J.K. SHAH®
ONLINE
a Veranda Enterprise

Foundation → Intermediate → Final CA ↗

INTER CA

FAST TRACK

STRATEGIC MANAGEMENT

Head Office

Shraddha, 4th Floor, Old Nagardas Road,
Near Chinai College, Andheri (E), Mumbai - 400 069.

☎ 022 - 2683 66 66

/officialjksc jkshahclasses.com

PREFACE

Dear Students,

Welcome to the world of knowledge – JK Shah Classes

I have the pleasure of presenting this study material to you. It contains exhaustive theory for Strategic Management. The questions are selected so carefully from wide ranging sources. It is in alignment with the study materials issued by the ICAI including RTP, MTP Suggested answers. The material is so exhaustive that it leaves out nothing.

The subject will be taught by eminent professors who are highly experienced and well versed with the job.

The coaching is very exhaustive and concept based. Also the coaching is very systematic, well planned and absolutely time bound. I am sure you will feel that the study is a pleasurable job and not a painful exercise.

I wish you a very happy study time.

Best of Luck

Prof. J. K. Shah
Chartered Accountant

J.K. SHAH® ONLINE
a Veranda Enterprise

INDEX

CHAPTER 1

INTRODUCTION TO STRATEGIC MANAGEMENT

❖ **For concept clarity**

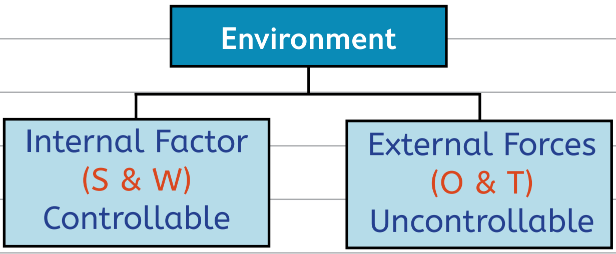
- **What is Business**

  As per famous management guru 'Peter F Drucker, Business exist for profit

- **Objectives of Business;**
  - Survival,
  - Stability,
  - Efficiency,
  - Growth,
  - Profitability,
  - Wealth Maximization.

J.K. SHAH ONLINE a Veranda Enterprise

- **Relationship Between Organization & Environment**



External environment;

- **Micro;**

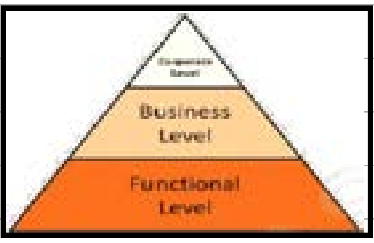
  Affect any one or more organization.

- **Macro;**

  Affect entire industry at large.

- **Organization levels;**
  1. Top Level,
  2. Middle Level, &
  3. Lower Level.

- **Strategic Levels of the Organizations;**
  1. ~~Top Level,~~
  2. ~~Middle Level, &~~
  3. ~~Lower Level.~~



For concept clarity

Planning ≠ Strategy?

Planning + Analysis + Course of Action = Strategy

Favourable - Attack - Growth & Expansion

Unfavourable - Defend - To maintain stability

J.K. SHAH ONLINE a Veranda Enterprise

PART A

Q1. Enumerate business policy.

Business Policy;

- **Introduction;**
  - Business Policy is "the study of the functions (i.e. roles) & responsibilities of senior (i.e. top) management, the crucial problems that affect success in the total enterprise and the decisions.

    Business Policy are the guidelines developed by an organization to govern the actions of those who are a part of it.

  - Business Policy defines the scope within which decisions may be taken by the subordinates in an organization.

- When Harvard Business School introduced an integrative course in management aimed at the creation of general management capability among business executives. The origin of business policy can be traced back to 1911.

- According to William F Glueck, evolution of business policy emerged from the development in the use of planning techniques by managers.

  Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives.

- With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used.

  Soon, long-range planning was replaced by strategic planning, and later by strategic management, a term that is currently used to describe the process of strategy formulation, implementation and control.

PART B

What is strategic management?

- **Introduction;**
  - The term strategy has been derived from the Greek word 'strategos' which means generalship.
  - Business today is like fighting a war & Businessmen have to respond to the dynamic & hostile (unfriendly) environment. Every businessman makes use of strategies to face the tricks of his enemy (rivals).
  - Strategy may be defined as a long-range blueprint of an organization, desired image, direction & destination.

What is strategy?

A unified, → Unique

Comprehensive and → Formulate, Implement, Evaluation

Integrated Plan → At 3 levels of Org.

designed to assure that the basic objective of the enterprise are achieved.

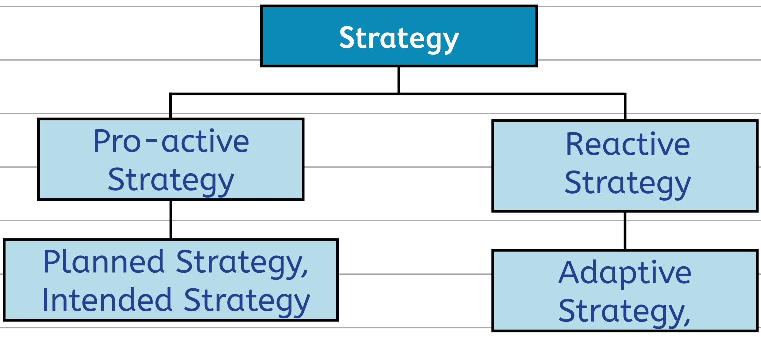
What is strategic management?

Strategic Management can be defined as,

- The art and science of
- Formulating,
- Implementing &
- Evaluating
- Cross - Functional decisions
- That enable an organization to achieve it's objectives.

J.K. SHAH ONLINE
Veranda Enterprise

Classification of Strategy based on approach;

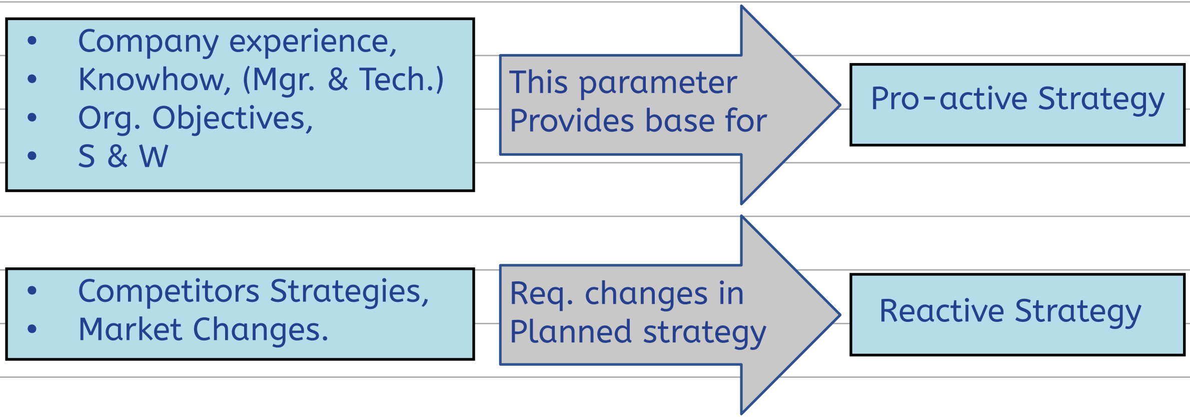


Jio

vodafone

airtel

Refer ICAI study material (1.6)



Q2. "Strategy is partly proactive and partly reactive." do you agree?

Refer ICAI study material Q.5 (1.20)

J.K. SHAH ONLINE a Veranda Enterprise

❖ Strategy is partly proactive & partly reactive;

- In Proactive Strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning, set procedures and work on these strategies in a predetermined manner.

- However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance.

- It is not possible to anticipate moves of rival firms, consumer behavior, evolving technologies and so on.

- There can be significant deviations between what was visualized and what actually happens.

- Strategies need to be modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands.

- It is based on unanticipated events such as Competitor's strategies, Market changes, therefore it requires a change in planning.

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

  Hence Strategy is partly proactive & partly reactive.

Q3. Define Strategy and its feature

Features of Strategic Management;

- A typical dictionary defines the word 'strategy' as something that has to do with war and ways to win over enemy.
- Strategy is forward looking it defines in broad terms the action which an organization proposes to take in future.
- Strategy is designed to move an organization from its current position to the desired future position.
- However, strategy is not a substitute for sound, alert and responsible management.
- Strategy can never be perfect, flawless and optimal.
- Allowances (provision) are made for possible miscalculations and unanticipated events.
- In large organisations, strategies are formulated at the corporate, business (divisional) and functional (operational) levels.
- Corporate strategies are formulated by the top managers.
- Strategic Management is essential for the survival and growth of business organizations in dynamic business environment.

Q4. Strategic management is a bundle of tricks and magic? Do you agree?

No, The term 'strategic management' refers to the managerial process of;

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

Hence Strategic management is not a bundle of tricks and magic.

J.K. SHAH ONLINE a Veranda Enterprise

Q5. Define Strategic management and objectives of strategic management?

The overall objectives of SM are two-fold;

- To create competitive advantage,
  So that the company can gain competitive advantage over competition and dominate the market.
- To guide the company successfully through all changes in the environment.

Q6. What is Strategic Management? What benefits accrue by following a strategic approach to managing?

J.K. SHAH ONLINE a Veranda Enterprise

Importance (Benefits) of SM;

Introduction;

*(Refer intra of SM & its objectives)

- Importance **of Strategic management;**
  - ✓ 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.
  - ✓ Strategic management helps organisations to be proactive instead of reactive in shaping its future.
  - ✓ Organisations are able to analyse and take actions instead of being mere spectators.
  - ✓ Strategic management attempt to prepare the organisation to face the future and act as pathfinder to various business opportunities.
  - ✓ Strategic management serves as a corporate defence mechanism against mistakes and pitfalls.
  - ✓ It helps the organisation to develop certain core competencies & competitive advantages that would facilitate assist in its fight for survival and growth.

Q7. Are there any limitations (Drawbacks) attached to strategic management in organizations? Discuss.

Limitations of Strategic Management;

Introduction;

The presence of strategic management cannot counter all hindrances and always achieve success.

Limitations of Strategic management;

- Strategic management is a costly process.
- Strategic management is a time-consuming process.

- Environment is highly complex and turbulent (i.e. unstable).
- The organisational estimate about its future shape may inadequately go wrong and jeopardise (i.e. causing harm to) all strategic plans.
- It is difficult to understand the complex environment and exactly pinpoint how it will shape up in future?

- It is difficult to clearly estimate the competitive responses to a firm's strategies.

J.K. SHAH ONLINE a Veranda Enterprise

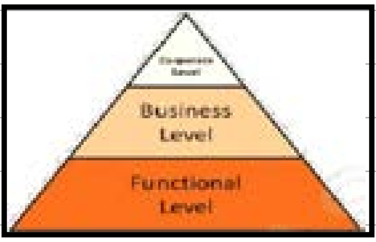
PART C

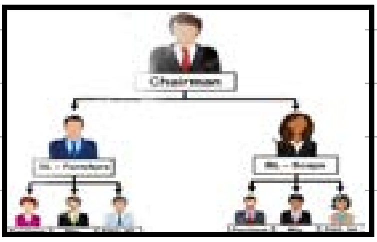
Organisation levels;

1. Top Level,
2. Middle Level, &
3. Lower Level.

Strategic Levels of the Organizations;

1. ~~Top Level,~~
2. ~~Middle Level, &~~
3. ~~Lower Level.~~





Refer ICAI study material (1.11)

*Only for academic interest

Corporate level of management consists of;

- The Chief Executive Officer (CEO),
- Other Senior Executives,
- The Board of Directors (BOD) and
- Corporate Staff

Those individuals are mainly strategic decision-making authority of the organisation.

Q8. What tasks are performed by a strategic Manager?

Task performed by a strategic manager;

Introduction;

The primary task of the strategic manager is conceptualizing, designing and executing company strategies. For this purpose, his tasks include.

J.K. SHAH ONLINE Veranda Enterprise

Task;

- To set corporate vision, mission and goals,
- Determining what business it should be in,
- Allocation of resources,
- Formulating strategies,
- Implementing strategies,
- Providing leadership to the organisation, etc ...

Q9. Explain the difference between three levels of strategy formulation

Refer ICAI study material Q.4 (1.19)

Difference between three levels;

1 . Corporate Level;

Consist of?	Chief executive officer and other top-level executives.
Role's;	To oversee the development of strategies for the whole organization.
Scope;	Defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

2. Business Level

Consist of?	General Manager or Divisional Manager & Staff.
Role's;	To translate the general statements i.e. strategies into concrete strategies of their individual businesses.
Scope;	The development of strategies for individual business areas. To support corporate strategy. Such divisions are called Strategic Business Units (SBUs).

3. Functional Level

Consist of?	Functional Manager's like, Finance Mgr., HR Mgr., etc......
Role's;	Responsible for the specific business functions or operations.
Scope;	To develop functional strategies in their area that help fulfil the strategic objectives set by business and corporate level general managers. To provide most of the information to formulate realistic and attainable strategies.

J.K. SHAH ONLINE a Veranda Enterprise

STRATEGIC INTENTION (PURPOSE)

Definition;

Strategic Management is defined as a dynamic process of;

- Formulation,
- Implementation,
- Evaluation, and
- Control of strategies to realise the organization's strategic intent.

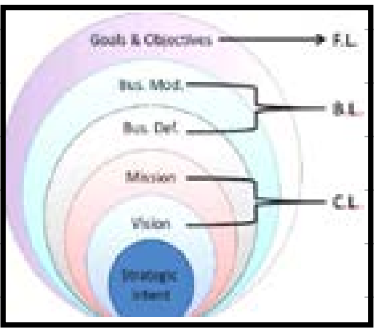
Introduction;

The intentions with which organisational managers plans the future course of action, that intention is known as strategic intent.

Strategic intent is the base of all the activities every manager at all levels are doing to achieve organisational goals.

It is the fire within the organisational officers which keeps them moving more closer to the objectives and goals instead they face the hardest challenge and unfriendly business environment.

- 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 (purpose) of the firm.
- Strategic intent can be understood as the philosophical base of strategic management.
- Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.



❖ **Elements of Strategic Intent;**

- **Vision;**

  Vision implies the blueprint of the company's future position. It describes where the organization wants to land. It represent the organisation's aspirations and provides a glance of what the organization would like to become in future.

  Every sub system of the organization is required to follow its vision.

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

- **Business Definition;**
  - It tries to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices.
  - Organisational restructuring also depends upon the business definition.

J.K. SHAH ONLINE a Veranda Enterprise

Business Model;

- Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details.
- Rival firms, operating in the same industry rely on the different business model due to their strategic choice.

Goals and Objectives;

- These are the base of measurement. Goals are the end results, that the organization attempts to achieve.
- On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals.
- These are the end results which are to be attained with the help of an overall plan, over the particular period.
- However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

J.K. SHAH ONLINE a Veranda Enterprise

Vision;

Introduction;

- The most important issue organisational managers need to work on is clarity of destination i.e. where they want the organisation to be in specified time period.
- Where to go is the most important question and should be always asked before planning how to go.
  (mean before selecting the approach)
- Strategic Vision thus points out a particular direction, draw a strategic path to be followed in future, and moulding organizational identity.

Walt Disney

"to make people happy"

- A Strategic vision is a road map of a 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.
- Vision implies the blueprint of the company's future position.

- A strategic vision shows management's aspirations for the business, providing a view of "where we are going".
- It describes where the organisation wants to land.
- Every sub system of the organization is required to follow its vision.

The three elements of a strategic vision are;

1. "Who we are and where we are now?"
2. "Where we are going?"
3. Communicating the strategic vision in clear, exciting terms that inspire organization wide commitment.

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

J.K. SHAH ONLINE a Veranda Enterprise

Mission;

Introduction;

- A mission is an answer to the basic question 'what business are we in and what we do'.

- It has been observed that many firms fail to conceptualise and develop 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.

- A company's mission statement is typically focused on its present business scope - i.e. "who we are? And what we do?".

- Mission statements broadly describe organizations;
  - ✓ Present capabilities,
  - ✓ Customer focus,
  - ✓ Activities, and
  - ✓ Business makeup.

- Mission statement should reflect the philosophy of the organizations that is perceived by the senior managers.

- A good mission statement should be precise, clear, feasible, distinctive and motivating.

- The mission is a statement which defines the role that an organization plays in the society.

- Mission and business definition, as the two ideas are absolutely central to strategic planning.

"to entertain inform and inspire people"

J.K. SHAH ONLINE Veranda Enterprise

Why an organization should have a mission?

- To ensure consensus of purpose within the organization.
- To develop a basis, or standard, for allocating organizational resources.
- To provide a basis for motivating the use of the organization's resources.
- To establish a general tone or organizational climate.
- To serve as a focal point.
- To facilitate the translation of objective and goals into a work structure.
- To specify organizational purposes.

Points (tips) to be considered while writing mission statement;

- To establish the special identity of the business - one that typically distinct it from other similarly positioned companies.
- Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.
- Good mission statements should be unique to the organisation for which they are developed.
- The mission of a company should not be to make profit. Surpluses may be required for survival and growth, but cannot be mission of a company.

Goals and Objectives;

Introduction;

These are the base of measurement.

- Goals are the end results, that the organization attempts to achieve .
- Objectives are time-based measurable targets, which help in the accomplishment of goals.

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

Objectives are organization's performance targets. The results and outcomes it wants to achieve. Objective function as yardsticks for tracking an organization's performance and progress.

Business organization translates their vision and mission into goals and objectives.

J.K. SHAH ONLINE a Veranda Enterprise

Characteristics of Objectives:

- Objectives should define the organization's relationship with its environment.
- Objectives should be facilitative towards achievement of mission and purpose .
- Objectives should provide the basis for strategic decision-making.

Characteristics of Objectives:

- ✓ Objectives should be measurable and controllable .
- ✓ Objectives should provide standards for performance appraisal.
- ✓ Objectives should be concrete and specific .
- ✓ Objectives should be related to a time frame .
- ✓ Objectives should be challenging.

Long-term objectives;

- As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets.
- Long-term objectives represent the results expected from pursuing certain strategies.

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

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

✓ Profitability.
✓ Productivity.
✓ Competitive Position.
✓ Employee Development.
✓ Employee Relations.
✓ Technological Leadership.
✓ Public Responsibility.

▸ Corporate Mission

1. Corporate Mission is an expression of growth of the Firm. [Firm's future Visualized]
2. It provides dramatic picture of What the company wants to become.
3. Its a Colourful Sketch of how the firm wants its Future to look.
4. In other words the Mission is a grand design of the Firm's future.
5. Mission amplifies what brings the firm to this business or why it is there.
6. Mission is also an expression of the Vision of the Corporation, its Founder / Leader.
7. It represents the Common purpose which the entire firm shares and pursues.
8. It is not a confidential affair to be confined at the top it has to be open to the Company entire
9. It adds zeal to the Firm and its People

Every organisation function through a network of goals and Objectives it is foundation from which the network of goals are built.

A Mission however is not a PR document its main purpose is to give internal direction for the future of the Company.

J.K. SHAH ONLINE a Veranda Enterprise

- **Concept 8: Values:**

"Business, as I have seen it, places one demand on you: it needs you to self-impose a framework of ethics, values, fairness and objectivity on yourself at all times." – Ratan N Tata, 2006 (Source: TATA Group Website)

A few common examples of values are - Integrity, Trust, Accountability, Humility, Innovation, and Diversity. But why are values so important? A company's value sets the tone for how the people of think and behave, especially in situations of dilemma. It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success. Employees prefer to work with employers whose values resonate with them - the ones they can relate to in their daily work and personal life. Interestingly, majority of consumers say that they would prefer to buy products and services from companies that have a purpose that reflects their own value and belief system. Hence, values have both internal as well as external implications.

For reference, 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 organisations were and how important it was for them to uphold their core values.

J.K. SHAH ONLINE a Veranda Enterprise

CHAPTER 2

STRATEGIC ANALYSIS EXTERNAL ENVIRONMENT

PART A

Q.1. Explain Competitive Strategy.

❖ Why strategy is formulated?

❖ For achieving basic and competitive objectives with some action plan by knowing competitive position.

J.K. SHAH ONLINE a Veranda Enterprise

Competitive Strategy:

Introduction:

- Strategy is formed and developed by organisational managers for achieving basic objectives of management i.e. survival, stability, efficiency, growth, profitability and prosperity.
- But along with above mentioned business objectives one of the most important objectives of framing strategies is to fight competition.
- In simple words, strategies formed for fighting and sustaining external competition is known as Competitive strategies.
- Competitive strategy of a firm evolves out of consideration of several factors that are external to it. The external environment affects the internal environment of the firm.
- A continuous changes in this environment provides new opportunities and creates new challenges in terms of threats for the organisation.
- The objectives of a competitive strategy are;
  - ✓ Generate competitive advantage,
  - ✓ Increase market share, and
  - ✓ Beat competition.

- A competitive strategy consists of moves (steps) to ...
  - ✓ Attract customers.
  - ✓ Withstand competitive pressures.
  - ✓ Strengthen market position.

- Having a competitive advantage is necessary for a firm to compete in the market.
- Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals.
- But what is more important is whether the competitive advantage is sustainable? By knowing if it is a leader, challenger, or follower, it can adopt appropriate competitive strategy.

Q.2. What do you understand by 'Competitive Landscape'? And What are steps to understand the competitive landscape?

❖ A business analysis,

❖ Which identifies S & W of competitors, to fill in the gaps & to improve own performance.

Competitive landscape:

Introduction:

- Competitive landscape is a business analysis which identifies competitors, either direct or indirect. substitutes
- 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.
- Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals.
- Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the knowledge of their vision, mission, core values, niche market, strengths and weaknesses.

J.K. SHAH ONLINE a Veranda Enterprise

- Understanding of competitive landscape requires an application of "competitive intelligence".

- Steps to understand the Competitive Landscape;
  1. Identify the competitor,
  2. Understand the competitors,
  3. Determine the strengths of the competitors,
  4. Determine the weaknesses of the competitors,
  5. Put all of the information together.

(1) Identify the competitor;

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

- This answers the question:
  - ✓ Who are the competitors?

(2) Understand the competitor;

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 I different markets.

- This answers the question:
  - ✓ What are their product and services?

(3) Determine the strengths of the competitors;

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

(4) Determine the weaknesses of the competitors;

Weaknesses 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.

- This answers the question:
    - ✓ Where are they lacking?

(5) Put all of the information together;

At this stage, the strategist should put together all information about competitors and draw conclusion 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 question:
    - ✓ What will the business do with this information?
    - ✓ What improvements does the firm need to make?
    - ✓ How can the firm exploit the weaknesses of competitors?

Q.3. Explain Strategic Analysis.

❖ Firm should go for SWOT analysis.

❖ And to make strategy based on judgement rather than opinion.

Strategic Analysis;

Introduction;

- Understanding the business environment before starting the business is known as strategic analysis.
- Strategic analysis is conscious efforts made by the business managers in understanding the internal factors (S & W) and external forces (0 & T) which are related to the business organization.
- All business managers should perform situational analysis before they start planning for the organization.
- Strategy formulation IS not a task in which managers can get by with intuition, opinions, instincts, and creative thinking.

- But it is a Judgment about what strategies to pursue need to flow directly from analysis of;
  - ✓ a firm's external environment,
  - ✓ its internal resources &
  - ✓ capabilities.

The two most important situational considerations (factors) are:

- ✓ Industry and Competitive Conditions, & (Price War, Technological War)
- ✓ An organisation's own competitive capabilities, resources, internal strengths, weaknesses, and market position

Issues to consider for Strategic Analysis;

1. Strategy evolves over a period of time.
2. Balance of external and internal factors.
3. Risk.

J.K. SHAH ONLINE a Veranda Enterprise

(1) Strategy evolves over a period of time;

- Development of strategy requires detailed analysis of all the aspects of internal and external factors and forces. This is time consuming process.
- An important aspect of strategic analyses IS to consider the possible implications of routine decisions.
- Strategy of a firm, at a particular point of time, is result of a series of small decisions taken over an extended period of time.

(2) Balance of external and internal factors;

- The process of strategy formulation is often described as on e of the matching the internal potential of the organization with the environmental opportunities
- In reality, as perfect match between the two may not be feasible. There are constraints that limits the choice, such as existence of a big competitors, etc...

(3) Risk;

- Competitive markets, liberalization, globalization, booms, recession, technological advancements, inter-country relationship all affect business and pose risk at varying degree (i.e. different level).
- External risk is in account of inconsistencies between strategies and the forces in the environment.
- Internal risk occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis.

Q.4. Types of strategic risk. Or strategic risk model

❖ Refer ICAI study material (2.07)

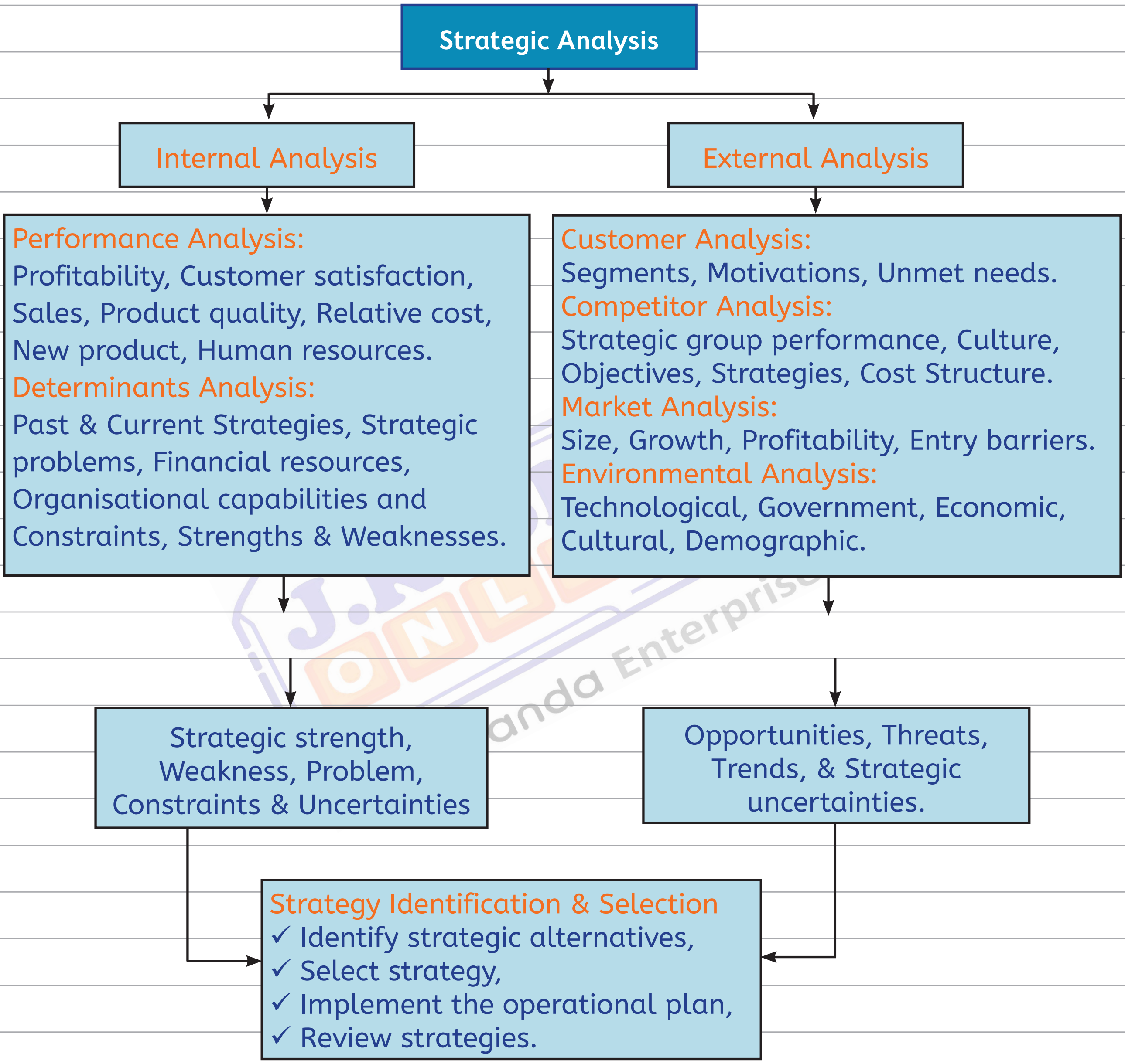
SHAH ONLINE

Strategic Risks

	Time	Short Term
	Short Term	**Long Term**
External	An error in interpreting the environment, causes 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 & preferences.

Q.5. Framework of strategic Analysis.

❖ Refer ICAI study material (2.07)



Strategic Analysis

Internal Analysis

Performance Analysis:
Profitability, Customer satisfaction, Sales, Product quality, Relative cost, New product, Human resources.
Determinants Analysis:
Past & Current Strategies, Strategic problems, Financial resources, Organisational capabilities and Constraints, Strengths & Weaknesses.

Strategic strength, Weakness, Problem, Constraints & Uncertainties

External Analysis

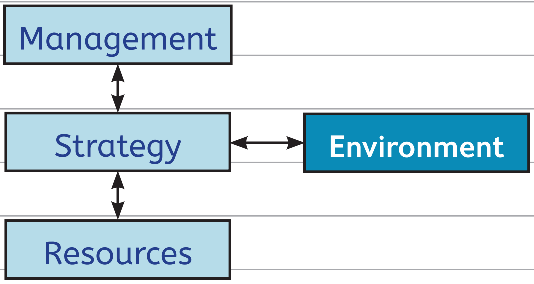
Customer Analysis:
Segments, Motivations, Unmet needs.
Competitor Analysis:
Strategic group performance, Culture, Objectives, Strategies, Cost Structure.
Market Analysis:
Size, Growth, Profitability, Entry barriers.
Environmental Analysis:
Technological, Government, Economic, Cultural, Demographic.

Opportunities, Threats, Trends, & Strategic uncertainties.

Strategy Identification & Selection
- ✓ Identify strategic alternatives,
- ✓ Select strategy,
- ✓ Implement the operational plan,
- ✓ Review strategies.

❖ Concept 1: Strategy and Business Environment

- In strategic analysis, the principle of maintaining balance is important. However, the complexity and intermingling (i.e. inter mix) of variables in the environment reduces the strategic bal.



- The business environment is highly dynamic and continuously evolving Strategists provide an interface between the origination abilities and the opportunities and changes must deal within the larger environment.

- The term business environment refers to all external factors influence or situations that in some way affect business decisions, plans, and separations Organisational success is determined by les business environment, an ever more from its relationship with it

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

  1. Determine opportunities and threats:

     The interaction between the business and its environment would explain opportunities and threats to the business. It helps to find new needs and wants of the consumers changes in laws, changes in social behaviours etc.

  2. Give direction for growth:

     The interaction with the environment enables the business to identify the areas for growth and expansion of their activities.

  3. Continuous Learning:

     The managers are motivated to continuously update their knowledge understanding and skills to meet the predicated changes.

J.K. SHAH® ONLINE a Veranda Enterprise

4. **Image Building:**

   Environments understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate. Understanding the needs of the environment help to showcase that the business is aware and responsive to the needs.

5. **Meeting Competition:**

   It helps the business to analyse the competitors' strategies and formulate their own strategies accordingly. The idea is to flourish and beat competition for its products and services.

❖ Concept 2: Micro and Marco Environment

- The environment in which an organization exists can be described in terms of the opportunities and threats operating in the environment apart from the strengths and weaknesses existing in the internal environment. Business strategists should always be adequately informed an development occurring in their company, its industry, and within micro and macro environment of business.

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

  ✓ Micro environment

  ✓ Macro environment

J.K. SHAH ONLINE a Veranda Enterprise

- **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 effect its working on a direct and regular basis.
  - The employees of the firm, their characteristics and how they are organized.
  - The existing customer base on which the firm relies for business.
  - The ways in which the firm can raise its finance.
  - Who are the firm suppliers and how are the links between the two being developed?
  - The local community within which the firm operates.
  - The direct competition and their comparative performance.

❖ Concept 3: Elements of Macro Environment

- Macro environment has broader dimension as it consists of economic, socio-cultural, technological, political and legal factors. 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.

  "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"

  Gluek and Jauch

- The external environment of an organization is made of all the individuals, teams, organizations, agencies and factors that it routinely interacts with when conducting business.

- **Demographic Environment**
  1. Demographic are the characteristics of an population that have been classified and explained according to certain criteria, such age, gender and income, etc.
  2. Demographical analysis considers factors such as race, age, income, education, possession of assets, house ownership, job position etc.
  3. Data about these qualities across homes and within a demographic variable are at importance to both businesses and economists.
  4. India has relatively younger population as compared to many other countries.
  5. Many multinationals are interested in India considering its population size.

- Considering demographics is of immense importance for any business. Business organization need to study different demographic factors. Particularly they need to address following issues:
  - ✓ What demographic trends will affect the market size of the industry?
  - ✓ What demographic trends represent opportunities or threats?

- The size, age distribution, geographic dispersion, ethic mix, and income distribution of a population of all great importance to the organization.

Socio-Cultural Environment

1. A general factor that influences almost all enterprises in a similar manner. It represents a complex group of factors such as social traditional, values and beliefs, level of literacy.
2. It differs from demographics in the sense that it is not the characteristics of the population, but it is behavoiur and the belief system of that population.
3. Socio – Cultural environment consists of factors related to human relationship and the impact of social attitudes and cultural values.
4. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated.
5. It is 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.

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

J.K. SHAH® ONLINE a Veranda Enterprise

Economic Environment

1. Economic conditions have a direct bearing over the business strategies.
2. The economic environment refers to the overall economic situation around the business and include conditions at the regional, national and global levels.
3. It encompasses conditions in the markets for resources that have an effect on the supply of inputs and outputs of the business, their costs, quality, and availability.
4. Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability income.

   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.

- ✓ The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations.

E.g.: 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.

- **Political-Legal Environment**

Political-legal environment takes into account elements like the general level of political development, the degree to which business and economic issues have been politicised.

1. The state of law and order, political stability, the political ideology and practices of the ruling party.
2. and the scope and type of governmental intervention in the economy and industry.
3. Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business.
4. A business has to consider the changes in the regulatory framework and their impact on the business.
5. Taxes and duties are other critical areas that may be levied and affect the business.
6. Businesses prefer to operate in a country where there is a sound legal system. However, any country businesses must have a good working knowledge of the major laws protecting consumers, competitions and organizations.

- **Technological Environment**

1. Nationalism supports measures aimed at enhancing the position of a country International business.
2. 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.
3. The scheme encourages foreign, businesses to open businesses in India, and at the same time incentivises domestic businesses
4. Which leads to expand their manufacturing facilities, create more jobs, and lessen India's reliance on imports.

5. A highly important factor in the present times is technology. Technology has changed the way people communicate and do things.
6. Technology has also changed the ways of how businesses operate now.
7. 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.
8. Businesses use new discoveries to adapt themselves for the advancement of society.
9. Technology has impacted on how businesses are conducted. With use of technology, many organisations are able to reduce paperwork, schedule payments more efficiently, are able to coordinate inventories efficiently and effectively.
10. This helps to reduce costs of companies, and shrink time and distance, thus, capturing a competitive advantage for the company.

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.

1. Technology is leading to many new business opportunities as well as making obsolete most of the existing business products and services
2. Technology can act as opportunity, when a business effectively adopts technological innovations
3. However, at the same time technology can act as a threat too. Artificial intelligence, machine learning, robotic process automation which can lead to job Losses.

PESTLE-A tool to Analyse Macro Environment

- The term PESTLE is often used to describe a framework for analysis of macro environmental factors. PESTEL analysis is frequently used to assess the business environment in which a firm operates. Political, economic, social, and technological (PEST) analysis was the name given to the framework in the past; however, later, the framework has been expanded to include environmental and legal factors as well. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization.

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

  - ✓ Economic factors have major impacts on how businesses operate and take decisions. For example, interest rates affect a firm's cost of capital and 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.

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

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

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

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

Political	Economic
❖ Political stability	❖ Economy situation and trends
❖ Political principles and ideologies	❖ Market and trade cycles
❖ Current and future taxation policy	❖ Specific industry factors

J.K. SHAH ONLINE a Veranda Enterprise

❖ Regulatory bodies and processes	❖ Customer/end-user drivers
❖ Government policies	❖ Interest and exchange rates
❖ Government term and change	❖ Inflation and unemployment
❖ Thrust areas of political leaders	❖ Strength of consumer spending

Social	Technological
❖ Lifestyle trends	❖ Replacement technology/solutions
❖ Demographics	❖ Maturity of technology
❖ Consumer attitudes and opinions	❖ Manufacturing maturity and capacity
❖ Brand, company, technology image	❖ Innovation potential
❖ Consumer buying patterns	❖ Technology access, Licensing, patents, property rights and copyrights
❖ Ethnic/religious factors	
❖ Media views and perception	

Legal	Environmental
❖ Business and Corporate Laws	❖ Ecological/environmental issues
❖ Employment Law	❖ Environmental hazards
❖ Competition Law	❖ Environmental legislation
❖ Health & Safety Law	❖ Energy consumption
❖ International Treaty and Law	❖ Waste disposal
❖ Regional Legislation	

❖ Concept 4: Internationalization of Business

To be specific, a global company has three characteristics:

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

❖ Concept 5: Understanding Product And Industry

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

- Products are either tangible or intangible A tangible product can be handled, seen, and physically felt, such as a car, book, pen, table, mobile handset and so on. Alternatively, an intangible product is not a physical good, such as telecom services, banking, Insurance, or repair services.
- Product has a price Businesses determine the cost of their products and charge a price for them. The dynamics of supply and demand influence the market price of an item or service. The market price is the price at which quantity provided equals quantity desired. The price that may be paid is determined by the market, the quality, the marketing, and the targeted group.

- On account of competition, businesses are not able to fix market price by adding profit margin on the costs. Rather, they work on reducing the costs given the prevailing market price.
  - Products have certain features that deliver satisfaction.
    - ✓ A 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.
    - ✓ Products should be able to provide value satisfaction to the customers for whom they are meant.

  - Product is pivotal for business.
    - ✓ The product is at the centre of business around which all strategic activities revolve. The product enables production, quality, sales, marketing, Logistics and other business processes.

  - Product has a useful life:
    - ✓ Every product has a usable life after which it must be replaced as well as a 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.

❖ Concept 6: Porter's Five Forces Model

Common barriers to entry include:

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

J.K. SHAH ONLINE a Veranda Enterprise

2. **Economies of Scale:** Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production as volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs.
   For E.g., in the semiconductor industry, large companies, such as IBM, Intel, and For Samsung enjoy substantial economies of scale in the production.

3. **Product Differentiation:** Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.
   Firms in the personal care products and cosmetics industries actively engage in product differentiation to enhance their products' features. Differentiation

4. **Switching Costs:** To succeed in an industry, new entrant must be able to persuade (i.e., influence) existing customers of other companies to switch to its products. Buyers often incur substantial financial costs in switching between firms. When such switching costs are high, buyers are often reluctant to change.

5. **Brand Identity:** The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products (ie., non FMCG products) that carry a high unit cost to the buyer. New entrants often encounter significant difficulties in building up the brand identity.
   E.g.: In India, it was a huge challenge for foreign car makers to break into the customer base of Maruti Suzuki in the affordable family car segment.

6. **Access to Distribution Channels:** The unavailability of distribution channels for new entrants poses (i.e., create) another significant entry barrier Often, existing firms have significant influence over the distribution channels and ca delay or restrict their use by new firms.
   For E.g. Because of control over distribution channels in India by HUL, Godrej and P& etc., small entrepreneurs find it very difficult to sell their products through the existing channels.

J.K. SHAH ONLINE a Veranda Enterprise

7. Possibility of Aggressive Retaliation (counter-attack): Sometimes the mere threat of aggressive retaliation (counter-attack) by existing firm can discourage entry by other firms into an existing industry.

❖ Concept 7: 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.
2. The market might be physical, such as a departmental store where people engage in person.
3. 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.
   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.
4. While the market is a place, business strategist work on marketing to improve the chances of success.
5. The term "marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution. Often market activities are categorised and explained in terms of four Ps of marketing - product, place, pricing, and promotion.
6. Delivering the best customer experience and establishing, maintaining, and growing relationships with customers are the main goals of marketing.
7. Businesses that have product orientation think that buyers will choose those products that have the best quality, performance, design, or features.
8. Production-oriented businesses that believe that customers choose low price products.
9. Sales-oriented businesses believe that if they spend enough money on advertisement, sales and promotion, customers can be persuaded to make a purchase.
10. In a customer or market-oriented approach strategists prioritise efforts on their customers. In order to create better value for customers.
11. A customer-centric business is one that continuously learn from its customers' needs and market dynamics.

Customer

- A customer is a person or business that buys products or services from another organisation
- Customers are important because they provide revenue and organisations cannot exist without them.
- 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 es. are frequently used interchangeably.

Businesses routinely research the characteristics of their consumers in order to fine-tune their marketing strategies and adjust their inventory to attract the most customers.

Customer Analysis:

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

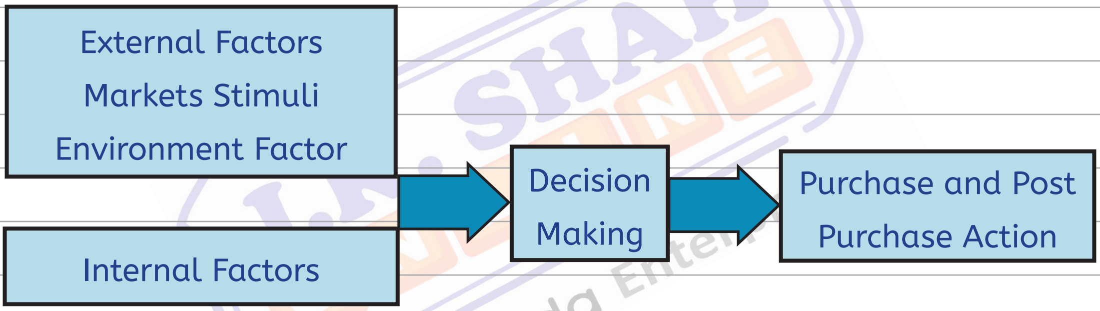
Customer Behaviour

1. Customer behaviour moves beyond the identification of customers to explain how they purchase products
2. It examines elements like shopping frequency, product preferences, and the perception of your marketing, sales, and service offerings.
3. Understanding these details allows businesses to communicate with customers in an effective manner Understanding the behaviours of customers enables businesses to establish effective marketing and

advertising campaigns, provide products and services that meet their needs.

4. Consumer behaviour may be influenced by a number of things. These elements can be categorised into the following three conceptual domains:
    - External Influences: External influences, like advertisement, peer recommendations or social norms, have a direct impact on the psychological and internal processes that influence various consumer decisions.
    - 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.



J.K. SHAH® ONLINE a Veranda Enterprise

Process of consumer behaviour

- Decision Making:

A rational consumer, as decision maker would seek information about potential decisions and carefully integrate this with the existing knowledge about the product.

The stages of decision making process can be described as:

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

This 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 etc...

- Post-decision Processes:

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

  The consumer's reaction may vary depending upon the satisfaction. While a happy customer may make repeat purchase and recommend to others.

Q.6. Examine the significance of KSF's for competitive success.

J.K. SHAH ONLINE a Veranda Enterprise

Key Success Factors (KSF.S);

Introduction;

- These are the key elements that affect the ability of a firm or industry to prosper in the market.

  For E.g., JIO, Cost efficient i.e. Economical for customers.

- KSF's are the prerequisites for industry success & they create the rule that figure whether a company will be financially or competitively successful.

- Some of the successful key factors are;
  - ✓ Core competitions,
  - ✓ Business outcome (Result),
  - ✓ Competitive capabilities,
  - ✓ Internal & External recourses,
  - ✓ Strategy in production, marketing, etc ...

- How to find out or identify the KSF's of an industry?
  1. On what basis do customer select between the competing brands of sellers? What product attributes are crucial? Such as quality, durability, etc ...

2. What competitive capabilities does a seller need to have to be competitively successful?
3. What does it take for seller to achieve a sustainable competitive advantage?

   For example,

   In apparel i.e. garments manufacturing, the KSFs are;

   1. Appealing designs and colour combinations (to create buyer interest) and
   2. Low-cost manufacturing efficiency (to permit attractive retail pricing and ample profit margins).

- An organisation with perceptive understanding of industry KSF's can gain sustainable competitive advantage by training its strategy on industry KSF's and devoting its energies to being distinctively better than rivals on one or more of these factors.

- Indeed, business organisations that stand out on a particular KSF enjoy a stronger market position for their efforts being distinctively better than rivals on one or more KSF's presents a golden opportunity for gaining competitive advantage.

- 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.

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

Value Chain Analysis;

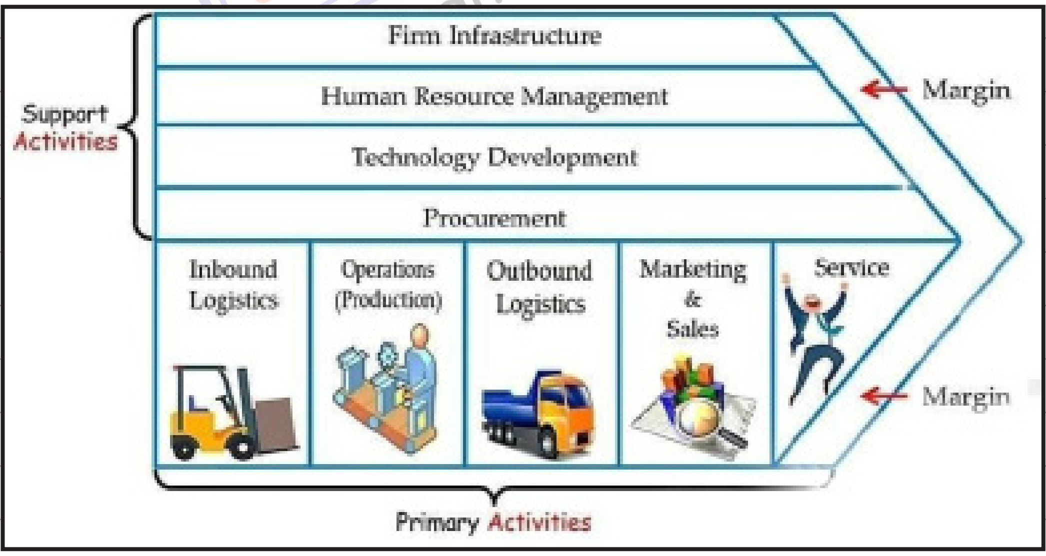
Primary Activities	Support Activities
❖ Inbound Logistics,	❖ Firm Infrastructure,
❖ Operations,	❖ HR Management,
❖ Outbound Logistics,	❖ Technology Development,
❖ Marketing & Sales, and Service	❖ Procurement.

Q.7. Explain Value chain analysis.

Value Chain Analysis;

Introduction

- A value chain IS a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market.
- Its ability to provide value- for- money products or services.
- Value chain analysis was originally introduced as an accounting analysis in order to determine where cost improvements could be made, value creation improved.
- 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.



- One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of; man (people), machines, material, and money.
- These resources are of no value unless deployed into activities and organised into systems & routines which ensure that products or services are produced which are valued by the final user.

- **Value Chain Analysis; (primary activities)**

1. Inbound logistics;

   It is concerned with receiving, storing, distributing inputs. (For E.g., Handling of raw materials, warehousing, inventor control).

2. Operations;

   It comprise the transformation of the inputs into the final product form (For E.g., Production, assembly, and packaging).

3. Outbound logistics;

   It involve the collecting, storing, and distributing the product to the buyers (For E.g., Processing of orders, warehousing of finished goods, and delivery). In the case of services, it may be more concerned with arrangements for bringing customers to the service, if it is a fixed location
   (For E.g., sports events).

4. Marketing and Sales;

   It deals with how buyers can be convinced to purchase the product.
   (For E.g., Advertising, promotion, distribution).

5. Service;

   It involves how to maintain the value of the product after it is purchased (For E.g., Installation, repair, maintenance, and training).

- **Value Chain Analysis; (support activities)**

1. **Procurement;**

   It concerned with the tasks of purchasing inputs such as raw materials, equipment, and even labour.

2. **Technology Development;**

   Technology Development - these activities are intended to improve the product and the process, can occur in many parts of the firm.

3. **Human Resources Management;**

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

J.K. SHAH ONLINE a Veranda Enterprise

4. Firm Infrastructure;

Infrastructure consists of the structures and routines of the organization which sustain its culture. It is the activities which are not specific to any activity area. It contains activities such as general management, planning, finance, and accounting are categorized under firm infrastructure.

Q.8. Management of internal linkages in the value chain could create competitive advantage in a number of ways". Briefly explain.

Managing linkages;

Introduction;

- Core competences in separate activities may provide competitive advantage for an organization, but nevertheless over time it may be imitated by rivals.
- Core competences are likely to be more strong and difficult to imitate if they relate to the management of linkages within the organization's value chain and linkages into the supply and distribution chains.
- It is the management of these linkages which provides 'leverage' and levels of performance which are difficult to match by the competitors.
- This management of internal linkages in the value chain could create competitive advantage in a number of ways:
  - ✓ There may be important linkages between the primary activities.

    For E.g., a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer.
  - ✓ Linkages between different support activities may also be the basis of core competences.

    For E.g., the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies.
  - ✓ The management of the linkages between a primary activity and a support activity may be the basis of a core competence.

    For E.g., Computer-based systems provides better infrastructure to facilitate quick sales and service especially in transport (Ola, Uber, etc ...) & hotel (Oyo, Make My Trip, etc ...) business.

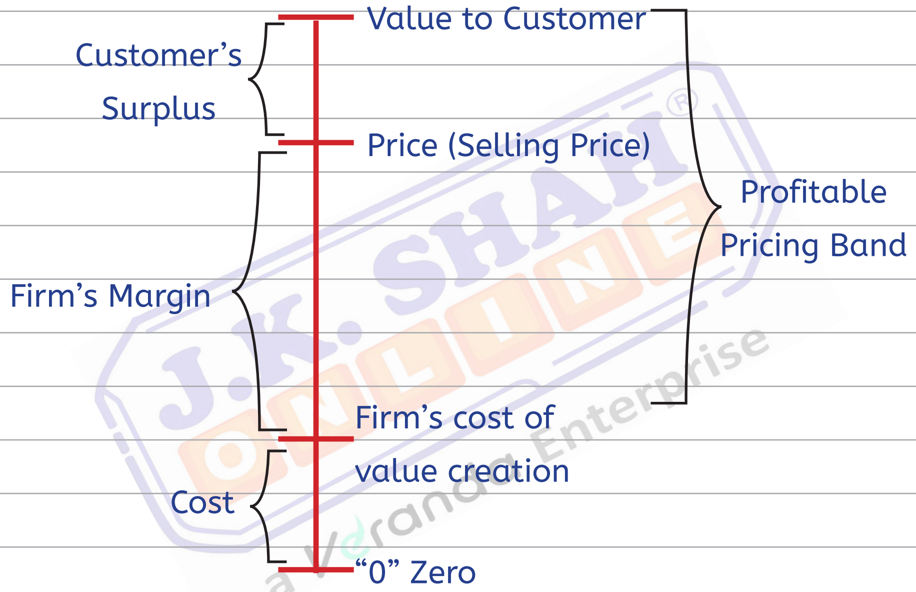
J.K. SHAH ONLINE a Veranda Enterprise

Q.8. What is Value Creation?

Value Creation

Introduction;

- The concept of value creation was introduced primarily for providing products and services to the customers with more worth.
- Value is measured by a product's; Features, Quality, Availability, Durability, Performance, by its Services for which customers are willing to pay.



- Competitive advantage leads to superior profitability. At the most basic level, how profitable a company becomes depends on three factors:
  1. The value customers place on the company's products;
  2. The price that a company charges for its products; and
  3. The costs of creating those products.
- 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.
  - ✓ Utility must be distinguished from price.
  - ✓ Utility is something that customers get from a product.

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.

Ultimately, this concept g1ves business a competitive advantage in the industry and helps them earn above average profits or returns.

Examples;

- ✓ Customer never purchase shoes, but he purchases comfort.
- ✓ Customer never purchase spectacles, but he purchases the vision.

- ✓ Customer never purchase air conditioner, but he always purchases the cooling

EXPERIENCE CURVE;

- The concept is akin (similar) to a learning curve which explains the efficiency increase gained by workers through repetitive productive work.
- Experience curve is based on the commonly observed situation that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production.
- The implication is that larger firms in an industry would tend to have lower unit costs as compared to those for smaller companies, thereby gaining a competitive cost advantage.
- The concept of experience curve is relevant for a number of areas in strategic management.
  - ✓ Considered a barrier for new firms,
  - ✓ Used to build market share,
  - ✓ Discourage competition.

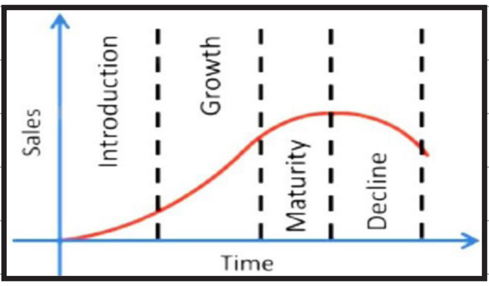
J.K. SHAH ONLINE a Veranda Enterprise

Experience Curve has following features:

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

PRODUCT LIFE CYCLE (PLC);

- PLC has to do with the life of a product in the market with respect to commercial costs & sales measures;



- PLC indicate S-shaped curve,
- Which indicate the relationship of sales with respect to time for a product that passes through the four successive stages of PLC.
- Stages of PLC;
  1. Introduction Stage, (Slow sales growth)
  2. Growth Stage, (Rapid market acceptance)
  3. Maturity Stage, & (Slowdown in growth rate)
  4. Decline Stage. (Sharp downward flow)

1. Introduction Stage;

- ✓ The growth in sales is at a lower rate because of lack of knowledge on the part of customers .
- ✓ At the introduction stage in which competition is almost negligible.
- ✓ Prices are relatively high and markets are limited.

2. Growth Stage;

- ✓ The customer has knowledge about the product and shows interest in purchasing it.
- ✓ The demand expands rapidly, market expands and Competition increases.
- ✓ Prices fall, in order to induce more customer.

3. Maturity Stage;

- ✓ In this stage, the market gets stabilised. Firm has active customer base.
- ✓ Competition gets tough and Profit comes down because of stiff competition.
- ✓ At this stage, organisations have to work for maintaining stability.

4. Decline Stage;

- ✓ 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.

J.K. SHAH ONLINE a Veranda Enterprise

The main advantage of PLC:

- ✓ It can be used to diagnose a portfolio of products (or businesses portfolio).
- ✓ Particular attention is to be paid on the businesses that are in the declining stage.
- ✓ A combination of strategies can be implemented on various SBU's.

What is globalisation?

- There are many different definitions of globalisation, but most acknowledge one is the greater movement of people, goods, capital and ideas due to increased economic integration which in turn is propelled by increased trade and investment.
- It is like moving towards living in a borderless world.
- Why do companies go global?

  There are several reasons why companies go global.
  - ✓ The first and foremost reason is need to grow.
  - ✓ It is being realised that the domestic markets are
  - ✓ no longer adequate and rich.
  - ✓ Companies often set up overseas plants to reduce high transportation costs. E.g. HYUNDAI
  - ✓ There can be varied other reasons such as need for reliable or cheaper source of raw-materials, cheap labour, etc ...
  - ✓ The rise of services to constitute the largest single sector in the world economy.
  - ✓ The trade tariffs & custom barriers are getting lowered resulting in increased flow of business.

Porter's 5 Forces Model-Competitive Analysis;

- **Introduction;**
  - 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.
  - 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.

1. **Threat of new entrants:**
   - ✓ New entrants place a limit on prices and affect the profitability of existing players.

J.K. SHAH® ONLINE a Veranda Enterprise

- ✓ The new capacity and product range the new entrants bring increases competitive pressure.
- ✓ Bigger the new entrant, the more severe the competitive effect & new entrants is considered as a powerful source of competition.

2. Threats from substitutes:

- ✓ Substitute products are a latent source of competition in an industry.
- ✓ Substitute products offering a price advantage and/or performance improvement to the consumer can have significant impact.
- ✓ For E.g., Real estate, insurance, bonds and bank deposits are clear substitutes for common stocks, because they represent alternate ways to invest funds.

3. Bargaining power of customers:

- ✓ The bargaining power of the buyers influences not only the prices that the producer can charge but also influence costs and investments of the producer .
- ✓ This force will become heavier depending on the possibilities of the buyers forming groups or cartels, particularly in case of industrial products.
- ✓ Buyers can sometimes apply considerable pressure on existing firms to secure lower prices or better services.
- ⇨ Buyers have full knowledge of the sources of products and their substitutes.
- ⇨ They spend a lot of money on the industry's products i.e. they are big buyers. They can easily switch to the substitutes available.
- ⇨ The industry's product is not perceived (i.e. realised) as critical to the buyer's needs and buyers are more concentrated than firms supplying the product.

4. Bargaining power of suppliers:

- ✓ Often suppliers can exercise considerable bargaining power.
- ✓ Suppliers can influence the profitability of an industry in a number of ways.
- ✓ The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, can affect I.A. and P.
- ✓ Suppliers can influence the profitability of an industry in a number of ways.

J.K. SHAH® ONLINE a Veranda Enterprise

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

5. **Rivalry among current players:**

- ✓ The rivalry among existing players is quite obvious.
- ✓ This is what is normally understood as competition.
- ✓ The impact is evident more at functional level in the prices being charged, advertising, and pressures on costs, product and so on.
- ✓ Rivalry among existing firms is usually the significant source of the five competitive forces .
- ✓ The more intensive the rivalry, the less attractive is the industry. Rivalry among competitors tends to be cutthroat and industry profitability low when;
  - ⇨ An industry has no clear leader.
  - ⇨ Competitors in the industry are numerous.
  - ⇨ Competitors operate with high fixed costs.
  - ⇨ Competitors face high exit barriers.
  - ⇨ Competitors have little opportunity to differentiate their offerings.
  - ⇨ The industry faces slow or diminished growth.

J.K. SHAH ONLINE a Veranda Enterprise

▸ **Steps to implementing 5 force model;**

1. Identify the specific competitive pressures associated with each of the five (5) forces,
2. Evaluate how strong the pressures comprising each of the five (5) forces are, &
3. Determine whether the collective strength of the five (5) competitive forces is beneficial to earning attractive profits.

▸ **How business can deal with the competition?**

- ✓ Competitive pressures associated with the threat of new entrants into the market.
- ✓ Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products .

- ✓ Competitive pressures stemming originate from buyer bargaining power and seller – buyer Collaboration.
- ✓ Competitive pressures originate from supplier bargaining power and supplier - seller collaboration.
- ✓ Competitive pressures associated with the market to direct and to compete for buyer betterment that goes on among rival sellers in the industry.

BARRIERS TO NEW ENTRANTS:

(a) **Capital Requirements:** The industry in which capital required is more, competition from new comers will be less and vice versa.

(b) **Economies of Scale:** A large firm that enjoys economies of scale can produce high. volumes of goods at successively lower costs. This tends to discourage new entrants.

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

(d) **Switching Costs:** When such switching costs are high, buyers are often reluctant to change.

(e) **Brand Identity:** The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer. New entrants often encounter significant difficulties in building up the brand identity, because to do so they must commit substantial resources over a long period.

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

J.K. SHAH ONLINE a Veranda Enterprise

(g) **Possibility of Aggressive Retaliation (fight back):** Sometimes the mere threat of aggressive retaliation by existing competitors can discourage entry by other firms into an existing industry.

RIVALRY AMONG COMPETITORS TENDS TO BE CUT THROAT AND INDUSTRY PROFITABILITY LOW WHEN:

(a) **No Industry Leader:** When the industry has no clear leader.

(b) **Number of Competitors:** There are many Competitors in the industry.

(c) **Fixed Costs:** Competitors operate with high Fixed Costs.

(d) **Exit Barriers:** Competitors wish to exit but they face high exit barriers.

(e) **Product Differentiation:** Competitors have little opportunity to differentiate their offerings.

(f) **Slow Growth:** Industry faces slow/ diminished growth.

J.K. SHAH ONLINE a Veranda Enterprise

CHAPTER 3

STRATEGIC ANALYSIS: INTERNAL ENVIRONMENT

J.K. SHAH ONLINE a Veranda Enterprise

❖ **Introduction**

1. Strategic Analysis is equally important when it comes to internal environment assessment. 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

2. In other words, the internal environment is specific to rise each organisation. It is based on its structure and business model and includes all stakeholders like top management, investors, employees, board of directors, tors, investors, etc.

3. Internal environment also involves understanding of the ethics, principles, work environment, employee friendliness, confidence of investors.

❖ **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. They may be the employees, shareholders, investors, suppliers, customers, regulators and so on.

2. 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.

3. 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.

4. 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.

5. Since the expectations of key stakeholders can influence the organisation's strategy, a clash of objectives may have unfavourable consequences for the organisation.

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

Mendelow 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.

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 stakeh groups based on Power (the ability to influence organisation strategy

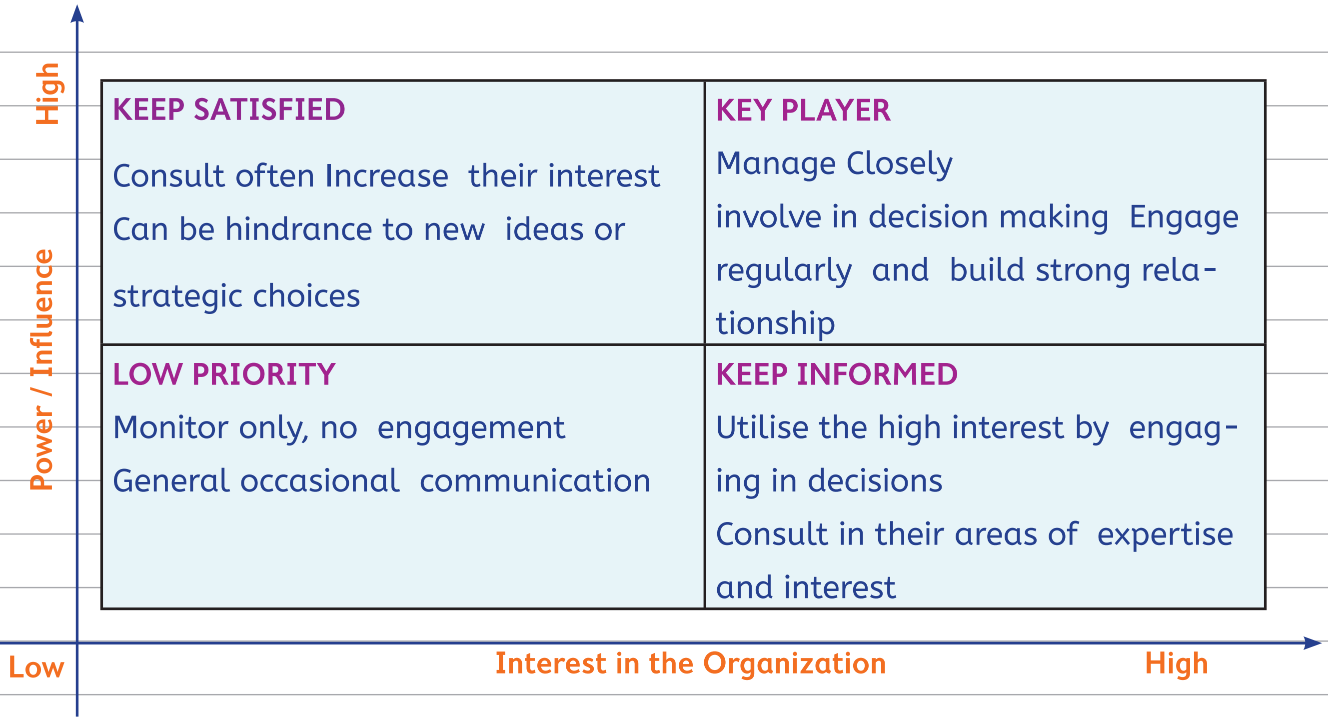
5. A thing to remember is that all stakeholders may seem to have lots of power and organisation may hope they would have lots of interest too. But in reality, some stakeholders will hold more Power than others, and some stakeholders will have more Interest than others.

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**

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

2. 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.



KEEP SATISFIED Consult often Increase their interest Can be hindrance to new ideas or strategic choices	**KEY PLAYER** Manage Closely involve in decision making Engage regularly and build strong relationship
LOW PRIORITY Monitor only, no engagement General occasional communication	**KEEP INFORMED** Utilise the high interest by engaging in decisions Consult in their areas of expertise and interest

- **KEEP SATISFIED Stakeholders:**

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

- **KEY PLAYERS Stakeholders:**

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

- **LOW PRIORITY Stakeholders:**

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

- **KEEP INFORMED Stakeholders:**

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

> 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,

- **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. 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, or purpose driven.

4. But in general, the key strategic drivers of an organisation include:
    - industry and markets
    - customers
    - products/services
    - 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.

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. The value, cost and price of items traded are as per forces of supply and demand in a market. The market may be a physical entity or may be virtual like e-commerce websites and applications. It may further be local or global, etc.

❖ Strategic Group Mapping

▸ Introduction,

1. The next step in examining the industry's competitive structure is to study the market positions of rival companies.

2. Identifying the strongest and weakest companies help understand what techniques can be implemented and which ones are to be avoided.

J.K. SHAH ONLINE a Veranda Enterprise

3. For example, Smart Phone industry has numerous options to select from. Thus, grouping them into categories based on various parameters can be really insightful and time saving.

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

5. Companies in the same strategic group can resemble one another in any of the several ways:
   - They may have comparable product-line breadth,
   - Sell in the same price or quality range,
   - Emphasize the same distribution channels,
   - Depend on identical technological approaches,
   - Offer buyers similar services and technical assistance.

6. An industry may contain only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions.

❖ TYPES OF MARKETING STRATEGIES/TECHNIQUES

1. **Social Marketing:** It refers to the design, implementation, and control of programs trying to increase the acceptability of social idea, cause, or practice among a target group.

2. **Augmented Marketing:**
   - It refers to provision of additional customer services and benefits built around the actual products, and introduction of hi-tech services etc.
   - Such innovation offerings provide benefits which promise to increase customer service to much higher levels. **Ex: Movies on demand**

3. **Direct Marketing:**
   - Marketing through various advertising media that interact directly with consumers, or generally calling for the consumer to make a direct response.
   - Direct Marketing includes Catalogue Selling, Mail Tele computing, Electronic media marketing, tele-shopping and TV Shopping.

4. Relationship Marketing:

- Process of creating, maintaining and enhancing strong, value-laden relationship (priority to long term relationship) with customers and other stakeholders.

5. Service Marketing:

- Applying the concepts, tools and techniques, of marketing to services.
- Service refers to any activity or benefit that one party can offer to another, and is essentially intangible,
- e.g. Banking, Retailing. Educational or other utilities.

6. Person Marketing:

- Activities undertaken to create, maintain or change attitudes or behaviour towards particular person.
- **For example,** politicians, sports stars, film stars etc. market themselves to get votes, or to promote their careers and income.

7. Organization Marketing:

- Activities undertaken to create, maintain, or change attitude and behaviour of target audiences towards an organization as a whole.
- Both profit and non-profit entities practice organization marketing

8. Place Marketing:

- Activities undertaken to create, maintain, or change attitudes and behavior of target audience towards particular places.
- E.g. business sites marketing, tourism marketing.

9. Enlightened Marketing:

- Marketing with a philosophy - It says Company's marketing efforts should support in the best long-run performance of the marketing system.
- Its five principles include -
  (i) customer-oriented marketing,
  (ii) innovative marketing,
  (iii) value marketing,
  (iv) sense of-mission marketing, and
  (v) societal marketing.

10. Differential Marketing:

- A market-coverage strategy in which a Firm decides, to target several market segments and designs separate offer for each segment.

11. Synchro marketing:

- When the demand for the 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 smoothen or regularize the pattern of demand through flexible pricing, promotion, and other incentives.

12. Concentrated Marketing:

- It is a market-coverage strategy, in which a Firm goes after a large share of one or few sub-markets.

13. De-marketing:

- Using marketing strategies to reduce demand temporarily or permanently.
- The aim is not to destroy demand, but only to reduce or shift it.
- De-marketing is applied to regulate demand, in case of over demand in certain cases.
- De-marketing is also applied to old product line when a new product line is launched by the company.

J.K. SHAH ONLINE a Veranda Enterprise

❖ Channels

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

2. Examples of how the following companies distribute their products and services;

   Lakme - sells its products via retail stores, intermediary stores (like Nykaa Westside, Reliance Trends), as well as online mode like amazon, flipkart, nykaa online and its own website.

   Boat Headphones - only online via e-commerce platforms like flipkart and amazon.

   Coca Cola - retail shops across the nation, in each district, each town as well as online mode via dunzo, blinkit, etc.

3. 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.

❖ **The sales channel:**

- These are the intermediaries involved in selling the product through each channel and ultimately to the end user.

- **For example,** many fashion designers use agencies to sell their products to retail organisations, so that consumers can access them.

❖ **The product channel:**

- The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user.

❖ **The service channel:**

- The service channel 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.

> *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.*

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.

J.K. SHAH ONLINE a Veranda Enterprise

Thus, channels, the partners in growth, play a crucial role in internal strategic alignment.

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?

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.

❖ Core Competence;

Introduction;

- Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals.

- An organization's combination of technological & managerial know-how, wisdom & experience are a complex set of capabilities & resources that can lead to a competitive advantage compared to a competitor.

- The optimal way to define core competence is to consider it as sum of 5 - 15 areas of developed expertise.

- Competency is defined as a;
  "Combination of Skills and Techniques **rather than** individual skill or separate technique."

- C.K. Prahalad and Gary Hamel have advocated a concept of core competency.

- Core Competency is defined as a; "the collective learning in the organization, especially coordinating diverse production skills & integrating multiple streams of technologies."

- Therefore, core competencies cannot be built on one capability or single technological know-how, instead, it has to be the integration of many resources.

J.K. SHAH ONLINE a Veranda Enterprise

Q.1. Explain core competencies and major areas in which core competencies are identified?

❖ Core Competence;

According to C.K. Prahalad and Gary Hamel,

Major core competencies are identified in three (3) areas;

1. Competitor differentiation, - unique & it is difficult to follow.

2. Customer value, and - when provide fundamental benefits. 3] Application to other markets. (i.e. apply same set of competencies within the organisation.)

❖ Core Competence; (Major areas)

1] **Competitor Differentiation;**

The company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate (i.e. Copy or Follow).

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.

2] **Customer Value;**

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

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

3] **Application to other markets; (i.e. apply same set of competencies within the organisation.)**

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

J.K. SHAH ONLINE a Veranda Enterprise

Examples;

Hindustan Unilever Limited (HUL)

Marketing and Sales is a core competence.

Wal-Mart **Walmart**

Focused on lowering its operating costs.

Refer /CAI study material {2.16}

Q.2. Explain core competencies and how to build core competencies?

- **Core Competence;**

  According to C.K. Prahalad and Gary Hamel,

  How to build Core Competencies;

  1] Valuable, - allow firm to face external environment.
  2] Rare, - CC is it self very rare capabilities.
  3] Costly to Imitate (copy or follow), &
  4] Non - Substitutable. - When firm do not have strategic equivalents.

- **Core Competence; (How to build)**

  1] Valuable;

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

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

  2] Rare;

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

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

J.K. SHAH® ONLINE a Veranda Enterprise

3] **Costly to Imitate (copy or follow);**

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

intel

Refer /CAI study material {2.18}

4] **Non- Substitutable;**

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

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

Refer /CAI study material {2.19}

J.K. SHAH ONLINE a Veranda Enterprise

Q.3. Explain core competencies and criteria of core competencies?

❖ **Core Competence; (criteria)**

A Core competency fulfils three criteria;

1. It should provide potential access to a wide variety of markets.
2. It should make a significant contribution to see customer benefits of the end product.
3. It should be difficult to imitate for competitors i.e. rivals.

Q.4. Explain core competencies and test of core competencies?

❖ **Core Competence; (test)**

A core competence is identified by the following tests;

→ **Leverage Test :** Does it provide potential access to a wide variety of markets?

→ **Value Enhancement Test :** Does it make a significant contribution to see customer benefits of the end product?

→ **Imitability Test :** Can it be imitated? Does it reduce the threat of imitation by competitors?

Q.5. Explain core competencies and advantages of identifying core competencies.

❖ **Core Competence; (Advantages)**

Advantages of identifying core competencies;

→ Provide competitive advantage,

→ Ensure profits,

→ Helps firm stretches into new opportunities,

→ Help in maintaining progress, etc. ..

❖ **Core Competency of Big retails stores:**

→ Lower prices,

→ Securing low cost supplies,

→ Managing in - store activities more efficiently,

→ Computerized stock - ordering systems,

→ Own/ brand labels, etc ...

J.K. SHAH ONLINE a Veranda Enterprise

Q.6. Explain competitive advantage and its major characteristics.

❖ **Competitive Advantage;**

Introduction;

Competitive advantage allows a firm to gain an edge over rivals when competing.

Companies, achieving superior performance relative to rivals is the ultimate challenge. If a company's strategies result in superior performance, it is said to have a competitive advantage.

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

Benefits of competitive advantage;

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

- Competitive advantage is ability to offer buyers something different and thereby providing more value for the money.

- It is achieved advantage over rivals when a company's profitability is greater than average profitability of firms in its industry.

- This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry.
  - **(a) Durability;**

    The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate.
  - **(b) Transferability;**

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

    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.
  - **(d) Appropriability;**

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

J.K. SHAH ONLINE a Veranda Enterprise

❖ SWOT Analysis;

Introduction;

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

For the generation of a series of strategic alternatives or choices, it is necessary to analyse the firm's internal strengths & weaknesses and its external opportunities & threats.

The major purpose of SWOT analysis is to enable the management to create a firm - specific business model that will best fit with organisational resources and capabilities to the demands of the environment in which it operates.

Strength	Weakness
Opportunity	Threat

J.K. SHAH® ONLINE a Veranda Enterprise

- **Strength:**

  Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors .

- **Weakness:**

  A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

- **Opportunity:**

  An opportunity is a favourable condition In the organisation's environment which enables it to strengthen its position .

- **Threat:**

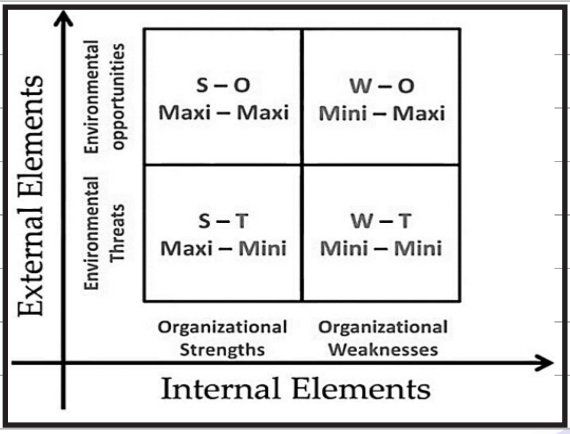
  A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

- **The significance of SWOT analysis;**
  - It provides a logical framework of analysis .
  - It guides the strategist in strategy identification .
  - It presents a comparative account.
  - SWOT analysis helps managers to craft a business model that will allow a company to gain a competitive advantage in its industry.

❖ **TOWS Matrix;**

TOWS matrix IS an action tool whereas SWOT analysis is a planning tool. Thus TOWS matrix has a wider scope when compared to SWOT analysis.

The TOWS Matrix is tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.



- **SO (Maxi - Maxi): Aggressive Strategy**

  SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities.

  Such firms can take lead from their strengths and utilize the resources to build up the competitive advantage.

- **ST (Maxi - Mini): Conservative Strategy**

  ST is a position in which a firm attempt to minimize existing or emerging threats through its strengths.

- **WO (Mini - Maxi): Competitive Strategy**

  The firm needs to overcome internal weaknesses and make attempts to exploit opportunities to maximum.

- **WT (Mini - Mini): Defensive Strategy**

  WT is a position that any firm will try to avoid. A firm facing external threats and internal weaknesses may have to struggle for its survival.

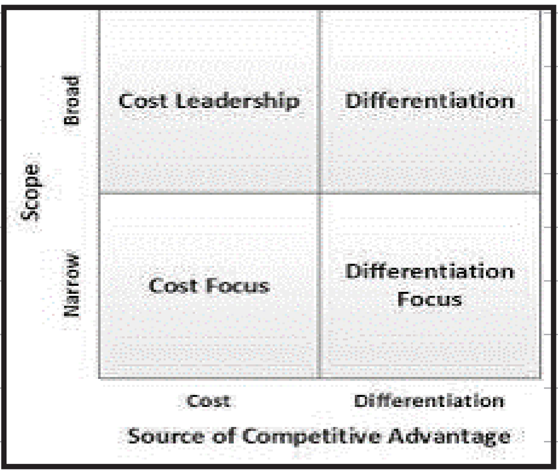
  WT strategy is a strategy which IS pursued to minimize or overcome weaknesses and as far as possible, cope with existing or emerging threats.

J.K. SHAH® ONLINE a Veranda Enterprise

❖ Michael Porter's Generic Strategies;

▸ Introduction

According to Porter, strategies allow organizations to gain competitive advantage from the different bases: Focus, Differentiation, and Cost leadership Porter called these base generic strategies.



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

- The company makes use of its core competencies to develop and expand its strategies or competitive advantage.
- The purpose of business level strategies is to enhance competitive advantage through effective use of these resources, skills and synergies.
- Customers are the foundation of an organization's business- level strategies. Who will be served, what needs have to be met, and how those needs will be satisfied are determined by the senior management. Business level strategies are concerned with:
  (a) Positioning the business against competitors.
  (b) Anticipating changes in demand and other factors and adjusting to provide for them.
  (c) Influencing the nature of competition through strategic action.
  (d) Meeting the needs of key customers.
  (e) Achieving advantage over competitors.
  (f) Avoiding competitive disadvantage.

J.K. SHAH® ONLINE a Veranda Enterprise

❖ Michael Porter's Generic strategies

- According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus.
- These strategies have been termed generic because they can be pursued by any type or size of business firm and even by not-for-profit organisations.

❖ Cost Leadership Strategies

- Cost leadership strategies means offering a product / service of the same quality at a lower per unit price than the rival firms in the same broad target market.
- 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.
- Because of its lower costs, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits.

❖ Achieving Cost Leadership Strategy:

Following are the actions that could be taken:

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

(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.

J.K. SHAH ONLINE a Veranda Enterprise

❖ Advantages of Cost Leadership Strategies

(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 and enjoy larger market share.

(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) **Entry barriers for the new 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.

❖ 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** changes are a great threat to the cost leader.

❖ Differentiation Strategy

- This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique.

- The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Hence the business can charge a premium for its product.

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

- Successful differentiation can mean greater product flexibility, greater compatibility, lower costs, improved service, less maintenance, greater convenience, or more features.

❖ Basis of Differentiation

- **Product:** Innovative products that meet customer needs can be an area where a company has an advantage over competitors.

- **Pricing:** Companies that differentiate based on product price can either determine to offer the lowest price, or can attempt to establish superiority through higher prices.

- **Organisation:** Maximizing the power of a brand, or using the specific advantages that an organization possesses can be instrumental to a company's success.

❖ Achieving Differentiation Strategy

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

(b) Elevate 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.

J.K. SHAH ONLINE a Veranda Enterprise

❖ Advantages of Differentiation Strategy

(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.

(c) Differentiation fails to work if its basis is something that is not valued by the customers.

❖ Focus Strategies

- Focus strategy is based upon selecting a segment or a group of segments of the market and then focusing on serving their needs and wants. The essence of focus strategy is the exploitation of particular market to the maximum.

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

- 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.

- Focus strategies are further classified in to Focused Cost leadership Strategy and Focused differentiation Strategy.

❖ Focused cost leadership:

- A focused cost leadership strategy emphasizes on low overall costs while serving the narrow market.

- A focused cost leader creates his own niche in the given market and focuses on value creation for his customers.

- A firm that follows this strategy does not necessarily charge the lowest prices in the industry. Instead, it charges low prices relative to other firms that compete within the target market.

J.K. SHAH ONLINE a Veranda Enterprise

❖ Focused differentiation:

- A focussed differentiation strategy requires offering unique features that fulfil the demands of a narrow market.

- Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.

❖ Achieving Focused Strategy

(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.

J.K. SHAH ONLINE a Veranda Enterprise

❖ 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.

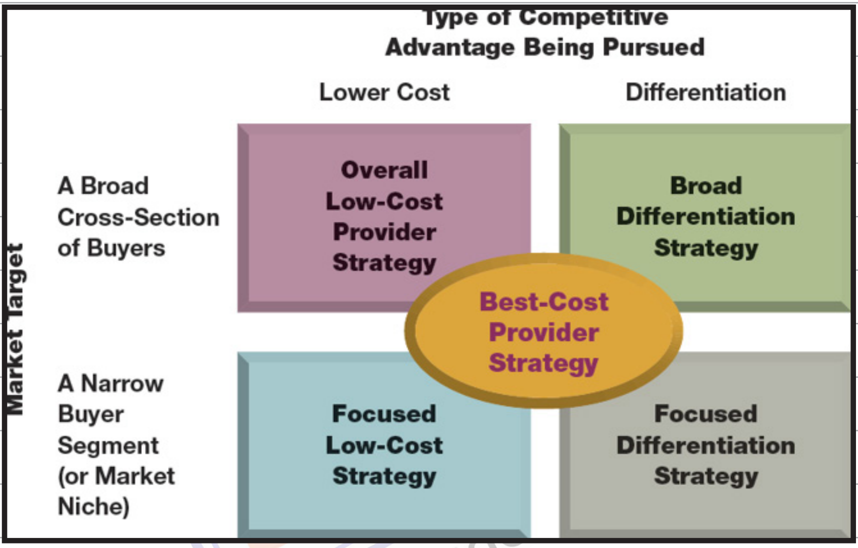
(c) In long run, the niche could disappear or be taken over by larger competitors

❖ Best-Cost Provider Strategy

- The new model of best cost provider strategy is a further development of above three generic strategies.

- It is directed towards giving customers more value for the money by emphasizing both low cost and upscale differences.

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



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

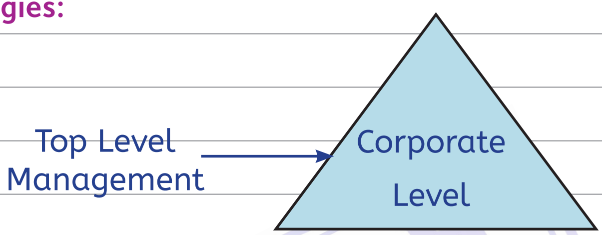
(a) through offering products at lower price than what is being offered by rivals for products with comparable quality and features or

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

CHAPTER 4

STRATEGIC CHOICES

❖ Corporate Level Strategies:



Top management of the organisation makes strategic decisions.

J.K. SHAH ONLINE a Veranda Enterprise

❖ For concept clarity

- **Stages of BLC;**
  1. Introduction Stage, (Market Penetration Strategy)
  2. Growth Stage, (Growth, Expansion Strategy)
  3. Maturity Stage, & (Stability Strategy)
  4. Decline Stage. (Retrenchment Strategy)

- **Strategic approach;**

Competitive Strategies	Collaboration Strategies
• Focus,	• Joint Venture,
• Differentiation, &	• Strategic Alliance,
• Cost Leadership.	• M&A.

* It may be noted that there is no water tight compartmentation between different typologies (i.e. strategies to be opt).

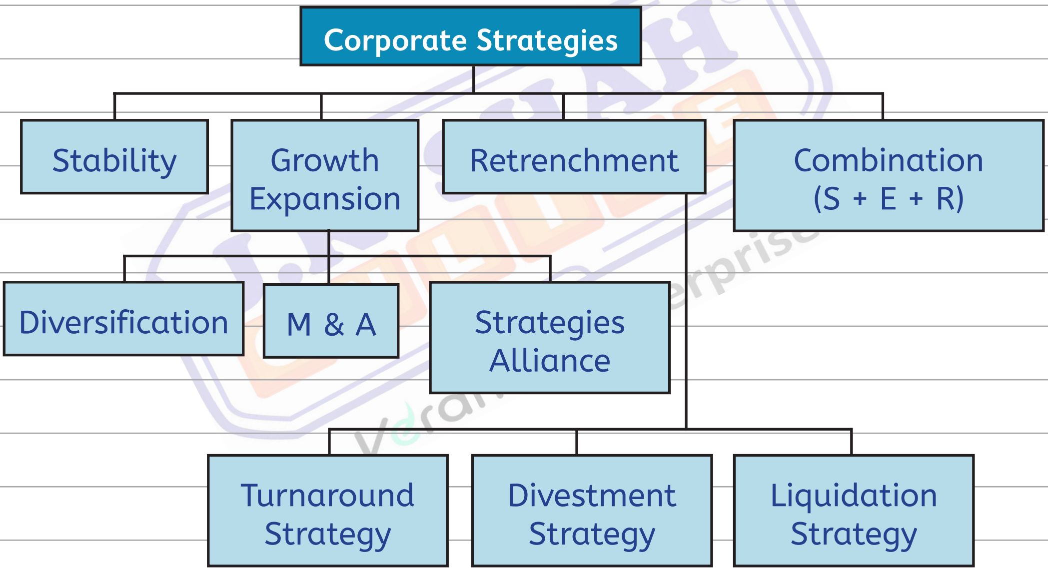
❖ Typologies of Strategies;

- Businesses follow different types of strategies; to enter the market, to stay and grow in the market.
- A large number of strategies with different nomenclatures (i.e. combination) have been employed by different businesses and also suggested by different authors on strategy.

- William F Glueck and Lawrence R Jauch discussed four generic strategies including;
  - Stability,
  - Expansion (Growth),
  - Retrenchment and
  - Combination.

- These strategies have also been called Grand Strategies, Directional Strategies & Corporate by many other authors.

❖ Overview of Corporate Strategies



PART A

❖ Stability Strategy;

- **Introduction;**
  - One of the important goals of a business enterprise is stability to safeguard its existing interests.
  - The strategic decisions focus on incremental improvement of functional performance.
  - Stability strategy is not a 'do nothing' strategy. (Not a "do nothing strategy", but "a do nothing new strategy")
  - It involves keeping track of new developments to ensure that the strategy continues to make sense.

- This strategy is typical for those firms whose product have reached the maturity stage of product life cycle.
- 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 firm opting for stability strategy stays with the same business, same product - market.
  - ✓ Maintaining same level of effort as at present.
  - ✓ Stability strategy does not involve a redefinition of the business of the corporation.
  - ✓ It is basically a safety-oriented, status quo (existing state of affairs) oriented strategy.
  - ✓ It does not warrant much of fresh investments.
  - ✓ It involves minor improvements in the product and its packaging.
  - ✓ The risk is also less.

- Major Reasons for Stability Strategy;
  - ✓ A product has reached the maturity stage of the product life cycle.
  - ✓ It is less risky as it involves less changes and the staff feels comfortable with things as they are.
  - ✓ The environment faced is relatively stable.
  - ✓ Expansion seems to be threatening.

PART B

❖ Growth (Expansion) Strategy;

Introduction;

- Growth, Expansion strategy is implemented by redefining the business by enlarging the scope of business and substantially increasing investment in the business.
- Expansion also includes diversifying, acquiring and merging businesses.
- This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

J.K. SHAH ONLINE a Veranda Enterprise

- Characteristics of Growth (Expansion) Strategy;
    - ✓ Expansion strategy involves a redefinition of the business of the corporation.
    - ✓ Expansion strategy is the opposite of stability strategy.
    - ✓ Expansion strategy leads to business growth.
    - ✓ Expansion strategy is a highly versatile strategy.
    - ✓ 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.
    - ✓ Expansion strategy holds within its fold two major strategy routes:
        - ⇨ Intensification,
        - ⇨ Diversification.

- Major Reasons for Growth (Expansion) Strategy;
    - ✓ When environment demands increase in pace of activity.
    - ✓ Expansion may lead to greater control over the market vis-a-vis (w.r.t.) competitors.
    - ✓ Advantages from the experience curve and scale of operations may accrue.

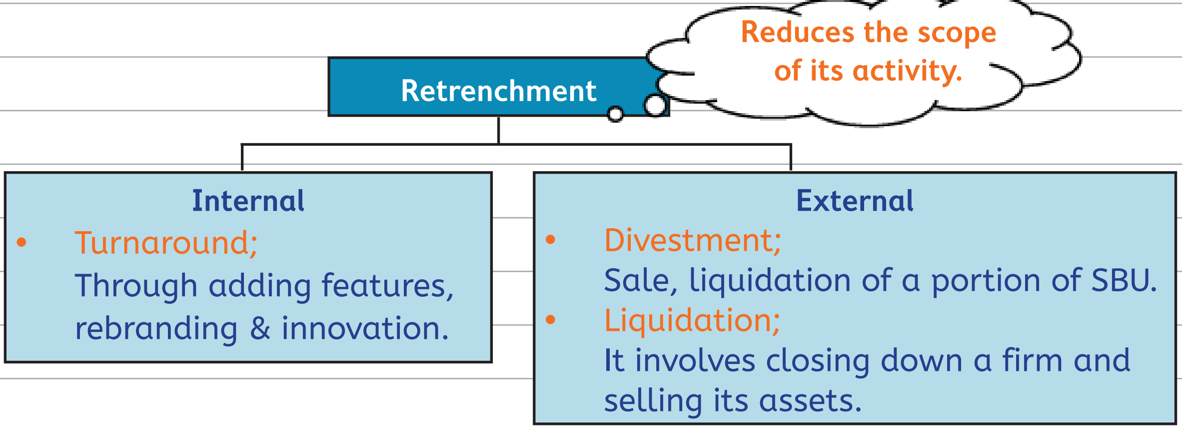
J.K. SHAH® ONLINE a Veranda Enterprise

PART C

❖ Retrenchment Strategy;

Introduction;

- It is followed when an organization substantially reduces the scope of its activity.
    - ✓ This is done through an attempt to find out the problem areas and diagnose the causes of the problems.
    - ✓ Next, steps are taken to solve the problems.
    - ✓ These steps result in different kinds of retrenchment strategies.



Reduces the scope of its activity.

Retrenchment

Internal
- Turnaround;
  Through adding features, rebranding & innovation.

External
- Divestment;
  Sale, liquidation of a portion of SBU.
- Liquidation;
  It involves closing down a firm and selling its assets.

- If the organization chooses to focus on ways an means to reverse the process of decline, it adopts at turnaround strategy.

- If it cuts off the loss - making units, divisions, SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment strategy.

- If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

- Characteristics of Retrenchment Strategy;
  - ✓ Obsolescence of product, process.
  - ✓ Business becoming unprofitable.
  - ✓ Inability to cope up with cut throat competition.
  - ✓ Industry overcapacity.
  - ✓ Failure of existing strategy, etc ...

- Major Reasons for Retrenchment Strategy;
  - ✓ Constant negative cash flow from business(es).
  - ✓ A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
  - ✓ Technological up-gradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
  - ✓ A better alternative may be available for investment.

PART D

❖ Combination Strategy;

Introduction;

- The above strategies (i.e. Stability, Growth, Retrenchment) are not mutually exclusive.
- It is possible to adopt a mix of the above to suit particular situations.
- An enterprise may attempt stability in some areas of activity, expansion in some and retrenchment in the others.

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

❖ Growth & Expansion Strategy

▸ Overview of Growth Strategies-

1. Diversification,
   - (a) Intensification,
   - (b) Diversification.
2. M&A,
3. Strategic Alliance.

1.(a) Expansion through Intensification;

Introduction;

- An internal growth strategy involves re-defining of business definition by substantially scaling the level of operations through internal development and not taking help of other corporations or businesses.
- Market penetration, market development & product development are emphasised to develop new products, enter new markets & adding new technology.

J.K. SHAH ONLINE a Veranda Enterprise

Strategies for intensification;

- Market Penetration,
- Market Development,
- Product Development.

1. Market Penetration;

Highly common expansion strategy is market penetration/ concentration on the current business. The firm directs its resources to the profitable growth of its existing product in the existing market.

2. Market Development;

It consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising o the promotional media.

3. Product Development;

Product development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through establish channels.

1.(b) Expansion through Diversification;

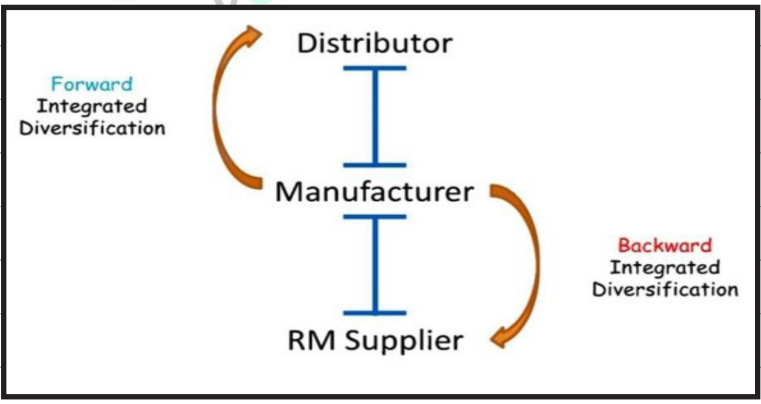
Introduction;

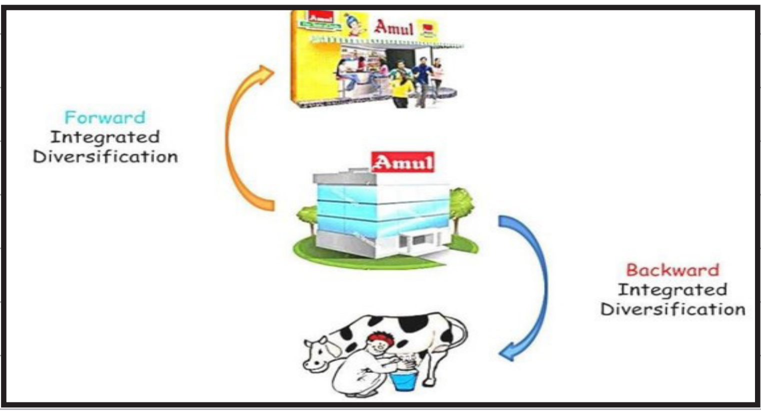
Innovative and creative firms always look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship. They feel that diversification offers greater prospects of growth and profitability than expansion.

Another reason for diversification lies In its synergistic advantage.

Diversification can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversifications have been classified into four broad categories:

- Vertically integrated diversification,
- Horizontally integrated diversification,
- Concentric diversification, &
- Conglomerate diversification.
- Vertically integrated diversification;





J.K. SHAH ONLINE Veranda Enterprise

- In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm.

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

- The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain.
  Further classified as;
  - ✓ Backward Integration,
  - ✓ Forward Integration

J.K. SHAH® ONLINE a Veranda Enterprise

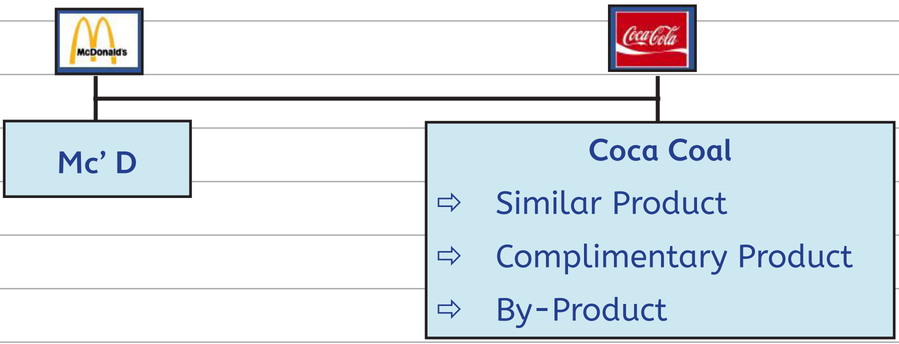
Backward Integration;

- It is a step towards, creation of effective supply by entering business of input providers.
- Strategy employed to expand profits and gain greater control over production of a product.
- Whereby a company will purchase or build a business that will increase its own supply capability or reduce its cost of production.

Forward Integration;

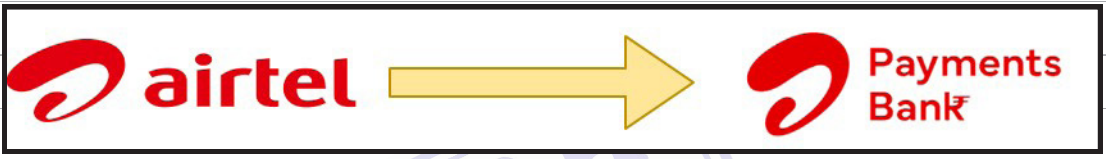
- It is moving forward in the value chain and entering business lines that use existing products.
- Forward integration will also take place where organizations enter into businesses of distribution channels.

Horizontally integrated diversification;



- It is a type of integration strategies pursued by a company in order to strengthen its position in the industry.
- A corporate that implements this type of strategy usually collaborate with another company that is in the same production stage.
- Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.

- Concentric diversification;



New business is linked to;

- Process,
- Technology, or
- Marketing.

J.K. SHAH ONLINE a Veranda Enterprise

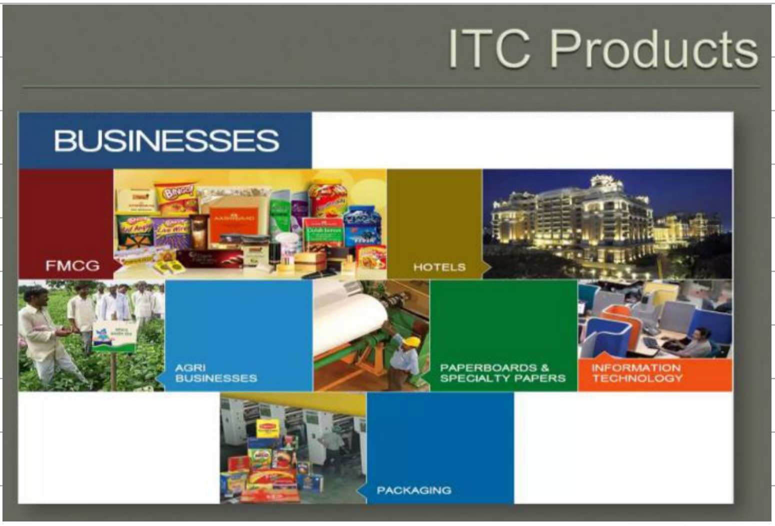
- Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing.

  However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones.

- 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.

  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.

- Conglomerate diversification;



- Conglomerate diversification is growth strategy that involves adding new products or services that are significantly different from the organization's present products or services.

- Conglomerate diversification occurs when the firm diversifies into an area(s) totally unrelated to the organization current business.

- In process/technology /function, there is no connection between the new products and the existing ones.

- Conglomerate diversification has no common thread at all with the firm's present position.

J.K. SHAH ONLINE a Veranda Enterprise

Related vs. Unrelated Diversification

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

- **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;
  - ✓ **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.
  - ✓ **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, MSExcel, 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.
  - ✓ **Gives Competitive Advantage:** Being ahead of competition is a need, and businesses spend majority of their strategic time building solutions to achieve this advantage. An interesting concept about innovation is the faster a business innovates, the farther it goes from its competitor's reach. Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage. Innovation not only helps retain the existing customers but helps acquire new ones with ease.

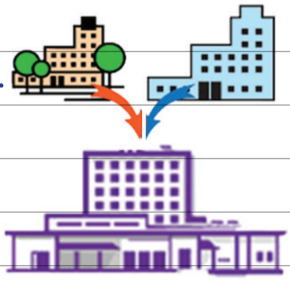
2. Expansion through M&A;

Introduction;

- Acquisition or merger with an existing concern is an instant means of achieving the expansion.
- Organizations consider M&A proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.
- M&A in simple words are defined as a process of combining two or more organizations together.
- There is a thin line of difference between the two three (3) terms but the impact of combination is completely different in all the cases.
- Some organizations prefer to grow through,
  - ✓ Mergers,
  - ✓ Acquisition &
  - ✓ Takeover.

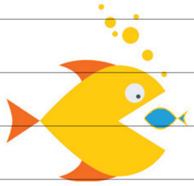
J.K. SHAH ONLINE a Veranda Enterprise

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



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

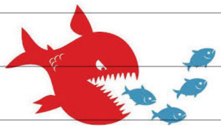
For Instance, Formation of **Brook Bond Lipton India Ltd.** through the **merger of Brook Bond** and **Lipton India.**



Acquisition, when one organization takes over the other organization and controls all its business operations, it is known as acquisitions.

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

For Instance, WalMart acquired Flipkart of India.



Takeover, 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 a weaker position is forced to sell its entity.

For Instance, in 2000, **Tata Tea** took over Tetley Tea.

- **Types of M & A**
  - ✓ Horizontal Merger,
  - ✓ Vertical Merger,
  - ✓ Co-generic Merger, &
  - ✓ Conglomerate Merger.
- **Horizontal Merger;**

  The types of mergers are similar to types of diversification.

  Horizontal merger is a combination of firms engaged in the same industry. It is a merger with a direct competitor.
- For E.g., formation of Brook Bond Lipton India Ltd. through the merger of Brook Bond and Lipton India.

- **Horizontal Merger;**

  The types of mergers are similar to types of diversification. Horizontal merger is a combination of firms engaged in the same industry. It is a merger with a direct competitor. For E.g., formation of Brook Bond Lipton India Ltd. through the merger of Brook Bond and Lipton India.

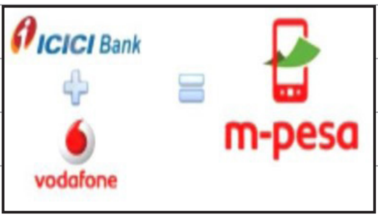
- **Vertical Merger;**
  - ✓ It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms.

- ✓ If an organization takes over its supplier/producers of raw material, then it leads to backward integration.
- ✓ On the other hand, forward integration happens when an organization decides to take over its buyer organizations or distribution channels.
- ✓ For E.g., Disney acquired Pixar in 2006.

- **Co-generic Merger;**
  - ✓ In Co-generic merger two or more merging organizations are associated in some way or the other related to the production processes, business markets, or basic required technologies.
  - ✓ Such merger includes the extension of the product line or acquiring components that are required in the daily operations.
  - ✓ It offers great opportunities to businesses to diversify around a common set of resources and strategic requirements.
  - ✓ For E.g., 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 merger is the combination of firm's operating in different industries".
  - ✓ Conglomerate mergers can serve various purposes, including extending corporate portfolio and extending a product range.
  - ✓ Conglomerate mergers are the combination of organizations that are unrelated to each other.
  - ✓ There are no linkages with respect to customer groups, customer functions and technologies being used.
  - ✓ There are no important common factors between the organizations in production, marketing, research and development and technology.
  - ✓ For E.g., Cement co. acquired IT co.

3. Expansion through Strategic Alliance;



Introduction;

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

- Advantages of Strategic Alliance;
  - ✓ Organizational,
  - ✓ Economic,
  - ✓ Strategic,
  - ✓ Political.

Advantages of Strategic Alliance;

Organizational,

- Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners.
- Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain.
- Strategic partners may provide a goods or service that complements thereby creating a synergy.

- **Economic,**
  - There can be reduction in costs and risks by distributing them across the members of the alliance.
  - Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline.
  - Partners can take advantage of co-specialization.
  - * Refer example given in ICAI module.

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

- **Political,**
  - Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of legal barriers to entry.
  - Forming strategic alliances with politically influential partners may also help improve your own influence and position.

J.K. SHAH ONLINE a Veranda Enterprise

Disadvantages of Strategic Alliance;

- The major disadvantage is sharing.
- Strategic alliances may also create a potential competitor.
- The major disadvantage is sharing,
  - Strategic alliances require sharing of resources & profits and also sharing knowledge & skills that otherwise organisations may not like to share.
  - Sharing knowledge and skills can be problematic if they involve trade secrets.
  - Agreements can be executed to protect trade secrets, but they are only as good as the willingness of parties to abide by the agreements or the courts willingness to enforce them.
- Strategic alliances may also create a potential competitor, An ally (group) may become a competitor in future when it decides to separate out.

Retrenchment Strategy

Overview of Retrenchment Strategies

1. Turnaround Strategy,
2. Divestment Strategy, &
3. Liquidation Strategy.

1. Retnt through Turnaround;

Introduction;

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

1. Retnt through Turnaround; May 2020 MTP

- Major Reasons for Turnaround Strategy;
  - ✓ Turnaround is needed when an enterprise's performance decline.
  - ✓ It is used when both threats and weaknesses adversely affect the organization.
  - ✓ To overcome internal constraints and unfavourable industry characteristics.
- The important elements of turnaround strategy are as follows:
  - ✓ Identifying quick payoff activities,
  - ✓ Revenue generation,
  - ✓ Quick cost reductions,
  - ✓ Neutralising external pressures,
  - ✓ Asset liquidation for generating cash,
  - ✓ Better internal coordination,
  - ✓ Changes in the top management.

- Action Plan for Turnaround;
  1. Assessment of current problems,
  2. Analyze the situation and develop a strategic plan,
  3. Implementing an emergency action plan,
  4. Restructuring the business, &
  5. Returning to normal.

2. Retnt through Divestment;

Introduction;

- Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU.
- Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.
- The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

J.K. SHAH ONLINE a Veranda Enterprise

3. Retnt through Liquidation;

Introduction;

- A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities, etc ...
- Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition.
- For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business.

ADL Matrix;

Introduction;

- The ADL matrix (derived its name from Arthur D. Little) is a portfolio analysis technique that is based on product life cycle.
- ADL Matrix is a 2 dimensional matrix.
  - ✓ X Axis it represent life cycle of the Industry .
  - ✓ Y Axis it represent competitive position of the firm.

✓ X Axis it represent life cycle of the Industry.

  ⇨ Environmental assessment

✓ Y Axis it represent competitive position of the firm.

  ⇨ Business strength assessment Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions.

- Stages of industry maturity;

There are four categories of ILC:

1. Embryonic (Introduction) Stage
2. Growth Stage
3. Maturity Stage
4. Ageing (Decline) Stage

- Competitive Position;

Arthur D. Little formulated five categories for the competitive position within the ADL matrix:

1. Dominant,
2. Strong,
3. Favourable,
4. Tenable, &
5. Weak.

J.K. SHAH ONLINE a Veranda Enterprise

- Competitive position of a firm;

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

2. Strong: By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.

3. Favourable: This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

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

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

- Limitations of ADL Matrix;
  - ✓ There is no standard life cycle length.
  - ✓ Determining the current industry life cycle phase is difficult.
  - ✓ Competitors may influence the length of the life cycle.

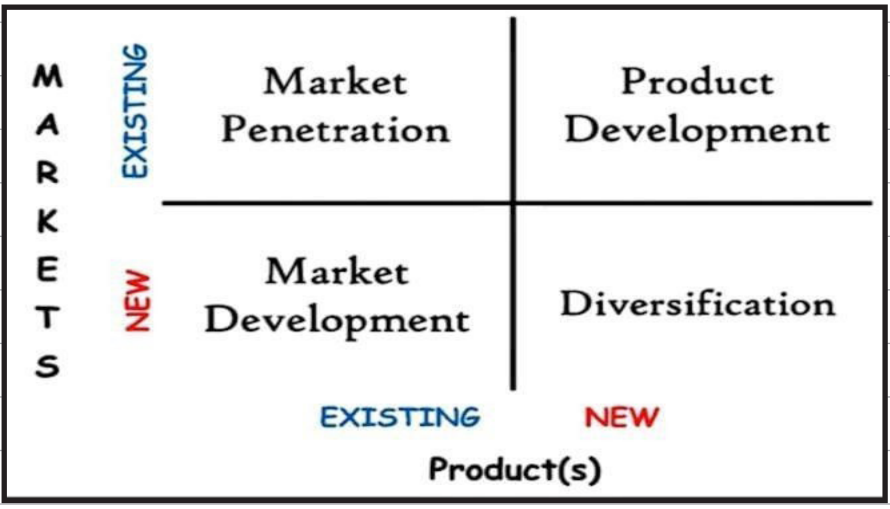
- Igor ANSOFF'S Product Market Growth Matrix;

Introduction;

- ✓ The Igor Ansoff Growth matrix is a tool that helps businesses decides their product and market growth strategy.
- ✓ Ansoff's product, market growth matrix suggests that a business' attempts to grow depend on whether it offer new or existing products in new or existing markets.

J.K. SHAH ONLINE a Veranda Enterprise

Igor ANSOFF'S Product Market Growth Matrix;



MARKETS		Product(s) EXISTING	Product(s) NEW
	EXISTING	Market Penetration	Product Development
	NEW	Market Development	Diversification

- Market Penetration:
  - ✓ Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets.

- ✓ It is achieved by making more sales to present customers without changing products in any major way.
- ✓ Penetration might require greater spending on advertising or personal selling.
- ✓ Risk involved in this strategy is less as compared to other strategies.
- ✓ Market development refers to a growth strategy where the business attempts to sell its existing products into new markets.
- ✓ It is a strategy for company growth by identifying and developing new markets for current company products.

- Market Development :
  - ✓ This strategy may be achieved through new geographical markets.
  - ✓ Risk involved in this strategy is moderate as compared to other strategies.

- Product Development:
  - ✓ Product development refers to a growth strategy where business aims to introduce new products into existing markets.
  - ✓ It is a strategy for company growth by offering modified or new products to current markets.
  - ✓ Risk involved in this strategy is moderate as compared to other strategies.

- Diversification:
  - ✓ Diversification refers to a growth strategy where a business markets new products in new markets.
  - ✓ It is a strategy by starting up or acquiring businesses outside the company's current products and markets.
  - ✓ Typically, the business is moving into markets in which it has little or no experience.
  - ✓ Risk involved in this strategy is high as compared to other strategies.

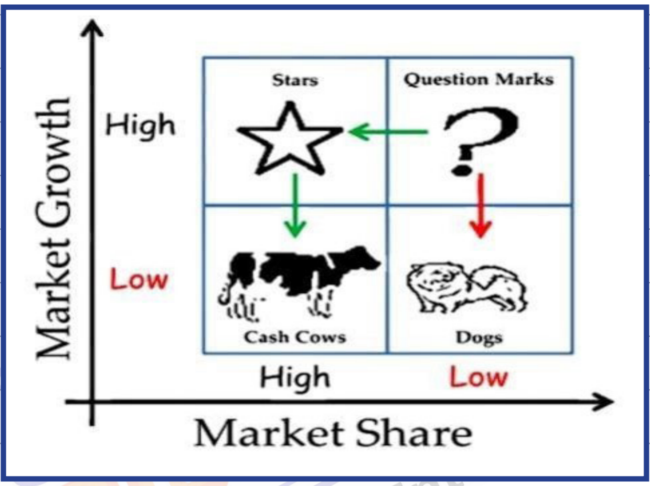
❖ BCG Growth Share Matrix;

Introduction;

- The BCG Growth-Share Matrix is a portfolio planning model developed by Bruce Henderson of the Boston Consulting Group in the early 1970's. Growth share matrix also known for its cow and dog metaphors (concept) is popularly used for resource allocation in a diversified company.

- Using the BCG approach, a company classifies its different businesses on a two-dimensional growth - share matrix.
  - ✓ X Axis it represent Market Growth Rate and provides a measure of market attractiveness.
  - ✓ Y Axis it represent Market Share and serves as a measure of company strength in the market.

BCG Growth Share Matrix;



- The four strategies that can be pursued are;
  - ✓ Build; Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.
  - ✓ Hold; Here the objective is to preserve market share. In other words, here the company invests just enough to keep the SBU in its present position.
  - ✓ Harvest; Here the objective is to increase short-term cash flow regardless of long-term effect.
  - ✓ Divest; Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

- Limitations of BCG Matrix;
  - ✓ It neglects the effects of synergy between business units.
  - ✓ Market growth is not the only indicator for attractiveness of a market.
  - ✓ High market share is not the only success factor.
  - ✓ A high market share does not necessarily lead to profitability all the time.

- ✓ A business with a low market share can be profitable too.
- ✓ The model neglects small competitors that have fast growing market shares.

❖ General Electric Matrix;

Introduction;

- This model has been used by General Electric Company (developed by GE with the assistance of the consulting firm McKinsey & Company).
- This model is also known as Business Planning Matrix. GE Nine- Cell Matrix and GE Model.
- The strategic planning approach in this model has been inspired from traffic control lights.

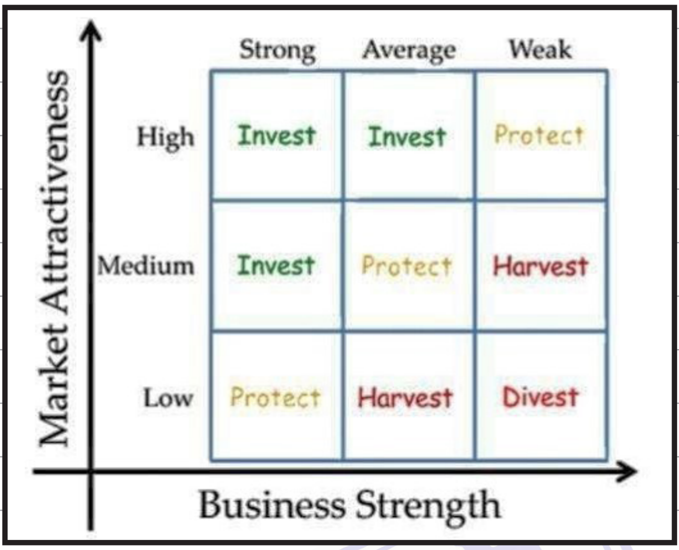
- GE Matrix is a 2 dimensional matrix.
  - ✓ X Axis it represent Business Strength.
  - ✓ Y Axis it represent Market Attractiveness.

- Factors of Business strength.
  - ✓ Market share,
  - ✓ Market share growth rate,
  - ✓ Profit margin,
  - ✓ Distribution efficiency,
  - ✓ Brand image,
  - ✓ Customer loyalty, etc ...

- Factors of Market attractiveness.
  - ✓ Size of the market,
  - ✓ Market growth rate,
  - ✓ Industry profitability,
  - ✓ Competitive intensity,
  - ✓ Availability of Technology,
  - ✓ Pricing trends, etc ...

J.K. SHAH ONLINE a Veranda Enterprise

General Electric Matrix;



Market Attractiveness	Strong	Average	Weak
High	Invest	Invest	Protect
Medium	Invest	Protect	Harvest
Low	Protect	Harvest	Divest

Business Strength

- The strategies that can be pursued are;
  - ✓ Investment: Basis on market attractiveness for growth & expansion.
  - ✓ Protect: No fresh investment rather it is willing to have the security of the given investment. So that does not result in losses.
  - ✓ Harvest: Situation where low priority was given.
  - ✓ Divest: Finally decided to sale a business unit.

J.K. SHAH ONLINE a Veranda Enterprise

CHAPTER 5

STRATEGY IMPLEMENTATION AND EVALUATION

J.K. SHAH ONLINE a Veranda Enterprise

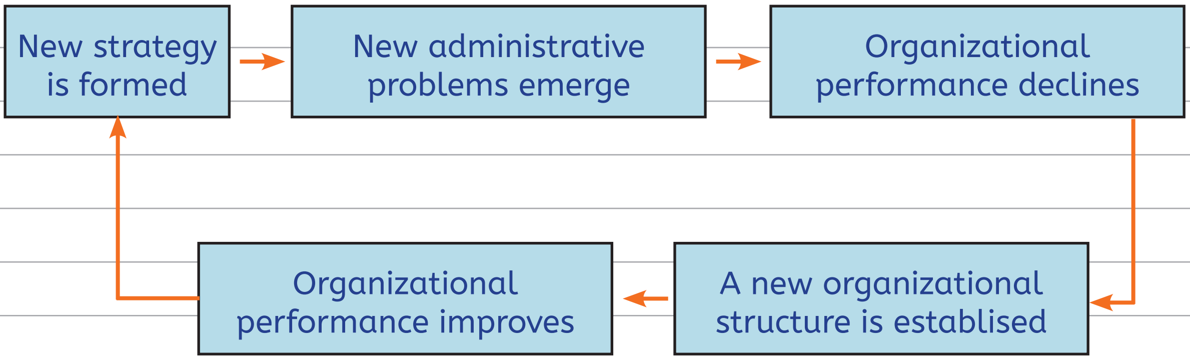
❖ Introduction

- Effective strategy implementation requires number of factors including how organisation should be structured so that strategy can be put into effect.
- Since all strategies are to be implemented by the employees of the organisation in one form or another, the structure of the organisation defines the position and the roles of employees at various levels with regard to such implementation.
- Organisational structure involves arrangement of activities and assignment of personnel to these activities in order to achieve the organisational goals in an efficient manner.
- A competitive advantage is created when there is a proper match between strategy and structure.

❖ ORGANISATIONAL STRUCTURE:

- Strategist must design and implement an appropriate organisational structure in order to implement various strategies.
- When firm changes its strategy, the existing organizational structure may become ineffective. Hence structural changes are needed to implement new strategies.
- Changes in organisation structure is needed for effective implementation of strategy because of two reasons.
  - Structure largely dictates how objectives and policies will be established.
  - Structure dictates how resources will be allocated.

CHANDLER'S - STRATEGY STRUCTURE RELATIONSHIP



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

He explains the relationship under various parameters as follows:

(1) **Design:** There is no one optimal organizational design or structure for a given strategy or type of firm.

(2) **Firm specific:** What is appropriate for one firm may not be appropriate for another firm. However, successful firms in a given industry try to organize themselves in a similar way.

(3) **Size:** Structure is also affected by size of the firm. Generally small firms are functionally structured (i.e. centralized), medium firms are divisionally structured (i.e. decentralized), while large firms use matrix structure (i.e. SBU form).

(4) **Growth:** As firms grow, their structures change from simple to complex, due to linking several basic strategies.

(5) **Symptoms of ineffective organization structure**

- Too many levels of management
- Too many meetings attended by too many people.
- Too much attention diverted towards interdepartmental conflicts.
- Large span of control.
- Many unachieved objectives

So there is a need for change in organizational structure

(6) **Need for change:** When a firm changes its strategy, the existing organizational structure may become ineffective. Structural changes are required to make the strategies workable.

(7) **Not a remedy:** Changes in structure can facilitate strategy implementation efforts. But changes in structure can't make a bad strategy to good, bad managers to good or bad products to sell.

J.K. SHAH® ONLINE a Veranda Enterprise

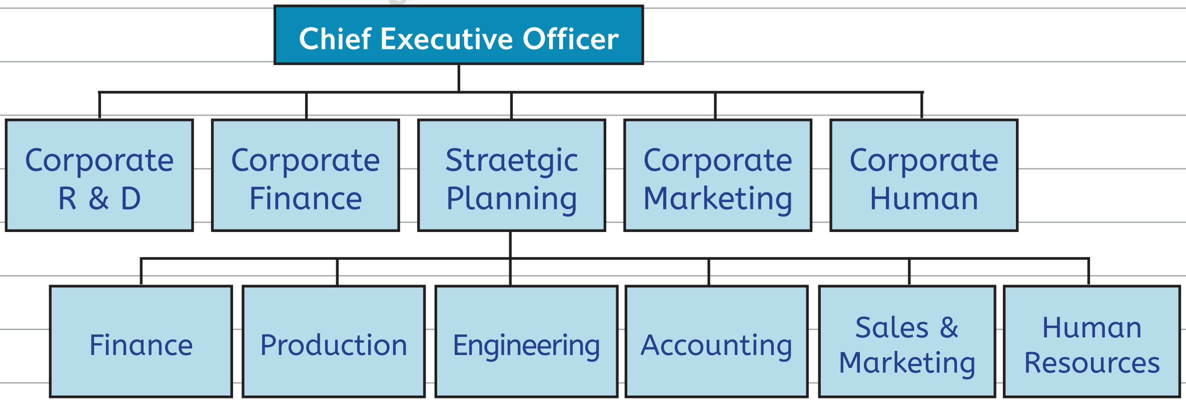
❖ DIFFERENT TYPES OF ORGANIZATIONAL STRUCTURE

Simple Structure:

- 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.
- 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.
- Little specialization of tasks, few rules, little formalization, unsophisticated information systems and direct involvement of owner-manager in all phases of day- to-day operations characterise the simple structure.
- 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. Because of these characteristics, few of the coordination problems that are common in larger organizations exist.
- 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.

J.K. SHAH ONLINE a Veranda Enterprise

FUNCTIONAL STRUCTURE



Features:

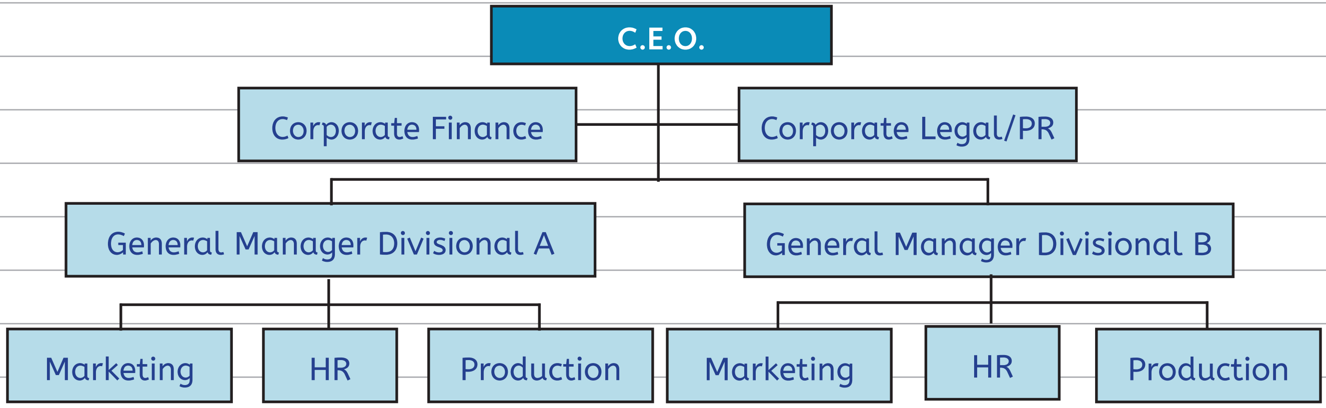
- A functional structure groups the tasks and activities by business functions such as marketing, Finance, HR, Production, R&D etc., Each major function is divided into major function here.
- It consists of Corporate Level (CEO or MD) and Functional Level (Managers of each function).

- Functional heads are not responsible for overall results of the organization. Companies following a single business strategy and offer a line of products in a single market may require simple structures.

<table>
<tr><th colspan="2">Advantages of Functional Structure</th></tr>
<tr><td>• Least expensive
• Provides specialization in functions
• Most suitable for small firms
• Improves operational efficiencies
▪ Enables quick in decision making</td><td>• If better co-ordination among departments exist it leads to competitive advantage.
• Minimises duplication of tasks and functions.</td></tr>
<tr><th colspan="2">DISADVANTAGES</th></tr>
<tr><td>• No Accountability.
• Only top level is accountable for organizational goals
• Minimises career development Opportunities Low employee morale</td><td>• Communication gaps among various departments
• Not suitable for multi business and multi product firms usually.
• Creates conflicts among departments</td></tr>
</table>

❖ DIVISIONAL STRUCTURE

- The divisional structure can be organized in one of the four ways: by geographic area, by product or service, by customer, or by process.
- With a divisional structure, functional activities are performed both centrally and, in each division, separately.
- Top management is responsible for the overall strategy, whereas divisional level management is responsible for their divisional.
- Certain functions can be organized and managed centrally too (i.e. common for all divisions.



Advantages of divisional structure	
• Divisional Heads take the responsibility for growth and profits • Decentralization and extensive delegation of authority improves employee morale and performance	• Organization provides for career development opportunities for managers. • Focused attention is possible for Better control • Employee willingly puts efforts

DISADVANTAGES	
• Expensive • Duplication of specialists and functions • Requires qualified and committed managers • Requires elaborate control system, by establishing the standard of performance than measure actual performance and if deviation rectified.	• Inconsistent decision making, each division may take its own decision • Divisional level practices may be established, instead of corporate practices. • Difficulty in allocating overheads etc.

❖ **Multi Divisional Structure:**

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

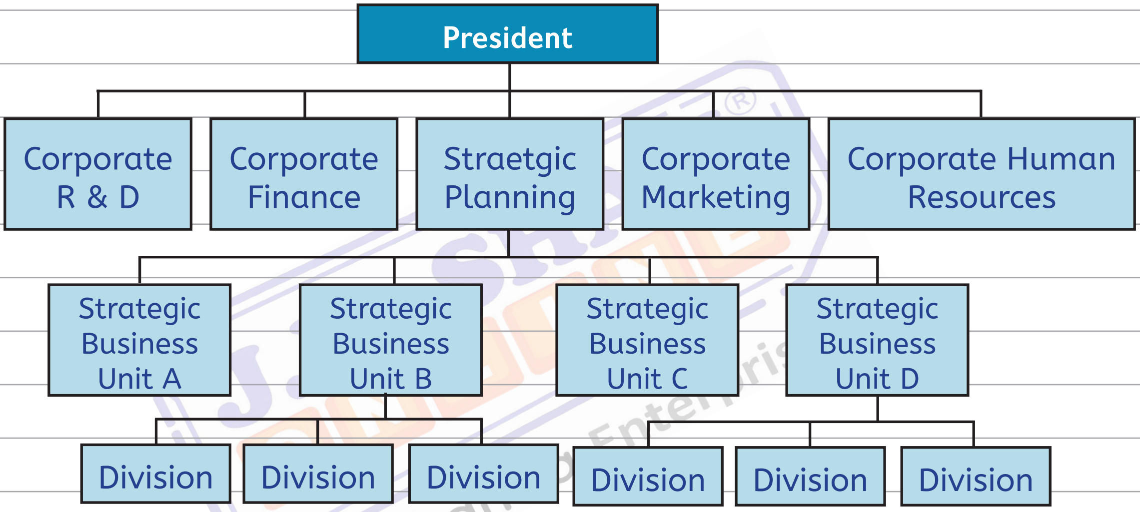
By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls. Multidivisional structure calls for:

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

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

❖ STRATEGIC BUSINESS UNIT (SBU) STRUCTURES:

- An SBU is a group of related business that can be taken up for strategic planning distinct from the rest of the business.
- A multi business and multi product enterprise can group its various businesses into a few distinct business units each of which contains related products in a scientific way.



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

  The most important attributes / characteristics of SBU are:

  - It is a single business or collection of related businesses which offer scope for independent planning.
  - Each SBU will have its own distinct set of competitors.
  - Each SBU will have a CEO who is responsible for strategic planning & profit performance of SBU.

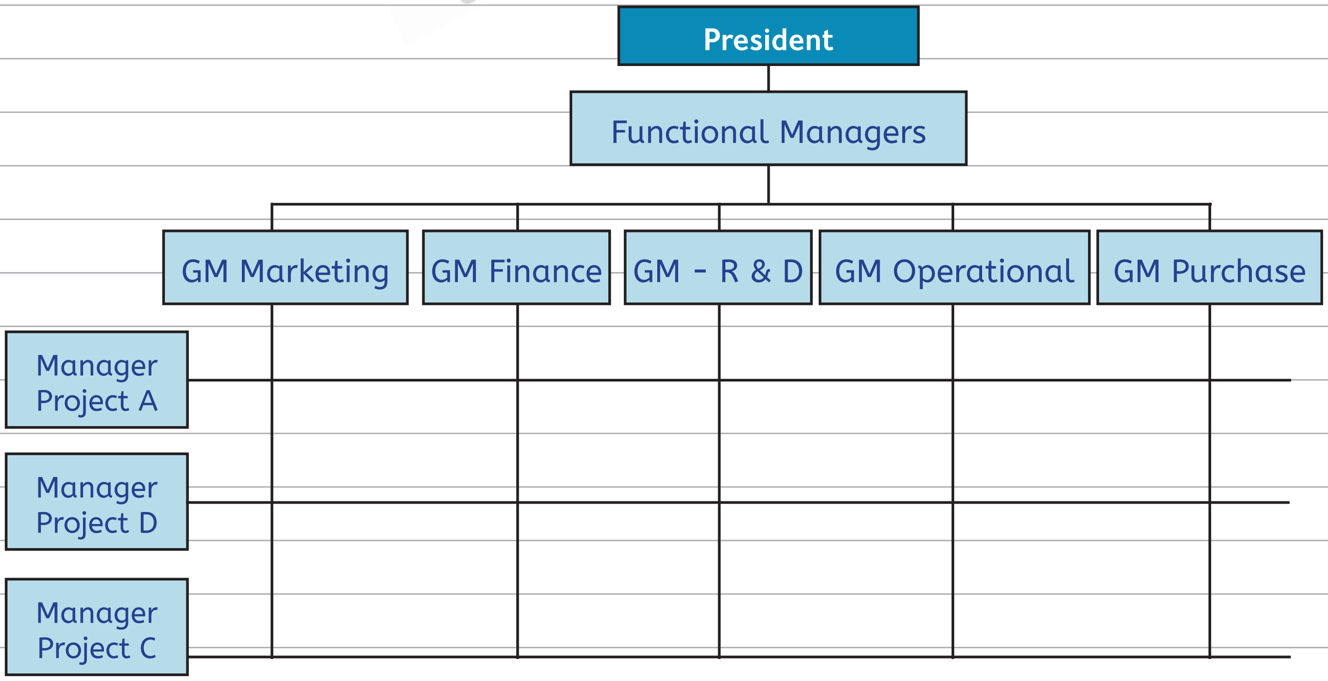
Advantages of SBU structure	
• Delegation of authority and Responsibility • Ease in administration of large number of divisions • Focus on co-ordination, communication and controls • Promotes accountability	• Creates competitive environment between divisions • Ease in administration of large number of divisions

Disadvantages of SBU structure	
• Expensive on account of additional layer. • Difficult to determine roles of different managers • Focus on co-ordination, communication and controls • May result in inconsistency of goals	• Delay in decision making for significant decisions some times because of various levels of management.

❖ MATRIX STRUCTURE - HYBRID STRUCTURE:

- This is a combined structure of both Functional and product/ project structures.
- These specialist from different functional areas form a group or team and report to the team leader (project manager).
- Each employee will be assigned to one Functional manager and further to Project manager too. Thus, employees have 2 superiors. Once the project is completed, they, go back to the representative respective department.
- This structure is found to be suitable for large & complex organizations which require more flexibility.
- Matrix structure is more complex of all structures, as it depends upon both Vertical and Horizontal flows of authority and communication as shown in the figure.

J.K. SHAH® ONLINE a Veranda Enterprise



Advantages of Matrix Structure

- Most suitable for construction firms, R&D, labs, Health care.
- Clarity in project objectives
- Employees can see the visible results of their work through many channels of communication.
- Project shut down is accomplished easily.
- Encouraging generation of new ideas because of pooling of diverse elements

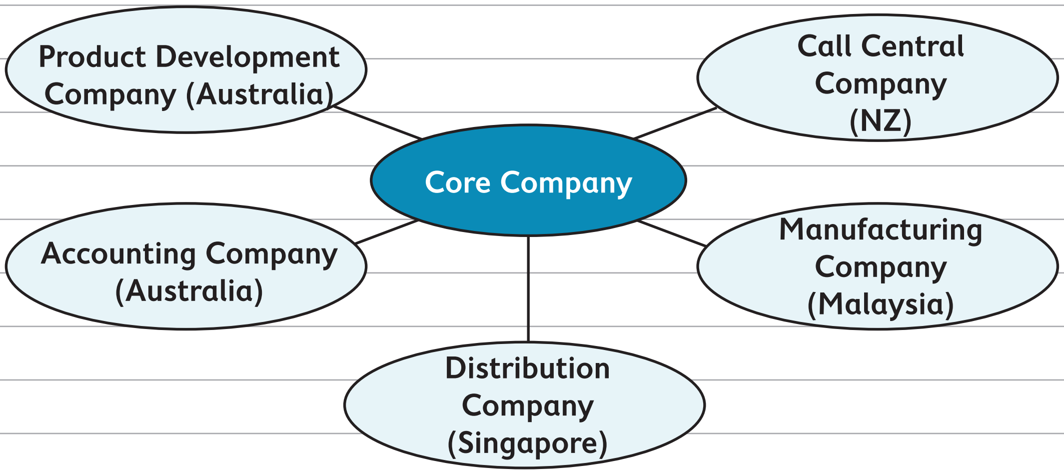
Disadvantages of Matrix Structure

- Very expensive, due to more management positions.
- More complex, due to horizontal and vertical flow of authority and communication
- Sharing of authority between project managers and functional managers results in confrontation / conflicts.
- Dual authority and reporting leading to confusion.

J.K. SHAH ONLINE a Veranda Enterprise

- The Matrix Structure is found in organizations when the three following conditions exists.
  - (i) Ideas need to be cross fertilized across projects / products
  - (ii) Resources are scarce and
  - (iii) Abilities to process informed and make decisions need to be improved.

NETWORK ORGANISATIONAL STRUCTURE



- Network structure is an example of what could be called as No Structure, by virtual elimination of in-house business functions. Many activities can be outsourced.

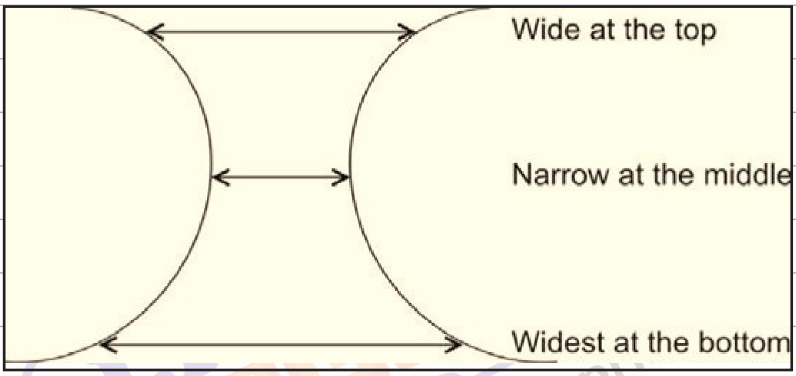
- Network organisational structure primarily involved subcontracting some or all operating functions to other companies that are required to co-ordinate their activities in consultation with the personnel at the headquarters of the networking organisation.
- Outsourcing the practice of taking a significant activity within the organisation and contracting it out to an independent party. The management outsources non vital functions but retain strategic control.
- It is a collection of independent firms linked through information systems that produce or sell a product or service. It is also called as virtual organization, because it exists only virtually. It consists of a group of projects or collaborations linked by constantly changing non hierarchal, cob web like functions.
- The information exchange is instant an online internet communication facilitates the management headquarters to be continuously involved in the progress as well as the problems with the sub-contractors.
- The firm's business functions will not be located in a single physical area, but will be scattered. The head office will work as broker.

Advantages of Network Structure	
• Most suitable in unstable environment. • Increased flexibility and adaptability to cope with rapid technological change and shifting requirements of international trade and competition	• Innovation and quick response is possible. • Enables Company to focus on core competencies.

Disadvantages of Network Structure	
• Lack of coordination and control due to numerous partners. • New structures may create stress for many employees. • New structures often demand new skills, many workers may not adopt to it and may not perform well.	• If a particular firm overspecializes in only few functions, it may choose wrong function and thus become non - competitive. • Employees may lack confidence to participate organization sponsored learning programs.

❖ HOUR GLASS STRUCTURE:

- Hour Glass structure consists of three levels with a narrow middle level.
- This is in quite contrast to the traditional pyramid structure of organization.
- Information technology links the top and bottom levels taking away many tasks that are performed by the middle managers.
- Contrary to traditional middle level managers who are often specialists, the middle level managers in this structure are generalists and perform wide variety of tasks and coordinate diverse activities such as marketing, production etc performed by lower level managers.



J.K. SHAH ONLINE Enterprise

Advantages of Hourglass Structure	
• Reduced costs due to narrow middle management level. • Quick decision making is possible	• Increased responsiveness form lower level employees due to simplification of decision making

Disadvantages of Hourglass Structure	
• Low promotional opportunities for lower level employees due to reduced size of middle management.	• Continuity at same level (lower level) may bring monotony and lack of interest and becomes difficult to keep the motivation levels high.

❖ STRATEGIC LEADERSHIP:

- **Meaning:**
  - 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 the changes required to implement strategies and inspire the staff to contribute to strategy execution

- A manager has to play many leadership roles to play visionary, chief entrepreneur and strategist chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis manager, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader.
- Sometimes it is useful authoritarian sometimes it is better to be a perceptive listener and a compromising decision maker sometimes a strong participative and sometimes being a coach and adviser is the proper role
- A strategic leader is a change agent to initiates strategic changes in the organisation 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
- Manager have five leadership roles to play in pushing for good strategy execution:
- Staying on top of what is happening closely monitoring progress solving out issues and learning what obstacles lie in the path of good execution.
- Promoting a culture of espirit de corps.
- Keeping the organisations responsive to changing conditions.
- Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.
- Pushing corrective actions to improve strategy execution and overall strategic performance.

J.K. SHAH ONLINE a Veranda Enterprise

Strategic leader has several responsibilities including the following

- Making strategic decisions
- Formulating policies and action plans to implement strategic decisions
- Ensuring effective communication in the organisation
- Managing human capital
- Managing change in the organisation
- Creating and sustaining strong corporate culture
- Sustaining high performance over time

❖ LEADERSHIP STYLES IN THE CONTEXT OF STRATEGIC MANAGEMENT

Two basic approaches to leadership styles can be Transactional Leadership and Transformational leadership.

Transactional Leadership style

- Focuses more on designing systems and controlling the organization's activities and is more likely to be associated with improving the current situation
- Uses the authority of it's office to exchange rewards such as pay and status.
- This style is suitable in settled environment, in growing or mature industries and in organizations that are performing well.
- Pursuing people to work efficiently and run operations smoothly
- They try to build on existing culture and enhance current practices
- They prefer a more formalized approach to motivate - setting clear goals with explicit rewards or penalties for achievement or non-achievement

Transformational Leadership style

- This style of leadership uses charisma and enthusiasm to inspire people to exert them for the good of the organization.
- This style is suitable in turbulent environments, in the initial stages of organization or at the declining stages, in turn around strategies where there is a need to inspire organization to adopt to major changes.
- Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction.
- They inspire involvement in a mission, giving followers a dream or vision of higher calling so as to elicit more dramatic changes in organizational performance.
- Such a leadership motivates followers to do more dramatic changes in organizational performance.

STRATEGY IMPLEMENTATION AND CONTROL

STRATEGY IMPLEMENTATION

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

J.K. SHAH ONLINE a Veranda Enterprise

- Implementing strategy affects an organization from top to bottom; it affects all the functional and divisional areas of a business.
- Strategy implementation requires introduction of change in the organisation to make organisational member adapt to the new environment.

❖ DIFFERENCES BETWEEN STRATEGY FORMULATION AND STRATEGY IMPLEMENTATION:

Basis	Strategy Formulation	Strategy Implementation
Nature	Positioning forces before the action.	Managing forces during the action.
Focus	Focus on effectiveness	Focus on efficiency
Process	Primarily an intellectual process	Primarily an operational process
Skills required	Good intuitive and analytical skills	Special motivation & leadership skills
Co-ordination	Requires co-ordination among few individuals	Combination and synchronized work among many individuals
Concept & Tools	Similar for small and large, business and non-profit organizations	It is different for different types of organizations
Orientation	Planning orientation	Action /Execution orientation
Scope	Entrepreneurial activity	Administrative task
Responsibility	Top Level Management	Middle & operational level management

❖ RELATIONSHIP BETWEEN STRATEGY FORMULATION AND IMPLEMENTATION

- Strategic Management process does not end when the firm decides what strategies to pursue. There must be a translation of strategic thought into strategic action.
- This requires support of all managers and employees of the business.
- It is crucial to realise the difference between the two because they both require very different skills.
- A company will be successful only when the strategy formulation is sound and implementation is excellent
- Organisational success is a function of good strategy and proper implementation.
- The matrix in the figure below represents various combinations of strategy formulation and implementation.

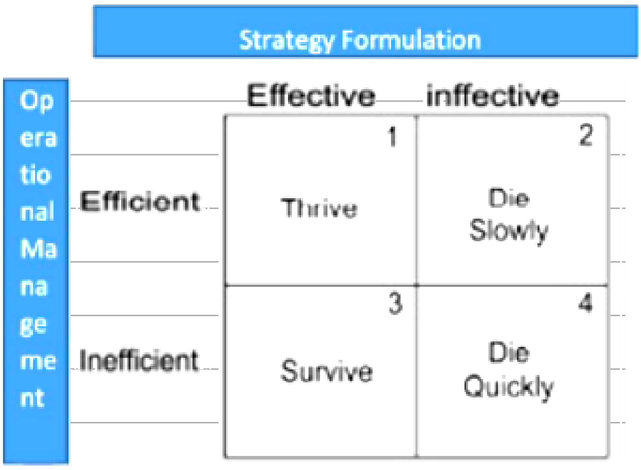
Strategy Formulation

	Week	Excellent
Sound	A Fall	B Success
Flawed	C Fail	D Fail

Strategy Implementation

Description		Reasons for Failure / Success	Required Plan of Action
A	Firm has formulated a Sound strategy whereas the implementation is weak, Fail (not successful)	• Lack of experience • Lack of resources • Poor leadership	• Focus on deficiencies and neutralize them. • Develop the necessary capabilities for successful implementation
B	An Ideal situation where the firm has succeeded in designing a sound strategy and has been excellent in Implementation	• Excellent resources • Excellent leadership • Perfect organisation structure & achieved structure	• Continue to strengthen resources & competencies
C	An avoidable situation as the firm has come up with a flawed strategy and weak implementation	• Lack of experience, resources, organisation structure and competencies • Misinterpretation	• Business Model Redesign • Execution readjustments
D	Firm has shown excellent implementation skills of flawed formulated strategy.	• No match in compatibility. between internal capabilities and external situations. • Less attention towards strategy formulation	• Redesign the strategy • Readjust execution skills

❖ EFFICIENCY AND EFFECTIVENESS IN STRATEGY



Operational Management	Strategy Formulation: Effective	Strategy Formulation: inffective
Efficient	1 Thrive	2 Die Slowly
Inefficient	3 Survive	4 Die Quickly

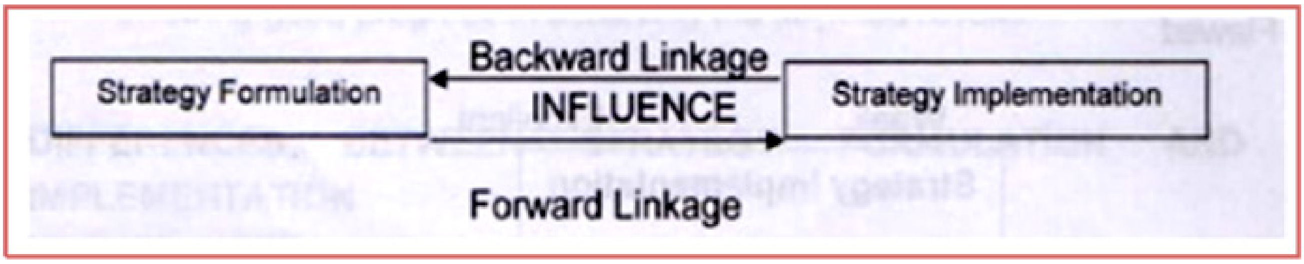
- An organization that finds itself in cell 1 is well placed and thrives, since it is achieving what it aspires to achieve with an efficient output/input ratio.
- In contrast, an organization in cell 2 or 4 is doomed, unless it can establish some strategic direction.
- The particular point to note is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

J.K. SHAH ONLINE a Veranda Enterprise

EFFICIENCY Vs EFFECTIVENESS

Effectiveness	Efficiency
Means “to do the right things”	Means “to do the things right”
Strategy formulation viewpoint	Strategy implementation viewpoint
Focus on relationship between means and ends (Customer satisfaction)	Focus on relationship between inputs and outputs
Long term in nature	Short term in nature
Focus on linkage between firm and environment	Focus within the firm
Strategic in nature	Operational in nature

LINKAGE BETWEEN STRATEGY FORMULATION AND IMPLEMENTATION



Forward Linkages:

- Formulation of strategy not affected by Implementation aspects here. Implementation is completely determined and depended on formulation of strategy.
- Many changes are needed in the organisation for proper implementation.
- Strategic plan determines the course of action and how an organization adopts for itself.

Backward Linkages:

- The strategy formulation process is affected by factors related with implementation.
- Organizations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts.

STRATEGIC CHANGE

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

J.K. SHAH ONLINE a Veranda Enterprise

Steps to initiate strategic change

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

(i) **Recognize the need for change:** Do environmental scanning → SWOT analysis > recognize where the lacuna lies and scope of change exists.

(ii) **Create a shared vision to manage change:** 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.

(iii) **Institutionalize the change:** Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. Change process must be regularly monitored and reviewed to analyses the after-effects of change. Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken.

❖ KURT LEWIN - CHANGE MANGEMENT PROCESS

To make the changes permanent, 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.

(a) Unfreezing the situation:

- Individuals or organizations shall be aware of the necessity for change and prepare people for such a change.
- Changes should not come as a surprise to the members of the organization.
- Unfreezing is the process of breaking down the old attitudes and behaviors, customs and traditions so that they start with a clean slate.
- This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

(b) Changing to New situation: (H. C. Kellman)

Behavior patterns of members of organization need to be redefined.

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

(c) Refreezing:

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

J.K. SHAH ONLINE a Veranda Enterprise

Conclusion: Change process is not a one-time application but a continuous process due to dynamism and never changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

❖ ORGANISATIONAL CONTROL

Control is a function intended to ensure and make possible the performance of planned activities and to achieve the pre determined goals and results.

The controlling function involves monitoring the activity and measuring results against pre – established standards, analysing and correcting deviations as necessary and maintaining/ adopting the system.

Primarily there are three types of organizational control, viz., operational control, management control and strategic control.

Operational Control:

- Operational control means focusing on micro or individualistic control.
- The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions.
- 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.

Management Control:

- Management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units.
- The basic purpose of management control is the achievement of enterprise goals – short range and long range – in a most effective and efficient manner.

Strategic Control:

- Strategic control is the process of evaluating strategy as it is formulated and implemented
- It is directed towards identifying problems and changes in premises and making necessary adjustments

- **Strategic control focuses on the dual questions of whether:**
  - ✓ the strategy is being implemented as planned; and
  - ✓ the results produced by the strategy are those intended

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

Premise control:

- A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment.
- 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.
- It involves monitoring environmental and industry factors, (micro, macro environment and industry related factors).

❖ **Strategic surveillance:**

- It involves general monitoring of various sources of information to uncover unanticipated information having an impact on the organizational strategy.
- Ex: Reading financial and other newspapers, business magazines, meetings, conferences, discussions at clubs or parties and so on can help in strategic surveillance.
- Strategic surveillance may be lose form of strategic control, but is capable of uncovering information relevant to the strategy.

❖ **Special alert control:**

- At times unexpected events may force organizations to reconsider their strategy.
- These controls help organizations to cope up with these eventualities, form crisis management teams to handle the situation.
- 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.

❖ **Implementation control:**

- 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. They monitor the direction of strategy.

J.K. SHAH ONLINE a Veranda Enterprise

❖ **The two ways 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 resources allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus on the direction of an organization.

❖ **Issues in Strategy Implementation**

▸ **Introduction;**

The different issues involved in strategy implementation cover practically everything that is included in the discipline (i.e., aspect) of management studies.

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.

- **Strategies, have to be activated through implementation;**

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

- **Strategies should lead to formulation of different kinds of programmes;**

  A programme is a broad term, which includes goals, policies, procedures, rules, and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation.

- **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.

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 developed, and various behavioural inputs are provided so that plans may work.

- **Given below in sequential manner the issues in strategy implementation which are to be considered:**
  - Project implementation,
  - Procedural implementation,
  - Resource allocation,
  - Structural implementation,
  - Functional implementation,
  - Behavioural implementation, etc...

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

  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.

J.K. SHAH ONLINE a Veranda Enterprise

❖ **Management issues in strategy implementation;**

- **Introduction:**

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

  Managers and employees are motivated more by perceived (i.e., by recognizing) self-interests than by organizational interests.

- **Management issues in strategy implementation includes:**
  - 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 (i.e., operations) processes, and
- Developing an effective human resource system.

Conclusion;

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.

Firms should provide training for both managers and employees to ensure that they have and maintain the skills necessary to be world-class performers.

How does digital transformation work?

The use of digital technologies to develop fresh, improved, or entirely new company procedures, goods, or services is known as "digital transformation." It's a fundamental adjustment that can be challenging to identify and even more challenging to implement.

J.K. SHAH ONLINE a Veranda Enterprise

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. 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.

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

1) Defining the goals and objectives of the transformation
2) Assessing the current state of the organization and identifying gaps
3) Creating a roadmap for change that outlines the steps needed to reach the desired state

4) Implementing and managing the change at every level of the organization

To navigate a digital transformation successfully, each of these elements is necessary. But what matters most is how they collaborate to support organisations in achieving their goals.

How does change management work?

Change management is a process or set of tools and best practices used to manage changes in an organization. It assists in making changes in a safe and regulated manner, reducing the possibility of detrimental effects on the company. Any sort of organisation, including enterprises, organisations, governmental bodies, and even families, can utilise change management to manage changes.

Change management models and methods come in a wide variety, but they all have key things in common. These include creating a clear vision for the change, involving stakeholders in the process, coming up with a plan for putting the change into action, and keeping an eye on the results. Although change management is frequently viewed as a difficult and complicated process, it is vital for ensuring that digital transformation projects are successful.

J.K. SHAH ONLINE a Veranda Enterprise

The role of change management in digital transformation.

- Digital transformation is a process of organizational change that enables an organization to use technology to create new value for customers, employees, and other stakeholders. A good change management strategy is necessary for a successful digital transformation.
- Change management is the process of planning, implementing, and monitoring changes in an organization. It provides organizations in achieving their objectives while reducing risks and disruptions. For any organisation undergoing a digital transition, change management is crucial.

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

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

A crucial component of any digital transition is change management. Why it gains more importance in the current times is because organizations can improve their chances of success by approaching change in a proactive and organized manner.

Change Management Strategies for Digital Transformation

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

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

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

(a) Getting the word out early and preparing for some interruption.

(b) Giving staff members the knowledge and tools, they need to adjust to change.

(c) Creating an environment that encourages transformation or change.

J.K. SHAH ONLINE a Veranda Enterprise

(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.

J.K. SHAH® ONLINE a Veranda Enterprise

❖ 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.

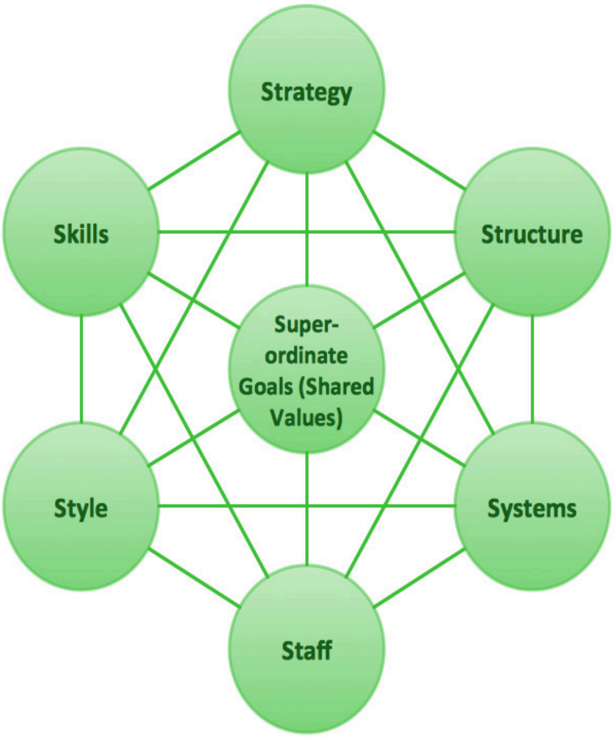
(4) **Implement changes gradually:** Changes should ideally be implemented gradually rather than all at once. In order to avoid overwhelming individuals with too much change at once, this will give people time to become used to the new way of doing things.

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

- **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;**

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

J.K. SHAH ONLINE a Veranda Enterprise

	**Hard elements are:**
	Strategy: What steps does the company intend to take to address current and futures challenges?
	Structure: How is work divided, how do different departments work and collaborate?
	Systems: Which formal and informal processes is the company's structure based on?
	Soft elements are:
	Shared Valued: What is the idea the organization subscribes to? Is this idea communicated credibly to others?
	Staff: This element refers to employees development and relevant processes, performances and feedback programs etc.
	Skill: What is the company's base of skills and competencies?
	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.

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

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

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

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

- It ignores the importance of the external environment and depicts only the most crucial elements within the organization
- The model does not clearly explain the of organizational effectiveness or performance.
- The model is considered to be more static and less flexible for decision making.

J.K. SHAH ONLINE a Veranda Enterprise

❖ Strategy Supportive Culture;

Introduction;

Every organisation has a unique organizational culture. It has its own philosophy and principles, its own history, values, and rituals, its own ways of approaching problems, making decisions, and its own work climate. Its own established beliefs and thought patterns, and practices that define its corporate culture.

❖ How is it both strength and weakness of an organisation?

Introduction;

The situation which often distinguishes good organizations from bad ones could be summed up as 'corporate culture: Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers.

Culture affects not only the way managers behave within an organization but also the decisions they make about the organization's relationships with its environment and its strategy.

"Culture is a strength that can also be a weakness". This statement can be explained by splitting it in to two parts.

- **Culture as a strength:**

  As a strength, culture can facilitate communication, decision - making & control and create cooperation & commitment. An organization's culture could be strong and cohesive (act of togetherness) when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organization.

- **Culture as a weakness:**

  As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterized as weak when many subcultures exist, few values and behavioural norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment and loyalty with the organisation.

J.K. SHAH ONLINE a Veranda Enterprise

❖ Role of culture in promoting better strategy execution?

- **Introduction;**

  The situation which often distinguishes good organizations from bad ones could be summed up as 'corporate culture: Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers.

  Culture affects not only the way managers behave within an organization but also the decisions they make about the organization's relationships with its environment and its strategy.

  Strong culture promotes good strategy execution when there's fit and impedes (i.e., constrain) execution when there's negligible fit.

Role of culture in promoting better strategy execution:

- 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.
- 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 (i.e., helpful) to successful execution of a strategy of delivering superior customer value.
- 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.
- A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive (i.e., helpful) to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish.
- Employees are stimulated (i.e., motivated) 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.

Steps to change a company's problem culture;

Introduction;

Changing a company's culture to align it with strategy is among the toughest management tasks--easier to talk about than do.

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

- **Steps to change a company's problem culture;**
  1. The first step is to diagnose which aspect of the present culture is strategy supportive and which are not.
  2. Then, managers have to talk openly and directly to all concerned about those aspects of the culture that have to be changed.
  3. The talk has to be followed swiftly by visible, aggressive actions to modify the culture actions that everyone will understand are intended to establish a new culture more in tune with the strategy.
  4. The menu (i.e., plan) of culture changing actions includes revising policies and procedures, altering incentive compensation, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

- **Conclusion;**

  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. The bigger the organization and the greater the cultural shift needed to produce a culture-strategy fit, the longer it takes. In large companies, changing the corporate culture in significant ways can take two to five years. In fact, it is usually tougher to reshape a deeply ingrained culture that is not strategy-supportive than it is to instil (i.e., inject) a strategy-supportive culture from scratch in a brand-new organization.

J.K. SHAH ONLINE a Veranda Enterprise

Strategic Management Model:

Strategic Management Model:

Introduction;

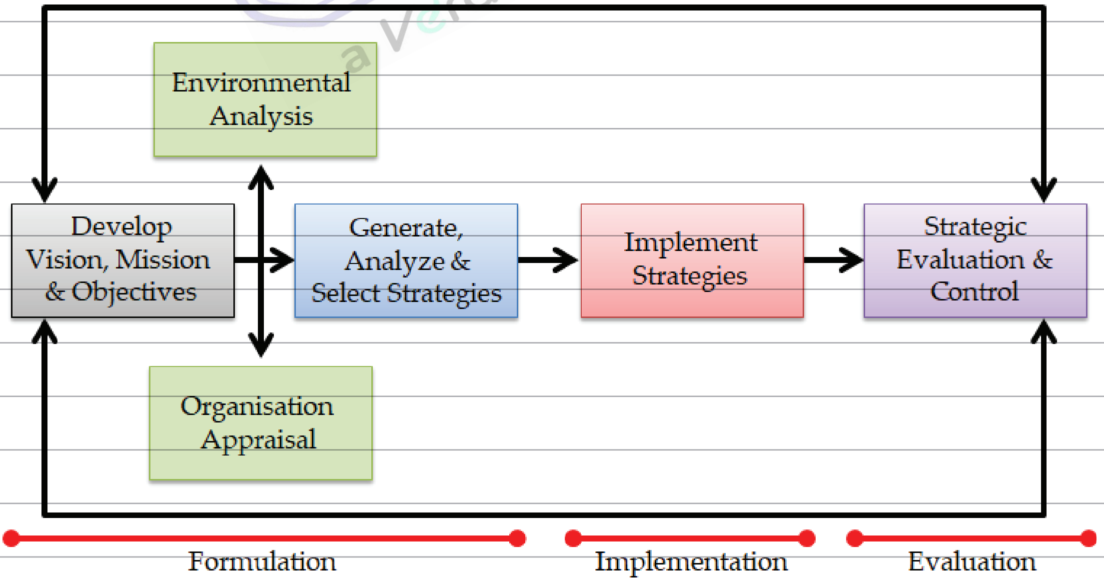
Identifying an organization's vision, mission, goals and objectives, is the **starting point for strategic management process.**

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.** 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.**

The strategic management process can best be studied and applied using a model. **Every model represents some kind of process.** Strategic Management Model (Fred R David) is a widely accepted, comprehensive.

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.

J.K. SHAH ONLINE a Veranda Enterprise



Strategists do not go through the process in lockstep fashion. Generally, there is **give-and-take among hierarchical levels** of an organization.

Many organizations conduct formal meetings semi-annually to discuss and update the firm's **vision & mission, opportunities & threats, strengths & weaknesses, strategies, objectives, policies, and performance.**

Creativity (i.e., response) from participants is encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

1.1 Stages in Strategic Management;

Crafting and executing strategy are the **heart** and **soul** of managing a business enterprise.

1. **Developing a strategic vision and formulation of statement of mission, goals and objectives,**

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

2. **Environmental and organizational analysis,**

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

   i. **Environmental scanning;**

      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.

   ii. **Organisational analysis;**

      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.

3. **Formulation of strategy,**

   The 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.

   Note: The above all are corporate level strategies will be covered in chapter no. 4.

J.K. SHAH ONLINE a Veranda Enterprise

4. **Implementation of strategy,**

Implementation and execution are an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. It is the most demanding and time-consuming part of the strategy-management process.

5. **Strategic evaluation and control.**

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

1.2 Principal aspects of strategy-execution process;

Introduction;

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.**

J.K. SHAH ONLINE a Veranda Enterprise

In most situations, strategy–execution process includes the following principal aspects;

- ✓ **Developing budgets** that steer (i.e., direct) ample (i.e., adequate) resources into those activities critical (i.e., important) to strategic success.
- ✓ **Staffing the organization** with the needed skills and expertise, carefully building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- ✓ **Ensuring** that policies and operating procedures **facilitate** rather than restrain or slowdown effective execution.
- ✓ **Using the best-known practices** to perform core business activities and pushing for continuous improvement.
- ✓ Installing information and operating systems that **enable** company **personnel to better carry out** their strategic roles day in and day out.
- ✓ **Motivating people** to pursue the target objectives energetically.
- ✓ **Creating** a company **culture and work climate helpful** to successful strategy implementation and execution.

- ✓ **Exerting** (i.e., look for) the **internal leadership** needed to drive implementation forward and keep **improving strategy execution.**
- ✓ When the organization **encounters** barrier or weaknesses, **management** has to see that they are **addressed and rectified quickly.**

Strategic Performance Measures

A company's performance depends heavily on execution of strategy. Companies that continuously outperform their competitors are those who execute well. 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. SPM helps to eliminate silos by establishing a common language among all divisions of the organisation so they may communicate openly and productively.

Strategic performance measures are key indicators that organizations use to track the effectiveness of their strategies and make informed decisions about resource allocation. The measures provide a snapshot of the organization's performance, enabling leaders to assess whether their strategies are aligned with their goals and objectives and to make necessary adjustments to improve their performance.

Key performance measures and indicators must be created, selected, combined into reports and acted upon so that strategy implementation can have tangible outcomes. Firstly, there needs to be a clear cause and effect relationship between the indicators and strategic outcomes. Secondly, KPIs need to be carefully chosen because they will influence the behaviour of people within the organisation. However, managers should be aware of paralysis by over analysis.

J.K. SHAH® ONLINE a Veranda Enterprise

Managing the political aspects of implementing a strategy

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

Types of Strategic Performance Measures

There are various types of strategic performance measures, including:

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

Strategy Formulation and Implementation:

2.1 Corporate Strategy

Planning entails choosing what has to be done in the future (today, next week, next month, next year, over the next couple of years, etc.) and creating action plans. An essential element of effective management is adequate planning. Choosing a path of action to achieve defined goals is a part of planning.

The game plan that really directs the company towards success is called “corporate strategy”. Planning may be operational or strategic. 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. 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. They provide specifics on how the resources are to be used effectively to achieve the goals.

Corporate Strategy

Strategic Planning:

Operational planning

Characteristics of Strategic planning		Characteristics of Operational planning
Shapes the organisation and its resources.		Deals with current deployment of resources.
Assesses the impact of environmental variables.		Develops tactics rather than strategy.
Takes a holistic view of the organisation.		Projects current operations into the future.
Develops overall objectives and strategies.		Makes modifications to the business functions but fundamental changes.
Is concerned with the long-term success of the organisation.		Is the responsibility functional managers.
Is a senior management responsibility.		

a Veranda E

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

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

Strategic uncertainty and how to deal with it?

Strategic uncertainty refers to the unpredictability and unpredictability of future events and circumstances that can impact an organization's strategy and goals. It can be driven by factors such as changes in the market, technology, competition, regulation, and other external factors. Dealing with strategic uncertainty can be challenging and organizations need to have the flexibility, resilience, and agility to quickly respond to changes in the environment and minimize its impact. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

- **Flexibility:** Organizations can build flexibility into their strategies to quickly adapt to changes in the environment.
- **Diversification:** Diversifying the organization's product portfolio, markets, and customer base can reduce the impact of strategic uncertainty.
- **Monitoring and Scenario Planning:** Organizations can regularly monitor key indicators of change and conduct scenario planning to understand how different future scenarios might impact their strategies.
- **Building Resilience**: Organizations can invest in building internal resilience, such as strengthening their operational processes, increasing their financial flexibility, and improving their risk management capabilities.
- **Collaboration and Partnerships:** Collaborating with other organizations, suppliers, customers, and partners can help organizations pool resources, share risk, and gain access to new markets and technologies.

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

J.K. SHAH ONLINE a Veranda Enterprise