EKATVAM ACADEMY

CA INTER

NEW SYLLABUS

Strategic Management

Handwritten Class Notes

By- Student

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> Meaning of Management:

Management is used in the following 2 ways:-

a) It refers to a key group of people who are incharge of day to day business affairs in an organization.

b) Management is also used with reference to a set of interrelated functions and processes which are carried out by above group of people, such as functions related to planning, organizing, staffing, directing and controlling.

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> Concept of Strategy:

a) Strategy is a game plan that management may use to achieve any of the following objectives-
- to improve your market positions
- to conduct operations more effectively
- to compete successfully ie to achieve competitive advantage

b) Strategy is a long range blueprint of entity's desired image, direction and destination that is answer to following questions-
- What it wants to be?
- What it wants to do?
- Where it wants to go?

c) Strategy is no substitute for sound, alert and responsible management. Therefore, both strategy formulation and implementation are equally important to achieve entity's desired objectives.

d) Strategy can never be perfect or flawless. It is in the nature of strategy that it should be flexible and pragmatic.

* e) Strategy should be partly proactive and partly reactive:

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- Proactive actions on part of managers includes both previously initiated approaches which are still working well and newly initiated managerial decisions that will help in strengthening the overall market position of the company.
- Reactions to unanticipated developments and fresh market conditions, sometimes organization's strategy may hit a stone wall due to these

unexpected developments. Therefore, organization may have to initiate certain corrective actions or adjustments to the existing strategies.

Meaning of Strategic Management

SM is a managerial process of developing a strategic vision along with goals and objectives, crafting a strategy, implementing and evaluating the strategy and initiating corrective adjustments wherever required.

Objectives of Strategic Management

- To create competitive advantage so that company can out perform competitors in all possible aspects.
- To guide the company successfully through all the changes in the business environment.

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Importance of Strategic Management

a) Strategic Management will help an organization become more proactive instead of reactive, therefore organization will be able to control their own destiny in a better manner.

b) Strategic Management will help in identifying available opportunities in the external environment so that organization can plan for a good future. Therefore, it acts as a path finder.

c) SM can also serve as a corporate defence mechanism against mistakes and pitfalls

d) SM may help an organization to evolve/develop certain core competencies which will help in achieving/creating competitive advantage.

e) SM helps a business to enhance the longevity of the business (makes business sustainable)

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➢ Limitations of Strategic Management

① Environment is highly complex and turbulent:

a) It is difficult to understand the complex environment and exactly pinpoint how it will shape up in future.

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

② Strategic management is time consuming:

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

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

③ Strategic management is a costly process:

a) SM adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments, devise strategies and properly implement.

b) These can be really costly for organizations with limited resources. particularly small and medium organizations.

c) SM requires experts and these experts are costly resources.

④ Difficult to predict competitive resources:

a) In a competitive scenario, where all organizations are trying to move strategically, it is difficult to clearly estimate the competitive responses and to gauge strategic planning because these decisions are taken within closed doors by top level management.

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Strategic levels in a Business organization

a) Generally an organization may have following 3 levels of management:
- Corporate level managers
- Business level managers
- Functional level managers

→ **Corporate level Managers** *

a) Corporate level managers include board of directors, CEO, other senior executives or corporate staff.

b) CLM occupy the apex of strategic decision making in the organization.

c) Role of a CLM may include the following:
- defining the vision, mission and goals of the organization
- deciding what businesses organization should continue and which businesses organization should exit.
- allocation of resources among different businesses.
- providing leadership for the organization.

d) CLM, particularly the CEO, can be viewed as the guardians of shareholder's wealth. It is their responsibility to ensure that all business strategies are consistent with the core objective of maximizing shareholder's wealth.

e) CEO is the principal general manager

→ **Business level Managers**

a) BLM may consist of divisional managers and other staff members.

b) The main role of BLM is to translate general directions and intent that comes from corporate level into concrete or specific strategies of individual businesses.

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→ Functional level Managers

a) FLM are responsible for specific business functions such as HR, CRM, research and development, accounting and finance, etc.

b) Since FLM are closer to customers or other third parties in comparison to a typical general manager (ie business head) therefore FLM themselves, may generate important ideas which may subsequently become a major business strategy.

c) FLM have a major strategic role ie to develop appropriate functional strategies such as marketing strategy, HR strategy which will help in achieving different business and corporate level objectives.

d) FLM responsibilities are confined to one business activity. For eg-procurement & marketing. However, general managers ie BLM are responsible to oversee the entire operations of a division or product or SBU (strategic business unit)

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Portfolio Analysis

- To analyse a business portfolio, strategist should ~~to~~ know meaning of the following:
- Strategic Business Unit (SBU)
- * Product Life Cycle (PLC) [Refer Ch 2]
- Experience Curve (EC)

I → Product Life Cycle (Refer Pg. 2.18)

PLC is an S-shaped curve which exhibits relationship between sales with respect to a time period when a product passes through 4 successive stages ie: introduction, growth, maturity and decline.

a) Introduction stage – competition is almost negligible, prices are relatively high, market size is limited due to lack of awareness or knowledge about the product.

b) Growth stage – demand will expand rapidly, competition will increase, prices may fall and overall market will expand.

c) Maturity stage – slowdown in growth rate, competition will become tough &

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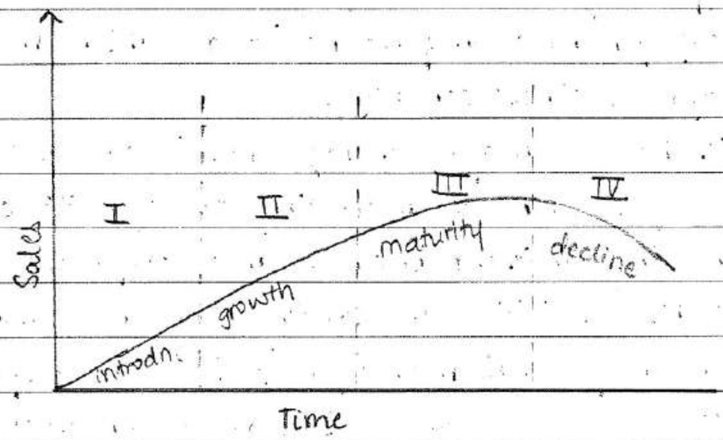
market will get stabilized. Profit will also come down because of stiff competition.

d) Decline (Fourth stage) / Ageing - demand and profit will fall sharply, new products will start replacing existing products.

PLC :=



Note : Advantages of PLC

a) PLC can be used to diagnose a portfolio of products in order to establish the stage at which each of them exists.

b) Particular attention is to be paid on the businesses that are in declining stage.

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

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

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II → Experience Curve

a) Experience curve is similar to learning curve which explains that efficiency increases when workers gain experience due to repetitive nature of work.

b) Experience curve can result from variety of factors such as economies of scale, product re-design or improvement in technology.

c) Experience curve has following features:

- Experience will act as an advantage against the competition
- For large and successful organizations, experience effect may act as a core competency.
- Sometimes experience curve is considered as a barrier to entry for new entrants.

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Ch 4

Boston Consulting Group (BCG) Matrix

1. BCG matrix is also known as growth-share matrix
2. In BCG matrix, vertical ~~access~~ axis represents market growth rate (market attractiveness) and horizontal axis represents relative market share (business strength)
3. BCG matrix requires organizations to classify their businesses or SBU's in the following categories:

- Stars:

- Are products or SBUs that are growing rapidly.
- Need heavy investment to maintain their position and finance their rapid growth potential.
- They represent best opportunities for expansion.

- Cash Cows:

- Are low growth, high market share businesses or products.
- They generate cash and have low costs.
- They are established, successful and need less investment to maintain their market share.
- In long run, when the growth rate slows down, stars become cash cows.

- Question Marks:

- Sometimes called problem children or wildcats; are low market share business in high-growth markets.
- They require a lot of cash to hold their share
- Need heavy investments with low potential to generate cash
- If left unattended, they are capable of becoming cash traps
- Since growth rate is high, increasing it should be relatively easier.
- It is for business organisations to turn them into stars and then to cash cows when the growth rate reduces.

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- Dogs:
- They are low growth, low share businesses and products
- They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive
- Dogs should be minimised by means of divestment or liquidation

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(4) BCG matrix recommends following strategies after identification of SBUs.

a) Build strategy - objective is to increase market share even by foregoing short term earnings in favour of building a strong future with large market share.

b) Hold strategy - objective is to preserve market share

c) Harvest strategy - objective is to increase short term cash flows regardless of long term effect.

d) Divest strategy - objective is to sell or liquidate the business

➤ General Electric (GE) Model (McKinsey matrix)

(1) McKinsey & Company developed a Nine-Cell Matrix for GE organization

(2) GE model uses following two factors for strategic decision making:

Market attractiveness	Business strength
• market growth rate	• market share
• market size	• market share growth rate
• industry profitability	• customer loyalty
• competitive intensity	• brand image
• overall pricing trend & availability of technology	• management calibre

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③ McKinsey recommends the following strategy options depending upon the business strength and market attractiveness.

MARKET ATTRACTIVENESS	BUSINESS STRENGTH: Strong	Average	Weak
high	G Invest / expand	G Invest / expand	Y Select / earn
medium	G Invest / expand	Y select / earn	• R Harvest / divest
low	Y Select / earn	• R Harvest / divest	• R harvest / divest

→ If a product falls in the green section, the business is at an advantageous position. To reap the benefits, the strategic decision can be to expand; to invest and grow.

→ If a product is in the amber ~~g~~ or yellow zone, it needs caution and managerial discretion is called for making the strategic choices.

→ If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

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④ Difference between BCG and McKinsey model

- Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness and includes a broader range of factors other than just market growth rate
- Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed

Note : Limitations of BCG matrix

- BCG matrix can be difficult, time consuming and costly to implement.
- Management may find it difficult to define SBUs and measure market share and growth.
- It also focuses on classifying current businesses but provide little advice for future planning.
- They can lead the company to placing too much emphasis on market share growth or growth through entry into attractive new markets.
- This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly.

➤ Ansoff Matrix (Product Market growth matrix)

① Ansoff matrix is a useful model when business chooses growth strategy, this matrix helps the organization in deciding whether to approach a new market, to bring a new product in the existing market, to enter into new market with new products or penetrate the existing market with existing product.

② Ansoff matrix has following strategy options:

a) market penetration:-

- It is a growth strategy where business focuses on selling existing products into existing markets.
- This strategy will require greater spending on advertising or personal selling

- This strategy requires aggressive promotional campaign supported by an appropriate pricing strategy.
- Penetration is also done by an effort on increasing usage by existing products.

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b) Market development :-
- A growth strategy where business wants to sell its existing products into new markets.
- This strategy will require identifying and developing new markets for companies existing well established products.
- This can be achieved by adding new product dimensions, packaging, establishing new distribution channels etc

c) Product development :-
- A growth strategy where business aims to introduce new products into existing markets
- This strategy requires development of new competencies and requires the business to develop modified appealing products to current markets

d) Diversification :-
- It is a growth strategy where business markets new products in new markets.
- In this strategy, business may acquire other businesses outside your existing products and markets
- Its comparatively a risky strategy since business is not relying either on its successful product or its well established market.

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ADL Matrix (Arthur D Little)

a) It is a portfolio analysis method which is based on product life cycle.
b) In ADL matrix, following factors are used as a base for strategic decision making:

- Stage of industry maturity ie embryonic, growth, mature & ageing.
- Competitive position of the firm, it can be dominant, strong, favourable, tenable and weak.

→ DOMINANT	This is a comparatively rare position and is either attributable to a monopoly or a strong and protected technological leadership.
→ STRONG	The firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitors.
→ FAVOURABLE	Generally comes about when the industry is fragmented and no one competitor stands out clearly, results in the market leaders a reasonable degree of freedom.
→ TENABLE	Firms are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
→ WEAK	Firms in this category are generally unsatisfactory although opportunities for improvement do exist.

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Corporate Level Strategies

① CLS can be classified into four broader categories:

a) Stability strategy

b) Expansion or growth strategy

c) Retrenchment strategy

d) Combination strategy

Stability strategy

- One of the most important goals of a business enterprise can be achieving stability. This may include the following aspects:
  - safeguarding existing strengths and interests
  - to continue with the chosen business path
  - to maintain operational efficiency on a sustained basis
  - to optimize returns on resources committed in the business
  - to pursue well established and tested objectives

- Reasons for stability strategy:
  - product has reached maturity stage in PLC
  - when it is not advisable to expand due to changes in business environment since it is perceived as threatening.
  - management is comfortable with the status quo since it will involve less changes and risks.
  - sometimes after rapid expansion, a firm might want to stabilize and consolidate itself.

Note: Stability strategy is not a 'do-nothing' strategy since organization has to remain updated and have to pace with dynamic and volatile business environment to preserve their market share.

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• Characteristics of stability strategy:
- A firm opting for stability strategy stays with the same business, same product-market posture and functions, maintaining same level of effort
- The endeavour is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources
- Stability strategy does not involve a redefinition of the business of corporation
- It is a safe strategy that maintains status quo.
- It does not warrant much of fresh investments.
- The risk involved in this strategy is less.
- The organisation can concentrate on its resources and existing businesses/products and markets, thus leading to building of core competencies.
- The firms with modest growth objective choose this strategy.

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➤ Expansion/Growth strategy:
• Characteristics of growth/expansion strategy:
- It will involve redefinition of business
- It will require fresh investment
- Its opposite of stability strategy ∴ both risks & rewards will be high
- expansion strategy is a highly volatile strategy since it involves/offers several permutations and combinations for growth.

• Reasons for expansion strategy:
- Due to change in business environment, it may become essential to increase the pace of activity ie to expand.
- Strategists may feel more satisfied with the prospect of growth from expansion rather than just stabilized operations.
- Expansion will help in achieving greater control over market, also experience curve due to economies of scale will be favourable if entity is following expansion

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- Types of growth/expansion strategy

INTERNAL	EXTERNAL
Expansion through intensification (Refer Note 1)	Expansion through diversification

→ INTERNAL

Note 1] **Expansion through intensification**

- Intensification means a strategy when organization tries to grow internally by intensifying or increasing its operations.
- A company may ~~increase~~ achieve its intensification through market penetration or market development or product development.

MARKET PENETRATION	PRODUCT DEVELOPMENT
a) Increase market share b) Increase product usage c) Increase the frequency used d) Increase the quantity used e) Find new application for current users	a) Add product features, product refinement b) Develop a new generation product c) develop new product for the same market

MARKET DEVELOPMENT	DIVERSIFICATION INVOLVING NEW PRODUCTS & NEW MARKETS
Expand geographically, target new segments	Related/Unrelated

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Expansion through diversification

- Diversification means entry into new products or product lines, new services, new markets which may involve different skills, technology and knowledge.
- Generally an organization may pursue diversification if they have excessive facilities or capabilities ie unutilised resources.
- Another reason for diversification can be synergistic advantage.
- Diversification can be classified into following broad categories:

Concentric diversification (Refer Note 1 and 2) (related diversification) (It includes vertical and horizontal integration)

Conglomerate diversification (Refer Note 2) (unrelated diversification)

Note 1) Vertically and Horizontally Integrated diversification:

- In case of horizontally integrated diversification, a firm diversifies by integrating through acquisition of one or more similar business operating at the same stage of product process chain. For eg) a cement manufacturer acquires another small cement manufacturer.
- In case of vertically integrated diversification, the firm remains vertically within the same process sequence either moving forward or backward in the product process chain.
- In case of backward integration, organization may focus on creating effective input supply by either acquiring an existing raw Material provider or starting on their own.
- In case of forward integration, firm is moving forward in the value chain, they may acquire the distribution channel or after sales service provider.

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Note 2) Concentric diversification

- In case of CD, new business is linked to existing business in some or the other way. for eg) common technology, marketing channel, distribution channel, manufacturing process
- In case of CD, new product can be a spin off from ~~exh~~ existing facilities or capabilities. New product can be connected in a loop like manner at one or more points.

Note 3) Conglomerate diversification

- In CMD, no linkages related to product, market or technology exist; the new businesses/products are disjointed from the existing businesses/ products in every way; it is totally unrelated diversification
- In process/technology/ function, there is no connection between the new products and the existing ones
- CMD has no common thread at all with the firm's present position.

for eg) a cement manufacturer diversifies into the manufacture of steel and rubber products.

External Growth Strategy:

(i) Expansion through mergers and acquistions

[Students should read basic meaning of mergers and acquisitions and remember that types of mergers and acquisitions is same as types of diversification] [~~Except~~ instead of concentric, write co-generic]

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(ii) Expansion through strategic alliance.

- A strategic alliance is a relationship between 2 or more businesses that enables each one of them to achieve certain strategic objectives which may not be able to achieve on their own.
- Strategic alliance can be formed in a global marketplace and it allows strategic partners to maintain their independent status so that they can also continue with their existing businesses.
- Disadvantages of strategic alliance –

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

– Sharing knowledge and skills can be problematic if they involve trade secrets.

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

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

- Advantages of strategic alliance –

→ Organizational advantages:

- Strategic alliance will help organizations to learn necessary skills and obtain certain capabilities from their strategic partners.
- Strategic partners may help each other to add credibility and legitimacy to a new venture.

→ Economic advantages:

- Strategic alliance will help in reduction of cost since organizations together may achieve greater economies of scale
- Alliance may also help in taking advantage of co-specialization, ~~taking~~ creating additional value to existing products or services.

→ Strategic advantages:
- Corporate instead of compete.
- It will help in creating competitive advantage due to combined resources and skills.

→ Political advantages:
- In certain countries, strategic advantage may allow a foreign player to enter into the local economy only with the partnership with a local player.
- Sometimes politically influental partners may also help in improving the overall position of new venture.

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Expansion through innovation: (IMP *)

(i) Innovation will drive upgradation of existing products, services or business processes which may help the organization in increasing their market share, revenues, profit margins and may also help in enhancing the overall customer satisfaction.

(ii) Innovation may help a business in their long term growth plan since it offers the following: Pg 4.12

→ Helps to solve complex problems:
A business strives to find opportunities in existing problems of society, through planned innovation in areas of expertise. This helps solve complex problems by developing customer centric sustainable solutions.

→ Increases productivity:
Innovation leads to simplification and automation of existing tasks. Productivity is a measure of final output from a task/process and innovation adds to the productivity by automating repetitive tasks and simplifying long chain of processes.

→ Gives competitive (CA) advantage:
- Businesses spend their time in building solutions to achieve CA.
- Faster a business innovates, the farther it goes from its competitor's reach.
- Innovative products need less marketing
- Innovation helps retain existing customers ~~but~~ and helps acquire new ones with ease.

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Retrenchment strategy

(i) Retrenchment strategy or strategic exits are followed when an organization is required to substantially reduce the scope of its strategy.

(ii) RS can be following:

- if the organization chooses to ~~follow~~ focus on ways and means to reverse the process of decline, it can be termed as turnaround strategy.
- if an organization cuts off the loss making units / divisions / SBUs, then the strategy adopted can be termed as divestment strategy.
- When none of the above strategies work, and organization wants to abandon all the activities, then it can be termed as liquidation strategy.

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A] Turnaround strategy (TS)

- When organisation wants to reverse the process of decline it may use an internal strategy that may be termed as TS.
- Following indicators / conditions may point that organization needs a TS to survive:

→ persistent negative cash flow
→ declining market share
→ deterioration in physical facilities
→ over-staffing, high turnover of employees, low morale
→ uncompetitive products or services
→ mismanagement

- Important elements of a TS may include the following:

→ Changes in top management
→ initial credibility building actions
→ neutralising external pressure
→ identifying quick payoff activities
→ quick cost reductions
→ revenue generation
→ asset liquidation for generating cash
→ better internal coordination

- Action plan for turnaround strategy

Step 1 – Assessment of current problems:

a) Strategists should identify and assess the current problems and get to the root causes of company's failure.

b) After identifying the problems, resources should be focused towards those areas which are essential and which requires immediate correction.

Step 2 – Analyse the situation and develop a strategic plan:

a) Before making any major changes, determine chances of survival.

b) Strategists should analyse strengths and weaknesses and develop a strategic plan to achieve specific goals.

Step 3 – Implementing an emergency action plan:

a) If the organisation is in a critical stage, an appropriate action plan must be developed to stop the bleeding so that organisation can try to survive.

b) A positive operating cashflow must be established as quickly as possible.

Step 4 – Restructuring the business:

a) If the core business is ~~irrepairably~~ ~~damage~~ irreparably damaged, then the outlook for the entire organisation may be bleak.

b) Organisation should change their product mix and people mix. By changing product mix, company should focus on their core product to remain competitive and withdraw from certain markets which are not feasible.

Stage 5 – Returning to normal:

a) In the final stage of turnaround process, the organisation should begin to show signs of profitability, improved ROI, increased market share etc.

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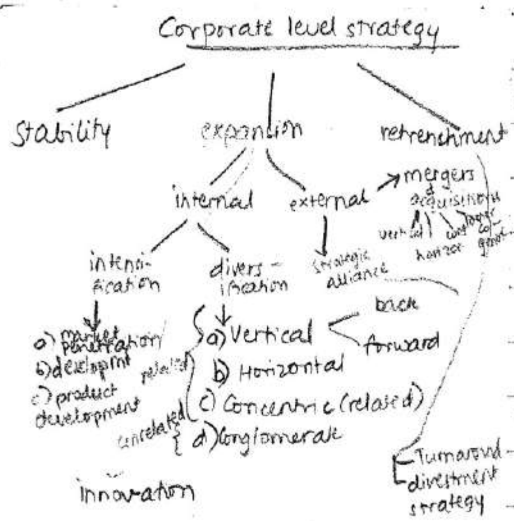
B] Divestment strategy

(i) It involves liquidation of a portion of business ie exiting a major division or SBU.

(ii) A divestment strategy may be adopted due to various reasons:

- an acquired business proves to be a mismatch and cannot be integrated.
- persistent negative cash flows creating financial problems for business
- technological upgradation may be essential & entity doesn't have sufficient money to invest.
- Due to extreme competition, firm is not able to survive.
- When there is a better alternative available for investment.

Note] If ICAI asks you 'Reasons for Retrenchment/Turnaround/Divestment' kindly mention the above 5 points. (under ii)



Ch-3

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Michael Porter's Generic Strategies

(i) Cost leadership:-

a) It is a low cost competitive strategy that aims ~~the~~ at broad mass market. Because of its lower cost, cost leader will be able to charge a lower price for its products than its competitors.

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

c) Cost leadership can be effective when following conditions are present:
- market is composed of many price-sensitive buyers.
- buyers are not brand conscious
- few ways to achieve product differenciation
- large numbers of buyers with significant bargaining power.

d) Risks associated with cost leadership: (Disadvantages)
- competitors may imitate the same strategy. In this case the overall industry's profitability may fall.
- buyer's interest may shift towards other differentiating features.
- technological breakthroughs in the industry may make the strategy ineffective.
- Cost leadership can succeed only if firm can achieve higher sales volume.

e) To achieve cost leadership, company may take following actions:

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- prompt forecasting of demand of a product or service
- optimum utilization of resources to get cost advantages
- achieving economies of scale leads to lower per unit cost of product/service
- standardisation of products for mass production to yield lower cost p.u
- invest in cost saving technologies and try using advance technology for smart working
- resistance to differentiation till it becomes essential.

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f) The basis idea of cost leadership is to underprice competitors and gain additional market share by driving out some of the competitors from the industry.

2) Differenciation :-

a) This strategy is aimed at broad mass market and involves creation of products/services that is perceived by customers as unique.

b) In differenciation strategy, firm will be able to charge a premium price for its products and buyers may respond positively if they accept or appreciate the differenciating features.

c) Differenciating features can be easy availability of spare parts, product re-design, better useful life, less maintenance cost or its easy to use the product.

d) Differenciation strategy should be adopted after careful study of buyer's needs and preferences.

MCQ * e) Product development (by Ansoff) is an example of strategy that offers advantages of differentiation.

f) Risks / disadvantages associated with differentiation strategy:

- Unique product may not be valued highly enough by customers to justify the higher price, thereby causing cost leadership strategy to defeat differentiation strategy
- Competitors may develop ways to copy the differentiation features quickly.
- Uniqueness is difficult to sustain.
- Charging too high prices for differentiated features may cause the customer to switch off to another alternative.
- Differentiation fails to work if its basis is something that is not valued by the customers.

g) Achieving differentiation strategy:

To achieve differentiation, organisation may incorporate any of the following aspects in their product/service -

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- improving the performance of product
- offer the promise of high quality products or services
- rapid product innovation
- constantly enhancing the organisation's image and brand value
- charging prices based on unique features and buyer's paying capacity.

h) Basis of differentiation:

Imp for exam

→ Product basis: Company may come up with innovative products which may convince the customers to pay a highly premium price and also convince them to shift from their competitor's product. In this case, company may incur lot of cost in research and development, marketing, distribution etc but the higher cost will not matter if the pay-off is great.

→ Pricing basis: Companies can also differentiate on the basis of product price that is, they may establish superiority by charging a very high price or may offer the lowest price in comparison to their competitors.

→ Organisation basis: Organisation can maximize the power of their brand or any other core competency to sell new products to the target market at a premium price. Core competencies can be location advantage, customer loyalty, brand recognition etc.

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(3) Focus strategy: —

a) Focus strategy depends upon an industry segment that is of sufficient size, has good growth potential and is not crucial to the success of major competitors.

b) An organisation using a focus strategy may concentrate on a particular group of customers, geographical market or a particular product line segment so that they can offer a better service or product to a well-defined, narrow market.

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c) Use focus strategy when target market has distinctive preferences/requirements and competitors are not attempting to specialize in the same segment.

d) Disadvantages/risks associated with focus strategy:
- possibility that numerous competitors will recognize the successful focus strategy and imitating it.
- customer preferences will drift toward the product attributes desired by the market as a whole.
- firms lacking in distinctive competencies may not be able to pursue focus strategy
- due to the limited demand of product/services, costs are high which causes problems.
- In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

e) Advantages of focus strategy:
- premium price can be charged by the company
- since organisation has tremendous expertise about the product or service, it won't be easy for rivals or new entrants to easily imitate and compete

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f) Focused cost leadership–
Firms that compete based on price and targets a narrow market is following focused cost leadership. In this strategy, firm charges lower price relative to the other firms, however it may not be the lowest price always.

g) Focused differentiation–
When firm competes based on uniqueness and targets a narrow market, then they are following focused differentiation strategy

h) Achieving focused strategy:
(i) identify specific niche ie narrow market which is not targeted by cost leaders and differentiators.
(ii) create superior skills so that you can cater to such niche market.
(iii) generate high efficiencies for serving such markets.
(iv) develop innovative ways to manage value chain

④ Best Cost Provider strategy: –

In case of best cost provider strategy, company will try to provide more value for money to their customers; this may include:

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

b) charging similar price like rivals but you offer products with higher quality and better features.

Competitive Advantage

a) An organisation is said to have competitive advantage if its profitability is higher than the average profitability of all the companies in the industry.

b) Core competencies (unique features) helps an organisation to achieve an edge over rivals.

c) Sustainability of competitive advantage depends upon the following characteristics of resources and capabilities:

lec 11.2 → Durability –

- sustainability of competitive advantage depends upon the rate at which firms resources and capabilities deteriorate.
- for eg) if entity is successful due to certain leaders or management expertise then, retirement or departure of such leaders may affect competitive advantage.

→ Transferability –

- The ability of rivals to attack position of competitive advantage depends upon how easy or difficult it is to gain access of resources and capabilities.
- The easier it is to transfer resources and capabilities between companies, ~~the~~ less sustainable will be competitive advantage.

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→ Imitability –

- If resources and capabilities cannot be purchased, then the competitor will have to build them from scratch.
- How quickly competitors can build such capabilities will affect the sustainability of competitive advantage.

→ Appropriability –

- It refers to the ability of firm's owners to appropriate the returns to its resource base.
- Rewards should be directed to those areas from where funds were invested rather than creating an advantage for people / segments which are not the contributor to competitive advantage.

——— x ———

Core Competency

a) Core competencies are capabilities that can serve as a source of competitive advantage for an organisation.

b) Competency can be defined as a combination of skills and techniques rather than an individual skill or separate technique.

c) As per CK Prahlad and ~~Garry~~ Gary Hamell, 'Core competency is a combination of many capabilities or resources. It can be a combination of 5—15 areas because of which, a customer will prefer company's product over the competitor's product.

* imp d) How to build a core competency:

→ Valuable –

- Valuable capabilities are those that will allow the firm to exploit opportunities or to defend themselves from threats.

→ Rare –

Core competencies are very rare capabilities which very few competitors may possess. If these capabilities are possessed by many rivals, then it cannot be a source of core competency.

→ Costly to imitate -

If entities capabilites cannot be developed easily by the competitors or it may require significant amount of resources to develop such capabilities then these capabilities can become a source of competitive advantage.

→ Non-substitutable -

Capabilities that do not have strategic equivalence can be called as non substitutable.

Note] Only when a capability is valuable, rare, costly to imitate and non-substitutable, it becomes a core competency. and may help in achieving competitive advantage.

★ According to CK Prahlad and Gary Hamell, company should ask themselves following questions before declaring their capabilities as core competencies:

a) Is the capability a competitor differentiation?

b) Is the capability valuable for the customer & ie a decision maker for the customer?

c) Can this capability be applied to the entire organisation?

X

lec 12.1

SWOT Analysis

a) It is an analysis of entity's strengths, weaknesses, opportunities and threats. The primary objective of SWOT Analysis is to help an organisation in developing a complete awarness of all the factors that are involved in business decision making ie both internal and external factors.

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b) A major benefit of SWOT analysis is that it helps in identifying complex issues faced by the company and put them in a simple logical framework which will help in decision making.

c) One of the major criticism of SWOT analysis is that it does not help in analysing in the competitive context. Its just a useful tool for starting the analysis. and strategists may need TOWS matrix, five-force model etc for improved decision making.

—X—

Ch-5

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Strategic Leadership

Pg 5.43 (1) Difference between transformational and transactional leadership.

A] Transformational Leadership

a) Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organisation.

b) Transformational leadership style may be appropriate:
- in turbulent environments
- in industries at the very start or end of their life-cycles
- in poorly performing organisations when there is a need to inspire a company to embrace major changes.

c) Transformational leaders offer:
- excitement
- vision
- intellectual stimulation & personal satisfaction.

d) They inspire involvement in a mission, giving followers a dream or vision

e) Such leadership motivates followers to do more by stretching their abilities & increasing their self confidence and also promote innovation.

B] Transactional Leadership

a) Transactional leadership style focus more on designing systems and controlling the organization's activities and are associated with improving current situation.

b) They try to build on the existing culture & enhance current practices.

c) This style uses the authority of its office to exchange rewards like pay & status

d) They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non achievement.

e) The style is better suited in persuading people to work efficiently and run operations smoothly.

f) Transactional leadership style may be appropriate
- in static or settled environment
- in growing or mature industries and
- in organisations that are performing well.

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ICAI Qs

* ② Strategic managers have five leadership roles for good strategy execution

a) Staying on top of what is happening ie closely monitoring the progress, discovering issues and finding out what obstacles are present in the path of good strategy execution.

b) Keeping the organisation responsive to changing conditions. ie being alert for new opportunities, identifying new innovative ideas and staying ahead of rivals by building valuable capabilities and competencies.

c) Exercise ethical leadership and insist the company to conduct their affairs like a model corporate citizen.

d) Promoting a culture and espirit de corpse that mobilizes and energizes organisational members to execute strategy in the best possible manner.

e) initiate corrective actions to improve strategy execution and to improve overall performance.

③ A manager as a strategic leader has to play many leadership roles such as visionary, chief administrator, crisis manager, spokesperson, negotiator, motivator, chief entrepreneur and strategist, culture builder etc

lec 12.2

X

Strategic Change

Vimp

* I] (Kurt Lewin's model of Change)

As per the Kurt Lewin's model of change, the strategic change process has three phases ie unfreezing the situation, changing to new situation and re-freezing.

Ⓐ Unfreezing the situation:-

Entity's employees may not like sudden or unannounced changes, therefore it is suitable to make individuals or entire organisation aware about the necessity for change so that they are prepared for a change. Unfreezing process involves breaking down old habits and behaviours so that organisation can start with a clean slate.

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* (B) Changing to new situation:-
H.C Kellman has proposed three methods of reassigning new patterns of behaviour. It includes the following:

- Compliance – strictly enforcing reward and punishment strategy for good or bad behaviour.
- Internalization – This involves internal changing of individual's thought process, therefore they are given the freedom to learn and adapt with the new behaviour as per their convenience.
- Identification – In identification, company may try to identify such leaders who are role models for their majority employees, therefore changing to new behaviour can be implemented smoothly, if change is pushed through such role models.

imp *

(C) Refreezing:-
This occurs when new behaviour becomes a normal way of life.

II Steps to initiate strategic change in a business

(A) Recognise the need for change:-
Company should find out which aspects of their present corporate culture are strategy supportive and which ones are not supportive. Company can use SWOT analysis ie environmental scanning to determine where exactly is the problem or where there is a scope for change.

(B) Create a shared vision to manage the change:-
Objectives and vision of both individuals and organisation should coincide. Top level management should constantly and consistently communicate the vision not only to inform but to

overcome resistance, this will help in creating a shared vision.

(c) Institutionalise the change :-

This is the action stage which requires implementation of changed strategy. Change process should be regularly monitored and reviewed to analyse the after effects of change.

Note] Change process is not a one time application, but rather a continuous process due to dynamism in the business environment.

Strategic Control

(1) Strategic control focuses on the following dual questions:

a) whether strategy is being implemented as per planned? and

b) whether the results produced by strategy are those intended?

(2) Strategic control is a process of evaluating the strategic management process because there is a time gap between strategy formulation and strategy implementation.

(3) Types of strategic control:

a) Premise control

b) Strategic surveillance

c) Special alert control

d) Implementation control

SQ → Premise control

(i) Strategies are formed on the basis of certain assumptions about business environment, over a period of time, such assumptions may not remain valid.

(ii) Premise control is a tool for systematic and continuous monitoring of business environment to verify whether entity's assumptions are still valid and accurate.

(iii) Strategists may not be able to review all premises in the same manner but they should focus on core strategy assumptions.
(iv) Business environmental factors such as political, social, technological, legal etc are used for making such assumptions.

→ Strategic surveillance
(i) It is unfocused and involves general monitoring of various sources of information to uncover unanticipated information.
(ii) It can also be called as "casual environmental browsing"
(iii) It may include reading newspapers, business magazines, attending meetings, conferences etc.

→ Special alert control
(i) Sometimes, unexpected events may force an organisation to reconsider their strategy. for eg) natural calamities, terrorist attacks etc.
(ii) In some cases, the company may need a dedicated crisis management team to handle the situation.

Lec 13.1

→ Implementation control
(i) Managers implement their strategies by converting major plans into concrete sequential actions, to achieve desired goals and objectives.
(ii) Implementation controls can be classified as follows:
- Monitoring strategic thrusts = It will help the strategic manager to determine whether the overall strategy is progressing as it was originally planned or does it require any re-adjustments.
- Milestone Reviews = All important activities in a strategy are segregated into small milestones or targets. It can be in terms of time, resources, financial numbers etc. Implementation controls will help in reassessing the strategy on a timely basis.

* Note:

Types of Controls

Operational Controls	Management Controls	Strategic Controls
The focus of OC is on individual task or transaction or business activity.	MC is more inclusive and aggregative ie these controls are for entire organisation, dept. or division	Already discussed above.

Organisation Structure

① Changes in strategy often requires a change in organisation structure because:

a) Organisation structure dictates how objectives and policies will be established in the organisation.

b) Structure also dictates how resources will be allocated to achieve these objectives.

② Different types of organisation structure can be following:

a) Simple structure
b) Functional structure
c) Divisional structure
d) Multi-divisional structure
e) Matrix structure
f) Network structure
g) SBU structure
h) Hourglass structure

→ Simple structure :

- Owner or manager makes all major decisions and staff members merely serve as executors.
- This may result in competitive advantage for smaller firms when competing against larger counterparts.
- This is suitable for those businesses which offer a single line of products in a specific geographic market.
- If small companies want to expand into larger organisations, they will outgrow from their simple structure. They may abandon simple structure in favour of functional structure.

→ Functional structure :

- A functional structure groups tasks and activities by business function, such as production/operations, marketing, finance/accounting, research and development & management info systems.
- It is simple and inexpensive and also promotes specialization of labour, encourages efficiency & minimizes the need for an elaborate control system. It also allows rapid decision making.
- The FS enables the company to overcome the growth-related constraints of the simple structure, enabling communication & coordination.
- Compared to simple structure, there are potential problems. Differences in functional specialization and orientation may impede communication and co-ordination, thus making it necessary for the CEO to integrate functional decision making and co-ordination actions of the overall business across functions

→ Hourglass structure :

- Information technology and communication has significantly changed the way organisation works. One such effect is hourglass structure.
- Hourglass structure consists of 3 layers with a narrow, middle layer.
- Information technology is acting as a link between top level and

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lower level employees.

- Contrary to traditional middle level managers, in hourglass structure, middle level managers are general managers ~~who~~ which may not require any specialization.
- Hourglass structure will help in cost reduction, and simplifying decision making since decision making authority has direct access to the source of information.
- Continuing at the same level, may bring monotony and result into lack of interest for lower level managers.

lec 13.2

MCQ → Divisional structure:

- Divisional structure can be organised in any of the following ways:

a) by geographical area
b) by product/service
c) by different categories of customers
d) by process

- Division on the basis of geographical area – It is appropriate for those organisations whose business strategies are formulated to fit particular needs and preferences of target market in different geographic areas. This structure will allow local participation in decision making.
- Divisional structure by products/services – Sometimes, organisation may design strategies for specific products or services which may need special emphasis, therefore separate divisions can be made for different products and services.
- Division on the basis of customers – Few organisations may offer different kinds of products and services to different category of customers, therefore Company may divide their operations on the basis of customers. For eg) a dedicated dept. for corporates and a separate dept. for retail customers.
- Divisional structure on the basis of process – If company's final product is manufactured in different processes and the output of specific process is marketable and sellable, then company may divide their operations on the basis of different processes.

• Advantages of divisional structure

- accountability is clear
- creates career development opportunities for managers
- allows local control of local situations
- leads to a competitive climate within an organisation
- employee morale is higher
- allows new businesses and products to be added easily

• Disadvantages of divisional structure

- Each division will require a functional specialist, therefore will increase.
- There can be some duplication of staff services, facilities or personnel.
- Divisional structure requires a headquarter driven control system ie need for corporate staff will also increase.

→ Network structure:

(i) It can also be termed as 'non-structure' due to elimination of in-house business functions. Majority activities are outsourced by the company.

(ii) In this structure, organisation's operations will comprise series of projects and each project may require specialized skill-sets.

(iii) This structure is useful when business works in unstable or uncertain environment.

(iv) Instead of hiring salaried employees, in this structure, company may contract with people for specific projects.

(v) This structure will allow the company to concentrate on its distinctive competencies. ie developing specialisation in a specific field.

(vi) The availability of numerous potential partners can be a source of trouble. Also if a firm overspecializes only on few functions it ~~[illegible]~~ runs the risk of choosing wrong function and may become non-competitive in future.

→ **Multi-divisional structure**:

(i) A multi-divisional structure may have the following characteristics:

a) separate divisions where each division may represent a distinct business.

b) each division will have its own functional hierarchy. ie dedicated marketing manager, HR, sales, accounting and finance etc for each division.

c) each division manager will be responsible for managing day-to-day operations for their specific divisions.

d) a dedicated corporate office will be required for overall control on semi-autonomous divisions or completely autonomous divisions.

lec 14.1

→ **Matrix structure**:

a) In matrix structure, both functional and product forms are combined simultaneously ie each employee will have two supervisors or superiors; one will be functional manager and other will be a product/project manager.

b) A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flow of authority.

c) Important features of matrix structure may include the following:

- dual lines of authority, reporting channels, reward and punishment.
- a need for extensive and effective communication system due to complexity involved.
- a matrix structure will also experience high amount of overheads due to multiple management positions.

d) Matrix structure will require planning, training, excellent internal communication, clear understanding of roles and responsibilities, mutual trust and confidence for its effective implementation.

e) Development of matrix structure in the following phases:

- Cross-functional task forces — In the initial phase, temporary cross functional task force is used when a new product line or vertical is introduced.
- Product/brand management — When cross-functional task forces become more permanent then the project manager becomes product/brand manager ie vertical head.

- **Mature matrix** – In the final phase of matrix development, a true dual authority structure will come into existence ie both functional and product structures will become permanent.

➤ Relationship between strategy formulation and implementation (S.9)

① A company will be successful only when the strategy formulation is sound and implementation is excellent.

	weak	excellent
Sound	A	B
Flawed	C	D

Strategy Implementation

- **Square A** –
  - a) It is a situation where a company has formulated a very competitive strategy but is facing difficulties in successfully implementing it.
  - b) This can be due lack of experience, lack of resources, missing leadership etc.
  - c) The company aims at moving from square A to square B.

- **Square B** –
  - a) It is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has successfully implemented it.

- **Square C** –
  - a) It represents the companies that haven't succeeded in coming up with a sound strategy formulation and are bad at implementing their flawed strategic model.

b) Their path to success goes through business model redesign and implementation or execution readjustment.

- Square D –

a) It is the situation where the strategy formulation is flawed but the company is showing excellent implementation skills.

b) A company in square D shall redesign their strategy before readjusting their implementation / execution skills.

lec 14.2

② Other approach to understand relationship between formulation and implementation

(i) To understand the relationship between strategy formulation and implementation, we can also use other approach which takes into account efficiency and effectiveness.

(ii) Efficiency represents relationship between inputs and outputs, therefore it is associated with operations management. (Strategy implementation)

(iii) Effectiveness is concerned with organisation's attainment of goals including desired competitive position, therefore strategy formulation will represent effectiveness better.

Strategic formulation

Operational Management (Strategy implementation)		
	① Thrive	② Die slowly
	③ Survive	④ Die quickly

→ Difference between formulation and implementation

STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
• It includes planning and decision making.	• It involves all the means related to executing strategic plans.
• It is an entrepreneurial activity based on strategic decision making	• It is an administrative task based on strategic & operational decisions
• emphasizes on effectiveness	• emphasizes on efficiency
• an intellectual and rational process	• an operational process
• requires coordination among few individuals at the top level	• requires coordination among many individuals at middle & lower levels
• requires initiative, logical skills, conceptual intuitive and analytical skills	• requires motivational and leadership traits
• precedes strategy implementation	• follows strategy formulation

→ Concept of forward and backward linkage –

(i) forward linkage deals with impact of strategy formulation on strategy implementation

(ii) When new strategies are formulated, organisation may need to change their existing organisation structure or the leadership style.

(iii) In case of backward linkage, strategy implementation can impact strategy formulation.

(iv) While formulating a new strategy, management should keep in mind past strategic actions, ie how good or bad implementation has been done ~~has~~ historically.

(v) Both implementation and formulation are inter-related to each other.

➤ **SBU structure**: (under organisation structure only)

(i) It can be a single business or collection of related businesses which requires separate planning and strategising.

(ii) SBU's have their own set of competitors.

(iii) SBUs will require a dedicated CEO or business head for the purpose of decision making.

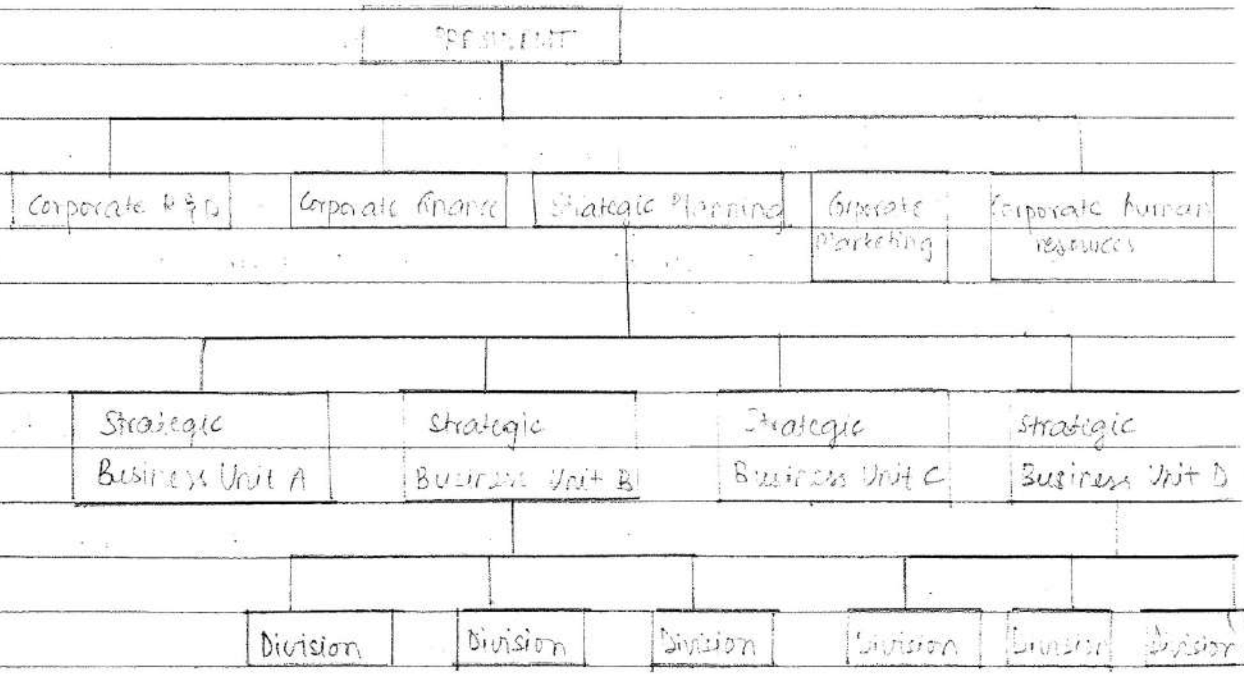
(iv) Each SBU will have its own vision, mission, goals and objectives, therefore it's a separate business from the strategic planning standpoint.

(v) An organisation with multiple products and services should classify their related businesses into specific SBUs so that strategic management process can be implemented effectively.

(vi) SBU structure generally consists of atleast three levels:

- Corporate level at the top
- SBU groups at second level and
- Division and functional level below each SBU

(vii) SBUs can also be related to each other ie they may have common customers, they may be built on similar technologies or they may be dependent on common core competencies.



SBU STRUCTURE

Remaining Part of Ch 1 46

Strategic Intent

lec 15.1

① Strategic intent gives an idea of what organisation desires to achieve in future, in other words, strategic intent represents answer to the question- 'Why they want to do any specific activity?'

② To understand the strategic intent, we need to evaluate the following elements:
(i) strategic vision
(ii) mission statement
(iii) goals and objectives
(iv) value system of the organisation
(v) business model

③ Clarity in strategic intent is extremely important for the future success and growth of company.

④ Elements of strategic intent:

A) VISION –

a) A strategic vision is a roadmap of company's future ie it provides specifics about the kind of organisation management is trying to create, their technology and customer focus or the kind of capabilities it plans to develop.

b) A clearly articulated strategic vision will communicate management's aspirations to their stakeholders.

IMP* c) Essentials of a strategic vision –

- While developing a strategic vision, you need to think creatively to prepare a company for the future
- formulation of a vision will require intelligent entrepreneurship
- a well articulated vision creates enthusiasm, for the path that management has created to achieve its vision. It will also engage members of the company.

d) The best worded vision statement will clearly explain the direction in which organisation is headed.

B] MISSION-

a) A mission statement typically focus on present business scope ie who we are and what we do.

b) Mission statement describes entity's existing capabilities, customer focus, existing technologies and all those activities which makes up the entire business.

c) Guidelines for formulating a mission statement:

lec 15.2 i) a good mission statement should be precise, clear, distinctive and motivating

ii) entity's mission statement should clearly emphasize on what needs business is trying to satisfy, what kind of customer groups business is targeting and what kind of technologies they are currently using to perform their business activities.

iii) every entity would want to design a mission statement which should be unique and it should provide a special identity to the entity.

d) Why should an organisation have a mission statement?

- it will serve as a focal point so that everyone can identify organisation's purpose and direction.
- mission statement will help in translating entity's vision into goals and objectives so that organisation can plan appropriately how to achieve them.
- mission statement will ensure unanimity of purpose for the organisation
- it will also establish a general tone or organisational climate ie setting the corporate culture.

C] GOALS AND OBJECTIVES-

a) Goals and objectives function as a yardstick for tracking the organisation's performance and progress.

b) Organisation should translate their vision and mission into appropriate goals and objectives.

c) Goals are open-ended attributes that denote future outcome while objectives are close ended attributes which should be precise and expressed in specific terms.

d) Both goals and objectives are interchangeably used.

e) Characteristics of goals and objectives:

- objectives should be concrete and specific
- objectives should be related to a time frame
- objectives should be challenging
- objectives should be measurable and controllable
- objectives should provide a basis for strategic decision-making
- different objectives should correlate with each other
- objectives should define organisation's relationship with its environment.

f) Examples of long term objectives:

- profitability
- productivity
- competitive position
- employee development
- employee relations
- technological leadership
- public responsibility

g) Clearly established goals and objectives will offer many benefits like:

- direction
- allow synergy
- aid in evaluation
- establish priorities
- reduce uncertainty
- minimize conflicts
- stimulate exertion

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lec 16.1 On the basis of 3 levels, there can be 3 major types of networks of relationship:

IMP *

a) Horizontal Relationship-

In this relationship, all top level management, other staff members are in the same hierarchal position. It is also termed as a flat organisation structure. It may be suitable for start-ups which needs sharing of different ideas and innovation.

MCQ or Qs

b) Functional and Divisional Relationship (Vertical)-

This relationship is similar to SBU structure where a division or a SBU or a function may have an independent status with dedicated head of the division/SBU/function.

c) Matrix Relationship-

This is similar to a grid-like structure where teams are formed with people from different departments to execute specific projects or tasks. It is generally suitable for conglomerates where a functional manager or team member is answerable to more than one business level manager.

Remaining Part of Ch-3

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lec 17.1

Miscellaneous topics of Ch 3 —

➢ Strategic Group Mapping

a) To perform industry analysis, organisation can use a tool termed as strategic group mapping.

b) To use strategic group mapping, strategists need to identify all the competitors in an industry and make groups of competitors on the basis of business strategies or approaches which are commonly used by them.

c) Companies may have comparable product line, may sell at a similar price, uses common distribution channel, provides similar additional or after sales services etc.

d) Strategists need to identify important competitive characteristics that differenciate businesses in an industry. For eg) pricing (low, medium, high); geographical presence (local, national, global); use of distribution channel, types of services offered etc.

e) On the basis of above characteristics, plot the firms on a two-variable map where these differentiating characteristics will act as a basis. ↳ (key success factors)

f) Draw circles around each strategic group where circles are proportional to the size of group's respective share of total industry sales revenue. (represents market share)

lec 17.2

➢ Meaning of stakeholders —

a) Stakeholders can be defined as any person or group of individuals that has an interest in / impact on the entity's business. They can be either internal or external.

b) Organisation should identify the key stakeholders on the basis of their power to influence the business and their interest in the success of business

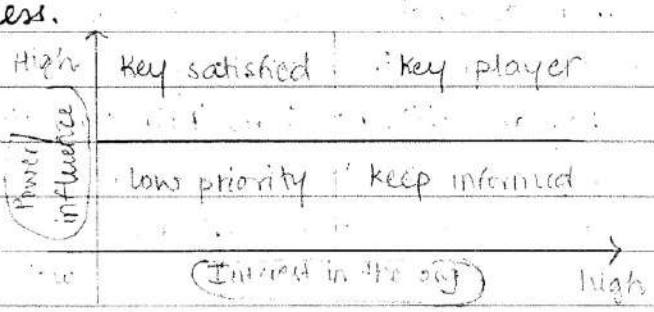
c) Stakeholders may include management, employees, shareholders, third party vendors, banking companies etc. Each stakeholder will have different levels of expectations from the business.

➤ Mendelow's Matrix

① This matrix is also known as stakeholder analysis matrix and power interest matrix.

② This matrix suggests that business should analyse their stakeholders ie on their basis of power ie their ability to influence the business strategy and interest ie how interested stakeholders are in the success of business.

③



a) (Keep satisfied stakeholders) – High power, less interested people → Organisation should put in enough work with these people to keep them satisfied with their intended information on a regular basis.

b) (Key Players stakeholders) – High power, highly interested people → Organisation's aim should be to fully engage this group of stakeholders, making the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information regularly.

c) (Low priority stakeholders) – low power, less interested people → Organisation should only monitor them with no actions to satisfy their expectations. Minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest/power change.

d) (Keep informed stakeholders) – low power, highly interested people → Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audience can also help with real time feedbacks and areas of improvement for an organisation.

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* Note:
following objectives should be kept in mind while deciding on price strategy for a new product:
(i) it should have a customer-centric approach
(ii) it should help you to increase market share
(iii) it should be able to generate sufficient returns through a reasonable margin over cost

lec 18.1

➤ Strategic Drivers:

① While performing internal analysis, organisation tries to assess their current performance in the overall industry. Organisation would also want to know how they are different from their competitors.

② Following factors may help an entity to perform such internal analysis, these factors are also known as strategic drivers:

a) Customers
b) Products / services
c) Industry and markets
d) Channels

Note: Channel represents the distribution system through which product/service is made available to the end user. There are 3 types of channels which can be considered by a business:

a) Sales channel – Intermediaries involved in selling the product through each channel and ultimately to the end user. Who needs to sell to whom for your product to be sold to your end user?

b) Product channel – Focuses on the series of intermediaries who physically handle the product on its path from producer to end user.

c) Service channel – Refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user.

lec 18.2 Miscellaneous topics of Ch-5

➤ Stages involved in strategic management process:

a) Developing a strategic vision and formulating a mission statement along with goals and objectives.
b) Environmental and organisational analysis (SWOT) [Refer Note-1]
c) Formulation of strategy [Refer Note-2]
VIMP * d) Execution or Implementation of strategy [Refer Note-3]
e) Strategy evaluation and control

→ Note-1: (Environmental and organisational analysis)

a) This will include SWOT analysis which covers both internal and external environmental factors.
b) External environmental analysis may include PESTLE factors such as political, economic, social, technological etc. These factors will help in determining opportunities and threats for the entity.
c) Organisational analysis will include review of financial resources, existing technological capabilities, marketing capabilities, distribution channels etc. to determine entity's strengths and weaknesses.

→ Note-2:

a) Company should identify and develop different strategic alternatives keeping in mind outcome of SWOT analysis.
b) Company should analyse these strategic alternatives and choose the most appropriate alternative.
c) Company has various options at a corporate level such as stability strategy, expansion or growth strategy or retrenchment strategy. Sometimes entity may choose a combination of these strategies.

→ Note-3:

Strategy execution process may include the following important aspects — Pg 5.5

a) developing budgets that steer ample resources into those activities critical to strategic success.

b) ensuring that policies and operating procedures facilitate rather than impede effective execution.

c) motivating people to pursue the target objectives energetically.

d) creating a company culture and work climate conducive to successful strategy implementation and execution.

e) using the best known practices to perform core business activities and pushing for continuous improvement.

f) installing information and operating systems that enable company personnel to better carry out their strategic ~~xxx~~ roles day in & out.

→ Note-4:

Strategic evaluation and control —

a) The final stage of strategic management process focuses on evaluating the entity's overall strategic progress ie whether strategy implementation is helping the company in achieving their desired objectives or due to new environmental developments, entity needs an adjustment or corrective action.

b) Entity should re-visit their objectives and strategies if there are significant changes in internal or external environmental conditions.

c) Refer strategic control concept

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lec 19.1 CH 2 : Strategic Analysis for External Environmental Factors

➤ Michael Porter's Five force model (Competitive Pressure Analysis) :

① To perform competitive pressure analysis, Michael Porter recommended identification and analysis of following five forces :—

i) competitive pressure associated with the market manoeuvring ie strategies to earn buyers' patronage ie loyalty by rival sellers in the industry.

ii) competitive pressure associated with threat of new entrants in the industry

iii) competitive pressure coming from certain companies of certain other industries to win over the existing customers of your industry ie effect of substitute products.

iv) pressure from supplier bargaining power.

v) pressure from buyer bargaining power.

② Following steps will help the strategists in drawing conclusions :

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

Step 2: evaluate how strong the pressure is from each five force ie fierce, strong, moderate to normal or weak.

Step 3: determine whether collective strength of these five forces is conducive to earn attractive profits.

SQ * ③ Threat of new entrants :-

VIMP

New entrants can reduce an industry's profitability, therefore existing firms will try to raise barriers to entry to discourage new entrants. Common barriers to entry can include the following—

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

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

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

d) Switching Costs = To succeed in an industry, new entrants must be able to persuade existing customers of other companies to switch to its products. Buyers often incur high financial and psychological costs while switching, and this makes them reluctant to change.

e) Brand Identity = BI is important for infrequently purchased products that carry a high unit cost to the buyer.

*// f) Access to Distribution Channels = The unavailability of DC for new entrants poses another threat. Many firms still continue to rely on their control of physical distribution channels. Often, existing firms have a significant influence over DC and can retard /impede their use by new firms.

g) Possibility of aggressive retaliation = Sometimes, the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

④ Buyers' Bargaining Power :-

lec 19.2 Buyers of an industry can sometimes exert considerable pressure on the existing firms to reduce the selling price or to request better services. This leverage is particularly evident when:

- buyers have full knowledge of the sources of products and their available substitutes.
- buyers are spending a lot of money on the industry's products ie they are big buyers.
- when buyers are more concentrated than the firms supplying the product ie few buyers and more number of sellers.

⑤ Suppliers Bargaining Power :-

Suppliers can also influence the profitability of an industry; following circumstances may help a supplier to exert higher bargaining power over a business:

- suppliers' products are crucial for the business and substitutes are not available.
- there may be high switching cost involved to change the supplier.
- suppliers are more concentrated than the number of buyers ie few suppliers and more buyers.

⑥ Threat of substitutes :-

a) Substitutes are hidden competitors for a product in the industry.

b) Organisation should identify available substitutes for their industry's product and evaluate how impactful they can be in the near future.

SQ ⑦ Nature of rivalry in the industry :-

VIMP i) the more intensive the rivalry, less attractive is the industry. Rivalry among competitors tends to be cut-throat and industry profitability low when –

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

- a strong leader can discourage price wars by disciplining initiators of such activity. Because of its greater financial resources, a leader can generally outlast smaller rivals making them avoid such contests.

b) Competitors in the industry are numerous.

c) Competitors operate with high fixed costs thus aiming for better return on investment with more fierce tactics:

- When rivals operate with high fixed costs, they feel strong motivation to to utilize their capacity and ∴ are inclined to cut prices when they have excess capacity.
- Price cutting causes profitability to fall for all firms in the industry. Profitability tends to be lower in industries characterized by high fixed costs.

d) Competitors face high exit barriers and ∴ continue to fight for market share:

- Profitability therefore tends to be higher in industries with few exit barriers.
- When barriers to exit are powerful, competitors desiring exit may refrain from leaving. Thus, if an organisation cannot exit, it would fight for its survival and thus intensify competition.

e) Product differentiation:

- Firms can sometimes insulate themselves from price wars by differentiating their products from rivals. Profitability tends to be lower in industries involving undifferentiated commodities.

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

➤ Competitive landscape:

① It is a business analysis where we try to identify and understand the competitors of our industry. This will include understanding their vision, mission, strengths, weaknesses, niche markets etc.

② Steps involved in understanding the competitive landscape –

i) Identify the competitor ie who are the competitors, what is their market share and how big are there.

ii) Understand the competitor ie what products and services they offer in the market, what geographical markets they are targetting, which technology they are using etc.

iii) Determine the strengths of the competitors ie their financial position, control over distribution network, HR strength, cost leadership etc.

iv) Determine the weakness of the competitor ie finding out customer reviews or reports which indicates the problems, bottlenecks, or what they are lacking.

v) Put all this information together and determine the next strategic moves which are right for your business.

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> **Key Success Factors:**

① Key success factors are those factors that most affect the industry's ability to prosper in the marketplace. In other words, these are the pre-requisites for the industry success.

② Answer to following questions may help in identifying key success factors of an industry:
- On what basis customers choose between competing brands?
- What does it take for a seller to achieve sustainable competitive advantage?
- What resources and capabilities are needed to be competitively successful?

③ Every industry may have multiple KSFs; but very rarely an industry will have more than 3 or more KSFs.

④ Key success factors will vary from industry to industry and even from time to time. Therefore, it is essential that strategist should understand and analyse the industry situation more frequently.

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> **Value Chain Analysis:**

① It is the method used by strategists to break down each process that their business employs. for eg) purchase of raw material, conversion of raw material into finished goods, marketing, sales etc.

② Value chain analysis is a method of examining each activity in the value chain of a business to identify areas for improvement.

③ Value chain analysis recommends analysis of following activities for a conventional manufacturing business:-

- Primary activities — Refer Note (A)
- Support/Secondary activities — Refer Note (B)

Note-(A)	Note-(B)
a) inbound logistics	a) Procurement
b) operations	b) Human Resources
c) outbound logistics	c) technology development
d) marketing & sales	d) infrastructure
e) services ie after sales service	

* Students should write one logical sentence for every activity covered in primary and secondary activities, along with a diagram given on pg 2·21, for answering a 5 mark qs.

→ PRIMARY ACTIVITIES:

- Inbound logistics are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes material handling, stock control, transport, etc.
- Operations transform these inputs into the final product/service: machining, packaging, assembly, testing etc.
- Outbound logistics collect, store and distribute product to customers
  - For tangible products, it is warehousing, transport, material handling.
  - For services, it is concerned with arrangements for bringing customers to the service if it is a fixed location (eg: sports event/concert)
- Marketing and sales is the means whereby consumers/users are made aware of the product/service & are able to purchase it. This includes sales administration, advertising, selling, communication networks.
- Services are activities which enhance/maintain the value of a product/service such as installation, repair, training and spares.

→ SECONDARY ACTIVITIES:

- Procurement refers to processes for acquiring various resource inputs to the primary activities (not to the resources themselves)
- Technology development refers to know-how of a product.
- Human Resource mgmt. transcends all primary activities and is concerned with activities involved in recruiting, managing, training etc.
- Infrastructure consists of structures and routines of the organization which sustain its culture.

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➤ Value creation:

ⓐ Value creation means providing products and services to the customers with more worth than what they are paying as a price.

ⓑ Value creation helps in achieving competitive advantage which may lead to superior profitability.

ⓒ At the most basic level, how profitable a company can become depends upon the following three factors:-

i) the value customers place on the company's products.

ii) the price that a company charges for its products (selling price).

iii) the cost of creating those products.

ⓓ Michael Porter's business strategies such as differentiation, focus, cost leadership, etc may help in achieving competitive advantage.

ⓔ Value chain analysis ie analysing primary and supporting activities may help an organisation in achieving value creation goals.

➤ Customer Analysis:

① Customer analysis means identifying target market, determining their wants and then define how your products or services can meet those needs or warrants.

Dec 2022 ② Customer analysis approach may include conducting customer surveys, studying the consumer data, developing and analysing different customer segment profiles and accordingly strategising.

③ Customer behaviour - customer behaviour moves beyond identification of customers ie it includes elements like shopping frequency, customer's perception towards marketing, product preferences etc.

④ Consumer behaviour can be influenced by multiple factors such as:

i) internal influence - customer's inherent decision to buy a product / service

ii) external influence - social media advertising, recommendation from peers, social norms, etc.

Note: Decision making process by a rational consumer may involve the following stages:

i) problem recognition
ii) search for desirable alternatives
iii) seeking information ie analysing available alternatives
iv) making a final choice

➢ Attractiveness of Industry :-

Strategists should consider different factors to conclude whether an industry is attractive or unattractive, some of these factors may include the following :-

a) The industry's growth potential, is it futuristically viable ?
b) Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker?
c) the degrees of risk and uncertainty in the industry's future.
d) the severity of problems confronting the industry as a whole.
e) the competitive position of an organisation in the industry and whether its position will grow stronger/weaker.
f) Whether industry profitability will be favourably/unfavourably affected by the prevailing driving forces ?

➢ Micro and Macro environmental factors :-

a) Micro environment - related to small area or immediate periphery of the organisation. This may include your consumers, core suppliers, employees, intermediaries, local competitors etc.

b) Macro factors include the following :-

- demographic environment
- socio-cultural environment
- economic environment
- political-legal environment
- technological environment

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➤ PESTLE Analysis:-

① It covers macro environmental factors

② PESTLE is an acronym for:-

P - political

E - economic

S - social

T - technological

L - legal

E - environmental

③ Students should write 1 logical sentence for every factor.

➤ Internationalization of Business :-

① A global company/ MNC has following characteristics:-

a) It is a conglomerate of multiple units but they all are linked by common ownership.

b) Multiple units draw on a common pool of resources ie money, intangible assets such as patents, trademarks and common internal control systems.

c) These units may respond to a common strategy.

② Why do companies go global? (2.15)

a) Companies often set up overseas plants to reduce high transportation costs because it may be cheaper to produce near the market to reduce the time and costs involved.

b) Domestic markets are no longer adequate. The competition may not exist in international markets.

c) Globalisation is important for organisations to grow.

d) Globalisation has made companies to form strategic alliances to ward off economic and technological threats and leverage their respective comparative & competitive advantages.

e) There is rapid shrinking of time and distance across the globe because of faster communication, speedier transportation etc.

f) There can be varied other reasons such as need for reliable or cheaper source of raw materials, cheap labour etc.

vimp* ③ International strategic planning may involve the following steps:
i) identifying and evaluating global opportunities and threats on the basis of existing internal capabilities.
ii) describe the scope for the firm if they create global operations.
iii) create the firm's global business objectives.
iv) develop distinct strategies for the global business and for the entire organisation.

④ International environment analysis:-
① Assessment of international environment can be done at the following levels:
a) multinational environmental analysis – different treaties, agreements or interventions by governments of different nations.
b) country environment analysis – PESTLE analysis for the country where your business is present.
c) regional environmental analysis – analysing the geographical area where company currently has biggest market share.

What are the different characteristics of products/services that should be considered before choosing any business strategy?
a) Products are either tangible or intangible.
b) Every product will have a price. (cost price & selling price)
c) Product will have certain features that delivers satisfaction ie provides solution to the customer's problems.
d) Every product will have a useful life.
e) Product is pivotal for business.

➤ Product Life Cycle :-

① Mention 4 stages of PLC ie introduction, growth, maturity & decline.

② Advantages of PLC. (Refer Pg 2.8)

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➤ STRATEGIC ANALYSIS :-

a) Environmental scanning or strategic analysis is a natural and continuous activity for every business, some businesses may perform such analysis on informal basis and some may follow an appropriately designed framework for the same.

b) Strategic analysis forces to think about your rivals and helps in evaluating existing business plans to stay ahead in the game.

c) Strategic analysis includes the following considerations :
- evaluating industry and competitive conditions (external)
- evaluating organisation's own capabilities, resources, existing market position etc. (internal)

d) Strategic analysis will help in identifying entity's strengths, weaknesses, problems and available opportunities and threats in the external environment.

e) Organisations need to identify and evaluate different strategic alternatives to achieve desired goals and objectives.

f) After evaluation, organisation will implement the selected strategy & monitor the overall progress.

Note] Issues to consider for strategic analysis —

i) Strategies evolve over a period of time ie they are influenced by entity's experience.

ii) Strategic analysis requires consideration of both internal and external factors, in many industries, balancing these factors and making right strategic decision may be challenging since each factor will impact business differently.

iii) Business environment is highly dynamic and uncertain. For eg) local

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economies may go through a recession, technological advancements, boom or globalization; therefore, it may be difficult to strike a balance between the environment and the strategy.

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Vimp ✱ {New inclusions}

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MISCELLANEOUS TOPICS OF CH 5 (

➤ **Organisation Culture :-**

① Corporate culture refers to company's values, beliefs, principles, traditions or the ways of operating ie overall internal work environment.

② Corporate culture can originate from anywhere ie from one influential individual or a work group or a department or from the bottom of organisational hierarchy or the top.

③ A significant part of company's culture emerges from the stories that get told over and over to illustrate to newcomers about the importance of certain values and beliefs.

SQ) ④ Culture can become an ally or obstacle to strategy execution:

- an organisation's culture can either become an important contributor or an obstacle for successful strategy execution.
- when culture and strategy are compatible then the culture becomes a valuable ally in strategy implementation or execution.
- when culture is in conflict with certain aspects of new strategy then culture may become a stumbling block that may impede successful strategy ~~in~~ execution.

⑤ Changing a problem culture :

- changing a problem culture to align it with the new strategy is one of the toughest task for the management.
- Management needs to identify which aspects of present culture are not strategy supportive and which ones are supportive.
- Strategic managers should talk openly with all the people who are concerned with corporate culture that needs to be changed.
- the task of making culture supportive of strategy is not a short term exercise, it may take a significant amount of time to design and implement a new corporate culture.
- the bigger the organisation, the greater the cultural shift will be needed to create a strategy supportive culture. In large organisations, changing the corporate culture may take 2-5 years.

- Infact it is usually tougher to reshape a deeply rooted culture which is not strategy supportive than it is to them to implement a strategy supportive culture from scratch in a brand new organisation.

VIMP ➤ **Strategic Performance Measures (SPMs):-**

① Strategic Performance measure is a method that increases line executives understanding of an organisation's strategic goals and objectives.

② SPM offers a continuous system for tracking organisation's progress towards their objectives using clear-cut performance measurements.

③ Types of strategic performance measures – (5.49)

a) Financial measures – Revenue growth, return on investment (ROI) & profit margins provide an understanding of the organisation's financial performance and its ability to generate profit.

b) Customer satisfaction measures – Customer satisfaction, customer retention and customer loyalty provide insight about the organisation's competitiveness and its ability to meet customer needs and provide high quality products and services.

c) Market measures – Market share, customer acquisition and customer referrals provide information about the organisation's competitiveness in the marketplace and its ability to attract and retain customers.

d) Employee measures – Employee satisfaction, turnover rate & employee engagement provide insight into the organisation's ability to attract & retain talented employees & create a positive work environment.

e) Innovation measures – research & development spending, patent applications and new product launches provide insight into the organisation's ability to innovate new products/services.

f) Environmental measures – energy consumption, waste reduction & carbon emissions provide insight into the organisation's impact on the environment.

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RC 22.2

④ Importance of strategic performance measures –
Strategic performance measures are essential for an organisation for multiple reasons including the following:

a) Goal alignment – SPMs will help an organisation to align their strategies with their respective goals and objectives.

b) Resource allocation – SPMs will help an organisation to make an informed decision about resource allocation ie how much resources should be allocated to specific SBUs if they want to maximize the overall returns.

c) Continuous improvement – SPMs will provide the organisation with the framework that will help in improving overall business processes on a continuous basis.

d) External accountability – SPMs will help the organisation in demonstrating their accountability towards specific stakeholders. Organisation will be able to provide clear and transparent picture of entity's performance.

⑤ Choosing the right SPM for your business –

i) Organisation should choose SPMs that are aligned with their goals and objectives and they will help in providing relevant and actionable information.

ii) While selecting the right measures, organisation should consider the following factors:

- relevance of measure to the entity's goals and objectives.
- availability of data ie measure should be based on data that is readily available and can be collected and analysed in a timely manner
- data quality ie measure should be based on high quality data that is accurate and reliable.
- data timeliness ie measure should be based on data that is current and up to date.

➢ Organisational Framework:-

① McKinsey's '7S Model' helps an organisation to analyse a company's organisational design ie how they can run and manage their business more effectively.

② McKinsey's '7S Model' focuses on how hard and soft elements can help a business in analysing and modifying their existing ways of doing business.

③ Hard elements:-

These are directly controlled by management and includes the following:

- strategy — direction of the organisation ie blueprint of how core competency can be built to achieve competitive advantage.
- structure (organisation structure) — depending upon availability of resources and degree of centralization or decentralisation, organisation should choose appropriate organisation structure.
- systems — the development of daily tasks, operations and teams to execute and achieve entity's goals and objectives in the most efficient and effective manner.

④ Soft elements —

These elements are difficult to define as they are governed by culture. Soft elements may include the following:

a) Shared values ie the core values which are part of organisational culture and influence the entity's code of ethics.

b) Staff ie the talent pool of organisation.

c) Skills — the core competencies or skills of employees play a vital role in the organisation's success.

d) Style — It depicts the leadership style that is required to achieve organisation's goals.

* Problems / Limitations of this model –

i) it ignores the importance of external environment.

ii) this model does not clearly explain concept of organisational effectiveness or performance.

iii) this model is more static and less flexible for decision making.

iv) it is generally criticized for missing out the real gaps in conceptualization and execution of strategy.

Digital transformation of business :–

a) Use of digital technologies to develop fresh, improved or maybe entirely new procedures, goods or services, can be known as digital transformation.

b) Change management helps in implementing digital transformation in an organisation.

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→ Role of change management in digital transformation –

a) Digital transformation is a process of organisational change that enables an organisation to use technology to create new value for their customers or other stakeholders.

b) Change management is a process of planning, implementing and monitoring changes in the organisation.

c) For a successful digital transformation, a good change management strategy is necessary.

d) A properly implemented change management strategy, can help the organisation in :

- specifying the goals and objectives ie specific parameters of digital transformation.
- in determining which existing procedures and tools need to be modified.
- in making a proper plan for implementing the improvements.
- it will help in involving staff members and important 3rd parties required for the purpose of transformation.

- to track the progress and make required corrections on a timely basis.

*IMP → **Best practices for managing change in small and medium size businesses:**

VIMP SQ

a) Begin at the top – A focused, invested, united leadership that is on the same page about company's future is reflected in the change, then this will motivate the rest of the organisation to accept such change.

b) Ensure that change is both necessary and desired – If a corporation does not have a sound strategy in place, introducing too much too fast can become a major issue down the road.

c) Reduce disruption – It is possible to reduce workplace disruption by making employees aware about the potential change, creating an environment that promotes the change, empowering change agents to help in implementing the change. and involve IT department so that people can be supported when there is a change in technology.

d) Encourage communication – People who will be affected the most by these changes should be reassured that they are not in danger through effective communication

e) Recognise that change is the norm and not the exception. Organisation must be prepared well in advance for the change otherwise they may run into difficulties because change is not a project, but rather an ongoing process.

→ **How to manage change during digital transformation?**

a) specify the goals and objectives of digital transformation process.
b) always communicate.
c) be ready for resistance
d) implement changes gradually ie not all at once.
e) offer continuous assistance and training

→ Difference between strategic planning and operational planning (5.7)

→ Strategic uncertainty refers to unpredictability which may impact organisation's goals and objectives. Organisation can consider certain aspects to prepare themselves so that they can deal with these uncertainties strongly. (Refer points on Pg 5.8)