STRATEGIC MANAGEMENT

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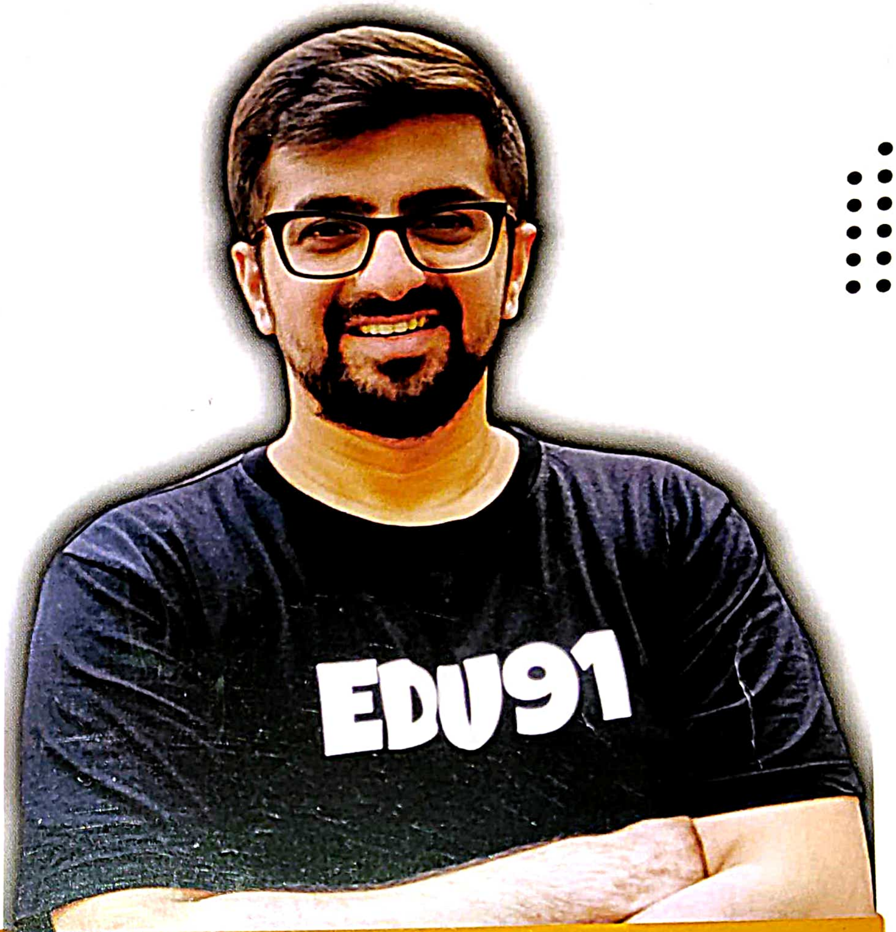

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Neeraj Arora

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Chapter 1- Introduction to Strategic Management

Strategy

- Strategy is the ***game plan*** that the ***management*** of a business ***uses*** to take ***market*** position, conduct its ***operations***, attract and satisfy ***customers***, ***compete*** successfully, and ***achieve organisational objectives***.
- ***Long-range blueprint*** of an organisation's ***desired image***, ***direction*** and ***destination***, i.e., what it wants to be, what it wants to do, how it wants to do things, and where it wants to go.
- Strategy provides an integrated framework for the ***top management*** to search for, evaluate and exploit beneficial ***opportunities***, to perceive and meet potential ***threats*** and crisis, to make full use of ***resources*** and ***strengths***, and to offset corporate weaknesses.
- However, strategy is ***no substitute*** for sound, alert and responsible management.

Strategy can never be perfect, flawless and optimal.

- It is in the very nature of strategy that it is ***flexible*** and ***pragmatic***;
- it is **art of** the **possible**;
- it **does not preclude** second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations.
- That is why in a sound strategy, **allowances** are made for possible miscalculations and unanticipated events.

Strategy is partly proactive and partly reactive

A company's strategy is typically a **blend** of

- **proactive** actions on the part of managers
  - to improve the company's **market position** and
  - **financial performance** and
- **reactions** to
  - **unanticipated developments** and
  - **fresh** market **conditions**.
- In other words, a company uses both proactive and reactive strategies to **cope up** with the uncertain business environment.
- **Proactive** strategy is **planned** strategy whereas **reactive** strategy is adaptive **reaction** to **changing** circumstances.
- A business organization **cannot always plan** all their strategies in advance and often **need to blend** planned strategies with reactive strategies.

Strategy is partly proactive and partly reactive. Discuss.
(RTP, May 2018, NA) (SA, Nov 2018, 5 marks) (MTP1, Nov 2019, 5 marks) (RTP, Nov 2020, NA) (MTP1, May 2021, 5 marks) (ICAI Study Material)

OR

"A business organization cannot always plan all their strategies in advance and often need to blend planned strategies with reactive strategies." Do you agree with the statement? Give reasons.
(MTP2, May 2022, 5 marks) (RTP, May 2023, NA)

Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former.
Discuss the strategic approach of the two companies. Which is superior?
(RTP, Nov 2018, NA) (MTP1, Nov 2021, 5 Marks) (MTP2, May 2023, 5 Marks) (ICAI Study Material)

Kamal Sweets Corner, a very popular sweets shop in Ranchi, was facing tough competition from branded stores of packaged sweets and imported goods. The owners realised that their business reduced by 50% in the last six months, and this created a stressful business environment for them. To find a solution, they consulted a business consultant to help them develop a strategy to fight competition and sustain their century old family business. The business consultant advised them to innovate a new snack for the public and market it as a traditional snack of the region. The owners liked the idea and developed a new snack called Dahi Samosa, which very quickly became popular amongst the public and it helped regain the lost business of Kamal Sweets Corner.

One of the very crucial importance of strategic management was used by the business consultant to help the owners of Kamal Sweets Corner. Which one could it be? Also, was this strategy Reactive or Proactive? According to you who are more beneficial in general parlance?
(MTP2, May 2021, 5 marks)

ALBELA' Foods and 'JustBE' Foods are successfully competing chain of restaurants in India. ALBELA' s are known for their innovative approach, which has resulted in good revenues. On the other hand, JustBE is slow in responding to environmental change. The initial stages of Covid-19 pandemic and the ensuring strict lockdown had an adverse impact on both the companies. Realizing its severity and future consequences. ALBELA, foods immediately chalked out its post lockdown strategies, which include initiatives like:
(a) Contactless dinning
(b) New category of foods in the menu for boosting immunity
(c) Improving safety measures and hygiene standards
(d) Introducing online food delivery app
Seeing the positive buzz around these measures taken by ALBELA Food, JustBE Foods also thinks to introduce these measures.
(i) Identify the strategic approach taken by 'ALBELA' Foods and 'JustBE' Foods.
(ii) Discuss these strategic· approach.
(iii) Which strategic approach is better and why?
(SA, July 2021, 5 marks)

Management

The term 'management' is used in two senses

a. It is used with reference to a ***key group*** in an organisation in-charge of its affairs
   - chief organ entrusted with the task of making the ***organisation*** ***purposeful*** and ***productive***.
   - by undertaking the task of ***bringing together*** and ***integrating*** the ***disorganised resources*** of manpower, money, material, and technology, which are then combined into a functioning whole.

b. The term 'Management' is also used with reference to a set of ***interrelated functions*** and ***processes*** carried out by the management (Key group of people) of an organisation ***to achieve*** its ***objectives***
   - These functions include Planning, Organising, Directing, Staffing and Control.

Strategic Management

The term 'strategic management' refers to the **managerial process** of
- developing a strategic **vision**,
- setting **objectives**,
- crafting a **strategy**,
- **implementing** and **evaluating** the strategy,
- and initiating corrective **adjustments** where deemed appropriate.

Overall objectives of strategic management

The overall objectives of strategic management are two-fold:
- To ***create competitive advantage*** (something unique and valued by the customer), so that the company can ***outperform*** the ***competitors*** in all aspects of organisational performance.
- To guide the company ***successfully through*** all changes in the ***environment***.

"Originally called, business policy, strategic management emphasises the **monitoring** and **evaluation** of **external opportunities** and **threats** in the **light** of a company's **strengths** and **weaknesses** and **designing strategies** for the **survival** and **growth** of the company."

Importance of Strategic Management

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

The major benefits of STRATEGIC MANAGEMENT are:

Gives Direction / Define Goals And Mission, Realistic Objective

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

Proactive (Action, Control, Vagaries)

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

Framework For Decisions (Decisions On ……, Better Guidance)

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

Face The Future And Act As Path Finder / Opportunity

- Strategic management seeks to prepare the organisation to face the future and act as ***pathfinder*** to various ***business opportunities***.
- Organisations are able to identify the available opportunities and identify ***ways and means*** as how to reach them.

Corporate Defense Mechanism

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

Longevity (दीर्घायु) (लम्बी उम्र)

- Strategic management helps to enhance the **longevity** of the **business**.
- It helps the organization to take a **clear stand** in the related industry and **makes sure** that it is **not** just **surviving on luck**.

Core Competencies And Competitive Advantage

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

Points	Story

Limitations of Strategic Management

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

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

Time consuming
- Strategic management is a **time-consuming process**.
- Organisations spend a lot of time in preparing, communicating the strategies that may **impede daily operations** and negatively impact the **routine business**.

Costly
Strategic management is a **costly process**.
- Strategic management adds a lot of **expenses** to an organization.
- **Expert** strategic planners need to be engaged, **efforts** are made for **analysis** of external and internal environments, **devise** strategies and properly implement.
- These can be really **costly** for organizations with limited resources particularly when **small** and **medium** organizations create strategies to **compete**.

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

Define Strategic Management.
(RTP, May 2018, NA)

The presence of strategic management cannot counter all hindrances and always achieve success for an organisation. What are the limitations attached to strategic management?
(RTP, May 2018, NA) (MTP1, May 2019, 5 Marks) (MTP2, May 2021, 5 Marks) (MTP1, May 2022, 5 Marks) (MTP2, May 2022, 5 Marks)

OR

Define Strategic Management. Also discuss the limitations of Strategic Management.
(SA, May 2018, 5 Marks) (RTP, May 2021, NA) (RTP, Nov 2021, NA) (MTP1, Nov 2022, 5 Marks) (MTP2, Nov 2023, 5 Marks)

OR

Are there any limitations attached to strategic management in organizations? Discuss.
(RTP, May 2019, NA) (MTP1, May 2020, 5 Marks) (MTP2, Nov 2022, 5 Marks) (ICAI Study Material)

OR

'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.
(SA, May 2019, 5 Marks)

OR

"The strategic management cannot counter all hindrances and always achieve success for an organization." Do you agree with this statement? Give arguments in support of your answer.
(SA, Nov 2022, 5 Marks) (RTP, Nov 2023, NA)

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 stores, the sales of his stores came down to about seventy per cent in last four years.
Analyse the position of Ramesh Sharma in light of limitations of strategic management.
(RTP, Nov 2019, NA) (RTP, Nov 2020, NA) (ICAI Study Material)

Briefly explain the importance of strategic management.
(MTP1, May 2018, 5 marks) (RTP, Nov 2018, NA) (MTP2, Nov 2018, 5 marks)

OR

"Each organization must build its competitive advantage keeping in mind the business warfare. This can be done by following the process of strategic management". Considering its statement, explain major benefits of strategic management.
(SA, Dec 2021, 5 Marks) (RTP, Nov 2022, NA)

OR

What benefits accrue by following a strategic approach to managing?
(RTP, Nov 2018, NA) (MTP1, Nov 2020, 5 Marks) (RTP, May 2023, NA)

OR

Strategic management helps an organization to work through changes in environment to gain competitive advantage. In light of statement discuss its benefits.
(RTP, Nov 2019, NA) (MTP2, Nov 2021, 5 Marks)

OR

What is Strategic Management? What benefits accrue by following a strategic approach to managing?
(ICAI Study Material)

Is strategic management a bundle of tricks and magic? Elucidate the statement.
(MTP2, May 2018, 5 marks)

Strategic Intent (Vision, Mission, Goals, Objectives and Values)

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.
- Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.
- Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level.
- Strategic intent is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally, i.e., goals and objectives.
- Components of Strategic Intent
    - Vision
    - Mission
    - **Goals and Objectives**
    - **Values/ Value System**

Vision

- Vision implies the blueprint of the company's future position.
- Top management's views about the company's direction and the product customer-market-technology focus constitute the strategic vision for the company.
- Strategic vision describes
    - 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.
- Strategic vision thus
    - points out a particular direction,
    - charts a strategic path to be followed in future, and
    - moulding organisational identity.
- A clearly articulated strategic vision
    - communicates management's aspirations to stakeholders and
    - helps steer the energies of company personnel in a common direction.
- For Example - Henry Ford's vision inspired others, mobilized company resources, and guided strategic decisions.

Essentials of a strategic vision

- The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- A well-articulated strategic vision creates enthusiasm among the members of the organisation.

- The best-worded vision statement clearly illuminates the direction in which the organisation is headed.

Mission

- A mission is an answer to the basic question 'what business are we in and what we do'.
- A company's mission statement is typically focused on its present business scope – **"who we are and what we do".**
- Mission statements broadly describe an organisations present capability, customer focus, activities, and business makeup.
- Every organisation must have a strong focus on mission and business definition, as these two are crucial for strategic planning.

Why should an organisation have a mission?

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

Essentials of a good mission statement - Points to be considered while writing a mission statement

A good mission statement should be precise, clear, feasible, distinctive and motivating. 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 positioned companies.
- A company's business is defined by what needs it is trying to satisfy, which customer groups it is targeting and the technologies and competencies it uses and the activities it performs.
- Good mission statements are – unique to the organisation for which they are developed.

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

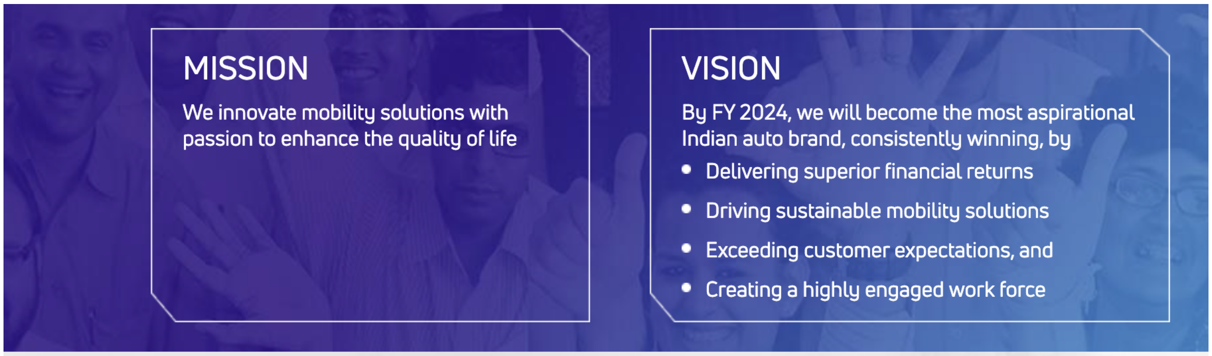
Peter Drucker and Theodore Levitt Emphasised that every business firm must clarify the corporate mission and define accurately the business the firm is engaged in. They also explained that towards facilitating this task, the firm should raise and answer certain basic questions concerning its business, such as:

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

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

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

Tata motor - Vision and Mission



Goals and Objectives

- Business organisations translate 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.
- Thus, the Objectives are more specific and translate the goals to both long term and short-term perspective. However, this distinction is not made by several theorists on the subject. ICAI uses them interchangeably.
- Objectives are organisation’s performance targets – the results and outcomes it wants to achieve. They function as yardsticks for tracking an organisation’s performance and progress.
- They provide meaning and sense of direction to organisational endeavour. Organisational structure and activities are designed, and resources are allocated around the objectives to facilitate their achievement.

Characteristics of Objectives

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

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

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

Long-term objectives represent the results expected from pursuing certain strategies.

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

When an organization has already achieved its long-term goals and simply wants to maintain that level, their short-term and long-term objectives can be the same.However, if elevating performance, short-range goals become steps towards long-term objectives.

Clearly established objectives offer many benefits.

They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs.

Values

- **Values are the deep-rooted principles which guide an organisation's decisions and actions.**
- **A few common examples of values are – Integrity, Trust, Accountability, Humility, Innovation, and Diversity.**
- **They can never be compromised, either for convenience or short-term economic gain.**
- **Values often reflect the values of the company's founders—Hewlett-Packard's celebrated "HP Way" is an example.**
- **They are the source of a company's distinctivenes**
- A company's value sets the tone for how the people think and behave, especially in situations of dilemma.
- It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success.
- Employees often seek employers with relatable values, impacting their work and personal life.
- Consumers often choose companies whose purpose aligns with their values, showing values' internal and external impact.
- Values often drive intent, making them broader in scope than intent.

Define strategic intent. Briefly explain the elements of strategic intent.
(RTP, May 2018, NA)

OR

What are the elements in strategic intent of organisation?
(RTP, May 2019, NA) (RTP, May 2020, NA)

OR

"Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives." In the light of this statement, discuss the elements of strategic intent.
(SA, Nov 2022, 5 Marks)

Distinguish between Vision and Mission
(RTP, May 2018, NA)

OR

Distinguish between vision statement and mission statement.
(MTP2, May 2018, 5 Marks) (MTP1, Nov 2018, 5 Marks)

Write a short note on Essentials of a strategic vision.
(RTP, Nov 2018, NA)

OR

What is strategic vision? Describe the essentials of strategic vision.
(SA, Nov 2020, 5 Marks)

'Objectives' and 'Goals' provide meaning and sense of direction to organizational endeavour. Explain.
(RTP, Nov 2018, NA)

What are the characteristics which must be possess by objectives, to be meaningful to serve the intended role?
(SA, May 2019, 5 Marks)

OR

What are 'objectives'? What characteristics must it possess to be meaningful?
(RTP, May 2021, NA) (RTP, May 2022, NA) (MTP2, May 2023, 5 Marks)

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 and mission statement that may be formulated by Raj.
(RTP, Nov 2019, NA) (RTP, Nov 2020, NA) (ICAI Study Material)

Why an organisation should have a mission? What considerations are to be kept in mind while writing a good mission statement of a company?
(SA, Nov 2019, 5 Marks)

OR

What should be the major components of a good mission statement?
(RTP, Nov 2022, NA)

Mission statement of a company focuses on the question: 'who we are' and 'what we do'. Explain briefly.
(MTP2, May 2021, 5 Marks) (MTP2, May 2022, 5 Marks) (RTP, May 2023, NA)

Explain briefly the key areas in which the strategic planner should concentrate his mind to achieve desired results.
(RTP, May 2021, NA) (RTP, Nov 2022, NA)

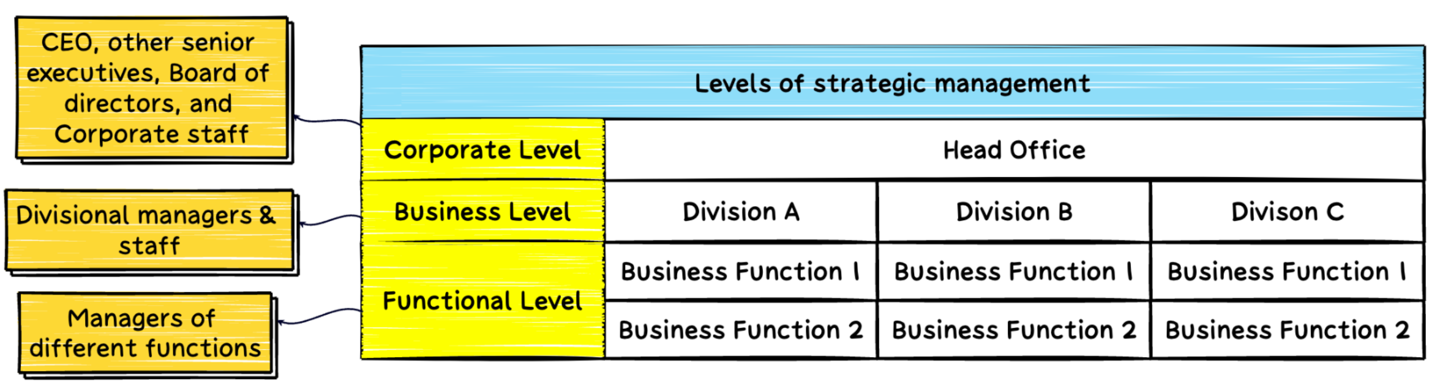
Strategic Levels in Organisations

- A typical large organization is a multi-divisional organisation that competes in several different businesses.
- It has separate self-contained divisions to manage each of these businesses.

Generally, there are three main levels of management:

- Corporate level
- Business level
- Functional level

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



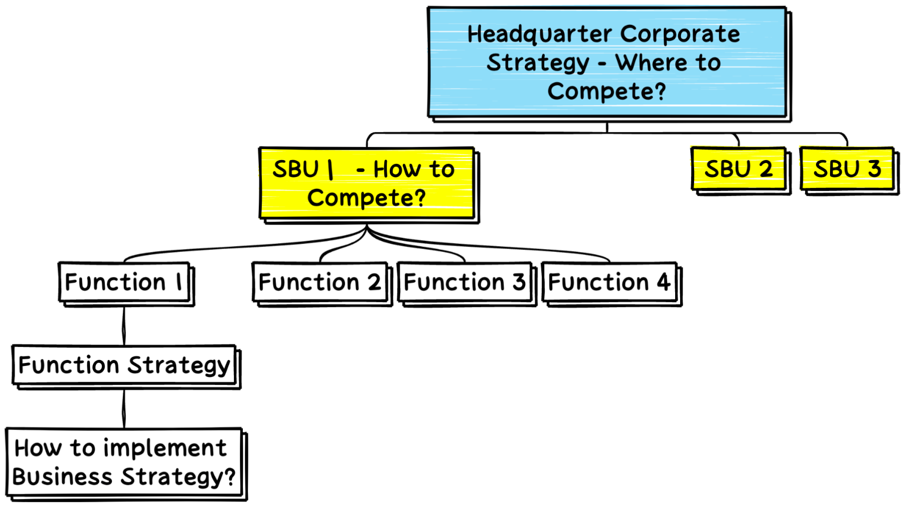
SBU (Strategic business Unit)

- These are the key businesses.

- It is a unit of the company
    - that has a separate mission & objectives &
    - which can be planned independently from other company businesses.
- It can be a company division, product line within a division etc.

CHARACTERISTICS

1. Single business or collection of related businesses that can be planned for separately
2. Has its own set of competitors?
3. Has a manager who is responsible for strategic planning & profit.



Corporate level of management

- The **corporate level of management** consists of the
    - ➢ Chief Executive Officer (CEO),
    - ➢ other senior executives,
    - ➢ the board of directors, and
    - ➢ corporate staff.
- These individuals participate in strategic decision making within the organization.
- The role of **corporate-level managers** is
    - to oversee the development of strategies for the whole organisation.
    - defining the mission and goals of the organisation,
    - determining what businesses it should be in,
    - allocating resources among the different businesses,
    - formulating and implementing strategies that span individual businesses, and providing leadership for the organisation as a whole.
- Corporate-level managers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders).
- Corporate-level managers, and particularly the CEO, can be viewed as the guardians of shareholders' welfare. It is their responsibility to ensure that the corporate and business strategies of the company are consistent with maximizing shareholders' wealth.
- If they are not, then ultimately the CEO is likely to be held accountable by the shareholders.

Business-level manager

- The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.
- Thus, whereas corporate-level managers are concerned with strategies that span individual businesses, business-level managers are concerned with strategies that are specific to a particular business.

Functional-level managers

- They are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions.
- Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.
- functional managers have a major strategic role
    - To develop functional strategies in their area that help fulfil the strategic objectives set by business- and corporate-level general managers.
    - Functional managers provide most of the information that makes it possible for business- and corporate-level general managers to formulate realistic and attainable strategies.
    - Functional managers, being closer to customers, can generate key ideas that might turn into major strategies, therefore general managers must listen to functional managers.
    - An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business-level plans.

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

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

Network of relationship between the three levels

- The corporate level decides what the business wants to achieve, while the business level draws ideas and plans to execute the same, which eventually flow down to the functional level to execute and achieve results.
- There are 3 major types of networks of relationship between the levels and also amongst the same levels of a business;

Functional and Divisional Relationship

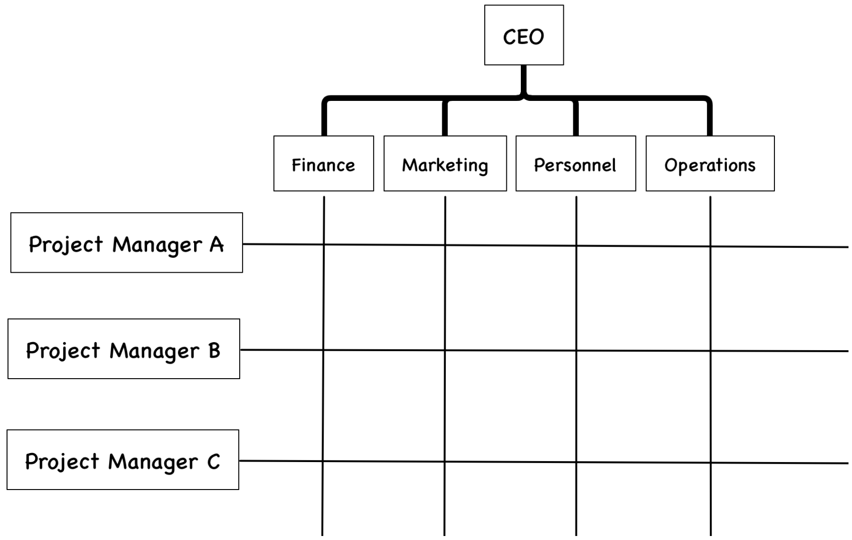
- It is an independent relationship, where each function or a division is run independently headed by the function/division head, who is a business level manager, reporting directly to the business head, who is a corporate level manager.
- Functions maybe like Finance, Human Resources, Marketing, etc.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

Horizontal Relationship

- In a horizontal or flat structure, all positions, from top management to staff, share the same hierarchical level.
- This leads to openness and transparency in work culture and focused more on idea sharing and innovation.
- This type of relationship between levels is more suitable for startups where the need to share ideas with speed is more desirable.

Matrix Relationship

- It features a grid-like structure of levels in an organisation, with teams formed with people from various departments that are built for temporary task-based projects.
- This relationship helps manage huge conglomerates with ease where it is nearly impossible to track and manage every single team independently.
- An important feature of this structure is that employees typically report to two managers - a functional manager and a project manager. This ensures that employees have clear guidance and support for their daily tasks (from the functional manager) and project-specific tasks (from the project manager).
- It is complex for smaller organisations, but extremely useful for large organisations.



Define the role of corporate level managers.
(RTP, Nov 2018, NA)

Distinguish between the three levels of strategy formulation.
(MTP1, Nov 2018, 5 marks)

OR

Explain the difference between three levels of strategy formulation.
(RTP, May 2020, NA) (MTP 1, May 2023, 5 Marks) (ICAI Study Material)

OR

Distinguish between the following: Corporate and business level.
(RTP, May 2019, NA)

List the different strategic levels in an organisation.
(SA, Nov 2018, 2 marks)

Enumerate the task to be performed as a strategic manager of a company.
(MTP2, May 2019, 5 marks)

ABC Limited is in a wide range of businesses which include apparels, lifestyle products, furniture, real estate and 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.
(SA, Jan 2021, 5 marks) (MTP2, Nov 2022, 5 Marks) (ICAI Study Material) (MTP1, Nov 2023, 5 Marks)

Dharam Singh, the procurement department head of Cyclix, a mountain biking equipment company, was recently promoted to look after sales department along with procurement department. His seniors at the corporate level have always liked his way of leadership and are assures that he would ensure the implementation of policies and strategies to the best of his capacity but have never involved him in decision making for the company.Do you think this is the right approach? Validate your answer with logical reasoning around management levels and decision making.
(RTP, May 2021, NA) (ICAI Study Material)

Mr. Mehta sharing with his friend in an informal discussion that he has to move very cautiously in his organization as the decisions taken by him has organisation wide impact and involves large commitments of resources. He also said that his decisions decide the future of his organisation. Where will you place Mr. Mehta in the organizational hierarchy and explain his role in the organization.
(RTP, Nov 2021, NA)

ABC Ltd. currently sells its product in two major markets - Europe and Asia. While it is a market leader in Europe, ABC Ltd. has struggled to penetrate the more competitive Asian market. ABC Ltd. hired a strategic consultant to analyze the situation and submit his report to them. After the report received from the strategic consultant, it has therefore decided to pull out of Asia entirely and focus on its European markets only. This decision relates to which level in ABC Ltd. and explain the role of managers at this level in the organization.
(RTP, May 2022, NA)

“Management at all levels develop strategies”. Explain the different strategies formulated at different levels of management
(SA, May 2023, 5 Marks)

Chapter 2 - Strategic Analysis: External Environment

Introduction

Organisations differ in size, product types, markets, location, and legal status due to diversity.Organisations, regardless of size or features, respond to external factors known as the business environment.

Strategy and Business Environment

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

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

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

ii. **Give direction for growth**
   - The interaction with the environment enables the business to ***identify the areas for growth*** and expansion of their activities.

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

iv. **Image Building:** Environmental understanding helps the business organizations to ***improve their image*** by showing their sensitivity to the environment in which they operate.

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.

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

Micro and Macro Environment

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

- Micro environment
- Macro environment

Micro Environment

- Micro-environment is related to a ***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.
- Within the micro or the immediate environment in which a firm operates we need to address the following issues:
  - The ***employees*** of the firm, their characteristics and how they are organised.
  - The existing ***customer base*** on which the firm relies for business.
  - The ways in which the firm can raise its ***finance***.
  - Who are the firm ***suppliers*** and how are the links between the two being developed?
  - The ***local community*** within which the firm operates.

    - The ***direct competition*** and their comparative performance.
- The factors in the micro environment often relate an organization to the macro issues influencing the way a firm reacts in the marketplace.

Elements of Macro Environment

- Macro environment has broader dimensions as it consists of economic, sociocultural, technological, political and legal factors.
- The environment includes factors outside the firm which can lead to opportunities for, or threats to the firm.

Demographic Environment

- Demographics are the ***characteristics of a population*** that have been classified and explained according to certain criteria, such age, gender, and income, in order to understand the features of a specific group.
- Demographic analysis considers factors such as race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education.
- Data about these qualities across homes and within a demographic variable are of importance to both businesses and economists.
- India has a relatively younger population as compared to many other countries.
- Many multinationals are interested in India considering its population size.
- Business Organizations need to study different demographic factors. Particularly, they need to address following issues:
    - What demographic trends will affect the ***market size*** of the industry?
    - What demographic trends represent ***opportunities*** or ***threats***?
- The size, age distribution, geographic dispersion, ethnic mix, and income distribution of a population are all of great importance to the organisation.
- Identifying the implications of changing demographic characteristics or population components for a future strategic competitiveness is often a challenge for strategists.

Socio-Cultural Environment

- Complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth.
- It differs from demographics in the sense that it is not the characteristics of the population, but it is the ***behaviour and the belief system of that population.***
- The core beliefs of a particular society tend to be persistent.
- It is difficult for a business to change these core values
- This means, that businesses have to adjust to social norms and beliefs to operate successfully.
- The social environment primarily affects the strategic management process within the organization in the areas of mission and objective setting, and decisions related to products and markets.

Economic Environment

- Economic conditions have a ***direct*** bearing over the business strategies.
- The economic environment refers to the overall ***economic situation*** around the business and include conditions at the regional, national and global levels.
- It includes conditions in the markets for resources that have an effect on the supply of inputs and outputs of the business, their costs, and the dependability, quality, and availability.
- Economic environment determines the ***strength*** and ***size*** of the market.
- The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability.
- Income distribution patterns 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.
- For example - Higher interest rates harm businesses with high debt and reduce real estate market demand by limiting loan access.

- Economic conditions, like GDP, per capita income, markets, capital, trade growth, and inflation, indicate a nation's economic health.

Political-Legal Environment

- Political-legal environment takes into account elements like the
  - general level of ***political development***,
  - the degree to which business and economic issues have been ***politicised,***
  - the degree of ***political morality***,
  - the state of ***law*** and ***order***,
  - ***political stability***,
  - the political ***ideology*** and ***practises*** of the ruling party,
  - the ***effectiveness*** and ***purposefulness*** of governmental agencies,
  - and the scope and type of ***governmental intervention*** in the economy and industry.
- It is partly general to all similar enterprises and partly specific to an individual enterprise.
- The type of government running a country is a powerful influence on business.
- Businesses must consider ***changes in regulations*** and the ***impact of taxes and duties*** on their operations.
- Businesses prefer to operate in a country where there is a sound legal system.
- Businesses need to understand laws protecting consumers, competition, and intellectual property, including company and labor laws.

Technological Environment

- A highly important factor in the present times is technology.
- Technology has changed the way people communicate and do things, the ways of doing business
- Technology and business are ***linked*** and are ***interdependent*** on one another.
- Businesses use new discoveries to adapt themselves for the advancement of society.
- With the use of technology, many organisations are able to reduce paperwork, schedule payments more efficiently, and coordinate inventories efficiently and effectively.
- This helps to ***reduce the costs*** of companies, and ***shrink time and distance***, thus, capturing a ***competitive advantage*** for the company.
- Technological changes affect business operations, often requiring significant alterations in operational and marketing strategies.
- Technology is leading to many new business opportunities as well as making obsolete (act as a threat also) most of the existing business products and services.
- Artificial intelligence, machine learning, robotic process automation is some of the new technological tools that businesses are adopting and can act as both opportunity and threat to a business.

PESTLE– A tool to Analyse Macro Environment

- The term PESTLE is often used to describe a framework for analysis of macro environmental factors.
  - P - Political
  - E - Economic
  - S - Socio-cultural
  - T - Technological
  - L - Legal
  - E - Environmental
- Political, economic, social, and technological (PEST) analysis was the name given to the framework in the past; however, later, the framework has been expanded to include environmental and legal factors as well.
- PESTLE analysis involves ***identifying*** the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of ***scanning*** the environmental influences that have affected or are likely to affect an organization or its policy.
- The PESTLE analysis is ***simple*** to understand and ***quick*** to implement.
- The advantage of this tool is that it encourages management into ***proactive*** and ***structured thinking*** in its decision making.

We have already studied all other elements other than the Environmental factors
Environmental factors affect industries such as tourism, farming, and insurance. Growing awareness of climate change is affecting how companies operate and the products they offer--it is both creating new markets and diminishing or destroying existing ones.

Quick View of Elements of PESTLE Framework and related factors

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

Internationalization of Business

- Internationalization has emerged as the dominant commercial trend over the last couple of decades.
- It enables a business to enter ***new markets*** in search of ***greater earnings*** and ***less expensive resources***.
- Additionally, expanding internationally enable a business to achieve ***greater economies of scale*** and ***extend*** the ***lifespan*** of its products.
- The strategic-management process mirrors domestic firms in global firms but is more complex due to extra variables.
- International strategy planning helps businesses systematically approach internationalization.
- Scanning the external environment aids in identifying global market opportunities and threats.

Characteristics of a global business

To be specific, a global business has three characteristics:

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

Developing internationally

International development is ***expensive*** and ***challenging***. Moving on in a thorough and structured manner is thus the ideal approach to adopt. The steps in international strategic planning are as follows:

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

Why do businesses go global?

- ***Technological developments*** and evolving ***political views*** are two important factors in the rapid rise of multinational organisations.
- Because of technological advances, the process of internationalisation is now simpler than it was previously.
- Worldwide communication makes it easier to define and implement global strategy by linking corporate headquarters with their abroad operations.
- In addition, introduction of ***improved transportation*** has increased the mobility of money, people, raw materials, and finished items. There are several reasons why companies go global. These are explained as follows:
  - The first and foremost reason is the ***need to grow***.Organizations globally expand their operations to tap into opportunities worldwide, fulfilling a basic organizational need.
  - 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.
  - It is being realised that the ***domestic markets*** are ***no longer adequate.***
  - The ***competition*** present domestically ***may not exist*** in some of the international markets.
  - There can be varied other reasons such as need for ***reliable*** or ***cheaper*** source of ***raw-materials***, cheap ***labour***, etc.
  - Companies often set up overseas plants to ***reduce high transportation costs***.
  - The ***rise of services*** to constitute the largest single sector in the world economy.
  - The apparent and real ***collapse of international trade barriers*** redefines the roles of state and industry.
  - Globalization enables firms worldwide to ***form strategic alliances***, countering ***economic*** and ***technological threats*** and capitalizing on their unique advantages.

International Environment

Assessments of the international environment can be done at three levels: multinational, regional, and country.

Multinational environmental analysis

- identifying, anticipating, and monitoring significant components of the ***global environment*** on a large scale.
- Understanding global developments covering economic and other macro elements is important.
- 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

- **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 goods, services, or innovations in the chosen location.

Country environmental analysis

- **Country environmental analysis** has to take a deeper look at the important environmental factors.

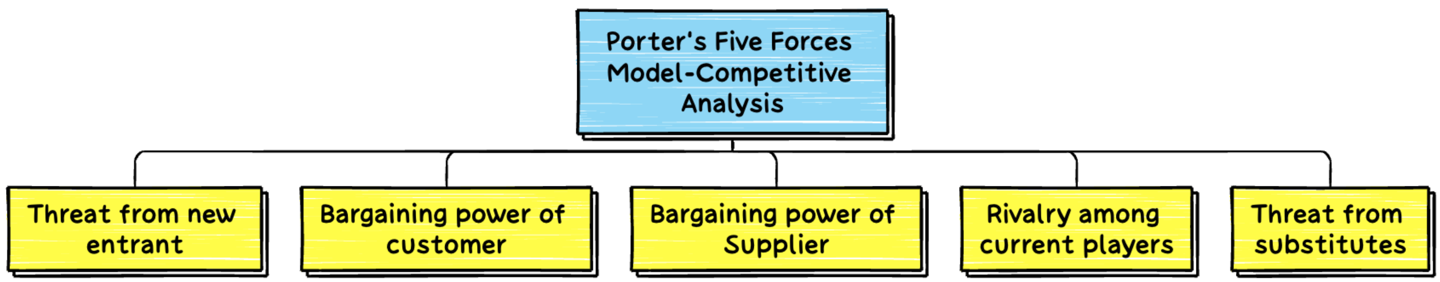
- Study of economic, legal, political, and cultural dimensions is required in order for planning to be successful.

> Why companies should go global? Mention any five reasons.
> **(SA, Nov 2020, 5 Marks)**

Industry Environment Analysis

Porter's Five Forces Model

- To understand the competitive environment of the company the managers need to focus only on the important tasks rather than gathering bulk of unimportant information.
- The task of focusing only on important task can be done with the help of some well-defined concepts and analytical tools.
- A powerful and widely used tool for systematically ***diagnosing*** the significant ***competitive pressures*** in a market and ***assessing the strength and importance*** of each is the five-force model of competition.
- This model holds that, the state of competition in an industry is a composite of competitive pressures operating in five major areas of the market.



How to use it ?

The strategists can use the five-forces model to determine what competition is like in a given industry by undertaking the following steps:

- Step 1: ***Identify*** the specific competitive pressures associated with each of the five forces.
- Step 2: ***Evaluate*** how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).
- Step 3: ***Determine*** whether the collective strength of the five competitive forces is conducive to earn attractive profits.

Threat of New Entrants

- ***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.
- To discourage new entrants, existing firms can try to raise barriers to entry.
- Barriers to entry represent ***economic forces*** (or 'hurdles') that slow down or impede entry by other firms.
- Barriers to entry can be as follows

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

(ii) Economies of Scale: Economies of scale ***decrease per-unit cost*** as production ***volume increases***, discouraging new industry entrants.

(iii) Product Differentiation: Product differentiation creates ***unique*** product features, reinforcing entry barriers by escalating new entrants' costs.

(iv) Switching Costs - High switching costs, involving testing, negotiation, and training, often make buyers reluctant to switch firms.

(v) Brand Identity - ***Strong brand identity***, especially for high-cost, infrequent purchases, poses significant entry barriers for new entrants.

(vi) Access to Distribution Channels - The control of physical ***distribution channels*** by existing firms impedes new entrants' access, despite the internet's growth.

(vii) Possibility of Aggressive Retaliation - The threat of ***incumbents' retaliatory actions***, like price cuts and heightened advertising, can deter new firms from entering an industry.

Bargaining Power of Buyers

- The bargaining power of the buyers influences not only the ***prices*** that the producer can charge but also influences ***costs*** and ***investments*** of the producer.
- This is because powerful buyers usually bargain for ***better services*** which involves more investment on the part of the producer.
- 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
    - Buyers have ***full knowledge*** of the sources of products and their substitutes
    - They spend a lot of money on the industry's products i.e. they are ***big buyers.***
    - The industry's product is not perceived as critical to the buyer's needs and buyers are ***more concentrated*** than firms supplying the product. They can easily ***switch to the substitutes*** available.

Bargaining Power of Suppliers

The more specialized the offering from the supplier, greater may be its clout.
Suppliers can influence the profitability of an industry in a number of ways. Suppliers can command bargaining power over a firm when

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

The Nature of Rivalry in the Industry

- The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability.
- The competitors influence strategic decisions at different strategic levels.
- The impact is ***more evident at functional level***, like in the prices being charged, more aggressive advertising, and building pressures on costs, product and so on.
- The intensity of rivalry can influence the costs of suppliers, distribution, and 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
    - An industry has ***no clear leader***.
    - ***Competitors*** in the industry are ***numerous.***
    - Competitors operate with ***high fixed costs***.
    - Competitors face ***high exit barriers***.
    - Competitors have ***little opportunity*** to differentiate their offerings.
    - The industry faces ***slow*** or ***diminished growth.***

Industry Leader: A dominant industry leader can ***deter price wars*** and ***outlast smaller rivals*** due to superior financial resources, preventing contests, as seen in India's domestic air travel industry.

Number of Competitors: An industry leader's pricing control weakens with ***more rivals,*** as seen in sectors like handicrafts, where numerous producers intensify internal rivalry.
Fixed Costs: Organizations with high fixed costs often ***reduce prices*** to utilize excess capacity, leading to ***lower industry profitability***, as seen in sectors like airlines and telecommunications.

Exit Barriers - Profitability increases when competitors with few exit barriers leave the industry, as firms with ***specialized assets*** often ***can't easily exit***, ***intensifying competition***.

Product Differentiation: Industries allowing product differentiation, unlike sectors with undifferentiated commodities like memory chips or natural resources, often see ***higher profitability*** due to ***reduced price wars***.

Slow Growth - Declining industry growth leads to ***intensified rivalry*** as firms struggle to maintain or grow their market share, ***reducing overall profitability***.

Threat of Substitutes

- 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 and bank deposits for example 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.
- For example
    - introduction of digital filmless cameras virtually replace the film cameras and threatened the existence of Eastman Kodak and Fuji Film.
    - Further, the introduction of smartphones has replaced cameras to a great extent.

Industry attractiveness and profitability are shaped by the five forces, which govern key elements like cost and investment, thus determining the potential for attractive profits.

Explain Porter's five forces model as to how businesses can deal with the competition.
(MTP2, May 2018, 6 Marks) (RTP, Nov 2018, NA) (MTP2, Nov 2018, 6 Marks) (MTP1, May 2019, 5 Marks) (ICAI Study Material)

OR

Competitive pressures operate as a composite in five areas of the overall market. Elaborate.
(RTP, May 2021, NA)

OR

Explain briefly the competitive forces in any industry as identified by Michael Porter.
(SA, May 2018, 5 Marks)

OR

What are the five competitive forces in an industry as identified by Michael Porter?
(RTP, May 2022, NA)

What are the common barriers that are faced by new entrants when an existing firm earns higher profits?
(RTP, May 2018, NA) (RTP, May 2023, NA)

OR

Rahul Sharma is Managing Director of a company which is manufacturing trucks. He is worried about the entry of new businesses. What kind of barriers will help Rahul against such a threat?
(RTP, May 2019, NA)

Buyers can exert considerable pressure on business. Do you agree? Discuss.
(RTP, Nov 2019, NA)

OR

Buyers of an industry's products or services can sometimes exert considerable pressure on the company. In the light of the five forces as propagated by Michael Porter explain this force. Also state as to when this leverage is evident.
(SA, May 2023, 5 Marks)

Baby Turtle is a children's clothing brand that has been created a new age demand for washable diapers. The major benefit for the brand has been that not many companies have shown interest in the product, thinking it is not viable, however customers majorly working mothers are loving their product. The core material needed for production is also used in many other water proofing products in various industries. Baby Turtle sources this material from a renowned supplier at comparatively low prices. Which of the five forces of competitive pressure would Baby Turtle experience due to above setup and what are major factors that create such pressure for a product? Do you think Baby Turtle has an advantage in some way to fight off this pressure?
(ICAI Study Material)

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

(SA, Nov 2019, 5 Marks)

OR

What are the factors which determine the nature of rivalry in an industry?
(SA, Nov 2021, 5 Marks)

Eco-carry bags Ltd., a recyclable plastic bags manufacturing and trading company has seen a potential in the ever-growing awareness around hazards of plastics and the positive outlook of the society towards recycling and reusing plastics.
A major concern for Eco-carry bags Ltd. are paper bags and old cloth bags. Even though they are costlier than recyclable plastic bags, irrespective, they are being welcomed positively by the consumers.
Identify and explain that competition from paper bags and old cloth bags fall under which category of Porter's Five Forces Model for Competitive Analysis?
(RTP, May 2020, NA) (ICAI Study Material)

"The bargaining power of suppliers determines an industry's attractiveness and profitability." Discuss.
(SA, May 2022, 5 Marks)

There are many companies in the market offering COVID vaccine. Analyse the product in terms of threat of new entrants.
(SA, May 2021, 5 Marks)

Easy Access is a marketing services company providing consultancy to a range of business clients. Easy Access and its rivals have managed to persuade the Government to require all marketing services companies to complete a time-consuming and bureaucratic registration process and to comply with an industry code of conduct. Do you think that by doing this Easy Access and its rivals has an advantage in some way to fight off competitors? Explain.
(RTP, Nov 2021, NA) (RTP, Nov 2023, NA)

Rajiv Arya is owner of an electrical appliance company that specializes in manufacturing of domestic vacuum cleaners. There are four other manufacturers with similar products and sales volume. Current rival firms also own a number of patents related to the product. The supplier base for procurement of raw material is also very large as there are multiple suppliers.
Identify Porter's Five Forces that may be classified as significant for the company? Explain
(RTP, Nov 2022, NA) (MTP2, Nov 2023, 5 Marks)

A startup company is thinking of launching of a low cost detergent powder in the market. The market of the said product is already dominated by a big FMCG player.
You are advised to put forward your suggestions to the management of the company to deal with the problems of 'Entry 'Barrier' while launching the low cost detergent powder.
(RTP, Nov 2022, NA)

Pulkit was very confident about cloud kitchen business model, and he bought three real estate spaces in very hideous localities. Later due to government and court orders the cloud kitchens had to be only operated in a well-ventilated space, which made his investment redundant. What aspect of industry competition Pulkit currently faced as a result of this situation?
(MTP2, May 2023, 5 Marks) (MTP2, Nov 2023, 5 Marks)

Understanding Product and Industry

Product

- Businesses sell products. A product can be either a ***good*** or a ***service***. It might be physical good or a service, an experience. Business products have certain characteristics as follows:
- Products are either ***tangible*** or ***intangible***.
- Product has a ***price***. Businesses determine the cost of their products and charge a price for them.
    - The price that may be paid is determined by the ***market***, the ***quality***, the ***marketing***, and the ***targeted group.***
    - On account of competition, businesses are not able to fix market price by adding profit margin on the costs. Rather, they work on ***reducing the costs*** given the prevailing market price.
- Products have certain features that deliver satisfaction.
    - A customer's cumulative experience with a product from its purchase to the end of its useful life is an important component of a product feature.
- Product is ***pivotal*** for business.
    - The product is at the ***centre of business*** around which all strategic activities revolve. The product enables production, quality, sales, marketing, logistics and other business processes. Product is the driving force behind business activities.

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

Product Life Cycle

- An important concept in strategic choice is that of product life cycle (PLC).
- It is a useful concept for ***guiding strategic choice***.
- Essentially, PLC is an ***S-shaped curve*** which exhibits the ***relationship of sales with respect to time*** for a product that passes through the four successive stages of ***introduction***, ***growth, maturity*** and ***decline***.
- This concept can also be used for businesses as well.

The first stage of PLC is the introduction stage

- with ***slow sales growth***,
- in which ***competition*** is almost ***negligible***,
- ***prices*** are relatively ***high***, and ***markets*** are ***limited***.
- The ***growth*** in sales is at a ***lower rate*** because of lack of awareness on the part of customers.

The second phase of PLC is growth stage

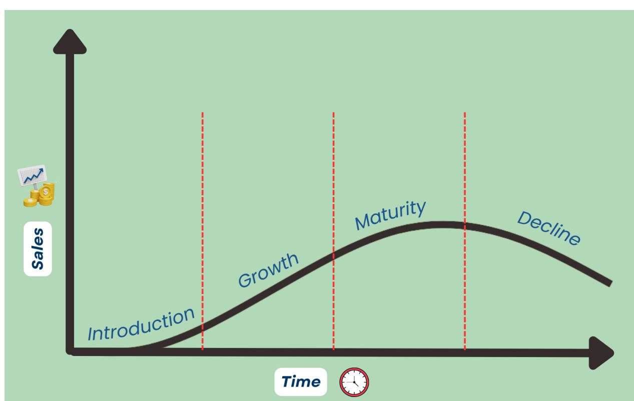
- ***Rapid market acceptance***.
- In the growth stage, the ***demand expands rapidly***, ***prices fall***, ***competition increases***, and ***market expands***.
- The customer has knowledge about the product and shows interest in purchasing it.

The third phase of PLC is the maturity stage

- There is a slowdown in the growth rate.
- The competition gets tough, and the market stabilizes.
- Profit comes down because of stiff competition.
- At this stage, organizations have to work to maintain stability.

In the fourth stage of PLC ***sales declines*** with sharp downward drift in sales.

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



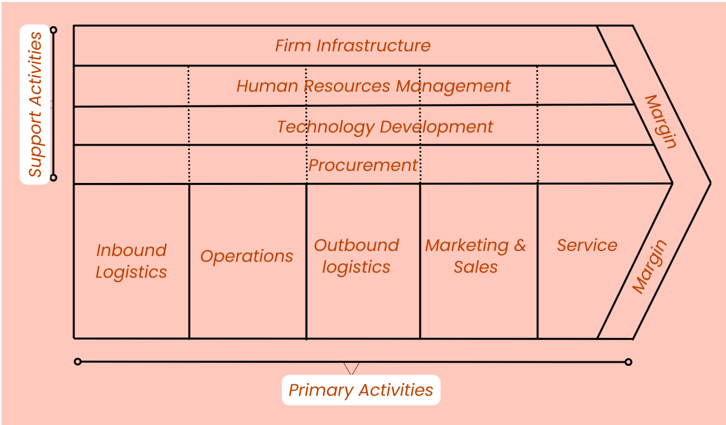
Advantage of the PLC

- The main advantage of the PLC approach is that it can be used to ***diagnose a portfolio of products*** (or businesses) in order to establish the stage at which each of them exists.
- Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made.
- For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages.
- Mature businesses may be used as sources of cash for investment in other businesses which need resources.

- A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a ***balanced portfolio*** of businesses may be built up by exercising a strategic choice based on the PLC concept.

Value Chain Analysis

- Value chain analysis is a method of examining each activity in value chain of a business in order to ***identify areas for improvements***.
- This analysis could be used to ***improve*** the sequence of operations, ***enhancing efficiency*** and creating a ***competitive advantage***. Value chain analysis can be used by businesses of all sizes, from sole proprietorships to multinational organisations.
- The two basic steps are involved
  - identifying separate activities and
  - assessing the value added from each.



The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

- **Inbound logistics** are the activities concerned with ***receiving***, ***storing*** and ***distributing the inputs*** to the product/service. This includes materials handling, stock control, transport etc. Like, transportation and warehousing.
- **Operations transform these inputs into the final product or service:** machining, packaging, assembly, testing, etc. convert raw materials in finished goods.
- **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).
- **Marketing and sales** provide the means whereby consumers/users are made ***aware*** of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.
- **Service** are all those activities, which ***enhance or maintain the value*** of a product/service, such as installation, repair, training and spares.

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

- **Procurement:** 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 organization.
- **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).
- **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 organization.

- **Infrastructure:** The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the ***structures and routines*** of the organization which sustain its culture.

Attractiveness of Industry

Industry analysis helps identify issues and determine the industry's attractiveness, guiding strategists on whether it presents a good opportunity or has poor prospects, crucial for capital investment decisions The important factors on which the management may base such conclusions include:

- The industry's ***growth potential,*** is it futuristically viable?
- Whether competition currently permits adequate profitability and whether ***competitive forces*** will become stronger or weaker?
- Whether industry ***profitability*** will be favorably or favorably affected by the prevailing driving forces?
- An organization's ***competitive position*** and its potential to strengthen or weaken impact its profitability, even in a lackluster industry, while strong rivals can make an attractive industry unappealing.
- The potential to capitalize on the ***vulnerabilities of weaker rivals*** (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- Whether the company is able to ***defend*** against or ***counteract*** the factors that make the industry unattractive?
- The ***degrees of risk and uncertainty*** in the industry's future.
- The ***severity of problems*** confronting the industry as a whole.
- Whether ***continued participation*** in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests?

As a general proposition, if an industry's ***overall profit prospects are above average***, the industry can be considered ***attractive;*** if its profit prospects are ***below average***, it is ***unattractive***. ***Attractiveness is relative, not absolute***. Industry environments unattractive to weak competitors may be attractive to strong competitors.

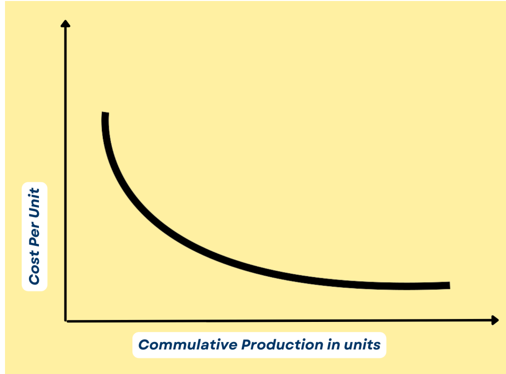
Experience Curve

- Experience curve 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.
- It is based on the concept, ***"we learn as we grow".***
- The implication is that larger firms in an industry would tend to have ***lower unit costs*** as compared to those for smaller companies, thereby gaining a ***competitive cost advantage***.
- Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

Experience curve has following features:

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

A typical experience curve may be depicted as follows:



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

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

- For instance, the experience curve is considered a ***barrier for new firms*** contemplating entry in an industry.
- It is also used to ***build market share*** and ***discourage competition***.

Value Creation

- Value creation is an activity or performance by the firm to create value that ***increases the worth*** of goods, services, business processes or even the whole business system.
- Ultimately, this concept gives business a ***competitive advantage*** in the industry and helps them earn above average profits/returns.
- Competitive advantage leads to ***superior profitability***. At the most basic level, how profitable a company becomes depends on three factors:
    - the ***value customers place*** on the company's products;
        - The value customers place on a product reflects the ***utility t***hey get from a product—the happiness or satisfaction gained from consuming or owning the product.
        - Utility is ***something that customers get*** from a product. It is a function of the attributes of the product, such as its performance, design, quality, and point-of-sale and after-sale service.
    - the ***price that a company charges*** for its products; and
    - the ***costs of creating*** those products.
- It is basically the value the consumer ***wants to pay***, over and ***above the price*** that the business wants to charge from the consumer. This ***excess amount*** is called ***value creation***, wherein the consumers value the product or service more than it actually costs them.

Competitive advantage in two different ways

Michael Porter argues that a company can generate competitive advantage in two different ways, either through ***differentiation*** or ***cost advantage***.

- Differentiation means the capability to provide customers ***superior*** and ***special value*** in the form of product's ***special features*** and quality or in the form of aftersales customer service.
- As a result of differentiation, a company can demand ***higher price*** for its products or services.
- A company will earn ***higher profits*** due to differentiation in case the expenses stay comparable to the costs of competitors.

Value chain a tool to analyse origin of competitive advantage

Value chain analysis provides an excellent tool to examine the ***origin of competitive advantage***. It divides the organisations into two different strategically important group of activities, namely, ***primary activities*** and ***supporting activities***, which can help to ***comprehend*** the ***potential sources*** for differentiation and to ***understand*** an organisation's ***costs behaviour***.

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 2021, NA)

Write short note on "Phases and significance of Product Life Cycle".
(MTP2, May 2022, 5 Marks)

OR

Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis.
(ICAI Study Material)

OR

The CEO of ABC Enterprises, Mr. Rasik Mehta, had the idea of creating a fitness shake called Robust, which prompted the company to conduct research and development. The company conducted a market survey and feasibility study, which indicated that the idea was feasible and had potential for profitability. Consequently, the product was manufactured, marketed, and launched, which led to its success. As a result, the production of Robust grew, and it became widely available. However, with time, the demand for the product decreased, leading to its obsolescence. Identify and explain the concept highlighted in the above case?
(MTP2, May 2023, 5 Marks)

A company has recently launched a new product in the market. Initially, it faced slow sales growth, limited markets, and high prices. However, over time, the demand for the product expanded rapidly, prices fell, and competition increased. Identify the stages of the product life cycle (PLC) that the company went through.
(RTP, Nov 2023, NA)

Explain briefly the primary activities that are grouped into five main activities under Value chain analysis.
(MTP2, May 2023, 5 Marks)

Explain the concept of the experience curve and highlight its relevance in strategic management.
(RTP, May 2018, NA) (MTP2, Nov 2018, 5 Marks) (MTP1, Nov 2020, 5 marks) (ICAI Study Material)

OR

Write a short note on relevance of experience curve.
(MTP2, May 2018, 4 Marks)

Market and Customer

- A market is a ***place*** for ***interested parties***, ***buyers*** and ***sellers***, where items and services can be exchanged for a price.
- The market might be physical, such as a departmental store where people engage in person. They may also be virtual, such as an online market where buyers and sellers do not meet in person but tools of technology to strike a deal.
- In addition to this broad definition, the term market can apply to a wide range of contexts. For example, it might be used to describe the stock exchange, where securities are traded. It may also refer to a group of individuals trying to buy a specific commodity or service in a specific place, such as grain or vegetable market where farmers come to sell their produce.
- It may also be used to define a business or industry, such as the global oil market.

Marketing

- The term "marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution.
- Often market activities are categorised and explained in terms of ***four Ps*** of marketing – ***product, place, pricing, and promotion.***
- These four kinds of marketing activities help marketers ***identify customer needs*** so they may ***meet their demands*** and ***deliver satisfaction.***
- Delivering the ***best customer experience*** and ***establishing, maintaining, and growing relationships*** with customers are the main goals of marketing.

Customer

- A customer is a person or business that ***buys products or services*** from another organisation.
- Customers are important because they ***provide revenue*** and organisations cannot exist without them.
- Businesses compete for customers by either marketing their products aggressively or reducing prices to expand their customer base.
- The terms ***customer*** and ***consumer*** are practically ***synonymous*** and are frequently used interchangeably.
- There is, however, a ***thin distinction***. Individuals or businesses that ***consume or utilise products*** and services are referred to as ***consumers***.
- ***Customers*** are the ***purchasers*** of products and services in the economy, and they might exist as consumers or only as customers.
- Businesses routinely research the characteristics of their consumers in order to finetune their marketing strategies and adjust their inventory to attract the most customers.
- Customers are frequently categorised based on demographics like as age, race, gender, ethnicity, economic level, and geographic region, which may all assist businesses in developing a profile of a perfect customer.

Customer Analysis

- Customer analysis is an ***essential marketing component*** of any strategic business plan.
- It identifies target clients, determines their wants, and then defines how the product meets those needs.
- Customer analysis includes
  - the ***administration*** of customer surveys,
  - the ***study*** of consumer data,
  - the ***evaluation*** of market positioning strategies,
  - ***development*** of customer profiles, and
  - the ***selection*** of the best market segmentation techniques.
- A number of parties, including buyers, sellers, distributors, salespeople, managers, wholesalers, retailers, suppliers, and creditors, can assist in gathering information to effectively ***assess the needs*** and ***desires*** of consumers.

Customer Behaviour

- Customer behaviour explains ***how they purchase*** products.
- It examines elements like shopping frequency, product preferences, and the perception of your marketing, sales, and service offerings.
- Understanding these details allows businesses to ***communicate*** with customers in an effective manner.
- Understanding the behaviours of customers enables businesses to ***establish effective marketing*** and ***advertising campaigns***, provide products and services that ***meet their needs***, and ***retain customers*** for repeat sales.

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

- **External Influences -** External influences, like advertisement, peer recommendations or social norms, have a ***direct impact*** on the psychological and internal processes that influence various consumer decisions. These aspects are divided into two groups – the ***company's marketing efforts*** and the ***numerous environmental elements.***
- **Internal Influences -** Internal processes are ***psychological factors*** internal to customer and affect consumer decision making. Consumer behaviour is influenced by a combination of internal and external influences, including motivation and attitudes.
- **Decision Making -** A rational consumer gathers information, weighs pros and cons, and integrates this with prior knowledge to make an informed decision The stages of decision making process can be described as:
  - ➢ ***Problem recognition***, i.e., identify an existing need or desire that is unfulfilled
  - ➢ Search for ***desirable alternative*** and list them
  - ➢ Seeking information on ***available alternatives*** and weighing their pros and cons.
  - ➢ Make a ***final choice***

This decision-making process is common for significant purchases like cars or appliances, contrasting with more casual choices like buying ice creams or soft drinks.

- **Post-decision Processes -** Post-purchase, consumers evaluate their satisfaction, with happy customers likely to repurchase and recommend, while dissatisfied ones won't repeat or endorse the product.

Competitive Strategy

- Competition is a fundamental attribute of economic systems and business.
- Businesses compete with each other for the ***same*** set of ***resources*** and ***customers***.
- Competition within an industry often aims to ***enhance the quality*** of services or improve the goods produced by firms.
- Competitive strategy defines how a firm ***expects to create*** and ***sustain a competitive advantage*** over competitors.
- Having a competitive advantage over competitors means being more profitable in the long run.
- The competitive strategy of a firm within a certain business field is analysed using two criteria
  - **the *creation* of competitive advantage and**
  - **the *protection* of competitive advantage.**

Competitive Landscape

- Competitive landscape is about ***identifying*** and ***understanding*** the ***competitors***
- Understanding of competitive landscape requires an application of ***"competitive intelligence"***
- Helps in assessing the ***competitor's strengths and weaknesses***.
- Helps in choosing the strategy.
- Ultimately helps in ***building*** the ***competitive advantage***.

Steps to understand Competitive Landscape

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

Identify the competitor

- First step is to identify
- Actual data about their respective market share
- Answers the question ***"Who are the Competitors"***

Understand the competitors

- Understand the products and services
- Answers"***What are their product and Service"***
- How - Reports, Internet, Newspaper, Industry reports etc.

Determine the strengths of the competitors

- Many Questions
  - Financial Position
  - Cost & Price Advantage
  - Next Move
  - Distribution Network
  - Human Resource Strength

Determine the weaknesses of the competitors

- Consumer reports
- Media Reports

- Answers ***"Where are they lacking"***

Put all the information together

- Draw inferences
  - ***Not offered*** by Competitor
  - Fill the ***gap***
  - ***Areas*** to be strengthen
- Answers the questions
  - ***What*** will the business do with this information?
  - ***What improvements*** does the firm need to make?
  - ***How*** can the firm ***exploit*** the weaknesses of competitors?

Key factors for competitive success

- An industry's Key Success Factors (KSFs) are those things that most affect industry members' ***ability to prosper*** in the marketplace -
  - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, that ***spell the difference between profit and loss*** and,
    - ultimately, between ***competitive success or failure***.
  - KSFs by their very nature are so important that all firms in the industry must pay ***close attention*** to them.
  - ***Misdiagnosing*** the industry factors ***critical to long-term competitive success*** greatly raises the risk of a misdirected strategy.
  - Hence, using the industry's KSFs as ***cornerstones*** for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular KSF is a fruitful competitive strategy approach.
  - Key success factors ***vary from industry to industry*** and even from ***time to time*** within the same industry as driving forces and competitive conditions change. Only ***rarely*** does an industry have ***more than three or four*** key success factors at any one time. And even among these three or four, ***one or two usually outrank*** the others in importance.

Identifying Key Success Factors

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

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

Suresh Singhania is the owner of an agri-based private company in Sangrur, Punjab. His unit is producing puree, ketchups and sauces. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape.
Explain the steps to be followed by Suresh Singhania to understand competitive landscape.
(RTP, May 2018, NA) (ICAI Study Material)

OR

Explain the steps to understand the competitive landscape?
(MTP2, May 2018, 5 Marks)

OR

Dinesh Yadav is the owner of a beverage-based private company in Sonipat, Haryana. His unit is producing fruit juices, cold drinks, soda and lime. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape. Explain the steps to be followed by Dinesh Yadav to understand competitive landscape.
(MTP1, May 2019, 5 Marks)

OR

What do you understand by 'Competitive Landscape'? What are the steps to understand the competitive landscape?
(SA, May 2019, 5 Marks) (MTP1, Nov 2022, 5 Marks)

OR

"Understanding the competitive landscape is important to build upon a competitive advantage". Explain.
(SA, July 2021, 5 Marks)

Define key success factors (KSFs).
(RTP, Nov 2018, NA)

Examine the significance of KSFs (Key Success Factors) for competitive success.
(SA, Nov 2018, 3 Marks) (MTP1, May 2021, 5 Marks)

STRATEGIC ANALYSIS

Meaning

- For strategy formulation analysis of a firm's ***external environment*** and its ***internal resources*** and capabilities is required.
- The analysis of a co.'s external & internal situation is called strategic analysis keeping in mind the 2 important situational considerations:
  - ***Industry & competitive conditions***
  - Company's own ***competitive capabilities***, ***resources***, i***nternal strengths & weaknesses & market position***

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

Issues to be considered for strategic analysis

Strategy evolves over a period of time.

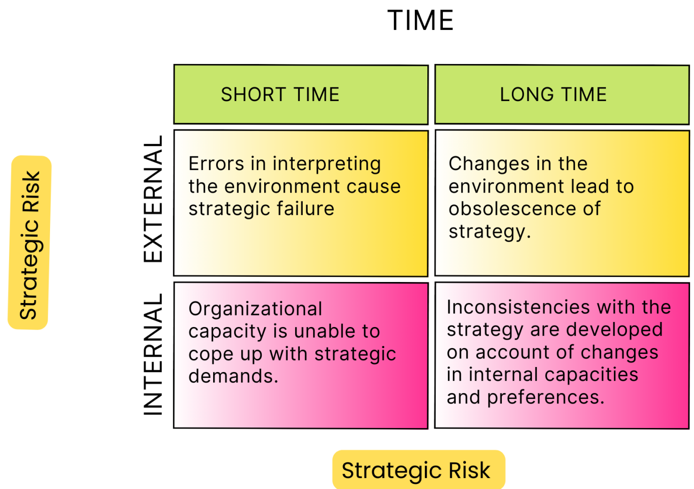
- Strategy evolves over a period of time. Strategy is a result of a series of ***small decisions*** taken over an extended period of time.
- Strategy evolves from ***experience*** and needs ***constant review*** and ***revision*** as the results start showing up.

Balance

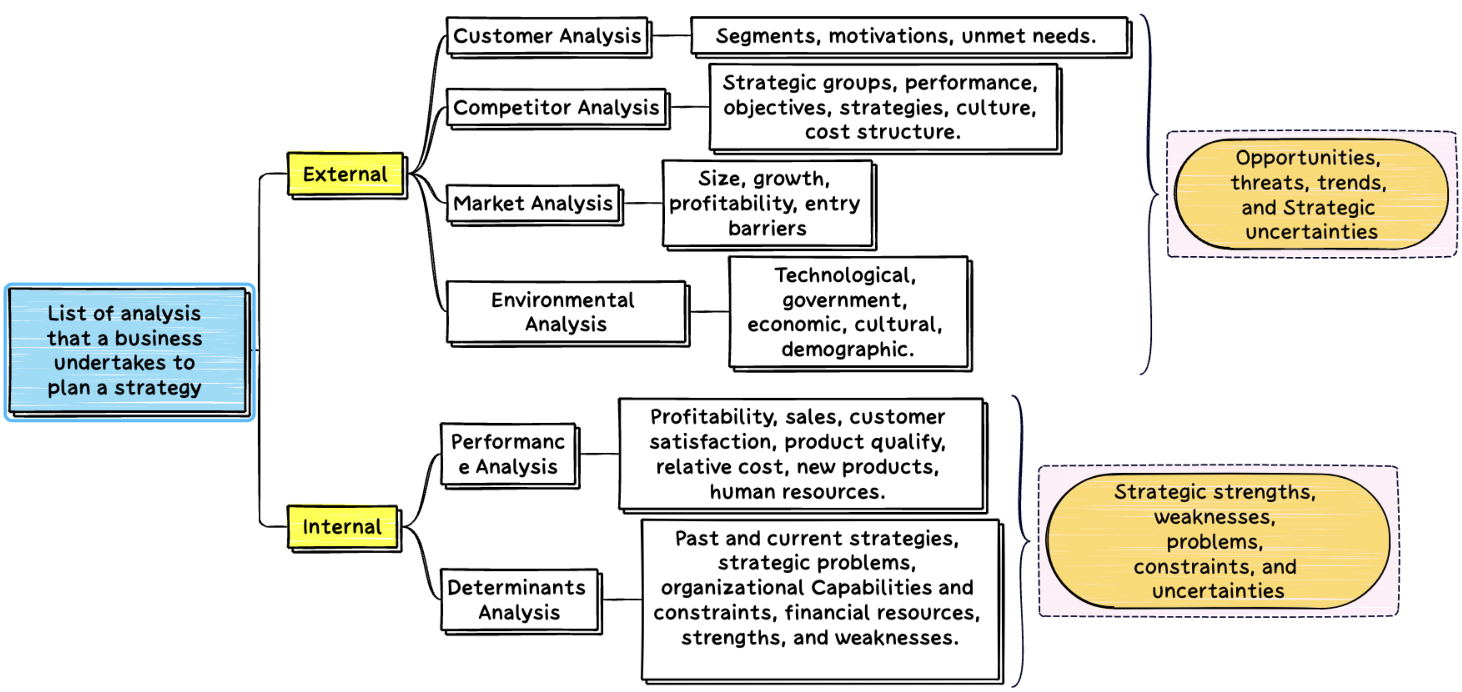
- The process of strategy formulation is often described as one of ***matching*** the ***internal potential*** of the organisation with the **external environmental opportunities**.
- There should be a **workable** (& not perfect as in reality the perfect match isn't feasible) **match** of the ***internal potential*** of org. with ***environmental opportunities***. Managers responsible for strategic decisions must balance opportunities, influences & constraints.

Risks

An important aspect of strategic analysis is to ***identify potential imbalances*** or risks and assess their consequences. Potential imbalances are created because of internal and external factors.



- External risks- occur due to inconsistencies ***between strategies & forces in the environment***
    - Short-Time - Errors in interpreting the environment cause strategic failure
    - Long-Time - Changes in the environment lead to obsolescence of strategy.
- Internal risks- occur because of ***forces within the firm*** or are directly interacting with org.
    - Short Time - Organizational capacity is unable to cope up with strategic demands.
    - Long - Time - Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences.



Strategy Identification & Selection

After Undertaking the above mentioned analysis, following steps are taken

- ***Identify*** strategic alternatives
- ***Select*** strategy
- ***Implement*** the operating plan
- ***Review*** strategies

Chapter 3: Strategic Analysis : Internal Environment

Introduction

- Strategic Analysis is equally important when it comes to internal environment assessment.
- The internal environment encompasses people, stakeholders, processes, infrastructure, administrative structure, and organizational culture, all defining an organization's identity. The internal environment is ***specific*** to each organisation.
- Thus, it is even more important to understand the internal environment from a strategic analysis perspective.

Understanding Key Stakeholders

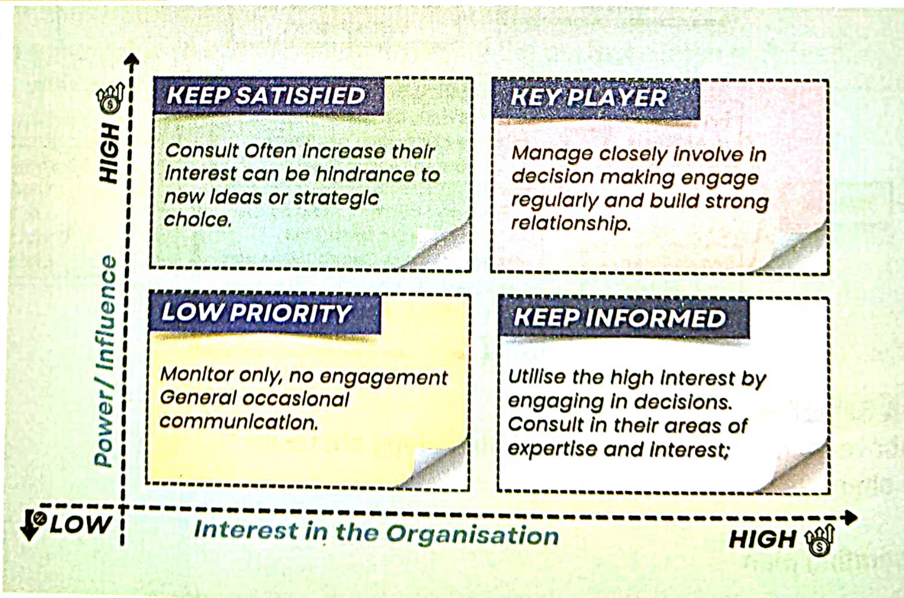
Who are Stakeholders and how do we identify them?

- All those individuals and entities that have a stake in its success and can impact it as well.
- They may be the employees, shareholders, investors, suppliers, customers, regulators and so on.
- They have the ***power to influence*** the strategy or performance of that organisation.
- Each stakeholder exerts a different level of influence and can have differing ***levels of interest*** in the organisation.
- Since the expectations of key stakeholders can influence the organisation's strategy, a clash of objectives may have unfavourable consequences for the organisation.

Mendelow's Matrix

- The Mendelow Stakeholder matrix (also known as the ***Stakeholder Analysis matrix*** and the ***Power-Interest matrix***) is a simple framework to help ***manage key stakeholders***.
- Mendelow suggests that one should analyse stakeholder groups based on ***Power*** (the ability to influence organisation strategy or resources) and ***Interest*** (how interested they are in the organisation succeeding).
- A thing to remember is that all stakeholders may seem to have lots of power and organisation may hope they would have lots of interest too. But in reality, some stakeholders will hold more Power than others, and some stakeholders will have more Interest than others
- For example, a big shareholder is likely to have high power and high interest in the organisation, whereas a big competitor would have high power to impact strategy, but potentially less Interest in success of rival organisation.

Developing a Grid of Stakeholders



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

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

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

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

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

Stakeholders can move between quadrants

- An important thing that strategists should be aware of, is the importance to remember that environment is highly ***dynamic*** and certain things might happen that can cause stakeholders to ***suddenly move*** between quadrants.
- For example, Inadvertent regulatory breaches, like GST non-compliance, shift stakeholder positions
- Changes in the environment necessitate ***re-analyzing*** Mendelow's grid to ***adapt*** stakeholder management and ***communication*** strategies

Assessing the current performance of the business- Strategic Drivers

- An important aspect of internal analysis is ***assessing the current performance*** of the business. And in assessing current performance, we need to consider the strategic drivers that differentiates an organisation from its competitors.
- It involves analysis of
  - the ***key markets*** in which the organisation operates,
  - as well as its ***key customers***,
  - the ***products and services*** it provides,
  - the ***channels*** in which the products or services are delivered, and
  - the organisation's ***competitive advantage***.
- The key strategic drivers of an organisation include:
  - industry and markets
  - customers
  - products/services
  - channels

Industry and Markets

- Similar companies are grouped together into industries.
- Industry grouping is based on the ***primary product*** that a company makes or sells.
- For example, Maruti, Mahindra, Tata Motors, TVS, Bajaj Auto, are all selling automotives as their primary product and thus categorised into Automotive Industry.
- A market is defined as the ***sum total of all the buyers and sellers*** in the area or region under consideration.
  - The market may be a physical entity or may be virtual like e-commerce websites and applications.
  - It may further be local or global, depending on which all countries the business sells its products in.

- it would be incorrect to say that market is the same for all businesses. Each business has its *own set of customers* i.e. market and more so, each product within a business has its *own market*. For example, for a FMCG brand selling Shampoos, Dairy Products, Flours, Washing Powder, etc. - each product line will have a separate market to cater to and therefore build strategies specific to the market of concern.

Analysing Industry and Markets

A tool used for this is called - **Strategic Group Mapping.**

Strategic group mapping is a technique used for *industry & Competitive analysis*

1. Helps in Identifying companies that are in *strongest/weakest* positions
2. One technique for revealing the *competitive positions* of industry participants is strategic group mapping.
3. It is a useful analytical tool for comparing the *market positions* of each firm separately or group wise when an industry has so many competitors that it is not practical to examine each one in depth.
4. A strategic group consists of those rival firms with
   a. similar *competitive approaches* and
   b. *Positions* in the market.
   c. They *resemble each other* in several ways. (product , price etc)
5. The procedure (I-PAD) 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);
   b. *Plot* the firms on a two-variable map using pairs of these differentiating characteristics.
   c. *Assign* firms that fall in 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

- Understanding the different types of customers is the *first step* in deciding the product/service.
- Different customers may have different needs and require different sales models or distribution channels.
- Collecting data on customer trends and profitability is crucial as customers are *key* to an organization's profit generation.
  - Issues with customers can be identified, and target areas for growth can be pursued based on the findings.
- Another interesting concept is the difference between *Customer* and *Consumer* - while a *customer* is the one who *buys* a product/service, the *consumer* is the one who *finally uses/consumes* the bought product or service.
- In pricing, prioritise customer importance; for *value creation* and design, focus on *consumer-centric* decision making.

Product/Services

- Business should identify the key products/ services that the organisation offers and how those products/services are performing.
- It attempts to answer the general question:
  - What business are we in and what should be done to *win over competition* in each product/service we serve.
- Product stands for the *combination of "goods-and-services"* that the company offers to the target market.
- Strategies are needed for managing existing product over time, adding new ones and dropping failed products.
- Strategic decisions must also be made regarding branding, packaging and other product features such as warranties.
- The products can also be classified on the basis of industrial or consumer products, essentials or luxury products, durables or perishables.

- Products can also be **differentiated** on the basis of size, shape, colour, packaging, brand names, after-sales service and so on.
- Organizations seek to hammer into customers' minds that their products are different from others.
- It does not matter whether the differentiation is real or imaginary.
- Quite often the differentiation is psychological rather than physical.
- It is enough if customers are persuaded to believe that the marketer's product is different from others.
- Organizations formalize product differentiation through designating 'brand names' to their respective products. These are generally reinforced with legal sanction and protection.
- Brands enable customers to identify the product and the organization behind it.
- The products and even firms' image is built around brands through advertising and other promotional strategies.
- Customers tend to develop strong **brand loyalty** for a particular product over a period of time.

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

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

Marketing strategies To reach out to customers

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 idea**, cause, or practice among a target group to bring in a social change. For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke and also indicates that smoking is injurious to health.

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

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

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

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

- **Person Marketing:** People can also be marketed. Person marketing consists of activities undertaken to **create, maintain** or **change attitudes** and behaviour towards **particular person**. For example, politicians, sports stars, film stars, etc. i.e., market themselves to get votes, or to promote their careers.

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

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

- **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. For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment.

- **Synchro-marketing**
  - When the demand for a product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives.
  - For example, products such as movie tickets can be sold at lower price over weekdays to generate demand.

- **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. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

Channels

- Channels are the distribution system by which an organisation distributes its product or provides its service.
- Channel analysis is crucial for businesses aiming to expand into new markets, as it helps develop or leverage existing channels to reach new customers effectively.
  - For instance, a healthcare brand targeting elderly customers should focus on offline strategies, using agents to physically reach out, as many elderly aren't active on smartphones.
- Examples
  - Lakme - sells its products via retail stores, intermediary stores (like Nykaa, Westside, Reliance Trends), as well as online mode like amazon, flipkart, nykaa online and its own website.
  - Boat Headphones - only online via e-commerce platforms like flipkart and amazon
  - Coca Cola - retail shops across the nation, in each district, each town as well as online mode via dunzo, blinkit, etc.
- The wider and stronger the channel the better position a business has to fight and win over competition.
- Robust channels of business distribution help keep new players away from entering the industry, thus acting as barriers to entry.

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

- **The sales channel -** These are the intermediaries involved in selling the product through each channel and ultimately to the end user. Determine which intermediaries need to sell your product to ensure it reaches the end user, like agencies in fashion retail.

- **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.
- **The service channel**
  - The service channel consists of entities that **_support_** a product through the sales process and post-purchase for the end user. Service channels are vital for products needing complex installation or customer support, like a Bosch dishwasher sold and installed by Bosch-contracted personnel.

Mr. Banerjee is head of marketing department of a manufacturing company. His company is in direct competition with thirteen companies at national level. He wishes to study the market positions of rival companies by grouping them into like positions. Name the tool that may be used by Mr. Banerjee? Explain the procedure that may be used to implement the technique.
(MTP1, May 2018, 5 Marks) (ICAI Study Material)

OR

A manufacturing company is in direct competition with fifteen companies at national level. Head of marketing department of this company wishes to study the market position of rival companies by grouping them into like positions. Name the tool that may be used by him/her. Explain the procedure that may be used to implement the techniques.
(SA, July 2021, 5 Marks)

OR

What is a Strategic Group? Discuss the procedure for constructing a strategic group map.
(RTP, May 2019, NA) (MTP2, May 2021, 5 Marks) (MTP2, May 2022, 5 Marks)

Distinguish between social marketing and service marketing.
(SA, May 2018, 5 Marks) (MTP1, Nov 2022, 5 Marks) (RTP, Nov 2023, NA)

Define Augmented Marketing. Give two examples.
(SA, Nov 2018, 2 Marks)

Role of Resources and Capabilities : Building Core Competency

Meaning

- Core competencies are capabilities that serve as a **_source of competitive advantage_** for a firm over its rivals.
- An organisation's combination of **_technological_** and **_managerial know-how_**, **_wisdom_** and **_experience_** are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.
- Core competencies distinguish a company competitively and reflect its personality.
- These competencies emerge over time through an organisational process of accumulating and learning how to deploy different resources and capabilities
- According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas - **_competitor differentiation_**, **_customer value_**, and **_application to other markets_**.

Three Areas

Competitor differentiation

- The company can consider having a core competence if the competence is **_unique_** and it is **_difficult f_**or **_competitors to imitate_**.
- This can **_provide_** a company an **_edge_** compared to competitors.
- It allows the company to provide **_better products_** or **_services_** to market with **_no fear_** that competitors can copy it.

Competence does not necessarily have to exist within one company in order to define as core competence. Although all companies operating in the same market would have the equal skills and resources, if **_one company_** can perform this **_significantly better_**; the company has obtained a **_core competence_**.

Customer Value (disproportionate contribution to customer value)

- The second condition to be met is **_customer value_**.
- When purchasing a product or service it has to deliver a **_fundamental benefit_** for the end customer in order to be a core competence.
- It will include all the **_skills_** needed to provide fundamental benefits.

- The service or the product has to have ***real impact*** on the customer as the reason to choose to purchase them.

Application of competencies

- ***Unique*** set of ***skills*** and ***expertise***,
- which will be used throughout the organisation
- to open up potential markets to be exploited.
- Must be applicable to a range of products.

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

How To Build Core Competencies

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

1. Valuable
2. Rare
3. Costly to imitate
4. Non-Substitutable

Value / Valuable

- It should create ***value for customers***.
- Allow the firm to ***exploit opportunities*** or ***avert the threats*** in its external environment.
- For example human capital is important in creating value for customers.

Rare

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

Costly to imitate

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

Non-substitutable

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

Explain the meaning of core competencies.
(SA, May 2018, 2 Marks)

'Value for Money' is a leading retail chain, on account of its ability to operate its business at low costs. The retail chain aims to further strengthen its top position in the retail industry. Marshal, the CEO 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 and explain the core competence of the 'Value for Money' retail chain.
(RTP, Nov 2018, NA) (ICAI Study Material)

OR

'Speed' is a leading retail chain, on account of its ability to operate its business at low costs. The 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 and explain the core competence of the retail chain.

(MTP2, May 2019, 5 Marks) (RTP, Nov 2020, NA)

Rohit Patel is having a small chemist shop in the central part of Ahmedabad. What kind of competencies Rohit can build to gain competitive advantage over online medicine sellers?
(RTP, May 2019, NA) (ICAI Study Material)

Major core competencies are identified in three areas - competitor differentiation, customer value and application to other markets. Discuss.
(RTP, Nov 2019, NA)

OR

Core competencies provide an edge to a business over its competitors.
(RTP, Nov 2021, NA)

OR

Core competencies provide an edge to a business over its competitors. Discuss. Also, briefly state the three areas in which major core competencies are identified.
(SA, Jan 2021, 5 Marks)

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.
(RTP, May 2020, NA)

OR

There are four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are known as core competencies. Explain.
(SA, May 2022, 5 Marks)

Combining External and Internal Analysis (SWOT Analysis)

- SWOT analysis is the analysis of a business's *strengths*, *weaknesses*, *opportunities* and *threats*.
- The primary objective of a SWOT analysis is to help organizations develop a *full awareness* of all the factors (external as well as internal), involved in making a business decision.
- SWOT analysis should *precede* all company actions, including exploring new initiatives, updating internal policies, or considering growth opportunities and plan alterations.
- One shall also use SWOT analysis to *discover recommendations and strategies*, with a focus on *leveraging strengths* and *opportunities* to *overcome weaknesses* and *threats*.
- SWOT analysis, since its inception, has become a key tool for *business growth*, helping to *assess current operations* and *identify* both *strengths* and *areas needing improvement*.
- The benefit of this analysis is that it *identifies* the *complex issues f*or an organisation and puts them into a simple framework.
- A major *critique* of SWOT analysis is its general *lack of evaluation* in a competitive context for strengths, weaknesses, opportunities, and threats.

Rohit Sodhi runs a charitable organization for promotion of sports in the country. His organization conducts regular free training camps for youths interested in playing cricket, football, hockey, badminton and so on. Many of his trainees have reached national level contests. Rohit noticed that with success of IPL (Cricket) tournament there is an increasing trend to extend similar format in other sports as well. He wishes to know how the development is going help sports and to which industries it will offer opportunities and threats.
(ICAI Study Material)

What is an opportunity?
(RTP, May 2018, NA)

Write a short note on SWOT analysis.
(SA, May 2018, 3 Marks) (RTP, Nov 2018, NA) (RTP, May 2021, NA) (MTP1, Nov 2023, 5 Marks)

OR

Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization?
(MTP1, Nov 2018, 5 Marks)

OR

What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organisation?
(RTP, May 2020, NA) (ICAI Study Material)

> STU's Association with India goes back to 1967, when it played a key role in constructing a very long highway in India spreading over multiple states. Since then, it is contributing in many ways to the country's growth story. Now it is looking at playing an active role in the key projects taken up by the central government. Suggest a few opportunities and Threats that the company should consider.
> **(SA, Dec 2021, 5 Marks)**

Competitive Advantage : Using Michael Porter's Generic Strategies

Competitive advantage is the position of a firm to ***maintain and sustain a favorable market position*** when compared to the competitors.

- Competitive advantage is the ***ability to offer buyers something different*** and thereby providing more value for the money.
- It is the ***result*** of a successful strategy.
- This position gets ***translated*** into
    - ***higher market share***,
    - ***higher profits*** when compared to those that are obtained by competitors operating in the same industry.
- Competitive advantage may also be in the ***form*** of
    - ***low cost providers*** in the industry or
    - being ***unique*** in the industry along dimensions that are widely valued
        - by the customers
        - in particular and the society at large.

Sustainability of competitive advantage

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

1. Durability
2. Transferability
3. Imitability
4. Appropriability

Durability (For Understanding - More durable the resources and capabilities, more the sustainable competitive advantage)

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

Transferability

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

(If a company's cost advantage is based on its investment in state-of-the-art automated equipment, so long as the equipment is supplied by a third party, other companies can acquire the same advantage)

Imitability

- If resources and capabilities ***cannot be purchased*** by a would-be imitator, then they must be ***built from scratch.***

- How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based?
- This is the true test of imitability.
- For Example: In financial services, innovations lack legal protection and are easily copied. Here again the complexity of many organisational capabilities can provide a degree of competitive defence.
- Where capabilities require networks of organisational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

Appropriability

- Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base.
- Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

Explain competitive advantage.
(MTP1, May 2018, 2 Marks) (SA, May 2018, 2 Marks) (MTP2, Nov 2018, 3 Marks) (MTP1, May 2020, 5 Marks)

Telecom industry is growing at a rapid speed in India. There is a cut throat competition among the service providers in the industry. Identify the capabilities that will best serve as a source of competitive advantage for a firm over its rivals?
(MTP1, Nov 2019, 5 Marks) (MTP2, May 2022, 5 Marks)

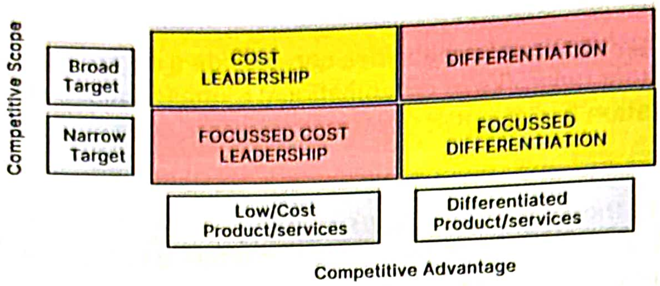
Mohan has joined as the new CEO of XYZ Corporation and aims to make it a dominant technology company in the next five years. He aims to develop competencies for managers for achieving better performance and a competitive advantage for XYZ Corporation. Mohan is well aware of the importance of resources and capabilities in generating competitive advantage.
Discuss the four major characteristics of resources and capabilities required by XYZ Corporation to sustain the competitive advantage and its ability to earn profits from it.
(SA, Jan 2021, 5 Marks) (ICAI Study Material)

OR

"The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends on characteristics of resources and capabilities". Explain this statement.
(SA, May 2023, 5 Marks)

Michael Porter's Generic Strategies

- Strategies allow organizations to gain competitive advantage from three different bases:
  - cost leadership,
  - differentiation, and
  - focus.
- Porter called these base generic strategies.
- These strategies have been termed generic because they can be pursued by any type or size of business firm and even by not-for-profit organisations.
  - Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive.
  - Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive.
  - Focus means producing products and services that fulfill the needs of small groups of consumers.



Michael Porter's Generic Strategies

Cost Leadership Strategy

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

- It is a ***low cost competitive strategy*** that aims at a ***broad mass market***.
- It requires vigorous pursuit of ***cost reduction*** in the areas of
    - procurement, production, storage and distribution of product or service and also economies in overhead costs.
- 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***.
- For example,McDonald's fast food restaurants have successfully followed a low cost leadership strategy.

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

Cost leadership generally must be pursued in conjunction with differentiation. The low cost leadership should be such that no competitors are able to imitate so that it can result in sustainable competitive advantage to the cost leader firm.

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

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

The basic idea is to ***underprice competitors*** and thereby ***gain market share*** and sales, driving some competitors out of the market entirely.

A successful cost leadership strategy usually spread throughout the entire firm, as evidenced by

- ***high efficiency***, ***low overhead***,
- ***limited perks***, ***intolerance of waste***,
- ***intensive screening*** of budget requests,
- ***wide*** spans of ***control***,
- ***rewards*** linked to cost containment, and broad ***employee participation*** in cost control efforts.

Achieving Cost Leadership Strategy

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

1. Forecast the demand of a product or service promptly.
2. Optimum utilization of the resources to get cost advantages.
3. Achieving economies of scale leads to lower per unit cost of product/service.
4. Standardisation of products for mass production to yield lower cost per unit.
5. Invest in cost saving technologies and try using advanced technology for smart working.
6. Resistance to differentiation till it becomes essential.

Advantages of Cost Leadership Strategy

1. 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.
2. Buyers
   - Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.
3. Suppliers
   - Cost leaders are able to absorb greater price increases before it must raise price to customers.
4. Entrants
   - Low cost leaders create barriers to market entry through its continuous focus on efficiency and reducing costs.
5. Substitutes
   - Low cost leaders are more likely to lower costs to induce customers to stay with their product, invest to develop substitutes, purchase patents.

Disadvantages of Cost Leadership Strategy

1. Cost advantage may not be remaining for long as competitors may also follow cost reduction technique.
2. Cost leadership can succeed only if the firm can achieve higher sales volume.
3. Cost leaders tend to keep their costs low by minimizing advertising, market research, and research and development, but this approach can prove to be expensive in the long run.
4. Technology changes are a great threat to the cost leader.

Differentiation Strategy

- 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.
    - The uniqueness can be associated with
      - product design,
      - brand image,
      - features,
      - technology,
      - dealer network or
      - customer service.
- Because of differentiation, the business can charge a premium for its product.
- Product development is an example of a strategy that offers the advantages of differentiation.

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

Risk

A risk of pursuing a differentiation strategy is that the unique product may not be valued high enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy.

Another risk of pursuing a differentiation strategy is that competitors may develop ways to copy the differentiating features quickly.

Basis of Differentiation

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

Product

Innovative products that meet customer needs can be an area where a company has an advantage over competitors. However, the pursuit of a new product offering can be costly – research and development, as well as production and marketing costs can all add to the cost of production and distribution. The payoff, however, can be great as customer's flock to be among the first to have the new product.

For example, Apple iPhone, has invested huge amounts of money in R&D, and the customers' value that. They want to be among the first ones to try the new offerings from the company.

Pricing

It fluctuates based on its supply and demand, and may also be influenced by the customer's ideal value for a product. Companies that differentiate based on product price can either determine to offer the lowest price or can attempt to establish superiority through higher prices.

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

Organisation:

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

Achieving Differentiation Strategy

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

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

Advantages of Differentiation Strategy

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

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

  - Innovative features are an expensive offer. So, new entrants generally avoid these features because it is ***tough for them*** to provide the same product with special features at a comparable price.
5. Substitutes
   - Substitute products ***can't replace differentiated products*** which have ***high brand value*** and enjoy customer loyalty.

Disadvantages of Differentiation Strategy

1. In long term, uniqueness is ***difficult to sustain***.
2. Charging too high a price for differentiated features may cause the customer to ***switch-off*** to another alternative.
3. Differentiation fails to work if its basis is something that is ***not valued by the customers.***

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.
- Risks of pursuing a focus strategy include the possibility that numerous competitors will recognize the successful focus strategy and copy it, or that consumer preferences will drift toward the product attributes desired by the market as a whole.

Focused cost leadership

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

Focused differentiation

- A focused differentiation strategy requires offering ***unique*** features that fulfill the demands of a ***narrow market.***
- Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiation strategy.
- For example, Rolls-Royce sells a limited number of high-end, custom-built cars.

Achieving Focused Strategy

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

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

Advantages of Focused Strategy

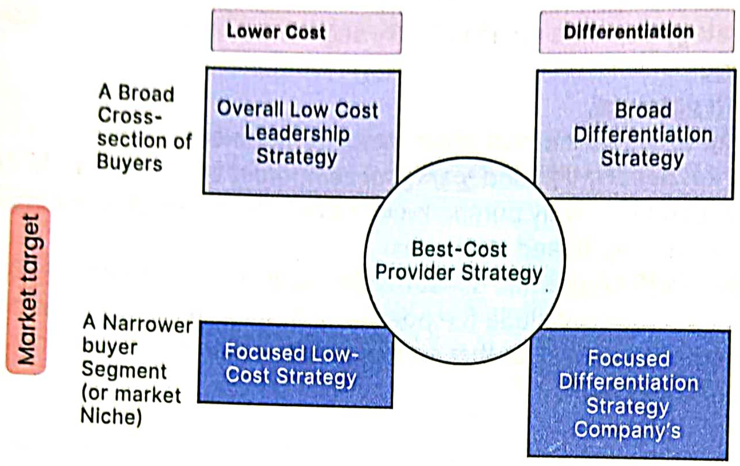
1. Premium prices can be charged by the organisations for their focused product/ services.
2. Due to the tremendous expertise about the goods and services that organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high which can cause problems.
3. In 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.



The Five Generic Competitive Strategies

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 prices as by the rivals for products with much higher quality and better features.

For example, android flagship phones from OnePlus, Xiaomi, Oppo, Vivo, etc, are all rooting for giving better quality at lowest prices to the customers. They are following the best-cost provider strategy to penetrate market.

Explain the meaning of cost leadership strategy. **(RTP, Nov 2018, NA)**
Write a short note on Advantages of Cost leadership strategy. **(RTP, May 2018, NA) (MTP1, Nov 2018, 5 Marks)**
What is cost leadership strategy? Under what circumstances an organization can gain competitive advantages from cost leadership strategy? Is there any risk in pursuing cost leadership strategy? **(SA, Nov 2022, 5 Marks)**
What do you understand by cost leadership? How is it achieved? **(RTP, May 2019, NA)** **OR** Write a short note on the concept of cost leadership strategy and how to achieve it. **(SA, Nov 2019, 5 Marks) (RTP, May 2021, NA)**

Distinguish between cost leadership and differentiation strategies.
(MTP1, May 2018, 5 Marks) (RTP, Nov 2018, NA) (MTP1, May 2020, 5 Marks) (RTP, Nov 2020, NA) (MTP1, Nov 2020, 5 Marks) (ICAI Study Mat)

Airlines industry in India is highly competitive with several players. Businesses face severe competition and 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 and 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.
(RTP, May 2018, NA) (RTP, Nov 2020, NA) (RTP, Nov 2022, NA) (ICAI Study Material)

Discuss differentiation strategy? How is it achieved?
(MTP2, May 2018, 3 Marks) (SA, May 2019, 5 Marks)

OR

What do you mean by differentiation strategy? How is it achieved?
(MTP1, Nov 2022, 5 Marks)

BudgetSmart Retailers, a renowned supermarket chain, faced fierce competition in the grocery retail sector due to escalating operational expenses. Rising costs from rent, labor, and inventory management challenged their profitability amidst the emergence of discount stores and online competitors. To counter this, BudgetSmart Retailers optimized their supply chain through bulk procurement, revamped store layouts for cost efficiency and customer experience, embraced lean operational practices to minimize waste, and conducted comprehensive staff training to boost productivity and customer service efficiency.
Identify and explain the strategy adopted by BudgetSmart Retailers to enhance the profitability.
(MTP1, Nov 2023, 5 Marks)

Gennex is a company that designs, manufactures and sells computer hardware and software. Gennex is well known for its innovative products that has helped the company to have advantage over its competitors. It also spends on research and development and concerned with innovative softwares. Often the unique features of their product, that are not available with their competitors helps them to gain competitive advantage. Gennex using the strategy is consistently gaining its position in the industry over its competitors.
Identify and explain the Porter's generic strategy which Gennex has opted to gain the competitive advantage.
(RTP, Nov 2018, NA) (MTP2, May 2019, 5 Marks) (ICAI Study Material)

Sohan and Ramesh are two friends who are partners in their business of making biscuits. Sohan believe in making profits through selling more volume of products. Hence, he believes in charging lesser price to the customers. Ramesh, however of the opinion that higher price should be charged to create an image of exclusivity and for this, he proposes that the product to undergo some change.
Analyse the nature of generic strategy used by Sohan and Ramesh.
(SA, Nov 2018, 5 Marks) (ICAI Study Material)

Infant care is a successful store chain that caters products for expectant mothers and new moms. They offer everything from nursing classes to strollers, toys, infant clothes, diapers and baby furniture. Due to a one-stop shop for infants, they are charging a premium for its products. Identify and explain how the strategy adopted by infant care.
(MTP1, May 2019, 5 Marks) (ICAI Study Material)

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 2019, NA) (ICAI Study Material)

'Coffee Beans' is a coffeehouse chain that operates across the globe in different countries. 'Coffee Beans' has adopted a strategy to build business by establishing product uniqueness or qualities and gain competitive advantage based on features of its offerings in coffee business. Which type of strategy 'Coffee Beans' has adopted?
(MTP1, Nov 2019, 5 Marks)

A differentiation strategy may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power. Explain.
(RTP, May 2020, NA)

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.
(SA, Nov 2020, 5 Marks)

X-Olympus is a gaming software company specializing in developing games for ZBox and GameStation-4. The company is facing stiff competition due to saturation of market and price wars, which has excessively favor and highlight their dependence on gaming console manufacturers. Thereby, the company desires to establish a competitive advantage over industry rivals by enhancing the gaming experience by expanding into Edge-Cloud Gaming Service on a monthly subscription basis. This service offering does not require dedicated gaming consoles yet provide customers game streaming in 4K resolution with an ample range of games to select from. This move is expected to insulate X-Olympus from price wars and provide a competitive advantage. Identify and explain the generic strategies adopted by X-Olympus?
(MTP1, May 2021, 5 Marks)

Explain in brief the various basis of differentiation strategy.
(RTP, Nov 2021, NA) (MTP1, May 2023, 5 Marks) (RTP, Nov 2023, NA)

BHAVNAV is a business which makes and sells laptop computers in France. In recent years it has been struggling to compete with its rivals and has seen a significant fall in its market share. BHAVNAV's managers identify that majority of its products launched by BHAVNAV's rivals were high specification, with good quality materials and many innovative design features. Products with inferior quality, such as those sold by BHAVNAV have not sold well in France. This information led BHAVNAV's management team to decide to select a new business strategy based on Porter's Generic Strategic Model. Identify and suggest the best business strategy BHAVNAV's management has to opt for?
(MTP2, Nov 2021, 5 Marks)

Inspite of high commodity inflation, shortage of components and the threat of a third wave of Covid-19 pandemic in India, manufacturers of packaged goods, home appliances and consumer electronics are expecting the business to grow by 12 to 25 percent in the coming months. After one and a half years of disruption, manufacturers are now confident about managing their inventories better, keeping their supply channels well stocked and preparing themselves to minimalize the impact of any covid related restrictions even as they gear up for the festive season, which usually accounts for 25 to 30 percent of their yearly sales.
The home appliances sector could be an example. After a dismal April-June quarter in the year 2021, producers of air conditioners, refrigerators and washing machines are expecting their business to grow by 15-20 percent in the months to come. All the companies operating in the sector have geared up to grab the opportunities available in the market.
A leading company in the home appliances domain, XXP India, is planning to launch various innovative product designs and offer loyalty programmes to lure consumers.
With reference to Michael Porter's generic strategies, identify which strategy XXP India has planner for? Explain how this strategy will be advantageous to the company to remain profitable?
(SA, Nov 2021, 5 Marks)

A private Moneyload Ltd. Bank that targets high worth individuals. They offer a premium service with many additional and personal services not normally available through other banks. They charge a significant annual fee for these services. The company makes full use of information technology throughout its operations in order to minimize costs. Identify and explain the generic strategy adopted by Moneyload Ltd. Bank?
(MTP1, May 2022, 5 Marks)

Spacetek Pvt. Ltd. is an IT company. Although there is cut throat competition in the IT sector, Spacetek deals with distinctive niche clients and is generating high efficiencies for serving such niche market. Other rival firms are not attempting to specialize in the same target market. Identify the strategy adopted by Spacetek Pvt. Ltd. and also explain the advantages and disadvantages of that strategy.
(SA, Jan 2021, 5 Marks) (MTP1, Nov 2021, 5 Marks)

A business consultancy firm specializes in environment management consultancy. It advises client companies on how to set up environmental management accounting systems. For measuring recording and analyzing environmental costs. A large part of its business involves performing environmental audits to check whether companies have achieved an international assurance standard in environmental management; this is something that rival consultancy firms do not do. The firm also carries out other management consultancy projects for client, but these make up only a small proportion of its total annual fee income. Identify the strategy categories by Michael Porter which best describes the strategy of this firm.
(RTP, May 2022, NA)

Quick N Sturdy Inc., a multinational company, is undergoing feasibility study to introduce new luxury and sports car for specific group of customers. The product is meant for customers with distinctive preferences and special requirements. The product is not a standard one and as such the target market is also narrow. Company knows that demand for the product is large enough to be profitable for the company, but small enough to be ignored by other major industry players. The company wants to position itself in the niche market with the prime consideration to offer unique features in the product for the target market.

In the given situation, identify the generic strategy as suggested by Michael Porter. Also state the advantages and disadvantages of such strategy.
(SA, Nov 2022, 5 Marks)

What are the various alternative strategies which the managers need to identify that will create and sustain a competitive advantage in the business? Discuss.
(MTP2, Nov 2022, 5 Marks)

Explain Best-cost provider strategy.
(RTP, May 2018, NA)

Domolo is a premium cycles and cycling equipments brand which targets high spending customer with a liking for quality and brand name. Their cycles range from rupees fifteen thousand to rupees one lac. The recent trend of fitness through cycling has created humongous demand for cycles and peripherals like helmets, lights, braking systems, fitness applications, etc. The customer base has grown 150% in the last three months. Mr. Vijay, who is an investor wants to tap in this industry and bring about cheaper options to people who cannot spend so much. Which business level strategy would best suit for Mr. Vijay's idea and what are the major substrategies that can be implemented to capture maximum market?
(MTP2, May 2021, 5 Marks) (MTP2, May 2022, 5 Marks) (RTP, May 2023, NA)

Chapter 4 - Strategic Choices

Corporate level strategies

They are also known as ***grand strategies*** and meant for ***providing direction*** to the company. Sometimes they are also called ***"directional" strategies.***

These strategies were initially discussed by William F Glueck and Lawrence R Jauch. They are also known with name of

- ***Glueck*** and ***Jauch*** Strategies
- ***Generic Strategies***

Corporate strategy ensures the growth of the firm because of the following arguments:

- It ensures the ***correct alignment*** of the firm with its environment. It also serves as the design for filling the strategic planning gap.
- It gives importance to the combination, sequence, timing, direction and depth of various ***moves and action initiatives*** taken by managers to handle environmental uncertainties and complexities.
- It helps ***build the relevant competitive advantages*** for the firm. Masterminding and working out the right fit between the firm and its external environment.
- It is to ***harness the opportunities available*** in the environment, ***countering the threats*** embedded therein.

> Explain the meaning of Directional Strategy.
> **(SA, May 2018, 2 Marks)**
>
> ---
>
> ABC Ltd. intends to grow its business. Its top management argues that its 'Corporate Strategy' will ensure the growth of the firm. Do you agree with the top management's argument? Give reasons.
> **(MTP2, May 2023, 5 Marks) (MTP2, Nov 2023, 5 Marks)**

Stability Strategy

Meaning & Concept

One of the important goals of a business enterprise is stability -

- to ***safeguard*** its existing interests and strengths,
- to ***pursue*** well established and tested objectives,
- to ***continue*** in the chosen business path,
- to ***maintain*** operational efficiency on a sustained basis,
- to ***consolidate*** the commanding position already reached, and
- to ***optimise*** returns on the resources committed in the business.

Stability strategy is not a 'do nothing' strategy.

It involves keeping ***track*** of new developments to ensure that the strategy continues to make sense. This strategy is typical for those firms whose products have reached the ***maturity stage*** of the product life cycle. Small organizations may also follow a stability strategy to ***consolidate*** their market position and prepare for the ***launch*** of growth strategies.

Characteristics of Stability Strategy

1. A firm opting for stability strategy stays with the ***same business,*** same ***product market posture*** and functions, maintaining ***same level of effort*** as at present.
2. The endeavour is to ***enhance functional efficiencies*** in an incremental way, through better deployment and utilization of resources.
3. Stability strategy ***does not involve a redefinition of the business*** of the corporation.
4. It is basically a ***safety-oriented, status quo*** oriented strategy.
5. It does ***not*** warrant much of ***fresh investments.***

6. It involves ***minor improvements*** in the product and its packaging.
7. The ***risk*** is also ***less***.
8. With the stability strategy, the firm has the benefit of ***concentrating*** its ***resources*** and attention on the existing businesses/products and markets.
9. The ***growth objective*** of firms employing this strategy is quite ***modest***.

Major Reasons for Stability Strategy

- 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.
- ***Expansion*** may be perceived as being ***threatening***.
- ***Consolidation*** is sought through stabilizing after a period of rapid expansion.

What is stability strategy? What are the reasons to pursue stability strategy?
(RTP, Nov 2019, NA) (RTP, Nov 2023, NA)

Justify the statement "Stability strategy is opposite of Expansion strategy".
(RTP, May 2021, NA) (MTP 1, May 2021, 5 Marks)

ABC Steel Industries finds out that its products have reached at maturity stage and already has overcapacity. Therefore, it concentrates on maintaining operational efficiency of its plants. Identity the strategy implemented by ABC Steel Industries along with reasons.
(SA, May 2022, 5 Marks)

Expansion Strategy

Characteristics of Growth/Expansion Strategy

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

Major Reasons for Growth/Expansion Strategy

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

Type of growth or expansion

- Internal Growth Strategy
  - Intensification
  - Diversification
- External
  - Mergers and Acquisition
  - Strategic Alliance

Expansion through Intensification (Internal Growth Strategy)

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

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

Intensification

Market Penetration	Market Development	Product Development
Highly common expansion strategy is market penetration/ concentration on the current business. The firm directs its resources to the profitable growth of its existing product in the existing market.	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 involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through established channels.

Diversification (Internal Growth Strategy)

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

(i) Concentric diversification: diversification into related business to benefit from synergistic gains
(ii) Conglomerate diversification: diversification into unrelated business to explore more opportunities beyond existing areas of expertise
(iii) Expansion through Innovation

Diversification endeavours can be related or unrelated to existing businesses of the firm.

Concentric Diversification

- Related
  - Concentric diversification too amounts to related diversification.
- Linked
  - In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing.
- Spin off
  - The new product is a spin-off from the existing facilities and products/processes.
- Benefits
  - This means that in concentric diversification too, there are benefits of synergy with the current operations.
- Understood in two directions,
  - vertical integration
  - horizontal integration

Vertically Integrated Diversification

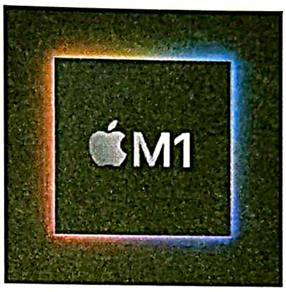
- Firm opts to engage in businesses that are related to the existing business of the firm.

- The firm remains vertically within the ***same process sequence*** and ***moves forward or backward*** in the value chain
- Enters specific product/ process steps with the intention of making them into new businesses for the firm
- The characteristic feature of vertical integrated diversification is that the firm ***does not jump outside the vertically linked product process chain***.

Forward and Backward Integration

Backward integration is a step towards,

- Creation of effective ***supply*** by entering ***business of input providers***.
- Strategy employed to
  - ***expand profits*** and
  - gain ***greater control*** over production of a product
    - whereby a company will
      - ***purchase*** or
      - ***build*** a business
    - that will ***increase*** its own ***supply capability*** or ***lessen its cost*** of production.



- For example, A large **supermarket chain** considers to purchase a number of farms that would provide it a significant amount of fresh produce.

On the other hand, forward integration

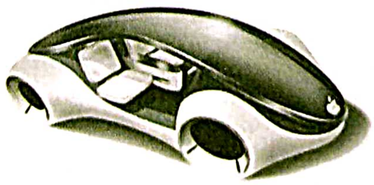
- is moving ***forward*** in the ***value chain*** and
  - entering business lines that use existing products.
  - Forward integration will also take place where organizations enter into businesses of ***distribution channels***.
- For example, A coffee bean manufacture may choose to merge with a coffee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

Horizontal Integrated Diversification

Through the acquisition of one or more ***similar businesses*** operating at the ***same stage*** of the production-marketing chain that is going into ***complementary products, by-products*** or taking over ***competitors' products.***

Conglomerate Diversification (Unrelated)

- No Linkage
  - In conglomerate diversification, ***no*** such ***linkages*** exist;
- Disjointed
  - the new businesses/ products are ***disjointed*** from the existing businesses/products in ***every*** way;
- Unrelated
  - it is a totally unrelated diversification.
- PTM No Connection
  - In ***process/technology/function***, there is ***no connection*** between the new products and the existing ones.
- No common thread
  - Conglomerate diversification has **no common thread** at all with the firm's present position.



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

Innovation

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

- **Helps to solve complex problems:**
    - Develop customer centric sustainable solutions.
    - Costly in introductory stages but have economical and environmental sustainability in long run.
    - Example: Environmental damage tackled by shifting to renewable sources of energy

- **Increases Productivity:**
    - Productivity is defined as a measure of final output from a task or a process
    - Automation of existing tasks.
    - Creates a ripple effect that has a far and wide impact across industries.
- **Gives Competitive Advantage:**
    - The faster a business innovates, the farther it goes from its competitor's reach.
    - Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage.
    - Innovation not only helps retain the existing customers but helps acquire new ones with ease.

Expansion through merger and acquisition - External Growth Strategy

Acquisitions and mergers are basically combination strategies. In which two or more companies combines.

- Instant Means
    - Acquisition of or merger with an existing concern is an instant means of achieving the expansion.
- Attractive & Tempting
    - It is an attractive and tempting proposition (OPTION) in the sense that it circumvents (reduces)
        - the time, risks and skills involved
            - in screening internal growth opportunities,
            - seizing them and
            - building up the necessary resource base required to materialize growth.
- Synergy
    - Another main Objective
        - Achieving a measure of synergy between the parent and the acquired enterprises is another main objective.
    - Synergy from
        - Synergy may result from such bases as physical facilities, technical and managerial skills, Distribution channels, general administration, research and development and so on.

    - Synergy?
        - The positive effects of the merged resources are greater than the effects of the individual resources before merger or acquisition.

Merger

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

- In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity.
- In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers.

Acquisition

- When one organization takes over the other organization and controls all its business operations, it is known as acquisition.
- In this process of acquisition, one financially strong organization overpowers the weaker one.
- Acquisitions often happen during recession in economy or during declining profit margins.
- The combined operations then run under the name of the powerful entity.
- A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

Some of the recent / popular instances of acquisition are listed below:

- Tata's acquisition of Anglo Dutch steelmaker Corus
- Tata's acquisition of British Jaguar Land Rover
- Mittal Steel takeover of Arcelor
- HPCL's acquisition of Kenya Petroleum Refinery Ltd.
- Hindalco's acquisition of Canada based Novelis

Types of Mergers

The types of mergers are similar to types of diversification.

Horizontal Merger

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

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

Vertical Merger

- It is a merger of two organizations that are operating in the
  - same industry

- but at different stages of the production or distribution system.

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

Co-generic Merger

- In Co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies.
- Such mergers include the extension of the product line.
- It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements.
- For example, an organization in the white goods category such as refrigerators can diversify by merging with another organization having business in kitchen appliances.

Conglomerate Merger

Conglomerate mergers are the combination of organizations that are unrelated to each other. There are no linkages with respect to customer groups, customer functions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology.

Related vs. Unrelated Diversification

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

Expansion Through Strategic Alliance

Meaning

- A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own.
- The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.
- Strategic alliances are often formed in the global marketplace between businesses that are based in different regions of the world.

Advantages of Strategic Alliance

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

Organizational

- Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners.
- Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain.
- Strategic partners may provide a good or service that complements thereby creating a synergy.
- Having a strategic partner who is well-known and respected also helps add legitimacy and creditability to a new venture.

Economic

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

Strategic

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

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 of Strategic Alliance

- The major disadvantage is **sharing**.
- Strategic alliances require sharing of resources and profits, and also sharing **knowledge and skills** that otherwise organisations may not like to share.
- Sharing knowledge and skills can be **problematic** if they involve **trade secrets**.
- 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.
- Strategic alliances may also create **potential competition** when an ally becomes an **opponent** in future when it decides to separate out.

Swift Insurance is a company engaged in the business of providing medical insurance maintaining a market share of 25 to 30 per cent in last five years. Recently, the company decided to enter into the business of auto insurance by having foreign collaboration. Identify the strategy being followed by the Swift Insurance with its advantages.
(RTP, May 2018, NA)

Shoaib and Salim, two brothers are the owners of a cloth manufacturing unit located in Lucknow. They are doing well and have substantial surplus funds available within the business. Shoaib is interested in acquiring another industrial unit located in Lucknow manufacturing tableware such as dinner sets, cups and saucers, bowls. etc. On the other hand , Salim desires to start another unit to produce readymade garments. Discuss the nature of corporate strategies being suggested by two brothers. Which one is better?
(MTP2, May 2018, 5 Marks)

Distinguish between the Forward integration and backward integration.
(RTP, Nov 2018, NA)

Vastralok Ltd., was started as a textile company to manufacture cloth. Currently, they are in the manufacturing of silk cloth. The top management desires to expand the business in the cloth manufacturing. To expand they decided to purchase more machines to manufacture cotton cloth.
Identify and explain the strategy opted by the top management of Vastralok Ltd.
(RTP, Nov 2018, NA)

Leatherite Ltd., was started as a leather company to manufacture footwear. Currently, they are in the manufacturing of footwears for males and females. The top management desires to expand the business in the leather manufacturing goods. To expand they decided to purchase more machines to manufacture leather bags for males and females. Identify and explain the strategy opted by the top management of Leatherite Ltd.

(MTP1, May 2019, 5 Marks) (RTP, Nov 2021, NA)

Gautam and Siddhartha two brothers are the owners of a cloth manufacturing unit located in Faridabad. They are doing well and have substantial surplus funds available within the business. They have different approaches regarding corporate strategies to be followed to be more competitive and profitable in future.
Gautam is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies. On the other hand, Siddhartha desires to start another unit to produce readymade garments.
Discuss the nature of corporate strategies being suggested by two brothers and risks involved in it.
(SA, May 2019, 5 Marks) (ICAI Study Material)

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?
(RTP, May 2020, NA) (ICAI Study Material)

Diversification endeavours can be categorized into four broad classifications. State the basis for this classification and name the four categories.
(RTP, May 2022, NA) (MTP2, Nov 2022, 5 Marks)

There has been fierce demand for both Gecko and FlyBee for the last 3 years. Gecko makes mass consumption pens while FlyBee is a notebook and diary brand - both being complementary goods of each other. But to grow further, FlyBee decided to take up competition with Gecko in pens segment and thereby launched, FlyPens. Identify and explain the growth strategy opted by FlyBee?
(MTP1, May 2022, 5 Marks)

What do you understand by diversification? Distinguish between concentric and conglomerate diversification.
(SA, May 2022, 5 Marks)

Jynklo Ltd. is an established online children gaming company in Japan. They are performing good in the gaming industry. The management of Jynklo Ltd. has decided to expand its business. They decided to start a premium sports drink named JynX for athletes. Identify and explain the growth strategy adopted by Jynklo Ltd.?
(MTP1, Nov 2022, 5 Marks) (RTP, Nov 2023, NA)

Health Pharma Pvt. Ltd. (HPPL) a one person company with limited liability is manufacturing generic and medicinal drugs in India.
Hygiene Laboratories Plc. (HLP) a multinational company with its strong financial position is one of the major players in pharmaceutical sector.
Individually, each company has its own core competencies. However, additional focus by the state on generic medicine with renewed regulatory requirements are posing challenges in fierce competitive environment.
Considering benefits of synergies, both the companies are considering to join hands for better growth opportunities. Earlier, they tried to go for joint venture or strategic alliance but the arrangement could not materialize.
In view of the facts given above:
(i) If HPPL and HLP join hands and make new entity named Health N Hygiene Pharma Ltd., what type of growth strategy will this strategic development be?
(ii) In case, HLP is sold out to HPPL and HLP ceased to exist, what type of growth strategy will this strategic deal be?
(iii) What are the differences between the above two identified growth strategies?
(SA, May 2023, 5 Marks)

Distinguish between Mergers and acquisitions
(RTP, May 2018, NA)

OR

Write short note on expansion through acquisitions and mergers.
(RTP, May 2020, NA) (MTP1, Nov 2020, 5 Marks)

OR

Explain the term Merger and Acquisition as a growth strategy. Differentiate between both of them. State the situations in which such strategies are considered by any organization.
(RTP, Nov 2021, NA)

OR

Write a short note on Merger and Acquisition strategy.
(RTP, Nov 2022, NA)

What do you understand by co-generic merger?
(MTP1, May 2018, 2 Marks)

OR

Describe the term 'Co-generic merger'.
(SA, May 2018, 2 Marks)

Write short note on Conglomerate merger.
(MTP2, May 2018, 3 Marks)

Strategic alliances are formed if they provide an advantage to all the parties in the alliance. Do you agree? Explain in brief the advantages of a strategic alliance.
(RTP, May 2018, NA)

OR

What are the advantages of a strategic alliance?
(MTP2, Nov 2021, 5 Marks)

OR

GWA, a leading Japan based automobile company decides to make India a hub for the company's 250 cc motor cycle to be manufactured in collaboration with the TPR Group, a leading Indian motorcycle manufacturer. The production is to be exported to the company's home market as well as to other African countries.
What is this growth strategy called? Point out the most important advantages both the companies expect from such strategy/ collaboration.
(SA, Dec 2021, 5 Marks)

OR

Jeff Inc., a leading USA based Mobile company decides to make India a hub for the company's Android Mobile having largest storage memory to be manufactured in collaboration with the Desi Group, a leading Indian mobile manufacturer. The production is to be exported to the company's home market as well as to other European countries. What is this growth strategy called? Point out the most important advantages both the companies expect from such strategy/collaboration.
(MTP1, May 2023, 5 Marks)

Retrenchment Strategy

- This is done through an attempt to *find* out the *problem areas*
- and *diagnose* the *causes* of the problems.
- Next, steps are taken to solve the problems.
- These steps result in different kinds of retrenchment strategies.
- If the organization 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* (or divestiture) strategy.
- If none of these actions work, then it may choose to *abandon* the activities totally, resulting in a *liquidation* strategy.

Turnaround Strategy

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

Action Plan for Turnaround

- For turnaround strategies to be successful, it is imperative to focus on the *short* and *long-term financing* needs as well as on *strategic issues*.

- A workable action plan for turnaround would involve the following stages:

Stage One – Assessment of current problems

- Assess current problems & find the extent of damage caused by the problem. Resources should be focused toward those areas which are essential.

Stage Two – Analyze the situation and develop a strategic plan (CBR)

- Identify appropriate strategies & develop preliminary ***action plan*** & look for ***viable*** core businesses, adequate bridge financing & available organizational resources.

Stage Three Implementing an emergency plan (HR/F/M/O – Action – RD/IWC/RC/IBP)

- The plan typically includes human resource, financial, marketing & operations actions to ***restructure*** debts, ***improve*** working capital, ***reduce costs***, improve budgeting practices etc.
- Enough funds & +ve cash flow must be established to implement turnaround strategies.

Stage Four – Restructuring the business:

- *"Product mix"* must be changed to do some ***repositioning***. Core products neglected over time may require immediate attention to remain competitive.
- Organisation may ***withdraw*** from certain ***markets*** to target its products toward a different ideal position.
- "People mix" -an important ingredient should also be enhanced by allowing ***rewards*** & ***compensation*** that'll encourage employee's dedication & creativity.

Stage 5- Returning to normal (P/ROI/EVA – NP, CS, CA, MS)

- In the final stage, the org should begin to show signs of ***profitability***, ***return*** on investments & enhancing ***economic value added***. Adding ***new products***, ***improving customer service***, ***creating alliances*** with other organizations, increasing ***market share*** etc. shall be the areas of emphasis.

Elements of Turnaround Strategy

The important elements of turnaround strategy are as follows (Just Read them 3 Times before Exams)

- Changes in the ***top management***
- Identifying ***quick payoff*** activities
- ***Quick cost reductions***
- ***Revenue generation***
- ***Asset liquidation*** for generating cash
- ***Mobilization*** of the organization's ***resources***
- Better ***internal coordination***.

DIVESTMENT

- It involves the ***sale*** or ***liquidation*** of a ***portion*** of business, or a major division, profit center or SBU.
- It is usually a part of *rehabilitation* or *restructuring* plan and is adopted when a ***turnaround*** has been attempted but has proved to be ***unsuccessful.***
- The option of a ***turnaround*** may even be ***ignored*** if it is obvious that ***divestment*** is the ***only answer***.
- A divestment strategy may be adopted due to various reasons:
  - A business that had been ***acquired*** proves to be a ***mismatch*** and cannot be integrated within the company.
  - Persistent ***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.

LIQUIDATION

- It is considered the ***most extreme and unattractive 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*.

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

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

- ***Good Proposition*** When ....
  - Liquidation strategy may be unpleasant as a strategic alternative but when a ***"dead business is worth more than alive"***, it is a good proposition.
  - For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business. When liquidation is evident (though it is difficult to say exactly when), an abandonment plan is desirable.

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

Why a Turnaround Strategy is required for a business?
(MTP2, Nov 2018, 5 Marks)

OR

Write a short note on need for turnaround strategy.
(MTP1, Nov 2019, 5 Marks)

With the global economic recession Soft Cloth Ltd. incurred significant losses in all its previous five financial years. Currently, they are into manufacturing of cloth made of cotton, silk, polyster, rayon, lycra and blends. Competition is also intense on account of cheap imports. The company is facing cash crunch and has not been able to pay the salaries to its employees in the current month.
Suggest a grand strategy that can be opted by Soft Cloth Ltd.
(RTP, May 2019, NA) (ICAI Study Material)

Arena Ltd. manufactures computers that are of low in production cost, competitive price, and quality to their competitor's product. Profits and market share are declining day by day. Shreekanth, a senior executive realizes that drastic strategies have to be created for the survival of a company. After SWOT analysis by assessing the strengths and weaknesses, they come up with the conclusion that they cannot compete in the computers with the competitors. The management directs Shreekanth to act quick and develop a suitable strategic plan.
Discuss the strategy which can be opted by Shreekanth.
(MTP1, May 2018, 5 Marks) (MTP2, May 2019, 5 Marks)

OR

ABC Inc. a successful company in the healthcare industry, was facing a decline due to outdated technology and lack of innovation. The company was losing market share and struggling to retain customers. In an effort to reverse the trend, the management decided to implement a strategy. They hired new talent, invested in research and development, and streamlined their operations to increase efficiency. Through these efforts, ABC Inc. was able to introduce new products and services, reposition themselves in the market, and eventually regain their competitive edge. The company's revenue and profits increased, and they were once again on the path to success.
Discuss the strategy which has been implemented by the management of ABC Inc.

(RTP, May 2023, NA)

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.

(RTP, Nov 2019, NA)

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?

(SA, Nov 2019, 5 Marks) (ICAI Study Material)

Explain in brief the reasons to adopt turnaround strategy.

(MTP1, May 2020, 5 Marks)

General public is discerning from buying air conditioning units based on the Health Ministry guidelines regarding emergence of a contagious viral pandemic. Consequently, Nebula Pvt. Ltd, a manufacturer of evaporation coils used in air conditioning units has faced significant loss in working capital due to sharp fall in demand. The company conducted financial assessment and developed a workable action plan based on short and long term financial needs. But for immediate needs, an emergency plan has been implemented. It includes selling scrap, asset liquidation and overheads cost reduction. Further, to avoid any such untoward event in future, they plan to diversify into newer business areas along with its core business. Identify and explain the strategy opted by M/s. Nebula Pvt. Ltd.?

(RTP, Nov 2020, NA)

The CEO of a textile mill is convinced that his loss making company can be turned around. Suggest an action plan for a turnaround to the CEO.

(SA, July 2021, 5 Marks)

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

(SA, Dec 2021, 5 Marks)

Racers Ltd. manufactures bicycles. Until recently it has adopted a differentiation strategy, offering high quality bicycles which Racers Ltd. sells at a high profit margin. In recent years, Racers Ltd. has entered a period of decline due to the market becoming flooded with cheaper, high quality bicycles from abroad, where labour costs are lower. Racers Ltd. has therefore decided to adjust its strategy and adopt a focus approach, targeting its bicycles towards professional athletes. This will allow Racers Ltd. to continue earning high margins, though the size of its potential market will likely fall. Identify and explain the need of adopting this strategy by Racers Ltd. to manage decline?

(RTP, May 2022, NA)

X Pvt. Ltd. had recently ventured into the business of co-working spaces when the global pandemic struck. This has resulted in the business line becoming unprofitable and unviable, and a failure of the existing strategy. However, the other businesses of X Pvt. Ltd. are relatively less affected by the pandemic as compared to the recent co-working spaces. Suggest a strategy for X Pvt. Ltd. with reasons to justify your answer.

(SA, Jan 2021, 5 Marks) (ICAI Study Material)

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.

Identify and explain the corporate strategy adopted by the leadership team of Mini theatre Ltd.

(RTP, May 2021, NA)

What is Divestment strategy? When is it adopted?

(RTP, Nov 2018, NA) (RTP, Nov 2020, NA)

A company started its operation in 2015 with Product Alpha. In early 2021, with intent to have its better presence in the market, the company diversifies by acquiring a company with product Beta. After sometime, it was observed that product Beta is not faring well. Aggressive competition was therein market for the product. It was also revealed that though customers are not price sensitive, but product was not keeping pace with the fast changing unique features as expected by its customers.

Company has tried one of the retrenchment strategies by putting efforts to improve its internal efficiency, but could not get desired results. In the situation, company is of a considered view to remain and grow in product alpha and to decouple with product Beta from its portfolio.
As a strategist, suggest the retrenchment strategy to be adopted by the company. Also delineate reasons why a company should adopt such strategy?
(SA, Nov 2022, 5 Marks)

Redefinition of business is involved in both "Expansion" and "Retrenchment" strategy, however, method involved in their execution is completely different. Explain.
(RTP, May 2023, NA) (MTP1, Nov 2023, 5 Marks)

Differentiate between divestment and liquidation strategy.
(MTP1, Nov 2019, 5 Marks) (MTP2, May 2021, 5 Marks) (MTP2, Nov 2021, 5 Marks) (MTP2, May 2022, 5 Marks)
OR
Briefly describe the meaning of divestment and liquidation strategy and establish differences between the two.
(SA, Nov 2020, 5 Marks)

XYZ Ltd. is a multi-product company, suffering from continuous losses since last few years and has accumulated heavy losses which have eroded its net worth.
What strategic option is available to the management of this sick company? Advise with reasons.
(SA, May 2018, 5 Marks)

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 organizations, a strategy by *diversification* and/or acquisition may call for a *retrenchment* in some obsolete product lines, production facilities and plant locations.

Major Reasons for Combination Strategy
- The organization is *large* and faces *complex environment*.
- The organization is *composed* of *different businesses*, each of which lies in a different industry requiring a different response.

Explain the meaning of the Combination strategies.
(RTP, May 2018, NA) (RTP, Nov 2018, NA)

Some Examples

Strategy	Meaning	Example
Forward Integration	Gaining ownership or increased control over the next level in the value chain (Manufacturing or intermediaries)	Reliance Industries (owning refineries) diversified into petrol pumps
Backward Integration	Gaining ownership or increased control over the previous level in the value chain (Manufacturing or suppliers)	An automobile manufactures diversifying into tyre production.
Horizontal Integration	Seeking ownership or increased control of a firm's competitors	ICICI Bank taking over Bank of Rajasthan

Conglomerate Diversification	Adding new, unrelated products or services	Yash Birla Group (auto & engineering)decides to enter wellness, solar power and schools.
Divestment	Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU.	Godrej Group's withdrawal from the JV with Sara Lee from Africa
Liquidation	Liquidation strategy is an extreme and unattractive strategy as it involves closing down a firm and selling its assets. It is considered as the last resort when all other options fail.	Those companies whose products are no more in demand sell all their assets.
Concentric Diversification	In concentric diversification, the new businesses are added that are linked to the existing businesses through process, technology or marketing.	Kotak Mahindra Bank gets into insurance and asset man

Strategic Options - Portfolio Analysis Models

- Primarily used for ***competitive analysis*** and corporate strategic ***planning*** in multi-product and multi business firms.
- May also be used in less diversified firms, if these consist of a main business and other minor complementary interests.
- The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that ***resources*** could be ***channelised*** at the corporate level to those businesses that ***possess*** the ***greatest potential***.

Ansoff's Product Market Growth Matrix

- Proposed by Igor Ansoff
- Helps in deciding product & market growth strategy.
- Gives a fair idea about the ***growth*** of the business in terms of product and markets.
- It is also known as ***product market expansion grid***
- It is a portfolio ***planning*** tool.
- Helps in identifying ***growth*** opportunities.

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.
- It might require greater spending on advertising or personal selling.
- It is also done by effort on ***increasing usage*** by existing customers.

Market Development:

- Market development refers to a growth strategy where the business seeks to sell its ***existing products*** into ***new markets***.
- It is a strategy for company growth by identifying and developing new markets for current company products.
- This strategy may be achieved through ***new geographical markets***, new product dimensions or packaging, new distribution channels or different pricing policies to attract ***different customers*** or create ***new market*** segments.

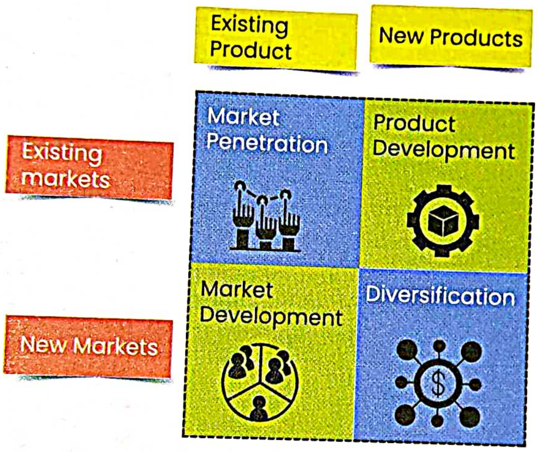
Product Development

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

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.
- Here business is moving into markets in which it has ***little*** or ***no experience***.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue a new market.



Ansoff's Product Market Growth Matrix

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***
- 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 categorization of products or SBU's into one of five competitive positions
  - Dominant
  - Strong
  - Favourable
  - Tenable
  - Weak

It is four by five matrix

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

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

Dominant

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

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.

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***.

Tenable

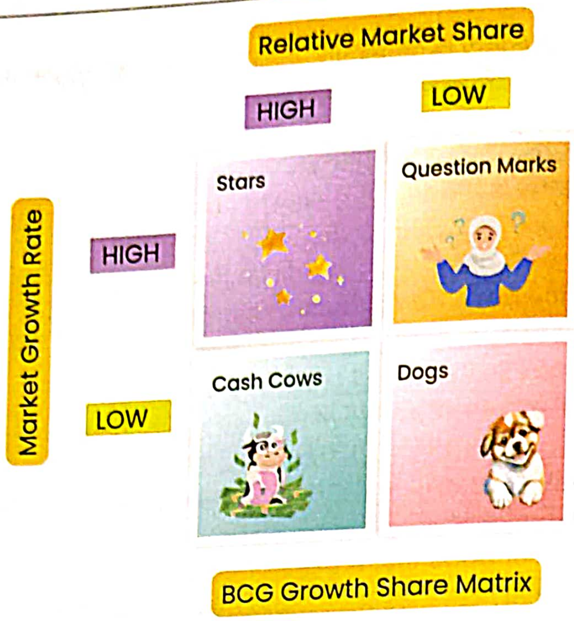
Although the firms within this category are able to perform ***satisfactorily*** and can justify staying in the industry, they are generally vulnerable in the face of ***increased competition*** from stronger and ***more proactive*** companies in the market.

Weak

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

Boston Consulting Group (BCG) Growth-Share Matrix

- The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments.
- It's also known for its cow and dog metaphors.
- It is popularly used for resource allocation in a diversified company.
- Using it, a company classifies its different businesses on a two-dimensional growth-share matrix.
- In the matrix:
    - The vertical axis represents market growth rate.
    - The horizontal axis represents relative market share and serves as a measure of company strength in the market.
- Using the matrix, organisations can identify four different types of products or SBU as follows:
    - Stars
        - are products or SBUs that are growing rapidly.
        - They also need heavy investment to maintain their position and finance their rapid growth potential.
        - They represent the best opportunities for expansion.
    - Cash Cows
        - are low-growth, high market share businesses or products.
        - They generate cash and have low costs.
        - They are established, successful, and need less investment to maintain their market share.
        - In long run when the growth rate slows down, stars become cash cows.
    - Question Marks,
        - sometimes called problem children or wildcats, are low market share business in high-growth markets.
        - They require a lot of cash to hold their share.
        - They need heavy investments with low potential to generate cash.
        - Question marks if left unattended are capable of becoming cash traps.
        - It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.
    - 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 minimized by means of divestment or liquidation.



Problems and limitations with the BCG method

1. *Difficult*,
2. *Time-consuming*, and
3. *Costly* to implement.
4. Management may find it *difficult to define* SBUs and measure market share and growth.
5. It also focuses on classifying current businesses but provide little advice for future planning.
6. They can lead the company to place *too much emphasis* on market-share growth or growth through entry into attractive new markets. This can cause *unwise expansion* into hot, new, risky ventures or giving up on established units too quickly.

Strategies to applied in BCG Model

In the BCG growth-share matrix portfolio of investments are represented in two dimensional space. The *vertical axis* represents *market growth rate* and the *horizontal axis* represents relative *market share.* Using the matrix, organizations can identify four different types of products or SBU as stars, question marks, cash cows and dogs. In the light of BCG Growth Matrix, the four strategies that can be pursued are:

1. Build: Here the objective is to *increase market share*, even by *forgoing short-term earnings* in favour of building a *strong future* with *large market share*. It is done by *increasing investment*. For example, investments can be made to push question marks into stars.
2. Hold Here the objective is to *preserve market share*. It can be in situation where the organization is not in position to invest or has other commitments.
3. Harvest: A relevant situation can be when the product or SBU is in position of being Cash Cow. Here the objective is to *increase short-term cash flow* regardless of long- term effect.
4. Divest: Divest is relevant in case of Dog quadrant. Here the objective is to *sell* or *liquidate* the business because resources can be better used elsewhere.

General Electric model

Discuss General Electric model of analyzing *current business portfolio*.

- To analyze the business portfolio the General Electric Company used a model which 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 lights that are used at crossings to manage traffic are:
  - green for go,

- amber or yellow for caution,
- and red for stop.

- This model uses two factors while taking strategic decisions:
  - Business Strength and
  - Market Attractiveness.
- The vertical axis indicates market attractiveness and the horizontal axis shows the business strength in the industry.
- If a product falls in the green section,
  - the business is in an advantageous position.
  - To reap the benefits, the strategic decision can be
    - to expand,
    - to invest and
    - grow.
- If a product is in the amber or yellow zone,
  - It needs caution and managerial discretion is called for making the strategic choices.
- If a product is in the red zone,
  - it will eventually lead to losses that would make things difficult for organizations.
  - In such cases, the appropriate strategy should be
    - retrenchment,
    - divestment or
    - liquidation.

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

Business Strength

Market Attractiveness	Strong	Average	weak
High	Invest/Expand	Invest/Expand	Select/Earn
Medium	Invest/Expand	Select/Earn	Harvest/Divest
Low	Select/Earn	Harvest/Divest	Harvest/Divest

In the context of Ansoff's Product-Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases:
i) A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.
ii) A business giant in hotel industry decides to enter into dairy business.
iii) One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets.
iv) A renowned auto manufacturing company launches ungeared scooters in the market.
(ICAI Study Material)

How Ansoff's Product-Market Growth Matrix is a useful tool for business organizations?
(RTP, Nov 2018, NA) (MTP2, May 2019, 5 Marks) (MTP1, Nov 2021, 5 Marks)

Distinguish between Market Development and Product Development under Ansoff's Product Market Growth Matrix.
(MTP1, May 2021, 5 Marks) (RTP, Nov 2022, NA) (MTP2, May 2023, 5 Marks) (MTP2, Nov 2023, 5 Marks)

Ajanta & Sons Limited are manufacturers of domestic household security alarms for high-income group homeowners in India. The company is currently reviewing two strategic options.
Option 1: Selling the same alarms although with different coverings to smaller and low-income group households at a lower price.
Option 2: Development of new, more sophisticated alarms and a wide range of security services (guards and surveillance) for sale to industrial clients for higher prices.
The senior management team of Ajanta & Sons Limited are keen to analyse the two options using Ansoff's Matrix.
(RTP, Nov 2021, NA)

Sky chemical industry intends to grow its business. Advise the company on the available options using Ansoff's product market growth matrix.
(MTP1, May 2022, 5 Marks) (MTP2, Nov 2022, 5 Marks) (RTP, May 2023, NA)

OR

Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product Market Growth Matrix to advise them of the available options.
(ICAI Study Material)

Describe the construction of BCG matrix and discuss its utility in strategic management.
(ICAI Study Material)

An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

Product	Revenues (in Rs.)	Percent Revenues	Profits (in Rs)	Percent profits	% Market share	% Industry Growth rate
A	6 crores	48	120 lakhs	48	80	+ 15
B	4 crores	32	50 lakhs	20	40	+10
C	2 crores	16	75 lakhs	30	60	-20
D	50 Lakhs	4	5 lakhs	2	5	-10
Total	12.5 crores	100	250 lakhs	100	100	

(ICAI Study Material)

Explain the strategic implications of each of the following types of business in a corporate portfolio:
(a) Stars
(b) Question Marks
(c) Cash Cows
(d) Dogs
(RTP, May 2022, NA)

Atrix Ltd. is a company engaged in the designing, manufacturing, and marketing of mechanical instruments like speed meters, oil pressure gauges, and so on. Their products are fitted into two and four wheelers. During the last couple of years, the company has been observing a fall in the market share. This is on account of shift to the new range of electronic instruments. The customers are switching away mechanical instruments that have been the backbone of Atrix Ltd.
As a CEO of Atrix Ltd., what can be the strategic options available with you.
(MTP1, Nov 2018, 5 Marks) (ICAI Study Material)

OR

Woodworld Ltd. is a company manufactures a variety of household furniture items. They offered traditional designs, low cost furniture items to low income group customers. During the last couple of years, the company has been observing a fall in the market share. This is due to the change in the taste and preferences, designing, better quality, increase in purchasing power of buyers towards the household furniture. The customers are switching away traditional designs and material that have been the backbone of Woodworld Ltd. As a CEO of Woodworld Ltd., what can be the strategic options available with you.

(RTP, Nov 2022, NA)

ABC Corporation is a conglomerate with a diverse portfolio of businesses. One of its businesses is a well-established division in a mature and stable market. The division has maintained a high market share over the years but is experiencing slow growth due to market saturation. The management team is contemplating the best course of action for this division. How should ABC Corporation approach this division according to the BCG growth-share matrix, and what would be the rationale behind it?
(RTP, Nov 2023, NA)

Write a short note on the role of ADL Matrix in assessing competitive position of a firm
(RTP, May 2020, NA) (RTP, May 2022, NA)

Chapter 5- Strategy Implementation and Evaluation

Strategic Management Process

- An organisation's strategy is a methodical process that involves creating a clear vision, mission, values, and goals, analyzing themes, and creating a strategic plan. This plan includes key performance measures to link themes to goals and measure strategy success.
- The strategic management process is ***dynamic*** and ***continuous***.
- A change in any one of the major components in the model can necessitate a change in any or all of the other components.
- The strategic management process never really ends.
- The strategic management process can best be studied and applied using a model.

Strategic Management Model

- Framework for studying and applying strategic management.
- This model does ***not guarantee*** sure-shot ***success***
- It represents a clear and practical approach for formulating, implementing, and evaluating strategies.
- Strategists do not go through the process in lockstep fashion.
- The process essentially is iterative and involves a lot of back-and-forth considerations across different stages in the strategic management process.

Present a diagrammatic representation of a Strategic Management model. **(SA, Nov 2018, 2 Marks)**

OR

With the help of a model explain strategic management process. **(RTP, Nov 2019, NA)**

Stages in Strategic Management

Strategic management involves the following stages:

1. Developing a strategic vision and formulation of statement of mission, goals and objectives.
2. Environmental and organisational analysis.
3. Formulation of strategy.
4. Implementation of strategy.
5. Strategic evaluation and control

Stage 1: Strategic Vision, Mission and Objectives

- Organization must determine what directional path it should take and what change would improve its current market position and future prospects.
- In this stage organization should decide it's strategic intent, vision, mission and objectives

Stage 2: Environmental and Organisational Analysis

- Diagnostic phase
- Environmental Scanning
- Organizational Analysis
- Systematically analyze various elements of the environment to determine opportunities and threats for the firm in future.
- This would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment.

Stage 3: Formulating Strategy

- Developing strategic alternatives in the light of organization strengths and weaknesses and opportunities and threats in the environment.
- Deep analysis of various strategic alternatives for the purpose of choosing the most appropriate alternative which will serve as strategy of the firm.

- A company may be confronted with several alternatives such as:
  - Should the company continue in the same business carrying on the same volume of activities?
  - 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.
  - If it should diversify, should it diversify into related areas or unrelated areas?
  - Should it get out of an existing business fully or partially?

Stage 4: Implementation of Strategy

- Operations-oriented
- Most demanding and time-consuming part of the strategy-management process.
- Convert strategic plans into actions and results manager has to do many tasks
- In most situations, strategy-execution process includes the following principal aspects:
  - Developing budgets that steer ample resources into those activities critical to strategic success.
  - Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
  - Ensuring that policies and operating procedures facilitate rather than impede effective execution.
  - Using the best-known practices to perform core business activities and pushing for continuous improvement.
  - Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
  - Motivating people to pursue the target objectives energetically.
  - Creating a company culture and work climate conducive to successful strategy implementation and execution.
  - Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution.

Good strategy execution involves creating strong "fits"

- between strategy and organizational capabilities,
- between strategy and the reward structure,
- between strategy and internal operating systems, and
- between strategy and the organization's work climate and culture.

Stage 5: Strategic Evaluation and Control

- Evaluating the performance of the organisation
- Assessing the impact of new external development
- Making Corrective Adjustments
- Simply fine-tuning the strategic plan and continuing with ongoing efforts to improve strategy execution are sufficient.
- But whenever a company encounters disruptive changes in its external environment, questions need to be raised about the appropriateness of its direction and strategy

Describe the principal aspects of strategy-execution process, which are included in most situations.
(SA, May 2018, 5 Marks) (MTP1, Nov 2022, 5 Marks)

OR

To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets. Explain the principal aspects of strategy-execution process. **(RTP, Nov 2018, NA) (MTP1, May 2019, 5 Marks)**

OR

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.
(SA, Jan 2021, 5 Marks)

OR

Explain the principal aspects of the strategy-execution process. (RTP, Nov 2021, NA)

Strategy Formulation

Corporate Strategy

- Planning entails choosing what has to be done in the future (today, next week, next month, next year, over the next couple of years, etc.) and creating action plans
- Effective management relies on proper planning, which can be operational or strategic.
- Strategic plans are developed by senior management, assessing the organization's strengths and weaknesses, and allocating resources to achieve organizational goals.
- Operational plans, on the other hand, are made at middle and lower-level management.

Difference between Strategic and Operational planning

Strategic Planning	Operational planning
Strategic planning shapes the organisation and its resources.	Operational planning deals with current deployment of resources.
Strategic planning assesses the impact of environmental variables.	Operational planning develops tactics rather than strategy.
Strategic planning takes a holistic view of the organisation.	Operational planning projects current operations into the future.
Strategic planning develops overall objectives and strategies.	Operational planning makes modifications to the business functions but not fundamental changes.
Strategic planning is concerned with the long-term success of the organisation.	Operational planning is concerned with the short-term success of the organisation.
Strategic planning is a senior management responsibility.	Operational planning is the responsibility of functional managers.

Strategic Planning

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

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

Dealing with Strategic uncertainty

- Strategic uncertainty, a term referring to the unpredictability of future events, is influenced by various external factors such as market changes, technology, competition, and regulation.
- This uncertainty can significantly impact an organization's strategy and goals
- Dealing with strategic uncertainty can be challenging and organizations need to have the flexibility, resilience, and agility to quickly respond to changes in the environment and minimize its impact.

Flexibility

Organizations can build flexibility into their strategies to quickly adapt to changes in the environment.

Diversification
Diversifying the organization's product portfolio, markets, and customer base can reduce the impact of strategic uncertainty.

Monitoring and Scenario Planning
Organizations can regularly monitor key indicators of change and conduct scenario planning to understand how different future scenarios might impact their strategies.

Building Resilience
Organizations can invest in building internal resilience, such as strengthening their operational processes, increasing their financial flexibility, and improving their risk management capabilities.

Collaboration and Partnerships
Collaborating with other organizations, suppliers, customers, and partners can help organizations pool resources, share risk, and gain access to new markets and technologies.

Impact of uncertainty
- Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential businesses.
- A trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty.
- The impact of a strategic uncertainty will depend on the importance of the impacted SBU to a firm. Some SBUs are more important than others. The importance of established SBUs may be indicated by their associated sales, profits, or costs. However, such measures might need to be supplemented for potential growth as present sales, profits, or costs may not reflect the true value.

How a company can deal with strategic uncertainty? **(RTP, May 2018, NA) (MTP 1, Nov 2018, 3 Marks)**
Differentiate between Strategic Planning and Operational Planning. **(RTP, May 2022, NA) (MTP2, Nov 2023, NA)**
Strategic planning is an important constituent of strategic management. In the light of the same explain the meaning of strategic planning. Also outline the characteristics of strategic planning. **(SA, May 2023, 5 Marks)**

Strategy Implementation
Meaning of Strategy implementation
- Strategy implementation concerns the ***managerial exercise*** of putting a freshly chosen strategy into ***action***.
- ***Converting*** Strategic decisions Into Action
- Allocation of ***resources*** as per the new course of action
- Adapting the organisation's ***structure*** to handle the new activities.
- ***Training*** personnel and devising appropriate systems.
- Many managers fail to distinguish between strategy formulation and strategy implementation. Yet, it is crucial to realize the ***difference*** between the two because they both require very different skills.
- A company will be successful only when the strategy ***formulation*** is ***sound*** and the ***implementation*** is ***excellent***.

Difference between strategy formulation and strategy implementation

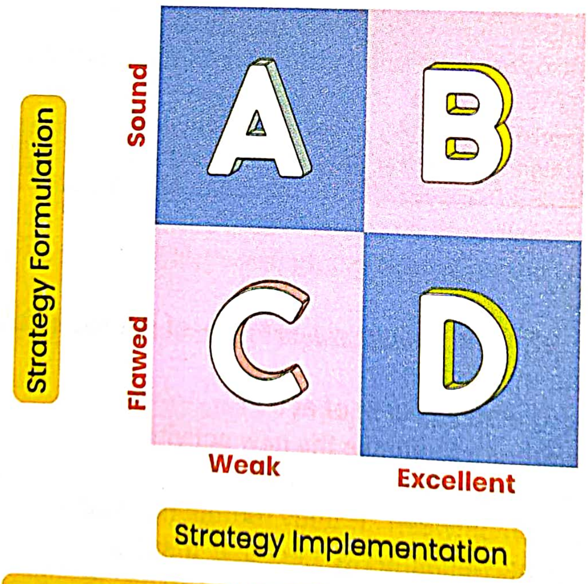
Strategy formulation	Strategy implementation
Strategy Formulation includes ***planning*** and ***decision***-making involved in developing organization's strategic goals and plans.	Strategy Implementation involves all those means related to ***executing*** the strategic plans.
Strategy Formulation is placing the forces ***before the***	Strategy Implementation is managing forces ***during the***

action.	action.
An Entrepreneurial Activity based on strategic decision-making.	An Administrative Task based on strategic and operational decisions.
Emphasizes on effectiveness.	Emphasizes on efficiency.
Primarily an intellectual and rational process.	Primarily an operational process.
Requires co-ordination among few individuals at the top level.	Requires co-ordination among many individuals at the middle and lower levels
Requires a great deal of initiative, logical skills, conceptual intuitive and analytical skills.	Requires specific motivational and leadership traits.
Strategic Formulation precedes Strategy Implementation.	Strategy Implementation follows Strategy Formulation.

Linkage between Strategic Formulation and Implementation

- The division of strategic management into different phases is only for the purpose of orderly study.
- In real life, the formulation and implementation processes are intertwined.
- Two types of linkages exist between these two phases of strategic management.
  - The forward linkages deal with the impact of strategy formulation on strategy implementation.
  - For instance, the
    - organizational structure has to undergo a change in the light of the requirements of the modified or new strategy.
    - The style of leadership has to be adapted to the needs of the modified or new strategies.
- The backward linkages are concerned with the impact in the opposite direction. While dealing with strategic choice, remember that past strategic actions also determine the choice of strategy.

Strategy formulation and Implementation Matrix



Strategy Formulation and Implementation Matrix

Organizational success is a function of good strategy and proper implementation. An organisation will be successful only when the strategy formulation is sound and implementation is excellent.

Square A

- The situation where a company apparently has formulated a very competitive strategy, but is showing difficulties in implementing it successfully.

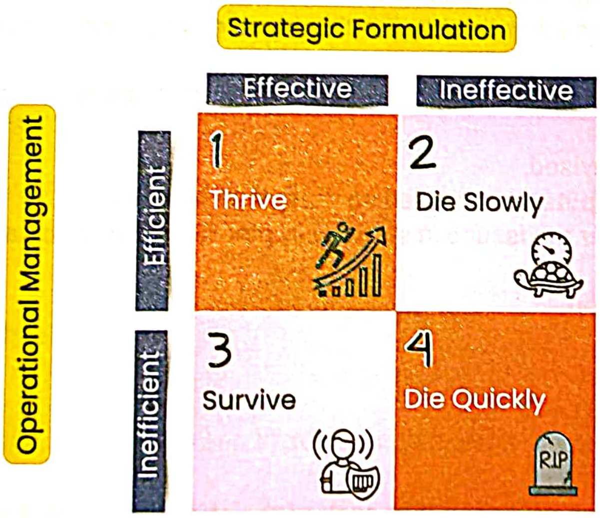
- This can be due to various factors,
    - such as the lack of experience (e.g. for startups),
    - the lack of resources,
    - missing leadership and so on.
- In such a situation, the company will aim at moving from square A to square B, given they realize their implementation difficulties.

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

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

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

Principal Combination of Effectiveness and Efficiency



Principal Combination of efficency & effectiveness

- An organization that finds itself in cell 1
    - is ***well placed*** and ***thrives***,
    - since it is achieving what it aspires to achieve with an efficient output/ input ratio.
- An organization
    - in cell 2 or 4 is ***doomed***,
    - unless it can establish some strategic direction.
    - The particular point to note is that ***cell 2 is a worse place*** to be than is cell 3
        - since, in the ***latter***,

- the **strategic direction** is **present** to ensure effectiveness
- even if too much input is being used to generate outputs.
- To be **effective** is to **survive** whereas **to be efficient is not in itself either necessary or sufficient for survival**.

In crude terms, to be effective is to do the right thing, while to be efficient is to do the thing in the right manner.

Successful strategy formulation does not guarantee successful strategy implementation.

It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)

Issues in Strategy Implementation

The implementation tasks put to test the strategists' abilities to allocate resources, design organisational structure, formulate functional policies, and to provide strategic leadership.

Issues in implementation covers everything included in the discipline of management studies

The different issues involved in strategy implementation are

- Strategies, by themselves, do not lead to action. Strategies, therefore, have to be activated through implementation. Strategies are intent statements and through implementation organisations try to realise that intent.
- Strategies should lead to plans. (will give milestones, and how strategies will be converted into actions)
- Plans result in different kinds of programmes. (Goals, Policy, Procedures, Rules to convert plan into action)
- Programmes lead to the formulation of projects. (Specific Programme with predetermined time schedule and costs)
  - It requires separate allocation of funds, and is to be completed within a set time schedule.
  - Projects create the needed infrastructure for the day-to-day operations in an organization.
- After that is provided,
  - it would be essential to see that a proper organizational structure is designed,
  - systems are installed,
  - functional policies are devised,
  - and various behavioral inputs are provided so that plans may work.
- Given below in sequential manner the issues in strategy implementation which are to be considered:
  - ***Project*** implementation
  - ***Procedural*** implementation
  - ***Resource*** allocation
  - ***Structural*** implementation
  - ***Functional*** implementation
  - ***Behavioral*** implementation

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

Divisional and functional managers be involved as much as possible in the strategy-formulation process. strategists should also be involved as much as possible in strategy-implementation activities.

Management issues central to strategy implementation include
- establishing annual **objectives**,
- devising **policies**,
- allocating **resources**,
- altering an existing organizational **structure**,
- restructuring and **reengineering**,

- revising reward and ***incentive*** plans,
- minimizing ***resistance*** to ***change***,
- developing a strategy supportive ***culture***,
- adapting production/operations ***processes***,
- developing an effective ***human resource*** system and,
- if necessary, ***downsizing***.

Management changes are necessarily more extensive when strategies to be implemented move a firm in a new direction.

HQ is a service company. Two years back the company hired a reputed management consultant to formulate its strategy. The consultant recommended an aggressive expansion plan. Now in an internal review meeting the company finds that many of the suggestions are not even fully considered. Which part of strategic management process is missing in HQ? **(RTP, May 2019, NA) (MTP2, May 2019, 5 Marks)**

Distinguish between Strategy Formulation and Strategy Implementation.
(SA, May 2019, 3 Marks) (MTP1, May 2021, 5 Marks) (MTP1, Nov 2021, 5 Marks) (MTP1, May 2023, 5 Marks)

"Strategy formulation and strategy implementation are intertwined and linked with each other." Elucidate this statement with suitable arguments. **(SA, May 2022, 5 Marks)**

ABC Ltd. is a shoe manufacturing company. The strategic manager of ABC ltd. is Ms. Suman. Ms. Suman hired the best designers she could find online for her ethnic shoe brand but later she found that the designers were better at leather designs. Identify and explain linkage in the given situation as she had to change her strategy basis the actual resources she had? **(MTP1, Nov 2022, 5 Marks) (RTP, Nov 2023, NA)**

Strategic Change

Meaning of Strategic Change

Strategic Change
- Changing the ***existing*** strategies
- and bringing out ***new*** strategies
- ***because*** of environmental changes
- is called strategic change.

Strategic change is a ***complex*** process and it involves a ***corporate strategy focused*** on
- new ***markets***,
- ***products***,
- ***services*** and
- new ***ways*** of doing business.

Steps for initiating Change

For initiating strategic change, three steps can be identified as under

Recognize the need for change

- The first step is to ***diagnose*** which ***parts*** of the present corporate ***culture*** are strategy ***supportive*** and which are not.
- This basically means going for ***environmental scanning***
  - involving ***appraisal*** of both internal and external capabilities, can be done through ***SWOT*** analysis and
  - then ***identify*** the problems/improvement areas and determine scope for change.

Create a shared vision to manage change

- Objectives and vision of individuals and organizations should ***coincide***. (They must not be in ***conflict*** with each other), can be done only if they follow a shared vision.
- Strategy implementers have to ***convince*** all those concerned that the ***change*** in business culture is ***not superficial*** or cosmetic.

- The actions taken have to be fully indicative of management's seriousness to new strategic initiatives and associated changes.

Institutionalize the change (Action stage / Implementation / Attitude / MRA after effects / Discrepancy)

- This is basically an action stage
  - which requires implementation of a changed strategy.
- Creating and sustaining a different attitude Towards change.
- Besides, change process must be regularly
  - monitored,
  - review,
  - analyze
    - the after-effects of change.
  - Any discrepancy or deviation
    - should be appropriately addressed.

Kurt Lewin model of Change

- The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies.
- To make the change lasting, Kurt Lewin proposed 3 phases of the change process for moving the organization from the present to the future.
- These stages are unfreezing, changing and refreezing.

Unfreezing the situation

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

Changing to New situation

Once the unfreezing process has been completed and the members of the organization recognize the need for change and have been fully prepared to accept such change, their behavior patterns need to be redefined. **H.C. *Kellman has proposed three methods*** for reassigning new patterns of behavior. These are compliance, identification and internalization.

Compliance

It is achieved by strictly enforcing the reward and punishment strategy for good or bad behavior. Fear of punishment, actual punishment or actual reward seems to change behavior for the better.

Identification

Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behavior they would like to adopt and try to become like them.

Internalization

Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment. They have been given freedom to learn and adopt new behavior in order to succeed in the new set of circumstances.

Refreezing

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

Define Refreezing in Kurt Lewin's change process. **(RTP, May 2018, NA)**

Define strategic change. Explain the various stages/phases of change process as propounded by Kurt Lewin. **(MTP1, May 2018, 7 Marks)**

OR

Write a short note on strategic change and explain the process of strategic change. **(SA, Nov 2018, 7 Marks)**

OR

What is strategic change. Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies. **(ICAI Study Material)**

Dr. Raman has been running a nursing home for about twenty two years now, and has gained enormous name for his benevolence in Balram district of Chhattisgarh. Recently, his daughter, Dr. Radhika completed her medicine degree from the United States of America and returned to her hometown to be a part of her father's practice. She has been given the baton to promote modern medicine and retain the local skilled youth in their practice. However, their nursing home's skilled youth has been more inclined to E-Commerce employment opportunities. Dr. Radhika has taken it as a challenge to imbibe the very essence of service in them, by being employed as nurses and caretakers of the ill. This shall be very crucial in growing the practice as desired. Which of the following phases of Kurt Lewin's Model of Change will be most challenging for Dr. Radhika to strategically positioning her father's nursing home? **(MTP1, May 2020, 5 Marks)**

Discuss three methods for reassigning new patterns of behavior as proposed by H.C. Kellman. **(RTP, Nov 2020, NA)**

Connect Group was one of the leading makers of the mobile handsets till a few years ago and which went at the bottom of the heap. Connect Group didn't adapt to the current market trends which eventually lead to its downfall. Which would have helped Connect Group to change, adapt and survive? Explain the steps to initiate the change. **(RTP, Nov 2021, NA)**

OR

Explain the steps for initiating strategic change. **(MTP1, May 2022, 5 Marks)**

OR

Changes in environmental forces often require businesses to make modifications in their existing strategies. In view of the same explain the areas to be focused while considering concept of strategic change. Also explain the steps to initiate strategic change process. **(SA, May 2023, 5 Marks)**

Glassware Ltd. is about to go through a significant restructuring. The strategic change involves moving from a decentralized to a centralized structure. This will help Glassware avoid duplication of support activities and lower its costs.
The management have held the first staff briefing in which they went to great lengths to explain that the change was necessary to equip the company to face future competitive challenges. Identify and explain the current stage of Glassware Ltd. from the Lewin's three-stage model of change? **(RTP, May 2022, NA)**

XYZ Ltd. is an automobile company that offers diversified products for all customer segments. Due to COVID-19, the changes took place in the economy forced the company to change its strategy. Being the CEO of the company, what stages will you follow for developing and executing the new strategy? **(SA, May 2022, 5 Marks)**

Digital transformation

- Digital transformation involves using ***digital technologies*** to improve company procedures, goods, or services.
- Change management helps organizations plan, prepare, and execute these changes, overcoming obstacles and maximizing investment returns. It helps organizations overcome challenges and achieve success.
- Change management in the digital transition consists of four essential elements:

  - Defining the **goals** and **objectives** of the transformation
  - Assessing the **current** state of the organization and identifying gaps
  - Creating a **roadmap** for change that outlines the steps needed to reach the desired state
  - **Implementing** and managing the change at every level of the organization
- To navigate a digital transformation successfully, each of these elements is necessary. But what matters most is how they collaborate to support organisations in achieving their goals.

How does change management work?

- Change management is a process or set of tools and best practices used to manage changes in an organization.
- It assists in making changes in a safe and regulated manner, reducing the possibility of detrimental effects on the company.
- Any sort of organisation, including enterprises, organisations, governmental bodies, and even families, can utilise change management to manage changes.
- Change management models and methods come in a wide variety, but they all have key things in common.
- These include creating a clear vision for the change, involving stakeholders in the process, coming up with a plan for putting the change into action, and keeping an eye on the results.
- Although change management is frequently viewed as a difficult and complicated process, it is vital for ensuring that digital transformation projects are successful.

The role of change management in digital transformation

- Digital transformation is a process of organizational change that enables an organization to use technology to create new value for customers, employees, and other stakeholders. A good change management strategy is necessary for a successful digital transformation.
- Change management is the process of **planning**, **implementing**, and **monitoring** changes in an organization. It provides organizations in achieving their objectives while reducing risks and disruptions. For any organisation undergoing a digital transition, change management is crucial.
- A properly implemented change management strategy can help an organization to:
  - Specify the parameters and **goals** of the digital transformation
  - Determine which **procedures** and tools need to be modified.
  - Make a **plan** for implementing the improvements.
  - Involve **staff** members and parties involved in the transformation process.
  - Track **progress** and make required course **corrections**
- A crucial component of any digital transition is change management. Why it gains more importance in the current times is because organizations can improve their chances of success by approaching change in a proactive and organized manner.

Change Management Strategies for Digital Transformation

Change management is crucial for successful transformation in businesses, as they must adapt to new technology, market opportunities, and customer preferences. The five best practices for managing change in small and medium-sized businesses include:

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.

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.

Reduce disruption

Employee perceptions of what is required or desirable change can differ by department, rank, or performance history. It's crucial to lessen how changes affect staff. The introduction of new tactics or technologies intended to improve management and corporate operations causes employee concern about change. It is possible to reduce workplace disruption by:

a. Getting the word out early and preparing for some interruption.
b. Giving staff members the knowledge and tools, they need to adjust to change.
c. Creating an environment that encourages transformation or change.
d. Empowering change agents to provide context and clarity for changes, such as project managers or team leaders.
e. Ensuring that IT department is informed of changes in technology or infrastructure and is prepared to support them.

Encourage communication

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

Recognize that change is the norm, not the exception

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

How to manage change during digital transformation?

Digital transformation can be challenging and overwhelming for organizations, but effective change management is crucial for navigating this transition.

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.

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.

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.

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.

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

In conclusion, effective completion of digital transformation projects requires meticulous planning and effective change management, ensuring successful integration and integration of new digital systems.

Organisational Framework
- The McKinsey 7S Model refers to a tool that analyzes a company's "organizational design."
- The goal of the model is to depict how effectiveness can be achieved in an organization through the interactions of hard and soft elements.
- The McKinsey 7s Model focuses on how the "Soft Ss" and "Hard Ss" elements are interrelated, suggesting that modifying one aspect might have a ripple effect on the other elements in order to maintain an effective balance.

Hard elements

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

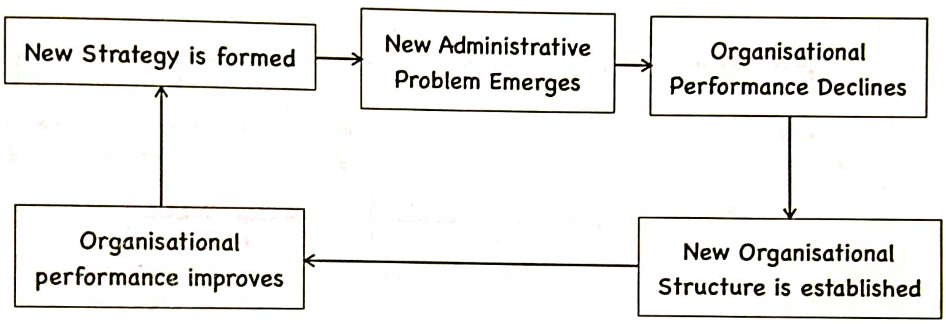
Soft elements

The Soft elements are difficult to define as they are more governed by the culture. But these soft elements are equally important in determining an organization's success as well as growth in the industry. The following are the soft elements in this model;
- **Shared Values:** The core values which get reflected within the organizational culture or influence the code of ethics of the management.
- **Style:** This depicts the leadership style and how it influences the strategic decisions of the organisation. It also revolves around people motivation and organizational delivery of goals.
- **Staff:** The talent pool of the organisation.
- **Skills:** The core competencies or the key skills of the employees play a vital role in defining the organizational success.

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

Organization Structure
Basics
- An organisational structure defines
  - how activities such as
    - Task allocation
    - Coordination

        - <u>*Supervision*</u>
    - Are directed towards the achievement of organisational aims
- A competitive advantage is created when there is a proper match between strategy and structure. Effective strategic leaders seek to develop an organizational structure and accompanying controls that are superior to those of their competitors.
- Changes in strategy often require changes in the way an organization is structured for two major reasons
    - Structure largely dictates how objectives and policies will be established.
        - If an organisation is structured geographically objectives and policies will be established accordingly
    - Structure dictates how resources will be allocated.
        - If an organization's structure is based on customer groups, then resources will be allocated in that manner. Similarly, if an organization's structure is set up along functional business lines, then resources are allocated by functional areas.
- Structures are designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reason for being, it will be difficult to design an effective structure. Strategic developments may require allocation of resources and there may be a need for adapting the organisation's structure to handle new activities as well as training personnel and devising appropriate systems.
- Structure undeniably can and does influence strategy.



Chandler's Strategy-Structure Relationship

Simple Structure

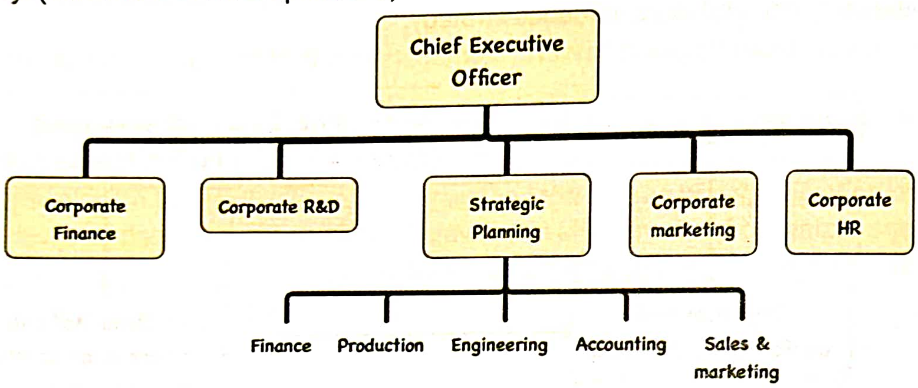
- Simple organizational structure is most appropriate for companies that follow
    - a <u>*single-business strategy*</u> and
    - offer a line of products
    - in a <u>*single geographic*</u> market.
- Appropriate for companies implementing
    - <u>*focused cost*</u> leadership or
    - <u>*focused differentiation*</u> strategies.
- A simple structure is an organizational form in which
    - the owner-manager makes all major decisions directly and
    - monitors all activities,
    - while the company's staff merely serves as an executor.
- Some key features/Characteristics
    - <u>*Little specialization*</u> of tasks,
    - few rules,
    - little formalization,
    - <u>*unsophisticated information systems*</u> and
    - <u>*direct involvement*</u> of <u>*owner-manager*</u> in all phases of day-to-day operations
- In the simple structure,
    - communication is frequent and direct, and
    - new products tend to be introduced to the market quickly,

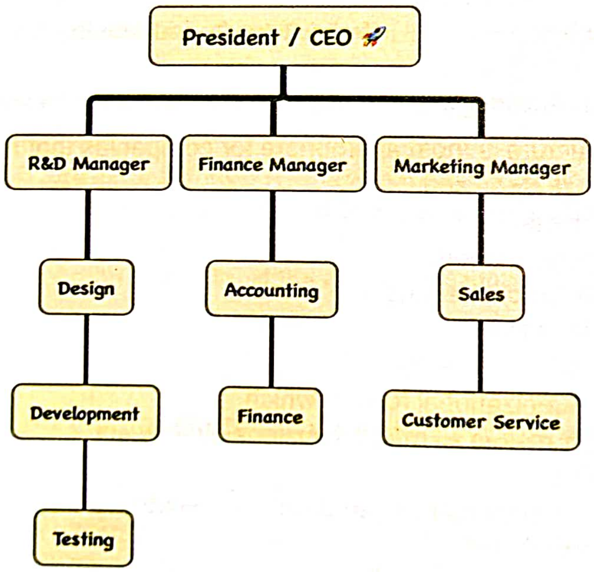
- which can result in a competitive advantage.

- However, if they are successful, small companies grow larger.
- As a result of this growth, the company outgrows the simple structure.
- To coordinate more complex organizational functions, companies should abandon the simple structure in favour of the functional structure.
- The functional structure is used by larger companies and by companies with ***low*** levels of ***diversification***.

Functional Structure

- The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources.
- A functional structure groups tasks and activities by business function.
- Functional structure is widely used because of its simplicity and ***low cost***.
- Disadvantages of a functional structure are that it ***forces accountability*** to the top, minimizes career development opportunities, etc.
- Most large companies abandoned the functional structure in favor of decentralization and improved accountability. (Difficult to add new products)





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***

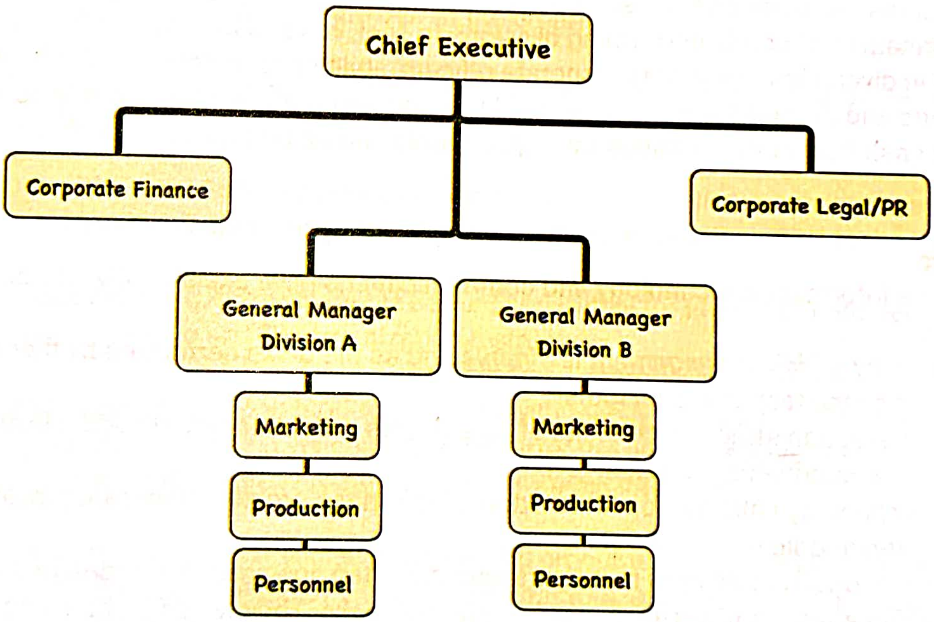
- With a divisional structure, functional activities are performed both centrally and in each division separately
- Also, this type of structure is widely used when an organization offers only a few products or services, when an organization's products or services differ substantially
- A major difference between functional and divisional structure is that functional departments are not accountable for profits.

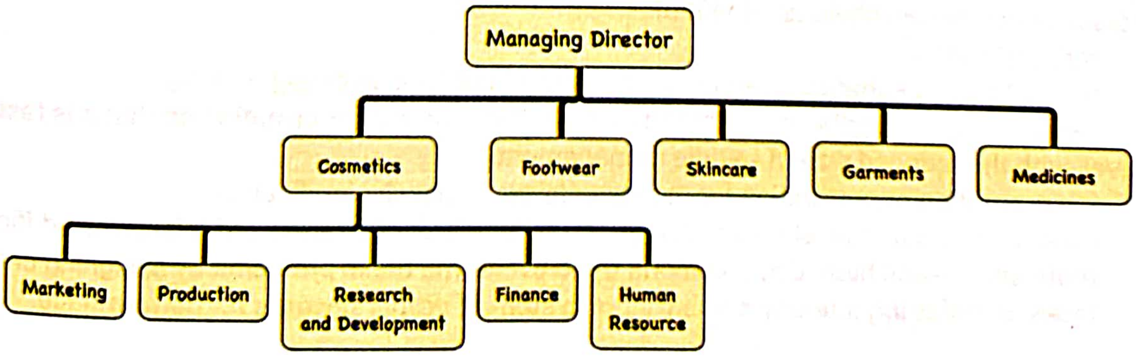
Advantages of Divisional Structure

- **Accountability is clear:** Divisional managers can be held responsible for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances and thus their morale is high.
- **Other advantages:** It creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products to be added easily.

Disadvantages of Divisional Structure

- **Higher cost:** Owing to following reasons:
  - requires qualified functional specialist at different divisions and needed centrally (at headquarters);
  - It requires an elaborate, headquarters –driven control system.
- **Conflicts between divisional managers:** Certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, company-wide practices.



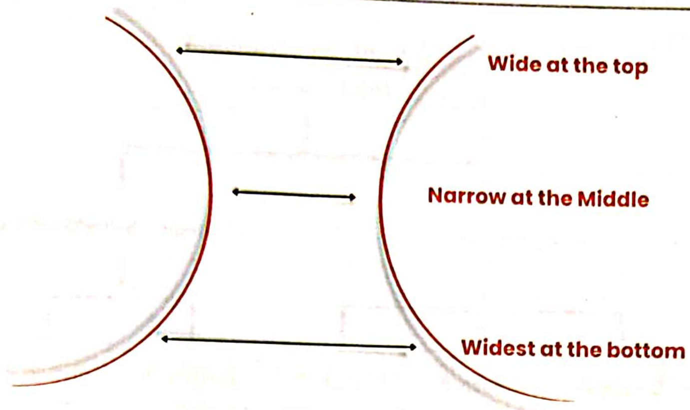


Multidivisional Structure

- Multidivisional (M-form) structure 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 or M-form structure was developed in the 1920s, in response to coordination and control-related problems in large firms.
- Functional departments often had difficulty dealing with distinct product lines and markets, especially in coordinating conflicting priorities among the products. Costs were not allocated to individual products, so it was not possible to assess an individual product's profit contribution. Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible). Top managers became over-involved in solving short-run problems (such as coordination, communications, conflict resolution) and neglected long-term strategic issues.
- Multidivisional structure calls for:
    - Creating separate divisions, each representing a distinct business
    - Each division would house its functional hierarchy;
    - Division managers would be given responsibility for managing day-to-day operations;
    - A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions.
- 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.
- An increase in diversification strains corporate officers' abilities to understand the operations of all of its business units and divisions are then managed by financial controls, which enable corporate officers to manage the cash flow of the divisions through budgets and an emphasis on profits from distinct businesses.

Hourglass Structure

- In recent years information technology and communications have significantly altered the functioning of organizations.
- The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools.
- Hourglass organization structure consists of three layers with constricted middle layer. The structure has a short and narrow middle-management level.
- Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers.
- Contrary to traditional middle level managers who are often specialist, the managers in the hourglass structure are generalists and perform a wide variety of tasks. They would be handling cross-functional issues emanating such as those from marketing, finance or production
- 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.
    - Continuity at same level may bring monotony and lack of interest and it becomes difficult to keep the motivation levels high. Organizations try to overcome these problems by assigning challenging tasks, transferring laterally and having a system of proper rewards for performance.



Strategic Business Unit (SBU) Structure

- The concept is relevant to multi-product, multi-business enterprises.
- An SBU is a grouping of related businesses.
- As per this concept, a multi-business enterprise groups its multitude of businesses into a few distinct business units in a scientific way.
- The purpose is to provide ***effective strategic planning*** treatment to each one of its products/businesses.

The three most important characteristics of a SBU are:

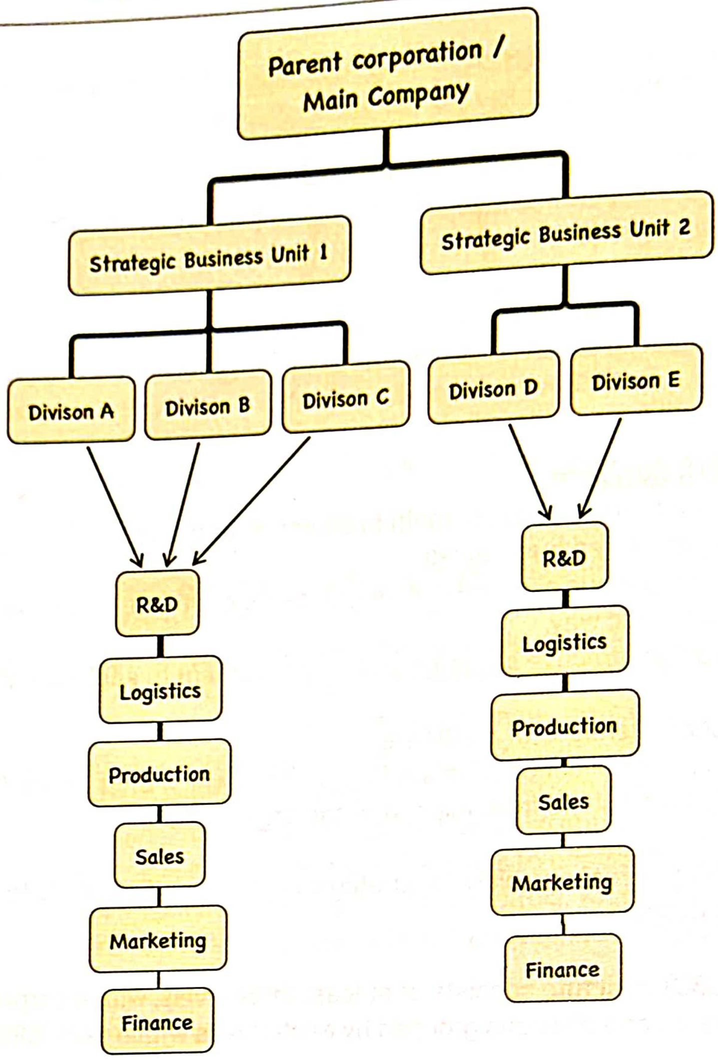
- It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand alone from the rest of the organization.
- It has its ***own*** set of ***competitors***.
- It has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

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

SBU is a part of a large business organization that is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure.

It is separate part of large business serving product markets with readily identifiable competitors. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Very large organisations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units. SBU structure becomes imperative in an organisation with increase in number, size and diversity.



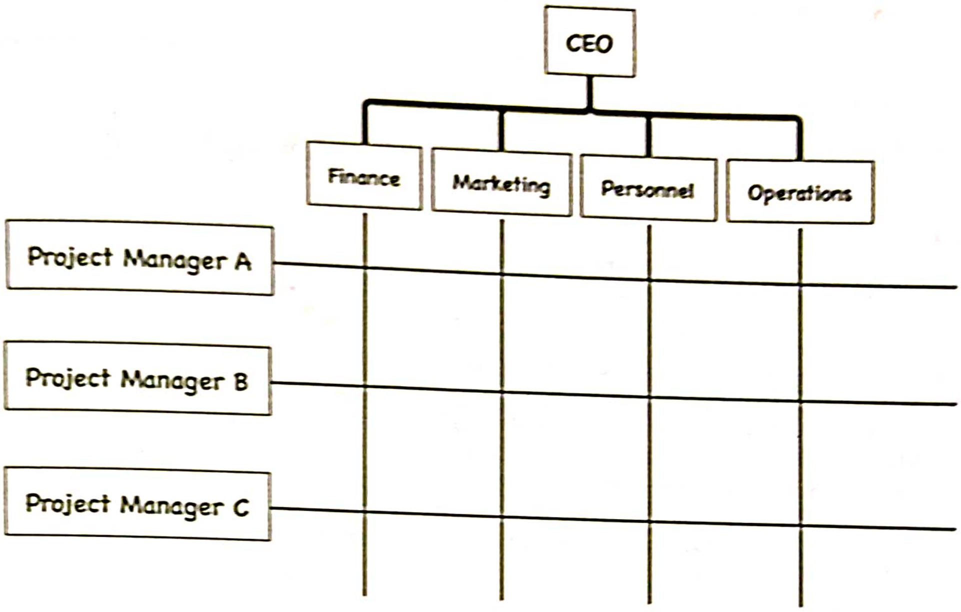
Importance of SBU / Advantages of SBU Structure

- Establishing **coordination** between divisions having common strategic interests.
- Facilitates strategic **management** and **control** on large and diverse organizations.
- Fixes **accountabilities** at the level of distinct business units.
- Helps **allocate** corporate **resources** to areas with greatest growth opportunities.
- Makes the task of strategic **review** by top executives more objective and more effective.
- Allows **strategic planning** to be done at the most relevant level within the total enterprise.

Matrix Structure

- In matrix structure, functional and product forms are combined simultaneously at the same level of the organization. Employees have two superiors, a product / project manager and a functional manager. The "home" department - that is, engineering, manufacturing, or marketing - is usually functional and is reasonably permanent. People from these functional units are often assigned temporarily to one or more product units or Projects.
- The product units / projects are usually temporary and act like divisions.
- The matrix structure may be very appropriate when organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms like strategic business units, are right for the implementation of their strategies.
- Matrix structure was developed to combine the stability of the functional structure with flexibility of the product form. It is very useful when the external environment (especially its technological and market aspects) is very complex and changeable.
- It is widely **used in many industries** like construction, healthcare, research & defense.

- Can be used where many projects are running at a time and people are required for limited time period



Davis and Lawrence Three Phase Development

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

1. **Cross-functional task forces**
    - Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.
2. **Product/brand management**
    - If the cross-functional task forces become more permanent, the project manager becomes a product or brand manager and a second phase begins.
    - In this arrangement, function is still the primary organizational structure, but product or brand managers act as the integrators of semi permanent products or brands.
3. **Mature matrix**
    - The third and final phase of matrix development involves a true dual-authority structure.
    - Both the functional and product structures are permanent.
    - All employees are connected to both a vertical functional superior and a horizontal product manager. Functional and product managers have equal authority and must work well together to resolve disagreements over resources and priorities.

However, the matrix structure is not very popular because of difficulties in implementation and trouble in managing.

Network Structure

- Network structure is a newer and somewhat more radical organizational design. The network structure could be termed a "*non-structure*" as it virtually *eliminates in-house business functions* and outsource many of them. An organization organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.
- The network structure becomes most useful when the environment of a firm is *unstable* and is expected to remain so.
- Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time.
- Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration.
- The network structure provides organization with increased *flexibility* and adaptability to cope with rapid technological change and shifting pattern of international trade and competition.

- Companies like Nike; Reebok uses the network structure in their operations functions by subcontracting manufacturing to other companies at low cost.

Explain the concept of Network structure. **(RTP, May 2018, NA)**

OR

'A network structure is suited to unstable environment.' Elucidate this statement **(RTP, May 2022, NA)**

OR

Due to reoccurrence of various variants of Corona virus, LMN Ltd. is facing unstable environment and it has started unbundling and disintegrating its activities. It also started relying on outside vendors for performing these activities. Identify the organisation structure LMN Ltd. is shifting to. Under what circumstances this structure becomes useful? **(SA, May 2022, 5 Marks)**

OR

'Samar Electronics Limited' is engaged in manufacturing and sale of consumer electronic goods globally. The company is rated 'best' in 'customer satisfaction survey' for 5 years in a row. The spread of the current pandemic has affected the internal and external environment of the company adversely. Such adverse impact has negatively impacted the revenue of the company. In order to survive and retain the business, the company decided to outsource a major part of its organisational activities, like manufacturing, distribution channels, after sales service etc. Now the organisation's business functions are scattered worldwide with a small headquarter connected to independent business units digitally.What type of organisational structure is the company transitioning into? List the basic features of this new structure and the disadvantages that the company may face in future in this new structural arrangement. **(RTP, Nov 2022, NA)**

Write short note on Characteristics of strategic business unit (SBU). **(MTP2, May 2018, 3 Marks)**

OR

Explain strategic business unit (SBUs). **(RTP, Nov 2018, NA)**

OR

What is a strategic business unit? What are its advantages? **(RTP, May 2020, NA) (MTP1, May 2020, 5 Marks) (ICAI Study Material)**

OR

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. **(SA, Jan 2021, 5 Marks) (ICAI Study Material)**

OR

How the 'Strategic Business Unit (SBU), structure becomes imperative in an organization with increase in number, size and diversity of divisions? **(RTP, May 2022, NA)**

OR

Write short note on Strategic Business Unit (SBU). **(SA, Nov 2022, 5 Marks)**

Davis and Lawrence have proposed three distinct phases to develop matrix structure. Explain. **(RTP, Nov 2018, NA)**

Manoj started his telecom business in 2010. Over next five years, he gradually hired fifty people for various activities such as to keep the accounts, administration, sell his products in the market, create more customers, provide after sales service, coordinate with vendors. Draw the organization structure Manoj should implement in his organization and name it. **(SA, Nov 2018, 5 Marks) (ICAI Study Material)**

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? **(RTP, Nov 2020, NA) (MTP1, Nov 2020, 5 Marks)**

Elucidate Matrix Structure **(SA, Jan 2021, 5 Marks)**

OR

Write a short note on Matrix structure. **(RTP, Nov 2023, NA)**

Discuss the concept of Multi Divisional Structure. **(RTP, May 2019, NA) (MTP 2, May 2019, 5 Marks)**

OR

Bunch Pvt Ltd is dealing in multiproduct like electronics and FMCG and are having outlets in different cities and markets across India. Due to scale of operation, it is having technical difficulty in dealing with distinct product line and markets especially in coordination and control related problems. Identify and suggest an ideal organizational structure for Bunch Pvt Ltd in resolving the problem?
(RTP, Nov 2021, NA) (MTP1, May 2023, 5 Marks)

What is an Hourglass structure? How is it beneficial for an organization? **(SA, May 2019, 3 Marks) (ICAI Study Material)**

OR

Discuss the concept of Hourglass Structure **(RTP, Nov 2019, NA)**

OR

Maadhyam, a hearing aid manufacturer recently introduced an AI based management tool in its organization which are having the qualities and capabilities of managing teams across functions. 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 organisation and assists in quick decision making. The skewed middle level managers now perform cross -functional duties. What could be their new organizational structure post implementation of AI based management tool? How can this structure benefit the organization?
(MTP1, Nov 2021, 5 Marks)

A chennai based fast moving consumer goods (FMCG) major CDE Ltd. recently announced restructuring its business. The company indicated that the business would be split into mainly four different streams- FMCG, E-commerce, Retail and Reasearch and development. The company management has decided that these four units will operate as separate businesses. The top corporate officer shall delegate responsibilty for day to day operations and business unit strategy to the concerned managers.

Identify the organization structure that CDE Ltd. has planned to implement. Discuss any four attributes and the benefits the firm may derive by using this organization structure. **(SA, Dec 2021, 5 Marks)**

What do you understand by functional structure? **(MTP1, May 2022, 5 Marks)**

Draw 'Divisional Structure' with the help of a diagram. Also, give advantages and disadvantages of this structure in brief.
(SA, Nov 2020, 5 Marks) (ICAI Study Material)

Organization Culture

Meaning of Corporate Culture

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

Culture as a strength

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

Culture as a weakness

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

Role / Importance of Culture

- A culture grounded in values, practices, and behavioral norms that match what is needed for good strategy execution helps energize people throughout the organization to do their jobs in a strategy-supportive manner.
- A culture where creativity, embracing change, and challenging the status quo are pervasive is very conducive to successful execution of a product innovation and technological leadership strategy.

- A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of ***decision-making*** responsibility is very conducive to successful execution of a strategy of delivering superior customer service.
- A strong strategy-supportive culture nurtures and ***motivates*** people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy.
- All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish.
- Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to success.

Corporate culture in Different Business Organisation

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

Changing a problem culture

- Changing problem cultures is very difficult because of deeply held values and habits. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instil ones that are more strategy -supportive.
    - The first step is to ***diagnose*** which facets of the ***present culture*** are strategy supportive and which are not.
    - Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
    - The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.
- Management through communication has to create a ***shared vision*** to manage changes. The menu of culture-changing actions includes revising policies and procedures, altering incentive compensation, shifting budgetary allocations for substantial resources to new strategy projects, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

Creating a strong fit between strategy and culture

It is the responsibility of those who develop a company's strategy to choose one that is compatible with the "sacred" or unchangeable elements of its culture. Once a strategy has been chosen, it is the job of those who are tasked with implementing it to change any aspects of the culture that may hinder its effective execution.

Perils of Strategy-Culture Conflict

- When a company's culture is not aligned with its strategic goals, the culture must be changed as quickly as possible.
- This assumes that the problem lies with the culture rather than the strategy itself.
- In some cases, changing the strategy to better fit the culture may be necessary, but more often it involves changing the aspects of the culture that are misaligned with the strategy.
- The more deeply rooted these mismatched cultural elements are, the more difficult it will be to implement new or different strategies until better alignment is achieved.
- A significant and prolonged conflict between a company's culture and its strategy can weaken and even undermine efforts to make the strategy successful.

Write short note on Importance of corporate culture. **(RTP, Nov 2018, NA)**

Describe corporate culture. Elaborate the statement "Culture is a strength that can also be a weakness".**(SA, Nov 2018, 5 Marks)**

OR

How can a corporate culture be both strength and weakness of an organisation? **(MTP1, May 2019, 5 Marks) (MTP1, Nov 2019, 5 Marks)**

Jupiter Electronics Ltd. is known for its ability to come out with path-breaking products. Though the work environment at Jupiters is relaxed and casual, yet, there is a very strong commitment to deadlines. The employees believe in "work hard play hard" ethic. The organisation has moved away from formal and hierarchical set up to a more results-driven approach. Employees are committed to strategies and work towards achieving them. They guard innovations, maintain confidentiality and secrecy in their working. They are closely related to values, practices, and norms of organisations.What aspects of an organization that are being discussed? Explain. **(RTP, Nov 2019, NA)**

How can management communicate that it is committed to creating a new culture assuming that the old culture was problematic and not aligned with the company strategy? **(RTP, May 2021, NA) (MTP1, May 2021, 5 Marks)**

OR

You are appointed as a manager of a company where you find that the company's culture is out of sync with what is needed for strategic success. Discuss steps you would initiate to tackle the problem. **(MTP2, Nov 2022, 5 Marks) (RTP, May 2023, NA)**

A strategy-supportive culture promotes good strategy execution.' - Explain. **(RTP, Nov 2022, NA) (MTP2, Nov 2023, 5 Marks)**

Strategic Leadership

- Strategic leadership
  - sets the firms direction by developing and communicating vision of future,
  - formulate strategies in the light of internal and external environment,
  - brings about changes required to implement strategies and inspire the staff to contribute to strategy execution.
- Leadership word is used to address
  - The group of people leading the organisation
  - The activity of leading

Leadership role for good strategy execution

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

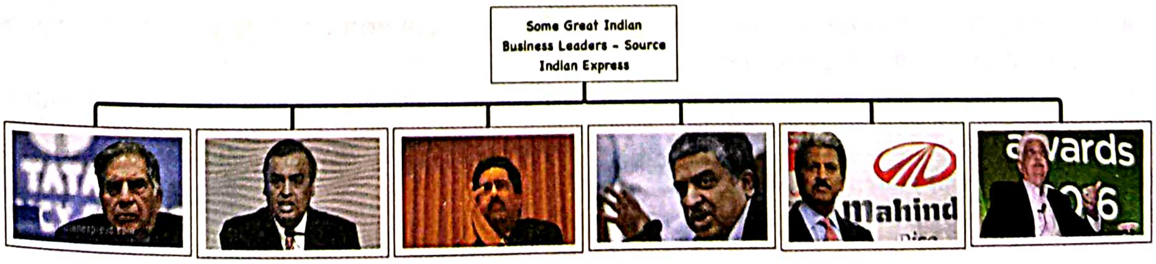
i) Staying on ***top*** of what is happening, closely ***monitoring*** progress, ***solving*** out issues, and ***learning*** what ***obstacles*** lie in the path of good execution.

ii) Promoting a culture of ***esprit de corps*** that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.

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

iv) Exercising ***ethical*** 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.



Responsibilities of 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.

Two approaches to leadership style?

- Strategic leadership is the
  - ability of influencing others
  - to voluntarily make decisions
  - that enhance prospects for the organization's long-term success
  - while maintaining short-term financial stability.
- It includes
  - determining the firm's strategic direction,
  - aligning the firm's strategy with its culture,
  - communicating high ethical standards, and
  - Initiating changes in the firm's strategy, when necessary.
- Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspires organization members to move in that direction.
- Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities.

Approaches to leadership

Transformational Leadership

- Uses charisma and enthusiasm to inspire people to exert them for the good of the organization.
- Transformational leadership style may be appropriate in
  - turbulent environments, in industries at the very start or end of their life-cycles,
  - in poorly performing organizations when there is a need to inspire a company to embrace major changes.
- Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction.
- They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance.
- Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Transactional Leadership

- Transactional leadership style focus more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation.
- Transactional leaders try to build on the existing culture and enhance current practices.
- Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status.
- They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non- achievement.
- Transactional leadership style may be appropriate in settled environment, in growing or mature industries, and in organizations that are performing well.
- The style is better suited in persuading people to work efficiently and run operations smoothly.

Distinguish between Transformational and transactional leadership
(RTP, May 2018, NA) (SA, Nov 2019, 5 Marks) (MTP1, Nov 2021, 5 Marks)

OR

How can you differentiate between transformational and transactional leaders?
(RTP, Nov 2020, NA) (RTP, Nov 2021, NA) (ICAI Study Material)

OR

Distinguish between Transformational Leadership Style and Transactional Leadership Style. **(MTP1, Nov 2022, 5 Marks)**

Suresh Sinha has been recently appointed as the head of a strategic business unit of a large multiproduct company. Advise Mr Sinha about the leadership role to be played by him in execution of strategy.

(RTP, May 2018, NA) (MTP2, May 2021, 5 Marks) (MTP2, May 2022, 5 Marks) (ICAI Study Material)

OR

Discuss the leadership roles played by the managers in pushing for good strategy execution. **(SA, May 2019, 5 Marks)**

OR

You have been appointed as a Chief Executive Officer (CEO) in a company which is facing many difficulties in proper execution of its strategy. Explain the leadership roles which you should play in pushing for good strategy execution

(SA, Nov 2022, 5 Marks) (SA, May 2023, 5 Marks)

Ritchwick, located in Mumbai, Maharashtra, is owner of a popular brand of ready to eat snack 'Trendy'. Yash, his son after completing Chartered Accountancy started assisting his father in running of business. The approaches followed by father and son in management were very different. While Ritchwick preferred to use authority and having a formal system of defining goals and motivation with explicit rewards and punishments, Yash believed in involving employees and generating enthusiasm to inspire people to deliver in the organization. Discuss the leadership style of Ritchwick and Yash.

(MTP2, May 2018, 5 Marks) (RTP, May 2019, NA) (MTP2, May 2022, 5 marks) (ICAI Study Material)

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

Analyse the leadership style followed by Ram and Shyam. **(SA, May 2018, 5 Marks) (RTP, May 2021, NA)**

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 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. **(RTP, Nov 2018, NA) (RTP, May 2020, NA) (ICAI Study Material)**

OR

Mathew & Sons Ltd. is a diversified business entity having business operations across the globe. Presently, Mr. Mathew is the CEO of Mathew & Sons Ltd. He is going to retire in next 4 months, so he has decided to change the company's leadership and hand over the pedals to his elder son Marshal. Marshal is a highly educated with an engineering degree from USA. However, being very young he is not clear about his role and responsibilities. In your view, what are the responsibilities of Marshal as CEO of Mathew & Sons Ltd.

(MTP1, Nov 2018, 5 Marks)

Anshuman was a CEO at a struggling company. Despite the challenges, he believed in the potential of his team and was determined to turn the company around. He started by communicating his vision to his employees. He encouraged them to think outside the box, take risks and be creative. He also invested in training programs to help employees develop new skills. He regularly recognized and rewarded employees for their hard work, which increased their job satisfaction and commitment. As a result, the company began to see positive changes. Identify and discuss the leadership style adopted by Anshuman? **(RTP, May 2023, NA)**

Ramesh and Suresh own software development firms ACS Ltd. and BDS Ltd. Ramesh and Suresh pitch their business in international markets and win international contracts . Ramesh has fifty software engineers in his team. Suresh, on the other hand, leads a team of forty software engineers. Every project has a specific and fixed timeline. Individual projects are assigned to project heads by Ramesh and Suresh. Ramesh adheres to strict rules and procedures. He met with the project heads to get an update but exchanged ideas occasionally. He set a weekly target of forty hours to complete the assigned goal or task. The group that met the deadline and completed the task received a 10% bonus. The group that was unable to meet the deadline was penalized. The group that did not meet the deadline was penalized with unpaid extra working hours to complete the task. Suresh, unlike Ramesh, did not priorities a structured approach to work. Suresh inspired the project managers by making them feel like leaders rather than just participants. Suresh's empowering attitude helped to alig n individual goals with group goals. Ramesh established routines to maximize his team efficiency. Suresh, on the other hand, used positive reinforcement to maximize his team efficiency.

a) Identify the leadership style employed by Ramesh and Suresh.
b) What are the conditions/situations that make such leadership styles more appropriate?
c) Discuss the characteristics of the leadership styles.

(SA, May 2023, 5 Marks)

Organisational Control

As per ICAI study material they have named the topic as strategic control

Meaning of 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 the ***performance*** of ***planned*** activities and to achieve the predetermined goals and results.
- Control helps in ***measuring*** the progress
- It also helps in ensuring ***translation*** of plans into results, optimum utilisation of resources and safeguarding of assets.
- The controlling function involves
    - ***monitoring*** the activity and
    - ***measuring*** results against pre-established standards,
    - ***analysing*** and
    - ***Correcting*** deviations or taking actions as necessary and maintaining/adapting the system.

Elements of Organisational Control

The process of control has the following elements:

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

Primarily there are three types of organizational control, viz.,

- Operational control,
- Management control and
- Strategic control.

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

Management Control

- When compared with operational control, management control is ***more inclusive*** and ***more aggregative***.
- The basic purpose of management control is the achievement of ***enterprise*** goals –

- short range and
- long range
- in a most effective and efficient manner.

- The term management control is defined by Robert Anthony as
  - 'The process by which managers assure the resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives.

Strategic Control

Strategic Control focuses on the dual questions of whether

- The strategy is being implemented as planned (जैसे प्लान किया था वैसे Implement भी हुआ); and
- The results produced by the strategy are those intended. (जैसे रिजल्ट सोचे थे वो अचीव भी हुए)

Types of Strategic Control: There are four types of strategic control as follows:

Premise control

- A strategy is formed on the basis of certain assumptions or premises about the organizational environment.
- Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
- It primarily involves monitoring two types of factors.
  - Environmental factors such as economic, technological, social and regulatory.
  - Industry factors such as competitors, suppliers, substitutes.

Strategic surveillance

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

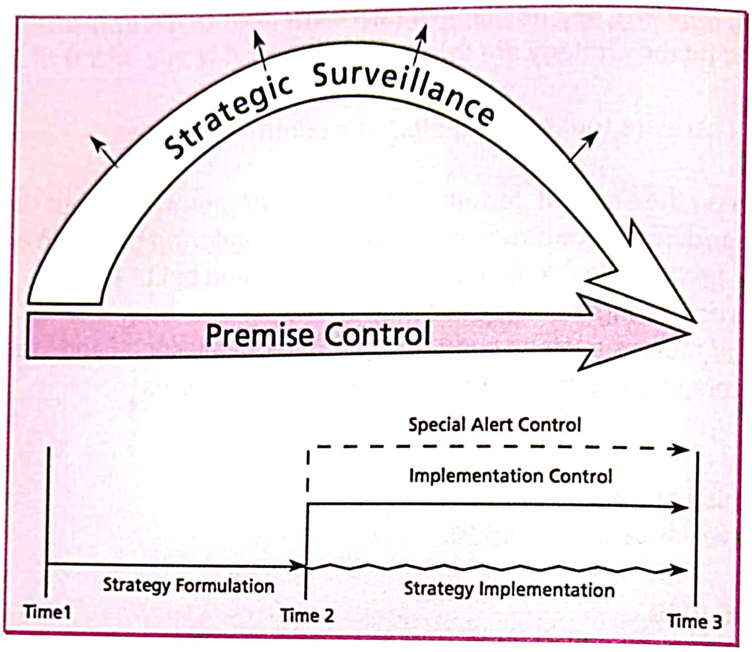
Special alert control

- At times unexpected events may force organizations to reconsider their strategy.
- Keeping an eye on such unexpected events is known as special alert control.
- 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.
  - Organizations to cope up with these eventualities, form crisis management teams to handle the situation.

Implementation control

- Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps.
- Implementation control is directed towards
  - assessing the need for changes in the overall strategy

- in light of ***unfolding events*** and ***results*** associated with incremental steps and actions.
- Strategic implementation control ***continuously monitors the basic direction*** of the strategy.
- The two forms of implementation control
  - ***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.
  - ***Milestone Reviews***: All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It assesses the need to continue or refocus the direction of an organization.



Source - https://brainmass.com/file/298420/Strategic_Management_Ch13.pdf - Date of link 5/6/2021

Write short note on Implementation control. **(RTP, May 2018, NA) (MTP2, Nov 2018, 5 Marks) (MTP1, May 2019, 5 Marks)**

OR

What is implementation control? Discuss its basic forms.
(RTP, Nov 2019, NA) (RTP, Nov 2021, NA) (RTP, Nov 2023, NA) (ICAI Study Material)

Explain different types of strategic control in brief. **(SA, May 2018, 3 Marks)**

OR

What is strategic control? Briefly explain the different types of strategic control?
(RTP, May 2020, NA) (RTP, Nov 2022, NA) (MTP2, Nov 2023, 5 Marks) (ICAI Study Material)

OR

Why is Strategic Control important for organizations? Discuss briefly 4 types of strategic control that can be implemented to achieve the enterprise goals **(RTP, May 2021, NA)**

OR

"Strategic control focuses on implementation and results produced by the strategy". Explain strategic control along with its different types.
(SA, May 2023, 5 Marks)

Differentiate between Operational control and management control.
(RTP, Nov 2018, NA) (MTP2, Nov 2022, 5 Marks) (MTP1, Nov 2023, 5 Marks)

OR

What are the differences between Operational control and management control. **(ICAI Study Material)**

Explain premise control. **(RTP, Nov 2018, NA)**

What is strategic control? Kindly explain the statement that "premise control is a tool for systematic and continuous monitoring of the environment". **(SA, Nov 2020, 5 Marks)**

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. **(SA, Jan 2021, 5 Marks) (MTP2, May 2022, 5 marks) (ICAI Study Material)**

Strategic Performance Measures

- Executives can enhance their performance by utilizing strategic performance measurement (SPM), which enhances their understanding of an organization's strategic goals and provides a continuous system for tracking progress, promoting open communication and productivity.
- Strategic performance measures are ***key indicators*** that organizations use to track the ***effectiveness*** of their strategies and make informed decisions about resource allocation. The measures provide a ***snapshot*** of the organization's performance, enabling leaders to assess whether their strategies are aligned with their goals and objectives and to make necessary adjustments to improve their performance.
- Key performance measures and indicators must be created, selected, combined into reports and acted upon so that strategy implementation can have ***tangible outcomes***. Firstly, there needs to be a clear cause and effect relationship between the indicators and strategic outcomes. Secondly, KPIs need to be carefully chosen because they will influence the behaviour of people within the organisation. However, managers should be aware of paralysis by over analysis.

Managing the political aspects of implementing a strategy

- People involved in the planning process for the implementation of a strategy may be affected by two sets of forces. The "***rational***" forces of openness, communication, and self-analysis can exist on the one hand. On the other hand, there could be ***political*** forces concerned with preserving empires and fostering internal rivalry that urge knowledge retention, selective communication, and caution.
- When these two techniques conflict, the politically acceptable aspects may end up in the explicit strategy while the sensitive elements may form an unspoken plan that contains the implicit strategy.

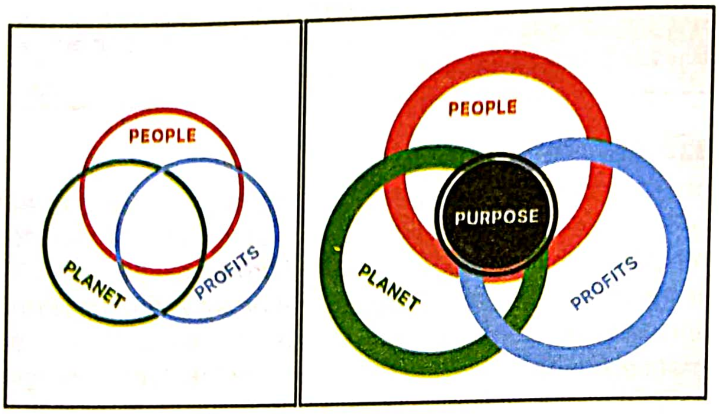
Types of Strategic Performance Measures

There are various types of strategic performance measures, including:

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

Toward More Holistic Measures of Strategic Performance

Development of management thought and practice has persistently pushed the frontier of strategic performance beyond financial metrics. Thus, the Triple Bottom Line framework (TBL) emphasises People and Planetary Concerns besides profitability or Economic Prosperity alone. The Quadruple Bottomline adds the 4th P to add a spiritual dimension named



The Importance of Strategic Performance Measures

Strategic performance measures are essential for organizations for several reasons:

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

Choosing the Right Strategic Performance Measures

Organizations should choose strategic performance measures that are aligned with their goals and objectives and that provide relevant and actionable information. In selecting the right measures, organizations should consider the following factors:

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

These measures provide a way for organizations to assess the success of their strategies, identify areas for improvement, and make informed decisions about how to allocate resources and adjust their strategies to achieve their desired outcomes. Effective strategic performance measures should be relevant, meaningful, and easy to understand and should be regularly reviewed and updated to ensure their continued alignment with the organization's goals and objectives.