AKASH AGARWAL CLASSES

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CMA INTER (G2 PAPER-9)

STRATEGIC MANAGEMENT

MAIN BOOK

HIGHLIGHTS OF THIS BOOK:

- EXHAUSTIVE COVERAGE OF MODULE
- COMPLETE COVERAGE OF NEW SYLLABUS
- SIMPLE AND CONCISE LANGUAGE
- LOGICAL ARRANGEMENT OF TOPICS
- DIAGRAMMATIC PRESENTATION WHERE NEEDED

APPLICABLE FOR JUNE 25 AND ONWARDS EXAMINATION

AS PER NEW SYLLABUS 2022

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AKASH AGARWAL CLASSES

STRATEGIC MANAGEMENT

INDEX

1.1 INTRODUCTION TO STRATEGY AND STRATEGY MANAGEMENT

Strategy is a set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors. To achieve superior performance, companies compete for resources. A strategy is good when it enables a firm to achieve superior performance. It consists of three elements

1. a diagnosis of the competitive challenge
2. a guiding policy to address the competitive challenge
3. a set of coherent actions to implement a firm's guiding policy.

Strategic managers should remember that strategy is neither about making great statements nor being able to face a competitive challenge. People casually refer to a host of different policies and initiatives as some sort of strategy: pricing strategy, internet strategy, alliance strategy, operations strategy, IT strategy, brand strategy, marketing strategy, HR strategy, etc. All these elements may be a necessary part of a firm's functional and global initiatives to support its competitive strategy, but these elements are not sufficient to achieve competitive advantage.

A firm's competitive advantage is always relative, not absolute.

5. To assess competitive advantage, we compare firm's performance to a benchmark that is, either the performance of other firms in the same industry or an industry average.

6. A firm that achieves superior performance relative to other competitors in the same industry or the industry average has a competitive advantage.

7. A firm that is able to outperform its competitors or the industry average over a prolonged period has a sustainable competitive advantage.

8. If a firm underperforms its rivals or the industry average, it has a competitive disadvantage.

9. Two or more firms that perform at the same level have competitive parity.

10. An effective strategy requires that strategic trade-offs be recognized and addressed—for example, between value creation and the costs to create the value.

The key to successful strategy is to combine a set of activities to stake out a unique strategic position within an industry.

Competitive advantage has to come from performing different activities or performing the same activities differently than rivals are doing. Ideally, these activities reinforce one another rather than create trade-offs. Since clear strategic positioning requires trade-offs, strategy is as much about deciding what not to do, as it is about deciding what to do. Because resources are limited, managers must be careful while considering their strategic choices in the quest for competitive advantage.

Trying to be everything to everybody will likely result in inferior performance. In addition, operational effectiveness, marketing skills, and other functional expertise all strengthen a unique strategic position. Those capabilities, though, do not substitute for competitive strategy.

Finally, strategy is not just the preserve of top management.

11. Middle and lower level managers have to work within their organisation's strategy, meeting the objectives set by the strategy and observing the constraints.
12. Managers have to communicate strategy to their teams, and will achieve greater performance from them the more convincing they are in interpreting it. Indeed, middle and lower-level managers can increasingly play a part in shaping strategy.

An important implication for the strategic leader is the recognition that effective corporate governance and solid business ethics are critical to gaining and sustaining competitive advantage. Governance and ethics are closely intertwined in an intersection of setting the right organisational core values and then ensuring compliance. A variety of corporate governance mechanisms can be effective in addressing the principal-agent problem. These mechanisms tend to focus on monitoring, controlling, and providing incentives, and they must be complemented by a strong code of conduct and strategic leaders who act with integrity. Corporate governance is a system of mechanisms to direct and control an enterprise in order to ensure that it pursues its strategic goals successfully and legally. Corporate governance is about checks and balances and about asking the tough questions at the right time.

Business ethics are an agreed-upon code of conduct in business, based on societal norms. Business ethics lay the foundation and provide training for "behaviour that is consistent with the principles, norms, and standards of business practice that have been agreed upon by society." These principles, norms, and standards of business practice differ to some degree in different cultures around the globe. But a large number of research studies have found that some notions such as fairness, honesty, and reciprocity are universal norms. As such, many of these values have been codified into law.

Law and ethics, however, are not synonymous. This distinction is important and not always understood by the general public. Staying within the law is a minimum acceptable standard. A note of caution is therefore in order. A manager's actions can be completely legal, but ethically questionable.

• STRATEGY

The term strategy is derived from the Greek word strategic, meaning "general ship'. Although the word is Greek, yet the concept has its origins from the classic, The Art of War, written by Sun Tzu written about 500 BC. This is regarded as the first methodical documentation on strategy. A strategy of an organization provides the basic framework thorough which the organisation will achieve its mission and objectives. The sole objective of a strategy is to provide competitive advantage.

Strategy may be defined as the direction and scope of an organization over the long term, which achieves advantage for the organization through the configuration of resources within a changing environment and to fulfill stakeholder expectations.

The following are some of the characteristics of strategy or strategic decisions.

1. Strategy is likely to be concerned with the long term direction of an organization.

2. Strategic decisions are normally about trying to achieve some advantage for the organisation over competition.

3. Strategic decisions are concerned with the scope of the organization's activities.

4. Strategy can be seen as matching the resources and activities to the environment in which it operates.

5. Strategy can be seen as stretching an organization's resources and competences to create new opportunities or to capitalise on them.

6. Strategies may require major resource changes for an organization

7. Strategic decisions are likely to affect operational decisions.

8. The strategy of an organization is affected not only by environmental forces and resource availability but also by the values and expectations of those who have power in and around the organization.

9. Strategic Decisions are likely to be complex in nature.

10. Likely to be made in situations of uncertainty.

11. Likely to demand an integrated approach.

12. Manage change relationships and networks outside the organization.

13. Strategic Decisions will very often involve change in organizations.

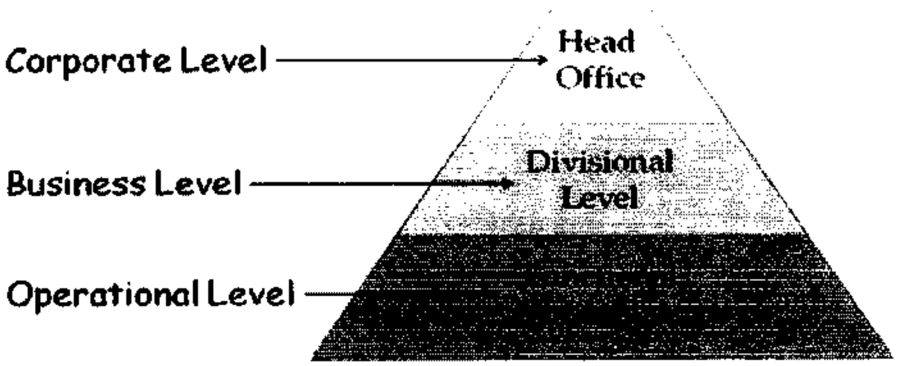
A typical business firm usually considers three types of strategy

1. Corporate strategy : It is concerned with the overall purpose and scope of an organization and how value will be added to the different parts (business units) and product lines of the organization. Corporate strategies typically fit within the three main categories of stability, growth and retrenchment. Decisions include investment in diversification, vertical integration, acquisitions, new ventures, the allocation of resources between the different businesses of the firm and divestments.

2. Business strategy : It is about how to compete successfully in particular markets. It emphasises improvement of the competitive position of a organization's products or services in the specified industry or market segment served by that business unit. These strategies fit within the two overall categories namely, competitive and cooperative strategies.

3. Functional strategy or Operational Level Strategy : It is concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, processes and people. It is concerned with developing and nurturing competence to provide a business unit with a competitive advantage. These strategies are taken at the functional level directed towards maximising resource productivity.

It may be mentioned that organizations use all the three types of strategies simultaneously. The term 'hierarchy of strategy' is commonly used to explain the nesting of one strategy within another so that they complement and support one another. It also refers to the grouping of strategies by level in the organization. Functional strategies support business strategies, which in turn support the corporate strategy.



Solved Case 1

Red oceans vs. Blue Oceans :

Red oceans represent all the industries that are currently in existence and are the known market space. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of product or service demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities or niche, and cutthroat competition turns the ocean bloody; hence, the term "red oceans".

In a red ocean market or a red ocean strategy, there is a concentrated market and will be highly competitive. These are normally found by the small but unpopular market. In a red ocean market, the competition would normally be high and the existing companies compete with each other using competitive methods.

One of the examples of a red ocean company can be different automobile companies. All the various companies are competing with each other to solve the same problem or the demand faced by the consumers. A red ocean market is highly competitive and would be riskier for a new company especially a start up.

The concept of Blue Ocean Strategy was first coined by : W. Chan Kim and Renee Mauborgne in their book, Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant, published in 2004. According to them Blue oceans denote all the industries which are currently not existence and remain unexplored, unknown and untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant as the landscape is new and unexplored. Blue ocean has been used here as an analogy to describe the wider, deeper potential of market space that is not yet explored.

A blue ocean strategy is focused more on the new trends and demands of the consumers in creating a new market based on it. Blue oceans are a more unoccupied market and not much known. The blue ocean market is mostly concentrated on providing value and is created based on that.

In the blue ocean strategy, a new product or service is created which is not available in the market which would solve a problem that is already there in the market. The blue ocean market pays a lot of attention to value and innovation aspects. This is what the authors call the reconstructionist view.

Table 1.1 Red Ocean Strategy vs. Blue Ocean Strategy

Red Ocean Strategy Focus on current customers	Blue Ocean Strategy Focus on noncustomers
Compete in existing markets	Create uncontested markers to serve
Boat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost.

Source :https: //www.linkedin.com/pulse/imagining-new-career-using-blue-ocean-strategy- gopal-a- iyer/?trk=related_artice_Imagining%20a%20New%20Career!%20-using%20the%20Blue%20Ocean%20 Strategy _article-card_ title

Strategic Management

It refers to a set of managerial decisions and actions that determines the long term performance of an organization. Originally called 'corporate planning', the shift from 'corporate planning' to what became termed as 'strategic management' was associated with increasing focus on competition as the central characteristic of the business environment and competitive advantage as the primary goal of strategy.

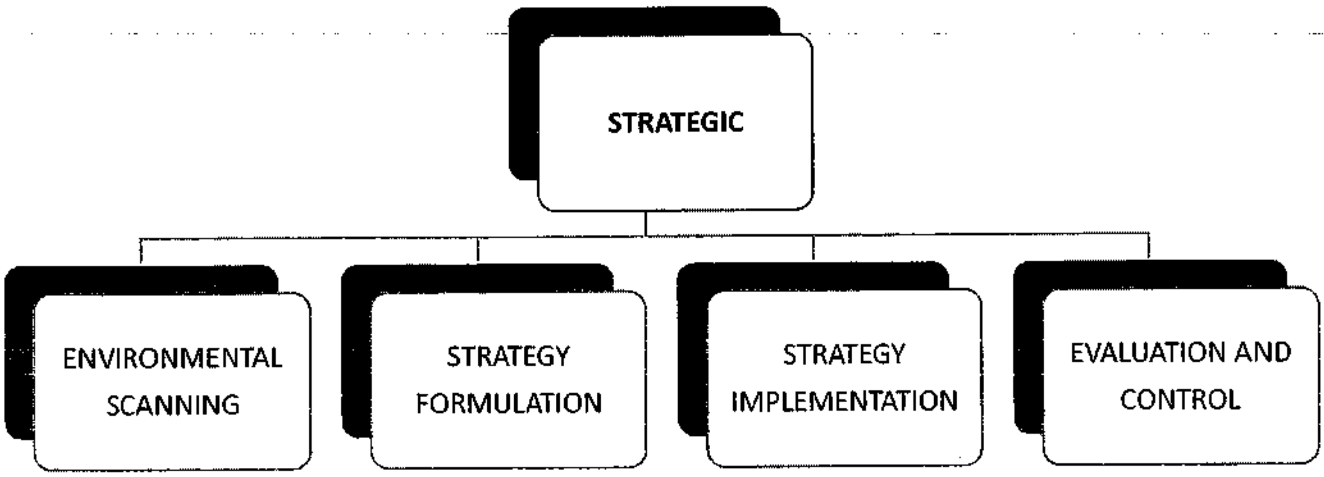


Figure 1.1: Strategic management consists of four basic elements:

1. **Environmental scanning :** It refers to the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the organization. The purpose is to identify the strategic factors both internal and external elements that will shape the future of the organization. The range of methods and techniques available for environmental scanning is wide. There are formal and systematic techniques as well as intuitive methods available. The techniques are single variable extrapolation, theoretical limit envelopes, dynamic modes, mapping, multivariate interaction analysis, unstructured expert opinion, structured expert opinion, structured inexpert opinion and unstructured inexpert speculation.
2. **Strategy Formulation :** It refers to the development of long range plans for the effective management of environmental opportunities and threats, in the light of corporate strengths and weaknesses (SWOT). It includes defining the mission, setting objectives, developing strategies and setting policy guidelines.
3. **Strategy Implementation :** It is the process by which strategies and policies are put into practise though the development of programs, budgets and procedures. This includes day to day decisions in resource allocation and is typically conducted by the middle and lower level managers with review by the top management. It involves taking actions at the functional, business and corporate levels to execute a strategic plan. Implementation include, for example, putting quality improvement programs, changing the way product is designed, positioning the product differently, market segmentation, expanding through mergers and acquisitions and downsizing the company.
4. **Evaluation and control :** It involves the process through which organizational activities and performances are monitored. The actual performances are compared to the desired performances and corrective actions are taken to resolve problems. The process of evaluation and control helps to identify the weakness and lacunae of the previously implemented strategic plan and thereby, stimulates the entire process to begin again.

1.2 ALIGNMENT OF STRAEGY WITH VISSION MISSIONAND CULTURE

Vision: It is the desired future state of an organization. It is an aspiration around which a strategist, perhaps a chief executive, might seek to focus the attention and energies of members of the organization. It is a vividly descriptive image of what a company wants to become in the future. The critical point is that a vision articulates a view of a realistic, credible, attractive future for the organization, a condition that is better in some important ways that what now exists. Well conceived visions are distinctive and specific to a particular organization; they avoid generic, feel-good statements.

Product-oriented vision statements define a business in terms of a good or service provided. Customer-oriented vision statements define business in terms of providing solutions to customer needs. Customer-oriented vision statements provide managers with more strategic flexibility than product-oriented missions. To be effective, visions and missions need to be backed up by hard-to-reverse strategic commitments and tied to economic fundamentals.

A number of organizations have summed up their visions in a brief phrase for e.g.:

1. Nike: 'To bring innovation and inspiration to every athlete in the world.'

2. Scotland Yard: 'to make London the safest major city in the world.'

3 . Dabur: 'Dedicated to the health and well being of every household.'

4. Infosys: 'To be a globally respected organization that provides best-of- breed business solutions, leverage technology, delivered by best- in class people.'

5. Amazon: 'To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online.'

6. Facebook: 'To make the world more open and connected.'

7. GE: 'To move, cure, build, and power the world.'

8. Tesla: 'To accelerate the world's transition to sustainable energy.'

9. Walmart: 'To be the best retailer in the hearts and minds of consumers and employees.'

The benefits of having a Vision

As mentioned by Azhar (2008) organization's having a good vision enjoys the following benefits:

1. Good visions are inspiring and exhilarating.

2. Vision represents a discontinuity, a step function and a jump ahead so that the company knows what it is to be.

3. Good vision helps in the creation of a common identity and a shared sense of purpose.

4. Good visions are competitive, original and unique. The make sense in the market place as they are practical.

5. Good visions foster risk taking and experimentation.

6. Good visions foster long term thinking

7. Good visions represent integrity: they are truly genuine and can be used to the benefit of the people.

8. The visions are customer-oriented

9. Internal stakeholders are invested in defining the vision.

10. Organizational structures such as compensation systems align with the firm's vision statement.

Mission: A company's mission describes its purpose and its present business (who we are? what we do? and why we are here?). It announces what the company is providing to society; either a service or a product. A well conceived mission statement defines the fundamental, unique purpose that sets a company apart from other firms of its type and identifies the scope or domain of the company's operations in terms of products offered. A mission statement may also include the firm's values and philosophy about how it does business and treats its employees; however, that is usually better kept as a separate document. In simple terms, a mission statement promotes a sense of shared expectations in employees and communicates a public image to important stakeholder groups in the company's task environment.

The first step in the strategy making process involves selecting the corporate mission and major corporate goals.

The mission statement of an organization can be either product oriented or customer oriented. A product-oriented business definition focuses on the characteristics of the products sold and the markets served, not on which kinds of customer needs the products are satisfying. Such an approach obscures the company's true mission because a product is only the physical manifestation of applying a particular skill to satisfy a particular need for a particular customer group. A customer –oriented view of a company's business focuses on customer needs rather than a particular product (or solution) for satisfying those needs. The need to take customer-oriented view of a company's business has often been ignored. A broad customer-oriented business definition identifies the ways to safeguard companies from being caught unaware by major shifts in demand. A customer-oriented mission statement also assists companies in capitalizing on changes in their environment.

Mission Statement of some organizations and the nature of the statement:

1. **Alibaba:** 'To make it easy to do business anywhere.' (It is a Mission statement, Link: https://www.alibabagroup. com/en-US/about-alibaba)

2. **Better World Books:** 'To harness the power of capitalism to bring literacy and opportunity to people around the world.' (It is a Mission Statement, Link: https://press.betterworldbooks.com/about/)

3. **Google:** 'To organize the world's information and make it universally accessible and useful.' (It is a Mission statement, Link: https://about.google/)

4. **SpaceX:** 'To make human life multi planetary'. (It is a Mission statement - Making Humanity Multiplanetary, Link:https://www.spacex.com/mission/#:~:text=MAKING%20HUMANITY%20MULTIPLANETARY destinations%20in%20the%20solar%20system.)

Organizational culture: Organizational culture is the 'basic assumptions and beliefs that are shared by members of an organization, that operate unconsciously and define in a basic taken-for-granted fashion an organization's view of itself and its environment'. Related to this are taken-for-granted ways of doing things, the routines that accumulate over time. In other words, culture is about that which is taken for granted but none the less contributes to how groups of people respond and behave in relation to issues they face. It therefore has important influences on the development and change of organizational strategy.

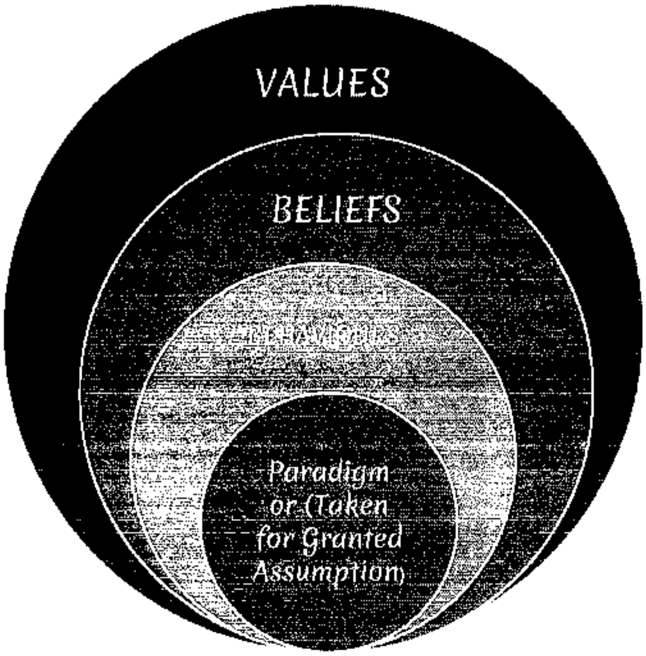


Figure 1.2: Organization Culture in Four Layers

The culture of an organization is often conceived as consisting of four layers.

1. The values of a company state how managers and employees should conduct themselves? How they should do business? and what kind of organization they should build to achieve the mission? Values are commonly seen as the bedrock of a company's organizational culture: the set of values, norms, and standards that control how employees work to achieve an organization's mission and goals. An organization's culture is commonly seen as an important source of its competitive advantage. Values may be easy to identify in an organization, and are often written down as statements about an organization's mission, objectives or strategies Values should not be stated in vague terms such as 'service to the community' or 'honoring equal employment opportunities'

2. Beliefs are more specific, but again they can typically be discerned in how people talk about issues the organization faces; for example, a belief that the company should not trade with particular countries or that professional staff should not have their professional actions appraised by managers. With regard to both values and beliefs it is important to remember that in relation to culture, the concern is with the collective rather than individuals' values and beliefs. Indeed it may be that individuals in organizations have values and beliefs that at times run counter to their organizations, which can give rise to the sort of ethical tensions and problems.

3. Behaviors are the day-to-day way in which an organization operates and can be seen by people both inside and outside the organization. This includes the work routines, how the organization is structured and controlled and 'softer' issues around symbolic behaviors.

4. Taken-for-granted assumptions are the core of an organization's culture. They are the aspects of organizational life which people find difficult to identify and explain. Here they are referred to as the organizational paradigm. The paradigm is the set of assumptions held in common and taken for granted in an organization.

Culture's influence on strategy

The taken-for-granted nature of culture is what makes it centrally important in relation to strategy and the management of strategy. There are two primary reasons for this:

1. Managing culture: Because it is difficult to observe, identify and control that which is taken for granted, it is difficult to manage. This is why having a way to analyze culture so as to make it more evident is important.

2. Culture as a driver of strategy: Organizations can be 'captured' by their culture and find it very difficult to change their strategy outside the bounds of that culture. Managers, faced with a changing business environment, are more likely to attempt to deal with the situation by searching for what they can understand and cope with in terms of the existing culture.

Ethical behavior

To foster ethical behavior, businesses must build an organization culture that places a high value on ethical behavior. Three actions are particularly important.

1. Firstly, businesses must explicitly articulate values that place a strong emphasis on ethical behavior. Many companies now do this by drafting a code of ethics, a formal statement of the ethical priorities to which a business adheres.

2. Secondly, having articulated values in a code of ethics or some other document, it is important that leaders in the business give life and meaning to those words by repeatedly emphasizing their importance and then acting on them. This means using every relevant opportunity to stress the importance of business ethics and making sure that key business decisions not only make good economic sense but also are ethical. Many companies have gone a step further and hired independent firms to audit them and make sure that they are behaving in a manner consistent with their ethical codes.

3. Finally, building an organization culture that places a high value on ethical behavior requires incentive and reward systems, including promotional systems that reward people who engage in ethical behavior and sanction those who do not.

4. Ethical core values underlay the vision statement to ensure the stability of the strategy, and thus lay the groundwork for long-term success. Ethical core values are the guard rails that help keep the company on track when pursuing its mission and its quest for competitive advantage

Goals:

Well construed goals denote what an organization hopes to accomplish in a future period of time. They represent future state of outcome of effort put in now. The set of goals that an organization sets addresses a wide range of financial and non financial issues. Goals are close-ended attributes which are precise and expressed in specific terms.

Objectives:

Objectives form the basis of the functioning of an organization. It is the setting of strategic objectives that the strategic vision of a firm into a specific performance targets. Objectives play a very important role in the organization. They define the organization's relationship with the environment, help an organization pursue its vision and mission, provide the basis for strategic decision making and provide the standards for performance appraisal.

Objectives are defined as the ends that state specifically how the goals shall be achieved. They are concrete and much specific compared to goals and are open ended attributes that denote the future states or outcomes. Objectives should possess certain desirable characteristics in order to be effective. They are as follows:

1. Specific: The first step towards setting objectives is to specify what the company wants to achieve. This involves answer to five specific set of questions namely, what the organization wants to achieve? Why the company wants to achieve? Who are being involved in the process? Where it wants to achieve and which are the resources and constraints that needs to be identified? Specific objectives are more likely to lead and motivate the managers.

2. Understandable: The objectives should be such that they are understandable to those who are expected to achieve them. Clarity in objectives helps to avoid ambiguity which in turn helps to achieve the desired results.

3. Measurable: Objectives should be precise and measurable. There has to be a standard against which they can judge their performance. It is often considered to be a good practice to quantify objectives rather than to state them in qualitative terms. It helps to measure and control the achievement of the objectives with respect to comparable companies in a particular industry and in general.

4. Attainable: Objectives must be challenging but realistic or attainable. They give all employees an incentive to look for ways of improving the operations of an organization. If an objective is unrealistic in the challenges it poses, employees may give up; an objective that is too easy may fail to motivate managers and other employees.

5. Relevant: Objectives must be linked to the overall vision and mission of the organization. There should not be any conflict between the objectives that the management has set with the goals of the organization. This is a very important task as misalignment between the two can lead to failure in achieving the corporate vision.

6. Time Bound: Objectives should specify a time period. Time constraints tell employees that success requires an objective to be attained by a given date, not after that date. Deadlines can inject a sense of urgency into objective attainment and act as a motivator. However, not all objectives require time constraints.

The important issues that need to be kept in mind while setting objectives are as follows:

7. Specificity: Specificity is related to the organizational level for which a set of objectives have been stated. Objectives may be stated at different levels of specificity. At one extreme they might be very broadly stated goals and on the other extreme it may be translated in to performance targets. This issue of specificity may be resolved by stating specificity at different levels of the organization and prefixing terms such as corporate, general and particular so that they serve the needs of performance and its evaluation.

8. Multiplicity: The issue of multiplicity arise from the fact that it is rare for an organization to work on a single objective or a few objectives. Since objectives deal with a large number of functional areas, a large number of them have to be formulated to cover the diverse aspects of the organization's functioning. It may be mentioned that neither too few nor too many objectives are considered realistic. The issue of multiplicity takes into account the number and types of objectives that are being set.

9. Periodicity: Objectives may be set for different time frame. It is possible to set long term, medium term and short term objectives. Normally organizations determine objectives for the long term and the short term. These different time frame of objectives need to be integrated with each other in order to achieve the desired result. Long term objectives tend to be general in nature as the outcomes tend to be less certain. On the other hand short term objectives tend to be more specific and comprehensive given the certainty involved in it.

10. Verifiability: The issue of verifiability revolves around the question of deciding whether an objective has been met or not. Moreover, linked to verifiability is the concept of quantification. A definite way to measure an objective is to quantify it. In cases where objectives cannot be quantified, qualitative objectives may be set. Qualitative objectives may require some value judgements of experts from within and outside the organization.

11. Reality: It is often found that organisations have two set of objectives namely, official and operative. While the official objectives are those which the organisation professes to attain, the operative objectives are those which they seek to attain in reality. For example developing human resource is the official objective of most of the organizations. However to determine whether it is the operative objective will depend on the amount of resource allocation that has been made towards the development of human resource.

12. Quality: The capability of an objective to provide a specific direction and a tangible basis for evaluating performance determines the quality of an objective. For example stating that "to increase revenue" is considered to be a bad objective as it lacks the element of measurability. If the same objective is rephrased as "to increase the revenue by 30% in the next 6 months and thereafter increase it by 40%, maintainable for the next two years" can be considered to be a good objective.

• SOLVED CASE 2

Tesla's Secret Strategy

IN 2017, TESLA INC.— an American manufacturer of all-electric cars—boasted a market capitalization1 of over$60 billion, an appreciation of more than 1,400 percent over its initial public offering price in 2010. How can a California start up achieve a market valuation that exceeds that of GM, the largest car manufacturer in the world, making some 10 million vehicles a year? The answer: Tesla's Secret Strategy. Elon Musk, Tesla's co-founder and CEO, explained the start-up's master plan: 1. Build sports car. 2. Use that money to build an affordable car. 3. Use that money to build an even more affordable car. 4. While doing above, also provide zero-emission electric power generation options. In 2008, Tesla introduced its first car: the Roadster, a $110,000 sports coupe with faster acceleration than a Porsche or a Ferrari. Tesla's first vehicle served as a prototype to demonstrate that electric vehicles can be more than mere golf carts. Tesla thus successfully completed Step 1 of the master plan. In Step 2, after selling some 2,500 Roadsters, Tesla discontinued its production in 2012 to focus on its next car: the Model S, a four-door family sedan, with a base price of $73,500 before tax credits. The line appeals to a somewhat larger market and thus allows for larger production runs to drive down unit costs. The Model S received an outstanding market reception. It was awarded not only the 2013 Motor Trend Car of the Year, but also received the highest score of any car ever tested by Consumer Reports (99/100). Tesla manufactures the Model S in the Fremont, California, factory that it purchased from Toyota. By the end of 2016, it had sold some 125,000 of the Model S worldwide. Hoping for an even broader customer appeal, Tesla also introduced the Model X, a crossover between an SUV and a family van with futuristic falcon-wing doors for convenient access to second- and third-row seating. The$100,000 starting sticker price of the Model X is quite steep, however; thus limiting mass-market appeal. Technical difficulties with its innovative doors delayed its launch until the fall of 2015. Tesla has now reached Step 3 of its master plan. In 2017, Tesla delivered the company's newest car: the Model 3, an all-electric compact luxury sedan, with a starting price of $35,000. Tesla had received over 500,000 pre orders. This customer enthusiasm amounted to $500 million in interest free loans for Tesla. The Model 3 was slated for delivery by late 2017. Tesla hoped to sell 500,000 total vehicles by the end of 2018. To accomplish this ambitious goal, Musk also promised that Tesla would increase its annual production from 50,000 in 2015 to 1 million vehicles a year by 2020. Step 4 of Musk's master plan for Tesla aims to provide zero-emission electric power generation options. To achieve this goal, Tesla acquired Solar City, a solar energy company, for more than $2 billion in the fall of 2016. This joining creates the world's first fully integrated clean-tech energy company by combining solar power, power storage, and transportation. A successful integration of Tesla and Solar City, where Musk is also chairman and an early investor, would allow completion of Step 4 of Tesla's master plan.

Source: Rothaermel, F. T. (2019). Strategic Management. 4th Edition, McGraw-Hill Education

A. What was the vision of the Tesla Inc.? How is Tesla trying to achieve its mission?

Tesla was founded with the vision to "accelerate the world's transition to sustainable transport."

To accomplish this mission, Tesla is building zero-emission electric vehicles that are attractive and affordable. Beyond achieving a competitive advantage for Tesla, Musk is working to set a new standard in automotive technology. He hopes that zero-emission electric vehicles will one day replace gasoline-powered cars. Tesla's competitive challenge is sizable: To succeed it must manufacture attractive and affordable vehicles using its new technology, which will compete with traditional cars running on gasoline. It also needs the required infrastructure for electric vehicles, including a network of charging stations to overcome "range anxiety" by consumers; many mass-market electric vehicles cannot drive as far on one charge as gasoline-powered cars can with a full tank of gas. Gas stations can be found pretty much on any corner in cities and every couple of miles on highways.

B. Explain the mission of the Tesla Inc.?

Tesla is investing billions of dollars to equip its car factory in California with cutting-edge robotics and to build the Giga factory producing lithium-ion batteries in Nevada. These investments by Tesla are examples ofstrategic commitments because they are costly, long-term, and difficult to reverse. They are clearly supporting Tesla's vision to accelerate the world's transition to sustainable transport. Tesla hopes to translate this visioninto reality by providing affordable zero-emission mass-market cars that are the best in class, which capturesTesla's mission.

C. How does Tesla address the competitive challenge?

To address the competitive challenge, Tesla's current guiding policy is to build a cost competitive mass-marketvehicle such as the new Model 3. Tesla's formulated strategy is consistent with its mission and the competitivechallenge identified. It also requires significant strategic commitments such as Tesla's $5 billion investment ina new lithium-ion battery plant in Nevada, the so-called Giga factory. Batteries are the most critical componentfor electric vehicles. To accomplish this major undertaking, Tesla has partnered with Panasonic of Japan, a world leader in battery technology. To achieve its massive scale-up in Model 3production, Tesla invested over$2 billion in a new manufacturing facility.

D. Customer-oriented visions also frequently change over time :

Explain this statement in the context of Tesla Inc.

When Telsa was founded in 2003, its mission was to accelerate the world's transition to sustainable transport. Over the last decade or so, Tesla completed several steps of its initial master plan, including providing zero emission electric power generation options, through the acquisition of the Solar-City. Tesla, therefore, no longer views itself as a car company but as a fully integrated clean-tech company. To capture this ambition more accurately Tesla changed its vision to accelerate the world's transition to sustainable energy. To reposition Tesla as an integrated clean-tech energy company, in 2017, Tesla changed its official name from Tesla Motors to Tesla, Inc

E. How does TESLA become successful auto manufacturing start-up in the United States?

Tesla's manufacturing process was highly automated, with extensive use of 8- to 10-foot-tall red robots. Each robot had a single, multi jointed arm. While typical auto factory robots perform only one function, Tesla's robots perform up to four tasks: welding, riveting, bonding, and installing a component. Eight robots might work on a single car at each station of the assembling line in a choreographed pattern. The robots produce up to 83 cars a day and can be reprogrammed to produce the Model X on the same assembly line.

Musk saw the franchise-dealership arrangements that U.S. car companies use to sell cars as an expensive, margin-killing model. Furthermore, selling an electric vehicle is more complicated than selling an internal combustion vehicle. Because consumers are less familiar with electric vehicles, they required more explanation about the electricity costs, service issues, potential resale value issues, and more. Musk thus chose to sell direct to consumers with boutique-like stores in upscale shopping malls where sales people could provide high-touch service and answer customer questions without using high-pressure sales tactics. The company also sold direct to consumers on the Internet.

Tesla spends no money on advertising, nor does it have any plans to hire advertising agencies or run ads in the future. Its in-house marketing team has only seven people on staff, and an internal team runs the website. Nissan, by contrast, spent $25 million advertising the Leaf in 2012. According to Tesla spokesperson, "Right now, the stores are our advertising. We're very confident we can sell 20,000 plus cars a year without paid advertising ...It may be something we'll do years down the road. But it's certainly not something we feel is crucial for sales right now.

F. What are the competitive challenges faced by TESLA?

In order to succeed in the all-electric -car segment TESLA must manufacture attractive and affordable vehicles using its new technology, which will compete with traditional cars running on gasoline. It also needs the required infrastructure for electric vehicles, including a network of charging stations to overcome "range anxiety" by consumers; many mass-market electric vehicles cannot drive as far on one charge as gasoline- powered cars can with a full tank of gas. Gas stations can be found pretty much on any corner in cities and every couple of miles on high ways. In this context, Tesla must build zero-emission electric vehicles that are attractive and affordable. Beyond achieving a competitive advantage for Tesla, Musk is working to set a new standard in automotive technology. He hopes that zero-emission electric vehicles will one day replace gasoline-powered cars.

Source: Rothaermel, F. T. (2019). Strategic Management. 4th Edition, McGraw-Hill Education.

1.3 OBJECTIVES OF STRATEGIC MANAGEMENT

The term strategic management underlines the importance of managers with regard to strategy. Strategies do not happen just by themselves. Strategy involves people, especially the managers who decide and implement strategy. The strategic management role is different in nature from other aspects of management. An operational manager is most often required to deal with problems of operational control, such as the efficient production of goods, the management of a sales force, the monitoring of financial performance or the design of some new system that will improve the level of customer service. These are all very important tasks, but strategic management involves a greater scope than that of any one area of operational management.

Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organisation wide rather than operation-specific implications. This is a major challenge for managers who are used to managing on a day-to-day basis the resources they control. It can be a particular problem because of the background of managers who may typically have been trained, perhaps over many years, to undertake operational tasks and to take operational responsibility.

The objectives of strategic management may be listed as under:

1. To identify opportunities and adapt resources to exploit the opportunities created.

2. To create opportunities by stretching the resources and competences of the organization and capitalise them.

3. To help managers to understand the key relationships among actions, context, and performance by providing the conceptual frameworks.

4. To help an organization enjoy competitive advantage.

5. To sustain and improve the competitive position by the deployment and acquisition of appropriate resources and by monitoring and responding to environmental changes.
6. To monitor and remain responsive to the demands of key stakeholders.
7. To identify the critical success factors and meet the needs and wants of the customers.
8. To avoid failure by focusing on the building blocks of competitive advantage (superior efficiency, superior quality, superior innovation and superior responsiveness to customers), instituting continuous improvement and learning, tracking the best industrial practices and using benchmarking.
9. To overcome inertia and accept the changes in the ever-changing environment to remain competitive and at times to survive.
10. To develop a creative and innovative attitude and to think strategically.

1.4 ORGANIZATIONAL GENOMICS

Genomics is the study of all of a person's genes (the genome), including interactions of those genes with each other and with the person's environment. The organisation of modern

corporations helps in interaction with stakeholders. A stakeholder is any person or group associated with the organization that has a stake in the organization's output. Corporations face a massive challenge in trying to organise, communicate and respond to all of their different stakeholders. The most efficient way for corporations to interact with each different stakeholder group is to establish boundary-spanning departments, which are offices within an organisation that interact across boundaries that divide the company between different stakeholders. Department of Public Affairs, investor relations, customer relations, community relations, etc. are some of the examples of boundary- spanning departments. All managers and employees need to be aware of how people behave in order to provide the best working environment.

Organizational behaviour is about how people may be motivated to work together in more effective ways. The interaction required to direct a group toward a set of common goals is called organizational communication. An effective and efficient communication system requires managerial proficiency in delivering and receiving messages. A manager must discover various barriers to communication; analyse the reasons for their occurrence and take preventive steps to avoid those barriers. Thus, the primary responsibility of a manager is to develop and maintain an effective communication system in the organisation. So, organizational communication refers to the forms and channels of communication among members of organizations such as corporations, non-profits or small businesses. Studies have found a strong relationship between the levels of communication in an organization and job performance and satisfaction. Organizational communication can be formal or informal, flow in various directions and make use of various media.

A positive attitude towards work depends on mutual relationships within a workgroup which can be related to the inner and outer system. The outer system is defined by organization and technologies while the inner system refers to mutual relationships created as a result of business cooperation and living together. Interaction is reflected in mutual activities within the group or outside of it, or an employee's activity related to the integral work environment or any other matter.

One develops many interactions towards people who constitute a workgroup. A person's behaviour, as well as his/her activities in a work environment, depends on the cognitive, emotional, and conative processes. In a work environment, a person performs certain activities which may be observed. Through interaction, communication, and perception, certain feelings develop within one's personality which may be demonstrated publicly or be hidden in verbal and symbolic expressions which can also be interpreted differently from one individual to another. The reason for that is that everyone has an established attitude about a certain type of behaviour and verbal and symbolic meanings.

Employees constantly judge and compare themselves to others in a work environment. Based on those comparisons, they form an opinion of their own worth and abilities. But there is the question of how objectively and to what extent can individuals estimate him/her. It depends on the nature, personality, and mental health of that individual which have to be in accordance with reality and perceiving real-life values.

Incorrect self-estimation can result from underestimating people in the following situations:

1. People with lower qualifications;
2. People who do not tolerate on a higher social, educational, and financial level;
3. People who hold a high opinion of themselves which is not based on facts;
4. People who feel inferior;
5. People who do a great job even though they conceal their true opinion of themselves.

Strategic Leadership

It is about how to effectively manage a company's strategy making process to create competitive advantage. Strategic leaders must strive towards maximising shareholders value by balancing the profit growth and profitability of the organisation. A strategic leader is seen as an individual upon whom strategy development and change are seen to be dependent. Strategic leaders should possess some key characteristics that can lead to high performance. Some of the key qualities that a strategic leader is expected to have are as follows:

1. Strategic leader should be a visionary. He should have a strong sense of direction and a clear and compelling vision of where the organisation should go.
2. He should be capable of eloquently communicating this vision to others within the organisation in order to sensitise them and consistently articulate this vision to them until it becomes a part of the organisational culture.
3. A good strategic leader must have the ability to identify and articulate the business model the organisation will use to attain the vision. This requires a fit between the organizational strategies with the organizational vision.

4. A good strategic leader should demonstrate a sense of commitment towards the vision and the business model through his actions and words.
5. He should develop a strong network of both formal and informal sources to remain well informed about whatever is happening in and around the organization.
6. A good strategic leader should be able recognise and empower subordinates to make decisions. This not only acts as a motivator for the subordinates but also relives the leader from being overloaded with responsibilities. In this process of delegation, the strategic leader may delegate many important responsibilities to his subordinates but he will not delegate those which are of critical importance to the success of the organization.
7. A good strategic leader should try to develop a consensus for his ideas among his subordinates rather than attempt to use his authority to force the ideas through.

Emotional Intelligence :

In order to estimate someone's psychological capabilities Goleman (1998) used a term called emotional intelligence. Emotional intelligence is a term that Daniel Goleman coined to describe a bundle of psychological attributes that many strong and effective leaders exhibit

1. Self-awareness—the ability to understand one's own moods, emotions, and drives, as well as their effect on others.

2. Self-regulation—the ability to control or redirect disruptive impulses or moods, that is, to think before acting.

3. Motivation—a passion for work that goes beyond money or status and a propensity to pursue goals with energy and persistence.

4. Empathy—the ability to understand the feelings and viewpoints of subordinates and to take those into account when making decisions

5. Social skills—friendliness with a purpose.

According to Goleman (1998)

6. Self aware and self regulating individuals tend to be more confident and better able to cope with ambiguity and more open to change.

7. People respect leaders who are self aware and self regulating.

8. People who are self aware recognise their own limitations and being self regulated consider their decisions carefully. These two attributes, self awareness and self regulation, help to elicit the trust and confidence of subordinates.

9. Strong motivation exhibited in a passion for work can also be infectious. It motivates subordinates to a great extent to give their best.

Organizational Change :

In any business environment, change should happen. It shows one's commitment to the kind of growth and evolution it takes to stay modern, relevant, and competitive. Countless factors make change inevitable. But what kind of change we are thinking about is important. Change can include things like:

1. Introducing new software or updating marketing practices
2. Updated business processes
3. A full-on restructuring
4. Leadership changes
5. Updated thinking
6. New project management tools
7. Budget constraints
8. Shifts in strategy

These all fall under the umbrella of organizational change.

The term organizational change management refers to a methodology that helps businesses adapt to adjustments of all kinds.

9. It helps employees, stakeholders, and project teams prepare and set expectations for coming change.

10. It helps businesses roll out and acclimate to change.

There are countless organisational change management (OCM) methods. Each involves a basic series of steps or practices that could be linear or cyclical in approach. Some of the most popular methods include:

11. Kotter 8-Step Process for Leading Change: Create → Build → Form → Enlist → Enable → Generate → Sustain → Institute

12. McKinsey & Company's 7-S Framework: Style, Skills, Systems, Structure, Staff, and Strategies = Shared Values & Goals

13. Kurt Lewin's Change Model: Unfreeze → Change → Refreeze

14. ADKAR Model: Awareness → Desire → Knowledge → Ability → Reinforcement

15. The Kubler-Ross Model: Shock → Anger → Bargaining → Depression → Acceptance

16. Satir Change Management Model: Late Status Quo → Resistance → Chaos → Integration → New Status Quo

17. William Bridges' Transition Model: Ending → Neutral Zone → New Beginnings

However, there is no right or wrong in terms of which method to choose. Any method can facilitate smooth transitions and positive change. The best method depends on the organization and stakeholder needs and preferences. Methods are generally seen as interchangeable.

One of the most popular and widely accepted guiding approaches out there is The Association of Professional Change Management (ACMP) Standard for Change Management. The ACMP Standard includes a definition of practices, processes, tasks, and activities for change management. It also includes guidance for any type of change and generally accepted practices and processes across industries, organisations, and roles. The following are the steps as recommended by ACMP:

18. Evaluate Change Impact & Readiness

19. Formulate Your Strategy

20. Develop Change Management Plans

21. Executing Change Management Plan

22. Closing the Change Management Effort

23. It's important to look at employee involvement during this process.

Organizations can't run successful change management without people's power. That's why companies should involve employees in the organization's change management process from start to finish, whether through something as involved as an online focus group or simply as a survey. Without employee buy-in, change management can fail. But uninvested stakeholders aren't the only reason organizational change management fails. It also takes a knowledgeable, prepared leadership, and an HR team that is equipped for the process.

1.5 ALIGNMENT WITH INDIVIDUAL LEVEL OBJECTIVE AND ORGANIZATIONAL OBJECTIVE

Personal objectives refer to the job-specific goals of each individual employee. They are important because they communicate to employees what is important and what is expected of them. Managers usually set between five and seven goals per employee using a mix of those that are activity-based such as number of sales calls per week and/or outcome-based measures such as closed sales in dollar amounts. When completed at the individual level, managers may add more objectives specifically designed to maximize team efforts. The goal is to achieve quantity and quality of effort between individuals and the team.

1. Employee objectives are ways to measure progress and performance for members of a team.

2. These can help employees better understand their roles and help managers guide their teams in achieving important organisational and personal goals.

3. Knowing how to write effective objectives can help leaders and team members create a more productive work environment.

4. Employee objectives are targets that an employee and their manager agree on to measure the employee's job performance.

5. Companies may set new objectives for their employees quarterly, biannually or annually.

6. These objectives provide employees with guidance for their responsibilities that contribute to larger company goals.

7. Employees and managers periodically review the employee's progress toward achieving their goals.

To create effective objectives, make sure they're specific, measurable, attainable, relevant and time-based. These guidelines are often abbreviated using the acronym SMART. Here are more details regarding the SMART goal framework:

8. Specific: Specific goal provides the employee with the exact result needed for their performance to be successful. A clear objective can optimize productivity and effectiveness.

9. Measurable: Successful goals can usually be measured using metrics that determine an employee's success or progress. A quota, for example, is one way to measure an employee's success.

10. Attainable: Effective goals are often those which are ambitious and also possible to achieve. Consider if and how an employee can attain their objectives with the tools and resources available to them within a specified time frame.

11. Relevant: A relevant objective contributes to the larger goals of a company. Consider the upward impact of employees achieving certain goals, like how they tie to bigger company strategies like growth.

12. Time Based: Set realistic timelines for employees to complete their tasks. If a task is ongoing, you might consider your next review as a deadline for achieving objectives. SMART goals help clarify responsibilities and ensure both manager and employee knows what to expect. They can help develop employees' skills and move goals forward toward larger, higher-level goals.

FAST framework :

It was in the year 1954 when Peter Drucker, the great management guru, introduced "management by objectives". Management by objectives according to Drucker is an approach where employees would agree with their boss on a set of goals and work toward achieving those objectives throughout the year. The importance of goal setting and accomplishment of objectives has been the central for managers who follow a well-established set of practices. Traditionally the managers aspired to make their goals SMART, by ensuring they are specific, measurable, achievable, realistic, and time-bound. However, over the past few decades, a handful of leading companies including Google, Intel, etc. have pioneered and refined an alternative approach to harness the power of goals to drive and align action.

The four core principles that underpin effective goal systems can be summarised into the acronym FAST. Goals should be embedded in frequent discussions; ambitious in scope; measured by specific metrics and milestones; and transparent for everyone in the organisation to see. The modern concept views goals to be FAST and not SMART.

Table 1.2 Four Core Principles and their Benefits of FAST

Acronym	Term	Definition	Advantages

F	Frequently discussed	Goals should be frequently discu-Ssed in order to see the progress, allocate resources as and when needed, priorities of initiatives and provide feedback	1. Gives guidance for important decisions. 2. Helps employees remain focus-ed on the most important matter 3. Links performance feedback to concrete goals. 4.Evaluates the progress and helps in course corrections.
A	Ambitious	Goals should be challenging or ambitious but not impossible to achieve	1. Motivates performance of individ and teams towards goal. 2. Helps in minimizing the risk of downplaying the achievement-s of the subordinates. 3.Focuses on the innovative ways t achieve goals.
s	Specific	Goals should be translated into specific metrics so that there is clari achieving the goals.	1.Clearly mentions what the employees are expected to deliver 2.Helps in easy identification of deviations from the goals and offers quick course corrections. 3.Enhances performance of individuals and teams.
T	Transparent	Goals and their achievements should be made public for all employees to see.	1.Use of peer pressure to perform on goals. 2. Clearly showcases the activities and contribution of the employees towards goal achievement. 3. Helps employees understand the agenda of other employees and the teams. 4. Helps to identify the strategies those are redundant and are not aligned to the overall organiza-tional goals.

Performance objectives :

Performance objectives for employees are set so that they can know what is expected of them and understand what they are accountable for. They can be performance-based, or they can be development-led. The following are some of the examples of performance objectives for employees.

1. Productivity: This has to do with the amount of work that an employee is expected to perform within a specific time. This is one of the most important performance objectives for employees. In the service industry such as banking, this could be the number of clients that a service consultant has assisted. This helps to increase productivity within a business, and it can increase sales and revenue.

2. Quality and efficiency: This has to do with the manner of performing activities. It takes productivity further to deal with how fast the worker can perform a task. This measure also takes quality into consideration. Not only should the service be fast, but it must be of good quality. This is one of the most vital performance objectives for employees because it makes them pay more attention to the quality of their work which reduces human error while increasing productivity.

3. Education and self-development: This performance objective for employees considers the needs of workers. It focuses on the goals workers set to develop themselves. It can include things such as an employee learning a new skill, doing a new course or simply job-shadowing someone. This makes workers more valuable due to continuous growth in their respective fields. This also encourages employers to see how committed workers are to their own growth and personal development.

These are some of the performance objectives for employees. They are measured differently from one company to the next. They are also assigned different weightings depending on the industry. These performance objectives for employees must be documented and reviewed constantly.

Employees must also sign off their performance objective contracts to show their commitment to meeting them. Employees are integral part of an organization so organizations should support them in their personal growth. The work that employees take up must prepare them to meet their individual goals, by enhancing knowledge or building skills. On the other side everyone works to meet the organizational-level goals. The managers and leaders drive performance of employees so that they can achieve the larger goals set at the organizational or business level. However, if these larger goals are not aligned to individual goals, employee motivation will deteriorate after some time.

The reasons why aligning individual goals to organisational goals is important:

4. It helps to sustain employee motivation by helping employees measure the impact of their actions. When personal goals are aligned, an individual takes accountability of the tasks in hand. They relate with the contributions they make and measure the success and way forward.

5. Aligning goals also help in prioritization of tasks and responsibilities.

6. When individuals understand how their personal goals relate to one another and to the larger goals of the organization, collaboration and team cohesiveness increases.

1.6 BLANCED SCORE CARD

Source: Robert S. Kaplan and David P. Norton, "Using the balanced scorecard as a strategic management system," Harvard Business Review January. February 1996 .: 76.

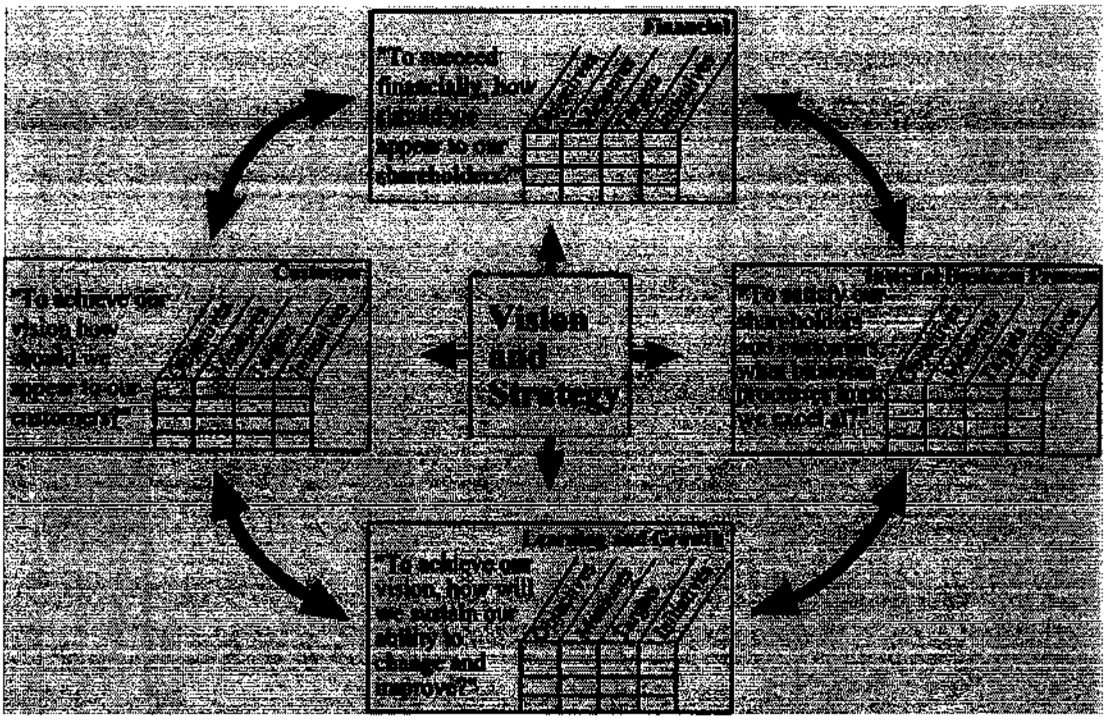


Figure 1.3: The balanced scorecard: a framework to translate a strategy into operational terms

The sole purpose of setting objectives is to convert the vision and mission into specific measurable targets. There are broadly two types of objectives namely, financial and strategic.

1. Financial objectives relate to the financial performance targets that the management has established for the organization to achieve.

2. Financial objectives of an organization can include increasing the annual revenues, annual increase in the earnings per share, profit margins of fixed percent, increased shareholder value, generating internal cash flows, etc.

3. Strategic objectives relate to target outcomes that indicate whether a company is strengthening its market standing, competitive position and future business prospects.

4. Strategic objectives of an organization can include winning a certain per cent of market share, achieving lower overall costs than competitors, developing broader, better and deeper technological capabilities than rivals, consistently getting new or improved products to market ahead of the rivals, having stronger national and global sales and distribution capabilities than rivals, etc.

There is a need to balance the financial objectives with the strategic objectives. It is imperative that attaining financial objectives that includes adequate profitability and financial strength is of paramount importance as the organization's long term health and ultimately its survival will depend on it. However, one cannot ignore the need for accomplishment of strategic objectives as it signals whether the organizations competitive position is on the rise or not. It may be mentioned that one can expect a strong financial performance if the competitive strength and market position is on the rise.

The most widely used method for combining the use of both strategic and financial objectives, tracking their achievement, and giving management a more complete and balanced view of how well as organization is performing is known as the balanced score card. This is a method for linking financial objectives to specific strategic objectives that derive from a company's business model. It provides a company's employees with clear guidelines about how their jobs are linked to overall objectives of the organization, so that they can contribute most productively and collaboratively to the achievements of these goals.

The balanced score card was developed by Robert S. Kaplan and David Norton of Harvard Business School. This system tries to do away with the overemphasis on short term financial objectives and tries to improve organizational performance by focusing attention on measuring a wide range of non-financial, operational objectives. Later, the system also tried to incorporate the strategic planning technique.

The balanced score card is a top-down approach to performance management. It starts with the strategic intent and ends with operationally relevant targets. The balance score card model requires an evaluation of organizational performance from four different perspectives.

1. Financial Perspective: It considers the financial measures such as revenues, earnings, return on capital and cash flow arising out from the strategic intent of the organization.

2. Customer's Perspective: This measures the ability of the organisation to provide quality goods and services, effective delivery and overall customer's satisfaction. Customer's perspective includes market share, customer satisfaction measures and customer loyalty.

3. Internal Business Perspective: The mechanisms through which the performance expectations are achieved are called as internal businesses processes. This provides data regarding the internal business results that have led to financial success and satisfied customers. It is very important to identify the key business processes that should be excelled to meet the organizational objectives and customer satisfaction.

4. Learning and Growth Perspective: This perspective focuses on the ability of the organization to manage its business and adapt to changes in the environment. Organizations take on new responsibilities that require its employee to develop new skills and capabilities in order to cope with the changing environment and customer expectations.

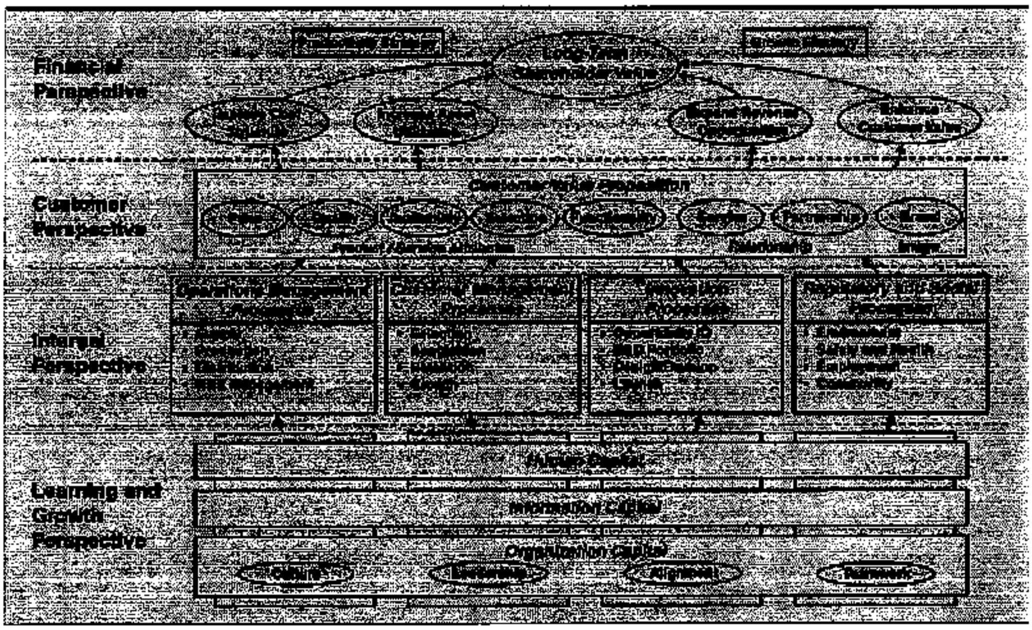


Figure 1.4: Strategy Map Kaplan and Norton

A visual representation of the organization's strategy through strategy maps have been used by Kaplan and Norton. In these maps, the four perspectives have been connected to each other in a cause and effect' fashion thus making clear the relationship of all the strategic objectives to the strategic intent of the organization.

The balanced score card approach involves the following steps:

1. The first step involves establishing the organisation's strategic intent including the vision and mission.

2. In the second step, the design of the balanced score card is determined by identifying the specific measures related to the four perspectives namely; financial, customer, internal and learning or innovation perspective. In this step the specific strategies that should be formulated and implemented to realise the organization's vision is also determined.

3. The next step involves strategy mapping through identification of organizational activities that are derived from the strategies.

4. In the final step, quantitative measures or metrics should be established to measure accurately the performance of the organization in the specific areas.

1.7 EVA- DRIVEN RESPONSIBILITY ACCOUNTING

Profit is the surplus of revenues over costs available for distribution to the owners of the firm. The transition from accounting profit to economic profit was triggered due to a major problem of accounting profit as it combines two types of returns: the normal return to capital that rewards investors for the use of their capital; and economic profit, which is the pure surplus available after all inputs (including capital) have been paid for. Economic profit represents a purer and more reliable measure of profit that is a better measure of performance. In order to distinguish economic profit from accounting profit, economic profit is often referred to as rent or economic rent.

A widely used measure of economic profit is economic value added (EVA), devised and popularised by the New York consulting firm Stern Stewart & Company.

EVA = Net Operating Profit After Tax (NOPAT) - Cost Of Capital

Cost of capital is calculated as: capital employed multiplied by the weighted average of capital (WACC).

Economic profit has two main advantages over accounting profit as a performance measure.

1. First, it sets a more demanding performance discipline for managers. As Stern Stewart's calculations show, many major corporations' apparent profitability disappears once cost of capital is taken into account.

2. Second, using economic profit improves the allocation of capital between the different businesses of the firm by taking account of the real costs of more capital intensive businesses. (Grant, 2012)

• SOLVED CASE 3

Teach for America: How Wendy Kopp Inspires Future Leaders :

Teach for America (TFA) is a cadre of future leaders who work to ensure that underprivileged youth get an excellent education. The non-profit organisation recruits both graduates and professionals to teach for two years in economically disadvantaged communities in the United States. TFA's vision is: One day, all children in this nation will have the opportunity to attain an excellent education. The idea behind TFA was developed by then-21-year- old Wendy Kopp as her college senior thesis (in 1989). Kopp was convinced that young people generally search for meaning in their lives by making a positive contribution to society. The genius of Kopp's idea was to turn on its head the social perception of teaching—to make what could appear to be an unattractive, low-status job into a high-prestige professional opportunity. Kopp works to eliminate educational inequality by enlisting the nation's most promising future leaders in the effort. Thus to be chosen for TFA is a badge of honour. In the first four months after creating TFA, Kopp received more than 2,500 applicants. Her marketing consisted of flyers in dorm rooms. During its first academic year (1990-91), TFA was able to serve five states and reached some 36,000 students. After 25 years, during the 2015-16 academic year, some 20,000 TFA corps members were teaching in 36 states (and Washington, D.C.) and more than 1,000 schools. To date, TFA has reached over 10 million students. To see how all three components—vision, mission, and values—work together, see Exhibit 1.1, which provides a snapshot of aspirations at Teach for America. While initially targeted at college seniors, today, one-third of all TFA corps members applied as graduate students or professionals. In 2015, TFA added 4,100 new teachers to its corps from over 27,300 applications, representing more than 800 colleges and universities throughout the United States. This equates to about 15 percent acceptance, roughly equivalent to the admission rate of highly selective universities such as North western, Cornell, or University of California, Berkeley. TFA's teaching cohort is also much more diverse than the national average: While some 20 percent of teachers nationwide are people of colour, about 50 percent of TFA corps members are. TFA corps members receive the same pay as other first-year teachers in the local school district. Most importantly, TFA makes a significant positive impact on students. Some 95 percent of all school principals working with TFA members say these teachers make a positive difference. A study commissioned by the U.S. Department of Education found that students being taught by TFA corps members showed significantly higher achievement, especially in math and science. In 2016, after celebrating its 25th anniversary, TFA CEO Elisa Villanueva Beard recalls that she was inspired to sign up for TFA (when a freshman in high school) by Wendy Kopp's "audacity to believe young people could make a profound difference in the face of intractable problems standing between the ideals of a nation I loved and a starkly disappointing reality; who were bound by a fierce belief that all children, from American Indian reservations in South Dakota to Oakland to the Rio Grande Valley to the Bronx, should have the opportunity to write their own stories and fulfil their true potential

Source: Rothaermel, F. T. (2019). Strategic Management. 4th Edition, McGraw-Hill Education,

Describe the vision, mission and values of Teach for America :

Vision: One day, all children in this nation will have the opportunity to attain an excellent education.

Mission: Our mission is to enlist, develop, and mobilize as many as possible of our nation's most promising future leaders to grow and strengthen the movement for educational equity and excellence.

Values:

1. Transformational Change: We seek to expand educational opportunity in ways that are lifechanging for children and transforming for our country. Given our deep belief in children and communities, the magnitude of educational inequity and its consequences, and our optimism about the solvability of the problem, we act with high standards, urgency, and a long-term view.

2. Leadership: We strive to develop and become the leaders necessary to realize educational excellence and equity. We establish bold visions and invest others in working towards them. We work in purposeful, strategic, and resourceful ways, define broadly what is within our control to solve, and learn and improve constantly. We operate with a sense of possibility, persevere in the face of challenges, ensure alignment between our actions and beliefs, and assume personal responsibility for results.

3. Team: We value and care about each other, operate with a generosity of spirit, and have fun in the process of working together. To maximize our collective impact, we inspire, challenge, and support each other to be our best and sustain our effort

4. Diversity: We act on our belief that the movement to ensure educational equity will succeed only if it is diverse in every respect. In particular, we value the perspective and credibility that individuals who share the racial and economic backgrounds of the students with whom we work can bring to our organisation, classrooms, and the long-term effort for change.

5. Respect & Humility: We value the strengths, experiences, and perspectives of others, and we recognize our own limitations. We are committed to partnering effectively with families, schools, and communities to ensure that our work advances the broader good for all children.

Source: Rothaermel, F. T. (2019). Strategic Management. 4th Edition, McGraw-Hill Education

British Airways and their strategy :

British Airways is a leading global airline. Privatised in 1987, the company enjoyed strong growth and profitability throughout the 1990s. After 2000 BA's fortunes dipped in the face of competition from 'no-frills' operators, government failure to establish Open Skies agreements with the US and the terror attacks in September 2001that led to a slump in demand for air travel. BA's website explains how it developed new strategies in this context:

Vision :

'The BA Way' – Service that matters for people who value how they fly Goals/Objectives

The BA Way outlines five over-riding goals with associated measures (in brackets)

1. Profitability, in terms of operating margin (a 10% target)
2. Customer advocacy (the number of customers who recommend BA)
3. Safety and security (the number of customers who feel safe with BA)
4. Respected company (the number of community stakeholders who respect BA)
5. Employee motivation (the number of employees who feel motivated to deliver BA's goals)

Values :

The BA Way is based upon five core values: Understanding . . . Focused . . . Cost-conscious . . .Supportive . . . Trustworthy

Strategies :

The BA Way provides a high-level statement of strategies:

1. To be the best UK-based network

2. To understand customers better than competitors

3. To develop a powerful brand that people know and trust

4. To establish a competitive cost base

5. To work together as one team

Competitive Strengths

Within this BA identifies its competitive strengths as:

1. A 'full service' airline with a strong brand identity, associated with high standards of service, comfort and safety.

2. Clearly defined and well-branded products targeting specific customer segments (e.g. Club World, developed to address the needs of long-haul business travellers).

3. Membership of the One World Alliance providing customers with . . . a far more extensive network than BA could provide alone.

4. Dominance of national and international slot allocations at London Heathrow airport.

5. A modern, flexible and cost-effective aircraft fleet.

6. As a listed company, BA must satisfy shareholder expectations, achieving profitability through a combination of service quality and operational efficiency.

7. Source: Johnson, G., Scholes, K. and Whittington, R. (2008). Exploring Corporate Strategy. 7th Edition. Pearson India. India,

• SOLVED CASE 4

Strategy at Apple

In 2000, Apple Computer held a loyal customer base but was limping along as a relatively minor player in the personal computer market. Launched by Steve Jobs and Steve Wozniak, Apple was one of the pioneers in the industry. Unlike other PC makers that relied on Microsoft's operating system and application software, Apple wrote its own operating system software and much of its application software, which was known as being easy to use. In fact, Apple was the first to introduce software on a low cost personal computer with drop-down menus and a graphical user interface that allowed customers to easily complete a task, such as dragging a file to the trash to delete it. However, Apple's investment in unique software led to high-priced computers and created files that were originally incompatible with those of Microsoft's Windows operating system and Office software suite. As a result, Apple rarely achieved more than about a 5 percent share of the computer market.

That all changed in 2001, however, when Apple entered an entirely new market with the launch of an MP3 portable music player called the iPod. Apple's MP3 player was not the first on the market. A company called Rio had offered an MP3 player for a couple of years before iPod's entry into the market. But iPod quickly took market share from the Rio, for three primary reasons:

1. iPod had a mini hard drive that allowed it to hold 500 songs, as opposed to the roughly 15 songs the Rio could hold using flash memory.

2. iPod was the first to introduce a "fly wheel" navigation button—the round button that was easy to use and allowed users to quickly scroll through menus and songs.

3. iPod was backed with Apple's name and an innovative.

These advantages helped iPod quickly move to industry leadership, despite the fact that an iPod cost 15 to25 percent more than a Rio. At the time the iPod was launched, it was difficult for most consumers to access digital download of songs legally. Initially, the iPod was snapped up only by a relatively small group of users, mostly teenagers and college students, who were illegally downloading songs through Napster and other free downloading sites. Apple recognized that to grow the market for iPods, it needed to help consumers legally access songs to play on their iPods. As a result, Apple developed software called iTunes, allowing customers to legally download songs. One main reason iTunes was able to provide legal downloads before its competitors was because Steve Jobs, as CEO of both Apple and Pixar (the animation movie production company), understood that music companies, like movie companies, were concerned about people pirating their products. So Apple worked with the music companies to sell songs that had been digitized using software that prevented customers from copying the songs to more than a few computers. i Tunes was designed To be easy to use with the iPod. Customers now could easily and legally access songs simply by connecting their iPods to their computers and letting the software do the rest. Even a technology challenged grandparent could do it. But Apple wasn't done with its music player strategy. Apple's experience in the computer business was that other companies could make similar products, often at lower prices. Indeed, while Apple and IBM were the pioneers of the personal computer industry and dominated it during the early years, lower-priced competitors such as Dell, Hewlett-Packard, Lenovo, and ASUS eventually came to dominate the market. Apple realized it needed to prevent easy imitation of its music offering. So it created proprietary software called Fair play that restricted the use of music downloaded from iTunes to iPods only. That meant consumers couldn't buy a lower-priced MP3 player and use it with iTunes because it was incompatible. If they wanted to use a different MP3 player, they would have to download and pay for music a second time.5 Now Apple has bundled an MP3 player into the i Phone, which makes it more convenient for customers because they don't have to carry two devices. To top it off, Apple did something that no other maker of computers, music players, or any other electronic device company had done. It opened its own stores to sell Apple products. This required that Apple learn how to operate retail stores. The Apple Stores helped Apple create a direct link to its customers, making it easier for consumers to learn about and try out Apple products—and get their products serviced.

As a result of Apple's strategic initiatives, it has built a very secure market position in music players, currently holding over 70 percent of that market. But the battle isn't over. Amazon has entered the industry, offering music buyers unrestricted use of its songs with a subscription to Amazon Music Unlimited. Moreover, other competitors offering music via subscription include e Music, Pandora.com, and Spotify. Users can listen to any song they want for a small monthly subscription fee. The $17 billion music industry is so large that it will continue to attract new competitors who want to dethrone Apple. [https://catalogimages.wiley.com/images/db/pdf/9781119411604.excerpt.pdf]

A. How did Apple enter the music industry and within 10 years become the dominant seller of both songs and music players?

Answer:

Apple's theory of how to gain a competitive advantage in the music download business was to create cool and easy-to-use MP3 players and smartphones that could easily—and legally—download digital songs from a computer through the iTunes store. Apple sought to sustain its advantage by making it difficult for competitor MP3 players or phones to download songs from the iTunes store. The Apple Stores contributed to Apple's advantage by providing a direct physical link to customers that competitors couldn't match. In this particular instance, Apple's plan to gain, and sustain, competitive advantage worked. But there have been other times, such as with the Apple Newton Message Pad (the first handheld computer that Apple sold as a personal digital assistant), that Apple's approach to gaining and sustaining competitive advantage did not work.

B. 'Leaders must choose the industries a company competes in and the specific customer segments or needs it will address within those industries'–What industry, customer segment, and geographic markets have been chosen by Apple?

Answer:

Before iPod, Apple competed only in the computer industry. Its product markets included desktop and laptop computers. Launching iPod and iTunes took Apple into the music industry. Later, when Apple launched the iPhone, it entered the cell phone business.

Apple targets the high-end customer segments within its industries. Its customers want the latest in technology, see themselves as innovators, appreciate design and elegance, and are not price sensitive. It is also important to select geographic markets to serve. Apple competes on a worldwide basis, which allows it to spread heavy research and development costs across its many geographic markets. By contrast, Walmart started by focusing on rural markets, which allowed it to offer lower prices than the "mom and pop" retail stores in small towns

C. After a company chooses the markets in which to compete, it then attempts to offer unique value in those markets. This is often referred to as a company's value proposition – Explain the value proposition of Apple.

Answer:

Apple's unique value is offering iPods (music players), iPhones (smart phones), and iPads (tablets) that are well designed, innovative, easy to use, and have features that competing products don't have ("there's an App for that"). In similar fashion, Starbucks wins through differentiation by offering multiple blends of high- quality coffee in convenient locations.

D. How Apple create barriers to imitation to prevent other companies from offering that same value?

Answer:

By being the first to offer music downloads through its easy- to-use iTunes software, Apple encouraged its customers to store their entire music libraries on iTunes. Designing iTunes so that it wouldn't easily download songs to other music players helped Apple to prevent competing MP3 players from taking market share from iPod. Of course, Apple's brand image and its Apple Stores also prevent competitors from easily imitating its products and services. These actions helped Apple capture and sustain the value it created.

E. Vertical integration, or the make–buy decision, is also a vehicle for achieving objectives – Explain this statement in the context of Apple.

Answer:

When Apple decided to move into retailing by establishing Apple Stores, the company made a decision to "make" stores that sold their own products, rather than simply "buy" the retailing services of stores run by other companies, such as Best Buy or Walmart. Finally, companies use international expansion as a vehicle to achieve economies of scale, access key resources, or learn new skills. Indeed, some companies use international expansion as a primary source of competitive advantage.

F. Which products made transform from Apple Computer Inc. to Apple Inc?

Apple's transformation from a computer company to a company known mostly for its music players and cell phones was the result of a strategy that emerged after the introduction of the iPod. The iPod opened up opportunities—such as the i Phone and i Pad—that the company's senior executives did not necessarily foresee.

Q1. Multiple Choice Questions

1. The monitoring, evaluating and disseminating of information from the external and internal environments to key people within the organisation is called _________.

a. Strategy Formulation

b. Evaluation and control

c. Strategy Implementation

d. Environmental scanning

2. The ______of a company state how managers and employees should conduct themselves.

a. values

b. goals

c. objectives

d. vison

3. _________are the day-to-day way in which an organisation operates and can be seen by people both inside and outside the organisation.

a. Performances

b. Targets

c. Behaviours

d. Values

4. Which among the following provide the standards for performance appraisal?

a. Mission

b. Vision

c. Values

d. Objectives

5. _________is concerned with complexity arising out of ambiguous and non-routine situations with organisation wide rather than operation-specific implications.

a. Operational management

b. Business level strategy

c. Strategic Management

d. Functional level strategy

6. _________refer to the job-specific goals of each individual employee.

a. Balanced Score Card

b. Performance objectives

c. Personal objectives

d. Organisational genomics

7. The balanced score card is a ________approach to performance management.
a. top-down
b. bottom up
c. indirect
d. direct

8. In the Balanced Scorecard framework, which perspective focuses on the organization's ability to innovate, improve, and learn?
a) Financial Perspective
b) Customer Perspective
c) Internal Processes Perspective
d) Learning and Growth Perspective

9. Blue Ocean Strategy suggests companies should focus on creating what instead of competing in existing market spaces?
a) Brand loyalty
b) Customer satisfaction
c) Market differentiation
d) New market spaces

10. What is the role of Porter's Five Forces model in strategy formulation?
a) To identify potential target markets
b) To assess industry attractiveness and competitiveness
c) To set financial targets
d) To evaluate internal strengths and weaknesses

11. Which of the following is NOT typically considered a component of competitive analysis?
a) Market segmentation
b) Pricing strategies
c) Product differentiation
d) Customer satisfaction

1	2	3	4	5	6	7	8	9	10	11
d	a	c	d	c	c	a	d	d	b	d

Q2. State True or False.

1. Business ethics are an agreed-upon code of conduct in business, based on organisational norms.
2. Strategy is likely to be concerned with the short term direction of an organisation.
3. Strategic decisions are likely to affect operational decisions.
4. Corporate strategy is about how to compete successfully in particular markets.
5. In evaluation and control the actual performances are compared to the desired performances and corrective actions are taken to resolve problems.
6. A customer-oriented business definition focuses on the characteristics of the products sold and the markets served.
7. Self-regulation is the ability to understand one's own moods, emotions, and drives, as well as their effect on others.
8. People disrespect leaders who are self aware and self regulating.
9. The balance score card model requires an evaluation of organisational performance from five different perspectives.
10. Accounting profit represents a purer and more reliable measure of profit that is a better measure of performance.

1	2	3	4	5	6	7	8	9	10
F	F	T	F	T	F	F	F	F	F

Q3. Fill in the Blanks.

1. ___________typically fit within the three main categories of stability, growth and retrenchment.
2. ________ is about how to compete successfully in particular markets.
3. __________ is concerned with developing and nurturing competence to provide a business unit with a competitive advantage.
4. ________refers to the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the organisation.
5. __________involves the process through which organisational activities and performances are monitored.
6. A ________business definition focuses on the characteristics of the products sold and the markets served,
7. A ___________view of a company's business focuses on customer needs rather than a particular product (or solution) for satisfying those needs.
8. __________is the desired future state of an organisation.
9. ___________is the 'basic assumptions and beliefs that are shared by members of an organisation
10. __________are the day-to-day way in which an organisation operates and can be seen by people both inside and outside the organisation.
11. __________ are defined as the ends that state specifically how the goals shall be achieved.

1	Corporate strategies	2	Business strategies
3	Functional or Operational strategies	4	Environmental scanning
5	Evaluation and control	6	product-oriented
7	customer –oriented	8	Vision
9	Organisational culture	10	Behaviours
11	Objectives		

2. STRATEGIC ANALYSIS AND STRATEGI PLANNING

The task of a strategic manager is to manage the strategy making process. The strategy making process includes the formulation of strategy, strategy implementation and strategy evaluation and control. The formulation of strategy includes stating the organization's vision, mission, values and major goals. It also requires analysing the organization's internal and external environment. The success of a strategy solely rests on how well strategic managers understand the environment within which the organization will operate now as well as in the future. Although the strategy making process is a top down approach but evidences suggest that strategies can also be a result of unplanned responses to uncertain circumstances. There can be a significant deviation from the intended strategies with the realised strategies. This chapter tries to look into the business environment, the macro-environment, the value chain of an organization and strategic planning.

1. Business environment refers to the sum total of all the conditions, events and influences in and around an organization that affects it hence, a clear understanding of business environment is of crucial importance.

2. The very survival of an organization depends on its environment. However, the environment is also the source of threats for example, hostile shifts in market demand, new regulatory requirements, innovations in technology or the entry of new competitors.

3. Environmental change can be both an opportunity as well as a threat to an organization.

4. It is vital that managers analyse their environments carefully in order to anticipate and if possible influence environmental change.

The framework for analysing changing and complex environments are organized in a series of 'layers' as follows

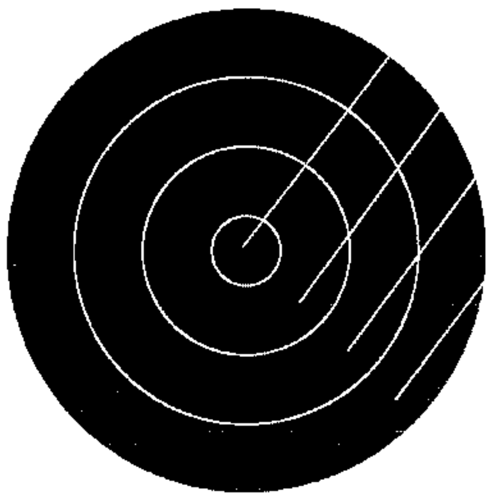


Figure 2.1: Layers of the Business Environment

1. The macro-environment is the outermost and the highest-level layer. This consists of broad environmental factors that impact to a greater or lesser extent on almost all organizations. Here, the PESTEL framework can be used to identify how future trends in the political, economic, social, technological, environmental ('green') and legal environments might impinge on organizations. This PESTEL analysis provides the broad 'data' from which to identify key drivers of change. These key drivers can be used to construct scenarios of possible futures. Scenarios consider how strategies might need to change depending on the different ways in which the business environment might change.

2. Industry, or sector, forms the next layer with this broad general environment. This is made up of organizations producing the same products or services. Here the Porter's five forces framework is particularly useful in understanding the attractiveness of particular industries or sectors and potential threats from outside the present set of competitors.

3. Competitors and markets are the most immediate layer surrounding organizations. Within most industries or sectors there will be many different organisations with different characteristics and competing on different bases, some closer to a particular organization, some more remote. The concept of strategic groups can help identify close and more remote competitors. Similarly, in the marketplace, customers' expectations are not all the same. They have a range of different requirements the importance of which can be understood through the concepts of market segments and critical success factors.

Characteristics of Business Environment :

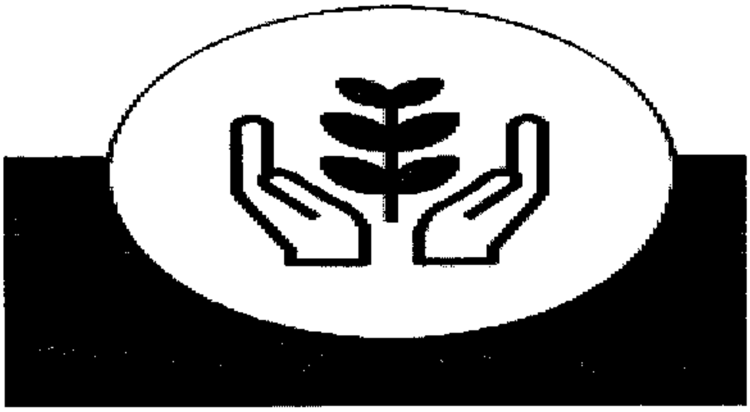
Business environment exhibits many characteristics. Some of the important characteristics are as follows:

1. Environment is complex: The business environment happens to be very complex as it comprises of a number of factors namely, events, conditions and influences arising from different sources interacting with each other to create entirely new sets of influences. It is indeed difficult to instantly say what factors constitute a given environment. Environment is a complex phenomenon and it is easier to understand it in segments or compartments rather than grasp in totality.

2. Environment is dynamic: The changing nature of environment is a constant. The dynamism of the environment is largely due to large number of factors that continuously influences its character and shape.

3. Environment is Multi-faceted: The perception of the observer is very important to determine the shape and character of three environment. Changes in the environment may be perceived differently by different individual. The changes and developments may be considered to be an opportunity to one and a threat to others.

4. Environment has a far reaching impact: The impact of environment on an organisation is huge. It critically underpins the growth and profitability of an organisation. Any changes in the environment affect the organisation in more ways than one. The very survival and existence of an organisation is critically dependent on its environment.



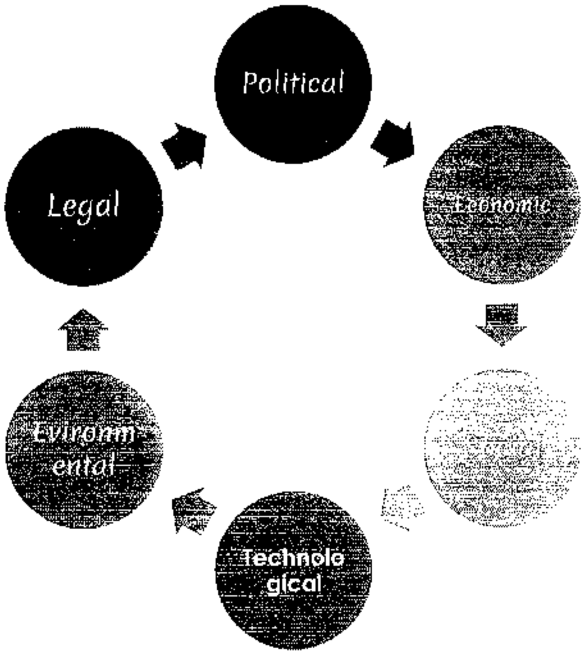


Figure 2.2: The PESTEL Framework

The PESTEL framework categorises environmental influences into six main types: political, economic, social, technological, environmental and legal. Politics highlights the role of governments.

<u>1. Political :</u> processes shape a society's laws, which constrain the operations of organisations and managers and thus create both opportunities and threats. Political instability creates adverse conditions for the businesses to function. Investors rarely want to invest in countries where there is political turmoil and this in turn can be detrimental to the businesses in those regions. On the other hand, political stability and favourable government attitude towards businesses can create a lot of opportunities and is considered to be a favourable business environment.

<u>2. Macroeconomic forces:</u> affect the general health and well-being of a nation or the regional economy of an organisation which in turn affect companies' and industries' ability to earn an adequate rate of return. The four most important macroeconomic forces are the growth rate of the economy, interest rates, currency exchange rates, and inflation (or deflation) rates.

a. Economic growth tends to ease competitive pressures within an industry as it leads to an expansion in customer expenditures. This gives companies the opportunity to expand their operations and earn higher profits. On the other hand economic decline (a recession) increases competitive pressures as leads to a reduction in customer expenditures.

b. Interest rates can determine the demand for a company's products. Interest rates are important whenever customers routinely borrow money to finance their purchase of these products. Interest rates are also important because they influence a company's cost of capital, and therefore its ability to raise funds and invest in new assets. The lower the interest rates the lower the cost of capital for companies and more opportunities for investment.

c. Currency exchange rates define the comparative value of different national currencies. Movement in currency exchange rates has a direct impact on the competitiveness of a company's product.

d. Price inflation can destabilise the economy, producing slower economic growth, higher interest rates, and volatile currency movements. If inflation continues to increase, investment planning will become hazardous. The key characteristic of inflation is that it makes the future less predictable. Price deflation also has a destabilizing effect on economic activity. If prices fall, the real price of fixed payments goes up. This is damaging for companies and individuals with a high level of debt who must make regular fixed payments on that debt.

3. Social: influences include changing cultures and demographics. Demographic forces are outcomes of changes in the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, and social class. Like the other forces in the general environment, demographic forces present managers with opportunities and threats and can have major implications for organizations.

4. Technological: influences refer to innovations such as artificial intelligence, internet, nano-technology, or the rise of new composite materials.

5. Finally **legal** embraces legislative constraints or changes, such as health and safety legislation or restrictions on company mergers and acquisitions.

For managers, it is important to analyse how these factors are changing now and how they are likely to change in the future, drawing out implications for the organisation. Many of these factors are linked together. Key drivers for change are the high-impact factors likely to affect significantly the success or failure of strategy. Typical key drivers will vary by industry or sector. For example, the key driver for a computer manufacturer may be technological change. Public sector managers are likely to be concerned with social change (for example, an ageing population), political change (changing government funding and policies) and legislative change (introducing new requirements). Identifying key drivers for change helps managers to focus on the PESTEL factors that are most important and which must be addressed as the highest priority.

• SOLVED CASE

Airbnb: Disrupting the Hotel Industry

IN 2019, AIRBNB had 5 million listings in over 81,000 cities in some 190 countries, ranging from spare rooms to entire islands. With its "asset-light approach" based on its platform strategy, Airbnb is able to offer more accommodations than the three biggest hotel chains combined: Marriott, Hilton, and Intercontinental. And just like global hotel chains, Airbnb uses sophisticated pricing and reservation systems for guests to find, reserve, and pay for rooms to meet their travel needs. In this sense, Airbnb is a new entrant that competes in the global hotel industry. Brian Chesky and Joe Gebbia, Airbnb founders, were roommates in San Francisco a little more than a decade earlier. Both were industrial designers, people who shape the form and function of everything from coffee cups to office furniture to airplane interiors. But since work opportunities were hit-and miss, they found themselves struggling to make their rent payments. On a whim, they decided to e-mail everyone on the distribution list for an upcoming industrial design conference in their hometown: "If you're heading out to the [industrial design conference] in San Francisco next week and have yet to make accommodations, well, consider networking in your jam-jams. That's right. For an affordable alternative to hotels in the city, imagine yourself in a fellow design industry person's home, fresh awake from a snooze on the ol' air mattress, chatting about the day's upcoming events over Pop Tarts and OJ."1 Three people took up the offer, and the two roommates made some money to subsidize their rent payments. But more importantly, Chesky and Gebbia felt that they had stumbled upon a new business idea: Help people rent out their spare rooms. They then brought on computer scientist Nathan Blecharczyk, one of Gebbia's former roommates, to create a website where hosts and guests could meet and transact, naming their site AirBedandBreakfast.com (later shortened to Airbnb). The three entrepreneurs tested their new site at the 2008 South by Southwest (SXSW), an annual music, film, and interactive media conference. SXSW also serves as an informal launch pad for new ventures; for example, Twitter was unveiled at SXSW just a year earlier to great fanfare. Airbnb's launch at SXSW flopped, however, because the conference organizers had exclusive contracts with local hotels (which Airbnb founders learned about later), and so conference organizers didn't drive any traffic to Airbnb's site.

Not to be discouraged, Airbnb decided to take advantage of the anticipated shortage of hotel rooms in Denver, Colorado, the site of the Democratic National Convention (DNC) in the summer of 2008. After all hotels were booked, the founders prepared media releases with titles such as "Grassroots Housing for Grassroots Campaign," which Obama supporters loved. As luck would have it, Airbnb was covered in both The New York Times and The Wall Street Journal. And the newly designed Airbnb site worked! It facilitated about 100 rentals during the DNC. Soon after the event, however, website traffic to Airbnb's site fell back to zero. To keep going, Chesky and Gebbia decided to become cereal entrepreneurs, creating "Obama-O's: The breakfast of change" and "Cap'n McCains: A maverick in every bite," with illustrated images of the 2008 presidential candidates on 1,000 cereal boxes. After sending samples to their press contacts and subsequent coverage in the media, the limited-edition cereal sold out quickly, providing enough cash to keep going with Airbnb a bit Longer. The fledgling venture's breakthrough came in 2009 when it was accepted into a program run by Y Combinator, a start-up accelerator that has spawned famous tech companies such as Dropbox, Stripe, and Twitch.tv. In exchange for equity in the new venture, these start-up accelerators provide office space, mentoring, and networking opportunities, including with venture capitalists looking to fund the next "big thing." In 2010, Airbnb received funding from Sequoia Capital, one of the most prestigious venture capital firms in Silicon Valley, having provided early-stage capital to companies such as Apple, Google, Oracle, PayPal, YouTube, and WhatsApp. Although not a first mover in the peer-to-peer rental space, Airbnb, with support of Y Combinator, was the first one to figure out that a sleek website design comprising professional photos of available rentals made all the difference. In addition, Airbnb developed a seamless transaction experience between hosts and guests and was able to earn a little over 10 percent on each transaction conducted on its site. Timing was now much more fortuitous; with the global financial crisis in full swing, people were looking for low-cost accommodations while hosts were trying to pay rent or mortgages to keep their homes. In 2019, Airbnb was valued at a whopping $31 billion. This makes Airbnb the fourth most valuable private startup on the planet, just after Didi Chuxing, China's version of Uber ($56 billion), WeWork ($47 billion), and JUUL ($38 billion). Even more stunning, Airbnb's valuation approaches that of Marriott ($39 billion in 2019), the world's largest hotel chain with over $20 billion in annual revenues.

Source: Rothaermel, F. T. (2019). Strategic Management. 4th Edition, McGraw-Hill Education

A. How can an internet start up based on the idea of home sharing disrupt the global hotel industry, long dominated by corporate giants such as Marriott, Hilton, and Intercontinental?

One reason is that Airbnb, now the world's largest accommodation provider, owns no real estate. Instead, it uses a business model innovation to circumvent traditional entry barriers into the hotel industry. Just like Uber, Facebook, or Amazon, Airbnb provides an online platform for sellers (hosts) and buyers (renters) to connect and transact. While traditional hotel chains need years and millions of dollars in real estate investments to add additional capacity (finding properties, building hotels, staffing and running them, etc.), Airbnb's inventory is basically unlimited as long as it can sign up users with spare rooms to rent. Even more importantly, Airbnb does not need to deploy millions of dollars in capital to acquire and manage physical assets or manage a large cadre of employees. For example, Marriott has almost 250,000 employees, while Airbnb's headcount is approximately 2,500 employees (only 1 percent of Marriott's). Thus, Airbnb can grow much faster and respond much more quickly to local circumstances affecting the demand and supply of accommodations. The competitive intensity in the hotel industry is likely to increase, especially in high traffic metropolitan cities such as New York, Paris, Dubai, and Seoul. Unlike traditional hotel chains, Airbnb's growth is not limited by capital, hotel staff, or ownership of real estate. In 2019, Airbnb offered over 6 million listings worldwide for rent in over 81,000 cities in some 190 countries. With its asset-light approach based on its platform strategy, Airbnb is able to offer more accommodations than the three biggest hotel chains combined: Marriott, Hilton, and Intercontinental.

B. How do Political factors (result from the processes and actions of government bodies) influence the decisions and behaviour of firms like Airbnb?

Hotel chains and resort owners have challenged Airbnb in courts and lobbied local governments, some of which passed regulations to limit or prohibit short-term rentals. Local residents in New York, San Francisco, Berlin, Paris, and many other cities are also pressuring local governments to enact more aggressive rules banning short-term rentals because they argue that companies such as Airbnb contribute to a shortage of affordable housing by turning entire apartment complexes into hotels or transforming quiet family neighbourhoods into all-night, every-night party hot spots. In this context, non-market strategies play an important factor. Strategic leaders' activities outside market exchanges where firms sell products or provide services to influence a firm's general environment through, for example, lobbying, public relations, contributions, and litigation in ways that are favourable to the firm.

C. Technological factors capture the application of knowledge to create new processes and products – Justify this statement in the context of Airbnb.

Airbnb launched a process innovation of offering and renting rooms based on a business model leveraging the sharing economy. If one thing seems certain, technological progress is relentless and seems to be picking up speed. Not surprisingly, changes in the technological environment bring both opportunities and threats for companies.

D. How does network effect play a positive role in Airbnb's success story?

Airbnb is able to benefit from global network effects because of listings in 81,000 cities around the globe at all different price points, combined with an inventory of 5 million homes and apartments. This global network effect only grows stronger as more and more guests use the service and become hosts themselves.

Industry and Sector

An industry is a group of firms producing the same principal product or service. An industry may also be defined as a group of companies offering products or services that are close substitutes for each other i.e., products or services that satisfy the same basic customer needs. A company's closest competitors or its rivals are those that serve the same basic customer needs. For example, in the class of non-alcoholic beverages carbonated drinks and real fruit juices can be viewed as close substitutes for each other because they serve the same basic customer needs.

A sector is a group of closely related industries. The FMCG comprises several related industries: the food and beverages industries, the healthcare industries and the household and personal care industries.

The Value Chain

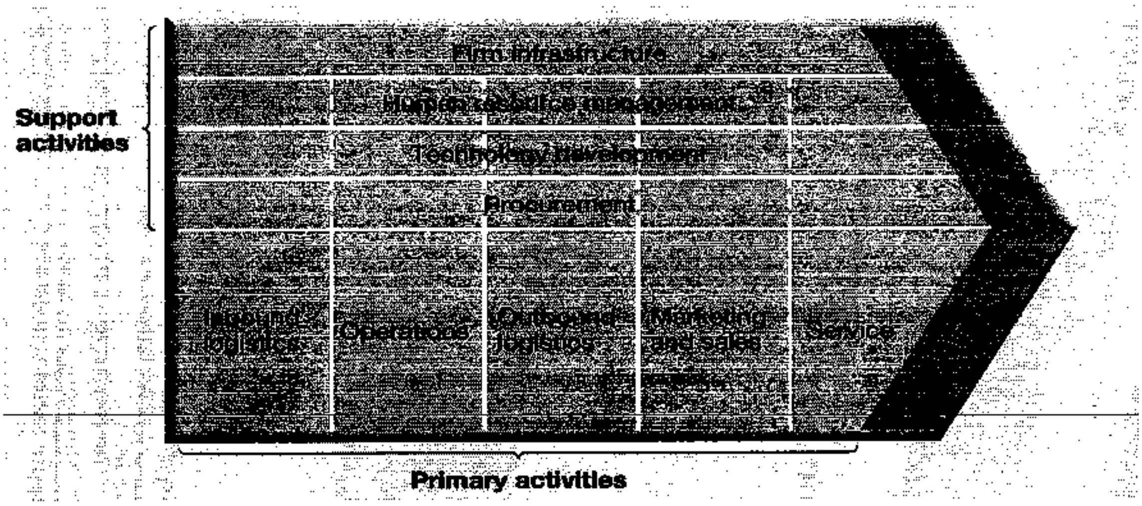


Figure 2.3 Porter's Value chain of an organisation

The value chain describes the categories of activities within and around an organisation, which together create a product or service. The concept was developed in relation to competitive strategy by Michael Porter. The term value chain refers to the idea that a company is a chain of activities that transforms inputs into outputs that customer's value. The transformation process involves both primary activities and support activities that add value to the product. Activities can be broadly divided into two types namely, primary activities and secondary or support activities.

Primary activities are directly concerned with the creation or delivery of a product or service. For example, for a manufacturing business the primary activists are as follows:

1. Inbound logistics are activities concerned with receiving; storing and distributing inputs to the product or service including materials handling, stock control, transport, etc.

2. Operations transform these inputs into the final product or service. Operations include machining, packaging, assembly, testing, etc.

3. Outbound logistics collect, store and distribute the product to customers, for example warehousing, materials handling, distribution, etc.

4. Marketing and sales provide the means whereby consumers/users are made aware of the product or service and are able to purchase it. This includes sales administration, advertising and selling.

5. Service includes those activities that enhance or maintain the value of product or service, such as installation, repair, training and spares.

Support activities help to improve the effectiveness or efficiency of primary activities. The following are the support or secondary activities:

6. Procurement: It refers to the processes that occur in many parts of the organisation for acquiring the various resource inputs to the primary activities.

7. Technology development: All value activities have a 'technology', even if it is just know-how. Technologies may be concerned directly with a product or with processes or with a particular resource.

8. Human resource management: This transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organisation.

9. Infrastructure: The formal systems of planning, finance, quality control, information management, and the structures and routines that are part of an organization's culture.

In the value chain process the value can be added early in the value chain, i.e. upstream and later in the value chain,

i.e. downstream.

Porter's five Forces Framework

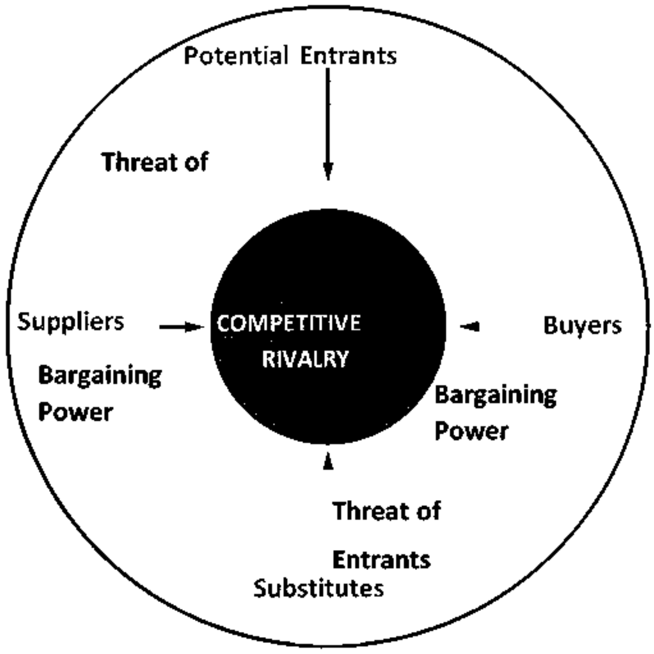


Figure 2.4: Porter's Five Forces framework

It helps to identify the sources of competition in an industry or sector. The following are important to understand the framework

1. It must be used at the level of strategic business units (SBUs) and not at the level of the whole organisation This is because organisations are diverse in their operations and markets.

2. The framework must not be used just to give a snapshot in time.

3. Understanding the connections between competitive forces and structural drivers is essential.

4. The five forces are not independent of each other

5. Competitive behaviour may be concerned with disrupting these forces and not simply accommodating them

The five forces are discussed hereunder:

Risk of Entry by Potential Competitors

Potential competitors are companies that are not currently competing in an industry, but have the capability to do so if they choose. Established companies are those which are already operating in an industry. They often attempt to discourage potential competitors from entering the industry because as more companies enter, it becomes more difficult for established companies to protect their share of the market and generate profits. A high risk of entry by potential competitors represents a threat to the profitability of established companies. The greater the costs potential competitors must bear to enter an industry, the greater the barriers to entry, and the weaker this competitive force. High entry barriers may keep potential competitors out of an industry even when industry profits are high.

1. Economies of Scale:

Economies of scale arise when unit costs fall as a firm expands its output. Sources of scale economies include cost reductions gained through mass producing a standardized output; discounts on bulk purchases of raw material inputs and component parts; the advantages gained by spreading fixed production costs over a large production volume; and the cost savings associated with distributing, marketing, and advertising costs over a large volume of output. If the cost advantages from economies of scale are significant, a new company that enters the industry and produces on a small scale suffers a significant cost disadvantage relative to established companies. If the new company decides to enter on a large scale in an attempt to obtain these economies of scale, it must raise the capital required to build large-scale production facilities and bear the high risks associated with such an investment. In addition, an increased supply of products will depress prices and result in vigorous retaliation by established companies, which constitutes a further risk of large-scale entry. For these reasons, the threat of entry is reduced when established companies have economies of scale.

2. Brand Loyalty:

Brand loyalty exists when consumers have a preference for the products of established companies. A company can create brand loyalty by continuously advertising its brand-name products and company name, patent protection of its products, product innovation achieved through company research and development (R&D) programs, an emphasis on high-quality products, and exceptional after-sales service. Significant brand loyalty makes it difficult for new entrants to take market share away from established companies. Thus, it reduces the threat of entry by potential competitors; they may see the task of breaking down well-established customer preferences as too costly.

3. Absolute Cost Advantages:

Sometimes established companies have an absolute cost advantage relative to potential entrants, meaning that entrants cannot expect to match the established companies' lower cost structure. Absolute cost advantages arise from three main sources: (1) superior production operations and processes due to accumulated experience, patents, or trade secrets; (2) control of particular inputs required for production, such as labour, materials, equipment, or management skills, that are limited in their supply; and (3) access to cheaper funds because existing companies represent lower risks than new entrants. If established companies have an absolute cost advantage, the threat of entry as a competitive force is weaker.

4. Customer Switching Costs:

Switching costs arise when a customer invests time, energy, and money switching from the products offered by one established company to the products offered by a new entrant. When switching costs are high, customers can be locked in to the product offerings of established companies, even if new entrants offer better products.

5. Government Regulations:

Historically, government regulation has constituted a major entry barrier for many industries. The competitive forces model predicts that falling entry barriers due to government deregulation will result in significant new entry, an increase in the intensity of industry competition, and lower industry profit rates.

Rivalry Among Established Companies

The second competitive force is the intensity of rivalry among established companies within an industry. Rivalry refers to the competitive struggle between companies within an industry to gain market share from each other. The competitive struggle can be fought using price, product design, advertising and promotional spending, direct- selling efforts, and after-sales service and support. Intense rivalry implies lower prices or more spending on non- price-competitive strategies, or both. Because intense rivalry lowers prices and raises costs, it squeezes profits out of an industry. Thus, intense rivalry among established companies constitutes a strong threat to profitability. Alternatively, if rivalry is less intense, companies may have the opportunity to raise prices or reduce spending on non-price competitive strategies, leading to a higher level of industry profits. Four factors have a major impact on the intensity of rivalry among established companies within an industry: (1) industry competitive structure, (2) demand conditions, (3) cost conditions, and (4) the height of exit barriers in the industry.

1. Industry Competitive Structure:

The competitive structure of an industry refers to the number and size distribution of companies in it, something that strategic managers determine at the beginning of an industry analysis. Industry structures vary, and different structures have different implications for the intensity of rivalry.

A fragmented industry consists of a large number of small or medium-sized companies, none of which is in a position to determine industry price.

- Low-entry barriers and commodity-type products that are difficult to differentiate characterize many fragmented industries. This combination tends to result in boom-and-bust cycles as industry profits rapidly rise and fall.
- Low-entry barriers imply that new entrants will flood the market, hoping to profit from the boom that occurs when demand is strong and profits are high. Often the flood of new entrants into a booming, fragmented industry creates excess capacity, and companies start to cut prices in order to use their spare capacity. The difficulty companies' face when trying to differentiate their products from those of competitors can exacerbate this tendency. The result is a price war, which depresses industry profits, forces some companies out of business, and deters potential new entrants. A fragmented industry structure, then, constitutes a threat rather than an opportunity.
- Economic boom times in fragmented industries are often relatively short-lived because the ease of new entry can soon result in excess capacity, which in turn leads to intense price competition and the failure of less efficient enterprises. Because it is often difficult to differentiate products in these industries, trying to minimize costs is the best strategy for a company so it will be profitable in a boom and survive any subsequent bust. Alternatively, companies might try to adopt strategies that change the underlying structure of fragmented industries and lead to a consolidated industry structure in which the level of industry profitability is increased.
- A consolidated industry is dominated by a small number of large companies (an oligopoly) or, in extreme cases, by just one company (a monopoly), and companies often are in a position to determine industry prices.
- In consolidated industries, companies are interdependent because one company's competitive actions (changes in price, quality, etc.) directly affect the market share of its rivals, and thus their profitability.

- When one company makes a move, this generally "forces" a response from its rivals, and the consequence of such competitive interdependence can be a dangerous competitive spiral.

- Rivalry increases as companies attempt to undercut each other's prices, or offer customers more value in their products, pushing industry profits down in the process.

- Companies in consolidated industries sometimes seek to reduce this threat by following the prices set by the dominant company in the industry.

2. Industry Demand:

The level of industry demand is another determinant of the intensity of rivalry among established companies.

- Growing demand from new customers or additional purchases by existing customers tend to moderate competition by providing greater scope for companies to compete for customers.

- Growing demand tends to reduce rivalry because all companies can sell more without taking market share away from other companies. High industry profits are often the result.

- Conversely, declining demand results in increased rivalry as companies fight to maintain market share and revenues (as in the breakfast cereal industry example).

- Demand declines when customers exit the marketplace, or when each customer purchases less. When this is the case, a company can only grow by taking market share away from other companies. Thus, declining demand constitutes a major threat, for it increases the extent of rivalry between established companies.

3. Cost Conditions:

The cost structure of firms in an industry is a third determinant of rivalry.

- Fixed costs are the costs that must be paid before the firm makes a single sale.

- In industries where fixed costs are high, profitability tends to be highly leveraged to sales volume, and the desire to grow volume can spark intense rivalry.

- Moreover, in industries where the fixed costs of production are high, firms cannot cover their fixed costs and will not be profitable if sales volume is low. Thus they have an incentive to cut their prices and/or increase promotional spending to drive up sales volume in order to cover fixed costs.

- In situations where demand is not growing fast enough and too many companies are simultaneously engaged in the same actions, the result can be intense rivalry and lower profits.

• Research suggests that the weakest firms in an industry often initiate such actions, precisely because they are struggling to cover their fixed costs.

4. Exit Barriers:

Exit barriers are economic, strategic, and emotional factors that prevent companies from leaving an industry. If exit barriers are high, companies become locked into an unprofitable industry where overall demand is static or declining. The result is often excess productive capacity, leading to even more intense rivalry and price competition as companies cut prices, attempting to obtain the customer orders needed to use their idle capacity and cover their fixed costs. Common exit barriers include the following:

• Investments in assets such as specific machines, equipment, or operating facilities those are of little or no value in alternative uses, or cannot be later sold. If the company wishes to leave the industry, it must write off the book value of these assets.

• High fixed costs of exit, such as severance pay, health benefits, or pensions that must be paid to workers who are being made laid off when a company ceases to operate.

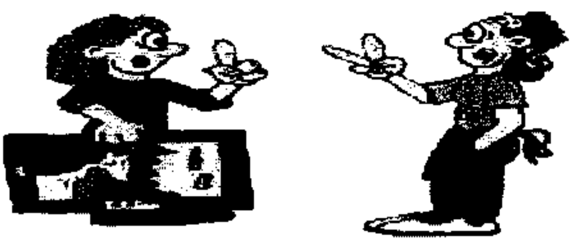
• Emotional attachments to an industry, such as when a company's owners or employees are unwilling to exit from an industry for sentimental reasons or because of pride.

• Economic dependence on the industry because a company relies on a single industry for its entire revenue and all profits.

• The need to maintain an expensive collection of assets at or above a minimum level in order to participate effectively in the industry.

• Bankruptcy regulations, particularly in the United States, bankruptcy provisions allow insolvent enterprises to continue operating and to reorganise under this protection. These regulations can keep unprofitable assets in the industry, result in persistent excess capacity, and lengthen the time required to bring industry supply in line with demand.

The Bargaining Power of Buyers



The third competitive force is the bargaining power of buyers. An industry's buyers may be the individual customers who consume its products (end-users) or the companies that distribute an industry's products to end-users, such as retailers and wholesalers. The bargaining power of buyers refers to the ability of buyers to bargain down prices charged by companies in the industry, or to raise the costs of companies in the industry by demanding better product quality and service. By lowering prices and raising costs, powerful buyers can squeeze profits out of an industry. Powerful buyers, therefore, should be viewed as a threat. Alternatively, when buyers are in a weak bargaining position, companies in an industry can raise prices and perhaps reduce their costs by lowering product quality and service, thus increasing the level of industry profits. Buyers are most powerful in the following circumstances:

1. When the buyers have choice of who to buy from. If the industry is a monopoly, buyers obviously lack choice. If there are two or more companies in the industry, the buyers clearly have choice.

2. When the buyers purchase in large quantities. In such circumstances, buyers can use their purchasing power as leverage to bargain for price reductions.

3. When the supply industry depends upon buyers for a large percentage of its total orders.

4. When switching costs are low and buyers can pit the supplying companies against each other to force down prices. When it is economically feasible for buyers to purchase an input from several companies at once so that buyers can pit one company in the industry against another.

5. When buyers can threaten to enter the industry and independently produce the product, thus supplying their own needs, also a tactic for forcing down industry prices.

The Bargaining Power of Suppliers

The fourth competitive force is the bargaining power of suppliers—the organizations that provide inputs into the industry, such as materials, services, and labour (which may be individuals, organizations such as labour unions, or companies that supply contract labour). The bargaining power of suppliers refers to the ability of suppliers to raise input prices, or to raise the costs of the industry in other ways for e.g., by providing poor-quality inputs or poor service. Powerful suppliers squeeze profits out of an industry by raising the costs of companies in the industry. Thus, powerful suppliers are a threat. Conversely, if suppliers are weak, companies in the industry have the opportunity to force down input prices and demand higher-quality inputs (such as more productive labour). As with buyers, the ability of suppliers to make demands on a company depends on their power relative to that of the company. Suppliers are most powerful in these situations:

1. The product that suppliers sell has few substitutes and is vital to the companies in an industry.

2. The profitability of suppliers is not significantly affected by the purchases of companies in a particular industry, in other words, when the industry is not an important customer to the suppliers.

3. Companies in an industry would experience significant switching costs if they moved to the product of a different supplier because a particular supplier's products are unique or different. In such cases, the company depends upon a particular supplier and cannot pit suppliers against each other to reduce prices.

4. Suppliers can threaten to enter their customers' industry and use their inputs to produce products that would compete directly with those of companies already in the industry.

5. Companies in the industry cannot threaten to enter their suppliers' industry and make their own inputs as a tactic for lowering the price of inputs.

Substitute Products

The final force in Porter's model is the threat of substitute products: the products of different businesses or industries that can satisfy similar customer needs. For example, companies in the coffee industry compete indirectly with those in the tea and soft drink industries because all three serve customer needs for non alcoholic drinks.

1. The existence of close substitutes is a strong competitive threat because this limits the price that companies in one industry can charge for their product, which also limits industry

profitability. If the price of coffee rises too much relative to that of tea or soft drinks, coffee drinkers may switch to those substitutes.

2. If an industry's products have few close substitutes (making substitutes a weak competitive force), then companies in the industry have the opportunity to raise prices and earn additional profits.

Complementors

Andrew Grove, the former CEO of Intel, is of the opinion that both substitutes and complements influence demand in an industry. He has argued that Porter's original formulation of competitive forces ignored a sixth force: the power, vigour, and competence of complementors.

According to Grove, complementors are companies that sell products that add value to (complement) the products of companies in an industry because, when used together, the use of the combined products better satisfies customer demands. For example, the complementors to the PC industry are the companies that make software applications to run on the computers. The link between PCs and software applications can be expressed as greater the supply of high-quality software applications running on these machines, the greater will be the value of PCs to customers resulting in increased demand for PCs and ultimately increased profitability of the PC industry. [Ref: Hill, Jones and Schilling (2015)]

VRIO Framework

The VRIO framework, as given by Barney, helps an organisation to evaluate its competencies with the help of the

following questions:

1. Value: It questions whether the firm's competencies provide customer value and competitive advantage or not. It should be mentioned that threshold competencies only help a firm to exist in business and do not provide any competitive advantage. Competitive advantage comes from core competencies.

2. Rareness: It questions the extent to which the competencies of the firm are rare. In other words, whether the competitors or the rivals possess the same competencies or not. The rarity component can help organizations to be competitively superior compared to its rivals.

3. Imitability: One of the factors on which the durability of competitive advantage depends is the barriers to imitation. The greater are the barriers the more durable will be the firm's competitive advantage. Tangible resources are easy to imitate whereas intangible resources such as reputation, capabilities, marketing strategies and technologies are difficult to imitate.

4. Organization: It refers to the level at which a firm is organized to utilise its resources. A firm where employees are able to take more risks, bring innovation and get rewarded is in a better situation in terms of utilisation of firm's resources. Having an organized structure is fundamental to the optimal utilisation of resources.

SWOTC Analysis (Strength, Weaknesses, Opportunities and Threats or Challenges)

SWOT is the acronym for strengths, weaknesses, opportunities and threats. SWOT summarises the key issues from the business environment and the strategic capability of an organization that are most likely to impact on strategy development. This can also be useful as a basis against which to generate strategic options and assess future courses of action. The aim is to identify the extent to which strengths and weaknesses are relevant to, or capable of dealing with, the changes taking place in the business environment. Organizations perform a SWOT analysis to understand their internal and external environments. The central purpose is to identify the strategies to exploit external opportunities, counter threats, build on and protect company strengths, and eradicates weaknesses. An effective Organizational strategy, therefore, is one that capitalises on the opportunities through the use of strengths and neutralises the threats by minimising the impact of weaknesses, to achieve pre-determined objectives.

A simple application of SWOT analysis technique involves these steps:

1. Setting the objectives of the organization or its unit.

2. Identifying its strength, weaknesses, opportunities and threats.

3. Maximising the areas where the organisation has strength.

4. Minimising the weaknesses.

5. Capitalising on the opportunities in the external environment.

6. Protecting the organisation from threats in external environment.

7. Recommending strategies that will help the organisation to be competitive in the business environment.

SWOT analysis is usually done with the help of a template in the form of a four-cell matrix. Each cell of the matrix represents the strengths weaknesses, opportunities and threats. The analysis for preparing the SWOT matrix could be done by a group of managers in a workshop session. The session could use the brainstorming technique for generating ideas about the SWOT factors.

SWOT analysis has several benefits such as simple to use, low cost, flexible and can be adapted to varying situations, leads to clarification of issues, development of goal-oriented alternatives, useful as a starting point for strategic analysis.

SWOT analysis should help focus discussion on future choices and the extent to which an organization is capable of supporting these strategies. There are, however, some dangers:

1. It is at times very difficult for organizations to clearly segment opportunities and threats. Sometimes an opportunity can also have an element of threat. For e.g. having a nuclear plant can be a great opportunity as it can lead to generation of low cost energy however, the threats cannot be undermined. The cost of mitigating threats can be huge.

2. SWOT exercise can generate very long lists of apparent strengths, weaknesses, opportunities and threats, whereas what matters is to be clear about what is really important and what is less important.

3. There is a danger of over generalisation. Identifying a very general explanation of strategic capability does not explain the underlying reasons for that capability. SWOT analysis is not a substitute for more rigorous, insightful analysis such as core competences, critical success factors, strategic gap, value chain, etc.

4. Simplicity of use may turn to be simplistic by trivialising the reality that may be more complex than represented in SWOT matrices.

5. May result in just compiling lists rather than think about what is really important for achieving objectives.

6. Usually reflects an evaluator's position and viewpoint that can be misinterpreted to justify a previously decided course of action, rather than be used as a means to open new possibilities.

7. Chances exist where strengths may be confused with opportunities or weaknesses with threats.

8. May encourage organizations to take a lazy course of action of looking for strengths that match opportunities rather than developing new strengths that could match the emerging opportunities.

Source: Kazmi (2013)

Strength, Weaknesses, Opportunities and Challenges (SWOC):

The threats, or challenges, that organizations are likely to face are perhaps the most important factors of a SWOC analysis. The term threats can also been seen as challenges. The bottom right square reflects challenges that a business might face. For example tightening of regulations, changes in consumer demands, newer products and a changing competitive landscape can pose challenges. One might have a robust plan catered to a clear and specific set of strengths, weaknesses and opportunities, but if one does not consider the challenges in one's industry, the plan could be useless. For instance, if your technology business introduces a mobile phone application that is similar to and indistinguishable from another company's application that currently dominates the market, your product's success faces a threat. Knowing the challenges you face, helps your business to make informed and strategic decisions regarding products.

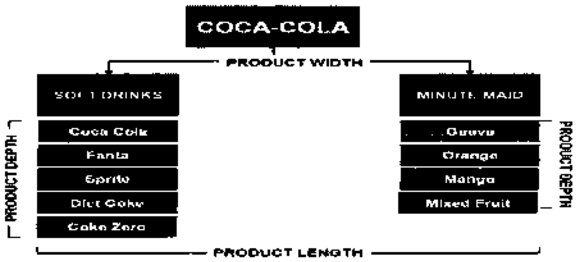
SWOT Analysis (Industry Sector)

SWOT Analysis of Indian Steel Industry

STRENGTHS	WEAKNESSES
1. Abundance of iron ore and other minerals for steel	1. High cost of capital
2. Skilled manpower and low unit cost	2. Low Laboure productivity
3. Mature production base	3. High cost of basic input
	4. High social cost
	5. Poor quality of basic infrastructure and distribution network
	6. IT liver age

OPPORTUNITY	THREATS
1. Demand for infrastructure	1. Emergence of China as a global exporter of steel
2. Rapid urbanization	2. Threat of substitutes such as aluminum plastics, etc.
3. Untapped rural demand	3. Technological obsolescence
4. Low per capital consumption	4. Slow industrial growth and global economic slow down
5. Consolidation	5. Price sensitivity and volatility
6. Low export penetration	6. Dumping of high grade low cost steel by developed countries
7. Growing domestic demand	

Portfolio Analysis



One of the most popular aids to developing corporate strategy in multiple business corporations is portfolio analysis. Portfolio analysis is an analytical tool which views a corporation as basket of portfolio of products or business units to be managed for the best possible returns. Portfolio analysis puts corporate headquarters into the role of an internal banker. In portfolio analysis top management views its product lines and business units as a series of investments from which it expects a profitable return. A study on 200 largest U.S. corporations made by McKinsey & Company found that companies that actively managed their business portfolios through acquisitions and divestitures created substantially more shareholder value than those companies that passively held their businesses. Given the increasing number of strategic alliances in today's corporations, portfolio analysis is also being used to evaluate the contribution of alliances to corporate and business unit objectives. Two of the most popular portfolio techniques are the BCG Growth-Share Matrix and GE Business Screen.

Objectives of Portfolio Analysis

1. to analyse the current mix of business and take investment decisions.

2. to develop strategies for adding new businesses in the portfolio thereby inducing growth.

3. to decide the business to be retained and the one to be excluded from the portfolio.

Advantages and Limitations of Portfolio Analysis

Portfolio analysis is commonly used in strategy formulation because it offers certain advantages such as

1. It encourages top management to evaluate each of the corporation's business individually and to set objectives and allocate resources for each.

2. It stimulates the use of externally oriented data to supplement management's judgment.

3. It raises the issue of cash-flow availability for use in expansion and growth.

4. Its graphic depiction facilitates communication.

Portfolio analysis, however, has some very real limitations that have caused companies to reduce their use of this approach:

1. Defining product/market segments is difficult.

2. It suggests the use of standard strategies that can miss opportunities or be impractical

3. It provides an illusion of scientific rigour, when in reality positions are based on subjectivity.

4. Its value-laden terms such as cash cow and dog can lead to self-fulfilling prophecies.

5. It is not always clear what makes an industry attractive or where a product is in its life cycle.

6. Naively following the prescriptions of a portfolio model may actually reduce corporate profits if they are used inappropriately.

The growth/share (or BCG) matrix

One of the most common and long-standing ways of conceiving of the balance of a portfolio of businesses is the Boston Consulting Group (BCG) matrix.

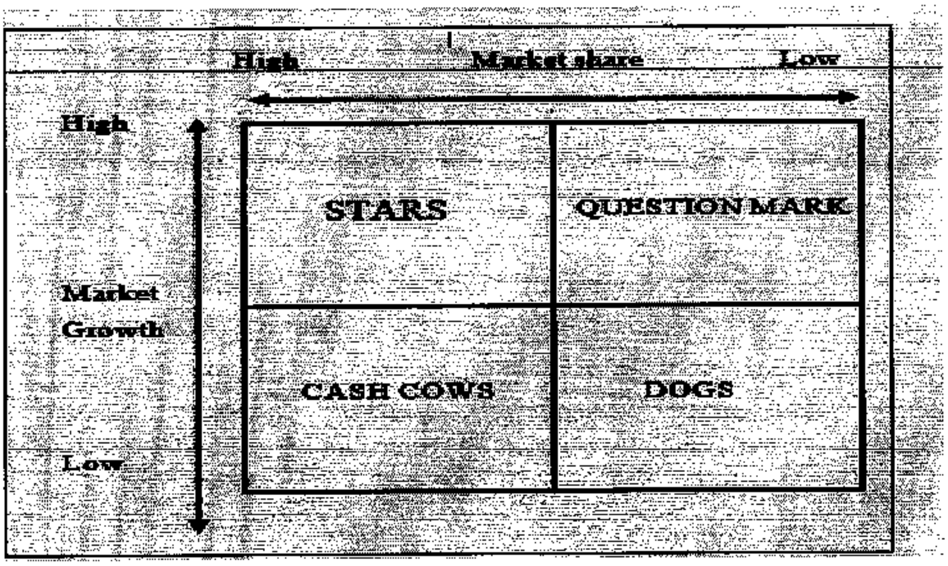


Figure 2.5: The Growth Share (or BCG) matrix

Here market share and market growth are critical variables for determining attractiveness and balance. High market share and high growth are, of course, attractive. However, the BCG matrix also warns that high growth demands heavy investment, for instance to expand capacity or develop brands. There needs to be a balance within the portfolio, so that there are some low growth businesses that are making sufficient surplus to fund the investment needs of higher growth businesses. The market growth/market share axes of the BCG matrix define four sorts of business:

1. A star is a business unit which has a high market share in a growing market. The business unit may be spending heavily to keep up with growth, but high market share should yield sufficient profits to make it more or less self sufficient in terms of investment needs.

2. A question mark (or problem child) is a business unit in a growing market, but not yet with high market share. Developing question marks into stars, with high market share, takes heavy investment. Many question marks fail to develop, so the BCG advises corporate parents to nurture several at a time. It is important to make sure that some question marks develop into stars, as existing stars eventually become cash cows and cash cows may decline into dogs.

3. A cash cow is a business unit with a high market share in a mature market. However, because growth is low, investment needs are less, while high market share means that the business unit should be profitable. The cash cow should then be a cash provider, helping to fund investments in question marks.

4. Dogs are business units with a low share in static or declining markets and are thus the worst of all combinations.

They may be a cash drain and use up a disproportionate amount of company time and resources. The BCG usually recommends divestment or closure.

The BCG matrix has several advantages

1. It provides a good way of visualising the different needs and potential of all the diverse businesses within the corporate portfolio.

2. It warns corporate parents of the financial demands of what might otherwise look like a desirable portfolio of high-growth businesses.

3. It also reminds corporate parents that stars are likely eventually to wane.

4. Finally, it provides a useful discipline to business unit managers, underlining the fact that the corporate parent ultimately owns the surplus resources they generate and can allocate them according to what is best for the corporate whole. Cash cows should not hoard their profits. Incidentally, surplus resources may not only be investment funds: the corporate parent can also reallocate business unit managers who are not fully utilised by low-growth cash cows or dogs.

However, there are at least three potential problems with the BCG matrix:

1. Definitional vagueness: It can be hard to decide what high and low growth or share mean in particular situations. Managers are often keen to define themselves as 'high share' by defining their market in a particularly narrow way (for example, ignoring relevant international markets)

2. Capital market assumptions:

- The notion that a corporate parent needs a balanced portfolio to finance investment from internal sources (cash cows) assumes that capital cannot be raised in external markets, for instance by issuing shares or raising loans.

- The notion of a balanced portfolio may be more relevant in countries where capital markets are underdeveloped or in private companies that wish to minimise dependence on external shareholders or banks

3. Unkind to animals:

- Both cash cows and dogs receive ungenerous treatment, the first being simply milked, the second terminated or cast out of the corporate home. This treatment can cause motivation problems, as managers in these units see little point in working hard for the sake of other businesses.

- There is also the danger of the self-fulfilling prophecy. Cash cows will become dogs even more quickly than the model expects if they are simply milked and denied adequate investment.

- Finally, the notion that a dog can be simply sold or closed down also assumes that there are no ties to other business units in the portfolio, whose performance might depend in part on keeping the dog alive. This portfolio approach to dogs works better for conglomerate strategies, where divestments or closures are unlikely to have knock-on effects on other parts of the portfolio.

The formal strategic planning process has five main steps:

i. Select the corporate mission and major corporate goals

The first component of the strategic planning process is crafting the organization's mission statement, which provides the framework or context within which strategies are formulated. A mission statement has four main components: a statement of its reason for existence which is normally referred to as the mission; a statement of some desired future state, usually referred to as the vision; a statement of the key values that the organization is committed to; and a statement of major goals.

ii. Analyse the organization's external competitive environment to identify opportunities and threats

The second component of the strategic planning process is an analysis of the organization's external operating environment. The essential purpose of the external analysis is to identify strategic opportunities and threats within the organization's operating environment that will affect how it pursues its mission. Three interrelated environments should be examined when undertaking an external analysis: the industry environment in which the company operates, the country or national environment and the wider socioeconomic or macro environment.

iii. Analyse the organization's internal operating environment to identify the organization's strengths and weaknesses

Internal analysis, the third component of the strategic planning process, focuses on reviewing the resources, capabilities, and competencies of a company. The goal is to identify the strengths and weaknesses of the company. The next component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a SWOT analysis. More generally, the goal of a SWOT analysis is to create, affirm, or fine-tune a company-specific business model that will best align, fit, or match a company's resources and capabilities to the demands of the environment in which it operates.

iv. Select strategies

Managers select strategies that build on the organization's strengths and correct its weaknesses in order to take advantage of external opportunities and counter external threats. In order to select the right strategies managers compare and contrast the various alternative possible strategies against each other and then identify the set of strategies that will create and sustain a competitive advantage. It is very important for the strategic managers to keep in mind that the strategies selected should be consistent with the mission and major goals of the organization. They should be congruent and constitute a viable business model.

v. Implement the strategies

In order to achieve a competitive advantage and increase profitability managers must put those strategies selected into action. Strategy implementation involves taking actions at the functional, business, and corporate levels to execute a strategic plan.

Implementation can include, for example,

1. putting quality improvement programs into place

2. changing the way a product is designed

3. positioning the product differently in the marketplace

4. segmenting the marketing and offering different versions of the product to different consumer groups

5. implementing price increases or decreases

6. expanding through mergers and acquisitions

7. downsizing the company by closing down or selling off parts of the company

Strategy implementation also entails designing the best organization structure and the best culture and control systems to put a chosen strategy into action. In addition, senior managers need to put a governance system in place to make sure that all within the organisation act in a manner that is not only consistent with maximizing profitability and profit growth, but also legal and ethical.

The Feedback Loop

The strategy planning process is a continuous process and the feedback loop indicates that strategic planning never ends. In order to determine the extent to which strategic goals and objectives are actually being achieved, and to what degree competitive advantage is being created and sustained execution of the strategy must be monitored. This information and knowledge is returned to the corporate level through feedback loops, and becomes the input for the next round of strategy formulation and implementation. Top managers can then decide whether to reaffirm the existing business model and the existing strategies and goals, or suggest changes for the future.

The planning model suggests that a company's strategies are the result of a plan, that the strategic planning process is rational and highly structured, and that top management orchestrates the process. Several scholars have criticized the formal planning model for three main reasons: the unpredictability of the real world, the role that lower-level managers can play in the strategic management process, and the fact that many successful strategies are often the result of serendipity, not rational strategizing. These scholars have advocated an alternative view of strategy making.

Scenario Planning

One reason that strategic planning may fail over longer time periods is that strategic managers, in their initial enthusiasm for planning techniques, may forget that the future is entirely unpredictable. Even the best-laid plans can fall apart if unforeseen contingencies occur, and that happens all the time.

1. Scenario planning involves formulating plans that are based upon "what-if" scenarios about the future. In the typical scenario-planning exercise, some scenarios are optimistic and some are pessimistic. Teams of managers are asked to develop specific strategies to cope with each scenario.

2. A set of indicators is chosen as sign posts to track trends and identify the probability that any particular scenario is coming to pass.

3. The idea is to allow managers to understand the dynamic and complex nature of their environment, to think through problems in a strategic fashion, and to generate a range of strategic options that might be pursued under different circumstances.

4. The scenario approach to planning has spread rapidly among large companies

Decentralized Planning

A mistake that some companies have made in constructing their strategic planning process has been to treat planning exclusively as a top-management responsibility.

1. This "ivory tower" approach can result in strategic plans formulated in a vacuum by top managers who have little understanding or appreciation of current operating realities. Consequently, top managers may formulate strategies that do more harm than good.

2. Correcting the ivory tower approach to planning requires recognising that successful strategic planning encompasses managers at all levels of the corporation.

3. Much of the best planning can and should be done by business and functional managers who are closest to the facts; in other words, planning should be decentralized.

4. Corporate-level planners should take on roles as facilitators who help business and functional managers do the planning by setting the broad strategic goals of the organization and providing the resources necessary to identify the strategies that might be required to attain those goals.

Given the vision, mission and objectives and having analysed the environmental opportunities and threats as well as the internal strengths and weaknesses of the firm, the next step in the strategic management process is generating feasible alternatives, evaluating those alternatives and choosing appropriate strategies for implementation. This process of generating, evaluating and selecting appropriate strategies is broadly referred to as "strategy analysis and choice". The firms current vision, mission and objectives as well as the firm's strategy coupled with information gathered through environmental and internal analysis, provide the basis for generating and evaluating feasible alternatives strategies.

Strategic alternatives are the different courses of action available to a firm to pursue its objectives at a given point of time. Generation of feasible alternatives is crucial for formulating and selecting appropriate strategies. But this is by no means an easy task, because there may be different strategic options available for accomplishing a particular objective.

The practice of generating strategic alternatives depends upon the size, style of management, characteristics of the industry and such other factors.

In a small organization, all decisions are made by the owner or chief executive himself. These decisions deal with what an organization should do under alternative situations, what new businesses should be added, what existing businesses should be divested, whether to integrate forward or backward and such other strategic options are decided by the owner or chief executive of the organization.

In medium and large organizations, the following mechanisms may be employed for identifying strategic alternatives:

1. Brainstorming Sessions:

In most organizations, strategic alternatives are identified during brainstorming sessions of top management and key executives. In such meetings, participants generate a number of alternatives. At this stage, no importance is given to the relative merits and demerits of the options. In the next stage, each alternative is reviewed and subjected to close scrutiny. The alternatives which are considered fairly appealing are further examined and analysed for final selection.

2. Special Meetings:

Some large organizations may hold special meetings of top executives away from their work, in a hotel or a holiday resort. This is to ensure that the process of thinking is not disturbed by interruptions during the course of deliberations. The participants present different alternative scenarios along with their recommended courses of action. Depending on the assumptions and future trends, each course of action is discussed and attempts are made to finalize the best options for further analysis.

3. Outside Consultants:

Some organizations may engage the services of an outside consultant to handle the process of generating alternative strategies. The premise is that an outsider can observe the phenomenon objectively and dispassionately, and bring in his own expertise into the process. The outside viewpoint is expected to be new and fresh, and thus can show up many new opportunities to the organization.

4. Joint Meetings:

Another useful way of generating alternatives is to hire the services of a consultant and also associate some internal members in the process. This method has the advantage of blending the new ideas contributed by the outside consultants with workable solutions from within the organization. (Rao. et al. 2008)

Critical Success Factors:

Critical success Factors are those product features that are particularly valued by a group of customers, and, therefore, where the organisation must excel to outperform competition.

Major Sources of CSFs:

Rockart has identified four major sources of CSFs

1. Structure of the Industry:

Some CSFs are specific to the structure of the industry for e.g., the extent of service support expected by the customers. Automobile companies have to invest in building a national network of authorizes service stations to ensure service delivery to their customers.

2. Competitive strategy, industry position and geographic location:

CSFs also arise from the above factors for e.g. the large pool of English- speaking manpower makes India an attractive location for outsourcing the BPO needs of American and British firms.

3. Environmental Factors:

CSFs may also arise out of general/business environment of a firm, like the deregulation of Indian industry. With the deregulation of telecommunication industry, many private companies had opportunities of growth.

4. Temporal factors:

Certain short-term organizational developments like sudden loss of critical manpower (like the charismatic CEO) or break-up of the family owned business, may necessitate CSFs like 'appointment of a new CEO' or 'rebuilding the company image'. Temporarily such CSFs would remain CSFs till the time they are achieved.

In the process of developing alternatives, it may be useful to narrow down the range of options by identifying the more promising alternatives, in the light of the Critical Success Factor (CSFs). The options relevant to those factors may be analysed along with a forecast of their outcome.

Strategic Decision Making

1. Rationality of human decision makers is bounded by our own cognitive capabilities.

2. We tend to fall back on certain rules of thumb or heuristics that help us to make sense out of a complex and uncertain world.

3. They at times lead to severe and systematic errors in the decision making process.

4. They arise out of a series of cognitive biases.

Some of the biases are as follows:

1. The prior hypothesis bias: refers to the fact that decision makers who have strong prior beliefs about the relationship between two variables tend to make decisions on the basis of these beliefs, even when presented with evidence that their beliefs are wrong.

2. Escalating commitment: occurs when decision makers, having already committed significant resources to a project, commit even more resources even if they receive feedback that the project is failing.

3. Reasoning by analogy: involves the use of simple analogies (comparisons) to make sense out of complex problems. The problem with this heuristic is that the analogy may not be valid.

4. Representativeness: is rooted tendency to generalize from a small sample or even a single vivid anecdote. This bias violates the statistical law of large numbers, which says that it is inappropriate to generalize from a small sample, let alone from a single case.

5. Illusion of control: the tendency to over-estimate one's ability to control events. They tend to be overconfident about their ability to succeed. According to Richard Roll, such overconfidence leads to what he has termed as the hubris hypothesis of takeover.

Techniques for Improving Decision Making

Devil's advocacy:

It requires the generation of a plan, and a critical analysis of that plan. One member of the decision-making group acts as the devil's advocate, emphasizing all the reasons that might make the proposal unacceptable. In this way, decision makers can become aware of the possible perils of recommended courses of action.

Dialectic inquiry:

It is more complex because it requires the generation of a plan (a thesis) and a counter-plan (an antithesis) that reflect plausible but conflicting courses of action. Strategic managers listen to a debate between advocates of the plan and counter-plan and then decide which plan will lead to higher performance. The purpose of the debate is to reveal the problems with the definitions, recommended courses of action, and assumptions of both plans. As a result of this exercise, strategic managers are able to form a new and more encompassing conceptualization of the problem, which then becomes the final plan (a synthesis). Dialectic inquiry can promote strategic thinking

The outside view:

It requires planners to identify a reference class of analogous past strategic initiatives, determine whether those initiatives succeeded or failed, and evaluate the project at hand against those prior initiatives.

Source: Hill, Jones and Schilling (2015)

Group Think:

1. Concept was given by psychologist Irvin Janis.

2. It occurs when a group of decision makers embarks upon a course of action without questioning underlying assumptions.

3. Typically, a group coalesces (unites) around a person or policy.

4. It ignores or filter out information that can be used to question the policy and develops after the fact rationalizations for its decision.

5. Commitment to the mission or goals becomes based on an emotional rather than an objective assessment of the correct course of action.

6. The consequences can be poor decisions.

Q1. Multiple Choice Questions

1. This ________ provides the broad 'data' from which to identify key drivers of change.
a. SWOT analysis
b. BCG matrix
c. PESTEL analysis
d. Critical Success Factors

2. Environment is ________.
a. complex
b. dynamic
c. Multi-faceted
d. All of the above

3. ___________are the growth rate of the economy, interest rates, currency exchange rates, and inflation (or deflation) rates.
a. Macro-economic forces
b. Demographic forces
c. Technological forces
d. Political forces

4. __________ are outcomes of changes in the characteristics of a population.
a. Macro-economic forces
b. Demographic forces
c. Technological forces
d. Political forces

5. What describes the categories of activities within and around an organisation, which together create a product or service?
a. SWOT analysis
b. BCG framework
c. Value Chain
d. Brain storming

6. ______________transform these inputs into the final product or service.
a. Operations
b. Inbound logistics
c. Outbound logistics
d. Service

7. _______includes those activities that enhance or maintain the value of product or service, such as installation, repair, training and spares.
a. Operations
b. Inbound logistics
c. Outbound logistics
d. Service

8. _________are companies that are not currently competing in an industry, but have the capability to do so if they choose.
a. Established companies
b. Potential competitors
c. Rivals
d. Competitors

9. Absolute cost advantages arise from
a. superior production operations and processes
b. control of particular inputs required for production
c. access to cheaper funds
d. all of the above

10. A __________is a business unit in a growing market, but not yet with high market share.
a. cash cow
b. dog
c. question mark
d. star

11. What does a "star" represent in the BCG Matrix?
a) Products with high market share in a high-growth market
b) Products with low market share in a low-growth market
c) Products with high market share in a low-growth market
d) Products with low market share in a high-growth market

12. What is the strategic implication for products categorized as "cash cows" in the BCG Matrix?
a) Invest heavily to maintain or increase market share
b) Harvest profits to invest in other business units
c) Explore opportunities for market expansion
d) Phase out the product from the market

13. The threat of new entrants is high when:
a) There are high switching costs for customers
b) Existing companies have established brand loyalty
c) There are low barriers to entry
d) Customer demand is low

14. How does Porter's Value Chain framework help in strategic management?
a) By analyzing macroeconomic factors impacting the industry
b) By identifying areas where the company can gain a competitive advantage through cost leadership or differentiation
c) By focusing solely on financial performance metrics
d) By monitoring customer satisfaction levels

15. Which of the following activities involves receiving, storing, and distributing inputs to the production process?
a) Operations
b) Outbound logistics
c) Inbound logistics
d) Marketing and sales

16. How does the PESTEL analysis framework assist in strategic planning?
a) By focusing solely on internal factors of a business
b) By evaluating external factors that may impact business operations
c) By assessing customer preferences and buying behaviours
d) By determining financial performance metrics

17. What does the McKinsey 7S Framework consider to be the "Hard S's"?
a) Strategy, Structure, and Staff
b) Strategy, Structure, and Systems
c) Systems, Staff, and Skills
d) Skills, Structure, and Systems

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
c	d	a	b	c	a	d	b	d	c	a	b	c	b	c	b	b

Q2. State True or False.
1. Entry barriers are economic, strategic, and emotional factors that prevent companies from leaving an industry.
2. Value chain puts corporate headquarters into the role of an internal banker.
3. Decentralised planning involves formulating plans that are based upon "what-if" scenarios about the future.
4. Critical success Factors are those product features that are particularly valued by an organisation.
5. Escalating commitment is rooted tendency to generalize from a small sample or even a single vivid anecdote.
6. Group Think concept was given by psychologist Daniel Goleman.
7. Growing demand tends to increase rivalry.
8. Companies in fragmented industries sometimes seek to reduce threat by following the prices set by the dominant company in the industry.
9. A fragmented industry consists of a large number of small or medium-sized companies, each is in a

position to determine industry price.

10. When switching costs are low, customers can be locked in to the product offerings of established companies.

11. Established companies are companies that are not currently competing in an industry, but have the capability to do so if they choose.

12. Social influences refer to innovations such as artificial intelligence, internet, nano-technology, or the rise of new composite materials.

1	2	3	4	5	6	7	8	9	10	11	12
F	F	F	F	F	F	F	F	F	F	F	F

Q3. Fill in the Blanks.

1. An _______is a group of firms producing the same principal product or service.
2. __________activities are directly concerned with the creation or delivery of a product or service.
3. _________logistics are activities concerned with receiving; storing and distributing inputs to the product or service.
4. Service includes those activities that _______or __________the value of product or service.
5. _________helps to identify the sources of competition in an industry or sector.
6. _________competitors are companies that are not currently competing in an industry, but have the capability to do so if they choose.
7. __________companies are those which are already operating in an industry.
8. ___________exists when consumers have a preference for the products of established companies.
9. Rivalry refers to the _________struggle between companies within an industry to gain market share from each other.
10. A __________industry consists of a large number of small or medium-sized companies, none of which is in a position to determine industry price.
11. A _______industry is dominated by a small number of large companies (an oligopoly) or, in extreme cases, by just one company (a monopoly), and companies often are in a position to determine industry prices

1	industry	2	Primary
3	Inbound	4	enhance, maintain
5	Porter's Five Forces framework	6	Potential
7	Established	8	Brand loyalty
9	competitive	10	fragmented
11	consolidated		

3.1 STRATEGY FORMULATION - PRODUCTION STRAREGY , SUPPLY CHAIN STRATEGY, MACKING STRATEGY ,HUMAN RESOURCE STRATEGY

The possession of resources (including people) does not guarantee strategic success. Strategic capability is concerned with how these resources are deployed, managed and controlled to create competences in those activities and business processes needed to run the business. The formulation of strategy with respect to the functional areas namely production, supply chain, marketing and human resource is discussed hereunder:

Production Strategy:

1. The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration and such factors.

2. Plans and policies related to production system are significant as they deal with vital issues affecting the capability of the organisation to achieve its objectives.

3. Strategy implementation would have to take into account the production system factors. It should be noted that any decision on production system factors would have a long lasting influence on the operations capability of an organisation and its ability to implement strategies and achieve objectives.

4. Production strategy determines how and where a product or service manufactured, the level of vertical integration in the production processes, the deployment of physical resources, and relationships with suppliers.

5. It should also deal with the optimum level of technology that the firm should use in its operations processes.

6. A firm's production strategy is often affected by a product's life cycle. As the sales of the product increase, there will be an increase in the production volume ranging from lot sizes as low as one in a job shop through connected line batch flow to lot sizes as high as 100000 or more per year for flexible manufacturing systems and dedicated transfer lines.

7. According to the concept, the product becomes standardised in to a commodity over time in conjunction with increasing demand. Flexibility thus gives way to efficiency.

8. Increasing competitive intensity in many industries has forced companies to switch from traditional mass production using dedicated transfer lines to a continuous improvement production strategy.

9. A mass production system was an excellent method to produce large number of low cost, standard goods and services.

• Under this system the workers were expected to learn what was assigned to them and learning how to do better was the sole prerogative of the management.

• Quality often tended to be fairly low as the employees worked on narrowly defined, repetitious tasks under the close supervision in a bureaucratic and hierarchal structure.

• Under the continuous improvement system developed by Edwards Deming and perfected by Japanese firms, companies empowered cross-functional teams to continuously strive to improve production processes.

• Mangers role have been more of a coach than as a boss. This resulted in not only standard good and services at low cost bit of superior quality.

• The key to continuous improvement is the acknowledgement that workers' experience and knowledge can help managers solve production problems and contribute to tightening variances and reducing errors.

The automobile industry is currently experimenting with the strategy of modular manufacturing in which preassembled subassemblies are delivered as they are needed (JIT) to a company's assembly line workers, who quickly piece the modules together into a finished product.

It may be mentioned that it is not only the manufacturing organizations who are concerned about the production system they adopt. Service organizations, such as the resort company club Mahindra, too look to customisations as a means to identify a distinct market segment to serve. In case, the company customises the vacations offered. This is based on the unique needs of its customer, who are young metropolitans looking for a change from the routine jobs and sedentary life style with much time spent in air conditioned environment to indulge in energetic activities in open spaces. Club Mahindra has a separate division called Zest to look after this customer group.

The issue of sustainability is cause of concern for most of the manufacturing companies throughout the world as the availability of resources needed to operate a modern factory is increasingly becoming scarce and costly. One of the resources that have been major cause of concern is the increasing cost of oil that has led to drastically boosting cost of production. Although some of the costs can be passed on the customers, however, in the fiercely competitive environment maintaining cots at the optimum level is the key to success. This is an important challenge for most of the organizations. The likelihood that fresh water will become an equally scarce resource is causing many companies to rethink water- intensive manufacturing processes. The issue of reducing global warming and carbon emissions have become major agenda of all the countries. The uses of eco friendly technologies have become the focused area of the manufacturing sector. The increasing government regulations towards cleaner and eco friendly technologies have increased costs on research and development.

Supply Chain Strategy:

1. The term supply chain management refers to the task of managing the flow of inputs and components from suppliers into the company's production processes to minimize inventory holding and maximize inventory turnover.

2. The contribution of materials management (logistics) to boosting the efficiency of a company can be just as dramatic as the contribution of production and marketing.

3. Materials management encompasses the activities necessary to get inputs and components to a production facility (including the costs of purchasing inputs), through the production process, and out through a distribution system to the end-user. Because there are so many sources of cost in this process, the potential for reducing costs through more efficient materials management strategies is enormous. For a typical manufacturing company, materials and transportation costs account for 50 to 70% of its revenues, so even a small reduction in these costs can have a substantial impact on profitability.

4. In a typical competitive market, reducing materials costs by 3% is usually much easier than increasing sales revenues by 30%.

5. Improving the efficiency of the materials-management function typically requires the adoption of a just-in-time (JIT) inventory system, which is designed to economize on inventory holding costs by scheduling components to arrive at a manufacturing plant just in time to enter the production process, or to have goods arrive at a retail store only when stock is almost depleted.

6. The major cost saving comes from increasing inventory turnover, which reduces inventory holding costs, such as warehousing and storage costs, and the company's need for working capital.

7. Wal-Mart can replenish the stock in its stores at least twice a week; many stores receive daily deliveries if they are needed through efficient logistics. The typical competitor replenishes its stock every 2 weeks, so it must carry a much higher inventory, which requires more working capital per dollar of sales. Compared to its competitors, Wal-Mart can maintain the same service levels with a lower investment in inventory, a major source of its lower cost structure. Thus, faster inventory turnover has helped Wal-Mart achieve an efficiency- based competitive advantage in the retailing industry.

8. Source: Hill, C.W. L., Jones, G. R. and Schilling, M. A. (2015). Strategic Management Theory. 11th edition. Cengage Learning. Stamford City

9. More generally, in terms of the profitability model developed, JIT inventory systems reduce the need for working capital (because there is less inventory to finance) and the need for fixed capital to finance storage space (because there is less to store), which reduces capital needs, increases capital turnover, and, by extension, boosts the return on invested capital.

Limitations of JIT:

The drawback of JIT systems is that they leave a company without a buffer stock of inventory. Although buffer stocks are expensive to store, they can help a company prepare for shortages on inputs brought about by disruption among suppliers (for instance, a labour dispute at a key supplier), and can help a company respond quickly to increases in demand.

Overcoming limitations of JIT:

However, there are ways around these limitations.

1. In order to reduce the risks linked to dependence on just one supplier for an important input, a company might decide to source inputs from multiple suppliers.

2. Plans and policies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost and quality management; and maintenance of plant and equipment. Here, the aim of strategy implementation is to see how efficiently resources are utilised and in what manner the day-to- day operations can be managed in the light of long-term objectives.

3. Operations planning and control provides an example of an organizational activity that is aimed at translating the objectives into reality

Marketing Strategy:

1. The marketing strategy that a company adopts can have a major impact on efficiency and cost structure.

2. Marketing strategy refers to the position that a company takes with regard to market segmentation, pricing, promotion, advertising, product design, and distribution.

3. Some of the steps leading to greater efficiency are fairly obvious. For example, moving down the experience curve to achieve a lower cost structure can be facilitated by aggressive pricing, promotions and advertising all of which are the task of the marketing function.

4. Other aspects of marketing strategy have a less obvious but no less important impact on efficiency. One important aspect is the relationship of customer defection rates, cost structure, and unit costs.

- Customer defections (or 'churn rates') are the percentage of a company's customers who defect every year to competitors.

- Defection rates are determined by customer loyalty, which in turn is a function of the ability of a company to satisfy its customers.

- Because acquiring a new customer often entails one-time fixed costs, there is a direct relationship between defection rates and costs. For example, when a wireless service company signs up a new subscriber, it has to bear the administrative costs of opening up a new account and the cost of a subsidy that it pays to the manufacturer of the handset the new subscriber decides to use.

- There are also the costs of advertising and promotions designed to attract new subscribers.

- The longer a company retains a customer, the greater the volume of customer generated unit sales that can be set against these fixed costs, and the lower the average unit cost of each sale.

- Thus, lowering customer defection rates allows a company to achieve a lower cost structure

- Because of the relatively high fixed costs of acquiring new customers, serving customers who stay with the company only for a short time before switching to competitors often leads to a loss on the investment made to acquire those customers.

- The longer a customer stays with the company, the more the fixed costs of acquiring that customer can be distributed over repeat purchases, boosting the profit per customer.

- Thus, there is a positive relationship between the length of time that a customer stays with a company and profit per customer.

- If a company can reduce customer defection rates, it can make a much better return on its investment in acquiring customers, and thereby boost its profitability.

- Another economic benefit of long-time customer loyalty is the free advertising that customers provide for a company.

- Loyal customers can dramatically increase the volume of business through referrals.

The key message, then, is that reducing customer defection rates and building customer loyalty can be major sources of a lower cost structure. A central component of developing a strategy to reduce defection rates is to identify customers who have defected, find out why they defected, and act on that information so that other customers do not defect for similar reasons in the future. To take these measures, the marketing function must have information systems capable of tracking customer defections.

Human Resource Strategy

Employee productivity is one of the key determinants of an enterprise's efficiency, cost structure, and profitability. Productive manufacturing employees can lower the cost of goods sold as a percentage of revenues, a productive sales force can increase sales revenues for a given level of expenses, and productive employees in the company's R&D function can boost the percentage of revenues generated from new products for a given level of R&D expenses. Thus, productive employees lower the costs of generating revenues, increase the return on sales, and, by extension, boost the company's return on invested capital. The challenge for a company's human resource function is to devise ways to increase employee productivity. Among its choices are using certain hiring strategies, training employees, organizing the workforce into self-managing teams, and linking pay to performance.

1. Hiring Strategy:

Many companies that are well known for their productive employees devote considerable attention to hiring. Organizations hire people who have a positive attitude and who work well in teams because it believes that people who have a positive attitude will work hard and interact well with customers, therefore helping to create customer loyalty. It is important to be sure that the hiring strategy of the company is consistent with its own internal organization, culture, and strategic priorities. The people a company hires should have attributes that match the strategic objectives of the company. Employee Training Employees are a major input into the production process. Those who are highly skilled can perform tasks faster and more accurately, and are more likely to learn the complex tasks associated with many modern production methods than individuals with lesser skills. Training upgrades employee skill levels, bringing the company productivity related efficiency gains from learning and experimentation.

2. Self-Managing Teams:

- The use of self-managing teams, whose members coordinate their own activities and make their own hiring, training, work, and reward decisions, has been spreading rapidly.

- The typical team comprises 5 to 15 employees who produce an entire product or undertake an entire task.

- Team members learn all team tasks and rotate from job to job.

- Because a more flexible workforce is one result, team members can fill in for absent co workers and take over managerial duties such as scheduling work and vacation, ordering materials, and hiring new members.

- The greater responsibility thrust on team members and the empowerment it implies are seen as motivators. (Empowerment is the process of giving lower-level employees decision-making power.)
- People often respond well to being given greater autonomy and responsibility.
- Performance bonuses linked to team production and quality targets work as an additional motivator.
- The effect of introducing self-managing teams is reportedly an increase in productivity of 30% or more and a substantial increase in product quality.
- Further cost savings arise from eliminating supervisors and creating a flatter organizational hierarchy, which also lowers the cost structure of the company.
- In manufacturing companies, perhaps the most potent way to lower the cost structure is to combine self- managing teams with flexible manufacturing cells.
- Still, teams are no panacea; in manufacturing companies, self-managing teams may fail to live up to their potential unless they are integrated with flexible manufacturing technology.
- Also, teams place a lot of management responsibilities upon team members, and helping team members to cope with these responsibilities often requires substantial training a fact that many companies often forget in their rush to drive down costs.
- Haste can result in teams that don't work out as well as planned.
- Pay for Performance: It is hardly surprising that linking pay to performance can help increase employee productivity, but the issue is not quite so simple as just introducing incentive pay systems. It is also important to define what kind of job performance is to be rewarded and how. Some of the most efficient companies in the world, mindful that cooperation among employees is necessary to realize productivity gains, link pay to group or team (rather than individual) performance. This link creates a strong incentive for individuals to cooperate with each other in pursuit of team goals; that is, it facilitates teamwork.

The knowledge and experience of people can be the key factors influencing the success of strategies. So people- related issues should be a central concern and responsibility of most managers in organisations and are not confined to a specialist HR function. Creating a climate where people strive to achieve success is also a crucial role of any manager. Although formal HR systems and structures may be vitally important in supporting successful strategies, it is quite possible that they may hinder strategy if they are not tailored to the types of strategies being pursued. There are three possible related issues about the people dimension of strategy namely, people as a resource, people and behaviour and the need to organise people.

People as a resource:

The importance of human resource cannot be undermined. The management of this resource is not similar to the other resources of the organization. There a lot of issues with respect to managing human resource. Some are called the 'harder' issues and the others 'softer' ones.

The harder issues are the traditional HR activities that can help underpin successful strategies in the following ways:

1. Audits to assess HR requirements to support strategies and/or identify people based core competences on which future strategies might be built.

2. Goal-setting and performance assessment of individuals and teams. Most organizations will expect line managers to undertake these tasks, usually within a centrally designed appraisal scheme. This improves the chances of appraisals being linked to strategy. Also, there has been a move towards so-called 360° appraisals. These assess an individual's performance from multiple perspectives not just from the line manager but also from other parts of the organisation on which the work of the individual and/or his or her team impacts and even from external stakeholders. This is an attempt to assess the full impact of an employee's work on the success of strategy.

3. In many organizations the planning of rewards has had to take on board the reality of more team working in delivering strategy. Highly geared individual incentives (often found in sales forces) may undermine this teamwork.

4. Recruitment and retention are key ways of improving strategic capability. For example, many public sector organizations have needed to recruit and retain people with marketing and IT skills as they try to get closer to their customers and exploit IT. As organizations face faster changes, succession planning has had to be refocused away from preparing people for particular jobs to simply ensuring that a sufficiently large pool of talented individuals exists to meet future leadership requirements. In some cases an organization's strategy may require uniquely competent individuals, such as a top surgeon in a hospital, a criminal lawyer or a leading academic in a university. In contrast, some strategies might require redeployment and redundancy planning.

5. Many training and development plans have reduced the use of formal programmes in favour of more coaching and mentoring to support self-development. In order to put in place and execute HR strategies in all these areas,

6. managers and HR professionals need to be familiar with the organization's strategies, how these might be changing in the future and the implication to people's competences.

7. Many companies might attempt this alignment through formalised approaches to performance management assisted by IT-based systems. However; it is not enough simply to adjust the performance management processes to support changing strategies.

8. Managers need to be able and willing to envisage a future where the strategies and performance of the organization are transformed by exploiting the performance management capabilities of the organization better than their competitors. For example, a capability in mentoring and coaching could provide an environment that will attract creative people who like to be challenged and to learn. In turn, this creates a workforce that is much more able than competitors to 'think out of the box' and to produce innovative product features and new ways of competing in the market. This will require organisation structures and processes to support these behaviours.

People and behaviour:

People are not like other resources. They influence strategy both through their competence and through their collective behaviour (culture). It may be emphasised that many of the problems of managing change result from a failure to understand, address and change culture. This 'soft' side of HR management is concerned with the behaviour of people – both individually and collectively. The softer issues include the following:

1. Understanding how they may need to change the paradigm of the organization. This is particularly important when the business environment is changing quickly.

2. Seeing their own role as people-oriented 'shapers of context' and not just as 'business analysts'. This will require an understanding of how these 'softer' aspects of strategy help or hinder strategic success.

3. Understanding the relationship between behaviours and strategic choices. This is crucial if managers are properly to prioritise their efforts in managing organizational behaviours. For example, there may be some strategies where an organization's current culture gives unique advantage over other organisations. Culture is a core competence.

4. Being realistic about the difficulty and time-scales in achieving behaviour changes. Culture change is a long process of changing behaviours. The hard change tools (structures and systems) if used alone are unlikely to deliver.

5. Being able to vary their style of managing change with different circumstances. So a manager's relationship and leadership skills with both internal and external stakeholders are important. Also, teams in organizations must be capable of operating different styles simultaneously. Therefore, a manager's ability to build and maintain teams of different personality types is just as important as the mix of competences in those teams

Organising People:

Organising people is important for an organisation to be competitively superior. With the changing environment and complexities arising from both within and outside the organisation the issues relating to organising people needs to be addressed carefully. Organising people may be broadly discussed into the following three areas namely HR function, Line managers and structure and processes.

The HR function

There are a number of important considerations concerning the HR function in organizations. The most challenging question is whether a specialist HR function is needed at all, or at least whether its traditional scale and functions are appropriate. In principle (and in practice in many organisations), people can be managed strategically without a specialist HR function. This may make sense for some HR issues for example, the dismantling of across-company grades and pay scales as organisations globalise to reflect the much greater diversity in the labour markets. But for other aspects the reverse might be true. For example, a major problem of highly devolved organisations is that managers at 'lower' levels are unfamiliar with corporate-level strategies, are extremely busy and may not have the professional HR knowledge. If an HR function is felt to be valuable then the expectations as to its role must be clear and consistent with the discussion above. There are four broad roles that an HR function could fulfil in contributing to successful business strategies:

1. As a service provider (for example, undertaking recruitment or arranging training) to line managers who are carrying the strategic responsibility for the HR issues.

2. As a regulator 'setting the rules' within which line managers operate, for example on pay and promotions.

3. As an advisor on issues of HR strategy to line managers (ensuring that HR policies and practice are in line with the 'best practice').

4. As a change agent moving the organisation forward. The determinants of the most appropriate role for an HR function are the organization's context. The type of staff, the nature of the strategy and the broad structural arrangements in the organization are all important. Of course it may prove difficult for the same HR specialists to operate in all of these roles simultaneously. For example, they may feel a conflict between their role as a regulator whilst trying to advise or change a group of people in the organization.

Middle (line) managers:

It has been mentioned above that there has been a significant move towards line managers being centrally involved in managing people issues themselves. This has the clear advantage of more ownership and a better chance of blending people related issues with business strategies. But there are also worries and research confirms the concerns as to whether the circumstances in which line managers operate are conducive to their doing a good job on people management issues:

1. Whether it is realistic to expect line managers to be competent HR professionals. Handled badly, this could be a formula for mediocrity. This same concern could equally be applied to other areas such as information management.

2. The short-term pressures to meet targets do not help line managers in taking a more strategic view of people- related issues. Downsizing and de-layering have left the remaining managers too busy.

3. Trade unions and professional associations have tended to resist a dispersion of responsibility for HR strategies. From a union's point of view it is much easier to deal with a single, centralised authority. Professional bodies may take a similar view.

4. Managers may lack the incentive to take on more of the formal HR activities, either directly in their pay or grade or indirectly in their judgement as to which competences make them more marketable outside the company. Despite these concerns it is important to recognise the crucial influence of middle managers on the day-to-day performance and behaviour of people in their organization. The implication for top managers is not to bypass middle managers in the strategy development process; otherwise the changes may not stick with the people in the organization.

Structures and processes;

People may be held back from contributing to strategic success because the traditional structures and roles do not match future strategies. Also, as circumstances and strategies change, organizations may need to change the processes and relationships. Another challenge is whether some HR issues (for example, recruitment, training, etc.) should reside in the organization or be bought in from specialist suppliers (for example, consultants). External agencies will have the advantage of a wider experience and knowledge of best practice but the disadvantage of being unfamiliar with the detailed circumstances of specific organizations. [Johnson, Scholes and Whittington, R. (2008)

3.2 STRUCTURING OF ORGANIZATION FOR IMPLEMENTATIONOF STRATEGY

Managers often describe their organization by drawing an organization chart, mapping out its formal structure. These structural charts define the 'levels' and roles in an organization. They are important to managers because they describe who is responsible for what. But formal structures matter in at least two more ways

1. First, structural reporting lines shape patterns of communication and knowledge exchange: people tend not to talk much to people much higher or lower in the hierarchy, or in different parts of the organization.

2. Second, the kinds of structural positions at the top suggest the kinds of skills required to move up the organization: a structure with functional specialists such as marketing or production at the top indicates the importance to success of specialised functional disciplines rather than general business experience.

In short, formal structures can reveal a great deal about the role of knowledge and skills in an organization

The five basic structural types: are functional, multidivisional, matrix, transnational and project. Broadly, the first two of these tend to emphasise one structural dimension over another, either functional specialism or business units. The three that follow tend to mix structural dimensions more evenly, for instance trying to give product and geographical units equal weight. However, none of these structures is a universal solution to the challenges of organising. Rather, the right structure depends on the particular kinds of challenges each organization faces.

3. The Functional Structure:

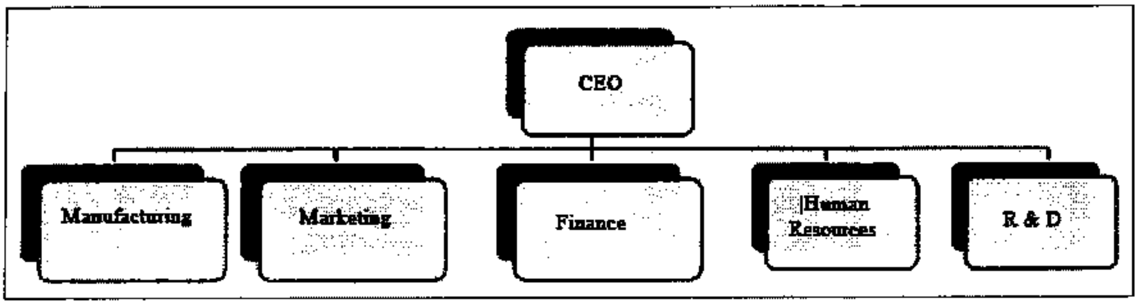


Figure 3.1: Functional Structure

A functional structure is based on the primary activities that have to be undertaken by an organization such as production, finance and accounting, marketing, human resources and research and development. This structure is usually found in smaller companies, or those with narrow, rather than diverse, product ranges. Also, within a multidivisional structure the divisions themselves may be split up into functional departments. The potential advantages of a functional structure include

1. It gives senior managers direct hands-on involvement in operations and allows greater operational control from the top.

2. The functional structure provides a clear definition of roles and tasks, increasing accountability.

3. Functional departments also provide concentrations of expertise, thus fostering knowledge development in areas of functional specialism.

4. Centralised decision making and more efficient use of managerial and technical talent.

However, there are disadvantages, particularly as organizations become larger or more diverse.

1. Perhaps the major concern in a fast-moving world is that senior managers focus on their functional responsibilities, becoming overburdened with routine operations and too concerned with narrow functional interests. As a result, they find it hard either to take a strategic view of the organization as a whole or to manage coordinated responses quickly. Thus functional organisations can be inflexible.

2. Separate functional departments tend also to be inward looking – so-called 'functional silos' – making it difficult to integrate the knowledge of different functional specialists.

3. Finally, because they are centralised around particular functions, functional structures are not good at coping with product or geographical diversity. For example, a central marketing department may try to impose a uniform approach to advertising regardless of the diverse needs of the organisation's various SBUs around the world.

4. Overburdens the top management, as functional conflicts are pushed up.

5. Line staff conflicts and difficult to establish uniform standards across the organization.

• ELECTROLUX HOME PRODUCTS EUROPE

Functional Structures can help in bringing uniformity and simplicity into a business.

• SOLVED CASE 1

In January 2001, Electrolux Home Products Europe completely redesigned its structure as part of its competitive strategy in Europe. The Swedish multinational company manufactured a range of consumer durables - such as cookers and fridges - and had grown through several decades of acquisitions to become a dominant player in Europe. But the market in Europe was fiercely competitive and the company needed to find a way to capitalise on its size - both to reduce costs and also to improve product and service standards. Their solution was to introduce a Europe-wide functional structure to replace the geographical structure (resulting from its acquisitions).

The management explained the rationale for the restructuring: 'the realignment of EHP Europe is a part of a programme to ensure profitable growth as the organization drives more simplicity into its business, while reducing the number of organizational hand-offs, and creating more focus on areas where increased effort is required to meet the tougher challenges of the market-place'. The functional departments would operate as follows:

Purchasing, Production and Product Development was the manufacturing arm of the business. It also included product development and purchasing to provide a seamless flow from suppliers to finished products. This was felt to be essential to maintaining a stream of innovative and cost effective products.

Supply Chain Management and Logistics was responsible for getting products to the customer and was the link between sales forecasts and factory production.

Product Businesses, Brand Management and Key Account Management was responsible for the marketing activities to support products and brands. It also included key account management service and spare parts.

Sales clusters were the sales divisions and were grouped geographically into seven clusters. The first three divisions were managed as cost centres whilst the sales clusters were focused on sales revenue.

Source: Johnson and Scholes (2006), Exploring Corporate Strategy-Text and Cases, sixth edition, Pearson education,

1. **<u>The Multidivisional Structure</u>**

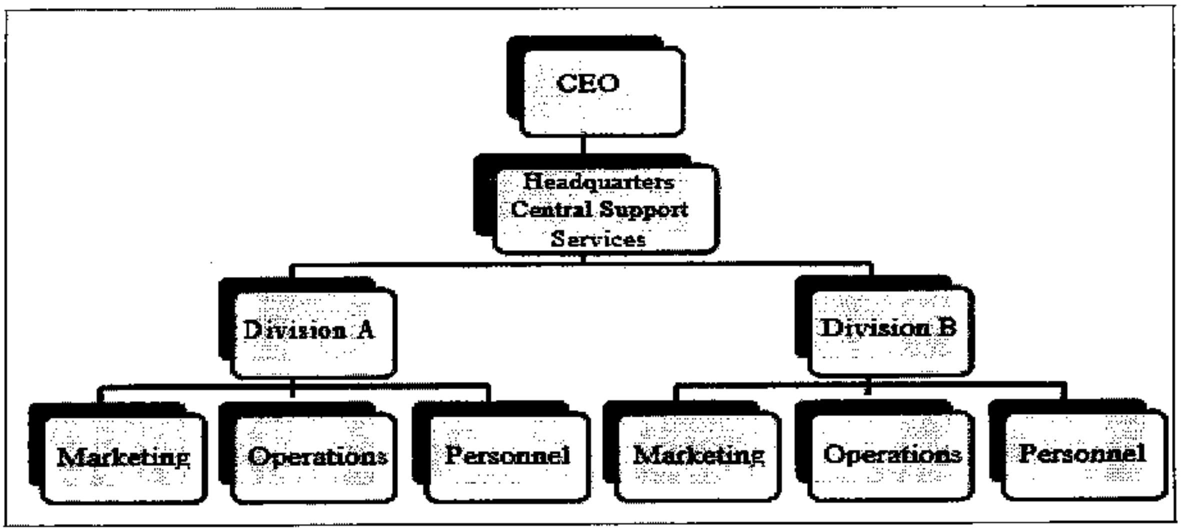


Figure 3.2: Multidivisional Structure

A multidivisional structure is built up of separate divisions on the basis of products, services or geographical areas. Visualisation often comes about as an attempt to overcome the problems that functional structures have in dealing with the diversity mentioned above. Each division can respond to the specific requirements of its product/ market strategy, using its own set of functional departments.

A similar situation exists in many public services, where the organization is structured around service departments such as recreation, social services and education.

There are several potential advantages to divisional structures.

1. They are flexible in the sense that organizations can add, close or merge divisions as circumstances change.

2. As self-standing business units, it is possible to control divisions from a distance by monitoring business performance.

3. Divisional managers have greater personal ownership for their own divisional strategies.

4. There can be benefits of specialisation within a division, allowing competences to develop with a clearer focus on a particular product group, technology or customer group.

5. Management responsibility for a whole divisional business is good training in taking a strategic view for managers expecting to go on to a main board position.

6. Conflicts across functional areas can be minimised with increased accountability and focus.

However, divisional structures can also have disadvantages of three main types.

1. Divisions can become so self-sufficient that they are de facto independent businesses, but duplicating the functions and costs of the corporate centre of the company. So it may make more sense to split the company into independent businesses, and demergers of this type have been very common.

2. visualisation tends to get in the way of cooperation and knowledge sharing between business units: divisions can quite literally divide. Expertise is fragmented and divisional performance targets provide poor incentives to collaborate with other divisions.

3. Divisions may become too autonomous, especially where joint ventures and partnership dilute ownership. In these cases, multidivisional degenerate into holding companies, where the corporate centre effectively 'holds' the various businesses in a largely financial sense, exercising little control and adding very little value.

4. Differences in image and quality may occur across divisions.

5. There are chances of divisions focusing on short term performances with a perspective of dominating the organisation-wide process.

Large and complex multidivisional companies often have a second tier of subdivisions within their main divisions. Treating smaller SBUs as subdivisions within a large division reduces the number of units that the corporate centre has to deal with directly. Subdivisions can also help complex organisations respond to contradictory pressures. For example, an organisation could have geographical subdivisions within a set of global product divisions.

6. The Matrix Structure:

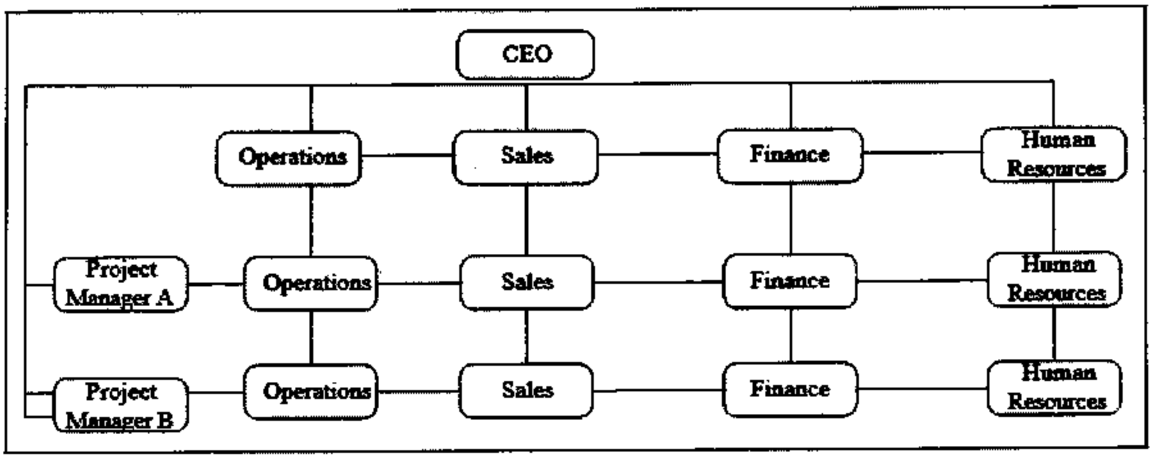


Figure 3.3: Matrix Structure

A matrix structure is a combination of structures which could take the form of product and geographical divisions or functional and divisional structures operating in tandem.

Matrix structures have several advantages.

1. They are effective at knowledge management because they allow separate areas of knowledge to be integrated across organizational boundaries. Particularly in professional service organizations, matrix organization can be helpful in applying particular knowledge specialisms to different market or geographical segments.

2. Matrix organizations are flexible, because they allow different dimensions of the organization to be mixed together. This permits innovation. They are particularly attractive to organizations operating globally, because of the possible mix between local and global dimensions. For example, a global company may prefer geographically defined divisions as the operating units for local marketing (because of their specialist local knowledge of customers). But at the same time it may still want global product divisions responsible for the worldwide coordination of product development and manufacturing, taking advantage of economies of scale and specialisation.

3. Firms can use resources more efficiently.

4. It provides professionals with broader range of responsibilities.

However, because a matrix structure replaces formal lines of authority with (cross-matrix) relationships, this often brings problems.

1. In particular, it will typically take longer to reach decisions because of bargaining between the managers of different dimensions.

2. There may also be conflict because staff find themselves responsible to managers from two structural dimensions.

3. Matrix organisations are hard to control.

4. There may be excessive reliance of group processes and teamwork.

5. May erode timely decision making.

As with any structure, but particularly with the matrix structure, the critical issue in practice is the way it actually works (that is, the processes and relationships). The key ingredient in a successful matrix structure can be senior managers good at sustaining collaborative relationships (across the matrix) and coping with the messiness and ambiguity which that can bring.

The transnational structure

A transnational structure combines the local responsiveness of the international subsidiary with the coordination advantages found in global product companies. The transnational structure seeks to obtain the best from the two extreme international strategies, the multi domestic strategy and the global strategy. A global strategy would typically be supported by global product divisions; a multi domestic strategy would be supported by local subsidiaries with a great deal of design, manufacturing and marketing autonomy for all products. The transnational structure, however, attempts to achieve both high local responsiveness and high global coordination. The transnational is like a matrix but has two specific features: first, it responds specifically to the challenge of internationalisation; second, it tends to have more fixed responsibilities within its crosscutting dimensions. The transnational has the following detailed characteristics:

1. Each national unit operates independently, but is a source of ideas and capabilities for the whole corporation. For example, in Unilever, the centre for innovation in hair-care products worldwide is in France.

2. National units achieve greater scale economies through specialisation on behalf of the whole corporation, or at least large regions. Unilever in Europe has replaced its web of small national food manufacturing units with a few specialised larger factories that export its products to other European countries.

3. The corporate centre manages this global network by first establishing the role of each business unit, then sustaining the systems, relationships and culture to make the network of business units operate effectively. Unilever has established a system of 'forums' bringing managers together internationally to help them swap experience and coordinate their needs. The success of a transnational corporation is dependent on the ability simultaneously to achieve global competences, local responsiveness and organisation wide innovation and learning. This requires clarity as to boundaries, relationships and the roles that the various managers need to perform. For example:

4. Global business managers have the overriding responsibility to further the company's global competitiveness, which will cross both national and functional boundaries. They must be the product/market strategist, the architect of the business resources and competences, the driver of product innovation and the coordinator of transnational transactions.

5. Country or area managers have potentially a dual responsibility to other parts of the transnational. First, they must act as a sensor of local needs and feed these back to those responsible internationally for new products or services. Second, they should seek to build unique competences: that is, becomes a centre of excellence which allows them to be a contributor to the company as a whole, in manufacturing or research and development, for instance.

6. Functional managers such as finance or IT have a major responsibility for ensuring worldwide innovation and learning across the various parts of the organization. This requires the skill to recognise and spread best practice across the organization. So they must be able to scan the organization for best practice, cross-pollinate this best practice and be the champion of innovations.

7. Corporate (head office) managers integrate these other roles and responsibilities. Not only are they the leaders, but they are also the talent spotters among business, country and functional managers, facilitating the interplay between them. For example, they must foster the processes of innovation and knowledge creation. They are responsible for the development of a strong management centre in the organization. There are some disadvantages to a transnational structure. It is very demanding of managers in terms of willingness to work not just at their immediate responsibilities but for the good of the transnational as a whole. Diffuse responsibilities also make for similar complexities and control problems to those of the matrix organization.

Project-based structures

A project-based structure is one where teams are created, undertake the work and are then dissolved. This can be particularly appropriate for organizations that deliver large and expensive goods or services (civil engineering, information systems, films) or those delivering time-limited events (conferences, sporting events or consulting engagements). The organization structure is a constantly changing collection of project teams created, steered and glued together loosely by a small corporate group. Many organizations use such teams in a more ad hoc way to complement the 'main' structure. For example, taskforces are set up to make progress on new elements of strategy or to provide momentum where the regular structure of the organization is not effective.

Advantages of Project-based structures

1. The project-based structure can be highly flexible, with projects being set up and dissolved as required.

2. Accountability and control are good because project teams should have clear tasks to achieve within a defined life.

3. Projects can be effective at knowledge exchange as project team members will typically be drawn from different departments within the firm.

4. Projects can also draw members internationally and, because project life spans are typically short, project teams may be more willing to work temporarily around the world.

Disadvantages of Project-based structures

1. Without strong programme management providing overarching strategic control, organizations are prone to proliferate projects in an ill-coordinated fashion.

2. The constant breaking up of project teams can also hinder the accumulation of knowledge over time or within specialisms.

Overall, project-based structures have been growing in importance because of their inherent flexibility. Such flexibility can be vital in a fast-moving world where individual knowledge and competences need to be redeployed and integrated quickly and in novel ways.

Structural choice depends on the strategic challenges the organization faces. In reality, few organizations adopt a structure that is just like one of the pure structural types discussed above. Structures often blend different types and have to be tailor-made to the particular mix of challenges facing the organization. Michael Gold and Andrew Campbell provide nine design tests against which to check specific tailor-made structural solutions.

The first four tests stress fit with the key objectives and constraints of the organization:

1. The Market-Advantage Test. This test of fit with market strategy is fundamental, following Alfred Chandler's classic principle that 'structure follows strategy'. For example, if coordination between two steps in a production process is important to market advantage, then they should probably be placed in the same structural unit.

2. The Parenting Advantage Test. The structural design should fit the 'parenting' role of the corporate centre. For example, if the corporate centre aims to add value as a synergy manager, then it should design a structure that places important integrative specialisms, such as marketing or research, at the centre.

3. The People Test. The structural design must fit the people available. It is dangerous to switch completely from a functional structure to a multidivisional structure if, as is likely, the organisation lacks managers with competence in running decentralised business units.

4. The Feasibility Test. This is a catch-all category, indicating that the structure must fit legal, stakeholder, trade union or similar constraints. For example, after scandals involving biased research, investment banks are now required by financial regulators to separate their research and analysis departments from their deal-making departments. Gold and Campbell then propose five tests based on good general design principles, as follows:

5. The Specialised Cultures Test. This test reflects the value of bringing together specialists so that they can develop their expertise in close collaboration with each other. A structure fails if it breaks up important specialist cultures.

6. The Difficult Links Test. This test asks whether a proposed structure will set up links between parts of the organisations that are important but bound to be strained. For example, extreme decentralisation to profit- accountable business units is likely to strain relationships with a central research and development department. Unless compensating mechanisms are put in place, this kind of structure is likely to fail.

7. The Redundant Hierarchy Test. Any structural design should be checked in case it has too many layers of management, causing undue blockages and expense. Delayering in response to redundant hierarchies has been an important structural trend in recent years.

8. The Accountability Test. This test stresses the importance of clear lines of accountability, ensuring the control and commitment of managers throughout the structure. Because of their dual lines of reporting, matrix structures are often accused of lacking clear accountability.

9. The Flexibility Test. In a fast-moving world, an important test is the extent to which a design will allow for change in the future. For instance, divisional domains should be specified broadly enough to allow divisional managers to follow new opportunities as they emerge.

Gold and Campbell's nine tests provide a rigorous screen for effective structures. But even if the structural design passes these tests, the structure still needs to be matched to the other strands of the organisation's configuration, its processes and relationships. Each strand will have to reinforce the others.

[Johnson, Scholes and Whittington, R. (2008)]

3.3 STRATEGIC BUSINESS UNIT

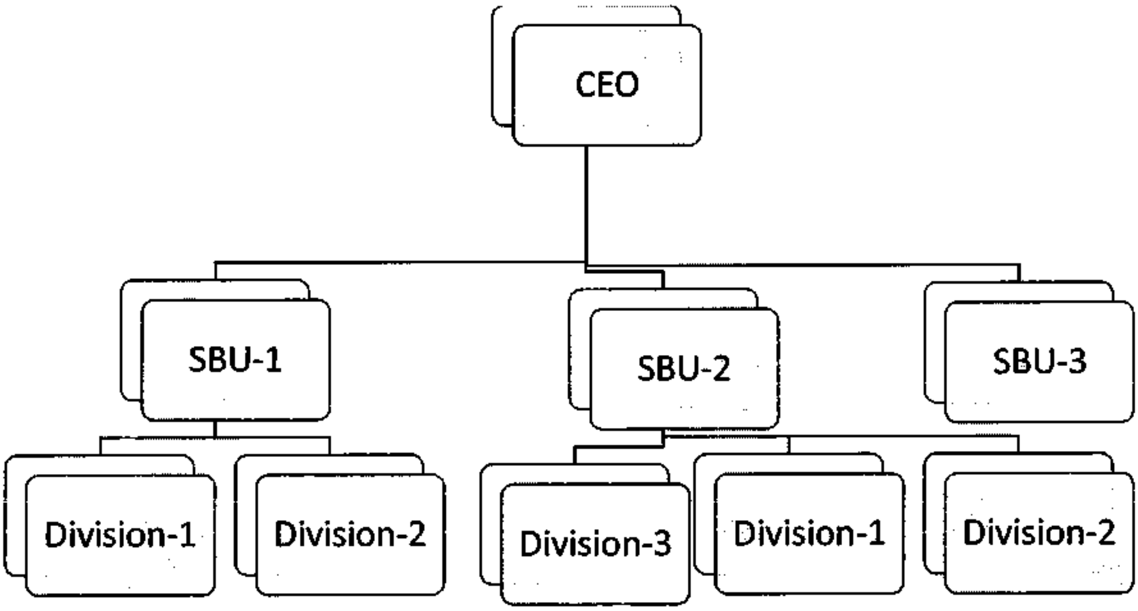


Figure 3.4: SBU Structure

A strategic business unit (SBU) is a part of an organization for which there is a distinct external market for goods or services that is different from another SBU. The identification of an organization's SBUs helps the development of business level strategies since these may need to vary from one SBU to another. The identification of SBUs does, however, raise some important areas of concern such as

1. As the bases of competitive strategy may need to differ by markets (or market segment) the SBUs considered need to reflect this. However, potentially, managers may subdivide markets into many segments based on different criteria. The result could be unmanageable in terms of identifying compatible bases of competitive strategy. So sensible judgements need to be made about which SBUs are most useful for strategy making purposes.

2. Similarly, too many SBUs can create excessive complexity in developing corporate-level strategy.

3. An SBU is an organizational unit for strategy-making purposes. An organization may not actually be structured on the basis of SBUs, so consideration needs to be given to the relationship of SBUs and organizational design.

There are external and internal criteria that can help in identifying appropriate SBUs:

1. Market-based criteria. Different parts of an organization might be regarded as the same SBU if they are targeting the same customer types, through the same sorts of channels and facing similar competitors. For example, a 'unit' tailoring products or services to specific local needs are a different SBU from one that offers standardised products or services globally. So are units that offer the same products to a customer group through significantly different channels (for example, retailing to consumers versus direct selling via the Internet).

2. Capabilities-based criteria. Parts of an organisation should only be regarded as the same SBU if they have similar strategic capabilities. So for a food manufacturer branded goods should probably be considered a different SBU from retail 'own-brand' goods even though they are selling to the same end customers through the same channels. [Johnson, Scholes and Whittington (2008)]

Distinction between strategy formulation and strategy implementation

According to David (2005) the following are the differences between the two

Strategy Formulation	Strategy Implementation
1. It involves positioning forces before the action	1. It involves managing forces during the action.
2. The focus is on effectiveness	2. The focus is on efficiency.
3. It is primarily an intellectual process.	3. It is primarily an operational process.
4. It requires good intuitive and analytical skills.	4. It requires motivation and leadership skills.
5. Requires coordination among few individuals.	5. Requires coordination among many individuals.

3.4 BUSINESS PROCESS RE - ENGINEERING

Business Process Engineering may be considered to be a radical redesign of business processes often used by companies to cut costs and return to profitability. During the 1990s, recognition that the re- design of operational processes could achieve substantial efficiency gains stimulated a surge of interest in a new management tool called business process reengineering (BPR). It may be mentioned that BPR is not in itself a type of structure, but it is an effective program to implement a turnaround strategy. Hammer and Champy (1993) defined BPR as 'the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service, and speed'.

There are primarily three important reasons that lead an organisation to undertake re-engineering

1. An organization needs dramatic improvements to sustain itself and is already in deep trouble. High failure rates of products and repetitive customer complaints can be a one of the reasons that can cause huge disruption in the functioning of the organization.

2. The need for re-engineering can be felt by the management keeping in mind the imminent problems that the organisation is expected to face in the future due to some dramatic changes in the environment, both internal and external.

3. There can be situations when reengineering can help organizations to be in better position than they are currently in.

BPR recognises that production and commercial processes involve complex interactions among many individuals and evolve over time with little conscious or consistent direction. According to Pates (2003) with information technology, the temptation is to automate existing processes. The key is to detach from the way in which a process is currently organized and to begin with the question: 'If we were starting afresh, how would we design this process?' Hammer and Champy (1993) point to the existence of a set of 'commonalities, recurring themes, or characteristics' that can guide BPR. These include:

1. Combining several jobs into one.

2. Allowing workers to make decisions.

3. Performing the steps of a process in a natural order.

4. Recognition that processes have multiple versions and designing processes to take account of different situations.

5. Performing processes where it makes the most sense, e.g., if the accounting department needs pencils, it is probably cheaper for such a small order to be purchased directly from the office equipment store along the block than to be ordered via the firm's purchasing department.

6. Reducing checks and controls to the point where they make economic sense.

7. Minimizing reconciliation.

8. Appointing a case manager to provide a single point of contact at the interface between processes.

9. Reconciling centralization with decentralization in process design - e.g., via a shared database, decentralized decisions can be made while permitting overall coordination simply through information sharing.

BPR has resulted in major gains in efficiency, quality and speed. The following case study reveals the same.

Process Reengineering at IBM Credit

IBM credit provides credit to customers of IBM for the purchase of IBM hardware and Software. Under the old system, five stages were involved:

1. The IBM salesperson telephoned a request for financing. The request was logged on a piece of paper.

2. The request was sent to the Credit Department where it was logged onto a computer and the customer's creditworthiness was checked. The results of the credit check were written on a form and passed to the Business Practices Department.

3. There the standard loan covenant would be modified to meet the terms of customer loan.

4. The request was passed to the pricer who determined the appropriate interest rate.

5. The clerical group took all the information and prepared a quote letter, which was sent to the salesperson.

Because the process took an average of six days, it resulted in a number of lost sales and delayed the sales staff in finalizing deals. After many efforts to improve the process, two managers undertook an experiment. They took a financing request and walked it around through all five steps. The process took 90 minutes.

On this basis, a fundamental redesign of the credit approval process was achieved. The change was replacing the specialists (credit checkers, pricers, and so on) with generalists who undertook all five processes. Only where the request was nonstandard or unusually complex were specialists called in. The basic problem was that the system had been designed for the most complex credit requests that IBM received, whereas in the vast majority of cases no specialist judgment was called for- simply clerical work involving looking up credit ratings, plugging numbers into standard formulae, etc.

The result was that credit requests are processed in four hours compared to six days, total employees were reduced slightly, while the total number of deals increased one hundred times.

6. Source: Grant, R.M. (2012). Contemporary Strategic Management. 6th edition. Blackwell Publishing. New Delhi

<u>Concerns in BPR</u>

In many instances has produced disappointing result.

1. One of the major realizations to emerge from BPR is that most business processes are complex. To redesign a process one must first understand it.

2. Process mapping exercises reveal that even seemingly simple business processes, such as the procurement of office supplies, involve complex and sophisticated systems of interactions among a number of organizational members.

3. Many organizational routines operate without any single person fully understanding the mechanism.

4. Hammer and Champy's (1993) recommendation to 'obliterate existing processes and start with a 'clean sheet of paper runs the risk of destroying organizational capabilities that have been nurtured over a long period of time.

3.5 MANAGEMENT CONTROL, OPERATIONAL CONTROL AND TASK CONTROL

Managers choose the organizational strategies and structure they hope will allow the organization to use its resources most effectively to pursue its business model and create value and profit. Then they create strategic control systems, tools that allow them to monitor and evaluate whether, in fact, their strategies and structure are working as intended, how they could be improved, and how they should be changed if they are not working. Strategic control systems refer to the mechanism that allows managers to monitor and evaluate whether their business model is working as intended and how it could be improved. Strategic control is not only about monitoring how well an organization and its members are currently performing, or about how well the firm is using its existing resources. It is also about how to create the incentives to keep employees motivated and focused on the important problems that may confront an organization in the future so that the employees work together and find solutions that can help an organization perform better over time. Strategic control helps managers obtain superior efficiency, quality, innovation, and responsiveness to customers.

1. Control and efficiency. Efficiency is the ratio of the number of units of inputs required to produce a unit of output. It is the task of the managers to be able to accurately measure how many units of inputs (raw materials, human resources, and so on) are being used to produce a unit of output. They must also be able to measure the number of units of outputs (goods and services) they produce. A control system contains the measures or yardsticks that allow managers to assess how efficiently they are producing goods and services. Moreover, if managers experiment to find a more efficient way to produce goods and services, these measures tell managers how successful they have been. Without a control system in place, managers have no idea how well their organizations are performing nor how to perform better in the future—something that is becoming increasingly important in today's highly competitive environment.

2. Control and quality. Today, competition often revolves around increasing the quality of goods and services. Strategic control is important in determining the quality of goods and services because it gives managers feedback on product quality. If managers consistently measure the number of customers' complaints and the number of new cars returned for repairs, they have a good indication of how much quality they have built into their product.

3. Control and innovation. Strategic control can help to raise the level of innovation in an organization. Successful innovation takes place when managers create an organizational setting in which employees feel empowered to be creative and in which authority is decentralized to employees so that they feel free to experiment and take risks. Deciding upon the appropriate control systems to encourage risk taking is an important management challenge.

4. Control and responsiveness to customers. Finally, strategic managers can help make their organizations more responsive to customers if they develop a control system that allows them to evaluate how well employees with customer contact are performing their jobs. Monitoring employees' behaviour can help managers find ways to help increase employees' performance level, perhaps by revealing areas in which skills training can help employees, or by finding new procedures that allow employees to perform their jobs more efficiently.

When employees know their behaviours are being monitored, they may have more incentive to be helpful and consistent in the way they act toward customers.

Strategic control systems are the formal target-setting, measurement, and feedback systems that allow strategic managers to evaluate whether a company is achieving superior efficiency, quality, innovation, and customer responsiveness and implementing its strategy successfully. An effective control system should have three characteristics. It should be flexible enough to allow managers to respond as necessary to unexpected events; it should provide accurate information, thus giving a true picture of organizational performance; and it should supply managers with the information in a timely manner because making decisions on the basis of outdated information is a recipe for failure.

Levels of Strategic Control

Strategic control systems are developed to measure performance at four levels in a company: corporate, divisional, functional, and individual. Managers at all levels must develop the most appropriate set of measures to evaluate corporate, business and functional-level performance. As the balanced scorecard approach suggests, these measures should be tied as closely as possibly to the goals of developing distinctive competencies in efficiency, quality, innovativeness, and responsiveness to customers. Care must be taken, however, to ensure that the standards used at each level do not cause problems at the other levels—for example, that a division's attempts to improve its performance do not conflict with corporate performance. Furthermore, controls at each level should provide the basis upon which managers at lower levels design their control systems.

Types of General Control Systems

The balanced scorecard approach was discussed as a way to ensure that managers complement the use of return on invested capital (ROIC) with other kinds of strategic controls to ensure they are pursuing strategies that maximize long-run profitability. In this chapter, we consider three more types of control systems: personal control, output control, and behaviour control.

Personal Control:

1. Personal control is the desire to shape and influence the behaviour of a person in a face-to-face interaction in the pursuit of a company's goals

2. The most obvious kind of personal control is direct supervision from a manager farther up in the hierarchy.

3. The personal approach is useful because managers can question subordinates about problems or new issues they are facing to get a better understanding of the situation and to ensure that subordinates are performing their work effectively and that they are not hiding any information that could cause additional problems later.

4. Personal control also can come from a group of peers, such as when people work in teams. Once again, personal control at the group level means that there is more possibility for learning to occur and competencies to develop, as well as greater opportunities to prevent free-riding or shirking.

Output Control:

1. Output control specifies what is to be accomplished by focusing on the end result.

2. It is a system in which strategic managers estimate or forecast appropriate performance goals for each division, department, and employee, and then measure actual performance relative to these goals.

3. It is important to understand that these controls are appropriate when specific output measures have been agreed upon.

4. Often a company's reward and incentive system is linked to performance on these goals, so output control also provides an incentive structure for motivating employees at all levels in the organization.

5. Goals keep managers informed about how well their strategies are creating a competitive advantage and building the distinctive competencies that lead to future success.

6. Goals exist at all levels in an organization. Divisional goals state corporate managers' expectations for each division concerning performance on dimensions such as efficiency, quality, innovation, and responsiveness to customers.

7. Generally, corporate managers set challenging divisional goals to encourage divisional managers to create more effective strategies and structures in the future. Output control at the functional and individual levels is a continuation of control at the divisional level.

8. Divisional managers set goals for functional managers that will allow the division to achieve its goals. As at the divisional level, functional goals are established to encourage the development of generic competencies that provide the company with a competitive advantage, and functional performance is evaluated by how well a function develops a competency.

9. In the sales function, for example, goals related to efficiency (such as cost of sales), quality (such as number of returns), and customer responsiveness (such as the time necessary to respond to customer needs) can be established for the whole function.

10. Finally, functional managers establish goals that individual employees are expected to achieve to allow the function to meet its goals. Sales personnel, for example, can be given specific goals (related to functional goals) that they are required to achieve. Functions and individuals are then evaluated based on whether or not they are achieving their goals; in sales, compensation is commonly anchored by achievement.

11. The achievement of goals is a sign that the company's strategy is working and meeting the organization's wider objectives.

12. The inappropriate use of output control can promote conflict among divisions.

13. In general, setting across-the-board output targets, such as ROIC targets for divisions, can lead to destructive results if divisions single-mindedly try to maximize divisional ROIC at the expense of corporate ROIC.

14. Moreover, to reach output targets, divisions may start to distort the numbers and engage in strategic manipulation of the figures to make their divisions look good—which increases bureaucratic costs.

Behaviour Control: Behaviour control is control achieved through the establishment of a comprehensive system of rules and procedures to direct the actions or behaviour of divisions, functions, and individuals. The intent of behaviour controls is not to specify the goals but to standardize the way or means of reaching them. Rules standardize behaviour and make outcomes predictable. If employees follow the rules, then actions are performed and decisions are handled the same way time and time again. The result is predictability and accuracy, the aim of all control systems. The primary kinds of behaviour controls are operating budgets, standardization, and rules and procedures.

Strategic controls:

There are four types of strategic controls:

1. Premise Control: Strategy is built around several assumptions or predictions, which are called planning premises.

• Premise control checks systemically and continuously whether the assumptions on which the strategy is based are still valid.

• If a vital premise is no longer valid, the strategy may have to change. The sooner these invalid assumptions are detected and rejected, the better are the chances of changing the strategy.

• The premise control is concerned with two types of factors namely environmental factor and industry factors.

• A firm's performance is affected by changes in environmental factors like the rate of inflation, government regulations, social changes etc. Although the firm has little of no control over environmental factors, these factors have considerable influence over the success of the strategy because strategies are generally based on key assumptions about them.

• Industry factors also affect the performance of a company. Competitors, suppliers, buyers, substitutes, new entrants, etc. are some of the industry factors about which assumptions are made.

• If any of these assumptions go wrong, strategy may have to be changed.

2. Strategic Surveillance: Strategic surveillance is a broad-based vigilance activity in all daily operations both inside and outside the organization. With such vigilance, the events that are likely to threaten the course of a film's strategy can be tracked. Business journals, trade conferences, conversations observations etc. are some of the information sources for strategic surveillance

3. Special Alert Control: Sudden, unexpected events can drastically alter the course of the firm's strategy. Such events trigger an immediate and intense reconsideration of the firm's strategy. Generally, firms develop contingency plans along with crisis teams to respond to such sudden, unexpected events.

4. Implementation Control: Strategy implementation takes place as a series of steps, programmes, investments and moves that occur over an extended period. Resources are allocated, essential people are put in place, special programmes are undertaken and functional areas initiate strategy related activities.

- Implementation control is aimed at assessing whether the plans, programmes and policies are actually guiding the organisation towards the predetermined objectives or not.
- Implementation control assesses whether the overall strategy should be changed in the light of the results of specific units and individuals involved in implementation of the strategy.
- Two important methods to achieve implementation control are monitoring strategic thrusts and milestone review.
- Monitoring Strategic Thrusts are small critical projects that need to be done if the overall strategy is to be accomplished. They are critical success factors in the success of strategy.
- Milestones are critical events that should be reached during strategy implementation. These milestones may be fixed on the basis of critical events, major resource allocation and time frames. Network controls like PERT/CPM for project implementation are examples of milestone reviews.
- After doing a milestone review, managers often undertake a full scale reassessment of the strategy to decide whether to continue or refocus the firm's strategy.
- Implementation control is also done through operational control systems like budgets, schedules, key success factors etc. [Rao, et.al. (2008)]

Approaches to Strategic Control:

According to Dess, Lumpkin and Taylor (2003), there are two approaches to strategic control namely, Traditional Approach and Contemporary Approach.

Traditional Approach

This approach to strategic control is sequential:

1. Strategies are formulated and top management set the goals.

2. Strategies are implemented.

3. Performance is measured against goals.

4. Corrective measures are taken, if there are deviations.

The control is based on a feedback loop from performance measurement to strategy formulation. This type of approach has its own limitations. This process typically involves lengthy time lags and often tied to a firm's annual planning cycle. This approach not being proactive is not sufficient to control a strategy. As strategy involves a long period of time for implementation and to produce results it becomes imperative that there should be continuous evaluation of the planning premises and strategy implementation in order to get the desired results.

Contemporary Approach

Under this approach, adapting to and anticipating both internal and external environment, change is an integral part odd strategic control. This approach addresses the assumptions and premises that provide the foundation for the strategy. The key question addressed here is: do the organizations goals and strategies still fit within the context of the current environment? This involves two key actions:

(a) Managers must continuously scan and monitor the external and internal environment.
(b) Managers must continuously update and challenge the assumptions underlying the strategy.

This may even need changes in the strategic direction of the firm. While strategic control requires the contemporary approach, operational control is generally done through traditional approach.

The Role of Strategic Control

1. An important element of strategic control is to design a system that sets ambitious goals and targets for all managers and employees and then develops performance measures that stretch and encourage managers and employees to excel in their quest to raise performance.
2. A functional structure promotes this goal because it increases the ability of managers and employees to monitor and make constant improvements to operating procedures.

3. The structure also encourages organizational learning because managers working closely with subordinates can mentor them and help develop their technical skills.

4. Grouping by function also makes it easier to apply output control.

5. Measurement criteria can be developed to suit the needs of each function to encourage members to stretch themselves.

6. Each function knows how well it is contributing to overall performance and the part it plays in reducing the cost of goods sold or the gross margin.

7. Managers can look closely to see if they are following the principle of the minimum chain of command and whether or not they need several levels of middle managers. Perhaps, instead of using middle managers, they could practice management by objectives, a system in which employees are encouraged to help set their own goals so that managers manage by exception, intervening only when they sense something is not going right. Given this increase in control, a functional structure also makes it possible to institute an effective strategic reward system in which pay can be closely linked to performance, and managers can accurately assess the value of each person's contributions.

Guidelines for Proper Control

In designing a control system, top management should remember that controls should follow strategy. Unless controls ensure the use of the proper strategy to achieve objectives, there is a strong likelihood that dysfunctional side effects will completely undermine the implementation of the objectives. The following guidelines are recommended:

1. Control should involve only the minimum amount of information needed to give a reliable picture of events: Too many controls create confusion. Focus on the strategic factors by following Pareto's 80/20 rule: Monitor those 20% of the factors determines 80% of the results.

2. Control must be reasonable. Frequent reporting and rapid reporting may frustrate control.

3. Controls do not work unless they are acceptable to those who apply them.

4. Controls should monitor only meaningful activities and results, regardless of measurement difficulty: If cooperation between divisions is important to corporate performance, some form of qualitative or quantitative measure should be established to monitor cooperation.

5. Controls must be flexible to take care of changing circumstances.

6. Controls should be timely so that corrective action can be taken before it is too late: Steering controls, controls that monitor or measure the factors influencing performance, should be stressed so that advance notice of problems is given.

7. Long-term and short-term controls should be used: If only short-term measures are emphasized, a short-term managerial orientation is likely.

8. Controls should aim at pinpointing exceptions: Only activities or results that fall out- side a predetermined tolerance range should call for action.

9. Emphasize the reward of meeting or exceeding standards rather than punishment for failing to meet standards: Heavy punishment of failure typically results in goal displacement. Managers will fudge reports and lobby for lower standards.

If corporate culture complements and reinforces the strategic orientation of a firm, there is less need for an extensive formal control system.

Operational Control

It provides post action evaluation and control over short periods involve systematic evaluation of performance against predetermined objectives.

In order to have effective operational control systems an organisation must follow four steps as under:

1. Setting of Standards

The first step in the control process involves setting of standards. Standards are the levels or targets against which the actual performance will be measured. They are broadly classified into quantitative standards and qualitative standards.

Quantitative Standards

They are expressed in precise physical or monetary terms with respect to production, marketing, finance, etc

They may relate to time standards, cost standards, productivity standards and revenue standards.

Qualitative Standards

Qualitative criteria are also important in setting standards. Human factors such as high absenteeism and turnover rates, poor production quality or low employee satisfaction can be the underlying causes of declining performance.

So, qualitative standards also need to be established to measure performance.

Measurement of Performance:

The second step in operational control is the measurement of actual performance. Here the actual performance is measured against the standards fixed. Standards of performance act as the benchmark against which the actual performance is to be compared. It is important, however, to understand how the measurement of performance actually takes place. Operationally measuring is done through accounting, reporting and communication systems. A variety of evaluation techniques are used for this purpose. The other important aspects of measurement relates to:

Difficulties in Measurement:

There are several activities for which it is difficult to set standards and measure performance. For example, performance of a worker in terms of units produced in a day, week or month can be easily measured. On the other hand, it is not easy to measure the contribution of a manager or to assess departmental performance. The solution lays in developing verifiable objectives, stated in quantitative and qualitative terms, against which performance can be measured.

1. Timing of Measurement:

Timing refers to the point of time at which measurement should take place Delay in measurement or measuring before time can defeat the very purpose of measurement. So measurement should take place at critical points in a task schedule, which could be at the end of a definable activity or the conclusion of a task. For example, in a project implementation schedule there could be several critical points at which measurement would take place.

2. Periodicity in Measurement:

Another important issue in measurement is "how often to measure". Generally, financial statements like budgets, balance-sheets, and profit and loss accounts are prepared every year; But there are certain reports like production reports, sales reports etc. which are done on a daily, weekly, monthly basis.

3. Identifying Deviations:

The third step in the control process is identifying deviations. The measurement of actual performance and its comparison with standards of performance determines the degree of variation between actual performance and the standard. There can be three situations

(a) The actual performance matches the standards.

(b) The actual performance exceeds the standards.

(c) The actual performance falls short of the standards.

The first situation is ideal but at times may not be realistic. Generally, a range of tolerance limits coincide within which the results may be accepted satisfactorily, are fixed and deviations from it are considered as variance

The second situation is an indication of superior performance. If exceeding the standards is considered unusual, a check needs to be made to test the validity of tests and the measurement system.

The third type of situation, which indicates shortfall in performance, should be taken seriously and strategists need pinpoint the areas where the performance is below standard and go into the causes of deviation.

The analysis of variance generally presented in a format called variance chart and submitted to the top management for their evaluation. After noting the deviations it is necessary to find the causes of deviation, which can be ascertained through the following questions:

(a) Is the cause of deviation internal or external?
(b) Is the cause random or expected?
(c) Is the deviation temporary or permanent?

Analysis of variance leads to a plan for corrective action.

4. Taking Corrective Action:

The last and final step in the operational control process is taking corrective action. Corrective action is initiated by the management to rectify the shortfall in performance. If the performance is consistently low, the strategists have to do an in depth analysis and diagnosis to isolate the factors responsible for such low performance and take appropriate corrective actions.

There are three courses for corrective action:

• **Checking Performance:** Performance can be affected adversely by a large number of factors such as inadequate resource allocation, ineffective structure or systems, faulty programmes, policies, motivational schemes, inefficient leadership styles, etc. Corrective actions may therefore include the change in strategy, systems, structure, compensation practices, training programmes, redesign of jobs, replacement of personnel, re-establishment of standards, budgets etc.

• **Checking Standards:** It is often argued that when there is nothing significantly wrong with performance then the strategist has to check the standards. A manager should not mind revising the standards when the standards set are unreasonably low or high level. Higher standards breed discontentment and frustration. Low standards make employee unproductive. So, standards check may result in lowering of standards if it is concluded that organizational capabilities do not match the performance requirements. It may also lead to elevation of standards if the conditions have improved to allow better performance. For example, better equipment, improved systems, upgraded skills, etc. need modification in existing standards.

• **Reformulating Strategies, Plans and Objectives:** A more radical and infrequent corrective action is to reformulate strategies, plans and objectives. Strategic control, rather than operational control, generally leads to changes in strategic direction, which will take the strategist back to the process of strategy formulation and choice. Techniques like total quality management (TQM) and ISO 9000 standards series are examples of very good control mechanisms.

Task Control

The term task control refers to the process of ensuring that specific tasks are carried out effectively and efficiently. Task control aims primarily at controlling things and performance, and such control may be purely direct, for example, placing an order for purchase of goods if inventory level falls below a point. Task control helps you plan one's day and time without relying too much on others. It increases efficiency and reduces the interdependence of tasks, making it easier to complete one's work. It may be mentioned that low task control makes employees more stressed as they lack control over how and when they perform their tasks as well as lack of control over the pace of work activity.

KRAs, KPAs and KPIs

The term Key Result Areas (KRAs) refers to a short list of overall goals that guide how an individual does their job, or general achievement and progress goals for an organization or one of its divisions. KRAs help define the scope of a job or a department or an organization's goals, and define the optimum outcomes and results of daily work. KRAs are the items that are critical for an organization or employee to be successful.

The Pareto principle says that 80 percent of the consequences or effects of something come from 20 percent of the causes. Applying that principle to how people (or departments and organizations) do their jobs, this means

that 80 percent of the value of the work will come from 20 percent of the work. Therefore, it's critical that one understands and identifies the most important 20 percent of the work that will eventually bring the most value to the organization. Key Result Areas will of course differ widely, depending on the role of an employee or the specific goals of a department or an organization. However, there are some primary attributes that are important in the development of any KRA.

1. If the KRAs are being developed for a position, they should broadly define that job and give the employee clarity in their role and mission within the organization. The KRAs likely will include a list of functions and activities vital to success

2. KRAs can require certain objectives from an employee only when the employee has the ability within the organization's structure to accomplish that objective.

3. Many experts believe that KRAs (for an employee, department or organization) should be SMART (specific, measurable, aligned, relevant, and time-bound). KRAs should be the most important objectives. They seldom should number more than a handful — no more than seven. Crenshaw suggests writing three to five. That number applies to both KRAs for individuals and KRAs for departments or organizations.

4. Group tasks that are related to each other together.

5. KRAs must be in writing, reviewed by all relevant parties, agreed upon, and signed by people involved — especially when the KRAs involve an employee's role. The written format for KRAs can be relatively simple. For an employee's KRA, It should include the employee's name, the department and supervisor's name, and a description of some of the most important duties of the employee's role and how it serves the organization's strategic objectives. Then, you should include details on several areas of expected performance. Those details should include metrics that can and will be measured to assess the employee's performance in those areas.

Problems in developing KRA's

While developing good KRAs can be straightforward, common hurdles often create problems:

1. Lack of Clarity: In KRAs that involve an employee's performance, neither the individual nor the supervisor is clear about the primary tasks and results that the employee should focus on — the tasks and results that will help drive an organization's success.

2. Distractions: People are too often distracted into doing daily tasks that seem important, but that are of limited value to the success of the organization.

3. Top-Down Imposition of KRAs: Supervisors who impose specific KRAs on employees — without a discussion to get their input — create a system that often fails.

When employees are allowed to explain how their job works and given some voice in setting appropriate goals and objectives for their job, they're "going to buy into it more," says Agile Strategy's Montgomery. If your inclination as a supervisor is to "be too commanding and controlling and dictatorial about it," then you should dispense with any objectives and key results system. "Just tell people what to do," Montgomery advises.

Key Performance Areas

Key Performance Areas (KPAs) describe broad areas of responsibility for which a department or organization or individual employee may be responsible. Unlike KRAs, they aren't necessarily tracked with results or results- focused metrics. KPAs can be many depending on the organization, employee, or industry. Some of the examples of KPAs are improving safety and accident prevention, improving an organization's risk management and regulatory compliance, maintaining good working conditions in a plant, using resources efficiently and effectively, improving business processes, improving an organization's service level agreements, etc.

Important Key Performance Areas

KPAs can cover a wide range of areas, and can vary significantly between organisations within the same industry. However, there are four KPAs that important for any business to identify, understand and pay attention to:

1. Financials: These include basics like revenue, costs, net profits, and trends that affect all three.

2. Customer Satisfaction: These deals with customers complain about the business or products, product return rate and the results of customer satisfaction surveys.

3. Market Perception: This includes how customers and potential customers view the company or its products.

4. Productivity: These include accomplishing of organizational major goals, meeting the everyday requirements to keep the organisation moving forward and keeping its customers satisfied.

Key Performance Indicator

A key performance indicator (KPI) is any metric that measures whether an organization is meeting certain objectives and goals that are set to help the organization succeed. KPIs might involve sales figures, product performance, return on certain organizational investments or a wide range of other areas. KPIs are often the measurements associated with the general goals outlined in a Key Result Area.

3.6 GOAL CONGRUENCE

1. Goal congruence is the term that is used to describe the situation when the goals of different interest groups coincide.

2. The achievement of goal congruence is essential in order to increase the profitability of the organization and to achieve its goals.

3. It is very important that the individual goals are consistent with the organizational goals. It may be said that in a perfect organization individual goals and organizational goals should correspond perfectly.

However, it is rarely the case as employees have both personal as well as organizational goals.

One way of to achieve goal congruence between shareholders and managers is by carefully designing remuneration packages for managers which would motivate managers to take decisions which were consistent with the objectives of the shareholders.

Agency Theory

1. Agency theory views the firm as a nexus of legal contracts. The managerial implication of agency theory relates to the management functions of organization and control.

2. Agency theory looks at the problems that can arise in a business relationship when one person delegates decision-making authority to another.

3. It offers a way of understanding why managers do not always act in the best interests of stakeholders and why they might sometimes behave unethically, and, perhaps, also illegally.

4. According to the Agency theory employees of businesses, including managers, as individuals, has his/her own objectives. There are departmental objectives within a department of a business. When these various objectives lead to the achievement of the objectives of the organization as a whole, there is said to be goal congruence.

5. The firm needs to design work tasks, incentives, and employment contracts and other control mechanisms in ways that minimize opportunism by agents. Such governance mechanisms are used to align incentives between principals and agents.

6. These mechanisms need to be designed in such a fashion as to overcome two specific agency problems:

adverse selection and moral hazard.

1. Adverse selection is a situation that occurs when information asymmetry increases the likelihood of selecting inferior alternatives.

2. A moral hazard is a situation in which information asymmetry increases the incentive of one party to take undue risks or shirk other responsibilities because the costs incur to the other party

Achieving Goal Congruence

1. Goal congruence can be achieved, and at the same time, the agency problem can be dealt with, providing managers with incentives which are related to profits or share price, or other factors such as: An agency problem is a conflict of interest inherent in any relationship where one party is expected to act in the best interest of another.

2. Agency problems arise when incentives or motivations present themselves to an agent to not act in the full best interest of a principal.

3. Through regulations or by incentivising an agent to act in accordance with the principal's best interests, agency problems can be reduced.

The following are some of the ways by way of which the agency problem can be dealt with:

1. Pay or bonuses related to the size of profits termed as profit-related pay.

2. Rewarding managers with shares, e.g.: when a private company 'goes public' and managers are invited to subscribe for shares in the company at an attractive offer price.

3. Rewarding managers with share options. In a share option scheme, selected employees are given a number of share options, each of which gives the right (after a certain date) to subscribe for shares in the company at a fixed price. The value of an option will increase if the company is successful and its share price goes up.

Such measures might encourage management in the adoption of "creative accounting" methods which will distort the reported performance of the company in the service of the manager's own ends. However, creative accounting methods such as off-balance sheet finance present a temptation to management at all times given that they allow a more favourable picture of the state of the company to be presented than otherwise, to shareholders, potential investors, potential lenders and others. An alternative approach is to attempt to monitor manager's behaviour, for example, by establishing 'Management audit' procedures, to introduce additional reporting requirements, or to seek assurance from managers that shareholders' interests will be foremost in their priorities.

Aspects of Goal Congruence

The following are some of the areas that have the ability to create goal congruence:

a. Communication and Understanding:

Channels of communication and how goals are perceived are important to achieve goal congruence. Operational managers have a responsibility of being aware as to what actions are desirable and what goals are to be achieved. It should be understood that the communication of different goals can occur through informal channels, which involves meetings and face to face interactions, or through formal channels including budgets or other financial documents. There is a inherent risk that even if the communication is well executed, it might be perceived in different ways. Organizations, therefore, should internalise the goals in a good manner to avoid that employees feel inability to achieve them.

b. Create direction:

One of the reasons for lack of goal congruence is the absence of direction related to employees' behaviour. Performance management and goals facilitate efficient communication about what managers want their subordinates to focus on. It needs no mention that providing clear information and direction, employees can better understand what is expected from them, how to perform adequately, and how to contribute effectively to the achievement of the organizational goals. There is a need to increase the employees understanding of the strategic objectives as well as the organization's value drivers.

c. Motivation:

The problem of motivation can exist even though employees have knowledge about how to perform adequately because employees can act in their own self interest instead of in the organization's best interest. The employees can make their own performance report better by allocating resources without befitting the organisation as a whole. One of the strongest reasons for demotivation among employees and managers is dislike for the work allocated. The reason for motivation varies among employees. While some employees feel motivated for some recognition and appraisals others may feel motivated because of commitment and responsibility without any required pay off. The more motivated the employees of the organization the better will be the goal congruence.

d. Incentives:

In order to increase the likelihood of employees working to achieve their individual goals, organization's aim to influence motivation by providing incentives. Research suggests that individuals tend to perform better when they are rewarded. Rewards and compensations should create goal congruence between individual goals and organisational goals by stimulating individuals to perform by providing incentives, as rewards are related to increased effort.

e. Connection:

It is very important to create a connection between goals, performance measures and incentives. In order to align the employees' self interest and overall organizational objectives it is necessary to relate incentives with performance. By linking incentives to certain goals, individuals tend to pay more attention to what is important.

Q1. Multiple Choice Questions

1. A _________ is a combination of structures which could take the form of product and geographical divisions or functional and divisional structures operating in tandem.
a. Functional structure
b. Matrix Structure
c. Project based structure
d. Transnational structure

2. A _________ combines the local responsiveness of the international subsidiary with the coordination advantages found in global product companies.
a. Functional structure
b. Matrix Structure
c. Project based structure
d. Transnational structure

3. A _________ is one where teams are created, undertake the work and are then dissolved.
a. Functional structure
b. Matrix Structure
c. Project based structure
d. Transnational structure

4. Which among the following is true?
a. BPR has resulted in major gains in efficiency.
b. BPR has resulted in major gains in speed.
c. BPR has resulted in major gains in quality.
d. BPR has resulted in major gains in efficiency, quality and speed.

5. _________ specifies what is to be accomplished by focusing on the end result.
a. Output control
b. Behaviour control
c. Premise control
d. Implementation control

6. __________ is control achieved through the establishment of a comprehensive system of rules and procedures to direct the actions of divisions, functions, and individuals.
a. Output control
b. Behaviour control
c. Premise control
d. Implementation control

7. __________ checks systemically and continuously whether the assumptions on which the strategy is based are still valid.
a. Output control
b. Behaviour control
c. Premise control
d. Implementation control

8. A _________ is based on the primary activities that have to be undertaken by an organisation
a. Functional structure
b. Matrix Structure
c. Project based structure
d. Transnational structure

9. This test is a catch-all category, indicating that the structure must fit legal, stakeholder, trade union or similar constraints.
a. The Feasibility Test
b. The People Test
c. The Parenting Advantage Test
d. The Specialised Cultures Test

10. In a fast-moving world, an important test to determine the extent to which a design will allow for change in the future is called?
a. The Feasibility Test
b. The Flexibility Test
c. cThe Parenting Advantage Test
d. The Specialised Cultures Test

11. Agency theory primarily deals with the relationship between:
a) Businesses and customers
b) Shareholders and stakeholders
c) Principals and agents
d) Employees and employers

12. Which statement best defines Key Result Areas (KRAs)?
a) They are specific activities that an employee needs to perform to achieve their objectives.
b) They are the critical areas where performance must be achieved to fulfil organizational goals.
c) They are individual tasks outlined in job descriptions.
d) They are the key outcomes expected from employees' efforts.

13. Which term refers to quantifiable measures used to evaluate the success of an organization or individual in meeting objectives?
a) Key Result Area (KRA)
b) Key Performance Indicator (KPI)
c) Key Performance Area (KPA)
d) Strategic Objective (SO)

14. In the context of BPR, what does "reengineering" refer to?
a) Continuously improving existing processes
b) Completely redesigning and restructuring processes
c) Outsourcing business operations
d) Automating manual tasks

15. How does goal congruence contribute to organizational effectiveness?
a) By encouraging individual employees to pursue personal interests
b) By fostering a sense of competition among team members
c) By ensuring that individual efforts are directed towards achieving organizational objectives
d) By disregarding the importance of aligning individual and organizational goals

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
b	d	c	d	a	b	c	a	a	b	c	d	b	b	c

Q2. State True or False.
1. The first step in the control process involves measurement of actual performance.
2. The second step in operational control is the setting of standards.
3. Controls work even if they are unacceptable to those who apply them.
4. Monitoring Strategic Thrusts are critical events that should be reached during strategy implementation.
5. Milestones are small critical projects that need to be done if the overall strategy is to be accomplished.
6. A strategic business unit (SBU) is a part of an organisation for which there is a distinct external market for goods or services that is different from another SBU.
7. Special alert control is a broad-based vigilance activity in all daily operations both inside and outside the organization.
8. Behaviour control assesses whether the overall strategy should be changed in the light of the results of specific units and individuals involved in implementation of the strategy.
9. Sudden, expected events can drastically alter the course of the firm's strategy.
10. Strategy Implementation involves positioning forces before the action
11. Matrix organisations are inflexible.

1	2	3	4	5	6	7	8	9	10	11
F	F	F	F	F	T	F	F	F	F	F

Q3. Fill in the Blanks.
1. __________and _________ are key ways of improving strategic capability.
2. ___________ may be broadly discussed into the following three areas namely HR function, Line managers

and structure and processes.

3. ___________have greater personal ownership for their own divisional strategies.

4. Conflicts across functional areas can be minimised with increased _______ and ______.

5. _________is not in itself a type of structure, but it is an effective program to implement a turnaround strategy.

6. ________ is the ratio of the number of units of inputs required to produce a unit of output.

7. ___________ is one where teams are created, undertake the work and are then dissolved.

8. ______________ reflects the value of bringing together specialists so that they can develop their expertise in close collaboration with each other.

9. ____________ asks whether a proposed structure will set up links between parts of the organisations that are important but bound to be strained.

10. __________ stresses the importance of clear lines of accountability, ensuring the control and commitment of managers throughout the structure.

1	Recruitment, retention	**2**	Organising people
3	Divisional managers	**4**	accountability, focus
5	Business Process Re-engineering	**6**	Efficiency
7	A project-based structure	**8**	The Specialised Cultures Test
9	The Difficult Links Test	**10**	The Accountability Test

4.1 INTRODUCTION

Digital technologies include electronic tools, systems, devices and resources that generate store or process data. In scientific terms, digital technology is a technology in which information is represented in digital form, i.e., as 0s and 1s. Some of the examples of digital technologies are online games, multimedia, social media and mobile phones.

The invention of transistor in the year 1947 is often credited with the beginning of digital technology era. The Digital Revolution began between the late 1950's and 1970's with the transition of technology from mechanical and analog to digital. Governments across the world were using computers and by 1970s and many house hold had personal computers. This was the time when digital computers and digital record keeping became the norm and dramatically changed the way humans communicate. The introduction of digital technology has led to job creation. This paved the way to the Information Age.

While some experts are of the opinion that the world has moved out of the Digital Revolution and into the Information Age, others believe that the Digital Revolution has only just begun. The technological advancements have actually increased manufacturing output with robots replacing humans. The Digital Revolution has impacted the medical industry as well with the use of genetic information for personalized treatment plans. The Digital Revolution is allowing us to overcome many limitations rapidly and opening up new frontiers with unprecedented speed.

A digital strategy, sometimes called a digital media strategy, is a plan for maximizing the business benefits of data assets and technology-focused initiatives. A successful digital strategy requires a cross-functional team with executive leadership, marketing and information technology (IT) members. It involves breaking down the silo between information technology leaders and those of other customer-facing departments to deliver a consistent digital customer experience. In today's organization, there are many ideas of what constitutes a digital strategy. A marketing executive will see a digital strategy as social media and web channels. An IT person would see a digital strategy as cloud. An operations executive will see it as data analytics. An R&D executive would see it as online products. A financial person will see it as online revenue channels.

While traditional information technology strategies tend to focus on long-term road maps and budget forecasts that extend years into the future, digital strategies tend to rely on short-term, month-to-month road maps that are tied to actionable items and measurable business objectives. To be successful, the strategy should place focus on where the company value chain is vulnerable to disruption and could be made stronger and more economically viable from a digital reboot. One of the challenges for establishing a digital strategy is to figure out which services should be done in-house, which services should be outsourced to a third-party provider and which services require customization in order to be effective.

There is a tendency to talk about digital transformation interchangeably with digital strategy. The two terms are closely related, but differ in scope.

1. Digital transformation drives change in three areas: customer experience, operational processes and business models. The process of digital transformation requires coordination across the entire organization, and involves business culture changes.

2. Digital strategy, on the other hand, focuses on technology, not culture. Digital strategy is most relevant to changes in business models, and uses technology to create the capabilities a company needs to become a digital business. Setting down a strategy is a key component of the transformation process, and ensures that technology is being implemented in a way that supports the business objectives.

The five following questions become relevant for an organization's digital transformation:

1. Does digital technology change the businesses you should be in?

2. How could digital technology improve the way you add value to the businesses you are in?

3. Could digital technology change your target customer?

4. Does digital technology affect the value proposition to your target customer?

5. How can digital technology enhance the enterprise capabilities that differentiate you from your competition?

To some companies, these questions will have obvious answers, especially those that have already experienced disruption or competition from new digital players. The intention is to identify how digital changes what you do, and then refine your understanding from broad industry trends to specific values that will form the foundation of your strategy. By beginning with a clear understanding of your company's purpose, you can avoid wasting time and resources implementing technology that doesn't enable new competitive advantages.

1. According to Basu (2021) in the present Industry 4.0 era, almost all large business entities across industry sectors have embarked upon the journey of digital transformation.

2. They have reinforced, further automated and weaponised their operating and financial policies, processes, and ICT systems with the help of technologies to stay ahead of and/or relevant with competitive advantages.

3. Micro, small, and medium entities are also gradually joining them in this journey. Many stratus are helping these entities with digital solutions built with 'inventive' applications of eight deep digital technologies.

4. Many of such solutions are of 'disruptive' and 'irruptive' nature. The former means destructively disruptive solutions. These have either destroyed certain conventional for manufacturing, marketing, and supply chain operations or replaced traditional products by combining many functional capabilities in one device. For example, robotic process automation has brought in a new era of man-machine collaboration and smart phones have almost killed traditional/amateur cameras and torches.

5. Irruptive solutions are unique strategy driven innovations for P2P, B2C and B2B networking, as well as time and cost-efficient processes for service deliveries with safety, speed and quality.

"A strategy is an integrated set of choices for actions which positions a firm in an industry so as to generate superior financial returns over the long run." Here 'integrated set of choices' denotes plans for activities to be initiated from internal environment and 'over the long run' signifies dynamics of competitive advantages for sustainable growth and prosperity. At this stage none should forget the axiomatic advice of Sun Tzu which every strategist must always remember "Strategy without tactics is a slow path to uncertain success. Tactics without strategy is the noise before defeat." These words of advice are equally apt and relevant even after twenty-six centuries.

4.2 DIGITAL TRANSFORMATION FOR COMPETIVE ADVANTAGES

1. When an organization embarks on a transformation journey, embracing digital technologies, two of their main objectives are to out manoeuvre competitors and attain sustainable competitive advantages or growth and prosperity. Basu (2021)

2. When 'trans-created' solutions are offered by an entity to solve customers' problems, meet their latent demands, and/or simplify operating processes, that business entity starts operating in a strategically created 'blue ocean'market space in that traditional sector. The phrase 'trans-created' means creation of a new versatile product and/or related business model transforming a traditional one run by legacy systems.

3. Innovative applications of digital technologies help them to implement the strategic plan and enjoy first mover's advantages. Such interplays of strategies and technologies can be termed as 'innovation', which is a combination of three tasks. viz., innovation, invention, and creation driven by distinctively formulated strategies.

4. The objective is to generate and share values. Here value also includes value for time, quality, greener technology, and minimized risks, in addition to additions to organization's profit measurable in monetary terms.

5. Basu (2021) mentions that according to Bharadwaj et.al. , the emerging idea on digital business strategies may be categorized under four major groups viz, scope, scale, agility, and sources of value creation.

6. These would be the influencing factors for scoping digital strategies for those business entities which want to leverage digital technologies for value creation by integration of operating business processes.

Research scholars Chania's and Hess in their seminal work concluded that "Digital transformation strategies are predominantly shaped by a diversity of emergent strategizing activities of separate organizational sub communities through a bottom-up process and prior to the initiation of a holistic digital transformation strategy by top management. As a result, top management's deliberate strategies seek to accomplish the subsequent alignment of pre-existing emergent strategy contents with their intentions and to simultaneously increase the share of deliberate contents." These two researchers have graphically explained the process of interplay of business strategy formulation and technology through the following diagram.

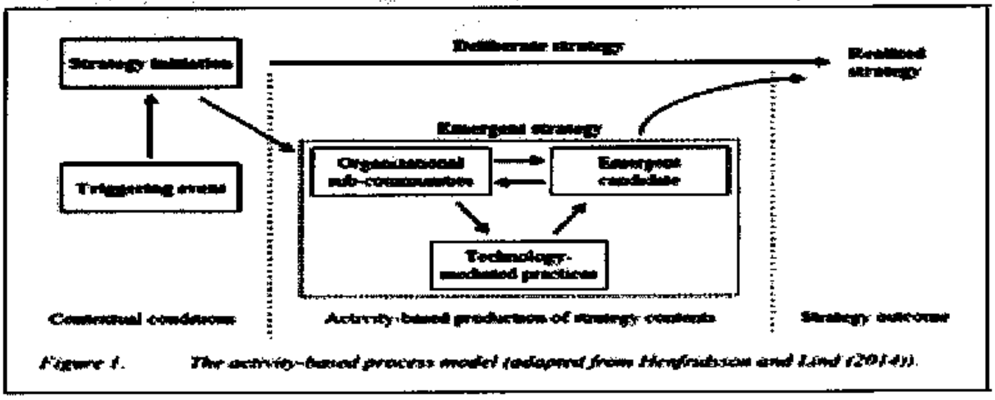


Figure 4.1 Source: Basu, (2021). Management Accountant, November,

1. The triggering event for the entire process of interplay between strategy and digital technologies is identification of the emergent need(s), problem(s) and risks of customers, solution for which was a long persisting latent demand of governmental and/ or societal ecosystem.

2. Such a process of identifying an opportunity for an entirely new business and revenue model can also be prompted by digital transformation while business strategies are infused into technology and vice versa.

3. A business entity generates loads of data while conducting transactions at the physical marketplace. Particularly a bank generates billions of transactional data conducted with millions of customers. Such data can further be collated for transaction types, time duration, repeats for errors, geographical regions, age group, gender, range values, language, time of the day, etc. once captured.

4. Cognitive tools from the stables of Artificial Intelligence, Machine Learning and Big Data Analytics, can now be used for further processing of such data.

5. When done, the processed information can enable Chief Experience Officers (CXOs) to draw many inferences in the context of business that has been done and/or can be done.

6. Further reflection on such information can trigger innovative thoughts to craft out new business designs that can be offered to customers through digital solutions, mode, and media. These can then be taken to the physical customers' marketplace for implementation and revenue generation. This is called the PDP Loop.

Therefore, the process of interplay starts even before formulation of strategy and/or while formulating the same.

Common elements of Digital Strategy

1. Choose a Leader -This is arguably the most important part of creating a digital strategy, but choosing the right person will depend on company culture, structure and priorities. Whether companies place leadership with the CEO or an appointed Chief Digital Officer, the leader's influence will need to match the scope of digital strategy; otherwise, it will be difficult to create the full buy-in from each department necessary to make effective changes.

2. Attack vs. Defend- McKinsey & Company emphasizes that companies would do well to categorize their potential threats and opportunities in digital business, then compare these against their own purpose. This clarifies whether a proactive or defensive stance needs to guide new initiatives.

3. Take a Measured Approach - Digital strategy often incorporates a process for assessing whether new technology will really complement or grow the current business. If you fear that your company is already behind on digital, it can be tempting to rush into a project without looking at how it fits your current strategy. By taking a measured approach, you can avoid wasting resources on initiatives that don't align with your business's needs and priorities

4. Future Proof - The goal of digital transformation is to create an appropriate foundation for digital business. This means creating an organization that can continue to reinvent itself as necessary to keep up with changes in technology and customer expectations. Digital strategy should be visionary enough to carry companies through changes in the digital economy, in a way that continues to bring a digital edge to the business.

(https://www.liferay.com/resources/l/digital-strategy#:~:text=Digital%20strategy%20focuses%20on%20 using,use%20to%20achieve%20these%20changes.)

4.3 INNOVATIONS AND DISRUPTIVE BUSINESS MODELS

The clarion call of present time is to first learn surfing for revival and survival, and then grow. One of the most critical tasks for saving the entity from drowning is implementation of digital transformation (DT) befitting the emerging way of living and operating in the new world order. This is a journey and not a destination to be reached just for once. Any organization can lay the foundation of digital transformation on 4Ds, viz., Discover, Design, Deliver and De-risk as suggested by McKinsey; 2 Ps, i.e., People and Process and 1 T, i.e., Tools. Basu (2020)

The following measures can be listed for orchestrated planning and execution across hierarchical levels, length and breadth of the organization:

1. Integration of digital technologies with functional areas that will bring metamorphosis in the process of conducting business operations with the ultimate objective of improving stakeholders' relationship and experience management.

2. Challenging the status quo of policies and standard operating practices for driving towards the inevitable metamorphosis.

3. Training of existing human capital with different capabilities and redeployment for dealing with digital tools consciously being mindful of the requirement of cultural change and removing fear of unknown to embrace the new.

4. Conducting experiments with digital technologies to assess suitability vis-á-vis the specificities of the needs of business and its stakeholders with the ultimate objective of incremental contributions for profit and profitability.

5. Approaching the long-drawn task with a mindset of creative destruction of long-standing business policies and processes in favour of relatively new digitally driven practices that are still being defined, adopted, and stabilised.

6. Providing the DT team, a free environment with committed assistance for innovative applications of various digital tools, if not 'inventing' new tools, and establishing collaboration with man and digitally operated machines, which are artificially intelligent.

7. Ensuring data privacy, cyber security, and information safety as an integral part of the entity's policy and processes for risk-enabled performance management.

8. Permitting implementation team to make mistakes and not penalising them for the same. Instead incentivise every attempt irrespective of success or failure so that the environment is congenial for innovating and delivering the best.

9. Unwavering commitment of funds and other resources, as well as extending help and support to the dedicated DT team by every single functional area of the organization.

Therefore, digital transformation is an orchestrated combination of people, process and technology for discovering, designing, and delivering with risk enabled process management what the stakeholders want. Through deductive logic one can explore out of the above narratives five essential elements of digital transformation, viz., stakeholders' relationship and experience, operational agility, culture and leadership, workforce enablement and integration of digital technologies for revival and sustainable growth with prosperity. The author reiterates that DT should be considered as a journey and not a destination because it is a task in eternity.

Basu (2020) comments that diffusion of digitization and digitalization is at the core of the tasks in this era of DT. Making meaning out of data and drawing inferences for strategic planning and deciding tactics for execution are the two critical drivers for attaining competitive advantages.

1. Innovation: There is a need to come out from the aura of this buzz word. Conducting exploratory analysis for identifying hitherto unattended/unresolved problems and latent demands of society from the perspective of the business domain and beyond become imperative. Applying ground-breaking thoughts to determine cost- effective ways for meeting those demands and solving problems with a win-win approach for both customers and the business entity have become the need of the hour. This may cause disruptions to existing players.

2. Digitization: All analogue data needs to be converted and generated by operating machinery and legacy systems, devices, physical documents, etc. into digital data and records. Taking steps to ensure that all data to be used in the process of business transformation are relevant, generated from first-hand sources and trustworthy is important.

3. Digitalization: The need to use digital technologies befitting the needs for changing business, operating and revenue models with the objective to generate more turnover and achieving maximisation of value creation as well as minimisation of value destruction needs to be implemented. For example, brick and mortar business models is added with and /or replaced by virtual marketplace for e-Commerce.

4. Digital Transformation: One has to embark upon the journey with strategically planned tasks for managing changes and applying digital technology to stay ahead of competition with an agile

mindset. Taking all possible measures for training/ upskilling of workforce and inculcating digital agility.

It is evident from the above that two major tasks for digital transformation are Digitization and Digitalization as opined by Antonio Grasso. A simple example for this can be drawn from manufacturing industries. Lots of analogue data are generated in industrial units by various counters, flow meters, etc. to count/measure throughputs, output generations, and consumption of utilities like steam, power, chilled water, etc. Voluminous data are also generated in physical records maintained by workmen/supervisors including for maintenance of machines, consumption of spare parts and deployment of technicians. However, such data are not digitised with the help of IoTs and APIs, and stored for conducting analytical studies that may provide meaningful help in planning, monitoring, controlling, deriving trends and patterns, etc., and drawing inferences by cross functional data analyses. All these when done can help in making strategic decisions and execution there of which may in turn help in maximisation of value generation and minimisation of value creation.

New York Times Digital Transformation:

In 2013, the New York Times implemented a carefully designed paywall and subscription model for their online content that allowed the company to continue to deliver the same type of high-quality journalism and content their readers expect while continuing to earn revenue.

This method appears to be working. According to their January 2017 report, "The Times brought in almost $500 million in purely digital revenue, which is far more than the digital revenues reported by many other leading publications (including BuzzFeed, The Guardian and The Washington Post) -combined.

Source: https://www.getsmarter.com/blog/career-advice/4-examples-successful-digital-strategies-can-learn/

Layers of Digital Transformation:

1. The following seven layers simplify the task of DT

2. Data aggregation - Aggregation of business relevant data from reliable sources, including conversion of analogue data to digital form and store for easy retrieval.

3. Data management - Categorising and organising the digitised data and making it ready for application of further processes.

4. Workflow automation - Application of algorithms and utilising the data for the business process to be envisioned.

5. Process component - Application of algorithms and start utilising the data for the business process.

6. Platform interface integration - Integrating the digital system with the core systems for smoother operations.

7. End to end processing - Conducting end to end processing and ensure error free transformation.

8. Front end software - Integrating with the front end of stakeholders' devices so that she/he can get seamless services in a technologically collaborated mode.

Source: Basu (2019)

These seven points are to be revisited every time there is a change in business ecosystem, if not at least annually coinciding with the timing for formulating every annual business plan for the organisation. Basu (2019)

Disruptive technologies in the literature refer to technologies that have the potential to introduce new product attributes, which could become a source of competitive advantage. Recent researches indicate a rising interest in big data, cloud computing and closed-loop systems in the circular economy. These new enabling technologies allow firms to apply new business models in support of sustainability issues. The growing intelligence of goods generates novel business models which rely on the intelligence of ecosystems within the activities for resources, by shaping closed-loop systems. Firms are also engaging more in frugal innovations, allowing them to carry out resource-constrained innovations for emerging markets. There is a strong focus on shared platforms or "plat firms".

1. Big Data:

- **Big data** is a collection of data that is huge in volume and is growing exponentially with time.

- It is a data with so large size and complexity that none of traditional data management tools can store it or process it efficiently.

- Big data is also a data but with huge size. Examples of Big Data include stock exchange, social **networking site, jet engine, etc.**

- There are three types of Big Data namely, structured, unstructured and semi-structured.

a. A 'structured data' is any data that can be stored, accessed and processed in the form of fixed format. A lot of success has been achieved over a period of time in developing techniques for working with such kind of data (where the format is well known in advance) and also deriving value out of it.

b. An unstructured data is one with unknown form or structure. In addition to the size being huge, un-structured data poses multiple challenges in terms of its processing for deriving value out of it.

c. A semi-structured data can contain both the forms of data. Example of semi-structured data is a data represented in an XML file.

Big Data can be described by the following characteristics:

1. Volume – Size of data plays a very crucial role in determining value out of data. Also, whether a particular data can actually be considered as a Big Data or not, is dependent upon the volume of data. The name Big Data itself is related to a size which is enormous. Hence, 'Volume' is one characteristic which needs to be considered while dealing with Big Data solutions.

2. Variety – Variety refers to heterogeneous sources and the nature of data, both structured, unstructured and semi structured. During earlier days, spreadsheets and databases were the only sources of data considered by most of the applications however, in recent period data can be in the form of emails, photos, videos, monitoring devices, PDFs, audio, etc.. These data also need to be analysed.

3. Velocity – The term 'velocity' refers to the speed of generation of data and processing of data to be responsive to the needs of the customers. Big Data velocity deals with the speed at which data flows in from sources like business processes, application logs, networks, and social media sites, sensors, mobile devices, etc. The flow of data is massive and continuous.

4. Variability – This refers to the inconsistency which can be shown by the data at times, thus hampering the process of being able to handle and manage the data effectively.

The following are some of the benefits of Big Data Processing

1. Businesses can utilize outside intelligence while taking decisions.

2. Improved customer service.

3. Early identification of risk to the product/services, if any.

4. Better operational efficiency.

• Cloud Computing

i. Cloud computing is a general term for anything that involves delivering hosted services over the internet.

ii. These services are divided into three main categories or types of cloud computing: infrastructure as a service (IaaS), platform as a service (PaaS) and software as a service (SaaS).

a. IaaS providers, such as Amazon Web Services (AWS), supply a virtual server instance and storage, as well as application programming interfaces (APIs) that let users migrate workloads to a virtual machine (VM). Users have an allocated storage capacity and can start, stop, access and configure the VM and storage as desired.

b. In the PaaS model, cloud providers host development tools on their infrastructures. Users access these tools over the internet using APIs, web portals or gateway software. PaaS is used for general software development, and many PaaS providers host the software after it's developed.

c. SaaS is a distribution model that delivers software applications over the internet; these applications are often called web services. Users can access SaaS applications and services from any location using a computer or mobile device that has internet access. In the SaaS model, users gain access to application software and databases.

iii. A cloud can be private or public.

a. A public cloud sells services to anyone on the internet.

b. A private cloud is a proprietary network or a data center that supplies hosted services to a limited number of people, with certain access and permissions settings.

c. Private or public, the goal of cloud computing is to provide easy, scalable access to computing resources and IT services. Examples of cloud computing include Google Docs, Microsoft 365, Email services, Google Calendar, Skype, Wats App, Zoom, etc.

Cloud computing benefits to modern businesses including the following:

1. Cost management: Cloud infrastructure can reduce capital costs, as organizations don't have to spend massive amounts of money buying and maintaining equipment. Moreover, companies don't need large IT teams to handle cloud data center operations because they can rely on the expertise of their cloud providers' teams. Cloud computing also cuts costs related to downtime

2. Data and workload mobility: Cloud computing allows users to access data from anywhere with any device with just an internet connection. That means users don't have to carry around USB drives, an external hard drive or multiple CDs to access their data. Users can access corporate data through smart phones and other mobile devices, enabling remote employees to stay up to date with co-workers and customers. End users can easily process, store, retrieve and recover resources in the cloud. In addition, cloud vendors provide all the upgrades and updates automatically, saving time and effort.

3. Business continuity and disaster recovery (BCDR): The biggest worry for organizations in the present digital landscape is data loss. Storing data in the cloud guarantees that users can always access their data even if their devices, e.g., laptops or smart phones, are inoperable. With cloud-based services, organizations can quickly recover their data in the event of emergencies, such as natural disasters or power outages. This benefits BCDR and helps ensure that workloads and data are available even if the business suffers damage or disruption.

The demerits of cloud computing:

In spite of the fact that cloud computing has huge benefits yet, it has its own causes of concern as follows:

1. Cloud security: There is a clear lack of transparency regarding how and where sensitive information entrusted to the cloud provider is handled. When relying on the cloud, organizations risk data breaches, hacking of APIs and interfaces, compromised credentials and authentication issues.

2. Cost unpredictability: The concept Pay-as-you-go subscription plans for cloud use, along with scaling resources to accommodate fluctuating workload demands, can make it tough to define and predict final costs.

3. Lack of capability and expertise: With cloud-supporting technologies rapidly advancing, organisations are struggling to keep up with the growing demand for tools and employees with the proper skill sets and knowledge needed to architect, deploy, and manage workloads and data in a cloud.

4. IT governance: The emphasis on do-it-yourself capability in cloud computing can make IT governance difficult, as there is no control over provisioning, de provisioning and management of infrastructure operations.

5. Compliance with industry laws: When transferring data from on-premises local storage into cloud storage, it can be difficult to manage compliance with industry regulations through a third party.

6. Management of multiple clouds: Every cloud is different, so multi-cloud deployments can disjoint efforts to address more general cloud computing challenges.

7. Cloud performance: Network and provider outages can interfere with productivity and disrupt business processes if organisations are not prepared with contingency plans.

8. Building a private cloud: Architecting, building and managing private clouds whether for its own purpose or for a hybrid cloud goal can be a daunting task for IT departments and staff.

9. Cloud migration: The process of moving applications and other data to a cloud infrastructure often causes complications. Migration projects frequently take longer than anticipated and go over budget.

10. Vendor lock-in: Switching between cloud providers can cause significant issues. This includes technical incompatibilities, legal and regulatory limitations and substantial costs incurred from sizable data migrations.

[https://www.techtarget.com/searchcloudcomputing/definition/cloud-computing]

• SOLVED CASE 1

Adobe's move to Creative Cloud

Instead of holding steadfast in their existing business model, Adobe proactively moved their entire product-base online in 2013 and it truly paid off. According to their 2018 financials, the company achieved record quarterly revenue of $2.20 billion in its second fiscal quarter, representing 24% growth year-on-year. The move to the cloud also brings with it a reduction in the occurrence of software piracy. The reality is that a large number of Adobe's core product users tend not to pay for their products. In fact, Adobe products consistently top the list of the most frequently pirated software in the world, accounting for 10 out of the top 20 downloaded software products on illegal torrenting sites. But this isn't the case with cloud-delivered software, as all their functionality is hosted and controlled online.

While some of Adobe's performance can be put down to the sheer volume of content being created across the creative industries, the solutions they provide respond to a very key need in the marketplace. Essentially, Adobe is assisting and empowering creative businesses to embrace digital transformation.

On this point, their success came largely from understanding people, and how they work with their products on a day-to-day basis. When Adobe decided to make the transition from physical software to a cloud-based model, it knew it needed to shift its employees' focus towards the needs of the customer. To achieve this, it created a staff Experience-a-thon, where employees could test and provide feedback on Adobe products as if they were users. This encouraged employee engagement and helped change the culture in the midst of a massive technical upheaval.

Source: https://www.getsmarter.com/blog/career-advice/4-examples-successful-digital-strategies-can-learn/

4.4 EMERGING TRENDS IN DIGITAL AND SOCIAL MARKETING STRATEGIES

1. Artificial Intelligence:

- Artificial intelligence (AI) is intelligence exhibited by machines and systems, with machines imitating functions which are mostly related with human cognition.
- There are three levels of AI namely; Narrow AI, General AI/human-level and Super AI.
- Narrow AI refers to the current state-of-the-art with existing software that automates a traditionally human activity and often outperforms humans in efficiency and endurance in one specialized area, e.g., forecasting the weather, autonomous driving, etc.
- General AI/human-level AI describes the capacity of machines to understand their environment and reason and act accordingly, just as a human would in all activities across all dimensions, including scientific creativity, general knowledge, and social skills.
- Super AI, the highest level of AI, is reached when AI becomes much smarter than the best human brains in practically every field.
- Super AI systems can make deductions about unknown environments.
- Machine learning (ML) describes automated learning of implicit properties of, or underlying rules for data. It is a major component for implementing
- AI since its output is used as the basis for recommendations, decisions, and feedback mechanisms with regards to a previously unknown situation.
- ML is an approach to creating AI. As most AI systems today are ML-based, the terms are often used interchangeably-particularly in a business context.
- ML involves training algorithms on sample input data to optimize its performance on a specific task so that the machine gains a new capability.
- Deep learning is a branch of AI. It mainly deals with neural networks that consist of many layers, hence the name "deep." In the last years, deep neural networks have been the most successful AI approach in many areas.
- AI is required for analysing previously unavailable or indecipherable data (e.g., video or sound which previously could only be interpreted by humans), in order to detect quality issues.

- AI also has the ability to help detection and analysis mechanisms, improve its own accuracy by continuously learning from the issues detected, and optimize manufacturing processes by incorporating feedback and adjusting the control parameters accordingly.

- It is amazing to note how much friendly a technology AI is emerging to help people in quest for solving problems for society.

According to Basu (2019) versatility of AI is transcending all areas of solution building. The most encouraging is that AI is emerging as a friend of all for keeping cyber criminals away. It is also acquiring self-propelling energies.

More and more corporates, who were observing peers attaining competitive advantage using digital technologies, are now plunging into the act of digital transformation, particularly using AI with IoTs and Blockchain.

• SOLVED CASE 2

AI in Alibaba

One successful example of AI is the Chinese e-commerce giant Alibaba. They are making huge gains in AI thanks to the support, investment, and commitment of the Chinese government. With hopes to build a $1 trillion AI industry by 2030, China is on a path to overtake the United States as the world's leader in technology. Alibaba's application of AI and machine learning in their 'smart' warehouse was borne out of necessity. Having completed over $248 billion in transactions (more than eBay and Amazon combined), the sheer volume of products they need to move makes it practically impossible for employees to keep up. This willingness to commit to new technologies has allowed them to stay competitive by packaging and shipping out more products, more efficiently. Alibaba is also harnessing AI technology through features such as smart product search and recommendation, customer-service chatbots, and image matching. This has allowed them to create tailor-made shopping experiences for consumers and better optimise the shopping process for them by anticipating what they might be seeking out at any given time. And they are only scratching the surface of their plans for AI. As they continue to research and understand the potential that machine learning holds, so Alibaba plans to harness the technology is a myriad of ways, from financing to facial recognition.

Source: https://www.getsmarter.com/blog/career-advice/4-examples-successful-digital-strategies-can-learn/

• SOLVED CASE 3

Fintech

The term FinTech (financial technology) includes software, mobile applications, and other technologies that are created to improve and automate traditional forms of finance both for businesses and consumers. FinTech can include everything from straightforward mobile payment apps to complex blockchain networks housing encrypted transactions. The term "fintech company" describes any business that uses technology to modify, enhance, or automate financial services for businesses or consumers. Some examples include mobile banking, peer-to-peer payment services (e.g., Venmo, Cash App, Pays end, etc.), automated portfolio managers (e.g., Wealth front, Betterment, FundsIndia.com), or trading platforms such as (Robinhood, Ups tox Pro Mobile, Zeodha Kite, etc,). It can also apply to the development and trading of crypto currencies (e.g., Bitcoin, Dogecoin, Ether, etc.). It may be mentioned that FinTech simplifies financial transactions for consumers or businesses, making them more accessible and generally more affordable. It can also apply to companies and services utilizing Artificial intelligence (AI), big data, and encrypted blockchain technology to facilitate highly secure transactions amongst an internal network. According to Basu (2019) People's Bank of China (PBoC), as reported by its Dy. Director Mu Changchun, is ready with its prototype for 'China's Digital Currency' on a two-tier platform. Its layer one will be operated by PBoC and layer two by commercial banks. One should keenly watch this development keeping in view the USA's political groups criticizing face book's initiative for cryptocurrency Libra.

• SOLVED CASE 4

Razorpay

Razorpay is a payment solution in India that helps companies with its suite of products to receive, process, and disburse payments. It gives you access to all payment modes, including Jio Money, Mobikwik, Airtel Money, Free Charge, Ola Money, and Pay Zapp, including credit card, debit card, net banking, UPI, and common wallets. It was started by Harshil Mathur and Shashank Kumar in 2014. Businesses can handle the marketplace, simplify money transactions, receive regular fees, exchange client invoices, and take advantage of working capital loans from a single platform.

Source: https://www.goodreturns.in/classroom/10-indian-fintech-startups-making-waves-in-finance-sector-2021/ articlecontent-pf17590-1207512.html

• SOLVED CASE 5

Shiksha Finance

Shiksha Finance is India's leading lending in an education finance firm. They also offer loans to educational institutions to develop buildings, buy properties and working capital. The mission of this institution is to fund parents for school fees, thereby reducing school drop-out rates. The debt ranges from Rs 10,000 to Rs 30,050 which must be returned within 6 to 10 months. Student loans may be used by parents to pay school tuition, books, uniforms, shoes, luggage, etc.

https://www.goodreturns.in/classroom/10-indian-fintech-startups-making-waves-in-finance-sector-2021/ articlecontent-pf17594-1207512.html

1. Blockchain: Blockchain is a shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a business network. An asset can be tangible (house, car, cash, land, etc.) or intangible (intellectual property, patents, copyrights, branding). Virtually anything of value can be tracked and traded on a blockchain network, reducing risk and cutting costs for all involved. The importance of block chain network stems from the fact that business runs on information. The information should be accurate and received fast. Blockchain is ideal for delivering that information because it provides immediate, shared and completely transparent information stored on an immutable ledger that can be accessed only by permissioned network members. A blockchain network can track orders, payments, accounts, production and much more. As members share a single view of the truth, one can see all details

of a transaction end to end, giving greater confidence, as well as new efficiencies and opportunities.

• THE IMPORTANT OF A BLOCK CHAIN INCLUDES

Distributed ledger technology

All network participants have access to the distributed ledger and its immutable record of transactions. With this shared ledger, transactions are recorded only once, eliminating the duplication of effort that's typical of traditional business networks.

Immutable records

No participant can change or tamper with a transaction after it's been recorded to the shared ledger. If a transaction record includes an error, a new transaction must be added to reverse the error, and both transactions are then visible.

Smart contracts

A smart contract is stored on the blockchain and executed automatically. A smart contract can define conditions for corporate bond transfers; include terms for travel insurance to be paid and much more. A smart contract acts a set of rules and allows fastest transactions.

1. The benefits of blockchain network

Increased trust

As block chain is used by only the members who are within a defined network. This assures the members that the data being received by them is accurate and timely data. Moreover, the confidential blockchain records will be shared only with network members to whom one has specifically granted access.

Greater security

The increase security in blockchain network arises from the fact that consensus on data accuracy is required from all network members, and all validated transactions are immutable because they are recorded permanently. No one, not even a system administrator, can delete a transaction.

Increased efficiencies

With a distributed ledger that is shared among members of a network, time-wasting record reconciliations are eliminated. The smart contract enables automated transactions thereby saving on time.

SOLVED CASE 6

Blockchain to solve phone spamming:

All telecommunication companies in India have been instructed by the Telecom Regulatory Authority of India to adopt blockchain technology. This will enable only registered users to engage in telemarketing activities. This proposal will be put into effect come December. This process does not guarantee the complete elimination of phone 'spamming' problem but will see to it that the people/organisations responsible are held accountable. Blockchain will allow appropriate agencies to track and locate the perpetrators. Rajan Matthews, director general at the Cellular Operations Authority of India, said that the technology is in place, the steps that ensue require the public to be educated on concepts such as setting their DnD (Do not Disturb) preferences, etc. Telcos are happy with blockchain developments and they hope that AI coupled with Blockchain will rectify all the flaws in telecommunications.

Source: https://analyticsindiamag.com/top-7-blockchain-developments-in-india-2019/

• SOLVED CASE 7

Tea Board of India to use blockchain:

Tea Board of India, through an expression of interest (EoI), made clear its intention of adopting end-to-end technology to promote transparency and improve traceability of products and trade operations. The quality of tea has been on the decline due to adulteration, therefore, making it difficult to distinguish between good quality tea leaves against bad quality ones. The tea board, plantation owner, manufacturers, etc. have been forced to devalue their product which will run them out of business sooner or later. In a bid to revitalise the stagnating industry, Tea Board of India looks to implement various technologies, one of which is blockchain. Blockchain technology will record all the details pertaining to procurement, manufacturing and delivery of the end product. The Tea Board of India is also looking into the digitisation of the tea trade. Blockchain will enable customers to trace the origin of tea back to the plantation and record any cases of adulteration if any. Blockchain in agricultural, food and other related industries is projected to hit $ 430 million (approx.) by 2023. The impetus of all these industries will be on traceability and tracking, secure payments, data retention and accessibility, risk complaint management, etc. – all of which is greatly enabled through blockchain.

Source: https://analyticsindiamag.com/top-7-blockchain-developments-in-india-2019/

According to Basu (2019) giant MNCs like Uniliver, Kellog, Pfizer, AT&T have become anchor brands for IBM's pilot consortium called 'IBM Media ocean Blockchain'. This platform will bring transparency, trust, cost reduction and facilitate the process of reconciliation in their complex tasks of advertisements through digital media. Blockchain will create the trust verified chain from every dollar spent to the end user. It will have potentials to cut out several inefficiencies in marketplace. In a recent use case, a large HR hiring agency will deploy a blockchain enabled hiring platform to streamline internal processes such as secure uploading of job seekers' profiles and their distribution among various platforms. Efforts are multiplying for gainfully applying Blockchain to agriculture and environment management

1. Robotic Process Automation: Robotic Process Automation (RPA) is a form of business process automation that allows anyone to define a set of instructions for a robot or 'bot' to perform. RPA bots are capable of mimicking most human-computer interactions to carry out a ton of error-free tasks, at high volume and speed. Robotic process automation is not a physical or mechanical robot. RPA is the process by which a software bot uses a combination of automation, computer vision, and machine learning to automate repetitive, high-volume tasks that are rule-based and trigger-driven. Robotic process automation tools are best suited for processes with repeatable, predictable interactions with IT applications. These processes typically lack the scale or value to warrant automation via IT transformation. RPA tools can improve the efficiency of these processes and the effectiveness of services without fundamental process redesign. Robotic process automation software "robots" perform routine business processes by mimicking the way that people interact with applications through a user interface and following simple rules to make decisions. Entire end-to-end processes can be performed by software robots with very little human interaction, typically to manage exceptions.

- The benefits of RPA solutions not only reduce cost but also include:

  1. Decreased cycle times
  2. Flexibility and scalability
  3. Improved accuracy
  4. Improved employee morale
  5. Detailed data capture

Basu (2019) mentions that the next Russian Soyuz spacecraft will be navigated by a humanoid Sky bot sitting in commander's chair. It is one of the latest versions of Russia's FEDOR series robots serving as all-purpose stand- in for humans in everything from rescue work to driving cars and now, flying into space. Such robots will be artificially intelligent and have cognitive skills almost like of a human astronaut. Artificially intelligent robots willsoon be able to identify wrongdoers through face and outfit recognition ability and take actions, including killing ifneed be. This group of robots will eventually be of help to security forces for surveillance and dealing with strategy execution in battlefields and curbing terrorism. Robotics have successfully brought out the next genre of Robots called Cabot's by applying DevOps concept. These are designed to interact and collaborate with human beings at a shared workspace. Cabot's will ensure delivery with higher speed, quality and cost optimization, yet will not cause much reduction in workforce.

2. Digitalization of Sports: Technology is playing a larger role than ever in the lives of diehard fans and followers, opening the way for sports organizations to create new, innovative customer experiences. Partnering with broadcasters and new distribution platforms can give fans the experiences they want, and capture viewership across multiple devices, including mobile. Sports organizations need to strategically leverage digital media to build direct connections with fans. One way is to partner with broadcasters to master content across multiple channels, which also allows for a wealth of real-time marketing opportunities. Ultimately, digital optimization of content across platforms will help broaden content reach for sports organization. Many sports fans are no longer interested in the game alone–they crave the kind of exclusive and shareable experiences that can be amplified by technology. Sports organizations could grow stadium attendance by using immersive technologies such as augmented and virtual reality to create an intensely exciting viewing experience. They can also increase engagement by leveraging loyalty and customer relationship management data to tailor experiences to individual fan preferences. [https://www2.deloitte.com/us/en/pages/ technology- media-and-telecommunications/articles/ digital- transformation-and-future-changes-in-sports-industry.html]. According to Basu (2019) the cricket enthusiast will be happy to learn that a Smart Chip, planted in a ball, can now bring amazing advancements for umpires taking more accurate decisions and help trainers in training players more effectively.

3. Internet of Things: The internet of things (IoT) is a system of interrelated computing devices, mechanical and digital machines, objects, animals or people that are provided with unique identifiers and the ability to transfer data over a network without requiring human-to-human or human-to-computer interaction. A thing in the internet of things can be anything from a person with a heart monitor implant, a farm animal with a biochip transponder, an automobile that has built-in sensors to alert the driver when tire pressure is low or any other natural or man-made object that can be assigned an Internet Protocol (IP) address and is able to transfer data over a network. Increasingly, organizations in a variety of industries are using IoT to operate more efficiently, better understand customers to deliver enhanced customer service, improve decision-making and increase the value of the business. In IoT ecosystem consists of web-enabled smart devices that use embedded systems, such as processors, sensors and communication hardware, to collect, send and act on data they acquire from their environments. IoT devices share the sensor data they collect by connecting to an IoT gateway or other edge device where data is either sent to the cloud to be analyzed or analyzed locally. Sometimes, these devices communicate with other related devices and act on the information they get from one another. The devices do most of the work without human intervention, although people can interact with the devices-for instance, to set them up, give them instructions or access the data. [https://www.techtarget.com/iotagenda/definition/ Internet-of-Things-IoT].

Although the idea of IoT has been in existence for a long time, a collection of recent advances in a number of different technologies has made it practical. These technologies include:

1. Access to low-cost, low-power sensor technology: Affordable and reliable sensors are making IoT technology possible for more manufacturers.

2. Connectivity: A host of network protocols for the internet has made it easy to connect sensors to the cloud and to other "things" for efficient data transfer.

3. Cloud computing platforms: The increase in the availability of cloud platforms enables both businesses and consumers to access the infrastructure they need to scale up without actually having to manage it all.

4. Machine learning and analytics: With advances in machine learning and analytics, along with access to varied and vast amounts of data stored in the cloud, businesses can gather insights faster and more easily. The emergence of these allied technologies continues to push the boundaries of IoT and the data produced by IoT also feeds these technologies.

5. Conversational artificial intelligence (AI): Advances in neural networks have brought natural-language processing (NLP) to IoT devices (such as digital personal assistants Alexa, Cortana, and Siri) and made them appealing, affordable, and viable for home use.

Smart Lighting

This is another one of the Internet of Things examples that have gradually been coming into common usage. Bulbs and battens connected to Wi fi can be turned on and off remotely. Schedule for usage can be set for these devices along with their bright nesses controlled and their power consumption monitored. Using other IoT devices, smart lighting devices can also be turned on and off by voice alone. The power consumption of these devices can also be easily monitored using IoT

Smart Parking

It is hard to regulate the occupancy and parking coverage in large multi-story car parking facilities. Among the many Internet of Things examples is the use of IoT in such facilities for counting the number of cars that have driven into the facility and the number that have driven out. Specific devices can also give you the exact location where you have parked your car so you are not lost.

Medical Fridges

Medical fridges are a grand entry to the Internet of Things examples list and can be used for regulatory compliance and safety purposes. Vials of vaccines and medicines can often be spoiled if they are not kept at the correct temperatures. Medical refrigerators cannot be monitored throughout the day, especially in person. Having IoT sensors inside medical fridges can enable them to be monitored remotely, and their temperature changed as per requirement.

Source: https://www.jigsawacademy.com/5-best-examples-iot-applications-real-world/

The different types of digital marketing strategies are as follows:

1. Social Media Marketing Platforms:

Todays' consumers are highly reliant on social media platforms such as Instagram, Facebook, LinkedIn, and Snapchat. This is why it is essential that brands are active across accounts. Social media platforms allow marketers to reach their prospects in a myriad of ways. First, marketing teams can use these channels to distribute paid ads and sponsored content. Each platform has a way for marketing teams to create paid ad campaigns and segment users so these ads appear on the feeds of target audience members. While each platform is different, most have capabilities that allow marketing teams to place ads based on location, job title, interests, age, etc. Social media is also a great way to promote products or resources organically to your followers, and engage with consumers. Chances are, people that follow your brand on social media have likely purchased from you in the past. Interacting with them on social media or answering customer service-oriented questions is a great way to ensure continued engagement with the brand and cultivate positive experiences and customer loyalty.

2. Influencer Marketing;

Another effective way to harness digital channels to reach target audiences is with influencer marketing. Brands can partner with celebrities, sites, or others that are considered experts in their field, that share similar values. Brands can then reach these influencers' followers with branded content and offers.

3. Email Marketing:

Email marketing campaigns allow organizations to stay connected with prospects and customers, sending them customized newsletters or offers based on past shopping history or brand engagements. If an individual has interacted with a few of your branded touch points- like an email offer for 10 percent off the items they have been considering, or free shipping - that may be what ultimately brings about a conversion.

4. Content Marketing:

Content marketing allows marketing teams to be proactive in answering their users' questions. Marketing teams create content, videos, and other assets to answer questions or provide context to consumers throughout the three stages of the buyer's journey:

i. The awareness stage: Buyer realizes they have a need

ii. The consideration stage: Buyer determines a course of action to meet this need

iii. The decision stage: Buyer decides on a product / service to purchase to meet the need

For example, a consumer might realize they need new shoes to wear to the gym. The marketing team for an active wear company may produce a piece about what features you need from a running shoe, as opposed to what you need if you focus on strength training. Looking at this content, the buyer determines they need a pair of running shoes that meets that criterion. Another piece of content might show the most popular running shoes and their price points. Once they are educated on these factors, they decide. The guidance offered by your brand throughout will likely result in them purchasing from you. Content marketing is often less expensive than other forms of marketing, while producing many leads.

5. Search Engine Optimization (SEO) Marketing;

Search engine optimization often goes hand in hand with content marketing. When the customer from the above example is conducting research for which gym shoes to buy, they will probably click on one of the first three results that appear on Google. With this in mind, the athletic shoes' marketing team wants to ensure their article appears in those top results. This is done by optimizing content for user experience and ensuring the technical elements are in place to enable search engine crawlers to easily find and index this content.

6. Pay-per-click (PPC):

Pay-per-click is a form of paid advertising that allows marketing teams to essentially purchase traffic to their website. Marketers place ads on websites or search engines such as Google and Microsoft Bing, and pay a fee each time the ad is clicked on. These ads often appear at the top of the search results page, and are typically determined by bids on specific keywords, while banner ads on websites usually have set prices.

7. Affiliate Marketing:

Affiliate marketing is similar to referral programs; it involves working with outside individuals or companies under the agreement that they promote your product in exchange for a commission from each sale that can be attributed to their efforts. This is a way to cut down on costs and outsource some of the heavy lifting of promotion; however, you're putting your brand's reputation in someone else's hands, so this type of marketing often requires more extensive monitoring and tracking.

8. Mobile Marketing:

Mobile marketing initiatives can include many of the digital marketing strategies mentioned above, and typically will leverage a combination of text messages, social media, email, push notifications, and mobile applications. The importance of mobile marketing is rising, as it is expected that by 2024, the number of mobile shoppers will rise to approximately 187.5 million users. With the clear move to mobile, marketers need to think about how they can optimize their current marketing efforts for mobile to be able to deliver a seamless and user-friendly experience.

(https://www.marketingevolution.com/marketing-essentials/what-is-a-digital-marketing-platform-marketing- evolution)

Q1. Multiple Choice Questions

1. Digital transformation drives change in
a. customer experience
b. operational processes
c. business models
d. all of the above

2. The process of digital transformation requires coordination across the entire organization, and involves business culture changes.
a. digital strategy
b. digitisation
c. digital transformation
d. data aggregation

3. Categorising and organising the digitised data and making it ready for application of further processes is called_________.
a. Data aggregation
b. Data management
c. Workflow automation
d. Process component

4. Which among the following is not a characteristic of Big Data?
a. Variety
b. Volume
c. Velocity
d. Invariability

5. Data that can be stored, accessed and processed in the form of fixed format is called__________.
a. unstructured data
b. semi-structured data
c. structured data
d. flexible data

6. Which among the following is not a component of a block chain?
a. Distributed ledger technology
b. Immutable record
c. Smart contracts
d. Increased threat

7. Which among the following alternatives is not suited for Robotic process automation tools?
a. Repeatable
b. Predictable interactions with IT applications
c. Routine
d. Unpredictable events

8. __________ is similar to referral programs.
a. Influencer Marketing
b. Affiliate marketing
c. Social Media Marketing Platforms
d. Content marketing

9. _________is a form of paid advertising that allows marketing teams to essentially purchase traffic to their website.
a. Influencer Marketing
b. Affiliate marketing
c. Pay-per-click
d. Content marketing

10. Forecasting the weather is an example of
a. Narrow AI
b. General AI/human-level
c. Super AI
d. Deep- learning

11. Which of the following is NOT a way AI can be used in strategic management?
a) Predictive analytics for forecasting market trends
b) Automating all decision-making processes
c) Natural language processing for analyzing customer feedback
d) Machine learning algorithms for identifying patterns in data

12. How does affiliate marketing contribute to strategic management?
a) By reducing the need for traditional marketing efforts
b) By leveraging partnerships to expand reach and increase sales
c) By eliminating the need for customer relationship management
d) By increasing operational costs for the organization

13. Which of the following is a key benefit of mobile marketing in strategic management?
a) Limited audience reach compared to other marketing channels
b) Ability to engage with customers in real-time and personalize interactions
c) Higher costs associated with mobile advertising
d) Inability to track and measure campaign effectiveness

14. How can affiliate marketing be integrated into a company's strategic management approach?
a) By solely focusing on traditional advertising methods
b) By collaborating with influencers and affiliates to promote products or services
c) By ignoring digital marketing trends
d) By relying exclusively on organic reach through social media

1	2	3	4	5	6	7	8	9	10	11	12	13	14
d	c	b	d	c	d	d	b	c	a	b	b	b	b

Q2. State True or False.

1. Digital strategy focuses on technology and culture.
2. A distributed ledger technology acts a set of rules and allows fastest transactions.
3. Email marketing allows marketing teams to be proactive in answering their users' questions.
4. Influencer marketing campaigns allow organizations to stay connected with prospects and customers, sending them customized newsletters or offers based on past shopping history or brand engagements.
5. Deep learning describes automated learning of implicit properties of, or underlying rules for data.
6. Machine learning is a branch of AI which mainly deals with neural networks that consist of many layers.
7. Narrow AI systems can make deductions about unknown environments.
8. Velocity refers to heterogeneous sources and the nature of data, both structured, unstructured and semi structured.
9. Internet of Things allows users to access data from anywhere with any device with just an internet connection.
10. Cloud computing is a system of interrelated computing devices, mechanical and digital machines, objects, animals or people that are provided with unique identifiers and the ability to transfer data over a network without requiring human-to-human or human-to-computer interaction.
11. Distributed ledger technology perform routine business processes by mimicking the way that people interact with applications through a user interface and following simple rules to make decisions.

1	2	3	4	5	6	7	8	9	10	11
F	F	F	F	F	F	F	F	F	F	F

Q3. Fill in the Blanks.

1. Affordable and reliable ________ are making IoT technology possible for more manufacturers.
2. __________ is a form of business process automation that allows anyone to define a set of instructions

for a robot or 'bot' to perform.

3. __________ is a shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a business network.

4. _______ can include everything from straightforward mobile payment apps to complex blockchain networks housing encrypted transactions.

5. ___________ describes automated learning of implicit properties of, or underlying rules for data.

6. A _________ is a proprietary network or a data center that supplies hosted services to a limited number of people, with certain access and permissions settings.

7. A ________ sells services to anyone on the internet.

8. The _________is a system that has the ability to transfer data over a network without requiring human-to-human or human-to-computer interaction.

9. The process of moving applications and other data to a cloud infrastructure is referred to as __________.

10. A clear lack of transparency regarding how and where sensitive information entrusted to the cloud provider is handled is an issue of ___________.

1	sensors	**2**	Robotic Process Automation
3	Blockchain	**4**	FinTech
5	Machine learning	**6**	private cloud
7	public cloud	**8**	internet of things
9	cloud migration	**10**	cloud security