CA INTER

STRATEGIC MANAGEMENT

Applicable May & Nov 24

CA Inter with CA Himanshu

Please Note: You may find a slight difference between the notes used in class vs. final notes. Because Final notes are strictly exam oriented and you will not find anything which is not relevant for exams.

We already have too much to memorise so please don't ask for those detailed ones. I hope you will understand my point here 😊

Please use these notes along with Scanner of past year questions.

Meaning and Nature of Strategic Management

The strategic management process is the **set of activities** that firm managers undertake to put their firms in the best possible position to compete successfully in the marketplace.

Term 'strategic management' refers to the managerial process of:

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

Dual Meaning of Management	1. Management refers to a **key group in an organization** responsible for integrating resources *(coordinating or combining multiple components to work together)* like manpower, money, material, and technology, making the organization purposeful and productive. 2. Management also denotes a **set of interrelated functions and processes** performed by this group to achieve organizational objectives, including Planning, Organising, Directing, Staffing and Control.
Meaning of Strategic Management	1. Strategic management involves **activities undertaken by firm managers** to position their organizations for successful competition. 2. **Key activities include:** (a) Developing the firm's vision and mission, (b) Strategic analysis, (c) Setting objectives, (d) Creating, choosing, and implementing strategies, and (e) Measuring and evaluating performance.
Components of Strategic Management CA Inter with CA Himanshu	1. **Vision Development:** Developing the company's vision for the future. 2. **Environmental Scanning:** Analysing both external and internal factors. 3. **Strategy Formulation:** Creating strategies for survival and growth. 4. **Strategy Implementation:** Executing the formulated *(carefully created)* strategies. 5. **Evaluation and Control:** Assessing the strategy's effectiveness and making corrective adjustments

Concept of Strategy

'Strategy' relates to the ways, the business decides to respond to dynamic and often hostile external forces while pursuing their vision, mission and ultimate objectives.

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

Strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position, its implications for corporate functioning are obvious.

We may define the term 'strategy' as a **long-range blueprint of an organization's desired image, direction and destination, i.e., what it wants to be, what it wants to do, how it wants to do things, and where it wants to go.**

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

Important to note that **strategy is no substitute for sound, alert and responsible management**. It must be recognised that strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic to take care of sudden emergencies, pressures, and avoid failures and frustrations. In a sound strategy, allowances are made for possible miscalculations and unanticipated events.

Understanding Strategy	1. The term 'Strategy' relates to the ways, the business decides to respond to dynamic and often hostile external forces while pursuing their vision, mission and ultimate objectives. 2. Strategies are essential to **navigate complexity and reduce uncertainty** arising from environmental changes. 3. **Market Positioning:** Strategy acts as a game plan for businesses, guiding market positioning, operational conduct, customer attraction, and satisfaction. 4. **Unified Design:** Strategy unifies *(bring together)* organizational activities, defining the essential nature of the business and its future plans. 5. **Long-Range Perspective:** It offers a long-term perspective, ensuring a critically advantageous position in the market. 6. **Comprehensive Planning:** Strategies are comprehensive and integrated plans ensuring the achievement of basic enterprise objectives *(fundamental business goals)*. 7. In a sound strategy, allowances are made for **possible miscalculations** and

	unanticipated events.
Formulation of Strategy	In large organisations, strategies are formulated at: ♦ Corporate, ♦ Divisional, and ♦ Functional levels

Strategy: Proactive & Reactive

Strategy is **partly proactive and partly reactive**: A company's strategy is typically a blend of:

- **Proactive actions** on the part of managers to improve the company's market position and financial performance.
- **Reactions** to unanticipated developments and fresh market conditions in the dynamic business environment.

In other words, a company uses **both** proactive and reactive strategies to cope up the uncertain business environment.

Proactive Strategy:

Proactive strategy is planned strategy. While continuing with the previously initiated business approaches that are working well, the newly launched managerial initiatives aim to strengthen the company's overall position and performance. These are outcomes of management's analysis and strategic thinking about the company's situation and its conclusions about the positioning of the company in the marketplace. If done well, it helps the company to effectively compete for buyer patronage.

In proactive strategy, organisations will analyse possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a pre-determined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

Reactive Strategy:

Reactive strategy is an adaptive reaction to changing circumstances. It is not always possible for a company to fully anticipate or plan for changes in the market. There is also a need to adapt strategy as new learnings emerge about which pieces of strategy are working well and which aren't. By itself also, the management may hit upon new ideas for improving the current strategy.

Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

Proactive strategy is planned strategy whereas **reactive strategy is adaptive** reaction to changing circumstances.

Crafting a strategy thus involves stitching together a proactive/intended strategy based on prior successful experience and then adapting pieces of successful reactions as circumstances surrounding the company's situation change or better options emerge - a reactive/adaptive strategy.

Summary

1. The term 'Strategy' relates to the ways, the business decides to respond to dynamic and often hostile external forces while pursuing their vision, mission and ultimate objectives.
2. Strategies are essential to navigate complexity and reduce uncertainty arising from environmental changes.
3. Market Positioning: Strategy acts as a game plan for businesses, guiding market positioning, operational conduct, customer attraction, and satisfaction.
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5. Long-Range Perspective: It offers a long-term perspective, ensuring a critically advantageous position in the market.
6. **Comprehensive Planning:** Strategies are comprehensive and integrated plans ensuring the achievement of basic enterprise objectives *(fundamental business goals)*.
7. In a sound strategy, allowances are made for **possible miscalculations and unanticipated events**.

Proactive and Reactive

Strategy is **partly proactive and partly reactive**: A company's strategy is typically a blend of:

1. Proactive Actions: Managers initiate actions to improve the company's market position and financial performance.
2. **Reactive Responses:** Strategies also involve reactions to unforeseen developments and changing market conditions.
3. Companies use **both proactive (planned) and reactive (adaptive)** strategies to navigate the uncertain business environment.
4. Proactive strategies are **planned**, while reactive strategies **adapt to changing circumstances.**
5. **Current strategies** result from a blend of previously initiated successful actions and ongoing approaches.
6. New **managerial decisions and actions** strengthen the company's overall position and performance.
7. Strategies also involve **reactions to unforeseen developments**.
8. Adjustments are required when market conditions change unexpectedly or aspects of the company's strategy face challenges

9. Crafting a strategy involves stitching together proactive strategies based on successful experiences.
10. It also includes **adapting pieces** of successful reactive strategies as circumstances change or better options emerge.

11. **Example**: Unified Payments Interface (UPI): UPI, a digital payment system in India, exemplifies well-planned strategy and execution. It solved existing problems, demonstrating the impact of strategic identification and execution.

Strategic Management – Importance

The overall objectives of strategic management are two-fold:

- **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.
- **To guide the company successfully through all changes in the environment**. That is to react in the right manner.

Each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following the process of strategic management - strategic analysis, formulation and implementation, evaluation and control of strategies.

The major benefits of strategic management are:

- The strategic management gives **a direction to the company** to move ahead. It helps define the goals and mission. It helps management to define realistic objectives and goals which are in line with the vision of the company.
- Strategic management helps organisations to **be proactive instead of reactive** in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.
- Strategic management provides **frameworks for all major decisions of an enterprise** such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to achieve.
- Strategic management seeks to prepare the organisation to face the future and act as **pathfinder to various business opportunities**. Organisations are able to identify the available opportunities and identify ways and means to reach them.
- Strategic management serves as a **corporate defence mechanism** against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.

- Strategic management helps to **enhance the longevity of the business**. With the state of competition and dynamic environment it may be challenging for organisations to survive in the long run. It helps the organization to take a clear stand in the related industry and makes sure that it is not just surviving on luck. Actions over expectations is what strategic management ensures.
- Strategic management helps the organisation to **develop certain core competencies and competitive** advantages that would facilitate assist in its fight for survival and growth.

Direction and Goal Setting	1. Strategic management provides direction to the company, defining goals and missions. 2. It helps in setting realistic objectives aligned with the company's vision.
Importance of Management CA Inter with CA Himanshu	1. **Direction and Mission**: Strategic management defines company goals and mission, guiding realistic objectives aligned with the vision. 2. **Proactive Future Shaping:** Organizations become proactive, analysing and taking actions to control their destiny amidst environmental uncertainties. 3. **Decision-making Frameworks:** Strategic management provides decision frameworks for key aspects like businesses, products, markets, investments, and organizational structure. 4. **Pathfinding for Opportunities:** It prepares organizations for the future, guiding them to identify and pursue business opportunities effectively. 5. **Corporate Defence Mechanism:** Serves as a defence against mistakes, helping organizations avoid costly errors in product market choices and investments. 6. **Longevity and Sustainability**: Enhances business longevity by guiding clear industry positioning and ensuring survival beyond luck through strategic actions. 7. **Competencies for Growth:** Helps develop core competencies and competitive advantages crucial for organizational survival and growth.

Limitation of Strategic Management

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations too, attached to strategic management. Let us discuss them briefly:

- **Environment is highly complex and turbulent**. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors. Thus, relying on a business strategy blindly could go absolutely wrong if the environment is turbulent.

- **Strategic management is a time-consuming process.** Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business. Planning and strategizing are important but putting them in action is where the actual success lies. In business if way too much time is spent on planning and formulating, then it might not be as fruitful.
- **Strategic management is a costly process**. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete. Strategic Management requires experts, and these experts are costly resources. Thus, the process as a whole required good amount of funds to be spent.
- **In a competitive scenario**, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies. It is quite difficult to gauge the strategic planning of competitors because most of these decisions are taken within closed doors by the top management.

Limitations of Strategic Management

1. The business environment is complex and unpredictable, making it difficult to accurately anticipate future developments.
2. External factors such as customer preferences, government policies, and market trends can drastically impact strategic plans.
3. Strategic decisions may go wrong in turbulent environments, for instance, Electric Vehicle brands facing customer reluctance due to safety concerns despite government support
4. Strategic management is time-consuming, involving extensive planning and communication.
5. Excessive time spent on strategizing can impede daily operations and affect routine business activities.
6. While planning is essential, excessive time dedicated to it can lead to exhaustion and impact actual implementation efforts.
7. Strategic management is costly, requiring engagement of expert strategists, extensive analysis, and implementation efforts.
8. Small and medium-sized organizations, with limited resources, may find these costs prohibitive.
9. Expert strategists are expensive resources, adding a financial burden to the organization
10. Predicting competitors' strategic responses is challenging as most decisions are made behind closed doors.
11. Competitor's reactions to a firm's strategies are difficult to estimate accurately.
12. For instance, Apple's removal of the audio jack forced other speaker brands to develop their own wireless speakers, illustrating the challenges of predicting and responding to market shifts.

Strategic Intent

- Strategic intent can be understood as the philosophical base of strategic management.
- It implies the purposes, which an organisation endeavours to achieve.
- It is a statement that provides a perspective of the means, which will lead the organisation, reach its vision in the long run.
- Strategic intent gives an idea of what the organisation desires to attain in future.
- It answers the question what the organisation strives or stands for?
- It indicates the long-term market position, which the organisation desires to create or occupy and the opportunity for exploring new possibilities.
- Strategic intent is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally, i.e., goals and objectives.

Significance of Strategic Intent:	1. Strategic intent refers to the purpose of what the organization strives for. 2. Senior managers must define "what they want to do" and "why they want to do. 3. "**Why they want to do**" represents strategic intent of the firm.
Strategic Intent	1. Strategic intent serves as the philosophical base of strategic management. 2. Clarity in strategic intent is vital for future success and growth 3. It is essential for organizations of **any nature and size**. 4. It implies the purposes an organization endeavours *(efforts or attempts made to achieve a specific goal to achieve)* 5. It provides a perspective on the means that will lead to long-term vision. 6. Strategic intent outlines what the organization desires to attain in the future. 7. Strategic intent answers the question of what the organization strives or stands for. 8. It indicates the long-term market position the organization aims to create or occupy 9. It provides the framework for the organization to adopt a predetermined direction.
Forms of Strategic Intent	**1. At the corporate level, it could be in the form of vision and mission statements.** **2. At the business level, it could be expressed through the business definition and business model.**
Precision in Expression	1. While generally stated broadly, strategic intent can be expressed precisely. 2. In precise terms, it becomes an expression of operational aims, including specific goals and objectives.

Vision

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

Essentials of a strategic vision:

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

Definition of Vision	1. Vision is the blueprint of a company's future position. 2. It outlines the organization's aspirations and describes **what it aims to become in the future**. 3. Every subsystem of the organization aligns with its vision
Examples of Strategic Vision	1. HDFC Bank Ltd., one of the largest banks in India has clearly defined its Vision of being a **world class Indian bank**. This vision helps them keep in mind, "**where we want to go**", as the central thought of their strategic decision making. 2. LIC Ltd., the largest insurance company of India has defined its visions as – **A trans-nationally competitive financial conglomerate** of significance to societies and Pride of India. 3. Apple Inc.'s CEO Tim Cook defined the vision of the company as - "**We believe that we are on the face of the earth to make great products, and that's not changing**."
Essentials of a Strategic Vision	1. Creativity in Preparation: Developing a strategic vision involves creative thinking to prepare the company for the future. 2. Intelligent Entrepreneurship: Formulating a strategic vision is an exercise in intelligent entrepreneurship, envisioning the company's future path. 3. Creating Enthusiasm: A well-articulated vision generates enthusiasm among organization members, motivating them towards common goals. 4. Clear Direction: The best-worded vision statement clearly illuminates the organization's direction, guiding its trajectory.

Mission

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

Following points are useful while writing a mission of a company (Essentials of a Good Mission Statement):

1. One of the roles of a mission statement is to give the organisation its own special identity, business emphasis and path for development – one that typically sets it apart from other similarly positioned companies.
2. A company's business is defined by what needs it is trying to satisfy, which customer groups it is targeting and the technologies and competencies it uses and the activities it performs.
3. Good mission statements are – unique to the organisation for which they are developed.

Why should an organisation have a mission?

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

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

- What is our mission?
- What is our ultimate purpose?
- What do we want to become?
- What kind of growth do we seek?
- What business are we in?
- Do we understand our business correctly and define it accurately in its broadest connotation?
- Whom do we intend to serve?

- What human need do we intend to serve through our offer?
- What brings us to this particular business?

Purposes of Having a Mission	1. Ensures unanimity of purpose within the organization. 2. Provides a basis for allocating resources and motivates their efficient utilization. 3. Establishes a businesslike operational tone and suggests a professional approach. 4. Acts as a focal point for stakeholders to understand the organization's purpose and direction. 5. Facilitates translating objectives into a structured work framework with assigned tasks. 6. Specifies organizational purposes and enables assessment and control based on cost, time, and performance parameters
Examples of Mission Statements	1. HDCF Bank has two-fold mission: first, to be the preferred provider of banking services for target retail and wholesale customer segments. The second is to achieve healthy growth in profitability, consistent with the bank's risk appetite. 2. LIC Ltd.'s Mission is - Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development.
Characteristics of a Good Mission Statement	1. Distinctive Identity: Provides the organization with a unique identity, emphasizing its business emphasis and developmental path. 2. Definition of Business: Clearly defines the needs the business is addressing, the target customer groups, technologies, competencies, and activities involved. 3. External Perspective: Asks essential questions such as "What business are we in?" and emphasizes marketing and external perspectives over generic business activities.
Role of Mission in Corporate Planning	1. The mission is the firm's future visualized, depicting what the company wants to become. 2. It justifies the firm's presence and existence, legitimizing its operations and ambitions. 3. Mission serves as a grand **design of the firm's future**, amplifying the reasons for the firm's existence and its purpose.

Difference between Vision and Mission

The vision describes a future identity while the Mission serves as an on-going and time-independent guide.

The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, and relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.

A mission statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a vision statement is more specific in terms of both the future state and the time frame. Vision describes what will be achieved if the organization is successful.

Goals and Objectives

These are the base of measurement. **Goals are the end results**, that the organisation attempts to achieve. On the other hand, **objectives are time-based measurable targets**, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan, over the particular period.

Goals are open-ended attributes that denote the future states or outcomes. Objectives are close-ended attributes which are precise and expressed in specific terms. Thus, the Objectives are more specific and translate the goals to both long term and short-term perspective.

They function as yardsticks for tracking an organisation's performance and progress.

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

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

Long-term objectives:

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

- Profitability

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

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

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

Characteristics of Objectives	1. Objectives define the organization's relationship with its environment. 2. They **facilitate the achievement of the mission and purpose**. 3. Provide a **basis for strategic decision-making**. 4. **Offer standards** for performance appraisal. 5. Should be **concrete, specific, measurable, controllable, and challenging.** 6. Should be **related to a specific time frame**. 7. Different objectives should correlate with each other. 8. Objectives must consider organizational resources and external constraints.
Short-term Objectives	1. A company's objectives should include both short-term and long-term targets. 2. Short-term objectives focus on immediate performance improvements, while long-term objectives provide a vision for the future. 3. Short-range objectives act as steps toward achieving long-term objectives.
Long-term Objectives	1. Long-term objectives are set in areas such as profitability, productivity, competitive position, employee development, employee relations, technological leadership, and public responsibility. 2. Strategies represent the actions taken to accomplish long-term objectives and are consistent with the objective's time frame.

Values

- A company's value sets the tone for how the people of think and behave, especially in situations of dilemma.
- It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success.

- Employees prefer to work with employers whose values resonate with them - the ones they can relate to in their daily work and personal life.
- Interestingly, majority of consumers say that they would prefer to buy products and services from companies that have a purpose that reflects their own value and belief system. Hence, values have both internal as well as external implications.

Strategic Levels in Organisation

There are three main levels of management:

- **Corporate level**
- **Business level**
- **Functional level**

Corporate Level:

The corporate level of management consists of the Chief Executive Officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals participate in strategic decision making within the organization.

The **role** of corporate-level managers is:

- To oversee the development of strategies for the whole organization.
- Defining the mission and goals of the organization,
- Determining what businesses it should be in,
- Allocating resources among the different businesses,
- Formulating and implementing strategies that span individual businesses, and
- Providing leadership for the organization as a whole.

Business Level:

Strategic business unit is a self-contained division (with its own functions - For example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market.

The principal general manager at the business level, or the business-level manager, is the head of the division.

The development of such strategies is the responsibility of those in charge of different businesses called business level managers. In simple words, corporate level managers provide an organisation level view of strategy and what they want to achieve, but it is on the business level managers to ensure that or their particular business, the one they are responsible for.

Role:

The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Thus, whereas corporate-level managers are concerned with strategies that span individual businesses, business-level managers are concerned with strategies that are specific to a particular business.

Functional Level:

Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions.

Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

Role:

- Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfill the strategic objectives set by business- and corporate-level general managers.
- Functional managers provide most of the information that makes it possible for business and corporate-level general managers to formulate realistic and attainable strategies.
- Indeed, because they are closer to the customer than the typical general manager is, functional managers themselves may generate important ideas that subsequently may become major strategies for the company.
- Thus, it is important for general managers to listen closely to the ideas of their functional managers. An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business-level plans.

Types of Organizational Levels	1. **Corporate Level:** Involves top executives, board of directors, and corporate staff. 2. **Business Level:** Focuses on specific product lines or services; involves strategic business units (SBUs) with their own functions. 3. **Functional Level:** Deals with specific business functions (e.g., HR, purchasing, product development) within a company or division.
Corporate Level Management	**Role:** Overseeing the development of strategies for the entire organization. **Responsibilities:** 1. Defining the mission and goals. 2. Deciding which businesses to be in. 3. Allocating resources among different businesses. 4. Formulating strategies that span individual businesses.

	5. Providing leadership for the entire organization. 6. Example: Gautam Adani, Chairman of Adani Group, sets overall strategic objectives and allocates resources among different business areas.
Business Level Management	**Role:** Translating corporate-level strategies into concrete strategies for individual businesses or products. **Responsibilities:** 1. Developing specific strategies for a particular business. 2. Ensuring strategies align with corporate objectives. 3. Focusing on competitive advantage and profitability within the specific business. 4. Example: Divisional managers in Patanjali oversee businesses like healthcare, FMCG, and organic foods, each with its unique strategy
Functional Level Management	**Role:** Responsible for specific business functions or operations within a company. **Responsibilities:** 1. Developing functional strategies that align with business and corporate objectives. 2. Providing essential information for higher-level strategic decisions. 3. Contributing operational insights and ideas that may become major strategies. 4. Example: Functional managers in a company's HR or marketing departments develop strategies specific to their functions and contribute valuable ideas.
Strategy Implementation	**Responsibilities:** 1. Executing corporate and business-level plans. 2. Ensuring that strategies are put into action effectively. 3. Adapting strategies based on functional feedback and market responses. 4. Ensuring alignment of day-to-day operations with strategic objectives.
Overall Significance	1. **Interconnected Roles:** Each level of management is interlinked, with functional managers providing critical operational insights that guide the formulation and execution of corporate and business-level strategies. 2. **Coordination and Alignment:** Effective coordination and alignment among these levels are crucial for the successful implementation of organizational strategies, ensuring a cohesive approach toward achieving the company's goals and objectives.

Network of relationship between the Three levels

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

Functional and Divisional Relationship:

It is an independent relationship, where each function or a division is run independently headed by the function/division head, who is a business level manager, reporting directly to the business head, who is a corporate level manager.

Functions maybe like Finance, Human Resources, Marketing, etc. while Divisions may depend on the products like for a toys manufacturer - kids toys, teenager toys, etc. could be divisions.

Horizontal Relationship:

- All positions, from top management to staff-level employees, are in the same hierarchical position.
- It is a flat structure where everyone is considered at same level. This leads to openness and transparency in work culture and focused more on idea sharing and innovation.
- This type of relationship between levels is more suitable for startups where the need to share ideas with speed is more desirable.

Matrix Relationship:

- It features a **grid-like structure** of levels in an organisation, with teams formed with people from various departments that are built for temporary task-based projects.
- This relationship helps manage huge conglomerates with ease where it is nearly impossible to track and manage every single team independently.
- In Matrix relationship - there are **more than one business level managers** for each functional level teams. It is complex for smaller organisations, but extremely useful for large organisations.

Corporate, Business, and Functional Levels	1. Corporate Level: Sets organizational goals and aspirations. 2. Business Level: Plans and executes strategies to achieve corporate goals. 3. Functional Level: Executes plans at the operational level to achieve results.
Interlinked Relationships	1. Functional and Divisional Relationship: Functions and divisions operate independently, headed by managers reporting to business heads. Example: Divisions like kids' toys and teenager toys in a toy manufacturing company. 2. Horizontal Relationship: All positions, including top management and staff, are considered at the same level. Promotes openness, transparency, idea sharing, and innovation. Suitable for startups and fosters rapid idea sharing. Example: In a startup environment, the CEO, managers, and employees work

	closely together, sharing ideas and collaborating without strict formalities. Decision-making is swift, fostering creativity and adaptability. 3. Matrix Relationship: Grid-like structure with cross-functional teams formed for temporary task-based projects. Involves multiple business level managers for each functional team. Effective for large organizations managing numerous teams and projects simultaneously. Example: In a software company, a team might consist of developers, marketers, and customer support staff working together temporarily on a new software product. Each member reports to their functional manager and the project manager, creating a matrix of reporting relationships.
Benefits of Each Relationship	1. Functional and Divisional: Allows for independent operation and specialization within functions or divisions. 2. Horizontal: Fosters a culture of openness, encourages idea sharing, and promotes innovation. 3. Matrix: Facilitates efficient management of large-scale projects and diverse teams within a conglomerate. • Flexibility in Matrix Relationships • Matrix structures provide flexibility for managing complex projects and multiple teams. • Complex for smaller organizations but highly effective for large and diverse enterprises.

Strategic Analysis

1. Strategies should be based on analysis of external environment and internal resources.
2. Environmental scanning is crucial for businesses, can be informal or formal.
3. Systematic environmental assessment essential for managing risk and uncertainty.
4. Rapidly expanding organizations use strategic planning at various stages of operations.
5. Strategic analysis is systematic, helps in making resource investments and staying ahead of competition.
6. Perceptive understanding of external and internal environments crucial for decision-making.
7. Helps in setting appropriate objectives and crafting effective strategies.

Limitations of Strategic Analysis:

There are two major limitations of strategic analysis that we need to be aware of.

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

Importance of Strategic Analysis:

1. **Aligning Resources with Challenges:** Strategic analysis helps organizations align their internal resources (such as talent, technology, and finances) with the challenges and opportunities presented by the external environment.
2. **Unique Strategies for Success:** Each business environment is unique. Strategic analysis enables companies to tailor their strategies, ensuring they remain relevant and competitive amidst globalization, technological advancements, and market fluctuations.

Issues to consider for Strategic Analysis

1. **Strategy evolves over a period of time:**
   (a) Strategies develop gradually, shaped by balancing impacting and constraining factors.
   (b) Current strategy results from numerous small choices made over time.
   (c) Management may significantly change strategy to accelerate organizational growth.
   (d) Strategy influenced by experience, updated based on clear results, evolving over time.

2. Balancing External and Internal Factors:

(a) Strategic analysis requires balancing conflicting challenges, considering opportunities, influences, and constraints.
(b) Decisions driven by factors like market entry opportunities and limited by constraints such as competition.
(c) Some aspects controllable, while others beyond existing capabilities.

3. Managing Risks:

(a) Importance of maintaining balance in strategic analysis.
(b) Complexity in the environment complicates strategic balance.
(c) Factors like competitive markets, globalization, technological advancements pose varying degrees of risk.

Time

Strategic Risks	Short 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 the strategy are developed on account of changes in internal capacities and preferences

Figure: Strategic Risk

Framework for Strategic Analysis

Diversity in Industries:

1. Industries differ in economic characteristics, competitive situations, and profit prospects.
2. Economic traits vary based on market size, technological changes, geographic boundaries, buyer-seller dynamics, product differentiation, distribution channels, government support, etc.

Variation in Competitive Forces:

1. Competitive forces range from moderate to intense.
2. Competition can focus on price, quality, product features, quick service, convenience, or brand reputation.
3. Some industries require cooperation with suppliers, customers, and competitors for product innovations and market opportunities.

Impact on Profit Prospects:

1. Industry and competitive conditions determine profit prospects.

2. Leading companies in unattractive industries may struggle for profits, while weak companies in attractive industries can perform well.

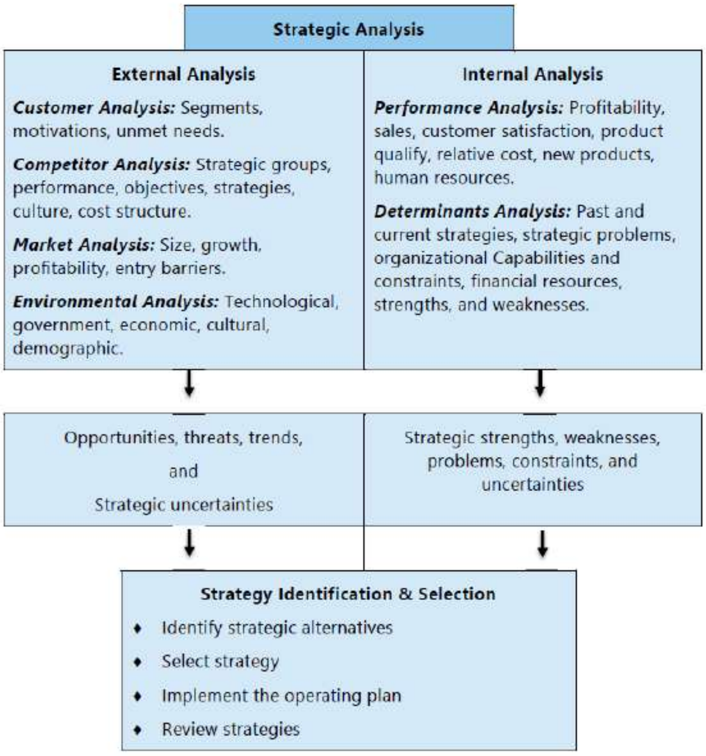

Figure: Framework of Strategic Analysis

Strategy and Business Environment

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

Benefits of Environmental Interaction:

1. **Identifying Opportunities and Threats:** Understanding consumer needs, legal changes, social behaviours, and competitors' offerings helps businesses anticipate opportunities for growth and recognize potential threats.
2. **Direction for Growth:** By analysing the external environment, businesses can identify emerging markets or areas where demand is rising. This insight enables strategic planning for successful expansion and sustainable growth.
3. **Continuous Learning:** In a rapidly changing business landscape, managers need to continuously update their knowledge and skills. Adapting to new trends and technologies ensures that the organization remains competitive and innovative.
4. **Image Building:** Businesses that show sensitivity to environmental needs, such as energy conservation or community welfare, enhance their reputation. This positive image fosters trust among customers and stakeholders, contributing to long-term success.

5. **Meeting Competition:** Analysing competitors' strategies allows businesses to assess their strengths and weaknesses. By formulating strategic responses, companies can position themselves effectively, outsmart competitors, and capture market share.

Micro and Macro Environment

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

- Micro environment
- Macro environment

Elements of Micro-environment

1. Micro-environment is related to small area or immediate periphery of an organization.
2. It influences an organization regularly and directly.
3. Micro environment consists of suppliers, consumers, marketing intermediaries, competitors, etc.
4. These are specific to the said business or firm and affect its working on a direct and regular basis.
5. Within the micro or the immediate environment in which a firm operates we need to address the following issues:
   (a) The employees of the firm, their characteristics and how they are organised.
   (b) The existing customer base on which the firm relies for business.
   (c) The ways in which the firm can raise its finance.
   (d) Who are the firm suppliers and how are the links between the two being developed?
   (e) The local community within which the firm operates.
   (f) The direct competition and their comparative performance.

Elements of Macro Environment

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

Demographic	
Definition and Components of Demographics	1. Demographics refer to population characteristics classified by criteria like age, gender, and income. 2. Demographic analysis includes factors such as race, age, income, education, assets, house ownership, job position, region, etc.
Importance of Demographics	1. Business and Economic Significance: Data on demographic qualities are crucial for businesses and economists. 2. Marketing and Social Sciences: Marketers and social scientists use demographic data to understand and segment populations.

	3. India's Demographics: India has a relatively young population, making it attractive for multinational companies due to its large population size.
Relevance for Businesses	1. Market Size Impact: Demographic trends influence industry market sizes. 2. Identifying Opportunities and Threats: Businesses must assess demographic trends to identify opportunities and threats in the market. 3. Critical Factors: Population size, age distribution, geographic dispersion, ethnic mix, and income distribution are vital considerations for organizations.
Strategic Implications	1. Challenges for Strategists: Identifying the implications of changing demographics is a challenge for strategists. 2. Future Competitiveness: Understanding and adapting to changing demographic characteristics are crucial for ensuring future strategic competitiveness in the market.

Socio-Cultural Environment	
Definition of Socio-Cultural Environment	1. Socio-cultural environment influences enterprises universally, encompassing social traditions, values, beliefs, literacy standards, ethics, social stratification, and societal cohesion. 2. Differs from demographics as it focuses on the behaviour and belief system of the population, not just their characteristics.
Components of Socio-Cultural Environment	1. Human Relationships: Relates to how people interact within society. 2. Social Attitudes and Cultural Values: Impact organizational operations. 3. Beliefs, Values, and Norms: Determine interrelationships between individuals and organizations
Relevance for Businesses	1. Persistent Core Beliefs: Core beliefs in society remain stable and are hard to change. 2. Adaptation to Social Norms: Businesses must adjust their operations to align with societal norms and beliefs for successful operation. 3. Impact on Strategic Management: Affects mission and objective setting, as well as decisions related to products and markets within organizations.

Political-Legal Environment	
Components of Political-Legal Environment	1. Economic environment directly impacts business strategies. 2. Encompasses regional, national, and global economic conditions affecting resources, costs, quality, and availability
Influence on Business	1. Government Policies: Business operations are significantly influenced and controlled by government policies. 2. Regulatory Changes: Businesses need to adapt to changes in the regulatory framework, including taxes and duties, impacting their operations. 3. Understanding Laws: Businesses must be aware of major laws protecting consumers, competition, and organizations. 4. Relevant Laws: Knowledge of laws related to companies, competition, intellectual property, foreign exchange, and labour is essential for businesses operating in any country.

Technological Environment

Importance and Impact	1. Technology has revolutionized communication and business operations, intertwining them closely. 2. Businesses play a key role in making technological advancements accessible to society, raising living standards. 3. Businesses leverage technology, adapting to new discoveries and advancing society in return. 4. Technology enables organizations to reduce paperwork, streamline payments, and coordinate inventories efficiently, cutting costs and gaining a competitive edge. 5. Technological advancements necessitate changes in operational, production, and marketing strategies for businesses. 6. Technology creates new business opportunities while rendering existing products and services obsolete. 7. Technologies like artificial intelligence, machine learning, and robotic process automation offer both opportunities and threats to businesses, depending on their effective adoption and strategic use.

PESTLE– A tool to Analyse Macro Environment

The term PESTLE is often used to describe a framework for analysis of macro environmental factors. PESTEL analysis is frequently used to assess the business environment in which a firm operates.

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

P- Political E- Economic S- socio-cultural T- technological L- legal E- environmental

Political Factors:

1. Government Intervention: Involves how and to what extent the government intervenes in the economy and business activities.
2. Influence on Goods and Services: Political factors influence the goods and services the government provides and those it restricts.
3. Impact on Nation's Welfare: Governments significantly impact a nation's health, education, and infrastructure.

Economic Factors:

1. Interest Rates: Affect a firm's cost of capital, influencing business growth and expansion.
2. Exchange Rates: Affect costs of exporting and supply/prices of imported goods.

3. Money Supply, Inflation, and Income: Impact business decisions, credit flow, and per capita income, influencing business strategies.

Social Factors:

1. Demand and Business Operations: Social factors influence product demand and affect how a company operates.

Technological Factors:

2. Barriers to Entry: Determine entry barriers for businesses.
3. Efficient Production and Outsourcing: Influence minimum efficient production levels and outsourcing decisions.
4. Impact on Costs and Innovation: Technological shifts affect costs, quality, and lead to innovation in products and services.

Legal Factors:

1. Operational Impact: Affect how a company operates, its costs, and product demand.
2. Ease of Business: Legal factors influence the ease of conducting business operations.

Environmental Factors:

1. Industry Impact: Affect industries like tourism, farming, and insurance.
2. Climate Change Awareness: Growing awareness of climate change affects how companies operate, creating new markets and diminishing existing ones.

Political	Economic
♦ Political stability ♦ Political principles and ideologies ♦ Current and future taxation policy ♦ Regulatory bodies and processes ♦ Government policies ♦ Government term and change ♦ Thrust areas of political leaders	♦ Economy situation and trends ♦ Market and trade cycles ♦ Specific industry factors ♦ Customer/end-user drivers ♦ Interest and exchange rates ♦ Inflation and unemployment ♦ Strength of consumer spending
Social	**Technological**
♦ Lifestyle trends ♦ Demographics ♦ Consumer attitudes and opinions ♦ Brand, company, technology image ♦ Consumer buying patterns ♦ Ethnic/religious factors ♦ Media views and perception	♦ Replacement technology/solutions ♦ Maturity of technology ♦ Manufacturing maturity and capacity ♦ Innovation potential ♦ Technology access, licensing, patents, property rights and copyrights
Legal	**Environmental**
♦ Business and Corporate Laws ♦ Employment Law ♦ Competition Law ♦ Health & Safety Law ♦ International Treaty and Law ♦ Regional Legislation	♦ Ecological/environmental issues ♦ Environmental hazards ♦ Environmental legislation ♦ Energy consumption ♦ Waste disposal

Internationalization of Business

Internationalization has emerged as the dominant commercial trend over the last couple of decades. It enables a business to enter new markets in search of greater earnings and less expensive resources. Additionally, expanding internationally enable a business to achieve greater economies of scale and extend the lifespan of its products.

Characteristics of a global business:

A global business has three characteristics:

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

Developing internationally:

The steps in international strategic planning are as follows:

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

Why do businesses go global?

1. Need for Growth: Organizations expand globally to fulfil their fundamental need for growth and opportunity.
2. Shrinking Time and Distance: Rapid advancements in communication, transportation, financial flow, and technology reduce time and distance barriers globally.
3. Inadequacy of Domestic Markets: Domestic markets may not suffice due to increased competition, leading companies to explore international markets.
4. Resource Optimization: Companies seek reliable, cheaper raw materials, cost-effective labour, and talent pools globally.
5. Cost Reduction Strategies: Setting up overseas plants reduces transportation costs, and producing near the market minimizes time and expenses.
6. Market Expansion and Cash Flow: Expanding foreign markets prompts the establishment of overseas manufacturing plants and sales branches, enhancing sales and cash flow.
7. Rise of Services and Economic Integration: Services sector growth and regional economic integration drive globalization efforts worldwide.

8. Reduction of Trade Barriers: International trade barriers like tariffs and customs are decreasing, leading to increased business flow and market competitiveness.
9. Strategic Alliances and Competitive Advantage: Companies form global strategic alliances to combat economic and technological threats, leveraging their comparative and competitive advantages.

International Environment

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

1. Multinational
2. Regional
3. Country

Multinational Environmental Analysis:

1. Involves identifying, anticipating, and monitoring significant components of the global environment on a large scale.
2. Understanding global economic and macro elements is crucial.
3. Consideration of governments' tendencies, whether free or interventionist, is necessary, evaluating their present and expected future impact.

Regional Environmental Analysis:

1. Focuses on evaluating critical factors in a specific geographical area.
2. Emphasizes discovering market opportunities for goods, services, or innovations in the chosen location.

Country Environmental Analysis:

1. Requires a deeper examination of important environmental factors within specific countries.
2. Involves studying economic, legal, political, and cultural dimensions for effective market entrance strategies.
3. Customized analysis is essential for planning successful market strategies tailored to each country's unique characteristics.

Understanding Product and Industry

Business products have certain characteristics as follows:

1. Products are either tangible or intangible.
2. Product has a price.
3. Products have certain features that deliver satisfaction.
4. Product is pivotal for business.
5. A product has a useful life.

Types of Products:

- Tangible products (e.g., cars, books) are physical.
- Intangible products (e.g., telecom services, insurance) are not physical.

Pricing and Market Influence:

- Supply and demand impact product pricing.
- Quality, marketing, and target audience affect the market price.
- Competition requires cost reduction to maintain profitability.

Product Features and Satisfaction:

- Features meet consumer needs and affect pricing.
- Adjusted during development to improve user experience.
- Products must deliver value and satisfaction to customers.

Central Role of Products:

- Products drive all business activities, including production, quality, sales, marketing, and logistics.

Product Lifecycle:

- Products have a usable life and a lifecycle.
- Innovation or replacement occurs at the end of the lifecycle (e.g., mobile phones replacing fixed-line telephones).

Product Life Cycle

Product Life Cycle is a useful concept for guiding strategic choice. PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction, growth, maturity and decline.

1. The first stage of PLC is the **Introduction stage** with slow sales growth, in which competition is almost negligible, prices are relatively high, and markets are limited. The growth in sales is at a lower rate because of lack of awareness on the part of customers.
2. The second phase of PLC is **Growth stage** with rapid market acceptance. In the growth stage, the demand expands rapidly, prices fall, competition increases, and market expands. The customer has knowledge about the product and shows interest in purchasing it.
3. The third phase of PLC is **Maturity stage** where there is slowdown in growth rate. In this stage, the competition gets tough, and market gets stabilised. Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.

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

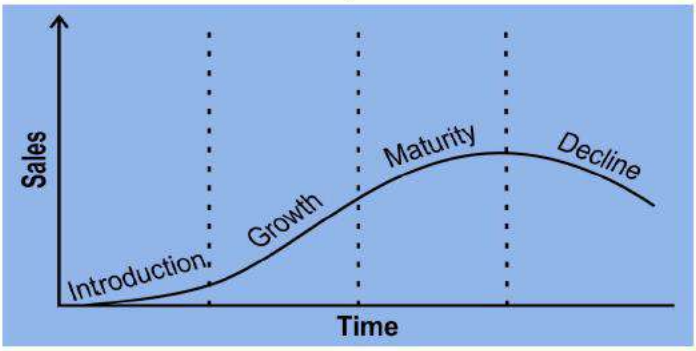

Figure: Product Life Cycle

Value Chain Analysis

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.

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

1. **Inbound logistics** are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc. Like, transportation and warehousing.
2. **Operations** transform these inputs into the final product or service: machining, packaging, assembly, testing, etc. convert raw materials in finished goods.
3. **Outbound logistics** collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service, if it is a fixed location (e.g., sports events).
4. **Marketing and sales** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.
5. **Services** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

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

Procurement:

- Involves acquiring resources for primary activities.
- Happens in various parts of the organization.

Technology Development:

- Involves product design, process development, and resource improvements.
- Includes know-how and technical advancements.

Human Resource Management:

- Focuses on recruiting, managing, training, and rewarding employees.
- Essential for all primary activities in the organization.

Infrastructure:

- Includes planning, finance, quality control, and information management systems.
- Sustains the organization's culture and performance in primary activities.

Industry Environment Analysis

The goal of the industry environment analysis, which is typically an important step of strategic analysis, 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:

- Systematically identifies competitive pressures and their strength.
- Guides strategy adaptation, profitability improvement, and competitive edge.
- Michael Porter focuses on competitors in the same industry.

Competitive Pressure operating in Five Areas:

1. Competitive pressures associated with Rival sellers compete for buyers' attention and loyalty.
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.

Use of Five Step model by Strategist:

Step 1: Identify the specific competitive pressures associated with each of the 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

The Threat of New Entrants

New entrants place a limit on prices and affect the profitability of existing players. The new capacity and product range the new entrants bring increases competitive pressure. bigger the new entrant, the more severe the competitive effect. New entrants can limit prices and impact the profitability of existing companies.

To deter new entrants, existing firms can create barriers like high capital requirements, economies of scale, unique products, brand identity, and access to distribution channels. These are explained as follows:

1. **Capital Requirements:** Needing a lot of money to start in an industry keeps out firms that lack funds, making existing companies more profitable.

2. **Economies of Scale:** Economies of scale leads to decline in the **per-unit cost** of production (or other activity) as volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs. This tends to discourage new entrants.

3. **Product Differentiation** Production differentiation refers to the **physical or perceptual differences, or enhancements**, that make a product special or unique in the eyes of customers. Firms in the personal care products and cosmetics industries actively engage in product differentiation to enhance their products' features. Differentiation works to reinforce entry barriers because the cost of creating genuine product differences may be too high for the new entrants.

4. **Switching Costs:** To succeed in an industry, new entrant must be able to persuade 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 between firms. When such switching costs are high, buyers are often reluctant to change.

5. **Brand Identity:** Existing companies' strong brand identity is hard for new entrants to match, requiring substantial time and resources.

6. **Access to Distribution Channels:** The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals. Often, existing firms have significant influence over the distribution channels and can retard or impede their use by new firms.

7. **Possibility of Aggressive Retaliation:** Existing companies might lower prices and increase advertising to counter new competitors, deterring entry.

Bargaining Power of Buyers

The bargaining power of the buyers influences not only the prices that the producer can charge but also influence costs and investments of the producer. This force will become heavier depending on the possibilities of the buyers forming groups or cartels, particularly in case of industrial products.

Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services. This leverage is particularly evident when:

1. Buyers have full knowledge of the sources of products and their substitutes.
2. They spend a lot of money on the industry's products i.e. they are big buyers.
3. 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.

Bargaining Power of Suppliers

Often suppliers can exercise considerable bargaining power. If the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, can affect industry attractiveness and profitability.

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

1. Their products are crucial to the buyer and substitutes are not available.
2. They can erect high switching costs.
3. They are more concentrated than their buyers.

The Nature of Rivalry in the Industry:

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

The level of competition in an industry affects its attractiveness and profits. Intense competition can increase costs and make the industry less profitable.

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

1. **Industry Leader:** A strong leader can prevent price wars due to financial strength, making smaller rivals hesitant to start conflicts.
2. **Number of Competitors:** More competitors make it harder for the leader to control prices, leading to challenges in communication.
3. **Fixed Costs:** High fixed costs drive rivals to cut prices to utilize excess capacity, reducing industry profitability.
4. **Exit Barriers:** Rivalry decreases if competitors leave the industry, leading to higher profitability in industries with few exit obstacles.
5. **Product Differentiation:** Unique products shield companies from price wars, increasing profitability in differentiated industries.
6. **Slow Growth:** Industries with slow growth face intense rivalry as competitors fight for market share, lowering profitability for all.

Threat of Substitute

Substitute products are a **latent** source of competition in an industry. In many cases they become a major constituent of competition.

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

A final force that can influence industry profitability is the availability of substitutes for an industry's product. 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.

Attractiveness of Industry

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

1. **Industry Growth:** Is the industry likely to grow in the future?
2. **Current Competition:** Can businesses make profits now, and will competition increase or decrease?
3. **Driving Forces:** How will industry profitability be affected by ongoing trends?

4. **Competitive Position:** Is the company in a strong position, and will it get stronger or weaker?
5. **Exploiting Weaknesses:** Can the company benefit from weaker rivals in the industry?
6. **Defending Against Challenges:** Can the company handle or counter industry challenges?
7. **Risk and Uncertainty:** How risky and uncertain is the industry's future?
8. **Industry Problems:** How severe are the overall problems faced by the industry?
9. **Strategic Importance:** Does participating in this industry contribute significantly to the company's overall success?

Attractiveness is relative, not absolute.

1. An industry may be deemed attractive if overall profit prospects are above average.
2. This attractiveness doesn't apply uniformly to all firms; it depends on their strengths and weaknesses.
3. Strong competitors in an unattractive industry may find ways to protect their competitiveness and profitability.
4. They might invest cautiously and consider acquisitions to strengthen their market position.
5. Weaker companies in unattractive industries may merge with rivals to bolster market share and profitability.
6. Alternatively, they may explore diversification opportunities outside the industry for better prospects.

Experience Curve

Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production.

The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organizations, 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

This means bigger companies tend to have lower costs, giving them a competitive edge. Various factors like learning, economies of scale, product improvements, and technology contribute to this cost reduction.

Experience curve has following features:

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

A typical experience curve may be depicted as follows:

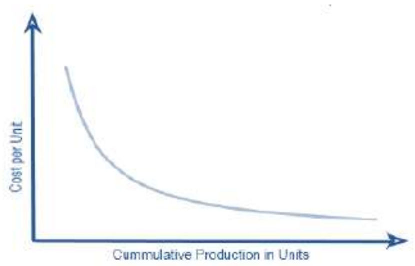

Figure: Experience curve

Value Creation

Value creation means offering products and services that customers find valuable. It includes features, quality, durability, and performance that customers are willing to pay for. Businesses also consider value for stakeholders, expanding the concept beyond just customers.

Value creation is about a company making products, services, or business processes more valuable. Businesses aim to create value for customers and stakeholders, enhancing their investment. This strategy provides a competitive advantage and boosts profits.

Three factors affect a company's profitability:

1. The value customers find in the products,
2. The price charged, and
3. The production costs.

The concept of a value chain helps analyse different functions within organizations, revealing sources of differentiation and cost behaviour. Ultimately, value creation occurs when consumers value a product more than its cost, leading to increased profits for businesses.

Market and Customer

1. "Customers" and "consumers" are similar terms, but customers buy products, while consumers use them.
2. Customer analysis is a vital part of business planning. It helps identify target customers, understand their needs, and show how the product meets those needs.
3. This process involves studying customer surveys, data, market strategies, and segmentation techniques.

4. By analysing this information, businesses can create customer profiles, which include details like age and preferences. Many parties, such as buyers and sellers, help gather this data.

Customer Behaviour:

Customer behaviour goes beyond knowing who the customers are; it delves into how they buy products. It looks at how often they shop, what they like, and how they perceive your marketing and services. This understanding helps businesses talk to customers effectively. Knowing these behaviours helps create successful marketing campaigns, offer products that customers want, and keep them coming back for more purchases.

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

Influence:

1. External influences such as advertisements and peer recommendations, impact consumers' decision-making processes. These influences are divided into marketing efforts and environmental factors.
2. Internal influences involve psychological factors within individuals, including motivations and attitudes, which also affect consumer behaviour. Both internal and external factors play a role in shaping customers' choices and preferences.

Decision Making:

A rational consumer gathers information, considers pros and cons, and then makes a decision based on their findings and existing knowledge.

The stages of decision-making process can be described as:

- Problem recognition, i.e., identify an existing need or desire that is unfulfilled
- Search for desirable alternative and list them
- Seeking information on available alternatives and weighing their pros and cons.
- Make a final choice

Post-decision Processes:

After making a decision and purchasing a product, the final phase in the decision-making process is evaluating the outcome.

The consumer's reaction may vary depending upon the satisfaction. While a happy customer may make repeat purchase and recommend to others, customer with dissonance will neither purchase the product again nor recommend it to others.

Competitive Strategy

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

- Creation of competitive advantage and
- Protection of competitive advantage.

Competitive Landscape:

Competitive landscape analysis helps businesses identify and understand their competitors, including their goals, values, and strengths. Understanding of competitive landscape requires an application of "competitive intelligence".

An in-depth investigation and analysis of a firm's competition allows it to assess the competitors' strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage.

Steps to understand the Competitive Landscape:

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

This answers the question:

- Who are the competitors and how big are they?

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

This answers the question:

- What are their product and services?

Determine the strengths of the competitors: What are the strengths of the competitors? What do they do well? Do they offer great products? Why are consumers liking their product/service? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business?

This answers the questions:

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

Determine the weaknesses of the competitors: Identify the areas where the competitor is lacking or is weak. Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. Financial strength and weakness can always be learnt from annual reports.

This answers the question.

- Where are they lacking?

Put all of the information together: At this stage, the 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.

This answers the questions:

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

Competitive Strategy

Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the market place – the particular strategy elements, product attributes, resources, competencies, competitive capabilities and business outcomes that spell the difference between profit & loss and ultimately, between competitive success or failure.

Key success factors are the prerequisites for industry success or, to put it another way, KSFs are the factors that shape whether a company will be financially and competitively successful.

- Identifying industry key success factors (KSFs) is crucial for strategic analysis.
- Managers must understand which factors are most important for competitive success.
- Organizations gaining insight into industry KSFs can achieve sustainable competitive advantage.
- Excelling at one or more KSFs offers an opportunity for competitive advantage.
- Key success factors differ between industries and can change over time.

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?

Introduction

Strategic Analysis is equally important when it comes to internal environment assessment. Internal environment include:

- People: Individuals, groups, stakeholders.
- Processes: Input, throughput, output.
- Physical Infrastructure: Space, equipment, working conditions.
- Administrative System: Lines of authority, power, responsibility, accountability.
- Organizational Culture: Intangible aspects like relationships, philosophy, values, ethics

Understanding Key Stakeholders

Stakeholders are individuals and entities with a stake in a firm's success and the ability to impact it. This concept contrasts with the traditional view of the firm solely as an extension of owners and shareholders.

1. They have the power to influence the organization's strategy and performance.
2. Stakeholders include employees, shareholders, investors, suppliers, customers, regulators, and more.
3. Stakeholders include employees, shareholders, investors, suppliers, customers, regulators, and more.
4. Stakeholders, whether internal or external, influence or are impacted by the business or corporate strategy.

Example of Key Stakeholders and their requirements:

Stakeholders	Requirements
Shareholders	♦ Innovation and continuous creative content ♦ Total shareholder return (RoI) ♦ Corporate social responsibility ♦ Top rankings of the organisation ♦ Highest market share
CEO and Board of Directors	♦ Prestige ♦ Market share ♦ Revenue and profit growth ♦ Market rankings
Major Vendors (Production Houses)	♦ Growth ♦ Stability of ordering ♦ Stable margins
Consumers (Viewers)	♦ New content - Innovation ♦ Better deals - Pricing Benefits ♦ Value for money ♦ Continuous supply
Employees	♦ Wages and benefits ♦ Stability of employment ♦ Pride of working for a reputed organisation

Mendelow's Matrix

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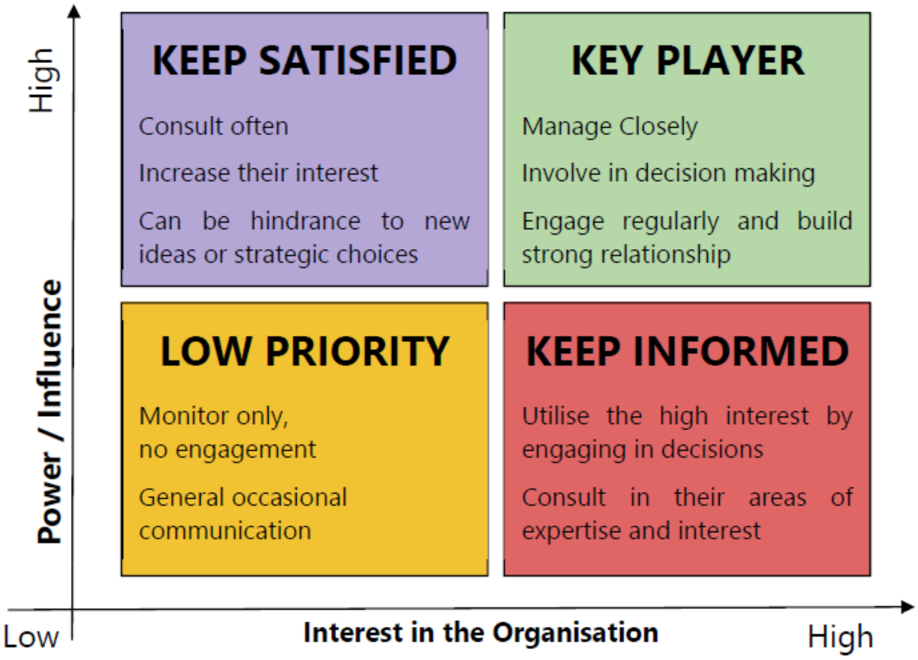
The Mendelow Stakeholder matrix (also known as the Stakeholder Analysis matrix and the Power-Interest matrix) is a simple framework to help manage key stakeholders.

1. Mendelow's Matrix aids in managing stakeholders by providing clarity.
2. Helps in understanding the influence (Power) and interest of stakeholder groups.
3. Stakeholder groups are analysed based on Power (ability to influence strategy or resources) and Interest (level of interest in the organization's success).
4. Not all stakeholders have equal Power and Interest.
5. Some stakeholders possess more Power but may have less Interest, and vice versa. Example:
   - A significant shareholder likely has high Power and high Interest.
   - A major competitor may have high Power to impact strategy but potentially less Interest in the rival organization's success



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

Keep Satisfied Stakeholders: High Power, Less Interested People - Organisation should put in enough work with these people to keep them satisfied with their intended information on a regular basis. For example, banks, government, customers, etc.

Key Players Stakeholders: High power, highly interested people - Organisation's aim should be to fully engage this group of stakeholders, making the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis. For example, Shareholders, CEO, Board of Directors, etc.

Low Priority Stakeholders: Low Power, Less Interested People - Organisation should only monitor them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest or power change. For example, business magazines, media houses, etc.

Keep Informed Stakeholders: Low power, highly interested people - Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audiences can also help with real time feedbacks and areas of improvement for an organisation. For example, employees, vendors, suppliers, legal experts, etc.

Memory Aid:

1. **Keep Satisfied:** Think of keeping them content with regular information.
2. **Key Players:** Engage fully, satisfy, take advice, and keep them well-informed.
3. **Low Priority Stakeholders:** Monitor without significant efforts; minimal attention unless power or interest changes.
4. **Keep Informed:** Adequately inform and communicate; leverage for real-time feedback and improvement.

Strategic Drivers

Strategic drivers, a crucial aspect of internal analysis, focus on evaluating a business's current performance by identifying what sets it apart from competitors.

This involves analysing key markets, customers, products/services, channels, and the organization's competitive advantage. The interconnection between components, such as markets and products/services, highlights the complexity of this assessment.

The evaluation of current performance can be subjective, influenced by management's metrics and business approach, whether profit-driven, purpose-driven, or based on other metrics.

In general, the key strategic drivers encompass:

- **Industry and markets,**
- **Customers, products/services, and**
- **Channels.**

Industry and Markets

What is Market?

A market is defined as the sum total of all the buyers and sellers in the area or region under consideration. The value, cost and price of items traded are as per forces of supply and demand in a market.

The market may be a physical entity or may be virtual like e-commerce websites and applications. It may further be local or global, depending on which all countries the business sells its products in.

Is market the same for all businesses?

Market refers to all the buyers and sellers of a particular product/service and so it would be incorrect to say that market is the same for all businesses. Each business has its own set of customers i.e. market and more so, each product within a business has its own market.

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

Analysing Industry and Markets

Industry and market analysis is extremely important to identify one's position as compared to the competitors, who can be of equal size and value, or bigger in size and value or even smaller and newer. **A tool used for this is called - Strategic Group Mapping.**

A strategic group consists of those rival firms which have similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in any of the several ways – have comparable product-line breadth, same price/quality range, same distribution channels, same product attributes, identical technological approaches, offer similar services and technical assistance and so on.

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

1. **Identify Competitive Characteristics:** Variables include price/quality range, geographic coverage, degree of vertical integration, product-line breadth, use of distribution channels, and degree of service offered.
2. **Plot on a Two-Variable Map:** Plot firms on a map using pairs of differentiating characteristics.
3. **Assign to Strategic Groups:** Firms in a similar strategy space are assigned to the same strategic group.
4. **Draw Proportional Circles:** Draw circles around each strategic group, with sizes proportional to the group's share of total industry sales revenues.

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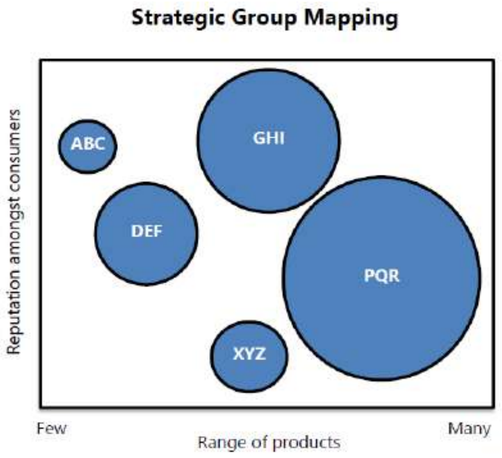

Customers

Understanding the different types of customers to whom the organisation's products/services are sold or provided, is not only important but also the first step in deciding the product/service.

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

- Understanding key customers helps identify areas for improvement and business focus.
- Understanding customer trends and profitability are crucial for profit generation.
- Data collection allows identification of issues and pursuit of growth in targeted areas.
- Customer buys, consumer uses. Example: Parent as the customer buying stationery, kids as consumers using it.
- From a pricing perspective - the customer is of more importance and from value creation and design/usability, consumer needs to be the kept at the center of decision making.

Customer vs Consumer:

Consumers are the ones who finally use a product/service, while customers are the buyers of that product. A customer can be a consumer and vice versa. But for strategy teams especially marketing teams it is important to understand the customer and consumer separately.

Product/Services

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

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

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

For a new product, pricing strategies for entering a market need to be designed and for that matter at least three objectives must be kept in mind:

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

Product Marketing Strategies:

1. **Social Marketing:** It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group to bring in a social change. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke and also indicates that smoking is injurious to health.

2. **Augmented Marketing:** This type of marketing includes additional customer services and benefits that a product can offer besides the core and actual product that is being offered. It can be in the form of introduction of hi-tech services like movies on demand, online computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

3. **Direct Marketing:** Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, e-mail, telecomputing, electronic marketing, shopping, and TV shopping.

4. **Relationship Marketing**: The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders. For example, Airlines offer special lounges at major airports for frequent flyers. Thus, providing special benefits to select customers to strengthen bonds. It can go a long way in building relationships.

5. **Services Marketing:** It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible. This marketing requires different marketing strategies since it has peculiar characteristics of its own such as inseparability, variability etc.

6. **Person Marketing**: People can also be marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards

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particular person. For example, politicians, sports stars, film stars, etc. i.e., market themselves to get votes, or to promote their careers.

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

8. **Place Marketing:** Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, marketing of business sites, tourism marketing.

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 customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.
10. **Differential Marketing:** It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and 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. For example, products such as movie tickets can be sold at lower price over weekdays to generate demand.

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.

13. **Demarketing:** It includes marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

Memory Aid:

Services Marketing: **Some**
Augmented Marketing: **Aunty**

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Synchro-marketing: **Sell**
Place Marketing: **Pizza**
Direct Marketing: **Daily**
Person Marketing: **People**
Enlightened Marketing: **Regularly**
Relationship Marketing: **Eat**
Organization Marketing: **Over there**
Concentrated Marketing: **Once C**
Differential Marketing: **D**
Demarketing: **D came**

Channels

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

To understand the concept of channels let us see some examples of how the following companies distribute their products and services:

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

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

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

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

3. **The service channel** - The service channel refers to **the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The** service channel is an important consideration for products that are complex in terms of installation or customer

assistance. For example, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

Why Channel Analysis is important?

Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets.

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

Thus, analysis of channels that suit one's products and customers is of utmost importance.

Role of Resources and Capabilities: Building Core Competency

A **core competence** is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

C.K. Prahalad and Gary Hamel introduced the concept of core competency, defined as collective organizational learning, encompassing diverse production skills and integrating multiple technologies.

Competency is viewed as a combination of skills and techniques rather than individual skill or separate technique. In core competencies, organizations typically combine various skills and techniques, allowing the entire organization to benefit from these diverse individual capabilities. Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources.

They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities. Cultural capabilities refer to the ability to manage change, the ability to learn and team working. Core Competence-based diversification reduces risk and investment and increases the opportunities for transferring learning and best practice across business units.

The human resource manager has a significant role to play in developing core competency of the firm. Core-competencies can be generated and maintained only through the effective management of human resources and their skills.

Core technological competencies are also corporate assets; and as assets, they facilitate corporate access to a variety of markets and businesses

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

- **Competitor differentiation,**
- **Customer value, and**
- **Application to other markets**

1. Competitor Differentiation:

Competitor differentiation is a key condition for core competence. To qualify, a competence must be unique and challenging for competitors to imitate. This uniqueness provides a competitive edge, allowing the company to offer distinct products or services that competitors cannot easily replicate.

Continuous improvement is crucial for maintaining this competitive advantage. Core competence can exist externally, but the company must excel significantly in its application. For instance, Tesla's success in electric vehicles, protected by patents, exemplifies core competence.

2. Customer Value:

The second condition for core competence is customer value.

- A product or service must **deliver a fundamental benefit** to the end customer to be considered a core competence.
- This involves possessing all the necessary skills to provide essential benefits. The product or service should have a significant impact on the customer's decision to purchase.
- If the customer chooses the company without experiencing this impact, the competence is not a core competence, and it won't impact the company's market position.
- Consumer appreciation of the offered differentiation is crucial for the core competence to make sense.

3. Application to other markets:

The last condition for core competence involves applying competencies to other markets.

- Core competence must be applicable across the entire organization, not limited to a specific skill or expertise.
- Even if a particular capability is crucial for business success, it won't be considered a core competence if it's not fundamental from the organization's overall perspective.

- Core competence is a unique set of skills and expertise used throughout the organization to explore and exploit potential markets.

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

For example:

Marketing and Sales is a core competence of Hindustan Unilever Limited (HUL) This means that HUL has used its resources to form marketing related capabilities that in turn allow it to market its products in ways that are superior those of competitors. Because of this core competence, HUL is capable of launching new brands in the market successfully.

Wal-Mart focuses on lowering its operating costs. The cost advantage that Wal-Mart has created for itself has allowed the retailer to price goods lower than most competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

Criteria for building a Core Competencies (CC)?

Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

Valuable:

Capabilities become valuable when a firm can leverage them to seize opportunities or mitigate threats in its external environment. The firm generates value for customers by efficiently utilizing these capabilities to capitalize on opportunities.

Rare:

Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities that are widespread among many rivals are unlikely to confer a competitive advantage to any single entity. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

Costly to imitate:

Costly to imitate means such capabilities that competing firms are unable to develop easily. For example, Intel has enjoyed a first-mover advantage more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology and brought microprocessors to market well ahead of the competitor. The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

Non-substitutable:

Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This criterion emphasizes that for a capability to truly contribute to a competitive advantage, it must not have strategically equivalent resources that are both common and easy to imitate by competitors. **For example**, for years, firms tried to imitate Tata's low-cost strategy, but most have been unable to duplicate Tata's success. Tata has a unique culture and attracts some of the top talent in the industry. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.

The strategic value of capabilities increases as they become more difficult to substitute.

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

Combining External and Internal Analysis (Swot Analysis)

SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

- The primary objective is to provide a comprehensive understanding of factors influencing business decisions.
- SWOT analysis is used to discover recommendations and strategies, focusing on leveraging strengths and opportunities to address weaknesses and threats.
- Widely utilized by business owners for company growth and operational improvement.
- Can be performed periodically to assess the current business landscape and make necessary adjustments.

The benefit of this analysis is that it identifies the complex issues for an organisation and puts them into a simple framework. While on the other hand, one of the major criticisms of this tool is that it does not generally provide for evaluation of strengths, weaknesses, opportunities and threats in the competitive context.

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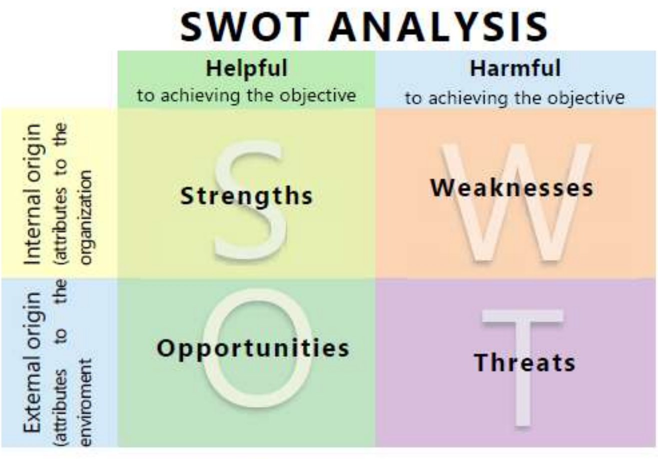

SWOT Analysis Example

1. **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.
2. **Weakness:** A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.
3. **Opportunity:** An opportunity is a favourable condition in the external environment which enables it to strengthen its position.
4. **Threat:** An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

SWOT Analysis for Internal or External Environment?

SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Internal analysis is more focused on understanding the existing structure and competencies of the business, thus highlighting the Strengths and Weaknesses, while External Analysis is about identifying and preparing for uncontrollable which can either be Opportunities or threats. Therefore, SWOT Analysis is a tool which is used for both Internal and External Analysis.

Competitive Advantage: Using Michael Porter's Generic Strategies

Competitive advantage is the position of a firm to maintain and sustain a favourable market position when compared to the competitors. Competitive advantage is ability to offer buyers something different and thereby providing more value for the money.

It is achieved advantage over rivals when a company's profitability is greater than average profitability of firms in its industry. It is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry.

Competitive advantage may also be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large.

It is achieved when the firm successfully formulates and implements the value creation strategy and other firms are unable to duplicate it or find it too costly to imitate. Further, it can be said that a firm is successful in achieving competitive advantage only after other firm's efforts to duplicate or imitate it fails.

Sustainability of Competitive Advantage

The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon **four major characteristics** of resources and capabilities:

1. **Durability:** The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.

2. **Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

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 on which a firm's competitive advantage is based? This is the true test of imitability. Where capabilities require networks of organizational routines, whose effectiveness depends on the 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. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

Michael Porter's Generic Strategies

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

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- Cost leadership,
- Differentiation, and
- Focus.

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

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

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

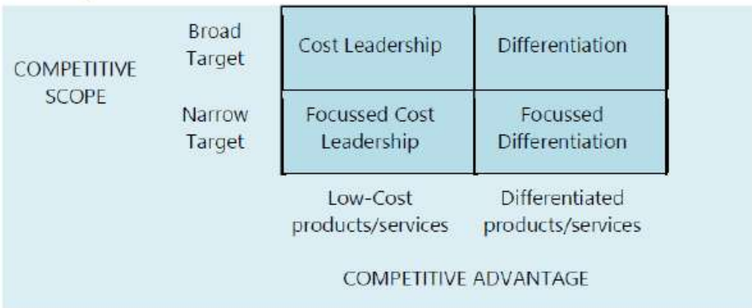

Figure: Michael Porter's Generic Strategies

Cost Leadership Strategy

Cost leadership strategy requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Accordingly, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits. The low-cost leadership should be such that no competitors are able to imitate so that it can result in sustainable competitive advantage to the cost leader firm.

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

- When the market is composed of many price-sensitive buyers and
- When there are few ways to achieve product differentiation.

Some risks of pursuing cost leadership are:

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

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

Achieving Cost Leadership Strategy

To achieve cost leadership, following actions could be taken:

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

Advantages of Cost Leadership Strategy

A cost leadership strategy may help to remain profitable even with rivalry, new entrants, supplier's power, substitute products, and buyers' power.

1. Rivalry – Competitors are likely to avoid a price war, since the low-cost firm will continue to earn profits even after competitors compete away their profits.
2. Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.
3. Suppliers – Cost leaders are able to absorb greater price increases from suppliers before they need to raise prices for customers.
4. Entrants – Low-cost leaders create barriers to market entry through their continuous focus on efficiency and cost reduction.
5. Substitutes – Low-cost leaders are more likely to lower the costs to induce existing customers to stay with their products, invest in developing substitutes, and even purchase patents.

Disadvantages of Cost Leadership Strategy

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

Differentiation Strategy

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product.

Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes.

Product development is an example of a strategy that offers the advantages of differentiation.

A risk associated with pursuing a differentiation strategy is that:

- The unique product may not be valued high enough by customers to justify the higher price. When this happens, a cost leadership strategy will easily defeat a differentiation strategy.
- Competitors may develop ways to copy the differentiating features quickly.

Basis of Differentiation:

There are several bases of differentiation, major being: Product, Pricing and Organization.

Product: Innovative products that meet customer needs can be an area where a company has an advantage over competitors. However, the pursuit of a new product offering can be costly – research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product. **For example**, Apple iPhone, has invested huge amounts of money in R&D, and the customers' value that. They want to be among the first ones to try the new offerings from the company.

Pricing: It fluctuates based on its supply and demand and may also be influenced by the customer's ideal value for a product. Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices. **For example**, Apple iPhone dominates the smart phone segment by charging higher prices for its products.

Organisation: Organisational differentiation is yet another form of differentiation. Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty can all provide additional ways for a company differentiate itself from the competition. **For example**, Apple has been building customer loyalty since years and has a fanbase of consumers that are called "Apple Fanboys/Fangirls".

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Achieving Differentiation Strategy

To achieve differentiation, following strategies could be adopted by an organisation:

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

Advantages of Differentiation Strategy

A differentiation strategy may help an organisation to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. **Rivalry** - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. **Buyers** – They do not negotiate for price as they get special features and they have fewer options in the market.
3. **Suppliers** – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.
4. **Entrants** – Innovative features are an expensive offer. So, new entrants generally avoid these features 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.

Disadvantages of Differentiation Strategy

1. In the long term, uniqueness is difficult to sustain.
2. Charging too high a price for differentiated features may cause the customer to switch-off to another alternative. As we see a shift of iPhone users to other android flagship smart phones.
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.

Focus Strategies

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

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

Focused differentiation: A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Similar to focused low cost strategy, narrow markets are defined in different ways in different settings. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy. **For example,** Rolls-Royce sells limited number of high-end, custom-built cars.

Achieving Focused Strategy

To achieve focused cost leadership/differentiation, following strategies could be adopted by an organization:

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

Advantages of Focused Strategy

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

Disadvantages of Focused Strategy

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

Best-Cost Provider Strategy

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

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

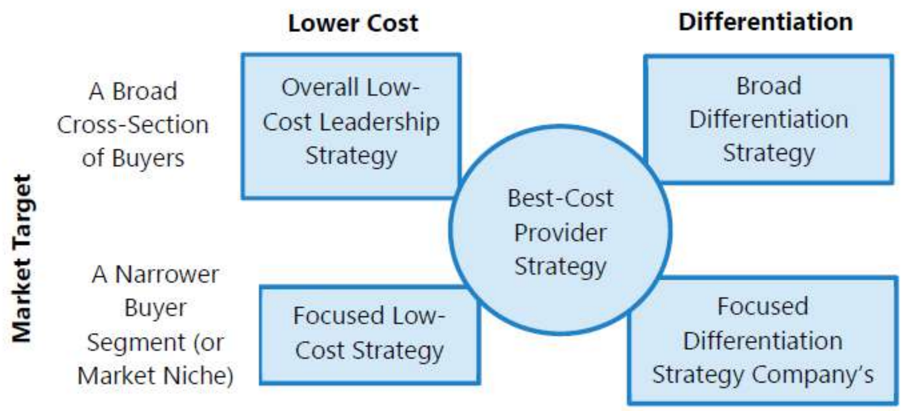

Figure: The Five Generic Competitive Strategies

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

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

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

Introduction

1. Strategies are developed at various organizational levels.
2. Strategy formulation entails careful decision-making
3. Actions address the firm's objectives, shareholder concerns, and resource allocation.
4. Strategies are coordinated among different business units.
5. The primary goal is to achieve optimal organizational performance.
6. Strategic decisions are made by the top management.
7. Strategic decisions are delegated down to middle management.
8. Functional level managers execute the delegated strategies with their teams.

Strategic Choices

Different types of strategies on the basis of their classification

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

The corporate strategies a firm can adopt may be classified into four broad categories:

1. **Stability strategy**
2. **Expansion strategy**
3. **Retrenchment strategy**
4. **Combination strategy**

The basic features of the corporate strategies are as follows:

Strategy	Basic Feature
Stability	The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
Expansion	Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.
Retrenchment	The firm retrenches some of the activities in some business (es), or) or drops the business as such through sell-out or liquidation.
Combination	The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirements of the firm.

Stability Strategy

Stability strategies are intended to safeguard the existing interests and strengths of business. It involves organisations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on.

A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in same products and services. In stability strategy, few functional changes are made in the products or markets, however, it is not a 'do nothing' strategy. This strategy is typical for mature business organizations. Some small organizations also frequently use stability as a strategic focus to maintain comfortable market or profit position.

Major Reasons for Stability Strategy:

1. A product has reached the maturity stage of the product life cycle.
2. The staff feels comfortable with the status quo as it involves less changes and less risks.
3. It is opted when the environment in which an organisation is operating is relatively stable.
4. Where it is not advisable to expand as it may be perceived as threatening.
5. After rapid expansion, a firm might want to stabilize and consolidate itself.

Characteristics of Stability Strategy:

1. A firm opting for stability strategy stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.
2. The endeavour is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources. The assessment of the firm is that the desired income and profits would be forthcoming through such incremental improvements in functional efficiencies.
3. Stability strategy does not involve a redefinition of the business.
4. It is a safe strategy that maintains status quo.
5. It does not warrant much of fresh investments.
6. The risk involved in this strategy is less.
7. While opting for this strategy, the organization can concentrate on its resources and existing businesses/products and markets, thus leading to building of core competencies.
8. The firms with modest growth objective choose this strategy.

Question: Why don't Startups aim for stability?

A startup is an entrepreneurial venture in the early stages of ideation and development, generally created for solving real-life problems through technology. For it, the most important factors are speed and agility, because of it being in a nascent stage of operations. Stability on the other hand is more meaningful strategy when the size of operations is expanded to full capacity and business is at a mature stage. Thereby, we rarely see startups aiming for stability.

Growth/Expansion Strategy

The Growth/Expansion strategy involves redefining the business through the expansion of its scope and a substantial increase in business investments. This strategy is synonymous with dynamism, energy, promise, and success. It is typically marked by a significant re-evaluation of goals and directions, as well as major initiatives involving substantial investments, exploration into new products, adoption of new technology, entry into new markets, innovative decision-making, and action programs, among other aspects.

Major Reasons for Growth Strategy:

1. It may become imperative when environment demands increase in pace of activity.
2. 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.
3. Expansion may lead to greater control over the market vis-a-vis competitors.
4. Advantages from the experience curve and scale of operations may accrue.
5. Expansion also includes intensifying, diversifying, acquiring and merging businesses.

Characteristics of Growth/Expansion Strategy:

1. Expansion strategy involves a redefinition of the business of the corporation.
2. Expansion strategy is the opposite of stability strategy. While in stability strategy, rewards are limited, in expansion strategy they are very high. In the matter of risks, too, the two are the opposites of each other.
3. Expansion strategy leads to business growth. A firm with a mammoth growth ambition can meet its objective only through the expansion strategy.
4. The process of renewal of the firm through fresh investments and new businesses/products/markets is facilitated only by expansion strategy.
5. Expansion strategy is a highly versatile strategy; it offers several permutations and combinations for growth. A firm opting for the expansion strategy can generate many alternatives within the strategy by altering its propositions regarding products, markets and functions and pick the one that suits it most.
6. Expansion strategy holds within its fold two major strategy routes: Intensification & Diversification. Both of them are growth strategies; the difference lies in the way in which the firm actually pursues the growth.

Types of Growth/Expansion Strategy

The growth strategies can be classified into two main types:

(A) Internal growth strategies

- a. Expansion through Intensification
  - i. Market Penetration
  - ii. Market Development
  - iii. Product Development
- b. Expansion through Diversification
  - i. Concentric Diversification
    - Vertically Integrated Diversification
    - Horizontal Integrated Diversification
  - ii. Conglomerate Diversification

iii. Innovation

(B) External growth strategies

a. Expansion through Mergers and Acquisitions
   i. Horizontal Merger
   ii. Vertical Merger
   iii. Co-generic Merger
   iv. Conglomerate Merger

b. Expansion through Strategic Alliance

Expansion through Intensification

Expansion or growth through intensification means that the organisation tries to grow internally by intensifying its operations either by market penetration or market development or by product development. It tries to cash on its internal capabilities and internal resources.

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

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

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

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

Expansion or Growth through Diversification

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Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. Diversification endeavours can be related or unrelated to existing businesses of the firm.

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

1. **Concentric Diversification**: Diversification into related business to benefit from synergistic gains
2. **Conglomerate Diversification**: Diversification into unrelated business to explore more opportunities beyond existing areas of expertise
3. **Expansion through Innovation**

Concentric Diversification

Concentric diversification **takes place when the products are related.** In this diversification, the new business that is it diversifies into is linked to the existing businesses through process, technology or marketing.

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

For example: A company producing clothes ventures into the manufacturing of shoes.

Reasons for pursuing: The most common reason for pursuing a concentric diversification is that opportunities in a firm's existing line of business are available.

Concentric diversification is generally understood in two directions:

1. **Vertical integration**
2. **Horizontal integration**

Vertically Integrated Diversification:

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

Forward and Backward Integration:

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

Backward integration is concerned with creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production/supply of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. For example, A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.

Horizontal Integrated Diversification:

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

Conglomerate Diversification

In conglomerate diversification, no linkages related to product, market or technology exist; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position. **For example, A cement manufacturer diversifies into the manufacture of steel and rubber products.**

Concentric Diversification	Conglomerate Diversification
Meaning: It occurs when a firm adds related products or markets.	**Meaning:** It occurs when a firm diversifies into areas that are unrelated to its current line of business.
Linkage: The new business is linked to the existing businesses through process, technology or marketing.	**Linkage:** Here no such linkages exist; the new business/product is disjointed from the existing businesses/products.
Reasons for pursuing: The most common reason for pursuing a concentric diversification is that opportunities in a firm's existing line of business are available.	**Reasons for pursuing:** The common reason for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

Expansion through Innovation

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

1. **Helps to solve complex problems:** A business looks for chances to solve societal issues through planned innovation in its areas of expertise. This guided innovation aims to address complex problems by creating sustainable solutions that focus on customer needs. **For instance**, the environmental issue is being addressed by transitioning to renewable energy sources such as solar, wind, and sea waves.

2. **Increases Productivity:** Innovation streamlines and automates tasks, enhancing productivity in organizations. Companies invest significantly in innovation to simplify processes and automate repetitive tasks, as seen in the widespread use of software like MSExcel in finance. This digital innovation not only improves current productivity but also opens avenues for further development, creating a ripple effect with a broad impact across industries.

3. **Gives Competitive Advantage:** Innovation is crucial for staying ahead of competitors, and businesses dedicate strategic efforts to achieve this advantage. The faster a business innovates, the more it distances itself from competitors. Innovative products, focused on providing added satisfaction, create a competitive advantage by both retaining existing customers and attracting new ones.

External Growth Strategies

When the organization instead of growing internally thinks of diversifying by making alliances with external organisations, it is called external growth diversification. It can be classified in two ways:

1. Expansion through Mergers and Acquisitions
2. Expansion through Strategic Alliance

Expansion through Mergers and Acquisitions

Mergers and acquisitions offer swift expansion, avoiding the complexities of internal growth. Organizations assess these opportunities for mutual benefit, seeking positive synergies in areas like facilities and skills. Mergers involve friendly collaboration, while acquisitions, often during economic downturns, result in a stronger entity taking control of a weaker one for combined operations.

The following are the types of mergers and are quite similar to the types of diversification:

Horizontal Merger

Horizontal merger is a combination of firms engaged in the same industry. It is a merger with a direct competitor. The principal objective behind this type of merger is to achieve economies of scale in the production process by shedding duplication of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on.

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

Vertical Merger

It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms. If an organization takes over its supplier/producers of raw material, then it leads to backward integration. On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels. Vertical merger results in many operating and financial economies. Vertical mergers help to create an advantageous position by restricting the supply of inputs to other players, or by providing the inputs at a higher cost.

For example, backward integration and forward integration

Co-generic Merger

In Co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies. Such merger includes the extension of the product line or acquiring components that are required in the daily operations. It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements.

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

Conglomerate Merger

Conglomerate mergers are the combination of organizations that are unrelated to each other. There are no linkages with respect to customer groups, customer functions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these factors.

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

Advantages of Strategic Alliance

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

1. **Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Having a strategic partner who is well-known and respected also helps add legitimacy and creditability to a new venture.

2. **Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.

3. **Strategic:** Rivals can join together to cooperate instead of competing with each other. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.

4. **Political:** Sometimes 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. Forming

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

Disadvantages of Strategic Alliance:

The major disadvantage is sharing. Strategic alliances require sharing of resources and profits, and also sharing knowledge and skills that otherwise organisations may not like to share. Sharing knowledge and skills can be problematic if they involve trade secrets.

Strategic Exits

Strategic Exits are followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems.

These steps result in different kinds of retrenchment strategies.

Turnaround Strategy

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

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

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

Action Plan for Turnaround

1. **Stage One** – Assessment of current problems: In the first step, assess the current problems and get to the root causes and the extent of damage.
2. **Stage Two** – Analyse the situation and develop a strategic plan: Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions after analysing strengths and weaknesses in the areas of competitive position.
3. **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.
4. **Stage Four** – Restructuring the business: 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.
5. **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.

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The important elements of turnaround strategy are as follows:

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

Divestment Strategy

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

A divestment strategy may be adopted due to various reasons:

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

Characteristics of Divestment Strategy

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

Major Reasons for Retrenchment/Turnaround Strategy

1. The company wants to exit business due to continuous losses.
2. To make the business profitable, the company considers selling some activities or closing unprofitable ones.
3. A business the company acquired doesn't fit well and can't be integrated.
4. Continuous losses in a specific business affect the whole company's finances, prompting the need to sell that business.
5. Tough competition and the company's inability to handle it may lead to divestment.
6. If the business needs technological upgrades the company can't afford, it might be better to sell it.
7. The company may find a better investment and decide to sell unprofitable businesses.

Strategic Options

Competitive advantage is the position of a firm to maintain and sustain a favourable market position when compared to the competitors. Competitive advantage is ability to offer buyers something different and thereby providing more value for the money.

Ansoff's Product Market Growth Matrix

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy.

Matrix can be used for both new or existing product in both new and existing market.

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Figure: Ansoff's Product Market Growth Matrix

Market Penetration:

1. Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets.
2. It is achieved by making more sales to present customers without changing products in any major way.
3. Penetration might require greater spending on advertising or personal selling.
4. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors
5. Penetration is also done by effort on increasing usage by existing customers.
6. For example, Gucci, a luxury clothing brand, selling its luxury clothing in European markets with new designs, is market penetration.

Market Development:

1. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets.
2. It is a strategy for company growth by identifying and developing new markets for current company products.

3. This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.
4. For example, Gucci, a luxury clothing brand, selling its luxury clothing in Chinese markets, is market development.

Product Development:

1. Product development refers to a growth strategy where business aims to introduce new products into existing markets.
2. It is a strategy for company growth by offering modified or new products to current markets.
3. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.
4. For example, Gucci, a luxury clothing brand, selling casual clothing in European markets, is product development.

Diversification:

1. Diversification refers to a growth strategy where a business markets new products in new markets.
2. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.
3. This strategy is risky because it does not rely on either the company's successful product or its position in established markets.
4. Typically, the business is moving into markets in which it has little or no experience.
5. For example, Gucci, a luxury clothing brand, selling casual clothing in Chinese markets, is diversification.
6. As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

ADL Matrix

1. The ADL matrix (derived its name from Arthur D. Little) is a portfolio analysis technique that is based on product life cycle.
2. The approach forms a two-dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment.
3. Stage of industry maturity is an environmental measure that represents a position in industry's life cycle.
4. Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions

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

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

2. **Strong:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.
3. **Favourable:** This position, which generally comes about when the industry is fragmented 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.

Boston Consulting Group (BCG) Growth-Share Matrix

Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix.

In the matrix:

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

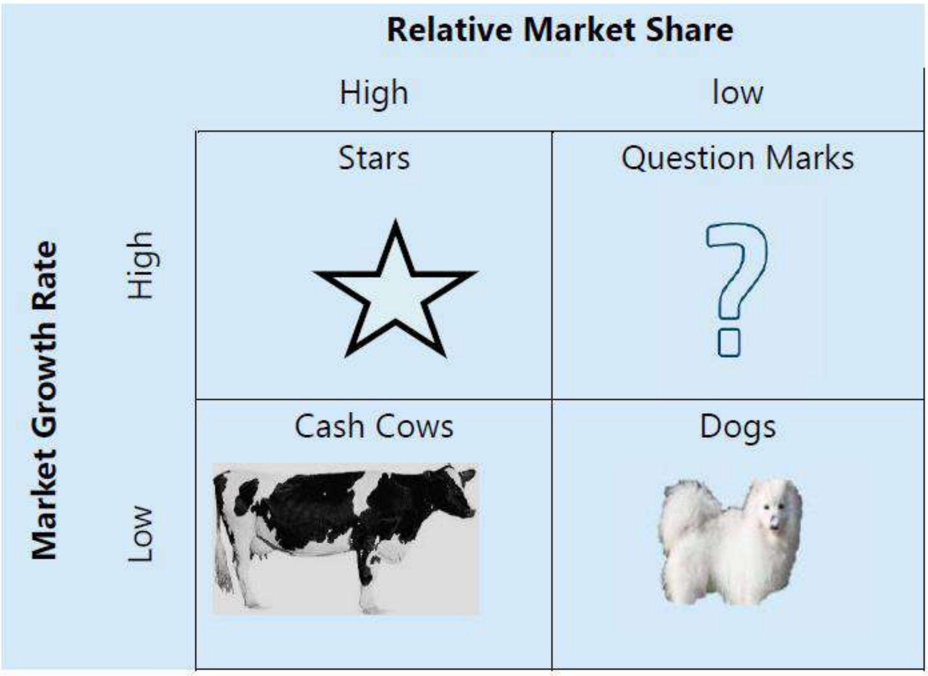

Figure: BCG Growth-Share Matrix

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.

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

Question Marks, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash.

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

BCG Matrix: Post Identification Strategies:

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

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

Problems with BCG Matrix:

1. BCG matrix can be difficult, time-consuming, and costly to implement.
2. Management may find it difficult to define SBUs and measure market share and growth.
3. It also focuses on classifying current businesses but provide little advice for future planning.
4. This can cause unwise expansion into hot, new, risky ventures or divesting established units too quickly.

General Electric Matrix ["Stop-Light" Strategy 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:

1. Green for go,
2. Amber or yellow for caution, and
3. Red for stop.

This model uses two factors while taking strategic decisions:

- Business Strength and
- Market Attractiveness.

Understanding the GE Matrix:

The vertical axis indicates market attractiveness, and the horizontal axis shows the business strength in the industry.

Market attractiveness	Business strength
• 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	• Market share. • Market share growth rate. • Profit margin. • Distribution efficiency. • Brand image. • Ability to compete on price and quality. • Customer loyalty. • Production capacity. • Technological capability. • Relative cost position. • Management calibre, etc.

Green Zone:

If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow.

Yellow Zone:

If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices.

Red Zone:

If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

Difference between BCG and GE matrix:

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

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

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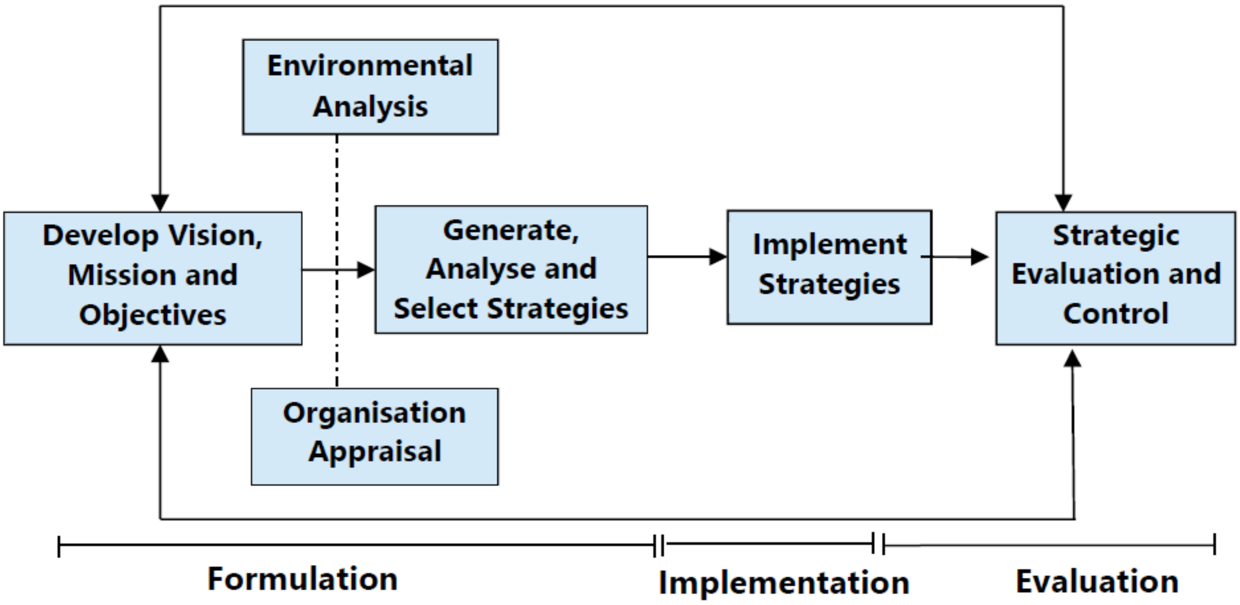
Introduction

The strategic management process is dynamic and continuous. A change in anyone of the major components in the model can necessitate a change in any or all of the other components. Strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually.

Strategic Management Model - Fred R David



Stages in Strategic Management

Strategic management involves the following stages:

1. Developing a strategic vision and formulation of statement 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

Strategic Vision:

1. Determine the directional path for the company.
2. Identify changes in product, market, customer, and technology focus to enhance market position and future prospects.
3. Top management's conclusions form a strategic vision for the company, outlining aspirations and guiding its identity.
4. A clearly articulated strategic vision communicates goals to stakeholders and aligns the company personnel's efforts.

Mission:

1. Express the organization's role through a mission statement.
2. Provides clarity to external stakeholders and internal managers about the organization's objectives and expected methods.
3. Focus is on overall strategic direction, not detailed competitive strategies.

Corporate Goals and Objectives:

1. Flow from the mission and growth ambition.
2. Quantify the desired growth and impart characteristics for achieving it.
3. Objectives set the basis for decision-making and organizational performance at all levels.

Objective-Setting Process:

1. Convert strategic vision into specific performance targets.
2. Act as yardsticks for tracking progress and performance.
3. Managers use objectives to challenge the organization to reach its full potential.

Hierarchy of Objectives:

1. Objectives are essential at all organizational levels.
2. Break down company objectives into performance targets for each business, product line, department, and work unit.
3. Each organizational unit must contribute to companywide outcomes and results, aligning with strategic and financial objectives.

Stage 2: Environmental and Organisational Analysis

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

1. Environmental scanning
2. Organisational analysis

The **External environment** of a firm consists of economic, social, technological, market and other forces which affect its functioning. The firm's external environment is dynamic and uncertain. So, the management must systematically be analysed various elements of environment to determine opportunities and threats for the firm in future.

Organisational analysis involved a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on. This would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment. This would provide us a framework for SWOT analysis (Strength, Weakness, Opportunity and Threat) which could be in the form of a table highlighting various strengths and weaknesses of the firm and opportunities and threats which the environment we create for the firm.

Stage 3: Formulating Strategy

The first step in strategy formulation is developing strategic alternatives in the light of organisation strengths and weaknesses, and opportunities and threats in the environment.

The second step is the deep analysis of various strategic alternatives for the purpose of choosing the most appropriate alternative which will serve as the strategy of the firm.

A company may be confronted with several alternatives such as:

1. Should the company continue in the same business carrying on the same volume of activities?
2. If it should continue in the same business, should it grow by expanding the existing units or by establishing new units or by acquiring other units in the industry?
3. If it should diversify, should it diversify into related areas or unrelated areas?
4. Should it get out of an existing business fully or partially?

The above strategic alternatives may be designated as stability strategy, growth/expansion strategy and retrenchment strategy. A company may also follow a combination of these alternatives 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.

It is the most demanding and time-consuming part of the strategy management process.

To convert strategic plans into actions and results, a manager must be able to direct organisational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy supportive work climate, and meet or beat performance targets.

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

1. Developing budgets that steer ample resources into those activities critical to strategic success.
2. Staffing the organisation with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities and organising the work effort.
3. Ensuring that policies and operating procedures facilitate rather than impede effective execution.
4. Using the best-known practices to perform core business activities and pushing for continuous improvement.
5. Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
6. Motivating people to pursue the target objectives energetically.
7. Creating a company culture and work climate conducive to successful strategy implementation and execution.
8. Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organisation encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

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Good strategy execution involves creating strong "fits" between strategy and organisational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organisation's work climate and culture.

Budgets for Success	1. Develop budgets that allocate enough resources to crucial strategic success.
Skilled Workforce	2. Staff the organization with the right skills, building and strengthening competencies that support the strategy.
Effective Policies	3. Ensure policies and procedures help, not hinder, effective execution.
Continuous Improvement	4. Use best practices for core activities and strive for ongoing improvement.
Information Systems	5. Implement systems that help personnel carry out their strategic roles effectively.
Motivating Objectives	6. Motivate people to energetically pursue target objectives.
Positive Work Culture	7. Create a company culture and climate that supports successful strategy implementation.
Leadership for Execution	8. Provide internal leadership to drive implementation and address issues promptly for ongoing improvement.

Stage 5: Strategic Evaluation and Control

1. Evaluate progress, assess external impacts, and make adjustments in the last stage of strategic management.
2. If company direction aligns well with industry conditions and targets are met, executives may continue without major changes.
3. Disruptive external changes prompt questions about the appropriateness of direction and strategy.
4. Downturns or performance shortfalls require investigation into poor strategy, execution, or both, with timely corrective action.
5. Revisit company direction, objectives, and strategy based on changing external or internal conditions.
6. Proficient strategy execution comes from organizational learning.
7. Assess what's working well and what needs improvement periodically.
8. Vigilantly search for ways to improve strategy execution continuously and make corrective adjustments whenever and wherever useful.

Strategy Formulation

Strategic Planning: The game plan that really directs the company towards success is called "corporate strategy". The success of the company depends on how well this game plan works. Because of this, the core of the process of strategic planning is the formation of corporate strategy.

The formation of corporate strategy is the result of a process known as strategic planning.

1. Strategic planning is the process of determining the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use and disposition of resources.
2. Strategic planning involves a fact of interactive and overlapping decisions leading to the development of an effective strategy for the firm.
3. Strategic planning determines where an organisation is going over the next year or more and the ways for going there.
4. The process is organisation-wide or focused on a major function such as a division or other major function.

Strategic uncertainty and how to deal with it?

Strategic uncertainty refers to the unpredictability and unpredictability of future events and circumstances that can impact an organization's strategy and goals.

It is useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

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

Strategy Implementation

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Strategy implementation is the hands-on process where managers put a chosen strategy into action. It involves overseeing and improving the strategy's execution to achieve measurable results. This phase translates strategic decisions into practical steps, considering feasibility. It also requires allocating resources, adapting the organization, training personnel, and developing systems for effective implementation. Ultimately, strategy implementation is about turning strategic plans into successful actions.

Relationship with strategy formulation:

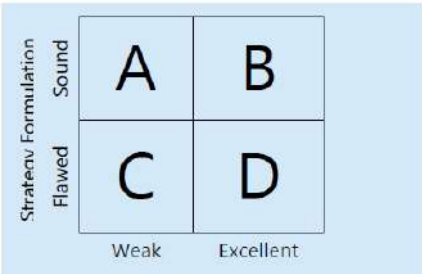

Figure: Strategy formulation and implementation matrix

Square A

Company apparently has formulated a very competitive strategy but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience (e.g. for startups), the lack of resources, missing leadership and so on.

Square B

The ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.

Square C

It denotes for companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model. Their path to success also goes through business model redesign and implementation/execution readjustment.

Square D

This is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills. When a company finds itself in square D the first thing, they have to do is to redesign their strategy before readjusting their implementation/execution skills.

Strategy' is not synonymous with 'long-term plan' but rather consists of an enterprise's attempts to reach some preferred future state by adapting its competitive position as circumstances change. While a series of strategic moves may be planned, competitors' actions will mean that the actual moves will have to be modified to take account of those actions.

Principal combinations of efficiency and effectiveness

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Strategic Formulation

Operational Management	Effective	Ineffective
Efficient	1 Thrive	2 Die Slowly
Inefficient	3 Survive	4 Die Quickly

In organizations that lack strategic direction there has been a tendency to look inwards in times of stress, and for management to devote their attention to cost cutting and to shedding unprofitable divisions. In other words, the focus has been on efficiency (i.e., the relationship between inputs and outputs, usually with a short time horizon) rather than on effectiveness (which is concerned with the attainment of organisational goals - including that of desired competitive position). While efficiency is essentially introspective, effectiveness highlights the links between the organization and its environment. The responsibility for efficiency lies with operational managers, with top management having the primary responsibility for the strategic orientation of the organization.

1. Cell 1 is well placed and thrives, since it is achieving what it aspires to achieve with an efficient output/input ratio.
2. In contrast, an organization in cell 2 or 4 is doomed, unless it can establish some strategic direction.
3. 2 is a worse place to be than is cell 3 since, in the latter, the strategic direction is present to ensure effectiveness

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

Difference between Strategy Formulation and Implementation

Strategy Formulation Vs. Strategy Implementation

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

Linkages and Issues in Strategy Implementation

The division of strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are intertwined.

Two types of linkages exist between these two phases of strategic management.

- The forward linkages deal with the impact of strategy formulation on strategy implementation while
- The backward linkages are concerned with the impact in the opposite direction.

Forward Linkages: The different elements in strategy formulation starting with objective setting through environmental and organizational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organization adopts for itself. With the formulation of new strategies, or reformulation of existing strategies, many changes have to be affected within the organization. For instance, the organizational structure has to undergo a change in the light of the requirements of the modified or new strategy. The style of leadership has to be adapted to the needs of the modified or new strategies. In this way, the formulation of strategies has forward linkages with their implementation.

Backward Linkages: Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy. Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

While strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making.

Issues in Strategies Implementation

1. **Implementation Challenges**: Implementing strategies involves various challenges covering all aspects of management studies.
2. **Strategist's Requirements:** Strategists need a broad range of knowledge, skills, attitudes, and abilities to handle implementation tasks effectively.
3. **Testing Abilities:** Implementation tasks test a strategist's abilities in resource allocation, organizational structure design, formulation of functional policies, and providing strategic leadership.
4. **Role of Strategic Plan:** A strategic plan outlines how strategies can be put into action, as strategies themselves are statements of intent and need activation through implementation.
5. **Programmes as Implementation Tools**: Strategies should result in the formulation of programmes, encompassing goals, policies, procedures, rules, and action steps, often supported by allocated funds.
6. **Projects as Specific Programmes**: Projects are specific programmes with predetermined time schedules and costs, requiring fund allocation through capital budgeting.

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7. **Resource Allocation for Projects**: Implementation involves more than planning; it requires allocating resources, designing organizational structures, installing systems, formulating policies, and providing necessary behavioural inputs.
8. **Comprehensive Approach:** Successful implementation goes beyond formulating plans, encompassing resources, organizational structures, systems, policies, and behavioural aspects to ensure effective strategy execution.

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

1. Project implementation
2. Procedural implementation
3. Resource allocation
4. Structural implementation
5. Functional implementation
6. Behavioural implementation

Strategic Change

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

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

1. **Recognize the need for change:** The first step is to diagnose which facets of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities may be through SWOT analysis and then determining where the lacuna lies and scope for change exists.

2. **Create a shared vision to manage change:** Objectives of both individuals and organization should coincide. There should be no conflict between them. This is possible only if the management and the organization members follow a shared vision. Senior managers need to constantly and consistently communicate the vision to all the organizational members. They have to convince all those concerned that the change in business culture is not superficial or cosmetic. The actions taken have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.

3. **Institutionalise the change:** This is basically an action stage which requires implementation of changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. Capacity for self-renewal should be a fundamental anchor of the new culture of the firm. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be brought to the notice of persons concerned so

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that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

Step 1: Recognize the Need for Change	• Diagnose current corporate culture for strategy support. • Conduct environmental scanning, including SWOT analysis. • Identify lacunae and areas for change.
Step 2: Create a Shared Vision for Change	• Align individual and organizational objectives. • Establish a shared vision to eliminate conflicts. • Senior management communication is crucial. • Emphasize that cultural change is substantive, not cosmetic. • Actions must be credible, visible, and indicative of management's commitment.
Step 3: Institutionalize the Change	• Implement the changed strategy. • Foster a sustained attitude toward change. • Prevent reverting to old ways; encourage self-renewal. • Regularly monitor and review the change process. • Analyse after-effects and address any discrepancies. • Time is needed for the new culture to take root.

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:

1. **Unfreezing**
2. **Changing and**
3. **Refreezing**

1. **Unfreezing the situation:** The process of unfreezing simply makes the individuals aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change. Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the new ideas throughout the organization.

2. **Changing to the new situation:** Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman has proposed three methods for

reassigning new patterns of behaviour. These are compliance, identification and internalization.

- **Compliance:** It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.
- **Identification:** Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.
- **Internalization:** Internalization involves some internal changing of the individual's thought processes in order to adjust to the changes introduced. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.

3. **Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this new acquired behaviour does not diminish or extinguish. Change process is not a one-time application but a continuous process due to dynamism and ever-changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

Step 1: Unfreezing the Situation	• Make individuals aware of the need for change. • Prepare them for the upcoming change. • Avoid sudden, unannounced changes for social and morale reasons. • "Unfreezing" breaks down old attitudes and behaviours through announcements, meetings, and promoting new ideas.
Step 2: Changing to the New Situation	• After unfreezing, redefine behaviour patterns. • H.C. Kellman's three methods for reassigning behaviour: ⅄ Compliance: Enforce reward and punishment strategies. ⅄ Identification: Encourage members to identify with role models and adopt their behaviour. ⅄ Internalization: Internally change thought processes to adjust to introduced changes
Step 3: Refreezing	• Refreezing occurs when new behaviour becomes the norm. • New behaviour must completely replace old behaviour. • Continuous reinforcement is essential for permanent change. • The change process is cyclical and continuous due to dynamic environments. • Unfreezing, changing, and refreezing remain in constant action.

How does Digital Transformation work?

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

Elements of Change Management in Digital Transition

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

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

To navigate a digital transformation successfully, each of these elements is necessary

How does change management work?

1. Change management is a process or set of tools and best practices.
2. Its purpose is to manage changes in an organization safely, reducing detrimental effects.
3. Applicable to various entities, including enterprises, governmental bodies, and families.
4. Change management models have common elements:
   - Creating a clear vision for the change.
   - Involving stakeholders in the process.
   - Developing a plan for implementation.
   - Monitoring and evaluating results.
5. Change management is often perceived as difficult and complicated.

The role of change management in digital transformation

Change management is the process of planning, implementing, and monitoring changes in an organization. It provides organizations in achieving their objectives while reducing risks and disruptions. For any organisation undergoing a digital transition, change management is crucial.

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

1. Specify the parameters and goals of the digital transformation
2. Determine which procedures and tools need to be modified.
3. Make a plan for implementing the improvements.
4. Involve staff members and parties involved in the transformation process.
5. Track progress and make required course corrections

Change Management Strategies for Digital Transformation

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

1. **Begin at the top:** A focused, invested, united leadership that is on the same page about the company's future is reflected in change that begins at the top. The culture that will motivate the rest of the organisation to accept change can only be generated and promoted in this way.

2. **Ensure that the change is both necessary and desired:** The fact that decision-makers are unaware of how to properly handle a digital transformation and the effects it will have on their firm is one of the main causes of this. If a corporation doesn't have a sound strategy in place, introducing too much too fast can frequently become a major issue down the road.

3. **Reduce disruption:** Employee perceptions of what is required or desirable change can differ by department, rank, or performance history. It's crucial to lessen how changes affect staff. The introduction of new tactics or technologies intended to improve management and corporate operations causes employee concern about change. It is possible to reduce workplace disruption by:
    a. Getting the word out early and preparing for some interruption.
    b. Giving staff members the knowledge and tools, they need to adjust to change.
    c. Creating an environment that encourages transformation or change.
    d. Empowering change agents to provide context and clarity for changes, such as project managers or team leaders.
    e. Ensuring that IT department is informed of changes in technology or infrastructure and is prepared to support them.

4. **Encourage communication:** Create channels so that workers may contact you with queries or complaints. Encourage departmental collaboration to propagate ideas and innovations as new procedures take root. Communication promotes efficiency and has the power to influence culture, just like your vision. The people who will be affected the most by these changes are reassured that they are not in danger through effective communication, which keeps everyone on the same page.

5. **Recognize that change is the norm, not the exception:** Change readiness may be defined as "the ability to continuously initiate and respond to change in ways that create advantage, minimize risk, and sustain performance." In order to keep up with the customers, businesses must also adapt their
operations. They must prepare for change in advance and expect them. It may run into difficulties because change is not a project but rather an ongoing process.

Begin at the Top:	➤ Focused, invested, united leadership reflects change starting at the top. ➤ A united leadership promotes a culture encouraging the acceptance of change.
Ensure that the change is both necessary and desired:	➤ Decision-makers' awareness of handling digital transformation is crucial. ➤ Lack of a sound strategy can lead to challenges with introducing too much change too quickly.
Reduce Disruption:	➤ Employee perceptions of necessary change may vary. ➤ Strategies to reduce workplace disruption: • Early communication and preparation for disruption. • Providing knowledge and tools for staff to adjust.

	• Creating an environment supportive of change. • Empowering change agents to provide clarity. • Keeping the IT department informed and prepared for technological changes.
Encourage Communication:	⅄ Establish channels for worker queries or complaints. ⅄ Foster departmental collaboration for sharing ideas and innovations. ⅄ Effective communication reassures those affected by changes, keeping everyone informed.
Recognize that change is the norm, not the exception	⅄ Change readiness is essential for creating advantage, minimizing risk, and sustaining performance. ⅄ Businesses must adapt operations to keep up with customers. ⅄ Change is an ongoing process, not a one-time project.

How to Manage Change during Digital Transformation

Here are some pointers for navigating change during the digital transformation:

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

Organisational Framework

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

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

The McKinsey 7s Model focuses on how the "**Soft Ss**" and "**Hard Ss**" elements are interrelated, suggesting that modifying one aspect might have a ripple effect on the other elements in order to maintain an effective balance.

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

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

The **Soft elements** are difficult to define as they are more governed by the culture. But these soft elements are equally important in determining an organization's success as well as growth in the industry. The following are the soft elements in this model;

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

Limitation of McKinsey 7S Model

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

Organisation Structure

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

1. **First**, the way a company is organized (structure) is **crucial for setting goals and rules** to achieve its plans. For example, if the organization is arranged by location, goals and rules will be about different places. If it's organized by product groups, goals and rules will be about those products. This structure also affects how strategies are put into.
2. **Second**, the structure determines **how resources are distributed** to meet strategic goals. If the organization is structured around customer groups, resources are allocated based on those groups. Similarly, if the structure follows functional business lines, resources are distributed according to functional areas.

Chandler's Strategy-Structure Relationship

1. Chandler's insight: Changes in strategy drive changes in organizational structure.
2. Structure should align with strategic goals, with structure following strategy.
3. Recurring structural sequences noted by Chandler as organizations grow and evolve.

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4. No universal optimal design; appropriateness varies among firms in the same industry.
5. Examples of structures: Consumer goods use divisional structure-by-product, small firms are functionally structured, medium-size firms are divisionally structured, and large firms use SBU or matrix.
6. Organizational structures evolve from simple to complex with growth and strategy integration.
7. External and internal forces influence firms, but addressing each force through structural changes would cause chaos.
8. Changes in strategy may make existing structures ineffective, with symptoms like excessive levels of management and meetings.
9. Organizational structure can facilitate strategy implementation but won't turn a bad strategy, managers, or products successful.
10. Different types of organizational structures include functional, divisional geography /product/ customer, divisional process, SBU, and matrix.

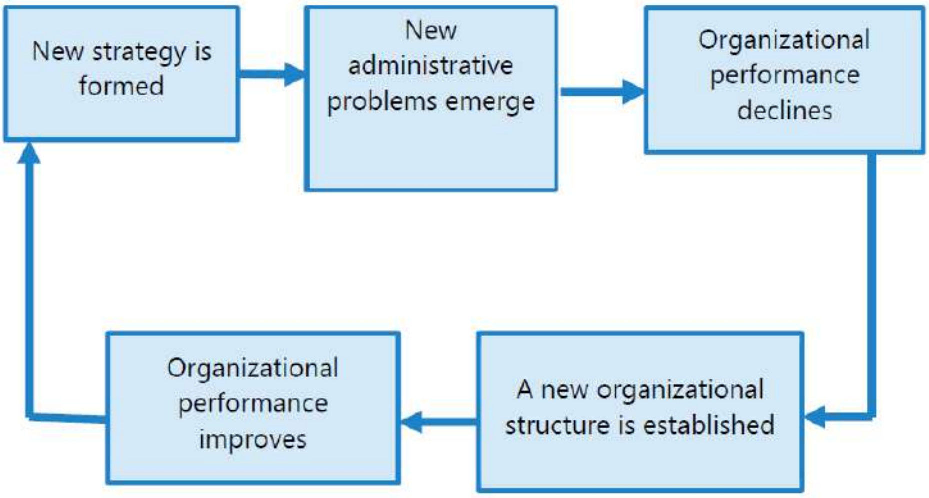

Figure: Chandler's Strategy-Structure Relationship

Types of Organization Structure:

1. **Simple Structure**
2. **Functional Structure**
3. **Divisional Structure**
4. **Multi Divisional Structure**
5. **Strategic Business Unit (SBU) Structure**
6. **Matrix Structure**
7. **Network Structure**
8. **Hourglass Structure**

1. Simple Structure

1. Simple organizational structure is suitable for **single-business companies** with a line of products in a single geographic market.
2. Appropriate for **focused cost leadership or focused differentiation** strategies.

3. Characterized by **owner-manager making major decisions**, little task specialization, few rules, low formalization, and direct owner-manager involvement in day-to-day operations.
4. Frequent and direct communication, rapid introduction of new products, and fewer coordination problems in comparison to larger organizations.
5. Competitive advantages for small companies include openness to innovation, structural flexibility, and quick response to environmental changes.
6. Growth may lead to outgrowing the simple structure, with increased information-processing requirements and pressures on owner-managers.
7. Managers should recognize inadequacies of the simple structure and adapt it to align with the company's strategy.
8. To handle more complex functions, companies should transition from a simple structure to a functional structure.
9. The functional structure is employed by larger companies and those with low levels of diversification.

2. Functional Structure

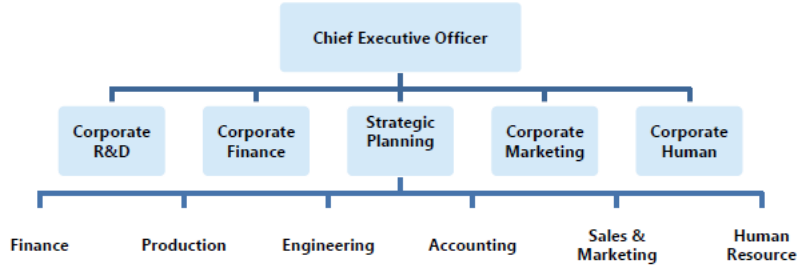

Figure: Functional Structure

1. Functional structure is widely used in business organizations due to its simplicity and cost-effectiveness.
2. Tasks and activities are grouped by business function, such as production, marketing, finance, research and development, and management information systems.
3. Promotes specialization of labour, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision-making.
4. Structure includes a CEO or managing director, supported by corporate staff and functional line managers in dominant functions.
5. Overcomes growth-related constraints of the simple structure, facilitating communication and coordination.
6. Potential problems compared to the simple structure include communication and coordination challenges due to differences in functional specialization and orientation.
7. CEO must integrate functional decision-making and coordinate actions across functions.
8. Functional specialists may develop a narrow perspective, losing sight of the company's strategic vision and mission.
9. To overcome these issues, the multidivisional structure can be implemented.

3. Divisional Structure

1. Growth challenges for firms lead to the need for a divisional structure for effective management of diverse products and services in various markets.

2. Divisional structure can be organized by geographic area, product or service, customer, or process.
3. Clear accountability in divisional structure, with managers held responsible for sales and profits, boosting employee morale.
4. Advantages include career development opportunities, local control, competitive climate, and easy addition of new businesses or products.
5. Limitations include high costs due to functional specialists, duplication of staff and facilities, and the need for well-qualified managers.
6. Divisional structure requires an elaborate control system and may lead to difficulties in maintaining consistent companywide practices.
7. Divisional structure by geographic area suits organizations targeting the needs of customers in different regions, promoting local participation and coordination.
8. Divisional structure by product is effective when specific products or services require emphasis, allowing strict control but requiring skilled management.
9. Divisional structure by customer is suitable when major customers are crucial, allowing effective catering to specific customer groups.
10. Divisional structure by process organizes activities based on how work is performed, with departments accountable for profits or revenues.

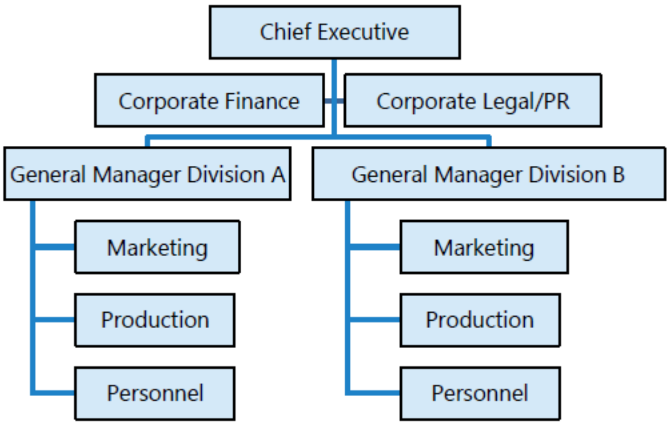

Figure: Divisional Structure

4. Multi-Division Structure

1. Multidivisional (M-form) structure consists of operating divisions, each representing a separate business.
2. Top corporate officer delegates day-to-day operations and business unit strategy to division managers.
3. Corporate office is responsible for formulating and implementing overall corporate strategy, managing divisions through strategic and financial controls.
4. Developed in the 1920s to address coordination and control issues in large firms.
5. Functional departments faced challenges dealing with distinct product lines and markets, leading to difficulties in coordinating conflicting priorities.
6. Costs were not allocated to individual products, hindering the assessment of each product's profit contribution.
7. Loss of control made optimal resource allocation between products difficult.

8. Top managers became overly involved in short-term problem-solving, neglecting long-term strategic issues.

Multidivisional structure calls for:

1. Creating separate divisions, each representing a distinct business
2. Each division would house its functional hierarchy;
3. Division managers would be given responsibility for managing day-to-day operations;
4. A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semiautonomous divisions.

Benefits of Multidivisional Structure:

1. Accurate monitoring of individual business performance is facilitated, simplifying control issues and enabling better resource allocation.
2. Comparisons between divisions are made easier, encouraging poorly performing managers to seek ways to improve.
3. In less diversified firms, strategic controls are used to manage divisions, involving corporate officers' operational understanding of implemented strategies.
4. Increased diversification challenges corporate officers' ability to understand all business units, leading to the use of financial controls for managing divisions.
5. Financial controls focus on cash flow through budgets and emphasize profits from distinct businesses.
6. Financial controls require divisional performance to be largely independent of each other, leading to the introduction of Strategic Business Units (SBUs).

5. Strategic Business Unit (SBU) Structure

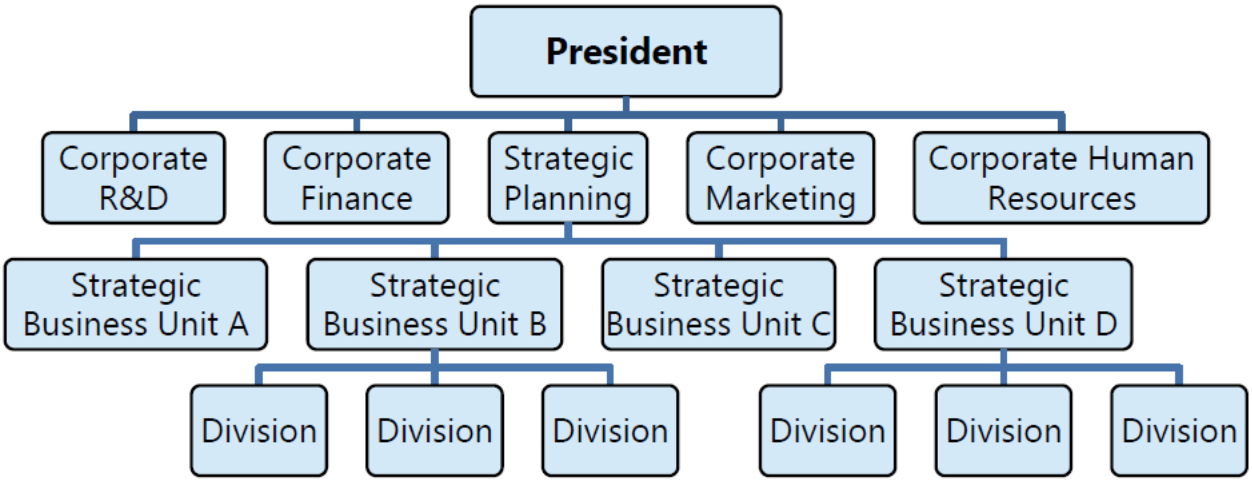

Figure: SBU Structure

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 or businesses.

The three most important characteristics of a SBU are:

1. It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly standalone from the rest of the organization.
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.

The SBU structure is composed of **operating units** where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers.

By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages SBUs through strategic and financial controls.

Hence, the SBU structure groups similar products into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive office.

A strategic business unit (SBU) structure consists of at least three levels, with a corporate headquarters at the top, SBU groups at the second level, and divisions grouped by relatedness within each SBU at the third level.

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. Unrelated products/businesses in any group are separated. If they could be assigned to any other SBU applying the criterion of functional relation, they are assigned; accordingly, otherwise they are made into separate SBUs.
4. Strategic planning for SBU is distinct from rest of businesses. Products/ businesses within an SBU receive same strategic planning treatment and priorities.
5. Each SBU will have its own distinct set of competitors and its own distinct strategy.
6. The CEO of SBU will be responsible for strategic planning for SBU and its profit performance.
7. Products/businesses that are related from the stand point of function are assembled together as a distinct SBU.
8. Grouping the businesses on SBU lines helps in strategic planning by removing the vagueness and confusion.
9. Each SBU is a separate business and will be distinct from one another on the basis of mission, objectives etc.

At the corporate level, the main questions are whether the company wants a group of related business units (SBUs) and, if so, what basis will be used for this decision. The concept of

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relatedness directly influences choices about diversification, and relatedness can manifest in different ways:

1. SBUs may share similar technologies or offer comparable products or services.
2. SBUs may target similar or different markets. Even if the technology or products differ, the customers might be similar. For instance, frozen food, washing powders, and margarine may have different technologies, but they are all sold through retail operations, and a company like Unilever operates in all these product areas.
3. There may be similarities in other competences that form the competitive advantage of different SBUs. For example, Unilever argues that the marketing skills required for the three product markets are similar.

6. Matrix Structure

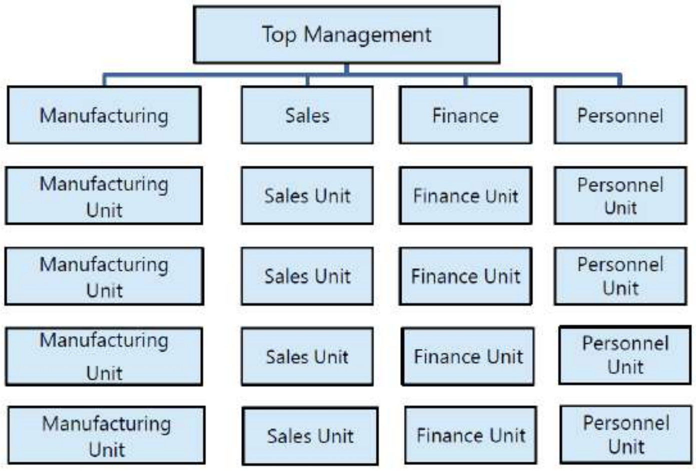

Figure: Matrix Structure

The matrix structure, in contrast, may be very appropriate when organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms like strategic business units, are right for the implementation of their strategies.

Key points about the matrix organizational structure:

1. ***Organizational Structure Options:***
   - Organizations typically choose between functional and divisional structures for organizing their operations.
   - The matrix structure is an alternative when neither functional nor divisional structures, combined with strategic business units, align with the organization's strategies.

2. ***Matrix Structure Overview***:
   - In a matrix structure, both functional and product forms operate simultaneously at the same organizational level.
   - Employees report to two superiors: a product or project manager and a functional manager.
   - Functional departments (e.g., engineering, manufacturing) are usually permanent, while employees may be temporarily assigned to product units or projects.

3. **Complexity of Matrix Structure**:
    - Matrix structures involve both vertical and horizontal flows of authority and communication.
    - Complexity arises due to dual lines of budget authority, dual sources of reward and punishment, shared authority, dual reporting channels, and the need for extensive communication.

4. **Applications and Industries:**
    - Despite complexity, the matrix structure is widely used in industries such as construction, healthcare, research, and defence.
    - Advantages include clear project objectives, multiple communication channels, visible results for workers, and ease of shutting down projects.

5. **Requirements for Effectiveness:**
    - Effective implementation of a matrix structure requires planning, training, clear role understanding, excellent internal communication, and mutual trust.
    - It is commonly used by businesses pursuing strategies that involve adding new products, customer groups, and technology to their activities.

6. **Balancing Stability and Flexibility:**
    - The matrix structure aims to combine the stability of the functional structure with the flexibility of the product form.
    - It is particularly useful in complex and rapidly changing external environments, such as those involving intricate technologies and markets.

7. **Challenges and Conflicts:**
    - Challenges include conflicts over duties, authority, and resource allocation, especially when goals are vague, and technology is poorly understood.
    - Continuous power struggles between product and functional managers may occur in such situations.

The matrix structure is often found in an organization or within an SBU when the following three conditions exists:

1. Ideas need to be cross-fertilised across projects or products,
2. Resources are scarce and
3. Abilities to process information and to make decisions need to be improved.

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

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

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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.

7. Network Structure

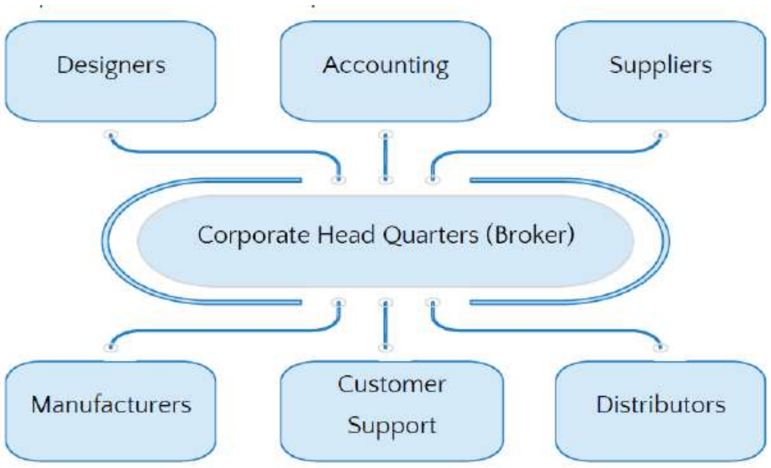

Figure: Network Structure

The network structure could be termed a "non-structure" as it virtually eliminates in-house business functions and outsource many of them. An organization 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.

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

Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time.

Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration.

The network structure provides organization with increased flexibility and adaptability to cope with rapid technological change and shifting pattern of international trade and competition.

8. Hourglass Structure

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In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers in an organisation structure 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.

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management, the promotion opportunities for the lower levels diminish significantly.

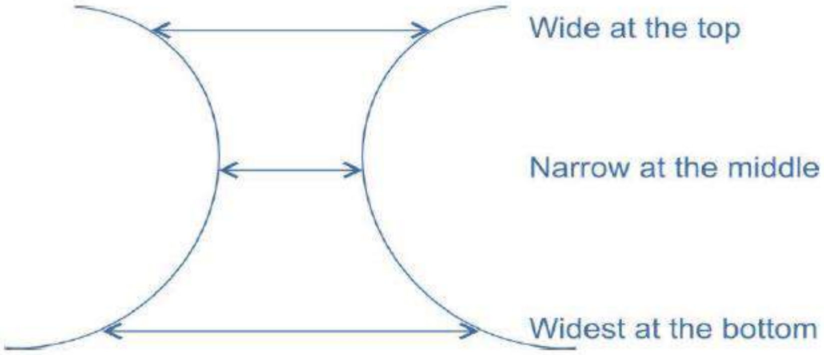

Figure: Hourglass Organisation Structure

Organisation Culture

Corporate culture refers to a company's values, beliefs, business principles, traditions, way of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers.

Culture as a strength – Culture can facilitate communication, decision making and control and create cooperation and commitment. An organisation's culture could be strong and cohesive when it conducts its business according to clear and explicit set of principles and values. The management devotes considerable time in communicating values & principles to employees and sharing them widely across the organisation.

Culture as a weakness – can obstruct the smooth implementation of strategy by creating resistance to change. An organisation's culture can be characterised as weak when many sub cultures exist, few values and behavioural norms are shared and traditions are rare. In such organisations, employees do not have a sense of commitment, loyalty and a sense of identity.

Changing Problem Culture

Changing problem cultures is very difficult because of deeply held values and habits. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instil ones that are more strategy-supportive.

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1. The first step is to diagnose which facets of the present culture are strategy supportive and which are not.
2. Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
3. The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.

Management through communication has to create a shared vision to manage changes. The menu of culture-changing actions includes revising policies and procedures, altering incentive compensation, shifting budgetary allocations for substantial resources to new strategy projects, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

Corporate culture is always identical in all the business organizations?

Incorrect, every company has its own organisational culture. Each has its own business philosophy and principles, its own ways of approaching to the problems and making decisions, its own work climate, work ethics, etc. Therefore, corporate culture is not identical in all organisations. Organisations over a period of time inherit and percolate down its own specific work ethos and approaches.

Role of Corporate Culture in Strategy Execution

- A strong organizational culture plays a crucial role in strategy execution.
- Culture includes values, practices, and behavioural norms.
- Employees are motivated to perform their jobs in a manner that supports the strategy.
- A culture emphasizing creativity, change, and challenging the status quo aids in executing a product innovation and technological leadership strategy.

Strategic Leadership

Strategic leadership sets the firms direction by developing and communicating vision of future, formulate strategies in the light of internal and external environment, brings about changes required to implement strategies and inspire the staff to contribute to strategy execution.

Leadership Role of Manger

A manager as a strategic leader has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker an so on. Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.

4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

Leadership Role in Implementation

Figure: Effective Strategic Leadership

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

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.

Type of Leadership

Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes.

Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. 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.

Transactional leadership style focuses more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style 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 may be appropriate in static environment, in mature industries, and in organizations that are performing well. The style is better suited in persuading people to work efficiently and run operations smoothly.

Strategic Control

Controlling is one of the important functions of management and is often regarded as the core of the management process. It is a function intended to ensure and make possible the performance of planned activities and to achieve the predetermined goals and results.

The process of control has the following elements:

1. Objectives of the business system which could be operationalized into measurable and controllable standards.
2. A mechanism for monitoring and measuring the performance of the system.
3. A mechanism (i) for comparing the actual results with reference to the standards (ii) for detecting deviations from standards and (iii) for learning new insights on standards themselves.
4. A mechanism for feeding back corrective and adaptive information and instructions to the system, for effecting the desired changes to set right the system to keep it on course.

There are three types of organizational control, viz.,

1. Operational control,
2. Management control and
3. Strategic control.

Operational Control

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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. One of the tests that can be applied to identify operational control areas is that there should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. The control activity consists of regulating the processes within certain 'tolerances', irrespective of the effects of external conditions on the formulated standards, plans and instructions.

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.

Strategic Control

Strategic control is the process of evaluating formulated and implemented strategy. It is directed towards identifying changes in the internal and external environments of the organization and making necessary adjustments accordingly.

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 are four types of strategic control:

1. **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the environment. 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:

    - Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory.
    - Industry factors such as competitors, suppliers, substitutes.

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

2. **Strategic surveillance:** Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.

3. **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.

4. **Implementation control:** managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and result.

Strategic implementation control is **not a replacement to operational control**. Unlike operational control, it continuously monitors the basic direction of the strategy. The two basic forms of implementation control are:

1. **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.
2. **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.

Difference between Operational and Management Control

Differences between Operational Control and Management Control are as under:

1. The thrust of **operational control** is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, **management control** is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organization, instead or mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.
2. Many of the control systems in organizations are **operational** and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand, the basic purpose of **management control** is the achievement of enterprise goals – short range and long range –in an effective and efficient manner.

Strategic Performance Measures

1. SPM is a method that increases line executives' understanding of an organization's strategic goals and offers a continuous system for tracking progress towards these objectives using clear-cut performance measurements.
2. SPM helps to eliminate silos by establishing a common language among all divisions of the organisation so they may communicate openly and productively.
3. Strategic performance measures are key indicators that organizations use to track the effectiveness of their strategies and make informed decisions about resource allocation.
4. Key performance measures and indicators must be created, selected, combined into reports and acted upon so that strategy implementation can have tangible outcomes.

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- Firstly, there needs to be a clear cause and effect relationship between the indicators and strategic outcomes.
- Secondly, KPIs need to be carefully chosen because they will influence the behaviour of people within the organisation.

Managing the political aspects of implementing a strategy:

People involved in the planning process for the implementation of a strategy may be affected by two sets of forces:

The "rational" forces of openness, communication, and self-analysis can exist on the one hand.

On the other hand, there could be political forces concerned with preserving empires and fostering internal rivalry that urge knowledge retention, selective communication, and caution. When these two techniques conflict, the politically acceptable aspects may end up in the explicit strategy while the sensitive elements may form an unspoken plan that contains the implicit strategy.

Types of Strategic Performance Measures

There are various types of strategic performance measures, including:

1. **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.
2. **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.
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. **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.
5. **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.
6. **Environmental Measures**: Environmental measures, such as energy consumption, waste reduction, and carbon emissions, provide insight into the organization's impact on the environment and its efforts to operate in a sustainable manner.

The Importance of Strategic Performance Measures

Strategic performance measures are essential for organizations for several reasons:

1. **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.

2. **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.
3. **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.
4. **External Accountability:** Strategic performance measures help organizations demonstrate accountability to stakeholders, including shareholders, customers, and regulatory bodies, by providing a clear and transparent picture of their performance.

Choosing the Right Strategic Performance Measures

Organizations should choose strategic performance measures that are aligned with their goals and objectives and that provide relevant and actionable information. In selecting the 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 analysed 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.