1 Introduction to Strategic Management

UNIT 1.1 → STRATEGY & STRATEGIC MANAGEMENT

Meaning of Strategy

- Generally, "Strategy is where you will focus your efforts to achieve your goals".
- Strategy is all about integrating organizational activities & utilizing & allocating scarce resources within an organizational environment to meet present objectives.
- Strategy may be defined as –
  - direction & scope of an organization in the long term,
  - which achieves advantage for the organization
  - through configuration of resources in the changing environment & to fulfil stakeholders' expectations.
- Strategy may be defined as a long-range blueprint (plan) of organization's desired image, direction & destination.
- It should maximize "competitive advantage" & minimizes "competitive disadvantage".
- A strategy provides the basic framework to achieve mission & objectives of an organisation.

> ☛ *Strategy is originated from Greek word **strategia**, meaning **'generalship'**.*
> ☛ ***"The Art of War"*** *written by* ***"Sun Tzu"*** *written about 500 BC.*

Elements of a Strategy

1. Diagnosis of the competitive challenge.
2. Guiding policy to address the competitive challenge.
3. Set of coherent actions to implement a firm's guiding policy.

Goals to be achieved → Policies that guide or limits action → Action sequences that accomplish goals

Characteristics of a Strategy

⇒ Strategy is likely to be concerned with the long-term direction of an organisation.
⇒ It is about trying to achieve some advantage for the organisation over its competitors.
⇒ It is about matching the resources & activities to the environment in which it operates.
⇒ It can be seen as stretching organisation's resources & competences to create new opportunities.
⇒ It may require major resource changes for an organization.
⇒ It is likely to affect operational decisions.
⇒ Strategy of an organization is affected not only by environmental factors & resource availability but also by values & expectations of those who have power in the organization.

Consequences of the Characteristics of Strategy

1. Strategic Decisions are likely to be complex in nature.
2. Likely to be made in situations of uncertainty.
3. Likely to demand an integrated approach.
4. Manage change relationships & networks outside the organisation.
5. Strategic Decisions will often involve change in organisations.

Disha's Note: **Effective strategy requires that strategic trade-offs be recognized and addressed.** For example, between value creation & costs to create the value.

Types of a Strategy

1. Corporate Strategy [Kya Karna hai]

- It is formulated by the top management of an organization & is implemented over the entire organization.
- It is concerned with the overall purpose & how value will be added to the different business units.
- It typically fit within the three main categories of stability, growth & retrenchment.
- Decisions like investment in diversification, acquisitions, new ventures etc. will be taken by CEO, other senior executives, BODs.

2. Business Strategy [Kaise Karna hai]

- It is about how to compete successfully in particular markets.
- Their role is to translate general statements of direction & intent that come from the corporate level into concrete strategies for individual business.
- It emphasizes improvement of competitive position of organization's products in the specified industry.
- These strategies fit within the two overall categories namely, competitive & cooperative strategies.

3. Functional strategy or Operational Level Strategy [Karte hai]

- It is concerned with how the component parts of an organisation deliver effectively the corporate & business level strategies in terms of resources, processes & people.
- Functional managers **provide most of the information** that makes it possible for business & corporate-level general managers to, formulate realistic & attainable strategies.
- Strategies at the functional level directed towards maximising resource productivity.

Definition of Strategic Management [To be read only once]

⇒ A stream (series) of decisions & actions which leads to the development of an effective strategy to help achieve objectives. **[William F. Glueck]**

⇒ Determination of basic long-term goals & objectives & adoption of course of action & allocation of resources necessary to carry out these goals. **[Alfred D. Chandler]**

⇒ Process through which organisations learn from their environments, establish strategic direction, create strategies that are intended to help achieve established goals, & execute these strategies. [**Harrison & St. John**]

Meaning of Strategic Management

- Strategic management means managing various strategies as per changing environment to outscore competitors.
- SM is considered as decision making & planning, set of activities related to formulation & implementation of strategies.
- It includes understanding strategic position of organisation; strategic choices for future & turning strategy into action.

Objectives of Strategic Management **[It is given in 8.3 Chapter in CMA Study Material]**

- To create opportunities by stretching the resources.
- To identify opportunities & adapt resources to grab the opportunities created.
- To develop a creative & innovative attitude & to think strategically.
- To help managers to understand the key relationships among actions, context & performance by providing the conceptual frameworks.
- To identify the success factors & meet the needs & wants of the customers.
- To sustain & improve the competitive position by monitoring & responding to environmental changes.
- Help organisation to gain competitive advantage, continuous improvement.

Elements of Strategic Management

1. Environmental scanning

- It is a process in which organisation gathers relevant information to identify external opportunities and threats that could influence future decisions.
- Environmental scanning can be affected by factors like government rules, economic & social changes, changes in customer preferences, technological advancement, competition etc.
- SWOT analysis is performed to contrast the internal assets & flaws of the trade with the external prospects and dangers.
  [SWOT = Strengths, Weaknesses, Opportunities, and Threats]

2. Strategy Formulation

- It refers to the development of long-range plans for the effective management of environmental opportunities & threats, in the light of corporate strengths & weaknesses (SWOT).
- It includes defining the mission, setting objectives, developing strategies & setting policy guidelines.

3. Strategy Implementation

- It requires organizing all the available & necessary resources to put the strategy into action.
- This includes day to day decisions in resource allocation & is typically conducted by the middle & lower-level managers with review by the top management.
- It involves taking actions at the functional, business & corporate levels to execute a strategic plan.
- Implementation include putting quality improvement programs, changing the way product is designed, positioning the product differently, market segmentation, expanding through mergers & acquisitions & downsizing the company.

4. Evaluation & control

- Actual performances are compared to desired performances & take corrective actions to resolve problems.
- It involves the process through which organizational activities & performances are monitored.

Theory Questions

Q. Write a short note on "Competitive Advantage" or Explain "Competitive Advantage".

Answer:

- A firm's competitive advantage is always relative & not absolute.
- 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.
- A firm that achieves superior performance relative to other competitors in the same industry or the industry average has a competitive advantage.
- A firm that is able to outperform its competitors or the industry average over a prolonged period has a sustainable competitive advantage.
- If a firm underperforms its rivals or the industry average, it has a competitive disadvantage.
- Two or more firms that perform at the same level have competitive parity.
- Competitive advantage has to come from performing different activities or performing the same activities differently than rivals are doing.

Q. Strategy formed by Top Level is only for them & not for middle & lower level. Comment.

Answer:

- Strategy is not just the preserve of top management.
- Middle and lower-level managers have to work within their organisation's strategy, meeting the objectives set by the strategy and observing the constraints.
- 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.

***Homework:** What is "Red Ocean Strategy" Vs. "Blue Ocean Strategy".*

CASE STUDY 1 ⇒ RED OCEANS VS. BLUE OCEANS

Red Ocean Strategy	Blue Ocean Strategy
▪ Focus on current customers.	▪ Focus on non-customers.
▪ Compete in existing markets.	▪ Create uncontested (new) markets to serve.
▪ Boat the competition.	▪ Make the competition irrelevant.
▪ Exploit existing demand.	▪ Create & 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 & low cost.

Red Oceans

- Red oceans represent all the industries that are currently in existence & are the known market space.
- In red oceans, industry boundaries are defined & accepted, & 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 & growth are reduced.
- Products become commodities or niche, & 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 & will be highly competitive.
- These are normally found by the small but unpopular market.
- In a red ocean market, competition would normally be high & 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 & would be riskier for a new company especially a startup.

Blue Oceans

- The concept of Blue Ocean Strategy was first coined by W. Chan Kim & Renee Mauborgne in their book, Blue Ocean Strategy: How to Create Uncontested Market Space & Make the Competition Irrelevant, published in 2004.
- According to them, Blue oceans denote all the industries which are currently not existence & remain unexplored, unknown & untainted by competition.
- In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable & rapid.
- In blue oceans, competition is irrelevant as the landscape is new & 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 & demands of the consumers in creating a new market based on it.
- Blue oceans are a more unoccupied market & not much known. The blue ocean market is mostly concentrated on providing value & 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 & innovation aspects. This is what the authors call the reconstructionist view.

UNIT 1.2 → ALIGNMENT OF STRATEGY WITH VISION, MISSION & CULTURE

OVERVIEW

1. Vision

- Vision talks about '**Where**' **does one wants to reach in Future.**
  Ex: Company XYZ wants to be leader in manufacturing of Electric vehicles.
- Vision statement portrays the future of the company where the company is heading towards & lays out what it seeks to become in long term.
- **Vision provides bases foundation for defining mission statement.**

2. Mission

- Mission talks about the reason for organization's presence [why it came into business]
- In short, Mission is a written description of an organization's **purpose for existing.**
- Mission describes present activity company is doing, while vision portrays its future.

3. Goals

- It is defined from **what company wants to do**. It can be profit, good customer service.
- **Mostly, companies define their goals & objectives in their vision & mission statements.**
  Goals can be to increase revenue by 15% or 10% decrease in non-value activities.

4. Objectives

- Objectives are the **specific actions taken to achieve these goals.**
- Objectives are the results that the company aims to achieve.

Vision

- Vision is the "desired future state (position) of an organisation".
- It focuses on tomorrow & what an organisation ultimately wants to become.
- It indicates where the organization is headed & what it intends to be.
- Vision statements can be –
  - **Product oriented:** Product-oriented vision statements define a business in terms of a good or service provided.
  - **Customer oriented:** Customer-oriented vision statements define business in terms of providing solutions to customer needs.
- Well-conceived visions are distinctive & specific to a particular organisation; they avoid generic & feel-good statements.

> ***Tesla Vision:*** *'To accelerate the world's transition to sustainable energy.'*

BENEFITS OF HAVING VISION

⇒ Good visions are inspiring & exhilarating.

⇒ Good vision helps in the creation of a common identity & a shared sense of purpose.

⇒ Good visions are competitive, original & unique. [Copy nahi krna hai]

⇒ Good visions foster (encourages) risk taking & experimentation.

⇒ Good visions foster (encourages) long term thinking.

⇒ Good visions represent integrity. They are truly genuine & can benefit the people.

Mission [Who we are? What we do? & Why we are here?]

- A Mission statement defines company's business, its objective & approach to reach those objectives.
- A Mission statement focuses on **present situations** (today) & what an organisation does to achieve it.
- Corporate mission is the purpose or reason for its existence. It announces what the company is providing to society; either a service or a product.
- First step in the strategy making process involves selecting the corporate mission & major corporate goals.
- Mission statement of an organization can be product oriented or customer oriented.
  - Product-oriented business definition focuses on the characteristics of the products sold & the markets served, not on which kinds of customer needs the products are satisfying.
  - Customer-oriented view of a company's business focuses on customer needs rather than a particular product (or solution) for satisfying those needs. A customer-oriented mission statement also assists companies in capitalizing on changes in their environment (major shifts in demand).

Goals

- A goal is a short statement of a desired outcome to be accomplished over a long-time frame.
- It is a broad statement that focuses on desired results & does not describe the methods used to get results.
- Goals are close-ended attributes which are precise & expressed in specific terms. They are long-term.
- Some common examples of goals are:
  - Maximizing profits
  - Growing revenues
  - Increasing efficiency
  - Creating a brand

Objectives

- Objectives are formed from visions & mission statement of organisations.
- Objectives are specific, actionable targets that need to be achieved within a smaller time frame to reach a goal.
- Objectives describe the actions or activities involved in achieving a goal.
- Objectives are interchangeably used with goals but goals are defined as more precise & specific with closed ended attribute (in precise quantity form) whereas objectives are open ended for future states or outcome not as precise as goals.
- Some common examples of goals are:
  - Earn a minimum of 15% return on investment in a fiscal year
  - Increase the company's market share to 7% by the end of the next fiscal year
  - Cut down the operating costs by 10% within two years

Disha's Note: Objectives are for short term whereas goals are for long term.

- Goals are set to achieve the mission of an organization or individual, while objectives are set for the accomplishment of goals. Goals are thus higher in order than objectives.

Q. What are the certain desirable characteristics objectives should possess to be effective?

Answer:

- **Specific:** Specific objectives are more likely to lead & motivate the managers. First step towards setting objectives is to specify what the company wants to achieve. This involves answer to 5 specific set of questions namely,
  (1) What the organisation wants to achieve?
  (2) Why the company wants to achieve?
  (3) Who are being involved in the process?
  (4) Where it wants to achieve &
  (5) Which are the resources & constraints that needs to be identified?
- **Measurable:** Objectives should be precise & measurable. It is often considered to be a good practice to quantify objectives rather than to state them in qualitative terms. It helps to measure & control the achievement of the objectives with respect to comparable companies in a particular industry & in general.
- **Attainable:** Objectives must be challenging but realistic or attainable. If an objective is unrealistic, employees may give up; an objective that is too easy may fail to motivate managers & other employees.
- **Relevant:** Objectives must be linked to overall vision & mission of the organisation. There should not be any conflict between the objectives that the management has set with the goals of the organisation.
- **Time Bound:** Objectives should specify a time period. Deadlines can inject a sense of urgency into objective attainment & act as a motivator. However, not all objectives require time constraints.
- **Understandable:** 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.

Q. What are the important issues that need to be kept in mind while setting objectives?

Answer:

Specificity	▪ Specificity is related to the organisational level for which a set of objectives have been stated. ▪ Objectives may be stated at different levels of specificity. ▪ This issue of specificity may be resolved by stating specificity at different levels of the organisation & prefixing terms such as corporate, general & particular so that they serve the needs of performance & its evaluation.
Multiplicity	▪ Since objectives deal with a large number of functional areas, a large number of objectives have to be formulated to cover the diverse aspects of the organisation's functioning. ▪ It may be mentioned that neither too few nor too many objectives are considered realistic.
Periodicity	▪ Normally organisations determine objectives for long term & the short term. ▪ These different time frames need to be integrated with each other to achieve the desired result. ▪ Long term objectives tend to be general in nature as the outcomes tend to be less certain. ▪ Short term objectives tend to be more specific & comprehensive as there is certainty involved.
Verifiability	▪ This issue 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 & outside the organisation.
Reality	▪ Organisations have two set of objectives namely, official & 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. ▪ **Ex:** Developing human resource is the official objective of most of the organisations. 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.
Quality	▪ The capability of an objective to provide a specific direction & a tangible basis for evaluating performance determines the quality of an objective. ▪ **Ex:** 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 & thereafter increase it by 40%, maintainable for the next two years" can be considered to be a good objective.

Characteristics of Objectives

⇒ It defines specifically what the company wants to achieve.

⇒ It should be understandable to those who want to achieve it.

⇒ It should be precise & measurable against a benchmark.

⇒ It must be challenging but realistic & attainable.

⇒ It must be linked to overall vision & mission of organisation.

⇒ It should be time bound.

Issues to be addressed while setting Objectives

⇒ Specificity must be defined at different levels of organisation.

⇒ Number of objectives should neither be too few nor be too many.

⇒ Different time frame of objectives needs to be integrated with each other.

⇒ Objectives must be verifiable in terms of quantity & quality.

⇒ Determine whether the objective is official or operative.

⇒ Evaluation of quality of objective based on ability to provide specific direction & basis for performance evaluation.

CASE STUDY 2 ⇒ TESLA'S SECRET STRATEGY

IN 2017, TESLA INC. an American manufacturer of all-electric cars boasted a market capitalization of over $60 billion, an appreciation of more than 1400% over its initial public offering price in 2010. How can a California startup achieve a market valuation that exceeds that of GM, the largest car manufacturer in the world, making some 10 million vehicles a year?

Answer:
Tesla's Secret Strategy. Elon Musk, Tesla's co-founder & 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 car 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: 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 & 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 & a family van with futuristic falcon-wing doors for convenient access to second- & 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, & transportation. A successful integration of Tesla & Solar City, where Musk is also chairman & an early investor, would allow completion of Step 4 of Tesla's master plan.

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 & 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 & 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 & to build the Giga factory producing lithium-ion batteries in Nevada. These investments by Tesla are examples of strategic commitments because they are costly, long-term, & difficult to reverse. They are clearly supporting Tesla's vision to accelerate the world's transition to sustainable transport. Tesla hopes to translate this vision into reality by providing affordable zero-emission mass-market cars that are the best in class, which captures Tesla'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 & 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 context of Tesla Inc.**
	When Tesla 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, & 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 & 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 explanationabout the electricity costs, service issues, potential resale value issues, & more. Musk thus chose to sell directto consumers with boutique-like stores in upscale shopping malls where sales people could provide high-touch service & 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, & 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 & 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 & every couple of miles on high ways. In this context, Tesla must build zero-emission electric vehicles that are attractive & 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.

UNIT 1.3 → ORGANISATIONAL GENOMICS & CULTURE

Organisational Culture

❖ Organisational culture is the 'basic ideology & beliefs that are shared by members of an organisation.

❖ It has important influences on the development & change of organisational strategy.

Four Layers of Organisational Culture

1	**Values of a company**
	▪ Values of a company state how managers & employees should do business? & what kind of organisation they should build to achieve the mission? ▪ Values are commonly seen as the **bedrock of a company's organisational culture.** ▪ Values are "written down as statements about an organisation's mission, objectives or strategies". ▪ Values should not be in vague terms [**Ex:** Service to the community' or 'honouring equal employment].
2	**Beliefs**
	▪ Beliefs are more specific, but again they can typically be discerned in how people talk about issues the organisation faces. ▪ **Ex:** Belief that company should not trade with particular countries or that professional staff should not have their professional actions appraised by managers. ▪ Collective values & beliefs are more important than individuals' values & beliefs.
	Disha's Note: Individuals in organisations may have values & beliefs that sometimes run counter to their organisations, which can give rise to the sort of ethical tensions & problems.
3	**Behaviours**
	▪ Behaviours are the day-to-day way in which an organisation operates. ▪ This includes work routines, how organisation is structured & controlled.
4	**Taken-for-granted** Assumptions **[Paradigm]**
	▪ Taken-for-granted assumptions are the core of an organisation's culture. ▪ They are the aspects of organisational life which people find difficult to identify & explain. ▪ Here they are referred to as the organisational paradigm. ▪ **The paradigm is the set of assumptions held in common & taken for granted in an organisation.**

Culture's influence on strategy

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

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

(2) **Culture as a driver of strategy:** Organisations can be 'captured' by their culture & find it very difficult to change their strategy outside the bounds of that culture.

Ethical behaviour

▪ To encourage ethical behaviour, businesses must build an organisation culture that places a high value on ethical behaviour.

▪ Three actions are particularly important.

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

(2) It is important that leaders in business give life & meaning to those words by repeatedly emphasizing their importance & then acting on them. Key business decisions should not only make good economic sense but also are ethical.

(3) Finally, building an organisation culture that places a high value on ethical behaviour requires incentive & reward systems, including promotional systems that reward people who engage in ethical behaviour & sanction those who do not.

Organisational Genomics

- All managers should be aware of how people (stakeholders) behave to provide the best working environment.
- Genomics is the study of all of a person's genes (genome), including interactions of those genes with each other & with the person's environment.
- Most efficient way for corporations to interact with each different stakeholder group is to establish boundary-spanning departments, which are offices within an organisation. Examples of boundary- spanning departments: Department of Public Affairs, investor relations, customer relations etc.

Organisation Communication

- Interaction required to direct a group toward a set of common goals is called organisational communication.
- Organisational communication refers to forms & channels of communication among members of organisations.
- Effective & efficient communication system requires managerial proficiency in delivering & receiving messages.
- Primary responsibility of manager is to develop & maintain an effective communication system in the organisation.
- A manager must discover various barriers to communication; analyse the reasons for their occurrence & take preventive steps to avoid those barriers.
- Organisational communication can be formal or informal, flow in various directions & make use of various media.
- A positive attitude towards work depends on mutual relationships within a workgroup which can be related to the inner & outer system.

Employee's self-worth

- Employees constantly judge & compare themselves to others in a work environment. Based on those comparisons, they form an opinion of their own worth & abilities.
- Incorrect self-estimation can result from underestimating people in the following situations:
  - People with lower qualifications;
  - People who do not tolerate on a higher social, educational, & financial level;
  - People who hold a high opinion of themselves which is not based on facts;
  - People who feel inferior;
  - People who do a great job even though they conceal their true opinion of themselves.

Strategic Leadership

- Strategic leaders must strive towards maximising shareholders value by balancing profit & growth of organisation.
- A strategic leader is seen as an individual upon whom strategy development & change are dependent.
- Strategic leaders should possess some key characteristics that can lead to high performance.
- Key Qualities that a strategic leader should have are as follows: [Direct Theory Question – 4 Marks]
  - Strategic leader should be a visionary → He should have a strong sense of direction & a clear vision of where the organisation should go.
  - He should be capable of communicating this vision to other members of the organisation so that vision becomes a part of the organisational culture.
  - A good strategic leader must have the ability to identify & articulate the business model **to attain the vision.** For this, organisational strategies must go in same direction with the organisational vision.
  - A good strategic leader should show a sense of commitment towards the vision & the business model through his actions & words.
  - He should develop a strong network of both formal & informal sources to remain well informed about whatever is happening in & around the organisation.
  - Good strategic leader should be able to recognise & empower subordinates to make decisions. In this process of delegation, 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 organisation.
  - Good strategic leader should try to develop a consensus (understanding) for his ideas among his subordinates rather than forcing his ideas on his subordinates.

Emotional Intelligence

[Short Note – 4 Marks]

- Emotional intelligence describes a "bundle of psychological attributes" that many strong & effective leaders have.
- To estimate someone's psychological capabilities, Goleman (1998) used a term called emotional intelligence.
- Emotional intelligence includes:
  - Self-awareness: Ability to understand one's own moods, emotions, & drives & their effect on others.
  - Self-regulation: Ability to control disruptive impulses or moods. **Think before acting.**
  - Motivation: Passion for work that goes beyond money or status & to pursue goals with energy & persistence.
  - Empathy: Ability to understand feelings & viewpoints of subordinates & consider them when making decisions.
  - Social skills: Friendliness with a purpose.
- Self-aware & self-regulating individuals are more confident & are more open to change. People respect leaders who are self-aware & self-regulating.
- People who are self-aware recognise their own limitations & consider their decisions carefully.
- These two attributes, self-awareness & self-regulation, help to elicit the trust & confidence of subordinates.
- Strong motivation & passion for work can also be infectious. It also motivates subordinates to give their best.

Organisational Change Management

- In any business environment, change should happen. It shows one's commitment to the kind of growth & evolution it takes to stay modern, relevant, & competitive. **Change can include things like:**
  - Introducing new software; updating marketing practices; Updated business processes; Updated thinking
  - A full-on restructuring; New project management tools; Leadership changes; Shifts in strategy
- Organisational change management → A Methodology that helps businesses adapt to adjustments of all kinds.
- It helps employees, stakeholders, & project teams prepare & set expectations for coming changes.

Organisational change management

1	Kotter 8-Step Process	Create → Build → Form → Enlist → Enable → Generate → Sustain → Institute
2	McKinsey 7-S Framework	Style, Skills, Systems, Structure, Staff, & Strategies =Shared Values & Goals
3	Kurt Lewin's Change Model	Unfreeze → Change → Refreeze
4	ADKAR Model	Awareness → Desire → Knowledge → Ability → Reinforcement
5	Kubler-Ross Model	Shock → Anger → Bargaining → Depression → Acceptance.
6	Satir Change Management Model	Late Status Quo → Resistance → Chaos → Integration → New Status Quo.
7	William Bridges' Transition Model	Ending → Neutral Zone → New Beginnings.

- However, there is no right or wrong method to choose. Any method can facilitate smooth & positive change.
- Best method depends on organisation's needs & preferences. Methods are generally interchangeable.
- One of the most popular & widely accepted guiding approaches out there is "The Association of Professional Change Management (ACMP) Standard for Change Management".
- **Following are the steps as recommended by ACMP:**
  - Evaluate Change Impact & Readiness.
  - Formulate Your Strategy.
  - Develop Change Management Plans.
  - Executing Change Management Plan.
  - Closing the Change Management Effort.
  - It is also important to look at employee involvement during this process.

Q. Why organisation management change fails & What are the steps to be taken for successful organisation change?

⇒ Organisations cannot do successful change management without its people's faith & support. That's why companies should involve employees in organisation's change management process from start to finish.

⇒ Without employee buy-in, change management can fail.

⇒ Uninvested stakeholders are also one of the reasons of organisational change management failure.

⇒ **A knowledgeable, prepared leadership & an HR team is required for successful organisation change.**

UNIT 1.4 → ALIGNMENT OF INDIVIDUAL LEVEL OBJECTIVES & ORGANIZATIONAL OBJECTIVES

- **Personal or Individual objectives:** It refer to the job-specific goals of each employee. They are important because they communicate to the employees what is expected from them. Employee objectives are ways to measure progress & performance for each member of a team. These help employees better understand their roles. Employee objectives are targets that an employee & their manager agree on to measure the employee's job performance. These objectives tell employees about their responsibilities that contribute to larger company goals.
- To create **effective objectives**, they must be **SMART**. **(Traditional Approach)** **[Direct 4 Mark Questions]**

Specific	▪ Specific goal provides employee with the exact result needed for their performance to be successful. ▪ A clear objective can optimize productivity & effectiveness.
Measurable	▪ Objectives should be such that can be measured to determine an employee's success or progress.
Attainable	▪ Effective objectives are those which are possible to achieve. ▪ An Impossible to achieve objective may discourage the employees.
Relevant	▪ Relevant objective contributes to the larger goals of a company. ▪ If employees are given objectives which are not related to the organisational objectives, it will not contribute to the achievement of organisational objective.
Time Based	▪ Set realistic timelines for employees to complete their tasks.

FAST FRAMEWORK (Modern Approach)

- Peter Drucker (in 1954) the great management guru, introduced **"management by objectives"**.
- "Management by objectives" is an approach where employees would agree with their boss on a set of goals & work toward achieving those objectives throughout the year.
- *Traditionally, managers aspired to make their goals SMART. However, over the past few decades, leading companies including Google, Intel, etc. have refined an alternative approach "FAST" to harness the power of goals to drive & align action.* The modern concept views goals to be FAST & not SMART.
- **4 core principles** that underpin effective goal systems can be summarised into **"FAST".**

Frequently discussed	**Definition:** Goals should be frequently discussed to see the progress, allocate resources when needed & provide feedback. **Advantages:** ▪ Gives **guidance** for important decisions. ▪ Helps employees remain **focused** on **most important matters.** ▪ Links performance feedback to concrete goals. ▪ Evaluates the progress & helps in course corrections.
Ambitious	**Definition:** Goals should be challenging or ambitious but not impossible to achieve. **Advantages:** ▪ Motivates performance of individuals & teams towards goal. ▪ Helps in minimising the risk of downplaying the achievements of the subordinates. ▪ Focuses on the innovative ways to achieve goals.
Specific	**Definition:** Goals should be translated into specific metrics so that there is clarity in achieving goals. **Advantages:** ▪ Clearly mentions what the employees are expected to deliver. ▪ Helps in easy identification of deviations from the goals & offers quick course corrections. ▪ Enhances performance of individuals & teams.
Transparent	**Definition:** Goals & their achievements should be made public for all employees to see. **Advantages:** ▪ Use of peer pressure to perform on goals. ▪ Clearly showcases the activities & contribution of the employees towards goal achievement. ▪ Helps employees understand the agenda of other employees & the teams. ▪ Helps to identify redundant strategies & are not aligned to the overall organisational goals.

Performance Objectives

- Performance objectives are set so that employees can know what is expected of them & what they are accountable for.
- Employees are integral part of an organisation so organisations should support them in their personal growth.
- These performance objectives for employees must be documented & reviewed constantly.
- Thework that employees take up must prepare them to meet their individual goals, by enhancing knowledge or buildingskills.
- **Following are some of the examples of performance objectives for employees:**

Productivity	▪ Amount of work that an employee is expected to perform within a specific time. ▪ This helps to increase productivity within a business, & it can increase sales & revenue. ▪ Ex: In service industry, the number of clients that a service consultant has assisted.
Quality & efficiency	▪ This has to do with manner of performing activities. This measure takes quality into consideration. ▪ **Not only should the service be fast, but it must be of good quality.** ▪ Due to this objective, employees pay more attention to the quality of their work which reduces human error while increasing productivity.
Education & self-development	▪ This objective considers the needs of employee's own development. ▪ It focuses on workers development by learning a new skill, doing a new course or job-shadowing another employee. [Not in CMA Module: Job shadowing is a type of on-the-job training that allows an interested employee to follow and closely observe another employee performing the role.] ▪ This **makes workers more valuable** due to continuous growth in their respective fields.

Alignment of Individual Level Objectives & Organizational Objectives

- Every employee works to meet the organisational-level goals.
- Managers rely on the performance of employees so that they can achieve larger goals set at organisational level.
- If these larger goals are not aligned to individual goals, employee motivation will deteriorate after some time.

Q. Why aligning individual goals to organisational goals is important ?

⇒ It helps to sustain employee motivation by helping employees measure the impact of their actions.

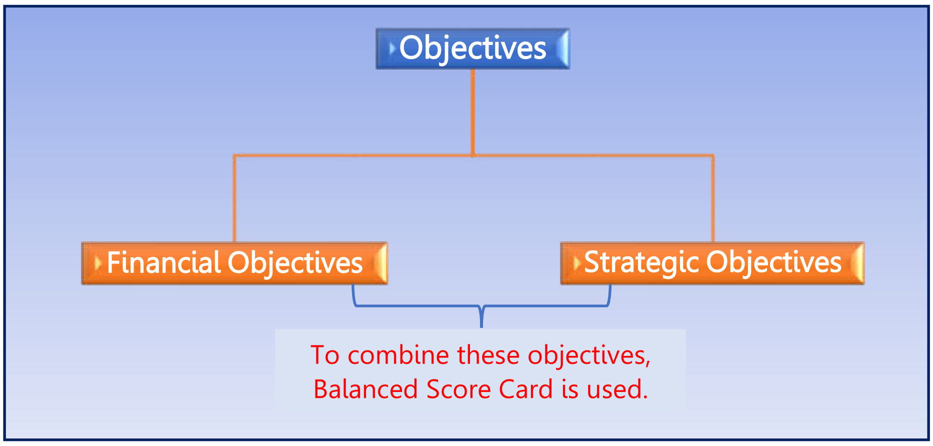
⇒ When personal goals are aligned, an individual takes accountability of the tasks in hand.

⇒ They relate with the contributions they make & measure the success & way forward.

⇒ Aligning goals also help in prioritization of tasks & responsibilities.

⇒ When individuals understand how their personal goals relate to one another & to the larger goals of the organisation, collaboration & team cohesiveness increases.

UNIT 1.5 → BALANCED SCORE CARD & EVA



The sole purpose of setting objectives is to convert the vision & mission into specific measurable targets.

There are broadly two types of objectives namely, financial & strategic.

(1) **Financial objectives** relate to financial targets that management has established for the organisation to achieve.
Ex: Increasing annual revenues, annual increase in earnings per share, profit margins, increased shareholder value.

(2) **Strategic objectives** relate to target outcomes that indicate whether a company is strengthening its market standing, competitive position & future business prospects.
Ex: Having a certain % of market share, achieving lower overall costs than competitors, developing better technological capabilities than rivals, consistently getting new or improved products to market, having stronger sales & distribution capabilities than rivals, etc.

There is a need to balance the financial objectives with the strategic objectives. The most widely used method for combining the use of both strategic & financial objectives, tracking their achievement, & giving management a more complete & balanced view of how well as organisation 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.

Balanced Scorecard: A Framework to translate a strategy into operational terms.

- It was developed by **Robert S. Kaplan & David Norton of Harvard Business School.** It is a top-down approach to performance management. It starts with the strategic intent & ends with operationally relevant targets.
- **Balance score card model requires an evaluation of organisational performance from four different perspectives.**

Perspective	Meaning
Financial	☛ It considers the financial measures such as revenues, earnings, return on capital & cash flow.
Customers	☛ Customer's perspective includes customer satisfaction & customer loyalty. ☛ This measures the ability of the organisation to provide quality goods & services, effective delivery & overall customer's satisfaction.
Internal Business	☛ The Mechanisms through which performance expectations are achieved. ☛ This provides details about internal business results that have led to financial success & satisfied customers. ☛ It is very important to identify the key business processes that should be excelled to meet the organisational objectives & customer satisfaction.
Learning & Growth	☛ This perspective focuses on the ability of the organisation to manage its business & adapt to changes in the environment. ☛ Organisations take on new responsibilities that require its employee to develop new skills & capabilities in order to cope with the changing environment & customer expectations.

Q. What are the steps involved in balanced score card approach ? [4 Mark Theory Question]

⇒ First step involves establishing the organisation's strategic intent including the vision & mission.

⇒ In second step, design of balanced score card is determined by identifying the specific measures related to the 4 perspectives namely; financial, customer, internal & learning or innovation perspective. In this step, specific strategies that should be formulated & implemented to realise the organisation's vision is also determined.

⇒ Next step involves strategy mapping through identification of organisational activities that are derived from the strategies.

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

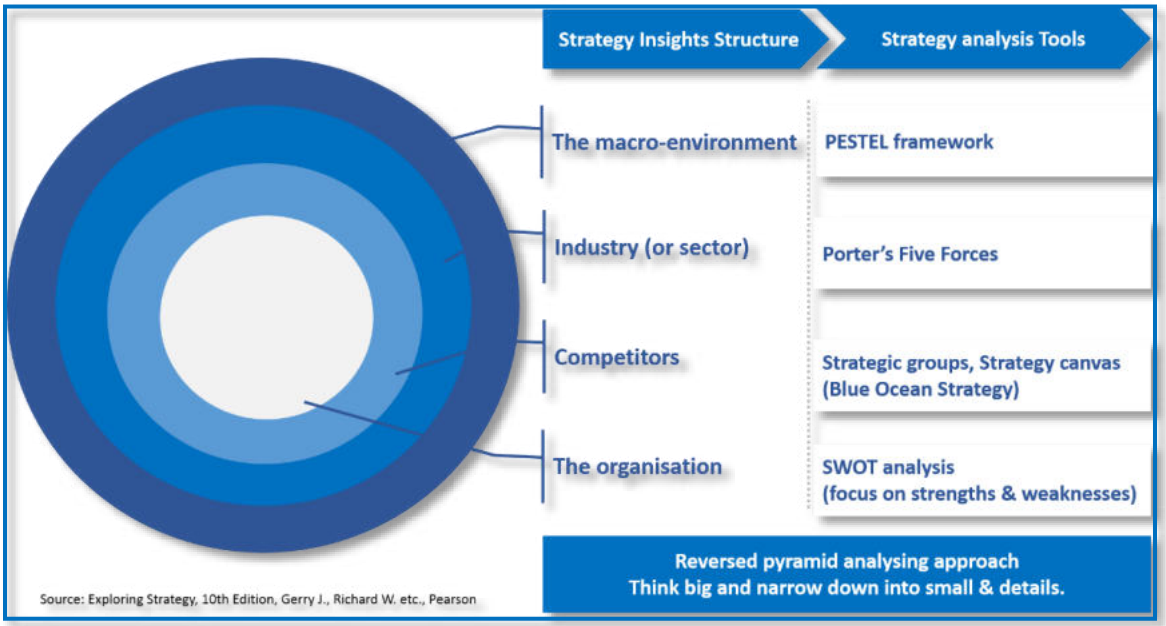
EVA – Driven Responsibility Accounting

- Profit is the surplus of revenues over costs available for distribution to the owners of the firm.
- Transition from accounting profit to economic profit was triggered due to a major problem of accounting profit as it combines two types of returns; (i) Normal return to capital that rewards investors for the use of their capital; & (ii) Economic profit, which is the pure surplus available after all inputs (including capital) have been paid for.
- Economic profit represents a purer & more reliable measure of profit that is a better measure of performance.
- To distinguish economic profit from accounting profit, **economic profit is referred as economic rent.**
- A widely used measure of economic profit is economic value added (EVA), devised by the New York consulting firm **"Stern Stewart & Company".**
- **EVA = Net Operating Profit After Tax (NOPAT) - Cost of Capital**
- **Cost of Capital = Capital employed x Weighted Average of Capital (WACC).**
- **Economic profit has two main advantages** over accounting profit as a performance measure: **[2 Mark Question]**
  (1) 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) 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.

2 Strategic Analysis & Planning

UNIT 2.1 → ANALYSIS OF BUSINESS ENVIRONMENT

- Business environment refers to the sum total of all the conditions, events & influences in & around an organisation that affects it hence, a clear understanding of business environment is of crucial importance.
- The very survival of an organisation 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.
- Environmental change can be both an opportunity as well as a threat to an organisation.
- It is vital that managers analyse their environments carefully in order to anticipate & if possible influence environmental change.
- **Framework for analysing environments are organised in a series of 'layers' as follows:**



Macro-environment	▪ It is the outermost & the highest-level layer. ▪ This consists of broad environmental factors that impact to all organisations. ▪ Here, PESTEL framework can be used to identify how future trends in the political, economic, social, technological, environmental ('green') & legal environments might impinge on organisations. ▪ 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.
Industry or sector	▪ It forms the next layer with this broad general environment. This is made up of organisations producing the same products or services. ▪ Here Porter's five forces framework is particularly useful in understanding the attractiveness of particular industries or sectors & potential threats from outside the present set of competitors.
Competitors & markets	▪ They are the most immediate layer surrounding organisations. ▪ Within most industries or sectors there will be many different organisations with different characteristics & competing on different bases, some closer to a particular organisation, some more remote. ▪ The concept of strategic groups can help identify close & 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 & critical success factors.

Characteristics of Business Environment

1	Environment is Complex
	▪ Business environment happens to be very complex as it comprises of a number of factors namely, events, conditions & 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 & 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 & shape.
3	Environment is multi-faceted
	▪ The perception of the observer is very important to determine the shape & character of the environment. Changes in the environment may be perceived differently by different individual. The changes & developments may be considered to be an opportunity to one & a threat to others.
4	Environment has a far-reaching impact
	▪ Impact of environment on an organisation is huge. It supports the growth & profitability of an organisation. ▪ Any changes in the environment affect the organisation in more ways than one. The very survival & existence of an organisation is critically dependent on its environment.

UNIT 2.2 ⟶ PESTEL, VALUE CHAIN & PORTER'S 5 FORCES FRAMEWORK

The PESTEL Framework

Political Factors

includes government policies, political stability, foreign trade policy, tax policy, labour law, trade restrictions etc.

- Investors do not want to invest if there is political instability & this can be detrimental to businesses.
- Political stability & government's favourable attitude is considered to be a favourable business environment.

Economic Factors

includes economic growth, interest rates, inflation rates, exchange rates etc.

- Macro-economic forces affect the well-being of a nation which in turn affect companies' & industries' ability to earn an adequate rate of return. **Four most important macroeconomic forces are:**
  - **(1) Growth rate of the economy**
    - ☛ If there is an economic growth in country, public will have more money & thus will spend more money. This gives companies the opportunity to expand their operations & earn higher profits.
    - ☛ Economic decline (recession) increases competitive pressures as reduces customer spending capacity.
  - **(2) Interest rates**
    - ☛ If interest rates are high, borrowing becomes costly. Interest rates determine demand for company's products.
    - ☛ Lower the interest rates, lower will be cost of capital for companies & more opportunities for investment.
  - **(3) Currency Exchange Rates**
    - ☛ Currency exchange rates define the comparative value of different national currencies.
    - ☛ Movement in currency exchange rates has a direct impact on competitiveness of a company's product.
  - **(4) Inflation (or deflation) Rates**
    - ☛ Price inflation can slow down economic growth, interest rates will go up.
    - ☛ Price deflation → If prices fall, real price of fixed payments goes up. This is damaging for companies & individuals with a high level of debt who must make regular fixed payments on that debt.

Social Factors

includes population growth rates, age distribution, lifestyle attitude, cultural barriers.

- Social influences include changing cultures & demographics. Demographic forces are outcomes of changes in the characteristics of a population, such as age, gender, race, & social class.

Technological Factors

includes level of innovation, automation, R&D activity, technological awareness.

- Technological influences refer to innovations such as artificial intelligence, internet, nano-technology etc.

Environmental Factors

includes weather, pollution issues, environmental policies, climate change, pressure from NGOs.

- Environmental stands specifically for 'green' issues, such as pollution & waste.
- Environmental factors are extremely important for organisations as countries across the globe are increasingly concerned with the environmental changes & are striving towards clean, green & renewable sources of energy.
- **Organisations need to be more environment friendly.**

Legal Factors

includes employment laws, consumer protection laws, copyright & patent law, health & safety laws, labour laws.

- Legal changes, such as health & safety laws or restrictions on company mergers & acquisitions.

❖ For managers, it is important to analyse how these factors are changing now & how they are likely to change in the future, drawing out implications for the organisation.

❖ 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 to industry. For example, key driver for a computer manufacturer may be technological change. Public sector managers are likely to be concerned with political change (changing government funding & policies) & legislative change (introducing new requirements).

❖ Identifying key drivers for change helps managers to focus on the PESTEL factors that are most important & which must be addressed as the highest priority.

Meaning of "Industry" & "Sector"

- Industry is a group of firms producing the same principal product or service.

  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 & 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.

  FMCG comprises several related industries: food & beverages industries, healthcare industries & household & personal care industries.

The Value Chain

- Value chain describes the categories of activities which together create a product or service.
- The concept was developed in relation to competitive strategy by Michael Porter.
- Value chain refers to the idea that company is a chain of activities that transforms inputs into outputs.
- Transformation process involves both primary activities & support activities that add value to the product.
- **Primary activities** are directly concerned with the creation or delivery of product or service. They are as follows:

1	Inbound Logistics [Raw Material Lana]
	▪ Inbound logistics are activities concerned with receiving; storing & distributing inputs to the product or service including materials handling, stock control, transport, etc.
2	Operations [Raw Material ko Finished Goods banana]
	▪ Operations transform these inputs into final product. **Ex: Machining, packaging, assembly, testing, etc.**
3	Outbound logistics [Finished Goods customer ko deliver karna]
	▪ Outbound logistics collect & distribute the product to customers. **Ex: Distribution, Warehousing etc.**
4	Marketing & sales [Porduct bechne ke liye uska marketing karna]
	▪ Marketing = Means by which consumers are made aware of the product or service. **Ex: Advertising** ▪ Sales = Means by which consumers are able to purchase product. **Ex: Sales administration & selling**
5	Service [After Sales services dena]
	▪ Service includes those activities that enhance or maintain the value of product or service, such as installation, repair, training etc.

- **Support activities** help to improve the effectiveness or efficiency of primary activities. They are:

1	Procurement
	▪ It refers to the processes that occur in many parts of the organisation for acquiring the various resource inputs to the primary activities.
2	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.
3	Human resource management
	▪ This transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing & rewarding people within the organisation.
4	Infrastructure
	▪ The formal systems of planning, finance, quality control, information management, & the structures & routines that are part of an organisation's culture.

Porter's Five Forces Framework

- This framework helps to identify (check) the sources of competition in an industry or sector. i.e what exposure our firm has in the market from different sources.
- The five forces are not independent of each other.

1 Threat of New Entrants

- High risk of entry by potential competitors represents a threat to the profitability of established companies.
- More the entry costs to enter an industry, the more the entry barriers & thus, the weaker threat.
- Economies of Scale:
  - If cost advantages from economies of scale are significant, a new company that enters the industry & produces on a small scale suffers a significant cost disadvantage relative to established companies.
  - If new company decides to enter on a large scale to obtain these economies of scale, large capital will be required & thus more interest cost resulting in high risks.
  - **Thus, threat of entry is reduced when established companies have economies of scale.**
- Brand Loyalty
  - If customers are loyal towards established companies, it will be difficult for new entrants to take away market share from established companies.
  - **Thus, brand loyalty reduces the threat of entry by potential competitors.**
- Absolute Cost Advantages
  - Sometimes, new entrants cannot match the established companies' lower cost structure.
  - Absolute cost advantages arise from three main sources:
    (1) Better production operations & 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; &
    (3) Access to cheaper funds because existing companies represent lower risks than new entrants.
  - **If established companies have absolute cost advantage, threat of entry as a competitive force is weaker.**
- Customer Switching Costs: If switching costs are high, customers will not buy from the new company even if new entrants offer better products.
- Government Regulations: More the government restrictions, more will be entry barriers & vice versa.

2	**Competitive Rivalry**

- Intense rivalry means lower prices or more spending on advertisements. Thus, intense rivalry among established companies constitutes a strong threat to profitability. If rivalry is less, companies can increase prices or reduce spending on advertisements, leading to a higher level of industry profits.
- Four factors have a major impact on intensity of rivalry among established companies within an industry:
- Industry competitive structure
  - Competitive structure of an industry refers to the number & size distribution of companies in industry.
  - **Fragmented industry** consists of a large number of small or medium-sized companies, which are not in a position to determine industry price.

    Low-entry barriers & commodity-type products (no differentiation in product; anyone can make such product). This combination tends to result in boom & bust cycles as industry profits rapidly rise & fall.

    Low-entry barriers means new entrants will come in the market hoping to make profit from the boom when demand is strong & profits are high. This will increase supply & thus prices will fall resulting in less profit & forcing some companies go out of business due to inadequate profits.

    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 & the failure of less efficient enterprises.

    A fragmented industry structure, then, constitutes a threat rather than an opportunity.
  - **A consolidated industry** is dominated by a small number of large companies (an oligopoly) or in extreme cases, by just one company (a monopoly), & companies 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, & thus their profitability.

    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.
- Industry Demand
  - Growing demand tend to reduce competition by providing greater scope for companies to compete for customers. High industry profits are often the result.
  - Declining demand results in increased rivalry as companies fight to maintain market share & revenues. Thus, declining demand constitutes a major threat as it increases rivalry between established companies.
- Cost Conditions
  - In industries where fixed costs are high, firms will not be profitable if sales volume is low. Thus, they have to cut their prices or increase promotional spending to increase sales volume to cover fixed costs.
  - **The desire to grow volume to cover fix cost can spark intense rivalry & lower profits.**
- Exit Barriers
  - Exit barriers are economic, strategic & emotional factors that prevent companies from leaving industry.
  - If exit barriers are high, companies become locked into an unprofitable industry. The result is often excess productive capacity, leading to even more intense rivalry & price competition as companies cut prices, to obtain the customer orders needed to use their idle capacity & cover their fixed costs.

3	**Bargaining Power of Buyers**

- It refers to the ability of buyers to bargain prices charged by companies. By lowering prices, powerful buyers can squeeze profits out of an industry. **Powerful buyers, therefore, should be viewed as a threat.**
- Buyers are most powerful in the following circumstances:
  - If buyers have many choices of suppliers. If the industry is a monopoly, buyers obviously lack choice.
  - When buyers purchase in large quantities, buyers can use their purchasing power to bargain for price.
  - When the supply industry depends upon buyers for a large percentage of its total orders.
  - When switching costs are low & buyers can easily change the supplying companies to force down prices.
  - When buyers can threaten to enter the industry & produce the same product for himself independently.

4	**Bargaining Power of Suppliers**

- It refers to the ability of suppliers to raise input (raw material) prices. Thus, powerful suppliers are a threat.
- Suppliers are most powerful in these situations:
  - Product that suppliers sell has few substitutes & is vital to the companies in an industry.

	▪ When the industry is not an important customer of suppliers & he can sell his product to other industry. ▪ 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. ▪ Suppliers can threaten to enter their customers' industry & use their inputs to produce products that would compete directly with those of companies already in the industry. ▪ Companies in the industry cannot threaten to enter their suppliers' industry & make their own inputs as a tactic for lowering the price of inputs.
5	**Threat of Substitutes**
	❖ 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. ❖ 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 & earn additional profits. ❖ Ex: Companies in the coffee industry compete indirectly with those in the tea & soft drink industries because all 3 serve customer needs for non-alcoholic drinks.

Q. What are the common exit barriers in the industry ?

Answer:

- **Investments in assets** such as specific machines, equipment. 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 to workers who are being laid off.
- **Emotional attachments to 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 industry** because a company relies on a single industry for its entire revenue & all profits.
- **Need to maintain an expensive collection of assets** to participate effectively in the industry.
- **Bankruptcy regulations (particularly in USA).** Bankruptcy provisions allow insolvent enterprises to continue operating & to re-organise under this protection. These regulations can keep unprofitable assets in the industry, result in persistent excess capacity, & lengthen the time required to bring industry supply in line with demand.

Complementors

❖ Andrew Grove, the former CEO of Intel, is of the opinion that both substitutes & complements influence demand. **He argued that Porter's forces ignored a sixth force, i.e complementors.**

❖ According to Grove, complementors are companies that sell products that add value to the products of companies because, when used together, **use of the combined products better satisfies customer demands.**

❖ **Ex: Complementors to computer industry are companies that make software applications to run on computers.**

❖ Link between PCs & software applications can be expressed as **greater the supply of high-quality software applications running on these computers, the greater will be the value of PCs to customers** resulting in increased demand for PCs & ultimately increased profitability of the PC industry.

VRIO Framework ⇒ helps an organisation to evaluate its competencies [Given by Barney]

Value: It questions whether the firm's competencies provide value to the customer & competitive advantage or not. Threshold competencies can only help a firm to exist in business & do not provide any competitive advantage. **Competitive advantage comes from core competencies.**

Rareness: **It questions the extent to which the competencies of the firm are rare.** The rarity component can help organisations to be competitively superior compared to its rivals.

Imitability: **The greater are the barriers to imitation, 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 & technologies are difficult to imitate.

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

UNIT 2.3 → SWOTC ANALYSIS (INDUSTRY SECTOR & COMPANY

S STRENGTHS	W WEAKNESSES	O OPPORTUNITIES	T THREATS
• Things your company does well • Qualities that separate you from your competitors • Internal resources such as skilled, knowledgeable staff • Tangible assets such as intellectual property, capital,	• Things your company lacks • Things your competitors do better than you • Resource limitations • Unclear unique selling proposition	• Underserved markets for specific products • Few competitors in your area • Emerging need for your products or services • Press/media coverage of your company	• Emerging competitors • Changing regulatory environment • Negative press/ media coverage • Changing customer attitudes toward your company

- Organisations perform a SWOT analysis **to understand their internal & external environments.** Main purpose is to identify the strategies to grab opportunities, counter threats, build on company strength, & reduce weaknesses.
- SWOT analysis has several benefits such as simple to use, low cost, flexible & 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 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 & threats.
- **A simple application of SWOT analysis technique involves these steps:**
  - Setting the objectives of the organisation.
  - Identifying strength, weaknesses, opportunities & threats.
  - **Maximising** the areas where the organisation has **strength**.
  - **Minimising** the **weaknesses**.
  - **Capitalising** on the **opportunities** in the external environment.
  - **Protecting** the organisation from **threats** in external environment.
  - Recommending strategies that will help the organisation to be competitive in the business environment.
- **Difficulties in SWOT**
  - Sometimes, it is very difficult for organisations to clearly decide opportunities & threats. Sometimes an opportunity can also have an element of threat.
    Ex: Nuclear plant can be great opportunity as it generates low-cost energy. However, threats cannot be ignored.
  - SWOT exercise can generate very long lists of apparent strengths, weaknesses, opportunities & threats, whereas what matters is to be clear about what is really important & what is less important.
  - SWOT analysis is not a substitute for more rigorous, insightful analysis such as core competences, critical success factors, strategic gap, value chain, etc.
  - Simplicity of use may simplify the reality that may be more complex than represented in SWOT matrices.
  - Chances exist where strengths may be confused with opportunities or weaknesses with threats.
  - May encourage organisations 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.

Strength, Weaknesses, Opportunities & Challenges (SWOC):

- The threats, or challenges, that organisations are likely to face are the most important factors of a SWOC analysis. **Threats can also be 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 & a changing competitive landscape can pose challenges.
- One might have a robust plan catered to a clear & specific set of strengths, weaknesses & 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 & 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 & strategic decisions regarding products.**

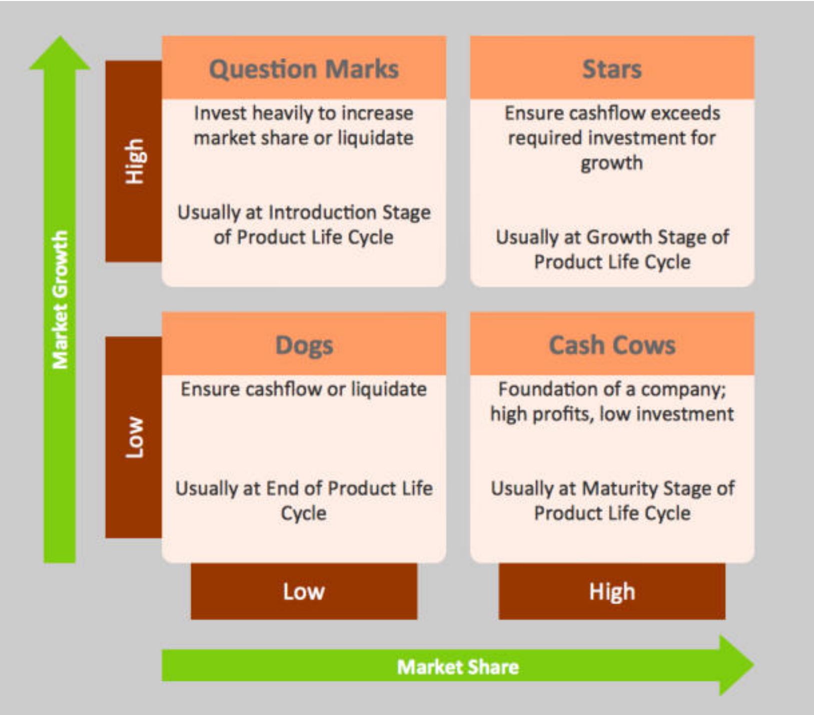
SWOT Analysis (Industry Sector - Indian Steel Industry)	
STRENGTHS	**WEAKNESSES**
▪ Abundance of iron ore & minerals for steel ▪ Skilled manpower & low unit cost ▪ Mature production base	▪ High cost of capital, Low labour productivity ▪ High cost of basic input, High social cost ▪ Poor quality of basic infrastructure & distribution network, IT leverage
OPPORTUNITY	**THREATS [CHALLENGES]**
▪ Demand for infrastructure ▪ Rapid urbanization ▪ Untapped rural demand, ▪ Low per capital consumption ▪ Growing domestic demand ▪ Low export penetration	▪ Emergence of China as a global exporter of steel ▪ Threat of substitutes; ▪ Technological obsolescence ▪ Slow industrial growth & global economic slow down ▪ Price sensitivity & volatility; ▪ Dumping of high-grade low-cost steel by developed countries

UNIT 2.4 → PORTFOLIO ANALYSIS & BCG MATRIX

Portfolio Analysis

- Portfolio analysis is an analytical tool which views a company as a basket of portfolio of products or business units to be managed for the best possible returns.
- Two of the most popular portfolio techniques are: BCG Growth-Share Matrix & GE Business Screen.
- Objectives of Portfolio Analysis
  - to analyse the current mix of business & take investment decisions.
  - to develop strategies for adding new businesses in the portfolio thereby inducing growth.
  - to decide the business to be retained & the one to be excluded from the portfolio.
- Advantages of Portfolio Analysis
  - It encourages top management to evaluate each of the corporation's business individually & to set objectives & allocate resources for each.
  - It stimulates the use of externally oriented data to supplement management's judgment.
  - It raises the issue of cash-flow availability for use in expansion & growth.
  - Its graphic depiction facilitates communication.
- Limitations of Portfolio Analysis
  - Defining product/market segments is difficult.
  - It suggests the use of standard strategies that can miss opportunities or be impractical
  - It provides an illusion of being scientific; but in reality, positions are based on subjectivity.
  - Its value-laden terms such as cash cow & dog can lead to self-fulfilling prophecies (future predictions).
  - It is not always clear what makes an industry attractive or where a product is in its life cycle.
  - Naively following the prescriptions of portfolio model may actually reduce corporate profits if used inappropriately.

Boston Consulting Group (BCG) Matrix



Market growth/market share axes of BCG matrix define four sorts of business:

A star is a business unit which has a high market share in growing market. 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.

A question mark (or problem child) is a business unit in a growing market, but not with high market share. Developing question marks into stars, with high market share, takes heavy investment.

A cash cow is a business unit with a high market share. However, because growth is low, investment needs are less, while high market share means that business unit should be profitable.

Dogs are business units with a low share in declining markets & thus are the worst of all combinations. BCG recommends divestment.

❖ BCG matrix has several advantages:

- It provides a good way of visualising the different needs & potential of all the diverse businesses within the corporate portfolio.
- It warns company of the financial demands i.e it states that high market share does not always leads to high profits. There are high costs also involved with high market share. Growth rate and relative market share are not the only indicators of profitability.
- Finally, it provides a useful discipline to business managers, underlining the fact that companies ultimately own surplus resources they generate & can allocate them according to what is best for company as a whole.
- Cash cows should not hoard their profits. Incidentally, surplus resources may not only be investment funds: the company can also reallocate business managers who are not fully utilised by low-growth cash cows or dogs.

❖ There are at least 3 potential problems with BCG matrix:

- **Definitional vagueness:** It can be hard to decide what high & low growth or share means in a particular situation. Managers are often keen to define themselves as 'high share' by defining their market in a particularly narrow way (Ex: Ignoring relevant international markets).
- **Capital market assumptions:** Notion that a company needs a balanced portfolio to finance investment from internal sources (cash cows) assumes that capital cannot be raised in external markets [Ex: Loan, Debts].
- **Unkind to animals:**
  - ☛ Both cash cows & 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 future statement. Cash cows will become dogs even more quickly than the model expects if they are simply milked & 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.

UNIT 2.5 → STAGES & ALTERNATIVES IN STRATEGIC PLANNING

Strategic Planning Process has 5 main steps:

(1) Select the Corporate Mission & Major Corporate Goals

- First step is crafting the organisation's mission statement which provides the framework within which strategies are formulated.
- Mission statement has four main components:
  - Statement of its reason for existence which is normally referred to as the mission;
  - Statement of some desired future state, usually referred to as the vision;
  - Statement of the key values that the organisation is committed to; &
  - Statement of major goals.

(2) Analyse the organisation's External Competitive Environment to identify Opportunities & Threats

- Second step is an analysis of the organisation's external environment to identify strategic opportunities & threats within the organisation's operating environment that will affect how it pursues its mission.
- Three interrelated environments should be examined when undertaking an external analysis:
  - Industry environment in which the company operates,
  - Country or national environment &
  - Socio-economic or macro environment.

(3) Analyse organisation's Internal operating Environment to identify organisation's Strengths & Weaknesses

- Internal analysis focuses on reviewing the resources, capabilities, & competencies of a company. Goal is to identify the strengths & weaknesses of the company.
- Strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths & weaknesses & its external opportunities & threats.

(4) Select Strategies

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

(5) Implement the strategies

- To achieve competitive advantage & profitability, managers must put selected strategies into action.
- Strategy implementation involves taking actions at the functional, business, & corporate levels to execute a strategic plan.
- Implementation can include:
  - putting quality improvement programs into place
  - changing the way, a product is designed
  - positioning the product differently in the marketplace
  - segmenting the marketing & offering different versions of the product to different consumer groups
  - implementing price increases or decreases
  - expanding through mergers & acquisitions
  - downsizing the company by closing down or selling off parts of the company
- Strategy implementation also entails designing the best organisation structure & the best culture & control systems to put a chosen strategy into action.

The Feedback Loop

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

Alternatives in Strategic Planning

⇒ Several scholars have criticized the formal planning model for three main reasons:

(1) Unpredictability of the real world;

(2) Role that lower-level managers can play in strategic management process &

(3) Fact that many successful strategies are often the result of serendipity, not rational strategizing.

⇒ These scholars have advocated an alternative view of strategy making. They are as follows:

Scenario Planning:

- One reason that formal strategic planning may fail over longer time periods is that strategic managers may forget that the future is entirely unpredictable. Even the best-laid plans can fail if unforeseen contingencies occur.
- Scenario planning involves formulating plans that are based upon "what-if" scenarios about the future.
- In typical scenario-planning exercise, **some scenarios are optimistic & some are pessimistic.** Managers are asked to develop specific strategies to cope with each scenario.
- A set of indicators are chosen as sign posts & any particular scenario is identified using probabilistic approach.
- The idea is to allow managers to understand the dynamic & complex nature of their environment, to think through problems, & to generate a range of strategic options that might be pursued under different circumstances.

Decentralized Planning:

- A mistake that some companies make is they treat strategic planning process as a top-management responsibility.
- This "ivory tower" approach can result in strategic plans formulated in a vacuum by top managers who have little understanding of current operating realities.
- Correcting ivory tower approach to planning requires recognising that successful strategic planning encompasses managers at all levels of the corporation.
- Much of the best planning can & should be done by business & functional managers who are closest to the facts.
- +Corporate-level planners should take on roles as facilitators who help business & functional managers do the planning by setting the broad strategic goals of the organization & providing the resources necessary to identify the strategies that might be required to attain those goals.

Strategic Alternatives

- After deciding vision, mission & objectives & having SWOT analysis, next step in strategic management process is generating feasible alternatives, evaluating them & choosing appropriate strategies for implementation.
- This process of generating, evaluating & selecting appropriate strategies is referred as "**strategy analysis & choice**".
- Strategic alternatives are the different courses of action available to a firm to pursue its objectives. Generation of feasible alternatives is crucial for formulating & selecting appropriate strategies. This is not an easy task, because there may be different strategic options available for accomplishing a particular objective.
- Generating strategic alternatives depends upon size, style of management, characteristics of the industry etc.
- In a small organisation, all decisions are made by the owner or chief executive himself.
- In medium & large organizations, following mechanisms may be employed for identifying strategic alternatives:
  - **Brainstorming Sessions:**
    - In most organizations, strategic alternatives are identified during brainstorming sessions of top management & executives. At this stage, no importance is given to relative merits & demerits of the options.
    - In next stage, each alternative is reviewed & subjected to close scrutiny. The alternatives which are considered fairly appealing are further examined & analyzed for final selection.
  - **Special Meetings**
    - Some large organizations may hold special meetings of top executives away from home & office. This is to ensure that process of thinking is not disturbed by interruptions during the course of deliberations.
    - Participants present different alternative scenarios along with their recommended courses of action. Depending on assumptions & future trends, each course of action is discussed & best options are finalized.
  - **Outside Consultants**
    - Some organizations may engage the services of an outside consultant to generate alternative strategies.
    - Outsider can observe the phenomenon objectively & bring in his own expertise into the process.
    - Outside viewpoint is expected to be new & fresh, & thus can show up many new opportunities.
  - **Joint Meetings**
    - Hire the services of a consultant & also associate some internal members in the process.
    - This method has the advantage of blending the new ideas contributed by outside consultants with workable solutions from within the organization.

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 CSF are:

(1) **Structure of the Industry:** Some CSFs are specific to the structure of the industry. Ex: In automobiles sector, extent of service support expected by the customers is very high.

(2) **Environmental Factors:** CSFs may also arise out of general/business environment of a firm, like deregulation of Indian industry. With de-regulation of telecommunication industry, many private companies had opportunities of growth.

(3) **Competitive strategy, industry position & geographic location:** Ex: Large pool of English-speaking manpower makes India an attractive location for outsourcing the BPO needs of American & British firms.

(4) **Temporal factors:** Certain short-term organisational developments like sudden loss of critical manpower (like CEO) or break-up of family-owned business, may necessitate CSFs like 'appointment of new CEO' or 'rebuilding the company image'.

⇒ 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

⇒ Rationality of human decision makers is bounded by our own understanding capabilities. We tend to fall back on certain rules of thumb that help us to make sense out of a complex & uncertain world. They at times lead to severe & systematic errors in the decision-making process.

⇒ They arise out of a series of cognitive biases. Some of the biases of human decision making are as follows:

(1) **Prior hypothesis bias:** It 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** refers to 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, & a critical analysis of that plan. One member of the decision-making group acts as 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 generation of a plan (a thesis) & a counter-plan (an antithesis) that reflect plausible (reasonable) but conflicting courses of action. Strategic managers listen to a debate between advocates of the plan & counter-plan & then decide which plan will lead to higher performance. The purpose is to reveal the problems with recommended courses of action, & assumptions of both plans. Dialectic inquiry can promote strategic thinking.

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

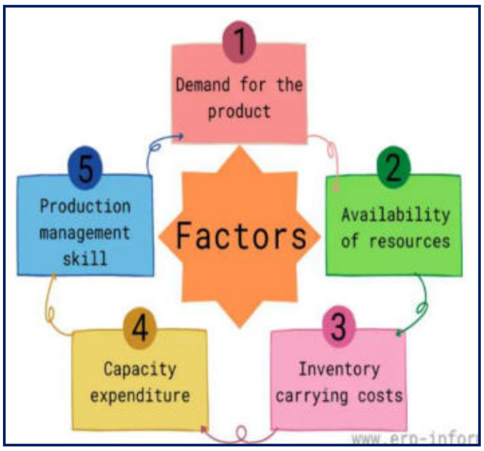
⇒ **Group Think** [Given by psychologist **Irvin Janis**].

- It occurs when a group of decision makers embarks upon a course of action without questioning underlying assumptions.
- Typically, a group unites around a person or policy. It ignores or filter out information that can be used to question the policy & develops after the fact rationalizations for its decision.
- Commitment to the mission or goals becomes based on an emotional rather than an objective assessment of the correct course of action. The consequences can be poor decisions.

3 Formulation & Implementation of Strategy

UNIT 3.1 ⟶ FORMULATION OF STRATEGY

Formulation of Production Strategy



- Production system is concerned with production capacity, location, layout, product design, degree of automation, extent of vertical integration & such other production related factors.
- Production strategy determines how & where products are manufactured, use of technology in production process, level of vertical integration in production processes, deployment of resources, & relationships with suppliers.
- A firm's production strategy is often affected by a product's life cycle. As sales of product increase, there will be an increase in production volume & thus flexible manufacturing systems should be there.
- Increasing competitive intensity in many industries has forced companies to switch from traditional mass production system to a continuous improvement production strategy.
- Under mass production system,
  - Workers were expected to learn what was assigned to them.
  - Quality often tended to be low as the employees worked on repetitious tasks under the close supervision.
- Under the continuous improvement system,
  - Companies empowered cross-functional teams to continuously strive to improve production processes.
  - Manager's role has been more of a coach than as a boss. This resulted in standard good & services at low-cost with superior quality.
  - The key to continuous improvement is the acknowledgement that workers' experience & knowledge can help managers solve production problems & contribute to tightening variances & reducing errors.

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.

Formulation of Supply Chain Strategy

- Supply chain management refers to "managing the flow of inputs & components from suppliers into company's production processes" to minimize inventory holding & maximize inventory turnover.
- Materials management refers to the activities necessary to get raw material (inputs) to the production facility (including the costs of purchasing inputs), through the production process, & out through a distribution system to the end-user.

  These requirements include controlling & regulating the flow of material while simultaneously assessing variables like demand, price, availability, quality, and delivery schedules.
- Improving the efficiency of materials-management function requires adoption of JIT inventory system which reduces inventory holding costs by scheduling components to arrive just in time when needed in production.
- Major cost saving comes from increasing inventory turnover, which reduces inventory holding costs & thus company's need for working capital is also reduced.
- JIT inventory systems reduce the need for working capital (because there is less inventory to finance) & the need for fixed capital to finance storage space (because there is less to store), which reduces capital needs, increases capital turnover and thus boosts the return on invested capital.
- Limitations of JIT → Company do not have buffer stock of inventory. Thus, in case of any disruptions among suppliers, there will be shortage of raw material & production process will get affected due to the shortage.
- Overcoming limitations of JIT → **Multiple Suppliers:** To reduce the risks of dependence on just one supplier for an important input, a company might decide to source inputs from multiple suppliers.

> 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. 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.

Formulation of Marketing Strategy

- Marketing strategy formulation is the process of defining organization's marketing goals and objectives.
- Marketing strategy refers to the position that a company takes with regard to market segmentation, pricing, promotion, advertising, product design, & distribution.

- **Customer defection rates, cost structure, & unit costs**
  - Customer defections (or 'churn rates') ⇒ Percentage of customers who defect every year to competitors. Defection rates are determined by customer loyalty which can be gained by satisfying the customers.
  - Since customer acquisition cost is involved in acquiring a new customer, there is a direct relationship between defection rates & costs. Ex: Advertising costs designed to attract new subscribers.
  - Because of 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 & profit.
  - **If a company can reduce customer defection rates, it can make a much better return on its investment in acquiring customers, & thereby boost its profitability.**
  - Loyal customers can dramatically increase the volume of business through referrals.

⇒ Reducing customer defection rates & 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, & 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.

FORMULATION OF HUMAN RESOURCE STRATEGY

- Employee productivity is one of the key determinants of an enterprise's efficiency, cost structure, & profitability. Productive employees lower the costs of generating revenues, increase return on sales & boost company's return.
- 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, & linking pay to performance.
  - ⇒ Hiring Strategy
    - Almost every company devote considerable attention to hiring.
    - Organisations hire people who have a positive attitude & who work well in teams.
    - It is important that hiring strategy of company is consistent with its own internal organization, culture etc.
    - 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.
    - Training upgrades employee skill levels, bringing the company productivity related efficiency gains from learning & experimentation.
  - ⇒ Self-Managing Teams
    - The use of self-managing teams, whose members coordinate their own activities & make their own training, work, & reward decisions, has been spreading rapidly.
    - Team members learn all team tasks & rotate from job to job. Thus, the work force becomes more flexible. Team members can fill in for absent co-workers & take over managerial duties such as scheduling work & vacation, ordering materials, & hiring new members.
    - Greater responsibility on team members & empowerment it gives them are seen as biggest motivators.

      (Empowerment is the process of giving lower-level employee's decision-making power.)
    - Performance bonuses linked to team production & quality targets work as an additional motivator.
    - In manufacturing companies, perhaps the most potent way to lower the cost structure is to combine self-managing teams with flexible manufacturing system.
  - ⇒ Pay for Performance:
    - Linking pay to performance can help increase employee productivity.
    - It is important to define what kind of job performance is to be rewarded & how.
    - Some companies link pay to group or team (rather than individual) performance as they understands that cooperation among employees is necessary to realize productivity gains. This link creates a strong incentive for individuals to cooperate with each other in pursuit of team goals; that is, **it facilitates teamwork.**

- Knowledge & experience of people can be key factors influencing the success of strategies. So, people-related issues should be a central concern & responsibility of most managers in organisations & are not confined to a specialist HR function.
- Although formal HR systems & structures may be vitally important in supporting successful HR 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:
  (1) **People as a resource,**
  (2) **People & behaviour**
  (3) **Need to organise people.**

PEOPLE AS A RESOURCE

- Management of HR resource is not similar to the other resources. There a lot of issues with respect to managing human resource. Some are called the 'harder' issues & the others 'softer' ones.
- **Harder issues** are the **traditional HR activities** that can help successful strategies in following ways:
  - Audits to assess human resource requirements to support strategies & to identify people-based core competences on which future strategies might be built.
  - Goal-setting & performance assessment of individuals & teams. This is an attempt to assess the full impact of an employee's work on the success of strategy.
  - Recruitment & retention are key ways of improving strategic capability.
  - Managers need to be able & willing to envisage (imagine) a future where the strategies & performance of the organisation are transformed by exploiting the performance management capabilities of the organisation.

People & Behaviour

- People are not like other resources. They influence strategy both through their competence & through their collective behaviour (culture).
- This 'soft' side of HR management is concerned with the behaviour of people – both individually & collectively.
- The softer issues include the following:
  - Understanding how they may need to change the paradigm of the organisation.
  - Seeing their own role as people-oriented 'shapers of context' & not just as 'business analysts'.
  - Understanding the relationship between behaviours & strategic choices. This is crucial if managers are properly to prioritise their efforts in managing organisational behaviours.
  - Being realistic about difficulty & time-scales in achieving behaviour changes. Culture change is a long process of changing behaviours. The hard change tools (structures & systems) if used alone are unlikely to deliver.
  - Being able to vary their style of managing change with different circumstances. Manager's ability to build & maintain teams of different personality types is just as important as the mix of competences in those teams.

Organising People → Organising people may be broadly discussed into the following three areas:

(1) HR Function

- The most challenging question is whether a specialist HR function is needed at all or not.
- People can be managed strategically without a specialist HR function.
- If HR function is felt to be valuable, then expectations as to its role must be clear & consistent.
- There are four broad roles that an HR function could fulfil in contributing to successful business strategies:
  - ☛ As a service provider (Ex: Undertaking recruitment or arranging training) to line managers who are carrying the strategic responsibility for HR issues.
  - ☛ As a regulator 'setting the rules' within which line managers operate [Ex: on pay & promotions].
  - ☛ As an advisor on issues of HR strategy to line managers (ensuring that HR policies & practice are in line with the 'best practice').
  - ☛ As a change agent moving the organisation forward.

(2) Middle (line) managers

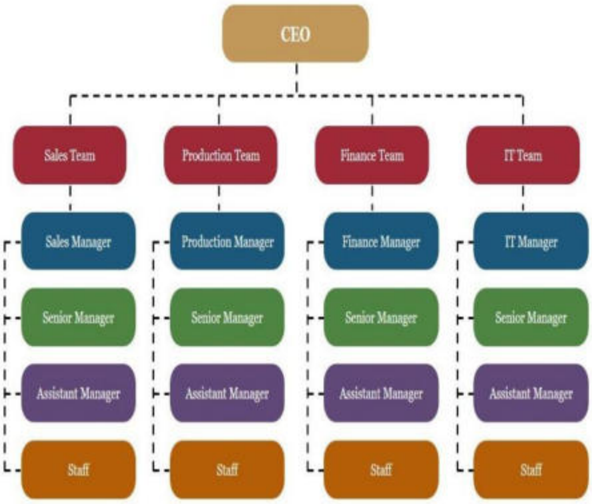
- There has been a significant move towards line managers being centrally involved in managing people issues.
- This has the clear advantage & a better chance of blending people-related issues with business strategies.
- But there are also worries & research confirms the concerns as to whether the circumstances in which line managers operate are conducive to their doing a good job on people management issues:
  - ☛ Whether it is realistic to expect line managers to be competent HR professionals.
  - ☛ The short-term pressures to meet targets do not help line managers in taking a more strategic view of people-related issues. Downsizing & de-layering have left the remaining managers too busy.
  - ☛ Trade unions & 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.
  - ☛ 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.
  - ☛ Despite these concerns it is important to recognise the crucial influence of middle managers on the day-to-day performance & behaviour of people in their organisation.

(3) Structures & Processes

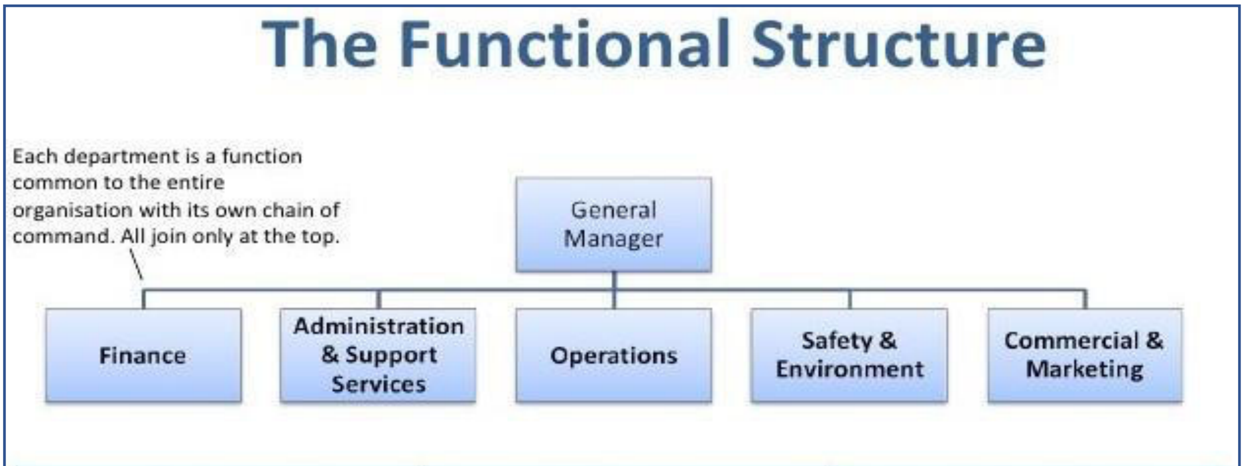
- People may be held back from contributing to strategic success because the traditional structures & roles do not match future strategies.
- Also, as circumstances & strategies change, organisations may need to change the processes & relationships.
- Another challenge is whether some HR issues (for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

UNIT 3.2 ⟶ STRUCTURING OF ORGANISATION FOR IMPLEMENTATION OF STRATEGY

The Functional Structure

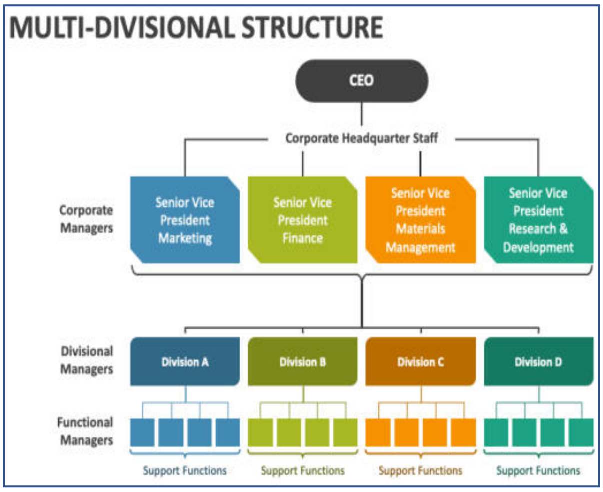


- It is a type of business structure that organizes a company into different departments based on areas of expertise.
- It is based on primary activities that are undertaken by an organisation such as production, finance & accounting, marketing, human resources & research & development.
- This structure is usually found in smaller companies, or those with narrow product ranges.
- Also, within a multidivisional structure, divisions themselves may be split up into functional departments.
- Advantages of a functional structure include:
  - It gives senior managers direct involvement in operations & allows greater operational control from the top.
  - provides a clear definition of roles & tasks, increasing accountability.
  - Functional departments provide expertise.
  - Centralised decision making & more efficient use of managerial & technical talent.
- However, there are disadvantages as organisations become larger or more diverse.
  - Senior managers focus on their functional responsibilities, becoming over-burdened with routine operations.
  - Overburdens the top management, as functional conflicts are pushed up.
  - Line staff conflicts & difficult to establish uniform standards across the organisation.
  - Separate functional departments tend to be inward looking so called 'functional silos' making it difficult to integrate the knowledge of different functional specialists.
  - 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 organisation's various SBUs around world.

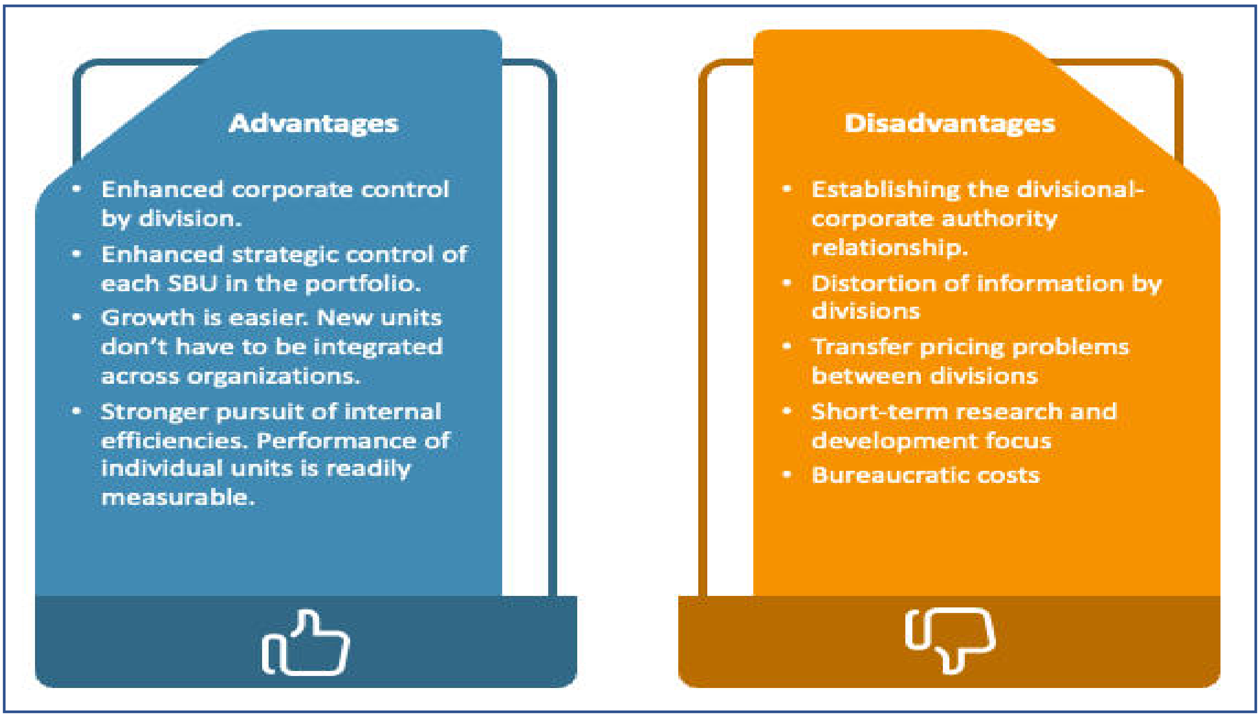


Advantages	Disadvantages	Works Best When..
1. Reinforces specialized skills and resources	1. Short-term focus on routine tasks	1. Business environment is stable and predictable
2. Reduces duplication of scarce resources	2. Business perspectives are narrow	2. Organisation is small to medium in size
3. Facilitates communication within department	3. Communication with other departments is reduced	3. Quality is maintained through routine tasks

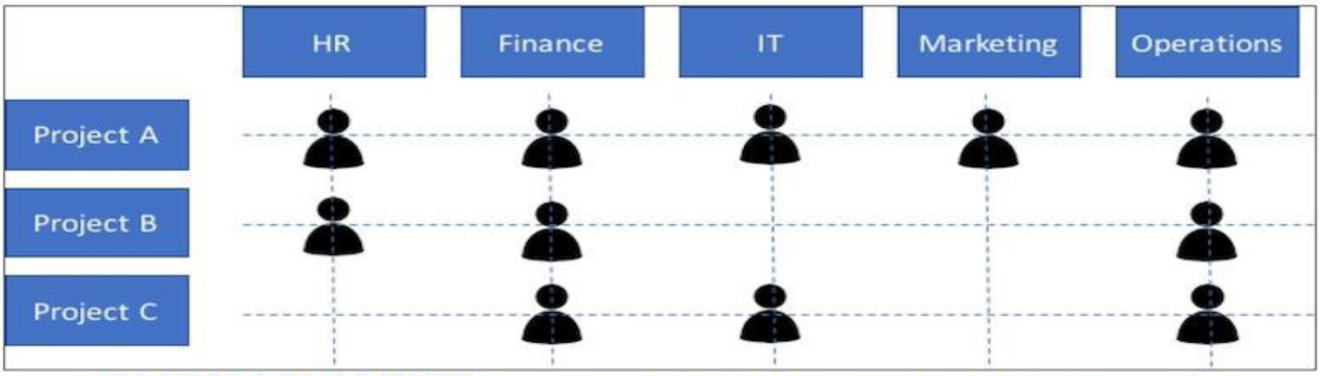
The Multidivisional Structure



- A multidivisional structure is built up of separate divisions on basis of products, services or geographical areas.
- Each division can respond to specific requirements of its product, using its own set of functional departments.
- A similar situation exists in many public services, where the organisation is structured around service departments such as recreation, social services & education.
- Advantages of divisional structures [As given in CMA Module]
  - They are flexible in the sense that organisations can add, close or merge divisions as circumstances change.
  - As self-standing business units, it is possible to control divisions by monitoring business performance.
  - Divisional managers have greater personal ownership for their own divisional strategies.
  - 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.
  - Conflicts across functional areas can be minimised with increased accountability & focus.
- Disadvantages of divisional structures [As given in CMA Module]
  - Divisions can become so self-sufficient that they are de facto independent businesses, but duplicating the functions & costs of the corporate centre of the company. So, it may make more sense to split the company into independent businesses, & demergers of this type have been very common.
  - Divisionalisation tends to get in the way of cooperation & knowledge sharing between business units. Expertise is fragmented & divisional performance targets provide poor incentives to collaborate with other divisions.
  - Divisions may become too autonomous.
  - Differences in image & quality may occur across divisions.
  - There are chances of divisions focusing on short-term performances with a perspective of dominating the organisation-wide process.



The Matrix Structure

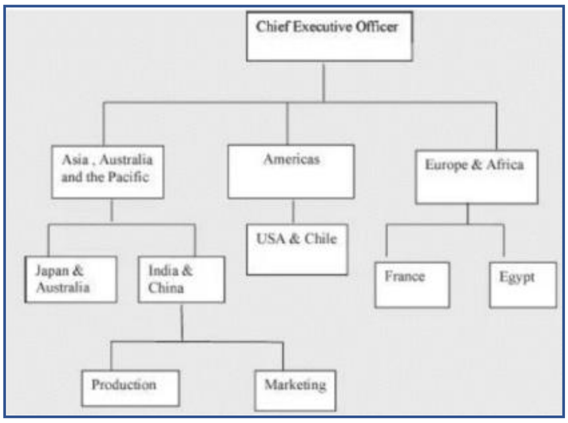


A MATRIX ORGANIZATION has a complicated structure in which the reporting relationships are set up as a MATRIX – a grid – instead of the traditional vertical hierarchy.

- A matrix organization is a company structure where teams report to multiple leaders.
- In a matrix structure, individuals work across teams & projects as well as within their own department or function.
- Matrix structures have several advantages:
  - Matrix organisations are flexible, because they allow different dimensions of organisation to be mixed together.
  - Firms can use resources more efficiently.
  - It provides professionals with broader range of responsibilities.
  - improve decision-making, since there are two chains of command.
  - help break down traditional 'silo' barriers.
  - improve communication across the business.
  - allow staff to apply their skills in different roles.
  - help share best practice and ideas across teams.
  - They are particularly attractive to organisations operating globally, because of possible mix between local & global dimensions.
- However, because a matrix structure replaces formal lines of authority with (cross-matrix) relationships, this often brings problems.
  - Complex reporting style & thus matrix organisations are hard to control.
  - **May erode timely decision making:** In particular, it will typically take longer to reach decisions because of bargaining between the managers of different dimensions.
  - **Conflicting Guidance:** There may also be conflict because staff find themselves responsible to managers from two structural dimensions.
  - There may be excessive reliance of group processes & teamwork.

Advantages	Disadvantages
• Flexible And Dynamic • Increased Motivation • Efficient Employment Of Resources • Team Spirit • Reduced Burden • Better Supervision And Control	• Difficult To Manage • Expensive Structure • Complex Chain Of Command • Chance Of Failure • Conflict And Misunderstanding

The Transnational Structure



- Transnational business is one that usually has branches in all the countries they serve, but that these local branches are integrated into larger global goals and plans of the business.
- Transnational structure has two strategies; (i) multi domestic strategy & (ii) 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 & marketing autonomy for all products.
- Transnational structure, however, attempts to achieve both high local responsiveness & high global coordination.
- Transnational is like a matrix but has two specific features:
  (i) It responds specifically to the challenge of internationalisation;
  (ii) It tends to have more fixed responsibilities within its crosscutting dimensions.

- Transnational structure has the following detailed characteristics:
  - **Each national unit operates independently, but is a source of ideas & capabilities for the whole corporation.** For example, in Unilever, the centre for innovation in hair-care products worldwide is in France.
  - **National units achieve greater scale economies through specialisation.** 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.
  - The corporate centre manages this global network by first establishing the role of each business unit, then sustaining the systems, relationships & culture to make the network of business units operate effectively.
    Ex: Unilever has established a system of 'forums' bringing managers together internationally to help them swap experience & coordinate their needs. Success of transnational corporation is dependent on ability simultaneously to achieve global competences, local responsiveness & organisation wide innovation & learning. This requires clarity as to boundaries, relationships & roles that various managers need to perform.
  - **Country or area managers have potentially a dual responsibility to other parts of transnational.** First, they must act as a sensor of local needs & feed these back to those responsible internationally for new products or services. Second, they should seek to build unique competences which allows them to be a contributor to company as a whole, in manufacturing or research & development, for instance.
  - Corporate (head office) managers are the talent spotters among business, country & functional managers, facilitating the interplay between them. They are responsible for development of a strong management centre.

- 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 make for similar complexities & control problems to those of the matrix organisation.

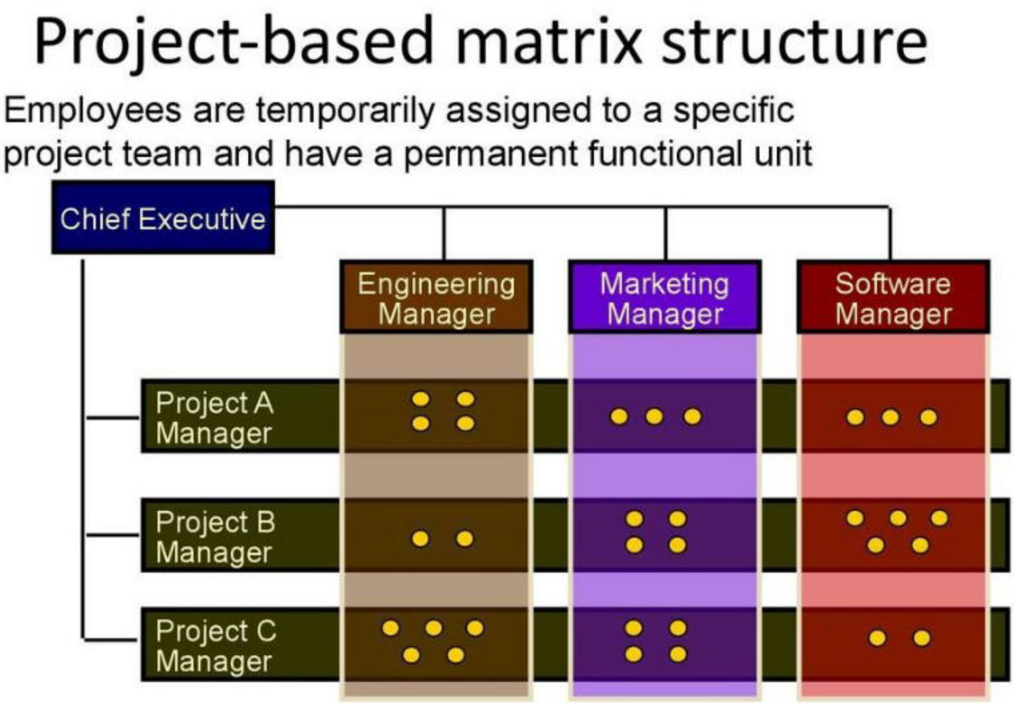
Transnational (think global, act local)	
Advantages	**Disadvantages**
• Offers the benefits of both local responsiveness and global integration	• Is more complex and harder to implement
• Enables the transfer and sharing of resources and capabilities across borders	• Entails conflicting goals, which may be difficult to reconcile and require trade-offs
• Provides the benefits of flexible coordination	• Involves more costly and time-consuming implementation

Project-based structures

- A project-based structure is one where teams are created, undertake the work & are then dissolved.
- This can be particularly appropriate for organisations that deliver large & expensive goods or services (civil engineering, information systems, films) or those delivering time-limited events (conferences, sporting events or consulting engagements).
- Organisation structure is a constantly changing collection of project teams created, steered & glued together loosely by a small corporate group.
- Many organisations 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 organisation is not effective.

- **Advantages of Project-based structures**
  - The project-based structure can be highly flexible, with projects being set up & dissolved as required.
  - Accountability & control are good because project teams have clear tasks to achieve within a defined time.
  - **Projects can be effective at knowledge exchange as project team members will typically be drawn from different departments within the firm.**
  - 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**
  - Without strong programme management providing strategic control, organisations are prone to proliferate projects in an ill-coordinated fashion.
  - Constant breaking up of project teams can hinder accumulation of knowledge over time or within specialisms.



9 Tests of Good Organisational Designs - Michael Goold & Andrew Campbell

First 4 tests focus on FIT Drivers with the key objectives & constraints of the organisation:

(1) 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) Parenting Advantage Test

- Structural design should fit the 'parenting' role of the corporate centre.
- For example, if 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) 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 organisation lacks managers with competence in running de-centralised business units.

(4) 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 & analysis departments from their deal-making departments.

5 Tests based on Good Design Principles

(1) 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.

(2) 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 de-centralisation to profit- accountable business units is likely to strain relationships with a central research & development department.

(3) Redundant Hierarchy Test

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

(4) Accountability Test

- This test stresses the importance of clear lines of accountability, ensuring the control & commitment of managers throughout the structure.
- Because of their dual lines of reporting, matrix structures are often accused of lacking clear accountability.

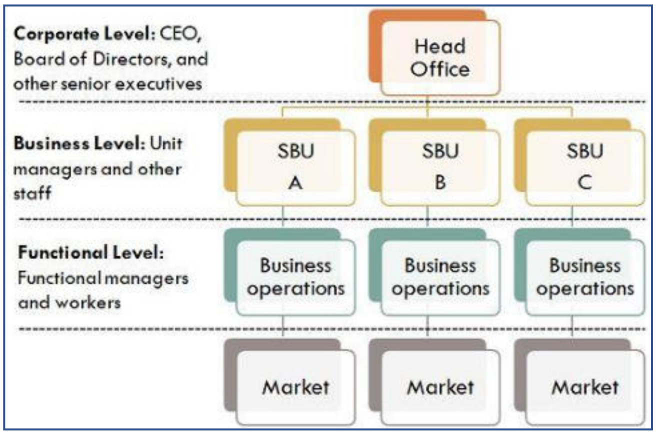
(5) Flexibility Test

- 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.

UNIT 3.3 ⟶ STRATEGIC BUSINESS UNIT & BUSINESS PROCESS RE-ENGINEERING

SBU Structure

- A strategic business unit is a fully-functional unit of a business that has its own vision & direction.
- Typically, a SBU operates as a separate unit, but it is also an important part of the company.
- It reports to headquarters about its operational status.
- 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.
- The identification of an organisation's SBUs helps the development of business level strategies since these may need to vary from one SBU to another.



Identification of SBUs raise some important areas of concern such as

- Managers may subdivide markets into many segments based on different criteria. Sometimes, it can become unmanageable to identify compatible competitive strategy. So, sensible judgements need to be made about which SBUs are most useful for strategy making purposes.
- Too many SBUs can create excessive complexity in developing corporate-level strategy.
- An SBU is an organisational unit for strategy-making purposes. An organisation may not actually be structured on the basis of SBUs, so consideration needs to be given to the relationship of SBUs & organisational design.

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

- **Market-based criteria:** Different parts of an organisation might be regarded as same SBU if they are targeting the same customer types, through the same sorts of channels & facing similar competitors.

  Ex: a 'unit' tailoring products or services to specific local needs are a different SBU from one that offers standardised products or services globally.
- **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.

Business Process Engineering

- Business Process Engineering may be considered to be a radical redesign of business processes often used by companies to cut costs & return to profitability.
- BPR is not a type of structure, but it is an effective program to implement a turnaround strategy.
- BPR is defined as the "fundamental rethinking & radical redesign of business processes to achieve dramatic improvements" in critical contemporary measures of performance such as cost, quality, service, & speed'.
- **There are primarily 3 important reasons that lead an organisation to undertake re-engineering**
  - An organisation needs dramatic improvements to sustain itself & is already in deep trouble. High failure rates of products & repetitive customer complaints can be a one of the reasons.
  - Need for re-engineering can be felt by 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.
  - There can be situations when reengineering can help organisations to be in better position.
- **Set of 'commonalities, recurring themes, or characteristics' that can guide BPR include:**
  - Combining several jobs into one.
  - Allowing workers to make decisions.
  - Performing the steps of a process in a natural order.
  - Recognition that processes have multiple versions & designing processes to consider different situations.
  - Performing processes where it makes the most sense.
  - Reducing checks & controls to the point where they make economic sense.
  - Minimizing reconciliation.
  - Appointing a case manager to provide a single point of contact at the interface between processes.

Concerns in BPR

- Most business processes are complex. To redesign a process, one must first understand it.
- Process mapping exercises reveal that even seemingly simple business processes, such as procurement of office supplies, involve complex & sophisticated systems of interactions among a number of organizational members.
- Many organizational routines operate without any single person fully understanding the mechanism.
- Hammer & Champy's (1993) recommendation to 'obliterate existing processes & start with a 'clean sheet of paper runs the risk of destroying organizational capabilities that have been nurtured over a long period of time.

UNIT 3.4 ⟶ MANAGEMENT CONTROL, OPERATIONAL CONTROL & TASK CONTROL

- Strategic control systems refer to the mechanism that allows managers to monitor & evaluate whether their business model is working as intended & how it could be improved.
- Strategic control is not only about monitoring how well an organization & its members are currently performing, or about how well the firm is using its existing resources.
- Strategic control systems are the formal target-setting, measurement, & feedback systems that allow strategic managers to evaluate whether a company is achieving superior efficiency, quality, innovation, & customer responsiveness & implementing its strategy successfully.
- **Strategic control helps managers obtain superior efficiency, quality, innovation, & responsiveness to customers.**
  - ⇒ Control & Efficiency
    - A control system contains the measures or yardsticks that allow managers to assess how efficiently they are producing goods & services.
    - Moreover, if managers experiment to find a more efficient way to produce goods & 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.
  - ⇒ Control & Quality
    - Strategic control is important in determining the quality of goods & services because it gives managers feedback on product quality.
    - If managers consistently measure the number of customers' complaints & the number of new cars returned for repairs, they have a good indication of how much quality they have built into their product.
  - ⇒ Control & 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 & in which authority is decentralized to employees so that they feel free to experiment & take risks.
    - Deciding appropriate control systems to encourage risk taking is an important management challenge.
  - ⇒ Control & 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.
    - When employees know their behaviours are being monitored, they may have more incentive to be helpful & consistent in the way they act toward customers.

Q. Characteristics of an effective control system.

Answer:

- 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;
- 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:
  1. Corporate Level
  2. Divisional Level
  3. Functional Level
  4. Individual Level
- Managers at all levels must develop the most appropriate set of measures to evaluate corporate, business & 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, & responsiveness to customers.
- Care must be taken, however, to ensure that standards used at each level do not cause problems at 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

(1)	Personal Control
	▪ Personal control is the desire to shape & influence the behaviour of a person in a face-to-face interaction in the pursuit of a company's goals. ▪ The most obvious kind of personal control is direct supervision from a manager. ▪ 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 & to ensure that subordinates are performing their work effectively & they are not hiding any information that could cause problems later. ▪ Personal control at group (team) level means that there is more possibility for learning to occur & competencies to develop, as well as greater opportunities to prevent free-riding or shirking.
(2)	Output Control
	▪ Output control specifies what is to be accomplished by focusing on the end result. ▪ It is a system in which strategic managers estimate or forecast appropriate performance goals for each division, department, & employee, & then measure actual performance relative to these goals. ▪ These controls are appropriate when specific output measures have been agreed upon. ▪ Often a company's reward & 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. ▪ 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 etc. ▪ Output control at the functional & individual levels is a continuation of control at the divisional level. ▪ Achievement of goals is a sign that company's strategy is working & meeting organization's objectives. ▪ The inappropriate use of output control can promote conflict among divisions. ▪ 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 expense of corporate ROIC. ▪ Moreover, to reach output targets, divisions may start to distort the numbers & engage in strategic manipulation of the figures to make their divisions look good which increases bureaucratic costs.
(3)	Behaviour Control
	▪ Behaviour control is control achieved through the establishment of a comprehensive system of rules & procedures to direct the actions or behaviour of divisions, functions, & 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 & make outcomes predictable. ▪ If employees follow the rules, then actions are performed & decisions are handled the same way time & time again. ▪ The primary kinds of behaviour controls are operating budgets, standardization, & rules & procedures.

STRATEGIC CONTROLS

(1) Premise Control

- Strategy is built around several assumptions or predictions called as planning premises.
- Premise control checks continuously whether assumptions on which the strategy is based are still valid.
- **If a vital premise is no longer valid, the strategy may have to change.**
- Sooner these invalid assumptions are detected & rejected, better are the chances of changing the strategy.
- Premise control is concerned with two types of factors:
  - **(1) Environmental factor:** A firm's performance is affected by changes in environmental factors like 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.
  - **(2) Industry factors:** Industry factors also affect the performance of a company. Competitors, suppliers, buyers, substitutes, new entrants, etc. are some of 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 & outside organization. With such vigilance, events that are likely to threaten 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 & intense reconsideration of the firm's strategy.
- Generally, firms develop contingency plans along with crisis teams to respond to such unexpected events.

(4) Implementation Control

- Implementation control is aimed at assessing whether the plans, programmes & 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 & individuals involved in implementation of the strategy.
- Two important methods to achieve implementation control are
  - **(1) Monitoring strategic thrusts:** They 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.
  - **(2) Milestone review:** 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 & 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

Approaches to Strategic Control

(1)	Traditional Approach
	❖ This approach to strategic control is sequential: ▪ Strategies are formulated & top management set the goals. ▪ Strategies are implemented. ▪ Performance is measured against goals. ▪ 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** & often tied to a firm's annual planning cycle. ▪ This approach not being proactive is **not sufficient to control a strategy.** ▪ As formulated strategy takes long time for implementation & to produce results, it becomes important that there should be continuous evaluation of planning premises & implementation to get desired results.
(2)	Contemporary Approach
	❖ Under this approach, adapting to & anticipating both internal & external environment, change is an integral part of strategic control. ❖ This approach addresses the assumptions & premises that provide the foundation for the strategy. ❖ The key question addressed here is: do the organisations goals & strategies still fit within the context of the current environment? ❖ This involves two key actions: ▪ Managers must continuously scan & monitor the external & internal environment. ▪ Managers must continuously update & 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.

Role of Strategic Control [Read Only Once]

- An important element of strategic control is to design a system that sets ambitious targets for all managers & employees & then develops performance measures that encourage managers & employees to raise performance.
- A functional structure promotes this goal because it increases the ability of managers & employees to monitor & make constant improvements to operating procedures.
- The structure also encourages organizational learning because managers working closely with subordinates can mentor them & help develop their technical skills. Grouping by function makes it easier to apply output control.
- Each function knows how well it is contributing to overall performance & the part it plays in reducing the cost.

Guidelines for Proper Control

⇒ 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.

⇒ Control must be reasonable. Frequent reporting & rapid reporting may frustrate control.

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

⇒ Controls should monitor only meaningful activities & results, regardless of measurement difficulty.

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

⇒ Controls should be timely so that corrective action can be taken before it is too late.

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

⇒ Controls should aim at pinpointing exceptions. Only activities that fall outside a predetermined tolerance range should call for action.

⇒ Emphasize the reward of meeting or exceeding standards rather than punishment for failing to meet standards.

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

OPERATIONAL CONTROL

It provides post action evaluation & control over short periods involve systematic evaluation of performance against predetermined objectives. To have effective operational control systems, organisation must follow 4 steps as under:

(1)	Setting of Standards
	▪ Standards are the targets against which the actual performance will be measured. ▪ **Quantitative Standards:** They are expressed in precise terms w.r.t production, marketing, finance, etc. They may relate to time standards, cost standards, productivity standards & revenue standards. ▪ **Qualitative Standards:** Human factors such as high absenteeism & 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.
(2)	Measurement of Actual Performance
	▪ Actual performance is measured against the standards fixed. ▪ It is important to understand how the measurement of performance actually takes place. ▪ Other important aspects of measurement relate to: ☛ Difficulties in Measurement: There are several activities for which it is difficult to measure performance. Solution lays in developing objectives in quantitative & qualitative terms against which performance can be measured. ☛ 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. ☛ Periodicity in Measurement: "How often to measure; frequency". Financial statements are prepared every year; But reports like production reports, sales reports are done on daily, weekly, monthly basis.
(3)	Identifying Deviations
	▪ Measurement of actual performance & its comparison with standards of performance determines the degree of variation (deviations) between actual performance & the standard. **There can be three situations:** 1. Actual performance matches the standards: This 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 & deviations from it are considered as variance. 2. Actual performance exceeds the standards: This 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. 3. Actual performance falls short of the standards: This situation indicates shortfall in performance & should be taken seriously & strategists need pinpoint the areas where performance is below standard. ▪ Analysis of variance generally presented in a format called variance chart & submitted to top management. ▪ It is also necessary to find the causes of deviation, which can be ascertained through following questions: Q1. Cause of deviation internal or external? Q2. Cause is random or expected? Q3. Deviation is temporary or permanent? ▪ Analysis of variance leads to a plan for corrective action.
(4)	Taking Corrective Action
	Corrective action means to rectify the shortfall in performance. If performance is consistently low, strategists have to do an in-depth analysis & diagnosis to isolate the factors responsible for such low performance & take appropriate corrective actions. There are 3 courses for corrective action: ☛ Checking Performance: Performance can be affected adversely by factors such as inadequate resource allocation, ineffective structure or systems, faulty programmes, policies, motivational schemes, inefficient leadership styles, etc. Corrective actions may include change in strategy, systems, structure, compensation practices, training programmes, replacement of personnel, re-establishment of standards, budgets etc. ☛ Checking Standards: When there is nothing significantly wrong with performance, then strategist has to check the standards. A manager should revise standards when standards set are unreasonably low or high. Higher standards breed discontentment & frustration. Low standards make employee unproductive. It may also lead to elevation of standards if conditions have improved to allow better performance. For example, better equipment, improved systems, upgraded skills, etc. need modification in existing standards. ☛ Reformulating Strategies, Plans & Objectives: A more radical & infrequent corrective action is to reformulate strategies, plans & objectives. Strategic control, rather than operational control, generally leads to changes in strategic direction, which will take strategist back to the process of strategy formulation & choice. Techniques like TQM & ISO 9000 standard series are examples of very good control mechanisms.

1	**KRAs - Key Result Areas**
	▪ KRAs broadly define the job profile for the employee & enable them to have better clarity of their role. KRAs will differ depending on role of an employee or specific goals of a department or an organization. ▪ KRAs help define the scope of a job or scope of a department & define optimum outcomes. ▪ Applying Pareto principle, we can say that 80% of the value of work will come from 20% of work done. Therefore, it is critical to understand & identifies the most important 20% work that will add 80% value. ▪ Some primary attributes that are important in the development of any KRA are: ☛ If KRAs are being developed for a position, they should broadly define that job & give the employee clarity in their role & mission. KRAs likely will include a list of functions & activities vital to the success. ☛ KRAs can require certain objectives from an employee only when the employee has the ability within the organization's structure to accomplish that objective. ☛ Experts believe that KRAs should be SMART (specific, measurable, aligned, relevant, & time bound). ☛ KRAs should be most important objectives. **KRAs should not be more than 7**. Crenshaw suggests 3 to 5. ☛ KRAs must be in writing, reviewed by all relevant parties, agreed upon, & signed by people involved. ☛ Written format for KRAs can be relatively simple. For employee's KRA, it should include employee's name, department & supervisor's name, & description of some of the most important duties of employee's role & how it serves organization's strategic objectives. Problems in developing KRA's ▪ **Lack of Clarity:** KRAs that involve an employee's performance, neither individual nor supervisor is clear about primary tasks & results that employee should focus on, tasks & results that will help organization's success. ▪ **Distractions:** People are too distracted into daily tasks that seem important but are not to the organization. ▪ **Top-Down Imposition of KRAs:** Supervisors who impose specific KRAs on employees without discussion with employees often fails. When employees are allowed to explain how their job works & given some voice in setting goals & objectives for their job, they are "going to buy into it more,".
2	**KPAs - Key Performance Areas**
	▪ KPAs describe broad areas of responsibility for which a department or employee may be responsible. ▪ Unlike KRAs, they are not necessarily tracked with results or results focused metrics. ▪ KPAs can be many depending on the organization, employee, or industry. ▪ **Examples of KPAs:** Improving safety & accident prevention, improving an organization's risk management & regulatory compliance, maintaining good working conditions in a plant, using resources efficiently & effectively, improving business processes, improving an organization's service level agreements, etc. Important Key Performance Areas: ☛ **Financials**: These include basics like revenue, costs, net profits, & trends that affect all three. ☛ **Customer Satisfaction**: deals with customers complain, product return rate & customer satisfaction surveys. ☛ **Market Perception**: This includes how customers & potential customers view the company or its products. ☛ **Productivity**: include accomplishing of goals, meeting everyday targets, & keeping customers satisfied.
3	**KPIs - Key Performance Indicator**
	▪ KPI is any metric that measures whether an organization is meeting certain objectives & goals. ▪ KPIs might involve sales figures, product performance, return on investments or a wide range of other areas. ▪ KPIs are often measurements associated with the general goals outlined in a Key Result Area.

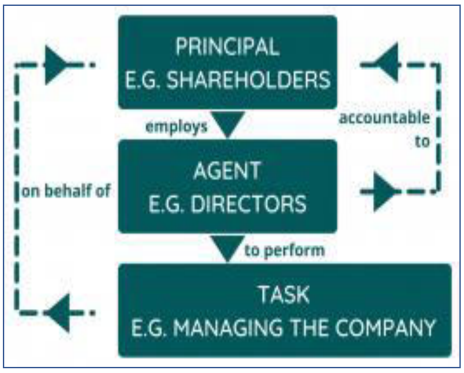
Task Control

- Task control refers to the process of ensuring that **specific tasks are carried out effectively & efficiently.**
- Task control aims primarily at controlling things & performance.
- Task control helps you plan one's day & time without relying too much on others.
- It increases efficiency & 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 & when they perform their tasks as well as lack of control over the pace of work activity.

UNIT 3.5 ⟶ GOAL CONGRUENCE

- Goal Congruence = Goals of different interest groups within an organisation coincide.
- Achievement of goal congruence is essential to increase the profitability & to achieve goals of the organisation.
- It is important that individual goals are consistent with organisational goals. In a perfect organisation, individual & organisational goals should correspond perfectly. However, it rarely happens as employees have both personal & organisational goals.
- One way of to achieve goal congruence between shareholders & 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



- Agency theory is used to understand the relationships between agents & principals. Agent represents the principal in a particular business transaction & is expected to represent the best interests of the principal without regard for self-interest.
- Agency theory looks at the problems that can arise in a business relationship when one person delegates decision-making authority to another.
- It offers a way of understanding why managers do not always act in the best interests of stakeholders & why they might sometimes behave unethically, and, perhaps, also illegally.
- 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 organisation as a whole, there is said to be goal congruence.
- Firm needs to design work tasks, incentives & employment contracts & other control mechanisms in such ways that minimize opportunism by agents. These mechanisms are to be designed to overcome two specific problems:
  1. Adverse selection: It is a situation that occurs when information asymmetry increases the likelihood of selecting inferior alternatives.
  2. Moral hazard: It 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

- Goal congruence can be achieved & agency problem can be dealt with providing managers with incentives which are related to profits or share price.
- 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. Agency problems arise when incentives or motivations present themselves to an agent to not act in the full best interest of a principal.
- 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:
  - **Profit-related Pay:** Pay or bonuses related to the size of profits.
  - **Rewarding managers** with shares [Ex: When a private company 'goes public' & managers are invited to subscribe for shares in the company at an attractive offer price].
  - 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 & 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. 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 company to be presented than it is, to shareholders, potential investors, potential lenders & 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: Following are some areas that have the ability to create goal congruence:

(1)	**Communication & understanding**
	▪ Channels of communication & how goals are perceived are important to achieve goal congruence. ▪ Operational managers have a responsibility of being aware as to what actions are desirable & what goals are to be achieved. ▪ It should be understood that the communication of different goals can occur through informal channels, which involves meetings & face to face interactions, or through formal channels including budgets or other financial documents. ▪ There is an inherent risk that even if the communication is well executed, it might be perceived in different ways. Organisations, therefore, should internalise the goals in a good manner to avoid that employees feel inability to achieve them.
(2)	**Create direction**
	▪ One of the reasons for lack of goal congruence is the absence of direction related to employees' behaviour. ▪ Performance management & goals facilitate efficient communication about what managers want their subordinates to focus on. By providing clear information & direction, employees understand what is expected from them, how to perform adequately & how to contribute effectively to organisational goals. ▪ There is a need to increase employees understanding of strategic objectives & organisation's value drivers.
(3)	**Motivation**
	▪ 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 organisation's best interest. ▪ 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 & managers is dislike for work allocated. ▪ Reason for motivation varies among employees. While some employees feel motivated for some recognition & appraisals, others because of commitment & responsibility without any required pay off. ▪ The more motivated the employees are, the better will be the goal congruence.
(4)	**Incentives**
	▪ In order to increase the likelihood of employees working to achieve their individual goals, organisation's aim to influence motivation by providing incentives. ▪ Research suggests that individuals tend to perform better when they are rewarded. ▪ Rewards & compensations should create goal congruence between individual goals & organisational goals by stimulating individuals to perform by providing incentives, as rewards are related to increased effort.
(5)	**Connection**
	▪ It is very important to create a connection between goals, performance measures & incentives. ▪ To align employees' self-interest & overall organisational objectives, performance incentives is necessary. ▪ By linking incentives to certain goals, individuals tend to pay more attention to what is important.

4 Digital Strategy

UNIT 4.1 ⟶ INTRODUCTION & DIGITAL TRANSFORMATION

Introduction to Digital Strategy

- ❖ Digital technology is a technology in which information is represented in digital form, i.e., as 0s & 1s. Some of the examples of digital technologies are online games, multimedia, social media & mobile phones, websites, Apps.
- ❖ Digital media strategy is a plan for maximizing business benefits of data assets & technology-focused platforms.
- ❖ There is a tendency to talk about digital transformation interchangeably with digital strategy. The two terms are closely related, but differ in scope.

Digital Transformation VS Digital Strategy

Digital Transformation	Digital Strategy
▪ Digital transformation focuses on the changes in major three areas: (i) Customer experience, (ii) Operational process; (iii) business models. ▪ Process of digital transformation requires coordination across the entire organization, & involves changes in business culture.	▪ **Digital strategy focuses on technology, not culture.** ▪ Digital strategy is most relevant to the changes in business models & uses technology to become a digital business. ▪ Setting down a strategy is a key component of transformation process, & ensures that technology is being implemented in a way that supports the business objectives.

Following 5 Questions become relevant for an organisation's digital transformation:

Q1. Does digital technology change the businesses you should be in?

Q2. How could digital technology improve the way you add value to the businesses you are in?

Q3. Could digital technology change your target customer?

Q4. Does digital technology affect the value proposition to your target customer?

Q5. How can digital technology enhance the enterprise capabilities that differentiate you from your competition?

- ❖ The intention is to identify how digital transformation changes what you do, & then refine your understanding from broad industry trends to specific values that will form the foundation of your strategy.
- ❖ Almost all large businesses have automated & weaponised their operating & financial policies, processes, controls with help of technologies to stay ahead of &/or relevant with competitive advantages.
- ❖ Many of such solutions are of 'destruptive' & 'bizruptive' nature. The former means destructively disruptive solutions. These have either destroyed certain conventional for manufacturing, marketing, & supply chain operations or replaced traditional products by combining many functional capabilities in one device.
- ❖ Bizruptive solutions are unique strategy driven innovations for P2P, B2C & B2B networking, as well as time and cost-efficient processes for service deliveries with safety, speed & quality.

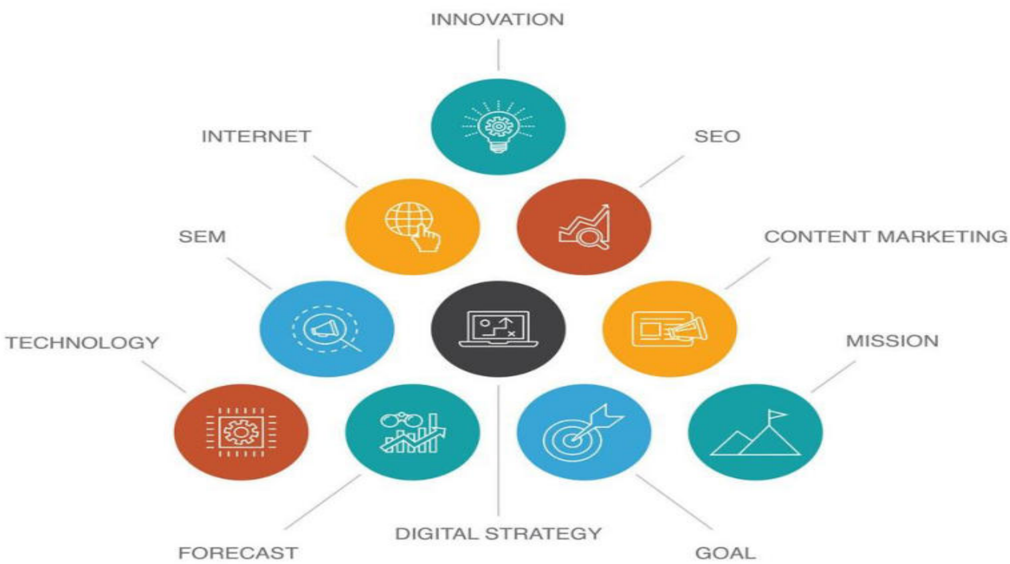
Strategy without tactics is a slow path to uncertain success. Tactics without strategy is the noise before defeat - Sun Tzu

Digital Transformation for Competitive Advantages

- Two main objectives of an organisation which starts a digital transformation journey are:
  (i) to outperform competitors & attain sustainable competitive advantages; (ii) Growth & prosperity.
- When 'trans-created' solutions are offered by a business to solve customers' problems; to meet their demands; to simplify operating processes, such business starts operating in a strategically created 'blue ocean' market space in that traditional sector.
- 'Trans-created' → Creating a new versatile product transforming a traditional one into modern with better results.
- Innovative applications of digital technologies help to implement strategic plan & enjoy first mover's advantages. Such interplays of strategies & technologies can be termed as 'innovention', which is a combination of three tasks, viz., innovation, invention, & creation.
- **The objective is to generate & share values.** Here value also includes value for time, quality, greener technology, minimised risks, additions to organizations' profit.
- Emerging idea on digital business strategies may be categorized under 4 major groups viz, scope, scale, agility, & sources of value creation. 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 processes.
- Triggering event for the entire process of interplay between strategy & digital technologies is identification of emergent needs, problems & risks of customers etc. Such a process of identifying an opportunity for an entirely new business & revenue model can also be prompted by digital transformation.
- Cognitive tools of AI, Machine Learning & Big Data Analytics, can be used for further processing of data. When done, processed information can enable Chief Experience Officers (CXOs) to draw many inferences related to business that has been done and/or can be done.
- 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, & media. These can then be taken to the physical customers' marketplace for implementation & revenue generation. This is called the PDP Loop.

Common elements of Digital Strategy

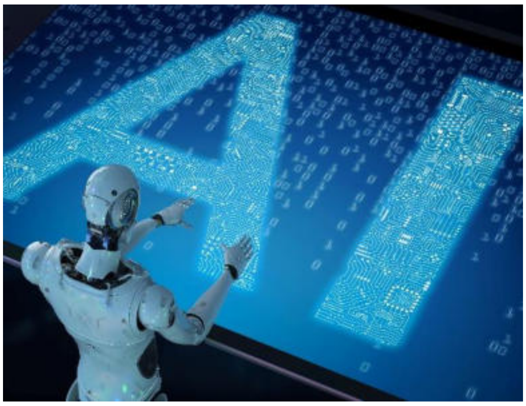
- Choose a Leader: Choosing the right person will depend on company culture, structure & priorities. Whether companies place leadership with CEO or Chief Digital Officer, leader's influence will need to match scope of digital strategy; or it will be difficult to create full support from each department necessary to make effective changes.
- Attack vs. Defend: McKinsey & Co. emphasizes that companies would do well to categorize their potential threats & opportunities in digital business, then compare these against their own purpose. This clarifies whether a proactive or defensive stance needs to guide new initiatives.
- Take a Measured Approach: Digital strategy often incorporates a process for assessing whether new technology will really complement or grow 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 do not align with your business's needs & priorities.
- 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 & 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.



UNIT 4.4 → EMERGING TRENDS IN DIGITAL MARKETING STRATEGY

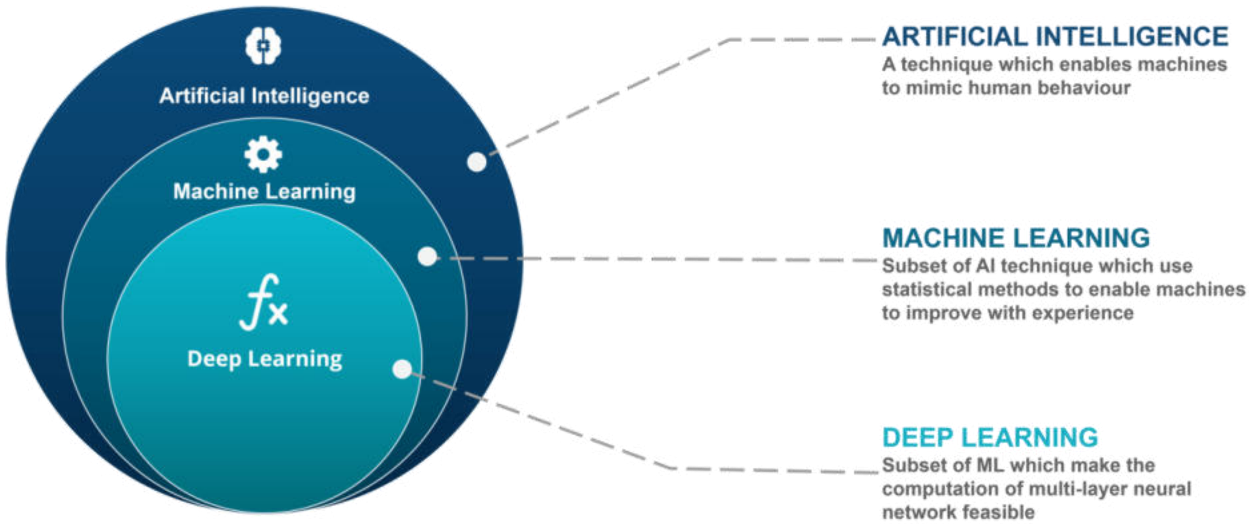
Artificial Intelligence

- Artificial intelligence (AI) is intelligence exhibited by machines & systems, with machines imitating functions which are mostly related with human. **Artificial intelligence is the opposite of natural intelligence.**
- There are 3 levels of AI (i) Narrow AI; (ii) General AI or Human-level; (iii) Super AI.
  - Narrow AI → Current state-of-the-art with existing software that automates a traditionally human activity & often outperforms humans in efficiency & endurance in one specialized area, e.g., autonomous driving, etc.
  - General AI or Human-level AI → describes capacity of machines to understand environment & act accordingly, just as a human would in all activities in all dimensions like scientific creativity, GK & social skills.
  - Super AI → Highest level of AI, is reached when AI becomes much smarter than the best human brains. Super AI systems can make deductions about unknown environments.
- AI since its output is used as the basis for recommendations, decisions, & feedback mechanisms, solving problems.
- Versatility of AI is spreading in 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.
- AI is required for analyzing previously unavailable 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 & analysis mechanisms, improve its own accuracy by continuously learning from the issues detected, & optimize manufacturing processes by incorporating feedback & adjusting the control parameters accordingly.



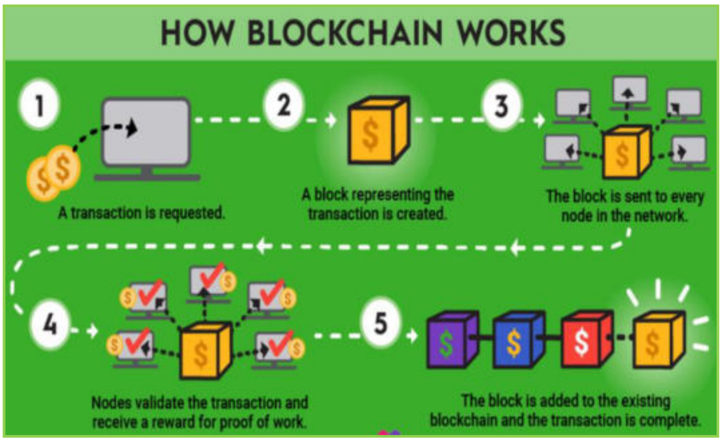
Machine Learning

- ML is an approach to creating AI. As most AI systems today are ML-based, the terms ML & AI are often used interchangeably particularly in a business context.
- Machine learning (ML) describes automated learning of implicit properties or underlying rules for data.
- 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.



Blockchain

- Blockchain is a shared ledger that recording transactions & tracks assets in a business network.
- An asset can be tangible or intangible.
- Virtually anything of value can be tracked & traded on a blockchain network, reducing risk & cutting costs for all involved.
- Importance of block chain network stems from the fact that business runs on information. The information should be accurate & received fast.
- Blockchain is ideal for delivering that information because it provides immediate, shared & completely transparent information stored on an immutable ledger that can be accessed only by permissioned network members.



- Blockchain can track orders, payments, accounts, production etc. As members share a single view of the truth, one can see all details of a transaction end to end, giving greater confidence & new efficiencies & opportunities.

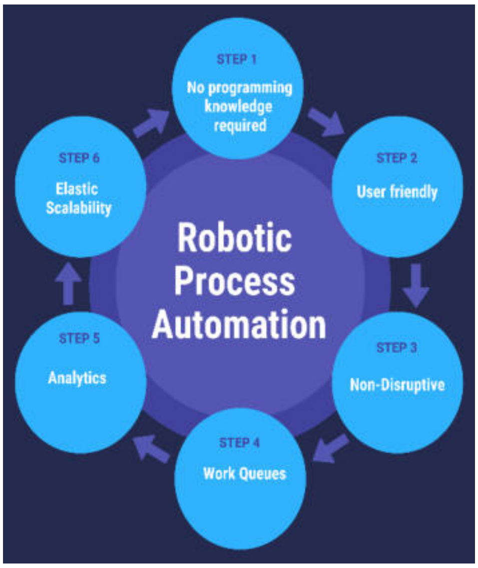
Important components of a block chain

(1)	**Distributed ledger technology**
	▪ All network participants have access to distributed ledger & its immutable record of transactions. ▪ With this shared ledger, transactions are recorded only once, eliminating duplication of effort.
(2)	**Immutable records**
	▪ No participant can change or tamper with a transaction once it's been recorded to shared ledger. ▪ If a transaction record includes an error, a new transaction must be added to reverse the error & both transactions are then visible.
(3)	**Smart contracts**
	▪ A smart contract is stored on the blockchain & executed automatically. ▪ A smart contract can define conditions for corporate bond transfers; include terms for travel insurance to be paid & much more. ▪ A smart contract acts a set of rules & allows fastest transactions.

Benefits of blockchain network

(1)	**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 & timely data. ▪ Moreover, the confidential blockchain records will be shared only with network members to whom one has specifically granted access.
(2)	**Greater security**
	▪ The increase security in blockchain network arises from the fact that consensus on data accuracy is required from all network members, & all validated transactions are immutable because they are recorded permanently. ▪ No one, not even a system administrator, can delete a transaction.
(3)	**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.

Robotic Process Automation (RPA)



- RPA is a form of business process automation that allows to define set of instructions for 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 & 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, & machine learning to automate repetitive, high-volume tasks that are rule-based & trigger-driven.
- Robotic process automation tools are best suited for processes with repeatable, predictable interactions with IT applications. RPA tools can improve efficiency of these processes & effectiveness of services without fundamental process redesign.
- RPA software "robots" perform routine business processes by mimicking the way people interact with applications through user interface & 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.

Benefits of RPA Solutions

- Cost Reduction.
- Decreased cycle times.
- Flexibility & scalability.
- Improved accuracy.
- Improved employee morale.
- Detailed data capture.

- *Artificially intelligent robots will soon be able to identify wrongdoers through face & outfit recognition ability.*
- *These robots will help security forces for surveillance & strategy execution in battlefields & curbing terrorism.*
- *Robotists have successfully brought out the next genre of Robots called Cobots by applying DevOps concept.*
- *These are designed to interact & collaborate with human beings at a shared workspace.*
- *Cobots will ensure delivery with speed, quality & cost optimisation, yet will not cause much workforce reduction.*

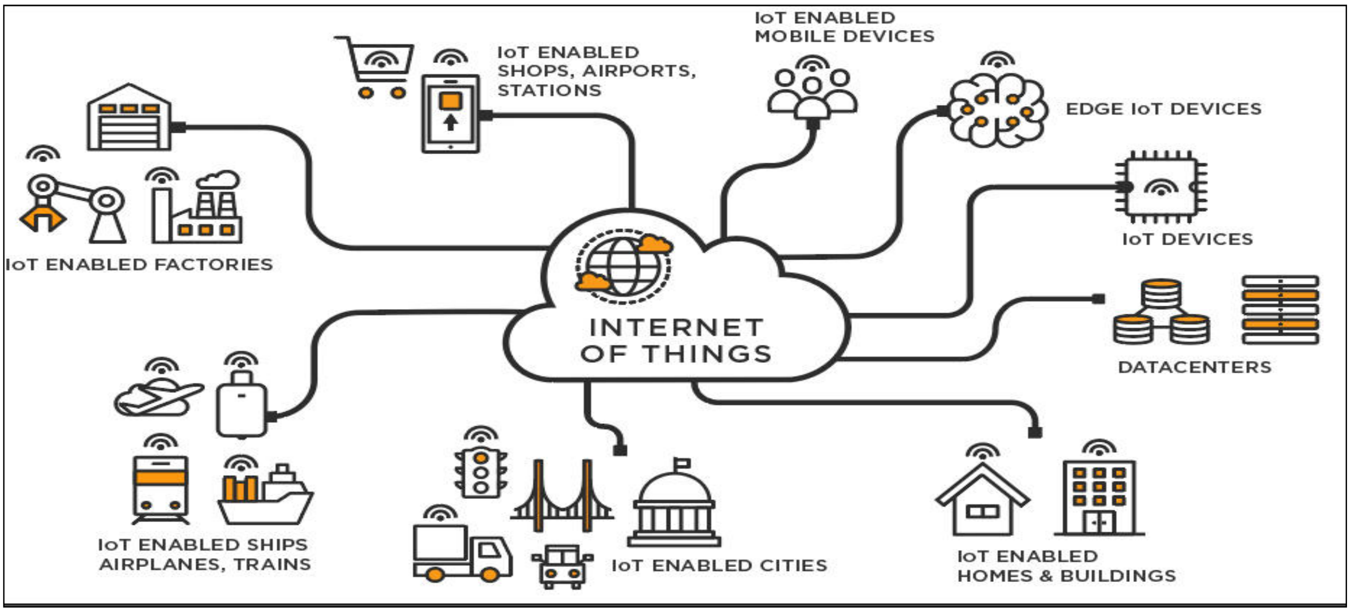
Digitalisation of Sports

[General Points – Do it Yourself]

- Technology is playing a larger role in the lives of diehard fans, opening the way for sports organisations to create new, innovative customer experiences.
- Partnering with broadcasters & OTT platforms across multiple devices.
- Sports organisations 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 organisation. Many sports fans are no longer interested in the game alone–they crave the kind of exclusive & shareable experiences that can be amplified by technology.
- Sports organisations could grow stadium attendance by using immersive technologies such as augmented & virtual reality to create an intensely exciting viewing experience.
- They can also increase engagement by leveraging loyalty & customer relationship management data to tailor experiences to individual fan preferences.
- 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 & help trainers in training players more effectively.

Internet of Things

Internet of things (IoT) is a system of interrelated computing devices, mechanical & digital machines, objects, animals or people that are provided with unique identifiers & the ability to transfer data over a network without requiring human-to-human or human-to-computer interaction.



- Internet of things can be anything from a person with a heart monitor implant, farm animal with a biochip transponder, 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* & is able to transfer data in a network.
- IoT ecosystem consists of web-enabled smart devices that use systems such as processors, sensors & hardwares, to collect, send & act on data they acquire from their environments. IoT devices share the sensor data they collect by connecting to IoT gateway or other edge device where data is either sent to the cloud to be analyzed or analysed locally.
- Sometimes, these devices communicate with other related devices & act on the information they get from one another. Devices do most of the work without human intervention.
- 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 more practical. These technologies include:
  - **Access to low-cost, low-power sensor technology:** Affordable & reliable sensors are making IoT technology possible for more manufacturers.
  - **Connectivity:** A host of network protocols for the internet has made it easy to connect sensors to the cloud.
  - **Cloud computing platforms:** Increase in availability of cloud platforms enables both businesses & consumers to access the infrastructure they need to scale up without actually having to manage it all.
  - **Machine learning & analytics:** With advances in machine learning & analytics, businesses can gather insights fast & easily. Emergence of allied technologies helps IoT & data produced by IoT also help these technologies.
  - **Conversational AI:** Advances in neural networks have brought natural-language processing (NLP) to IoT devices (such as Alexa, Cortana, & Siri) & made them appealing, affordable & viable for home use.

(1)	Smart Lighting
	▪ Bulbs & lights connected to Wifi can be turned on & off remotely or using voice. ▪ Schedule for usage along with their brightness controlled can also be done.
(2)	Smart Parking
	▪ Use of IoT in finding the vacant parking in large car parking facilities. ▪ Specific devices can also give you exact location where you have parked your car.
(3)	Medical Fridges
	▪ Vaccines & 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 help to monitored remotely & required temperature changes.

Different Types Of Digital Marketing Strategies

Influencer Marketing

- Brands partner with celebrities, sites, or others that are considered experts in their field, that share similar values.
- Brands can reach these influencers' followers with branded content & offers.

Email Marketing

- Email marketing campaigns allow organizations to stay connected with prospects & 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% off the items they have been considering, or free shipping - that may be what ultimately brings about a conversion.

Content Marketing

- Content marketing allows marketing teams to be proactive in answering their users' questions.
- Marketing teams create content, videos, & other assets to answer questions or provide context to consumers throughout the three stages of the buyer's journey:
  - ☛ **Awareness stage**: Buyer realizes they have a need.
  - ☛ **Consideration stage**: Buyer determines a course of action to meet this need.
  - ☛ **Decision stage**: Buyer decides on a product / service to purchase to meet the need.
- **Example:** Consumer might realize they need new shoes to wear to the gym. 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 & 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.

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 & ensuring the technical elements are in place to enable search engine crawlers to easily find & index this content.

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 & Microsoft Bing, & pay a fee each time the ad is clicked on.
- These ads often appear at the top of the search results page, & are typically determined by bids on specific keywords, while banner ads on websites usually have set prices.

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 & outsource some of the heavy lifting of promotion; however, you're putting your brand's reputation in someone hands, so affiliate marketing requires more extensive monitoring & tracking.

Mobile Marketing

- Mobile marketing initiatives can include many of the digital marketing strategies mentioned above, & typically will leverage a combination of text messages, social media, email, push notifications, & mobile applications.
- Importance of mobile marketing is rising, as it is expected that by 2024, number of mobile shoppers will rise to approximately 187.5 million users.

UNIT 4.3 ⟶ INNOVATIONS & DISRUPTIVE BUSINESS MODELS

Any organisation can lay the foundation of digital transformation on 4Ds, viz., Discover, Design, Deliver & De-risk & as suggested by McKinsey; 2 Ps & 1 T i.e People, Process & Tools.

Disruptive technologies refer to technologies that have the potential to introduce new product attributes, which could become a source of competitive advantage.

Q. Measures for orchestrated planning & execution across hierarchical levels, length & breadth of organization are:

- Integration of digital technologies with functional areas that will bring metamorphosis in the process of conducting business operations with ultimate objective of improving stakeholders' relationship & experience management.
- Challenging status quo of policies & standard operating practices.
- Training of existing human capital with different capabilities for dealing with digital tools & consciously being mindful of cultural change.
- Conducting experiments with digital technologies to assess suitability vis-a-vis the specificities of business needs.
- Approaching the long-drawn task with a mindset of creative destruction of long-standing business policies & processes in favour of relatively new digitally driven practices that are still being defined, adopted, & stabilised.
- Providing DT team, a free environment with committed assistance for innovative applications of digital tools, if not 'innoventing' new tools, & establishing collaboration with man & digitally operated machines.
- Ensuring data privacy, cyber security, & information safety as an integral part of the entity's policy & processes.
- Permitting implementation team to make mistakes & not penalising them for the same.
- Continuous commitment of funds & other resources & extending help & support to dedicated DT team.

Therefore, digital transformation is an orchestrated combination of people, process & technology for discovering, designing, & delivering with risk enabled process management what the stakeholders want.

> Making meaning out of data & drawing inferences for strategic planning & deciding tactics for execution are the two critical drivers for attaining competitive advantages.

(1)	**Innovation**
	▪ Conducting analysis for identifying unresolved problems & demands of society from the perspective of the business domain become imperative. ▪ Applying ground-breaking thoughts to determine cost-effective ways for meeting those demands & solving problems with a win-win approach for both customers & 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 & generated by operating machinery & systems, devices, physical documents, etc. into digital data & records. ▪ Taking steps to ensure that all data to be used in the process of business transformation are relevant, generated from first-hand sources & trustworthy is important.
(3)	**Digitalization**
	▪ Need to use digital technologies befitting the needs for changing business, operating & revenue models to generate more turnover & achieving maximisation of value creation & minimisation of value destruction needs to be implemented.
(4)	**Digital Transformation**
	▪ One has to embark upon the journey with strategically planned tasks for managing changes & applying digital technology to stay ahead of competition with an agile mindset. ▪ Taking all possible measures for training/ upskilling of workforce & inculcating digital agility.

It is evident from the above that two major tasks for digital transformation are Digitization & Digitalization.

Seven Layers of Digital Transformation

- **Data Aggregation:** Aggregation of business relevant data from reliable sources, including conversion of analogue data to digital form & store for easy retrieval.
- **Data Management:** Categorising & organising digitised data & making it ready for application of further process.
- **Workflow Automation:** Application of algorithms & utilising the data for the business process to be envisioned.
- **Process Component:** Application of algorithms & start utilising the data for the business process.
- **Platform Interface Integration:** Integrating the digital system with the core systems for smoother operations.
- **End to End Processing:** Conducting end to end processing & ensure error free transformation.
- **Front End Software** - Integrating with the front end of stakeholders' devices so that she/he can get seamless services in a technologically collaborated mode.

Disha's Note: 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.

Big Data

- Big data is a collection of data that is huge in volume & is growing exponentially with time. It is a data with so large size & complexity that no traditional data management tools can store or process it. Ex: Stock exchange.
- **There are three types of Big Data:**
  1. **Structured Data:** A 'structured data' is any data that can be stored, accessed & processed in fixed format. Structured data in big data is the most straightforward to work with. Structured data is a type of big data that is profoundly coordinated with measurements described by setting parameters.
     Ex: Name, Address, Debit/credit card numbers, Age, Contact etc.
  2. **Unstructured Data:** An unstructured data is one with unknown form or structure. In addition to the size being huge, unstructured data poses multiple challenges in terms of its processing for deriving value out of it.
     Ex: Search results given by google which includes images, audios, videos & other files.
  3. **Semi-structured data:** It can contain both forms of data that is, unstructured and structured data.
     Ex: Personal Data stored in an XML file.

Characteristics of Big Data

- **Volume:** Whether a particular data can actually be considered as a Big Data or not, is dependent upon volume of data. The name Big Data itself is related to a size which is enormous. Hence, 'Volume' is to be considered while dealing with Big Data solutions.
- **Variety:** Variety refers to sources & nature of data i.e. structured, unstructured & semi structured. In recent period data can be in form of emails, photos, videos, monitoring devices, PDFs, audio, etc. These data need to be analysed.
- **Velocity:** 'Velocity' refers to speed of generation & processing of data to be responsive to needs of customers. The flow of data is massive & continuous.
- **Variability:** Variability is inconsistency which can be shown by data at times, thus hampering the process of being able to handle & manage the data effectively.

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

❖ Cloud computing is anything that involves delivering hosted services over the internet.

❖ Goal of cloud computing is to provide easy, scalable access to computing resources & IT services.
Ex: Google Docs, Microsoft 365, Email services, Google Calendar, Skype, WhatsApp, Zoom, etc.

❖ **These services are divided into three main categories:**

Infrastructure as a service (IaaS)	Platform as a service (PaaS)	Software as a service (SaaS)
▪ IaaS providers, such as Amazon Web Services (AWS), supply a virtual server instance & storage, & application programming interfaces (APIs) that let users migrate workloads to a virtual machine (VM).	▪ In PaaS model, users access development tools over the internet using APIs, web portals or gateway software. ▪ PaaS is used for general software development, & many PaaS providers host the software after it's developed.	▪ It is a distribution model that delivers software applications over internet; these applications are often called *web services*. ▪ Users can access applications & services from any location using a computer or mobile device that has internet access.

❖ **Cloud can be private or public.**
- ☛ **Public cloud** sells services to anyone on the internet.
- ☛ **Private cloud** is a proprietary network or a data center that supplies hosted services to a limited number of people, with certain access & permissions settings.

Benefits of Cloud Computing

Cost Reduction	▪ It reduces capital costs as organisations don't have to buying storage equipment. ▪ Companies don't need large IT team to handle cloud data center operations. ▪ It reduces downtime cost.
Data & workload mobility	▪ It allows users to access data from anywhere with any device with internet connection. ▪ End users can easily process, store, retrieve & recover resources in the cloud. ▪ Cloud vendors provide all the upgrades & updates automatically, saving time & effort.
Business continuity & disaster recovery	▪ Storing data in the cloud guarantees that users can always access their data even if their devices are lost or inoperable & thus reduces data loss. ▪ Organisations can recover their data in emergencies, such as natural disasters or power outages.

Demerits of Cloud Computing

Cloud security	▪ There is a lack of transparency regarding how & where sensitive information is handled. Thus, organisations risk data breaches, hacking of APIs & authentication issues.
Cost unpredictability	▪ Pay-as-you-go subscription plans for cloud use can make it tough to define & predict final costs.
Lack of capability & expertise	▪ Organisations are struggling to keep up with growing demand for tools & employees with proper skills & knowledge needed to deploy, & manage workloads & data in a cloud.
IT governance	▪ Emphasis on do-it-yourself capability in cloud computing can make IT governance difficult, as there is no control over management of infrastructure operations.
Management of multiple clouds	▪ Every cloud is different, so multi-cloud deployments can disjoint efforts to address more general cloud computing challenges.
Cloud performance	▪ Network & provider outages can interfere with productivity & disrupt business processes if organisations are not prepared with contingency plans.
Building cloud	▪ Architecting, building & managing private clouds can be a daunting task for IT departments.
Cloud migration	▪ Migration process of moving applications & other data to a cloud infrastructure often causes complications & goes over budget.
Vendor lock-in	▪ Switching between cloud providers can cause significant issues like technical incompatibilities, substantial costs incurred from sizable data migrations.