

## **Chapter 8:**

# **Strategic Management - Introduction**



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Question 1: What is Strategy?

Answer: The term strategy is derived from the Greek word **strategia**, meaning "generalship".

Has its origins from the classic, The Art of War, written by Sun Tzu in 500 BC.

- Strategy is a set of **goal-directed actions** a firm takes
- to gain and sustain **superior performance** relative to competitors.
  - ↓
  - To achieve superior performance, companies compete for resources.
- The sole objective of a strategy is to provide competitive advantage.
- It provides the basic framework through which the organisation will achieve its mission and objectives.

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

A strategy is good when it enables a firm to achieve superior performance. It consist of three key elements that work together:

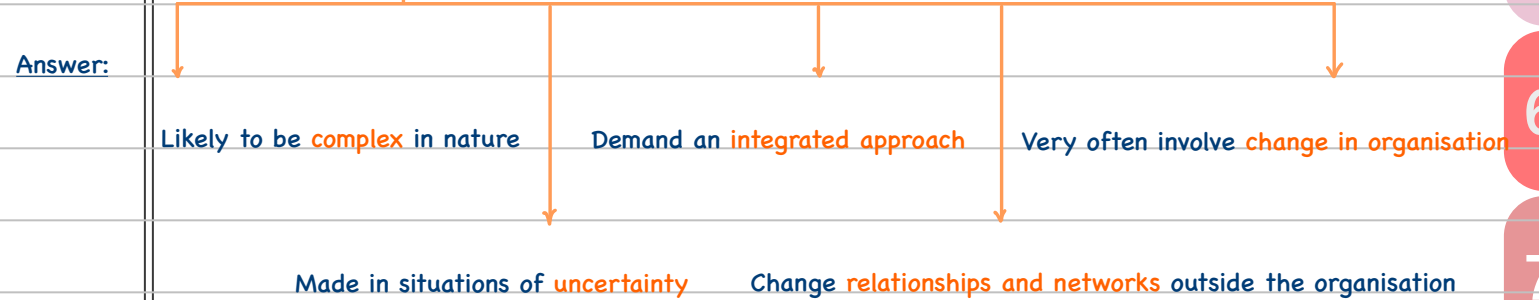
1. **Diagnosis of the competitive challenge:**
2. **Guiding policy to Address the challenge:**
3. **Set of coherent actions to implement a firms guiding policy**

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Question 2: What are the characteristics of Strategy or strategic decisions?

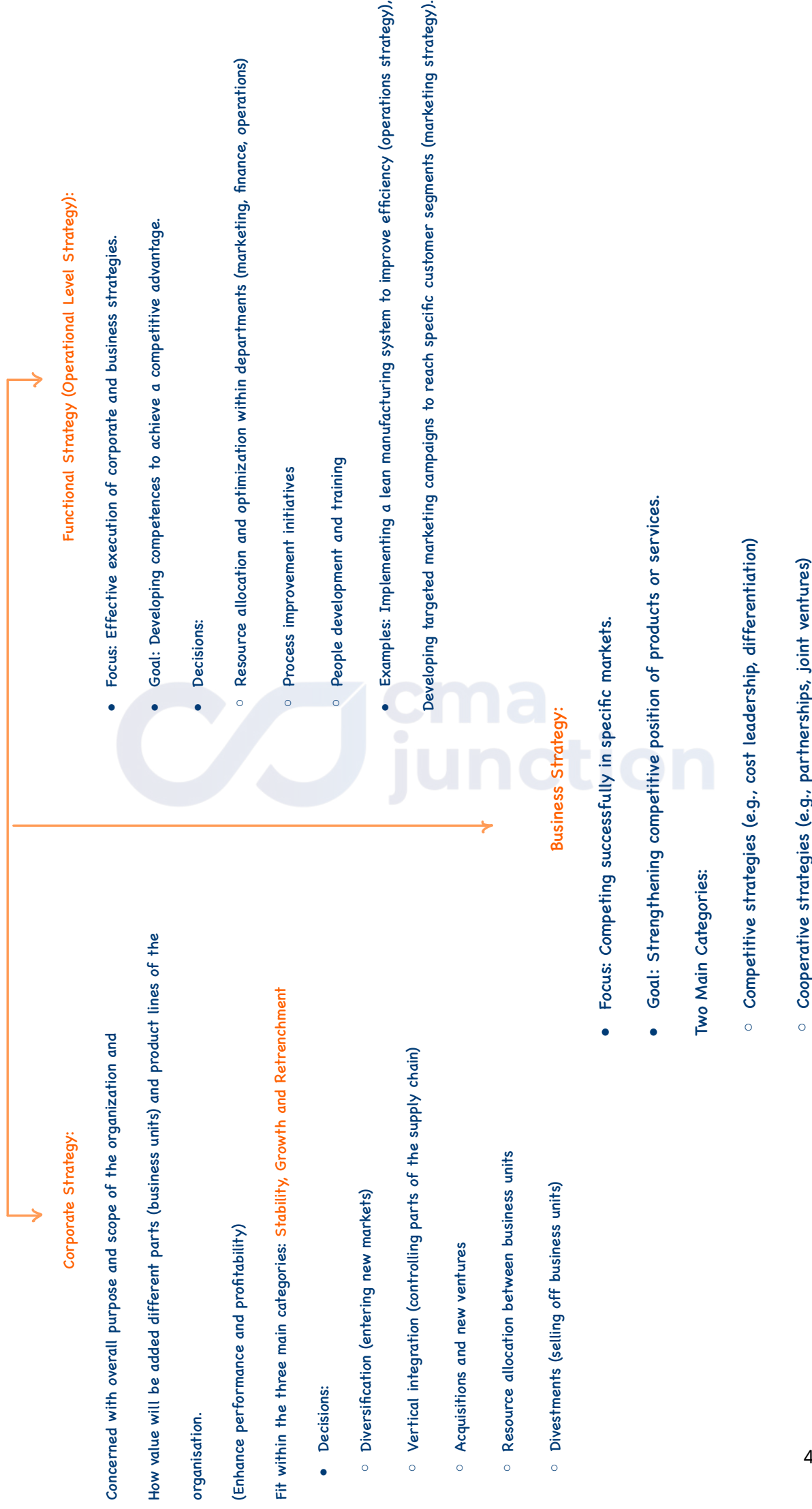
- Answer:
- Concerned with the long term direction of an organization.
  - Aim to achieve an advantage for the organization over its competition.
  - Concerned with scope of the organization's activities.
  - Involves matching resources and activities to the environment in which it operates
  - Involves stretching the organization's resources and competences to create new opportunities or to capitalise on it.
  - Strategies may require major resource changes.
  - Likely to affect operational decisions
  - Strategy is affected not only by environmental factors and resource availability but also by the values and expectations of those who have power in and around the organisation.

Question 3: What are the Consequences of strategic decision?



Question 4: There are primarily three levels of strategies in the organisation'. List the three levels. (8 marks)

Answer: The Three Levels of Strategy in a Business



Question 5: Differentiate between Red ocean and Blue ocean strategy.

Answer:

| Basis                | Red Oceans  | Blue Oceans   |
|----------------------|---|---|
| Definition           | Red oceans represent <b>existing industries</b> with established competitors.                             | Blue oceans represent markets or industries that <b>haven't been explored yet</b> . |
| Market Space         | Boundaries are <b>defined</b> , and <b>competition is fierce</b> .  | Uncharted territory with <b>no direct competition</b> .                             |
| Focus                | <b>Companies fight</b> for a larger share of existing demand  | <b>Companies create</b> new demand by offering innovative products or services.     |
| Competition          | <b>Cutthroat</b> , with companies trying to outperform rivals through cost leadership or differentiation. | <b>Irrelevant</b> , as companies create a new category of offerings.                |
| Growth               | <b>Limited</b> , as the market space becomes saturated.   | <b>Potentially high</b> , as companies can capture significant new markets.         |
| Demand               | Exploit existing demand   | Create and capture new demand   |
| Value-Cost Trade-off | Make trade-offs   | Break the trade-off   |
| Examples             | Automobile industry, smartphone industry.   | Uber (Ride-Hailing App), Netflix (Streaming Service)                                |

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Question 6: What is Strategic Management ?

Answer: Strategic management refers to the process of making **high-level decisions** and taking actions that shape an organization's **long-term direction and performance**.

Strategic management replaced "corporate planning" for a reason. Here's why:

- Corporate planning focused on internal goals, like setting a long-term direction for the company.
- Strategic management takes things a step further. It acknowledges the **competitive environment** and aims to give the company an edge over its rivals.

Question 7: What do you understand by objectives of strategic management?

Answer: The objectives of strategic management may be listed as under:



- **Identifying opportunities** and adapt resources to **exploit** the opportunities created.
- To **create opportunities** by stretching the resources and competences of the organisation and capitalise them.
- **Enhance understanding** of managers for key relationships among actions, external environment, and performance
- To help an organisation enjoy **competitive advantage**.
- **Improve competitive** position through resource deployment & acquisition, & by adapting to environmental changes.
- **Stay responsive** to the needs of key stakeholders
- Identify **critical success factors** and meet customer needs.
- Focus on **building blocks of competitive advantage** and continuous improvement.
- **Embrace change** to remain competitive and survive.
- **To develop a creative and innovative attitude** and to think strategically.

Question 8: What are the four basic elements of strategic management?

Answer: I. Environmental scanning

Monitoring, evaluating and disseminating of information from the external and internal environments to key people within the organisation.

**Purpose:** Identify the strategic factors that will shape the future of organisation.

Environmental Scanning Techniques:

**Formal Techniques:**

Single variable extrapolation (projecting future sales based on historical trends)

Theoretical limit envelopes (analyzing the limitations of existing technologies)

Dynamic modes (simulating different scenarios based on environmental changes)

Mapping (creating visual representations of the competitive landscape)

Multivariate interaction analysis (statistically analyzing the relationships between multiple factors)

**Informal Techniques:**

- Unstructured expert opinion (seeking insights from experienced individuals)
- Structured expert opinion (conducting surveys or interviews with experts)
- Structured inexpert opinion (gathering feedback from employees)
- Unstructured inexpert speculation (considering potential future trends based on general observations)

II. Strategy Formulation

Development of long range plans for the effective management of environmental opportunities and threats, in the light of corporate strengths and weaknesses (SWOT).

It includes defining the Mission, Setting objectives, Developing strategies, Setting policy guidelines

### III. Strategy Implementation

It is the process by which **strategies and policies are put into practise** though the development of

**Programs: Breaking Down the Strategy into Actionable Steps**

**Budgets: Allocating Resources for Effective Execution and**

**Procedures: outline the specific steps and methods for carrying out program activities.**

This includes **day to day decisions in resource allocation** and is typically conducted by the **middle and lower level managers** with review by the top management.

It involves taking actions at the Functional, Business and Corporate levels to execute a strategic plan.

Implementation involves **executing actions** such as quality improvement programs, redesigning products, adjusting positioning, market segmentation, pursuing mergers and acquisitions, and downsizing the company.



### IV. Evaluation and control:

Organisational activities and performances are **monitored**.

The **actual performances** are compared to **desired performances** and corrective actions are taken to resolve problems. Helps to identify the weakness and gaps of the previously implemented strategic plan and thereby, stimulates the entire process to begin again.

Question 9: What is Competitive Advantage?

Answer: A company achieves competitive advantage when it provides buyers with superior value compared to rival sellers or offers the same value at a lower cost to the firm.

- A firm's competitive advantage is always relative, not absolute.
- To assess competitive advantage, we compare firm's performance to a benchmark that is, either the performance of other firms in the same industry or an industry average.
- The advantage is sustainable if it persists despite the best efforts of competitors to match or surpass
- If a firm underperforms its rivals or the industry average, it has a competitive disadvantage.
- Two or more firms that perform at the same level have competitive parity.



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Question 10: Vision is a desired future state of an organisation. Explain.

Answer:

- A vision statement defines an **organization's desired future state**.
- It's a powerful tool that can:
  - Focus Attention and Energy of employees to work towards a **common goal**
  - Describe the **Ideal Future** of what the company aspires to become.
- Vision articulates a view of **Realistic, Credible and Attractive Future** of the organisation.
- Well conceived visions are **Distinctive and Specific** to a particular organisation: they avoid generic, feel good statements
- To be effective, visions need to be backed up by hard to reverse **strategic commitments** and tied to economic fundamentals.



Types of Vision Statements:

- **Product-Oriented:** These define the business in terms of the goods or services they provide.
  - To be the world's most intelligent smartphone" (Samsung Galaxy)
  - To create the most immersive and realistic virtual reality experience" (Meta)
  - To be the fastest and most fuel-efficient electric car on the market" (Tesla)
- **Customer-Oriented:** These focus on serving customer needs and offer more strategic flexibility.
  - Nike: "To bring innovation and inspiration to every athlete in the world."
  - Facebook: "To make the world more open and connected".
  - Walmart: "To be the best retailer in the hearts and minds of consumers and employees "

Question 11: What are the Benefits of having a vision? (5 marks)

Answer:

- Good visions are **inspiring and exhilarating**
- Vision represents a **discontinuity**, a **step function** and a **jump ahead** so that the company knows what it is to be.
- Good vision helps in the creation of a **common identity** and a shared sense of purpose
- Good visions are **competitive, original and unique**. They make sense in the market place as they are practical
- Good visions foster **risk taking and experimentation**.
- Good visions foster **long term thinking**
- Good visions represent **integrity**: they are truly genuine and can be used to the benefit of the people.
- The visions are **customer-oriented**.
- **Internal stakeholders** are invested in defining the vision.



Question 12: What is Mission Statement?

Answer: A Mission statement defines an organization's present purpose and core business.

It answers the fundamental questions:

- Who are we?
- What do we do?
- Why are we here?

Key Characteristics of a Mission Statement:

- **Unique Purpose:** It distinguishes the company from its competitors by highlighting its unique value proposition.
- **Focus:** It defines the scope of the company's operations, specifying the products or services offered.
- **Values:** It may also reflect the company's values and philosophies about how it operates and treats stakeholders.
- **Public Image:** It communicates the organization's goals and values to external stakeholders.

Product-Oriented vs. Customer-Oriented Missions:

- **Product-Oriented:** These statements focus on the specific products or services offered by the company.

e.g., "We manufacture high-quality electronics"

Rolex: "To manufacture watches that support human achievement"

- **Customer-Oriented:** These statements focus on the customer needs that the company's products or services address.

e.g., "We help people connect and share information easily"

Uber: "To provide the fastest and most convenient way for people to get around their city."

Benefits of a Customer-Oriented Mission:

- Adaptability to changing customer needs.
- Identifying new opportunities.
- Future-proofing against market shifts.

Question 13: Explain the organisational culture and key layers of Organisational Culture.

Answer: Organizational culture is the foundation of how a company operates. It's the set of shared beliefs, values, and assumptions that define:

- How employees behave
- How business is conducted
- The overall work environment

Key Layers of Organizational Culture:

- **Values:** It guide how managers, employees conduct business and build the organization to achieve the mission. They form the bedrock of organizational culture, influencing how employees work toward goals. Clear, specific values are essential; vague terms like "service to the community" or "honoring equal employment opportunities" should be avoided.  
Eg: Encouraging creativity, new ideas, and continuous improvement.
- **Beliefs:** These are more specific convictions held by employees about the organization and its practices. They might not be explicitly stated but are evident in how people discuss issues. (e.g., belief in teamwork, skepticism towards risk-taking)
- **Behaviors:** This is the observable layer, reflecting how employees interact and perform their daily tasks. It encompasses work routines, management styles, and even informal customs. (e.g., collaborative work style, dress code, open communication)
- **Taken-for-Granted Assumptions:** These are the deepest and most ingrained aspects of the culture. They represent unconscious beliefs that shape the way people perceive and respond to situations. (e.g., assumption that hierarchy is respected, belief in long working hours)

Question 14: Explain Ethical Behaviour

Answer: Creating an ethical business environment is crucial for long-term success. Here's how companies can foster ethical behavior by building a strong ethical culture:

1. **Articulate Clear Values:**

Businesses must explicitly articulate values that place a strong emphasis on ethical behaviour.

Develop a code of ethics – a formal document outlining the company's ethical priorities. This document clearly states the company's commitment to ethical conduct.

2. **Leadership by Example:**

It is important that leaders in the business give life and meaning to those words by repeatedly emphasizing their importance and then acting on them.

This means using every relevant opportunity to stress the importance of business ethics and making sure that key business decisions not only make good economic sense but also are ethical.

3. **Incentives and Rewards:**

Building an organisation culture that places a high value on ethical behaviour requires incentive and reward systems, including promotional systems that reward people who engage in ethical behaviour and sanction those who do not.

4. **Aligning Strategy with Ethics:**

When ethical principles guide strategic decision-making, it builds trust with stakeholders and safeguards the company's reputation. Ethical core values act as "guardrails," ensuring the company stays on track while pursuing its mission and competitive advantage.

Question 15: Explain Goal. Differentiate between Goals and Objectives.

Answer: Goals:

Well construed goals denote what an organisation hopes to accomplish in a future period of time.

They represent **future state of outcome of effort put in now.**

The set of goals that an organisation sets addresses a wide range of **financial and non financial issues.**

Goals are **close-ended attributes** which are precise and expressed in specific terms.

| Feature     | Goals                                  | Objectives                               |
|-------------|--|--|
| Focus       | <b>Desired future state</b> or outcome | <b>Specific actions</b> to achieve goals |
| Specificity | Broad and general                      | Concrete and measurable                  |
| Timeframe   | Long-term (years)                      | Short-term (months, quarters)            |
| Example     | Increase market share                  | Launch a new marketing campaign          |
| Purpose     | Provide <b>overall direction</b>       | Define <b>actionable steps</b>           |

Question 16: Explain objectives and its desirable characteristics in order to be effective

Answer: Objectives are the **foundation** for an organization's functioning.

They translate the broad strategic vision into **specific, achievable targets**.

Objectives' Impact:

- Define the organization's relationship with its environment (customers, competitors).
- Help pursue the organization's vision and mission.
- Provide a framework for strategic decision-making
- Establish performance evaluation standards (tracking progress towards goals).

Characteristics: S.M.A.R.T. Objectives:

- **Specific:** Clearly define what needs to be achieved. Involves answering to specific set of questions
  - What the organisation wants to achieve?
  - Why is this objective important?
  - Who are being involved in the process?
  - When should the objective be accomplished?
  - What are the resources and constraints that needs to be identified?

Specific objectives are motivating for managers.

- **Measurable:** Quantify the target whenever possible for clear evaluation (e.g., increase sales by 10% in Q1).  
This allows comparison with industry standards and tracks progress.
- **Attainable:** Set challenging but realistic goals that stretch the organization without being demoralizing.  
Objectives should incentivize improvement but remain achievable.
- **Relevant:** Align with the organization's overall vision and mission. Objectives shouldn't conflict with broader goals to ensure all efforts contribute to the desired future state.
- **Time-Bound:** Specify a timeframe for completion. Deadlines create a sense of urgency and motivate action, although not all objectives require strict deadlines.

Objectives should also be understandable

Question 17: Explain in brief the various important issues that need to be kept in mind while setting up objectives of an organization. (7 marks)

Answer: **Specificity:** Objectives should be clear and specific, avoiding broad statements. Use terms like "corporate," (corporate level) "general,"(department level) or "specific"(Team or Individual level) to match the organizational level.

**Multiplicity:** Don't have too few or too many objectives. Aim for a balanced number that cover various areas without overwhelming everyone.

**Periodicity:** Set objectives for different timeframes (long-term, medium-term, short-term) and ensure they align with each other. Long-term goals are general, short-term are more specific.

**Verifiability:** Objectives should be measurable (quantitative) whenever possible. If not, use qualitative goals requiring expert judgment.

**Reality:** Ensure objectives are realistic and reflect what the organization truly aims to achieve, not just what they say they want.

**Quality:** A good objective provides clear direction and a way to measure success. It should be specific, measurable, achievable, relevant, and time-bound (SMART).

Question 18: Explain Personal Objectives.

Answer: [Personal Objectives: Guiding Performance and Success](#)

**Personal objectives** are job-specific goals set for each employee. They are important for several reasons:

- **Clarity and Alignment:** They communicate what's expected and what matters most.
- **Performance Measurement:** They track progress and measure individual and team performance.
- **Guidance and Development:** They help employees understand their roles and contribute to company goals.
- **Increased Productivity:** Clear objectives create a more productive work environment.

**Setting Objectives:**

- **Frequency:** Objectives are typically set quarterly, biannually, or annually.
- **Collaboration:** Managers and employees work together to define measurable targets.
- **Types:** Objectives can be activity-based (number of tasks completed) or outcome-based (achieving specific results).
- **Review:** Progress is regularly reviewed to ensure alignment and make adjustments if needed.

Overall, personal objectives are a key tool for improving individual and team performance, boosting productivity, and achieving organizational goals.

Question 19: Explain FAST.

Answer: FAST, a modern approach to goal setting that challenges the traditional SMART method.

| Term                          | Definition  | Advantages  |
|-------------------------------|---|---|
| F-<br>Frequently<br>Discussed | Goals should be frequently discussed in order to see the <b>progress</b> , allocate resources as and when needed, prioritise initiatives and provide feedback | <ul style="list-style-type: none"><li>- Gives <b>guidance</b> for important decisions.</li><li>- Helps employees remain focused on the most important matters.</li><li>- Links performance feedback to concrete goals</li><li>- <b>Evaluates the progress</b> and helps in course corrections.</li></ul>  |
| A-<br>Ambitious               | Goals should be challenging or ambitious <b>but not impossible</b> to achieve   | <ul style="list-style-type: none"><li>- <b>Motivates performance</b> of individuals and teams towards goal.</li><li>- Helps in minimising the risk of downplaying the achievements of the subordinates.</li><li>- Focuses on <b>innovative ways</b> to achieve goals.</li></ul>   |
| S-<br>Specific                | Goals should be translated into <b>specific metrics</b> so that there is clarity in achieving the goals.  | <ul style="list-style-type: none"><li>- Clearly mentions what the employees are expected to deliver.</li><li>- Helps in <b>easy identification of deviations</b> from the goals and offers quick course corrections.</li><li>- <b>Enhances performance</b> of individuals and teams.</li></ul>  |
| T-<br>Transparent             | Goals and their achievements should be <b>made public</b> for all employees to see.   | <ul style="list-style-type: none"><li>- Use of <b>peer pressure</b> to perform on goals.</li><li>- Clearly showcases the activities and contribution of the employees towards goal achievement</li><li>- Helps employees understand the agenda of other employees and the teams.</li><li>- Helps to identify the strategies that are redundant and are not aligned to the overall organisational goals.</li></ul> |

Question 20: Explain Strategic Leadership. What are the key qualities of Leadership

Answer: Strategic leadership is about managing the strategy-making process to create a competitive advantage for the organization.

This translates to maximizing shareholder value through balanced profit growth and profitability.

Key Qualities of a Strategic Leader:

- **Visionary:** A strategic leader has a clear and compelling vision for the organization's future.
- **Communicator:** They can effectively communicate this vision to all levels of the organization, making it a part of the culture.
- **Business Acumen:** They can identify and articulate the business model that aligns with the vision and ensures its achievement.
- **Commitment:** Their actions and words demonstrate a strong commitment to the vision and business model.
- **Information Network:** They actively build strong networks (formal and informal) to stay informed about internal and external developments.
- **Empowerment:** They recognize and empower subordinates to make decisions, boosting motivation and reducing their own workload. However, critical decisions remain theirs.
- **Consensus Builder:** They strive to build consensus for their ideas through discussion and collaboration, rather than relying solely on authority.

Question 21: What are the components of psychological abilities that contribute to strong leadership?

Answer: Emotional Intelligence (EI): EI refers to a set of psychological abilities that contribute to strong leadership.

#### Components of Emotional Intelligence:

- **Self-awareness:** Understanding your own emotions, motivations, and their impact on others.
- **Self-regulation:** Managing your emotions and impulses to think before you act.
- **Motivation:** Having a strong drive and passion for your work, beyond just external rewards.
- **Empathy:** The ability to understand and share the feelings of others.
- **Social skills:** Building positive and productive relationships with others.

#### Benefits of High EI for Leaders:

- **Confidence and Adaptability:** Self-aware and self-regulated leaders tend to be more confident, cope better with uncertainty, and are more open to change.
- **Trust and Respect:** People respect leaders who demonstrate self-awareness and self-regulation.
- **Effective Decision-Making:** Self-aware leaders recognize their limitations and make considered decisions, leading to greater trust and confidence from subordinates.
- **Motivation:** A leader's passion for work can be contagious, motivating subordinates to strive for excellence.

Question 22: Explain Organizational Change Management (OCM).

Answer: Change is inevitable in businesses, driven by factors like:

- New technology
- Updated practices
- Restructuring
- Leadership shifts
- Strategic adjustments

Organizational Change Management (OCM) helps businesses adapt to these changes. It involves:

- 1 Preparing employees and stakeholders for upcoming changes.
- 2 Implementing the changes smoothly.
- 3 Helping everyone adjust to the new way of working.

There's no one-size-fits-all approach to OCM. Popular methods include:

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

**Kurt Lewin's Change Model**: Unfreeze → Change → Refreeze

**ADKAR Model**: Awareness → Desire → Knowledge → Ability → Reinforcement

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

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

Employee involvement is crucial for successful change management. Here's what's needed for success:

- Informed and prepared leadership
- Equipped HR team
- Employee buy-in throughout the process

By following these principles, organizations can navigate change effectively and achieve their goals.

Question 23: What are Performance Objectives?

Answer: Goals set for employees to understand expectations and accountability.

Can be performance-based (quantity of work) or development-led (skills improvement).

#### Examples of Performance Objectives:

- Productivity: Amount of work completed in a specific timeframe. (e.g., number of clients served in banking)
- Quality and Efficiency: How well and how fast tasks are completed. (e.g., accurate and fast service delivery)
- Education and Self-Development: Employee-driven goals for skill development. (e.g., new skill training.)

#### Why are Performance Objectives Important?

- Provide direction and focus for employees.
- Improve employee productivity and quality of work.
- Promote continuous learning and development.

#### Alignment with Organizational Goals

- Crucial to maintain employee motivation.
- Helps employees see their contribution to the bigger picture.
- Prioritizes tasks and fosters collaboration within teams.

Question 24: Examine with examples, why do we need the Strategic Business Unit. MTP (7 marks)

Answer: Objectives translate an organization's vision and mission into specific and measurable targets.

Types of Objectives:

1 **Financial Objectives:** Focus on financial performance and profitability.

Examples: Increase revenue, improve profit margins, generate cash flow.

2 **Strategic Objectives:** Focus on strengthening market standing, competitive position and future prospects.

Examples: Gain market share, achieve cost advantages over competitors, develop superior technology.

There is a need to balance the financial objective with strategic objectives.

**Attaining financial objectives** include – adequate profitability and financial strength

It's a paramount importance as the organisation. **Long-term health and ultimately survival will depend on it.**

However, one cannot ignore the need for **accomplishment of strategic objective** as it signals whether the organisation competitive position is on the rise or not. And one can expect a **strong financial performance** if the competitive strength and market position is on the rise.

Most widely used method for combining the use of both strategic and financial objectives, tracking their achievement and giving management more complete in balance view of how well as organisation is performing is known as **balance scorecard**.

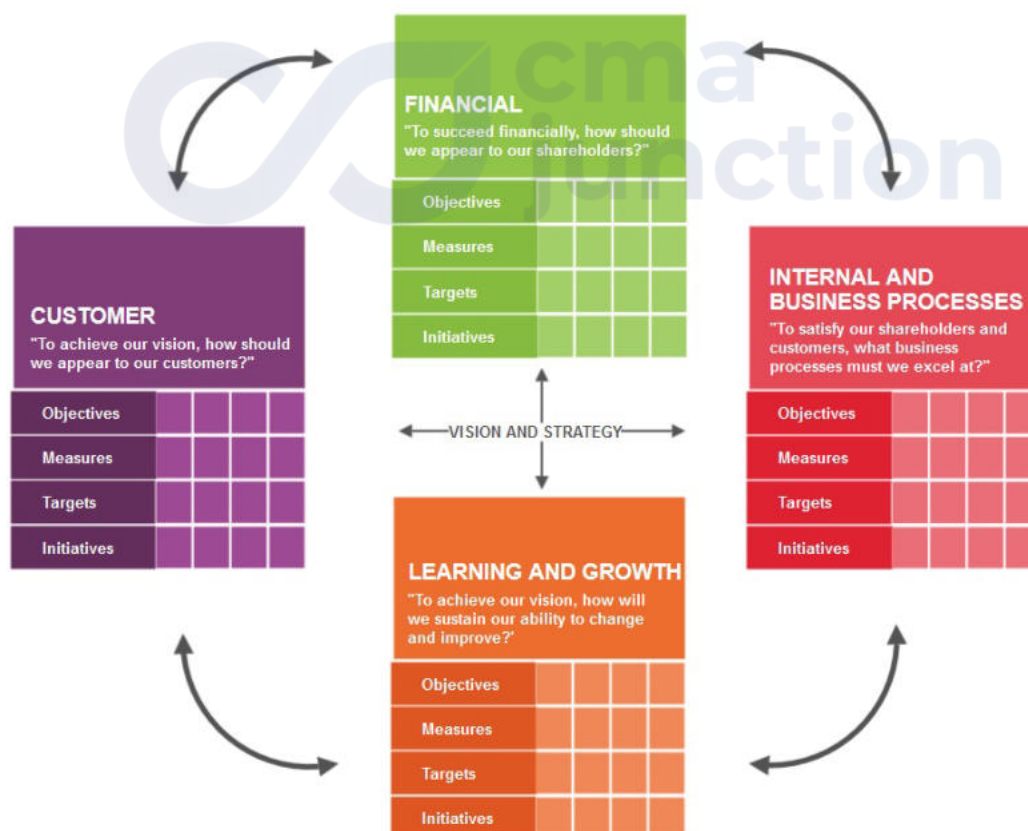
- Links financial goals to specific strategic goals derived from the business model.
- Provides employees with a clear understanding of how their work contributes to overall goals.

Development of the BSC:

- Created by Robert S. Kaplan and David Norton.
- Aims to move beyond a focus on short-term financial goals.
- Emphasizes measuring a wider range of non-financial performance indicators.

The Four Perspectives of the BSC:

- **Financial Perspective:** Measures financial outcomes arising from the organization's strategic intent.  
(e.g., revenue, profitability, cash flow).
- **Customer Perspective:** Measures customer satisfaction and loyalty  
(e.g., market share, customer satisfaction surveys).
- **Internal Business Perspective:** Measures the efficiency and effectiveness of internal processes  
(e.g., innovation, cycle time, quality).
- **Learning and Growth Perspective:** Measures the organization's ability to adapt to change and develop new skills  
(e.g., employee training, knowledge management).



Question 25: What are the steps involved in balance scorecard approach?

Answer: The balanced score card is a **top-down approach to performance management**. It starts with the strategic intent and ends with operationally relevant targets.

Steps in the Balanced Scorecard Approach:

**1 Establish Strategic Intent:**

- Define the organization's vision and mission.
- Determine the overall desired future state.

**2 Design the Balanced Scorecard:**

- Identify specific measures for each BSC perspective:
  - Financial (e.g., revenue growth, profitability)
  - Customer (e.g., customer satisfaction, market share)
  - Internal Business Process (e.g., efficiency, quality)
  - Learning and Growth (e.g., employee skills, innovation)

- Formulate specific strategies to achieve the vision.

**3 Strategy Mapping:**

- Identify organizational activities linked to the formulated strategies.
- Show how activities in one perspective lead to success in another.
- Example: Improved employee training (Learning & Growth) leads to higher quality products (Internal Process), resulting in increased customer satisfaction (Customer Perspective) and ultimately driving revenue growth (Financial Perspective).

**4 Establish Measures:**

- Define specific and measurable metrics for each objective.
- Track progress towards achieving the desired outcomes.
- Examples: Customer satisfaction score, employee training completion rate, product defect rate.

Question 26: What is EVA - Driven Responsibility Accounting?

Answer: Accounting Profit vs. Economic Profit:

Accounting Profit: Traditional profit measure, calculated as revenue minus explicit costs.

Economic Profit: A more rigorous measure that considers all costs, including:

- Explicit costs (e.g., materials, labor)
- Implicit costs (e.g., opportunity cost of capital)

Economic Profit as "Pure Profit"

- Accounting profit can be misleading because it doesn't account for the cost of capital.
- Economic profit represents the true surplus after all inputs, including capital, are compensated.

Why Economic Profit Matters:

- More Demanding Performance Measure: Forces managers to consider the cost of using capital.
- Better Resource Allocation: Helps allocate capital to businesses that generate the highest returns relative to their capital needs.
- EVA (Economic Value Added): A popular measure of economic profit.
  - Calculated as NOPAT (Net Operating Profit After Tax) minus Cost of Capital.

Advantages of Economic Profit:

1 Stricter Performance Discipline:

By factoring in the cost of capital, economic profit highlights companies that are truly generating a surplus after all costs are accounted for. Many seemingly profitable companies might see their profitability disappear when the cost of capital is considered.

2 Improved Capital Allocation:

Economic profit helps identify businesses within a firm that generate the highest returns relative to the capital they require. This can guide investment decisions and ensure capital is allocated to the most efficient and profitable areas.



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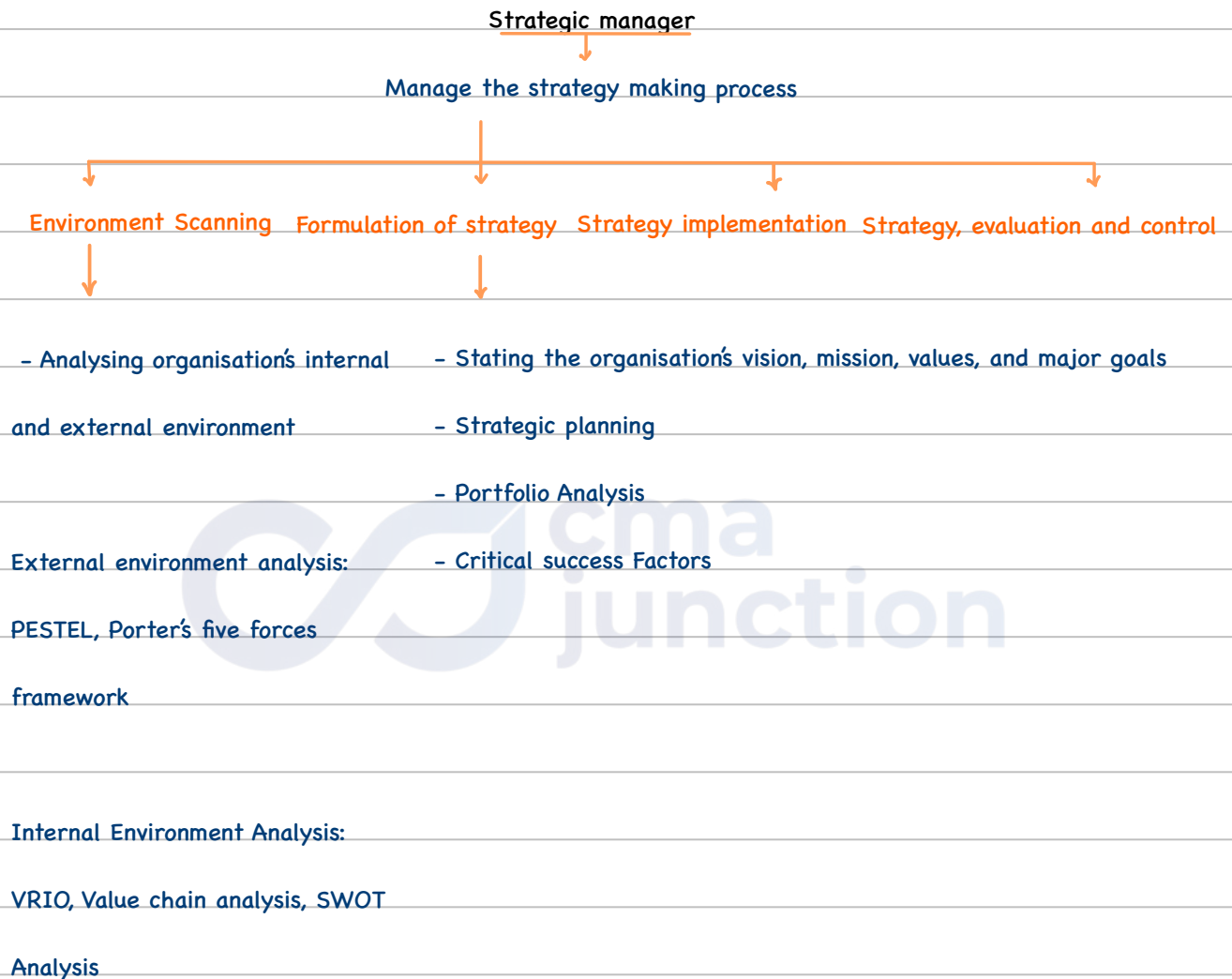
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# Chapter 9:

## Strategic Analysis and Strategic Planning



Question 1: With reference to Business Environment, examine in detail (i) Various layers and (ii) Characteristics Jun 23 (8 marks)

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

The **very survival of an organisation depends on its external environment** which presents both opportunities (e.g., new markets) and threats (e.g., new regulations).

Careful analysis allows managers to anticipate and potentially influence these changes.

**Layers of the Business Environment:**

The framework categorizes factors into distinct layers, moving from broad to specific:

**1 Macro-Environment (Outermost Layer):**

- Broadest and highest-level influences affecting most organizations.
- PESTEL framework helps analyze Political, Economic, Social, Technological, Environmental, and Legal factors.
- PESTEL analysis provides data to identify key drivers of change and construct future scenarios.

**2 Industry/Sector:**

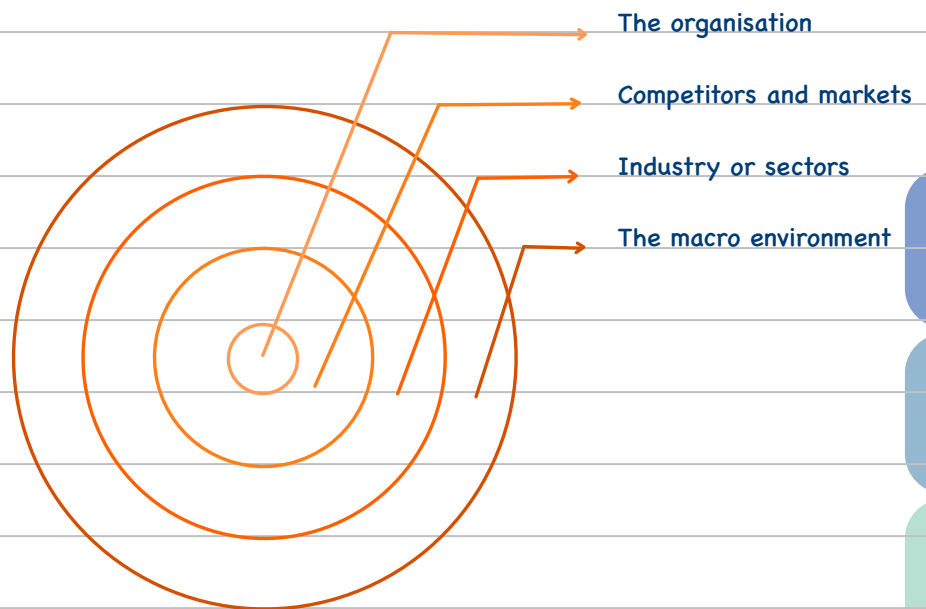
- Organisations producing similar products or services.
- Porter's Five Forces framework helps understand industry attractiveness and external threats.
- It analyzes factors like competition, bargaining power of buyers/suppliers, threat of new entrants, and threat of substitutes.

**3 Competitors and Markets:**

- The most immediate environment surrounding an organization.
- Strategic groups help identify close and distant competitors.
- Market segmentation and critical success factors help understand customer expectations and needs.

**Internal factors** specific to the organisation itself, influence its capabilities and operations.

Methods: VRIO, SWOT analysis, value chain analysis



#### Key Characteristics of business environment:

- **Complexity:** The business environment is a complex interplay of events, conditions, and influences from various sources, creating new effects that are difficult to fully comprehend at once.
- **Dynamism:** The environment is constantly changing due to numerous factors, shaping its character and form over time.
- **Multi-faceted:** Different observers perceive environmental changes differently, with opportunities seen by some and threats by others.
- **Far-reaching Impact:** The environment significantly affects an organization's growth and profitability, with changes impacting its survival and existence in multiple ways.

Question 2: Explain PESTEL Framework.

Answer: PESTEL framework, a useful tool for analyzing the macro-environment that impacts businesses.

- PESTEL stands for **Political, Economic, Social, Technological, Environmental, and Legal** factors.
- Understanding these factors is crucial for managers to identify opportunities and threats.

**Political Factors:**

- Government policies and regulations can restrict or enable business operations.
- Political stability affects investor confidence and economic activity.

**Economic Factors:**

- Economic growth creates opportunities for expansion and profit.
- Economic decline increases competition and reduces consumer spending.
- Interest rates influence borrowing costs and investment decisions.
- Currency exchange rates impact the competitiveness of exports and imports.
- Inflation/Deflation:
  - Inflation can destabilize the economy and make future planning difficult.
  - Deflation can discourage spending and investment.

**Social Factors:**

- Demographics (age, gender, etc.) influence market needs and preferences.
- Cultural shifts can create new demands or challenges for businesses.

**Technological Factors:**

- Technological advancements (AI, internet, etc.) can revolutionize industries and create new opportunities.
- Businesses need to adapt to stay competitive.

**Environmental Factors (green issues):**

- Environmental concerns (pollution, waste) require businesses to adopt sustainable practices.
- Governments are increasingly implementing regulations to protect the environment.

### Legal Factors:

- Laws and regulations (health & safety, mergers & acquisitions) impact business operations.
- Businesses need to comply with legal requirements.

### Key Drivers for Change:

- Not all PESTEL factors have equal impact.
- Managers need to identify high-impact factors ("key drivers") that significantly affect their industry or sector.
- This helps them prioritize which factors need the most attention.



Question 3: Summarize the factors that determine the rivalry among established firms according to Porter's Five Forces Framework. MTP (7 marks)

Answer: Porter's Five Forces Framework

- Helps identify **sources of competition** in an industry.
- **Used at the level of strategic business units (SBUs)**, not the whole organization, due to diversity in operations and markets.
- Not used solely for a snapshot; requires understanding of connections between competitive forces and structural drivers.
- Five forces are **interdependent**, not independent.
- Competitive behavior may aim to disrupt these forces, not just accommodate them.



## I. Risk of Entry by Potential Competitors

Established companies aim to discourage potential competitors from entering the industry to safeguard their market share and profitability. High entry barriers, which increase potential competitors' costs, weaken this threat. Even in profitable industries, high entry barriers can discourage potential competitors.

### 1. Economies of Scale:

- Established companies with large production volumes enjoy lower costs per unit produced compared to new entrants starting small.
- This cost advantage gives them an edge in pricing and profitability.

### 2. Brand Loyalty:

When customers are loyal to established brands, they are less likely to switch to new entrants, making it harder for new companies to gain market share.

### 3. Absolute Cost Advantages:

- Established companies might have:
  - More efficient production processes due to experience or proprietary technology.
  - Control over crucial resources or raw materials.
  - Easier access to financing due to lower perceived risk.
  - These advantages allow them to keep their costs lower than potential entrants.

### 4. Customer Switching Costs:

If customers have to invest significant time, money, or effort to switch from established brands to new entrants (e.g., data transfer, retraining), they might be less likely to do so.

### 5. Government Regulations:

Strict government regulations can make it expensive and time-consuming for new companies to enter an industry, acting as a barrier to entry.

## II. Rivalry Among Established Companies

### Impact on Profits:

#### High Rivalry:

- Companies compete fiercely using price cuts, promotions, etc.
- This lowers profits due to lower prices and higher marketing costs.

#### Low Rivalry:

- Companies may have the power to raise prices or reduce non-price competition spending.
- This can lead to higher industry profits.

Four factors have a major impact on the intensity of rivalry among established companies within an industry: (1) industry competitive structure, (2) demand conditions, (3) cost conditions, and (4) the height of exit barriers in the industry.

### 1) Industry Competitive Structure

#### Fragmented Industry (Many Small Companies):

- Low barriers to entry lead to many competitors.
- Price wars erupt due to difficulty in differentiating products.
- Excess capacity and boom-and-bust cycles occur.
- Cost minimization is key for survival.

#### Consolidated Industry (Few Large Companies):

- Companies are interdependent and actions by one affect others.
- Price wars and competitive spirals can erupt.
- Companies may follow the price set by the dominant player.

### 2) Industry Demand

#### Growing Demand:

- More opportunity for companies to compete for new customers.

- Less rivalry as all companies can grow without taking market share from others.
- Often leads to high industry profits.

#### Declining Demand:

- Companies fight for shrinking market share and revenue.
- Increased rivalry as companies try to take customers from each other.
- Declining demand is a major threat that intensifies competition.

#### 3) Cost Conditions: High fixed cost

- Companies need high sales volume to be profitable.
- They might cut prices or increase promotions to boost sales.
- If many companies do this in a slow-growing market, intense rivalry erupts.
- Weakest firms often start price cuts due to their struggle with fixed costs.

#### 4) Exit Barriers

- Companies get stuck in declining industries due to difficulty leaving.
- This leads to excess capacity and intense price competition.

#### Reasons for High Exit Barriers:

- Specialized assets with no value outside the industry.
- High fixed costs associated with shutting down (e.g., severance pay).
- Emotional attachment to the industry.
- Dependence on a single industry for revenue.
- Bankruptcy regulations allowing unprofitable companies to stay afloat.

#### Consequences of High Exit Barriers:

- Unprofitable companies stay in the market, increasing competition.
- Excess capacity leads to price wars and lower profits for everyone.

### III. The Bargaining Power of Buyers

#### Strong Buyers = Threat to Profits:

- Buyers can negotiate lower prices or demand higher quality/service.
- This squeezes profits out of the industry for companies.

#### Factors that Make Buyers Powerful:

- **Many Choices:** When there are many sellers, buyers can choose who to buy from. (e.g., Multiple clothing stores)
- **Large Purchases:** Buyers who buy a lot can leverage their volume for discounts. (e.g., Wholesalers)
- **Important Customers:** If a company relies on a few big buyers, those buyers have more power. (e.g., Supermarkets for food suppliers)
- **Easy Switching:** If buyers can easily switch to another company (low switching costs), they have more bargaining power. (e.g., Phone plans)
- **Threat of Backward Integration:** If buyers can become their own suppliers, it threatens the industry's pricing power. (e.g., Manufacturers making their own components)

### IV. The Bargaining Power of Suppliers

#### Strong Suppliers = Threat to Profits:

- Suppliers can raise input prices or deliver lower quality products/service.
- This increases costs for companies in the industry, squeezing their profits.

#### Factors that Make Suppliers Powerful:

- **Unique and Vital Inputs:** When a product has few substitutes and is essential for the industry (e.g., semiconductors for electronics), suppliers have the upper hand.
- **Independent of the Industry:** If suppliers have a diverse customer base and the industry isn't a major client (e.g., oil suppliers to many industries), they have more power.
- **High Switching Costs:** If switching to a different supplier is expensive or time-consuming (e.g., specialized machinery), suppliers have more leverage.

- **Threat of Forward Integration:** If suppliers can become their own customers by entering the industry and making the final product (e.g., aluminum supplier starting a can factory), it threatens the industry's profits.
- **Limited Buyer Power:** If companies can't make their own key inputs (e.g., obtaining rare earth metals), suppliers have an advantage.

## V. Substitute Products

Close Substitutes = Threat to Profits:

- Customers can switch to cheaper substitutes if prices in an industry get too high. (e.g., Switching from coffee to tea)
- This limits the ability of companies in the industry to raise prices and earn high profits.

Few Substitutes = Opportunity for Profits:

- If there are no good alternatives, companies have more pricing power.
- They can raise prices without customers easily switching, potentially increasing profits.

Complementors: A Sixth Force in Competitive Analysis

Andrew Grove, former CEO of Intel, proposed that Porter's Five Forces model overlooks an important factor influencing industry demand: Complementors.

- **What are Complementors?**

Companies that sell products that enhance the value of another industry's products when used together.

Essentially, they "complement" each other.

- Example: PC industry (Main product), Software application companies (Complementors)

When high-quality software applications are readily available for PCs, it increases the overall value of PCs for customers. This can lead to: - Increased demand for PCs. - Higher profitability for the PC industry

**Impact of Complementors:**

- Stronger complementors can boost demand and profitability for the main industry.
- Companies might benefit by collaborating with or strategically influencing complementors.
- The power and competence of complementors become another factor to consider in industry analysis.

Question 4: What are critical success factors? What are the major sources of critical success factors?

Answer: **Critical Success Factors (CSFs)** are essential product features or areas where a company must excel to outperform the competition and satisfy customer needs.

What are CSFs?

- Features highly valued by customers.
- Areas where a company must excel to be successful.

Major Sources of CSFs (by Rockart):

- **Industry Structure:**
  - Specific factors relevant to the industry as a whole.
  - Example: Auto companies need strong service networks for customer satisfaction.
- **Competitive Strategy, Industry Position, and Geographic Location:**
  - CSFs based on a company's unique situation.
  - Example: India's large english speaking workforce is a CSF for BPO companies to compete globally.
- **Environmental Factors:**
  - CSFs influenced by broader business and economic conditions.
  - Example: Deregulation became a CSF for private telecom companies in India.
- **Temporal Factors:**
  - Short-term developments requiring immediate attention.
  - Example: Finding a new CEO might be a temporary CSF until leadership is stabilized.

Using CSFs in Strategy Development:

- CSFs can help narrow down strategic options.
- Analyze promising alternatives based on their relevance to CSFs.
- Forecast the outcome of different options considering CSFs.

By identifying and understanding CSFs, companies can focus their efforts on what truly matters for customer satisfaction and competitive advantage.

Question 5: Explain VRIO.

Answer: **The VRIO Framework Explained**

The VRIO framework, developed by Jay Barney, is a strategic management tool used to analyze an organization's resources and capabilities to identify those that can create a sustainable competitive advantage. It evaluates resources based on four key characteristics:

VRIO Stands for:

- **V - Valuable:** Do the resources and capabilities provide value to customers and create a competitive advantage?
  - Threshold competencies are necessary but don't provide an advantage (e.g., meeting basic safety standards).
  - Core competencies create a competitive advantage by offering superior value to customers.
- **R - Rare:** How rare are the resources and capabilities? Are they possessed by many competitors?
  - Rarity contributes to competitive advantage as it becomes harder for others to replicate.
- **I - Inimitable:** How easily can competitors imitate the resources and capabilities?
  - Barriers to imitation, such as complex processes, unique technologies, or strong brand recognition, can make them difficult to replicate.
- **O - Organized:** Is the organization structured to capture the value of its resources and capabilities?
  - A well-organized structure with effective processes and a culture that fosters innovation allows the organisation to leverage its resources effectively.

Sustainable Competitive Advantage:

A resource or capability that meets all four VRIO criteria is considered a source of sustainable competitive advantage. This means it's valuable, rare, difficult to imitate, and the organization is well-positioned to exploit its benefits.

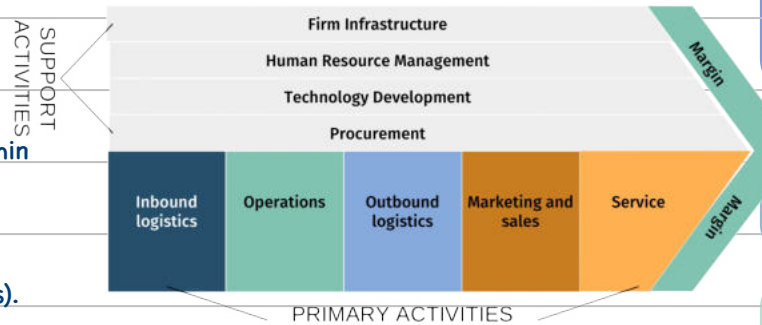


Question 6: "The value chain describes the categories of activities within and around an organization which create a product or service". In this context, demonstrate the activities involved in the value chain of an organization. (7 marks)

Answer: Michael Porter's Value Chain framework, a valuable tool for analyzing the activities that create value for your customers.

What is the Value Chain?

- It describes the interconnected activities within an organization that transform inputs into customer-valued outputs (products or services).
- It helps identify how value is added at each stage.



Types of Activities:

1 **Primary Activities** (directly create value for the customer):

- Inbound Logistics: Receiving, storing, and distributing materials. (e.g., inventory control)
- Operations: Transforming inputs into the final product or service. (e.g., assembly, machining)
- Outbound Logistics: Delivering the product or service to the customer. (e.g., warehousing, distribution)
- Marketing and Sales: Promoting and selling the product or service. (e.g., advertising, customer service)
- Service: Activities that maintain or enhance the product's value. (e.g., installation, repairs)

2 **Support Activities** (indirectly create value by supporting primary activities):

- Procurement: Acquiring resources needed for the primary activities. (e.g., purchasing raw materials)
- Technology Development: Developing & managing technologies to improve efficiency. (e.g., research & development)
- Human Resource Management: Recruiting, training, and motivating employees.
- Infrastructure: The organization's overall structure and systems (e.g., finance, accounting, quality control).

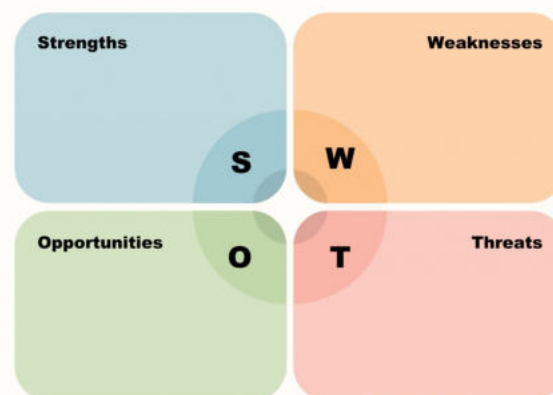
Adding Value:

- Value can be added at any stage in the value chain, both upstream (early) and downstream (later).
- The goal is to optimize the value chain to deliver the most value to the customer at the lowest cost.

Question 7: What is meant by SWOT analysis? (4 marks)

Answer: SWOTC Analysis

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats or Challenges. It's a framework used to analyze an organization's strategic position.



#### Benefits:

- Simple and versatile: Easy to use and adaptable to various situations.
- Clarifies issues: Helps identify key factors impacting the organization.
- Develops strategic options: Provides a foundation for exploring future courses of action.

#### Steps:

- 1 Set objectives: Define the goals of the organization or unit.
- 2 Identify factors: Brainstorm strengths, weaknesses, opportunities, and threats.
- 3 Develop strategies:
  - Strengths: Leverage strengths to capitalize on opportunities.
  - Weaknesses: Minimize weaknesses to reduce threats.
  - Opportunities: Exploit opportunities using strengths.
  - Threats: Protect against threats by minimizing weaknesses.

#### Challenges:

- Clarity: Distinguishing opportunities from threats and vice versa can be difficult.
- Focus: SWOT can generate extensive lists, making it crucial to prioritize what's important.
- Oversimplification: Complex realities can be oversimplified in the SWOT framework.
- Passivity: SWOT can encourage a reactive approach instead of proactive strategy development.
- Misinterpretation: Strengths might be confused with opportunities, and weaknesses with threats.
- Limited Scope: SWOT doesn't replace in-depth analysis of core competencies, critical success factors, etc.

#### Key Takeaway:

SWOT analysis is a valuable tool for initial strategic analysis, but it's important to be aware of its limitations and use it in conjunction with other strategic frameworks for a more comprehensive understanding.

## Threats (Challenges) in SWOT Analysis

### Why They Matter:

Threats (or challenges) are arguably the most crucial aspect of SWOT analysis. They represent external factors that can hinder your business's success.

### Examples of Threats:

- Tightening regulations
- Shifting consumer demands
- New competitor products
- Changing technological landscape

### Impact:

A well-defined plan based on strengths, weaknesses, and opportunities can be useless if you don't consider industry challenges.

### Key Point:

Understanding threats helps you make informed decisions about your products and strategies.



Question 8: Explain Portfolio Analysis, its various objectives and advantages (7 marks)

**Answer:** Portfolio analysis is a strategic tool used by multi-business corporations to manage their collection of businesses (portfolio) for optimal returns. It views the corporation as an investor managing a portfolio of assets, with each business unit being an investment.

**Objectives:**

- Analyze current business mix: Evaluate the performance and potential of each business unit.
- Make investment decisions: Allocate resources and decide on acquisitions or divestitures.
- Develop growth strategies: Identify opportunities for new businesses or existing ones.
- Strategic alliances: Assess how alliances contribute to corporate and business unit goals.

**Popular Techniques:**

- BCG Growth-Share Matrix: Classifies businesses based on market growth and relative market share (Stars, Cash Cows, Dogs, Question Marks).
- GE Business Screen: Evaluates businesses on market attractiveness and business unit strength.

**Advantages**

- Strategic focus: Encourages evaluation of individual businesses and setting specific goals.
- Data-driven decisions: Promotes using external data to supplement management judgment.
- Resource allocation: Raises awareness of cash flow needs for expansion.
- Clear communication: Visualization tools (matrices) simplify communication.

**Limitations:**

- Market segmentation: Defining product/market segments can be challenging.
- Standardization: Prescribed strategies might miss opportunities or be impractical.
- Subjectivity: Portfolio positions are often based on judgment, not pure science.
- Labeling bias: Terms like "cash cow" and "dog" can lead to self-fulfilling prophecies.
- Uncertainties: Industry attractiveness and product lifecycle stage might be unclear.
- Misuse: Following portfolio models blindly can harm profits if applied incorrectly.

Question 9: Explain the four sorts of business as given in the BCG Matrix. Identify the advantages and limitation of BCG Matrix. (7 marks)

Answer:

The BCG Growth-Share Matrix, developed by the Boston Consulting Group (BCG), is a popular tool for analyzing a corporation's business portfolio. It categorizes businesses based on their market growth rate and relative market share

("star," "cash cow," "question mark," "dog").

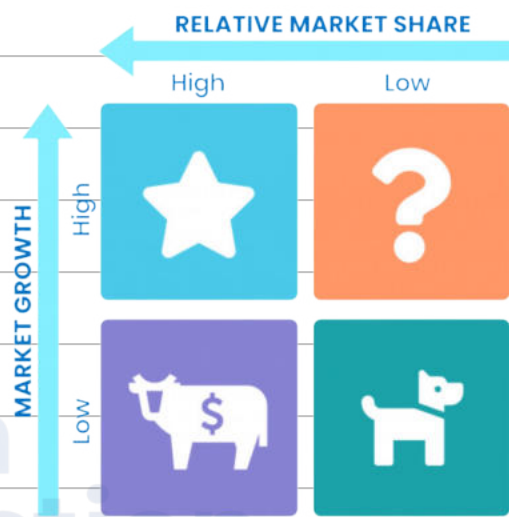
Market Growth vs. Market Share:

**High Market Growth:** Market is rapidly expanding.

**High Market Share:** Business unit has a large share of the market.

**Low Market Growth:** Market is stagnant or declining.

**Low Market Share:** Business unit has a small share of the market.



The Four Categories:

**Stars:** High growth, high share - require heavy investment to maintain growth but generate good profits.

**Question Marks:** High growth, low share - require investment to capture market share and become stars, but many fail.

**Cash Cows:** Low growth, high share - mature businesses generating healthy cash flow to fund other ventures.

**Dogs:** Low growth, low share - unprofitable and drain resources. BCG recommends divestment or closure.

Advantages:

- Visualizes Portfolio: Provides a clear picture of different business needs and potential.
- Financial Awareness: Warns against overemphasis on high-growth businesses with high investment demands.
- Lifecycle Awareness: Emphasizes that stars eventually decline.
- Discipline for Managers: Reminds business unit managers that surplus resources belong to the corporation.

**Limitations:**

- **Definitional Issues:** Defining "high" and "low" growth/share can be subjective.
- **Capital Market Assumptions:** Ignores the possibility of raising external capital.
- **Motivation Problems:** Labeling businesses as "cash cows" or "dogs" can demotivate managers.
- **Self-Fulfilling Prophecies:** Cash cows can decline faster if starved of investment.
- **Oversimplified Divestment:** Ignores potential ties between business units.

**Overall:**

The BCG matrix is a helpful tool for strategic portfolio analysis, but its limitations must be considered. It should be used in conjunction with other frameworks and sound judgment.



Question 10: Analyze the steps in a formal strategic planning process? MTP (7 marks)

Answer: The Five Steps of Strategic Planning

Strategic planning is a crucial process for organizations to define their direction and achieve long-term goals.

**1. Define Mission and Goals:**

- **Mission Statement:** Defines the organization's purpose, values, and desired future state (vision).
- **Major Goals:** Set ambitious but achievable targets to guide strategic direction.

**2. Analyze External Environment:**

- **Industry Analysis:** Identify opportunities and threats within your specific industry.
- **National Environment:** Consider factors like regulations and economic trends.
- **Macro Environment:** Analyze broader social, economic, and technological factors

**3. Analyze Internal Environment:**

- **Strengths and Weaknesses:** Evaluate your resources, capabilities, and competencies to identify internal strengths and weaknesses.
- **SWOT Analysis:** Compare internal strengths and weaknesses with external opportunities and threats. This helps refine your business model by aligning resources with environmental demands

**4. Select Strategies:**

- **Build on Strengths:** Leverage your strengths to capitalize on external opportunities.
- **Correct Weaknesses:** Address weaknesses to mitigate external threats.
- **Competitive Advantage:** Choose strategies that create a sustainable competitive advantage.
- **Alignment:** Ensure strategies are consistent with your mission and goals.

## 5. Implement Strategies:

- **Putting Strategies into Action:** Translate strategies into actionable plans at functional, business, and corporate levels.
- **Organizational Alignment:** Design the right structure, culture, and control systems to support strategy execution.
- **Governance:** Establish systems to ensure ethical and legal implementation.

### The Feedback Loop:

Strategic planning is an ongoing process. Monitor execution to assess progress towards goals and competitive advantage. This feedback informs future strategy formulation and implementation, allowing for adjustments as needed.



Question 11: Explain Alternatives in Strategic Planning

Answer: Alternatives to Traditional Strategic Planning

Traditional strategic planning often assumes a predictable future and a top-down approach. Here are some criticisms and alternative approaches:

Criticisms of Traditional Planning:

- **Unpredictable Future:** Real-world contingencies can disrupt even the best plans.
- **Limited Role for Lower Management:** Excludes valuable insights from those closest to operations.
- **Overlooking Serendipity:** Successful strategies can emerge from unexpected opportunities.

Alternative Approaches:

1. Scenario Planning:

- **What-If Scenarios:** Develop plans for various future possibilities (optimistic, pessimistic).
- **Tracking Trends:** Monitor indicators to assess the likelihood of each scenario.
- **Benefits:**
  - Improves understanding of a dynamic environment.
  - Encourages strategic thinking.
  - Generates diverse strategic options.

2. Decentralized Planning:

- **Problem with Traditional Approach:** "Ivory tower" planning by top management can be ineffective.
- **Decentralised Approach:** Involves managers at all levels.
- **Benefits:**
  - Leverages insights from those closest to daily operations.
  - Improves strategic plan's practicality.
  - Corporate-level managers act as facilitators, setting goals and providing resources.

### 3. Strategy Analysis and Choice:

This process involves generating, evaluating, and selecting feasible strategic alternatives based on:

- Vision, Mission, and Objectives
- Environmental Analysis (Opportunities & Threats)
- Internal Analysis (Strengths & Weaknesses)

Generating Strategic Alternatives:

- Factors Affecting Alternatives: Size, management style, industry characteristics.
- Methods for Generating Alternatives:
  - **Brainstorming Sessions:** Top management and key executives discuss various options.
  - **Special Meetings:** Executives meet off-site to explore alternative scenarios and actions.
  - **Outside Consultants:** Bring in objective and expert viewpoints.
  - **Joint Meetings:** Combine internal and external perspectives for a wider range of ideas.



Question 12: What are the effects of biases in strategic decisions? Explain the different types of biases.

Answer: Bounded Rationality and Biases in Strategic Decisions

Our decision-making abilities are limited (bounded rationality) and can be influenced by mental shortcuts (heuristics) that sometimes lead to errors. Here's how these biases can affect strategic decision making:

#### Bounded Rationality:

- Human capabilities limit our ability to process information perfectly.
- We rely on simplified rules (heuristics) to navigate complex situations.

#### Cognitive Biases:

- These are systematic errors in thinking that can affect our decisions.

#### Types of Cognitive Bias

- **Prior Hypothesis Bias:** Sticking to preconceived beliefs despite evidence to the contrary.  
Example: A company might invest heavily in a project based on a faulty belief about market demand.
- **Escalating Commitment:** Throwing good money after bad by continuing to invest in failing projects.  
Example: A company might continue funding a failing marketing campaign due to sunk costs.
- **Reasoning by Analogy:** Making faulty decisions based on overly simplistic comparisons.  
Example: A company might launch a product based on the success of a similar but unrelated product.
- **Representativeness Bias:** Generalizing from small samples or anecdotes.  
Example: A company might invest in a new technology based on a single successful case study.
- **Illusion of Control:** Overestimating one's ability to influence events.  
Example: A CEO might make overly risky investments due to overconfidence in their own judgment.

#### Consequences of Biases:

- These biases can lead to poor strategic decisions with negative consequences for businesses.

Question 13: What are the Techniques to Improve Strategic Decision Making?

Answer: • **Devil's Advocacy:**

- Requires a plan and a critical analysis of that plan.
- A designated "devil's advocate" identifies potential weaknesses and challenges.
- Benefits: Raises awareness of potential problems before implementation.

• **Dialectic Inquiry:**

- More complex than devil's advocacy.
- Involves creating a plan (thesis) and a counter-plan (antithesis).
- Advocates debate both plans, exposing flaws and assumptions.
- Outcome: A more comprehensive "synthesis" plan emerges from the debate.
- Benefits: Encourages critical thinking and reveals hidden issues.

• **Outside View:**

- Requires identifying similar past strategic initiatives.
- Analyze success or failure of those past initiatives.
- Evaluate the current project against the historical context.
- Benefits: Provides insights from past experiences.

**Groupthink:**

- **Concept by Irving Janis:** A psychological phenomenon in group decision-making.
  - Group prioritizes cohesion over critical thinking.
  - Members suppress dissenting views to maintain harmony.
  - Decisions based on emotions and justifications rather than objective analysis.
- **Consequences:** Poor strategic decisions with negative outcomes.

**How Techniques Mitigate Groupthink:**

- Devil's advocacy and dialectic inquiry directly challenge groupthink by introducing opposing viewpoints.
- The outside view encourages looking beyond the immediate group and considering past experiences.

By employing these techniques, organizations can foster a more critical and objective decision-making environment, reducing the risk of groupthink and leading to better strategic choices.



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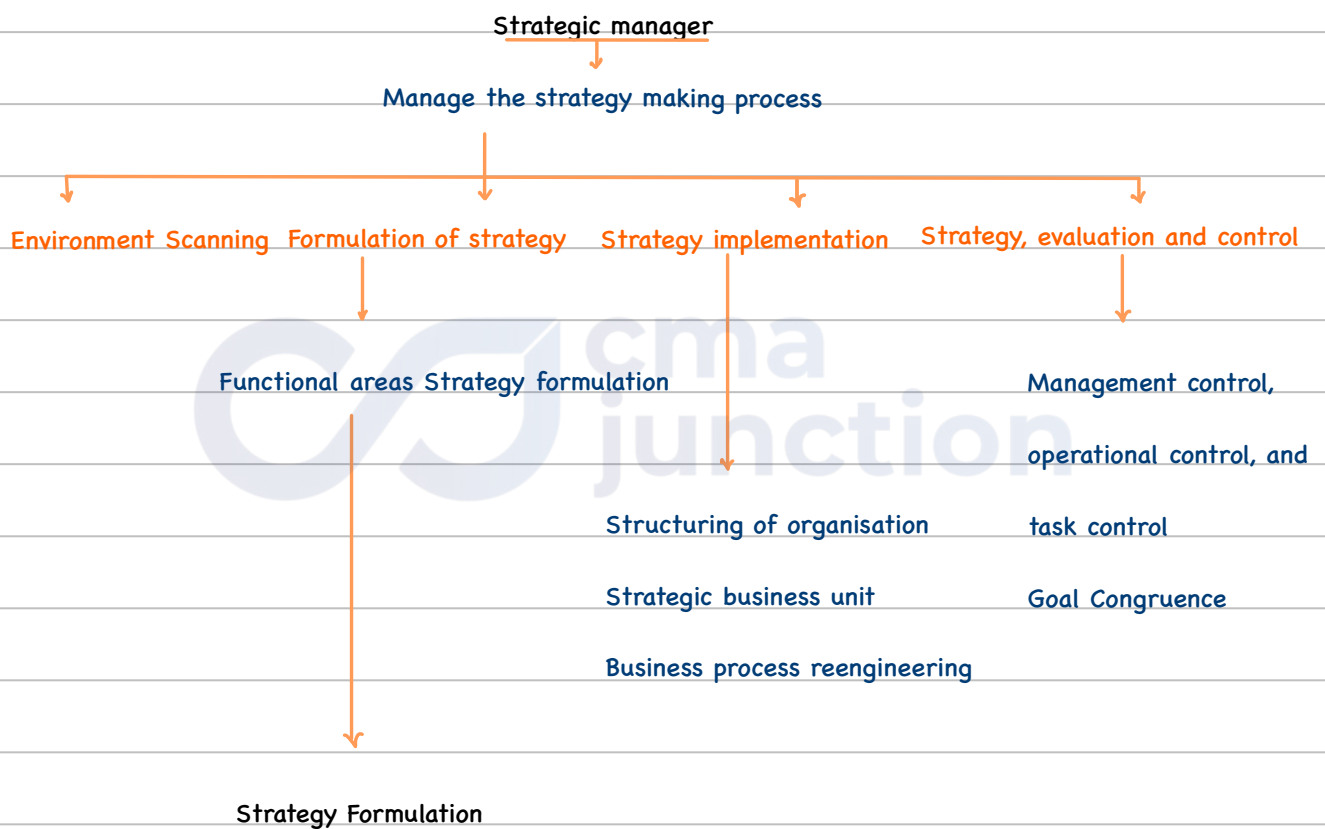
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# Chapter 10:

## Formulation and Implementation of Strategy



The possession of resources (including people) does not guarantee strategic success. Strategic capability is concerned with how these resources are deployed, managed and controlled to create competences in those activities and business processes needed to run the business.

The formulation of strategy with respect to the functional areas namely production, supply chain, marketing and human resource.

Question 1: What is Goal Congruence and Agency Theory.

Answer: Goal Congruence:

Alignment of goals between different groups within an organization (e.g., employees, managers, shareholders).

Importance: Increased profitability and overall success.

Challenges: - Employees have personal goals besides organizational ones.

- Information asymmetry between management and shareholders.

Agency Theory:

Analyzes conflicts arising when one party (principal) delegates decision-making to another (agent).

In organizations, managers are agents acting on behalf of shareholders (principals).

**Potential issues:** - Managers may not always act in the shareholders' best interests.

- Moral hazard: Managers take excessive risks or shirk responsibilities.

- Adverse selection: Shareholders lack complete information about managers' capabilities.

**Achieving Goal Congruence and Mitigating Agency Problems:**

- Incentivize Alignment: Profit-sharing bonuses, Stock options, Performance-based compensation
- Monitoring and Controls: Management audits, Additional reporting requirements, Ethical codes of conduct

Aspects of Goal Congruence:

- **Communication and Understanding:**
  - Clear communication of goals through formal (budgets) and informal channels (meetings).
  - Ensure goals are well-understood to avoid misinterpretations.
- **Direction and Motivation:**
  - Performance management systems that define expectations and goals.
  - Understanding strategic objectives and value drivers.
  - Addressing employee motivation through recognition, challenging work, and responsibility.

- **Incentives:**

- Linking rewards and compensation to desired behaviors and performance.

- **Connection:**

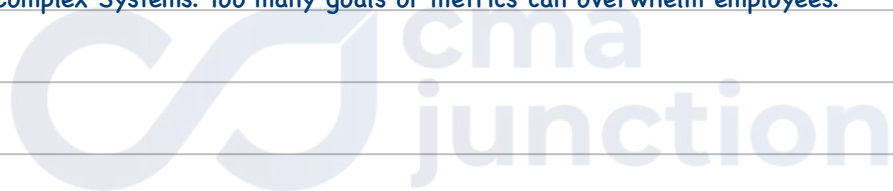
- Aligning incentives with performance measures and goals.

- Encouraging employees to focus on what matters most for the organization.

By implementing these strategies, organizations can create a more unified environment where individual goals and organizational objectives work in harmony, leading to greater success.

**Challenges and Considerations:**

- **Creative Accounting:** Incentive structures might encourage manipulating financial statements.
- **Overly Complex Systems:** Too many goals or metrics can overwhelm employees.



**Question 2:** Explain Key Result Areas (KRAs), Key Performance Areas (KPAs) and Key Performance Indicators (KPIs)

**Answer:** Imagine a company's KPA is "Increase Customer Satisfaction" (broad area).

- KRA: "Improve customer service response time" (specific area within customer satisfaction).
- KPI: "Reduce average call wait time by 2 minutes within 3 months" (measurable outcome for the KRA).

**Key Points:**

- KPAs encompass a broad range of performance.
- KRAs define specific areas of focus within a KPA.
- KPIs provide measurable ways to track progress towards achieving a KRA

**I. Key Result Areas (KRAs):**

**Definition:** KRAs are a concise list of critical goals that define success for an individual, department, or organization. They represent the most important 20% of activities that will deliver 80% of the value.

**Purpose:** KRAs provide clarity and direction, ensuring everyone focuses on what truly matters for achieving the organization's objectives.

**Characteristics of Effective KRAs:**

- **SMART:** Specific, Measurable, Achievable, Relevant, and Time-bound.
- **Limited Number:** Typically 3-5 KRAs to maintain focus.
- **Alignment:** Aligned with the organization's strategic goals.
- **Written and Agreed Upon:** Clearly documented and reviewed by relevant parties.

**Common Challenges in Developing KRAs:**

- **Lack of Clarity:** Unclear expectations about the employee's role and focus areas.
- **Distractions:** Focusing on daily tasks with limited value to the organization's success.
- **Top-Down Imposition:** Supervisors dictating KRAs without employee input, leading to disengagement.

### Best Practices for Developing KRAs:

- Collaborative Effort: Involve employees in setting KRAs to ensure buy-in and ownership.
- Alignment: Ensure KRAs are aligned with the organization's strategic goals.
- Measurable: Define success through measurable metrics whenever possible.

## II. Key Performance Areas (KPA):

**Definition:** KPAs are broader categories that define areas of responsibility. They encompass a wider range of activities than KRAs, but without a direct focus on results or measurement.

**Examples:** Improving safety, customer satisfaction, resource efficiency, etc.

**Importance:** KPAs ensure all crucial areas of responsibility are addressed within the organization.

### Important KPAs:

- Financials: Revenue, costs, profits, and trends.
- Customer Satisfaction: Complaints, returns, satisfaction surveys.
- Market Perception: Brand image, customer views.
- Productivity: Goal achievement, efficiency in daily tasks.

## III. Key Performance Indicators (KPIs):

**Definition:** KPIs are specific metrics used to measure progress towards achieving KRAs. They translate the general goals outlined in KRAs into measurable terms.

**Examples:** Sales figures, customer satisfaction ratings, product return rates, etc.

**Role:** KPIs help track performance and identify areas needing improvement.

By effectively utilizing KRAs, KPAs, and KPIs, organizations can establish clear direction, track progress, and achieve their desired outcomes.

Question 3: Explain Strategic Control

Answer: - **Strategic Control** is a system of tools and processes used by managers to **monitor and evaluate** the effectiveness of an organization's strategies and structures.

- It **goes beyond just measuring current performance**. It assesses whether the chosen strategies are actually leading to the desired outcomes aligned with the business model

Why is Strategic Control Important?

- Ensures strategies are **working as planned**: Tracks progress towards achieving the organization's goals and objectives.
- Identifies areas for **improvement**: Helps identify weaknesses or gaps in the current approach.
- **Promotes adaptation**: Provides insights to adjust strategies or structures if needed to stay competitive and successful.
- **Motivates employees**: Strategic control can be used to create incentive programs that keep employees focused on important problems and solutions for long-term success.

Benefits of Effective Strategic Control:

Superior Efficiency, Enhanced Quality, Increased Innovation, Improved Customer Responsiveness:

Role of Control in achieving efficiency, quality, innovation, and responsiveness to customers.

- 1) **Control and Efficiency**: Control systems help managers measure inputs (resources) used to produce outputs (goods/services). This allows them to identify areas for improvement and optimize production.
- 2) **Control and Quality**: By tracking customer complaints and product returns, control systems provide feedback on product quality, enabling managers to focus on building better products.
- 3) **Control and Innovation**: Strategic control can foster innovation by creating a culture that empowers employees and encourages experimentation. However, designing control systems that balance risk-taking with accountability is crucial.
- 4) **Control and Customer Responsiveness**: Monitoring employee interactions with customers helps assess their performance and identify areas for improvement through training or better procedures. Knowing they are being monitored can incentivize employees to provide better customer service.

Strategic control systems exist at four levels:

Corporate, Divisional, Functional, Individual

Key Points:

- Controls at each level should be aligned to avoid conflicts.
- Lower-level controls should be built upon the foundation set by higher-level controls.

Question 4: What are the types of strategic control?

Answer: Focus on the big picture, ensuring the organization's overall strategy is effective.

- 1) **Premise Control:** Regularly checks if the assumptions your strategy is based on (e.g., environmental factors, industry factors) are still valid. If not, the strategy might need adjustments.
- 2) **Strategic Surveillance:** Continuously monitors your internal and external environment (news, competitors, etc.) to identify potential threats or opportunities that could impact your strategy.
- 3) **Special Alert Control:** Deals with sudden, unexpected events (e.g., major regulation changes) that require immediate action. Contingency plans and crisis teams can help navigate these situations.
- 4) **Implementation Control:** Tracks how well your strategy is being executed. It assesses if your plans, programs, and policies are actually leading you towards your goals. This might involve monitoring key projects and milestones, and using operational controls like budgets and schedules.

Question 5: Strategic control aims to achieve high performance by:

Answer:

- 1) **Setting Ambitious Goals:** Motivating employees and managers to strive for excellence through challenging targets.
- 2) **Management by Objectives:**
  - Employees participate in setting their own goals, increasing ownership.
  - Managers intervene only when necessary (manage by exception).
- 3) **Performance-Based Rewards:**
  - Linking pay to performance creates a strong incentive for high achievement.
  - Managers can accurately assess individual contributions.

In summary, strategic control uses a functional structure combined with ambitious goals, management by objectives, and performance-based rewards to drive employee and management excellence.

**Question 6:** Explain approaches to strategic control.

**Answer:** There are two main approaches to strategic control:

**1 Traditional Approach (Sequential):**

- Follows a step-by-step process:

- a) Formulate strategies and set goals.
- b) Implement strategies.
- c) Measure performance against goals.
- d) Take corrective actions if needed.

- Relies on feedback after measuring performance to adjust the strategy.

- Limitations:

- a) Time-consuming (often tied to annual planning cycles).
- b) Not proactive enough for a dynamic environment.
- c) Ignores the need for continuous evaluation during implementation.

**2 Contemporary Approach (Adaptive):**

- Emphasizes continuous monitoring and adaptation.

- Key question: Do strategies still fit the current environment?

- Requires managers to:

- a) Continuously scan internal and external environments.
- b) Regularly challenge and update the assumptions underlying the strategy.

- May involve changes in strategic direction.

- More suitable for today's dynamic business landscape.

In short: Traditional control is good for operational tasks, but contemporary control is essential for strategic planning due to its focus on continuous adaptation.



3) Behavior control relies on established rules, procedures, and standards to guide actions and decision-making across the organization. It focuses on how tasks are done, not the specific goals themselves. This ensures:

- Predictability: Consistent actions and outcomes if employees follow the rules.
- Accuracy: Reduced errors by following established procedures.

Examples of behavior control include:

- Operating budgets: Setting spending limits for departments.
- Standardization: Using uniform processes for tasks (e.g., manufacturing procedures).
- Documented rules and procedures: Clear guidelines for employees to follow.

Question 8: Task Control

Answer: Task control is all about ensuring tasks are completed efficiently and effectively.

- **Focus:** It emphasizes control over how tasks are done and the performance achieved.

Examples: Making a list, prioritising, setting deadlines, scheduling, breaking down big task

- **Benefits:**

- Increased Efficiency: You can get more done in less time.
- Reduced Interdependence: Tasks become less reliant on each other, avoiding delays.
- Improved Stress Management: Knowing you control your workload reduces stress.

- **Drawback of Low Task Control:** Employees lacking control over their tasks can become stressed due to:

- Uncertainties about how and when to do tasks.
- Inability to influence the pace of their work.

Question 9: Operational Control

**Answer:** Operational control ensures activities are performed according to company standards. Here's a breakdown of the four-step process:

1) Setting Standards:

- a) **Quantitative:** Measurable targets in areas like production, cost, revenue (e.g., production quotas, budgets).
- b) **Qualitative:** Address human factors that can impact performance (e.g., employee morale, customer satisfaction).

2) Measuring Performance: Actual performance is assessed against predetermined standards.

**Challenges:** Difficulty measuring some activities (e.g., managerial performance).

**Timing:** Measurements should be taken at crucial points to avoid delays.

**Frequency:** Depending on the activity, measurements can be daily, weekly, monthly, or annually

3) Identifying Deviations:

Analyze the difference between actual performance and set standards.

**Three scenarios:** - Match: Ideal, but uncommon.

- Exceed: Investigate the measurement system's validity if unusual.

- Fall Short: Requires investigation to pinpoint the cause of the underperformance.

• Analyze variances (differences) to identify root causes:

- Internal vs. external factors?, Random or expected deviations?, Temporary or permanent issues?

4) Taking Corrective Action:

Address shortfalls in performance.

Three main options:

- **Checking Performance:** Identify and address underlying issues that hinder performance (e.g., resource allocation, leadership styles). This might involve changes in strategy, systems, or employee training.

- **Checking Standards:** Review if standards are unreasonably high or low.

- **Reformulating Strategies:** In rare cases, a complete overhaul of strategies, plans, and objectives might be required.

This involves revisiting the strategic planning process.

Question 10: Key principles for designing an effective control system:

- Answer:
- **Minimize information:** Only gather the essential data to avoid overwhelming everyone.
  - **Reasonable frequency:** Avoid overly frequent or rapid reporting, which can be frustrating.
  - **Acceptability and Meaning:** Employee buy-in, Track what matters
  - **Adaptability and Timeliness:** Controls need to adapt to changing circumstances  
Enable corrective actions before problems escalate.
  - **Balance and Focus:** Long-term and short-term view:  
Focus on deviations from set standards rather than constant monitoring.
  - **Motivation over Punishment:** Reward success, Avoid punishment for failure
  - **Culture plays a role:** A culture aligned with the company's strategy can reduce the need for extensive formal controls.

Question 11: Explain Business Process Reengineering (BPR):

Answer: **Business Process Reengineering (BPR)** is 'the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service, and speed'. It's not a structural change itself, but a program to implement a turnaround strategy.

Why BPR? Three Main Drivers:

**Turnaround Situations:** Companies in deep trouble, facing high product failure rates or customer complaints, can use BPR to achieve dramatic improvements and regain profitability.

**Future-Proofing:** Anticipating future challenges due to internal or external environmental changes can prompt BPR to prepare the organization for those shifts.

**Competitive Advantage:** BPR can help organizations to be in better position than they are currently in and gain a significant edge over competitors.

BPR vs. Automation:

- Traditional approaches might simply automate existing processes with information technology.
- BPR challenges that mindset, asking "If we were starting fresh, how would we design this process?"

Hammer & Champy's (1993) BPR Principles:

- Combining several jobs into one.
- Allowing workers to make decisions.
- Performing the steps of a process in a natural order.
- Recognition that processes have multiple versions and designing processes to take account of different situations.
- Performing processes where it makes the most sense, e.g., if the accounting department needs pencils
- Reducing checks and controls to the point where they make economic sense.
- Minimizing reconciliation.
- Appointing a case manager to provide a single point of contact at the interface between processes.

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

Concerns and Challenges of BPR:

1. **Process Complexity:** Understanding existing processes before redesigning them is crucial, and this can be more complex than initially thought.
2. **Organizational Silos:** Many processes involve intricate interactions across departments, requiring a holistic view that can be challenging to achieve.
3. **Institutional Knowledge Loss:** Radical change can risk losing valuable tacit knowledge embedded in existing processes.

Conclusion

BPR can be a powerful tool for organizational transformation, but careful planning, consideration of potential drawbacks, and a focus on understanding existing systems are essential for successful implementation.

Question 12: Difference between strategy formulation and strategy implementation.

Answer:

| Strategy Formulation                              | Strategy Implementation                         |
|---|---|
| It involves positioning forces before the action  | It involves managing forces during the action.  |
| The focus is on <b>effectiveness</b> .            | The focus is on <b>efficiency</b> .             |
| It is primarily an <b>intellectual process</b> .  | It is primarily an <b>operational process</b> . |
| It requires good intuitive and analytical skills. | It requires motivation and leadership skills.   |
| Requires coordination among few individuals       | Requires coordination among many individuals.   |

Question 13: Explain Organisational Structures.

Answer: Formal structures (organization charts) define roles, responsibilities, and communication patterns within a company.

They reveal:

- **Communication Flow:** Reporting lines influence who talks to whom. People tend to communicate less across hierarchies or departments.
- **Skill Importance:** The kind of structural position at the top suggest the kind of skills required. Top positions with functional titles (marketing, production) indicate the value placed on specialized skills over general business experience.

Five Basic Structural Types:

- 1 **Functional:** Emphasizes functional expertise (e.g., marketing, finance).
- 2 **Multidivisional:** Groups by business unit (e.g., product lines, geographic regions).

Hybrid Structures (Blend Dimensions):

- 3 **Matrix:** Combines functional and product/geographic structures.
- 4 **Transnational:** Combines global geographic structure with functional or product focus.
- 5 **Project:** Temporary structures for specific projects, often cross-functional.

Choosing the Right Structure:

- There's no one-size-fits-all solution.
- The optimal structure depends on the organization's unique challenges.

## I. Functional Structure:

What it is: A structure based on core functions (e.g., production, marketing, finance). Often used in smaller or less diverse companies.

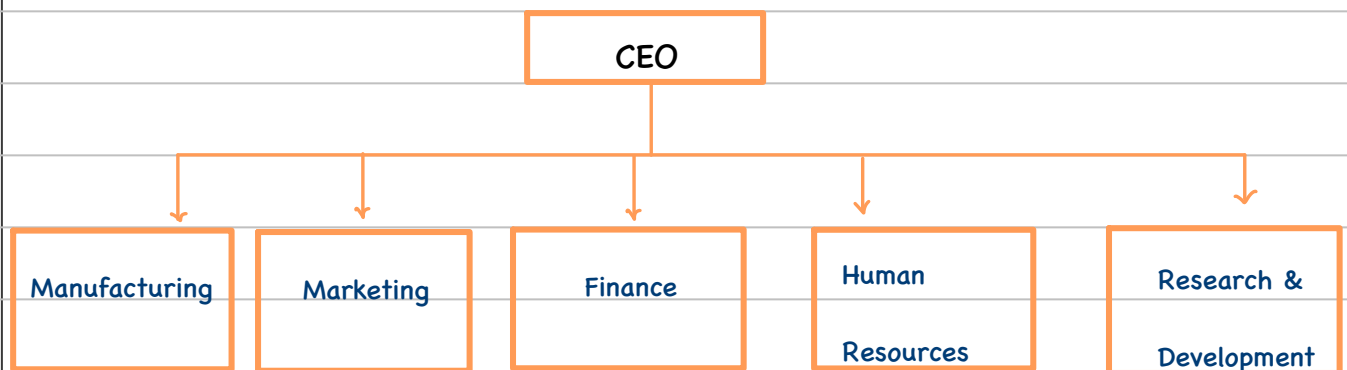
### Advantages:

- **Strong Operational Control:** Senior managers have direct oversight and can make centralized decisions.
- **Clear Roles & Accountability:** Functional departments define clear roles and responsibilities.
- **Expertise Concentration:** Functional departments foster deep knowledge within specialized areas.

### Disadvantages:

- **Limited Strategic View:** Senior managers may get bogged down in operational details and miss the bigger picture.
- **Information Silos:** Functional departments can become isolated, hindering communication and collaboration.
- **Inflexibility for Growth:** Struggles to adapt to product diversity or geographic expansion.
- **Top Management Overload:** Functional conflicts may burden upper management.
- **Standardization Challenges:** Maintaining consistent standards across functions can be difficult.

Ideal for: Smaller companies with limited product lines or those within a multidivisional structure (as sub-departments).



## II. Multidivisional Structure

What it is: A structure based on separate divisions (product, service, or geographic). Used for companies with diverse offerings.

### Advantages:

- Flexibility: Adapts to changing market needs by adding, closing, or merging divisions.
- Performance Monitoring: Divisions operate as independent units, allowing for easier performance control.
- Empowered Divisional Managers: Encourages ownership and strategic thinking among division leaders.
- Specialization: Divisions can develop deep expertise in specific markets or products.
- Strategic Training Ground: Managing a whole division prepares future leaders for broader roles.
- Reduced Functional Conflict: Clear accountability within divisions minimizes cross-functional conflicts.

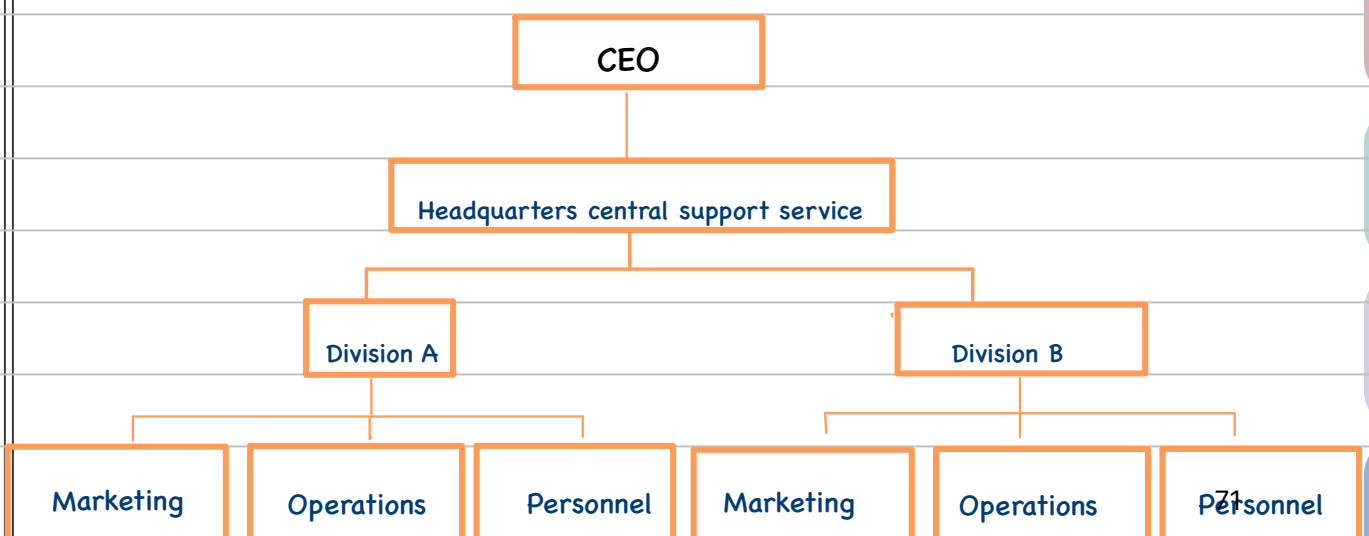
### Disadvantages:

- Duplication and Cost: Independent divisions may duplicate functions, increasing overall costs.
- Limited Collaboration: Divisions can become isolated, hindering knowledge sharing and cooperation.
- Excessive Autonomy: Highly autonomous divisions may become like separate businesses, weakening central control.
- Quality and Image Inconsistency: Standards and brand image may vary across divisions.
- Short-Term Focus: Divisions may prioritize short-term gains over long-term organizational goals.

### Subdivisions:

Large multidivisional structures may have sub-divisions within main divisions to manage complexity. This reduces the number of units directly reporting to the center and allows for addressing conflicting demands.

Ideal for: Large, diverse companies with multiple product lines or geographic markets.



### III. The Matrix Structure:

**What it is:** A hybrid structure combining multiple dimensions (e.g., product & geographic, functional & divisional).

#### Advantages:

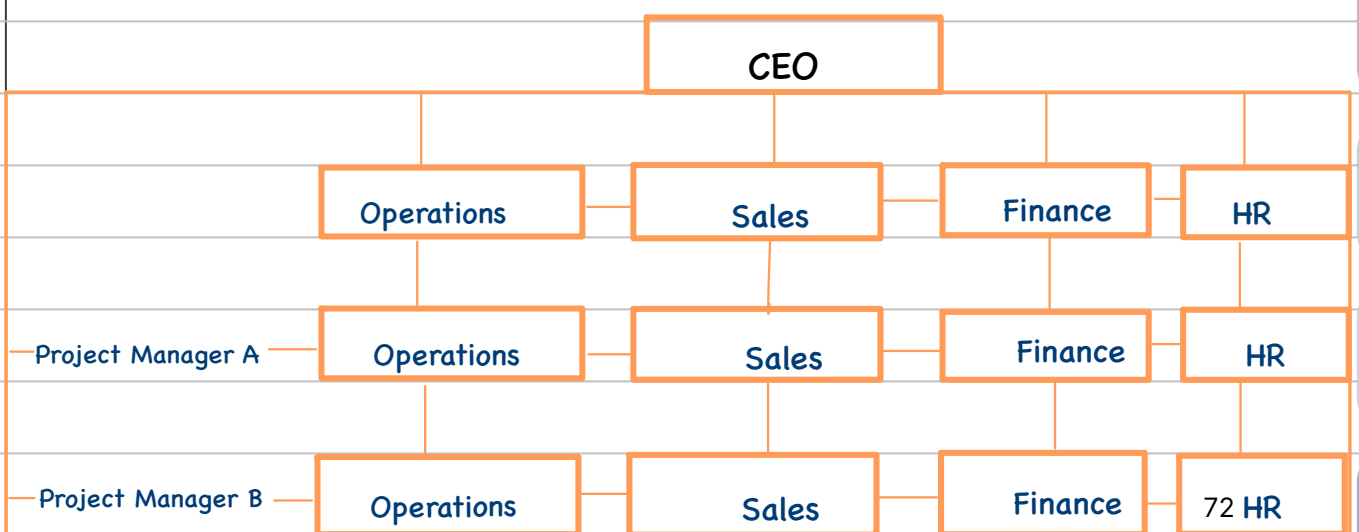
- Knowledge Integration: Breaks down silos, allowing expertise to flow across different areas.
- Flexibility and Innovation: Adapts to changing environments and fosters creativity.
- Global Coordination: Balances local and global needs (e.g., local marketing with global product development).
- Efficient Resource Utilization: Optimizes resource allocation across teams.
- Broader Responsibilities: Provides professionals with diverse experience.

#### Disadvantages:

- Decision-Making Delays: Consensus-based decision making can be slow due to negotiation between managers.
- Dual Reporting Conflicts: Employees may face conflicting priorities from multiple managers.
- Control Challenges: Complex structure can be difficult to manage effectively.
- Overreliance on Teamwork: Excessive focus on group processes can hinder individual accountability.
- Timely Decision Risks: Decision-making delays can impact responsiveness.

**Key to Success:** Strong leadership that fosters collaboration and manages ambiguity within the matrix.

**Ideal for:** Organizations requiring flexibility, knowledge sharing, and efficient resource use across diverse areas.



#### IV. The Transnational Structure: Balancing Global and Local

What it is: A structure balancing global coordination with local responsiveness, aiming for the best of both worlds (multi-domestic and global strategies).

##### Key Features:

- Combines local autonomy with centralized coordination (like a matrix, but with a focus on internationalization).
- Fixed responsibilities within cross-cutting dimensions.

##### How it Works:

- **Independent National Units:** Local subsidiaries act independently but contribute ideas and capabilities to the entire corporation (e.g., Unilever's global hair-care innovation center in France).
- **Global Economies of Scale:** National units specialize for the whole corporation or large regions (e.g., Unilever's European food manufacturing consolidation).
- **Network Management:** The corporate center establishes roles, relationships, and systems for effective network operation (e.g., Unilever's international manager forums).

##### Success Factors:

- **Clarity of Roles and Boundaries:** Clear definitions of responsibilities for different managers (global business, country/area, functional, and corporate).
- **Global Competences:** Developing expertise valuable across the entire organization.
- **Local Responsiveness:** Adapting to local market needs.
- **Organizational Learning:** Encouraging knowledge sharing and innovation across the network.

##### Managerial Responsibilities:

- **Global Business Managers:** Drive global competitiveness, strategize product-market approaches, manage resources, and coordinate transnational transactions.
- **Country/Area Managers:** Serve as local market sensors and build unique competences (e.g., R&D or manufacturing excellence) to contribute to the whole company.

- **Functional Managers:** Ensure global innovation and learning by identifying and disseminating best practices across the organization.

- **Corporate Managers:** Provide leadership, talent management, and facilitate collaboration across all levels.

**Disadvantages:**

- **Demanding Management:** Requires managers to work beyond their immediate roles for the transnational good.
- **Complexity and Control Challenges:** Similar to matrix structures, with potential for diffused responsibility and control issues.

**Ideal for:** Companies operating globally who need both global efficiency and local market adaptation.

V. **Project-Based Structures: Flexibility for Temporary Endeavors**

**What it is:** A structure where temporary teams are formed to complete specific projects, then disbanded.

**Suitable for:**

- Large, complex projects (e.g., construction, IT systems, movies).
- Time-bound events (e.g., conferences, sporting events, consulting engagements).

**Advantages:**

- **High Flexibility:** Teams can be assembled and disbanded as needed to adapt to changing demands.
- **Clear Accountability:** Project teams have defined goals and timelines, fostering ownership.
- **Knowledge Sharing:** Cross-functional teams promote knowledge exchange across departments.
- **International Collaboration:** Project timelines can be conducive to temporary global teamwork.

**Disadvantages:**

- **Uncoordinated Proliferation:** Without strong oversight, organizations may have too many uncoordinated projects.
- **Knowledge Loss:** Disbanding teams can hinder long-term knowledge accumulation in specific areas.

**Growing Importance:** Project-based structures offer vital flexibility in a fast-paced world, allowing for rapid redeployment and integration of skills.

**Complementary Use:**

Many organizations use project teams alongside their main structure to address specific strategic needs or challenges.

Question 14: How to choose a right structure for the organisation?

Answer: Choosing the Right Structure: Aligning with Strategy and Challenges

**The Perfect Fit:** • Organizations rarely adopt pure structural forms.

- The best structure is a tailor-made solution that blends different types to address specific challenges.

Goold & Campbell's Nine Tests: Fit Tests (Ensuring Alignment with Core Objectives):

1. **Market-Advantage Test:** Does the structure support the market strategy? (e.g., coordinating production steps for better market advantage).
2. **Parenting Advantage Test:** Does the structure fit the corporate center's role? (e.g., centralizing marketing or research for synergy management).
3. **People Test:** Does the organization have the necessary people to operate the chosen structure? (e.g., transitioning from functional to multidivisional requires managers skilled in decentralized business units).
4. **Feasibility Test:** Does the structure comply with legal and stakeholder constraints? (e.g., investment banks separating research and deal-making departments).

Good Design Tests (General Principles):

5. **Specialized Cultures Test:** Does the structure nurture specialist expertise by keeping specialists together?
6. **Difficult Links Test:** Does the structure create unnecessary strain on critical connections within the organization? (e.g., highly decentralized units and a central R&D department might struggle to collaborate effectively).
7. **Redundant Hierarchy Test:** Does the structure have unnecessary management layers that hinder efficiency? (e.g., delayering to reduce management overhead).
8. **Accountability Test:** Does the structure have clear lines of accountability to ensure manager control and commitment? (e.g., matrix structures with dual reporting can be unclear).
9. **Flexibility Test:** Can the structure adapt to future changes? (e.g., broad divisional domains allow managers to pursue emerging opportunities).

Question 15: Explain SBU.

Answer: Strategic Business Units (SBUs): Building Blocks for Strategy

An SBU is a distinct part of an organization that caters to a specific external market for goods or services, separate from other SBUs within the same organization.

**Importance of SBUs:** Identifying SBUs helps develop targeted business-level strategies, which may differ for each unit based on its market.

Challenges of SBU Identification:

- **Market Segmentation:** Balancing the need for market differentiation with the risk of creating too many SBUs (unmanageable complexity).
- **Corporate Strategy Complexity:** Too many SBUs can make developing a cohesive corporate-level strategy difficult.
- **Structure vs. Strategy:** SBUs are defined for strategic purposes, but an organization's structure might not always reflect these divisions.

Criteria for Identifying SBUs:

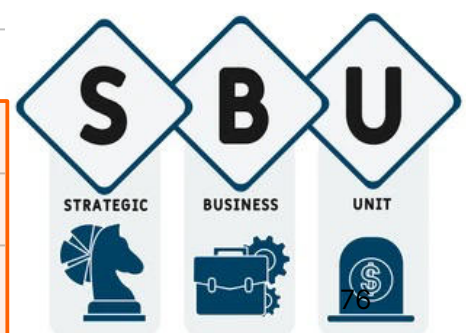
- **Market-Based Criteria:** Same customer types, Similar distribution channels, Common competitors, Localized vs. standardized product/service offerings, Different sales channels for the same customer group (e.g., retail vs. online)
- **Capabilities-Based Criteria:** Similar strategic capabilities required

Example:

A food manufacturer would likely consider branded goods a different SBU from private label (retail "own-brand") goods, even if they sell to the same customers through the same channels. This is because the strategic capabilities required for each product line differ significantly.

Note:: All SBUs are divisions, but not all divisions qualify as SBUs.

SBUs represent a more specific type of division with a high degree of strategic focus, autonomy, and accountability.



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Question 16: Explain Production Strategy.

Answer: Production strategy is the roadmap for transforming raw materials into finished products in the most efficient and effective way possible. It's not just about having fancy equipment; it's about optimizing how you use all your resources(workforce, materials, equipment, space) to achieve your production goals.

#### Key Decisions in Production Strategy

**Production System Design:** How your production process will function? This includes capacity, location, layout, product design, work systems, automation, and how much you make yourself (vertical integration).

**Technology Choice:** Selecting the right level of technology for efficiency.

**Product Lifecycle Impact:** An effective production strategy considers the different stages of a product's life cycle (introduction, growth, maturity, decline) and adapts accordingly. like Introduction requires Job shop might work well, While Maturity often requires high volume production assembly line might work well.

#### Examples/Types of Production Strategies

- **Mass Production:** Efficient for high-volume standardized goods (e.g., traditional car manufacturing).
- **Continuous Improvement:** Focuses on ongoing process improvement and employee empowerment (e.g., Toyota Production System).
- **Modular Manufacturing:** Pre-assembled components delivered just-in-time for final assembly (e.g., some automakers).
- **Customization:** Tailoring products/services to individual customer needs (e.g., Club Mahindra's Zest vacations).

**Considerations:** Resource scarcity and environmental regulations are important factors.

Choosing the right production strategy is essential for achieving your business goals.

Question 17: Explain Supply Chain Strategy.

**Answer:** - Task of managing the flow of inputs, components and finished goods within a company's production process

- Aims to minimize inventory costs and maximize efficiency.

Why it's important?

- **Reduced costs:** By optimizing processes and minimizing waste, companies can save money throughout the supply chain.
- **Improved customer satisfaction:** Faster delivery times & responsiveness to changing needs lead to happier customers.
- **Increased agility:** A well-designed strategy allows companies to adapt to market changes and disruptions more easily.
- **Enhanced profitability:** By streamlining operations and reducing costs, companies can improve their bottom line.

JIT Strategy: significantly improves the companies supply chain and material management:

- Order materials only when needed for production
- Reduces storage and holding costs.
- Example: Wal-Mart wins by getting deliveries more often (daily or twice a week) compared to competitors

(every 2 weeks). This means they keep less stuff in stock, saving money on storage and freeing up cash. Lower costs

let them offer better prices, giving them an edge over the competition.

**Benefits of JIT:**

- Lower inventory holding costs.
- Increased inventory turnover.
- Reduced need for working capital.

**Limitations of JIT:**

- No buffer stock for unexpected disruptions
- Less flexibility to handle sudden demand increases.

**Overcoming JIT Limitations: Multiple Suppliers:** Reduces dependence on a single source.

Question 18: Explain Marketing Strategy.

Answer: Marketing strategy is the overall game plan for promoting and selling your products or services to your target audience. It outlines how you'll reach your ideal customers, convince them of the value you offer, and ultimately drive sales and achieve your business goals.

Marketing's impact on cost:

- **Customer Loyalty:** Keeping happy customers is cheaper than acquiring new ones. Happy customers lead to higher sales and the cost of acquiring a customer is spread out over more sales, leading to lower unit costs and higher profits. Losing customers means losing those benefits.
- **Experience Curve:** Aggressive marketing (pricing, promotions) can boost sales volume, moving the company faster down the experience curve. This means lower production costs per unit due to higher sales.

Marketing's role in keeping costs low:

- Track customer defection (churn) rates percentage of a company's customers who defect every year to competitors and reasons.
- Develop strategies to address those reasons and keep customers loyal.
- Use marketing tactics (pricing, promotions) to increase sales volume.

Benefits of loyal customers:

- Lower costs per customer
- Higher profit per customer
- Free advertising through referrals

**Key takeaway:** Marketing plays a crucial role in reducing costs by focusing on customer satisfaction and sales growth.

Question 19: Explain Human Resource Strategy

Answer: Human Resource Strategy

**Employee Productivity Matters:**

- A company's success heavily relies on how productive its employees are.
- Productive employees across different departments (manufacturing, sales, R&D) directly contribute to:
  - Lower costs (goods sold, sales expenses, R&D expenses)
  - Increased revenue
  - Improved return on investment (ROI)

**HR's Challenge:**

The Human Resource (HR) department plays a crucial role in devising strategies to increase employee productivity. Among its choices are using certain hiring strategies, training employees, organizing the workforce into self-managing teams, and linking pay to performance.

**I. Hiring Strategy:**

Successful companies prioritize hiring people with positive attitude and teamwork. They believe this leads to:

- Hard work: Positive employees are more likely to be dedicated and put in effort.
- Strong customer interactions: Good teamwork fosters better communication and collaboration, resulting in a positive customer experience and loyalty.

**Alignment is Key:**

A company's hiring strategy should be aligned with its:

- Internal culture: Hire people who fit the established company culture for a smooth integration.
- Strategic priorities: Recruit individuals whose skills and attributes directly support the company's strategic goals.

## II. Employee Training

Employees are valuable resources in the production process. Highly skilled employees offer advantages:

- Faster and more accurate work
- Adaptability to complex tasks

### Benefits of Training:

- Improved skills
- Increased efficiency

Overall, a well-defined hiring strategy and commitment to employee training are crucial for building a productive workforce and achieving a company's strategic objectives.

## III. Self-Managing Teams: Potential and Challenges

### What are they?

- Groups of 5–15 employees who handle entire tasks or products.
- Members are cross-trained and rotate jobs, creating a flexible workforce.
- They make decisions on hiring, training, work, and rewards.

### Benefits:

- Increased productivity (reportedly up to 30% or more).
- Improved product quality.
- Cost savings from reduced hierarchy and eliminated supervisor roles.
- Increased employee motivation due to empowerment and autonomy.
- Improved teamwork through team-based performance bonuses.

### Challenges:

- Training is crucial for team members to handle new responsibilities.
- Rushing implementation can lead to dysfunctional teams.
- May not be effective without compatible technology (e.g., flexible manufacturing).

IV. Pay for Performance:

- Linking pay to performance can boost productivity.
- Effective systems define what performance is rewarded and how.
- Team-based bonuses incentivize cooperation and teamwork.

Question 20: Explain People Dimension of Strategy

Answer: **The People Dimension of Strategy:**

- People's knowledge and experience are key to successful strategies.
- People-related issues are a central concern for managers, not just HR.
- Fostering a success-oriented work environment is crucial.
- Formal HR structures should support, not hinder, chosen strategies.

There are three possible related issues about the people dimension of strategy namely,

People as a resource,

People and behaviour and

The need to organise people.

I. People as a Resource: Managing for Strategic Success

Human Resources: A Unique Challenge

- Human resources are essential for any organization, but managing them is different from managing other resources.
- There are two main categories of HR issues: "harder" (traditional) and "softer" (behavioral).

HR Practices Supporting Strategies: Harder Issues:

- HR Audits: Assess HR needs to support strategies and identify core competencies for future planning.

- **Goal Setting and Performance Management:**

- Traditional: Line managers set individual/team goals within a central framework, linking them to strategy.
- 360° Appraisals: Assess performance from multiple perspectives (managers, colleagues, even external stakeholders) for a more holistic view.

- **Reward Systems:** Aligned with teamwork, not just individual incentives (e.g., sales commissions).

- **Recruitment and Retention:** Hiring qualified people and keeping them happy.

- **Training and Development:** Shift from formal programs to coaching and mentoring for self-development.

## II. People and Behavior: The "Softer" Side of HR

Employees are not like other resources. They influence strategy through:

- Competence: Their skills and knowledge.
- Collective Behavior: The organization's culture.

The "Soft" Side of HR: All About People and Their Behavior

- **Culture:** This refers to the overall vibe and way things are done at a company. It's like the unwritten rules and how people typically act. A good culture makes employees feel happy and motivated.
- **Change Management:** When a company needs to do things differently, HR helps manage this change. They might explain the reasons for the change and help employees adjust.
- **Leadership:** HR helps managers become better leaders by teaching them how to motivate and inspire their teams. It's not just about giving orders, but also about building relationships and trust.
- **Teamwork:** HR encourages employees to work together effectively. This might involve team-building activities or creating a work environment where collaboration is valued.

The hard side ensures the company has the right resources, while the soft side helps those resources work together effectively.

### III. Organizing People for Competitive Advantage

A well-organized workforce is crucial for an organization's competitive edge, especially in today's dynamic environment. Here's how to approach organizing people:

Three Key Areas:

- **HR Function:** The role and structure of the HR department.
- **Line Managers:** Responsibilities of managers in people management.
- **Structure and Processes:** Formal organizational structure and associated processes.

#### 1) The HR Function: Rethinking the Role:

- **Clarity of Purpose:** If an HR function exists, its roles and responsibilities need to be clear and aligned with strategic goals.
- **Four Potential Roles:**
  - **Service Provider:** Provides support to line managers (e.g., recruitment, training).
  - **Regulator:** Sets HR policies and frameworks (e.g., pay, promotions).
  - **Strategic Advisor:** Guides line managers on HR strategy and best practices.
  - **Change Agent:** Drives organizational change and development.

**Choosing the Right HR Model:**

- The most effective HR model depends on the organization's context:
  - **Employee Types:** Skill levels, experience, and needs of the workforce.
  - **Strategic Direction:** The organization's overall goals and direction.
  - **Organizational Structure:** Centralized, decentralized, or a hybrid model.

**Challenges and Considerations:**

Balancing different roles can be difficult for HR professionals.

For example, regulating and advising managers might create conflict.

## 2) Line Managers: Empowering People Management

The trend of involving line managers directly in people management has advantages:

- **Increased Ownership:** Managers take greater responsibility for HR issues.
- **Strategic Alignment:** People management aligns better with business strategies.

Challenges and Concerns:

- **Managerial Competence:** Can line managers effectively handle complex HR tasks? Inadequate training could lead to subpar performance.
- **Short-Term Pressures:** Meeting immediate targets may overshadow strategic people management. Downsizing and restructuring might leave managers overloaded.
- **Union and Association Resistance:** Centralized HR may be easier for unions and professional associations to manage and advocate for members
- **Managerial Incentives:** Lack of recognition or reward for taking on additional HR tasks may disincentivize managers.

The Importance of Line Managers:

Despite the challenges, line managers have a crucial impact on employee performance and behavior.

- Include line managers in HR strategy development to ensure buy-in and successful implementation.
- Provide training and support to equip them with the necessary HR skills.

## 3) Structures and Processes: Aligning with Strategy

**The Challenge of Alignment:**

- Traditional organizational HR structures and processes may hinder strategic success.
- As strategies evolve, HR structures and relationships need to adapt to support them.

**Two Key Considerations:**

- **Internal vs. External Resources:**
  - **Internal:** Utilize existing structures and processes for HR functions (recruitment, training, etc.).

- External: Outsource HR activities to specialists who offer wider best-practice knowledge, but may lack familiarity with the organization's specific needs.

#### Balancing the Benefits:

##### Internal:

- Advantages: Deeper understanding of the organization's culture and needs.
- Disadvantages: May lack access to the latest best practices and expertise.

##### External:

- Advantages: Broader knowledge and access to best practices.
- Disadvantages: May not fully grasp the organization's unique context.

#### Choosing the Right Approach:

- The optimal approach depends on the organization's specific needs and resources.
- Consider factors like:
  - Complexity of HR needs
  - Availability of internal expertise
  - Cost-effectiveness

#### HR vs People dimension of strategy

HR Strategy: Focuses on **managing the workforce** (hiring, training, culture) to achieve business goals.

People Dimension of Strategy: Looks at the entire organization, ensuring everyone works together to achieve those goals (leadership, culture, skills). It's about **how all the people in the organization contribute to the strategy.**



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# Chapter 10: Digital Strategy



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## Digital Technologies and Strategies

The digital age has brought about significant changes in how we live and work.

### Digital Technologies:

- Electronic tools, devices, and systems that use digital data (0s and 1s).
- Examples: online games, multimedia, social media, mobile phones.
- The invention of the transistor in 1947 is a major milestone.

### Digital Revolution:

- The shift from mechanical/analog to digital technologies (late 1950s-1970s).
- Led to the Information Age with increased use of computers and digital record-keeping.
- Impacts include:
  - Job creation, Medical advancements (personalized medicine), Increased manufacturing output (automation)

### Digital Strategy vs. Digital Transformation:

- **Digital Strategy/ Digital Media Strategy:**
  - A plan to maximize business benefits using digital tools and data.
  - Focuses on technology to create capabilities for a digital business.
  - Short-term, action-oriented with measurable goals.
  - Requires collaboration across departments (marketing, IT, etc.).
- **Digital Transformation:**
  - The broader process of changing an organization using digital technologies.
  - Involves changes in: Customer experience, Operational processes, Business models
  - Requires cultural changes across the organization.
  - Long-term vision with focus on disruption and competitive advantage.

## Developing a Digital Strategy:

### 1. Identify areas for improvement: - Where is your value chain vulnerable?

- How can digital technology strengthen your business?

### 2. Consider these 5 questions: - Does digital technology impact your target customers?

- Can digital technology improve your value proposition?
- Should you enter new businesses due to digital changes?
- How can digital technology differentiate you from competitors?
- How can digital technology enhance your capabilities?

### 3. Develop a clear strategy: - Align technology with business objectives.

- Avoid wasting resources on irrelevant technologies.

## Digital Transformation in Industry 4.0:

- Most large businesses are undergoing digital transformation.
- This includes: Automation of processes, Integration of technologies like AI and IoT  
Development of innovative digital solutions

- Two types of disruptive solutions are emerging:

a) **Destructive:** Meaning Destructively (causing damage or harm) Disruptive (causing a disturbance or interruption to normal way things are done) Solution.

These have either destroyed certain conventional for manufacturing, marketing, and supply chain operations or replaced traditional products by combining many functional capabilities in one device. For example, robotic process automation has brought in a new era of man-machine collaboration and smart phones have almost killed traditional/amateur cameras and torches.

b) **Bizruptive solutions** are unique strategy driven innovations for P2P, B2C and B2B networking, as well as time and cost-efficient processes for service deliveries with safety, speed and quality.

## The Interplay Between Business Strategy and Digital Technologies

How businesses leverage digital technologies to gain a competitive edge and create value.

### Goals of Digital Transformation:

- Outmaneuver competitors: Achieve a strategic competitive advantage.
- Sustainable growth: Achieve long-term prosperity.

### Creating "Blue Ocean" Markets:

- Trans-created solutions: Develop new products/models that address customer needs.
- First-mover advantage: Be the first to exploit a new market opportunity.

### "Innovention":

- Combining innovation, invention, and strategic planning.
- Focuses on value creation, including: Time savings, Quality improvements, Environmental sustainability  
Risk reduction

### Four Categories of Digital Business Strategies

- 1) Scope: Defining the boundaries of digital initiatives.
- 2) Scale: Expanding the reach and impact of digital solutions.
- 3) Agility: Adapting quickly to changing digital landscapes.
- 4) sources of Value Creation: Identifying how digital technologies create value.

### Bottom-Up vs. Top-Down Strategizing:

- Bottom-up: Lower-level organizational units develop initial strategies.
- Top-down: Senior leadership aligns strategies and sets direction.

The PDP Loop (Problem-Data-Product):

- 1 Identify customer needs: Understand emerging problems and latent demands.
- 2 Data collection and analysis: Utilize data from business operations (e.g., banking transactions).
- 3 AI/ML/Big Data Analytics: Process and gain insights from the data.
- 4 New business design: Develop innovative solutions based on the insights.
- 5 Implementation and revenue generation: Deliver solutions to customers and generate value.

Key Takeaway: The interplay between strategy and digital technology is an ongoing process. Businesses can identify opportunities, develop solutions, and create value by continuously analyzing data and adapting their strategies.



Question 1: What are the Key Elements of a Digital Strategy:

- Answer:
-  **Leadership:** Appoint a strong leader (CEO, Chief Digital Officer) with influence to drive digital initiatives across the organization.
  -  **Attack vs. Defend:** Identify digital threats and opportunities to guide your approach (attack new markets or defend existing ones).
  -  **Measured Approach:** Evaluate new technologies for their fit with your current business strategy before rushing into implementation.
  -  **Future-Proofing:** Build a foundation for digital business that can adapt to changing technologies and customer expectations.

**Question 2:** Explain Digital Transformation

**Answer:** Digital Transformation: A Journey, Not a Destination

Digital transformation (DT) as a crucial step for organizational survival and growth in the modern world. It emphasizes a continuous journey rather than a one-time fix.

#### Key Elements of Digital Transformation:

- 4Ds: Discover, Design, Deliver, De-risk
- 2Ps: People and Process
- 1T: Tools

#### Measures for Orchestrated Planning and Execution:

- Integration of Digital Technologies: Enhance business operations, stakeholder relationships, and experiences.
- Challenge the Status Quo: Rethink policies and standard operating procedures for digital transformation.
- Training and Reskilling: Equip human capital with the skills to leverage digital tools.
- Digital Experimentation: Test new technologies to assess their suitability and potential benefits.
- Creative Destruction: Embrace new digital practices while phasing out outdated processes.
- Innovation Environment: Foster innovation by providing a supportive environment for the DT team.
- Data Security and Privacy: Ensure data privacy, cybersecurity, and information safety.
- Embrace Learning: Encourage experimentation and avoid penalizing mistakes.
- Resource Commitment: Allocate necessary funds and resources for the DT team.

#### Five Essential Elements of Digital Transformation:

- 1 Stakeholder Relationship & Experience: Improve interactions and satisfaction of stakeholders.
- 2 Operational Agility: Adapt processes quickly to changing demands.
- 3 Culture & Leadership: Foster a culture that embraces digital transformation with strong leadership.
- 4 Workforce Enablement: Equip employees with the skills and knowledge to succeed in a digital environment.
- 5 Integration of Digital Technologies: Leverage digital tools to drive revival, growth, and prosperity.

### Diffusion of Digitization and Digitalization:

- Digitization: Convert analog data into digital format (e.g., scanning physical documents).
- Digitalization: Use digital technologies to transform business models and processes.
- Data Analysis: Leverage data to gain insights and make strategic decisions.

### The Importance of Innovation:

- Exploratory Analysis: Identify unmet needs and societal problems.
- Groundbreaking Solutions: Develop cost-effective solutions for win-win outcomes.
- Disruption Potential: Be prepared for potential disruptions caused by innovation.

### In Conclusion:

Digital transformation requires continuous efforts, including digitization, digitalization, and innovation. Businesses must adapt and leverage digital technologies to stay competitive, create value, and thrive in the ever-evolving digital landscape.



Question 3: Compare and contrast the two terms: Digitization and Digitalization. (4 marks)

Answer: While both digitization and digitalization involve technology, they represent distinct stages in a business's digital transformation journey. Here's a breakdown:

Digitization:

- **Focus:** Converting analog information (documents, processes) into digital formats.
- **Process:** Essentially scanning and encoding data.
- **Outcome:** Creates a digital record of previously physical information.
- **Example:** Scanning paper documents into PDFs or storing music on MP3 players.

Digitalization:

- **Focus:** Leveraging digital technologies to improve business processes and models.
- **Process:** Utilizes digitized data to automate tasks, create new offerings, and enhance efficiency.
- **Outcome:** Transforms how a business operates and creates value.
- **Example:** E-commerce platform replacing a brick-and-mortar store, or using data analytics to optimize marketing campaigns.

Key Differences:

**Scope:** Digitization deals with data conversion, while digitalization focuses on broader business transformation.

**Impact:** Digitization offers accessibility, while digitalization aims for innovation and improved efficiency.

**Analogy:** Think of digitization as taking a physical book and scanning it into a PDF (readable format). Digitalization is then taking that digital book and creating an interactive e-reader app with features like search and annotation (new functionalities).

In essence, digitization is the foundation for digitalization. It provides the digital building blocks that can be used to create new processes, services, and business models.

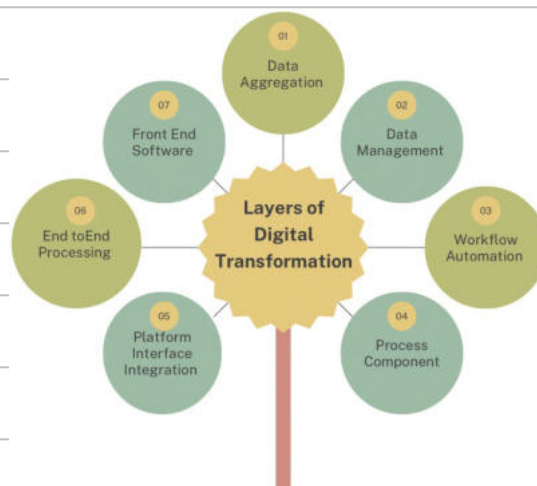


Question 4: Explain the layers of Digital Transformation

Answer: Layers of Digital Transformation:

- **Data Aggregation:** Gather relevant data from various sources, converting analog data to digital format for easy access.
- **Data Management:** Organize and categorize the collected data for further analysis.
- **Workflow Automation:** Apply algorithms to automate business processes using the data.
- **Process Component:** Implement the automation using the data and algorithms.
- **Platform Integration:** Connect the new digital system with existing core systems for smooth operation.
- **End-to-End Processing:** Ensure error-free transformation throughout the entire process.
- **Front-End Software:** Integrate with user devices for seamless access to services.

These steps should be reviewed regularly (at least annually) to adapt to changing business environments.



Question 5: Explain Big Data

Answer: Big Data:

Big data refers to massive and complex datasets that traditional data tools struggle to handle.

What is Big Data?

- Extremely large and ever-growing datasets.
- Too complex for traditional data management tools.
- Examples: stock exchanges, social media, jet engine data.



Types of Big Data:

- **Structured:** Organized data with a fixed format (e.g., databases).
- **Unstructured:** Data with no predefined format (e.g., emails, social media posts).
- **Semi-structured:** A combination of structured and unstructured data (e.g., XML files).

Characteristics of Big Data (4Vs):

- **Volume:** The immense size of the data is crucial for its value.
- **Variety:** The diverse nature of data, including structured, unstructured, and semi-structured formats.
- **Velocity:** The high speed at which data is generated and processed.
- **Variability:** The inconsistency of data, which can pose challenges for handling and managing it.

Benefits of Big Data Processing:

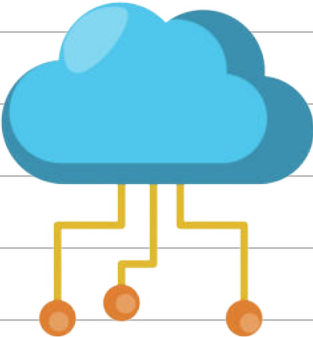
- **Smarter Decisions:** Businesses can leverage external data sources for better decision-making.
- **Improved Customer Service**
- **Early Risk Identification**
- **Enhanced Operational Efficiency**

By understanding the characteristics and benefits of big data, businesses can leverage its power to gain valuable insights, make informed decisions, and achieve better outcomes.

Question 6: "In spite of the fact that cloud computing has huge benefits yet, it has its own causes of concern".

Examine the demerits of cloud computing. MTP + Dec 23 (7 marks)

Describe the merits and demerits of Cloud Computing? MTP (7 marks)



Answer: Cloud Computing: Benefits and Challenges

Cloud computing offers a flexible and scalable way to access computing resources over the internet.

**What is Cloud Computing?**

- Delivering hosted services over the internet.
- Three main categories:
  - Infrastructure as a Service (IaaS): Virtual servers, storage, APIs.
  - Platform as a Service (PaaS): Development tools hosted on cloud infrastructure.
  - Software as a Service (SaaS): Software applications delivered over the internet.

**Public vs. Private Cloud:**

- Public Cloud: Open to anyone with internet access.
- Private Cloud: Proprietary network or data center for a limited user group.

**Examples of Cloud Computing:**

Google Docs, Microsoft 365, Email services, Google Calendar, Skype, WhatsApp, Zoom, etc.

**Benefits of Cloud Computing:**

- Cost Management: Reduces capital expenses on hardware and IT staff.
- Data and Workload Mobility: Access data from anywhere with an internet connection.
- Business Continuity and Disaster Recovery (BCDR): Ensures data accessibility and faster recovery in emergencies.



### Challenges of Cloud Computing:

- **Cloud Security:** Concerns about data breaches and unauthorized access.
- **Cost Unpredictability:** Difficulty in predicting final costs due to variable usage.
- **Lack of Capability and Expertise:** Need for skilled personnel to manage cloud deployments.
- **IT Governance:** Difficulty in controlling provisioning and management of cloud infrastructure.
- **Compliance with Industry Laws:** Challenges in managing compliance when using a third-party cloud provider.
- **Management of Multiple Clouds:** Increased complexity when managing workloads across different cloud platforms.
- **Cloud Performance:** Potential disruptions due to network or provider outages.
- **Building a Private Cloud:** High resource requirements for building and managing private clouds.
- **Cloud Migration:** Complications and potential delays during data and application migration.
- **Vendor Lock-In:** Difficulty and costs associated with switching between cloud providers.

### In Conclusion:

Cloud computing offers significant benefits but also comes with challenges. Businesses need to carefully consider these factors when deciding whether and how to leverage cloud computing for their specific needs.

Question 7: Explain Artificial Intelligence.

Answer: Artificial Intelligence (AI)

AI is rapidly transforming many aspects of our world. Here's a breakdown of the key concepts:

**What is AI?** Intelligence exhibited by machines, mimicking human cognitive functions.

**Levels of AI:**

**Narrow AI (Current State):** Most common type, excels at specific tasks (e.g., weather forecasting, self-driving cars).

**General AI (Future):** Hypothetical machines with human-level intelligence across all domains.

**Super AI (Theoretical):** Machines surpassing human intelligence in all aspects.

**Machine Learning (ML):**

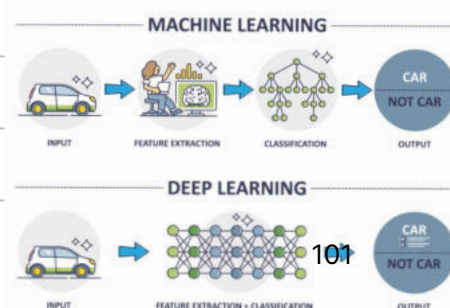
- A core component of AI where machines learn from data.
- ML algorithms are trained on data to improve performance on a specific task.
- Often used interchangeably with AI, especially in business contexts.

**Deep Learning:**

- A powerful subfield of AI using artificial neural networks with many layers.
- Deep learning has achieved breakthrough results in various AI applications.

**Benefits of AI:**

- **Data Analysis:** Analyze vast amounts of complex data (e.g., video, audio).
- **Quality Control:** Detect and analyze product defects more efficiently.
- **Process Optimization:** Continuously learn and improve manufacturing processes.



### The Future of AI:

- **Problem Solving:** AI as a tool for tackling societal challenges.
- **Cybersecurity:** AI can help combat cybercrime.
- **Digital Transformation:** Businesses are adopting AI for a competitive edge (often with IoT and Blockchain).

### Conclusion

- AI is still evolving, with the ultimate capabilities of General and Super AI yet to be determined.
- The responsible development and use of AI are crucial considerations.

**Question 8:** Write a short note on Fintech

**Answer:** FinTech: Making Finance Faster, Easier, and More Accessible

FinTech (financial technology) uses technology to revolutionize how we manage money. Here's the gist:

- **What is it?** Software, apps, and other tech tools that improve and automate financial services.
- **Examples:** Mobile banking, payment apps (Venmo, CashApp), investment platforms (Groww, Upstox), cryptocurrencies (Bitcoin, Ethereum).
- **Benefits:** Makes finance more accessible, affordable, and secure. Uses AI, big data, and blockchain for enhanced security.

In short, FinTech is changing the way we bank, invest, and pay.

Question 9: What is Block Chain. Important components of Block Chain and its benefits.

Answer: Blockchain: A Shared Ledger for Secure Transactions

Blockchain technology is revolutionizing how information is shared and transactions are conducted. Here's a breakdown of its key features and benefits:

#### What is Blockchain?

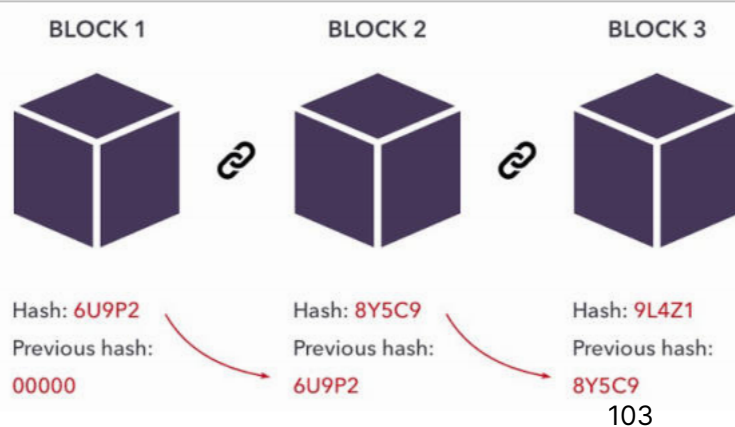
- A shared, tamper-proof ledger for recording transactions and tracking assets.
- Assets can be tangible (physical objects) or intangible (intellectual property).
- Ideal for businesses that rely on accurate and secure information sharing.

#### Why is Blockchain Important?

- **Trust and Transparency:** Provides a secure and transparent way to share information within a permissioned network.
- **Efficiency:** Reduces reconciliation efforts and automates transactions with smart contracts.

#### Components of a Blockchain Network:

- **Distributed Ledger Technology:** All participants have access to the same immutable record of transactions, eliminating duplication.
- **Immutable Records:** Once recorded, transactions cannot be altered, ensuring data integrity.
- **Smart Contracts:** Self-executing contracts stored on the blockchain that automate agreements and transactions.



**Benefits of Blockchain Networks:**

- **Increased Trust:** Network membership restricts access to authorized participants, ensuring data accuracy and timeliness.
- **Greater Security:** Consensus mechanisms and immutability make tampering with data nearly impossible.
- **Enhanced Efficiency:** Eliminates reconciliation and streamlines transactions through automation with smart contracts.

**In Conclusion:**

Blockchain offers a secure and transparent way to manage data and conduct transactions. Its potential applications extend across various industries, fostering trust, security, and efficiency.



Question 10: Explain Robotic Process Automation and list the benefits of RP

Answer: Robotic Process Automation (RPA)

RPA is a technology that automates repetitive computer tasks using software bots.

Key Points:

- What it is: Business process automation using software bots.
- What it does: Mimics human-computer interactions to perform tasks with high volume and speed.
- Not physical robots: Software tools, not mechanical devices.
- Best suited for: Repetitive, predictable tasks with clear rules.

Benefits of RPA:

- Reduced costs
- Decreased cycle times (faster completion of tasks)
- Flexibility and scalability (adapts to changing needs)
- Improved accuracy
- Improved employee morale (frees up humans for more complex work)
- Detailed data capture (provides better insights into processes)



The Future of Robotics:

- Humanoid Robots: Robots with human-like capabilities, such as piloting spacecraft.
- AI-powered Robots: Robots with artificial intelligence for tasks like security and surveillance.
- Collaborative Robots (Cobots): Robots designed to work alongside humans in shared workspaces.

In Conclusion:

RPA offers a way to automate tasks and improve efficiency. The future of robotics holds promise for even more advanced capabilities, with robots working alongside humans in various capacities.

Question 11: How digitalisation in sports affect fan engagement and performance?

Answer: Digital Transformation in Sports:

Technology is revolutionizing the sports industry, impacting both fans and athletes. Here's a breakdown of the key trends:

**Fan Engagement:**

- Digital Media: Sports organizations are using digital platforms and partnerships with broadcasters to:
  - Offer fans a personalized experience across devices (mobile, web, etc.).
  - Create real-time marketing opportunities.
  - Broaden content reach through multi-channel distribution.
- Immersive Technologies:
  - Virtual Reality (VR) and Augmented Reality (AR) can create more exciting stadium experiences.
  - Personalized experiences can be tailored to individual fan preferences based on data analysis.

**Performance Enhancement:**

- Smart Equipment: Technology like "smart chips" embedded in cricket balls can:
  - Assist umpires in making accurate decisions.
  - Provide valuable data for player training and improvement.

**In Conclusion:**

Digital transformation offers numerous benefits for the sports industry. Fans are getting more engaging experiences, and athletes have access to advanced tools for training and performance optimization. This trend is likely to continue, with even more innovative applications of technology emerging in the future.

Question 12: What is in IOT and its components? Explain the enabling technologies of IOT.

Answer: The Internet of Things (IoT): Connecting Everything

The Internet of Things (IoT) is a vast network of interconnected devices collecting and sharing data.

#### What is IoT?

- A system of connected devices, machines, objects, etc. with unique identifiers.
- These devices can transfer data over a network without human intervention.
- Examples: fitness trackers, smartwatches, self-driving cars, sensor-equipped machines.

#### Benefits of IoT:

- Increased Efficiency: Organizations can optimize operations and resource utilization.
- Enhanced Customer Service: Businesses can gain insights to personalize customer experiences.
- Improved Decision-Making: Data analysis from IoT devices can inform better business decisions.
- Increased Business Value: IoT can create new revenue streams and enhance existing offerings.

#### Components of an IoT Ecosystem:

- Smart Devices: Embedded systems with sensors, processors, and communication hardware.
- Data Collection and Sharing: Devices collect data and transmit it to gateways or edge devices.
- Data Analysis: Data can be analyzed locally or sent to the cloud for further processing.
- Device Interaction: Devices can communicate and act on information from each other.
- Human Interaction (Optional): People can interact with devices for setup, instructions, or data access.

#### Enabling Technologies of IoT:

- Low-cost Sensors: Affordable and reliable sensors make IoT implementation more feasible.
- Connectivity Protocols: Network protocols enable efficient data transfer between devices and the cloud.
- Cloud Computing Platforms: Cloud platforms provide scalable infrastructure for data storage and analysis.
- Machine Learning and Analytics: Advanced analytics unlock valuable insights from vast amounts of data.
- Conversational AI: Natural language processing allows for voice interaction with IoT devices.<sup>107</sup>

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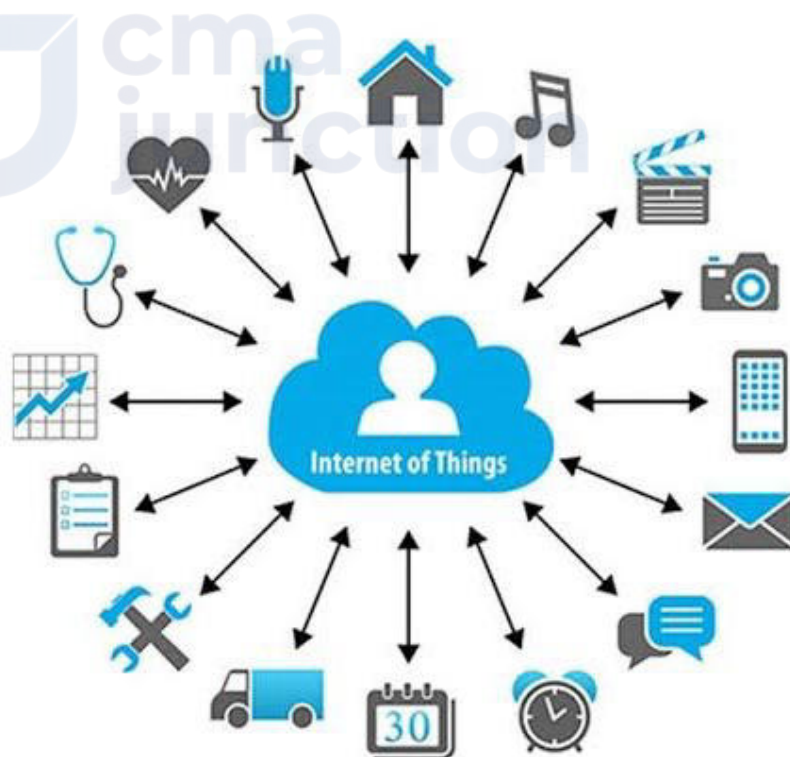
Question 13: Explain various application areas of Internet of Things (IOT). MTP (7 marks) + Jun 23 (6 marks)

Answer: **Examples of IoT Applications:**

- **Smart Lighting:** Remote control, scheduling, brightness adjustment, and energy monitoring of lighting systems.
- **Smart Parking:** Real-time occupancy monitoring, car location identification, and optimized parking management.
- **Medical Fridges:** Remote temperature monitoring and control for sensitive medications and vaccines.

**The Future of IoT:**

As technology advances, the capabilities and applications of IoT will continue to evolve, transforming various aspects of our lives and industries.



Question 14: List down the types of digital marketing strategies.

Answer: The digital landscape offers a variety of marketing channels to reach your target audience. Here's a breakdown of the most common strategies:

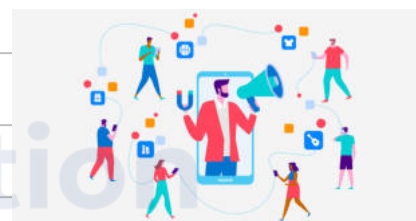
### 1. Social Media Marketing:

- Platforms like Facebook, Instagram, LinkedIn, and Snapchat allow you to:
  - Run paid advertising campaigns targeting specific demographics.
  - Share organic content and engage with followers.
  - Build brand awareness and loyalty.



### 2. Influencer Marketing:

- Partner with industry experts or celebrities to:
  - Promote your brand to their established audience.
  - Leverage their credibility and reach.
  - Increase brand awareness and trust.



### 3. Email Marketing: (zomato)

- Send targeted emails to nurture leads and drive sales:
  - Segment your audience based on interests and behavior.
  - Offer personalized promotions and newsletters.
  - Stay connected and build customer relationships.



### 4. Content Marketing:

- Create valuable content (articles, videos, etc.) to educate and engage your audience:
  - Address different stages of the buyer's journey (awareness, consideration, decision).
  - Provide solutions to your target audience's needs.
  - Establish your brand as a thought leader.

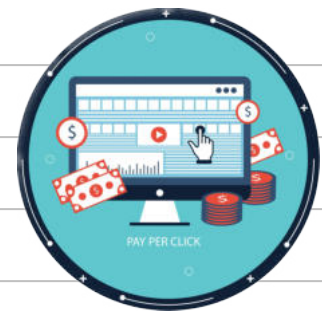


### 5. Search Engine Optimization (SEO):

- Optimize your website and content to rank higher in search engine results pages (SERPs):
  - Improve user experience and website technical aspects.
  - Increase organic traffic from search engines.
  - Make your website more discoverable by potential customers.

### 6. Pay-per-Click (PPC) Advertising:

- Bid on keywords to display your ads on search engines and websites:
  - Pay each time someone clicks on your ad.
  - Drive targeted traffic to your website.
  - Generate leads and sales quickly.



### 7. Affiliate Marketing:

- Partner with affiliates who promote your products in exchange for a commission on sales:
  - Expand your reach through established affiliate networks.
  - Reduce marketing costs by outsourcing promotion.
  - Require careful monitoring to ensure brand reputation is maintained.

### 8. Mobile Marketing:

- Reach your audience on their smartphones and tablets through various channels:
  - Text messages, social media apps, push notifications, mobile apps.
  - Optimize your website and marketing efforts for mobile devices.
  - Crucial strategy as mobile shopping continues to grow.

By understanding these core digital marketing strategies, you can create a comprehensive plan to reach your target audience, achieve your marketing goals, and gain a competitive edge in the online world.



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