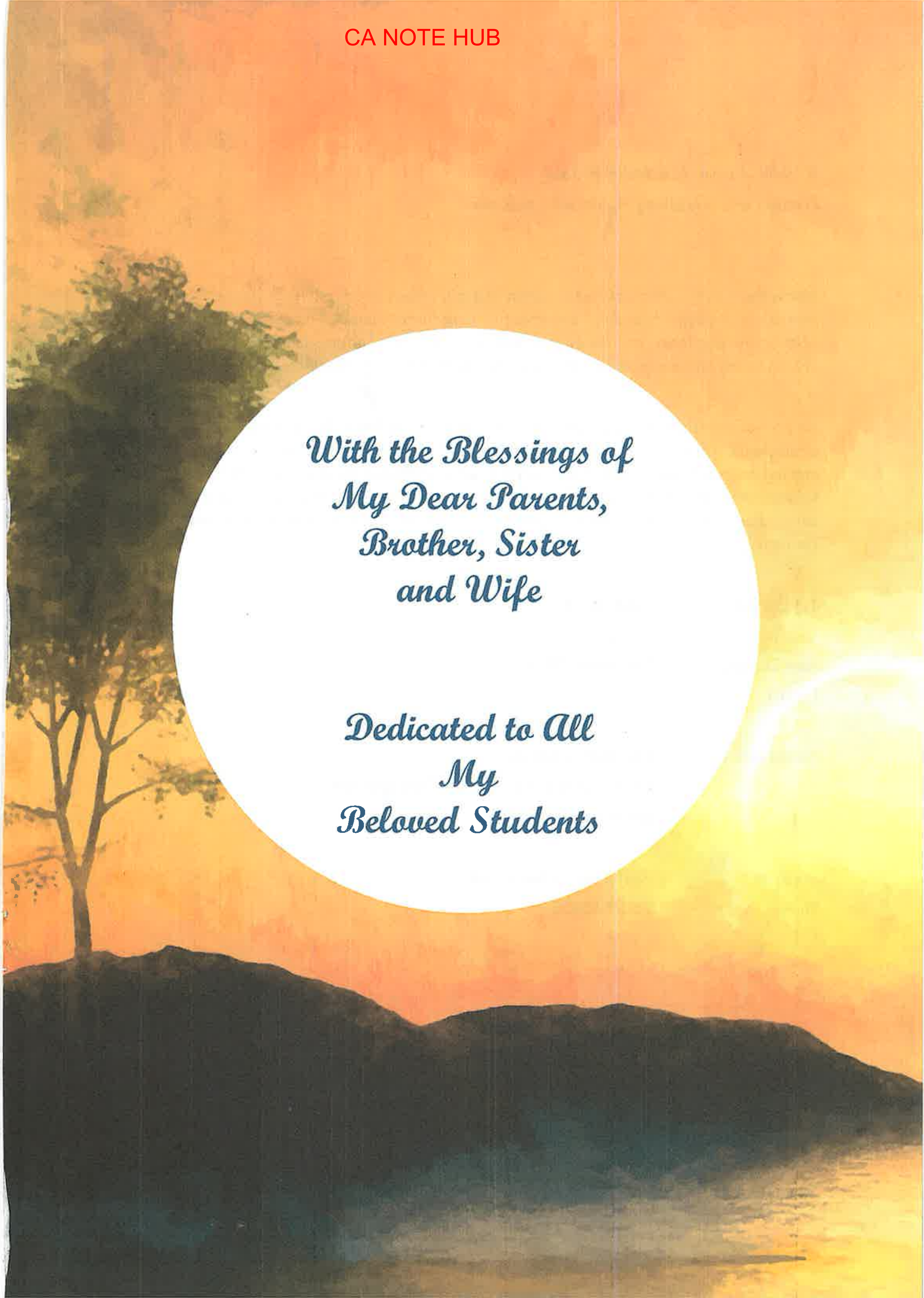
EKATVAM ACADEMY

CA INTER

NEW SYLLABUS

Strategic Management

CA Rishabh Jain



With the Blessings of
My Dear Parents,
Brother, Sister
and Wife

Dedicated to All
My
Beloved Students

PREFACE

Dear students,

It gives me immense joy and pleasure to present a completely updated CA Inter - Strategic Management Module strictly as per ICAI New Syllabus.

This book was prepared with the aim of making sure that anyone who reads this gets not only a substantial coverage over the ICAI syllabus but also, resounding confidence over their practical applicability when you are working in the corporate world.

Having been a professor for 10 years and counting, I have observed that, for you to succeed in exam and your professional career you need a great understanding of the concept and its real-life application. Majority students get stuck in the rat race of just passing the exam by any means, this may help you to pass a competitive exam but not in the exam of your professional life.

I have worked for more than 6 years in Big 4's like PWC and Deloitte in my initial years of professional career and the lessons learned during that time has inspired me to ensure that my students get a "Practical Approach" to this so called "Theoretical world of Strategic Management".

The journey of a Chartered Accountant is not a rapid T-20 match. It is equivalent to a 5-day test match, if you will. Rather than rushing and blasting through your preparation, it is crucial to be consistent and disciplined. My cricket coach once said to me something that has stuck with me since my college days - 'Wicket pe bane raho, runs aapne aap ban jaayenge!'

I wish you all the best and hope that you be greatly benefited from this book!

Happy Learning,

Regards

CA Rishabh Jain

rishabhrgolchha@gmail.com

www.ekatvamacademy.com

'Failure will never overtake me if my determination to succeed is strong enough!'

- Late Dr. A P J Abdul Kalam

Acknowledgments

There are people in this world, some of them so wonderful, that made this book become a reality that you are holding in your hand. I would like to thank all of them.

SPECIAL THANKS TO

Mr. Sharad Patil who has taken immense effort in creating this Book.

&

Mr. Sagar Dhumal who has taken immense efforts in Designing this book in the most creative way.

"Alone we can do so little, together we can do so much"

CA INTERMEDIATE

Strategic Management

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RJ = Practical Insight into Theoretical World

Introduction to Strategic Management

CONCEPT OF MANAGEMENT

The term 'management' is used in two senses such as:

1) It is used with reference to a key group in an organisation in-charge of its affairs. In relation to an organization, management is the chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating the disorganized resources of manpower, money, materials, and technology into a functioning whole.

   The survival and success of an organisation depend to a large extent on the competence and character of its management.

2) The term 'Management' is also used with reference to a set of interrelated functions and processes carried out by the management of an organisation to attain its objectives. These functions include Planning, Organizing, Directing, Staffing and Controlling.

Conclusion:

Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner.

Influence is backed by power, competence, knowledge and resources. Managers formulate organisational goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes in the environment.

CONCEPT OF STRATEGY

1) A typical dictionary will define the word strategy as something that has to do with war and ways to win over enemy. In business organizational context the term is not much different.
2) Strategy is the game plan that management uses to improve market position, conduct its operations effectively, attract and satisfy customers, compete successfully, and achieve organizational objectives.
3) It's a long-range blueprint of an organization's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go.
4) Strategy is consciously considered and flexibly designed scheme of corporate intent and action
   a) to mobilise resources,
   b) to direct effort and behaviour,
   c) to handle events and problems,
   d) to perceive and utilise opportunities, and
   e) to meet challenges and threats for corporate survival and success.
5) Strategy provides an integrated framework for the top management to search for, evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crises, to make full use of resources and strengths, to offset corporate weaknesses

6) However, strategy is no substitute for sound, alert and responsible management.
7) Strategy can never be perfect, flawless and optimal.
8) It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated events.
9) Strategies are formulated at the corporate, divisional and functional level.

For Reference:

Corporate strategies are formulated by the top managers. They include the determination of the business lines, expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on.

These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like.

STRATEGY IS PARTLY PROACTIVE AND PARTLY REACTIVE

A company's strategy is typically a blend of

a) Proactive actions on the part of managers to improve the company's market position and financial performance.

b) Reactions to unanticipated developments and fresh market conditions in the dynamic business environment.

In other words, a company uses both proactive and reactive strategies to cope up the uncertain business environment. Proactive strategy is planned strategy whereas reactive strategy is adaptive reaction to changing circumstances.

Proactive actions	a) A company's current strategy flows from both previously initiated actions and business approaches that are working well enough to merit continuation, as well as newly initiated managerial decisions and actions that strengthen the company's overall position and performance. b) Thus, strategy partly is deliberate and proactive, standing as the product of management's analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer's patronage.
Reactive actions	a) However, not every strategic move is the result of proactive planning and deliberate management design. Things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required.

	b) Hence, partially, a company's strategy is always developed as a reasoned response to unforeseen developments in the business environment as well as the situations within the firm.

Conclusion:

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

b) Strategy helps unravel complexity and reduce uncertainty caused by changes in the environment. It also means to identify existing problems and solving them by executing revolutionary ideas.

c) It would be pertinent to mention one such example in the recent times, that is UPI, Unified Payments Interface. UPI has changed the entire digital payments landscape in India and has now even gone global. A true example of Made in India for the world.

STRATEGIC MANAGEMENT

1) Strategic management refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and finally initiating corrective adjustments were deemed appropriate.
2) The process does not end, it keeps going on in a cyclic manner.
3) The overall objectives of strategic management are two fold:
   a) To create competitive advantage (something unique and valued by the customer), so that the company can outperform the competitors in all aspects of organisational performance.
   b) To guide the company successfully through all changes in the environment. That is to react in the right manner.
4) Importance of Strategic Management essentially lies in enabling an organisation to perform better than its competitors and its own past and present performance. That is, delivering superior returns to the investors, superior value to the customers and superior performance vis-à-vis expectations of the employees, suppliers, government and society.
5) Strategic management involves developing the company's vision, environmental scanning (both external and internal), strategy formulation, strategy implementation and evaluation and control.
6) Originally called, business policy, strategic management emphasizes the monitoring and evaluation of external opportunities and threats in the light of a company's strengths and weaknesses and designing strategies for the survival and growth of the company.

IMPORTANCE OF STRATEGIC MANAGEMENT

1) Formulation of strategies and their implementation have become essential for all organizations for their survival and growth in the present turbulent business environment.
2) Survival of the fittest 'as propagated by Charles Darwin is the only principle of survival for all organizations, where 'fittest' are not the 'largest' or 'strongest' organizations but those who can change and adapt successfully to the changes in business environment.
3) Each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following the process of strategic management - strategic analysis, formulation and implementation, evaluation and control of strategies.
4) The major benefits of strategic management are:
   a) **Proactive instead of reactive:**

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

   b) **Provides framework for decision making:**

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

   c) **Pathfinder:**

      Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.

   d) **Act as a corporate defence:**

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

   e) **Helps in developing core competencies:**

      Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

   f) **Provides direction:**

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

g) **Enhancing the longevity:**

Strategic management **helps to enhance the longevity of the business** with the state of competition and dynamic environment it may not be possible for organisations to survive in long run. It helps the organization to take a clear stand in the related industry and makes sure that it is not just surviving on luck.

LIMITATIONS OF STRATEGIC MANAGEMENT

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

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. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.

b) The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.

c) Thus, **relying** on a business strategy blindly **could go absolutely wrong** if the **environment is turbulent**.

For example, Two-Wheeler Electric Vehicles brands counted on strategic benefits they would have because of the huge push from the government for electric mobility. However, customers are getting reluctant to purchase EVs due to the safety concerns amid the frequent incidents of battery's catching fire. So, strategy cannot overcome a turbulent environment

2) **Strategic management is a time-consuming process**

a) Organisations **spend a lot of time** in preparing, communicating the strategies that may **impede** daily operations and **negatively impact** the routine business.

b) **Planning and strategizing** are important but **putting them in action** is where the **actual success lies**.

For example - Similar to us students, planning and strategizing what to study, from where and at what time of the day to study, consumes so much of our actual study time that by the time we have to study, we are almost exhausted. Similarly in business if way 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**. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement.

b) These can be really costly for organisations with **limited resources** particularly when **small and medium organisation** create strategies to compete.

c) Strategic Management **requires experts**, and these **experts are costly resources**. Thus, the process as a whole required good amount of funds to be spent.

4) <u>**Difficult to predict competitive responses**</u>

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

b) It is quite difficult to gauge the strategic planning of competitors because most of these decisions are taken within closed doors by the top management.

For example, Apple changed the market dynamics of the speaker industry by choosing to remove 3.5mm audio jack from iPhones. Now, to be relevant in the market, all major speaker brands had to put concentrated efforts to develop their own true wireless speakers (TWS) and compete with new entrants.

STRATEGIC LEVELS IN ORGANIZATIONS

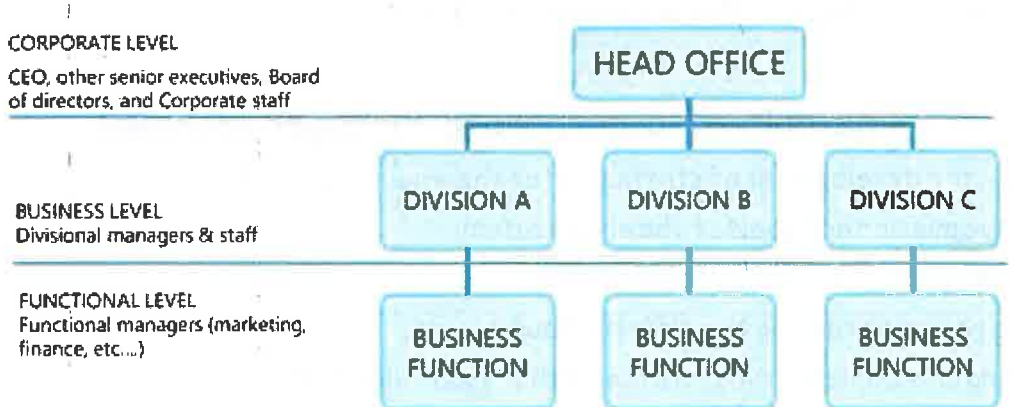
A typical large organization is **a multi-divisional organisation** that **competes in several different businesses**. It has separate self-contained divisions to manage each of these businesses.

For example, Patanjali has healthcare, FMCG, Organic Foods, Medicinal Oils and Herbs, and various different businesses. It has separate divisions which work within themselves to sustain each of these businesses.

Generally, there are three main levels of management:

1) Corporate level
2) Business level
3) Functional level

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



1) An organization is divided into a number of segments that work together to bring a particular product or service to the market.
2) 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.
3) The general managers of these divisions then become responsible for their particular product line. The overriding concern of the divisional managers is healthy growth of their divisions.
4) **They are responsible for deciding how to create a competitive advantage and achieve higher profitability with the resources and capital they have at their disposal. Such divisions are called Strategic Business Units (SBUs).**
5) There are three main levels of management in an organization namely:
   a) **Corporate, level**
   b) **Business level**
   c) **Functional level**

CORPORATE LEVEL MANAGERS

1) It consists of the **chief executive officer (CEO), other senior executives**, the board of directors, and corporate staff.
2) They occupy the **apex of strategic decision making** within the organization.
3) The CEO is the **principal general manager**.
4) Besides overseeing resource allocation and **managing the divestment and acquisition processes**, corporate-level managers provide a **link between the people who oversee the strategic development of a firm and those who own it** (the shareholders).
5) Corporate- level managers, and particularly the CEO, can be viewed as **the guardians of shareholder welfare**. It is their responsibility to ensure that the corporate and business strategies that the company pursues are consistent with maximizing shareholder wealth.
6) In simple words, corporate level managers provide an **organisation level view of strategy** and what they want to achieve, but it is on the business level managers to ensure that or their particular business, the one they are responsible for.

The role of a corporate manager includes

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.

BUSINESS LEVEL MANAGERS

1) It consists of **divisional managers and staff**.
2) The principal general manager at the business level is the **head of the division**.
3) 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**.
4) Thus, whereas corporate-level managers are concerned with strategies that span individual businesses, business-level managers are **concerned with strategies that are specific to a particular business**.

FUNCTIONAL LEVEL MANAGERS

1) Functional-level managers are **responsible for the specific business functions** or operations (**human resources, purchasing, product development, customer service**, etc.) that constitute a company or one of its divisions.
2) 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.
3) They have a major strategic role that is, to **develop functional strategies** in their areas that help fulfil the strategic objectives set by business and corporate-level general managers.
4) Functional managers provide most of the information that makes it possible for business and corporate-level general managers to formulate realistic and attainable strategies.
5) Thus, a functional manager's **sphere of responsibilities** is generally **confined to one organizational activity**, whereas **general managers oversee the operation** of the whole company or division.
6) Since functional level managers are closer to the customer than the typical general manager is, they themselves may **generate important ideas** that subsequently may become major strategies for the company thus, it is important for general managers to listen closely to the ideas of their functional managers.
7) An equally great responsibility for **managers at the operational level is strategy implementation:** the execution of corporate and business-level plans.

WHICH IS BETTER - TOP-DOWN APPROACH OR BOTTOM-UP APPROACH?

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

NETWORK OF RELATIONSHIPS BETWEEN THE THREE LEVELS

1) The corporate level decides what the business wants to achieve, while the business level draws ideas and plan to execute the same, which eventually flow down to functional level to execute and achieve results.
2) But there are multiple ways in which all the 3 levels of management are **interlinked**, and interestingly it **depends** on the **organisation as a whole** to decide what kind of network of relationship suits their culture and aspirations.
3) There are **3 major types of networks of relationship** between the levels and also amongst the same levels of a business;

Functional and Divisional Relationships

a) 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.

b) 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 Relationships

a) **All positions**, from top management to staff-level employees, are **in the same hierarchical position**. It is a **flat structure** where everyone is **considered at same level**. This leads to **openness and transparency** in work culture and focused more on idea sharing and innovation.

b) This type of relationship between levels is **more suitable for startups** where the need to share ideas with speed is more desirable.

Matrix Relationship

a) 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.

b) In Matrix relationship - there are **more than one business level managers** for each functional level teams. It is **complex** for **smaller organisations**, but **extremely useful** for **large organisations**.

STRATEGIC INTENT (VISION, MISSION, GOALS, OBJECTIVES AND VALUES)

1) Strategic Management is defined as a dynamic process of formulation, implementation, evaluation, and control of strategies to realise the organisation's strategic intent.
2) Strategic intent refers to purposes of what the organization strives for. Senior managers must define "what they want to do" and "why they want to do". "Why they want to do" represents strategic intent of the firm.
3) Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.
4) Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organisation endeavours to achieve. It is a statement that provides a perspective of the means, which will lead the organisation, reach its vision in the long run.
5) Strategic intent gives an idea of what the organisation desires to attain in future. It answers the question what the organisation strives or stands for? It indicates the long-term market position, which the organisation desires to create or occupy and the opportunity for exploring new possibilities
6) Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.
7) Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level.
8) It could be expressed as the business definition and business model at the business level of the organisation.
9) Strategic intent is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally, i.e., goals and objectives.

ELEMENTS OF STRATEGIC INTENT

Vision

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

Mission

a) Mission delineates the firm's business, its goals and ways to reach the goals.

b) It explains the reason for the existence of the firm in the society.

c) It is designed to help potential shareholders and investors understand the purpose of the company.

d) A mission statement helps to identify, 'what business the company undertakes.'

e) It defines the present capabilities, activities, customer focus and role in society.

Goals and Objectives

a) These are the base of measurement.

b) Goals are the end results, that the organization attempts to achieve.

c) On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals.

d) These are the end results which are to be attained with the help of an overall plan, over the particular period.

e) However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

The vision, mission, business definition, and business model explain the philosophy of the organization but the goals and objectives represent the results to be achieved in multiple areas of business.

Vales/ Value System

a) Values are the deep-rooted principles which guide an organisation's decisions and actions. Collins and Porras succinctly define core values as being inherent and sacrosanct; they can never be compromised, either for convenience or short-term economic gain.

b) Values often reflect the values of the company's founders—Hewlett-Packard's celebrated "HP Way" is an example. They are the source of a company's distinctiveness and must be maintained at all costs.

Conclusion-

While Strategic Intent is the purpose that an organisation aims to achieve, Values form the omnipresent foundation of each and every decision that the management takes. An organisation without values is like an organisation with no real intent. Let us understand a bit more about values from a business perspective.

THE VISION

1) A Strategic vision is a road map of a company's future - it provides specifics about **technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.**
2) Very early in the strategy making process, a company's senior managers must consider the issue of 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 future prospects.
3) Deciding to commit the company to one path versus other pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position it should stake out.
4) Top management's views about the company's direction and the product- customer-market-technology focus constitute the strategic vision for the company.
5) Strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are to go" and a convincing rationale for why this makes good business sense for the company.
6) Strategic vision thus **points out a particular direction, charts a strategic path** to be followed in future, and moulding organisational identity.
7) A clearly articulated strategic vision **communicates management's aspirations** to stakeholders and helps steer the energies of company personnel in a common direction.

Examples

a) **HDFC Bank Ltd.**, one of the largest banks in India has clearly defined its Vision of being a world class Indian bank. This vision helps them keep in mind, "where we want to go", as the central thought of their strategic decision making.
b) **LIC Ltd.**, the largest insurance company of India has defined its visions as - A trans-nationally competitive financial conglomerate of significance to societies and Pride of India.
c) **Apple Inc.'s** CEO Tim Cook defined the vision of the company as - "We believe that we are on the face of the earth to make great products, and that's not changing."

Essentials of a strategic vision

a) The **entrepreneurial challenge** in developing a strategic vision is to think creatively about how to prepare a company for the future.
b) Forming a strategic vision is an exercise in intelligent entrepreneurship.
c) A well-articulated strategic vision creates **enthusiasm for the course management has charted and engages members of the organization.**
d) The best-worded vision statement **clearly and crisply illuminates the direction in which organization is headed.**

MISSION (WHO WE ARE AND WHAT WE DO)

1) A mission is an answer to the basic question '**what business are we in and what we do**'.
2) A company's mission statement is typically focused on its **present business scope - "who we are and what we do"**. Mission statements broadly describe an organizations present **capability, customer focus, activities, and business makeup**.
3) Firms working to manage their organisation strategically cannot be lax in the matter of mission and business definition, as the two ideas are absolutely central to strategic planning.
4) It has been observed that many firms **fail to conceptualise and articulate** the mission and business definition with the required clarity. Such firms are seen to fumble in the identification of opportunities and fail in formulating strategies to make use of opportunities.

Why should an organization have a mission?

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

Examples

a) **HDCF Bank** has two-fold mission: first, to be the preferred provider of banking services for target retail and wholesale customer segments. The second is to achieve healthy growth in profitability, consistent with the bank's risk appetite.
b) **LIC Ltd.'s Mission** is - Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development.
c) **Apple's mission** has been defined as - "to bring the best user experience to its customers through innovative hardware, software, and services."

Guidelines in formulating a Mission Statement

Mission statement should reflect the **philosophy of the organisations** that is perceived by the senior managers. A good mission statement should be **precise, clear, feasible, distinctive and** motivating. Following points are useful while writing a mission of a company:

a) One of the roles of a mission statement is to give the organisation its own special identity, business emphasis and path for development - one that typically sets it apart from other similarly positioned companies.

b) 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.

c) Good mission statements are - unique to the organisation for which they are developed.

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

1) The well-known management experts, Peter Drucker and Theodore Levitt were among the first to agitate this issue through their writings.

2) They emphasized that as the first step in the business planning endeavour, every business firm must clarify the corporate mission and define accurately the business the firm is engaged in.

3) They also explained that towards facilitating this task, the firm should raise and answer certain basic questions concerning its business, such as:

   a) What is our mission?
   b) What is our ultimate purpose?
   c) What do we want to become?
   d) What kind of growth do we seek?
   e) What business are we in?
   f) Do we understand our business correctly and define it accurately in its broadest connotation?
   g) Whom do we intend to serve?
   h) What human need do we intend to serve through our offer?
   i) What brings us to this particular business?
   j) What would be the nature of this business in the future?
   k) In what business would we like to be in, in the future?

4) The corporate mission is an expression of the growth ambition of the firm. It is, in fact, the firm's future visualised. It provides a dramatic picture of what the company wants to become.

5) It is the corporation's dream crystallized. It is a colourful sketch of how the firm wants its future to look, irrespective of the current position. In other words, the mission is a grand design of the firm's future.

6) Mission amplifies what brings the firm to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business firm. In other words, the mission serves as a justification for the firm's very presence and existence; it legitimises the firm's presence

7) According to Peter Drucker, every organisation must ask an important question "What business are we in?" and get the correct and meaningful answer. The answer should have marketing or

external perspective and should not be restated to the production or generic activities of business. The table given below will clarify and highlight the importance of external perspective.

Company	Production-oriented Answer	Marketing-oriented answer
Indian Railways	We run a railroad	We offer a transportation ai materialhandling system
Indian Oil	We produce oil and gasolin products	We provide various types (safe and cost effective energ
Lakme	In the factory, we mak cosmetics.	In the retail outlet, we s hope

GOALS AND OBJECTIVES

1) Objectives are organizations performance targets - the results and outcomes it wants to achieve. They function as yardstick for tracking an organizations performance and progress.
2) Business organization translates their vision and mission into objectives.
3) As such the term objectives are synonymous with goals, however, some authors make an attempt to distinguish the two.
4) Goals are open-ended attributes that denote the future states or outcomes.
5) Objectives are close-ended attributes which are precise and expressed in specific terms.
6) Thus, the objectives are more specific and translate the goals to both long-term short-term perspectives. (We use Objectives and goals interchangeably)

Characteristics of objectives

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

a) Objectives should define the organization's relationship with its environment.
b) They should be facilitative towards achievement of mission and purpose.
c) They should provide the basis for strategic decision-making.
d) They should provide standards for performance appraisal.
e) Objectives should be concrete and specific
f) Objectives should be related to a time frame
g) Objectives should be measurable and controllable
h) Objectives should be challenging
i) Different objectives should correlate with each other
j) Objectives should be set within constraints of organizational resources and external environment.

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

a) As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets.

b) Having quarterly or annual objectives focuses attention on delivering immediate performance improvements.

c) Targets to be achieved within 3-5 years prompt considerations of what to do now to put the company in position to perform better down the road.

d) A company that has an objective of doubling its sales within five years can't wait until the third or fourth year to begin growing its sales and customer base. By spelling out annual (or perhaps quarterly) performance targets, management indicates the speed at which longer-range targets are to be approached.

Long-term objectives

1) To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas.
   a) Profitability
   b) Productivity
   c) Competitive Position
   d) Employee Development
   e) Employee Relations
   f) Technological Leadership
   g) Public Responsibility

2) Long-term objectives represent the results expected from pursuing certain strategies, strategies represent the actions to be taken to accomplish long-term objectives.

3) The time-frame for objectives and strategies should be consistent, usually from two to five years.

4) Clearly established objectives offer many benefits. They provide
   a) direction,
   b) allow synergy,
   c) aid in evaluation,
   d) establish priorities,
   e) reduce uncertainty,
   f) minimize conflicts,
   g) stimulate exertion, and
   h) aid in both the allocation of resources and the design of jobs.

Short-range objectives can be identical to long-range objectives if an organization is already performing at the targeted long-term level.

For instance, if a company has an on-going objective of 15 % profit growth every year and is currently achieving this objective, then the company's long-range and short-range objectives for increasing profits coincide.

The most important situation in which short-range objectives differ from long-range objectives occurs when managers are trying to **elevate organizational performance and cannot reach the long-range target in just one year.**

Short-range objectives then serve as stair-steps or milestones towards achieving long term objective.

VALUES

1) A few common examples of values are - **Integrity, Trust, Accountability, Humility, Innovation, and Diversity.**
2) A company's value **sets the tone** for how the people of think and behave, especially in situations of dilemma. It **creates a sense of shared purpose** to build a strong foundation and focus on longevity of the company's success.
3) Employees prefer to work with employers whose values resonate with them - the ones they can relate to in their daily work and personal life.
4) Interestingly, majority of consumers say that they would prefer to buy products and services from companies that have a purpose that reflects their own value and belief system. Hence, **values have both internal as well as external implications.**
5) A lot of values were put to actions during Covid 19 pandemic when leaders of the organisations put people before everything else. It projected how deep the foundation of the oragnisations' were and how important it was for them to uphold their core values.
6) The graphic represents the interconnection of Intent, Vision, Mission, Goals and Values; **Values remain the center/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.

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 MANAGEMENT PROCESS (NOT COVERED IN ICAI MODULE)

The basic framework of strategic process can be described as follows:

Stage one: Where are we now? (beginning): Situational Analysis / Strategic Analysis

a) This is the starting point of strategic planning and **consists of doing a situational analysis** of the firm in the environmental context.

b) Here the firm must find out its **relative market position, corporate image, its strength and weakness and also environmental threats and opportunities**.

c) This is also known as **SWOT (Strength, Weakness, Opportunity, Threat) analysis**.

Stage two: Where we want to be? (ends): Goal Setting

a) This is a process of goal setting for the organization after it has **finalised its vision and mission**.

b) A strategic vision is a **roadmap of the company's future** - providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

c) An organization's Mission states **what customers it serves, what need it satisfies, and what type of product it offers**.

Stage three: How might we get there? (means):

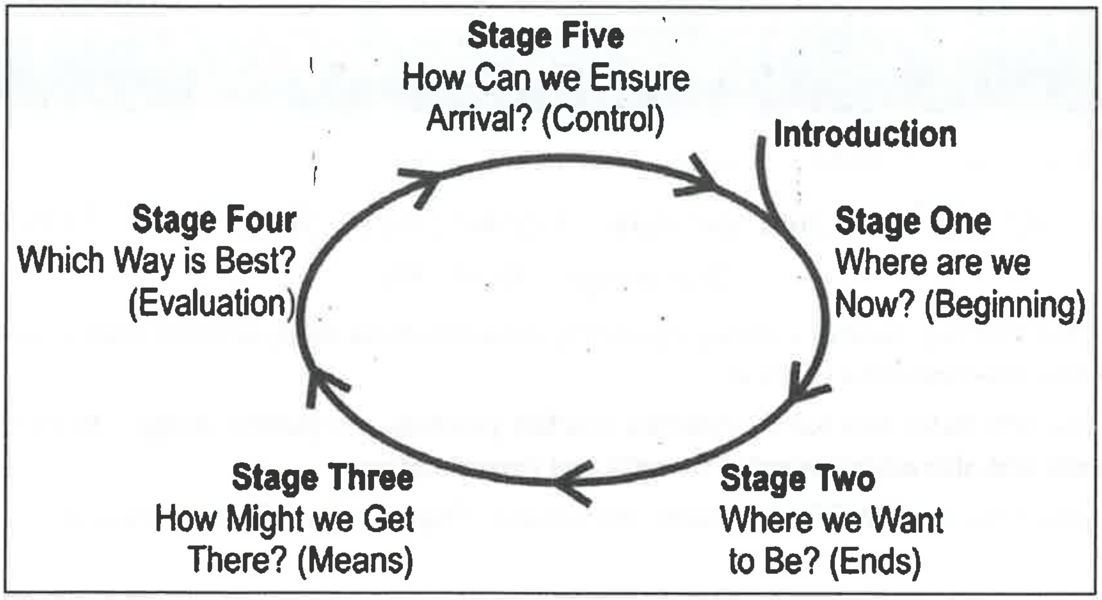
Analysis of alternative / Strategic choices. Here the organization deals with the various strategic alternatives it has.

Stage four: Which way is best? (evaluation): Decision Making / Analysis of alternatives

Out of all the alternatives generated in the earlier stage the **organization selects the best suitable alternative** in line with its SWOT analysis.

Stage five: How can we ensure arrival? (control): Implementation

This is an **implementation and control stage of a suitable strategy**. Here again the organization continuously does situational analysis and repeats the stages again. Thus, strategic management is a continuous on-going process and is not a one-time exercise.


Stage Five
How Can we Ensure
Arrival? (Control)
Introduction
Stage One
Where are we
Now? (Beginning)
Stage Two
Where we Want
to Be? (Ends)
Stage Three
How Might we Get
There? (Means)
Stage Four
Which Way is Best?
(Evaluation)

STRATEGIC ANALYSIS: EXTERNAL ENVIRONMENT

INTRODUCTION

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

STRATEGIC ANALYSIS

1) Environmental scanning is a **natural and continuous** activity for every business and some do it on an informal basis, while others have a formal structure to collect meaningful information. It is just as important to learn about changes in tax regulations through television news as it is through a well-established reading material from experts.
2) The capacity to collect important information in informal settings usually **separates great entrepreneurs and managers**. Using just informal techniques, on the other hand, exposes the organisation to missed opportunities and unanticipated hazards. A systematic approach to environmental assessment is essential for managing risk and uncertainty
3) The majority of the rapidly expanding organisations use strategic planning throughout various stages of their operations.
4) 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.
5) It forces to think about the rivals and aids in the evaluation of business plans **to stay ahead of the competition**.
6) The two most important **situational considerations** are:
   a) **industry and competitive conditions, and**
   b) **an organization's own competitive capabilities, resources, internal strengths, weaknesses, and market position.**
7) **Accurate diagnosis** of the business situation is **necessary** for managerial preparation to **deciding** on a sound long-term direction, setting appropriate objectives, and crafting a winning strategy.
8) **Without perceptive understanding** of the strategic aspects of a company's external and internal environments, the **chances are greatly** increased that managers will finalize a strategic game **plan that doesn't fit** the situation well, that holds little prospect for building competitive advantage, and that is unlikely to boost company performance.
9) The strategic analysis is **a continuous process which is not without limitations**. There are two major limitations of strategic analysis that we need to be aware of.

a) **First**, it gives a lot of innovative options but doesn't tell which one to pick. The options can be overlapping, confusing or difficult to implement.

b) **Second**, it can be time-consuming at times, hurting overall organisational functioning and also strain other efficient innovations such as developing a new product or a service.

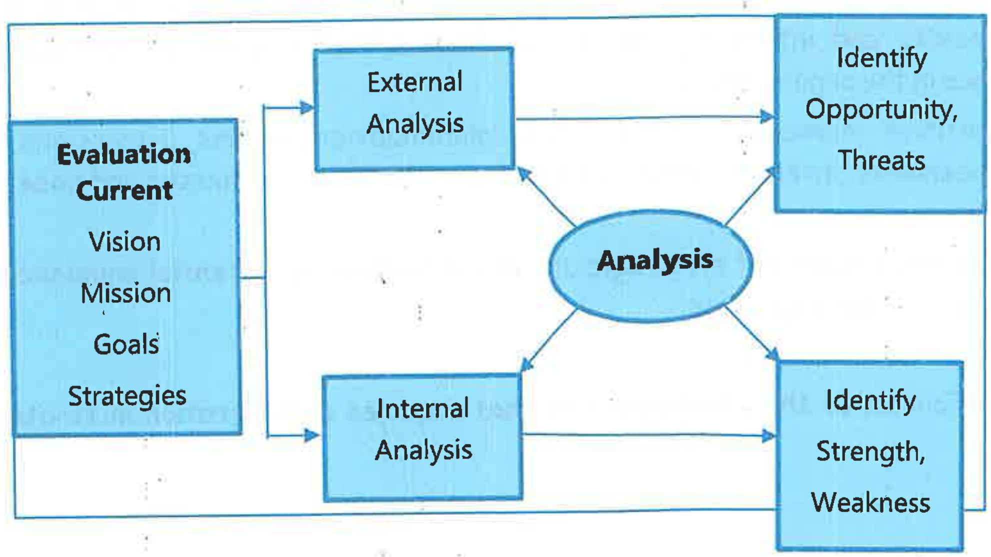


Figure: Strategic Analysis

ISSUES TO CONSIDER FOR STRATEGIC ANALYSIS

1) <u>Strategy evolves over a period of time:</u>

   a) Each strategic decision must balance the different factors that **impact and constrain** strategy. A key element of strategic analysis is the **probable outcomes** of everyday decisions.

   b) A current strategy is the **result of several little choices taken over a protracted period of time**. A management radically changes strategy when they try to speed up the organisational growth.

   c) Strategy is **influenced by experience**, but it has to be updated when the results become clear. It therefore evolves with time.

2) <u>Balance of External and Internal Factors:</u>

   a) In practise, strategic analysis **necessitates creating a reasonable balance** between many and conflicting challenges, because a perfect fit between them is unlikely.

   b) Management must consider **opportunities, influences, and constraints** while taking a strategic decision.

   c) There are factors driving a decision, such as entering a new market. Concurrently, there exist constraints that limit the option, such as the presence of a large opponent.

   d) These limiting constraints will have various implications on the **kind, degree, volume, and** significance of the impact.

e) While some of these aspects are under your control, there will be others way beyond the existing capabilities.

3) **Risk:**

a) In the strategic analyses the principle of maintaining balance is important. However, the complexity and intermingling of variables in the environment reduces the strategic balance in the organisation.

b) Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degree.

c) An important aspect of strategic analysis is to identify potential imbalances or risks and assess their consequences.

A broad classification of the strategic risk that requires consideration in strategic analysis is given below:

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

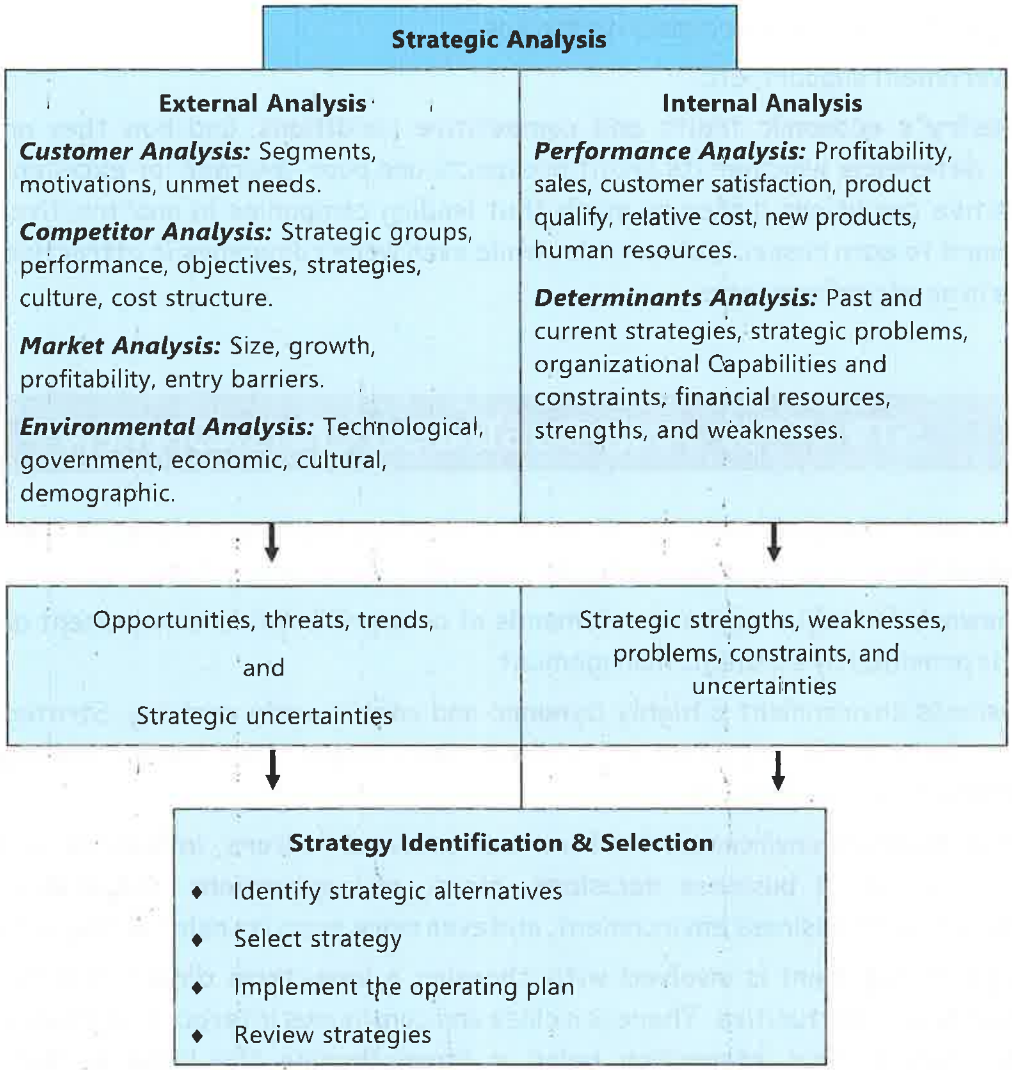


Figure: Framework of Strategic Analysis

1) The above diagram 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.

2) **The economic character of industries varies according to such factors as**
   a) Overall size and market growth rate,
   b) The pace of technological change,
   c) The geographic boundaries of the market (from local to worldwide),
   d) The number and size of buyers and sellers,
   e) Whether sellers' products are virtually identical or highly differentiated, the extent to which costs are affected by economies of scale.
   f) The types of distribution channels used to access buyers.
   g) Marketing opportunities,

h) Disposable income of prospective buyers,

i) Government support, etc.,

3) An **industry's economic traits and competitive conditions**, and how they are expected to change, **determine** whether its profit prospects are poor, average, or excellent. 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 in good performances.

STRATEGY AND BUSINESS ENVIRONMENT

1) **To accomplish** the goals and objectives of a business, business strategist **creates strategies and formulate** policies considering both internal and external factors.
2) A framework for adjusting to the demands of an unpredictable environment and an uncertain future is provided by strategic management.
3) 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.
4) 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.
5) Strategic management is **involved with choosing a long-term direction** in relation to these resources and opportunities. There is a close and continuous interaction between a business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively.
6) It helps the business in the following ways:

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

   b) **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.

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

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

   For example, in view of the shortage of power, many companies have set up captive power plants with their factories to meet their own requirement of power as well as extend surplus capacities in the vicinity. Understanding 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 it to prosper and win over the competitors.

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

7) Business strategies **relate organisational resources to challenges and opportunities** in the larger environment. The changes happening in the external environment challenge organisations to find novel and unique strategies to remain in business and succeed.

8) As the world is getting smaller and competition is increasing, organisations have an increasing pressure to develop their businesses and strengthen their competitiveness.

9) Strategic analysis covering internal and external environment is **highly relevant and important** for the strategists in organisations in order to achieve competitive advantage, as well as ensure high performance for survival and growth.

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

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

12) **Improvement** of strategic decisions is **constant endeavour** for strategist. Due to the contemporary environment's changes and the challenges that managers must overcome when making decisions, there is interest in enhancing strategic decision-making. The environment is far more dynamic and unpredictable than it used to be.

MICRO AND MACRO ENVIRONMENT

1) The environment in which an organization **exists can be described** in terms of the **opportunities and threats** operating in the external environment apart from the strengths and weaknesses existing in the internal environment.

2) Business strategists should always be **adequately informed** on developments occurring in their company, its industry, and within micro and macro environment of business.

3) For making any strategic decision, they should be **able to comprehend** the facts available and challenge the underlying assumptions. The external environment can be categorised in **two major types** as follows:

   a) **Micro environment**

   b) **Macro environment**

4) 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.

5) Within the micro or the immediate environment in which a firm operates we need to **address the following issues**:

   a) **The employees** of the firm, **their characteristics** and **how they are organised.**

   b) **The existing customer** base on which the firm relies for business.

   c) **The ways** in which the firm can raise its finance.

   d) **Who are the firm suppliers** and how are the links between the two being developed?

   e) **The local community** within which the firm operates.

   f) **The direct competition** and their comparative performance.

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

1) Macro environment has **broader dimensions** as it consists of **economic, sociocultural, technological, political and legal factors.**

2) The classification of the relevant environment into components or sectors helps an organization **to cope with its complexity, comprehend the different influences operating**, and relating the environmental changes to its strategic management process.

3) **According to Gluek and Jauch** "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."

4) 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.

5) In addition to carrying out transactions, it **develops and puts into action pertinent plans and policies** to address environmental changes. It negotiates its way into the future as well.

Demographic Environment

a) 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.

b) Demographical analysis **considers** factors such as **race**, **age**, **income**, **education**, **possession of**

assets, house ownership, job position, region, and the degree of education. Data about these qualities across homes and within a demographic variable are of importance to both businesses and economists.

c) **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.

d) Many multinationals are interested in India considering its population size. Considering **demographics is of immense importance** for any business. Business Organizations need to study different demographic factors. Particularly, they need to address following issues:

(i) What demographic trends will affect the market size of the industry?

(ii) What demographic trends represent opportunities or threats?

e) The size, age distribution, geographic dispersion, ethnic mix, and income distribution of a population are all of great importance to the organisation. Identifying the implications of changing demographic characteristics or population components for a future strategic competitiveness is often a challenge for strategists.

Socio-Cultural Environment

a) A general factor that **influences** almost all enterprises in a similar manner. It represents a complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth.

b) It **differs** from demographics in the sense that **it is not the characteristics** of the population, but **it is the behaviour and the belief system** of that population. Socio-cultural environment consists of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the operations of the organization.

c) The **beliefs, values and norms** of a society **determine** how individuals and organizations should be interrelated. The core beliefs of a particular society tend to be persistent.

d) It is **difficult** for a business **to change these core values**, which becomes a determinant of its functioning. This means, that businesses have to adjust to social norms and beliefs to operate successfully.

e) The social environment **primarily affects** the strategic management process within the organization in the areas of mission and objective setting, and decisions related to products and markets.

Economic Environment

a) Economic conditions have a **direct bearing** over the business strategies. The economic environment refers to the overall economic situation around the business and include conditions at the regional, national and global levels.

b) It **encompasses** conditions in the markets for resources that have an effect on the supply of inputs and outputs of the business, their costs, and the dependability, quality, and availability.

c) 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.

d) **Income distribution pattern determine the business possibilities.** The important point to consider is to find out the effect of economic prospect, growth and inflation on the operations of the business.

e) **Higher interest rates are detrimental for the businesses with high debt.** In the real estate market, they reduce the capability of the prospective buyers to avail loan and pay instalments, thus lower the demand.

f) The **economic conditions** of a nation refer to a **set of economic factors that have great influence on business organizations and their operations.** These include 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.

g) All these factors generally tell the state of the economy. Whether it is doing good or is it performing poorly.

Political-Legal Environment

a) **Political-legal environment takes into account elements like**
   (i) The general level of political development,
   (ii) The degree to which business and economic issues have been politicised,
   (iii) The degree of political morality,
   (iv) The state of law and order,
   (v) Political stability,
   (vi) The political ideology and practises of the ruling party,
   (vii) The effectiveness and purposefulness of governmental agencies, and
   (viii) The scope and type of governmental intervention in the economy and industry.

b) It is partly general to all similar enterprises and partly specific to an individual enterprise. Business is **highly guided and controlled** by government policies. Hence the type of government running a country is a powerful influence on business.

c) 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 levied and affect the business. Businesses prefer to operate in a country where there is a sound legal system. However, in any country businesses must have a good working knowledge of the major laws protecting consumers, competitions and organizations.

d) 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.

e) 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.

f) 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.

Technological Environment

a) A highly important factor in the present times is technology. Technology has changed the way people communicate and do things. Technology has also changed the ways of how businesses operate now.

b) Technology and business are **linked and are interdependent on one another**. Businesses help society access the outcomes of technological research and development, raising everyone's standard of living.

c) As a result, business leverages technology. Businesses use new discoveries to adapt themselves for the advancement of society. Technology has impacted on how businesses are conducted.

d) 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.

e) Changes in technology **have an effect** on how a business runs its operations. The technological advancements might require a business to drastically alter its operational, production and marketing strategies.

f) Technology is leading to many new business opportunities as well as making obsolete most of the existing business products and services. Technology can act as opportunity, when a business effectively adopts technological innovations to their strategic advantage.

g) However, at the same time technology can act as a threat too. 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

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

2) **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.

3) PESTLE analysis **involves** identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and **providing a way** of scanning the

environmental influences that have affected or are likely to affect an organization or its policy.

4) PESTLE analysis is an increasingly used and recognized analytical tool, and it is an acronym for:
   a) **P- political**
   b) **E- economic**
   c) **S- socio-cultural**
   d) **T- technological**
   e) **L- legal**
   f) **E- environmental**

5) The PESTLE analysis is **simple to understand and quick to implement**. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

The Key Factors

a) **Political factors:**

(i) Political factors are **how and to what extent** the government intervenes in the economy and the activities of business firms.

(ii) Political factors may also influence goods and services which the government wants to provide or be provided and those that the government does not want to be provided.

(iii) Furthermore, governments have great influence on the health, education and infrastructure of a nation.

b) **Economic factors:**

Economic factors have **major impacts** on how businesses operate and take decisions.

For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. 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.

c) **Social factors:**

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

d) **Technological factors:**

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

e) **Legal factors:**

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

f) **Environmental factors:**

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.

On the basis of these, it should be possible to identify a number of key environmental influences, which are in effect, the drivers of change. These are the factors that require to be considered in making meaningful decisions.

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

INTERNATIONALIZATION OF BUSINESS

1) **Internationalization** has emerged as the dominant commercial trend over the last couple of decades. It **enables a business to enter new markets in search of greater earnings and less expensive resources**. Additionally, expanding internationally enable a business to achieve greater economies of scale and extend the lifespan of its products.
2) The strategic-management process is essentially the same for global firms as it is for domestic firms; nevertheless, international processes are much more complicated due to additional variables and linkages.
3) A business can approach internationalisation systemically with the aid of international strategy planning. One method for an organization to identify opportunities and threats in global markets is by scanning the external environment.
4) The development of effective strategies and the formulation of global strategic objectives are made **feasible** by internationalisation.

A global company has three characteristics

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.

Developing internationally

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

a) **Evaluate** global opportunities and threats and rate them with the internal capabilities.

b) **Describe the scope** of the firm's global commercial operations.

c) **Create** the firm's global business objectives.

d) **Develop** distinct corporate strategies for the global business and whole organisation.

Why do companies go global?

Technological developments and evolving political views are two important **factors** in the rapid rise of multinational organisations. Because of technological advances, the process of internationalisation is now simpler than it was previously.

Worldwide communication makes it **easier to define and implement** global strategy by linking corporate headquarters with their abroad operations.

In addition, introduction of improved transportation has increased the mobility of money, people, raw materials, and finished items.

There are several reasons why companies go global. These are discussed as follows:

a) The first and foremost redson is **need to grow**. It is basic need of every organisations. Often finding opportunities in the other parts of the globe organisation extend their businesses and globalize their operation.

b) There is **rapid shrinking of time and distance across the globe** because of faster communication, speedier transportation, growing financial flows and rapid technological changes.

c) It is being realised that the **domestic markets are no longer adequate**. The competition present domestically may not exist in some of the international markets.

d) There can be varied other reasons such as **need for reliable or cheaper source of raw-materials, cheap labour, etc**. Many foreign businesses shift and set up some of their operations to take advantage of availability of vast pool of talent.

e) Companies often set up **overseas plants to reduce high transportation costs**.

It may be cheaper to produce near the market to reduce the time and costs involved in transportation.

f) 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.

g) The rise of services to constitute the largest single sector in the world economy; and **regional economic integration**, which has involved both the world's largest economies as well as certain developing economies.

h) The apparent and **real collapse of international trade barriers** redefines the roles of state and industry. The trend is towards **increased privatization of manufacturing and services sectors, less government interference** in business decisions and more dependence on the value-added sector to gain market place competitiveness. The trade tariffs and custom barriers are getting lowered, resulting in increased flow of business.

i) Globalization has made companies in different countries **to form strategic alliances to ward off economic and technological threats** and **leverage their respective comparative and competitive advantages**.

INTERNATIONAL ENVIRONMENT

1) The social, cultural, demographic, environmental, political, governmental, legal, technological factors that an international organisation faces are **nearly limitless**, and the number and complexity of these factors increase manifold as the number of products produced and geographic areas served increase.
2) An **assessment** of the external environment is the first step toward internationalisation. Analysing international environment is important since it allows organisation to discover opportunities in the global market and evaluate feasibilities of capitalising on these opportunities. Assessments of the international environment can be done at three levels: multinational, regional, and country.

Multinational environmental analysis

a) **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.

b) Governments may have **free or interventionist** tendencies in economies that **needs** to be **carefully considered**. These characteristics are evaluated based on their present and expected future impact.

Regional environmental analysis

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

Country environmental analysis

a) It has to take a deeper look at the important environmental factors. Study of economic, legal, political, and cultural dimensions is required in order for planning to be successful.

b) The analysis must be customised for each of the countries to develop effective market entrance strategies.

c) **International environment** has become an **inherent part** of strategic management for businesses of all sizes with global interests.

d) It essentially involves various global aspects like political risks, cultural differences, exchange rate fluctuations, legal compliances and taxation issues.

e) Thus, it becomes more important for the people at the decision-making levels to focus on factors comprising the international environment.

UNDERSTANDING PRODUCT AND INDUSTRY

Businesses sell products. A product can be either a good or a service. It might be physical good or a service, an experience. Business products have certain characteristics as follows:

1) **Products are either tangible or intangible.**
   a) A tangible product can be handled, seen, and physically felt, such as a car, book, pen, table, mobile handset and so on.
   b) Alternatively, an intangible product is not a physical good, such as telecom services, banking, insurance, or repair services.

2) **Product has a price.**
   a) Businesses **determine** the cost of their products and charge a price for them. The dynamics of supply and demand influence the market price of an item or service.
   b) 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) In the present competitive world price is often given by the market and businesses have to work on costs to maintain profitability.
   d) On account of competition, businesses are not able to fix market price by adding profit margin on the costs. Rather, they work on reducing the costs given the prevailing market price.

3) **Products have certain features that deliver satisfaction.**
   a) A product feature is a component of a product that **satisfies** a consumer need. **Features determine product pricing**, and businesses alter features during the development process to optimise the user experience.
   b) Products should be able to provide value satisfaction to the customers for whom they are meant. Features of the product will distinguish it in terms of its function, design, quality and experience.
   c) A customer's cumulative experience with a product from its purchase to the end of its useful life is an important component of a product feature.

4) **Product is pivotal for business.**
   a) The product is at the centre of business around which all strategic activities revolve.
   b) The product enables production, quality, sales, marketing, logistics and other business processes. Product is the driving force behind business activities.

5) **A product has a useful life.**
   a) 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.
   b) We have observed that fixed line telephone instruments have largely been replaced by mobile phones.

PRODUCT LIFE CYCLE

Another important concept in strategic choice is that of product life cycle (PLC). Essentially, PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well.

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

b) The second phase of PLC is growth stage with rapid market acceptance. In the growth stage, the demand expands rapidly, prices fall, competition increases and market expands. The customer has knowledge about the product and shows interest in purchasing it.

c) The third phase of PLC is maturity stage where there is slowdown in growth rate. In this stage, the competition gets tough and market gets stabilized. Profit comes down because of stiff competition. At this stage organisations have to work for maintaining stability.

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

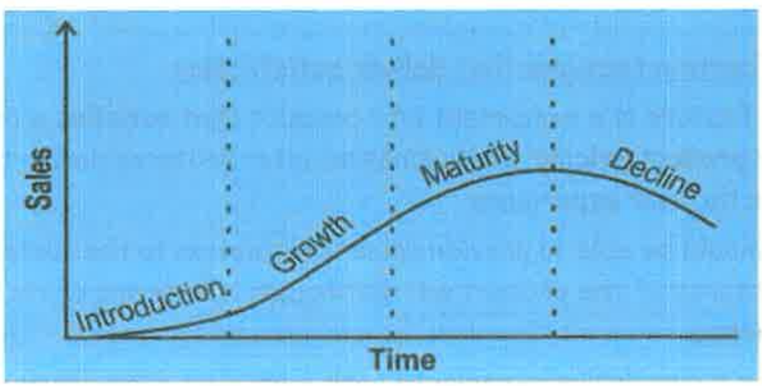


Figure: Product Life Cycle

Advantages of PLC

a) The main advantage of PLC 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.

b) Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made.

c) Expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources.

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

VALUE CHAIN ANALYSIS

1) **Value chain analysis** is a method used by strategists **to break down** each process that their business employs. This analysis could be **used to improve the sequence of operations, enhancing efficiency** and **creating a competitive advantage**.
2) Value chain analysis can be used by businesses of all sizes, from sole proprietorships to multinational organisations.
3) Each organisation has a unique set of procedures to perform its duties, and they may all benefit from value chain analysis to evaluate and optimise their processes.
4) 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.
5) Value chain analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved.
6) The **two basic steps** of identifying separate activities and assessing the value added from each were **linked** to an analysis of an organization's competitive advantage by Michael Porter.
7) **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).
8) One of the key aspects of value chain analysis is the **recognition that organizations are much more than a random collection of machines, money and people**. These resources are of no value unless deployed into activities and organized into routines and systems which ensure that products or services are produced which are valued by the final consumer/user.
9) In other words, it is these competences to perform particular activities and the ability to manage linkages between activities which are the source of competitive advantage for organizations. Porter argued that an understanding of strategic capability must start with an identification of these separate value activities.
10) The **primary activities** of the organization are grouped into five main areas:
    a) **Inbound logistics,**
    b) **Operations,**
    c) **Outbound logistics,**
    d) **Marketing and sales, and**
    e) **Service.**

a) **Inbound logistics** are the activities **concerned with receiving, storing and distributing the inputs to the product/service**. This includes materials handling, stock control, transport etc.

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

c) **Outbound logistics** collect, store and distribute the product to customers.

(i) For tangible products this would be warehousing, materials handling, transport, etc.

(ii) In the case of services, it may be more concerned with arrangements for bringing customers to the service if it is a fixed location (e.g. sports events).

d) **Marketing and sales** provide the means where by consumers/users are made aware of the product / service and are able to purchase it.

(i) This would include sales administration, advertising, selling and so on.

(ii) In public services, communication networks which help users' access a particular service are often important.

e) **Services** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

SECONDARY ACTIVITIES

Each of these groups of primary activities is 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 (not to the resources themselves). As such, it occurs in many parts of the organization.

2) **Technology development:**

a) All value activities have a 'technology', even if it is simply know-how.

b) The key technologies may be concerned directly with the product (e.g. R&D product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements).

3) **Human resource management:**

a) This is a particularly important area which transcends all primary activities.

b) It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.

4) **Infrastructure:**

a) The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities.

b) Infrastructure also consists of the structures and routines of the organization which sustain its culture.

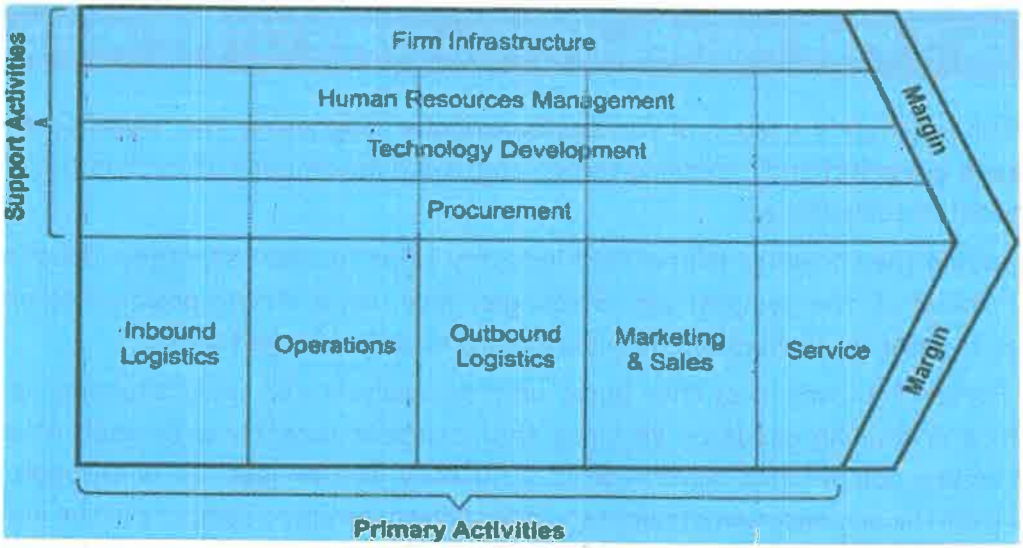


Figure: Value Chain (Michael Porter)

INDUSTRY ENVIRONMENT ANALYSIS

1) A combination of ideas and methodologies may be **utilised to create a clear picture** of
   a) Key industry traits,
   b) Competition intensity,
   c) Industry change drivers,
   d) Rival firms' market positions and tactics,
   e) Competitive success, and
   f) Profit forecasts.
2) Industry analysis **enable strategic understanding** about the entire state of any industry and make decisions about whether the industry is a lucrative or not.
3) The goal of the industry environment analysis, which is typically an important step of strategic analysis, is **to estimate the amount of competitive pressures** the business is presently facing and is expected to face in the near future.
4) The analysis **entails seeing the firm in the context of a bigger framework.**
5) The purpose of industrial analysis is **to get insight into a wide range of elements within and outside the business.** Analysing these elements enhances knowledge of surrounding and serves as the foundation for aligning strategy with changing industry circumstances and realities.

PORTER'S FIVE FORCES MODEL-COMPETITIVE ANALYSIS

1) A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition.
2) Understanding the variables that affect industry helps to adapt strategy, boost profitability, and stay ahead of the competition. Strategist may use a strong position to organizational advantage or reinforce a weak one to avoid making mistakes in the future.
3) Michael Porter believes that the basic unit of analysis for understanding is a group of competitors producing goods or services that compete directly with each other. It is the industry where competitive advantage is ultimately won or lost. It is through competitive strategy that the organisation attempts to adopt an approach to compete in the industry.
4) This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:
   a) Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
   b) Competitive pressures associated with the threat of new entrants into the market.
   c) Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
   d) Competitive pressures stemming from supplier bargaining power and supplier- seller collaboration.
   e) Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.
5) The strategists can use the five-forces model to determine what competition is like in a given industry by undertaking the following steps:

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

   Step 2: Evaluate how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).

   Step 3: Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits.
6) Porter's five forces model is one of the most effective and enduring conceptual frameworks used to assess the nature of competitive environment and to under- stand an industry's structure.
7) The interrelationship amongst these five forces, gives each industry, its own particular competitive environment.
8) By applying Porter's five forces model of industry attractiveness to their own industry, management can gauge their firm's strengths, weaknesses, probable threats and future opportunities.

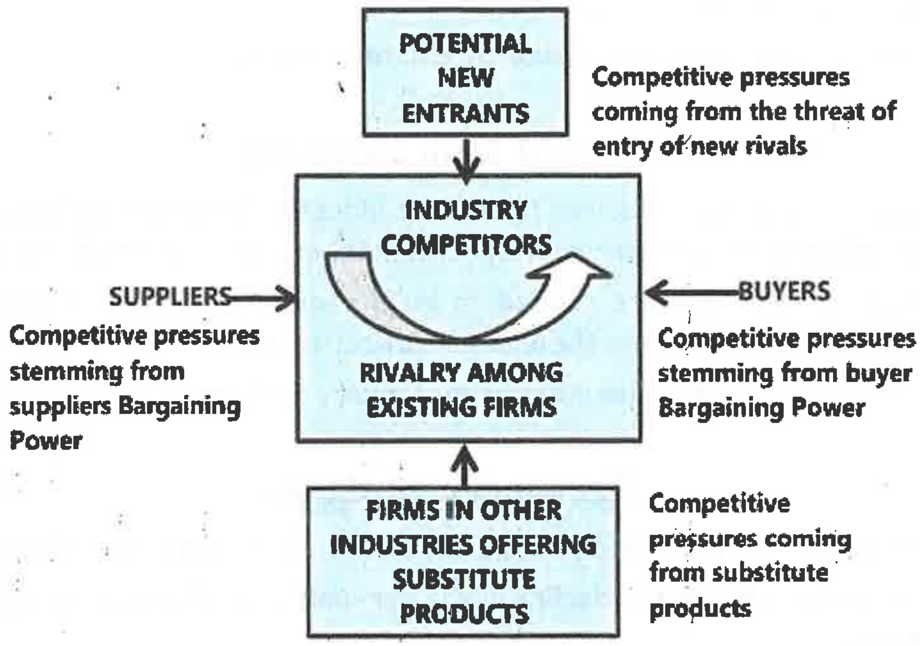


Figure: Porter's Five Force Model of Competition

THREAT OF NEW ENTRANTS

1) New entrants can **reduce an industry's profitability**, because they add new production capacity, leading to increase in supply of the product, sometimes even at a lower price and can substantially erode existing firm's market share position.
2) However, New entrants are always a powerful source of competition. The new capacity and product range they bring in throws up a new competitive pressure.
3) The **bigger the new entrant, the more severe the competitive effect**. New entrants also place a limit on prices and affect the profitability of existing players, which is known as Price War.

   For Example, Reliance Jio offered cheap services when it entered the telecom industry in 2016, thus limiting the prices for existing players like Airtel, Vodafone, Idea, etc.
4) A firm's profitability tends to be higher **when new firms are blocked** from entering the industry.
5) To discourage new entrants, existing firms can try to raise barriers to entry. **"Barriers to entry" represent economic forces (or 'hurdles')** that slow down or impede entry of new firms.
6) Common barriers to entry include:
   a) Capital requirements
   b) Economies of scale
   c) Product differentiation
   d) Switching costs
   e) Brand identity

f) Access to distribution channels

g) Possibility of aggressive retaliation by existing players

Capital Requirements

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

For example, huge investments are needed to build production facilities and establish brand awareness among people for entry into the pharmaceutical industry.

This makes the entry of new companies into this sector very difficult.

Economies of Scale

a) Many industries are characterized by economic activities driven by economies of scale.

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

c) A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs.

d) This tends to discourage new entrants.

Product Differentiation

a) Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.

b) Firms in the personal care products and cosmetics industries actively engage in product differentiation to enhance their products' features.

c) Differentiation works to reinforce entry barriers because the cost of creating genuine product differences may be too high for the new entrants.

Switching Costs

a) To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products.

b) To make a switch, buyers may need to test a new firm's product, negotiate new purchase contracts, and train personnel to use the equipment, or modify facilities for product use.

c) Buyers often incur substantial financial (and psychological) costs in switching between firms.

d) When such switching costs are high, buyers are often reluctant to change.

Brand Identity

a) The brand identity of products or services offered by existing firms can serve as another entry barrier.

b) Brand identity is particularly **important for infrequently purchased products** that carry a high unit cost to the buyer.

c) New entrants often encounter significant difficulties in building up the brand identity, because to do so they must commit substantial resources over a long period.

d) The gestation period of customer loyalty is quite high, when customers identify themselves with existing brands.

Access to Distribution Channels

a) The unavailability of distribution channels for new entrants poses another significant entry barrier.

b) Despite the growing power of the internet, **many firms may continue to rely on their control of physical distribution channels** to sustain a barrier to entry to rivals.

c) Often, **existing firms have significant influence over the distribution channels** and can retard or impede their use by new firms.

For example, because of control over distribution channels in India by HUL, P&G and Godrej etc., small entrepreneurs find it very difficult to sell their products through the existing channels.

Similarly, with advent of Patanjali and its strong nation-wide distribution channel, new Ayurvedic FMCG companies are facing a challenge.

Possibility of Aggressive Retaliation

Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

For example, introduction of products by a new firm may lead incumbent's firms to reduce their product prices and increase their advertising budgets.

BARGAINING POWER OF BUYERS

1) This is another force that influences the competitive condition of an industry. This force becomes heavier **depending on the possibility of buyers forming groups or cartels.**

2) Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or even 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 costs and investments of the producer.**

3) This is because powerful buyers usually bargain for better services which involves more investment on the part of the producer.

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

   a) **Buyers have full knowledge of the sources of products and their substitutes.**

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

c) The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

BARGAINING POWER OF SUPPLIERS

1) Quite often, suppliers too, exercise considerable bargaining power over purchasing companies. The more specialised the offering from the supplier, greater may be its clout. Further, when the suppliers are limited in number, they may openly exhibit their bargaining power.

2) The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry, and therefore, an industry's attractiveness and profitability.

3) Suppliers can influence the profitability of an industry in a number of ways. 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. Less suppliers, more buyers.

THE NATURE OF RIVALRY IN THE INDUSTRY

1) Rivalry between existing players is quite obvious. This is what is normally understood as competition.

2) For any player, the competitors influence strategic decisions at different strategic levels. The impact is more evident at functional level, like in the prices being charged, more aggressive advertising, and building pressures on costs, product and so on

3) The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability.

4) The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus directly affect the profitability.

5) The more intensive the rivalry, the less attractive is the industry. Rivalry among competitors tends to be cutthroat and industry profitability low when:

   a) An industry has no clear leader. Therefore, continuous war for leadership.

   b) Competitors in the industry are numerous.

   c) Competitors operate with high fixed costs. Thus, aiming for better Return on Investment with more fierce tactics.

   d) Competitors face high exit barriers and therefore, continue to fight for mar- ket share.

   e) Competitors have little opportunity to differentiate their offerings.

f) The industry faces slow or diminished growth.

Industry Leader:

a) A strong industry leader can discourage price wars by disciplining initiators of such activity.

b) Because of its greater financial resources, a leader can generally outlast smaller rivals in a price war.

c) Knowing this, smaller rivals often avoid initiating such a contest.

Number of Competitors:

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

Fixed Costs:

a) When rivals operate with high fixed costs, they feel strong motivation to utilize their capacity and therefore are inclined to cut prices when they have excess capacity.

b) Price cutting causes profitability to fall for all firms in the industry as firms seek to produce more to cover costs that must be paid regardless of industry demand.

c) For this reason, profitability tends to be lower in industries (for example, airline, telecommunications) characterized by high fixed costs.

Exit Barriers:

a) Rivalry among competitors declines if some competitors leave an industry.

b) Profitability therefore tends to be higher in industries with few exit barriers.

c) Exit barriers come in many forms. Assets of a firm considering exit may be highly specialized and therefore of little value to any other firm. Such a firm can thus find no buyer for its assets. This discourages exit.

d) When barriers to exit are powerful, competitors desiring exit may refrain from leaving.

e) Their continued presence in an industry exerts downward pressure on the profitability of all competitors.

f) The crux is, if an organisation cannot exit, it would fight for its survival, and thus, intensify competition.

Product Differentiation:

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

b) Profitability tends to be lower in industries involving undifferentiated commodities such as, memory chips, natural resources, processed metals and railroads.

Slow Growth:

a) Industries whose growth is slowing down tend to face more intense rivalry.

b) As industry growth slows, rivals must often fight harder to grow or even to keep their existing market share. The resulting intensive rivalry tends to reduce profitability for all.

THREAT OF SUBSTITUTES

1) Substitute products are a latent/hidden but existing source of competition in an industry.
2) In many cases they grow to become a major constituent of competition. Substitute products that offer a price advantage and/or performance improvement to the consumers, can drastically alter the competitive character of an industry.
3) Surprisingly, they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre
4) Wherever significant investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits of an industry.
5) A final force that can influence industry profitability is the availability of substitutes for an industry's product.
6) To predict profit pressure from this source, firms must search for products that perform the same, or nearly the same, function as their existing products.

   For example, Real estate, insurance, bonds and bank deposits are clear substitutes for common stocks, because they represent alternate ways to invest funds.

Conclusion:

The above discussed five forces together determine an industry's attractiveness / profitability. This is so because these forces influence the causes, that underlie industry attractiveness / profitability.

For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength of these five competitive forces determines the scope to earn attractive profits. As mentioned in the beginning, the strength of these forces may vary from industry to industry.

ATTRACTIVENESS OF INDUSTRY

1) The industry analysis **culminates into identification** of various issues and draw conclusions about the **relative attractiveness or unattractiveness** of the industry, both near-term and long-term.
2) **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.
3) This is important because companies invest capital, either the promoters or from the public and should be **inherent careful** in choosing an industry.
4) The final step of industry and competitive analysis is **to use the results** of analysis of previous six issues **to draw conclusions** about the relative attractiveness or unattractiveness of the industry, both near-term and long-term.
5) **The important factors on which to base such conclusions include:**
   a) The industry's growth potential, is it futuristically viable?
   b) Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker?
   c) Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces?
   d) The competitive position of an organisation in the industry and whether its position is likely to grow stronger or weaker. (Being a well-entrenched leader or strongly positioned contender in an otherwise lack luster industry can still produce good profitability; however, having to fight an uphill battle against much stronger rivals can make an otherwise attractive industry unattractive).
   e) The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
   f) Whether the company is able to defend against or counteract the factors that make the industry unattractive?
   g) The degrees of risk and uncertainty in the industry's future.
   h) The severity of problems confronting the industry as a whole.
   i) Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests?

Note-

a) As a **general proposition**, if an **industry's overall profit** prospects are **above average**, the industry can be considered **attractive**; if its **profit prospects are below average**, it is **unattractive**. However, it is a mistake to think of industries as being attractive or unattractive to all firms in the industry and all potential entrants.

b) **Attractiveness is relative, not absolute**. Industry environments unattractive to weak competitors may be attractive to strong competitors.

c) An assessment that the industry is fundamentally attractive typically suggests that current industry participants employ strategies calculated to strengthen their long-term competitive positions in the business, expanding sales efforts and investing in additional facilities and equipment as needed.

d) 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; over the longer term, strong companies may consider diversification into more attractive businesses.

e) Weak companies in unattractive industries may consider merging with a rival to bolster market share and profitability or, alternatively, begin looking outside the industry for attractive diversification opportunities.

EXPERIENCE CURVE

1) Experience curve is an important concept used for applying a portfolio approach.

2) **The concept is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work.**

3) Experience curve is based on the commonly observed phenomenon that **units' costs decline as a firm accumulates experience** in terms of a cumulative volume of production. It is based on the concept, **"we learn as we grow"**.

4) The implication is that larger firms in an industry would tend to have **lower unit costs as compared to those for smaller companies, thereby gaining a competitive cost advantage.**

5) Experience curve results from a variety of factors such as **learning effects, economies of scale, product redesign and technological improvements** in production.

6) 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".**

7) The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is **considered a barrier for new firms** contemplating entry in an industry. It is also **used to build market share** and **discourage competition.**

WHAT IS VALUE CREATION?

1) The concept of value creation was introduced primarily for providing products and services to the customers with more worth.
2) **Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay.**
3) Further, the concept took more space in the business and organizations started discussing about the value creation for stakeholders.
4) Thus, we can say that the **value creation is an activity or performance by the firm to create value that increases** the worth of goods, services, business processes or even the whole business system.
5) Many businesses now focus on value creation both in the context of creating better value for customers purchasing its products and services, as well as for stakeholders in the business who want to see their investment in business appreciate in value.
6) Ultimately, this concept gives business a competitive advantage in the industry and helps them earn above average profits/returns.
7) **Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on three factors:**
   a) **the value customers place on the company's products;**
   b) **the price that a company charges for its products; and**
   c) **the costs of creating those products.**
8) The value customers place on a product **reflects the utility they get** from a product—the happiness or satisfaction gained from consuming or owning the product.
9) **Utility must be distinguished from price.** Utility is something that customers get from a product.
10) It is a **function of the attributes** of the product, such as its performance, design, quality, and point-of-sale and after-sale service.
11) Companies are ultimately **aiming to achieve sustainable competitive advantage**, which enables them to succeed in the long run.
12) **Michael Porter** argues that a company can **generate competitive advantage** in two different ways, either through **differentiation or cost advantage**.
13) **According to Porter's, differentiation means the capability to provide customers superior and special value in the form of product's special features and quality or in the form of aftersales customer service.**
14) As a result of differentiation, a company can demand higher price for its products or services.
15) A company will earn **higher profits due to differentiation** in case the expenses stay comparable to the costs of competitors.
16) The above-mentioned **differentiation and cost advantage** will **affect a company's ability to achieve competitive advantage**, but there are many different organizational functions that

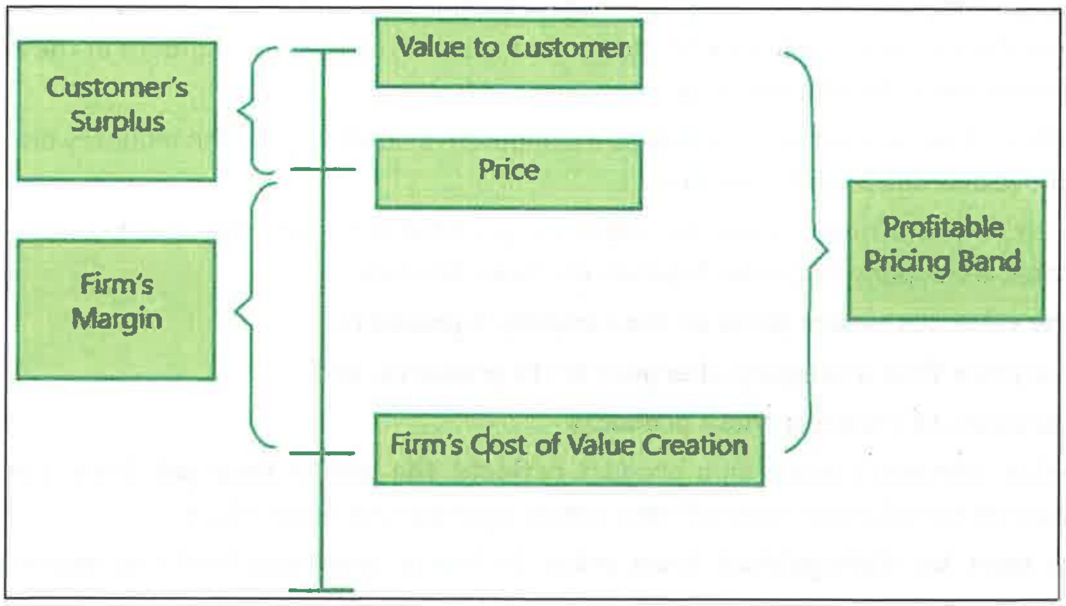
will influence whether a company can achieve cost advantage or differentiation advantage.

17) Michael Porter used the concept of value chain to explore closer different functions of the organisations and mutual interactions among those functions.

18) Value chain analysis provides an excellent tool to examine the origin of competitive advantage.

19) It divides the organisations into two different strategically important group of activities, namely, primary activities and supporting activities, which can help to comprehend the potential sources for differentiation and to understand an organisation's costs behaviour.

20) It is basically the value consumer wants to pay, over and above the price that the business wants to charge from the consumer. This excess amount is called value creation, wherein the consumers value the product or service more than it actually costs them.



MARKET AND CUSTOMER

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

2) In addition to this broad definition, the term market can apply to a wide range of contexts.

   For example, it might be used to describe the stock exchange, where securities are traded. It may also refer to a group of individuals trying to buy a specific commodity or service in a specific place, such as grain or vegetable market where farmers come to sell their produce. It may also be used to define a business or industry, such as the global oil market.

3) While the market is a place, business strategist work on marketing to improve the chances of success. The term "marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution.

4) Often market activities are categorised and explained in terms of **four Ps of marketing**
   a) product,
   b) place,
   c) pricing, and
   d) promotion.

   These four kinds of marketing activities help marketers identify customer needs so they may meet their demunds and deliver satisfaction.

5) Delivering the best customer experience and establishing, maintaining, and growing relationships with customers are the main goals of marketing.

6) The orientation of product marketing has evolved and acquired different dimensions centred around product, production, sales and customers. Businesses that have product orientation think that buyers will choose those products that have the best quality, performance, design, or features.

7) Next, there are production-oriented businesses that believe that customers choose low price products. Sales- oriented businesses believe that if they spend enough money on advertisement, sales and promotion, customers can be persuaded to make a purchase.

8) In a customer or market-oriented approach **strategists prioritise efforts on their customers**. In order to create better value propositions for customers, businesses gather, disseminate, and use customer and competitive information.

9) A customer centric business is one that **continuously learn from its customers' needs and market dynamics**. In the present times success, many business lies in customer centric approaches.

CUSTOMER

1) **A customer** is a **person or business** that **buys products or services** from another organisation. Customers are important because **they provide revenue** and organisations cannot exist without them.

2) All businesses vie for customers, either by aggressively marketing their products or by lowering their pricing to boost their customer bases. The **terms customer and consumer are practically synonymous** and are frequently used interchangeably. There is, however, **a thin distinction**.

3) **Individuals or businesses that consume or utilise products and services are referred to as consumers**.

4) **Customers are the purchasers of products and services** in the economy, and they might exist as consumers or only as customers.

5) In homes groceries are often bought by a parent and consume by all the members of family. Businesses routinely research the characteristics of their consumers in order to finetune their marketing strategies and adjust their inventory to attract the most customers.

6) 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

1) **Customer analysis** is an essential marketing component of any strategic business plan. It **identifies target clients, determines their wants, and then defines how the product meets those needs**. Thus, it involves the examination and evaluation of consumer needs, desires, and wants.
2) **Customer analysis includes**
   a) The administration of customer surveys,
   b) The study of consumer data,
   c) The evaluation of market positioning strategies,
   d) Development of customer profiles, and
   e) The selection of the best market segmentation techniques.
3) Using the facts generated by customer analysis, an effective profiling of customers may be established. Customer profiles can reveal demographic information about customers.
4) A number of parties, including buyers, sellers, distributors, salespeople, managers, wholesalers, retailers, suppliers, and creditors, can assist in gathering information to effectively assess the needs and desires of consumers. Successful businesses constantly monitor the behaviour of existing and prospective customers.

CUSTOMER BEHAVIOUR

1) 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**.
2) Understanding these details allows businesses to communicate with customers in an effective manner.
3) 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.
4) Consumer behaviour may be influenced by a number of things. These elements can be categorised into the following three conceptual domains:

External Influences:

a) **External influences**, like advertisement, peer recommendations or social norms, have a **direct impact** on the psychological and internal processes that influence various consumer decisions.

b) The focus of external effects is on the numerous elements that have an impact on customers as they choose which needs to satisfy and which products to use to do so. These aspects are divided into two groups - the company's marketing efforts and the numerous environmental elements.

Internal Influences:

Internal processes are psychological factors internal to customer and affect consumer decision making. Consumer behaviour is influenced by a combination of internal and external influences, including motivation and attitudes.

Decision Making:

A rational consumer, as decision maker would seek information about potential decisions and carefully integrate this with the existing knowledge about the product. After weighing the advantages and disadvantages of each option, they would make a decision.

The stages of decision making process can be described as:

a) **Problem recognition**, i.e., identify an existing need or desire that is unfulfilled

b) **Search for desirable alternative** and list them

c) **Seeking information** on available alternatives and weighing their pros and cons.

d) **Make a final choice** This behaviour of making decisions happens very frequently. 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. The process is extremely valid when purchasing a car, television or a refrigerator in contrast to purchase of ice creams or soft drinks.

Post-decision Processes:

a) 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.

b) While a happy customer may make repeat purchase and recommend to others, customer with dissonance will neither purchase the product again nor recommend it to others.

COMPETITIVE STRATEGY

1) Competition is a **fundamental attribute** of economic systems and business, and it is frequently connected with small and large organisations.
2) Businesses compete with each other for the same set of resources and customers. Within an industry, competition is frequently encouraged with the wider goal of attaining and achieving higher quality services or superior goods that the firm may manufacture or develop.
3) The competitive strategy of a business is **concerned with how to compete** in the business areas in which the organization operates. In other words, competitive strategy defines how a firm expects to create and sustain a competitive advantage over competitors.
4) Having **a competitive advantage over competitors means being more profitable** in the long run. The competitive strategy of a firm within a certain business field is analysed using **two criteria**:
   a) **The creation of competitive advantage and**
   b) **The protection of competitive advantage**.
5) 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.
6) This analytical step is essential because managers **cannot** devise a successful strategy without in-depth understanding of the industry's competitive character.
7) Even though competitive pressures in various industries are never precisely the same, the competitive process works similarly enough to use a common analytical framework in gauging the nature and intensity of competitive forces.
8) Porter's five forces model is useful in understanding the competition. It is a **powerful tool** for systematically diagnosing the main competitive pressures in a market and assessing how strong and important each one is. Not only is it the widely used technique of competition analysis, but it is also relatively easy to understand and apply.

COMPETITIVE LANDSCAPE

1) Competitive landscape is a business analysis which **identifies competitors, either direct or indirect.**
2) 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**".
3) An **in-depth investigation and analysis of a firm's competition** allows it to assess the competitor's strengths and weaknesses in the marketplace and helps it to choose and implement effective strategies that will improve its competitive advantage.

STEPS TO UNDERSTAND THE COMPETITIVE LANDSCAPE

Identify the competitor:

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

This answers the question:

a) **Who are the competitors and how big are they?**

Understand the competitors:

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

This answers the question:

a) **What are their product and services?**

Determine the strengths of the competitors:

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

This answers the questions:

a) **What are their financial positions?**

b) **What gives them cost and price advantage?**

c) **What are they likely to do next?**

d) **How strong is their distribution network?**

e) **What are their human resource strengths?**

Determine the weaknesses of the competitors:

Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor. **Like reviews on online websites, google, tripadvisor, amazon, blogs, youtube videos, etc.**

This answers the question

a) **Where are they lacking?**

Put all of the information together:

At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm.

This answers the questions:

a) **What will the business do with this information?**

b) **What improvements does the firm need to make?**

c) **How can the firm exploit the weaknesses of competitors?**

KEY FACTORS FOR COMPETITIVE SUCCESS

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

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

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

   a) **On what basis do customers choose between the competing brands of sellers? What product attributes are crucial?**

   b) **What resources and competitive capabilities does a seller need to have to be competitively successful?**

   c) **What does it take for sellers to achieve a sustainable competitive advantage?**

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

4) **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.**

5) Rarely an industry has more than three or four key success factors at any one time, and even among these three or four, one or two usually outrank the others in importance.

6) Managers need to **understand the industry situation well enough** to know what is more important to competitive success and what is less important.

7) They need to know what kind of resources are competitively valuable. Misdiagnosing the industry factors critical to long-term competitive success greatly raises the risk of a misdirected strategy.

8) In contrast, an 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.

9) Indeed, business organisations that stand out on a particular KSF enjoy a stronger market position for their, effortsbeing distinctively better than rivals on one or more key success factors presents a golden opportunity for gaining competitive advantage. Hence, using the

industry's KSFs as cornerstones for the company's strategy and trying to gain sustainable competitive advantage by excelling at one particular KSF is a fruitful competitive strategy approach.

10) Managers, therefore, have to resist the temptation to include factors that have only minor importance on their list of key success factors. The **purpose** of identifying KSFs is **to make judgments** about what things are more important to competitive success and what things are less important.

11) To compile a list of every factor that matters even a little bit defeats the purpose of concentrating management attention on the factors truly critical to long-term competitive success.

STRATEGIC ANALYSIS: INTERNAL ENVIRONMENT

INTRODUCTION

1) Strategic Analysis is equally important when it comes to **internal environment assessment**.
2) **Internal environment** refers to the **sum total of People** - individuals and groups, stakeholders, **Processes**- input-throughput-output, **Physical infrastructure**- space, equipment and 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.
3) In other words, the internal environment is **specific to each organisation**. It is based on its structure and business model and includes all stakeholders like top management, investors, employees, board of directors, investors, etc.
4) Internal environment also involves **understanding** of the ethics, principles, work environment, employee friendliness, confidence of investors and other philosophical and cultural aspects of business, which aim for the success of the organisation.
5) Thus, it is even more important to understand the internal environment from a strategic analysis perspective.

UNDERSTANDING KEY STAKEHOLDERS

1) A firm may be viewed as a **coalition of stakeholders**- all those individuals and entities that have a stake in its success and can impact it as well.
2) They may be the employees, shareholders, investors, suppliers, customers, regulators and so on. This view of the firm **is in contrast** to the earlier view of the firm that was considered to be an extension of the owners and shareholders alone.
3) Thus, it may be reiterated that the **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. They have the **power to influence** the strategy or performance of that organisation.
4) 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.
5) Each stakeholder or stakeholder group will be **affected by the business strategy** that the organisation chooses and implements.
6) It is **important** to first **identify the key stakeholders**. Each stakeholder exerts a different level of influence and can have differing levels of interest in the organisation.

   For example, an organisation involved in healthcare innovation needs to have a long-term perspective about its return on investment (ROI) as there may be a long time between investment into research timelines and a commercial outcome.

7) While, shareholders, whose **main concern is quick profits**, may be **more hesitant** to **support the organisation** spending funds on something that they may **not** see the return in the near future.
8) Since the expectations of key stakeholders can influence the organisation's strategy, a **clash of objectives** may have **unfavourable** consequences for the organisation.

Example of Key Stakeholders and their requirements for an OTT Platform

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

MENDELOW'S MATRIX

1) The **Mendelow Stakeholder matrix** (also known as the **Stakeholder Analysis matrix and the Power-Interest matrix**) is a simple framework **to help manage key stakeholders**.
2) Managing a project is **extremely complicated** as it **involves managing the competing interests** of various stakeholders. Who needs to know what and when, who needs to give their feedback and who has the final approval can be confusing.

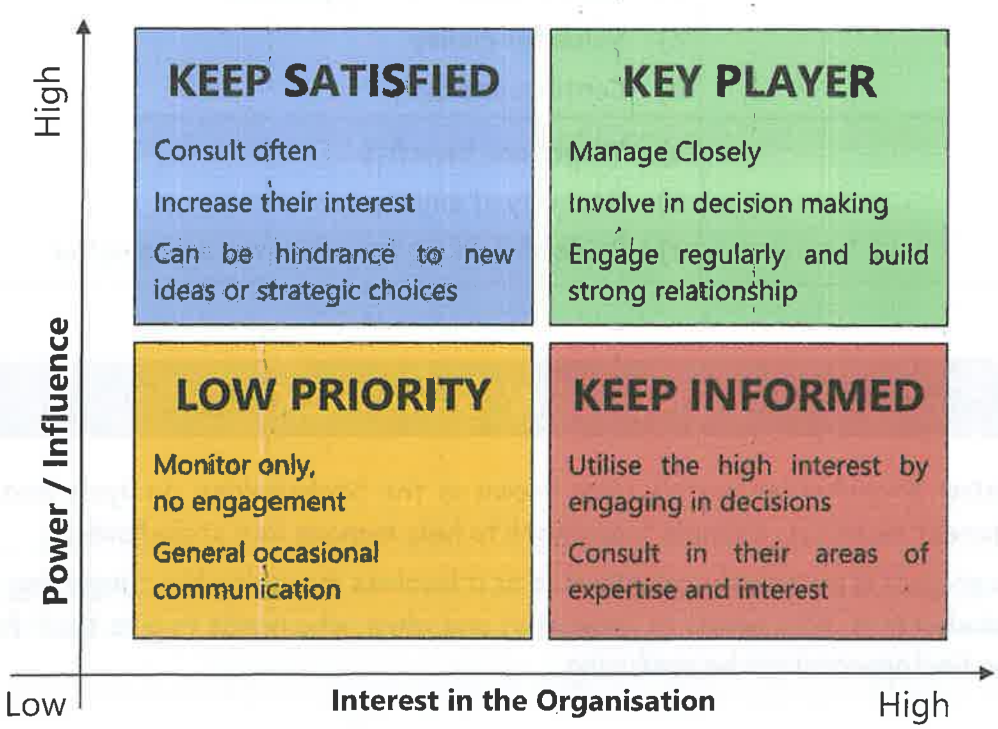
3) However, managing stakeholders is critical to the success of a project. This is where a stakeholder analysis matrix i.e. Mendelow's Matrix can help.
4) Mendelow suggests that one should analyse stakeholder groups based on Power (the ability to influence organisation strategy or resources) and Interest (how interested they are in the organisation succeeding).
5) A thing to remember is that all stakeholders may seem to have lots of power and organisation may hope they would have lots of interest too. But in reality, some stakeholders will hold more Power than others, and some stakeholders will have more Interest than others.

   For example, a big shareholder is likely to have high power and high interest in the organisation, whereas a big competitor would have high power to impact strategy, but potentially less Interest in success of rival organisation.

Developing a Grid of Stakeholders

a) Mendelow's Matrix is based on Power and Interest. It suggests to identify which stakeholders are incredibly important.
b) 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.

   For example, the CEO is likely to have more Power to influence the work and also high interest in it being successful. Keeping them informed almost daily should be a priority.
c) However, those stakeholders with low power and low interest like research institutes seeking an organisation data should be monitored rarely and minimum effort expended on them in terms of time and money.



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

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

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

c) <u>LOW PRIORITY Stakeholders:</u> Low power, less interested people - Organisation should only monitor them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest or power change.

   For example, business magazines, media houses, etc.

d) <u>KEEP INFORMED Stakeholders:</u> Low power, highly interested people - Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audiences can also help with real time feedbacks and areas of improvement for an organisation.

   For example, employees, vendors, suppliers, legal experts, etc.

<u>Note:</u>

An important thing that strategists should be aware of, is the importance to remember that environment is highly dynamic and certain things might happen that can cause stakeholders to suddenly move between quadrants.

For example, an organisation might inadvertently contravene a regulation, say GST compliance which would cause the regulatory body i.e. the Indirect Taxes Department to move from High Power, Low Interest to High Power, High Interest. This would then require a different way of managing and communicating with this stakeholder. Equally, the media houses would also move from Low Power, Low interest, to Low Power, High Interest. So, it's always worth re-analysing the Mendelow's grid for one's organisation in the event of a change in the environment.

STRATEGIC DRIVERS

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

2) It involves **analysis of the key markets** in which the organisation operates, as well as its key customers, the products and services it **provides, the channels** in which the products or services are **delivered**, and the organisation's competitive advantage.
3) Some of these components are interlinked, such as markets and products/services, and channels and key customers in each channel.
4) There can be **varied ways** to assess the current performance of a business and it is highly subjective based on the managements metrics and ways of doing business. It can either be **profit driven, purpose driven or any other metrics** that the management seems to fit in.
5) But in general, the key strategic drivers of an organisation **include:**
   a) Industry and markets
   b) Customers
   c) Products/services
   d) Channels

INDUSTRY AND MARKETS

1) In terms of the internal environment, it is very important for an organisation to **understand it's relative position in the industry and in the market** in which it operates. There are many ways to do this but require analysis and understanding of the environment.
2) 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. Similarly, Zara, H&M, Marks & Spencer, Pantaloons, Westside, Uniqlo, are all selling apparels and accessories for the youth, and thus categorised under apparels industry.
3) **A market** is defined as the **sum total of all the buyers and sellers** in the area or region under consideration.
4) The **value, cost and price** of items traded are **as per forces of supply and demand in a market.** The market may be a physical entity or may be virtual like e-commerce websites and applications.
5) It may further be local or global, depending on which all countries the business sells its products in.

Is market the same for all businesses?

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

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

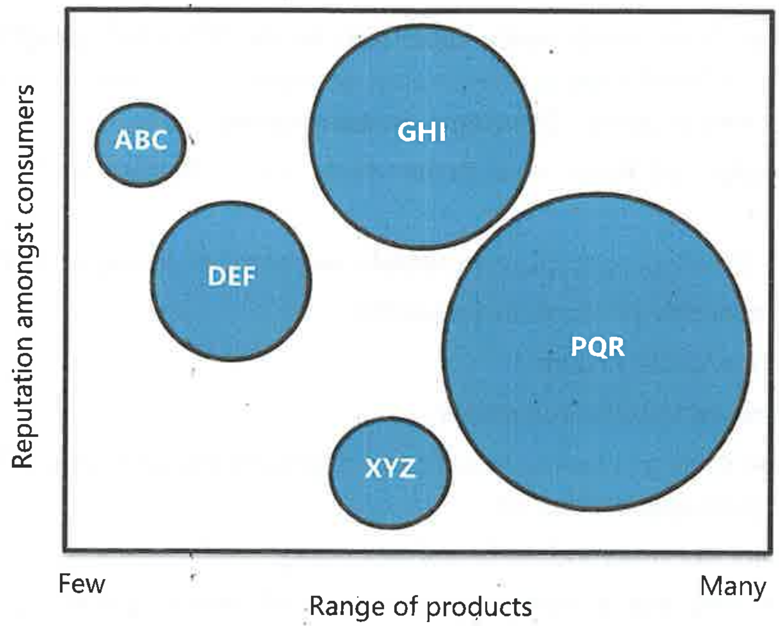
ANALYSING INDUSTRY AND MARKETS

1) Industry and market analysis is **extremely important to identify one's position as compared to the competitors**, who can be of equal size and value, or bigger in size and value or even smaller and newer. A tool used for this is called - **Strategic Group Mapping**.
2) A strategic group **consists of those rival firms** which have similar competitive approaches and positions in the market.
3) 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 attributes to appeal to similar types of buyers, Depend on identical technological approaches, or
   e) Offer buyers similar services and technical assistance.
4) An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions.
5) At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the marketplace.

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

a) **Identify the competitive characteristics** that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full)
b) **Plot the firms** on a two-variable map using pairs of these differentiating characteristics.
c) **Assign firms** that fall in about the same strategy space to the same strategic group.
d) **Draw circles around each strategic group** making the circles proportional to the size of the group's respective share of total industry sales revenues.

Strategic Group Mapping



Explanation of Above Diagram

a) ABC, DEF, GHI, XYZ AND PQR are companies operating in the same industry. Let us assume these all are companies selling Laptops.

b) Now on the Y-Axis (vertical) is the reputation of the company and on the X-Axis (horizontal) is the range of their products.

c) The Reputation is depicted through the size of the bubble of the company along with how high it is on the Y-Axis. While on the X-Axis, we can see how huge their product range is, whether they have few models or they have many models on offer for the customers.

d) A simple glance of the mapping chart shows us that even though ABC has few models, but it has great reputation in the market. Similarly, GHI has a good range of products and is the most reputed company in laptops.

e) Another view is that XYZ and GHI have the same number of models as both are on the same place on X-Axis, but GHI has much greater reputation than XYZ, as it has a bigger bubble and is higher on the Y-Axis.

f) Strategists can analyze the market by making any number of scenarios like above to understand the competition. Thus, this analysis helps a business understand its competition in terms of two or more factors (like reputation and range of products in this case) in a single graphical representation.

CUSTOMERS

1) Understanding the different types of customers to whom the organisation's products/services are **sold or provided**, is not only important but also the **first step in deciding the product/service**. Different customers may have different needs and require different sales models or distribution channels.
2) **Consider the example of a headphones brand** - the customers can be grouped under high value buyers, medium value buyers and low value buyers based on the amount they are willing to spend on a product, thus helping the business understand their key customers and focus areas of improvement.
3) As customers are often **responsible for the generation of profits** obtained by an organisation, it is important to be able to collect and display data in order to show customer trends and profitability. Issues with customers can be identified, and target areas for growth can be pursued based on the findings.
4) Another interesting concept is the **difference between Customer and Consumer** - while a **customer is the one buys a product/service**, the **consumer is the one who finally uses/consumes the bought product or service.**

   For example - A parent buying stationery products for their kids might be the customers, but consumers of stationery are the kids who would actually use it. Thus, understanding both is important for the marketers.
5) **From a pricing perspective** - the customer is of more importance and from value creation and design/usability, consumer needs to be the kept at the center of decision making.

PRODUCT/SERVICES

1) Products and services are **closely linked and interrelated with the markets** that the organisation wants to serve.
2) In this component of the strategic drivers' analysis, business identifies the key products/ services that the organisation offers and how those products/services are performing.
3) It attempts to answer the general question: **What business are we in and what should be done to win over competition in each product/service we serve**.
4) Product stands for the combination of "goods-and-services" that the company offers to the target market. Strategies are needed for managing existing product over time, adding new ones and dropping failed products.
5) **Strategic decisions** must also be **made regarding branding, packaging** and other product features such as warranties.
6) The products can also be classified on the basis of industrial or consumer products, essentials or luxury products, durables or perishables.

7) There are products that have **wide range of quality and workmanship** and these also change over time since products and markets are infinitely dynamic. An organization has to capture such dynamics through a set of policies and strategies. Some products have consistent customer demand over long period of time while others have short life spans.

8) Products can also be **differentiated** on the basis of **size, shape, colour, packaging, brand names, after-sales service** and so on.

9) 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**.

10) Quite often the **differentiation is psychological rather than physical**. It is enough if customers are persuaded to believe that the marketer's product is different from others.

    For example, Shampoos with different branding namely Head & Shoulders, Olay, Old Spice, Pantene are all produced by the same company P&G.

11) Organizations formalize product differentiation through designating 'brand names' to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it.

12) The products and even firms' image is built around brands through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

13) 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.**

MARKETING STRATEGIES

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

1) Social Marketing:

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

2) Augmented Marketing:

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

3) **Direct Marketing:**

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

4) **Relationship Marketing:**

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

5) **Services Marketing:**

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

6) **Person Marketing:**

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

7) **Organization Marketing:**

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

8) **Place Marketing:**

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

9) **Enlightened Marketing:**

It is a **marketing philosophy** holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset; its five principles include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.

10) **Differential Marketing:**

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

11) **Synchro-marketing:**

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

12) **Concentrated Marketing:**

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

13) **Demarketing:**

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

CHANNELS

1) Channels are the **distribution system** by which an organisation distributes its product or provides its service.
2) To understand the concept of channels let us see some **examples of how the following companies distribute their products and services;**
   a) **Lakme** - sells its products via retail stores, intermediary stores (like Nykaa, Westside, Reliance Trends), as well as online mode like amazon, flipkart, nykaa online and its own website.
   b) **Boat Headphones** - only online via e-commerce platforms like flipkart and amazon
   c) **Coca Cola** - retail shops across the nation, in each district, each town as well as online mode via dunzo, blinkit, etc.
3) All the above are the channels via which companies sell their products and services to the customers. The **wider and stronger the channel the better position a business has to fight and win over competition**. Also, having robust channels of business distribution **help keep new**

players away from entering the industry, thus acting as barriers to entry.

4) There are typically three channels that should be considered: sales channel, product channel and service channel.
   a) **The sales channel** - These are the intermediaries involved in selling the product through each channel and ultimately to the end user. The key question is: Who needs to sell to whom for your product to be sold to your end user?

      For example, many fashion designers use agencies to sell their products to retail organisations, so that consumers can access them.
   b) **The product channel** - The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores.
   c) **The service channel** - The service channel refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance.

      For example, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.
5) Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets. When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers. Thus, analysis of channels that suit one's products and customers is of utmost importance.
6) **For example** - if a healthcare brand wants to reach out to elderly customers - they need to be more focused on offline mode of business where agents reach out physically to the elderly as most of their potential customers (i.e. the old aged) are not active on smartphones.

<u>Another example being -</u>

a) 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 like placing their drinks in stores, and shops alike, offering competitive campaigns to create awareness via online modes (social media) and so and so forth.
b) Thus, channels, the partners in growth, play a crucial role in internal strategic alignment.
c) Ever been to a hill station or a desert or a far-off location on vacation, and still had access to bottled water and cold drinks?
d) This is possible because of strong channels of distribution. Some of the most renowned brands who have created competitive advantage in channels are Coca Cola, HUL, Patanjali, Asian Paints, Ola, to name a few.

ROLE OF RESOURCE AND CAPABILITIES: BUILDING CORE COMPETENCY

1) An organization may be viewed as an entity endowed with resources and capabilities. These resources and capabilities may be so synergized as to impart distinct competencies that the organization may leverage to its advantage.
2) Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals.
3) C. K. Prahalad and Gary Hamel have advocated a concept of core competency, which is a widely-used concept in management theories.
4) They defined core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies.
5) 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.
6) Competency is defined as a combination of skills and techniques rather than individual skill or separate technique.
7) For core competencies, it is characteristic to have a combination of skills and techniques, which makes the whole organization utilize these several separate individual capabilities.
8) Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources. The optimal way to define core competence is to consider it as sum of 5-15 areas of developed expertise.

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

a) competitor differentiation,
b) customer value, and
c) application to other markets.

1) <u>Competitor differentiation is one of the main three conditions.</u>

a) The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate.
b) This can provide a company an edge compared to competitors. It allows the company to provide better products or services to market with no fear that competitors can copy it.
c) The company has to keep on improving these skills in order to sustain its competitive position.
d) Competence does not necessarily have to exist within one company in order to define as core competence.
e) 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.

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

2) The second condition to be met is customer value.

a) When purchasing a product or service it **has to deliver a fundamental benefit** for the end customer in order to be a core competence.

b) It will **include all the skills** needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase them.

c) 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.

d) The **essence** is that the **consumer should value the differentiation** offered. Without it, the core competency does not make sense.

3) The last condition refers to application of competencies to other markets.

a) Core competence must be **applicable** to the **whole organization**; it cannot be only one particular skill or specified area of expertise.

b) Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence, if it is not fundamental from the whole organization's point of view.

c) Thus, a core competence is a unique set of skills and expertise, which will be used through out the organisation to open up potential markets to be exploited.

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

9) **Core competencies are often visible in the form of organizational functions**.

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

10) **A core competency for a firm is whatever it does best**:

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

11) Core competencies are the **knowledge, skills, and facilities** necessary to design and produce core products.

12) Core competencies are **created by superior integration of technological, physical and human**

resources. They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities.

13) Cultural capabilities refer to the ability to manage change, the ability to learn and team working. Organizations should be viewed as a bundle of a few core competencies, each supported by several individual skills.

14) Core Competence-based diversification reduces risk and investment and increases the opportunities for transferring learning and best practice across business units.

15) Core technological competencies are also corporate assets; and as assets, they facilitate corporate access to a variety of markets and businesses. For competitive advantage, a core technological competence should be difficult for the competitors to imitate.

CRITERIA FOR BUILDING A CORE COMPETENCIES (CC)?

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

Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

Valuable

a) Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment.

b) A firm created value for customers by effectively using capabilities to exploit opportunities.

c) Finance companies build a valuable competence in financial services.

d) In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs.

e) Human capital is important in creating value for customers.

Rare

a) Core competencies are very rare capabilities and very few of the competitors possess this.

b) Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them.

c) Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

Costly to imitate

a) Costly to imitate means such capabilities that competing firms are unable to develop easily.

For example: Intel has enjoyed a first-mover advantage more than once because of its rare fast R&D cycle time capability that brought SRAM and DRAM integrated circuit technology, and brought microprocessors to market well ahead of the competitor.

b) The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

Non-substitutable

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

b) This final criterion for a capability to be a source of competitive advantage is that **there must be no strategically equivalent valuable resources that are themselves either not rare or imitable**.

For example: For years, firms tried to imitate Tata's low-cost strategy but most have been unable to duplicate Tata's success. They did not realize that Tata has a unique culture and attracts some of the top talent in the industry. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.

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

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

Conclusion:

a) Only when a capability is **valuable, rare, costly to imitate, and non-substitutable**, it is a core competence and a source of competitive advantage.

b) Over a time, **core competencies must be supported**.

c) Core competencies are a **source of competitive advantage** only when they **allow the firm to create value** by exploiting opportunities in its external environment.

COMBINING EXTERNAL AND INTERNAL ANALYSIS (SWOT ANALYSIS)

1) **SWOT analysis** is the analysis of a **business's strengths, weaknesses, opportunities and threats**. The primary objective of a SWOT analysis is **to help organizations develop a full awareness** of all the factors (external as well as internal), involved in making a business decision.

2) SWOT analysis shall be **implemented** before all company actions, whether it is exploring new initiatives, revamping internal policies, considering opportunities to grow or alter a plan midway.

3) One shall also us SWOT analysis **to discover recommendations and strategies**, with a focus on leveraging strengths and opportunities to overcome weaknesses and threats. Since its creation, SWOT has been the **most widely used tools** for business owners to grow their companies.

4) Sometimes it's **wise** to perform SWOT analysis **just to check** on the current landscape of your business **to improve business operations** as needed. The analysis can show areas where an organization is performing well, as well as areas that need improvement.

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

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

Benefits of SWOT

a) The benefit of this analysis is that **it identifies the complex issues** for an organisation and **puts them into a simple framework**.

b) While on the other hand, one of the major criticisms of this tool is that it does **not** generally provide for evaluation of strengths, weaknesses, opportunities and threats in the competitive context.

c) Therefore, an organsition while using this tool, SWOT analysis, should **consider relative competitors, and external factors** affecting the organisation. **Although a simple tool, it is a useful starting point for analysis.**

SWOT Analysis for Internal or External Environment?

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

COMPETITIVE ADVANTAGE: USING MICHAEL PORTER'S GENERIC STRATEGIES

1) If a **company's strategies** result in **superior performance**, it is **said to have a competitive advantage**.
2) Strategic management involves **development of competencies that managers** can use to achieve better performance and a competitive advantage for their organization.
3) Competitive advantage **allows a firm to gain an edge over rivals when competing. 'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.'**
4) In other words, **an organization is said to have competitive advantage if its profitability is higher than the average profitability** for all companies in its industry.

"If you don't have a competitive advantage, don't compete"

5) Competitive advantage is the **achieved advantage over rivals** when a company's profitability is greater than the average profitability of firms in its industry.
6) It is achieved when the **firm successfully formulates and implements the value creation strategy and** other firms are unable to duplicate it or find it too costly to imitate.
7) Further, it can be said that a firm is successful in achieving competitive advantage only after **other firm's efforts to duplicate or imitate it fails.**

SUSTAINABILITY OF COMPETITIVE ADVANTAGE

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

Durability

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

Transferability

a) Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals.
b) The ability of rivals to attack position of **competitive advantage relies on their gaining access to the necessary resources and capabilities.**

c) The easier it is to transfer resources and capabilities between companies, the less sustainable will be the competitive advantage which is based on them.

Imitability

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

b) How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability.

For Example: In financial services, innovations lack legal protection and are easily copied.

c) Here again the complexity of many organizational capabilities can provide a degree of competitive defence.

d) Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult.

Appropriability

a) Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base.

b) Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

c) This means, that rewards are directed to from where the funds were invested, rather than creating an advantage with no actual reward to people to invested capital.

MICHAEL PORTER'S GENERIC STRATEGIES

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

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

   b) **Differentiation** - It is a strategy aimed at producing products and services which are unique industry wide and directed at consumers who are relatively price-insensitive.

   c) **Focus** - It means producing products and services that fulfil the needs of small groups of consumers with specific taste.

2) Porter calls these base generic strategies. Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

3) Porter's strategies imply different organizational arrangements, control procedures, and incentive systems. Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis, whereas smaller firms often compete on a focus basis.

4) Porter stresses the need for strategists to perform cost-benefit analysis **to evaluate "sharing opportunities"** among the firm's existing and potential business units. Sharing activities and resources enhances competitive advantage by lowering costs or raising differentiation.

5) In addition to prompting sharing, **Porter stresses the need for firms to "transfer" skills and expertise** among autonomous business units effectively in order to gain competitive advantage.

6) Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

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

Figure: Michael Porter÷s Generic Strategies

COST LEADERSHIP STRATEGIES

1) It is a **low cost competitive strategy** that aims at **broad mass market**. It requires **vigorous pursuit of cost reduction** in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs.

2) 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.

   For example, McDonald's fast-food restaurants have successfully followed low cost leadership strategy. Decathlon Group's mega sports stores have been following low-cost leader-ship strategy to gain international recognition and also beat competition.

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

4) The main strategy is to **under-price competitors and thereby gains market share and sales, driving some competitors out of the market entirely.**

5) A number of cost elements affect the relative attractiveness of generic strategies, including:
   a) **economies or diseconomies of scale achieved,**
   b) **learning and experience curve effects,**
   c) **the percentage of capacity utilization achieved, and**
   d) **linkages with suppliers and distributors.**

6) Other cost elements to consider in choosing among alternative strategies include the potential for sharing costs and knowledge within the organization, R&D costs associated with new product development or modification of existing products, labour costs, tax rates, energy costs, and shipping costs. This internal strategy of sharing resources to build a competitive advantage is called synergy benefit.

7) A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overheads, limited perks, intolerance of waste, intensive screening of budget requests, wide span of controls, rewards linked to cost containment, and broad employee participation in cost control efforts.

8) Striving to be a low-cost producer in an industry can especially be effective:
   a) the market is composed of many price-sensitive buyers,
   b) there are few ways to achieve product differentiation,
   c) buyers do not care much about differences from brand to brand, or
   d) there are a large number of buyers with significant bargaining power.

9) The basic idea is to underprice competitors and thereby gain market share driving some of the competitors out of the market.

10) Risk:
   a) Competitors may imitate the same strategy, thus driving overall industry profits down;
   b) Buyer interest may swing to other differentiating features besides price;
   c) Technological breakthroughs in the industry may make the strategy ineffective.

11) Achieving Cost Leadership Strategy:
   To achieve cost leadership, following are the actions that could be taken:
   a) Prompt forecasting of demand of a product or service.
   b) Optimum utilization of the resources to get cost advantages.
   c) Achieving economies of scale leads to lower per unit cost of product/service.
   d) Standardisation of products for mass production to yield lower cost per unit.
   e) Invest in cost saving technologies and try using advance technology for smart working.
   f) Resistance to differentiation till it becomes essential.

12) Advantages of Cost Leadership Strategy:
   A cost leadership strategy may help to remain profitable even with: rivalry, new entrants, suppliers' power, substitute products, and buyers' power.
   a) Rivalry – Competitors are likely to avoid a price war, since the low cost firm will continue to earn profits after competitors compete away their profits.
   b) Buyers – Powerful buyers/customers would not be able to exploit the cost leader firm and will continue to buy its product.
   c) Suppliers – Cost leaders are able to absorb greater price increases before it must raise price to customers.

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

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

13) **Disadvantages of Cost Leadership Strategy:**

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

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

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

d) **Technology advancement is a great threat** to the cost leader.

DIFFERENTIATION STRATEGIES

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

For example, Domino's Pizza has been offering home delivery within 30 minutes or the order is free, is a unique selling point that differentiates if from its rivals.

2) 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 differentiation features.

3) **Special features** that differentiate one's product can include **superior service, spare parts availability, engineering de- sign, product performance, useful life, gas mileage, or ease of use**.

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

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

6) **Durable products protected by barriers to quick imitation by competitors are better.** Successful differentiation can mean **greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features**.

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

8) **Risks:**

a) **Unique product may not be valued highly enough by customers to justify the higher price. In this case, a cost leadership strategy can easily defeat a differentiation strategy.**

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

For Example, Amazon Prime offers deliver within two hours. This is quite difficult to imitate by its rivals, and thus this differentiating factor helps it to lead the market.

Basis of Differentiation:

There are several basis of differentiation: **Product, Pricing and Organization.**

a) **Product:**

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

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

b) **Pricing:**

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

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

c) **Organisation:**

Organisational differentiation is yet another form of differentiation. **Maximizing the power of a brand or using the specific advantages that an organization possesses can be instrumental to a company's success. Location advantage, name recognition and customer loyalty** can all provide additional ways for a company differentiate itself from the competition.

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

Achieving Differentiation Strategy:

To achieve differentiation, following strategies could be adopted by an organization to incorporate:

a) Offer utility for the customers and match the products with their tastes and preferences.

b) Elevate/Improve the performance of the product.

c) Offer the promise of high quality product/service for buyer satisfaction.

d) Rapid product innovation.

e) Taking steps for enhancing image and its brand value.

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

Advantages of Differentiation Strategy:

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

a) **Rivalry** - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.

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

c) **Suppliers** – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.

d) **Entrants** – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.

e) **Substitutes** - Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Disadvantages of Differentiation Strategy:

a) In long term, uniqueness is difficult to sustain.

b) Charging too high a price for differentiated features may cause the customer to switch-off to another alternative. As we see a shift of iPhone users to other android flagship smart phones.

c) Differentiation fails to work if its basis is something that is not valued by the customers. Home delivery of packed snacks in 30 minutes would not even be a differentiator as the consumer wouldn't value such an offer.

FOCUS STRATEGIES

1) A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors.

2) Strategies such as market penetration and market development offer substantial focusing advantages. Midsize and large firms can effectively pursue focus- based strategies only in conjunction with differentiation or cost leadership-based strategies.

3) All firms in essence follow a differentiated strategy. Because only one firm can differentiate itself with the lowest cost, the remaining firms in the industry must find other ways to differentiate their products.

4) 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
5) Use focus strategy when:
   a) Consumers have distinctive preferences or requirements and
   b) Rival firms are not attempting to specialize in the same target segment.
6) Risks:
   a) The possibility that numerous competitors will recognize the successful focus strategy and imitating it, or
   b) That consumer preferences will drift toward the product attributes desired by the market as a whole.

Focused cost leadership

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

Focused differentiation

a) A focused differentiation strategy requires offering unique features that fulfill the demands of a narrow market.
b) As with a focused low-cost strategy, narrow markets are defined in different ways in different settings.
c) Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only.
d) Others target particular demographic groups.
e) Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.

   For example, Rolls-Royce sells limited number of high-end, custom-built cars.

Achieving Focused Strategy

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

a) Selecting specific niches which are not covered by cost leaders and differentiators.
b) Creating superior skills for catering to such niche markets.

c) Generating high efficiencies for serving such niche markets.

d) Developing innovative ways in managing the value chain.

Advantages of Focused Strategy

a) Premium prices can be charged by the organisations for their focused product/ services.

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

Disadvantages of Focused Strategy

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

b) Due to the limited demand of product / services, costs are high which can cause problems.

c) In long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

BEST-COST PROVIDER STRATEGY

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

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

3) Best-cost provider strategy involves providing customers more value for the money by emphasizing low cost and better-quality difference. It can be done:

   a) Through offering products at lower price than what is being offered by rivals for products with comparable quality and features or

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

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

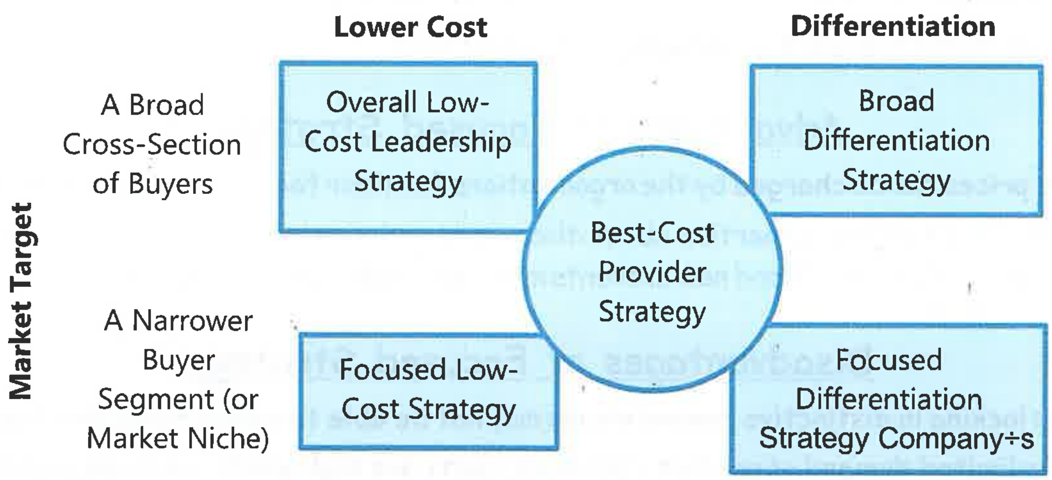


Figure: The Five Generic Competitive Strategies

STRATEGIC CHOICES

INTRODUCTION

1) Strategies are formulated at different levels of an organization - corporate, business and functional.
2) 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.
3) Top management of the organization makes strategic decisions, which pan down for delegation at middle management level and finally the functional level managers execute the same with their teams.

STRATEGIC CHOICES

1) William F Glueck and Lawrence R Jauch discussed four generic strategies including
   a) Stability,
   b) Growth,
   c) Retrenchment and
   d) Combination.
2) These strategies have also been called Grand Strategies / Directional Strategies by many other authors.
3) Michael E. Porter suggested competitive strategies including
   a) Cost Leadership,
   b) Differentiation,
   c) Focus
   d) Focused Cost Leadership and
   e) Focused Differentiation

   which could be used by the corporates for their different business units.
4) Besides these, we come across functional strategies in the literature on Strategic Management and Business Policy.
5) Functional Strategies are meant for strategic management of distinct functions such as
   a) Marketing,
   b) Financial,
   c) Human Resource,
   d) Logistics,
   e) Production etc.

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

1) Above are the various types of strategies available for an organisation to adopt. The organisation adopts either of these depending upon their needs and requirements.
2) **For instance, a start-up** or a new enterprise might follow either a competitive strategy i.e., entering the market where a number of rivals are already operating, or a collaborative strategy, i.e., enter into a joint venture with an established company.
3) However, majority of startups are launched on a small scale and their main strategy is to penetrate the market and to reach the breakeven stage at the earliest and later pursue growth strategy.
4) While a going concern can continue with the competitive strategy or resort to collaborative strategy to ensure business growth. Business conglomerates having multiple product folios formulate strategies at different levels, viz., corporate, business unit and functional.
5) Corporate level strategies are meant to provide 'direction' to the company. Business level strategies are formulated for each product/process division known as strategic business unit.
6) While for implementation of the corporate and business strategies, functional strategies are formulated in business areas like production/operations, marketing, finance, human resources etc.
7) In fact, big corporates follow an elaborate system of strategy formulation, implementation and control at different levels in the company to survive and grow in the turbulent business environment. In this chapter, we shall discuss the corporate level strategies.

CORPORATE STRATEGIES

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

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

The basic features of the corporate strategies are as follows:

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

STABILITY STRATEGY

1) One of the important goals of a business enterprise is stability i.e.:
   a) To 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, and
   f) To optimise returns on the resources committed in the business.
2) A stability strategy is pursued by a firm when:
   a) It continues to serve in the same or similar markets and deals in same products and

services.

b) This strategy is typical for those firms whose product have reached the maturity stage of product life cycle or those who have a sufficient market share but need to retain that.

c) They have to remain updated and have to pace with the dynamic and volatile business world to preserve their market share.

d) Hence, stability strategy should not be confused with 'do nothing' strategy.

e) Small organizations may also follow stability strategy to consolidate their market position and prepare for the launch of growth strategies.

Characteristics of Stability Strategy

a) 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.

b) The endeavour is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources. The assessment of the firm is that the desired income and profits would be forthcoming through such incremental improvements in functional efficiencies.

c) Stability strategy does not involve a redefinition of the business of the corporation.

d) It is a safe strategy that maintains status quo.

e) It does not warrant much of fresh investments.

f) The risk involved in this strategy is less.

g) 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.

h) The firms with modest growth objective choose this strategy.

Major Reasons for Stability Strategy

a) A product has reached the maturity stage of the product life cycle.

b) The staff feels comfortable with the status quo as it involves less changes and less risks.

c) It is opted when the environment in which an organisation is operating is relatively stable.

d) Where it is not advisable to expand as it may be perceived as threatening.

e) After rapid expansion, a firm might want to stabilize and consolidate itself.

Why don't Startups aim for stability?

a) A startup is an entrepreneurial venture in the early stages of ideation and development, generally created for solving real-life problems through technology.

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

c) **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.

EXPANSION/GROWTH STRATEGY

1) **Growth/Expansion strategy** is implemented by **redefining the business** by enlarging **the scope of business** and **substantially increasing investment** in the business.
2) It is a strategy that can be equated with **dynamism, vigour, promise and success.**
3) It is often **characterised** by significant:
   a) reformulation of goals and directions,
   b) major initiatives and moves involving investments,
   c) exploration and onslaught into new products,
   d) new technology and new markets,
   e) innovative decisions and action programmes and so on.
4) This strategy may take the enterprise along **relatively unknown and risky paths**, full of **promises and pitfalls.**

Characteristics of Growth / Expansion Strategy

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

Major Reasons for Growth / Expansion Strategy

a) It may become imperative when environment demands increase in pace of activity.
b) Strategists may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organizations perceived to be growth oriented.
c) Expansion may lead to greater control over the market vis-a-vis competitors.
d) Advantages from the experience curve and scale of operations may accrue.
e) Expansion also includes intensifying, diversifying, acquiring and merging businesses. Therefore, growth strategies can take the following forms:

TYPES OF GROWTH / EXPANSION STRATEGY

The growth strategies can be classified into two main types:
a) Internal growth strategies
b) External growth strategies

INTERNAL GROWTH STRATEGIES

Internal growth strategies can be further divided into:
I. Expansion through Intensification
II. Expansion through diversification

I. EXPANSION THROUGH INTENSIFICATION

Expansion or growth through intensification means that the organisation tries to grow internally by intensifying its operations either by market penetration or market development or by product development. It tries to cash on its internal capabilities and internal resources. The firm can intensify by adopting any of the following strategies:

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

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

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

II. EXPANSION/GROWTH THROUGH DIVERSIFICATION

1) When a firm tries to grow and expand by diversifying into various products or fields, it is called **growth by diversification**. This is also an internal growth strategy.
2) Innovative and creative firms always look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship using their internal resources. They feel that **diversification offers greater prospects of growth and profitability than intensification**.
3) **Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge**.
4) When an established firm introduces a new product, which has little or no affinity with its present product line and which is meant for a new class of customers different from the firm's existing customer groups, the process is known as **conglomerate diversification**.
5) For some firms, diversification is a means of utilising their existing **excessive facilities and capabilities** in a more effective and efficient manner.
6) They may have excess capacity or capability in manufacturing facilities, investible funds, marketing channels, competitive standing, market prestige, managerial and other manpower, research and development, raw material sources and so forth.
7) Another reason for diversification lies in its **synergistic advantage**.
8) It may be possible to **improve the sales and profits** of existing products by adding suitably related or new products, because of linkages in technology and/or in markets.
9) Diversification endeavours **can be related or unrelated to existing businesses** of the firm.
10) Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into two broad categories:
    a) **Concentric diversification**
    b) **Conglomerate diversification**
    c) **Expansion through Innovation**

CONCENTRIC DIVERSIFICATION:

1) Concentric diversification takes place when the products are related.
2) **In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing.**
3) The **new product is a spin-off** from the existing facilities and products / processes.
4) This means that in concentric diversification too, there are **benefits of synergy** with the current operations.
5) Concentric diversification is generally understood in two directions, vertical and horizontal integration;

Note:

a) However, **concentric diversification differs from vertically integrated diversification** in the nature of the linkage the new product has with the existing ones.
b) While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage.
c) The new product is **only connected in a loop-like manner** at one or more points in the firm's existing process/technology/product chain.

For example, a company producing clothes ventures into the manufacturing of shoes.

Vertically integrated diversification

a) In vertically integrated diversification, firms opt to engage in businesses that are **related to the existing business of the firm.**
b) 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.
c) **The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain.**
d) A firm can either opt for **forward or backward integration** or horizontal integration.

Forward and Backward Integration

a) Forward and backward integration **forms part of vertically integrated diversification.**
b) In vertically integrated diversification, firms opt to engage in businesses that are **vertically related** to the existing business of the firm. The firm remains vertically within the same process.
c) While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain.

(i) **Backward integration:**

Backward integration is concerned with creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production/supply of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

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

(ii) **Forward integration:**

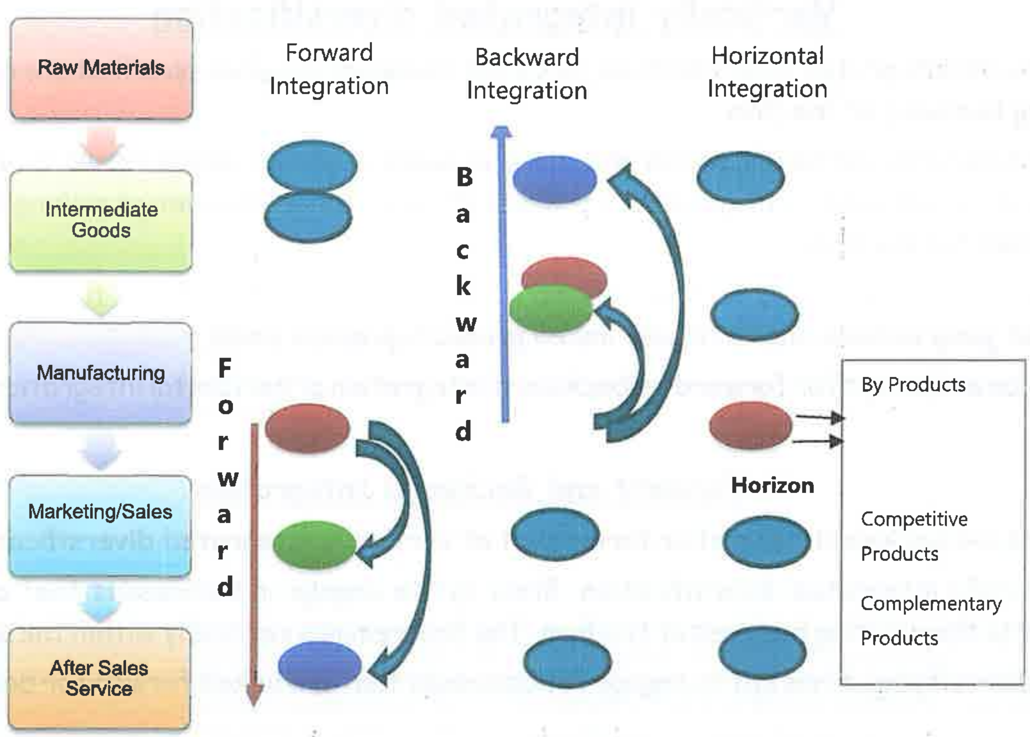
This is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organizations enter into businesses of distribution channels.

For example, A coffee bean manufacture may choose to merge with a coffee cafe.

Horizontal Integrated Diversification

a) 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.

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



CONGLOMERATE DIVERSIFICATION

1) 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.**
2) In process/technology/function, there is no connection between the new products and the existing ones.
3) Conglomerate diversification has no common thread at all with the firm's present position.

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

RELATED VS UNRELATED DIVERSIFICATION

Related Diversification

a) **Exchange or share assets or competencies by exploiting.**
b) **Brand name**
c) **Marketing skills**
d) **Sales and distribution capacity**
e) **Manufacturing skills**
f) **R&D and new product capability**
g) **Economies of scale**

Unrelated Diversification

a) **Investment in new product portfolios.**
b) **Employment of new technologies.**
c) **Focus on multiple products.**
d) **Reduce risk by operating in multiple product markets.**
e) **Defend against takeover bids.**
f) **Provide executive interest.**

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

a) 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.
b) 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.

INNOVATION

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

Some may argue that innovation leads to unnecessary expenses that do not give as much returns, but on the contrary, for a business to grow long term, innovation offers the following;

1) **Helps to solve complex problems:**

A business **strives to find opportunities** in existing problems of the society, and it does so though planned innovation in areas of expertise. This guided innovation help solve complex problems by developing customer centric sustainable solutions.

For example, the pressing problem of environmental damage is being tackled heads on by shifting to renewable sources of energy like solar, wind, sea waves, etc. It might be costly in introductory stages but in the long run it will only have economical and environmental sustainability.

2) **Increases Productivity:**

Innovation **leads to simplification** and in most cases automation of existing tasks. 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 thereby the organisation as a whole.

For example, MS Excel, every finance professional uses this software to simplify and automate their manual tasks. Such digital innovation which leads to improved productivity, creates opportunities to further develop processes and products within and outside the organisatoin. Thus, innovation creates a ripple effect that has a far and wide impact across industries.

3) **Gives Competitive Advantage:**

a) **Being ahead of competition is a need**, and businesses spend majority of their strategic time building solutions to achieve this advantage.

b) An interesting concept about innovation is - **the faster a business innovates**, **the farther it goes from its competitor's reach**.

c) **Innovative products need less marketing** as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage.

d) Innovation **not only helps retain** the existing customers but **helps acquire new** ones with ease.

EXTERNAL GROWTH STRATEGIES

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

EXPANSION THROUGH ACQUISITIONS AND MERGERS

a) Acquisition or merger with an existing concern is an **instant means of achieving the expansion**.

b) It is an **attractive and tempting proposition** in the sense that it **circumvents the time, risks and skills** involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth.

c) Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be **mutually beneficial, a happy and lasting affair**.

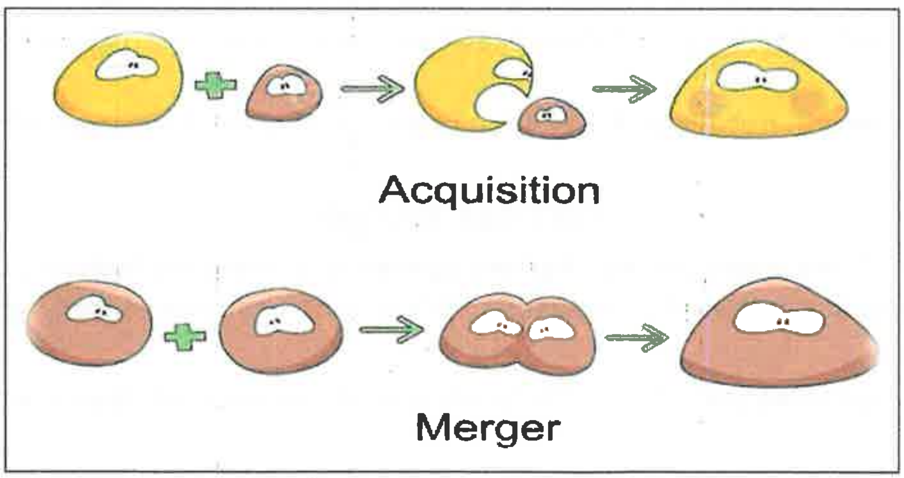
Why Merger / Acquisition?

a) Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of **achieving a measure of synergy** between the parent and the acquired enterprises.

b) Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on.

c) Only positive synergistic effects are relevant in this connection which denotes that the positive effects of the merged resources are greater than the effects of the individual resources before merger or acquisition.

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



Merger

a) Some organizations prefer to grow through mergers.

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

c) **In** such a case the deal gets finalized on **friendly terms** and both the organizations share profits in the newly created entity.

d) In a merger two organizations combine to **increase their strength and financial gains** along with breaking the trade barriers.

Acquisition

a) When **one organization takes over the other organization** and controls all its business operations, it is known as acquisitions.

b) In this process of acquisition, one financially strong organization **overpowers** the weaker one.

c) Acquisitions often **happen during recession in economy or during declining profit margins**. The combined operations then run under the name of the powerful entity.

d) A deal in case of an acquisition is often done in an **unfriendly manner**, it is more or less a **forced association** where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

TYPES OF MERGERS

Horizontal merger

a) **Horizontal mergers are combinations of firms engaged in the same industry**.

b) It is a **merger with a direct competitor**.

c) The principal objective behind this type of mergers is to **achieve economies of scale** in the production process **by shedding duplication** of installations and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition and so on.

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

Vertical merger

a) 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.

b) If an organization takes over its supplier/producers of raw material, then it leads to backward integration.

c) On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels.

d) Vertical merger **results in many operating and financial economies**. Vertical mergers help to create an **advantageous position** by restricting the supply of inputs to other players, or by providing the inputs at a higher cost.

For example, backward integration and forward integration

Co-generic merger

a) In Co-generic merger two or more merging organizations are **associated in some way or the other** related to the production processes, business markets, or basic required technologies.

b) Such merger include the **extension of the product line** or acquiring components that are required in the daily operations.

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

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

Conglomerate merger

a) Conglomerate mergers are the **combination of organizations that are unrelated** to each other.

b) There are **no linkages** with respect to customer groups, customer functions and technologies being used.

c) There are **no important common factors** between the organizations in production, marketing, research and development and technology.

EXPANSION THROUGH STRATEGIC ALLIANCE

a) 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**.

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

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

Advantages of Strategic Alliance

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

1) Organizational:

a) Strategic alliance helps to **learn necessary skills and obtain certain capabilities** from strategic partners.

b) Strategic partners may **also help to enhance productive capacity, provide a distribution system, or extend supply chain**.

c) Strategic partners may provide a good or service that complements thereby creating a synergy.

d) Having a strategic partner who is well-known and respected also helps **add legitimacy and creditability** to a new venture.

2) **Economic:**

a) **There** can be **reduction in costs and risks** by distributing them across the members of the alliance.

b) **Greater economies of scale** can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline.

c) Finally, partners can take advantage of **co-specialization, creating additional value,** such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.

3) **Strategic:**

a) Rivals can join together to **cooperate instead of compete.**

b) Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to **create a competitive advantage** by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies.

c) Strategic alliances may also be **used to get access** to new technologies or to pursue joint research and development.

4) **Political:**

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

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

Disadvantages of Strategic Alliance

a) Strategic alliances do come with some disadvantages and risks.

b) The major disadvantage is sharing. Strategic alliances **require sharing of resources and profits**, and **also sharing knowledge and skills** that otherwise organisations may not like to share.

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

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

e) Strategic alliances may also create a **potential competitor when** an ally becomes an opponent in future when it decides to separate out.

RETRENCHMENT STRATEGY/ STRATEGIC EXISTS

1) Strategic Exits are followed when an organization substantially reduces the scope of its activity.
2) This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems.
3) These steps result in different kinds of retrenchment strategies.
   a) If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy.
   b) If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy.
   c) If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy. We deal with each of these strategies below.

TURNAROUND STRATEGY

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

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

a) Persistent negative cash flow
b) Declining market share
c) Deterioration in physical facilities
d) Over-staffing, high turnover of employees, and low morale
e) Uncompetitive products or services
f) Mismanagement

The important elements of a Turnaround Strategy are:

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.

Action Plan for Turnaround

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

Stage One - Assessment of current problems:

a) The first step is to assess the current problems and **get to the root causes** and the extent of damage the problem has caused.

b) Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on **correcting and repairing** any immediate issues.

Stage Two - Analyze the situation and develop a strategic plan:

a) Before you make any major changes; determine the chances of the business's survival.

b) Identify appropriate strategies and develop a **preliminary action plan.**

c) For this one should look for the viable core businesses, adequate bridge financing and available organizational resources.

d) Analyze the **strengths and weaknesses** in the areas of competitive position.

e) Once major problems and opportunities are identified, **develop a strategic plan** with specific goals and detailed functional actions.

Stage Three - Implementing an emergency action plan:

a) If the organization is in a critical stage, an appropriate **action plan** must be developed **to stop the bleeding and enable the organization to survive**.

b) The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products.

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

Stage Four - Restructuring the business:

a) The financial state of the organization's core business is particularly important.

b) **If the core business is irreparably damaged, then the outlook for the entire organization may be bleak.**

c) Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

d) During the turnaround, the "**product mix**" may be changed, requiring the organization to do some repositioning.

e) **Core products** neglected over time **may require immediate attention** to remain competitive.
f) Some facilities might be closed; the organization may even **withdraw from certain markets** to make organization leaner or target its products toward a different niche.
g) The **'people mix'** or morale building is another important ingredient in the organization's competitive effectiveness.
h) Reward and compensation systems that **encourage dedication and creativity** encourage employees to think profits and return on investments.

Stage Five - Returning to normal:

a) 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.
b) Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

DIVESTMENT STRATEGY

a) Divestment strategy involves the **sale or liquidation** of a portion of business, or a major division, profit centre or SBU.
b) 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.
c) The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

A divestment strategy may be adopted due to various reasons:

a) A business that had been acquired proves to be a **mismatch** and cannot be integrated within the company.
b) **Persistent negative cash flows** from a particular business create financial problems for the whole company, creating the need for divestment of that business.
c) Severity of **competition** and the **inability of a firm** to cope with it may cause it to divest.
d) **Technological upgradation** is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
e) A better **alternative** may be available **for investment**, causing a firm to divest a part of its unprofitable businesses.

Characteristics of Divestment Strategy

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

Major Reasons for Retrenchment/ Turnaround Strategy

a) The **management no longer wishes to remain in business** either partly or wholly due to continuous losses and unviability.

b) The management feels that **business could be made viable by divesting** some of the activities or liquidation of unprofitable activities.

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

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

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

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

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

STRATEGIC OPTIONS

1) Strategic options need to be **carved out** from existing products and innovations that are happening in the industry.

2) There are a set of models that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio.

3) **Primarily used** for **competitive analysis and corporate strategic planning** in multi-product and multi business firms. They may also be **used in less diversified firms**, if these consist of a main business and other minor complementary interests.

4) The **main advantage** in adopting a portfolio approach in a **multi-product, multi-business firm** is that **resources could be channelised** at the corporate level to those businesses that possess the greatest potential.

5) For instance, a diversified company may decide to divert resources from its cashrich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives efficiently.

6) In order to design the business portfolio, the management **must analyse its current business portfolio** and decide which business should receive more, less, or no investment. Depending upon analyses management may develop growth strategies for adding new products or businesses to the firm's portfolio.

ANSOFF'S PRODUCT MARKET GROWTH MATRIX

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

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

Figure: Ansoff's Product Market Growth Matrix

Market Penetration:

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

For example, **Gucci**, a luxury clothing brand, selling its luxury clothing in European markets with new designs, is market penetration.

Market Development:

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

c) This strategy may be achieved through new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

For example, Gucci, a luxury clothing brand, selling its luxury clothing in Chinese markets, is market development.

Product Development:

a) Product development is refers to a growth strategy where business aims to introduce new products into existing markets.

b) It is a strategy for company growth by offering modified or new products to current markets.

c) This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

For example, Gucci, a luxury clothing brand, selling casual clothing in European markets, is product development.

Diversification:

a) Diversification refers to a growth strategy where a business markets new products in new markets.

b) It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

c) This strategy is risky because it does not rely on either the company's successful product or its position in established markets. Typically, the business is moving into markets in which it has little or no experience.

For example, Gucci, a luxury clothing brand, selling casual clothing in Chinese markets, is diversification.

d) As market conditions change overtime, a company may shift product-market growth strategies.

For example, when its present market is fully saturated a company may have no choice other than to pursue new market

ADL MATRIX (ARTHUR D LITTLE)

1) The ADL matrix has derived its name from Arthur D. Little is a portfolio analysis method that is based on product life cycle.

2) The approach forms a two-dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment.

3) Stage of industry maturity is an environmental measure that represents a position in industry's life cycle.

4) Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of **five competitive positions**:

a) **Dominant**,
b) **Strong**,
c) **Favourable**,
d) **Tenable and**
e) **Weak**.

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

Dominant	This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
Strong	By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.
Favourable	This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.
Tenable	Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
Weak	The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

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

Arthur D. Little Strategic Condition Matrix

BOSTON CONSULTING GROUP (BCG) (GROWTH-SHARE MATRIX)

1) The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company.
2) Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix. In the matrix:
   a) The vertical axis represents market growth rate and provides a measure of market attractiveness.
   b) The horizontal axis represents relative market share and serves as a measure of company strength in the market.
3) Using the matrix, organisations can identify four different types of products or SBU as follows:

Stars:

a) Are Products or SBU's that are growing rapidly.
b) They also need heavy investment to maintain their position and finance their rapid growth potential.
c) They represent best opportunities for expansion.

Cash Cows:

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

Question Marks:

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

Dogs

a) Are low-growth, low-share businesses and products.

b) They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive.

c) Dogs should be minimised by means of divestment or liquidation.

4) **BCG Matrix: Post Identification Strategies**

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

a) **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.

b) **Hold**: Here the objective is to preserve market share.

c) **Harvest**: Here the objective is to increase short-term cash flow regardless of long-term effect.

d) **Divest**: Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

5) **Limitations of BCG Matrix:**

a) BCG matrix can be difficult, time-consuming, and costly to implement.

b) Management may find it difficult to define SBUs and measure market share and growth.

c) It also focuses on classifying current businesses but provide little advice for future planning.

d) They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets.

e) This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly.

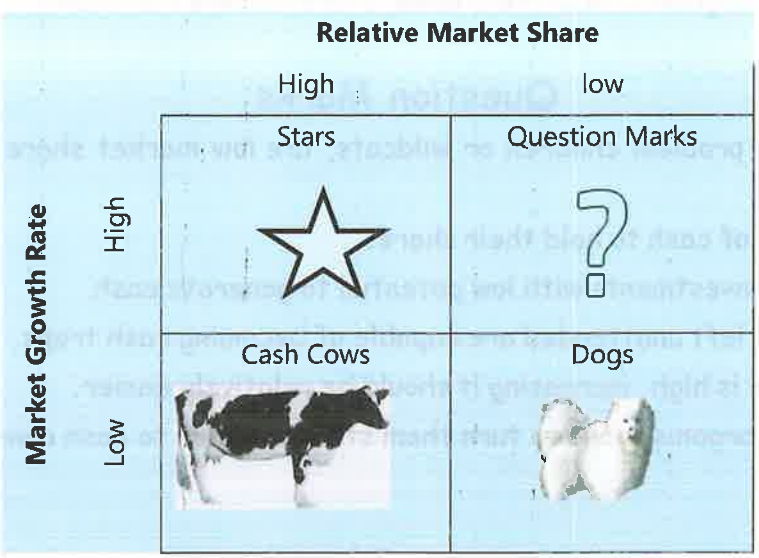


Figure: BCG Growth-Share Matrix

GENERAL ELECTRIC MODEL ("STOP LIGHT" STRATEGY MODEL)

1) This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey & Company).
2) This model is also known as Business Planning Matrix, GE Nine-Cell Matrix and GE Electric Model. The strategic planning approach in this model has been inspired from traffic control lights.
3) The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop.
4) This model uses two factors while taking strategic decisions:
    a) Business Strength and
    b) Market Attractiveness.
5) **Understanding the GE Matrix**

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

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

a) Size of the market.
b) Market growth rate.
c) Industry profitability.
d) Competitive intensity.
e) Availability of Technology.
f) Pricing trends.
g) Overall risk of returns in the industry.
h) Opportunity for differentiation of products and services.
i) Demand variability.
j) Segmentation.
k) Distribution structure (e.g. retail, direct marketing, wholesale) etc.

Business strength is measured by considering the typical drivers like:

l) Market share.
m) Market share growth rate.
n) Profit margin.
o) Distribution efficiency.

p) Brand image.

q) Ability to compete on price and quality.

r) Customer loyalty.

s) Production capacity.

t) Technological capability.

u) Relative cost position.

v) Management caliber, etc.

Business strength

Market attractiveness	Strong	Average	Weak
High	Invest/Expand	Invest/Expand	Select/Earn
Medium	Invest/Expand	Select/Earn	Harvest/Divest
Low	Select/Earn	Harvest/Divest	Harvest/Divest

1) If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow.
2) If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices.
3) If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

Note:

<u>This model is similar to the BCG growth-share matrix. However, there are differences.</u>

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

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

STRATEGY IMPLEMENTATION & EVALUATION

INTRODUCTION

1) Strategy implementation and evaluation are critical phases of the process of strategic management in an organization.
2) **Implementation** involves putting the plans and initiatives developed as part of the strategy into action, while evaluation refers to the process of measuring and assessing the effectiveness of these actions.
3) In this chapter, we will explore various implementation and evaluation methods that organizations can use to assess the success of their strategy implementation and identify areas for improvement.
4) This chapter will provide a **comprehensive overview of the implementation and evaluation process** and equip readers with the knowledge and skills needed to effectively execute and assess their organization's strategies.

STRATEGIC MANAGEMENT MODEL AND PROCESS

1) 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**.
2) **For instance**, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission.
3) **Therefore, 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.**

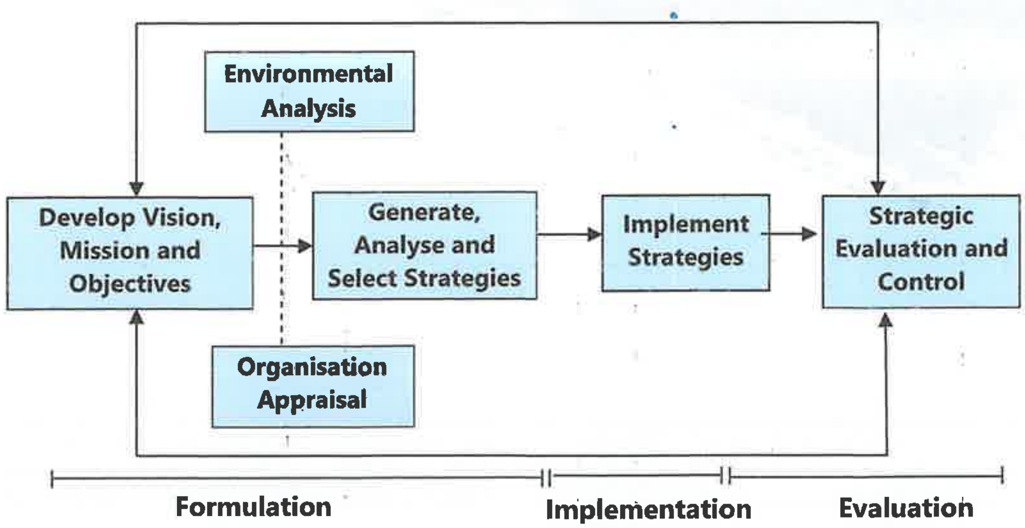


Figure: Strategic Management Model (Fred R David)

4) 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 strategies. Relationships among major components of the strategic management process are shown in the model.

5) The strategic management process is not as cleanly divided and neatly performed in practice as the strategic management model suggests.

6) Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organisation. Many organisations conduct formal meetings semi-annually to discuss and update the firm's vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance.

7) **Creativity from participants is encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.**

STAGES IN STRATEGIC MANAGEMENT

Strategic management involves the following stages:

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

Stage 1: Strategic Vision, Mission and Objectives

a) A strategic vision delineates management's aspirations for the organisation and highlights a particular direction, or strategic path for it to follow in preparing for the future, and moulds its identity.

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

Mission and Strategic Intent:

a) Managers need to be clear about what they see as the role of their organization, and this is often expressed in terms of a statement of mission.

b) This is important because both external stakeholders and other managers in the organization need to be clear about what the organization is seeking to achieve and, in broad terms, how it expects to do so.

Corporate goals and objectives:

a) They flow from the **mission and growth ambition of the corporation**. The objective provides the **basis for its major decisions of the firm** and also help the organisational performance to be realized at each level.

b) The managerial purpose of setting objectives is to **convert the strategic vision into specific performance targets** – results and outcomes the management wants the achieve - and then use these objectives as yardsticks for tracking the company's progress and performance.

c) Objectives are **needed at all organizational levels**. Objective setting should not stop with top management's establishing of companywide performance targets.

d) 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 Organizational Analysis

1) This stage is the diagnostic phase of strategic analysis. It entails two types of analysis:
   a) **Environmental scanning**
   b) **Organisational analysis**

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

3) **Organisational analysis** involved a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on.

4) This would **reveal organisational strengths and weaknesses** which could be **matched with the threats and opportunities** in the external environment.

5) This would provide us a framework for **SWOT analysis (Strength, Weakness, opportunity and threat)** which could be in the form of a table highlighting various strengths and weaknesses of the firm and opportunities and threats which the environment we create for the firm.

Stage 3: Formulating Strategy

1) The first step in strategy formulation is **developing strategic alternatives** in the light of organization strengths and weaknesses and opportunities and threats in the environment.

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

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

4) The above strategic alternatives may be designated as stability strategy, growth/ expansion

strategy and retrenchment strategy. A company may also follow a combination these alternatives called combination strategy.

Stage 4: Implementation of Strategy

1) Implementation and execution is an operations-oriented activity aimed at shaping the performance of core business activities in a strategy-supportive manner.
2) It is the most demanding and time-consuming part of the strategy-management process.
3) To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets.
4) In most situations, strategy-execution process includes the following principal aspects:
   a) Developing budgets that steer ample resources into those activities critical to strategic success.
   b) Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
   c) Ensuring that policies and operating procedures facilitate rather than impede effective execution.
   d) Using the best-known practices to perform core business activities and pushing for continuous improvement.
   e) Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
   f) Motivating people to pursue the target objectives energetically.
   g) Creating a company culture and work climate conducive to successful strategy implementation and execution.
   h) Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.
5) Good strategy execution involves creating strong "fits" between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization's work climate and culture.

Stage 5: Strategic Evaluation and Control

1) The final stage of strategic management process - evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/or strategy-execution methods.
2) 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.

3) But whenever a company encounters disruptive changes in its external environment, questions need to be raised about the appropriateness of its direction and strategy. If a company experiences a downturn in its market position or shortfalls in performance, then company managers are obligated to ferret out whether the causes relate to poor strategy, poor execution, or both and then to take timely corrective action.

4) **A company's direction, objectives, and strategy have to be revisited anytime external or internal conditions warrant**. It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time.

5) **Proficient strategy execution** is always the **product of much organisational learning**. It is achieved unevenly - coming quickly in some areas and proving nettlesome and problematic in others. Periodically assessing what aspects of strategy execution are working well and what needs improving is normal and desirable.

6) Successful strategy execution **entails vigilantly** searching for ways or continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.

STRATEGY FORMULATION

Corporate Strategy

a) Planning entails **choosing what has to be done in the future** (today, next week, next month, next year, over the next couple of years, etc.) and creating action plans. An essential element of effective management is adequate planning. Choosing a path of action to achieve defined goals is a part of planning.

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

c) **Senior management** develops **strategic plans** for the **entire organisation** after evaluating the organization's strengths and weaknesses in light of potential possibilities and dangers in the outside world.

d) They involve **gathering and allocating resources** in order **to achieve organisational goals**. But operational plans on the other hand are made at the middle and lower-level management.

e) They provide specifics on how the resources are to be used effectively to achieve the goals.

Corporate Planning

- **Strategic Planning**
- **Operational Planning**

Characteristics of Strategic Planning

a) Shapes the organisation and its resources.
b) Assess the impact of environmental variables.
c) Takes a holistic view of the organisation
d) Develops overall objectives and strategies.
e) Is concerned with long-term success of the organisation.
f) Is a senior management responsibility.

Characteristics of Operational Planning

a) Deals with current deployment of resources.
b) Develops tactics rather than strategy.
c) Projects current operations into the future.
d) Makes modifications to the business functions but not fundamental changes.
e) Is the responsibility of functional managers.

STRATEGIC PLANNING

1) The **game plan that really directs the company towards success is called "corporate strategy"**.
2) The success of the company **depends on how well this game plan works**. Because of this, the core of the process of strategic planning is the formation of corporate strategy.
3) The **formation of corporate strategy is the result of a process known as strategic planning**.
   a) It is the **process of determining** the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use and disposition of resources.
   b) Strategic planning involves a **fact of interactive and overlapping decisions** leading to the development of an effective strategy for the firm.
   c) Strategic planning **determines where an organisation is going over the next year or more and the ways for going there**.

d) 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?

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

b) It can be **driven by factors** such as changes in the **market, technology, competition, regulation, and other external factors**.

c) 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.

d) To be manageable, they **need to be grouped** into **logical clusters or themes.**

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

   (i) **Flexibility:** Organizations can build flexibility into their strategies to quickly adapt to changes in the environment.

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

   (iii) **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.

   (iv) **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.

   (v) **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

a) Each element of strategic uncertainty involves **potential trends or events** that could have an impact on **present, proposed, and even potential businesses**, a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty.

b) The impact of a strategic uncertainty will **depend on the importance of the impacted SBU to a firm**. Some SBUs are **more important than others.** The importance of established SBUs may be indicated by their associated sales, profits, or costs.

c) However, such measures might need to be supplemented for potential growth as present sales, profits, or costs may not reflect the true value

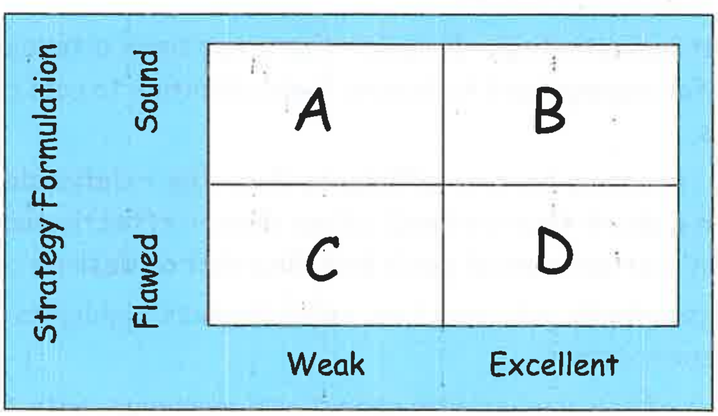
STRATEGY IMPLEMENTATION

1) Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into action.
2) Strategy execution deals with
   a) The managerial exercise of supervising the ongoing pursuit of strategy,
   b) Making it work,
   c) Improving the competence with which it is executed and
   d) Showing measurable progress in achieving the targeted results.
3) Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability.
4) The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system.

RELATIONSHIP WITH STRATEGY FORMULATION

1) A company will be successful only when the strategy formulation is sound and implementation is excellent.
2) There is no such thing as successful strategic design. This sounds obvious, but in practice the distinction is not always made.
3) Often people, blame the strategy model for the failure of a company while the main flaw might lie in failed implementation. Thus, organizational success is a function of good strategy and proper implementation.

The matrix in the figure below represents various combinations of strategy formulation and implementation:



Strategy Implementation

Square A:

a) It is the situation where a company apparently has **formulated a very competitive strategy**, but is showing **difficulties in implementing** it successfully.

b) This can be due to various factors, such as the **lack of experience (e.g. for start -ups)**, **the lack of resources**, **missing leadership** and so on.

c) In such a situation the company will **aim at moving from square A to square B**, given they realize their implementation difficulties.

Square B:

It is the **ideal situation** where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.

Square C:

a) It is reserved for companies that **haven't succeeded** in coming up with **a sound strategy formulation** and in addition are **bad at implementing** their flawed strategic model.

b) Their path to success also goes through **business model redesign and implementation or execution readjustment**.

Square D:

a) It is the situation where the **strategy formulation is flawed**, but the company is **showing excellent implementation skills**.

b) When a company finds itself in **square D** the first thing they have to do is to **redesign their strategy** before readjusting their implementation/execution skills.

OTHER APPROACH

1) In contrast to this view of strategy there is another approach to management practice, which has been followed in many organizations.

2) In organizations that lack strategic direction there has been a tendency to look inwards in times of stress, and for management to devote their attention to cost cutting and to shedding unprofitable divisions.

3) In other words, the focus has been on **efficiency (i.e. the relationship between inputs and outputs, usually with a short time horizon)** rather than on **effectiveness (which is concerned with the organization's attainment of goals including that of desired competitive position)**.

4) While efficiency is essentially introspective, effectiveness highlights the links between the organization and its environment.

5) The responsibility for efficiency lies with operational managers, with top management having the **primary responsibility** for the strategic orientation of the organization.

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

a) An organization that finds itself in **cell 1** is **well placed and thrives**, since it is achieving what it aspires to achieve with an efficient output/input ratio. In contrast, an organization in **cell 2 or 4 is doomed**, unless it can establish some strategic direction.

b) The particular point to note is that **cell 2 is a worse place to be than is cell 3** since, in the latter, the strategic direction is present to ensure effectiveness even if rather too much input is being used to generate outputs. To **be effective is to survive** whereas to be efficient is not in itself either necessary or sufficient for survival.

c) In crude terms, **to be effective is to do the right thing**, while to be efficient is to do the thing right. An emphasis on efficiency rather than on effectiveness is clearly wrong. But who determines effectiveness?

d) Any organization can be portrayed as a coalition of diverse interest groups each of which participates in the coalition in order to secure some advantage.

e) This advantage (or inducement) may be in the form of dividends to shareholders, wages to employees, continued business to suppliers of goods and services, satisfaction on the part of consumers, legal compliance from the viewpoint of government, responsible behaviour towards society and the environment from the perspective of pressure groups, and so on.

f) Even the most technically perfect strategic plan will serve little purpose if it is not implemented effectively. Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts.

g) Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

h) 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).

STRATEGY FORMULATION V/S STRATEGY IMPLEMENTATION

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

1) Strategy formulation concepts and tools 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.
2) Implementation of strategies requires such actions as altering sales territories, adding new departments, closing facilities, hiring new employees, changing an organization's pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better management information system. These types of activities obviously differ greatly among manufacturing, service, and governmental organizations.
3) It is to be noted that the division of strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are intertwined.
4) Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of strategy formulation on strategy implementation while the backward linkages are concerned with the impact in the opposite direction.

LINKAGES AND ISSUES IN STRATEGY IMPLEMENTATION

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

Forward Linkages

a) The different elements in strategy formulation starting with objective setting through environmental and organizational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organization adopts for itself.

b) With the formulation of new strategies, or reformulation of existing strategies, many changes have to be effected within the organization.

c) **For instance,** the organizational structure has to undergo a change in the light of the requirements of the modified or new strategy.

d) The style of leadership has to be adapted to the **needs of the modified or new strategies**. In this way, the formulation of strategies has forward linkages with their implementation.

Backward Linkages

a) Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation.

b) While dealing with strategic choice, **remember that past strategic actions** also determine the choice of strategy.

c) Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts.

d) Such incremental changes, over a period of time, take the organization from where it is to where it wishes to be.

ISSUES IN STRATEGY IMPLEMENTATION

1) The **different issues involved in strategy implementation** cover practically everything that is included in the discipline of management studies.

2) A strategist, therefore, has to bring a wide range of **knowledge, skills, attitudes, and abilities**. The implementation **tasks put to test the strategists' abilities** to allocate **resources, design organisational structure, formulate functional policies, and to provide strategic leadership**.

3) **Strategies, by themselves, do not lead to action**. They are, in a sense, a statement of intent. Implementation tasks are meant to realise the intent. **Strategies, therefore, have to be activated through implementation.**

4) **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.

5) **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. Thus, research and development programme may consist of several projects, each of which is intended to achieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

6) Implementation of strategies is not limited to formulation of plans, programmes, and projects. **Projects would also require resources.** After resources have been provided, it would be essential to see that a proper organizational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work.

7) Given below in sequential manner **the issues in strategy implementation** which are to be considered:
   a) **Project implementation**
   b) **Procedural implementation**
   c) **Resource allocation**
   d) **Structural implementation**
   e) **Functional implementation**
   f) **Behavioral implementation**

8) But it should be noted that the sequence does not mean that each of the following activities are necessarily performed one after another.

9) Many activities can be performed simultaneously, certain other activities may be repeated over time; and there are activities, which are performed only once. **Thus there can be overlapping and changes in the order** in which these activities are performed.

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

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

12) **Managers and employees** are motivated more by **perceived self-interests** than by **organizational interests, unless the two coincide.**

13) Therefore, it is essential that divisional and functional managers be involved as much as possible in the strategy-formulation process. similarly, strategists should also be involved as much as possible in strategy-implementation activities.

14) Management issues central to strategy implementation include establishing annual objectives, devising policies, allocating resources, altering an existing organizational structure, restructuring and reengineering, revising reward and incentive plans, minimizing resistance to change, developing a strategy-supportive culture, adapting production/operations processes,

developing an effective human resource system and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in a new direction.

15) Managers and employees throughout an organization should participate **early and directly** in strategy-implementation activities. Their role in strategy implementation should build upon prior involvement in strategy-formulation activities. Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees.

16) Too often, **strategists** are too **busy** to **actively support** strategy-implementation efforts, and their **lack of interest** can be **detrimental** to organizational success. The rationale for objectives and strategies should be understood clearly throughout the organization.

17) Major competitors' accomplishments, products, plans, actions, and performance **should be apparent** to all organizational members. Major external opportunities and threats should be clear, and managers and employees' questions should be answered satisfactorily.

18) Top-down flow of communication is essential for developing bottom-up support. Firms need to develop a competitor focus on all hierarchical levels by gathering and widely distributing competitive intelligence; every employee should be able to benchmark her or his efforts against best-in-class competitors so that the challenge becomes personal. This is a challenge for strategists of the firm.

19) Firms should provide training for both managers and employees to ensure that they have and maintain the skills necessary to be world-class performers.

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 and it involves a **corporate strategy focused on new markets, products, services and new ways of doing business**.

Steps to initiate strategic change

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

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

2) *Create a shared vision to manage change*:
   a) Objectives and vision of both individuals and organization should coincide. There should be

no conflict between them.

b) Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance through proper communication. Strategy implementers have to convince all those concerned that the change in business culture is not superficial or cosmetic.

c) The actions taken have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.

3) Institutionalise the change:

a) This is basically an **action stage** which requires implementation of changed strategy.

b) 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.

c) Capacity for self-renewal should be a fundamental anchor of the new culture of the firm. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change.

d) Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

KURT LEWIN'S MODEL OF CHANGE

To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. **These stages are unfreezing, changing and refreezing.**

Unfreezing the situation:

a) The process of unfreezing simply makes the **individuals or organizations aware of the necessity for change** and **prepares them for such a change.**

b) Lewin proposes that the changes should **not come as a surprise** to the members of the organization.

c) Sudden and unannounced change would be **socially destructive** and **morale lowering.**

d) The management must pave the way for the change by first **"unfreezing the situation"**, so that members would be willing and ready to accept the change.

e) Unfreezing is the process of **breaking down the old attitudes and behaviors, customs and traditions** so that they start with a clean slate.

f) This can be achieved by **making announcements, holding meetings and promoting the ideas** throughout the organization.

Changing to New situation:

a) Once the **unfreezing process has been completed** and the members of the organization recognize the need for change and have been fully prepared to accept such change, **their** behavior patterns need to be redefined.

b) H.C. Kellman has proposed three methods for reassigning new patterns of behavior. These are
   (i) compliance,
   (ii) identification and
   (iii) internalization.

(i) **Compliance:**

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

(ii) **Identification:**

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

(iii) **Internalization:**

Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment.

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

Refreezing:

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

Conclusion:

Change process is not a onetime application but a continuous process due to dynamism and ever-changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

HOW DOES DIGITAL TRANSFORMATION WORK ?

1) The use of digital technologies to develop fresh, improved, or entirely new company procedures, goods, or services is known as "digital transformation."
2) It's a fundamental adjustment that can be challenging to identify and even more challenging to implement.

3) Change management enters into the picture here. Organizations can plan, prepare for, and carry out changes to their operations, including digital transformations, with the aid of the discipline of change management.
4) When implemented correctly, change management may assist firms in overcoming the obstacles posed by the digital transition and reaping the full rewards of their investment.
5) But how does change management appear when applied to digital transformation?
6) **Change management in the digital transition consists of four essential elements:**
   a) Defining the goals and objectives of the transformation
   b) Assessing the current state of the organization and identifying gaps
   c) Creating a roadmap for change that outlines the steps needed to reach the desired state
   d) Implementing and managing the change at every level of the organization
7) To navigate a digital transformation successfully, each of these elements is necessary. But what matters most is how they collaborate to support organisations in achieving their goals.

How does change management work?

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

The role of change management in digital transformation

a) Digital transformation is a process of organizational change that enables an organization to use technology to create new value for customers, employees, and other stakeholders. A good change management strategy is necessary for a successful digital transformation.
b) Change management is the process of planning, implementing, and monitoring changes in an organization. It provides organizations in achieving their objectives while reducing risks and disruptions. For any organisation undergoing a digital transition, change management is crucial.
c) A properly implemented change management strategy can help an organization to:
   (i) Specify the parameters and goals of the digital transformation
   (ii) Determine which procedures and tools need to be modified.
   (iii) Make a plan for implementing the improvements.

(iv) **Involve** staff members and parties involved in the transformation process.

(v) **Track progress** and make required course corrections

d) A crucial component of any digital transition is change management. Why it gains more importance in the current times is because organizations can improve their chances of success by approaching change in a **proactive and organized manner**.

CHANGE MANAGEMENT STRATEGIES FOR DIGITAL TRANSFORMATION

1) One of the **most important** area of focus for guaranteeing a successful transformation is **change management**. Businesses nowadays increasingly find themselves responsible for managing more than simply their staff, clients, and products.
2) Additionally, they are handling the introduction of new technology, the unexpected emergence of new market opportunities, and changes in customer preferences regarding the brands they choose, interact with, and hold to.
3) In essence, **modern firms must be able to manage change**. They must modify their management techniques in order to achieve this.

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

1) <u>Begin at the top:</u>

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) <u>Ensure that the change is both necessary and desired:</u>

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

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

a) Getting the word out early and preparing for some interruption.

b) Giving staff members the knowledge and tools, they need to adjust to change.

c) Creating an environment that encourages transformation or change.

d) Empowering change agents to provide context and clarity for changes, such as project managers or team leaders.

e) Ensuring that IT department is informed of changes in technology or infrastructure and is prepared to support them.

4) **Encourage communication:**

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

5) **Recognize that change is the norm, not the exception:**

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

HOW TO MANAGE CHANGE DURING DIGITAL TRANSFORMATION?

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

1) **Specify the digital transformation's aims and objectives:**

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

2) **Always, always, always communicate:**

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

3) **Be ready for resistance:**

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

4) **Implement changes gradually:**

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

5) **Offer assistance and training:**

Workers will need guidance in the new procedures, software applications, etc.

Conclusion

In conclusion, effective completion of the massive project known as digital transformation depends on meticulous planning and change management. Digital transformation efforts are more likely to fail without change management. Organizations can successfully integrate a new digital system by planning for and managing the changes that must take place. Any project involving digital transformation must include it.

ORGRANISATIONAL FRAMEWORK

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

Hard elements are:

a) **Strategy:** What steps does the company intend to take to address current and futures challenges?

b) **Structure:** How is work divided, how do different departments work and collaborate?

c) **Systems:** Which formal and informal processes is the company's structure based on?

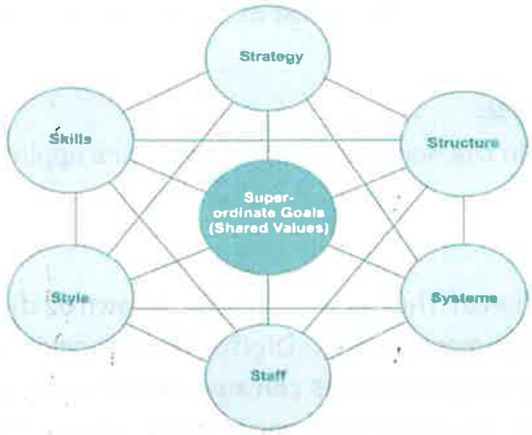
Soft elements are:

a) **Shared Values:** What is the idea the organization subscribes to? Is this idea communicated credibly to others?

b) **Staff:** This element refers to employees development and relevant processes, performances and feedback programs etc.

c) **Skill:** What is the company's base of skills and competencies?

d) **Style:** This depicts the leadership style and how it influences the strategic decisions of the organization.



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

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

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

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

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

The following are the soft elements in this model;

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

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

c) **Staff:** The talent pool of the organisation.

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

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

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

b) The model does not clearly explain the concept of organizational effectivness or performance.

c) The model is considered to be more static and less flexible for deicion making.

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

ORGANISATION STRUCTURE

1) The ideal organizational structure is a place where ideas filter up as well as down, where the merit of ideas carries more weight than their source, and where participation and shared objectives are valued more than executive order.

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

   a) **Structure largely dictates how objectives and policies will be established**

   b) **Structure dictates how resources will be allocated to achieve strategic objectives**.

   For example, objectives and policies established under a geographic organizational structure are couched in geographic terms.

3) The second major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated to achieve strategic objectives. If an organization's structure is based on customer groups, then resources will be allocated in that manner. Similarly, if an organization's structure is set up along functional business lines, then resources are allocated by functional areas.

4) **According to Chandler**, changes in strategy lead to changes in organizational structure. Structure should be designed or redesigned to facilitate the strategic pursuit of a firm and, therefore, structure should follow strategy.

5) Chandler found a particular structure sequence to be often repeated as organizations grow and change strategy over time. There is **no one optimal organizational design** or **structure for a given strategy**.

6) **What is appropriate for one organization may not be appropriate for a similar firm**, although successful firms in a given industry do tend to organize themselves in a similar way.

   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 (strategic business unit) or matrix structure**. As organizations grow, **their structures generally change from simple to complex** as a result of linking together of several basic strategies.

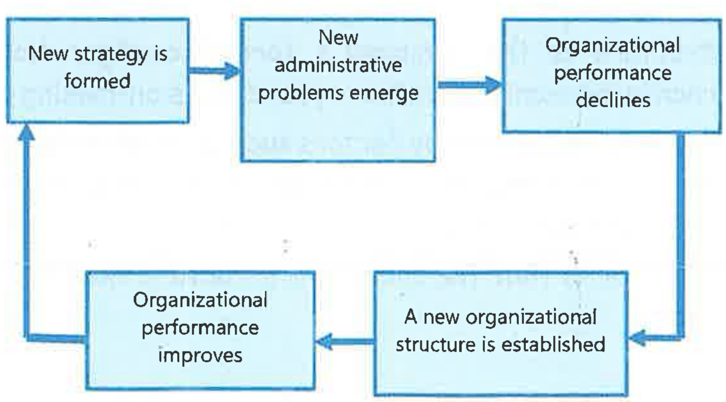


Figure: Chandlers Strategy-Structure Relationship

7) Every firm is **influence by numerous external and internal forces**. But no firm could change its structure in response to each of these forces, because to do so would lead to chaos. However, when a **firm changes its strategy**, the **existing** organizational structure may become **ineffective**.

8) 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.

9) Changes in organisational structure can **facilitate strategy-implementation efforts**, but **changes in structure** should **not** be expected to make a **bad strategy good, to make bad managers good**, or **to make bad products sell**.

10) **Structure** can also **influence strategy**. If a proposed strategy required massive structural changes, it would **not** be an attractive choice.

11) In this way, **structure can shape the choice of strategy**. But a more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished.

12) We will examine this issue by focusing on the following basic **types of organizational structure**:
    a) Functional,
    b) Divisional by geographic area,
    c) Divisional by product,
    d) Divisional by customer,
    e) Divisional process,
    f) Strategic business unit (SBU), and
    g) Matrix.

13) In order to implement and manage strategies that have been formulated, all companies need some form of organizational structure. And, as companies formulate new strategies, increase in size, or change their level of diversification, new organizational structures may be required.

TYPES OF ORGANIZATION STRUCTURE

1) Organizational structure is the **company's formal configuration** of its intended roles, procedures, governance mechanisms, authority, and decision-making processes.

2) Organizational structure, **influenced** by factors such as an **organization's age and size**, acts as a framework which reflects managers' determination of what a company does and how tasks are completed, given the chosen strategy.

3) The most important issue is that the company's structure must be congruent with or fit with the company's strategy.
    a) **Simple**
    b) **Functional**

c) Divisional
d) Multi Divisional
e) SBU
f) Matrix
g) Network
h) Hourglass

THE SIMPLE STRUCTURE

1) Simple organizational structure is most appropriate for companies that follow a **single-business strategy** and offer a line of products in a single geographic market.
2) The simple structure also is **appropriate for companies implementing focused cost leadership or focused differentiation strategies**.
3) A simple structure is an organizational form in which the **owner-manager makes all major decisions directly and monitors all activities, while the company's staff merely serves as an executor**.
4) 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 characterize the simple structure.
5) In the simple structure, **communication is frequent and direct**, and **new products tend to be introduced to the market quickly**, which can result in a competitive advantage.
6) Because of these characteristics, **few of the coordination problems** that are common in larger organizations exist.
7) A simple organizational structure may result in **competitive advantages for some small companies relative to their larger counterparts**.
8) These potential competitive advantages include a broad-based openness to innovation, greater structural flexibility, and an ability to respond more rapidly to environmental changes.
9) However, if they are successful, small companies grow larger. As a result of this growth, the company outgrows the simple structure.
10) Generally, there are significant increases in the amount of competitively relevant information that requires processing. 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).
11) Thus, it is **incumbent** on the company's managers **to recognise** the **inadequacies or inefficiencies** of the simple structure and change it to one that is more consistent with company's strategy.
12) To **coordinate** more complex organizational functions, companies should **abandon** the simple structure in favour of the functional structure. The functional structure is used by larger companies and by companies with low levels of diversification.

THE FUNCTIONAL STRUCTURE

1) A widely used structure in business organisations is functional type because of its simplicity and low cost.
2) A functional structure groups tasks and activities by business function, such as production / operations, marketing, finance/accounting, research and development, and management information systems.
3) Besides being simple and inexpensive, a functional structure also promotes specialization of labour, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making.
4) The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources.
5) The functional structure enables the company to overcome the growth-related constraints of the simple structure, enabling or facilitating communication and coordination.
6) However, compared to the simple structure, there also are some potential problems. 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.
7) Functional specialists often may develop a myopic (or narrow) perspective, losing sight of the company's strategic vision and mission. When this happens, this problem can be overcome by implementing the multidivisional structure.

Figure: Functional Structure

THE DIVISIONAL STRUCTURE

1) As a firm, grows year after year it faces difficulty in managing different products and services in different markets. Some form of divisional structure generally becomes necessary to motivate employees, control operations, and compete successfully in diverse locations.

2) **The divisional structure can be organized in one of four ways:**
   a) by geographic area,
   b) by product or service,
   c) by customer, or
   d) by process.

3) With a divisional structure, functional activities are performed both centrally and in each division separately.

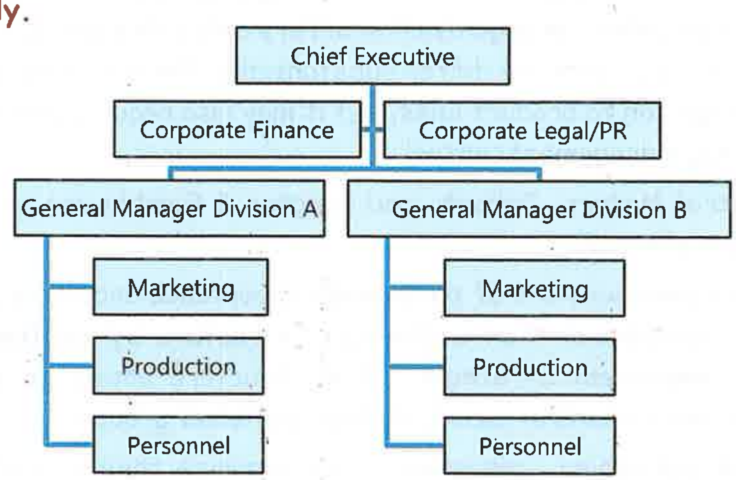


Figure: Divisional Structure

4) **Advantages of Divisional Structure:**
   a) The accountability is clear.
   b) It creates career development opportunities for managers,
   c) Allows local control of local situations,
   d) Leads to a competitive climate within an organization, and
   e) Allows new businesses and products to be added easily.
   f) Employee morale is higher.

5) **Disadvantages / Limitations of Divisional Structure:**
   The most important limitation is that a divisional structure is costly, for a number of reasons:
   a) First, each division requires functional specialists who must be paid.
   b) Second, there exists some duplication of staff services, facilities, and personnel; for instance, functional specialists are also needed centrally (at headquarters) to coordinate divisional activities.

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

d) A divisional structure can also be costly because it requires an **elaborate, headquarters-driven control system.**

e) **Finally,** certain regions, products, or customers may sometimes receive special treatment, and **it may be difficult to maintain consistent, company wide practices.**

6) **A divisional structure by geographic area is appropriate** for organizations 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. A divisional structure by geographic area **allows local participation in decision making** and improved coordination within a region.

7) **The divisional structure by product (or services) is most effective** for implementing strategies when specific products or services need special emphasis. Also, this type of structure is widely used **when an organization offers only a few products or services,** when an organization's products or services differ substantially. 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.

For example, General Motors, DuPont, and Procter & Gamble use a divisional structure by product to implement strategies.

8) **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.** This structure allows an organization to cater effectively to the requirements of clearly defined customer groups.

For example, book-publishing companies often organize their activities around customer groups such as **colleges, secondary schools, and private commercial schools. Some airline companies** have two major customer divisions: **passengers and freight or cargo services.**

9) **A divisional structure by process** is similar to a functional structure, because activities are organized according to the way work is actually performed. However, 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.

THE MULTI DIVISIONAL STRUCTURE

1) 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.

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

3) 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.

4) Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible).
5) Top managers became over-involved in solving short-run problems (such as coordination, communications, conflict resolution) and neglected long-term strategic issues.
6) **Multidivisional structure calls for:**
   a) Creating separate divisions, each representing a distinct business
   b) Each division would house its functional hierarchy;
   c) Division managers would be given responsibility for managing day-to-day operations;
   d) A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions.
7) 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.
8) 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.
9) An increase in diversification strains corporate officers' abilities to understand the operations of all of its business units and divisions are then managed by financial controls, which enable corporate officers to manage the cash flow of the divisions through budgets and an emphasis on profits from distinct businesses.
10) However, because financial controls are focused on financial outcomes, they require that each division's performance be largely independent of the performance of other divisions. So, the Strategic Business Units come into picture.

THE MATRIX STRUCTURE

1) 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.
2) The "home" department - that is, engineering, manufacturing, or marketing - is usually functional and is reasonably permanent. People from these functional units are often assigned temporarily to one or more product units or projects. The product units or projects are usually temporary and act like divisions in that they are differentiated on a product- market basis.
3) 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).
4) In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication.

5) A matrix structure can result in **higher overhead** because it more management positions.

6) Other characteristics of a matrix structure that contribute to overall complexity include
   a) **dual lines of budget authority** (a violation of the unity command principle),
   b) **dual sources of reward and punishment,**
   c) **shared authority,**
   d) **dual reporting channels, and**
   e) **a need for an extensive and effective communication system.**

7) Despite its complexity, the matrix structure is **widely used in many industries**, including construction, healthcare, research and defence.

8) **Some advantages of a matrix structure are** that **project objectives are clear**, there are many channels of communication workers can see the visible results of their work, and shutting down a project is accomplished relatively easily.

9) In order for a matrix structure to be effective, organizations need **planning, training, clear mutual understanding of roles and responsibilities, excellent internal communication, and mutual trust and confidence.**

10) The **matrix structure** is used more **frequently** by businesses because they are pursuing strategies add new products, customer groups, and technology to their range of activities. Out of these changes are coming product managers, functional managers, and geographic managers, all of whom have important strategic responsibilities.

11) When several variables such as product, customer, technology, geography, functional area, have roughly equal strategic priorities, a matrix organization can be a**n effective structural form.**

12) Matrix structure was developed **to combine the stability** of the **functional structure** with the **flexibility of the product form.** It is very useful when the external environment (especially its technological and market aspects) is very complex and changeable. It does, however, produce conflicts revolving around duties, authority, and resource allocation.

13) To the extent that the goals to be achieved are **vague** and the technology used is **poorly understood**, a continuous battle for power between product and functional mangers is likely.

14) The matrix structure is often found in an organization or within an SBU when the following **three conditions** exists:
   a) **Ideas need to be cross-fertilized across projects or products,**
   b) **Resources are scarce and**
   c) **Abilities to process information and to make decisions need to be improved.**

Changing organizational design

Old Organizational Design	New Organizational Design
a) One large corporation	a) Mini-business units and cooperative relationships
b) Vertical communication	b) Horizontal communication
c) Centralized top-down decision making	c) Decentralized participative decision making
d) Vertical integration	d) Outsourcing & virtual organizations
e) Work/quality teams	e) Autonomous work teams
f) Functional work teams	f) Cross-functional work teams
g) Minimal training	g) Extensive training
h) Specialised job design focused on individual	h) Value-chain team-focused job design

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

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

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

3) **Mature matrix:**
   a) The third and final phase of matrix development involves a **true dual-authority structure. Both the functional and product structures are permanent**.
   b) All employees are connected to both a vertical functional superior and a horizontal product manager.
   c) Functional and product managers have equal authority and must work well together to resolve disagreements over resources and priorities.
   d) However, the matrix structure is **not very popular** because of **difficulties in implementation and trouble in managing**.

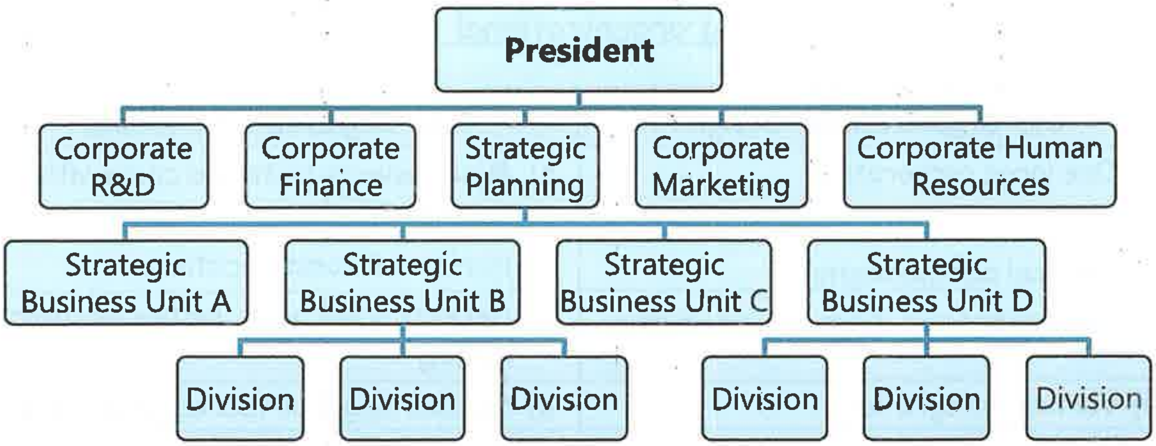


Figure: SBU Structure

NETWORK STRUCTURE

1) A radical organizational design, the network structure is an example of what could be termed a "**non-structure**" by its virtual elimination of in-house business functions. **Many activities are outsourced.**
2) A corporation organized in this manner is often called a **virtual organization** because it is composed of a **series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.**
3) The network structure becomes most useful **when the environment of a firm is unstable and is expected to remain so.** Under such conditions, there is usually a strong need for innovation and quick response.
4) Instead of having salaried employees, **it may contract with people** for a specific project or length of time. **Long-term contracts with suppliers and distributors** replace services that the company could provide for itself through vertical integration.
5) **Electronic markets and sophisticated information systems reduce the transaction costs** of the marketplace, thus justifying a "buy" over a "make" decision. Rather than being located in a single building or area, an **organization's business functions are scattered at different geographical locations.**
6) 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 organization. In its **ultimate form, 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.
7) Companies like **Airtel** use the network structure in their operations function by subcontracting manufacturing to other companies in low-cost.

8) 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.

9) 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.

10) The network does, however, have 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 overspecializes on only a few functions, it runs the risk of choosing the wrong functions and thus becoming non-competitive.

11) The new structural arrangements that are evolving typically are in response to social and technological advances. While they may enable the effective management of dispersed organizations, there are some serious implications, The learning organization that is a part of new organizational forms requires that each worker become a self-motivated, continuous learner.

12) Employees may lack the level of confidence necessary to participate actively in organization-sponsored learning experiences. The flatter organizational structures that accompany contemporary structures can seem intrusive as a result of their demand for more intense and personal interactions with internal and external stakeholders. Combined, the conditions above may create stress for many employees.

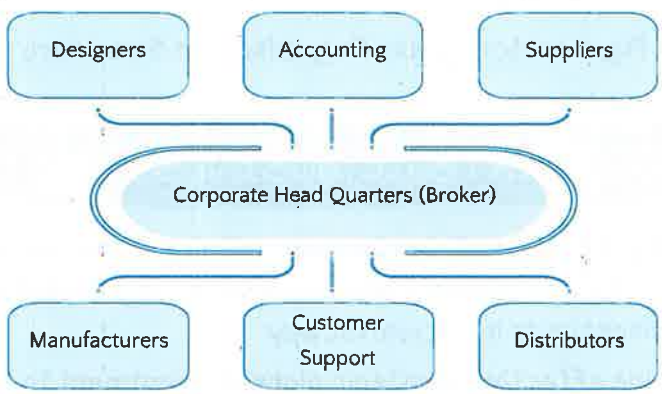


Figure: Network Structure

HOURGLASS STRUCTURE

1) In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing. The tasks performed by them are increasingly being replaced by the technological tools.

2) Hourglass organization structure consists of three layers with constricted middle layer.

3) 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 middle level manager. A shrunken middle layer coordinates diverse lower-level activities.

4) Contrary to traditional middle level managers who are often specialist, the managers in the hourglass structures are generalists and perform wide variety of tasks. They would be handling cross-functional issues emanating such as those from marketing, finance or production.

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

6) Continuity at the same level may bring monotony and lack of interest and it becomes difficult to keep the motivation levels high. Organizations try to overcome these problems by assigning challenging tasks, transferring laterally and having a system of proper rewards of performance.

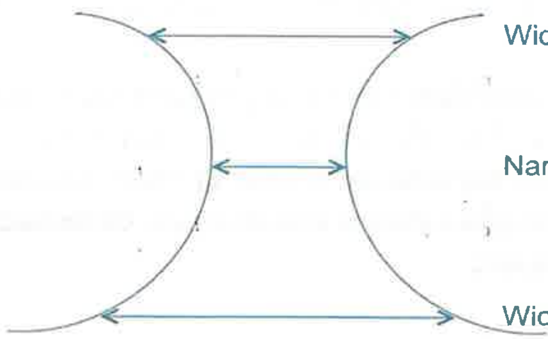


Figure: Hourglass Organisation Structure

SBU (STRATEGIC BUSINESS UNIT)

1) An SBU is a grouping of related businesses, which is amenable to composite planning treatment. As per this concept, a multi-business enterprise groups its multitude of businesses into a few distinct business units in a scientific way.

2) The purpose is to provide effective strategic planning treatment to each one of its products / businesses.

3) The three most important Characteristics of SBU are:

   a) 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.

   b) Has its own set of competitors.

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

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

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

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

7) 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.

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

9) 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.

10) This means that, within each SBU, divisions are related to each other, as also that SBU groups are unrelated to each other. Within each SBU, divisions producing similar products and/or using similar technologies can be organised to achieve synergy.

11) **Individual SBUs are treated as profit centres** and controlled by corporate headquarters that can concentrate on strategic planning rather than operational control so that individual divisions can react more quickly to environmental changes.

    For example, Sony has been restructuring to match the SBU structure with its ten internal companies as organised into four strategic business units. Because it has been pushing the company to make better use of software products and content (e.g., Sony's music, films and games) in its televisions and audio gear to increase Sony's profitability. By its strategy, Sony is one of the few companies that have the opportunity to integrate software and content across a broad range of consumer electronics products.

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

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

    b) An **improvement over the territorial grouping** of businesses and strategic planning based on territorial units.

    c) 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.

    d) The task consists of **analysing and segregating the assortment of businesses / portfolios and regrouping them** into a few, well defined, distinct, scientifically demarcated business units. Products/businesses that are related from the standpoint of "function" are assembled together as a distinct SBU.

    e) **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.

f) Grouping the businesses on SBU lines **helps the firm in strategic planning** by removing the vagueness and confusion generally seen in grouping businesses; it also facilitates the right setting for correct strategic planning and facilitates correct relative priorities and resources to the various businesses.

g) **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.

h) Each SBU will have its **own distinct set of competitors** and its **own distinct strategy**.

i) **Each SBU will have a CEO**. He will be responsible for strategic planning for the SBU and its profit performance; he will also have control over most of the factors affecting the profit of the SBU.

13) The questions posed at the corporate level are, first, whether the corporate body wishes to have a related set of SBUs or not; and if so, on what basis. This issue of relatedness in turn has direct implications on decisions about diversification relatedness might exist in different ways:

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

b) **SBUs might be serving similar or different markets. Even if technology or products differ, it may be that the customers are similar.**

For example, the technologies underpinning frozen food, washing powders and margarine production may be very different; but all are sold through retail operations, and Unilever operates in all these product fields.

c) **SBU may be that other competences on which the competitive advantage of different SBUs are built have similarities.** Unilever would argue that the marketing skills associated with the three product markets are similar example.

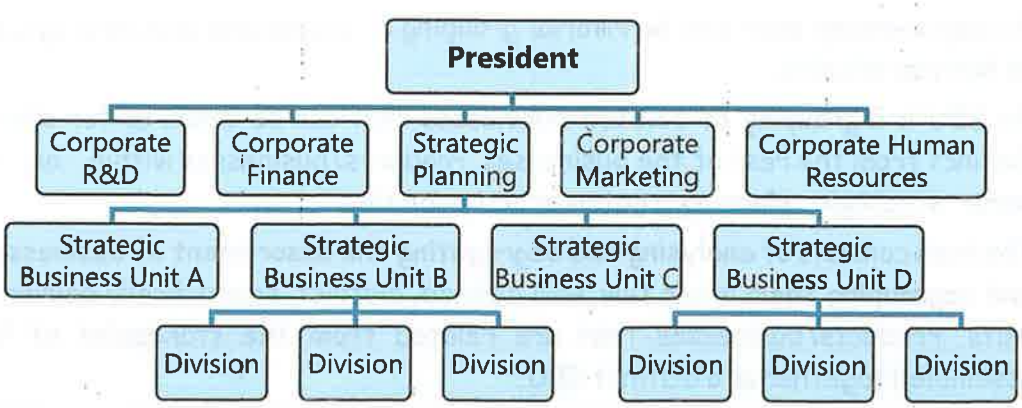


Figure: SBU Structure

ORGANIZATION CULTURE

Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment.

Where Does Corporate Culture Come From?

a) A company's culture is **manifested** in the **values and business principles** that management preaches and 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.

b) All these sociological forces, some of which operate quite subtly, combine to define an organization's culture, beliefs and practices that become embedded in a company's culture can originate anywhere.

c) It can **originate anywhere**:

   (i) **from one influential individual, work group, department, or division,**

   (ii) **from the bottom of the organizational hierarchy or the top**

d) ***A significant*** part of a **company's culture** emerges from the **stories** that get told over and over again to illustrate to newcomers the importance of certain values and beliefs and ways of operating.

Culture: ally or obstacle to strategy execution?

a) An organization's culture is either **an important contributor or an obstacle** to successful strategy execution.

b) The beliefs, vision, objectives, and business approaches and practices underpinning a company's strategy mayor may **not** be compatible with its culture.

c) When they are **compatible**, the **culture becomes a valuable ally** in strategy implementation and execution.

d) When the **culture is in conflict** with some aspect of the company's direction, performance targets or strategy, the **culture becomes a stumbling block** that impedes successful strategy implementation and execution.

Role of culture in strategy execution

a) **Strong culture promotes good strategy execution** when there's fit and impedes execution when there's negligible fit.

b) ***A culture*** grounded in values, practices, and behavioural norms that match what is needed for good strategy execution **helps energize people** throughout the company to do their jobs in a strategy- supportive manner, adding significantly to the power and effectiveness of strategy execution.

For example, 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. A culture where creativity, embracing change, and challenging the status quo are pervasive themes is very conducive to successful execution of a product innovation and technological leadership strategy.

c) A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making authority is **very conducive to successful execution of a strategy** of delivering superior customer value.

d) A work environment where the culture matches the conditions for good strategy execution **provides a system of informal rules and peer pressure** regarding how to conduct business internally and how to go about doing one's job.

e) Strategy- supportive cultures **shape** the mood, temperament, and motivation the workforce, positively affecting organizational energy, work habits and operating practices, the degree to which organizational units cooperate, and how customers are treated.

f) **A strong strategy-supportive culture nurtures and motivates** people to do their jobs in ways **conducive to effective** strategy execution; it provides structure standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy.

g) All this makes **employees feel genuinely** better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are **stimulated** to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to fruition.

Perils of Strategy-Culture Conflict:

a) When a company's culture is **out of sync** with what is needed for strategic success, the **culture has to be changed as rapidly as can be managed** - this, of course, presumes that it is one or more aspects of the culture that are out of whack rather than the strategy.

b) 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.

c) **The more** entrenched the mismatched aspects of the culture, **the greater** the difficulty of implementing new or different strategies until better strategy-culture alignment emerges.

d) A **sizable and prolonged** strategy-culture **conflict weakens** and may even **defeat** managerial efforts to make the strategy work.

Creating a strong fit between strategy and culture

a) It is the strategy maker's responsibility to select a strategy compatible with the "sacred" or unchangeable parts of prevailing corporate culture.

b) 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

a) Changing a company's culture to align it with strategy is among the toughest management tasks--easier to talk about than do.

b) Changing a problem culture is very difficult because of the heavy anchor of deeply held values and habits-people cling emotionally to the old and familiar.

c) It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instil ones that are more strategy-supportive.

d) The first step is to diagnose which facets of the present culture are strategy supportive and which are not.

e) Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed. The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.

f) 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), visibly praising and recognizing people who display the new cultural traits, recruiting and hiring new managers and employees who have the desired cultural values and can serve as role models for the desired cultural behaviour, replacing key executives who are strongly associated with the old culture, and taking every opportunity to communicate to employees the basis for cultural change and its benefits to all concerned.

g) Implanting the needed culture-building values and behaviour depends on a sincere, sustained commitment by the chief executive coupled with extraordinary persistence in reinforcing the culture at every opportunity through both words and deed. Neither charisma nor personal magnetism is essential.

h) However, personally talking to many departmental groups about the reasons for change is essential; organizational changes are seldom accomplished successfully from an office. Moreover, creating and sustaining a strategy-supportive culture is a job for the whole management team.

i) Major cultural change requires many initiatives from many people. Senior managers, department heads, and middle managers have to reiterate values and translate the organization's philosophy into everyday practice. In addition, for the culture-building effort to be successful, strategy implementers must enlist the support of first line supervisors and employee opinion leaders, convincing them of the merits of practicing and enforcing cultural norms at the lowest levels in the organization.

j) **Until a big majority of employees join** the new culture and share an emotional commitment to its basic values and behavioural norms, **there's considerably more work to be done** in both instilling the culture and tightening the culture strategy fit.

k) The task of making culture supportive of strategy is **not a short-term exercise.** It takes time **for a new culture to emerge and prevail**; it's unrealistic to expect an overnight transformation.

l) 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 **2 to 5 years**.

m) In fact, it is usually **tougher to reshape a deeply ingrained culture** that is not strategy-supportive than it is to instill a strategy-supportive culture from scratch in a brand-new organization.

Conclusion

a) In conclusion, an excessive focus on the hard management, at best will result in **a linear improvement** in performance. On the other hand, performance can be improved exponentially by concentrating on the soft side of the management.

b) The optimal management approach probably would be somewhere between these extremes.

c) Accordingly, 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, reality has already changed, especially in today's world.

STRATEGIC LEADERSHIP

1) **Weak leadership can wreck the soundest strategy; forceful execution of even a poor plan can often bring victory.** - Sun Zi

   A leader lives in the field with his troops. - H. Ross Perot

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

3) A manager as a strategic leader has to play **many leadership roles to play:**

   a) **visionary,**
   b) **chief entrepreneur and strategist,**
   c) **chief administrator,**
   d) **culture builder,**
   e) **resource acquirer and allocator,**
   f) **capabilities builder,**
   g) **process integrator,**

h) crisis manager,
i) spokesperson,
j) negotiator,
k) motivator,
l) arbitrator,
m) policy maker,
n) policy enforcer, and
o) head cheerleader.

4) Sometimes it is **useful to be authoritarian**; sometimes it is better to be **a perceptive listener** and a **compromising decision maker**; sometimes a **strongly participative**, and sometimes **being a coach and adviser** is the proper role.

5) A strategic leader is a **change agent to initiates strategic changes** in the organisations and ensure that the **changes successfully implemented**. For the most part, major change efforts have to be **top-down and vision-driven**. Leading change has to start with **diagnosing the situation** and then **deciding which of several ways** to handle it.

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

a) **Staying on top** of what is happening, closely monitoring progress, discovering issues, and learning what obstacles lay in the path of good execution.

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

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

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

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

For example:

a) **N. R. Narayan Murthy**, is known as a celebrated business leader because of the values he had institutionalized over his tenure as CEO of Infosys. One of the great legacies he left with Infosys is a strong management development program that builds management talent and strategic leader with ethical values.

b) **Dhirubhai Ambani, pioneer of Reliance Group, was an icon in himself because of his** ability to conceptualize and create sweeping strategies, to reach corporate goals, and proficiency in implementing his strategic vision. Dhirubhai Ambani had the ability to provide clear direction for the company and had strong interpersonal skills that inspired the employees to contribute their best for the accomplishment of strategic vision. These qualities made him an excellent strategic leader in the corporate world.

LEADERSHIP ROLE IN IMPLEMENTATION

1) The strategic leaders must be able to **use the strategic management process effectively** by guiding the company in ways that result in the formation of strategic intent and strategic mission, facilitating the development and implementation of appropriate strategic plans and providing guidance to the employees for achieving strategic goals.
2) Strategic leadership entails the ability to **anticipate, envision, maintain flexibility, and empower others to create strategic change** as necessitated by external environment.
3) In the today's competitive landscape, strategic leaders are **challenged** to adapt their frames of reference so that they can **deal with rapid, complex changes**. 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 in the pursuit of strategic competitiveness (and above-average returns). In other words, a **manager's frame of reference** is the **foundation** on which a **manager's mindset is built**.
4) The importance of a manager's frame of reference can be seen if we perceive those competitive battles are not between companies or products but between mindsets or managerial frames. This implies that effective strategic leaders must be able to deal with the diverse and cognitively complex competitive situations that are characteristic of today's competitive landscape.
5) A Strategic leader has several responsibilities, including the following:
    a) **Making strategic decisions.**
    b) **Formulating policies and action plans to implement strategic decision.**
    c) **Ensuring effective communication in the organisation.**
    d) **Managing human capital (perhaps the most critical of the strategic leader's skills).**
    e) **Managing change in the organisation.**
    f) **Creating and sustaining strong corporate culture.**
    g) **Sustaining high performance over time.**
6) Thus, **the strategic leadership skills of a company's managers represent resources that affect company performance**. And these resources must be developed for the company's future benefit.
7) Strategic leadership **sets the firm's direction** by developing and communicating a vision of future and inspire organization members to move in that direction.
8) Unlike strategic leadership, **managerial leadership is generally concerned with the short-term, day-to-day activities.**

Two basic approaches to leadership can be **transformational leadership style and transactional leadership style.**

TRANSFORMATIONAL LEADERSHIP STYLE

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

TRANSACTIONAL LEADERSHIP STYLE

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

STRATEGIC CONTROL

1) Controlling is one of the important functions of management, and is often regarded as the core of the management process. It is a function intended to ensure and make possible the performance of planned activities and to achieve the pre-determined goals and results.
2) 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. It is intended to enable the organisation to continuously learn from its experience and to improve its capability to cope with the demands of organisational growth and development.
3) **The process of control has the following elements:**
   a) Objectives and characteristics of the system which could be operationalized into measurable and controllable standards.
   b) A mechanism for monitoring and measuring the characteristics of the system.
   c) A mechanism
      (i) for comparing the actual results with reference to the standards
      (ii) for detecting deviations from standards and
      (iii) for learning new insights on standards themselves.
   d) A mechanism for feeding back corrective and adaptive information and instruction to the system, for effecting the desired changes to set right the system to keep it on course.
4) Primarily there are three types of organizational control:
   a) **Operational control,**
   b) **Management control and**
   c) **Strategic control.**

Operational Control

a) The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions.

   For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.

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

c) Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated.

d) The control activity consists of regulating the processes within certain 'tolerances', irrespective of the effects of external conditions on the formulated standards, plans and instructions.

e) **Some of the examples of operational controls can be**
   (i) Stock control (maintaining stocks between set limits),
   (ii) Production control (manufacturing to set programmes),
   (iii) Quality control (keeping product quality between agreed limits),
   (iv) Cost control (maintaining expenditure as per standards),
   (v) Budgetary control (keeping performance to budget).

Management Control

a) When compared with operational, **management control is more inclusive and more aggregative**, in the sense of embracing the **integrated activities of a complete department, division or even entire organisation**, instead or mere narrowly circumscribed activities of sub-units.

b) The basic purpose of management control is the **achievement of enterprise goals short range and long range** in a most effective and efficient manner.

c) 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**.

d) Controls are **necessary to influence** the behaviour of events and ensure that they conform to plans.

Strategic Control

a) **According to Schendel and Hofer** "Strategic control focuses on the dual questions of whether:
   (i) **The strategy is being implemented as planned; and**
   (ii) **The results produced by the strategy are those intended.**

b) There is often a **time gap between the stages of strategy formulation and its implementation.**

c) A strategy might be affected on account of **changes in internal and external** environments of organisation. There is a need for warning systems to track a strategy as it is being implemented.

d) Strategic control is the process of evaluating strategy as it is formulated and implemented.

e) It is directed towards identifying problems and changes in premises and making necessary adjustments.

TYPES OF STRATEGIC CONTROL

There are four types of strategic control, which are as follows:

Premise control:

a) A strategy is formed on the basis of **certain assumptions or premises** about the complex and turbulent organizational environment.

b) Over a period of time these premises may **not remain valid**. Premise control is a **tool for systematic and continuous monitoring** of the environment to verify the validity and accuracy of the premises on which the strategy has been built.

c) It primarily involves monitoring two types of factors:

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

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

d) It is neither **feasible nor desirable** to control all types of premises in the same manner.

e) **Different premises may require different amount of control**. Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

Strategic surveillance:

a) Contrary to the premise control, the strategic surveillance is **unfocussed**. It **involves general monitoring** of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing.

b) Reading financial and other newspapers, business magazines, meetings, conferences, discussions at clubs or parties and so on can help in strategic surveillance.

c) Strategic surveillance may be loose form of strategic control but is **capable of uncovering** information relevant to the strategy.

Special alert control:

a) At times **unexpected events** may force organizations to reconsider their strategy.

b) 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.

c) **To cope up** with such eventualities, the organisations **form crisis management teams** to handle the situation.

Implementation control:

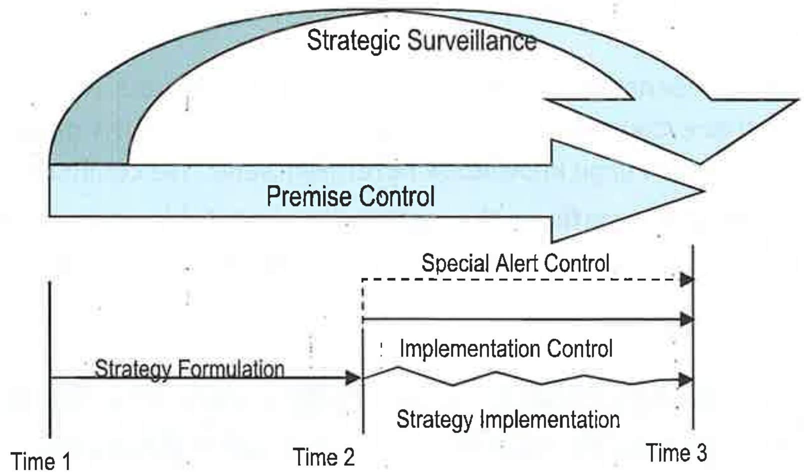
a) Managers implement strategy by converting major plans into **concrete, sequential actions** that form incremental steps.

b) Implementation control is **directed towards assessing** the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

c) Strategic implementation control is **not a replacement** to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basis forms of implementation control are:

(i) **Monitoring strategic thrusts:** Monitoring strategic thrusts **help managers to determine** whether the overall strategy is progressing as desired or whether there is need for readjustments.

(ii) **Milestone Reviews:** All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally **involves a complete reassessment** of the strategy. It also assesses the need to continue or refocus the direction of an organization.



These four strategic controls steer the organisation and its different sub-systems to the right track. They help the organisation to negotiate through the turbulent and complex environment.

STRATEGIC PERFORMANCE MEASURES

1) A **company's performance depends** heavily on **execution of strategy**. Companies that continuously outperform their competitors are those who execute well.
2) Executives in a variety of businesses should explore about utilizing **strategic performance measurement (SPM)**. 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.
3) SPM helps **to eliminate silos** by establishing a common language among all divisions of the organisation so they may communicate openly and productively.
4) Strategic performance measures are **key indicators** that organizations **use to track the effectiveness** of their strategies and make informed decisions about resource allocation.
5) The measures **provide a snapshot** of the organization's performance, **enabling leaders to assess** whether their strategies are aligned with their goals and objectives and to make necessary adjustments to improve their performance.
6) Key performance measures and indicators must be **created, selected, combined** into reports and **acted upon** so that strategy implementation can have tangible outcomes.
7) **Firstly,** there needs to be a **clear cause and effect relationship** between the indicators and strategic outcomes.

8) **Secondly**, KPIs need to be carefully chosen because they will influence the behaviour of people within the organisation. However, managers should be aware of paralysis by over analysis.

Managing the political aspects of implementing a strategy

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

b) The **"rational" forces** of openness, communication, and self-analysis can exist on the one hand. On the other hand, there could be **political forces** concerned with preserving empires and fostering internal rivalry that urge knowledge retention, selective communication, and caution.

c) When these **two techniques conflict**, the politically acceptable aspects may end up in the **explicit strategy** while the sensitive elements may **form an unspoken plan that contains the implicit strategy**.

TYPES OF STRATEGIC PERFORMANCE MEASURES

There are various types of strategic performance measures, including:

1) **Financial Measures:**

Financial measures, such as revenue growth, return on investment (ROI), and profit margins, provide an understanding of the organization's financial performance and its ability to generate profit.

2) **Customer Satisfaction Measures:**

Customer measures, such as customer satisfaction, customer retention, and customer loyalty, provide insight into the organization's ability to meet customer needs and provide high-quality products and services.

3) **Market Measures:**

Market measures, such as market share, customer acquisition, and customer referrals, provide information about the organization's competitiveness in the marketplace and its ability to attract and retain customers.

4) **Employee Measures:**

Employee measures, such as employee satisfaction, turnover rate, and employee engagement, provide insight into the organization's ability to attract and retain talented employees and create a positive work environment.

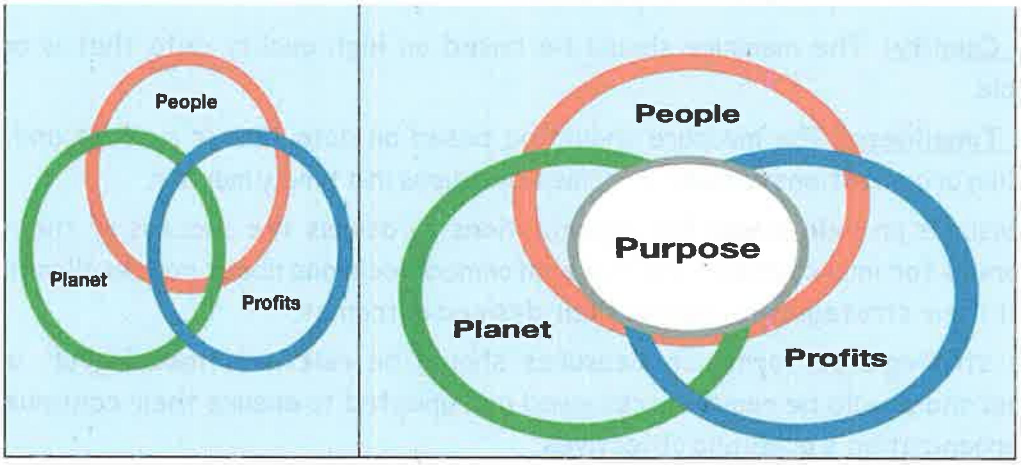
5) **Innovation Measures:**

Innovation measures, such as research and development (R&D) spending, patent applications, and new product launches, provide insight into the organization's ability to innovate and create new products and services that meet customer needs.

6) **Environmental Measures:**

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

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



THE IMPORTANCE OF STRATEGIC PERFORMANCE MEASURES

Strategic performance measures are essential for organizations for several reasons:

a) **Goal Alignment:**

Strategic performance measures **help organizations align their strategies with their goals and objectives**, ensuring that they are on track to achieve their desired outcomes.

b) **Resource Allocation:**

Strategic performance measures **provide organizations with the information they need** to make informed decisions about resource allocation, enabling them to prioritize their efforts and allocate resources to the areas that will have the greatest impact on their performance.

c) **Continuous Improvement:**

Strategic performance measures **provide organizations with a framework** for continuous improvement, enabling them to track their progress and make adjustments to improve their performance over time.

d) **External Accountability:**

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

CHOOSING THE RIGHT STRATEGIC PERFORMANCE MEASURES

1) Organizations should choose strategic performance measures that are **aligned with their goals and objectives** and that provide relevant and actionable information.
2) In selecting the right measures, organizations should consider the following factors:
   a) **Relevance:** The measure should be relevant to the organization's goals and objectives and provide information that is actionable and meaningful.
   b) **Data Availability:** The measure should be based on data that is readily available and can be collected and analyzed in a timely manner.
   c) **Data Quality:** The measure should be based on high-quality data that is accurate and reliable.
   d) **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.
3) These measures **provide a way for organizations to assess the success** of their strategies, identify areas for improvement, and make informed decisions about how to allocate resources and adjust their strategies to achieve their desired outcomes.
4) 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.

About the Author

CA Rishabh Jain

- Having cracked the CA exam at the **age of 21**. RJ Sir became one of the youngest Chartered Accountants in India.
- He simplifies all concepts in the easiest way possible.
- His Extra-ordinary rapport/contact with students, make him highly accessible for their numerous difficulties.
- He is always available for Advice, related to CA course and beyond the course.
- He applies **simulation techniques** used by MNC's and Big 4's and provides example of actual & audit setting which in turn gives students a peek into industry methodologies.
- Only Audit Professor in India with more than **6 years'** experience in Big 4s **(PWC & Deloitte)**.
- He has mentored over 20,000 students in a short span of **10 years**.
- Engages students with real-world scenarios, from his prior experience with Fortune 500 clients.
- Mentored many of his students who are now successful professionals.
- Placed many of his students in Big Four firms across India.
- Conducts exclusive speaker sessions on Startups and New Emerging Technologies.

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