CA INTERMEDIATE
NEW SYLLABUS

STRATEGIC MANAGEMENT

Let's Make Learning Easy

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CA Intermediate- New Syllabus

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1.Introduction to Strategic Management

- The term "Startegic management" refers to the managerial process of developing a Startegic Vision, Setting objectives, crafting a startegy, implementing and evaluating the strategy and initiating corrective adjustments were deemed appropriate.
- The term management is used in two senses –
  a) With reference to a key group in a oraganisation in charge of its affairs. Management is the chief organ which brings together and integrating the disorganised resources of manpowe, money, material and technology which are then combined to fucntion as a whole.
  b) Also it used with reference to set of interelated functions and processes carried out by the management of an organisation. These function include Planning, Oraganising, Directing, Staffing and control.

Objective of Strategic management

- To Create competitive advantage so that company can outperform the competitors in all aspect.
- To Guide the company Successfully through all changes in the environment

1. Strategic management involves developing the company's Vision, Environmental scanning, Strategy formulation, Strategy implementation and evaluation and control.

Strategy is partly proactive and partly reactive.

- Proactive strategy - planned strategy whereas
  Reactive strategy - adaptive reaction to changing circumstances.
- In proactive strategy, organizations will analyse possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner.
- However, in reality no company can forecast both internal and external environment exactly.
- Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.
- There can be significant deviations between what was visualized and what actually happens.
- Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

Importance/ Benefits of Strategic management

- It gives a direction to the company to move ahead. It helps define goals and mission. It helps management to define realistic objective and goals.
- Strategic management helps organisation to be proactive instead of reactive.
- Strategic management seeks to prepare organisation to face the future and act as a pathfinder to various business opportunities.

- Strategic management helps to enhance the longevity of business. Due to competition and dynamic environment, it may be challenging for organisation to survive in the long run.
- It helps the Organisation to develop certain Core competencies and competitive advantages.
- It Provides the framework for all major decisions of an enterprise such as decision on businesses, products, markets, investments and organisational structure.

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Limitations of Strategic management { MT- CCCC }

1. Environment is Highly complex and turbulent.
   a. It is difficult to understand the complex environment and exactly pinpoint how it will shape up in future. As the organisation has to deal with Suppliers, Customers, governments and other external factors.
   b. E.g- huge push from govt. to buy Two-Wheeler Electric Vehicles, but customers are reluctant to purchase EV's due to safety concerns.
2. Strategic management is a time-consuming process.
   a. Organisations spend a lot of time in preparing, communicating the strategies that may Delay/Obstruct daily operations and negatively impact the routine business.
   b. If too much time is spent on planning and formulating, then it might not be as fruitful.
3. Strategic management is a costly process.
   a. Strategic management adds a lot of expenses to an organization. Strategic Management requires experts, and these experts are costly resources.
   b. Experts required for analysis of external and internal environments, devise strategies and properly implement.
4. In a competitive scenario, it is difficult to clearly estimate the competitive responses to a firm's strategies.
   a. It is quite difficult to guess the strategic planning of competitors because most of these decisions are taken within closed doors by the top management.

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

1. 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".

2. "Why they want to do" represents strategic intent of the firm. Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.
3. It implies the purposes, which an organisation Wants to achieve. Strategic intent gives an idea of what the organisation desires to attain in future. It answers the question what the organisation strives or stands for?
4. Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.
5. Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level.

VISION - "where we want to go"

- Vision implies the blueprint of the company's future position
- It describes where the organisation wants to land.
- It depicts the organisation's aspirations and provides a glimpse of what the organisation would like to become in future.
- Top management's views about the company's direction and the product customer-market-technology focus constitute the strategic vision for the company.

  Example-
  - Disney - Its Vision is "To make People Happy"
  - HDFC Bank Ltd. - one of the largest banks in India has clearly defined its Vision of being a world class Indian bank.
  - Google – Its vision is "To provide access to the world's information in one click".
- **Essentials of Strategic Vision**
  - The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
  - Forming a strategic vision is an exercise in intelligent entrepreneurship.
  - A well-articulated strategic vision creates enthusiasm among the members of the organisation.
  - The best-worded vision statement clearly illuminates the direction in which organisation is headed.

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MISSION - "What Business are we in and What we do"

- Mission delineates the firm's business, its goals and ways to reach the goals.
- It explains the reason for the existence of the firm in the society.

- Mission statements broadly describe an organisations present capability, customer focus, activities, and business makeup.
- **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 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.
  - To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.
  - To serve as a focal point for those who can identify with the organisation's purpose and direction.

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- **Following points are useful while writing a mission of a company?**
  - Good mission statements are – unique to the organisation for which they are developed.
  - One of the roles of a mission statement is to give the organisation its own special identity, business emphasis and path for development.
  - 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

Goals And Objectives

- Goals - are the end results, that the organisation attempts to achieve
  Objectives – are time-based measurable targets, which help in the accomplishment of goals.
- 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.
- The Objectives are more specific and translate the goals to both long term and short-term perspective.
- **Objectives must possess the following characteristics.**
  - They should provide the basis for strategic decision-making.
  - They should be concrete and specific.
  - They should be measurable and controllable.
  - They should be challenging.

- They should be related to a time frame.
- Different objectives should correlate with each other.
- Objectives should be set within the constraints of organisational resources and external environment.
- They should provide standards for performance appraisal.

➢ 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. Which Strategies? - 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.

➢ Clearly established objectives offer many benefits.

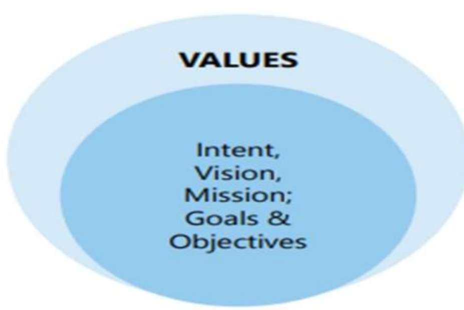
a. direction, allow synergy
b. aid in evaluation
c. establish priorities
d. reduce uncertainty
e. minimize conflicts
f. stimulate exertion
g. aid in both the allocation of resources
h. design of jobs

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.

➢ Employees prefer to work with employers whose values resonate with them, majority of consumers say that they would prefer to buy products and services from companies that have a purpose that reflects their own value and belief system.



- Values remain the centre/core of Vision, Mission, Goals and putting all them to action. Vision is followed by Mission, followed by Goals and finally executing via real actions.
- A company's value sets the tone for how the people of think and behave, especially in situations of dilemma.

Intent vs Values - Which is a broader concept?
Sandeep, a human resource manager thinks that Intent is a bigger concept than Values. Is he right? Sandeep is not right, as Values and Intent are two different concepts. Intent is the purpose of doing business while values are the principles that guide decision making of business. They both go hand in hand, while the intent is sometimes driven by values. So values more or so is wider than Intent.

Strategic Levels in Organisation

- 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

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
    a. to oversee the development of strategies for the whole organization.
    b. defining the mission and goals of the organization,
    c. determining what businesses it should be in
    d. allocating resources among the different businesses
    e. formulating and implementing strategies that span individual businesses,
    f. providing leadership for the organization as a whole
- 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.

Business level of management

- Firstly understand the meaning of Strategic Business Units (SBU).
    a) An organization is divided into a number of segments that work together to bring a particular product or service to the market.
    b) If a company provides several and/or different kinds of products or services, it often

duplicates these functions and creates a series of self-contained divisions (each of which contain its own set of functions) to manage each different product or service.

c) Such divisions are called Strategic Business Units (SBUs)

- A strategic business unit is a self-contained division (with its own functions - For example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market.
- The principal general manager at the business level, or the business-level manager, is the head of the division.
- The 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.

Difference Between Corporate Level and Business Level Managers –

- corporate level managers provide an organisation level view of strategy and what they want to achieve, but it is on the business level managers to ensure that or their particular business, the one they are responsible for.
- 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 of management

- 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
- Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfill the strategic objectives set by business- and corporate-level general managers.
- MCQ - Formulation of strategies and their implementation in a strategic management process is undertaken by- Corporate level managers, business level managers and functional level managers.

New Concepts –

Top-Down Approach - when decisions are made solely by leadership at the top i.e. corporate level of management

Bottom-up approach - gives all teams across the levels a voice in decision making.

Network of relationship between the three levels

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.
- Business level manager → 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

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

Matrix Relationship

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

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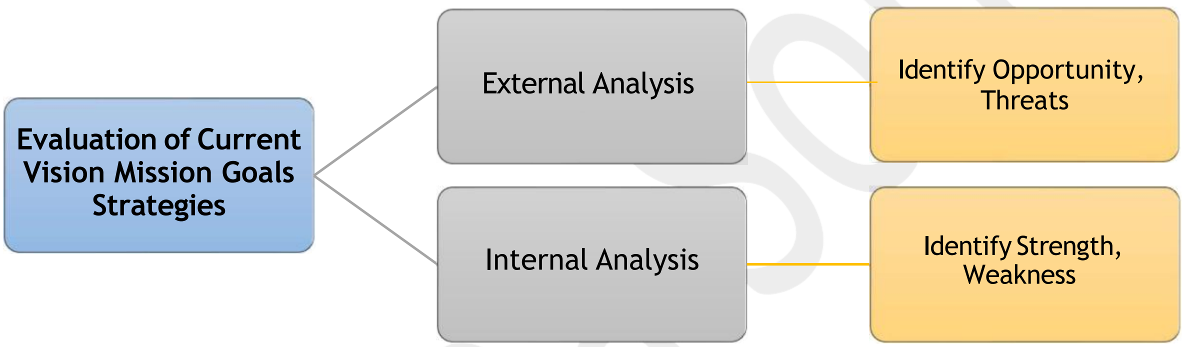
2. Strategic Analysis – External Environment

- The process of strategic formulation begins with a strategic analysis.
- Its objective is to compile information about internal and external environments in order to assess possibilities while formulating strategic objectives and contemplating strategic activities.
- The factors that are outside the business operations are typically referred to as organisational / business environment.

Strategic Analysis

- The strategic analysis is a component of business planning that has a methodical approach, makes the right resource investments and may assist business in achieving its objective.
- The two important situational considerations are:
  - a) Industry and competitive conditions
  - b) Organisation's own capabilities, resources, internal strengths, weaknesses and market position.



- Accurate diagnosis of the business situation is necessary for managerial preparation to decide on a sound long-term direction, setting appropriate objectives, and crafting a winning strategy.
- The strategic analysis is a continuous process having two major limitations.
  - a) It gives a lot of innovative options but doesn't tell which one to pick. The options can be overlapping, confusing or difficult to implement.
  - b) It can be time consuming at times, hurting overall organisational functioning and strain other efficient innovations such as developing a new product or a service.

Issues to consider for Strategic Analysis

1) Strategy evolves over a period of time :
   - A current strategy is the result of several little choices taken over a protracted period of time.
   - Management radically changes strategy when they try to speed up the organisational growth.
   - Strategy is influenced by experience, but it has to be updated when the results become clear. It therefore evolves with time.
2) Balance of external and internal factors:
   - Strategic analysis necessitates creating a reasonable balance between many and conflicting challenges, because a perfect fit between them is unlikely.

- Management must consider opportunities, influences, and constraints while taking a strategic decision.
- Concurrently, there exist constraints that limit the option, such as the presence of a large opponent.These limiting constraints will have various implications on the kind, degree, volume, and significance of the impact.

3) Risk :

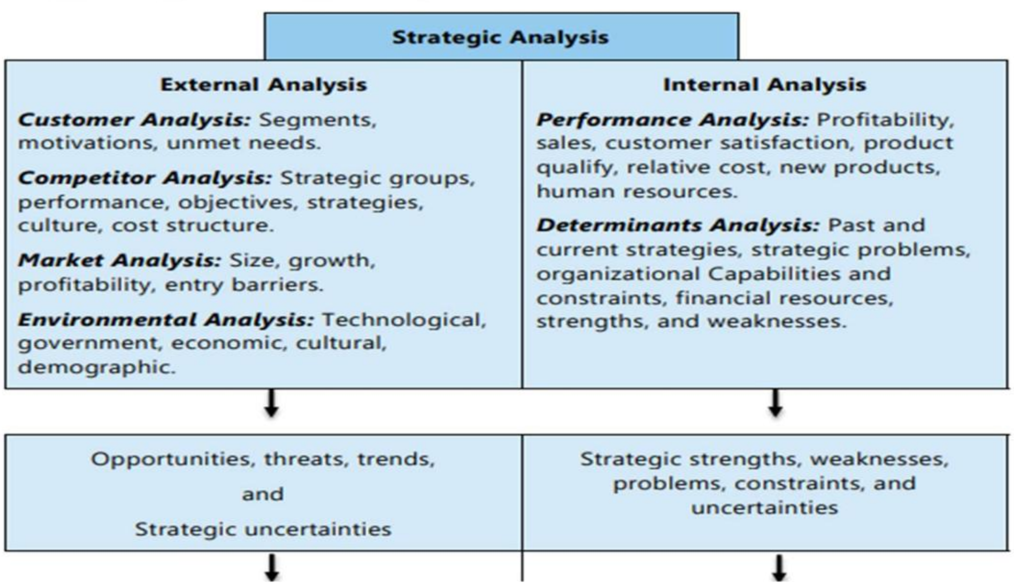
- Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degrees.
- An important aspect of strategic analysis is to identify potential imbalances or risks and assess their consequences
- A broad classification of the strategic risk –
    a. External risk - is on account of inconsistencies between strategies and the forces in the environment.
    b. Internal risk - occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis.

Time

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

Figure: Strategic Risk

➢ The below given broad list of analysis that a business undertakes to plan a strategy covers both aspects of external analysis and internal analysis. An analysis helps identify opportunities, threats, strengths and weaknesses.



Strategy Identification & Selection

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

Figure: Framework of Strategic Analysis

- It is evident that industries differ widely in their economic characteristics, competitive situations, and future profit prospects.
- The economic character of industries varies according to such factors
  - overall size and market growth rate,
  - pace of technological change,
  - geographic boundaries of the market
  - number and size of buyers and sellers,
  - whether sellers' products are virtually identical or highly differentiated,
  - extent to which costs are affected by economies of scale,
  - types of distribution channels used to access buyers,
  - marketing opportunities,
  - disposable income of prospective buyers,
  - government support.
- In some industries competition focuses on who has the best price,
  while in others competition is focuses on
  → quality and reliability (as in monitors for PCs and laptops) or
  → product features and performance (as in mobile phones) or
  → quick service and convenience. (as in online shopping and fast foods) or
  → brand reputation (as in laundry detergents and soft drinks).
- Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits, while even weak companies in attractive industries can achieve good performance.

Strategy and Business Environment

- The term "business environment" refers to all external factors, influences, or situations that in some way affect business decisions, plans, and operations.
- Organisational success is determined by its business environment, and even more from its relationship with it.
- The business environment is highly dynamic and continuously evolving.
- Strategists provide an interface between the organizational abilities and the opportunities and challenges it must deal within the larger environment.
- It helps the business in the following ways:

  1) 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 and tells what new products the competitors are bringing in the market to attract consumers.

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

3) Continuous Learning :
- Managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the business.

4) Image Building :
- Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate.
- Understanding the needs of the environment help to showcase that the business is aware and responsive to the needs.
- It creates a positive image and helps to win over the competitors.

5) Meeting Competition :
- It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly.

➢ Strategic analysis covering internal and external environment is highly relevant and important for the strategists in organisations in order to achieve competitive advantage and ensure high performance for survival and growth.

➢ Strategic decisions are significant aspects of business management and are essential for the success and continued existence.

➢ Two crucial aspects for the success include
  → the function of top management &
  → the method of formulating strategic decisions.

Micro and Macro Environment

Micro Environment

➢ Micro-environment is related to small area or immediate periphery of an organization.

➢ It influences an organization regularly and directly.

➢ Micro environment consists of suppliers, consumers, marketing intermediaries, competitors, etc

➢ These are specific to the said business or firm and affect its working on a direct and regular basis.

➢ Within the micro environment in which a firm operates we need to address the following issues –
- 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.

Macro Environment

- The macro environment is the portion of the outside world that significantly affects how an organisation operates but is typically much beyond its direct control and influence.

Elements of Macro Environment

- The environment includes factors outside the firm which can lead to opportunities for, or threats to the firm.
- Although, there are many factors, the most important of the factors are socio-economic, technological, supplier, competitors, and government.
- The external environment of an organisation is made up of all the individuals, teams, organisations, agencies, and factors that it routinely interacts with when conducting business

1) 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.
   - It includes factors
     - ✓ race,
     - ✓ age,
     - ✓ income,
     - ✓ education,
     - ✓ possession of assets,
     - ✓ house ownership,
     - ✓ job position, region, and the degree of education.
   - Marketers and other social scientists regularly divide up populations based on their demographic makeup.
   - India has relatively younger population as compared to many other countries.
   - Business Organizations need to study different demographic factors & need to address following issues:
     - → What demographic trends will affect the market size of the industry?
     - → What demographic trends represent opportunities or threats?
   - Identifying the implications of changing demographic characteristics or population components for a future strategic competitiveness is often a challenge for strategists.

2) Socio-Cultural Environment :
   - It considers factors such as
     - ✓ Social traditions,
     - ✓ Values and beliefs,
     - ✓ Level and standards of literacy,
     - ✓ the ethical standards
     - ✓ State of society,
     - ✓ Extent of social stratification, conflict, cohesiveness and so forth.

- It is not the characteristics of the population, but it is the behaviour and the belief system of that population (*different from demographics*).
- The core beliefs of a particular society tend to be persistent.
- It is difficult for a business to change these core values, which becomes a determinant of its functioning.
- 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.

3) Economic Environment :

- It refers to the overall economic situation around the business and include conditions at the regional, national and global levels.
- It encompasses conditions in the markets 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.
- Economic factors for Business (All these factors generally tell the state of the economy)
  - ✓ gross domestic product, per capita income
  - ✓ markets for goods and services,
  - ✓ availability of capital,
  - ✓ foreign exchange reserve,
  - ✓ growth of foreign trade,
  - ✓ strength of capital market,
  - ✓ interest rates,
  - ✓ disposable income, unemployment, inflation, etc.

4) Political-Legal Environment :

- It 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.
- A business has to consider the changes in the regulatory framework and their impact on the business.
- Taxes and duties are other critical areas that may be affect the business.
- Businesses prefer to operate in a country where there is a sound legal system.
- Businesses must understand the relevant laws relating to companies, competition, intellectual property, foreign exchange, labour and so on.

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

5) Technological Environment :

- Technology and business are linked and are interdependent on one another.
- With use of technology, many organisations are able to reduce paperwork, schedule payments more efficiently, are able to coordinate inventories efficiently and effectively.
- This helps to reduce costs of companies, and shrink time and distance, thus, capturing a competitive advantage for the company.
- The technological advancements might require a business to drastically alter its operational, production and marketing strategies
- Technology is leading to many new business opportunities as well as making obsolete most of the existing business products and services.
- 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

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

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

- It Provides a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy.
- PESTEL analysis is frequently used to assess the business environment in which a firm operates.
- Political, economic, social, and technological (PEST) analysis was the name given to the framework in the past; however, later, the framework has been expanded to include environmental and legal factors as well.
- The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

The Key Factors

1) Political factors :

- These are how and to what extent the government intervenes in the economy and the activities of business firms.

- Political factors may also influence goods and services which the government wants to provide and does not want to be provided.
- Governments have great influence on the health, education and infrastructure of a nation.

2) Economic factors :
- have major impacts on how businesses operate and take decisions.
- For E.g –
  → Interest rates affect a firm's cost of capital.
  → Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy
- The money supply, inflation, credit flow, per capita income, growth rates have a bearing on the business decisions.

3) Social factors :
- Affect the demand for a company's products and how that company operates.

4) Technological factors :
- can determine
  → barriers to entry,
  → minimum efficient production level &
  → Influence outsourcing decisions.
- Technological shifts can affect costs, quality, and lead to innovation.

5) Legal factors :
- Affect how a company operates, its costs, and the demand for its products, ease of business.

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

Example -

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	❖ Replacement technology/solutions ❖ Maturity of technology ❖ Manufacturing maturity and Capacity

❖ Consumer buying patterns ♦ Ethnic/religio factors ❖ Media views and perception	❖ 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

- 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 is essentially the same for global firms as it is for domestic firms;
- International processes are much more complicated due to additional variables and linkages.
- One method for an organization to identify opportunities and threats in global markets is by scanning the external environment.

Three Characteristics of a global business (MT – Common)

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

b) Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.

c) The units respond to some common strategy. Besides, its managers and shareholders are also based in different nations.

Internatinal Development

- International development is expensive and challenging.
- The steps in international strategic planning are as follows –

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

Why do Business go global – Reason are as follows

- It is basic need of every organisation. Often finding opportunities in the other parts of the globe, organisations extend their businesses and globalise their operations.

- There is rapid shrinking of time and distance across the globe, because of faster communication, speedier transportation, growing financial flow of funds and rapid technological changes.
- Companies often set up overseas plants to reduce high transportation costs.
- Need for reliable or cheaper source of raw-materials, cheap labour, etc.
- It is being realised that the domestic markets are no longer adequate. competition may not exist in some of the international markets.
- Globalization has made companies in different countries to form strategic alliances to cut off economic and technological threats and leverage their competitive advantages.
- When exporting organisations find foreign markets to open up or grow big, they may naturally look at overseas manufacturing plants and sales branches to generate higher sales and better cash flow.

International Environment

- An assessment of the external environment is the first step toward internationalisation.
- International environment has become an inherent part of strategic management for businesses of all sizes with global interests.
- It essentially involves various global aspects like political risks, cultural differences, exchange rate fluctuations, legal compliances and taxation issues.
- Assessments of the international environment can be done at three levels:

1) Multinational environmental analysis :
    - It involves 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.
2) Regional environmental analysis :
    - It is more in-depth evaluation of the critical factors in a specific geographical area.
    - The emphasis would be on discovering market opportunities for a goods, services, or innovations in the chosen location.
3) Country environmental analysis :
    - Study of economic, legal, political, and cultural dimensions is required in order for planning to be successful.
    - The analysis must be customised for each of the countries to develop effective market entrance strategies.

Understanding Product and Industry

- Businesses sell products & Business products have certain characteristics as follows –

a) Products are either tangible or intangible :
    - A tangible product can be handled, seen, and physically felt, such as a car, book, pen,

Mobile.

- An intangible product is not a physical good, such as banking, insurance, or repair services.

b) Product has a price :

- Businesses determine cost of their products and charge a price.
- The dynamics of supply and demand influence the market price of an item or service.
- The market price is the price at which quantity provided equals quantity desired.
- The price that may be paid is determined by
  - ✓ the market,
  - ✓ the quality,
  - ✓ the marketing, and
  - ✓ the targeted group.

c) Products have certain features that deliver satisfaction :

- A product feature is a component of a product that satisfies a consumer need.
- Products should be able to provide value satisfaction to the customers.
- Features determine product pricing, and businesses alter features during the development process to optimise the user experience.
- Features of the product will distinguish it in terms of its function, design, quality and experience.

d) Product is pivotal for business :

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

e) 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).
- ➢ PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages –

1) Introduction stage –
   - slow sales growth, in which competition is almost negligible
   - prices are relatively high, and markets are limited.
   - lack of awareness on the part of customers.
2) Growth stage –
   - demand expands rapidly
   - prices fall, competition increases, and market expands.
   - The customer has knowledge about the product and shows interest in it.

3) Maturity stage –
- slowdown in growth rate.
- competition gets tough, and market gets stablised.
- Profit comes down because of stiff competition.
- At this stage, organisations have to work for maintaining stability.

4) Decline stage –
- sharp downward drift in sales
- sales and profits fall down sharply due to some new product replaces the existing product.
- strategies can be implemented to stay in the market either by diversification or retrenchment.

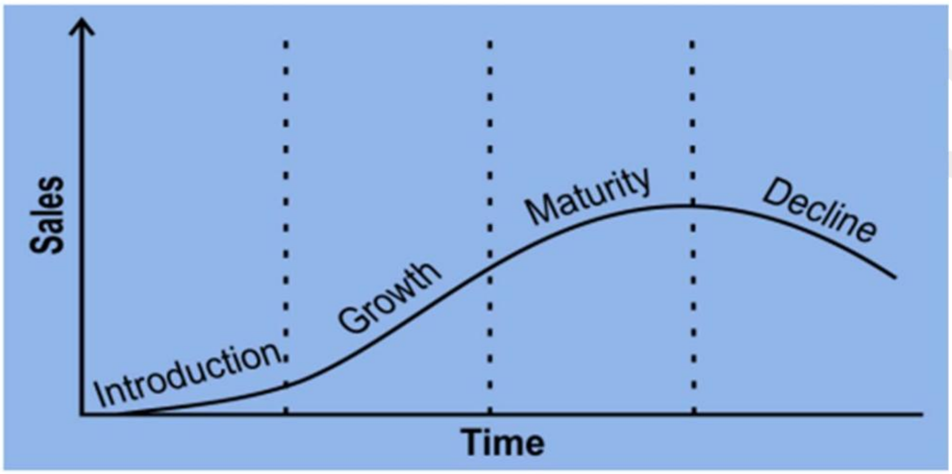


Figure: Product Life Cycle

- The main advantage of 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.
- Depending on the diagnosis, appropriate strategic choice can be made.
- Expansion may be a feasible alternative in the introductory and growth stages.
- Mature businesses may be used as sources of cash for investment in other businesses.
- A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses.
- In this way, a balanced portfolio of businesses may be built up.

Value Chain Analysis

- Value chain analysis is a method of examining each activity in value chain of a business in order to identify areas for improvements.
- When you do a value chain analysis, you must analyse how each stage in the process adds or subtracts value from the end product or service.
- Value chain analysis can be used by businesses of all sizes, from sole proprietorships to multinational organisations.
- Value chain analysis has been widely used as a means of describing the activities within and around an organization and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services).

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

a) Inbound logistics :

- 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.

b) Operations :

- Transform these inputs into the final product or service.
- Machining, packaging, testing, etc. convert raw materials in finished goods.

c) Outbound logistics :

- collect, store and distribute the product to customers.
- For tangible products this would be warehousing, materials handling, transport, etc.
- For services, it may be more concerned with arrangements for bringing customers to the service, if it is a fixed location (e.g. sports events).

d) Marketing and sales :

- provide the means whereby consumers/users are made aware of the product/service and are able to purchase it.
- E.g - sales administration, advertising, selling, communication networks.

e) Service :

- are all those activities, which enhance or maintain the value of a product/service.
- E.g- installation, repair, training and after sales service.

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

1) Procurement :

- This refers to the processes for acquiring the various resource inputs to the primary activities.

2) 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
  → processes (e.g. process development) or
  → a particular resource (e.g. raw materials improvements).

3) Human resource management :

- It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.
- This is important area which transcends all primary activities.

4) 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.

Porter's Five Forces Model

- Porter's Five Forces analysis is a simple but efficient way for determining the key sources of competition in business and diagnose the significant competitive pressures in a market and assess the strength and importance of each.
- The five forces together determine industry attractiveness/ profitability.
- The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market –
  - Competitive pressures -
    - → associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
    - → associated with the threat of new entrants into the market.
    - → coming from the attempts of companies in other industries to win buyers over to their own substitute products.
    - → stemming from supplier bargaining power and supplier-seller collaboration.
    - → stemming from buyer bargaining power and seller-buyer Collaboration.
- The strategists can use the five-forces model to determine what competition is like in a given industry by undertaking the following steps:
  1) Identify the specific competitive pressures associated with each of the five forces.
  2) Evaluate how strong the pressures comprising each of the five forces are (strong, moderate to normal, or weak).
  3) Determine whether the collective strength of the five competitive forces is conducive to

Porter's Five Forces

Bargaining Power of Buyers

- Users of industrial products come together formally or informally and exert pressure on the producer.
- The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments.
- Bargaining Power of Buyers considered more when –
  a) Buyers have full knowledge of the sources of products and their substitutes.
  b) They spends lot of money on the industry's products i.e they are big buyers
  c) Buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

Bargaining Power of Suppliers

- The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.
- Suppliers can command bargaining power over a firm when:
  a) Their products are crucial to the buyer and substitutes are not available.
  b) They can erect high switching costs.
  c) They are more concentrated than their buyers

The Threat of New Entrant

- New entrants are always a powerful source of competition.
- The new capacity and product range they bring in throw up new competitive pressure.
- New entrants also place a limit on prices and affect the profitability of existing players.
- Common barriers to New Entrants –

1) Capital Requirements :
   - When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry.
2) Economies of Scale :
   - Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows.
   - This tends to discourage new entrants.
3) Product Differentiation :
   - It refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.
   - cost of creating genuine product differentiation may be too high for the new entrants.
4) Switching Costs :
   - To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products.
   - Buyers often incur substantial financial (and psychological) costs in switching between firms.
5) Brand Identity :
   - Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer.
   - New entrants often encounter significant difficulties in building up the brand identity.
6) Access to Distribution Channels :
   - The unavailability of distribution channels for new entrants poses another significant entry barrier.
   - Often, existing firms have significant influence over the distribution channels and can retard or impede their use by new firms.
7) Possibility of Aggressive Retaliation :
   - Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

Threat of Substitutes

- Substitute products are a latent source of competition in an industry.
- Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.
- Wherever substantial investment in R&D is taking place, threats from substitute products can be expected.
- Substitutes, too, usually limit the prices and profits in an industry.

The Nature of Rivalry (Competition) in the Industry

- 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.
- The impact is evident more at functional level in the prices being charged, advertising, and pressures on costs, product and so on.
- Rivalry among competitors tends to be cutthroat and industry profitability low under various conditions explained as follows:

1) Industry Leader :
   - Because of its greater financial resources, a leader can generally outlast smaller rivals in a price war.

2) Number of Competitors :
   - Even when an industry leader exists, the leader's ability to exert pricing discipline diminishes with the increased number of rivals in the industry.

3) Fixed Costs : FC ↑ Profitabilty ↓
   - When rivals operate with high fixed costs, they feel strong motivation to utilize their capacity and therefore are inclined to cut prices.
   - Price cutting causes profitability to fall as firms seek to produce more to cover costs that must be paid regardless of industry demand.

4) Exit Barriers : EB ↑ Profitabilty ↑
   - Rivalry among competitors declines if some competitors leave an industry.
   - Profitability therefore tends to be higher in industries with few exit barriers.
   - When barriers to exit are powerful, competitors desiring exit may refrain from leaving & exerts downward pressure on the profitability.

5) Product Differentiation : PD ↑ Profitabilty ↑
   - Firms can sometimes insulate themselves from price wars by differentiating their products from those of rivals
   - Profitabilty
     → Higher – differentiated Products
     → Lower – undifferentiated commodities such as, memory chips, natural resources, processed metals and railroads.

6) Slow Growth : SG ↑ Profitabilty ↓
   - Industries whose growth is slowing down tend to face more intense rivalry. Intensive rivalry tends to reduce profitability for all.
   - As industry growth slows, rivals must often fight harder to grow or even to keep their existing market share.

Attractiveness of Industry

- Strategists assess the industry outlook carefully, deciding whether industry and competitive conditions present an attractive business opportunity for the organisation or whether its growth and profit prospects are gloomy.

- 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 favourably or unfavourably affected by the prevailing driving forces?
  - The competitive position of an organisation in the industry and whether its position is likely to grow stronger or weaker.
  - The degrees of risk and uncertainty in the industry's future.
  - The severity of problems confronting the industry as a whole.
- As a general proposition, if an industry's overall profit
  - → are above average - industry considered attractive
  - → are below average - it is unattractive
- Attractiveness is relative, not absolute.
- If the industry and competitive situation is judged relatively unattractive, more successful industry participants may choose to invest cautiously, look for ways to protect their long-term competitiveness and profitability, and perhaps acquire smaller firms if the price is right;
- Strong companies may consider diversification into more attractive businesses.
- Weak companies in unattractive industries may consider merging with a rival to increase market share and profitability alternatively,looking attractive diversification opportunities.

Experience Curve

- It is based on the concept, "we learn as we grow".
- Experience curve is based on the phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production.
- 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
  - ✓ learning effects,
  - ✓ economies of scale,
  - ✓ product redesign and technological improvements in production.

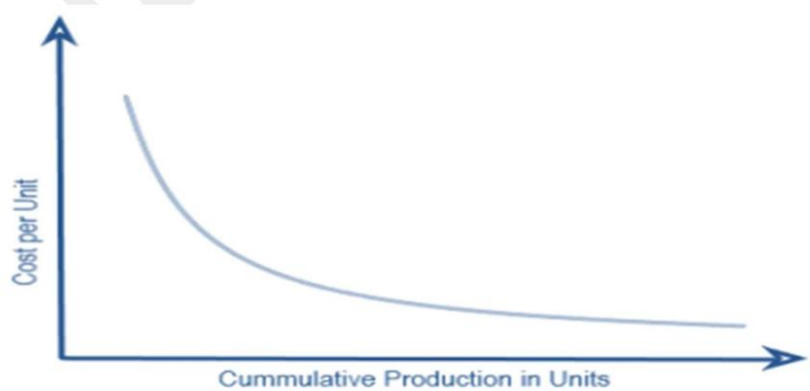


Figure: Experience curve

- Experience curve has following features:
  a) As business organisation grow, they gain experience.
  b) Experience may provide an advantage over the competition. Experience is a key barrier to entry.
  c) Large and successful organisation possess stronger "experience effect".
- Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay.
- value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes.
- Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on three factors:
  1) the value customers place on the company's products;
  2) the price that a company charges for its products; and
  3) the costs of creating those products.

Value Creation

- The value customers place on a product reflects the utility they get from a product.
- Utility must be distinguished from price and Utility is something that customers get from a product.
- Michael Porter argues that a company can generate competitive advantage in two different ways
  - Differentiation - 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. A company will earn higher profits & demand higher price for its products or services due to differentiation
  - Cost advantage - Capability to provide customers low cost (price) Product.
- Michael Porter used the concept of value chain & Value chain analysis provides an excellent tool to examine the origin of competitive advantage.
- Excess value consumer wants to pay, over and above the price that the business wants to charge from the consumer is called value creation.

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 - a departmental store where people engage in person.
  → Virtual - an online market where buyers and sellers do not meet in person but tools of technology to strike a deal.
- Markering –
  - The term "marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution.

- Market activities are categorised and explained in terms of four Ps of marketing – product, place, pricing, and promotion.
- These four kinds of marketing activities help marketers identify customer needs so they may meet their demands and deliver satisfaction.
- Delivering the best customer experience and establishing, maintaining, and growing relationships with customers are the main goals of marketing.
- The orientation of product marketing has evolved and acquired different dimensions –
  - → product orientation - buyers will choose those products that have the best quality, performance, design, or features.
  - → production-oriented - businesses that believe that customers choose low price.
  - → Sales oriented - businesses believe that if they spend enough money on advertisement, sales and promotion, customers can be persuaded to make a purchase.
  - → customer or market-oriented approach - continuously learn from its customers' needs and market dynamics.

Customer

- ➢ A customer is a person or business that buys products or services from another organisation.
- ➢ 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.
- ➢ 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 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.
- ➢ It identifies target clients, determines their wants, and then defines how the product meets those needs.
- ➢ Using the facts generated by customer analysis, an effective profiling of customers may be established.
- ➢ Successful businesses constantly monitor the behaviour of existing and prospective customers.

Customer Behaviour

- Customer behaviour moves beyond the identification of customers to explain how they purchase products.
- It examines elements like shopping frequency, product preferences, and the perception of your marketing, sales, and service offerings.
- Understanding the behaviours of customers enables businesses to establish effective marketing and advertising campaigns, provide products and services that meet their needs, and retain customers for repeat sales.
- Consumer behaviour may be influenced by a number of things categorised into:

1) 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.
   - This have an impact on customers as they choose which needs to satisfy and which products to use to do so.
   - These aspects are divided into two groups – the company's marketing efforts and the numerous environmental elements.
2) 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.
3) Decision Making :
   - A rational consumer, as decision maker would seek information about potential decisions and carefully integrate this with the existing knowledge about the product.
   - 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
   - However, it mostly applies when the purchase is one that is significant to the customer, such as when the product could have a significant influence on their health or self-image.
   - Also applies when purchasing a car, television or a refrigerator in contrast to purchase of ice creams or soft drinks.
4) Post-decision Processes :
   - After making a decision and purchasing a product, the final phase in the decision-making process is evaluating the outcome.
   - The consumer's reaction may vary depending upon the satisfaction.
     - Happy customer may make repeat purchase and recommend to others
     - Customer with dissonance will neither purchase the product again nor recommend it to others.

Competitive Strategy

- Businesses compete with each other for the same set of resources and customers .
- competitive strategy defines how a firm expects to create and sustain a competitive advantage over competitors.
- 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.
- An important component of industry and competitive analysis involves delving into the industry's competitive process to discover what the main sources of competitive pressure are and how strong each competitive force is.
- Managers cannot devise a successful strategy without in-depth understanding of the industry's competitive character.
- Porter's five forces model is useful in diagnosing the main competitive pressures in a market and assessing how strong and important each one is as it is relatively easy to understand and apply.

Competitive Landscape

- Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the comprehension of their vision, mission, core values, niche market, strengths and weaknesses.
- Understanding of competitive landscape requires an application of "competitive intelligence.

Steps to understand the Competitive Landscape

1) Identify the competitor :
   - The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.
   - This answers the question:
     → Who are the competitors and how big are they?
2) Understand the competitors :
   - Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.
   - This answers the question:
     → What are their product and services?
3) Determine the strengths of the competitors :
   - What are the strengths of the competitors? What do they do well?
   - Do they offer great products? Why are consumers liking their product/service?
   - Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business.
   - This answers the questions:
     → What are their financial positions?
     → What gives them cost and price advantage?

→ What are they likely to do next?
→ How strong is their distribution network?
→ What are their human resource strengths?

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

5) Put all of the information together :
- At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps.
- This answers the questions:
  → What will the business do with this information?
  → What improvements does the firm need to make?
  → How can the firm exploit the weaknesses of competitors?

Key factors for competitive success (KSFs)

➢ 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, and
- ✓ business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.

➢ KSFs are the factors that shape whether a company will be financially and competitively successful.

➢ The answers to three questions help identify an industry's key success factors:
1. On what basis do customers choose between the competing brands of sellers? What product attributes are crucial to sales?
2. What resources and competitive capabilities does a seller need to have to be competitively successful, better human capital, quality of product or quantity of product, cost of service, etc. ?
3. What does it take for sellers to achieve a sustainable competitive advantage, something that can be sustained for long term?

➢ E.g- in apparel manufacturing, the KSFs are appealing designs and colour combinations (to create buyer interest) and low-cost manufacturing efficiency (to permit attractive retail pricing and ample profit margins).

➢ Organisation with perceptive understanding of industry KSFs can gain sustainable competitive advantage by training its strategy on industry KSFs and devoting its energies to being distinctively better than rivals on one or more of these factors.

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

Notes -

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3. Strategic Analysis - Internal Environment

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

Understanding key Stakeholders

- Stakeholders can be defined as any person/group of individuals, internal or external, that has an interest in, or impact on the business or corporate strategy of the organisation.
- Generally, stakeholders include management, employees, shareholders, customers and vendors.
- Additionally, other individuals and groups, such as governments, labour unions and local groups, which are often considered as stakeholders depending on their impact on the particular organisation.
- Each stakeholder exerts a different level of influence and can have differing levels of interest in the organisation.
- E.g - organisation involved in innovation and Research in healthcare needs to have a long-term perspective about its return on investment (ROI) as there is dependency on research timelines, While shareholders, whose main concern is quick profits, hesitate to support the organisation spending funds on something that they may not see the return in the near future.
- Example of Key Stakeholders and their requirements for an OTT Platform (Just read Once)

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

Mendelow's Matrix

- Also known as → Stakeholder Analysis matrix
  → Power-Interest matrix
- Mendelow suggests that one should analyse stakeholder groups based on -
  - Power (the ability to influence organisation strategy or resources) &
  - Interest (how interested they are in the organisation succeeding).
- 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.
- Developing a Grid of Stakeholders –
  - Mendelow's Matrix is based on Power and Interest.
  - Metrics to define the importance being High Power and High Interest which management would need to manage closely, while investing a lot of time and resources.

Categorisation of stakeholders into four groups by Mendelow's

1) KEEP SATISFIED Stakeholders :- High power, less interested people.
   - Organisation → keep these people satisfied with their intended information on a regular basis.
   - For example, banks, government, customers, etc.
2) KEY PLAYERS Stakeholders :- High power, highly interested people.
   - Organisation → make the greatest efforts to satisfy these stakeholders, take their advice, build actions and keep them informed with all information on a regular basis.
   - For example, Shareholders, CEO, Board of Directors, etc.
3) LOW PRIORITY Stakeholders :- Low power, less interested people.
   - Organisation → only monitor them with no actions to satisfy their expectations.
   - minimal efforts should be spent.
   - For example, business magazines, media houses, etc.
4) KEEP INFORMED Stakeholders :- Low power, highly interested people.
   - Organisation → adequately inform this group of people and communicate with them to ensure that no major issues arise.
   - This audiences can also help with-
     a. real time feedbacks and
     b. areas of improvement for an organisation
   - For example, employees, vendors, suppliers, legal experts, etc

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Strategic Drivers

- Strategic drivers consider what differentiates an organisation from its competitors.
- It involves
  - Industry and Market - analysis of the key markets in which the organisation operates and
  - Customers - its key customers,
  - Products/services - the products and services it provides,
  - Channels - the channels in which the products or services are delivered, and
  - the organisation's competitive advantage.

Industry and Markets

- It is very important for an organisation to understand it's relative position in the industry and in the market in which it operates.
- Similar companies are grouped together into industries. Basically, industry grouping is based on the primary product that a company makes or sells.
- For example, Maruti, Mahindra, Tata Motors, TVS, Bajaj Auto, are all selling automotives as their primary product and thus categorised into Automotive Industry.
- Market –
  - is defined as the sum total of all the buyers and sellers in the area or region under consideration.
  - Value, cost and price of items traded ⟶ are as per forces of supply and demand in a market.
  - The market may be
    a. a physical entity or
    b. virtual like e-commerce websites and applications.
    c. local or global, depending on which all countries the business sells its products in.

Analysing Industry and Markets - Strategic Group Mapping

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

- Companies in the same strategic group can resemble one another in any of the several ways:
  a) they may have comparable product-line breadth,
  b) sell in the same price/quality range,
  c) emphasize the same distribution channels,
  d) use essentially the same product
  e) depend on identical technological approaches, or
  f) offer buyers similar services and technical assistance.
- when all sellers/Rivals pursue :
  → identical strategies - An industry contains only one strategic group
  → distinctively different competitive approach - there are as many strategic groups
- The procedure for constructing a strategic group map -
  - Identify the competitive characteristics that differentiate firms in the industry typical variables are
    a. price/quality range - (high, medium, low)
    b. geographic coverage (local, regional, national, global)
    c. degree of vertical integration (none, partial, full)
    d. product-line breadth (wide, narrow)
    e. use of distribution channels (one, some, all)
    f. degree of service offered (no-frills, limited, full).
  - Plot the firms on a two-variable map using pairs of these differentiating characteristics.
  - Assign firms that fall in about the same strategy space to the same strategic group.
  - Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

Customers

- Different customers may have different needs and require different sales models or distribution channels.
- customers are often responsible for the generation of profits.
- Issues with customers can be identified, and target areas for growth can be pursued based on the findings.
- Difference between Customer and Consumer –
  - customer > one buys a product or service,
    consumer > one who finally uses/consumes the bought product or service.
  - From a pricing perspective - the customer is of more importance
  - From value creation and design/usability - consumer needs to be the kept at the center of decision making.
  - A customer can be a consumer and vice versa.
  - For example, baby diapers are bought by parents (customers) who are willing to pay higher price for higher quality, while the real consumers are the babies, who are more concerned about the comfort and easiness of the diaper.

Product Or Services

- Product stands for the combination of "goods-and-services" that the company offers to the target market.
- 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.
- Organizations formalize product differentiation through designating 'brand names' to their respective products.
- For a new product, pricing strategies for entering a market need to be designed and for that matter at least three objectives must be kept in mind:
  a. Have customer-centric approach while making a product.
  b. Produce sufficient returns through a reasonable margin over cost.
  c. Increasing market share.

Number of marketing strategies

1) Social Marketing :
   - design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group to bring in a social change.
2) Augmented Marketing :
   - 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.
3) Direct Marketing :
   - Marketing through various advertising media that interact directly with consumers.
   - Direct marketing includes catalogue selling, e-mail, telecomputing, electronic marketing, shopping, and TV shopping.
4) Relationship Marketing :
   - 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.
5) Services Marketing :
   - Services is any activity or benefit that one party can offer to another that is essentially intangible.
   - It is applying the concepts, tools, and techniques, of marketing to services.
   - It requires different marketing strategies since it has peculiar characteristics of its own such as inseparability, variability etc.

6) Person Marketing :
- People can also be marketed
- It consists of activities undertaken to create, maintain or change attitudes and behaviour towards particular person.
- For example, politicians, sports stars, film stars, etc.

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

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

9) Enlightened Marketing :
- It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset.
- Its five principles include
  a) customer-oriented marketing,
  b) innovative marketing,
  c) value marketing,
  d) sense-of-mission marketing,
  e) societal marketing

10) Differential Marketing :
- It is a market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each.
- For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in premium segment.

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

12) Concentrated Marketing :
- It is a market-coverage strategy in which a firm goes after a large share of one or few sub-markets.
- It can also take the form of Niche marketing.

13) Demarketing :

- It includes marketing strategies to reduce demand temporarily or permanently.
- The aim is not to destroy demand, but only to reduce or shift it.
- This happens when there is overfull demand.

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Channels

- Channels are the distribution system by which an organisation distributes its product or provides its service.
- E.g –
  - Boat Headphones - only online via e-commerce platforms like flipkart and amazon
  - Lakme - sells its products via retail stores, intermediary stores , as well as online mode like amazon, flipkart, nykaa online and its own website.
- Having robust channels of business distribution help keep new players away from entering the industry, thus acting as barriers to entry.
- Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets.
- E.g - if a new drink brand wants to acquire customers - they need to place their products via every channel possible to get more attraction from customers
- Channels - partners in growth, plays a crucial role in internal strategic alignment
- Types of Channels –

THE SALES CHANNEL

- These are the intermediaries involved in selling the product through each channel and ultimately to the end user.
- The Key Question is Who needs to sell to whom for your product to be sold to end user.
- E.g - Agencies to sell their products to retail organisations.

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.

- E.g - Australia Post - delivers and distributes online purchases between the seller and purchaser using eBay and other online stores.

THE SERVICE CHANNEL

- Entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user.
- The service channel is an important consideration for products that are complex in terms of installation or customer assistance.
- E.g - Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

Core Competency

- Competency is defined as a combination of skills and techniques rather than individual skill or separate technique.
- An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.
- A core competency for a firm is whatever it does best: For example: Wal-Mart focuses on lowering its operating costs.
- They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities.
- Core technological competencies are also corporate assets; and as assets, they facilitate corporate access to a variety of markets and businesses.
- According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas –

Competitor Differentiation

- The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate
- This can provide a company an edge compared to competitors.
- The company has to keep on improving these skills in order to sustain its competitive position.
- 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. E.g Tesla has Patented innovations for E-vehicle.

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

- If customer has chosen the company without this impact, then competence is not a core competence, and it will not affect the company's market position.
- The essence is that the consumer should value the differentiation offered. Without it, the core competency does not make sense.

Application of competencies to other markets.

- Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise.
- Core competence is a unique set of skills and expertise, which will be used throughout the organisation to open up potential markets to be exploited.

Criteria for Building a Core Competency

a) Valuable :
- A firm created value for customers by effectively using capabilities to exploit opportunities.
- Finance companies build a valuable competence in financial services.
- Human capital is important in creating value for customers.

b) Rare :
- Core competencies are very rare capabilities and very few of the competitors possess this.
- Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

c) Costly to imitate :
- Costly to imitate means such capabilities that competing firms are unable to develop easily.
- The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

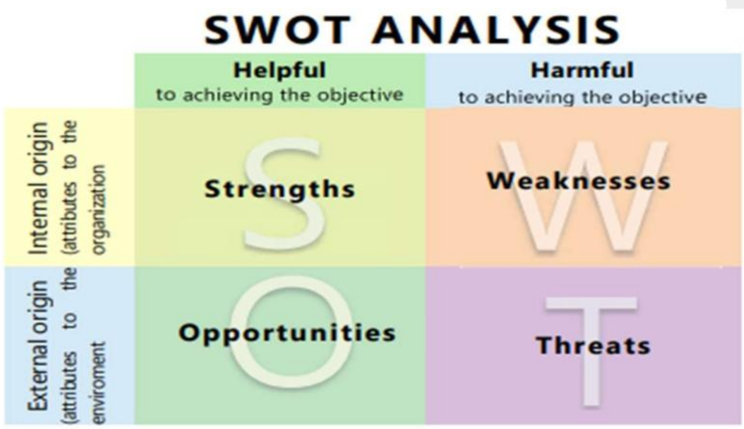
d) Non-substitutable :
- Capabilities that do not have strategic equivalents are called non-substitutable capabilities.
- there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.
- E.g - Apple's operating system's (iOS).

SWOT Analysis - for Internal or External Environment

- Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- Opportunity: An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.

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

- Internal analysis is more focused on understanding the existing structure and competencies of the business, thus highlighting the Strengths and Weaknesses,
- While External Analysis is about identifying and preparing for uncontrollable which can either be Opportunities or threats.
- SWOT analysis to discover recommendations and strategies, with a focus on leveraging strengths and opportunities to overcome weaknesses and threats.
- SWOT has been the most widely used tools for business owners to grow their companies.
- The analysis can show areas where an organization is performing well, as well as areas that need improvement.
- The benefit of this analysis is that it identifies the complex issues for an organisation and puts them into a simple framework.



SWOT Analysis Example

Let us understand with an example of a law firm - what could its SWOT analysis help understand about its business.

STRENGTH	WEAKNESS
Multiple Partners with varied expertise Long Term contractual service agreements 70 years of brand value Services spread across 20 states of India 400+ employee strength to deliver work	Run by old methods No automation of work and documentation Not very employee friendly culture
OPPORTUNITY	**THREAT**
Automation driven advancement. Startups can be supported with experienced partners. Investment in technology can multiply returns.	Online players entering market. AI based solutions and applications. Price point of online being very competitive Speed of work becoming faster by the day.

Competitive Advantage: Using Michael Porter's Generic Strategies

- Strategic management involves development of competencies that managers can use to achieve better performance and a competitive advantage for their organization.
- It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.
- The competitive advantage is the achieved advantage over rivals when company's profitability greater than the average profitability in its Industry.

Sustainability of Competitive Advantage

It depends upon four major characteristics of resources and capabilities.

A. Durability :
- The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate.
- In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete.
- Capabilities which are the result of the management expertise of the CEO are also vulnerable to his retirement or departure.

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

C. 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?
- Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult

D. Appropriability :
- Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base.
- There is Always an issue as to who receives the returns on these resources.
- This means, that rewards are directed to from where the funds were invested.

Michael Porter's Generic Strategies

Cost Leadership Strategy - Low Cost

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

- Because of its lower costs, the cost leader is able to charge a lower price for its products than most of its competitors and still earn satisfactory profits.
- Striving to be a low-cost producer in an industry can especially be effective
  - when the market is composed of many price-sensitive buyers and
  - when there are few ways to achieve product differentiation.

Some risks of pursuing cost leadership are

- competitors may imitate the strategy, therefore driving overall industry profits down;
- Technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.

Actions to be taken for Achieving Cost Leadership Strategy

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

Advantages of Cost Leadership Strategy

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

Disadvantage of Cost Leadership Strategy

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

Differentiation Strategy - Premium Price

- 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.
- A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty, because consumers may become strongly attached to the differentiated features.

Basis of Differentiation

- Competitors may develop ways to copy the differentiating features quickly. Firms must take care that uniqueness cannot be imitated quickly or cheaply by rival firms.
- Unique product may not be valued high enough by customers to justify the higher price.

Risk associated with pursuing a differentiation strategy

a) Product :
- Innovative products that meet customer needs can be an area where a company has an advantage over competitors
- New product offering can be costly Coz R&D, as well as production and marketing costs can all add to the cost of production and distribution.
- E.g- Apple iPhone, has invested huge amounts of money in R&D, and the customers' value that.

b) 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 offer lowest price or establish superiority through higher price
- E.g- Apple iPhone charging higher prices for its products.

c) Organisation :
- 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.

Achieving Differentiation Strategy

1. Offer the high-quality product/service for Customer satisfaction.
2. Offer utility to the customers and match products with their tastes and preferences.
3. Improve performance of the product.
4. Rapid product innovation to keep up with dynamic environment.
5. Taking steps for enhancing brand image and brand value

6. Fixing product prices based on the unique features of product and buying capacity of the customer

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Advantages of Differentiation Strategy

1) Rivalry – Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases
2) Buyers – They do not negotiate for price as they get special features and they have fewer options in the market.
3) Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.
4) Entrants – Innovative features are an expensive offer. So, new entrants generally avoid because it is tough for them to provide the same product with special features at comparable price.
5) Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantages of Differentiation Strategy

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

Focus Strategies

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

Focused cost leadership

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

Focused differentiation

- Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.
- Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only.

Achieving Focused Strategy

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

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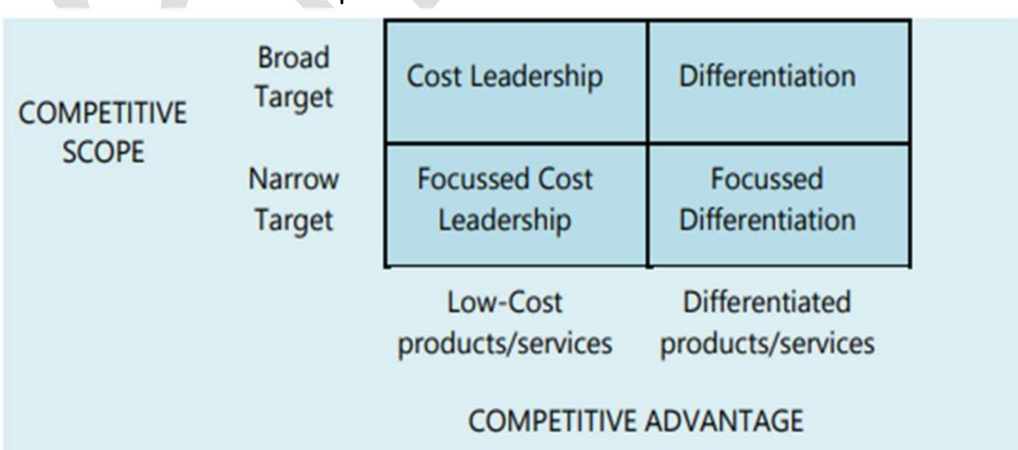
Advantages of Focused Strategy

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

Disadvantages of Focused Strategy

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

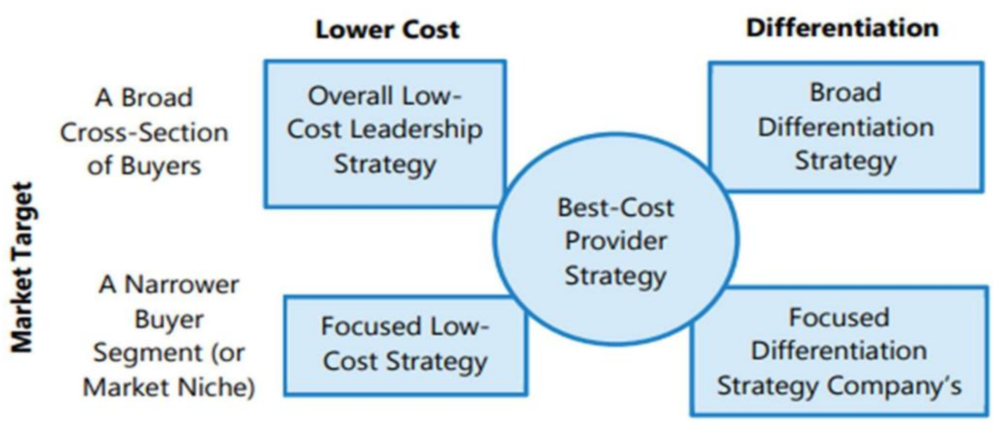


Best-Cost provider Strategy

- Best-cost provider strategy involves providing customers more value for the money by emphasizing on lower cost and better-quality differences.
- It can be done through:
  a. offering products at lower price than what is being offered by rivals with comparable quality and features.

  OR

  b. charging similar price as by the rivals for products with much higher quality and better features.
- E.g - android phones from OnePlus, Xiaomi, Oppo, Vivo, etc, are all rooting for giving better quality at lowest prices to the customers.



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4. Strategic Choices

- Strategy formulation involves well thought of decision making and cover actions dealing with the objective of the firm, shareholders and allocation of resources and coordination of strategies of various business units for optimal performance

Strategic Choices

- Businesses follow different types of strategies to enter the market, to stay relevant and grow in the market.
- Different types of strategies on the basis of their classification

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

- The organisation adopts above Strategies depending upon their needs and requirements.
- For E.g – Start-up follows
  - → Competitive Strategy – Entering the Market where a number of are already operating.
  - → Collaborative strategy - Enter into a joint venture with an established company.
- Business conglomerates having multiple product folios formulate strategies at different levels –
  - a) Corporate level strategies - to provide 'direction' to the company.
  - b) Business level strategies -formulated for each product/process division known as strategic business unit.
  - c) Functional Level strategies - for implementation of the corporate and business strategies and formulated in business areas like production/operations, marketing, finance, human resources etc.

The corporate strategies classified into -

Stability Strategy

- The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.

➢ It may be opted to
  a) safeguard its existing interests and strengths,
  b) to pursue well established and tested objectives,
  c) to continue in the chosen business path,
  d) to maintain operational efficiency on a sustained basis,
  e) to consolidate the commanding position already reached,
  f) to optimise returns on the resources committed in the business.

A stability strategy is pursued by a firm when:

- It continues to serve in the same or similar markets and deals in same or similar products and services.
- This strategy is typical for those firms
  → whose product have reached the maturity stage of product life cycle.
  → those who have a sufficient market share but need to retain that
- Stability strategy should not be confused with 'do nothing' strategy.

Characteristics of Stability Strategy

1) It is a safe strategy that maintains status quo.
2) It does not warrant much of fresh investments.
3) The risk involved in this strategy is less.
4) The firms with modest growth objective choose this strategy.
5) Stability strategy does not involve a redefinition of the business of the corporation.
6) 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.
7) While opting for this strategy, the organization can concentrate on its resources and existing businesses/products and markets, thus leading to building of core competencies.

Major Reasons for Stability Strategy

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

Why don't Startups aim for stability?
A startup is an entrepreneurial venture in the early stages of ideation and development, generally created for solving real-life problems through technology. For it, the most important factors are speed and agility, because of it being in a nascent stage of operations. Stability on the other hand is more meaningful strategy when the size of operations is expanded to full capacity and business is at a mature stage. Thereby, we rarely see startups aiming for stability.

Growth/Expansion Strategy

- Firm seeks significant growth-
  a. within the current businesses.
  b. by entering new business → that are related to existing businesses
     → that are unrelated to existing businesses
- It is often characterised by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on.

Characteristics of Growth/Expansion Strategy

1) Expansion strategy involves a redefinition of the business of the corporation.
2) It is opposite of stability strategy.
   Rewards- Limited in stability strategy,
   High in expansion strategy.
   In the matter of risks, too, the two are the opposites of each other.
3) Expansion strategy leads to business growth.
4) The process of renewal of the firm through fresh investments and new businesses/products/markets is facilitated only by expansion strategy.
5) Expansion strategy is a highly versatile strategy; it offers several permutations and combinations for growth.
6) It Involves: Intensification & Diversification. Both are growth strategies; the difference lies in the way in which the firm actually pursues the growth.

Major Reasons for Stability Strategy

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

Types of Growth Strategy

A. Internal growth strategies –

I. Expansion or growth through Intensification

1) Market Penetration : Existing product in the Existing market.
   - The firm directs its resources to the profitable growth of its existing product in the existing market.
   - Highly common expansion strategy is market penetration/ concentration on the current business.
2) Market Development : Existing product into New 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.

3) Product Development : New product for the Existing market.

- It involves substantial modification of existing products or creation of new that can be marketed to current customers through establish channels.

II. Expansion or growth through Diversification

- Diversification is defined as an entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.
- This is also an internal growth strategy.
- For some firms, diversification is a means of utilising their existing facilities and capabilities in a more effective and efficient manner.

Diversification can be classified into -

1. Concentric Diversification –

- It takes place when the products are related.
- In this diversification, the new business that is it diversifies into is linked to the existing businesses through process, technology or marketing.
- Concentric diversification is generally understood in two directions.

a) Vertically Integrated Diversification:

→ firms opt to engage in businesses that are related to the existing business of the firm

→ The firm remains vertically within the same process sequence moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

→ Firm can opt for –

i. Forward Integration:

- 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.
- E.g. A coffee bean manufacture may choose to merge with a coffee cafe.

ii. Backward Integration:

- creation of effective supply by entering business of input providers.
- Strategy employed to expand profits and gain greater control over production/supply of a product that will increase its own supply capability or lessen its cost of production.
- E.g. A large supermarket chain considers purchasing a number of farms that would provide it a significant amount of fresh produce.

b) Horizontal Integrated Diversification:

→ A firm gets horizontally diversified by integrating through acquisition of one or more similar businesses operating at the same stage of the production-marketing Chain

→ They can also integrate with the firms producing complementary products or by-products or by taking over competitors' products.

2. Conglomerate Diversification :
- In conglomerate diversification, no linkages related to product, market or technology exist.
- the new businesses/products are disjointed from the existing businesses/products in every way;
- it is a totally unrelated diversification.
- In process/technology/function, there is no connection between the new products and the existing ones.
- E.g. A cement manufacturer diversifies into the manufacture of steel and rubber products

Table 4: Related vs. Unrelated Diversification

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

Is it really worth expanding so much to diversify a business into unrelated products?
Despite of its complexity, conglomerate diversification (diversification into unrelated business) financially makes a lot of sense. It creates access a new pool of customers, thereby expanding its customer base. It allows access to markets and cross-selling new products, leading to increased revenues. Further, it eases the management of losses in a business; profits in one business can be used to keep the loss making business afloat within the same organisation.

3. Innovation :
- ➢ Upgradation of existing product lines or processes, leading to increased market share, revenues, profitability and customer satisfaction.
- ➢ Innovation offers the following :

   a. Helps to Solve complex problems –
   - Innovation helps solve complex problems by developing customer centric sustainable solutions.
   - It might be costly in introductory stages but in the long run it will only have economical and environmental sustainability

   b. Increases Productivity:

- Productivity is defined as a measure of final output from a task or a process, and companies are willing to spend millions on increasing their productivity.
- Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and the organisation as a whole
- E.g MS-Excel for Finance Professional

c. Gives Competitive Advantage –

- An interesting concept about innovation is - 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.

B. External Growth Strategies –

I Expansion through Mergers and Acquisitions

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

Difference Between Merger and Acquisiton -

Merger	Acquisition
Merger is a process when two or more companies come together to expa their business operations.	When one organization takes over the other organization and controls all its business operations.
Deal gets finalized on friendly terms and both the organizations share profits in the newly created entity.	A deal in case of an acquisition is often done in an unfriendly manner
Two organizations combine to increase their strength and financial gains along with breaking of the trade barriers	It is more or less a forced association where the powerful organization acquires the operations of the company that is in a weaker position and is forced to sell its entity.

- Types of Mergers –

a) 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

b) Vertical Merger –

- It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system.
- This often leads to increased synergies with the merging firms.
- Backward integration - If an organization takes over its supplier/producers of raw material.

  Forward integration - when an organization decides to take over its buyer organizations or distribution channels.

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

d) 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.

II Expansion through Strategic Alliance

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

➢ The strategic partners -

- are independent and separate entities,
- share the benefits
- control over the partnership,
- continue to make contributions to the alliance until it is terminated.

Advantages of Strategic Alliance

1) Organizational -

- Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners.
- Strategic partners helps- (*Write with point of view of organization)*
  - → to enhance productive capacity,
  - → provide a distribution system or extend supply chain.
  - → provide a good or service that complements thereby creating a synergy.

2) Economic -

- Greater economies of scale can be obtained in an alliance, as production volume increases, causing the cost per unit to decline.
- There can be reduction in costs and risks.

3) Strategic -

- Rivals can join together to cooperate instead of competing with each other.

- Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills.
- It used to get access to new technologies or to pursue R&D.
- Vertical integration can be created where partners are part of supply chain.

4) Political –

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

Disadvantages of Strategic Alliance

➢ Sharing –

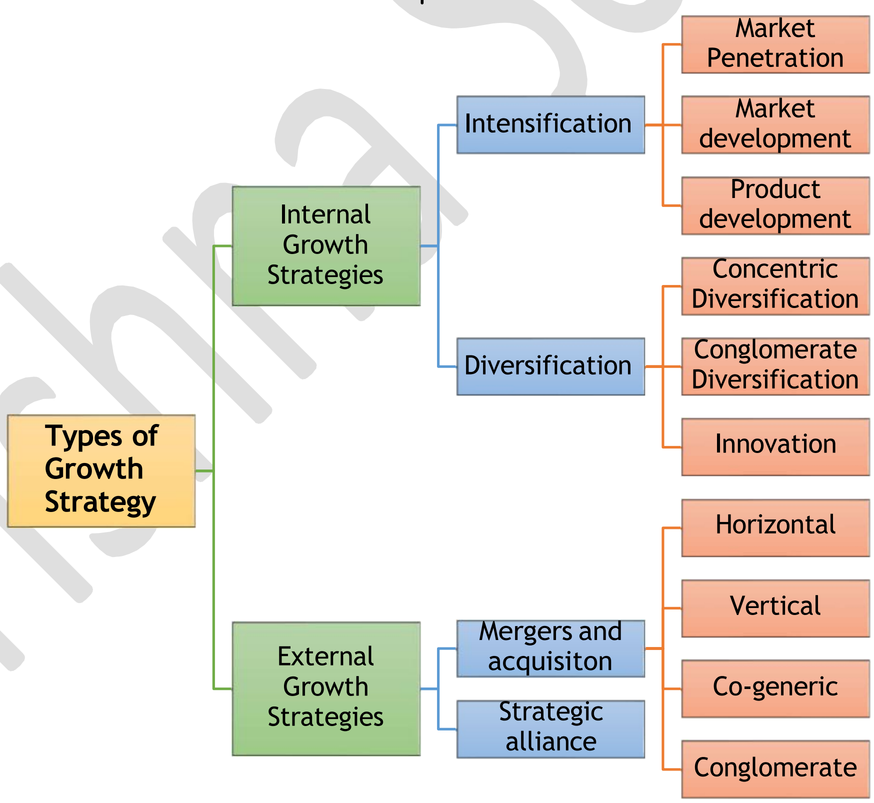
- Strategic alliances require sharing of
  - → resources and profits
  - → knowledge and skills

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.

➢ Potential competition –

- Strategic alliances may also create potential competition when an ally becomes an opponent in future when it decides to separate out



Strategic Exits

➢ Strategic Exits are followed when an organization substantially reduces the scope of its activity.

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.
- Certain conditions/indicators/Danger Signals when turnaround is needed –
  - 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

1) Stage One – Assessment of current problems :
   - The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused.
   - Once the problems are identified, Organization efficiently work on correcting and repairing any immediate issues.
2) Stage Two –Analyze the situation and develop a strategic plan :
   - Before you make any major changes Determine the chances of the business's survival.
   - Identify appropriate strategies and develop a preliminary action plan
   - For this one should look for
     - → Viable core businesses,
     - → adequate bridge financing
     - → available organizational resources.
     - → Analyze the strengths and weaknesses in the areas of competitive position.
3) Stage Three –Implementing an emergency action plan :
   - If the organization is in a critical stage, an appropriate action plan must be developed to survive the organization .
   - The plan typically includes -
     - ✓ Human resource,
     - ✓ financial, marketing and operational actions to restructure debts
     - ✓ Improve working capital,
     - ✓ Reduce costs,
     - ✓ Improve budgeting practices,
     - ✓ accelerate high potential products
4) Stage Four –Restructuring the business :
   - The financial state of the organization's core business is important.
   - During the turnaround, the "product mix" may be changed.
   - Some facilities might be closed; Organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.

- Reward and compensation systems that encourage employees to think about profits and return on investments.

5) Stage Five –Returning to normal :
- In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.
- Organization adds new products and improving customer service, creating alliance with other organizations, increasing the market share.

Important elements of turnaround strategy

a. Changes in the top management
b. Initial credibility-building actions
c. Neutralising external pressures
d. Identifying quick payoff activities
e. Quick cost reductions
f. Revenue generation
g. Asset liquidation for generating cash.
h. Better internal coordination.

Divestment Strategy

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

Major Reasons for Divestment/Retrenchment Strategy

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

Characteristics of Divestment Strategy

- This strategy involves divestment of some of the activities or sell-out of some of the businesses as such.

- Divestment is to be viewed as an integral part of corporate strategy without any stigma attached.

Ansoff's Product Market Growth Matrix

➢ **Market Penetration**

- It refers to a growth strategy where the business focuses on selling existing products into existing markets.
- It is achieved by making more sales to present customers without changing products in any major way.
- Penetration might require greater spending on advertising or personal selling.

➢ **Market Development**

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

➢ **Product Development**

- It is a growth strategy where business aims to introduce new products into existing markets.
- This strategy may require the development of new competencies and requires the business to develop modified products.

➢ **Diversification**

- It is 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.

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

Figure: 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.
- Stage of industry maturity is an environmental measure that represents a position in industry's life cycle.

Stage of industry maturity - Arthur D. Little (ADL) Matrix				
Competitive position	**Embryonic**	**Growth**	**Mature**	**Ageing**
Dominant	- Fast grow - Build barriers - Act offensively	- Fast grow - Attend cost leadership - Renew - Defend position - Act offensively	- Defend position - Attend cost leadership - Renew - Fast grow - Act offensively	- Defend position - Renew - Focus - Consider withdrawal
Strong	- Differentiate - Fast grow	- Differentiate - Lower cost - Attack small firms	- Lower cost - Focus - Differentiate - Grow with industry	- Find niche - Hold niche - Harvest
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

Figure: Arthur D. Little Strategic Condition Matrix

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

  a. Dominant
  - This is a comparatively rare position.
  - Attributable either to a monopoly or a strong and protected technological leadership.

  b. Strong
  - 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 competition

  c. Favourable

- This position 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

d. 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.

e. Weak

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

BCG Matrix

- The BCG growth-share matrix is the simplest way to Show a corporation's portfolio of investments.
- Growth share matrix also known for its cow and dog metaphors.
- Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix.
  - The *vertical axis* represents market growth rate and provides a measure of market attractiveness.
  - The *horizontal axis* represents relative market share and serves as a measure of company strength in the market.
- Using the matrix, organisations can identify four different types of products or SBU –

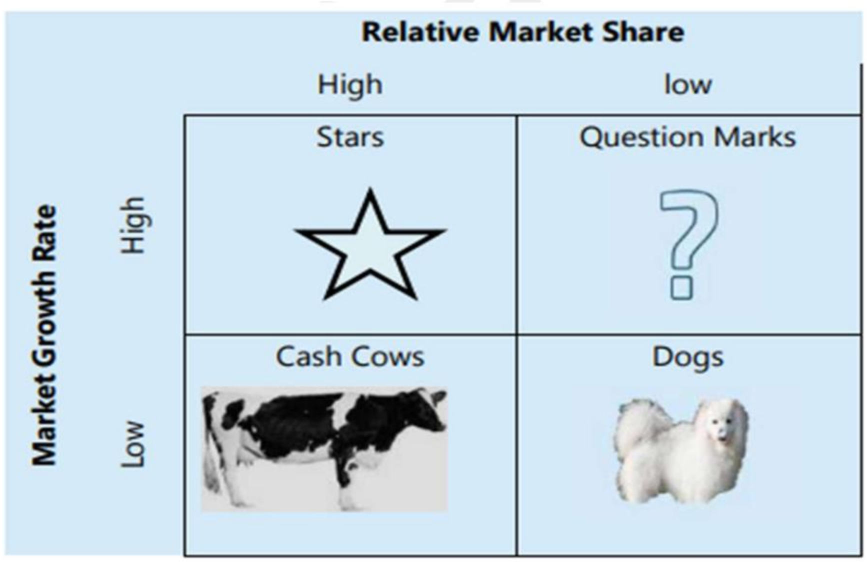


Figure: BCG Growth-Share Matrix

a. Stars –

- Are products or SBUs that are growing rapidly.
- Need heavy investment to maintain their position and finance their rapid growth potential.

b. Cash Cows –

- Are low-growth, high market share businesses or product.
- 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.

c. Question Marks –
- Low market share business in high-growth markets.
- They require a lot of cash to hold their share.
- They need heavy investments with low potential to generate cash.
- It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

d. Dogs –
- Low-growth, low-share businesses and products.
- They may generate enough cash to maintain themselves, but do not have much future.

➢ BCG Matrix: Post Identification Strategies :

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

➢ There are some problems and limitations with the technique

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

General Electric Matrix

➢ This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Model.

➢ This model has been used by General Electric Company.

➢ Understanding the GE Matrix

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

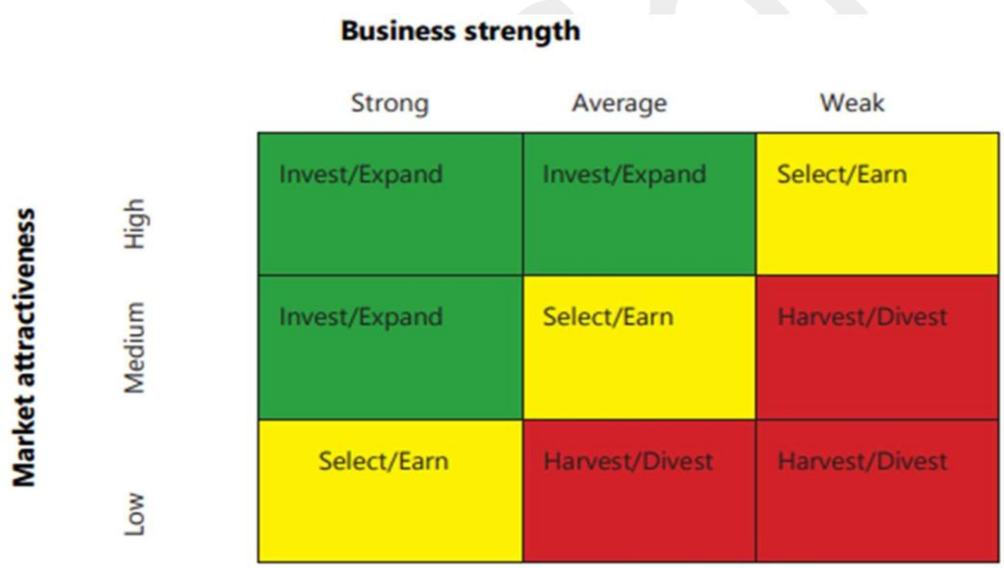
Market attractiveness is measured by a number of factors

- Size of the market.
- Market growth rate.
- Industry profitability.
- Competitive intensity.
- Availability of Technology.
- Pricing trends.

- Overall risk of returns in the industry.
- Opportunity for differentiation of products and services.
- Demand variability
- Segmentation.

Business strength is measured by considering the typical drivers

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



- Green Zone - advantageous position, Strategy - expand, invest and grow.
- Yellow Zone - needs caution and managerial discretion for making strategic choices.
- Red Zone - lead to losses, strategy - retrenchment, divestment or liquidation.

Notes -

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5. Strategy Implementation and Evaluation

- Strategy implementation and evaluation are critical phases of the process of strategic management in an organization.
- Strategy Implementation ⟶ Strategy into action
  Strategy Evaluation ⟶ the process of measuring and assessing the effectiveness of these

Strategic management Process

- The organisation first develops a clear vision, mission, values and goals.
- All the aspects come together in a strategic plan that details the organisation's vision, mission, values, goals, strategic themes, a high-level implementation plan and key performance measures.
- 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.
- Strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually.
- The strategic management process never really ends.

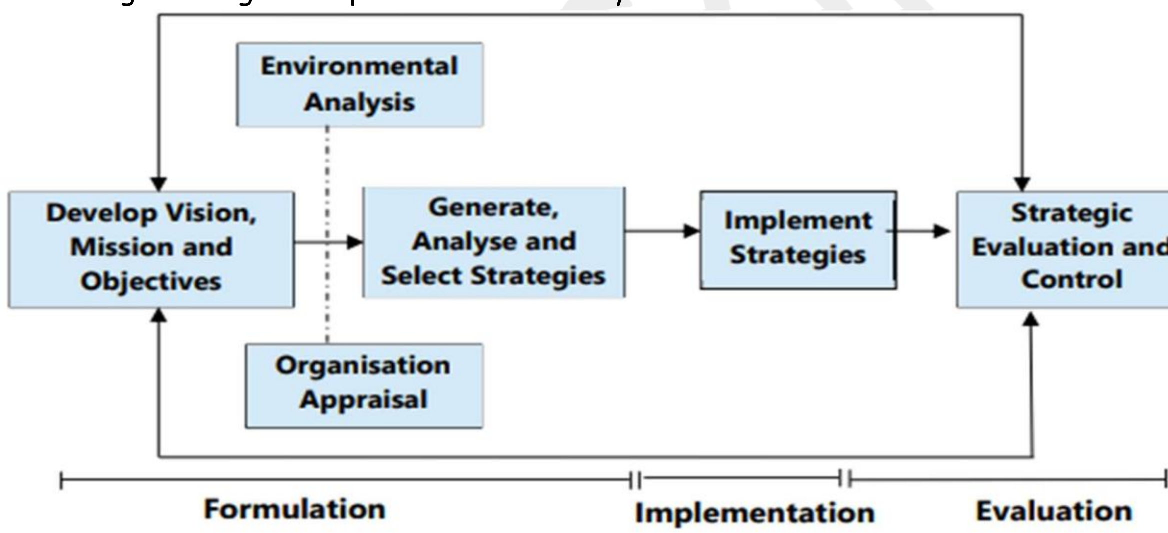


Figure: Strategic Management Model (Fred R David)

- This model like any other model of management does not guarantee sure-shot success, but it does represent a clear and practical approach for formulating, implementing, and evaluating

Stages in Strategic Management

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 Objective

- Company must determine what directional path the company should take and what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect.

- Strategic vision –
  - → It delineates management's aspirations for the organisation and highlights a particular direction, or strategic path for it to follow in preparing for the future and molds its identity.
  - → A clearly articulated strategic vision communicates management's aspirations to stakeholders.
- Mission and Strategic Intent –
  - → Managers need to be clear about what they see as the role of their organisation, and this is often expressed in terms of a statement of mission.
  - → This is important because both external stakeholders and other managers in the organisation need to be clear about what the organisation is seeking to achieve
- Corporate goals and objectives -
  - → Through the objective setting process, the firm is tackling the environment and deciding the focus it should have in the environment.
  - → The objective provides the basis for major decisions of the firm and also help the organisational performance to be realized at each level.
  - → The managerial purpose of setting objectives is to convert the strategic vision into specific performance targets – basically the results and outcomes the management wants to achieve - and then use these objectives as yardsticks for tracking the company's progress and performance.
  - → Objectives are needed at all organisational levels
  - → Company objectives need to be broken down into performance targets for each separate business, product line, functional department, and individual work unit.

Stage 2: Environmental and Organisational Analysis

1. Environmental scanning -
   - The external environment of a firm consists of economic, social, technological, market and other forces which affect its functioning.
   - The firm's external environment is dynamic and uncertain.
   - So, the management must systematically be analysed various elements of environment to determine opportunities and threats
2. Organisational analysis -
   - It involved a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on.
   - This would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment
   - This would provide us a framework for SWOT analysis

Stage 3: Formulating Strategy

- First Step - developing strategic alternatives in the light of SWOT
- Second Step - deep analysis of various strategic alternatives for the purpose of choosing the most appropriate alternative which will serve as the strategy of the firm.
- A company may be confronted with several alternatives such as:
  i. Should the company continue in the same business carrying on the same volume of activities? – Stability strategy
  ii. If it should continue in the same business, should it grow by expanding the existing units or by establishing new units or by acquiring other units in the industry? – Growth/Expansion Strategy
  iii. If it should diversify, should it diversify into related areas or unrelated areas? - Expansion Strategy
  iv. Should it get out of an existing business fully or partially? - retrenchment Strategy.
- A company may also follow a combination of these alternatives called combination strategy.

Stage 4: Implementation of Strategy

- Implementation and execution are an operations-oriented activity
- It is the most demanding and time-consuming part of the strategy management process.
- To convert strategic plans into actions and results, a manager must be able to
  - ✓ direct organisational change,
  - ✓ motivate people,
  - ✓ build and strengthen company competencies and competitive capabilities,
  - ✓ create a strategy supportive work climate, and
  - ✓ meet or beat performance targets
- In most situations, strategy-execution process includes the following principal aspects:
  - ❖ Developing budgets that steer ample resources into those activities critical to strategic success.
  - ❖ 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
  - ❖ Staffing the organisation with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities.

Stage 5: Strategic Evaluation and Control

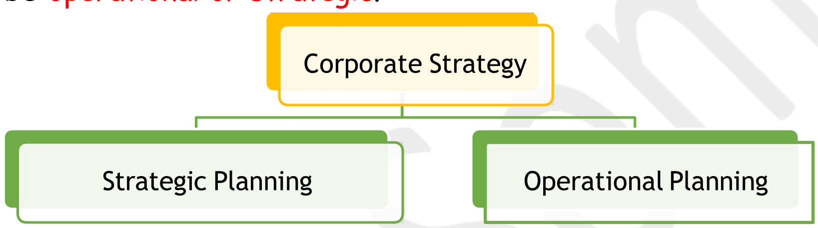
- The final stage of strategic management process – evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments
- It is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/or strategy-execution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

- So long as the company's direction and strategy seem well matched to industry and competitive conditions and performance targets are being met, company executives may decide to stay the course.
- If a company experiences a downturn in its market position or shortfalls in performance, then company managers shall find out whether the causes relate to poor strategy or execution or both and then to take timely corrective action.
- Proficient strategy execution is always the product of much organisational learning.
- Periodically assessing what aspects of strategy execution are working well and what needs improving is normal and desirable.

Strategy Formulation

☞ Corporate Strategy –

- The game plan that really directs the company towards success is called "corporate strategy"
- Planning may be operational or strategic.



Characteristics

1. Shapes the organisation and its resources.	1. Deals with current deployment of resources.
2. Assesses the impact of environmental variables.	2. Develops tactics rather than strategy.
3. Takes a holistic view of the organisation.	3. Projects current operations into the future.
4. Develops overall objectives and strategies	4. Makes modifications to the business functions but not fundamental changes
5. Is concerned with the long-term success of the organisation.	5. Is the responsibility of functional managers.
6. Is a senior management responsibility.	

- **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 a fact of interactive and overlapping decisions leading to the development of an effective strategy for the firm.
  - Strategic planning determines where an organisation is going over the next year or more and the ways for going there.

- The process is organisation-wide or focused on a major function such as a division or other major function.

➢ **Strategic uncertainty and how to deal with it?**

- Strategic uncertainty refers to the unpredictability of future events and circumstances that can impact an organization's strategy and goals.
- It can be driven by factors such as changes in the market, technology, competition, regulation, and other external factors
- Dealing with strategic uncertainty can be challenging and organizations need to have the flexibility, resilience, and agility to quickly respond to changes in the environment and minimize its impact.
- How to deal with Strategic uncertainty -
  - ❖ 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.
- ▪ The impact of a strategic uncertainty will depend on the importance of the impacted SBU to a firm.
- ▪ 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.

Strategy Implementation

➢ Strategic implementation is concerned with translating a strategic decision into action, which presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability.

- Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into action.
- Relationship with strategy formulation –
  - a company will be successful only when the strategy formulation is sound and implementation is excellent.
  - Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation
  - The matrix in the figure below represents various combinations of strategy formulation and
  - implementation

Strategy Formualtion	A / B	
Sound	**A** ▪ a company apparently formulated a competitive strategy but is showing difficulties in implementing. ▪ This can be due to such as the lack of experience (e.g. startups),the lack of resources, missing leadership and so on.	**B** ▪ Square B is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.
Flawed	**C** ▪ Square C is denotes for companies that haven't succeeded in coming up with a sound strategy formulation & in addition are bad at implementing their flawed strategic model. ▪ Their path to success also goes through business model redesign and implementation or execution readjustment.	**D** ▪ Square D is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills ▪ they have to do is to redesign their strategy before readjusting their implementation/execution skills
	Weak	Excellent

- Strategy is not synonymous with long-term plan but rather consists of an enterprise's attempts to reach some preferred future state by adapting its competitive Position as circumstances change.
- There is another approach the focus has been on efficiency (i.e., the relationship between inputs and outputs, usually with a short time horizon) rather than on effectiveness (which is concerned with the attainment of organisational goals - including that of desired competitive position).
- Efficiency - is essentially introspective,
  Effectiveness - highlights the links between the organization and its environment.
- Another model in which
  - Cell 1 – is well placed and thrives, since it is achieving what it aspires to achieve with an efficient output/input ratio.

- Cell 2 or 4 is doomed, unless it can establish some strategic direction.
- It is note 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 rather too much input is being used to generate outputs.

Strategic Formulation

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

Figure: Principal combinations of efficiency and effectiveness

- To be effective is - to do the right thing,
  To be efficient is - to do the thing right.
- An emphasis on efficiency rather than on effectiveness is clearly wrong.
- 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).

Difference between Strategy formulation G Implementation

Strategy Formulation	Strategy Implementation
1. It includes planning & decision making involved developing organization's strategic goals and plans	1. It involves all those means related to executing the strategic plans.
2. Strategy Formulation is placing the Forces before the action.	2. Strategy Implementation is managing forces during the action
3. An Entrepreneurial Activity based on strategic decision-making.	3. An Administrative Task based on strategic and operational decisions.
4. Emphasizes on effectiveness.	4. Emphasizes on efficiency
5. Primarily an intellectual and rational process.	5. Primarily an operational process.
6. Requires co-ordination among few individuals a the top level.	6. Requires co-ordination among many individuals at the middle and lower level
7. Requires a great deal of initiative, logical skills conceptual intuitive and analytical skills	7. Requires specific motivational and leadership traits.
8. Strategic Formulation precedes Strategy Implementation.	8. Strategy Implementation follows Strategy Formulation

- Strategy formulation do not differ greatly for small, large, for - profit, or non-profit organizations.
- However, strategy implementation varies substantially among different types and sizes of organizations.
- In real life, the formulation and implementation processes are intertwined.

Linkages and Issues in Strategy Implementation

☞ Forward Linkage -

- With the formulation of new strategies, or reformulation of existing strategies, many changes have to be affected within the organization
- the organizational structure has to undergo a change in the light of the requirements of the modified or new strategy
- The style of leadership has to be adapted to the needs of the modified or new strategies.
- In this way, the formulation of strategies has forward linkages with their implementation.

☞ Backward Linkage -

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

Issues in Strategy Implementation

1) Plan/Action -

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

2) Programmes -

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

3) Project -

- Programmes lead to the formulation of projects.
- A project is a highly specific programme for which the time schedule and costs are

predetermined.

- It requires allocation of funds based on capital budgeting by organizations.
- Research and development programme may consist of several projects.

➢ Implementation of strategies is not limited to formulation of plans, programmes, and projects.

➢ Projects would also require resources, proper organizational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work

➢ *Given below in sequential manner the issues in strategy implementation –*

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

➢ Sequence does not mean that each of the above activities are necessarily performed one after another.

➢ Many activities can be performed simultaneously, certain may be repeated over time or performed only once or can be overlapping and changes in the order in which these activities are performed.

➢ Strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers

➢ Hence it is essential that divisional and functional managers – be involved in the strategy-formulation process.

➢ Strategists - involved as much as possible in strategy-implementation activities.

Strategic Change through Digital Transformation

➢ The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies.

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

➢

Steps to initiate strategic change

I. Recognize the need for change :

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

II. Create a shared vision to manage change :

- Objectives of both individuals and organization should coincide. There should be no conflict between them.
- This is possible only if the management and the organization members follow a shared vision.
- Senior managers need to

→ constantly and consistently communicate the vision to all the organizational members

→ convince all those concerned that the change in business culture is not superficial or cosmetic.

III. Institutionalise the change :

- Action stage - which requires implementation of changed strategy.
- Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things.
- Change process must be regularly monitored and reviewed to analyse the after-effects of change
- Necessary corrective actions are taken on any discrepancy or deviation
- It takes time for the changed culture to prevail.

Kurt Lewin's Model of Change – It is cyclical process

➢ To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future

a) Unfreezing the situation:

- Individuals aware of the necessity for change and prepares them for such a change and willing and ready to accept the change.
- Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate.
- This can be achieved by -
  - → making announcements,
  - → holding meetings and
  - → promoting the new ideas.

b) Changing to the new situation:

- Members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined.
- H.C. Kellman has proposed three methods for reassigning new patterns of behaviour.

c) Refreezing:

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

◆ **Compliance** –

→ It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour.

→ Fear of punishment, actual punishment or actual reward seems to change behaviour.

◆ **Identification** –

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

◆ **Internalization** –

→ It involves some internal changing of the individual's thought processes in order to adjust to the changes introduced.

→ They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.

- Change process is not a one-time application but a continuous process due to dynamism and ever changing environment.

How does digital transformation work ?

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

Change Management

- Organizations can plan, prepare for, and carry out changes to their operations, including digital transformations, with the aid of the discipline of change management.
- Change management consists of four essential elements:
  1) Defining the goals and objectives of the transformation
  2) Assessing the current state of the organization and identifying gaps
  3) Creating a roadmap for change that outlines the steps needed to reach the desired state
  4) Implementing and managing the change at every level of the organization
- 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 is the process of planning, implementing, and monitoring changes in an organization.
  - Any sort of organisation, including enterprises, organisations, governmental bodies, and even families, can utilise change management to manage changes.
  - It is difficult and complicated process
  - 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
- The role of change management in digital transformation
  - A good change management strategy is necessary for a successful digital transformation.
  - This is because organizations can improve their chances of success by approaching change in a proactive and organized manner
  - It provides organizations in achieving their objectives while reducing risks and disruptions.
  - 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 member and parties involved in the transformation process.
    - ✓ Track progress and make required course corrections.
- Change Management Strategies for Digital Transformation
  - Businesses managing more than simply their staff, clients, and products.
  - Additionally, they are handling the introduction of new technology, unexpected emergence of new market opportunities, and changes in customer preferences

- In essence, modern firms must be able to manage change.
- The five best practices for managing change in small and medium-sized businesses are:

1) Begin at the top :
   → A focused, invested, united leadership that is on the same page about the company's future is reflected in change that begins at the top.
   → The culture that will motivate the rest of the organisation to accept change can only be generated and promoted in this way
2) Ensure that the change is both necessary and desired :
   → The fact that decision-makers are unaware of
      - how to properly handle a digital transformation and
      - the effects it will have on their firm is one of the main causes of this
   → If a organization doesn't have a sound strategy in place, introducing too much too fast can frequently become a major issue down the road
3) Reduce disruption :
   → The introduction of new technologies intended to improve management and corporate operations causes employee concern about change
   → It is possible to reduce workplace disruption by:
   a) Getting the word out early and preparing for some interruption.
   b) Giving staff members the knowledge and tools, they need to adjust to change.
   c) Creating an environment that encourages transformation or change
   d) Empowering change agents to provide context and clarity for changes, such as project managers or team leaders.
   e) Ensuring that IT department is informed of changes in technology or infrastructure and is prepared to support them.
4) Encourage communication :
   → Create channels so that workers may contact you with queries or complaints.
   → Encourage departmental collaboration to propagate ideas and innovations
   → 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.
5) Recognize that change is the norm, not the exception :
   → Change readiness may be defined as "the ability to continuously initiate and respond to change in ways that create advantage, minimize risk, and sustain performance."
   → Business 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?

- Any organisation may find the work of digital transformation challenging
- How to manage the change –

1. Specify the digital transformation's aims and objectives

- What is the intended outcome?
- What are the precise objectives that must be accomplished?
- It will be easier to make sure that everyone is on the same page and pursuing the same aims.

2. Always, always, always communicate
   - It might be challenging for people to accept change and adjust to it.
   - You should discuss the objectives of the digital transformation and how they will affect stakeholders, including employees, clients, and other parties.
3. Be ready for resistance:
   - Even when a change is for the better, it can be challenging for people to embrace it.
   - Have a strategy in place for dealing with any resistance that may arise.
4. Implement changes gradually :
   - Changes should ideally be implemented gradually rather than all at once.
   - This will give people time to become used to the new way of doing things.
5. Offer assistance and training:
   - Workers will need guidance in the new procedures, software applications, etc

Organisational framework

- Organizations can successfully integrate a new digital system by planning for and

McKinsey 7S Model

- It 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.
- Hard Elements are –
  - 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 are - (difficult to define as they are governed by the culture)
  - 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 & 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.

➢ Limitation of McKinsey 7S Model

✓ It ignores the importance of the external environment and depicts only the most crucial elements within the organization.

✓ The model does not clearly explain the concept of organizational effectivness or performance

✓ The model is considered to be more static and less flexible for deicion making

✓ It is generally criticized for missing out the reals gaps in conceptualization and execution of strategy.

Organisational Structure

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

First, structure largely dictates how operational objectives and policies will be established to achieve the strategic objectives.

The second major reason is that structure dictate how resources will be allocated to achieve strategic objectives

➢ According to Chandler, changes in strategy lead to changes in organizational structure.

➢ There is no one optimal organizational design or structure for a given strategy.

➢ What is appropriate for one organization may not be appropriate for a similar firm

➢ For example,

→ consumer goods companies tend to emulate the divisional structure-by-product form of organization.

→ Small firms tend to be functionally structured (centralized).

→ Medium-size firms tend to be divisionally structured (decentralized).

→ Large firms tend to use an SBU or matrix structure.

➢ But no firm can change its structure just because every firm is influenced by numerous external and internal forces ,to do so would lead to chaos.

➢ When a firm changes its strategy, the existing organizational structure may become ineffective.

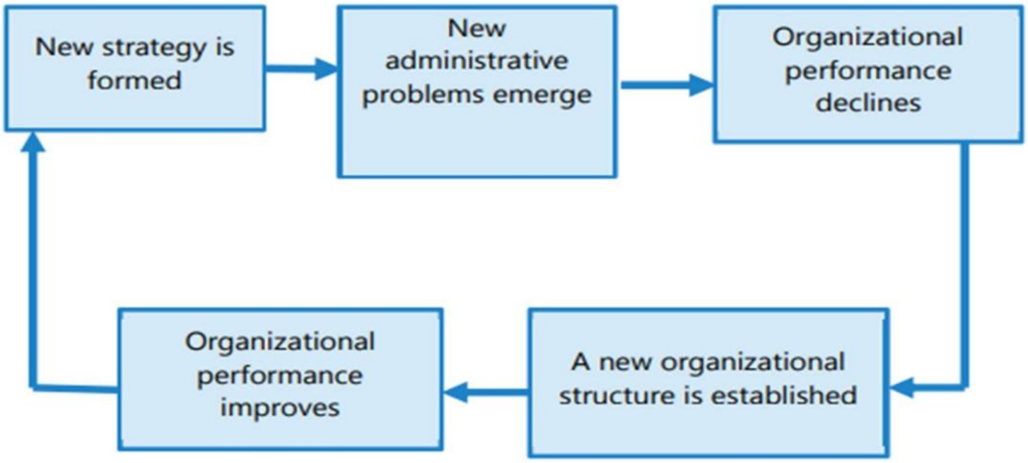
➢ Symptoms of an ineffective organizational structure include

→ too many levels of management,

→ too many meetings attended by too many people,

→ too much attention being directed toward solving interdepartmental conflicts,

→ too large a span of control, and too many unachieved objectives.



Types of Organisational Structure

- Organizational structure is the company's formal configuration of its intended roles, procedures, governance mechanisms, authority, and decision-making processes.
- It influenced by factors such as an organization's age and size.
- It Act as a framework which reflects managers' determination of what a company does and how tasks are completed, given the chosen strategy.

A. Simple Structure

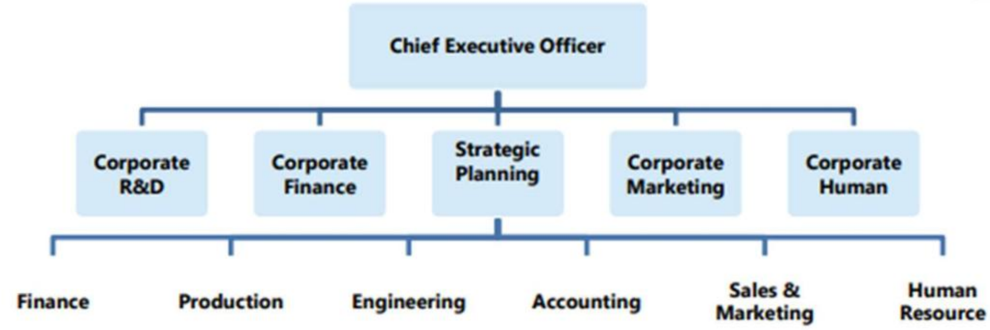
- Appropriate for companies that
  - → follow a single-business strategy and offer a line of products in a single geographic market.
  - → implementing focused cost leadership/focused differentiation strategies.
- owner-manager - makes all major decisions directly and monitors all activities, company's staff - merely serves as an executor.
- Little specialization of tasks, few rules, little formalization, unsophisticated information systems and direct involvement of owner-manager in all phases of day-to-day operations characterise 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 for some small companies relative to their larger counterparts. T
- However, if they are successful, small companies grow larger.
- As a result of this growth, the company outgrows the simple structure.
- More extensive and complicated information-processing requirements place significant pressures on owner-managers (often due to a lack of organizational skills or experience or simply due to lack of time).
- To coordinate more complex organizational functions, companies should abandon the simple structure in favour of the functional structure.

B. Functional Structure

- A widely used structure in business organisations is functional type because of its simplicity and low cost.
- A functional structure groups tasks and activities by business function, such as

- ✓ production/operations,
- ✓ marketing, finance/accounting,
- ✓ research and development, and management information systems.

- ➢ It also promotes specialization of labour, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making.
- ➢ The functional structure consists of a chief executive officer or a managing director and supported by corporate staff with functional line managers in dominant functions (*such as production, financial accounting, marketing, R&D, engineering, and human resources*)



- ➢ It enables the company to overcome the growth-related constraints of the simple structure, enabling or facilitating communication and coordination.
- ➢ Differences in functional specialization and orientation may impede communications and coordination.
- ➢ Thus, the chief executive officer must integrate functional decision-making and coordinate actions of the overall business across functions.
- ➢ Functional specialists often may develop a myopic (or narrow) perspective, losing sight of the company's strategic vision and mission.
- ➢ This problem can be overcome by implementing the multidivisional structure.

C. 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.

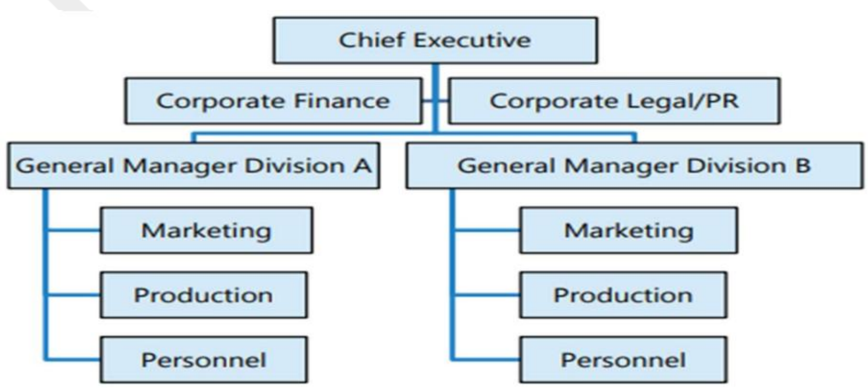


Figure: Divisional Structure

- Advantages –
  - 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
  - → As a result, employee morale is generally higher in a divisional structure than it is in centralized structure.
  - 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 in be added easily.
- Limitation –
  - divisional structure is costly, for a number of reasons –
  - → First, each division requires functional specialists who must be paid.
  - → Second, there exists some duplication of staff services, facilities, and personnel; for instance, functional specialists are also needed centrally (at headquarters) to coordinate divisional activities
  - → Third, managers must be well qualified because the divisional design forces delegation of authority better-qualified individuals requires higher salaries.
  - → it requires an elaborate, headquarters-driven control system.
  - certain regions, products, or customers may sometimes receive special treatment and It may be difficult to maintain consistent, companywide practices.

Divisional structure is appropriate for organization

By Geographic area

- whose strategies are formulated to fit the particular needs and characteristics of customers in different geographic areas.
- This type of structure can be most appropriate for organizations that have similar branch facilities located in widely dispersed areas.
- allows local participation in decision making and improved coordination within a region

By product or service

- This is most effective when specific products or services need special emphasis
- 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.
- The divisional structure allows strict control over and attention to product lines, but it may also require a more skilled management force and reduced top management control.

- When a few major customers are of paramount importance and many different services are provided to these customers, then a divisional structure by customer can be the most effective way to implement strategies.
- E.g - Some airline companies have two major customer divisions: passengers and freight or cargo services. Banks are often organised in divisions such as personal banking corporate banking, etc.

- A divisional structure by process is similar to a functional structure but a key difference between these two designs is that
  - ✓ functional departments are not accountable for profits or revenues,
  - ✓ whereas divisional process departments are evaluated on these criteria.

D. Multi Divisional Structure

- 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)
- 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.
- 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.
- When the firm is less diversified, strategic controls are used to manage divisions.
- Strategic control refers to the operational understanding by corporate officers of the strategies being implemented within the firm's separate business units.
- Mgmt require that each division's performance be largely independent of the performance of other divisions. So, the Strategic Business Units arises.

E. Strategic Business Unit (SBU) Structure

- This concept is relevant to multi-product, multi-business enterprises.
- It is impractical for an enterprise with a multitude of businesses to provide separate strategic planning treatment to each one of its products/businesses;
- As per concept of SBU, a multi-business enterprise groups its multitude of businesses into a few distinct business units in a scientific way.
- 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 standalone 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.

➢ When strategic planning was carried out treating territories as the units for planning, it gave rise to two kinds of difficulties:
(i) since a number of territorial units handled the same product, the same product was getting varied strategic planning treatments; and
(ii) since a given territorial planning unit carried different and unrelated products, products with dissimilar characteristics were getting identical strategic planning treatment.

➢ The concept of strategic business units (SBU) breaks away from this practice.

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

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

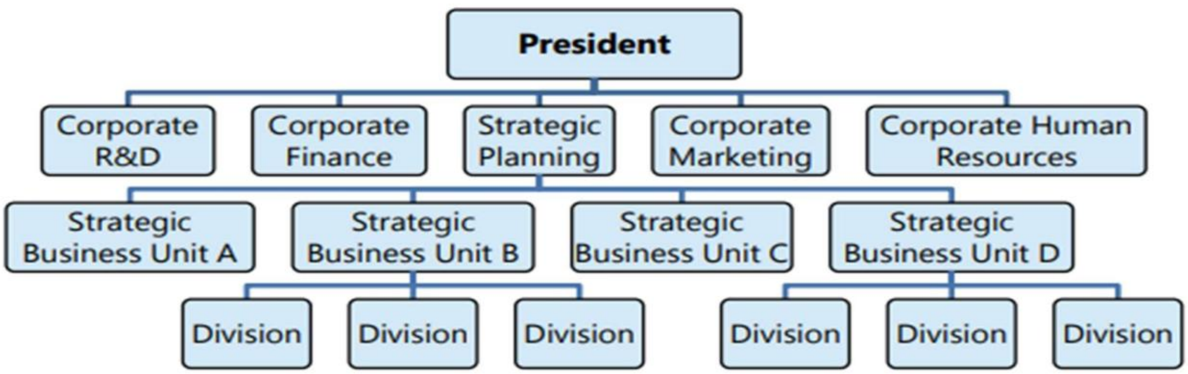


Figure: SBU Structure

➢ 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

➢ This enables the company to more accurately monitor the performance of individual businesses, simplifying control problems.

➢ It also facilitates comparisons between divisions, improving the allocation of resources and can be used to stimulate managers of poorly performing divisions to seek ways to improve performance.

➢ Individual SBUs are treated as profit centres and controlled by corporate headquarters that can concentrate on strategic planning rather than operational control.

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

- A scientific method of grouping the businesses of a multi-business corporation which helps the firm in strategic planning.

- An improvement over the territorial grouping of businesses and strategic planning based on territorial unit.
- An SBU is a grouping of related businesses that can be taken up for strategic planning distinct from the rest of the businesses. Products/businesses within an SBU receive same strategic planning treatment and priorities.
- Unrelated products/businesses in any group are separated. If they could be assigned to any other SBU applying the criterion of functional relation, they are assigned; accordingly, otherwise they are made into separate SBUs.
- Each SBU is a separate business from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition and strategy-one SBU will be distinct from another.
- Each SBU will have its own distinct set of competitors and its own distinct strategy.
- Each SBU will have a CEO who will be responsible for strategic planning for the SBU and its profit performance & also have control over most of the factors.
- SBUs might build on similar technologies, or all provide similar sorts of products or services.
- SBUs might be serving similar or different markets. Even if technology or products differ, it may be that the customers are similar.
- Grouping the businesses on SBU lines helps the firm in strategic planning by removing the vagueness and confusion. It also facilitates the right setting for correct strategic planning and facilitates correct relative priorities and resources to the various businesses.

F. Matrix Structure

- The matrix structure, in contrast, may be very appropriate when organizations conclude that neither functional nor divisional forms, even when combined with horizontal linking mechanisms like strategic business units, are right for the implementation of their strategies.
- In matrix structure, functional and product forms are combined simultaneously at the same level of the organization.
- Employees have two superiors, a product or project manager and a functional manager.
- A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix).
- A matrix structure can result in higher overhead because it has more management positions.

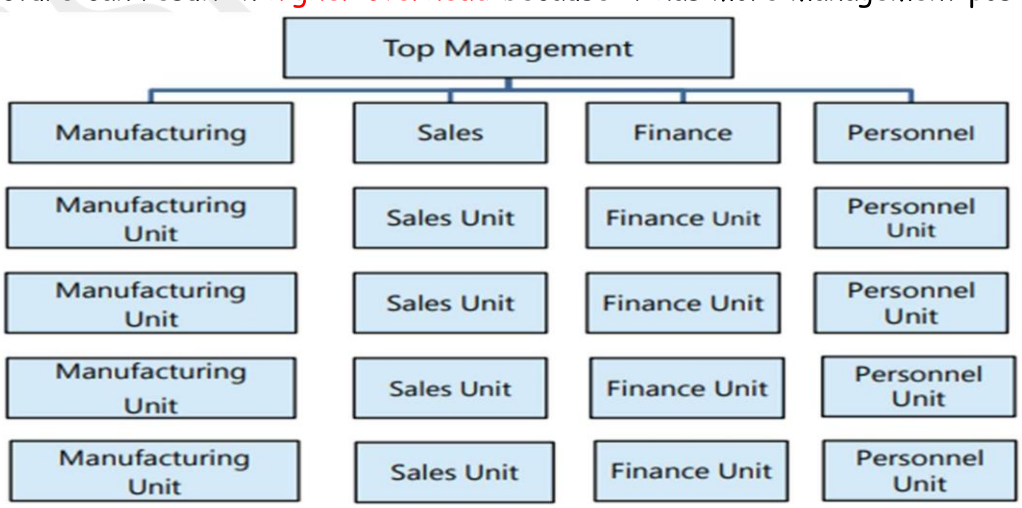


Figure: Matrix Structure

- Other characteristics –
  - dual lines of budget authority (a violation of the unity command principle),
  - dual sources of reward and punishment, shared authority,
  - dual reporting channels, and
  - a need for an extensive and effective communication system
- When several variables such as product, customer, technology, geography, functional area, have roughly equal strategic priorities, a matrix organization can be an effective structural form.
- Matrix structure was developed to combine the stability of the functional structure with the flexibility of the product form.
- The matrix structure is not very popular because of difficulties in implementation and trouble in managing
- The matrix structure is often found in an organization or within an SBU when the following three conditions exists –
  1) Ideas need to be cross-fertilised across projects or products.
  2) Resources are scarce.
  3) Abilities to process information and to make decisions need to be improved.

Old Organizational Design	New Organizational Design
• One large corporation	• Mini-business units and cooperative relationships
• Vertical communication	• Horizontal communication
• Vertical integration	• Outsourcing & virtual organizations
• Work/quality teams	• Autonomous work teams
• Minimal training	• Extensive training
• Centralised top-down decision making	• Decentralised participative decision making

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

a) Cross-functional task forces (CFTF) :

→ It used when a new product line is being introduced.

→ A project manager is in charge as the key horizontal link.

b) Product/brand management :

→ If CFTF become more permanent, the project manager becomes a product or brand manager and a second phase begins

→ function is still the primary organizational structure, but product or brand managers act as the integrators of semi permanent products or brands.

c) Mature matrix :

→ It 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

G. Network Structure

- A corporation organized in this manner is often called a virtual organization because it is composed of a series of project
- Many activities are outsourced.
- The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so.
- Instead of having salaried employees, it may contract with people for a specific project or length of time.
- The organization is, in effect, only a shell, with a small headquarters acting as a "broker", electronically connected to some completely owned divisions, partially owned subsidiaries, and other independent organisation.
- The network organization is a series of independent firms or business units linked together by a common system that designs, produces, and markets a product or service.
- Companies like Airtel use the network structure in their operations function by subcontracting manufacturing to other companies in low-cost
- The network organization structure provides an organization with increased flexibility and adaptability to cope with rapid technological change and shifting patterns of international trade and competition.
- It allows a company to concentrate on its distinctive competencies, while gathering efficiencies from other firms who are concentrating their efforts in their areas of expertise.
- Disadvantages –
  - The availability of numerous potential partners can be a source of trouble.
  - Contracting out functions to separate suppliers/distributors may keep the firm from discovering any synergies by combining activities.
  - If a particular firm over specialises on only a few functions, it runs the risk of choosing the wrong functions and thus becoming non-competitive

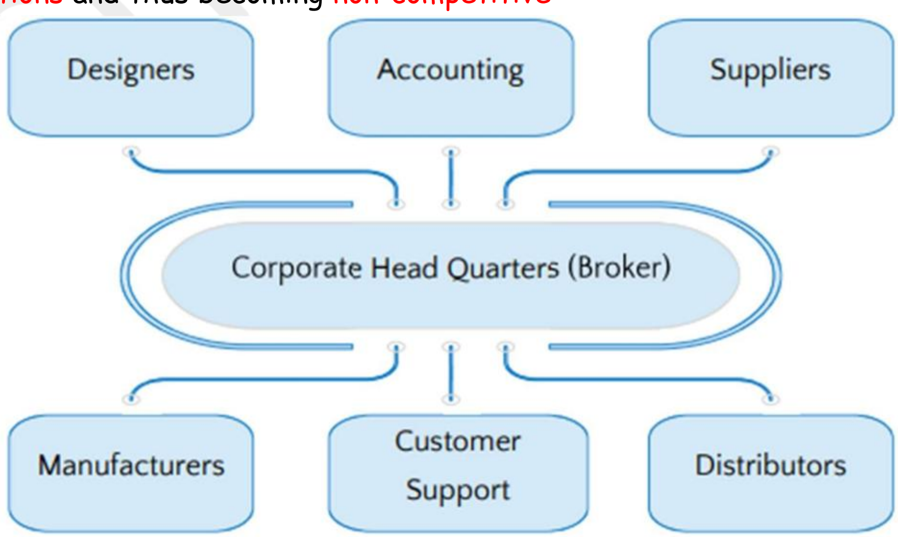


Figure: Network Structure

H. Hourglass Structure

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

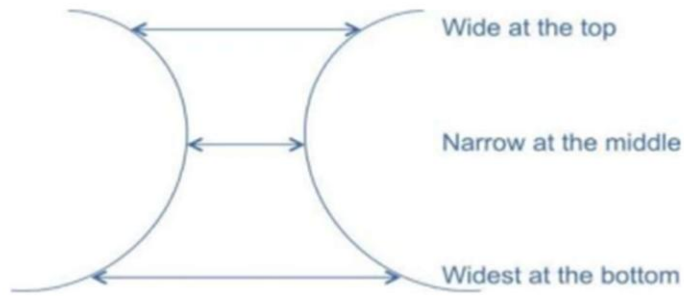


Figure: Hourglass Organisation Structure

- Hourglass structure has obvious benefit of reduced costs.
- It also helps in enhancing responsiveness by simplifying decision making.
- 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.
- Organisations try to overcome these problems by assigning challenging tasks, transferring laterally and having a system of proper rewards for performance.

Organization Culture

- Every organisation has a unique organizational culture.
- It has its own philosophy and principles, its own history, values, and rituals, its own ways of approaching problems and making decisions, its own work climate.
- It has its own embedded patterns of how to do things.

Where Does Corporate Culture Come From?

- A company's culture is manifested in the values and business principles that management practices,
  - → in its ethical standards and official policies,
  - → in its stakeholder relationships
  - → in the traditions the organization maintains,
  - → in its supervisory practices,
  - → in employees' attitudes and behaviour,
  - → in the legends people repeat about happenings in the organization,
  - → in the peer pressures that exist,
  - → in the organization's politics that permeate the work environment.

- All these sociological forces, combine to define an organization's culture.

Culture: ally or obstacle to strategy execution?

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

Role of culture in strategy execution

- A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution
- E.g – a culture where -
  - frugality and thrift are values strongly shared by organizational members is very conducive to successful execution of a low-cost leadership strategy.
  - creativity, embracing change, and challenging is very conducive to successful execution of a product innovation and technological leadership strategy
- Strategy supportive cultures shape the mood, motivate the workforce, positively affecting organizational energy, work habits and operating practices.
- 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 company's vision, performance targets, and strategy
- Perils (Risk) of Strategy-Culture Conflict:
  - When a company's culture is out of sync with what is needed for strategic success, the culture has to be changed as rapidly as can be managed.
  - While correcting a strategy culture conflict can occasionally mean revamping strategy to produce cultural fit, more usually it means revamping the mismatched cultural features to produce strategy fit.
- Creating a strong fit between strategy and culture :
  - It is the strategy maker's responsibility to select a strategy compatible with the "sacred" or unchangeable parts of prevailing corporate culture.
  - It is the strategy implementer's task, once strategy is chosen, to change whatever facets of the corporate culture hinder effective execution.
- Changing a problem culture :
  - Changing a problem culture is very difficult because People values and habits attached emotionally to the old and familiar culture.
  - It takes time to replace an unhealthy culture with a healthy culture.
  - The first step is to diagnose which facets of the present culture are strategy supportive and which are not.
  - managers have to talk openly and forthrightly to all concerned about those aspects of the

culture that have to be changed.

- The menu of culture-changing actions includes
  - → revising policies and procedures in ways that will help drive cultural change,
  - → altering incentive compensation (to reward the desired cultural behaviour),
  - → recruiting and hiring new managers and employees who have the desired cultural values
  - → replacing key executives who are strongly associated with the old culture,
  - → communicate to employees the basis for cultural change and its benefits.
- creating and sustaining a strategy-supportive culture is a job for the whole management team.
- The task of making culture supportive of strategy is not a short-term exercise. It takes time for a new culture to emerge and prevail;
- The bigger the organization and the greater the cultural shift needed to produce a culture-strategy fit, the longer it takes.
- In large companies, changing the corporate culture in significant ways can take two to five years.
- Every organisation has to maintain a fine balance between a range of "hard" and "soft" management as even though a structure is appropriate for the time it is established, by the time it is implemented.

Strategic Leadership

➢ A manager as a strategic leader has to play many leadership roles:
  - → visionary, chief entrepreneur and strategist, chief administrator,
  - → culture builder, resource acquirer and allocator, capabilities builder,
  - → process integrator, crisis manager, spokesperson, cheerleader
  - → negotiator, motivator,arbitrator, policy maker, policy enforcer,

➢ A strategic leader is a change agent to initiates strategic changes in the organisations and ensure that the changes successfully implemented.

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

1) Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.
2) Promoting a culture of esprit de corps that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level
3) Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
4) Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.
5) Pushing corrective actions to improve strategy execution and overall strategic performance.

➢ For E.g - N. R. Narayan Murthy (CEO of Infosys.) and Dhirubhai Ambani (pioneer of Reliance Group).

Leadership role in implementation:

➢ The strategic leaders must be able to use the strategic management process effectively by guiding the company

- That result in the formation of strategic intent and strategic mission, facilitating the development and implementation of appropriate strategic plans and providing guidance to the employees for achieving strategic goals.
- Strategic leaders are challenged to adapt their frames of reference so that they can deal with rapid, complex changes.

Figure: Effective Strategic Leadership

- A managerial frame of reference is the set of assumptions, premises, and accepted wisdom that bounds a manager's understanding of the company, the industry in which it competes, and the core competencies that it exploits.
- A Strategic leader has several responsibilities, including the following:
  - Making strategic decisions.
  - Formulating policies and action plans to implement strategic decision
  - Ensuring effective communication in the organisation.
  - Managing human capital (perhaps the most critical of the strategic leader's skills).
  - Managing change in the organisation.
  - Creating and sustaining strong corporate culture.
  - Sustaining high performance over time.
- Thus, the strategic leadership skills of a company's managers represent resources that affect company performance.
- Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspire organization members to move in that direction.
- Unlike strategic leadership, managerial leadership is generally concerned with the short term, day-to-day activities.
- Two basic approaches to leadership –
  - ☞ Transformational leadership style
    - It 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 change

- Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction.
- Such a leadership motivates followers by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

☞ Transactional leadership style

- focuses more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation.
- Transactional leaders try to build on the existing culture and enhance current practices.
- This 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.
- This style may be appropriate in static environment, in mature industries, and in organizations that are performing well.

Strategic Control

➢ Controlling is one of the important functions of management and is often regarded as the core of the management process
➢ Control is intended to regulate and check.
➢ The controlling function involves monitoring the activity and measuring results against pre-established standards, analysing and correcting deviations as necessary and maintaining/adapting the system.
➢ The process of control has the following elements:

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

➢ there are three types of organizational control –

1) Operational Control :

- The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions.
- There should be a clear-cut and somewhat measurable relationship between inputs and outputs which could be predetermined or estimated with least uncertainty.

- The control activity consists of regulating the processes within certain 'tolerances', irrespective of the effects of external conditions.
- E.g –
  - → 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)

2) Management Control :

- The basic purpose of management control is the achievement of enterprise goals – short 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"
- Controls are necessary to influence the behaviour of events and ensure that they conform to plans.

3) Strategic Control :

- According to Schendel and Hofer "Strategic control focuses on the dual questions of whether:
  1. the strategy is being implemented as planned; and
  2. the results produced by the strategy are those intended."
- Strategic control is the process of evaluating strategy as it is formulated and implemented.
- A strategy might be affected on account of changes in internal and external environments of organisation.
- Types of Strategic Control –

a) Premise control :

→ 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 involves monitoring two types of factors:

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

(ii) Industry factors such as competitors, suppliers, substitutes

→ Different premises may require different amount of control.

→ Thus managers are required to select those premises that are likely to change.

b) Strategic surveillance :

→ 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, newspapers, business magazines, attending meetings, conferences, discussions & so on.

→ Strategic surveillance may be loose form of strategic control.

c) Special alert control :

→ Unexpected events may force organizations to reconsider their strategy.

→ Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.

d) Implementation control :

→ Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps.

→ It is directed towards assessing the need for changes in the overall strategy

→ Strategic implementation control is not a replacement to operational control.

→ Unlike operational control, it continuously monitors the basic direction of the strategy.

→ The two basic forms of implementation control are –

(i) Monitoring strategic thrusts :

- It helps managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments

(ii) Milestone Reviews :

(i) All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation

(ii) It normally involves a complete reassessment of the strategy.

(iii) It also assesses the need to continue or refocus the direction of an organization.

Strategic Performance measure (SPM)

- Companies that continuously outperform their competitors are those who execute well.
- SPM is a method that increases line executives' understanding of an organization's strategic goals and offers a continuous system for tracking progress towards these objectives using clear-cut performance measurements.
- SPM are key indicators that organizations use to track the effectiveness of their strategies and make informed decisions about resource allocation.
- It provide-

  → 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.
- 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.
  - Rational forces of openness, communication, and self-analysis
  - 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

➢ 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 :

- 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 :

- 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 :

- 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 :

- 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 :

- 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

New Concepts -

Triple Bottom Line framework (TBL) **emphasises People and Planetary Concerns besides profitability or Economic Prosperity alone.**

The Quadruple Bottomline **adds the 4th P to add a spiritual dimension named ‘Purpose.’**

➢ The Importance of Strategic Performance Measures

♦ Goal Alignment :

→ It help organizations align their strategies with their goals and objectives, ensuring that they are on track to achieve their desired outcomes.

♦ Resource Allocation :

→ It provide organizations with the information they need to make informed decisions about resource allocation and allocate resources to the areas that will have the greatest impact on their performance.

♦ Continuous Improvement :

→ It 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 :

→ It 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 SPM that are aligned with their goals and objectives
- 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.
- 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.

Notes -

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