CA INTER
GROUP - 2

SM ROCKS

SPC

Message from Swapnil Patni Sir

Dear Friends,

"The secret to performing well in exams is repetition & revision"

Revision is the act of rereading a topic so as to memorize it. As a student, you must ensure that whatever you study goes to your long term memory so that you can recall it at will. It is only by revisiting and revising the information that you can convert your short term memories into long term memories and recall at will anytime. This book is mainly useful for regular revision of the subject in very less time.

Many students fail to revise the entire syllabus before the day of the exam and the main reason for this is the vastness. So the main intent of this book is to reduce the original material to an 'irreducible" minimum' but it is imperative to note that quality should not be compromised for the sake of brevity.

Use of technical words while writing answers is of immense importance in order to score well. This book contains all such key words which should form part of your answer. Also, good presentation of paper is equally important along with the content. Tips for improving presentation skills are given along with Model Answers so that student gets to know ideal wav of writinganswers...

The idea of Concept Book features following:

- Covers all topics with sufficient discussion on each topic
- Includes key words which should form part of the answer & definition of all Concepts to be remembered
- Contains question in Test Your Knowledge on each concept with exam questions distinctively marked to understand type of questions asked by ICAI
- List of concepts appearing to be similar
- Includes Presentation Skills and Model Answers for gaining edge over others while writing paper
- Includes all Memory Techniques discussed in class
- Colourful presentation for better readability
- ICAI Exam question & RTP question pattern specifically mentioned.

Hope the students community welcome this book and get benefited by the same...

Regards,
CA Swapnil Patni

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CONCEPT OF MANAGEMENT

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

CONCEPT OF STRATEGY

Igor H. ansoff - The common thread among the organisations's activities and product-markets that defines the essential nature of business that the organisation has or planned to be in future.

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

Strategy is partly proactive and partly reactive -

- A company's strategy is typically a blend of (1) proactive actions on the part of managers to improve the company's market position & financial performance and (2) reactions to unanticipated developments and fresh market conditions.
- Proactive strategy is planned strategy whereas reactive strategy is adaptive - reaction to changing circumstances.

STRATEGIC MANAGEMENT

BENEFITS OF SM

RTP Nov 19

Strategic management helps an organization to work through changes in environment to gain competitive advantage. In light of statement discuss its benefits.

a) Helps management to define realistic objectives & goals which are in line with vision of co.
b) Helps organisations to be proactive instead of reactive
c) able to control their own destiny in a better manner
d) Provides framework for all major decisions
e) It provides better guidance to entire org. on crucial point
f) act as pathfinder to various business opportunities
g) identify ways & means as how to reach them
h) Serves as a corporate defence mechanism against mistakes & pitfalls
i) Avoid costly mistakes in product market choices or investments
j) Helps org. to develop certain core competencies & competitive advantages

LIMITATIONS OF SM

a) Environment is highly complex & turbulent. It is difficult to understand complex environment & exactly pinpoint how it will shape-up in future
b) SM is a time-consuming process
c) It is a costly process
d) In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate competitive responses to a firm's strategies

STRATEGIC INTENT

- Strategic Management is defined as a dynamic process of formulation, implementation, evaluation, and control of strategies to realise the organisation's strategic intent. Strategic intent refers to purposes of what the organisation strives for.
- Senior managers must define "what they want to do" and "why they want to do". "Why they want to do" represents strategic intent of the firm.
- Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.

COMPONENTS OF STRATEGIC INTENT

i) 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 glimps of what the organization would like to become in future. Every sub system of the organisation is required to follow its vision.

ii) 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 company. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.

iii) 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.

iv) Values

- Values are deep rooted principles which guide an organisations's decisions and actions.
- Values offer reflect the values of companies founders. They are the source of a companies distinctiveness and must be maintained at all cost.

VISION, MISSION, OBJECTIVES AND VALUES

VISION

Very early in the strategy making process, a company's senior managers must consider the issue of what directional path the company should take & what changes in the company's product- market-customer-technology focus would improve its current market position and future prospects.

- Top management's views about the company's direction & the product-customer- market- technology focus constitute the strategic vision for company.
- Strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are to go" and a convincing rationale for why this makes good business sense for the company.

The three elements of a strategic vision are:

i) Coming up with a mission statement that defines what business the company is presently in & conveys essence of "Who we are and where we are now?"

ii) Using the mission statement as basis for deciding on a long-term course making choices about "Where we are going?"

iii) Communicating the strategic vision in clear, exciting terms that arouse organisation wide commitment.

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.
- Many successful organisations need to change direction not in order to survive but in order to maintain their success.
- A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organisation.
- The best-worded vision statement clearly and crisply illuminates the direction in which organisation is headed.

MISSION

Why an organisation should have a mission?

i) To ensure unanimity of purpose within the organization.

ii) To develop a basis, or standard, for allocating organizational resources.

iii) To provide a basis for motivating the use of the organization's resources.

iv) To establish a general tone or organizational climate, for example, to suggest a b

v) To serve as a focal point for those who can identify with the organization's purpose and direction.

vi) To facilitate the translation of objective & goals into a work structure involving the assignment of tasks to responsi within the organisation.

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

Nov 19

Why an organisation should have a mission? What considerations are to be kept in mind while writing a good mission statement of a company?

RTP NOV 19 & Nov 20

Mr Raj has been hired as a CEO by XYZ ltd a FMCG company that has diversified into affordable cosmetics. The company intends to launch Feelgood brand of cosmetics. XYZ wishes to enrich the lives of people with its products that are good for skin and are produced in ecologically beneficial manner using herbal ingredients. Draft vision & mission statement that may be formulated by Raj.

Following points are useful while writing a mission of a company.

- 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 situated companies.
- A company's business is defined by what needs it trying to satisfy, by which customer groups it is targeting and by the technologies & competencies it uses and the activities it performs.
- Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- Good mission statements are highly personalised – unique to the organisation for which they are developed.

GOALS AND OBJECTIVES

- Business organisation translates their vision and mission into goals and objectives.
- Goals are open-ended attributes that denote the future states or outcomes. Objectives are close- ended attributes which are precise and expressed in specific terms. Objectives are more specific and translate the goals to both long term and short term perspective

Characteristics of Objectives

i) Objectives should define the organization's relationship with its environment.

ii) They should be facilitative towards achievement of mission and purpose.

iii) They should provide the basis for strategic decision-making.

iv) They should provide standards for performance appraisal.

v) Objectives should be understandable.

vi) Objectives should be concrete and specific

vii) Objectives should be related to a time frame

viii) Objectives should be measurable and controllable

ix) Objectives should be challenging

x) Objectives should be set within constraints

RTP May 21, May 19 — What are 'objectives'? What characteristics it must possess to be meaningful?

A need for both short-term and long-term objectives:

- As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets.
- Having quarterly or annual objectives focuses attention on delivering immediate performance improvements. Targets to be achieved within three to five years' prompt considerations of what to do now to put the company in position to perform better down the road.

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.

VALUES

A few power, examples of values are integrity, task, trust, accountability, humility, innovation and diversity.

- A companies value sets the tone for how the people of company think and behave, especially in situations of dilemma. It creates a sense of shared purpose to build 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.
- Values are have both internal as well as external implications.
- Values remain the center /core of vision, mission, goals and putting them all to action.

STRATEGIC LEVELS IN ORGANISATIONS

CORPORATE LEVEL

i) It consists of CEO, other senior executives, BOD, & corporate staff

ii) These individuals participate in strategic decision making within org.

iii) This role includes defining mission & goals, determining what businesses it should be in, allocating resources among different businesses, formulating & implementing strategies that span individual businesses, & providing leadership for org.

BUSINESS LEVEL

i) Development of strategies is responsibility of those in charge of different businesses called business level managers.

ii) It consists divisional managers & staff

iii) Business-level manager, is head of division

iv) Strategic role of these managers is to translate general statements of direction

v) Business-level managers are concerned with strategies that are specific to a particular business

FUNCTIONAL LEVEL

i) It consists Functional Managers

ii) Responsible for specific business functions or operations

iii) Whereas general managers oversee operation of a whole co. or division

iv) It provide most of info that makes it possible for business & corporate level general managers to, formulate realistic & attainable strategies

v) It may generate important ideas that subsequently may become major strategies for Co.

Jan 21 — ABC Limited is in a wide range of businesses which include apparels, lifestyle products, furniture, real estate & electrical products. The company is looking to hire a suitable Chief Executive Officer. Consider yourself as the HR consultant for ABC limited. You have been assigned the task to enlist the activities involved with the role of the Chief Executive Officer. Name the strategic level that this role belongs to and enlist the activities associated with it.

RTP May 20 — Explain the difference between three levels of strategy formulation

NETWORK OF RELATIONSHIP BETWEEN THREE LEVELS

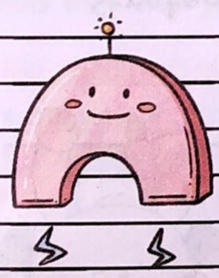
The corporate level decides what the business wants to achieve, while the business level draws ideas and plan to execute the same, which eventually flow down to functional level to execute and achieve results. There are many ways in which all the 3 levels of management are interlinked.

TYPES OF NETWORKS

i) Functional and Divisional Relationship: It is an independent relationship, where each function or a division is run independently headed by the function/division head, who is a business level manager, reporting directly to the business head, who is a corporate level manager. Functions may be like Finance, Human Resources, Marketing, etc. while Divisions may depend on the products like for a toys manufacturer - kids toys, teenager toys, etc. could be divisions.

ii) 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.

iii) 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.



May 19: 'Strategic Management is not a panacea for all the corporate ills, it has its own pitfalls which can't counter all hindrances and always achieve success'. Do you agree with this statement? Discuss.

RTP Nov 19: Ramesh Sharma has fifteen stores selling consumer durables in Delhi Region. Four of these stores were opened in last three years. He believes in managing strategically and enjoyed significant sales of refrigerator, televisions, washing machines, air conditioners and like till four years back. With shift to the purchases to online strores, the sales of his stores came down to about seventy per cent in last 4 years. Analyse position of Ramesh Sharma in light of limitations of strategic management.

Ch-2 Strategic Analysis: External Environment

- Strategic analysis
- Strategy and business environment
  - Macro and Micro Environment
  - PESTLE Analysis
  - Internationalisation
- Product and industry
  1. product life cycle
  2. value chain analysis
- Market and customer
- Industry environment analysis
  1. Porter five forces
  2. experience curve
  3. value creation
- Competitive strategy

2

STRATEGIC ANALYSIS

STRATEGIC ANALYSIS

The two most important situational considerations are -

- Industry and competitive conditions and
- An organisation's own competitive capabilities, resources, internal strengths and weaknesses, and market position.

Issues to consider for Strategic Analysis -

a) Strategy evolves over a period of time - There are different forces that drive and constrain strategy and that must be balanced in any strategic decision. An important aspect of strategic analyses is to consider the possible implications of routine decisions.

b) Balance of external and internal factors - The process of strategy formulation is often described as one of the matching the internal potential of the organisation with the environmental opportunities. In reality, as perfect match between the two may not be feasible, strategic analysis involves a workable balance between diverse and conflicting considerations.

c) Risk - Competitive markets, liberalisation, globalisation, booms, recessions, technological advancements, inter-country relationships all affect businesses & pose risk at varying degrees. An important aspect of strategic analysis is to identify potential imbalances or risks & assess their consequences.

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. Strategic management is involved with choosing a long-term direction in relation to these resources and opportunities. There is a close and continuous interaction between a business and its environment.

Benefits of Interaction between business and it's environment:

i) Determine opportunities and threats : The interaction between the business and its environment would explain opportunities and threats to the business. It helps to find new needs and wants of the consumers, changes in laws, changes in social behaviours, and tells what new products the competitors are bringing in the market to attract consumers.

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

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

iv) Image Building : Environmental understanding helps the business organisations to improve their image by showing their sensitivity to the environment in which they operate. It creates a positive image and helps it to prosper and win over the competitors.

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

Strategic decisions are significant aspects of business management and are essential for the success and continued existence. Two crucial aspects for the success include are the function of top management and the method of formulating strategic decisions.

MACRO AND MICRO ENVIRONMENT

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

Macro environment is the portion of the outside world that significantly affects how an organisation operates but is typically much beyond its direct control and influence. Macro environment has broader dimensions as it consists of economic, socio- cultural, technological, political and legal factors. Elements of Macro Environment:

i) Demographic Environment: Demographics are the characteristics of a population that have been classified and explained according to certain criteria, such age, gender, and income. Demographical analysis considers factors such as race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education.

ii) Socio - Cultural Environment: It represents a complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth.

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

iv) Political-Legal Environment: Political-legal environment takes into account the general level of political development, the degree to which business and economic issues have been politicised, the degree of political morality, the state of law and order, political stability, the political ideology and practises of the ruling party, the effectiveness and purposefulness of governmental agencies, and the scope and type of governmental intervention in the economy and industry.

v) Technological Environment: Business leverages technology. Businesses use new discoveries to adapt themselves for the advancement of society. Technology has impacted on how businesses are conducted. With use of technology, many organisations are able to reduce paperwork, schedule payments more efficiently, are able to coordinate inventories efficiently and effectively. This helps to reduce costs of companies, and shrink time and distance, thus, capturing a competitive advantage for the company.

PESTLE ANALYSIS

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

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

Economic factors have major impacts on how businesses operate and take decisions. For example, interest rates affect a firm's cost of capital and to what extent a business grows. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy. The money supply, inflation, credit flow, per capita income, growth rates affect the business decisions.

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

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

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

Environmental factors affect industries such as tourism, farming, and insurance. Growing awareness to climate change is affecting how companies operate and the products they offer--it is both creating new markets and diminishing or destroying existing ones

INTERNATIONALISATION

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.

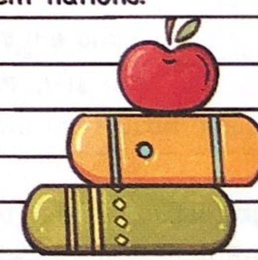
International processes are much more complicated due to additional variables and linkages. A business can approach internationalisation systemically with the aid of international strategy planning. One method for an organization to identify opportunities and threats in global markets is by scanning the external environment. The development of effective strategies and the formulation of global strategic objectives are made feasible by internationalisation.

Characteristics of a global business are:

- 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.

The steps in international strategic planning are as follows :

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



Reasons why companies go global:

- The need to grow. Often finding opportunities in the other parts of the globe, organisations extend their businesses and globalise their operations.
- There is rapid shrinking of time and distance across the globe, because of faster communication, speedier transportation, growing financial flow of funds and rapid technological changes.
- The competition present domestically may not exist in some of the international markets.
- Need for reliable or cheaper source of raw- materials, cheap labour, etc. Many foreign businesses shift and set up some of their operations to take advantage of availability of vast pool of talent.
- Companies often set up overseas plants to reduce high transportation costs. It may be cheaper to produce near the market.
- When exporting organisations find foreign markets to open up or grow big, they may naturally look at overseas manufacturing plants and sales branches to generate higher sales and better cash flow.

- The trend is towards increased privatisation of manufacturing and services sectors, less government interference in business decisions and more dependence on the value-added sector to gain marketplace competitiveness. The trade tariffs and custom barriers are getting lowered, resulting in increased flow of business.
- Globalisation has made companies in different countries to form strategic alliances to ward off economic and technological threats and leverage their respective comparative and competitive advantages.

International Environment

An assessment of the external environment is the first step toward internationalisation. Analysing international environment is important since it allows organisation to discover opportunities in the global market and evaluate feasibilities of capitalising on these opportunities. Assessments of the international environment can be done at three levels: multinational, regional, and country.

Multinational environmental analysis involves identifying, anticipating, and monitoring significant components of the global environment on a large scale. Governments may have free or interventionist tendencies in economies that needs to be carefully considered. These characteristics are evaluated based on their present and expected future impact.

Regional environmental analysis is a more in-depth evaluation of the critical factors in a specific geographical area. The emphasis would be on discovering market opportunities for a goods, services, or innovations in the chosen location.

Country environmental analysis has to take a deeper look at the important environmental factors. Study of economic, legal, political, and cultural dimensions is required in order for planning to be successful. The analysis must be customised for each of the countries to develop effective market entrance strategies.

UNDERSTANDING PRODUCT AND INDUSTRY

Business products have certain characteristics as follows :

Products are either tangible or intangible. A tangible product can be handled, seen, and physically felt and intangible product is not a physical good.

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

Products should be able to provide value satisfaction to the customers for whom they are meant. Features of the product will distinguish it in terms of its function, design, quality and experience.

Product is pivotal for business. The product enables production, quality, sales, marketing, logistics and other business processes. Product is the driving force behind business activities.

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

PRODUCT LIFE CYCLE

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 (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift).

Phases of PLC

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

ii) The second phase of PLC is growth stage – 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.

iii) The third phase of PLC is maturity stage – In this stage, the competition gets tough and market gets stable . Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.

iv) In the declining stage of PLC – 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.

ABC Ltd. manufactures and sells air purifier 'Fresh Breath'. The 'Fresh Breath' has seen sales growth of around 1% for the last two years, after strong growth in the previous five years. This is due to new products entering the market in competition with the 'Fresh Breath'. ABC Ltd. is therefore considering cutting its prices to be in line with its major rivals with a hope to maintain the market share. Market research indicates that this will now cause a significant increase in the level of sales, even though in previous years price cuts have had little effect on demand. ABC ltd. is also planning to launch a promotional campaign to highlight the benefits of the 'Fresh Breath' against its rival products.Identify and explain the stage of the product life cycle in which 'Fresh Breath' falls.

RTP MAY '21

VALUE CHAIN ANALYSIS

- Value chain analysis has been widely used as a means of describing the activities within and around an organisation, and relating them to an assessment of the competitive strength of an organisation (or its ability to provide value-for-money products or services).
- Value chain analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved
- One of the key aspects of value chain analysis is recognition that organisations are much more than a random collection of machines, money and people.

Primary Activities

i) Inbound logistic – 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.

ii) Operation – Operations transform these various inputs into the final product or service: machining, packaging, assembly, testing etc.

iii) Outbound logistics – 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).

iv) Marketing and sales – It provides 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.

v) Service – Service are all those activities, which enhance or maintain the value of product/service, such as installation, repair, training and spares.

Secondary Activities

i) Procurement – This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organisation.

ii) Technology development – All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).

iii) Human resource management – This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organisations.

iv) Infrastructure – The systems of planning, finance, quality control, information management, etc. are crucially important to an organisation's performance in its 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.

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

PORTER'S FIVE FORCES MODEL

Michael Porter believes that the basic unit of analysis for understanding is a group of competitors producing goods or services that compete directly with each other. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market -

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

RTP May 21

Competitive pressures operate as a composite in five areas of the overall market. Elaborate.

THEART OF NEW ENTRANTS

- A firm's profitability tends to be higher when other firms are blocked from entering the industry.
- New entrants can reduce industry profitability because they add new production capacity leading to increase supply of the product even at a lower price and can substantially erode existing firm's market share position.
- Barriers to entry represent economic forces (or 'hurdles') that slow down or impede entry by other firms. Common barriers to entry include:

a) Capital Requirements – When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from industry, thus enhancing profitability of existing firms in the industry.

b) Economies of Scale – Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows.

c) Product Differentiation – It refers to physical or perceptual differences, or enhancements, that make a product special or unique in eyes of customers.

d) 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, & train personnel to use the equipment, or modify facilities for product use.

e) Brand Identity – Brand identity of products or services offered by existing firms can serve as another entry barrier. It is particularly important for infrequently purchased products that carry a high unit cost to buyer.

f) Access to Distribution Channels – The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite 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.

g) Possibility of Aggressive Retaliation – Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

BARGAINING POWER OF BUYERS

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

i) Buyers have full knowledge of sources of products & their substitutes.

ii) They spend a lot of money on the industry's products i.e. they are big buyers.

iii) Industry's product is not perceived as critical to 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

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

i) Their products are crucial to the buyer and substitutes are not available.

ii) They can erect high switching costs.

iii) They are more concentrated than their buyers..

RTP Nov 19 — Buyers can exert considerable pressure on business. Do you agree? Discuss.

NATURE OF RIVALRY IN THE INDUSTRY

Nov 19 — Discuss in what conditions rivalry among competitors tends to be cut-throat and profitability of the industry goes down.

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

Rivalry among competitors tends to be cutthroat and industry profitability low when

1. An industry has no clear leader.
2. Competitors operate with high fixed costs.
3. Competitors have little opportunity to differentiate their offerings.
4. Competitors in industry are numerous.
5. Competitors face high exit barriers.
6. The industry faces slow or diminished growth.

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

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

c) Fixed Costs – When rivals operate with high fixed costs, they feel strong motivation to utilise their capacity & therefore are inclined to cut prices when they have excess capacity. Price cutting causes profitability to fall for all firms in industry as firms seek to produce more to cover costs that must be paid regardless of industry demand.

d) Exit Barriers – Rivalry among competitors declines if some competitors leave an industry. Profitability therefore tends to be higher in industries with few exit barriers. Exit barriers come in many forms. Assets of a firm considering exit may be highly specialised and therefore of little value to any other firm. Such a firm can thus find no buyer for its assets.

e) Product Differentiation – Firms can sometimes insulate themselves from price wars by differentiating their products from those of rivals. As a consequence, profitability tends to be higher in industries that offer opportunity for differentiation.

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

THREAT OF SUBSTITUTES

- 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.
- Real estate, insurance, bonds & bank deposits for ex. are clear substitutes for common stocks, because they represent alternate ways to invest funds.
- The threat of substitutes is great in many high tech industries as well.

EXPERIENCE CURVE

- The concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work.
- Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production.
- The implication is that larger firms in an industry would tend to have lower unit costs as compared to those for smaller companies, thereby gaining a competitive cost advantage.
- Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.
- Concept of experience curve is relevant for a number of areas in strategic management.

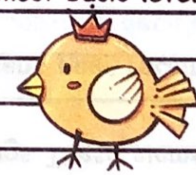
VALUE CREATION

- Value creation was introduced primarily for providing products and services to the customers with more worth.
- Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay.
- Further, the concept took more space in the business and organisations started discussing about the value creation for stakeholders.
- Thus, we can say that the value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes or even the whole business system.
- Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on three factors:

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

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

iii) The costs of creating those products.



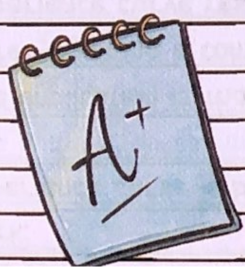
MARKET AND CUSTOMERS

- A market is a place for interested parties, buyers and sellers, where items and services can be exchanged for a price. The market might be physical, such as a departmental store where people engage in person. They may also be virtual, such as an online market where buyers and sellers do not meet in person but tools of technology to strike a deal.

- Individuals or businesses that consume or utilise products and services are referred to as consumers. Customers are the purchasers of products and services in the economy, and they might exist as consumers or only as customers.
- Customer analysis is an essential marketing component of any strategic business plan. It identifies target clients, determines their wants, and then defines how the product meets those needs. Thus, it involves the examination and evaluation of consumer needs, desires, and wants.
- Customer behaviour moves beyond the identification of customers to explain how they purchase products. It examines elements like shopping frequency, product preferences, and the perception of your marketing, sales, and service offerings. Understanding these details allows businesses to communicate with customers in an effective manner.

- Consumer behaviour may be influenced by a number of things. These elements can be categorised into the following three conceptual domains :
- a) External Influences : External influences, like advertisement, peer recommendations or social norms, have a direct impact on the psychological and internal processes that influence various consumer decisions. The focus of external effects is on the numerous elements that have an impact on customers as they choose which needs to satisfy and which products to use to do so. These aspects are divided into two groups – the company's marketing efforts and the numerous environmental elements.
- b) Internal Influences : Internal processes are psychological factors internal to customer and affect consumer decision making. Consumer behaviour is influenced by a combination of internal and external influences, including motivation and attitudes.
- c) Decision Making : A rational consumer, as decision maker would seek information about potential decisions and carefully integrate this with the existing knowledge about the product. After weighing the advantages and disadvantages of each option, they would make a decision. The stages of decision making process can be described as :

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



COMPETITIVE LANDSCAPE

a) It is a business analysis which identifies competitors, either direct or indirect

b) It is about identifying & understanding competitors & at same time, it permits comprehension of their vision, mission, core values, niche market, strengths & weaknesses

c) Steps to understand Competitive Landscape –

i) Identify the competitor – Identify competitors in the firm's industry & have actual data about their respective market share.

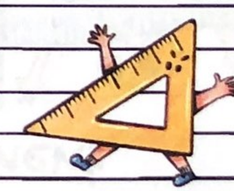
ii) Understand the competitors – Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, & various other sources to understand the products & services offered by them in different markets.

iii) Determine the strengths of the competitors – What are the strength of the competitors? What do they do well? Do they offer great products? Do they utilise marketing in a way that comparatively reaches out to more consumers. Why do customers give them their business?

iv) Determine the weaknesses of competitors – Weaknesses (& strengths) can be identified by going through consumer reports & reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

v) Put all of the information together – The strategist should put together all information about competitors & draw inference about what they are not offering and what the firm can do to fill in the gaps.

May 19 — What do you understand by 'Competitive Landscape'? What are steps to understand the competitive landscape?

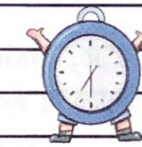


Ch-3 Strategic Analysis of Internal Environment

- Key Stakeholders
  - Mendelow's Matrix
- Core competency
- Strategic Drivers
  - Industry & Markets
  - Products / Services
  - Customers
  - Channels
- SWOT Analysis
- Porter's generic strategies
  - Cost Leadership
  - Differentiation
  - Focused

UNDERSTANDING KEY STAKEHOLDERS

Stakeholders include management, employees, shareholders, customers and vendors. Additionally, other individuals and groups, such as governments, labour unions and local groups, which are often considered as stakeholders depending on their impact on the particular organisation. Each stakeholder or stakeholder group will be affected by the business strategy that the organisation chooses and implements. It is important to first identify the key stakeholders. Each stakeholder exerts a different level of influence and can have differing levels of interest in the organisation.



MENDELOW'S MATRIX

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

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

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.

STRATEGIC DRIVERS

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

key strategic drivers of an organisation include :

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

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: they may have comparable product-line breadth, sell in the same price/quality range, emphasise the same distribution channels, use essentially the same product attributes to appeal to similar types of buyers, depend on identical technological approaches, or offer buyers similar services and technical assistance.
- The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is straightforward :

a) Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full)

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

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

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

CUSTOMERS

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

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

PRODUCTS AND SERVICE

- Products and services are closely linked and interrelated with the markets that the organisation wants to serve. In this component of the strategic drivers' analysis, business identifies the key products/ services that the organisation offers and how those products/services are performing.
- 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 :

a) Have customer-centric approach while making a product.

b) Produce sufficient returns through a reasonable margin over cost.

c) Increasing market share.

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

- Social Marketing : It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group to bring in a social change.
- Augmented Marketing : This type of marketing includes additional customer services and benefits that a product can offer besides the core and actual product that is being offered.
- Direct Marketing : Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response.
- Relationship Marketing : The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders. Thus, providing special benefits to select customers to strengthen bonds.
- 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.
- Person Marketing : People can also be marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person.
- Organisation Marketing : It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organisation. Both profit and non-profit organisations practice organisation marketing.
- Place Marketing : Place marketing involves activities undertaken to create, maintain, change attitudes and behaviour towards particular places say, marketing of business sites, tourism marketing.

- Enlightened Marketing : It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset; its five principles include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.
- Differential Marketing : It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each.
- Synchro-marketing : When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives.
- Concentrated Marketing : It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets. It can also take the form of Niche marketing.
- Demarketing: It includes marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand.

CHANNELS

Channels are the distribution system by which an organisation distributes its product or provides its service. The wider and stronger the channel the better position a business has to fight and win over competition. Also, having robust channels of business distribution help keep new players away from entering the industry, thus acting as barriers to entry.

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

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.

CORE COMPETENCE

- Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals. It is the collective learning in the organisation, especially coordinating diverse production skills & integrating multiple streams of technologies. It is defined as a combination of skills and techniques rather than individual skill or separate technique. For core competencies, it is characteristic to have a combination of skills and techniques, which makes the whole organisation utilise these several separate individual capabilities.
- According to C.K. Prahalad and Gary Hamel, major core competencies are identified in 3 areas - competitor differentiation, customer value, & application to other markets.
- Core competence must be applicable to the whole organisation; it cannot be only one particular skill or specified area of expertise.
- A core competency for a firm is whatever it does best: For ex - Walmart focuses on lowering its operating costs.
- For competitive advantage, a core technological competence should be difficult for the competitors to imitate.
- A Core competency fulfils three criteria:

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

ii) It should make a significant contribution to the perceived customer benefits of the end product.

iii) It should be difficult to imitate for competitors/rivals.

RTP NOV 20: 'Speed' is a leading retail chain, on account of its ability to operate its business at low costs. Retail chain aims to further strengthen its top position in the retail industry. The Chief executive of the retail chain is of the view that to achieve the goals they should focus on lowering the costs of procurement of products. Highlight & explain the core competence of the retail chain.

RTP NOV 19: Major core competencies are identified in three areas - competitor differentiation, customer value and application to other markets. Discuss.

Jan 21: Core competencies provide edge to a business over its competitors. Discuss. Also, briefly state the three areas in which major core competencies are identified.

How to build core competency?

- Valuable - Valuable capabilities are ones that allow firm to exploit opportunities or avert threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services.
- Rare - Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them.
- Costly to imitate - Costly to imitate means such capabilities that competing firms are unable to develop easily. capability that brought SRAM and DRAM integrated circuit technology, and brought microprocessors to market well ahead of the competitor.
- Non-substitutable - Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

RTP May 20 — Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies. Explain these four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.

SWOT ANALYSIS

The identification and analysis of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

i) Strength – Strength is an inherent capability of the organisation which it can use to gain strategic advantage over its competitors.

ii) Weakness – A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

iii) Opportunity – An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.

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

The organization's performance in the marketplace is significantly influenced by the 3 factors:

i) The organisation's correct market position .

ii) The nature of environmental opportunities & threat.

iii) The organisation's resource capability to capitalise the opportunities & to protect against the threats.

The significance of SWOT analysis lies in the following points:

i) It provides a Logical Framework – Variation in managerial perceptions about organisational strengths and weaknesses & environmental opportunities and threats lead to the approaches to specific strategies & finally the choice of strategy that takes place through an interactive process in dynamic backdrop.

ii) It presents a Comparative Account – SWOT analysis presents the information about both external and internal environment in a structured form where it is possible to compare external opportunities and threats with internal strengths and weaknesses. The helps in matching external and internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship.

iii) It guides the strategist in Strategy Identification – SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximises a company's chances of surviving in the fast-changing, global competitive environment that characterises most industries today.

RTP May 20 — What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization?

RTP May 21 — Write a short note on SWOT analysis.

PORTER'S GENERIC STRATEGIES

According to Porter, strategies allow organisations to gain competitive advantage from three different bases: cost leadership, differentiation, & focus. Porter called these base generic strategies.

COST LEADERSHIP STRATEGIES

- It is a low cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in areas of procurement, production, storage & distribution of product or service & also economies in overhead costs because of its lower costs, the cost leader is able to change a lower price for its products than its competitors and still make satisfactory profits.
- A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation.
- A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, & broad employee participation in cost control efforts.
- Some risks of pursuing cost leadership are that competitors may imitate the strategy, thus driving overall industry profits down; that technological Break throughs in the industry may make the strategy ineffective; or that buyer interest may swing to other differentiating features besides price.

ACHIEVING COST LEADERSHIP STRATEGIES

i) Forecast the demand of a product or service promptly.

ii) Optimum utilization of the resources to get cost advantages.

iii) Achieving economies of scale leads to lower per unit cost of product/service.

iv) Standardisation of products for mass production to yield lower cost per unit.

v) Invest in cost saving technologies and try using advance technology for smart working.

ADVANTAGES OF COST LEADERSHIP STRATEGIES

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

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

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

iv) Entrants – Low cost leaders create barriers to market entry through its continuous focus on efficiency & reducing costs.

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

Nov 19, RTP May 21

Write a short note on the concept of cost leadership strategy and how to achieve it?

RTP Nov 19

A century-old footwear company "Mota Shoes" had an image of being the footwear choice for formal occasions. In an attempt to reinvent its brand, it tied up with a foreign footwear giant "Buffrine" to manufacture and sell its Hideseek brand in the country. Putting its best foot forward, it launched extra soft, casual and relaxed footwear for young. Aiming at a brand and image makeover the "Mota Shoes" decided to price the Hide Seek products at premium. What kind of Michael Porter business level strategy is being used by "Mota Shoe company"? State its advantages.

RTP Nov 20

Airlines industry in India is highly competitive with several players. Businesses face severe competition & aggressively market themselves with each other. Luxury Jet is a private Delhi based company with a fleet size of 9 small aircrafts with seating capacity ranging between 6 seats to 9 seats. There aircrafts are chartered by big business houses & high net worth individuals for their personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by Luxury Jet

DISADVANTAGES OF COST LEADERSHIP STRATEGIES

i) Cost advantage may not be remaining for long as competitors may also follow cost reduction technique.

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

iii) Cost leaders tend to keep their costs low by minimising advertising, market research, and research and development, but this approach can prove to be expensive in the long run.

iv) Technology changes are a great threat to the cost leader.

DIFFERENTIATION

- This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique.
- Uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can change a premium for its product.
- Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible.
- Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, more features.

Nov 20

ABC Ltd. is a beverage manufacturing company. It chiefly manufactures soft drinks. The products are priced on the lower side which has made the company a leader in the business. Currently it is holding 35 percent market share. The R & D of company developed a formula for manufacturing sugar free beverages. On successful trial and approval by the competent authorities, company was granted to manufacture sugar free beverages. This company is the pioneer to launch sugar free beverages which are sold at a relatively higher price. This new product has been accepted widely by a class of customers. These products have proved profitable for the company. Identify the strategy employed by the company ABC Ltd. and mention what measures could be adopted by the company to achieve the employed strategy.

May 19

What do you mean by differentiation strategy? How is it achieved?

BASIS FOR DIFFERENTIATION	ACHIEVING DIFFERENTIATION STRATEGY	DISADVANTAGES
i) Product – Innovative products that meet customer needs can be an area where a company has an advantage over competitors.	i) Offer utility for the customers & match products with their tastes & preferences.	i) In long term, uniqueness is difficult to sustain.
ii) Pricing – It can fluctuate based on its supply and demand, and also be influence by the customer's ideal value for the product.	ii) Elevate the performance of the product.	ii) Charging too high a price for differentiated features may cause the customer to switch-off to another alternative.
iii) Organisation – Organisational differentiation is yet another form of differentiation. Maximising power of a brand, or using specific advantages that an organisation possesses can be instrumental to a company's success.	iii) Offer the promise of high quality product/ service for buyer satisfaction.	iii) Differentiation fails to work if its basis is something that is not valued by customers.
	iv) Rapid product innovation.	
	v) Taking steps for enhancing image & its brand value.	
	vi) Fixing product prices based on unique features of product & buying capacity of customer	

ADVANTAGES

i) 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.

ii) Buyers – They do not negotiate for price as they get special features and also they have fewer options in the market.

iii) Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies & customers are willing to pay extra

iv) 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.

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

RTP May 20

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

FOCUS

- A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors.
- Strategies such as market penetration and market development offer substantial focusing advantages.

- Midsize and large firms can effectively pursue focus- based strategies only in conjunction with differentiation or cost leadership-based strategies.
- Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialise in the same target segment

Focused cost leadership –	Focused differentiation –
• 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 are following a focused cost leadership strategy.	• A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. As with a 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 & target a narrow market are following a focused differentiations strategy.

Jan 21 **Spacetek Pvt. Ltd. is an IT company. Although there is cut throat competition in IT sector, Spacetek deals with distinctive niche clients & is generating high efficiencies for serving such niche market. Other rival firms are not attempting to specialize in same target market. Identify the strategy adopted by Spacetek Pvt. Ltd. and also explain the advantages and disadvantages of that strategy.**

Achieving focused strategy	Advantages focused strategy	Disadvantages focused strategy
i) Selecting specific niches which are not covered by cost leaders and differentiators. ii) Creating superior skills for catering to such niche markets. iii) Generating high efficiencies for serving such niche markets. iv) Developing innovative ways in managing the value chain.	i) Premium prices can be charged by the organisations for their focused product/ services. ii) Due to the tremendous expertise about the goods and services that organisations following focus strategy offer, rivals & new entrants may find it difficult to compete.	i) The firms lacking in distinctive competencies may not be able to pursue focus strategy. ii) Due to the limited demand of product/ services, costs are high which can cause problems. iii) In 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 both low cost and upscale differences. The objective is to keep costs and prices lower than those of other sellers of comparable products.
- Best-cost provider strategy involves providing customers more value for the money by emphasizing low cost and better quality difference. It can be done:

a) Through 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.

Ch 4 Strategic Choices

- Broad Strategies
  - Stability
  - Growth
    - Intensification
      1. market penetration
      2. market development
      3. produ[illegible] devel[illegible]nt
    - Diversification
      1. Vertical
      2. Horizontal
      3. Concentric
      4. Conglomerate
    - Merger
      1. Vertical
      2. Horizontal
      3. Cogeneric
      4. Conglomerate
    - Alliance
      1. Advantages
      2. Disadvantages
  - Retrenchment
  - Combination
- Strategic Exists
  - Turnaround
  - Divestment
  - Liquidation
- Strategic Options Portfolio Analysis Models
  1. Ansoff's Matrix
  2. ADL Matrix
  3. BCG Matrix
  4. GE Matrix

STABILITY STRATEGY

STABILITY STRATEGY

A stability strategy is pursued by a firm when	Characteristics of Stability Strategy	Major Reasons for Stability Strategy
• It continues to serve in the same or similar markets & deals in same or similar products & services. • The strategic decisions focus on incremental improvement of functional performance.	• A firm opting for stability strategy stays with same business, same product- market posture and functions, maintaining same level of effort as at present. • The endeavour is to enhance functional efficiencies in an incremental way, through better deployment & utilisation of resources. • Stability strategy does not involve a redefinition of the business of corporation. • It is basically a safety-oriented, status quo oriented strategy. • It does not warrant much of fresh investments. • It involves minor improvements in the product and its packaging. • The risk is also less • With stability strategy, the firm has the benefit of concentrating its resources & attention on the existing businesses/products & markets.	• A product has reached the maturity stage of the product life cycle. • It is less risky as it involves less changes and the staff feels comfortable with things as they are. • The environment faced is relatively stable. • Expansion may be perceived as being threatening. • Consolidation is sought through stabilising after a period of rapid expansion.

RTP Nov 19 — What is stability strategy? What are the reasons to pursue stability strategy?

RTP May 21 — Justify the statement "Stability strategy is opposite of Expansion strategy".

GROWTH AND EXPANSION

CHARACTERISTICS OF GROWTH STRATEGY

- i) Expansion strategy involves a redefinition of the business of the corporation.
- ii) 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.
- iii) Expansion strategy leads to business growth
- iv) The process of renewal of the firm through fresh investments and new businesses/ products/markets is facilitated only by expansion strategy.
- v) Expansion strategy is a highly versatile strategy; it offers several permutations and combinations for growth
- vi) Expansion strategy holds within its fold two major strategy routes: Intensification, Diversification.

MAJOR REASONS FOR GROWTH / EXPANSION

i) It may become imperative when environment demands increase in pace of activity.

ii) Strategists may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organisations perceived to be growth-oriented.

iii) Expansion may lead to greater control over the market vis-a-vis competitors.

iv) Advantages from the experience curve and scale of operations may accrue.

TYPES OF GROWTH / EXPANSION STRATEGY

Expansion through diversification

- It is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology & knowledge.
- When an established firm introduces a new product, which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups, the process is known as conglomerate diversification.
- Both the technology of the product and the market are different from the firm's present experience.

RTP May 20

Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides Organo with a significant amount of its fresh produce. Organo feels that by purchasing the farms, it will have greater control over its supply chain. Identify and explain the type of diversification opted by Organo? ".

i) Intensification

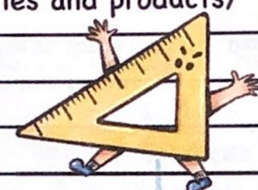
- Market Penetration – Highly common expansion strategy is market penetration/ concentration on the current business. The firm directs its resources to the profitable growth of its existing product in existing market.
- Market Development – It consists of marketing present products, to customers in related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

ii) Diversification.

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 and backward integration forms part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. Backward integration is a step towards, creation of effective supply by entering business of input providers.

Horizontal Integrated Diversification	Concentric Diversification	Conglomerate Diversification
Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.	• Concentric diversification too amounts to related diversification In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. • The new product is a spin-off from the existing facilities and products/ processes.	• In conglomerate diversification, no such linkages exist; new businesses/ products are disjointed from 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.



RTP May 20 Write short note on expansion through acquisitions & mergers.

EXPANSION THROUGH MERGER AND ACQUISITION

i) 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 & so on.

ii) Vertical Merger -

It is a merger of two organisations 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 organisation takes over its supplier/producers of raw material, then it leads to backward integration. On the other hand, forward integration happens when an organisation decides to take over its buyer organisations or distribution channels. Vertical merger results in many operating and financial economies.

iii) Co-generic Merger -

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

iv) Conglomerate Merger -

Conglomerate mergers are the combination of organisations 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 organisations in production, marketing, research and development and technology.

May 19 Gautam and Siddhartha two brothers are owners of a cloth manufacturing unit located in Faridabad. They are doing well & have substantial surplus funds available within the business. They have different approaches regarding corporate strategies to be followed to be more competitive & profitable in future. Gautam is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils & pencil sharpeners, envelopes and other office supplies. On the other hand, Siddhartha desires to start another unit to produce readymade garments. Discuss nature of corporate strategies being suggested by 2 brothers & risks involved in it.

EXPANSION THROUGH STRATEGIC ALLIANCE

It is a relationship between 2 or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.

ADVANTAGES

a) Organizational –

Strategic alliance helps to learn necessary skills & obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain.

b) 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

c) Strategic –

Rivals can join together to cooperate instead of compete. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by pooling of resources & skills.

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

DISADVANTAGES

Nov 19 Explain the Strategic Alliance. Describe the advantages of Strategic Alliance

i) The major disadvantage is sharing.

ii) Strategic alliances require sharing of resources and profits, and also sharing knowledge and skills that otherwise organisations may not like to share.

iii) Sharing knowledge and skills can be problematic if they involve trade secrets.

iv) Agreements can be executed to protect trade secrets, but they are only as good as the willingness of parties to abide by the agreements or the courts willingness to enforce them.

v) Strategic alliances may also create a potential competitor. An ally may become a competitor in future when it decides to separate out.

RETRENCHMENT/ TURNAROUND

RETRENCHMENT

- It is followed when an organisation 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.
- If the organisation chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy.
- If it cuts off the loss- making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment strategy.

TURNAROUND

- Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy.
- There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive.
- These danger signals are – Persistent negative cash flow from business(es), Uncompetitive products or services, Declining market share, Deterioration in physical facilities, Over-staffing, high turnover of employees, and low morale, Mismanagement

RTP Nov 19

Pizza Galleria was India's first pizza delivery chain enjoying monopoly for several years. However, after entry of Modino and Uncle Jack it is struggling to compete. Both Modino and Uncle Jack have opened several eateries and priced the product aggressively. In last four years the chain has suffered significant losses. The chain wishes to know whether they should go for turnaround strategy. List out components of action plan for turnaround strategy.

ACTION PLAN FOR TURNAROUND

a) Stage One – Assessment of current problems –

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

b) Stage Two – Analyse the situation and develop a strategic plan –

- Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan.
- Analyse the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

c) Stage Three – Implementing an emergency action plan –

- If the organisation is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organisation to survive.
- The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products.

d) Stage Four – Restructuring the business –

- The financial state of the organisations core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organisation may be bleak.
- During the turnaround, the "product mix" may be changed, requiring the organisation to do some repositioning. Core products neglected over time may require immediate attention to remain competitive.

e) Stage Five – Returning to normal –

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

THE IMPORTANT ELEMENTS OF TURNAROUND STRATEGY

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

Nov 19

An XYZ Company is facing continuous losses. There is decline in sales and product market share. The products of the company became uncompetitive and there is persistent negative cash flow. The physical facilities are deteriorating and employees have low morale. At the board meeting, the board members decided that they should continue the organization and adopt such measures that the company functions properly. The board has decided to hire young executive Shayamli for improving the functions of the organization. What corporate strategy should Shayamli adopt for this company and what steps to be taken to implement the corporate strategy adopted by Shayamli?

Nov 20

Briefly describe meaning of divestment and liquidation strategy & establish difference between the two.

RTP May 21

Mini theatre Ltd. was a startup venture of three young IIM graduates. They developed an application to watch web-based content like web series, TV Shows, theatre shows, etc. after purchasing their exclusive rights. They were successful in getting many consumers enrolled with them. After a certain span of time, the company realized that some regional content like 'bangla movies', 'Gujarati shows' etc. were having high cost and less viewership. The leadership team of Mini theatre Ltd. decided to sell the rights and curtail any further content development in these areas.

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 & is adopted when a turnaround has been attempted but has proved to be unsuccessful.

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

i) A business that had been acquired proves to be a mismatch and cannot be integrated within the company.

ii) Persistent negative cash flows from a particular business create financial problems for the whole co., creating the need for divestment of that business.

iii) Severity of competition and the inability of a firm to cope with it may cause it to divest.

iv) Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest

v) A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

LIQUIDATION STRATEGY

- A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets.
- It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.
- Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition.

CHARACTERISTICS OF TURNAROUND STRATEGY

- This strategy involves retrenchment/divestment of some of the activities in a given business of the firm or sell-out of some of the businesses as such.
- Compulsions for divestment can be many and varied, such as

a) Obsolescence of product/process. b) Business becoming unprofitable and unviable c) Inability to cope up with cut throat competition d) Industry overcapacity. e) Failure of existing strategy

MAJOR REASONS FOR TURNAROUND STRATEGY

- The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- The management feels that business could be made viable by divesting some of the activities or liquidation of unprofitable activities.
- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- Severity of competition and the inability of a firm to cope with it may cause it to divest.

- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
- A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

COMBINATION STRATEGY

- The above strategies are not mutually exclusive.
- It is possible to adopt a mix of the above to suit particular situations.
- An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others.
- Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of.
- For some organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities & plant locations.
- Major Reasons for Combination Strategy

i) The organisation is large and faces complex environment.

ii) The organisation is composed of different businesses, each of which lies in a different industry requiring a different response.

STRATEGIC OPTIONS

ANSOFF'S PRODUCT MARKET GROWTH MATRIX

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

a) Market Penetration –

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets.
It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors. Penetration is also done by effort on increasing usage by existing customers.

b) Market Development -

Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. This strategy may be achieved through new geographical markets, new product packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

c) Product Development-

Product development is refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering new products to current markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

d) Diversification -

Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets. This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically the business is moving into markets in which it has little or no experience.

ADL MATRIX

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

i) Dominant - This is a comparatively rare position and in many cases is attributable to a monopoly

ii) 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.

iii) 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.

iv) 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.

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

RTP Nov 20 — Write a short note on the role of ADL Matrix in assessing competitive position of a firm.

BOSTON CONSULTING GROUP GROWTH MATRIX

The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth- share matrix.

4 different types of products or SBU as follows:

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

ii) Cash cow – 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.

iii) Question mark – 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. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

iv) Dogs – Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation. After a firm, has classified its products or SBUs, it must determine what role each will play in the future.

The 4 Strategies that can be pursued are -

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.

Hold – Here the objective is to preserve market share.

Harvest – Here the objective is to increase short-term cash flow regardless of long- term effect.

Divest – Here objective is to sell or liquidate business because resources can be better used elsewhere

GENERAL ELECTRIC MATRIX

This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey & Company).

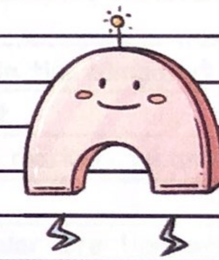
- This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Electric Model.
- The strategic planning approach in this model has been inspired from traffic control lights.

The market attractiveness is measured by a number of factors like:

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

Business strength is measured by considering the typical drivers like:

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



Ch 5 Strategic Implementation and Evaluation

Strategic Management

- Process
- Stages
  - Planning
  - Implementation

Strategy change through digital transformation

Organisation structure

1. Simple
2. Functional
3. Divisional
4. Multidivisional
5. SBU
6. Matrix
7. Network
8. Hourglass

Strategic control

Strategic leadership

Strategic performance measures

STRATEGIC MANAGEMENT PROCESS

Jan 21

Strategy execution is an operations-oriented activity which involves a good fit between strategy and organizational capabilities, structure, climate & culture. Enumerate the principal aspects of strategy execution process which are used in most of the situations.

STAGES

Stage 1: Strategic Vision, Mission and Objectives

- First a company must determine what directional path the company should take & what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect.
- Top management's views and conclusions about the company's direction and the product-customer- market- technology focus constitute a strategic vision for the company.
- A strategic vision delineates management's aspirations for the organisation and highlights a particular direction, or strategic path for it to follow in preparing for the future, and moulds its identity.
- Mission and Strategic Intent: Managers need to be clear about what they see as the role of their organisation, and this is often expressed in terms of a statement of mission.

Stage 2: Environmental and Organisational Analysis

This stage is the diagnostic phase of strategic analysis. It entails two types of analysis – Environmental scanning & Organisational analysis

- 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 & threats for the firm in future.
- Organisational analysis involved a review of financial resources, technological resources, productive capacity, marketing & distribution effectiveness, research & development, human resource skills & so on.

Stage 3: Formulating Strategy

- A company may be confronted with several alternatives such as:

i) Should company continue in the same business carrying on the same volume of activities?

ii) 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.

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

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

- The above strategic alternatives may be designated as stability strategy, growth/ expansion strategy and retrenchment strategy.

Stage 4: Implementation of Strategy

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

i) Developing budgets that steer ample resources into those activities critical to strategic success.

ii) Staffing the organisation with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organising the work effort.

iii) Ensuring that policies and operating procedures facilitate rather than impede effective execution.

iv) Using best-known practices to perform core business activities & pushing for continuous improvement.

v) Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.

vi) Motivating people to pursue the target objectives energetically.

vii) Creating a co. culture & work climate conducive to successful strategy implementation & execution.

viii) 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..

Stage 5 : Strategic Evaluation and Control

- The final stage of strategic management process – evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/or strategy- execution methods.
- So long as the company's direction and strategy seem well matched to industry and competitive conditions and performance targets are being met, company executives may decide to stay the course. Simply fine-tuning the strategic plan and continuing with ongoing efforts to improve strategy execution are sufficient.

STRATEGIC PLANNING

- It is the process of determining the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use and disposition of resources.
- Strategic planning involves a fact of interactive and overlapping decisions leading to the development of an effective strategy for the firm. Strategic planning determines where an organisation is going over the next year or more and the ways for going there.

Dealing with uncertainty:

- Strategic uncertainty, which has far reaching implications, is a key construct in strategy formulation. A typical external analysis will emerge with dozens of strategic uncertainties.
- To be manageable, they need to be grouped into logical clusters. It is then useful to assess importance of each cluster in order to set priorities with respect to Information gathering & analysis.

Impact of uncertainty:

- Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, & even potential businesses.
- For example, a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty.
- The impact of a strategic uncertainty will depend on the importance of the impacted SBU to a firm. Some SBUs are more important than others.

Is strategy formulation an intellectual process? How is it different from strategy implementation? May 19

STRATEGIC IMPLEMENTATION

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

FORMULATION VS IMPLEMENTATION

Strategy Formulation	Strategy Implementation
Strategy formulation is positioning forces before the action.	Strategy implementation is managing forces during the action
Strategy formulation focuses on effectiveness	Strategy implementation focuses on efficiency
Strategy formulation is primarily an intellectual process	Strategy implementation is primarily an irrational process
Strategy formulation requires good intuitive and analytical skills	Special motivation and leadership skills
Strategy formulation requires coordination among a few individuals	Strategy implementation requires combination among many individuals.

ISSUES IN STRATEGY IMPLEMENTATION

The strategic plan devised by the organisation proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent. Implementation tasks are meant to realise the intent. Strategies, therefore, have to be activated through implementation.

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

- Thus, research and development programme may consist of several projects, each of which is intended to achieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.
- Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources.
- Given below in sequential manner the issues in strategy implementation which are to be considered -

Project implementation, Procedural implementation, Resource allocation, Structural implementation, Functional implementation, Behavioural implementation.

a) It should be noted that the sequence does not mean that each of the above activities are necessarily performed one after another.

b) Many activities can be performed simultaneously, certain other activities may be repeated over time; & there are activities, which are performed only once.

c) Thus there can be overlapping and changes in the order in which these activities are performed.

d) In all but the smallest organisations, the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers.

e) Implementation problems can arise because of this shift in responsibility, especially if strategic decisions come as a surprise to middle & lower-level managers.

FORWARD LINKAGES

- The different elements in strategy formulation starting with objective setting through environmental and organisational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organisation adopts for itself.
- With the formulation of new strategies, or reformulation of existing strategies, many changes have to be effected within the organisation.
- For instance, the organisational 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.

BACKWARD LINKAGES

- Just as implementation is determined by 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.
- Organisations 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 organisations from where it is to where it wishes to be.
- It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making.

Steps to initiate strategic change

a) Recognise the need for change -

The 1st step is to diagnose which facets of the present corporate culture are strategy supportive & which are not. This basically means going for environmental scanning involving appraisal of both internal & external capabilities may it be through SWOT analysis

b) Create a shared vision to manage change -

Objectives & vision of both individuals & organisation should coincide. There should be no conflict between them. Senior managers need to constantly and consistently communicate vision not only to inform but also to overcome resistance through proper communication.

c) Institutionalise the change -

This is basically an action stage which requires implementation of changed strategy.Creating & 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.

Kurt Lewin's Model of Change

RTP Nov 2020 — Discuss three methods for reassigning new patterns of behavior as proposed by H.C. Kellman.

i) Unfreezing the situation -

- The process of unfreezing simply makes the individuals or organisations 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 organisation.
- Sudden and unannounced change would be socially destructive and morale lowering.
- 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.

ii) Changing to the new situation:

- Once unfreezing process has been completed and the members of the organisation recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined.

a) 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.

b) 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.

c) Internalisation - Internalisation involves some internal changing of the individual's thought processes in order to adjust to a new environment.

iii) Refreezing -

- Refreezing occurs when the new behaviour becomes a normal way of life. New behaviour must replace former behaviour completely for successful & permanent change to take place.
- In order for new behaviour to become permanent, it must be continuously reinforced so that this new acquired behaviour does not diminish or extinguish.

STRATEGIC CHANGE THROUGH DIGITAL TRANSFORMATION

How does change management appear when applied to digital transformation? Change management in the digital transition consists of four essential elements :

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

The role of change management in digital transformation

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 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 encourage 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.

5. Recognise 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.

How to Manage Change During Digital Transformation ?

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

1. Specify the digital transformation's aims and objectives : What is the intended outcome ? What are the precise objectives that must be accomplished ? It will be easier to make sure that everyone is on the same page and pursuing the same aims if everyone has a clear grasp of the goals.

2. Always, always, always communicate : It might be challenging for people to accept change and adjust to it. Ensure that you routinely and honestly discuss the objectives of the digital transformation and how they will affect stakeholders, including employees, clients, and other parties.

3. Be ready for resistance : Even when a change is for the better, it can be challenging for people to embrace it. Have a strategy in place for dealing with any resistance that may arise.

4. Implement changes gradually : Changes should ideally be implemented gradually rather than all at once. In order to avoid overwhelming individuals with too much change at once, this will give people time to become used to the new way of doing things.

5. Offer assistance and training : Workers will need guidance in the new procedures, software applications, etc.

MCKINSEY 7S MODEL

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.

a) Strategy : the direction of the organization, a blueprint to build on a core competency and achieve competitive advantage to drive margins and lead the industry

b) Structure : depending on the availability of resources and the degree of centralisation or decentralization that the management desires, it choses from the available alternatives of organizational structures.

c) Systems : the development of daily tasks, operations and teams to execute the goals and objectives in the most efficient and effective manner.

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 organisation success as well as growth in the industry. The following are the soft elements in this model ;

a) Shared Values : The core values which get reflected within the organisational culture or influence the code of ethics of the management.

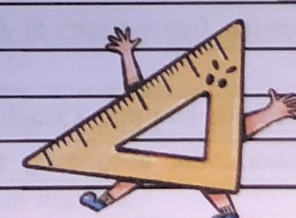
b) Style : This depicts the leadership style and how it influences the strategic decisions of the organisation. It also revolves around people motivation and organisational delivery of goals.

c) Staff : The talent pool of the organisation.

d) Skills : The core competencies or the key skills of the employees play a vital role in defining the organisational success.

But like any other strategic model, this model has its limitations as well ;

- It ignores the importance of the external environment and depicts only the most crucial elements within the organisation.
- The model does not clearly explain the concept of organisational effectiveness or performance.
- The model is considered to be more static and less flexible for decision making.
- It is generally criticised for missing out the reals gaps in conceptualisation and execution of strategy.



ORGANISATIONAL CHANGE

- Changes in corporate strategy often require changes in the way an organisation is structured for two
- First, structure largely dictates how operational objectives and policies will be established to achieve the strategic objectives.
- The second major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated to achieve strategic objectives.

SIMPLE STRUCTURE

- Simple organisational structure is most appropriate for companies that follow a single- business strategy and offer a line of products in a single geographic market.
- It is an organisational form in which the owner-manager makes all major decisions directly and monitors all activities, while the company's staff merely serves as an executor.
- In the simple structure, communication is frequent & direct, & new products tend to be introduced to market quickly, which can
- result in a competitive advantage. Because of these characteristics, few of the coordination problems that are common in larger organisations exist.
- It may result in competitive advantages for some small companies relative to their larger counterparts.

FUNCTIONAL STRUCTURE

- A widely used structure in business organisations is functional type because of its simplicity and low cost.
- A functional structure groups tasks & activities by business function, such as production/operations, marketing, finance/accounting, research and development, & management information systems.
- Besides being simple and inexpensive, a functional structure also promotes specialisation of labour, encourages efficiency, minimises the need for an elaborate control system, and allows rapid decision making.
- The functional structure consists of a chief executive officer or a managing director and supported by corporate staff with functional line managers in dominant functions such as production, financial accounting, marketing, R&D, engineering, & human resources.
- It enables the company to overcome the growth- related constraints of the simple structure, enabling or facilitating communication & coordination.

DIVISIONAL STRUCTURE

- The divisional structure can be organized in one of the four ways: by geographic area, by product or service, by customer, or by process.
- With a divisional structure, functional activities are performed both centrally and in each division separately.
- A divisional structure has some clear advantages.

a) First and the foremost, accountability is clear. That is, divisional managers can be held responsible for sales and profit levels.

b) Second, there exists some duplication of staff services, facilities, and personnel; for instance, functional specialists are also needed centrally (at headquarters) to coordinate divisional activities.

c) Third, managers must be well qualified because the divisional design forces delegation of authority better-qualified individuals requires higher salaries.

d) Finally, certain regions, products, or customers may sometimes receive special treatment, & It may be difficult to maintain consistent, company wide practices.

- The divisional structure allows strict control over and attention to product lines, but it may also require a more skilled management force and reduced top management control.
- However, a key difference between these 2 designs is that functional departments are not accountable for profits or revenues, whereas divisional process departments are evaluated on these criteria.

Nov 20

Draw 'Divisional Structure' with the help of a diagram. Also, give advantages & disadvantages of this structure in brief.

MULTIDIVISIONAL STRUCTURE

It is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day- to-day operations and business unit strategy to division managers.

- By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls.
- Multidivisional structure calls for:

a) Creating separate divisions, each representing a distinct business.

b) Each division would house its functional hierarchy;

c) Division managers would be given responsibility for managing day-to-day operations;

d) A small corporate office that would determine long-term strategic direction of the firm & exercise overall financial control over semi-autonomous divisions.

- This would enable the firm to more accurately monitor the performance of individual businesses, simplifying control problems, facilitate comparisons between divisions, improving the allocation of resources and stimulate managers of poorly performing divisions to seek ways to improve performance.

STRATEGIC BUSINESS UNIT (SBU) STRUCTURE

- The concept is relevant to multi-product, multi-business enterprises. It is impractical for an enterprise with a multitude of businesses to provide separate strategic planning treatment to each one of its products/businesses; it has to necessarily group the products/businesses into a manageable number of strategically related business units and then take them up for strategic planning.
- The three most important characteristics of a SBU are:

a) It is a single business or a collection of related businesses which offer scope for independent planning & which might feasibly stand alone from the rest of the organisation.

b) It has its own set of competitors.

c) It has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

- When strategic planning was carried out treating territories as the units for planning, it gave rise to two kinds of difficulties:

i) since a number of territorial units handled the same product, the same product was getting varied strategic planning treatments; and

ii) Since a given territorial planning unit carried different and unrelated products, products with dissimilar characteristics were getting identical strategic planning treatment.

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

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

- A scientific method of grouping the businesses of a multi-business corporation which helps the firm in strategic planning.
- An improvement over the territorial grouping of businesses & strategic planning based on territorial units.
- It is a grouping of related businesses that can be taken up for strategic planning distinct from rest of the businesses. Products/ businesses within an SBU receive same strategic planning treatment & priorities.
- The task consists of analysing & segregating the assortment of businesses/ portfolios & regrouping them into a few, well defined, distinct, scientifically demarcated business units. Products/ businesses that are related from the standpoint of "function" are

assembled together as a distinct SBU.

- Unrelated products/businesses in any group are separated.
- Grouping the businesses on SBU lines helps firm in strategic planning by removing vagueness & confusion generally seen in grouping businesses; it also facilitates the right setting for correct strategic planning & facilitates correct relative priorities & resources to the various businesses.
- Each SBU is a separate business from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition and strategy- one SBU will be distinct from another.
- Each SBU will have its own distinct set of competitors and its own distinct strategy.
- Each SBU will have a CEO. He will be responsible for strategic planning for SBU & its profit performance; he will also have control over most of the factors affecting the profit of the SBU.

This issue of relatedness in turn has direct implications on decisions about diversification relatedness might exist in different ways:

i) SBUs might build on similar technologies or all provide similar sorts of products or services.

ii) SBUs might be serving similar or different markets. Even if technology or products differ, it may be that the customers are similar. For example, the technologies underpinning frozen food, washing powders and margarine production may be very different; but all are sold through retail operations, & U nil ever operates in all these product fields.

iii) Or it may be that other competences on which the competitive advantage of different SBUs are built have similarities

RTP May 20 — What is a strategic business unit? What are its advantages?

Jan 21 — Moonlight Private Limited deals in multi-products and multi-businesses. It has its own set of competitors. It seems impractical for the company to provide separate strategic planning treatment to each one of its product or businesses. As a strategic manager, suggest the type of structure best suitable for Moonlight Private Limited and state its benefits.

MATRIX STRUCTURE

- Most organisations find that organising around either functions (in the functional structure) or around products and geography (in the divisional structure) provides an appropriate organisational structure.
- The matrix structure, in contrast, may be very appropriate when organisations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms like strategic business units, are right for their situations.
- It is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix).
- Some advantages of a matrix structure are that project objectives are clear, there are many channels of communication workers can see the visible results of their work, and shutting down a project is accomplished relatively easily.

- It is used more frequently by businesses because they are pursuing strategies add new products, customer groups, & technology to their range of activities.
- The matrix structure is often found in an organisation or within an SBU when the following three conditions exists:

i) Ideas need to be cross- fertilised across projects or products,

ii) Resources are scarce and

iii) 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:

i) 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.

ii) 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.

iii) 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.

NETWORK STRUCTURE

- Many activities are outsourced. A corporation organised in this manner is often called a virtual organisation because it is composed of a series of project groups or collaborations linked by constantly changing on- 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 & 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 does, however, have disadvantages.

i) The availability of numerous potential partners can be a source of trouble.

ii) Contracting out functions to separate suppliers/distributors may keep the firm from discovering any synergies by combining activities.

iii) If a particular firm over specialises on only a few functions, it runs the risk of choosing the wrong functions and thus becoming non-competitive.

HOURGLASS STRUCTURE

The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organisation structure consists of three layers with constricted middle layer.

The structure has a short and narrow middle-management level. Information technology links the top and bottom levels in the organisation taking away many tasks that are performed by the middle level managers.

- A shrunken middle layer coordinates diverse lower level activities. Contrary to traditional middle level managers who are often specialist, the managers in the hourglass structure are generalists and perform wide variety of tasks.
- 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.

May 19, RTP Nov 19 | Elucidate - Matrix Structure

Delta is an organization specializing in Information Technology enables Services (ITeS) and Communications business. Previous year the organization had successfully integrated an Artificial Intelligence (AI) tool named 'Zeus' into the existing ERP system. The AI tool using Deep Learning technique provided a digital leap transformation in various business processes and operations. It has significantly diminished the role played by specialist managers of the middle management. This technological tool in addition to saving organisational costs by replacing many tasks of the middle management, has also served as a link between top and bottom levels in the organization and assists in faster decision making. The skewed middle level managers now perform cross-functional duties. Which type of organisational structure is the company transitioning into?

STRATEGIC SUPPORTIVE CULTURE

Where Does Corporate Culture Come From?

A company's culture is manifested in the values & business principles that management preaches & practices, in its ethical standards & official policies, in its stakeholder relationships (especially its dealings with employees, unions, stockholders, vendors, & communities in which it operates), in the traditions the organisation maintains, in its supervisory practices, in employees' attitudes and behaviour, in the legends people repeat about happenings in the organisation, in the peer pressures that exist, in organisations politics that permeate work

Culture: ally or obstacle to strategy execution?

- organisation's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, and business approaches and practices underpinning a company's strategy may be compatible with its culture or they may not.
- When they are, the culture becomes a valuable ally in strategy implementation and execution.
- When the culture is in conflict with some aspect of company's direction, performance targets or strategy, the culture becomes a stumbling block that impedes successful strategy implementation and execution. Role of culture in strategy execution

Culture can promote better strategy execution?

- Strong cultures promote good strategy execution when there's fit and hurt execution when there's negligible fit.
- A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energise people throughout the company to do their jobs in a strategy- supportive manner, adding significantly to the power and effectiveness of strategy execution.
- Strategy-supportive cultures shape the mood, temperament, and motivation the workforce, positively affecting organisational energy, work habits and operating practices, the degree to which organisational units cooperate, and how customers are treated.

Perils of Strategy-Culture Conflict:

- When a company's culture is out of sync with what is needed for strategic success, the culture has to be changed as rapidly as can be managed – this, of course, presumes that it is one or more aspects of the culture that are out of whack rather than the strategy.
- While correcting a strategy-culture conflict can occasionally mean revamping strategy to produce cultural fit, more usually it means revamping the mismatched cultural features to produce strategy fit.
- The more entrenched the mismatched aspects of the culture, the greater the difficulty of implementing new or different strategies until better strategy-culture alignment emerges

Creating a strong fit between strategy and culture:

- It is the strategy maker's responsibility to select a strategy compatible with the "sacred" or unchangeable parts of prevailing corporate culture.
- It is the strategy implementer's task, once strategy is chosen, to change whatever facets of the corporate culture hinder effective execution.

Changing a problem culture:

- Changing a company's culture to align it with strategy is among the toughest management tasks-- easier to talk about than do.
- Changing a problem culture is very difficult because of the heavy anchor of deeply held values and habits-people cling emotionally to the old and familiar.
- It takes 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.
- The first step is to diagnose which facets of the present culture are strategy supportive and which are not.

- Implanting the needed culture-building values and behaviour depends on a sincere, sustained commitment by the chief executive coupled with extraordinary persistence in reinforcing the culture at every opportunity through both words and deed. Neither charisma nor personal magnetism is essential.
- The task of making culture supportive of strategy is not a short-term exercise. It takes time for a new culture to emerge and prevail; it's unrealistic to expect an overnight transformation.

RTP Mav 21 — How can management communicate that it is committed to creating a new culture assuming that the old culture was problematic & not aligned with the company 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.
- A manager as a strategic leader has to play many leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis manager, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader.

Managers have 5 leadership roles to play in pushing for good strategy execution

i) Staying on top of what is happening, closely monitoring progress, ferreting out issues, and learning what obstacles lie in the path of good execution.

ii) Promoting a culture and esprit de corps that mobilises and energises organisational members to execute strategy in a competent fashion and perform at a high level.

iii) Keeping the organisation responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.

iv) Exercising ethics leadership and insisting that the company conduct its affairs like a Exercising ethics leadership and insisting that the company conduct its affairs like a model corporate citizen.

v) Pushing corrective actions to improve strategy execution and overall strategic performance.

May 19 — Discuss the leadership role played by the managers in pushing for good strategy execution.

leadership role in implementation

- The changes confronting strategic leaders above provide obvious examples of the importance of strategic leadership, their effects on organisational outcomes, and the great challenges faced by strategic leaders.
- This indicates that effective 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 of appropriate strategic actions and providing guidance that results in strategic competitiveness and earning above-average returns.
- Strategic leadership represents a complex form of leadership in companies.
- In the today's competitive landscape, strategic leaders are challenged to adapt their frames of reference so that they can deal with rapid, complex changes.

responsibilities of a strategic leader

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

RTP May 20 — KaAthens Ltd., a diversified business entity having business operations across the globe. The company leadership has just changed as Mr. D. Bandopadhyay handed over the pedals to his son Aditya Bandopadhyay, due to his poor health. Aditya is a highly educated with an engineering degree from IIT, Delhi. However, being very young he is not clear about his role and responsibilities, In your view, what are the responsibilities of Aditya Bandopadhyay as CEO of the company

Nov 19, RTP Nov 20 — How can you differentiate between transformational and transactional leaders

RTP May 21 — Suraj Prakash and Chander Prakash are two brothers engaged in the business of spices. Both have different approaches to management. Suraj Prakash prefers the conventional and formal approach in which authority is used for explicit rewards and punishment. While, on the other hand, Chander Prakash believes in democratic participative management approach, involving employees to give their best.

TWO TYPES OF LEADERSHIP STYLES

1. Transformational leadership style

- Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organisation.
- Transformational leadership style may be appropriate in turbulent environments, of their lifecycles, in poorly performing organisations 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 organisational 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 organisation.

2. Transactional leadership style

- Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status.
- They prefer a more formalised approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.
- Transactional leadership style may be appropriate in settled environment, in growing or mature industries, and in organisations that are performing well.
- The style is better suited in persuading people to work efficiently and run operations smoothly

RTP May 21 — Suraj Prakash and Chander Prakash are two brothers engaged in the business of spices. Both have different approaches to management. Suraj Prakash prefers the conventional and formal approach in which authority is used for explicit rewards and punishment. While, on the other hand, Chander Prakash believes in democratic participative management approach, involving employees to give their best.

Nov 19 RTP Nov 20 — How can you differentiate between transformational and transactional leaders

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 pre-determined goals & results. Control is intended to regulate and check, i.e., to structure and condition the behaviour of events and people, to place restraints and curbs on undesirable tendencies, to make people conform to certain norms and standards, to measure progress to keep the system on track.

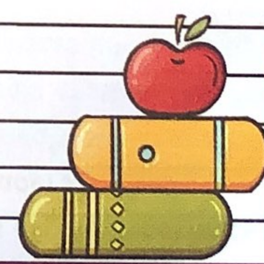
The process of control has the following elements:

a) Objectives of the business system which could be operationalized into measurable & controllable standards.

b) A mechanism for monitoring and measuring the performance of the system.

c) A mechanism – for comparing the actual results with reference to standards, for detecting deviations from standards &, for learning new insights on standards themselves.

d) 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.



Jan 21 — Sanya Private Limited is an automobile company. For the past few years, it has been observed that the progress of the company has become stagnant.. When scrutinized, it was found that the planning department was performing fairly well but the plans could not be implemented due to improper use of resources, undesirable tendencies of workers and non-conformance to norms and standards. You are hired as a Strategic Manager. Suggest the elements of process of control to overcome the problem.

OPERATIONAL CONTROL

- The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions.
- For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.
- 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.
- The control activity consists of regulating the processes within certain 'tolerances', irrespective of the effects of external conditions on the formulated standards, plans & instructions.

MANAGEMENT CONTROL

- 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 organisation, instead or mere narrowly circumscribed activities of sub-units.
- Basic purpose of management control is achievement of enterprise goals - short range & long range - in a most effective & efficient manner.
- The term management control is defined by Robert Anthony as 'the process by which managers assure the resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives.
- Controls are necessary to influence the behaviour of events and ensure that they conform to plans.

STRATEGIC CONTROL

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."

- Strategies once formulated are not immediately implemented. There is time gap between the stages of strategy formulation and their implementation.
- Strategies are often affected on account of changes in internal and external environments of organisations.
- **Types of Strategic Control -**

RTP May 21, RTP May 20 — What is strategic control? Briefly explain the different types of strategic control?

1.PREMISE CONTROL

- A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organisational environment.
- It primarily involves monitoring 2 types of factors:

i) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and regulatory.)

ii) 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.

2. STRATEGIC SURVEILLANCE

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

Nov 20 What is strategic control? Kindly explain the statement that "premise control is a tool for systematic and continuous monitoring of the environment".

3. SPECIAL ALERT CONTROL

- At times unexpected events may force organisations to reconsider their strategy.
- Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
- To cope up with such eventualities, the organisations form crisis management teams to handle the situation..

IMPLEMENTATION CONTROL

- It is directed towards assessing need for changes in overall strategy in light of unfolding events and results associated with incremental steps & actions.
- The two basis forms of implementation control are -

a) Monitoring strategic thrusts - Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

b) 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 organisation.

RTP Nov 19 What is implementation control? Discuss its basic forms

STRATEGIC PERFORMANCE MEASURES

SPM is a method that increases line executives' understanding of an organization's strategic goals and offers a continuous system for tracking progress towards these objectives using clear-cut performance measurements. SPM helps to eliminate silos by establishing a common language among all divisions of the organisation so they may communicate openly and productively.

Types of Strategic Performance Measures :

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

Importance of Strategic Performance Measures :

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