.
- It attempts to answer the question:
  - ✓ **What business are we in,** &
  - ✓ **What should be done to win over competition in each product/service** we serve.
- **Strategies** are needed for **managing existing product** over time, adding **new ones** & **dropping failed products**.
- Strategic decisions → regarding **branding**, **packaging** & **other features** such as warranties.
- The products can be **classified** on basis of-
  - ✓ industrial or consumer products,
  - ✓ essentials or luxury products,
  - ✓ durables or perishables.
- Some products have **consistent customer demand over long time** while others have **short life spans**. Products can also be **differentiated** on basis of size, shape, colour, packaging, brand names, etc

❑ For a **new product**, **pricing strategies** for entering a market need to be designed & 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**.

❖

	Marketing Strategies	Meaning	Example
1	**Social Marketing**	It refers to **design**, **implementation**, & **control** of programs seeking to **increase the acceptability** of a **social idea or practice** among a **target group** to bring in a **social change**.	**Campaign** for **prohibition of smoking in Delhi** → showed places where one can and can't smoke & that smoking is injurious to health.
2	**Augmented Marketing**	It includes **additional customer services** & **benefits** that a product can offer **besides core & actual product** offered. Such **innovative offerings** → **elevate customer service** to unprecedented levels.	**Hi-tech services** like movies on demand, online computer repair services etc.
3	**Direct Marketing**	Marketing through various advertising media that **interact directly with consumers**, generally calling for the consumer to make a **direct response**.	**Catalogue selling**, **e-mail**, telecomputing, electronic marketing, TV shopping etc.

	Marketing Strategies	Meaning	Example
4	**Relationship Marketing**	The process of **creating, maintaining, & enhancing strong, value-laden relationships** with customers & other stakeholders. Thus, providing special benefits to **select customers** to **strengthen bonds** & **build relationships.**	Airlines offer special lounges at major airports for frequent flyers
5	**Services Marketing**	Applying concepts of marketing to services. Services requires different marketing strategies since it has **peculiar characteristics** like **intangible, inseparability**, **variability** etc	Hotel- offering free nights to first time guests.
6	**Person Marketing**	It consists of activities → **create, maintain or change attitudes** and behaviour towards **particular person**.	**politicians, sports stars, film stars**, etc. i.e., market to get votes, or promote careers.
7	**Organisation Marketing**	It consists of activities → **create, maintain or change attitudes** and behaviour towards an **organization**.	**Patanjali**- chemical free, swadeshi brand **Fevicol-** The Ultimate Bond
8	**Place Marketing**	It consists of activities → **create, maintain or change attitudes** and behaviour towards **particular places** say, marketing of **business sites**, **tourism marketing**.	Rajasthan- Padharo Maare Des Gujarat Tourism- Amitabh Bacchan Ads
9	**Enlightened Marketing**	It is a marketing philosophy holding that a company's marketing should **support the best long-run performance** of the marketing system that is beyond the prevailing mindset	Its **five principles** include- **1) customer-oriented** marketing, **2) innovative** mkting, **3) value** marketing, **4) sense-of-mission** marketing, **5) societal** marketing.
10	**Differential Marketing**	It is a **market-coverage strategy** in which a firm decides to **target several market segments** & designs **separate offer for each**.	HUL has **Lifebuoy & Lux** in **popular** segment **and Dove & Pears** in **premium** segment
11	**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**.	Movie tickets can be sold at lower price over weekdays to generate demand Happy Hours- McDonald
12	**Concentrated Marketing**	It is a market-coverage strategy in which a firm goes after a **large share of one or few sub-markets**. It can also take the form of **Niche marketing**.	Tesla, Rolls Royce

13	**Demarketing (Reverse Marketing)**	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**.	Buses are overloaded in the morning and evening, roads are busy for most of times, Zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing → applied to regulate demand.

III. **Customers**

- **Different customers** may have **different needs** and require **different sales models** or distribution channels.
- For eg, **headphones brand** - customers can be grouped under **high value** buyers, **medium value** buyers and **low value** buyers based on amount they are willing to spend.

- As customers are often **responsible for generation of profits** obtained by an organisation, it is important to be able to **collect and display data** in order to **show customer trends & profitability**.

- **Customer** is the one **who buys** a product/service,
- **Consumer** is the one **who finally uses/consumes it**.
- Eg- A father buys a chocolate (as a customer) for his daughter who will be a consumer.

- From **pricing perspective** → **customer** is of **more importance** and
- From **value creation** & **design/usability**→ **consumer** are kept at center of decision making.

IV. **Channels**

- Channels are **distribution system** by which an org. distributes its products/services.
  - ✓ **Lakme** - sells its products via **retail stores**, **intermediary stores** (like Nykaa, Reliance Trends), also **online mode** like amazon, flipkart, & its own website.
  - ✓ **Boat Headphones** - only **online** via **e-commerce** platforms like flipkart & amazon
  - ✓ **Coca Cola** - **retail shops** across the nation, & also **online** mode via dunzo, blinkit, etc

- The **wider and stronger the channel** the **better position** a business has to fight and win over competition. There are typically **three channels**

1) **The sales channel**

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

2) **The product channel**

✓ It focuses on the **series of intermediaries** who **physically handle** the product on its **path from its producer** to the **end user**.

✓ This is true of **Australia Post**, who delivers online purchases between seller & purchaser when using eBay and other online stores.

3) **The service channel**

✓ It refers to entities that **provide necessary services to support** the product, as it moves through the sales channel and after purchase by the end user.

✓ It important for products that are **complex** in → **installation** or **customer assistance**.

✓ For eg, 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.

➢ **Access to bottled water** & cold drinks even in a **hill station** or a **far-off location**?
  ✓ This is possible because of **strong channels of distribution**.

❖ **Role of Resources & Capabilities: Building Core Competency**

➢ As per, **C.K. Prahalad** & **Gary Hamel,** core competency is defined as **collective learning** in org→ **coordinating diverse production skills** & **integrating multiple streams of technologies**.

➢ **Competency** is defined as a **combination of skills & techniques** rather than individual skill or separate technique.

➢ 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**.

➢ Thus, core competencies **cannot be built on one capability** or single technological know-how, instead, it has to be **integration of many resources**.

➢ It is a **sum of 5- 15 areas of developed expertise**.

As per Prahalad & Hamel, major core competencies are in 3 areas
(If below-mentioned 3 conditions are met, then co. can regard competence as core comp.)

1) **Competitor differentiation**

➢ Company can consider having a core competence if the **competence is unique** and it is **difficult for competitors to imitate**.

➢ It provides co. an **edge** compared to competitors.

➢ Co. has to **keep on improving these skills** in order to **sustain** its competitive position. Competence **does not necessarily** have to exist within **one** co. in order to define as core competence.

➢ Although all cos. operating in same market would have equal skills & resources, if **one co. can perform this significantly better**; the co. has obtained a core competence.

➢ **For eg**, it is quite difficult to imitate patented innovation, like Tesla has been winning over competition in electric vehicles.

2) Customer Value

- When purchasing a product → 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 product has to have **real impact** on customer as reason to choose to purchase them.
- If customer has chosen the product **without** this impact, then competence is **not a core competence**, & it will not affect company's market position.
- The essence is that the consumer should **value the differentiation offered**.

3) Application of Competencies to other markets

- Core competence must be applicable to **whole** organization; it **cannot be only one particular skill** or specified area of expertise.
- Thus, although some special capability maybe essential for business, it will not be considered as core competence, if **not fundamental** from whole org. point of view.
- Hence, 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.

❖ **Other Imp Points- Core Competency**

- Core competencies are often visible in form of **organizational functions**.
- ✓ For eg, **Marketing & Sales** is a core competence of **Hindustan Unilever Limited (HUL)**.

- A core competency for a firm is **whatever it does best**
- ✓ For eg: **WalMart** focuses on **lowering its operating costs**. Thus able to **price goods lower than most competitors**. **Core competency** here is co.'s **ability to generate large sales volume**

- Thus core competence represent **distinctive skills** as well as intangible, invisible, intellectual assets and cultural capabilities.
- ✓ **Cultural capabilities** → **ability to manage change**, the ability to **learn** and **team working**.

Criteria for building a Core Competencies (CC)?
4 specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.

1	**Valuable**	Valuable capabilities → allow firms to **exploit opportunities** or **avert threats**. A firm creates value for customers by **effectively using capabilities** to **exploit opportunities**. Finance companies build a valuable competence in financial services→ **placing the right people in the right jobs**. **Human capital** is important in creating value for customers.
2	**Rare**	Core competencies are very rare capabilities and **very few of the competitors possess this**. Competitive advantage results only when firms **develop** and **exploit valuable capabilities** that **differ from those shared with competitors**.
3	**Costly to Imitate**	It means such capabilities that **competing firms are unable to develop easily**. For eg, **Intel** has enjoyed a **first-mover advantage** because of its **rare fast R&D cycle time** capability that brought microprocessors to market **ahead of competitors**. The product could be **imitated**, but it is **difficult to imitate** the R&D cycle time capability.

4	Non substitutable	Capabilities that **do not have strategic equivalents** are called non-substitutable capabilities. The **strategic value of capabilities increases** as they become **more difficult to substitute.** Eg. 1, **Tata's low-cost strategy** → most were **unable to duplicate.** Tata has a **unique culture** & **attracts top talent** in industry. The culture, excellent human capital alongwith Tata's strategy are the basis for its competitive advantage. Eg. 2, **Apple's operating system's (iOS)** successful model. No competitor able to imitate Apple's capabilities. These are also **protected through copyrights.**

SWOT ANALYSIS	Helpful to achieving the objective	Harmful to achieving the objective
Internal origin (attributes to Organization)	**Strength**→ **inherent capability** of org. which it can use to **gain strategic advantage** over its competitor. Example • Multiple Partners with varied expertise • 70 years of brand value • Services spread across India • 400+ employee strength	**Weakness**→ **inherent limitation** or constraint of org. which creates **strategic disadvantage** to it. Example • Run by old methods • No automation of work and documentation • Not very employee friendly culture
External origin (attributes to Enviroment)	**Opportunity**→ **favourable condition** in the external environment which enables it to **strengthen its position** Example • Automation driven advancement. • Startups can be supported with experienced partners. • Investment in technology can multiply returns.	**Threat**→ **unfavourable condition** in the external environment which causes a **risk for, or damage to organisation's position** Example • Online players entering market • AI based solutions and apps. • Price point of online being very competitive • Speed of work becoming faster by the day.

- SWOT analysis
  - ✓ **Benefit- identifies complex issues** & puts them into a simple framework.
  - ✓ **Criticism-** Does **not** provide for **evaluation** of strengths, weaknesses, opportunities & threats in the competitive context.

- The **major purpose** of SWOT analysis is to enable the management to create a **firm-specific business model** that will best **align** with **organisational resources & capabilities** to the demands for environment in which it operates.

❖ COMPETITIVE ADVANTAGE: USING MICHAEL PORTER'S GENERIC STRATEGIES

➢ **Competitive advantage** allows a firm to **gain an edge over rivals** when competing. It is a set of **unique features** of a company and its products are perceived by as **significant** & **superior** to the competition.'

➢ An organization is said to have **competitive advantage** if its **profitability** is **higher than** the **average profitability** for all companies in its industry.

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

Sustainability of Competitive Advantage The sustainability of competitive advantage & firm's ability to earn profits from its competitive adv. depends upon 4 characteristics of resources and capabilities:		
1	**Durability**	➢ The **period** over which a competitive advantage is sustained depends on the **rate** at which a firm's **resources and capabilities deteriorate**. ➢ In industries where the **rate of product innovation** is fast, product **patents** are quite likely to become **obsolete**. ➢ **Capabilities** which are the result of the management expertise of the CEO are also **vulnerable** to his or her **retirement** or **departure**.
2	**Transferability**	➢ 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.
3	**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? This is the **true test** of imitability. ➢ For eg, in financial services, **innovations lack legal protection** and are **easily copied**. ➢ Where capabilities require **networks of org. routines**, & **effectiveness** depend on **corporate culture**, imitation is difficult.
4	**Appropriability**	➢ Appropriability refers to the **ability** of **the firm's owners** to **appropriate the returns** on its resource base. ➢ This means, that **rewards are directed to - from where the funds were invested**, rather than creating an advantage with no actual reward to people who invested capital.

❖ Michael Porter's Generic Strategies

➢ According to Porter, strategies allow organizations to gain competitive advantage from three different bases:

1) **Cost Leadership-** **standardized** products at **low cost** for **price-sensitive** consumers.
2) **Differentiation-** **unique** products for **price-insensitive** consumers.
3) **Focus-** Products that **fulfil needs of small groups** of consumers with **very specific taste**.

- These are termed **generic** → it can be **pursued by any type/size of business** & even by NPOs.
  - ✓ **Larger firms** with greater resources → use **cost leadership** and/or **differentiation**
  - ✓ **Smaller firms** often compete on a **focus** basis.

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

I. COST LEADERSHIP STRATEGY

Meaning

- **Low-cost competitive strategy** → aims at **broad mass market**.
- It requires vigorous pursuit of **cost reduction** in multiple areas of business
- The cost leader is able to **charge a lower price** & **still earn satisfactory profits**.
- For eg, McDonald's, Decathlon etc

Striving to be a low-cost producer in an industry can especially be **effective**, when **MT: Large PDF**

1) there are a **large number of buyers** with **significant bargaining power**.
2) market is composed of **many price-sensitive buyers,**
3) buyers **do not care much about differences** from brand to brand
4) there are **few ways** to **achieve product differentiation**.

The basic idea → **underprice competitors** & **gain market share** driving competitors out of market.

A **successful cost leadership strategy** usually **permeates entire firm**, as evidenced by-

- ✓ high efficiency,
- ✓ low overheads,
- ✓ limited perks,
- ✓ intolerance of waste,
- ✓ intensive screening of budget requests,
- ✓ wide span of controls,
- ✓ rewards linked to cost containment, &
- ✓ broad employee participation in cost control efforts.

Some risks of pursuing cost leadership are **MT: BIT**

1) **buyer interests may swing** to other differentiating features besides price.
2) competitors may **imitate strategy**→ driving overall industry profits down;
3) **technological break throughs** in industry may make strategy **ineffective**

Achieving Cost Leadership Strategy

MT: ROSE FC

1) **Resistance to differentiation** till it becomes **essential**.
2) **Optimum utilization** of the resources to achieve cost advantages.
3) **Standardization** of products for **mass production** to yield lower cost per unit. (Eg- McDonald's)
4) Achieving **economies of scale**; thus, **lower per unit cost** of product.
5) Prompt **forecasting of demand** of a product
6) **Invest in cost saving technologies** & using **advance technology** for smart efficient working.

Advantages

1) **Rivalry:** Competitors **avoid price war**, since low-cost firm will earn profits even after lowering price.
2) **Buyers: Powerful buyers** would **not be able to exploit** cost leader & will continue to buy.
3) **Suppliers:** Cost leaders are **able to absorb greater price increases from suppliers**
4) **Entrants:** Low-cost leaders **create barriers to market** entry through continuous focus on efficiency.
5) **Substitutes:** Low-cost leaders are **likely to lower costs** to induce existing customers to stay with their products, **invest in developing substitutes**, and **purchase patents**.

Disadvantages of Cost Leadership Strategy

1) Cost advantage **may not last long** as competitors may **imitate cost reduction techniques**.
2) Cost leadership can succeed only if the firm can achieve **higher sales volume**.
3) Cost leaders tend to keep their costs low by **minimizing cost of advertising**, market **research**, and R&D , but this approach can prove to be **expensive in the long run**.
4) **Technological advancement** are a great threat to cost leaders.

II. DIFFERENTIATION STRATEGY

- It is aimed at **broad mass market** & involves **creation of a product** that is **perceived** by customers as **unique**.
- The uniqueness can be associated with
  - ✓ product **design**,
  - ✓ brand **image**,
  - ✓ **features**, **technology**,
  - ✓ **dealer network** or
  - ✓ customer **service**.
- A **differentiation strategy** allows firm to **charge a higher price** & **gain customer loyalty**, as consumers may become **strongly attached** to the differentiated features.
- For eg, **Domino's Pizza** → **home delivery within 30 minutes** or order is free→ unique selling point that differentiates it.

Differentiation **does not guarantee competitive advantage**, if-
- ✓ **standard products** sufficiently **meet customer needs** or
- ✓ if **rapid imitation** by competitors is possible.

Successful differentiation can mean
1) more product flexibility,
2) more compatibility,
3) lower costs,
4) improved service
5) less maintenance,
6) more convenience
7) more features.

Product development is an example of strategy that leads to differentiation.

This strategy should be **pursued only after careful study of buyers' needs** & preferences to determine the **feasibility** of incorporating one or more differentiating features into a unique product.

A risk associated with pursuing a differentiation strategy

1) Unique product **may not be valued high enough** by customers to **justify high price**. When this happens, a **cost leadership strategy will easily defeat** a differentiation strategy.

2) **Competitors** may **develop ways to copy** differentiating features quickly. Firms must find **durable sources of uniqueness** that cannot be imitated quickly or cheaply by rival firms.

For eg, **Amazon Prime** offers **delivery within two hours**. This is **quite difficult to imitate** by rivals, and thus is differentiating factor.

Basis of Differentiation — **MT: POP**

1) Product

Innovative products lead to competitive advantage. But, the pursuit of new product offering can be
- ✓ **Costly** – **research & development**, &
- ✓ **production & marketing costs** - add to cost.

Big **payoff**→ customer's flock to **first to have new product**.

For eg, Apple iPhone, has invested huge amounts of money in R&D, & customers' value that. They want to be among first ones to try new products.

2) Organisation
- **Maximizing power of a brand** or
- Using **specific advantages** that an organization possesses can be instrumental to co.'s success-
  - ✓ **Location adv.**, **name recognition**, **customer loyalty**

can all provide additional ways for differentiation

For eg, Apple has been building customer loyalty since years and has a fanbase of consumers that are called "**Apple Fanboys/Fangirls**".

3) Pricing

It **fluctuates** based on **supply** & **demand** & also is influenced by customer's **ideal value** for a product. Cos. that differentiate based on price can either-
- ✓ **offer lowest price** or
- ✓ **establish superiority** through higher prices.

For eg, Apple iPhone dominates the smart phone segment by charging higher prices for its products.

Achieving Differentiation Strategy

1) Offer **utility** to customers & **match products with their tastes**.
2) **Improve performance** of product.
3) Offer **high-quality** product for buyer satisfaction.
4) **Rapid product innovation** to keep up with dynamic environment.
5) Taking steps for **enhancing brand image** & **brand value**.
6) **Fixing prices** based on **unique features** & **buying capacity** of customer.

Disadvantages of Differentiation Strategy

1) In long term, **uniqueness** is **difficult to sustain**.
2) Charging too high price for differentiated features may cause customer to **switch to alternative**. As we see a **shift of iPhone** users **to android flagship**.
3) Differentiation fails to work if its basis is something that is **not valued** by the customers. **Home delivery of packed snacks in 30 minutes** would not even be a differentiator as the consumer wouldn't value such an offer.

Advantages of Differentiation Strategy

1) **Rivalry** - **Brand loyalty** acts as a **safeguard** against competitors. It means customers will be **less sensitive to price increase**, as long as firm can satisfy needs of customers.
2) **Buyers** – They **do not negotiate for price** as they get **special features** and they have **fewer options** in the market.
3) **Suppliers**– Because differentiators charge a premium price, they **can afford to absorb higher costs of supplies** as customers are willing to pay extra too.
4) **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.
5) **Substitutes** – Substitute products **can't replace differentiated products** which have high brand value and enjoy customer loyalty.

III. FOCUSSED STRATEGY

Successful focus strategy depends on industry segment that-
- ✓ is of **sufficient size**,
- ✓ has good **growth potential**, and
- ✓ is **not crucial to success** of **other major competitors**.

Focus strategies are most effective when consumers have **distinctive preferences**, & when **rival firms are not attempting to specialize** in **same** target segment.

Focus strategy serves a **well-defined but narrow market** (Eg- Ferrari Sports Car)

Focused cost leadership

- This strategy requires **competing based on price** to **target a narrow market**.
- Here, a firm **does not necessarily charge lowest prices** in industry. Instead, it charges **low prices relative to other firms** that compete within target market.

Focused differentiation

- Firms that compete based on **uniqueness** & **target narrow market** are following a focused differentiations strategy.
- Some firms may concentrate their efforts on a **particular sales channel,** like **selling over internet only**. Others target particular **demographic group**.
- **For eg,** Rolls-Royce sells limited number of high-end, custom-built cars.

Risks of pursuing a focus strategy

1) Possibility of **competitors recognizing** the successful focus strategy and **imitating it**,
2) Consumer **preferences may drift** towards product **attributes desired by market** as a whole.

Achieving Focused Strategy

1) **Selecting specific niches** which are not covered by cost leaders and differentiators.

2) **Creating superior skills** for catering such niche markets.

3) **Generating high efficiencies** for serving such niche markets.

4) **Developing innovative ways** in managing the **value chain**.

Advantages of Focused Strategy

1) **Premium prices can be charged** by the organisations for their focused products.

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

Disadvantages of Focused Strategy

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

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

3) In the **long run**, **niche could disappear** or be **taken over by larger competitors** by acquiring same distinctive competency

❖ **Best-Cost Provider Strategy**

➢ It is a further development of above 3 generic strategies.

➢ Best-cost provider strategy involves providing customers more value for money by emphasizing on **lower cost** & **better-quality differences**.

➢ Objective → **keep costs & prices lower** than those of other sellers of "comparable products".

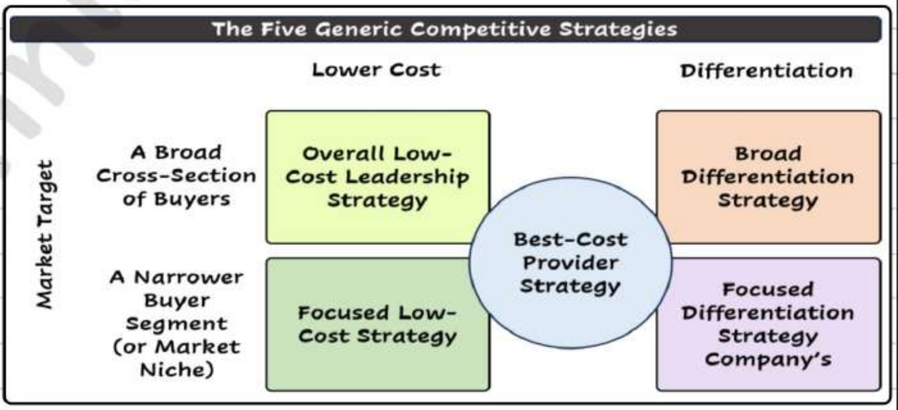
➢ It can be done through:

a) offering products at **lower price** than rivals having products with **comparable quality** and features, **(low price → same quality)** or

b) charging **similar price** as by the rivals for products with **much higher quality** and better features **(same price → high quality)**

For eg, 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.



Business Idea (Example)	Porter's Generic Strategy
Building the best in class headphones with noise cancellation and premium quality ear cushions	**Differentiation Strategy**
Providing maximum value features in a phone which is within the spendable limits of the middle class of India	**Best Cost Provider Strategy**
Dominating glass manufacturing units across country & using economies of scale to beat competition	**Cost Leadership Strategy**
Targeting the below poverty line individuals and providing them nutritious meals	**Focussed Strategy**

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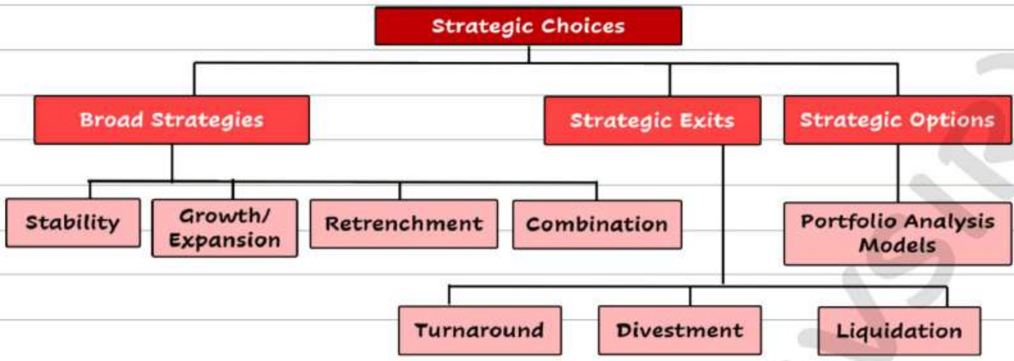
SM Handwritten Notes

Chapter 4
Strategic Choices

By CA Mohnish Vora (MVSIR)

SM Chapter 4 – Strategic Choices



❖ **Introduction**

➢ Businesses follow **different types of strategies** to
- ✓ enter the market,
- ✓ to stay relevant and
- ✓ grow in the market.

➢ A large number of strategies with **different nomenclatures** have been given–

1) **William F Glueck** and **Lawrence R Jauch** → **four generic strategies** including **stability, growth, retrenchment & combination**→ called **Grand/Directional Strategies.**
2) **Michael E. Porter** → suggested competitive strategies (aka. Generic Strategies) → **Cost Leadership**, **Differentiation**, **Focus Cost Leadership** and **Focus Differentiation**
3) **Functional strategies** → meant for **strategic management of distinct functions** such as Marketing, Financial, Human Resource, Logistics, Production etc.

We can classify different types of strategies on the basis of levels of organisation, stages of business life cycle & competition as given in below table.

Basis of Classification	Types
Level of the organisation	➢ Corporate Level ➢ Business Level ➢ Functional Level
Stages of Business Life Cycle	➢ Entry/Introduction Stage – Market Penetration Strategy ➢ Growth Stage – Growth/Expansion Strategy ➢ Maturity Stage – Stability Strategy ➢ Decline Stage – Retrenchment/ Turnaround Strategy
Competition oriented	➢ Competitive Strategies – Cost Leadership, Differentiation, Focus ➢ Collaboration Strategies – Joint Venture, Merger & Acquisition, Strategic Alliance

➢ Organisation adopts strategies depending upon their needs and requirements. For eg–
- ✓ **Start-ups** → might follow **competitive strategy** , **collaborative strategy** or **market penetratation** (to reach breakeven at earliest & later pursue growth strategy)
- ✓ While a **going concern** → can continue with **competitive strategy** or **collaborative strategy** to ensure business growth.

- Businesses having multiple products formulate strategies at different levels-
  - ✓ **Corporate level strategies** → provide '**direction**' to the company.
  - ✓ **Business level strategies** → **formulated for each product/process** division (SBU)
  - ✓ While for **implementation** of corporate & business strategies, **functional strategies** are formulated in business areas like production, marketing, finance, HR etc.

- In this chapter, we shall discuss the **corporate level strategies.**
  - I) Stability
  - II) Growth/ Expansion
  - III) Retrenchment
  - IV) Combination

I. Stability

- Strategy where a firm **stays with-**
  - ✓ its **current businesses** and product markets;
  - ✓ **maintains existing level** of effort; and is
  - ✓ satisfied with **incremental growth**.

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- Stabilization may be opted to- **MT: Consolidate ROPES**
  1) to **consolidate** commanding position already reached,
  2) to **optimise returns** on resources committed in business.
  3) to **pursue** well established & tested **objectives**,
  4) to **continue** in the chosen business path,
  5) to maintain **operational efficiency** on a sustained basis,
  6) **safeguard its existing interests & strengths**,

- Whether stability strategy is a **'do nothing'** strategy ? **MT: SUM**

- A stability strategy is pursued by a firm when:
  - ✓ A firm **continues to serve** in the same or **similar markets** and deals in same or **similar products and services**.
  - ✓ This strategy is for firms whose product have reached **maturity stage** of product life cycle or those who **have a sufficient market share** but need to retain that.
  - ✓ They have to **remain updated** & have to **pace with dynamic & volatile business world** to preserve their market share.
  - ✓ Hence, stability strategy should **not be confused with 'do nothing' strategy**.

- **Major Reasons for Stability Strategy** **MT: Rapid MSN**

1) **Product** has **reached maturity** stage, staff feels **comfortable with status quo** (**less changes** & **risks**)
2) When firm's **environment** is relatively **stable**.
3) Where it is **not advisable to expand** as it may be perceived as **threatening**.
4) **After rapid expansion**, a firm might want to **stabilize** and **consolidate itself**.

➢ **Characteristics of Stability Strategy** MT: R^2EC. SMS

1) Stability strategy does **not** involve a **redefinition** of the business of the corporation.
2) The **risk** involved in this strategy is **less**.
3) The endeavour is to **enhance functional efficiencies** in **incremental way**, through **better utilization of resources**.
4) Firms **concentrate on its resources** & existing bness/products, thus leading to **building of core competencies**.
5) Firm **stays with same business, same product-market** posture and functions, maintaining **same level of effort** as at present.
6) Firms with **modest growth objective** choose this strategy.
7) It is a **safe strategy** that **maintains status quo**. It does **not** require **fresh investments**.

Why don't Startups aim for stability?

Startup is in **early stages of ideation & development**, created for solving real-life problems through technology.

For it, the most important factors are **speed and agility**, because of it being in a **nascent stage** of operations.

Whereas, **Stability** strategy applied when **size** of operations is **expanded to full capacity** and business is at a **mature stage**.

II. Growth/Expansion Strategy

➢ This strategy is implemented by **redefining** business by **enlarging scope of business** and substantially **increasing investment** in the business.

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

➢ This strategy may take firm on **unknown and risky paths**, full of **promises and pitfalls**.

MT: VIGOuR²

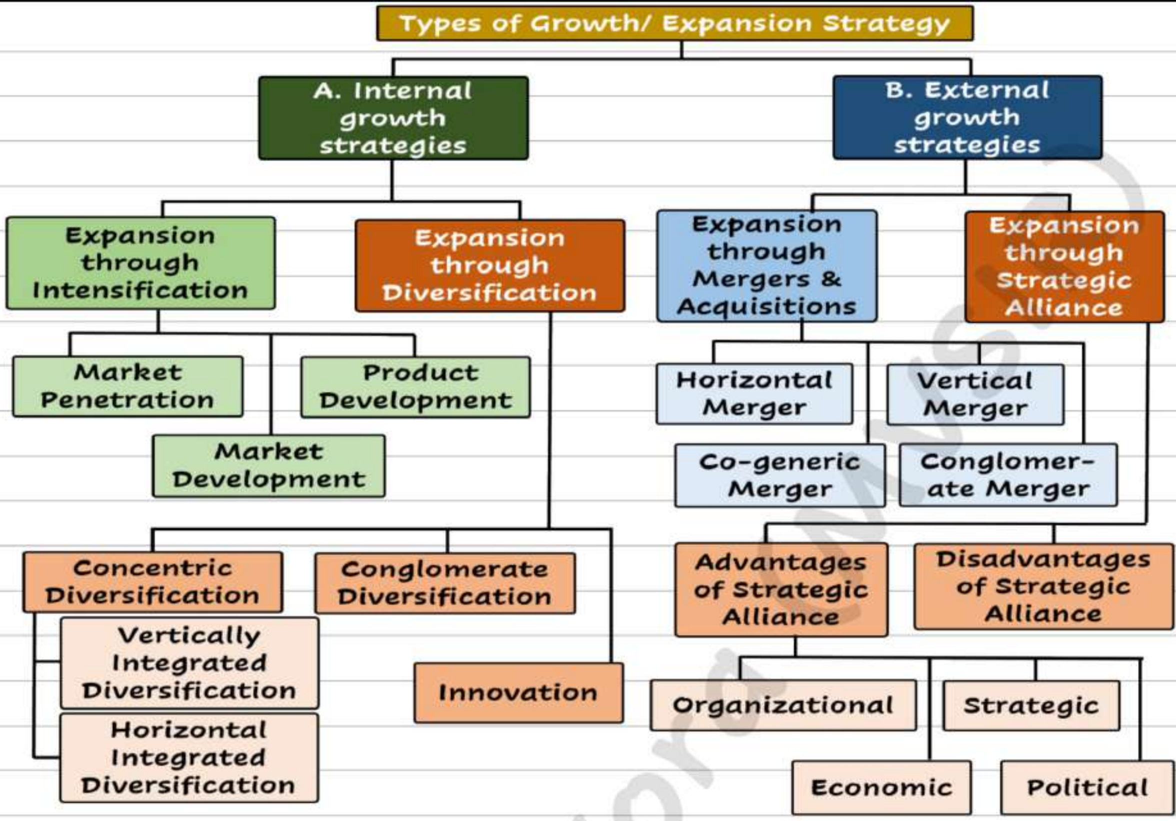
Characteristics of Growth/Expansion Strategy

1) It is a **highly versatile** strategy; as it offers many combinations for growth.
2) The process of **renewal** of firm through **fresh investments** and **new businesses** or products or markets.
3) A firm with **mammoth growth ambition** can meet its objective only through expansion strategy.
4) It is **opposite of stability** strategy → in expansion rewards are **very high** since **risk is high**.
5) It involves a **redefinition of the business**.
6) Its further divided in **two major strategy routes**: **Intensification & Diversification**.

MT: CAPS

Major Reasons for Growth/Expansion Strategy

1) Expansion may lead to **greater control over the market** vis-a-vis competitors.
2) **Advantages** from the **experience curve** and **scale** of operations may accrue.
3) It may become **imperative** when **environment demands increase in pace** of activity.
4) 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.



II. **A) Internal growth strategies**

i. **Expansion or growth through intensification**

➢ Here organisation tries to **grow internally** by intensifying its operations either by-

- ✓ **market penetration** (Existing Product – Existing Market) or
- ✓ **market development** (Existing Product – New Market) or
- ✓ **product development**. (New Product – Existing Market)

It tries to **cash on its internal capabilities** & **resources**.

ii. **Expansion or Growth through Diversification**

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

➢ **Why diversification?**

1) It is a means of **utilising existing facility & capability** in a **more effective & efficient manner**. They may have **excess capacity**, investible funds, marketing channels, R&D etc.

2) It gives **synergistic advantage**. It may be possible to **improve sales** & profits of **existing products by adding suitably related or new products**, because of link in technology & market.

a) Concentric Diversification

- It takes place when **products are related**.
- Here, the **new business** that a firm diversifies into is **linked to existing businesses** through **process, technology or marketing**.
- New product is a **spin-off** from existing facilities & products.
- Here also there are **benefits of synergy** with the current operations.
- 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.
- Eg , a company producing **clothes** ventures into the manufacturing of **shoes**

❑ Concentric diversification is divided into-

1) Vertically Integrated Diversification

✓ When firms start businesses that are **related to existing business** of firm, while remaining **vertically within the same product-process** chain → **moves forward or backward in chain-**

i. Backward integration

- When a firm enters into business of **input providers**.
- It leads to-
  - **expanding profits** and
  - gaining **greater control over production/supply** of a product,
  - **increase in its own supply capability** or
  - **lessen its cost of production.**
- For eg, A **supermarket chain** considers to **purchase a number of farms** that would provide it a significant amount of fresh produce.

ii. Forward integration

- It is moving forward in the value chain and **entering business lines that use existing products**. May also involve entering into business of **distribution channels.**
- For eg, A **coffee bean manufacture** may start its own a **coffee cafe**.

2) Horizontal integration-

✓ A firm gets horizontally diversified by integrating through ~~acquisition of one or more~~ **entering into similar businesses** operating at **same stage of production-marketing chain**.

✓ They can also ~~integrate with firms~~ start producing **complementary product** or **by-product**.

✓ For eg- Ultimate CA starts classes of CS & CMA, Shirt manufacturer enters into business of belt/wallets/tie etc.

b) Conglomerate (Unrelated) Diversification

- Here an **established firm** introduces a **new product**, which has little or **no affinity (relation) with its present product line** and which is meant for **new class of customers.**
- **No linkages** related to product, market or technology exist;
- **New businesses** are **disjointed from existing business** in every way.
- **No common thread** at all with the firm's present position.
- For eg, **Cement** manufacturer diversifies into manufacture of **rubber** products.

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

- ✓ Despite its complexity, conglomerate diversification **financially makes lot of sense**.
- ✓ It creates access a **new pool of customers**, thus expanding its customer base.
- ✓ It allows **access to markets** & **cross-selling new product**, thus **increases revenue**.
- ✓ Further, it **eases the management of losses** in a business; **profits in one** business can be used to **keep the loss making business afloat** within the same organisation.

RELATED DIVERSIFICATION	UNRELATED DIVERSIFICATION
➢ Exchange or **share assets or competencies** by exploiting. ➢ **Brand** name. ➢ **Marketing** skills. ➢ **Sales** and distribution capacity ➢ **Manufacturing** skills. ➢ **R&D** and **new** product capability. ➢ **Economies** of scale.	➢ Investment in **new product** portfolios. ➢ Employ **new technology** ➢ Focus on **multiple products**. ➢ **Reduce risk** by operating in multiple product markets. ➢ **Defend** against **takeover bids**. ➢ Provide **executive interest**.

c) Innovation

- Innovation drives **upgradation of existing product** lines or processes, leading to increased market share, revenues, profitability & customer satisfaction.
- Some argue that innovation leads to unnecessary expenses, but for a business to grow long term, **innovation offers the following-**

1) Helps to solve complex problems MT: CPC

- ✓ A business strives to find opportunities in existing problems of the society, and it does so through **planned innovation in areas of expertise**.
- ✓ This **guided innovation** help solve complex problems by developing **customer centric sustainable solutions**.
- ✓ For eg, the pressing problem of **environmental damage** is being tackled by shifting to **renewable sources of energy** like solar, wind etc. It might be **costly** in introductory stages but in the **long run** it will only have **economical & environmental sustainability**.

2) Increases productivity

- ✓ Productivity is defined as a **measure of final output** from a task & companies are willing to spend millions on increasing their productivity.
- ✓ Innovation, by **automating repetitive tasks**, and **simplifying** the long chain of processes, increases productivity of teams & whole organisation.
- ✓ For eg, **MS Excel**, every finance professional uses this software to simplify and automate their manual tasks.

3) Gives Competitive Advantage

- ✓ The **faster a business innovates**, the **farther it goes from its competitor's reach**.
- ✓ Innovative products need **less marketing** as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage.
- ✓ Innovation helps **retain existing customers** & **acquire new ones** with ease

II. A) External growth strategies

➢ When organization **diversifies by making alliances with external organisations**

i. Expansion through Mergers and Acquisitions

➢ Acquisition or merger with an existing firm is an **instant means** of achieving expansion.

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

MERGER	ACQUISITION
➢ It is a process when **two or more companies come together** to expand their business operations.	➢ When one organization **takes over the other** organization and **controls all its business operations**, it is known as **acquisition**.
➢ Here, the deal gets finalized on **friendly terms** and **both the organizations share profits** in the newly created entity.	➢ Here, **one financially strong organization overpowers the weaker one**. Combined operations then run under **name of powerful entity**.
➢ Here, two organizations combine to **increase their strength** and **financial gains** along with breaking of the trade barriers.	➢ Acquisitions often happen during **recession** in economy or during **declining profit** margins.
	➢ Here, the **deal** is done in an **unfriendly manner**, it is more or less a **forced association** where **powerful organization acquires operations** of the company that is in a **weaker** position and is forced to sell its entity.

- Types of Merger

Horizontal Merger	Vertical Merger
It is a combination of firms engaged in **same industry**. It is a merger with a **direct competitor**. The objective here is to **achieve economies of scale** in the production process by- ➢ **shedding duplication** of functions, ➢ **widening line** of products, ➢ **decrease in working capital** and fixed assets investment, ➢ getting **rid of competition** and so on. For eg, formation of Brook Bond Lipton India Ltd. through the merger of **Lipton India** & **Brook Bond**.	It is a merger of two organizations that are operating in **same industry** but at **different stages of production** or distribution system. (leading to **increased synergies**) • If an **organization takes over its supplier/producers of raw material**, then it leads to **backward integration**. • **Forward integration** happens when an organization decides to **take over its buyer organizations or distribution channels**. Results in operating & financial economies. Vertical mergers help to **create an advantageous position** by- ➢ **restricting supply** of inputs **to other players**, or ➢ by providing inputs at **higher cost**.

Co-generic Merger	Conglomerate Merger
When two or more merging organizations are **associated in some way** or the other related to- ➢ **production processes**, ➢ **business markets**, or ➢ basic required **technologies**. Such merger includes- ➢ **extension of 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 eg, an organization in the white goods category such as **refrigerators** can diversify by merging with another organization having business in **kitchen appliances**.	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.

ii. **Expansion through Strategic Alliance**

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

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

➢ They are formed in the global marketplace between businesses that are **based in different regions** of the world.

Advantages of Strategic Alliance (MT: POSE)			
Political	**Organizational**	**Strategic**	**Economic**
➢ Strategic alliances are **formed with a local foreign business** to gain **entry into a foreign market** either because of local prejudices or legal barriers to entry. ➢ Alliances with **politically influential partners** may also help improve your own influence & position	➢ Strategic alliance helps to **learn necessary skills** & obtain certain **capabilities** from strategic partners. ➢ Strategic partners also help to **enhance productive capacity**, provide a **distribution system**, or **extend supply chain**. ➢ Strategic partners may provide a good/service that **complements**, thus creating **synergy** ➢ Having a **well-known & respected** strategic partner helps to **add legitimacy & credibility** to a new venture.	➢ **Rivals** can **join together to cooperate** instead of competing with each other. ➢ **Vertical integration** can be created where partners are part of supply chain. ➢ It may **create a competitive advantage** by pooling of resources & skills. This may also help with **future business opportunities** & development of **new products and technologies**. ➢ It may also be used to get **access to new tech** or to **pursue joint R&D**.	➢ There can be **reduction in costs & risks** by distributing them across members of the alliance. ➢ **Greater economies of scale** – as **production volume can increase**, & **cost p.u. to decline**. ➢ Finally, partners can take advantage of **co-specialization**, creating additional value, like when **leading computer manufacturer** bundles its desktop with **leading monitor manufacturer's** monitor.

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

❖ **Strategic Exits**

➢ **Strategic Exits** are followed when an organization **substantially reduces scope of its activity**. This is done through by **finding the problem areas** & **diagnosing causes** of problems. Next, steps are taken to **solve** the problems.

➢ These steps result in different kinds of **retrenchment strategies**.

1) **Turnaround strategy**- **Focus on ways & means** to **reverse process of decline**.
2) **Divestment (or Divestiture) strategy**- If it **cuts off loss-making units**, curtails its product line, or reduces functions performed.
3) If none of the above actions work, then it may choose to **abandon the activities totally**, resulting in a **liquidation strategy**.

I. **Turnaround Strategy**

❖ **Need for Turnaround strategy**

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

➢ It is 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.

❖ 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 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**

❖ For turnaround strategies to be successful, it is imperative to **focus** on **short & long-term financing needs** & on strategic issues. **A workable action plan for turnaround would involve the following stages:**

❑ **Stage One – Assessment of current problems:** The first step is to assess current problems and get to the **root causes** and the **extent of damage** the problem has caused.

❑ **Stage Two – Analyze the situation and develop a strategic plan:** Before making any major changes; determine-

- ✓ the **chances of the business's survival**.
- ✓ Identify appropriate strategies and
- ✓ develop a **preliminary action plan**.

- **Stage Three – 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**.

A **positive operating cash flow** must be established as quickly as possible and **enough funds** to implement the turnaround strategies must be **raised**.

- **Stage Four – Restructuring the business:** The financial state 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**. Efforts to be made to position the organization for **rapid improvement**.

- **Stage Five – 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.

Important elements of turnaround strategy are:

1) **Neutralising** external pressures
2) **Change** in **top management**
3) Initial **credibility-building actions**
4) Quick **cost reductions**
5) Better **internal coordination**
6) **Revenue** generation
7) **Asset liquidation** for generating cash
8) Identifying **quick pay-off activities**

MT: Neutralising C^4RAQ

Is Turnaround strategy only relevant to loss making business?

Turnaround strategy is relevant when a company is experiencing a **period of poor performance** which does not always mean losses, it may mean-

- ✓ **lower than expected growth**,
- ✓ **no future clarity**, or
- ✓ **lesser than target profits**.

Major Reasons for Retrenchment/Turnaround Strategy

MT: Persian CAT is NOt Most Viable

1) **Persistent negative cash flows** from business create financial problems for whole company, creating need for divestment.
2) **Severity of competition** and the inability of a firm to cope with it may cause it to divest.
3) A **better alternative may be available for investment**, causing firm to divest part of its unprofitable businesses.
4) **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.
5) The management **no longer wishes to remain in business** either partly or wholly due to **continuous losses** and **unviability**.
6) A **business** that had been acquired proves to be a **mismatch** and **cannot be integrated** within the company.
7) Management feels that business **could be made viable** by **divesting some of the activities** or liquidation of unprofitable activities.

Reasons to adopt Divestment Strategy

MT: My Persian CAT

Point 1, 2, 3, 4 & 6

II. Divestment Strategy

- Involves **sale or liquidation** of portion of business, or a major division, profit centre or SBU.
- Divestment is usually a part of **rehabilitation or restructuring plan** and is adopted when a **turnaround has been attempted** but has **proved to be unsuccessful**.

❖ Characteristics of Divestment Strategy

1) It involves **divestment of some activities** in a given business of the firm or **sell-out** of some of the businesses as such.
2) Divestment is an **integral part** of corporate strategy without any stigma attached.

❖ Strategic Options

- Strategic options need to be **carved out from existing products & innovations** that are happening in the industry.
- There are a set of **models** that help strategists in **taking strategic decisions** with regard to individual products or businesses in a firm's portfolio.
- It is used for competitive analysis & planning of **multi-product** and **multi business** firms. The **main advantage** in a portfolio approach is that **resources could be channelised at corporate level** to those businesses having **greatest potential**.C

Strategic Options

- I) Ansoff's Product Market Growth Matrix
- II) ADL Matrix
- III) BCG Growth-Share Matrix
- IV) General Electric Matrix

I. Ansoff's Product Market Growth Matrix

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

	Existing Products	New Products
Existing Markets	**Market Penetration** ➢ **Selling existing products** into **existing markets**. ➢ Making more sales to present customers **without changing products** in any major way. ➢ Require greater spending on **advertising or personal selling**. on **increasing usage by existing customers**. ➢ For eg, Gucci, a luxury clothing brand, selling its luxury clothing in European markets with new designs, is market penetration.	**Product Development** ➢ **Introduce new products into existing markets**. ➢ It requires- ✓ **development of new competencies** & ✓ **develop modified products** which can appeal to existing markets. ➢ For eg, Gucci, a luxury clothing brand, selling casual clothing in European markets, is product development.
New Markets	**Market Development** ➢ **Sell its existing products into new markets**. ➢ Achieved through- ✓ **new geographical markets**, ✓ new product **packaging**, ✓ new **distribution channels** or ✓ **different pricing** policies to attract different customers or create **new market segments**. ➢ For eg, Gucci, a luxury clothing brand, selling its luxury clothing in Chinese markets, is market development.	**Diversification** ➢ When a business markets **new products in new markets**. ➢ It is a strategy by starting up or acquiring cos. **outside company's current products & markets** (**little or no experience**) ➢ It is **risky** as it does not rely on either company's successful product or its established market. ➢ For eg, Gucci, a luxury clothing brand, selling casual clothing in Chinese markets, is diversification.

Ansoff's Product Market Growth Matrix

II. ADL Matrix (by Arthur D. Little)

➢ It is a portfolio analysis method based on **product life cycle**. The approach forms a **two dimensional matrix** based on **stage of industry maturity** and the **firm's competitive position**, environmental assessment and business strength assessment.

➢ The **role** of ADL matrix is to **assess the competitive position of a firm** 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 competitors.
3) **Favorable:** This position, which generally comes about when the **industry is fragmented** and **no one competitor stand out clearly**, results in the market leaders a reasonable degree of freedom.

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

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

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	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
Favorable	- 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

III. Boston Consulting Group (BCG) Growth-Share Matrix

- Developed in early 1970s by BCG, it is simplest way to portray a company's portfolio of products (investments).
- It is also known for its **cow and dog metaphors** & is popularly used for **resource allocation** in a diversified company.
- Using the BCG approach, a company classifies its different businesses on a **two-dimensional growth-share matrix**. In the matrix:

✓ **Vertical axis →** **Market growth rate** & provides measure of **market attractiveness**.

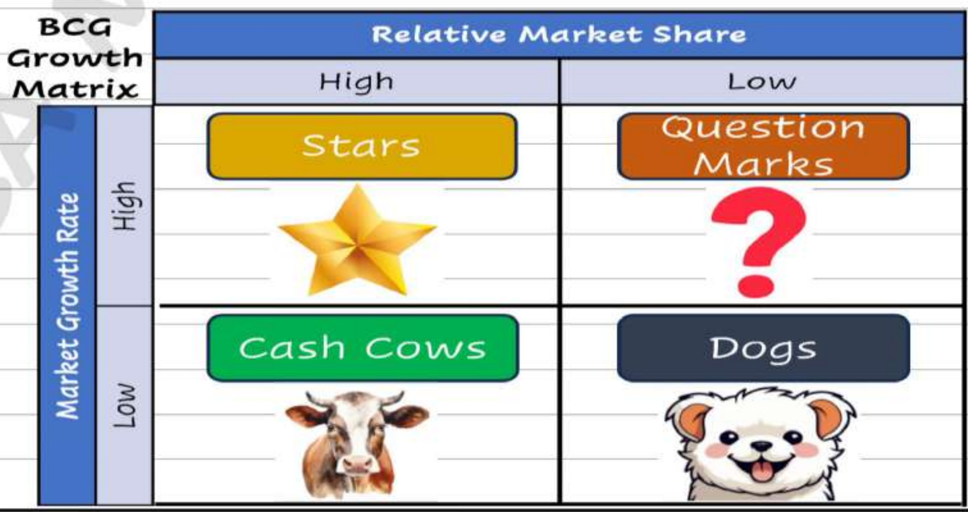
✓ **Horizontal axis →** **Market share** & serves as **measure of company strength** in market

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

2) **Cash Cows** are **low-growth**, **high market share** businesses or products. They **generate cash** and have **low costs**. They are **established, successful**, and need **less investment** to maintain their market share. In **long run** when the **growth rate slows down**, **stars become cash cows**.

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

4) **Dogs** are **low-growth**, **low-share businesses** and products. They may generate enough cash to maintain themselves, but **do not have much future**. Sometimes they **may need cash to survive**. Dogs should be **minimised** by means of **divestment** or **liquidation**.



- After a firm, has classified its products or SBUs, it must determine what role each will play in the future. **4 Post Identification strategies** that can be pursued are-
  - **a) Build** with the aim for long-term growth and strong future. **(Stars)**
  - **b) Hold** or preserve the existing market share. **(Question Mark)**
  - **c) Harvest** or maximize short-term cash flows. **(Cash Cow)**
  - **d) Divest**, **sell/liquidate** and ensure better utilization of resources elsewhere. **(Dogs)**

Thus, BCG matrix is a powerful tool for strategic planning analysis and choice.

Is BCG Matrix really helpful?

Problems/Limitations of BCG Matrix-

1) **Difficult**, **time-consuming**, & **costly** to implement.
2) **Difficult to define SBUs** & measure market share & growth.
3) It focuses on classifying current businesses but provide **little advice for future planning**.
4) It may lead to **placing too much emphasis** on market-share growth or growth through entry into attractive new markets. This can cause **unwise expansion** into hot, new, **risky ventures** or **divesting established units too quickly**.

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

- This model was used by **General Electric Company** (developed by GE with assistance of McKinsey and Co.). This model is also known as **Business Planning Matrix**, **GE Nine-Cell Matrix** and **GE Model**.
- The strategic planning approach in this model has been **inspired from traffic control lights**.
- The lights that are used at crossings to manage traffic are: **green for go**, **amber or yellow for caution**, and **red for stop**.
- This model **uses two factors** while taking strategic decisions-
  - ✓ **Business Strength** (Horizontal Axis)
  - ✓ **Market Attractiveness** (Vertical Axis)

Business strength

Market attractiveness	STRONG	AVERAGE	WEAK
HIGH	Invest/Expand	Invest/Expand	Select/Earn
MEDIUM	Invest/Expand	Select/Earn	Harvest/Divest
LOW	Select/Earn	Harvest/Divest	Harvest/Divest

If a product falls in the-

- **Green zone:** business is at **advantageous position**. To reap benefits, strategic decision can be to **expand**, **invest** & **grow**.
- **Amber or Yellow zone:** it needs **caution** and **managerial discretion** is called for making the strategic choices.
- **Red zone:** it will eventually **lead to losses** that would make things difficult for organisations. In such cases, appropriate strategy should be **retrenchment**, **divestment** or **liquidation**.

Market attractiveness is measured by a number of factors like	**Business strength** is measured by typical drivers like
➢ **Size** of the market. ➢ Market **growth rate**. ➢ Industry **profitability**. ➢ Competitive **intensity**. ➢ Availability of **Technology**. ➢ **Pricing** trends. ➢ Overall **risk** of returns in the industry. ➢ Opportunity for **differentiation** of products and services. ➢ **Demand** variability. ➢ **Segmentation**. ➢ **Distribution structure** (e.g. direct marketing, retail, wholesale) etc.	➢ Market **share**. ➢ Market share **growth** rate. ➢ **Profit** margin. ➢ **Distribution** efficiency. ➢ **Brand** image. ➢ Ability to **compete** on **price & quality**. ➢ Customer **loyalty**. ➢ Production **capacity**. ➢ **Technological** capability. ➢ Relative **cost position**. ➢ Mgt. **calibre**, etc.

CA Intermediate
(New Syllabus)

SM Handwritten Notes

Chapter 5
Strategy Implementation & Evaluation

By CA Mohnish Vora (MVSIR)

SM Chapter 5 - Strategic Implementation And Evolution

❖ Introduction

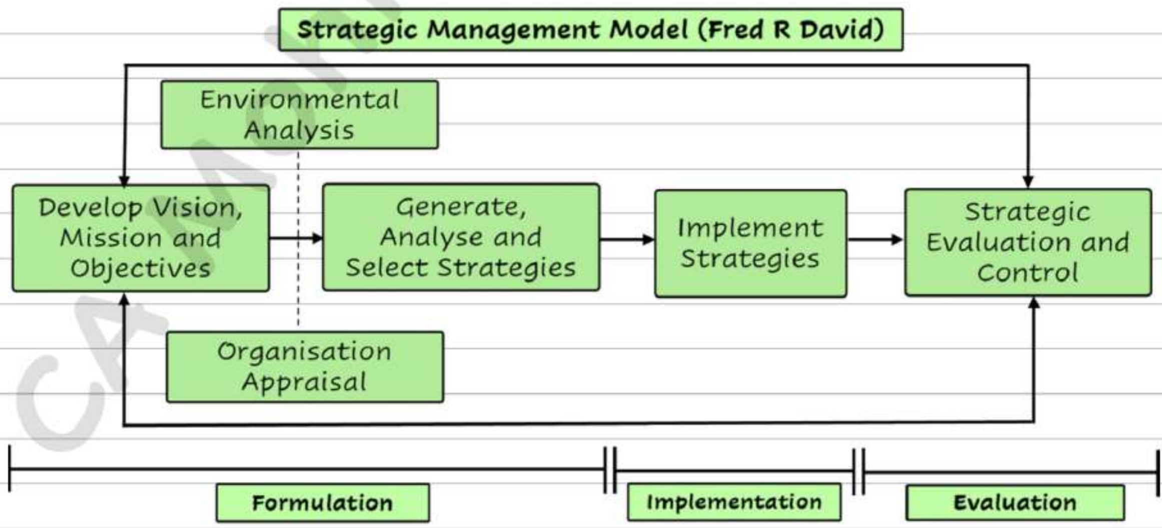
- Strategy implementation and evaluation are **critical phases** of the process of strategic management in an organization.
  - **Implementation→** **putting plans & initiatives** developed as part of the strategy **into action**,
  - **Evaluation** → process of **measuring & assessing** the **effectiveness** of these actions.

❖ Strategic Management Process

- The **process of developing an organisation's strategy** is quite methodical. The organisation
  1) first **develops** a **clear vision, mission, values & goals**.
  2) then **discuss** and **analyse** a number of **themes** to determine which options are most promising.
  3) All these aspects come together in a **strategic plan** that **details** org.'s vision, mission, values, goals, strategic themes, a **high-level implementation plan** and **key performance measures**.
  4) Key performance measures are included in strategic plan & are used to **link the themes back to the organisation's goals** and to **measure the success of the strategy** after it is implemented.

- The strategic management process is **dynamic** and **continuous**. Strategy formulation, implementation, and evaluation activities should be performed on a **continual basis**, not just at end of year or semi-annually. The strategic management process **never really ends**

❖ Strategic Management Model



- The above SM model **does not guarantee sure-shot success**, but it does **represent a clear** and **practical approach** for **formulating, implementing, & evaluating strategies**

I. Stages in Strategic Management

- **Crafting & executing strategy** are the **heart and soul** of managing a business enterprise.

- Strategic management involves the following **stages**:
    1) **Developing** a strategic **vision** & formulation of **mission, goals and objectives**.
    2) **Environmental** and **organisational analysis**.
    3) **Formulation** of strategy.
    4) **Implementation** of strategy.
    5) Strategic **evaluation** and **control**

Stage 1: Strategic Vision, Mission and Objectives

- A **strategic vision** delineates-
    - ✓ management's **aspirations** for organization &
    - ✓ **highlights a particular direction**, or
    - ✓ strategic **path** for it to follow in **preparing for future** &
    - ✓ **moulds** its identity.
- A clearly articulated strategic vision communicates management's **aspirations** to stakeholders and **helps steer the energies of company personnel** in a common direction.

- **Mission and Strategic Intent**
- Managers need to be **clear** about **role** of their org., and this is often expressed in terms of a statement of **mission**.
- This is important because both external stakeholders and other managers in the organization need to be clear about what the organization is **seeking to achieve** and, in broad terms, **how it expects to do so**.

- **Corporate goals and objectives**
- It flows from **mission** & **growth ambition** of organisation.
- They represent **quantum of growth** the firm **seeks to achieve** in the given time frame.
- The **managerial purpose of setting objectives** is to **convert** the strategic **vision** into **specific performance targets** & then use these objectives as **yardsticks for tracking the company's progress** and performance.

- Objectives are needed **at all organisational levels**.
- Objective setting should not stop with top management's establishing of company-wide performance targets.
- Company **objectives** need to be **broken down** into **performance targets** for each **separate business**, product line, functional department, and individual work unit.

➢ **Stage 2: Environmental and Organisational Analysis**

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

a) **Environmental scanning**

✓ External environment consists **economic, social, technological, market & other forces** which affect its functioning.

✓ External environment is **dynamic** & **uncertain**. So, management must analyse all elements of environment to determine **opportunities & threats** for firm in future.

b) **Organisational analysis**

✓ Organisational analysis involves **review** of **financial** resources, **technological** resources, **productive capacity**, **marketing** & **distribution** effectiveness, R&D, HR etc

✓ This would reveal firm's **strengths & weaknesses** which could be **matched** with threats & opportunities in the external environment. (**SWOT analysis**)

➢ **Stage 3: Formulating Strategy**

❑ The **first step** here is **developing strategic alternatives** as per firm's SWOT.

❑ The **second step** is **deep analysis** of various strategic alternatives for purpose of **choosing the most appropriate alternative.** A company may have several alternatives such as:

i. Should co. **continue in the same business** carrying on same volume of activities?

ii. If it should continue, should it **grow by expanding the existing units** or by establishing **new units** or by **acquiring other units** in the industry?

iii. If it should **diversify**, should it diversify into **related areas** or **unrelated areas**?

iv. Should it **get out** of an existing business **fully** or **partially**?

A co. may also follow a **combination** of above called **combination strategy**.

➢ **Stage 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.

❑ To **convert strategic plans** into **actions and results**, a manager must be able to

MT: DM BMC

1) **direct organisational change**,
2) **motivate people**,
3) **build & strengthen competencies** & competitive capabilities,
4) **meet or beat performance target**, &
5) create a **strategy-supportive work climate**

- In most situations, **strategy-execution process** includes the following principal aspects:

MT: BP²CL SIM

1) Developing **budgets** that **steer ample resources** into critical activities.
2) Ensuring that **policies** & **operating procedures facilitate** effective execution.
3) Using **best-known practices** to perform core activities for **continuous improvement**.
4) Creating a **culture** & **work climate conducive** to successful strategy impl. & execution.
5) **Exerting internal leadership** needed to drive implementation forward & keep improving strategy execution.
6) **Staffing** the organisation with the **needed skills and expertise**, thus building competitive capabilities & organising the work.
7) Installing **information** & **operating systems** that enable personnel to **better carry out their strategic roles daily**
8) **Motivating** people to pursue the target objectives energetically.

➢ **Stage 5: Strategic Evaluation and Control**

- The **final stage** of strategic management process involves--
  - ✓ **evaluating** the company's **progress**,
  - ✓ assessing **impact of new external developments**, and
  - ✓ making **corrective adjustments** – is the trigger point for deciding whether to continue or change- vision, objectives, strategy, strategy-execution methods.

II. Strategy Formulation

a) Corporate Strategy

➢ Planning entails choosing what has **to be done in the future** and **creating action plans**.

➢ Planning may be **strategic** or **operational.**

Strategic Planning	Operational Planning
Senior management develops strategic plans for entire organization after evaluating **strengths** and **weaknesses.**	**Operational plans** are made at **middle** and **lower-level mgt.** They provide specifics on how resources are to be used effectively to achieve goals
Characteristics of Strategic planning MT: HOLIS²tic 1) **Takes a holistic view** of the organization. 2) **Develops overall objectives** and **strategies.** 3) Is concerned with the **long-term success** of the organization. 4) **Assesses** the **impact** of environmental variables. 5) Is a **senior management** responsibility 6) **Shapes** the organization and its resources.	**Characteristics of Operational planning** MT: FM CTC 1) Is the responsibility of **functional managers.** 2) Makes **modifications** to business functions but **not fundamental changes.** 3) Deals with **current deployment of resources.** 4) Develops **tactics** rather than strategy. 5) Projects **current operations** into future.

- Strategic planning is the process of: **MT: GO²D Resources**

1) It determines where **organization is going in next year** & the **ways for going there**.
2) **determining objectives** of firm,
3) The process is organization-wide or focused on a major function such as a **division** or other **major function**.
4) It involves a fact of **interactive & overlapping decisions** leading to development of a effective strategy.
5) Also determines **resources required** to attain these objectives **formulation of policies** to govern acquisition, use & disposition of resources.

a) Strategic Uncertainty

- It refers to the **unpredictability** of **future events** and circumstances that can **impact** an organization's **strategy and goals**.

- **How to deal with strategic uncertainty?** **MT: MD Builds Flexible Partnership**

1) **Monitoring and Scenario Planning**: Organizations can regularly monitor key indicators of **change** & **conduct scenario planning** to understand how different future scenarios might **impact their strategies**.
2) **Diversification**: Diversifying the organization's **product portfolio**, **markets**, and **customer base** can reduce the impact of strategic uncertainty.
3) **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**.
4) **Flexibility**: Build flexibility in strategies to **quickly adapt to changes** in the environment.
5) **Collaboration and Partnerships:** Collaborating with other organizations, suppliers, customers- can help org. to **pool resources**, **share risk**, & **access to new markets & tech.**

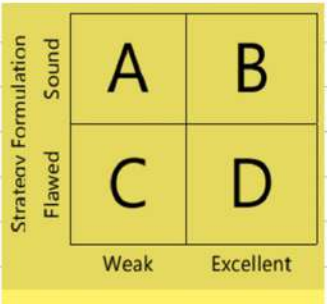
III. Strategic Implementation

- **Strategy implementation** concerns the managerial exercise of putting a
  - ✓ freshly chosen **strategy into action**,
  - ✓ **supervising the ongoing pursuit of strategy**,
  - ✓ **making it work**,
  - ✓ **improving** the **competence** with which it is executed
  - ✓ showing **measurable progress** in achieving the targeted results.

- It is concerned with **translating a strategic decision into action**

Relationship Strategy Implementation with Formulation

- A company will be successful only when strategy **formulation is sound** and **implementation is excellent**.
- There is **no such thing as successful strategic design**. Often people, blame strategy model for failure of company while main flaw might lie in failed implementation.
- Thus, **organizational success** is a function of **good strategy and proper implementation**.



Strategy formulation and implementation matrix

- **Square A** - Can be due to, **lack of experience** (e.g. **for startups**), **lack** of **resources**, **missing leadership** etc. Co. will aim at **moving from square A to square B**
- **Square B** - Ideal situation – co. has **succeeded in designing** a **sound** & **competitive strategy** and **successful in implementing**
- **Square D** - **formulation is flawed**, but **excellent implementation skills**. First thing to do is to **redesign their strategy** before readjusting their implementation.
- **Square C- business model redesign** & **implementation readjustment**

Principal combinations of efficiency and effectiveness

- While **efficiency** is essentially **introspective**, **effectiveness highlights** the **links between organization** & **its environment**.

✓ **Operational managers**- responsible for efficiency,
✓ **Top mgt.**- responsible for strategic orientation of org.

- ❑ An org. in **cell 1 is well placed & thrives**, since it is achieving what it aspires with efficient output/input ratio.
- ❑ An org. in **cell 2 or 4 is doomed**, unless it can establish some strategic direction.
- ❑ The **cell 2 is a worse place to be than is cell 3** since, in cell 3 strategic direction is present to ensure effectiveness even if rather too much input is being used to generate outputs.

To be **effective is** to do the **right thing**, while
To be **efficient** is to do the **thing right**.

An emphasis on efficiency rather than on effectiveness is clearly **wrong**.

Change comes through implementation & **evaluation**, **not through the plan**.

Successful strategy formulation does not guarantee successful strategy implementation. (Easier said than done)

IV. Difference between Strategy Formulation and Implementation

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

V. a) Linkages in Strategy Implementation

Forward Linkage

Strategy Formulation → **Strategy Implementation**

- Impact of strategy **formulation** on strategy **implementation**
- With the formulation of strategies, many changes have to be affected within org. For eg, **organizational structure**, **style of leadership** has to undergo a change due to **modified or new strategy**.
- In this way, the **formulation of strategies has forward linkages with their implementation**

Backward Linkage

Strategy Formulation ← **Strategy Implementation**

- While dealing with strategic choice, **past strategic actions** also **determine the choice of strategy**.
- Org. tend to adopt those strategies which can be implemented with the help of **present structure of resources** combined with some additional efforts.
- Such **incremental changes**, **over a period of time**, **take org. from where it is to where it wishes to be.**

V. b) Issues in Strategy Implementation

1) The strategic plan proposes manner in which **strategies** could be **put into action**. **Strategies, by themselves, do not lead to action**. They are like a statement of **intent**. **Implementation tasks** are meant to **realize the intent,** i.e. activate the strategies.

2) **Strategies should lead to formulation of different kinds of programmes**. A programme is a broad term- includes **goals**, **policies**, **procedures**, **rules**, & **steps** to be taken in **putting a plan** into **action**. Programmes are supported by **funds** allocated for **plan implementation**.

3) **Programmes lead to the formulation of projects**. A project is a highly specific programme for which time schedule & costs are predetermined. It requires **allocation of funds** based on **capital budgeting** by organizations. Thus, R&D programme may consist of several projects, each of which is intended to achieve a **specific objective**, requires **separate allocation of funds**, and is to be **completed within a set time schedule.**

- Sequential manner in which **issues in strategy implementation** are to be considered:
  - i. **Project implementation**
  - ii. **Procedural implementation**
  - iii. **Resource allocation**
  - iv. **Structural implementation**
  - v. **Functional implementation**
  - vi. **Behavioural implementation**

VI. Strategic Change through Digital Transformation

➢ The use of digital technologies to develop **fresh**, **improved**, or **entirely new company procedures**, **goods**, or services is known as "**digital transformation**."

➢ Changes in environment require modifications in existing strategies & bring 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**.

❑ **Steps to initiate strategic change are:**

1) Recognize the need for change

✓ First step → diagnose which facets of present corporate culture are strategy supportive and which are not.

✓ This means going for **environmental scanning** involving **appraisal** of both **internal** and **external capabilities** through **SWOT analysis** and then **determining where the lacuna lies** and **scope for change exists.**

2) Create a shared vision to manage change

✓ **Objectives of both individuals and organization should coincide**. There should be no conflict. This is possible only if mgt. & org. members follow a shared vision.

✓ **Senior managers** need to constantly **communicate** the **vision** to all **organizational members**. They have to convince→ **change in culture** is **not superficial** or **cosmetic**.

✓ Actions taken have to be credible, **highly visible** and **unmistakably indicative** of management's seriousness to new strategic initiatives & associated changes.

3) Institutionalise the change

✓ This is basically an **action stage** which requires **implementation of changed strategy**. Creating & sustaining different attitude towards change is essential to ensure that firm **does not slip back into old ways** of thinking or doing things.

✓ Capacity for **self-renewal** should be fundamental anchor of **new culture** of the firm

✓ Also, change process must be **regularly monitored** & **reviewed to analyse after-effects of change**. Any discrepancies should be brought to notice of persons concerned so that **necessary corrective actions** are taken. It **takes time for the changed culture to prevail**.

❑ **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-

i. **Unfreezing the situation**

ii. **Changing to the new situation.**

iii. **Refreezing.**

i. Unfreezing the situation:

- It makes **individuals aware** of **necessity for change** & prepares them. Lewin proposes that changes should **not come as a surprise. Sudden & unannounced change would be socially destructive** & morale lowering.
- Unfreezing is process of **breaking down old attitudes & behaviours**, so that **they start with clean slate**. Its achieved by **making announcements**, **meetings** & **promoting new ideas.**

ii. Changing to the new situation:

- After unfreezing, **members** of org. **recognise need for change** & have been fully prepared to accept such change, their **behaviour patterns need to be redefined**.
- **H.C. Kellman** has proposed **3 methods** for reassigning **new patterns of behaviour**.
  - a) **Compliance:** Strictly enforcing **reward & punishment strategy** for good or bad behaviour. **Fear of punishment**, **actual punishment/reward** seems to **change behaviour**.
  - b) **Identification:** When **members** are **psychologically impressed** with some given **role models** whose behaviour they would like to adopt (try to become like them)
  - c) **Internalization**: **Internal changing** of **individual's thought processes** in order to adjust to changes introduced. They have given **freedom to learn** and **adopt new behaviour** in order to succeed in new circumstances.

iii. Refreezing:

- When **new behaviour** becomes a **normal way of life**.
- New behaviour must replace former behaviour **completely** for successful & permanent change. For making new behaviour permanent, it must be **continuously reinforced.**
- Change process is **not a one-time application** but a **continuous process due to changing env.**

Process of unfreezing, changing & refreezing is cyclical & remains **continuously in action.**

VII. How does digital transformation work?

> Use of digital technologies to develop **fresh** or **entirely new co. procedures, goods/services** is known as "**digital transformation.**"

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

MT: GCRC

1) **Defining the goals & objectives** of transformation
2) **Assessing current state** of organization & **identifying gaps**
3) **Creating a roadmap** for change that outlines steps needed to reach desired state
4) **Implementing & managing change** at every level of the organization

- **How does change management work?**

- **Change management** is a process or **best practices** used to **manage changes** in an org. It assists in making changes in safe & **regulated manner**, **reducing possibility** of **detrimental effects** on org.

> **Change management models and methods** have **key things** in common-
>
> **MT: VIP Results**
>
> 1) **creating a clear vision** for change,
> 2) **involving stakeholders** in process,
> 3) **coming up with a plan** for putting the change into action, and
> 4) **keeping an eye on the results**.

- **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, as org. can improve their chances of success by approaching change in a proactive and organized manner.

VIII. Change Management Strategies for Digital Transformation

MT: Recognize BCDE

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

1) **Begin at the top:** The **leadership team** should be **united and committed** to the digital transformation. They should **communicate clear vision** for future of co. & lead by example.

2) **Ensure that the change is necessary and desired:** Before implementing changes, co. should **assess its current state** and **identify areas where digital transformation can add value**. It's important to **involve employees** in this process to ensure their buy- in.

3) **Reduce disruption:** This can be done by **communicating early** about changes, **providing training & support** for employees, & **empowering change agents** within the org.

4) **Encourage communication:** Create **channels** for employees to **ask questions** and provide **feedback**. Encourage **collaboration between departments** to **share ideas and innovations**. Effective communication can help alleviate fears and keep everyone aligned.

5) **Recognize that change is the norm:** Digital transformation is **not a one-time project** but an **ongoing process**. The company should be **prepared to adapt to new technologies** and market conditions **continuously**.

It is possible to reduce workplace disruption by:
1) **Getting the word out early** & preparing for some interruption.
2) **Giving staff members the knowledge** & **tools**, they need to adjust to change.
3) **Creating an environment** that **encourages transformation** or change.
4) **Empowering change agents** to provide **context** and **clarity for changes**, such as project managers or **team leaders**.
5) **Ensuring that IT dept** is **informed** of **changes in technology** or **infrastructure** and is prepared to support them.

Change readiness is- **"the ability to continuously initiate and respond to change in ways that create advantage, minimize risk, and sustain performance."**

IX. How to manage change during digital transformation? MT: Gradual SCAR

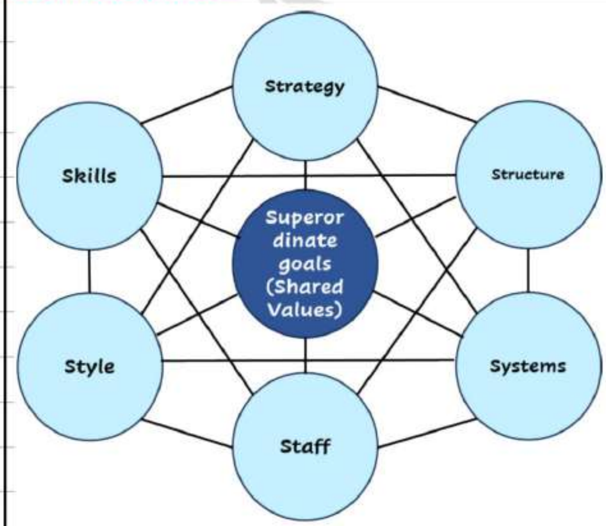
- Change management is essential during digital transformation to ensure its success. Here are some **key strategies to navigate change** effectively during **digital transformation** :

1) **Specify the digital transformation's aims and objectives:** **Clearly defining** intended outcomes & objectives helps ensure everyone is **aligned** and **working towards the same goals**.
2) **Always communicate:** **Regular and transparent** communication is crucial to help people **understand the goals** of digital transformation & **how it will impact** various stakeholders, including employees, clients, and other parties.
3) **Be ready for resistance:** Change, even if beneficial, can be met with resistance. Having a **strategy** in place to **address resistance** is important **for overcoming challenges** and ensuring a **smooth transition**.
4) **Implement changes gradually:** Instead of making all changes at once, gradual implementation allows individuals to **adapt to new ways** of doing things **without feeling overwhelmed** by too much change simultaneously.
5) **Offer assistance and training:** Providing **support, guidance, and training** for employees is crucial as they navigate new procedures, software applications, & other aspects of digital transformation

In conclusion, **meticulous planning** and **effective change management** are vital for the successful completion of digital transformation projects.

X. Orgranisational Framework (McKinsey 7S Model)

- **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**.
- Model focuses on how "**Soft S**" & "**Hard S**" elements are **inter-related**, suggesting that **modifying one aspect** might have a **ripple effect** on **other elements** in order to **maintain an effective balance.**



Hard elements are **directly controlled** by **management**.

1) **Strategy:** direction of the organization, a **blueprint** to **build on core competency** & **achieve competitive advantage** to drive margins and lead the industry
2) **Structure:** depending on **availability of resources** & degree of **centralisation** or **decentralization** that mgt. desires, it **choses** from available **alternatives of organizational structures.**
3) **Systems**: the development of **daily tasks**, **operations** and **teams** to **execute the goals** and **objectives** in the most efficient and effective manner.

Soft elements are **difficult to define** as they are **more governed by culture.** But these are **equally important** in determining org's success & growth in industry.

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

Limitations of McKinsey 7S Model

1) It **ignores importance of external environment** and depicts only most crucial elements within the organization.
2) It **does not clearly explain** the concept of **organizational effectivness** or **performance**.
3) It is considered to be **more static** and **less flexible** for **deicion making**.
4) It is generally criticized for missing out the **real gaps** in **conceptualization** and **execution** of strategy.

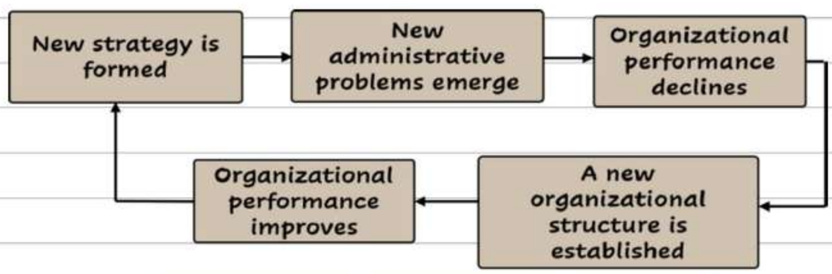
XI. Orgranisational Structure

- **Changes in corporate strategy** often **require changes** in the way an **organization is structured** for **two major reasons-**

1) **First**, structure dictates how **operational objectives** & **policies** will be **established** to **achieve strategic objectives**. **For eg**, objectives & policies established under **geographic organizational** structure are couched in geographic terms. Objectives & policies are stated in terms of **products** in an organization whose **structure is based on product groups**.

2) **Second, structure dictates how resources will be allocated** to achieve strategic objectives. If an organization's structure is based on **customer groups**, then resources will be allocated in that manner. Similarly, if an structure is set up along **functional business lines**, then resources are allocated by functional areas.

- **According to Chandler**, changes in **strategy** lead to changes in organizational **structure**. (**structure should follow strategy**). He found a particular **structure sequence** to be often repeated as org. grow & change strategy over time.
  - ✓ **Small firms** → **functionally structured** (centralized)
  - ✓ **Medium-size firms** → **divisionally structured** (decentralized).
  - ✓ **Large firms** → use an **SBU** (strategic business unit) or **matrix structure**.



Chandler's Strategy-Structure Relationship

- When a firm **changes its strategy**, the **existing organizational structure** may **become ineffective**. **Symptoms of an ineffective organizational structure** include-
    1) **too many levels of management**,
    2) too many **meetings attended** by too many people,
    3) too much **attention** being **directed** toward **solving interdepartmental conflicts**,
    4) too large a **span of control**, &
    5) too **many unachieved objectives**.

- **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 attractive choice. Thus, **structure can shape choice of strategy.**

Types of Orgranisational Structure

- **Organizational structure** is company's formal configuration of its **intended roles**, **procedures**, **governance mechanisms**, **authority, & decision-making processes**.
- Company's **structure** must be **congruent with or fit** with the company's **strategy**

- A) Simple Structure
- B) Functional Structure
- C) Divisional Structure
- D) Multi Divisional Structure
- E) SBU Structure
- F) Matrix Structure
- G) Network Structure
- H) Hourglass Structure

A) Simple Structure

- A **simple structure** is where **owner-manager makes all major decisions** directly & **monitors all activities**, while the **company's staff** merely serves as an **executor**.
- It is **most appropriate** for companies
    - ✓ that follow **single-business strategy** & offer a line of products in a **single geographic market**. or
    - ✓ **implementing focused cost leadership** or **focused differentiation strategies**.

- **Characteristics**
1) Little **specialization of tasks**,
2) few **rules**, little **formalization**,
3) **unsophisticated information systems** and
4) **direct involvement of owner-manager** in day-to-day operations
5) **communication is frequent** and **direct**, and
6) **new products** tend to be **introduced** to quickly, which result in **competitive adv.** (but coordination problems are common

- This structure result in **competitive advantages** for some **small companies** relative to their larger counterparts. These competitive advantages include-
    - ✓ a **broad-based openness to innovation**,
    - ✓ **greater structural flexibility**, and
    - ✓ ability to **respond more rapidly to environmental changes**.
- However, if they are successful, **small companies grow larger**. As a result of this growth, **company outgrows simple structure**.
- **More extensive & complicated information-processing** places pressures on owner-managers (due to lack of organizational skills or experience or time).

B) Functional Structure

- A functional structure **groups tasks and activities** by **business function**, such as-
  - ✓ **production/operations**,
  - ✓ **marketing**,
  - ✓ **finance/accounting**,
  - ✓ **R&D**, **HR** etc.
- Besides being **simple** and **inexpensive**, this structure promotes-
  - ✓ **specialization of labour**,
  - ✓ **encourages efficiency**,
  - ✓ **minimizes need for an elaborate control system**, and
  - ✓ **allows rapid decision making**.
- The functional structure consists of-
  - ✓ **CEO/MD** supported by **corporate staff**

  with
  - ✓ **functional line managers** in **dominant** functions
- This structure enables to **overcome the growth-related constraints** of the simple structure, enabling or facilitating **communication** and **coordination**.
- **CEO** must **integrate functional decision-making** & **coordinate actions** of the **overall business across functions**.
- Functional specialists often may develop a **myopic perspective**, **losing sight of vision & mission**. This problem can be **overcome** by implementing the **multidivisional structure**.

C) Divisional Structure

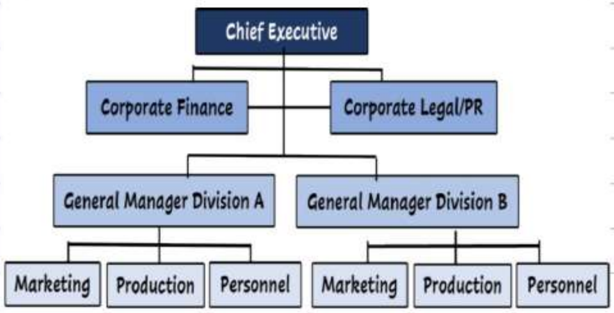
- As a firm, **grows** year after year it faces **difficulty in managing different products** and services in **different markets**. Thus, divisional structure then becomes necessary to-
  - ✓ **motivate employees**,
  - ✓ **control operations**, and
  - ✓ **compete successfully in diverse locations**.
- With a divisional structure, **functional activities** are performed **both-**
  - ✓ **Centrally,** &
  - ✓ **in each division**, **separately**.
- **Advantages of divisional structure**

  MT: C²ALM & Easy

1) It **creates career development opportunities** for managers,
2) Leads to a **competitive climate** within an organization,
3) **Accountability is clear.** (divisional managers can be held responsible for sales & profit levels)
4) **Allows local control of local situations**,
5) As this structure is based on **extensive delegation of authority**, managers/employees can easily see **results** of their **good** or **bad performances**. Thus, **employee morale is generally higher** &
6) **Allows new businesses** and products to **be added easily**.

- **Limitation** of divisional structure is that its **costly**, because-

1) **Each division** requires **functional specialists** who must be paid.
2) There exists some **duplication** of **staff services**, **facilities**, and **personnel**; for eg, **functional specialists are also needed centrally** (at headquarters) to **coordinate divisional activities**.
3) Managers must be **well qualified** as divisional design forces **delegation of authority better-qualified individuals** requires **higher salaries**.
4) It requires an elaborate, **headquarters-driven control system**.
5) Certain **regions**, **products**, or **customers** may sometimes **receive special treatment**, & It may be **difficult** to **maintain consistent**, **companywide practices**.



Divisional structure can be organized in **four ways**:

1) By geographic area
- It is appropriate for organizations-
  - ✓ whose strategies are formulated to **fit particular needs of customers** in **different geographic areas**, or
  - ✓ that have **similar branch facilities located in widely dispersed areas**.
- This structure **allows local participation in decision making** & **improved coordination within a region.**

2) By product or service
- It is effective when specific products/serv. **need special emphasis**. It is used when an **organization offers only** a **few products/serv.**, which **differ substantially**.
- It allows **strict control & attention to product lines**, but it may also require a **more skilled management force** & reduced **top management control**.
- For example, General Motors, Procter & Gamble use a divisional structure by product.

3) By customer
- This structure allows an org. to **cater effectively** to **requirements** of **clearly defined customer groups**.
- For example,
  - ✓ **Book-publishing co.** → colleges, secondary schools, & private schools.
  - ✓ **Arline co.**→ **passengers** and **cargo services**.
  - ✓ **Banks** → personal & corporate banking.

4) By process
- Similar to functional structure, as **activities are organized** according to way **work is actually performed**.
- But, **key difference** is that **functional departments** are not **accountable for profits** or **revenues**, whereas **divisional process departments** are.

D) Multi Divisional (M-Form) Structure

- Here, **each division represents a separate business** to which **top corporate officer delegates responsibility for-**
  - ✓ **day-to-day operations** &
  - ✓ **business unit strategy**

  to **division managers**.

- By such delegation, **corporate office** is-
  - ✓ **responsible** only for **formulating** & **implementing** overall **corporate strategy,** &
  - ✓ **manages** divisions through **strategic and financial controls**.

- **Need for M-Form Structure**
  - It was developed in **1920s**, due to **coordination & control-related problems** in **large cos**
  - **Functional departments** often had **difficulty** dealing with **distinct product lines** and markets, especially in **coordinating conflicting priorities** among the products.
  - **Costs were not allocated** to individual products, so it was **not possible** to assess an **individual product's profit contribution**.
  - Due to loss of control, **optimal allocation of resources** between products was **difficult**
  - **Top managers** became **over-involved** in solving **short-run problems** (like coordination, communications, conflict resolution) & **neglected long-term** strategic issues.

- **Multidivisional structure calls for: (Characteristics)**
  - **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.**

- This structure enables the firm to- (**Advantages**)

1) more **accurately monitor the performance** of individual businesses,
2) **simplifying control problems**,
3) **facilitate comparisons** between divisions,
4) **improving the allocation** of **resources** and
5) **stimulate managers** of **poorly performing divisions** to seek ways to **improve performance**.

- When the **firm is less diversified**, **strategic controls** are used to **manage divisions**.
  - ✓ **Strategic control** refers to **operational understanding** by corporate officers of the strategies being implemented within firm's separate business units.

- An **increase in diversification** strains corporate officers' abilities to **understand operations of all of its business units** and divisions are then managed by-
  - ✓ **Financial controls**, which enable corporate officers to **manage cash flow** of divisions through **budgets** & **emphasis on profits from distinct businesses**.

- However, because **financial controls are focused on financial outcomes**, they require that **each division's performance** be **largely independent** of the **performance of other divisions**. So, the Strategic Business Units come into picture.

E) Strategic Business Unit (SBU) Structure

- ❑ It is relevant to **multi-product, multi-business enterprises.**

- ❑ **Impractical** for org. with multiple businesses to provide **separate strategic planning treatment** to each one of its businesses; it has to **necessarily group them** 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 amenable 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 products/businesses**.

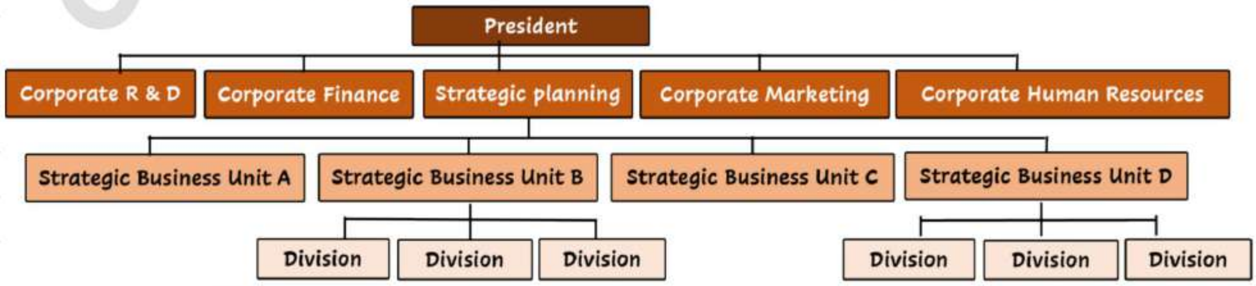
- ❑ The **three most important characteristics of a SBU** are: MT: SCM

1) It is a single business or collection of related businesses which offer **scope for independent planning**, & which might **feasibly standalone from rest** of org.
2) It has its **own set of competitors**.
3) It has a **manager** who has **responsibility for strategic planning** and **profit performance**, and who has **control of profit-influencing factors**.

- ❑ If strategic planning is carried out treating **territories** as **units for planning**, it gave rise to **two kinds of difficulties:**

(i) since a number of territorial units handled same product, the **same product** was getting **varied strategic planning treatments**; and
(ii) since a given territorial planning unit **carried different products**, products with **dissimilar characteristics** were **getting identical strategic planning treatment.**

- ❑ **SBU structure consists of at least three levels**, with-
  1) a **corporate headquarters at the top**,
  2) **SBU groups at the second level**, and
  3) **divisions grouped by relatedness within each SBU at the third level.**



- Within each SBU,
  - ✓ **divisions are related to each other**, &
  - ✓ **SBU groups are unrelated to each other**.
  - ✓ divisions producing **similar products** or **using similar technologies** can be **organised** to **achieve synergy**.
- Individual SBUs are treated as **profit centres** and **controlled by corporate headquarters** that can **concentrate** on **strategic planning** rather than **operational control**.
- The **principle underlying the grouping** is that **all related products-related** from the **standpoint of "function"-should fall under one SBU**.
- The concept provides **right direction to strategic planning** by **removing vagueness** & **confusion** often experienced in such multi-business enterprises.

The **attributes of an SBU** and the **benefits a firm may derive by using the SBU Structure** are as follows:

1) A **scientific method** of grouping the businesses of a multi-business corporation which helps the firm in **strategic planning**.
2) An **improvement over the territorial grouping of businesses** and **strategic planning based on territorial units**.
3) An **SBU is a grouping of related businesses** that can be taken up for strategic planning distinct from the rest of the businesses. **Products/businesses within an SBU** receive **same strategic planning treatment and priorities**.
4) Each SBU will have its **own distinct set of competitors** and its **own distinct strategy**.
5) Each SBU is a **separate business** from the strategic planning standpoint. In the basic factors, viz., mission, objectives, strategy- one SBU will be **distinct** from another.
6) Each SBU will have a **CEO**. He will be **responsible for strategic planning** for the SBU and its **profit performance**; he will also have **control** over most of the **factors affecting the profit** of the SBU.
7) SBUs might build on **similar technologies**, or all **provide similar sorts of products or services**.

F) Matrix Structure

- **In matrix structure, functional and product forms are combined** simultaneously at the same level of the organization.
- Employees have **two superiors**, a **product or project manager** and a **functional manager**. The **"home" department** - that is, **engineering**, **manufacturing**, or **marketing** - is usually **functional** and is reasonably permanent.
- People from these functional units are often **assigned temporarily** to one or more product units or projects. The product units or projects are usually **temporary** and **act like divisions** in that they are **differentiated** on a **product-market basis**.
- A matrix structure is the **most complex of all designs** because it **depends upon both vertical and horizontal flows** of **authority** and **communication** (hence the term matrix). It result in **higher overhead** because it has **more management positions**.
- **Other characteristics of a matrix structure** (leads to complexity)
  1) **dual lines of budget authority** (a violation of the unity command principle),
  2) **dual sources of reward** and **punishment**,
  3) **shared authority**,
  4) **dual reporting channels**, and
  5) **need for an extensive and effective communication** system.

Despite its complexity, it is **widely used in**- construction, healthcare, defence etc.

- **Advantages of a matrix structure** are that-
  1) **project objectives are clear**,
  2) there are many **channels of communication,**
  3) workers can see the **visible results of their work**, and
  4) **shutting down** a project is **accomplished relatively easily**.

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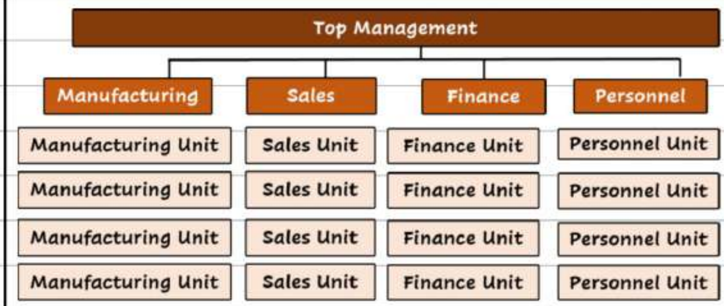
  1) **project objectives are clear**,
  2) there are many **channels of communication,**
  3) workers can see the **visible results of their work**, and
  4) **shutting down** a project is **accomplished relatively easily**.
- Matrix structure was developed to combine-
  - **stability of functional structure,** with
  - **flexibility of the product form**.
- But, a continuous **battle for power between product and functional mangers** is likely.



The matrix structure is often found in an org. or within an SBU when 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** & to make **decisions** need to be **improved**.

For development of matrix structure **Davis & Lawrence**, have proposed **3 distinct phases**:

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

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

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

G) <u>Network Structure</u>

- **Aka. "non-structure"** by its **virtual elimination of in-house business functions**. 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**, **cobweb-like networks**.
- This structure is useful when environment is **unstable**. Under such conditions, there is a need for **innovation** & **quick response**. **Instead of having salaried employees**, it may **contract** with people for a **specific project** or length of time.
- **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, with a small headquarters acting as a "broker", **electronically connected to some completely/partially owned divisions.**

- The network organization structure provides an organization-
  - ✓ With **increased flexibility** and **adaptability** to cope with **rapid technological change** & **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:
1) The **availability of numerous potential partners** can be a source of trouble.
2) **Contracting out functions to separate suppliers/distributors** may keep the firm from **discovering any synergies** by **combining activities**.
3) If a particular firm **over specialises** on only a **few functions**, it runs the **risk of choosing the wrong functions** and thus becoming **non-competitive.**

There are some serious implications:
1) **Employees** may **lack the level of confidence** necessary to participate actively in organization-sponsored learning experiences.
2) The flatter organizational structures that accompany contemporary structures can seem **intrusive** as a result of **their demand for more intense & personal interactions with internal and external stakeholders.**

Figure: Network Structure

H) **Hourglass Structure**

- 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**.
- This 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.
- A shrunken 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 issues** like **marketing**, **finance** or **production** etc

- It has **benefit of-**
  - ✓ **reduced costs**
  - ✓ helps in **enhancing responsiveness** by **simplifying decision making**.
- It has problems like-
  - ✓ With reduced size of middle mgt., the **promotion opportunities for 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.**
- Above problems are **overcome** by **assigning challenging tasks**, **transferring laterally** & having system of **proper rewards for performance**.

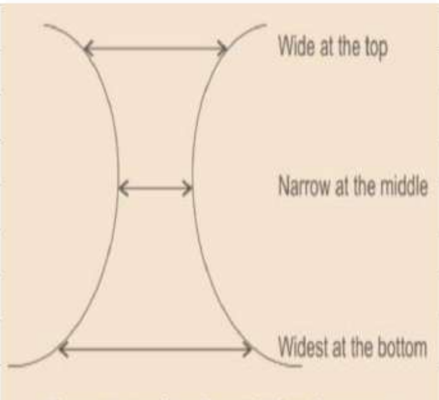


Figure: Hourglass Organisation Structure

XII. Other Important Points

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

MT: TERE Corrective Actions

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* 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**, **bubbling with innovative ideas**, and **ahead of rivals** in developing competitively valuable competencies and capabilities.
4) Exercising **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.

A Strategic leader has several responsibilities, including the following:

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

Transformational leadership style	Transactional leadership style
➢ It uses **charisma** and **enthusiasm** to **inspire people** to exert them for the good of the organization. ➢ It may be appropriate in- 1) **turbulent environments**, 2) industries at **start** or **end** of **life-cycles**, 3) in **poorly performing** org. when there is a **need to inspire** a company to embrace major changes. ➢ Transformational leaders offer **excitement**, **vision**, **intellectual stimulation** and **personal satisfaction**. ➢ 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.	➢ It focusses more on **designing systems** & **controlling** the org.'s activities & with **improving the current situation**. ➢ Transactional leaders try to build on **existing culture** & **enhance current practices**. ➢ Transactional leadership style uses the **authority** of its office to exchange **rewards**, such as **pay and status**. ➢ They prefer a more **formalized approach to motivation**, setting **clear goals** with **explicit rewards or penalties** for achievement or non-achievement. ➢ Transactional leadership style is more suitable in- 1) **settled environment**, 2) in **growing or mature** industries, & 3) in org. that are **performing well**.

- There are three types of **organizational control-**

operational control, management control and strategic control.

a) **Operational Control:** The thrust 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. There should be a **clear-cut** and somewhat **measurable relationship between inputs & outputs** which could be predetermined or **estimated** with **least uncertainty**.

Some of the examples of operational controls can be:
- **stock control** (maintaining stocks between set limits),
- **production control** (manufacturing to set programmes),
- **quality control** (keeping product quality between agreed limits),
- **cost control** (maintaining expenditure as per standards),
- **budgetary control** (keeping performance to budget).

b) **Management Control:** 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, instead or mere narrowly circumscribed activities of sub-units.
- **The basic purpose of management control** is the **achievement** of **enterprise goals** – **short range and long range** – in a most **effective** and **efficient manner**.
- The term management control 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**.

c) **Strategic Control**: According to **Schendel and Hofer** "**Strategic control focuses on** the dual questions of whether:
(1) the **strategy is being implemented as planned**; and
(2) the **results produced by the strategy are those intended**."
- 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 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**.

There are **four** types of strategic controls, which areas follows:
1) Premise control 2) Strategic surveillance 3) Special alert control 4) Implementation control

1) **Premise control:** A **strategy** is **formed** on the basis of **certain assumptions** or **premises** about **complex & 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** such as **economic** (inflation, liquidity, interest rates), **technology**, **social** and **legal-regulatory**.
(ii) **Industry factors** such as **competitors, suppliers, substitutes.**

It is neither feasible nor desirable to control all types of premises in same manner. **Different premises may require different amount of control**. Thus, managers are required to select those premises that are likely to change & would severely impact the functioning of the organization and its strategy

2) Strategic surveillance:

- Contrary to the premise control, the strategic surveillance is **unfocussed**. It involves **general monitoring of various sources of information** to **uncover unanticipated information** having a bearing on the organizational strategy. It involves **casual environmental browsing**.
- **Reading financial and other newspapers**, business magazines, attending meetings, conferences, discussions & so on can help in strategic surveillance.
- Strategic surveillance may be **loose form of strategic control** but is **capable of uncovering information relevant to the strategy.**

3) Special alert control: At times, **unexpected events** may force organizations to **reconsider** their **strategy**. **Sudden changes in government**, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters & other such events may **trigger** an **immediate** & **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 & results associated with incremental steps & actions.

- Strategic implementation control is **not a replacement to operational control**. Unlike operational control, it **continuously monitors basic direction of strategy**.
- **Two basic forms of implementation control are:**
  - (i) **Monitoring strategic thrusts**: Monitoring strategic thrusts helps managers to determine whether the **overall strategy is progressing** as desired **or** whether there is **need** for **readjustments**.
  - (ii) **Milestone Reviews**: All key activities necessary to implement strategy are **segregated** in **terms of time**, **events** or **major resource allocation**. It normally involves a **complete reassessment of the strategy**. It also assesses the need to continue or refocus the direction of an organization.

Strategic Performance Measures (SPM) is a method that **increases line executives' understanding** of an organization's **strategic goals** & offers a **continuous system for tracking progress** towards these objectives using **clear-cut performance measurements.**

There are various **types of strategic performance measures-** MT: E^2MI CF

1) **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**.
2) **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**
3) **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**.
4) **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.**
5) **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**.
6) **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**.

Strategic performance measures are essential for organizations for several reasons:

MT: RAGI

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

Choosing the Right Strategic Performance Measures

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

1) **Relevance:** The measure should be relevant to the organization's goals and objectives and **provide information** that is **actionable** and **meaningful**.
2) **Data Availability:** The measure should be based on **data** that is **readily available** and can be **collected** and **analyzed** in a **timely manner**.
3) **Data Quality:** The measure should be based on **high-quality data** that is **accurate** and **reliable**.
4) **Data Timeliness:** The measure should be based on data that is **current** and **up-to-date**, enabling organizations to make **informed decisions in a timely manner**.

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