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AMIT TALDA MENTORSHIP

Lesson 1 Introduction to Strategic Management

STRATEGIC MANAGEMENT : MEANING AND PROCESS

MEANING:-

Strategic Management is a discipline that deals with long-term development of an organisation with a clear-cut vision about organisational purpose, scope of activities and objectives.

It can be understood from the analysis of mentioned definitions that strategic management provides overall direction to the organisation and includes specifying the organization's objectives, developing policies and plans designed to accomplish these objectives, allocating resources for the implementation of such plans.

Michael Porter identifies three principles underlying strategy: creating a "unique and valuable market position", making trade-offs by choosing "what not to do", and creating "fit" by aligning company activities with one another to support the chosen strategy.

STRATEGIC MANAGEMENT: PROCESS:-

The strategic management process is defined as the process by which the managers'/decision makers' are able to make a choice of a set of strategies for the organization that will enable it to accomplish improved performance. Strategic management is not a static but continuous process as it involves continuous appraisal of the micro and macro environment surrounding the organization and choosing between alternatives that meet the objectives and thereafter re-assessment of such strategy. The strategic management consists of different phases, which are sequential in nature.

FOUR PHASES OF STRATEGIC MANAGEMENT PROCESS:-

There are four indispensable phases of every strategic management process. The four phases can be listed as below.

- 1. Environmental Scanning-** The Board of Directors and the top management will have to review the current performance. To review, the organization will have to scan the internal environment for the strengths and weaknesses and the external environment for opportunities and threats. The internal and external scan helps in selecting the strategic factors. These have to be reviewed and redefined in relation to the mission and objectives.
- 2. Strategy Formulation-** Strategy formulation is the process of deciding about the best course of action for accomplishing organizational objectives and therefore, attaining organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
- 3. Strategy Implementation-** Strategy implementation implies putting the chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing the human resources.
- 4. Strategy Evaluation-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial/corrective actions. Evaluation ascertains that the organizational strategy as well as its implementation is in line with the organizational objectives.

STRATEGIC LEADERSHIP

- Strategic Leadership is the **ability to influence others** to voluntarily make decisions that enhance the prospects for the organisation's long-term success while maintaining long-term financial stability.
- To successfully deal with change, all executives need the skills and tools for both strategy formulation and implementation.
- Strategic leadership refers to a **manager's potential to articulate the strategic vision** for the organization, and to motivate, guide and influence his subordinates to attain the objectives of that vision.
- Strategic leadership can also be defined as utilizing strategy in the management of employees.
- Strategic leaders generate organizational structure, assign resources and communicate strategic vision. Strategic leaders have to work in an uncertain environment on various strategic issues.
- The main purpose of strategic leadership is **strategic productivity**. Another aim of strategic leadership is to generate an environment in which employees match the organization's needs in context of their individual job.
- Strategic leaders instill confidence to the employees in an organization to follow their own ideas, yet, moving in the direction of organisation's overall goals.
- Strategic leaders make better use of reward and incentive system for encouraging productive and quality employees. Functional strategic leadership is about creativity, resourcefulness, and preparing to assist an individual in realizing his objectives and goals.

FUNCTIONS AND IMPORTANCE OF A STRATEGIC LEADER:- (JUNE 2024 EXAMS)

Following are the nine key strategic leadership roles and brief meaning of each.

- **Navigator** – Clearly and quickly works through the complexity of key issues, problems and opportunities to affect actions (e.g., leverage opportunities and resolve issues).
- **Strategist** – Develops a long-range course of action or set of goals to align with the organization's vision.
- **Entrepreneur** – Identifies and exploits opportunities for new products, services and markets.
- **Mobilizer** – Proactively builds and aligns stakeholders, capabilities, and resources for getting things done quickly and achieving complex objectives.
- **Talent Advocate** – Attracts, develops, and retains talent to ensure that people with the right skills and motivations to meet business needs are in the right place at the right time.
- **Captivator** – Builds passion and commitment toward a common goal.
- **Global Thinker** – Integrates information from all sources to develop a well-informed, diverse perspective that can be used to optimize organizational performance.
- **Change Driver** – Creates an environment that embraces change; makes change happen – even if the change is radical – and helps others to accept new ideas.
- **Enterprise guardian** – Ensures shareholder value creation through courageous decision-making that supports enterprise – or unit-wide interests.

STRATEGIC MANAGEMENT: FUNCTIONS AND IMPORTANCE FOR

PROFESSIONALS LIKE COMPANY SECRETARIES:-

A brief discussion on some of the roles is as follows:

- 1) **Advisory:** As an advisor to the Board Members, the Company Secretary must build a good relationship with them provide impartial or unbiased advice which is in the best interest of the company. He is required to offer necessary assistance to the Chairman with all development processes including board evaluation, induction and training.
- 2) **Communication with Stakeholders:** The company secretary is a distinctive interface between the Board and management and as such they act as an important link between the Board and the business. The company secretary also has an important role in communicating with external stakeholders, such as investors, and is often the first point of contact for queries.
- 3) **Flawless Disclosure and Reporting:** The company secretary usually has responsibility for drafting the governance section of the company's annual report and ensuring that all reports are made available to shareholders according to the relevant regulatory or listing requirements.
- 4) **Management of Board Meetings and Committees:** The company secretary plays a leading role in good governance by helping the Board and its committees function effectively and in accordance with their terms of reference and best practice.
- 5) **Compliances:** In current scenario, a business has to adhere to various laws and regulations failing which may invite various legal hassles. A company secretary is required to ensure compliance with various laws and regulations and for doing so he / she should be conversant with the laws as well as the amendments that take place.
- 6) **Representation:** A Company Secretary has to represent before various tribunals and courts in order to present the legal issue of the company. In India, a company secretary appears before the legal bodies inter-alia includes National Company Law Tribunal (NCLT); National Company Law Appellate Tribunal (NCLAT); Competition Commission of India (CCI); Registrar of Companies; Tax Tribunals etc.

STRATEGIC PLANNING

As per Allison and Kaye (2005), "Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. It may also extend to control mechanisms for guiding the implementation of the strategy."

In 1960s, the concept of Strategic planning gained prominent in strategic management in corporate sector and it has maintained its importance in contemporary times too.

Although, strategic planning process may be unique as per the specific requirements of any organisation, yet the Strategic Planning process is modelled in cycle shown above contains the steps most commonly followed by most of the organisations:

- Deliberating mission of the organisation;
- Developing goals based on chosen mission;
- Examining internal environment (strengths and weaknesses);
- Examine external environment (opportunities and threats);
- Summarize findings of SWOT analysis;
- Formulate final strategy based on SWOT.

Strategic planning is an iterative process; it may begin with one mission and end with another, depending on the outcomes of the process.

BENEFITS OF STRATEGIC PLANNING:-

Strategic planning can help your organization in a number of critical ways:

- **Improved results and confidence:** A proper plan may positively influence organizational performance and can contribute to a greater sense of purpose, progress and accountability among its team.
- **Focus:** Good strategic planning forces future thinking and can refocus and re-energise a disorientated organization.
- **Problem solving:** Strategic planning focuses on an organization's most critical problems, choices and opportunities.
- **Teamwork:** Strategic planning provides an excellent opportunity to build a sense of teamwork, to promote learning, and to build commitment across the organization.
- **Communication:** All stakeholders have an interest in knowing the direction in which organisation is heading and also how their contribution will fit in overall plan.
- **Greater control:** Strategic planning can provide an organisation greater control the environment in which it operates.

LIMITATIONS OF STRATEGIC PLANNING:-

- **Costs can outweigh benefits:** Strategic planning can consume a lot of time and money. This can be wasteful if the strategic planning is not successful.
- **Development of Poor plans:** Faulty assumptions about the future, poor assessment of an organization's capabilities, poor group dynamics and information overload can lead to the development of poor plans.
- **Implementation:** if not implemented properly, whole planning exercise will go futile. Disillusionment, cynicism and feelings of powerlessness often result if people have contributed energy for development of a plan which is not implemented.

BOARD OF DIRECTORS AND CORPORATE SOCIAL RESPONSIBILITY

ROLE OF BOARD OF DIRECTORS IN MAKING STRATEGIC DECISION:- (JUNE 2024 EXAMS)

- The institution of board of directors was based on the premise that a ***group of trustworthy and respectable people*** should look after the interests of the large number of shareholders who are not directly involved in the management of the company.
- The position of the board of directors is that of trust as the board is entrusted with the responsibility to ***act in the best interests*** of the company.
- The contribution of board of directors of companies is critical for ensuring appropriate directions with regard to ***leadership, vision, strategy, policies, monitoring, supervision, accountability*** to shareholders and other stakeholders, and to achieving greater levels of performance on a sustained basis as well as adherence to the best practices of corporate governance.
- An effective board ***defines the company's purpose*** and then sets a strategy to deliver it, shapes its culture and the way it conducts the business.
- It ***sets the main trends*** and factors affecting the long-term success and future viability of the company – for example technological change or environmental impacts – and how these and the company's principal risks and uncertainties have been addressed.

- The board should have sound understanding of how value is created over time, key strategies and business models towards a sustainable future.
- Boards have a responsibility for the health of the company and need to take a long-term view. This is in contrast to the priorities of some investors, not all of whom will be aligned with the pursuit of success over the long-term.
- An effective board will **manage the conflict between short-term interests and the long-term impacts** of its decisions; it will assess shareholder and stakeholder interests from the perspective of the long-term sustainable success of the company.

The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. An effective board develops and promotes its collective vision of the company's purpose, its culture, its values and the behaviour it wishes to promote in conducting its business. The **role of Board in particular includes:**

- Providing direction for management;
- Demonstrate ethical leadership, displaying and promoting the behaviour through which a company wishes to conduct its business
- Consistent with the culture and values it has defined for the organisation;
- Create a performance culture that drives value creation without exposing the company to excessive risk of value destruction;
- Make well-informed and high-quality decisions based on a clear line of sight into the business;
- Create the right framework for helping directors meet their statutory duties under the Companies Act, 2013 and/or other relevant statutory and regulatory regimes;
- Being accountable, particularly to those that provide the company's capital; and
- Think carefully about its governance arrangements and embraces evaluation of their effectiveness.

Corporate Social Responsibility (CSR):-

CSR is understood to be the way by which firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society.

The 1950s saw the start of the modern era of CSR when it was more commonly known as Social Responsibility. In 1953, Howard Bowen published his book, "Social Responsibilities of the Businessman", and is largely credited with coining the phrase 'corporate social responsibility' and is perhaps the Father of modern CSR. Bowen asked: "what responsibilities to society can business people be reasonably expected to assume?" Bowen also provided a preliminary definition of CSR "it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.

CSR is a concept whereby companies not only to consider their profitability and growth, but also interests of society and the environment by taking responsibility for the impact of their activities on the society, environment and communities in which they operate.



CSR aims to fulfill expectations that society has from business and it is viewed as a comprehensive set of social policies, practices and programs that are integrated throughout the business operations. The concept of CSR has evolved over the years and it is now used as a strategy and a business opportunity to earn stakeholders' goodwill.

Essentially, Corporate Social Responsibility is an **inter-disciplinary subject** in nature and encompasses in its fold:

1. Social, economic, ethical and moral responsibility of companies and managers,
2. Compliance with legal and voluntary requirements for business and professional practice,
3. Challenges posed by needs of the economy and socially disadvantaged groups,
4. Management of corporate responsibility activities, and
5. Proper implementation of the projects taken up by the company so that the benefit goes to people in need.

CSR is an important business strategy because, wherever possible, consumers want to buy products from companies they trust; suppliers want to form business partnerships with companies they can rely on; employees want to work for companies they respect; and NGOs, increasingly, want to work together with companies seeking feasible solutions and innovations in areas of common concern. CSR is a tool in the hands of corporates to enhance the market penetration of their products, enhance its relation with stakeholders. CSR activities carried out by the enterprises affects all the stakeholders, thus making good business sense, the reason being contribution to the bottom line.

DEFINITION OF CSR UNDER COMPANIES ACT, 2013:-

As per rule 2(d) of the Companies (CSR Policy) Rules, 2014, "Corporate Social Responsibility (CSR)" means the activities undertaken by a Company in pursuance of its statutory obligation laid down in section 135 of the Act in accordance with the provisions contained in these rules, but **shall not include the following**, namely:-

- i. activities undertaken in pursuance of **normal course of business of the company**.
- ii. any activity undertaken by the company **outside India** *except* for training of Indian sports personnel representing any State or Union territory at national level or India at international level;
- iii. contribution of any amount directly or indirectly to any political party under section 182 of the Act;
- iv. **activities benefitting employees** of the company as defined in clause (k) of section 2 of the Code on Wages, 2019;
- v. activities supported by the companies on **sponsorship basis** for deriving marketing benefits for its products or services;
- vi. activities carried out for fulfilment of **any other statutory obligations** under any law in force in India.

BENEFITS OF CSR:- (JUNE 2024 EXAMS)

Business cannot exist in isolation; business cannot be oblivious to societal development. The social responsibility of business can be integrated into the business purpose so as to build a positive synergy between the two. Some of the points highlighting the benefits of CSR are depicted below:

- CSR creates a **favourable public image**, which attracts customers.

Reputation or brand equity of the products of a company which understands and demonstrates its social responsibilities is very high. Customers trust the products of such a company and are willing to pay a premium on its products. Organizations that perform well with regard to CSR can build reputation, while those that perform poorly can damage brand and company value when exposed. Brand equity, is founded on values such as trust, credibility, reliability, quality and consistency.

- CSR builds up a positive image encouraging social involvement of employees, which in turn develops a sense of loyalty towards the organization, helping in creating a dedicated workforce proud of its company.
- The company's social involvement discourages excessive regulation or intervention from the Government or statutory bodies, and hence gives greater freedom and flexibility in decision-making.
- A business organisation has a great deal of power and money, entrusted upon it by the society and should be accompanied by an equal amount of responsibility. In other words, there should be a balance between the authority and responsibility.
- The atmosphere of social responsiveness encourages co-operative attitude between groups of companies. One company can advise or solve social problems that other organizations could not solve.
- Companies can better address the grievances of its employees and create employment opportunities for the unemployed.
- Financial institutions are increasingly incorporating social and environmental criteria into their assessment of projects. When making decisions about where to place their money, investors are looking for indicators of effective CSR management.
- In a number of jurisdictions, governments have expedited approval processes for firms that have undertaken social and environmental activities beyond those required by regulation.

FACTORS INFLUENCING CSR:- (JUNE 2024 EXAMS)

Many factors and influences, including the following, have led to increasing attention being devoted to CSR:

- **Globalization** – coupled with focus on cross-border trade, multinational enterprises and global supply chains – is increasingly raising CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things.
- **Governments and intergovernmental bodies**, such as the United Nations, the Organisation for Economic Cooperation and Development (OECD) and the International Labour Organization (ILO) have developed compacts, declarations, guidelines, principles and other instruments that outline social norms for acceptable conduct.
- **Advances in communications technology**, such as the Internet, cellular phones and personal digital assistants, are making it easier to track corporate activities and disseminate information about them. Non-governmental organizations now regularly draw attention through their websites to business practices they view as problematic.
- **Consumers and investors** are showing increasing interest in supporting responsible business practices and environmental issues.
- Numerous serious and high-profile **breaches of corporate ethics**

	<p>have contributed to elevated public mistrust of corporations and highlighted the need for improved corporate governance, transparency, accountability and ethical standards. However, being ethical and being socially responsible in making positive measurable contribution to society may not be same.</p> <ul style="list-style-type: none"> • Citizens in many countries are making it clear that corporations should meet <u>standards of social and environmental care</u>, no matter where they operate. • There is increasing awareness of the limits of government legislative and regulatory initiatives to effectively capture all the issues that corporate social responsibility addresses. • Businesses are recognizing that adopting an effective approach to CSR can reduce risk of business disruptions, open up new opportunities, and enhance brand and company reputation. • Ethical persons shall be attracted to join the company. • Effective CSR will depend on the mindset of executives of the corporate who are taking up CSR initiatives. • CSR also depends on the implementing agencies with regard to their seriousness, integrity, honesty and attitude.
<p>CORPORATE GOVERNANCE</p>  <p>GOOD GOVERNANCE</p>	<ul style="list-style-type: none"> • Corporate governance is the broad term used to describe the processes, customs, policies, laws and institutions that direct the organizations and corporations in the way they act or administer and control their operations. • It works to achieve the goal of the organization and <u>manages the relationship with the stakeholders</u> including the board of directors and the shareholders. • Corporate governance means to steer an organization in the desired direction by determining ways to take effective strategic decisions. • It also deals with the <u>accountability of the individuals</u> through a mechanism which reduces the principal- agent problem in the organization. • Good corporate governance <u>promotes investor confidence</u>, which is crucial to the ability of entities listed on stock exchanges to compete for capital. • Good corporate governance is essential to develop additional values to the stakeholders as it ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. • It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights. <p>OBJECTIVES OF CORPORATE GOVERNANCE:- (JUNE 24 EXAMS)</p> <p>Corporate Governance is aimed at creating an organization which maximizes the wealth of shareholders. It envisages an organization in which emphasis is laid on fulfilling the social responsibilities towards the stakeholders in addition to the earning of profits. The objectives of Corporate Governance is to ensure the following:</p> <ul style="list-style-type: none"> • Properly constituted Board capable of taking independent and objective decisions. • Board is independent in terms of Non-Executive and Independent Directors. • Board adopts transparent procedures and practices. • Board has an effective machinery to serve the concerns of the Stakeholders.

	<ul style="list-style-type: none"> • Board to monitor the functioning of the Management Team. • Properly constituted Board capable of taking independent and objective decisions. • Board is independent in terms of Non-Executive and Independent Directors. • Board adopts transparent procedures and practices. • Board has an effective machinery to serve the concerns of the Stakeholders. • Board to monitor the functioning of the Management Team. • Board remains in effective control of the affairs of the Company.
<p>CORPORATE GOVERNANCE AND ROLE OF COMPANY SECRETARY</p>	<p>Corporate governance offers a comprehensive, interdisciplinary approach to the management and control of companies. Corporate professionals of today and tomorrow must imbibe in themselves the evolving principles of good corporate governance across the globe on a continual basis. Therefore Corporate Governance has emerged as an important academic discipline in its own right, bringing together contributions from accounting, finance, law and management. Excellence can be bettered only through continuous study, research and academic and professional interaction of the highest quality in the theory and practice of good corporate governance.</p> <p>The corporate world especially looks upon Company Secretaries to provide the impetus, guidance and direction for achieving world-class corporate governance. Company Secretaries are the primary source of advice on the conduct of business. This can take into its fold everything from legal advice on conflicts of interest, through accounting advice, to the development of strategy/corporate compliance and advice on sustainability aspects.</p> <p><u>COMPANY SECRETARY:-</u> (JUNE 24 EXAMS)</p> <ul style="list-style-type: none"> • <i>acts as</i> a vital link between the company and its Board of Directors, shareholders and other stakeholders and regulatory authorities; • plays a key role in ensuring that the Board procedures are followed and regularly reviewed; • provides the Board with guidance as to its duties, responsibilities and powers under various laws, rules and regulations; • acts as a compliance officer as well as an in-house legal counsel to advise the Board and the functional departments of the company on various corporate, business, economic and tax laws; • is an important member of the corporate management team and acts as conscience keeper of the company. <p>The company secretary being an important human capital of the management of the business organization should put all the efforts to ensure that through his roles the corporate governance prevails and the business is able to attain astral heights.</p> <p>However, to be an effective player of strategic management, a company secretary needs to embrace the <i>following core competencies</i>:</p> <ol style="list-style-type: none"> i. Possessing a thorough knowledge of the company's business. ii. Sound knowledge of laws relating to company, capital markets, industry related etc. iii. Must have strong Communication and Professional Skills; Legal Skills; Management Skills and IT Skills. iv. Being intuitive and sensitive to the thoughts and feelings of board

	<p>directors and the CEO.</p> <ul style="list-style-type: none">v. Staying current with changes in corporate governance and giving the board and managers a “heads up” about new developments.vi. Being able to work and achieve a consensus within multidisciplinary settings.vii. Being flexible, creative and detailed.viii. Remaining calm under pressure and not losing sight of perspective.
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AMIT TALDA MENTORSHIP

Lesson 2 Analyzing the External and Internal Environment

<p>ENVIRONMENTAL INFLUENCES OF BUSINESS</p>	<p>The term environment in context of business refers to all external forces or factors having a direct or indirect bearing on events related to functioning of business. Business helps a country to accomplish economic growth, generates employment opportunities and makes available various types of goods and services for human consumption. A business organisation does not exist in a vacuum but has to take into account external and internal environment. Business environment may offer opportunities for any firm or pose threats to the firm. A business firm is also affected by a number of internal factors, which are forces inside the business organisation. While the policy makers and the managers on the top are concerned with the external environment, the middle level and lower level management are more concerned with the internal environment.</p> <p>Business environment may be defined as: “The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but the business still depends upon them as they affect the overall performance and sustainability of the business.”</p> <p>The forces which compose the business environment are its suppliers, competitors, consumers, government, bankers, customers, economic conditions, market conditions, investors, technologies, political parties, international institutions and multiple other institutions working externally of a business constitute its business environment. These forces influence the business even though they are outside the business boundaries.</p> <p>For example, changes in income tax rate by the government while announcing the budget may make the customers reduce their consumption expenditure and reduce quantity of products purchased earlier from the company. Due to this macro level change, the business will need to re-work with its pricing policy to adapt to the tax rate change. Here, even though the business had no participation in initiating the tax rate change, still had to adapt to this change by re-working its pricing policy to maintain its previous profits.</p> <p>In short, business decisions are influenced by, broadly, two sets of factors, viz., firm related factors (internal environment) and external influence (external environment).</p> <p><u>IMPORTANCE OF ENVIRONMENTAL STUDY:-</u> The benefits of studying business environment are as follows:</p> <ul style="list-style-type: none"> • Development of strategies, long-term policies and objectives of the firm. • Development of action plans to deal with changes in environment. • To forecast the consequences of socio-economic changes at the national and global levels on the company’s stability. • Analysis of competitor’s strategies and formulation of effectual counter measures. • To keep the business dynamic and up-to-date.
<p>CHARACTERISTICS AND COMPONENTS OF BUSINESS</p>	<p><u>CHARACTERISTICS OF BUSINESS ENVIRONMENT:-</u></p> <p>1. <u>Environment is dynamic in nature:</u> The environment keeps on changing as the changes occur. Frequently the environment</p>

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changes, more frequently it will impact the business.

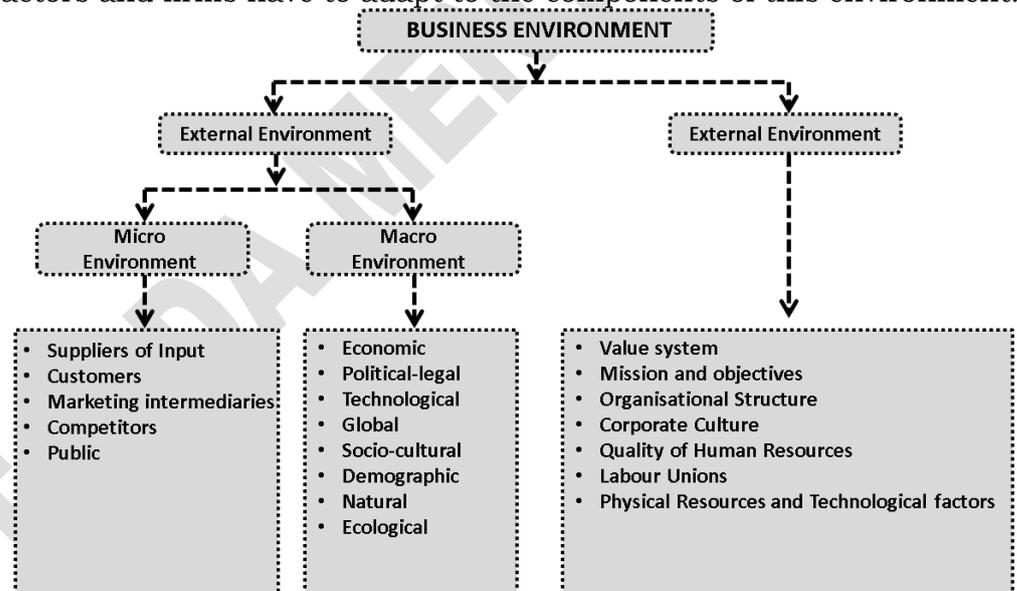
- 2. It has direct and indirect impact:** Environment gives direct and sometimes indirect effect on the working of the business.
- 3. Two types of factors:** Environment mainly consists of two type of factors namely internal and external environmental factors.
- 4. Environment is integral part of business:** Without the support of either internal or external forces, the business can't run or operate.
- 5. Impact on business decisions:** Due to environment, business can take proactive or reactive decisions in its operation to make operation more beneficial.
- 6. Multi-dimensional:** This it always considers both aspects of a force i.e., its positive as well as negative impacts.

The various components of business environment are–

- External Environment
- Internal Environment.

(I) EXTERNAL ENVIRONMENT:-

External environment consists of all those factors that affect a business enterprise from outside its boundaries. It consists of shareholders, legal, competitors, customers, society, government rules and regulations, policies and technology etc. These are uncontrollable factors and firms have to adapt to the components of this environment.



External environment can be sub-divided into micro environment and macro environment. Different players in the micro environment normally do not affect all firms of a particular industry equally. However, sometimes micro environment of the various businesses may remain more or less same.

A. EXTERNAL MICRO ENVIRONMENT:-

The micro environment consists of factors in the company's immediate environment. Micro environment includes those players whose decisions and actions have a direct bearing on the company. Production and sale of goods are the two important aspects of modern business. The various constituents of micro environment are as under:

(a) Suppliers:

- These supply of resources (finances, raw materials, fuel, power and other factors of production) and pave the way for smooth conduct of the business.
- Firms should keep themselves updated about the policies of

suppliers as rise in the cost of inputs will influence their sales volume and profitability.

- The scarcity of inputs also has a bearing on the production schedules.

(b) Customers:

- The people who buy and use products and services of business and are an important part of external micro environment.
- A business may have diverse customers such as households, producers, retailers, Government and foreign buyers on its portfolio.

(c) Marketing intermediaries:

- In the firm's external micro environment, marketing intermediaries play an essential role of selling and distributing its products to the final customers.
- They are the physical distribution firms (transport firm), service agencies (media firms), financial intermediaries (banks, insurance companies) etc. that assist in production, marketing and insurance of the goods against loss of theft, fire etc.

(d) Competitors:

- Different firms in an industry compete with each other for sale of their products.
- This competition may be on the basis of pricing of their products and also non- price competition through competitive advertising such as sponsoring some events to promote the sale of different varieties and models of their products.

(e) Public:

- A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its interest.
- Environmentalists, media groups, women's associations, consumer protection groups, local groups, citizens association are some important examples of publics which have an important bearing on the business decisions of the firm.

B. EXTERNAL MACRO ENVIRONMENT:-

Apart from micro environment, business firms also come across some other external environmental forces which are beyond their control and operate at macro level. Because of the uncontrollable nature of such macro forces, a firm has to adjust or adapt itself to harness the opportunities thrown by such forces and mitigate the threats. These factors are:

(a) Economic Environment:

- Economic environment includes all those forces which have an economic impact on business.
- Accordingly, total economic environment consists of agriculture, industrial production, infrastructure, and planning, basic economic philosophy, stages of economic development, trade cycles, national income, per capita income, savings, money supply, price level, fiscal and monetary policies and population.
- **Economic Factors:-** Government Fiscal and tax policies, General Economic Conditions, Economic Systems, Economic Policies, Economic Growth, Unemployment Rate, Interest rates, Currency exchange rates, Taxes.

(b) Political-legal Environment:

- The political- legal environment includes the activities of three political institutions, namely, legislature, executive and judiciary which usually play a useful role in shaping, directing, developing and controlling business activities.

- In order to attain a meaningful business growth, a stable and dynamic political-legal environment is very important.

Political Factors	Legal Factors
<ul style="list-style-type: none"> • Political climate – amount of government activity • Political stability and risk • Government debt • Budget deficit or surplus • Corporate and personal tax rates • Payroll taxes • Import tariffs and quotas • Export restrictions • Restrictions on international financial flows. 	<ul style="list-style-type: none"> • Minimum wage laws • Environment protection laws • Worker safety laws • Labour laws • Copyright and patent laws • Anti-monopoly laws • Municipal licences • Laws that favour business investment.

(c) Technological Environment:

- Technology implies systematic application of scientific or other organised knowledge to practical tasks or activities. It includes innovations too.
- As technology is changing fast, businessmen should keep a close look on those technological changes for its adaptation in their business activities.
- **Technological Environment Factors:-** Efficiency of infrastructure, including: roads, ports, airports, rolling stock, hospitals, education, healthcare, communication, etc., Industrial productivity, New manufacturing processes, New products and services of competitors, New products and services of supply chain partners, Any new technology that could impact the company, Cost and accessibility of electrical power.

(d) Global or International Environment:

- The Global environment or 'border less world' plays an important role in shaping business activity.
- With the liberalisation and globalisation of the Indian economy in 1991, there have been significant economic and political changes and increasing role for the private sector to play since then.

(e) Socio-cultural Environment:

- The social environment consists of the social values; concern for social problems like protection of environment against pollution, providing employment opportunities, health care for the aged and old etc.; consumerism (indulging in fair trade practices) to satisfy human wants.
- The cultural environment represents values and beliefs, norms and ethics of the society. The buying habits, buying capacities, tastes, preferences and many other factors are dependent on the cultural environment.

(f) Demographic environment:

- The demographic environment includes the gender ratio, size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological skills and educational levels, language skills of labour force.
- **Social Cultural and Demographic Factors:-** Birth and death rates, Life expectancy rates, Attitude towards work and organization,

Attitude towards government, Attitude towards authority, Ethical norms, Value system, Composition of work force, Attitude towards income, savings and capital formation, Social ethos towards work and organization.

(g) Natural Environment:

- The natural environment is the ultimate source of many inputs such as raw materials and energy, which firms use in their productive activity.
- The natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions and port facilities are all highly significant for various business activities.

(h) Ecological environment:

- Though natural resources such as air, water and solar energy can be replenished, yet, business organisations are polluting these resources by dumping chemical industrial wastes in water and affecting the ozone layer.
- The environment damage to water, earth and air caused by industrial activity of mankind is harmful for future generations.

(II) INTERNAL ENVIRONMENT:-

Survival and growth of a business depends upon its strengths and adaptability to the external environment. The internal strengths represent its internal environment. These consist of financial, physical, human and technological resources. The factors in internal environment of business are to a certain extent controllable because the firm can change or modify these factors to improve its efficiency. However, the firm may not be able to transform all the factors. The various internal factors are:

(a) Value system:

- The value system of an organisation means the ethical beliefs that guide the organisation in achieving its mission and objectives.
- The value system of a business organisation also determines its behaviour towards its employees, customers and society at large.
- The value system of a business organisation makes an important contribution to its success and its prestige in the world of business.

(b) Mission and objectives:

- The business domain of the company, direction of development, business philosophy, business policy etc. are guided by the mission and objectives of the company.
- The objective of all firms is assumed to be maximisation of profit.
- Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.

(c) Organisation structure:

- The organisational structure, the composition of the board of directors, the professionalism of management etc. are important factors influencing business decisions.
- An efficient working of a business organisation requires that the organisation structure should be conducive for quick decision-making.
- The board of directors is the highest decision-making body in a business organisation.

(d) Corporate culture:

- Corporate culture and style of functioning of top managers is important factor for determining the internal environment of a company.
- In a closed and threatening type of corporate culture the business decisions are taken by top level managers while the middle level and lower- level managers have no say in business decision making.
- In an open and participating culture, business decisions are taken by the lower- level managers and top management has a high degree of confidence in the subordinates.
- Free communication between the top- level management and lower-level managers is the rule in this open and participatory type of corporate culture.

(e) Quality of human resources:

- Quality of employees that is of human resources of a firm is an important factor of internal environment of a firm.
- The characteristics of the human resources like skill, quality, capabilities, attitude and commitment of its employees etc. could contribute to the strength and weaknesses of an organisation.

(f) Labour unions:

- Labour unions collectively bargains with the managers for better wages and better working conditions of the different categories of workers etc.
- For the smooth working of a business firm good relations between management and labour unions is required.

(g) Physical resources and technological capabilities:

- Physical resources such as plant and equipment and technological capabilities of a firm determine its competitive strength which is an important factor for determining its efficiency and unit cost of production.
- Research and development capabilities of a company determine its ability to introduce innovations which enhances productivity of workers.

PORTER'S FIVE FORCES MODEL

DEFINITION:-

The tool was created by Harvard Business School professor Michael Porter. Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level. Since its publication in 1979, it has turned into one of the most popular and highly regarded business strategy tools.

Porter was of the firm viewpoint that the organizations should keep a close watch on their rivals, but he also encouraged them to go beyond the boundaries of their competitors and make an assessment of other factors impacting the business environment. In this process, he identified five forces that build competitive environment, and have a take away its profitability.

The five forces identified are:

1. Threat of New Entrants
2. Bargaining power of suppliers
3. Bargaining power of buyers

4. Threat of Substitutes
5. Rivalry among existing competitors

These five forces establish an industry structure and the level of competition in that industry. The stronger the competitive forces are in the industry, the less profitable it becomes ultimately. An industry with low barriers to enter, having not many buyers and suppliers but many substitute products and competitors will be viewed as highly competitive and thus, lesser attractive due to its low profitability.

ATTRACTIVE INDUSTRY – HIGH PROFITS

- High Barriers to enter
- Weak suppliers bargaining power
- Weak buyers bargaining power
- Few substitute products or services
- Low competition

UNATTRACTIVE INDUSTRY – LOW PROFITS

- Low Barriers to enter
- Strong suppliers bargaining power
- Strong buyers bargaining power
- Many substitute products or services
- Intense competition

It is every strategic leader's job to make an assessment of company's competitive position in the industry and to identify its strengths or weaknesses to make stronger that position. The model is very valuable in formulating firm's strategy as it reveals the strength of each of these five key forces.

❖ ***Threat of new entrants:*** This force determines the ease of new entrants to enter a particular industry. If an industry is profitable and there are hardly any barriers to enter, competition intensifies rapidly. Therefore, with the entry of more rivals, firms begin to compete for the fixed market share, profits start to decline. Hence, it is critical for existing organizations in the industry to build high barriers to enter to discourage new entrants. Threat of new entrants is high when:

- Smaller capital is required to make an entry;
- Existing companies are not influential/dominant to prevent new entrants;
- Existing firms do not have patents, trademarks or do not strong brand value;
- There is no/little government regulation;
- Customer switching costs are low;
- There is low customer loyalty;
- Products are not being able to be differentiated; and
- Economies of scale can be effortlessly acquired.

❖ ***Bargaining power of suppliers:*** This is determined by the power of the suppliers to raise their prices. It is also determined by the volume of potential suppliers in case existing supplier increase the price. Bargaining power will also be lower in case suppliers are not supplying identical product/service but a unique one. And the cost of switching from one supplier to another. Suppliers have dominant bargaining power when:

- There are a small number of suppliers but plenty of buyers;
- Suppliers are large in number and pose a threat to forward integrate;
- There are not many substitutes of raw materials;
- Suppliers hold scarce/unique resources;
- Cost of switching supplier is relatively high.

❖ ***Bargaining power of buyers:*** Bargaining power of the buyers

would depend on the number of the buyers and the volume of their order. It would also be a product of the cost of switching from company's products and services to products/services of the competitors. Buyers exert strong bargaining power when:

- They buy in high volumes or control many access points to the final customer;
- There are only few buyers in the market;
- Switching costs to competitors are low;
- They threaten to backward integrate;
- There are many close substitutes;
- Buyers are price sensitive.

- ❖ **Threat of substitutes:** This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost.

For example, if a company supplies a unique software product that automates data related to human resource records, the buyer/client may substitute the software either by making the process manual or outsourcing it.

- ❖ **Rivalry among existing competitors:** It refers to the number and strength of competitors in the industry. How does the quality of their products and services compare with the company? Where rivalry is intense, companies can attract customers with aggressive price cuts and high-impact marketing campaigns. On the other hand, where competitive rivalry is minimal, and the product is differentiated, there will be high monopoly and steady profits for the company. This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when:

- There are several competitors;
- Exit barriers are high;
- Industry of growth is slow or negative;
- Products are not differentiated
- Products can be easily substituted;
- Low customer loyalty.

Although, Porter originally introduced five forces affecting an industry, scholars have suggested including the sixth force: **complements**. Complements increase the demand of the primary product with which they are used, thus, increasing firm's and industry's profit potential. For example, Amazon Prime complements Amazon and Jio TV complements Jio telecom business. As a result, the sale of both products shot up as compared to competitors.

IMPLEMENTING THE MODEL

The following steps are to be followed to implement the Porter's Model:

- Step 1. Gather the information on each of the five forces.
- Step 2. Analyze the results and display them on a diagram.
- Step 3. Formulate strategies based on the conclusions.

Step 1. Gather the information on each of the five forces. What managers should do during this step is to gather information about their industry and to check it against each of the factors (such as

“number of competitors in the industry”) influencing the force. We have already identified the most important factors in the table below.

Porter’s Five Forces Factors

<p>Buyer power</p> <ul style="list-style-type: none"> • Number of buyers • Size of buyers • Size of each order • Buyers’ cost of switching suppliers • There are many substitutes • Price sensitivity • Threat of integrating backward 	<p>Supplier power</p> <ul style="list-style-type: none"> • Number of suppliers • Suppliers’ size • Ability to find substitute materials • Materials scarcity • Cost of switching to alternative materials • Threat of integrating forward
<p>Threat of new entry</p> <ul style="list-style-type: none"> • Amount of capital required • Retaliation by existing companies • Legal barriers (patents, copyrights, etc.) • Brand reputation • Product differentiation • Access to suppliers and distributors • Economies of scale • Sunk costs • Government regulation 	<p>Rivalry among existing competitors</p> <ul style="list-style-type: none"> • Number of competitors • Cost of leaving an industry • Industry growth rate and size • Product differentiation • Competitors’ size • Customer loyalty • Threat of horizontal integration • Level of advertising expense

<p>Threat of substitutes</p> <ul style="list-style-type: none"> ➤ Number of substitutes ➤ Performance of substitutes ➤ Cost of changing

Step 2. Analyze the results and display them on a diagram. After gathering all the information, you should analyze it and determine how each force is affecting an industry. For example, if there are many companies of equal size operating in the slow growth industry, it means that rivalry between existing companies is strong. Remember that five forces affect different industries differently so do not use the same results of analysis for even similar industries.

Step 3. Formulate strategies based on the conclusions. At this stage, managers should formulate firm’s strategies using the results of the analysis For example, if it is hard to achieve economies of scale in the market, the company should pursue cost leadership strategy. Product development strategy should be used if the current market growth is slow and the market is saturated.

Although, Porter’s five forces is a valuable tool to analyze industry’s structure and to formulate firm’s strategy, it has its limitations and requires supplementary analysis to be done, such as SWOT, PEST or Value Chain analysis.

Lesson 3 Business Policy and Formulation of Functional Strategy

BUSINESS POLICY – INTRODUCTION

- Business policies are the **guidelines** developed by an organization to govern the actions of those who are a part of it.
- They define the potential *limits within which decisions must be made*.
- Business policy also deals with acquisition of resources with which organizational goals can be achieved.
- Business Policy defines the scope within which decisions may be taken by the subordinates in an organization.
- It permits the lower level management to deal with the routine problems and issues on their own without reverting back to top management for the purpose of decision making.
- Business policy is the study of the roles and responsibilities of top level management, significant issues affecting organizational success and the decisions affecting organization in long-run.
- The top management consists of those managers who are primarily responsible for long-term decisions and carry designations such as Chief executive, President, General Manager, or executive Director. These are the persons who are not concerned with the day-to-day problems but are expected to devote their time and energy for thinking and deciding about the future course of action.

FEATURES OF BUSINESS POLICY

An effective business policy must have following features-

1. **Specific** – every policy must have a basic feature of being specific/definite. If it is uncertain, then its implementation will become difficult.
2. **Clear** – Policy must be unambiguous and as clear as possible in order to guide the subordinates effectively. It should avoid frequent use of jargons and connotations to create any chaos.
3. **Reliable and Uniform** – Policy must be uniform and reliable enough to be efficiently followed by the subordinates.
4. **Appropriate** – Policy should be appropriate to the represent the organizational goals.
5. **Simple** – A policy should be simple and easily understood by each and every person in the organization.
6. **Inclusive/Comprehensive** – In order to have a wide scope, a policy must be comprehensive.
7. **Flexible** – Policy should be flexible in application. It should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.
8. **Stable** – Policy should be stable so as to avoid the scope of any indecisiveness and uncertainty in minds of those who look into it for guidance.

EVOLUTION BASED ON MANAGERIAL PRACTICES

- The development in business policy as arising from the use of planning techniques by managers. Starting from day- to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives.
- With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management: a term is currently used to describe the process of strategic decision – making.
- Strategic management is the theoretical framework for business policy

courses today. Policy-making became the prime responsibility of erstwhile entrepreneurs who later assumed the role of senior management.

The Indian Scenario

- Formal management education started in India in the late fifties and gained an impetus with the setting up of the Indian Institutes of Management (IIMs) and the Administrative Staff College of India in the early sixties. In the formative years of the IIMs, the curriculum and philosophy of management education "...were borrowed substantially from the American business schools".
- The IIM, Ahmedabad based its teaching methodology on the Harvard model of developing and using case studies as the major tool.
- With the setting up of three more IIMs at Bangalore, Calcutta and Lucknow and the creation of university departments, management education has experienced an unparalleled growth in the last three decades.
- Different nomenclature used for the course title includes, besides business policy; corporate planning, corporate strategy and planning, management policy and, lately, strategic planning or strategic management.

IMPORTANCE OF BUSINESS POLICY

To highlight the importance of business policy, we consider four areas where this course proves to be beneficial.

- ***From the viewpoint of the Course itself***

Business policy seeks to integrate knowledge and experience gained in various functional areas of management. It enables the learner to understand and make sense of the complex interaction that takes place between different functional area.

Business policy deals with the constraints and complexities of the real-life business. In contrast, the functional area courses are based on a structured, specialized and well-developed body of knowledge resulting from the simplification of the complexity of the overall tasks and responsibilities of management.

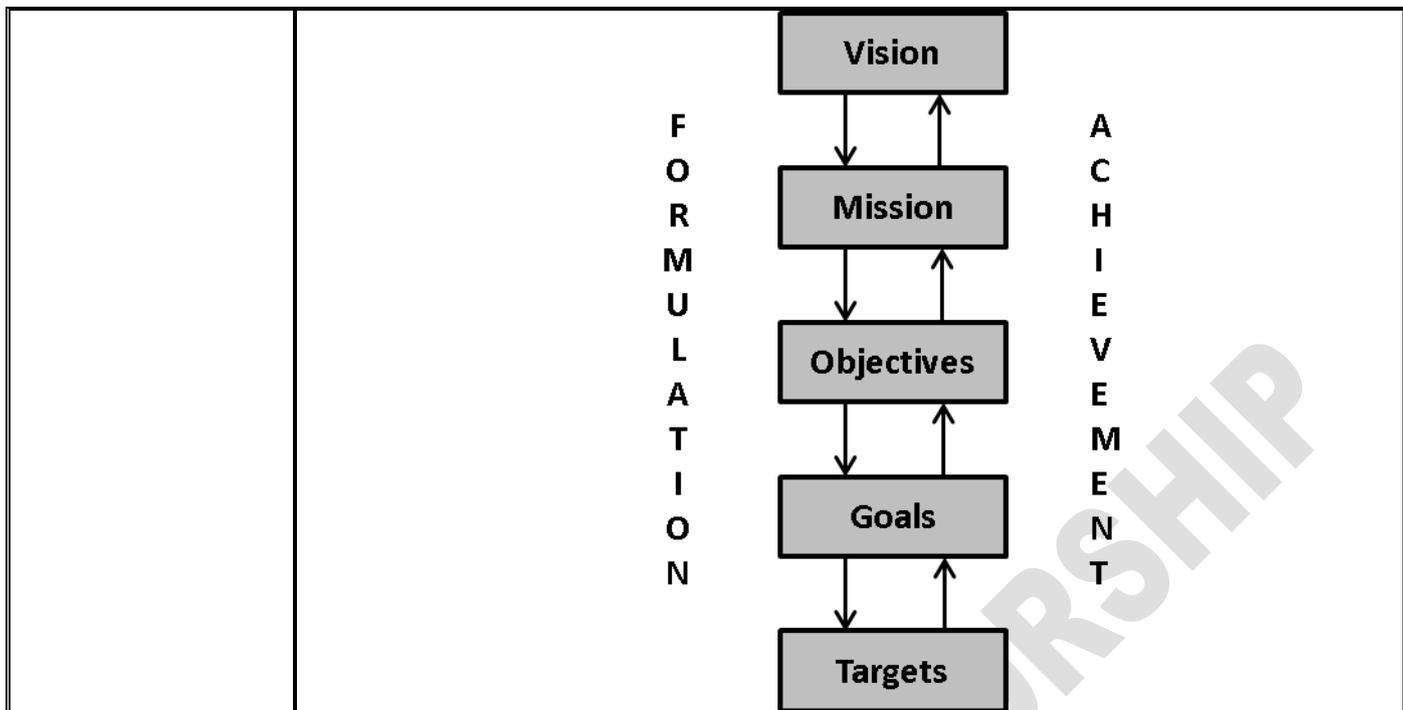
For the development of a theoretical structure of its own, business policy cuts across the narrow functional boundaries and draws upon a variety of sources; other courses in management curriculum and from a wide variety of disciplines like economics, sociology, psychology, demography, political science, etc. In doing so, business policy offers a very broad perspective to its learners.

Business policy makes the study and practice of management more meaningful as one can view business decision-making in its proper perspective. For instance, in the context of business policy, a short-term gain for a department or a sub-unit is willingly sacrificed in the interest of the long-term benefit that may accrue to the organisation as a whole.

- ***For the understanding of Business Environment***

Regardless of the level of management where a person is, business policy creates an understanding of how policies are formulated. This helps in creating an appreciation of the complexities of the environment that the senior management faces in policy formulation.

	<p>By gaining an understanding of the business environment, managers become more receptive to the ideas and suggestions of the senior management. Such an attitude on the part of managers makes the task of policy implementation simpler.</p> <p>By being able to relate the environmental changes to policy changes within the organisation, managers feel themselves to be a part of a greater design. This helps in reducing their feelings of isolation.</p> <ul style="list-style-type: none"> • <i>For understanding the Organisation</i> Business policy presents a basic framework for understanding strategic decision-making while a person is at the middle level of management. Such a framework, combined with the experience gained in working in a specialized functional area, enable a person to make preparations for handling general management responsibilities. this benefits the organisation in a variety of ways. <p>Business policy, like most other areas of management, brings to the organisation and also to its managers, the benefit of years of distilled experience in strategic decision-making. Case study, which is the most common pedagogical tool in business policy, provides illustrations of real-life business strategy formulation and implementation.</p>
<p>FRAMEWORK OF STRATEGIC MANAGEMENT</p>	<ul style="list-style-type: none"> • The terms vision/mission, objectives, goals and targets are used interchangeably many a time. However, in corporate world, they are often used distinctively. However, it depends upon organization to organisation, how they interpret. • For example, while some organisations may opine that mission refers to the current situation, many others consider them in a future (often long term) perspective. • Some companies state the mission after the vision statement as a logical evolution from the vision whereas for some companies there is only a mission statement that would reflect the vision. • One who goes through the statements of vision, mission, purpose, motto, objectives, values etc. of different organizations would be amazed by the wide differences in the perception about the meaning of each of these terms. • A review of 622 mission statements by Graham and Havlik has revealed that all mission statements varied in length as well as tone. No two mission statements had the exact same formula, or pattern. • There is a logical linkage and evolution between these different concepts such as Vision leads to mission (which fosters the vision) and mission leads to objectives (which are designed to achieve the mission), objectives lead to goals (which are designed to achieve the objectives) and goals lead to targets (which are set to achieve the goals).



VISION	<ul style="list-style-type: none"> • Vision serves the purpose of stating what an organization wishes to achieve in the <i>long run</i>. • It articulates the position that the organisation would like to occupy in future. • The vision is about <i>looking forward</i> and about formalizing where you, and the business, are going. It is a future aspiration that leads to an inspiration of being the best in one's business sphere. • It creates a <i>common identity and a shared sense of purpose</i>. • A vision statement is a <i>company's road map</i>, indicating both what the company wants to become and guiding transformational initiatives by setting a defined direction for the company's growth. • Vision statements undergo minimal revisions during the life of a business, unlike operational goals which may be updated from year-to-year. <p>FEATURES</p> <ul style="list-style-type: none"> ❖ <i>Concise</i>: able to be easily remembered and repeated ❖ <i>Clear</i>: defines a prime goal ❖ <i>Time horizon</i>: defines a time horizon ❖ <i>Future-oriented</i>: describes where the company is going rather than the current state ❖ <i>Stable</i>: offers a long-term perspective and is unlikely to be impacted by market or technology changes ❖ <i>Challenging</i>: not something that can be easily met and discarded ❖ <i>Abstract</i>: general enough to encompass all of the organization's interests and strategic direction ❖ <i>Inspiring</i>: motivates employees and is something that employees view as desirable. <p>PURPOSE</p> <p>Vision statement may fill the following functions for a company:</p> <ul style="list-style-type: none"> • Serve as foundation for a broader strategic plan. • Motivate existing employees and attract potential employees by clearly categorizing the company's goals and attracting like-minded individuals. • Focus company efforts and facilitate the creation of core competencies
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	<p>by directing the company to only focus on strategic opportunities that advance the company's vision.</p> <ul style="list-style-type: none"> • Help companies differentiate from competitors. For example, profit is a common business goal, and vision statements typically describe how a company will become profitable rather than list profit directly as the long-term vision. 									
<p>MISSION</p>	<p>“A mission statement is an enduring statement of purpose that distinguishes one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms.”</p> <p>According to McGinnis, a mission statement:</p> <ul style="list-style-type: none"> • should define what the organisation is and what the organisation aspires to be; • should be limited enough to exclude some ventures and broad enough to allow for creative growth; • should distinguish a given organisation from all others; • should serve as a framework for evaluating both current and prospective activities; and • should be stated in terms sufficiently clear to be widely understood throughout the organisation. <p>A mission statement has certain desirable components. An ideal mission statement of business should define its customers, products or services, markets, technology, philosophy and self-concept. However, an examination of the mission statement of different organisations shows that the mission statements of several of them are not so comprehensive.</p> <p><u>ELEMENTS OF MISSION STATEMENT</u></p> <ul style="list-style-type: none"> ➤ Clearly Articulated ➤ Relevant ➤ Written in a positive tone ➤ Unique ➤ Enduring ➤ Adapted to the Target Audience. <p><i>The mission statement should define its customers, products or services, markets, technology, philosophy and self-concept. The following questions to be considered while preparing for a mission statement.</i></p> <ol style="list-style-type: none"> 1. What is the basic purpose of your organisation? 2. What is unique about your organisation? 3. What is likely to be different about your business five years down the line? 4. Who are, and who should be, your core customers? 5. What are, and what should be, your principal economic concerns? 6. What are the basic beliefs, values and philosophical priorities of your firm? <p style="text-align: center;">Comparison</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3" style="text-align: center;">Mission Statement versus Vision Statement</th> </tr> <tr> <th style="width: 20%;"></th> <th style="width: 40%; text-align: center;">Mission Statement</th> <th style="width: 40%; text-align: center;">Vision Statement</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">About</td> <td>A Mission statement talks about HOW you will get to where you want to be. Defines the purpose and primary objectives related to your customer needs and team</td> <td>A Vision statement outlines WHERE you want to be. Communicates both the purpose and</td> </tr> </tbody> </table>	Mission Statement versus Vision Statement				Mission Statement	Vision Statement	About	A Mission statement talks about HOW you will get to where you want to be. Defines the purpose and primary objectives related to your customer needs and team	A Vision statement outlines WHERE you want to be. Communicates both the purpose and
Mission Statement versus Vision Statement										
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	values.	values of your business
Answer	It answers the question, "What do we do? What makes us different?"	It answers the question, "Where do we aim to be?"
Time	A mission statement talks about the present leading to its future.	A vision statement talks about your future.
Function	It lists the broad goals for which the organization is formed. Its prime function is internal; to define the key measure or measures of the organization's success and its prime audience is the leadership, team and stockholders.	It lists where you see yourself some years from now. It inspires you to give your best. It shapes your understanding of why you are working here.
Developing a statement	What do we do today? for whom do we do it? What is the benefit? In other words, Why we? do what we do? Questions on What, for Whom and Why?	Where do we want to be going forward? When do we want to reach that stage? How do we want to do it?
Features of an effective statement	Purpose and values of the organization: Who are the organization's primary "clients" (stakeholders)? What are the responsibilities of the organization towards the clients?	Clarity and lack of ambiguity: Describing a bright future (hope); Memorable and engaging expression; realistic aspirations, achievable; alignment with organizational values and culture.

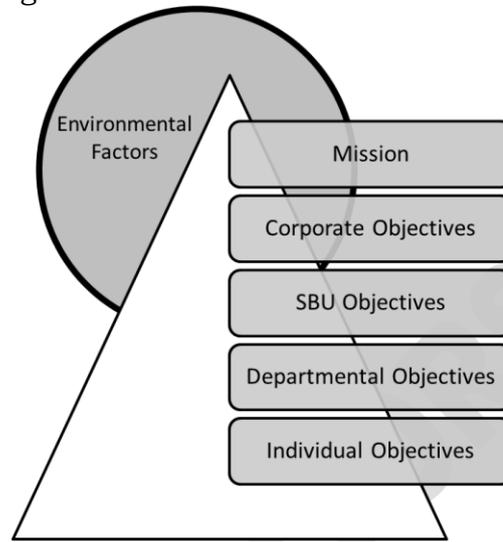
OBJECTIVES AND GOALS

- To accomplish the mission of the organization, a number of objectives are formulated. Achievement of the organisational objectives, in turn, requires the formulation and fulfillment of departmental and unit goals.
- Used broadly, the word objectives cover "long-range company aims, more specific department goals, and even individual assignments. Thus, objectives may pertain to a wide or narrow part of an enterprise, and they may be either long or short range."
- Objectives should not be static, they should be dynamic. That is, changes in the environment and/or changes in the organisational strengths and weaknesses may call for modifications to objectives.
- A goal is defined as "*an intermediate result to be achieved by a certain time as part of the grand plan. A plan can, therefore, have many goals.*" Specific goals are sometimes referred to as targets.

IMPORTANCE OF OBJECTIVES

- Justify the organization
- Provide direction
- Basis for Management by Objectives
- Help Strategic Planning/Management
- Provide standards for assessment and control
- Help Decentralization.

Objectives vs. Goals: The terms objectives and goals are differentiated by some managers based on generality and specificity of what an organisation seeks to achieve. For example, objective of an organisation is to improve its profitability whereas one of the goals of the organisation is to increase the net sales by 20% during FY 2023- 24 over FY2022-2023. Thus, objectives are based on mission statement and open-ended statements whereas goals are closed ended statements.



PROCESS OF FORMULATING MISSION AND OBJECTIVES

Environmental Analysis: A cross-functional analysis of data and information and its results provide a basis for the establishment of organisational direction in terms of mission and objectives. Environmental analysis should provide managers with adequate information and data for reflection. The data and information from all the levels of environment — general, specific, operating and internal — should be collected.

Vision and Mission: Environmental analysis serves as a foundation for the development and formulation of vision and mission. Managers should understand the information and data derived from the environment, its analysis and better equip themselves to have a visionary reflections. This reflection helps them to formulate and write the organisational vision and mission.

Organisational Objectives: Organisational vision and mission serve as the basis for development of appropriate organisational objectives. Managers view that objectives should be consistent with the organisational vision and mission.

Specific targets: After the objectives are formulated by the top management of the organisation, they should be translated into specific targets by the middle and lower level management. These specific targets help for the effective achievement of objectives at different levels.

STRATEGIC LEVELS OF THE ORGANIZATION

CORPORATE LEVEL STRATEGY

- Corporate Strategy is the essence of strategic planning process. It **determines the growth objective** of the company, i.e. direction, timing, extent and pace of the firm’s growth.
- It highlights the pattern of business moves and goals concerning strategic interest, in different business units, product lines, customer groups, etc.
- It defines how the firm will *remain sustainable in the long run.*

- Corporate level strategy occupies the *highest level of strategic decision* making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance.
- Corporate Strategy can be explained as the management plan formulated by the highest level of organization echelon, to direct and operate the entire business organization.
- It alludes to the master plan that leads the firm towards the success. So, the more the aptness in the degree of the corporate level strategy, the higher will be the chances of firm's success in the market.

BUSINESS-LEVEL STRATEGY

- Business level strategy is applicable in those organizations, which have different businesses-and each business is treated as **Strategic Business Unit (SBU)**.
- the fundamental concept in SBU is to identify the discrete **independent product / market segments** served by an organization.
- Since each product/market segment has a **distinct environment**, a SBU is created for each such segment. For example, reliance Industries Limited operates in textile fabrics, yarns, fibers, and a variety of petrochemical products.
- For each product group, the nature of market in terms of customers, competition, and marketing channel differs.
- Therefore, it requires different strategies for its different product groups. thus, where SBu concept is applied, each SBU sets its own strategies to make the **best use of its resources** given the environment it faces.
- At such a level, strategy is a **comprehensive plan** providing objectives for SBUs, allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of corporate- level objectives.
- The corporate strategy *sets the long- term objectives* of the firm and the broad constraints and policies within which a SBU operates. The corporate level will help the SBU define its scope of operations and also limit or enhance the SBUs operations by the resources the corporate level assigns to it.
- Corporate strategy is not the sum total of business strategies of the corporation but it deals with different subject matter.

FUNCTIONAL-LEVEL STRATEGY

- Functional strategy, as is suggested by the title, *relates to a single functional operation* and the activities involved therein.
- Decisions at this level within the organization are often described as *tactical*.
- Such decisions are guided and *constrained by some overall strategic considerations*.
- Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives.
- Below the functional-level strategy, there may be operations level strategies as each function may be divided into several sub functions. For example, marketing strategy, a functional strategy, can be subdivided into promotion, sales, distribution, pricing strategies with each sub function strategy contributing to functional strategy.

Comparison Chart		
Basis for Comparison	Business Strategy	Corporate Strategy
Meaning	Business Strategy is the strategy framed by the business managers to strengthen the overall performance of the enterprise.	Corporate Strategy is stated in the mission statement, which explains the business type and ultimate goal of the firm.
Created by	Middle level management	Top level management
Nature	Executive and Governing	Decisive and Legislative
Relates to	Selection of plan to fulfill the objectives company of organization	Business selection in which the Company should compete
Deals with	Particular business unit or division	Entire business organization
Term	Short term strategy	Long term strategy
Focus growth	Competing successfully in the Marketplace	Maximizing profitability and business growth
Approach	Introverted	Extroverted
Major strategies Differentiation	Cost Leadership, Focus and Differentiation.	Expansion, Stability and Retrenchment.

FORMULATION OF FUNCTIONAL STRATEGY

FINANCE STRATEGY

Financial metrics have long been the standard for assessing a firm's performance. financial goals and metrics are established based on benchmarking the "best-in-industry" and include:

1. Free Cash Flow

- This is a measure of the firm's financial soundness and shows how efficiently its financial resources are being utilized to generate additional cash for future investments.
- It represents the net cash available after deducting the investments and working capital increases from the firm's operating cash flow.

2. Economic Value-Added

- This is the bottom-line contribution on a risk-adjusted basis and helps management to make effective, timely decisions to expand businesses that increase the firm's economic value and to implement corrective actions in those that are destroying its value.
- It is determined by deducting the operating capital cost from the net income.

3. Asset Management

- This calls for the efficient management of current assets (cash, receivables, inventory) and current liabilities (payables, accruals) turnovers and the enhanced management of its working capital and cash conversion cycle.

4. Financing Decisions and Capital Structure

- Here, financing is limited to the optimal capital structure (debt ratio or leverage), which is the level that minimizes the firm's cost of capital.
- this optimal capital structure determines the firm's reserve borrowing capacity (short- and long-term) and the risk of potential financial distress.

5. Profitability Ratios

- This is a measure of the operational efficiency of a firm.
- Profitability ratios also indicate inefficient areas that require corrective actions by management; they measure profit relationships with sales, total assets, and net worth.

6. Growth Indices

- Growth indices evaluate sales and market share growth and determine the acceptable trade-off of growth with respect to reductions in cash flows, profit margins, and returns on investment.
- Growth usually drains cash and reserve borrowing funds, and sometimes, aggressive asset management is required to ensure sufficient cash and limited borrowing.

7. Risk Assessment and Management

- A firm must address its key uncertainties by identifying, measuring, and controlling its existing risks in corporate governance and regulatory compliance, the likelihood of their occurrence, and their economic impact.
- then, a process must be implemented to mitigate the causes and effects of those risks.

8. Tax Optimization

- Many functional areas and business units need to manage the level of tax liability undertaken in conducting business and to understand that mitigating risk also reduces expected taxes.
- Moreover, new initiatives, acquisitions, and product development projects must be weighed against their tax implications and net after-tax contribution to the firm's value. In general, performance must, whenever possible, be measured on an after-tax basis.

STRATEGY FINANCIAL MANAGEMENT

Strategic Financial Management (SFM) is concerned with development of a finance strategy by identification of some key strategic alternatives which are capable of maximizing entity's Net Present Value (NPV) and by allocation of scarce capital resources among the competing opportunities. It is concerned with taking these three key financial decisions:

1. ***Investment Decision***

In the course of business, the available finance with business is usually limited but the opportunities to invest are plenty. Hence, the finance manager is required to assess the profitability or return of various individual investment decisions and choose a policy which ensures high liquidity, profitability of an organization. It includes short term investment decisions known as working capital management decisions and long term investment decisions known as capital budgeting decisions.

- ***Capital Budgeting:-*** It is the process of making investment decisions in capital expenditure, benefits of which are expected over a long period of time exceeding one year. Investment decision should be evaluated in the terms of expected profitability, costs involved and the risks associated. This decision is important for setting up of new units, expansion of present units, reallocation of funds etc.
- ***Short Term Investment Decision:-*** It relates to allocation of funds among cash and equivalents, receivables and inventories. Such decision is influenced by trade-off between liquidity and profitability. Proper working capital management policy ensures higher profitability, proper liquidity and sound structural health of the organization.

2. ***Financing Decision***

Once the requirement of funds has been estimated, the next important step is to determine the sources of finance. The manager should try to maintain a balance between debt and equity so as to ensure minimized risk and maximum profitability to business.

3. ***Dividend Decision***

Dividend is that part of profit, which is distributed to shareholders as a reward to high-risk investment in business. It is basically concerned with deciding as to how much part of profit will be retained for the future investments and how much part of profit will be distributed among shareholders. High rate of dividend ensures higher wealth of shareholders and also increase market price of shares.

MARKETING STRATEGY

- Formulation of Marketing Strategy is the means by which a firm is effectively able to differentiate itself from its competitors by capitalising on its strengths to provide consistently better value to its customers than its competitors.
- Marketing strategy is a long-term, forward-looking approach for attaining sustainable competitive advantage.
- It involves an analysis of the company's existing strategic situation before the formulation, evaluation and selection of market-oriented competitive position that contributes to the company's goals and marketing objectives.
- In short, the Strategic Marketing answers three 'W's:
 1. Which markets to compete in;
 2. What is the basis of the firm's competitive; and
 3. When to compete

**STRATEGIC
MARKETING
PLANNING:
AN OVERVIEW**

THE STRATEGIC GAP

Marketing strategy involves mapping out the company's direction for the future, be it three, five or ten years. It involves carrying out a 360° review of the firm and its operating environment with a view to identify new business opportunities that the firm could potentially leverage for competitive advantage. Strategic planning may also reveal market threats that the firm may need to consider for long-term sustainability.

Strategic planning is concerned with identifying the business opportunities that are likely to be successful and evaluates the firm's capacity to leverage such opportunities. It seeks to identify the strategic gap; that is the difference between where a firm is currently situated where it should be situated for sustainable, long-term growth.

MARKET POSITION AND STRATEGY

In terms of market position, firms may be classified as market leaders, market challengers, market followers or market nichers.

- ❖ **Market leader:** The market leader is the one who controls significant market share. the goal of a market leader is to reinforce their prominent position through the use of branding to develop and maintain their corporate image and to restrict the competitors brand. Market leaders may adopt unconventional or unexpected approaches to building growth and their tactical responses are likely to include: product proliferation; diversification; multi-branding; erecting barriers to entry; vertical and horizontal integration and corporate acquisitions.
- ❖ **Market challenger:** The market challenger holds the next highest market share in the industry, following closely the most dominant player. Their market posture is generally offensive because they have less to lose and more to gain by taking risks. They will compete 'neck to neck' with the market leader in an effort to grab their market share. their overall strategy is to gain market share through product, packaging and service innovations and new market.
- ❖ **Market follower:** Followers are generally content by taking a backseat and follow the policy of wait and watch. they rarely invest in their own funds in R&D and sit and relax to watch market leaders to bring out novel and innovative products and afterwards adopt a "me-too" approach. Their strategy is to maintain their market position by preserving existing customer base. Their strategy is to maintain steady profits by controlling costs.
- ❖ **Market Nicher:** The market nicher occupies a small niche in the market in order to avoid 'neck to neck' competition. Their objective is to build strong ties with the existing customer base and develop strong loyalty with them. Their strategy is to develop and build the smaller segment and protect it. Tactically, nichers are likely to improve the product or service offering, leverage cross-selling opportunities, offer value for money and build relationships through superior after sales service, service quality and other related value adding activities.

ENTRY STRATEGIES

Marketing strategies may differ depending on the unique situation of the individual business. According to Lieberman and Montgomery, every entrant into a market – whether it is new or existing – is classified under a Market Pioneer, Close follower or a Late follower.

- **PIONEERS**
 - Market pioneers are known for innovative product development, resulting into some early entry market share advantages than the

	<p>followers as they have the first-mover advantage, pioneers must ensure that they are having at least one or more of three primary sources: technological Leadership, Pre-emption of assets or buyer switching costs.</p> <ul style="list-style-type: none"> ○ <u>Technological Leadership</u> means gaining an advantage through either Research and Development or the “learning curve” for using the research and development as a key point of selling. ○ <u>Pre-emption of Assets</u> can help gain an advantage through acquiring scarce assets within a certain market, allowing the first-mover to be able to have control of existing assets rather than those that are created through new technology. ○ By being a first entrant, it is easy to avoid higher switching costs compared to later entrants. ● <u>CLOSE FOLLOWERS</u> ○ If there is a profit potential in the innovation introduced by market pioneer, many businesses would step in offering the same product. Such people are more commonly known as Close followers. ○ These entrants into the market can also be seen as challengers to the Market Pioneers and the Late followers. This is because early followers are more than likely to invest a significant amount in Product Research and Development than later entrants. ○ Due to the nature of early followers and the research time being later than Market Pioneers, different development strategies are used as opposed to those who entered the market in the beginning, and the same is applied to those who are Late followers in the market. ○ By having a different strategy, it allows the followers to create their own unique selling point and perhaps target a different audience in comparison to that of the Market Pioneers. ● <u>LATE ENTRANTS</u> ○ Those who follow after the close followers are known as the Late entrants. ○ Late entrant has certain advantages such as <u>ability to learn from their early competitors</u> and improving the benefits or reducing the total costs. ○ This allows them to create a strategy that could essentially mean gaining market share and most importantly, staying in the market. ○ Late followers <u>could have a cost advantage</u> over early entrants due to the use of product imitation. ○ The requirements of individual customer markets are unique, and their purchases sufficient to make viable the design of a new marketing mix for each customer. ○ If a company adopts this type of market strategy, a separate marketing mix is to be designed for each customer. Specific marketing mixes can be developed to appeal to most of the segments when market segmentation reveals several potential targets.
<p>FORMULATION OF HUMAN RESOURCE STRATEGIES</p>	<ul style="list-style-type: none"> ● Human resource planning is a process that <u>identifies current and future human resources needs</u> for an organization to achieve its goals. ● Human resource planning should serve as a <u>link</u> between human resource management and the overall strategic plan of an organization. ● Human resource planning includes creating an employer brand, retention strategy, absence management strategy, flexibility strategy, (talent management) strategy, (recruitment) and selection strategy. ● Human resource planning is the <u>ongoing process</u> of systematic planning to achieve the best use of an organisation’s most valuable asset – its human resources.

- the *objective* of human resource (HR) planning is to ensure the best fit between employees and jobs, while avoiding workforce shortages or spares.
- the *three key elements* of the HR planning process are forecasting labour demand, analysing present labour supply, and balancing projected labour demand and supply.

IMPLEMENTING HR STRATEGY

1. Assessing the current HR capacity

This includes taking stock of the skills of the existing human resources of the organisation to have a clear understanding of the current skill set of the company. This will help in forecasting future HR requirements.

2. Forecasting HR requirements

This step includes projecting what the HR needs for the future will be based on the strategic goals of the organization and assessment of total skill set of existing human resources. Some questions to be asked during this stage include:

- The positions to be filled in the future period.
- The number of staff will be required to meet the strategic goals of the organization.
- Effect of external environmental forces in getting new human resources.

3. Gap analysis

In this stage, one will make a comparison between existing and desired position of the organisation from strategic point of view. During this phase you should also review your current Hr practices and if these require any amendments.

4. Developing HR strategies to support the strategies of the organization

The five HR strategies which may be adopted to attain the organizational goals are given hereunder:

❖ **Restructuring strategies**

This includes reducing staff, regrouping tasks to create well-designed jobs, and reorganizing work groups to perform more efficiently.

❖ **Training and development strategies**

This includes providing the current staff with training and development opportunities to encompass new roles in the organization.

❖ **Recruitment strategies**

This includes recruiting new hires that already have the skills the organization will need in the future.

❖ **Outsourcing strategies**

This includes outreaching to external individuals or organizations to complete certain tasks.

❖ **Collaboration strategies**

This includes collaborating with other organizations to learn from how others do things, allow employees to gain skills and knowledge not previously available in their own organization.

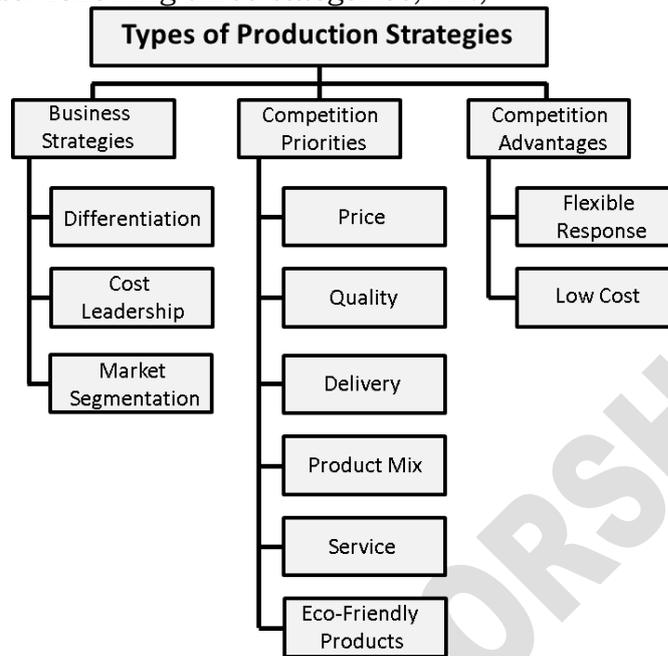
❖ **Retention strategy**

Every area of the employer-employee relationship in your organization deserves your attention. embrace these key strategies to improve your organization's employee retention and boost employee satisfaction.

- ❖ **Onboarding and orientation** The job orientation is just one component of onboarding, aim to develop an onboarding process where new staff members not only learn about the job but also the company culture and how they can contribute and thrive, with ongoing discussions, goals and opportunities to address questions and issues as they arrive.
- ❖ **Mentorship programs**
Pairing a new employee with a mentor is a great for retention. new team members can learn from the experience of a senior.
- ❖ **Employee compensation**
The organisation should offer competitive compensation packages which include salaries, bonuses, paid time off, health benefits, retirement plans and all the other perks.
- ❖ **Recognition and rewards systems**
Every person wants to feel appreciated for what they do. When they go the extra mile, they should be recognized. Some companies set up rewards systems that incentivize great ideas and innovation.
- ❖ **Work-life balance**
A healthy work-life balance is essential. Companies should give a serious thought for offering telecommuting or flexible schedules to improve work-life balance for their employees.
- ❖ **Training and development** – Smart managers invest in their workers' professional development and seek opportunities for them to grow. Some companies pay for employees to attend conferences or industry events each year, or provide tuition reimbursement or continuing education training.
- ❖ **Communication and Feedback**
Lines of communication should be kept open for ensuring employee retention. their ideas, questions and concerns must be welcomed.
- ❖ **Dealing with change**
If the organization is going through a merger, layoffs or other big changes, the employees must be taken into confidence beforehand to maintain their trust.
- ❖ **Fostering teamwork**
When people work together, they can achieve more than they would have individually. foster a culture of collaboration by clarifying team objectives, business goals and roles, and encouraging everyone to contribute ideas and solutions.
- ❖ **Team celebration**
Celebrate major milestones for individuals and for the team. Whether the team just finished that huge quarterly project under budget or an employee brought home a new baby, seize the chance to celebrate together with a shared meal or group excursion.

FORMULATION OF PRODUCTION STRATEGY

The different types of production strategies are grouped, listed and explained under following three categories, viz.,



The types of production strategies listed above are discussed as follows:

1. Differentiation strategy

- Under a differentiation strategy, the company tries to make a product *different and unique* from that offered by its competitors in the market.
- Such a differentiation may be *done in terms of* enhanced quality, quantity, pricing, appearance, and after sales-service than its rivals.
- Such a uniqueness and divergence in its product quality and customer service *may lead to fetching higher prices* by the company in the same market.

2. Cost leadership strategy

- Under a cost leadership strategy, the company tries to *diminish its cost of production by reaping economies of the scale* on a larger volume of production in a single batch.
- Higher the scale of production, lower will be the cost of production due to reduction in fixed costs per unit of production be it raw materials, labour, advertising, sales promotion, R & D etc.

3. Market segmentation strategy (also known as Focus Strategy)

- In market segmentation strategy, the company *divides the market according to the type of customers* it has to focus and target.
- It sells different products and services to different types of customers.
- To achieve this goal, it produces and sells goods and services as per the needs of the customers.
- For example, many detergent companies offer different variants of detergents with different price brackets.

4. Price or cost strategy

- Under price or cost strategy, the company sells its product at *a very low price*.
- This strategy is used when the products are *homogeneous* in nature and company is not able to differentiate.
- That is, when the customers cannot distinguish the company's product from the competitors' products. In this case, the company will fix a low price to fetch maximum market share.

- For example, match sticks; the customer will not care much about brand while buying this and will easily switch to other brand, if his current company tries to raise the price.

5. Quality strategy

- Under quality strategy, the company produces and sells 'premium' goods and services.
- The prices of such goods and services are naturally very high such as luxury cars and bikes.
- However, this strategy attracts those customers who have huge incomes and therefore prefer top quality products as a status symbol and are ready to pay high prices intentionally.
- To gain success in the market, the company must smartly invest to make quality innovative products that are free from any defects.

6. Delivery strategy

- Under delivery strategy, the company delivers its product and services to their customers as early as possible within a fixed time period.
- The company gives top priority to fast delivery of products and providing quickest accessibility of services.
- Delivery strategy is used as a selling tactic to fight cut-throat competition.

7. Product mix or flexibility strategy

- Under this strategy, the company produces and sells a product mix.
- A product mix is a group of products, which are sold by the same company.
- For example, Hindustan Lever, P& G etc. Here, the company does not depend only on a single product for its survival and growth.
- It uses a product mix as it offers many advantages to the company.
- However, only large companies with huge production capacity can adopt this strategy.

8. Service strategy

- Under this strategy, the company uses a service to attract the customers.
- It gives quicker and better after- sales service.
- It gives around the clock, i.e. 24-hour customer service.
- It may render this service directly via the company or through the network of call centres. Service is required for both consumer goods as well as industrial goods.

9. Eco-friendly products

- Under eco-friendly strategy, the company produces and sells environment-friendly products also called as Green Products.
- For example, producing and selling lead-free petrol to reduce pollution, manufacturing mercury- free television panels, etc., are some good steps to preserve nature. This is a new type of production strategy.
- Companies may also recycle certain materials like plastic, metals and papers. The properly recycled products are later used for manufacturing new products and in packaging. Companies use biodegradable packing material to reduce the problem of waste disposal.

10. Flexible response strategy

- Flexible response strategy is said to be used when a company makes

required changes in its production plans in accordance with the emerging changes in the market.

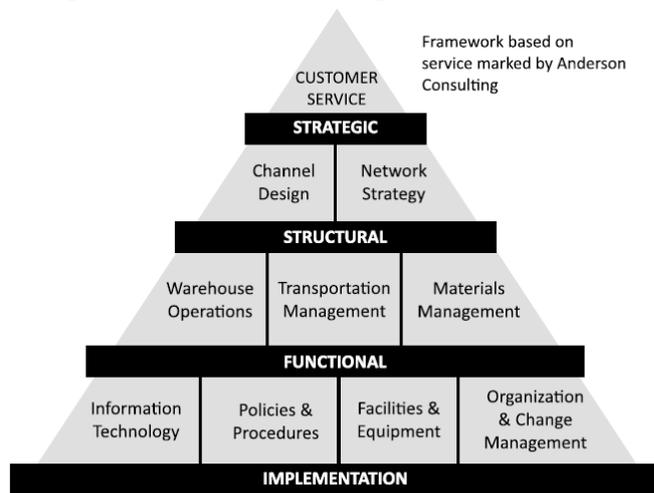
- Here, focus is given to speed and reliability. That is, the company must make swift changes as per the emerging changes in the market demand.
- It must also give a regular supply of goods to its customers. There must not be any shortage of goods in the market. To achieve this, the company must follow a strict production schedule.

11. Low cost strategy

- Under low cost strategy, the company fights massive market competition by selling its products at very lower prices.
- Simultaneously, it must also maintain the quality of its products. A company can only sell its goods at minimum prices if it maintains a low cost of production and distribution.
- This can be done by producing and distributing goods on a large scale. That is, company must take advantage of economies of large-scale production.

FORMULATION OF LOGISTICS STRATEGY

- Logistics strategy is defined as “the set of guiding principles, driving forces and ingrained attitudes that help to coordinate goals, plans and policies between partners across a given supply chain.”
- Logistics is not confined to tactical decisions about transportation and warehousing. Longer-term decisions are needed to put in place the capabilities that ensure that logistics plays a full role in supporting a company’s products in the market place.
- When a company creates a logistics strategy, it defines the service levels at which its logistics organization will be most cost effective.
- Because supply chains are constantly changing and evolving, a company may develop a number of logistics strategies for specific product lines, specific countries, or specific customers.



Strategic Level:

- By examining the company’s objectives and strategic supply chain decisions, the logistics strategy should review how the logistics organization contributes to those high-level objectives.
- The top level is the Strategic level that defines Customer service strategy.
- Customer service strategy is the driving force behind the design and operations of a company’s logistics supply chain.
- The key inputs that go into defining a customer service strategy are the company’s products, its markets and its customer service goals.

Structural and Functional Levels:

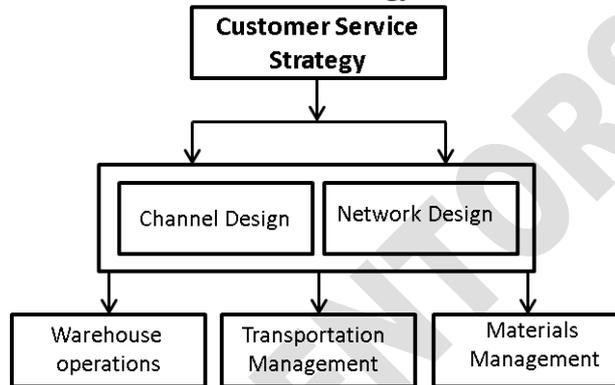
- In any Strategic planning exercise, there is an interplay between strategy and functional operations.
- In our logistics strategy framework, functional layers provide important inputs to finalize the Structural layer.

Channel Design:

Pertains to activities and functions that need to be carried out to achieve the customer service goal.

Network Strategy:

Locations and missions of facilities and strategies for using these facilities to achieve the customer service strategy.

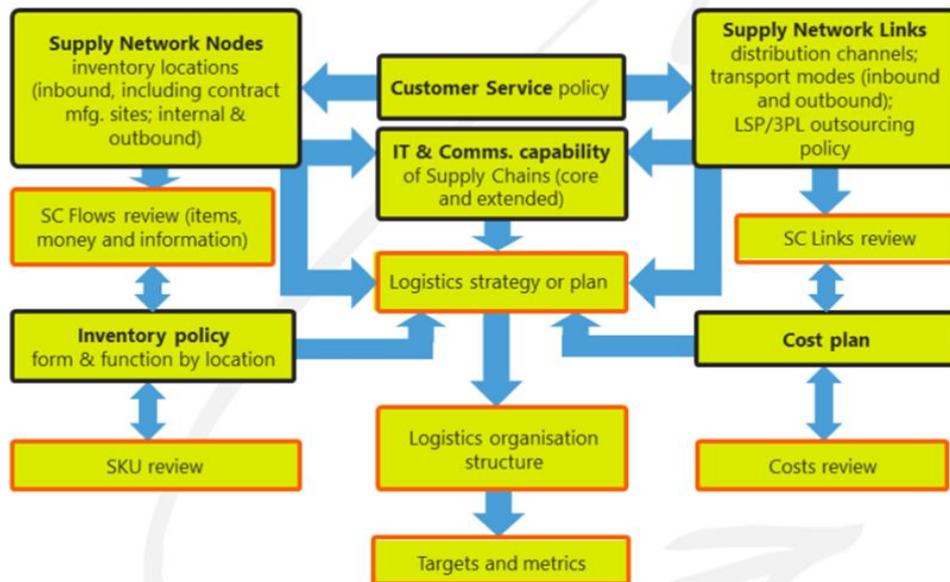


The process of designing the structural element of the strategy is integrated with the functional elements of the strategy as well. Warehouse Operations, transportation Management and Material management decisions are inputs to a detailed structural strategy.

Implementation:

In this final phase, people, business processes and IT come together to support and execute the Logistics Strategy. Implementation is one of the most important and challenging aspects of your Logistics strategy.

An example of one function is the Logistics Strategy plan:



ELEMENTS OF THE LOGISTICS STRATEGY PLAN

The Logistics Strategy plan is then developed within eight elements:

1. **Customer service policy** – The appropriate level of service for customers, by product group or market segment; considering: order fulfilment requirements, enquiry and investigation capability and the available information. The customer service policy informs the nodes and links of the supply network.
2. **Inventory location policy (Supply Network nodes)** – Centralised or decentralised inventory; whether to differentiate facilities by fast and slow moving stock; location of sites; use of specific technologies and layouts; company-owned or contracted facilities.
3. **Inventory policy** – Form and function of inventory by location; the appropriate amount of stock to hold for various groups of inventory; planning structure that links outbound and inbound materials.
4. **Cost plan** – Trade-off analysis between cost and service level requirements; cost of Logistics operations.
5. **Transport and distribution (Supply Network links) policy** – Affected by whether enterprise imports or exports and the size and structure of conurbations being served. This incorporates transport modes, delivery pattern and storage location considerations, based on the time taken for deliveries.
6. **IT and Communications capability:** Technologies (including software) that will be internally developed; buy planning and scheduling applications from single supplier or obtain 'best of breed' applications.
7. **Logistics organisation structure:** Function or flow based; allocation of responsibilities; managed or selfmanaged teams.
8. **Logistics Targets and metrics:** Measures of performance and achievement targets; operations improvements process and management.

Lesson 4 Strategic Analysis and Planning

STRATEGIC ANALYSIS AND PLANNING

- Strategic analysis and planning involve careful formulation of the strategies and goals taken by a company's top management on behalf of the organization.
- It is based on deliberation of resources and an assessment of the internal and external environments in which the organization competes based on a variety of models.
- It aims at providing overall direction to the organisation and specifying the organization's objectives, developing policies and plans designed to achieve these objectives, and then allocating resources to implement the plans.
- All this requires a careful analysis of the vision, mission, objectives, goals and resources of the organisation and in- depth analysis of the external environment.

SITUATION ANALYSIS

Before developing any strategy, the foremost requirement is carrying out a Situation Analysis. A Situation analysis or environmental analysis is an essential component of any strategy formulation and it has to be assured that such analysis is conducted periodically to keep the strategies up to date. A complete situation analysis focuses on four areas i.e.:

- The problem (its severity and its causes)
- The people (potential stakeholders)
- The broad context (in which the problem prevails)
- Factors (facilitating behavior change)

A situational analysis takes into account the internal and external environment of an entity or organization and clearly identifies its own capabilities, customers, potential customers, competitors and the business environment and the impact they are going to have on the entity or organization.

It can also help in identifying strengths, weakness, opportunities and threats to the organization or business which can help in forecasting the choices required to be made keeping in view the environmental developments.

Need of Situation Analysis

- ✓ A Situation Analysis paves the way for strategy development by identification of priorities by bringing out a clear, detailed and realistic picture of the opportunities, resources, challenges and barriers regarding formulation of a business plan.
- ✓ The quality of the Situation Analysis will affect the success of the whole plan.

Suitability of Situation Analysis

- ✓ A small, well knitted and focused team from different functional areas of the organisation should conduct the situation analysis.
- ✓ Throughout the data collection process, team members should also consider about engagement of concerned stakeholders including opinion leaders, service providers, policy makers, partners, and potential beneficiaries to reap maximum output.
- ✓ It may be done by conducting in-depth interviews, focus group discussions, community dialogues, small group meetings, taskforce engagements or participatory stakeholder workshops.

Conducting of Situation Analysis

✓ A situation analysis should be conducted *at the beginning* of any program or project but before developing a strategy.

Elements of Situation Analysis

• **Product Situation**

It relates with the products being offered by the business at present. It may further be sub-divided into the core product and any secondary/ancillary or supporting products/services. While doing so, the needs of the customers should be taken into. This is so because, now a days, consumer is the king, therefore, everything needs to be tailor-made to the requirements of the customers.

• **Competitive situation**

This involves analysis of the competitive forces to identify the closest competitors. It involves finding out core competencies of the competitors as compared to our own organization and the areas in which they have strong hold and the characteristics of the customers segment that are attracted by the competitors.

• **Distribution Situation**

Review your distribution and logistics network.

• **Environmental Factors**

The external and internal environmental factors need to be taken into account. This includes economic or sociological factors that impact performance.

• **Opportunity and Issue Analysis**

Carrying out a SWOT analysis (Strengths, Weaknesses, Opportunity and Threats). Current opportunities available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.

EFFECTIVENESS OF SITUATION ANALYSIS

The following questions may bring out the effectiveness of situation analysis:

- Is currently adopted situational analysis simple and practical to use?
- Is it easy and clear for even an outsider to understand?
- Is it focused on key factors that are impacting my business both internally and externally?
- Does it clearly identify future goals for the business?

SWOT/ TOWS ANALYSIS

PURPOSE & NEED OF SWOT (JUNE 2024 EXAMS)

Every manager is entrusted with the responsibility of setting up his/her organisation's mission and goals and creating a strategic plan that will guide the company to achieve its goals. For doing this, managers make use a variety of tools and methods to make a basis for decision making that includes SWOT and TOWS analysis, which are two closely related brainstorming exercises.

SWOT is a tool for strategic analysis of any organization, which takes into account examination of the company's internal as well as its external environment. It consists in recognition of key assets and weaknesses of the company and marching them to exploit future opportunities and combating threats. SWOT is quite helpful in formulating a company's strategy.

SWOT may be expanded as:

	<p>S – Strengths W – Weaknesses O – Opportunities T – Threats.</p> <p>The origin of the SWOT analysis is supposed to be rooted in the concept of ‘Force Field Analysis’ pronounced by K. Levin in 1950s. However, ‘Force Field Analysis’ concept was too complex to be practically applied. Yet, it became a reference for scholars to develop some simpler methods, that included the SWOT analysis as well. It is noteworthy that SWOT may be successfully applied in any kind of organization, be it business or corporate sector, political party, public institutions, sport club, schools or universities etc.</p>
<p>TOWS</p>	<p>Weihrich developed TOWS Matrix in 1982, as the next step of SWOT Analysis in developing alternative strategies. TOWS Matrix is a conceptual framework for identifying and analyzing the threats (T) and opportunities (O) in the external environment and assessing the organization’s weaknesses (W) and strengths (S). TOWS Matrix is an effective way of combining a) internal strengths with external opportunities and threats, and b) internal weaknesses with external opportunities and threats to develop a strategy.</p> <ol style="list-style-type: none"> 1. The TOWS analysis starts with the external environment. Specifically, the listing of external threats (T) may be of immediate importance to the firm as some of these threats may seriously threaten the operation of the firm. These threats should be listed in quadrant T. Similarly, opportunities should be shown in quadrant O. Threats and opportunities may be found in different areas, but it is advisable to carefully look for the more common ones which may be categorized as economic, social, political and demographic factors, products and services, technology, markets and, of course, competition. 2. The firm’s internal environment is assessed for its strengths (S) and weaknesses (W), and then listed in the respective quadrants. These factors may be found in management and organization, operations, finance, marketing and in other areas. <p>Though TOWS was created through rearrangement of the letters of SWOT analysis, yet, it may not be considered as just reversal of sequence of the SWOT analysis. This is so because, while in the SWOT analysis, one starts with evaluation of internal strengths and weaknesses and seeks the manner of their best application taking into account the external business environments, TOWS analysis scans opportunities and threats existing in external environment of any organization, and then generates, compares and selects strategies based on internal strengths and weakness to utilize such opportunities and reduce threats.</p> <p>Therefore, it is not just reversal of letters of SWOT, but, a tool for strategy generation and selection. SWOT analysis is a tool for audit and analysis. One would use a SWOT at the beginning of the planning process, and a TOWS later as one decides upon ways forward.</p> <p>❖ Who can use SWOT/TOWS ?</p> <p>The SWOT/TOWS Matrix is not just meant for the top levels of management in an organisation. Rather, these two can be very useful tool for divisions, products, functions as well as departments. These</p>

can also be used for individual employees on an operational level. (Campbell, 2017).

❖ **Why SWOT/TOWS ?**

The SWOT/TOWS analysis is a very simple yet valuable technique which aids in identifying opportunities and threats from an external environment, and analyzing its own strengths and weakness. Such a review helps in establishing the relationship between threats, opportunities, weaknesses, and strengths for developing strategies and making decisions.

Further, use of TOWS by examining threats and opportunities before analyzing strengths and weaknesses can further allow for more productive analysis and interpretation of external environment leading to more informed decisions (Watkins, 2007). The TOWS Matrix also helps in brainstorming to bring out great ideas to generating effective strategies and tactics.

FOUR TOWS STRATEGIES: PRODUCT OF TRADE-OFF BETWEEN INTERNAL AND EXTERNAL FACTORS

As said earlier, whereas SWOT Analysis starts with an internal analysis, the TOWS Matrix takes the other route, with an external environment analysis; the threats and opportunities are examined first. Then, in TOWS makes a trade- off between internal and external factors. As we know, Strengths and weaknesses are internal factors and opportunities and threats are external factors. This trade-off is the point where four potential strategies derive their importance, these are Strength/Opportunity (SO), Weakness/Opportunity (WO), Strength/Threat (ST) and Weakness/Threat (WT) as shown in matrix given below:

TOWS Analysis

INTERNAL FACTORS			
		Strengths (S)	Weaknesses (W)
EXTERNAL FACTORS	Opportunities (O)	Strengths/ Opportunities (SO)	Weaknesses/ Opportunities (WO)
	Threats (T)	Strengths/ Threats (ST)	Weaknesses/ Threats (WT)

Strength/Opportunity (SO):

Strengths of the companies are utilized to exploit the opportunities.

Weakness/Opportunity (WO):

The organisation finds options that overcome weaknesses, and then take advantage of opportunities. Therefore, it mitigates weaknesses, to exploit opportunities.

Strength/Threat (ST):

Exploiting strengths to overcome any potential threats.

Weakness/Threat (WT):

With Weakness/Threat (WT) strategies, one is attempting to minimise any weakness to avoid possible threat.

STRATEGIES IN TOWS

There are 4 types of strategies differentiated:



1. Aggressive Strategy (maxi-maxi)

- ✓ the aggressive strategy (maxi-maxi) consists in maximum exploitation of the synergy effect present between the strong sides of the organization and opportunities generated by the environment.
- ✓ The aggressive strategy embraces actions such as: capturing opportunities, strengthening position on the market, taking over organizations of the same profile, concentration of resources on competitive products.
- ✓ It is a strategy that exploits a synergy effect of company's strong sides and opportunities that appear in the environment.

2. Conservative Strategy (maxi-mini)

- ✓ It is present in an organization in a situation, when with high internal potential, it undergoes unfavorable system of external conditions or threats.
- ✓ The threats need to overcome with use of the strengths, e.g. the competitors should be bought and its shares taken over.
- ✓ The conservative strategy embraces such actions as: selection of products, market segmentation, reduction of costs, improvement of competitive products, development of new products, searching for new markets.
- ✓ It is a strategy, where success of an organization is mainly sought in its strong sides and reduction of threats.

3. Competitive Strategy (mini-maxi)

- ✓ It is present in an organization, where weaknesses dominate over the strengths still there are opportunities prevailing in the environment.
- ✓ The competitive strategy consists in "(...) elimination of weak sides of company's operation and construction of its competitive strength through maximal exploitation of the existing opportunities that

	<p>support development”.</p> <ul style="list-style-type: none"> ✓ The competitive strategy embrace such actions as: expansion of financial resources, improvement of commercial resources, improvement of a line of products, improvement of productivity, reduction of costs, maintenance of competitive advantage. It is a strategy that embraces construction of a competitive strength of an organization. <p>4. <i>Defensive Strategy (mini-mini)</i></p> <ul style="list-style-type: none"> ✓ This strategy enables survival in a situation, when an organization works in an unfavorable environment, it is deprived of strengths. It may lead to take maximal benefits from the company before its liquidation, or to combine it with another enterprise. ✓ The defensive strategy encompasses such actions as: gradual withdrawal, reduction of costs, reduction of productive ability, ceasing the investment process. ✓ It is a strategy that provides survival, through counteracting weak sides and threats.
<p>PERT (PROGRAMME EVALUATION REVIEW TECHNIQUE) AND CPM (CRITICAL PATH METHOD):</p>	<p><u>TECHNIQUES OF PROJECT MANAGEMENT</u></p> <p>One of the most challenging jobs that any manager can take on is the management of a large-scale project that requires coordinating numerous activities throughout the organization. A myriad of details must be considered in planning how to coordinate all these activities, in developing a realistic schedule, and then in monitoring the progress of the project. Therefore, the managers have to rely on Project management techniques to handle such large scale projects. Project Management is a systematic way of planning, scheduling, executing, monitoring, controlling the different aspects of the project, in order to attain the goal made at the time of project formulation.</p> <p>PERT and CPM two complementary statistical techniques utilized in Project management. These two are network based scheduling methods that exhibit the flow and sequence of the activities and events. These techniques make heavy use of networks to help plan and display the coordination of all the activities.</p> <p>First developed by the United States Navy in the 1950s to support the U.S. Navy’s Polaris nuclear submarine project, PERT is commonly used in conjunction with the Critical Path Method (CPM). After discovery by Navy, it found applications all over industry. DuPont’s Critical Path Method was invented at roughly the same time as PERT. Today, PERT and CPM have been used for a variety of projects, including the following types.</p> <ul style="list-style-type: none"> ➤ Construction of a new plant ➤ Research and development of a new product ➤ NASA space exploration projects ➤ Movie productions ➤ Building a ship ➤ Government-sponsored projects for developing a new weapons system ➤ Relocation of a major facility ➤ Maintenance of a nuclear reactor ➤ Installation of a management information system ➤ Conducting an advertising campaign. <p>PERT/CPM identify the time required to complete the activities in a project, and the order of the steps. Each activity is assigned an earliest</p>

and latest start time and end time. Activities with no slack time are said to lie along the critical path—the path that must stay on time for the project to remain on schedule.

CPM: KEY POINTS

The critical path method (CPM) is a project modeling technique developed in the late 1950s by Morgan R. Walker of DuPont and James E. Kelley Jr. of Remington Rand. CPM computes the longest path of planned jobs/activities to logical end points/the end of the project, and the earliest and latest time by which each activity can start and finish without making the project longer. This process determines the activities that are “critical” or on the longest path and having “total float” (i.e., can be delayed without making the project longer).

Critical Path Analysis is an effective and powerful method of assessing:

- What jobs/activities must be carried out.
- Where parallel activities can be performed.
- The shortest time to complete a project.
- Resources needed for a project.
- The sequence of activities, scheduling and timings.
- Task priorities.
- The most efficient way of shortening time on urgent projects.

An effective Critical Path Analysis can make the difference between success and failure on complex projects. It can be very useful for assessing the importance of problems faced during the implementation of the plan.

STEPS IN PERT AND CPM

- (i) Each project consists of numerous independent jobs/activities. It is vital to identify and distinguish the various activities required for the completion of the project and list them separately.
- (ii) After listing, the order of precedence for these jobs needs to be determined. Certain jobs will have to be done first. Therefore, jobs have to be completed before others should be determined. Also, a number of jobs may be carried out simultaneously. All such these relationships between the different jobs need to be clearly laid down.
- (iii) Then, a picture/graph portraying each of these jobs should be drawn showing the predecessor and successor relations among them. This graph shows the time required for completion of each job. This is known as the project graph or the arrow diagram.

The three steps given above can be understood with the help of an example. Suppose, a manager wishes to draw a project graph for preparing an operating budget for a manufacturing firm. To accomplish this project, the company salesmen must provide sales estimates in units for the period to the sales manager who would consolidate it and provide it to the production manager. He would also estimate market prices of the sale and give the total value of sales of the units to be produced and assign machines for their manufacture. He would also plan the requirements of labour and other inputs and give all these schedules together with the number of units to be produced to the accounts manager who would provide cost of production data to the budget officer.

Using the information provided by the sales, production and accounting departments, and the budget officer would make the necessary

arrangements for internal financing and prepare the budget. We have seen that the project of preparing the budget involves a number of activities.

Advantages of PERT

1. Compels managers to plan their projects critically in considerable detail from beginning to the end and analyse all factors affecting the progress of the plan.
2. Provides management a tool for forecasting the impact of schedule changes. The likely trouble spots are located early enough to take preventive measures or corrective actions.
3. A considerable amount of data may be presented in a precise manner. The task relationships are presented graphically for easier evaluation.
4. The PERT time is based upon 3-way estimate and hence is the most objective time in the light of uncertainties and results in greater degree of accuracy in time forecasting.
5. Results in improved communication with all concerned parties such as designers, contractors, project managers etc. The network will highlight areas that require attention of higher priority to the key jobs without ignoring the lower priority tasks.

Limitations of PERT

1. Uncertainly about the estimate of time and resources as it is based on assumptions.
2. The costs may be higher than the conventional methods of planning and as it needs a high degree of planning skill and minute details resulting in rise in time and manpower resources.
3. Not suitable for relatively simple and repetitive processes such as assembly line work which are fixed sequence jobs.

BASIS	PERT	CPM
Meaning	PERT is a project management technique, used to manage uncertain activities of a project	CPM is a statistical technique of project management that manages well defined activities of a project
What is it?	A technique of planning and control of time	A method to control cost and time
Orientation	Event-oriented	Activity-oriented
Evolution	Evolved as Research & Development project	Evolved as Construction project
Model	Probabilistic Model	Deterministic Model
Main Focus	Time	Time-cost trade-off
Appropriateness	High precision time estimate	Reasonable time estimate
Activities Management	Unpredictable Activities	Predictable activities
Nature of jobs	Non-repetitive nature	Repetitive nature
Critical and Noncritical	No differentiation	Differentiated
Suitability	Research and Development Project	Non-research projects like civil construction, ship building etc.

PORTFOLIO ANALYSIS

Majority of business organisations have a portfolio of products on offer to their customers, rather than individual products or brands, and will in many cases have branded products which complement each other is

some way. Analysis of such portfolio becomes a necessity as the strengths and weaknesses of a company in such portfolio determine its internal capabilities to compete in a market and fulfil customer expectations. The tool to identify the strengths and weaknesses of a company is a Product Portfolio Analysis. The Product Portfolio Analysis was proposed in 1973 by Peter Drucker as a way to classify current and expected profitability. Drucker classified the offerings of a particular company into seven categories i.e. Today's Breadwinners, Tomorrow's Breadwinners, Yesterday's Breadwinners, Developments, Sleepers, Investments in Managerial Ego, and Failures. He classified products in the first three categories, "Today's Breadwinners," "Tomorrow's Breadwinners," and "Yesterday's Breadwinners," as strengths of the company while those in the last two categories, "Investments in Managerial Ego" and "Failures," as weaknesses. Then such portfolio analysis was made by other renowned entities also. The most quoted ones are:

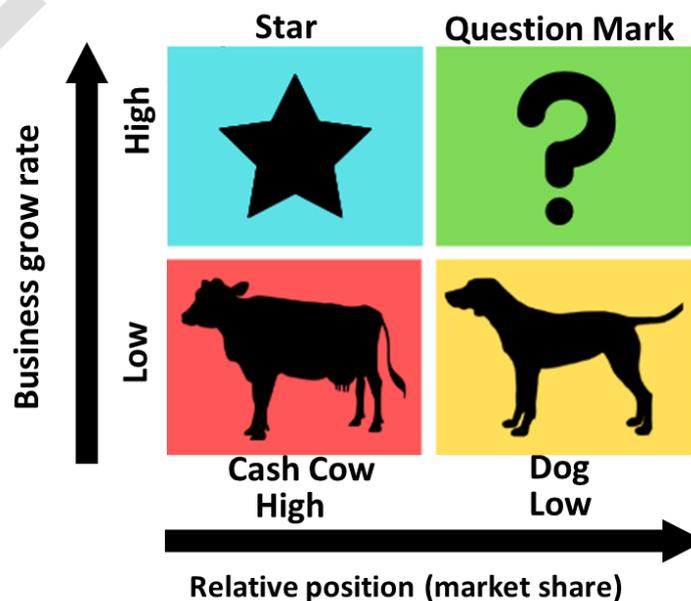
BCG MATRIX

"A company should have a portfolio of products with different growth rates and different market shares. The portfolio composition is a function of the balance between cash flows.... Margins and cash generated are a function of market share."—Bruce Henderson, "The Product Portfolio"

The BCG Matrix was developed by the Boston Consulting Group (BCG) and is used for the evaluation of the organization's product portfolio in marketing and sales planning. BCG analysis is mainly used for Multi-Category/ Multi Product companies. All categories and products together are said to be the part of a Business portfolio. It aims to evaluate each product, i.e. the goods and services of the business in two dimensions:

- Market growth
- Market share

The combination of both dimensions creates a matrix into which the products from the portfolio are placed:



1) CASH COWS

- ✓ Cash cows are products which have a *high market share in a low growing market*.
- ✓ As the business growth rate of market is low, cash cow gains the

maximum advantage by generating maximum revenue due to its higher market share.

- ✓ Therefore, for any company, the cash cows is the category of products which require minimal investment but ensure higher returns.
- ✓ These higher returns raise the level of overall profitability of the firm because such excess revenue generation can be used in other businesses which carry products falling in the category of Stars, Dogs or Question marks.

Strategies for cash cow – Cash cows are the most stable product/service line for any business and hence the strategy includes retention of the market share for such category. As the market growth rate is low and acquisition is less and customer retention is higher. Thus, customer satisfaction programs, loyalty programs and other such promotional methods form the core of the marketing plan for a cash cow product.

2) STARS

- ✓ The products/services falling in this category are best products/services in the product portfolio of any company.
- ✓ This is so because, for such category of products, both market share as well as growth rate is high.
- ✓ Unlike cash cows, Stars cannot be complacent when they are top on because they can immediately be overtaken by another company which capitalizes on the market growth rate.
- ✓ However, if the strategies are successful, a Star can become a cash cow in the long run.

Strategies for Stars – All types of marketing, sales promotion and advertising strategies are used for Stars. Similarly in Stars, because of the high competition and rising market share, the concentration and investment need to be high in marketing activities so as to increase and retain market share.

3) QUESTION MARKS

- ✓ Several times, a company might come up with an innovative product which immediately gains good growth rate. However, the market share of such a product is unknown.
- ✓ The product might lose customer interest and might not be bought anymore in which case it will not gain market share, the growth rate will go down and it will ultimately become a Dog.
- ✓ On the other hand, the product might increase customer interest and more and more people might buy the product thus making the product a high market share product.
- ✓ From here the product can move on to be a Cash Cow as it has lower competition and high market share. Thus, Question marks are products which may give high returns but at the same time may also flop and may have to be taken out of the market. This uncertainty gives the quadrant the name “Question Mark”.
- ✓ The major problem associated with having Question marks is the amount of investment which it might need and whether the investment will give returns in the end or whether it will be completely wasted.

Strategies for Question marks – As they are new entry products with high growth rate, the growth rate needs to be capitalized in such a manner that question marks turn into high market share products. New

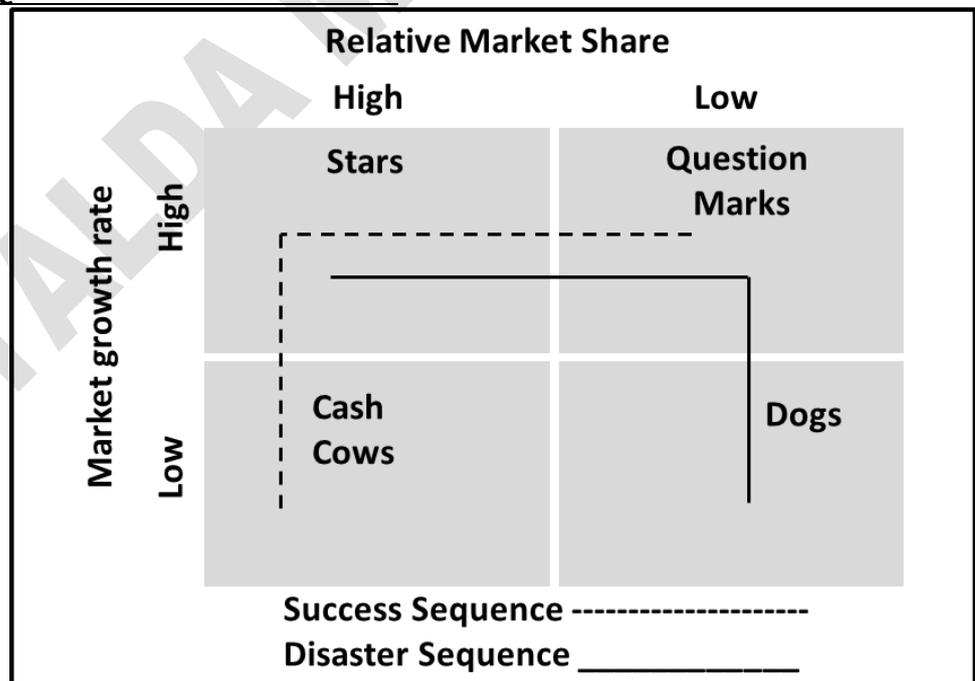
Customer acquisition strategies are the best strategies for converting Question marks to Stars or Cash cows. Furthermore, time to time market research also helps in determining consumer psychology for the product as well as the possible future of the product and a hard decision might have to be taken if the product goes into negative profitability.

4) DOGS

- ✓ Products are classified as dogs when they have low market share and low growth rate.
- ✓ Thus, these products neither generate high amount of cash nor require higher investments.
- ✓ However, they are considered as negative profitability products mainly because the money already invested in the product can be used somewhere else.
- ✓ Thus, over here businesses have to take a decision whether they should divest these products or they can revamp them and thereby make them saleable again which will subsequently increase the market share of the product.

Strategies for Dogs – Depending on the amount of cash which is already invested in this quadrant, the company can either divest the product altogether or it can revamp the product through rebranding / innovation / adding features etc. However, moving a dog towards a star or a cash cow is very difficult. It can be moved only to the question mark region where again the future of the product is unknown. Thus, in cases of Dog products, divestment strategy is used.

SEQUENCES IN BCG MATRIX



Success Sequence in BCG Matrix – The Success sequence of BCG matrix happens when a question mark becomes a Star and finally it becomes a cash cow. This is the best sequence which really give a boost to the companies’ profits and growth. The success sequence unlike the disaster sequence is entirely dependent on the right decision making.

Disaster sequence in BCG Matrix – Disaster sequence of BCG matrix happens when a product which is a star, due to competitive pressure

might be moved to a question mark. It fails out from the competition and it is moved to a dog and finally it may have to be divested because of its low market share and low growth rate. Thus, the disaster sequence might happen because of wrong decision making. This sequence affects the company as a lot of investments are lost to the divested product. Along with this the money coming in from the cash cow which is used for other products too is lost.

STEPS IN BCG MATRIX

BCG matrix is a framework to help understand, which brands the firm should invest in and which ones should be divested. Following are the steps involved:

- Step 1. Choose the unit
- Step 2. Define the market
- Step 3. Calculate relative market share
- Step 4. Find out market growth rate
- Step 5. Draw the circles on a matrix

Step 1. Choose the unit. BCG matrix can be used to analyze SBUs, separate brands, products or a firm as a unit itself. Which unit will be chosen will have an impact on the whole analysis. Therefore, it is essential to define the unit for which you'll do the analysis.

Step 2. Define the market. Defining the market is one of the most important things to do in this analysis. This is because incorrectly defined market may lead to poor classification. For example, if we would do the analysis for the Daimler's Mercedes-Benz car brand in the passenger vehicle market it would end up as a dog (it holds less than 20% relative market share), but it would be a cash cow in the luxury car market. It is important to clearly define the market to better understand firm's portfolio position.

Step 3. Calculate relative market share. Relative market share can be calculated in terms of revenues or market share. It is calculated by dividing your own brand's market share (revenues) by the market share (or revenues) of your largest competitor in that industry. For example, if your competitor's market share in refrigerator's industry was 25% and your firm's brand market share was 10% in the same year, your relative market share would be only 0.4. Relative market share is given on x-axis. It's top left corner is set at 1, midpoint at 0.5 and top right corner at 0 (see the example below for this).

$$\text{Relative Market Share} = \frac{\text{Your firm's market share (or revenues)}}{\text{Largest competitor's market share (or revenues)}}$$

Step 4. Find out market growth rate. The industry growth rate can be found in industry reports, which are usually available online for free. It can also be calculated by looking at average revenue growth of the leading industry firms. Market growth rate is measured in percentage terms. The midpoint of the y-axis is usually set at 10% growth rate, but this can vary. Some industries grow for years but at average rate of 1 or 2% per year. Therefore, when doing the analysis you should find out what growth rate is seen as significant (midpoint) to separate cash cows from stars and question marks from dogs.

	<p>Step 5. Draw the circles on a matrix. After calculating all the measures, you should be able to plot your brands on the matrix. You should do this by drawing a circle for each brand. The size of the circle should correspond to the proportion of business revenue generated by that brand.</p> <p><u>STRATEGIES BASED ON THE BCG MATRIX.</u></p> <p>There are four strategies possible for any product / SBU and these are the strategies which are used after the BCG analysis. These strategies are:</p> <p>1) Build – By increasing investment, the product is given an impetus such that the product increases its market share. Example – Pushing a Question mark into a Star and finally a cash cow (Success sequence).</p> <p>2) Hold – The company cannot invest or it has other investment commitments due to which it holds the product in the same quadrant. Example – Holding a star there itself as higher investment to move a star into cash cow is currently not possible.</p> <p>3) Harvest – Best observed in the Cash cow scenario, wherein the company reduces the amount of investment and tries to take out maximum cash flow from the said product which increases the overall profitability.</p> <p>4) Divest – Best observed in case of Dog quadrant products which are generally divested to release the amount of money already stuck in the business. Thus, the BCG matrix is the best way for a business portfolio analysis. The strategies recommended after BCG analysis help the firm decide on the right line of action and help them implement the same.</p>
<p>THE ORIGINAL BCG MATRIX</p>	<p>The utility of the matrix in practice was two fold:</p> <ul style="list-style-type: none"> • The matrix provided conglomerates and diversified industrial companies with a logic to redeploy cash from cash cows to business units with higher growth potential. This came at a time when units often kept and reinvested their own cash—which in some cases had the effect of continuously decreasing returns on investment. Conglomerates that allocated cash smartly gained an advantage. • It also provided companies with a simple but powerful tool for maximizing the competitiveness, value, and sustainability of their business by allowing them to strike the right balance between the exploitation of mature businesses and the exploration of new businesses to secure future growth. <p><u>CRITICISM OF THE BCG MATRIX</u></p> <p>The BCG Matrix has lost some of its popularity following the development of other models, and drawn criticism for making some false suppositions such as:</p> <ul style="list-style-type: none"> • It assumes that a business unit with a higher market share will generate more cash. While it has been observed that a unit that has a high market share needs to keep investing in itself to sustain this share and, therefore, may absorb cash instead of generating it. • Also, the matrix seems to ignore interdependencies among a corporation’s business units. A dog, for example, may be helping a question mark or a star with cash. • The matrix also seems to use broad definitions of market share and market growth overlooking niche market — a unit that makes scooter tyres, for instance, may have a big market share in this niche segment, but only a minuscule share of the overall tyre market. The

	<p>corporation that owns this unit may be using it as a cash cow for the benefit of a “star” or a “question mark” in its portfolio.</p> <ul style="list-style-type: none"> • The matrix has also been criticised for suggesting that all corporations will identify units or products in the four quadrants, and that units or products will travel through all the four quadrants in their life • The market growth rate is only one factor that makes an industry attractive. Similarly, relative market share is only one factor that gives a unit a competitive advantage. According to critics, the matrix ignores other factors that determine profitability. At least some critics suggest the use of the GE/McKinsey Matrix. • The market share of the matrix does not guarantee profitability. • The BCG matrix does not consider decreasing markets enough; Cash Cows could disappear without reason. • Both axes have been assigned the same value. In practice, this value can depend on the strategy. • The coherence as regards content between products and product groups is not incorporated. • The BCG matrix does not show what the competition is doing. • The BCG matrix may oversimplify the assessments of the facts. <p><u>BCG’S RESPONSE TO CRITICISM : MATRIX 2.0</u></p> <ul style="list-style-type: none"> ✓ In a paper published in 2014, the BCG, while defending the basic principles of the matrix, acknowledges that the business world and the distribution of companies across the matrix have changed. ✓ It recommends “<i>strategic experimentation</i> [with the original matrix] to allow adaptation to an increasingly unpredictable business environment.” ✓ The paper <i>admits</i> that in the modern business environment, the matrix needs “a new measure of competitiveness to replace its horizontal axis,” as market share cannot be relied upon as a strong pointer to performance anymore. ✓ It says companies need to look at new markets and products to renew their advantage and desist from wasting resources. They need to invest in more question marks to help the promising ones grow into stars. ✓ Responding to the marketplace, they should also cash out stars, retire cows, and maximize the information value of pets. ✓ The BCG gives the example of Google, with its portfolio of AdWords, AdSense, Android, and other products, and says that at that company, portfolio management is “embedded in organizational abilities that facilitate strategic experimentation.” ✓ At Google, questions marks are generated, and a few are selected and tried out before they are scaled up. ✓ Making suggestions for using “BCG Matrix 2.0,” the paper puts forward “four practical imperatives” that businesses can use in strategic experimentation.
<p>ANSOFF GROWTH MATRIX – FOUR WAYS TO GROW A BUSINESS</p>	<p>This matrix is also known as the Ansoff Product-Market Growth matrix or the four ways to grow a business model.</p> <p>What is the Ansoff Growth Matrix?</p> <p>It first appeared in the Harvard Business Review in 1957 and was created by strategist Igor Ansoff to help management teams to focus on the options for business growth. In common with other popular strategy</p>

models, it is build around a two by two matrix.

- current products or new products
- current markets or new markets

The Four Growth Options of The Ansoff Growth Matrix

- Market penetration strategy – current products and current markets
- Product development strategy – new products and current markets
- Market development strategy – current products and new markets
- Diversification – new products and new markets.

These are best seen in a diagram



OPTION 1: MARKET PENETRATION

Market penetration strategy is the preferred route to growth for many businesses because its focus is on selling more of the existing products to:

- Current customers;
- Customers similar to current customer base but who are buying competitors products;
- Customers similar to current customer base who have need of product but aren't buying it yet.

The emphasis is on escalating market share by making some rigorous marketing promotions, or by creating more customer value.

The market penetration option within Ansoff's growth matrix uses existing resources and capabilities and can be thought of as "business as usual but on steroids".

The downsides of the market penetration strategy are:

- If a firm has already high market share, the opportunities for growth may be limited. Some markets logically limit the share of the leading player because they feature the concentration of market power.
- Aggressive market penetration strategies will add to competitive rivalries in the industry and may provoke a price war which shrinks industry profitability. To make significant increases in market share, the business must be willing to throw the competitors out of the market.
- Increasing exposure to one product-market segment can make the business more susceptible to future changes in competition by keeping "all the eggs in one basket".

OPTION 2: PRODUCT DEVELOPMENT

In product development, businesses continue to focus on the needs of existing customer base and also the wider customer market they represent but they seek to understand their underlying needs so they can see opportunities for new products:

- To replace present product profile with new and better products.
- To provide products which complement the main product sold by the business.
- To provide “one stop shop” by adding new products to value chain to strengthen or leverage the relationship and to provide added convenience.

You may attract new competitors into your market as a response to you offering the products they traditionally sell. Competition has shifted up a level from coexistence selling your specific products to active competition selling the same broader range.

OPTION 3: MARKET DEVELOPMENT

The third option suggested by Ansoff is to take the current products and find new markets for them. There are different ways to do this:

- Opening up previously excluded market segments through pricing policies e.g. discounts for students and old age pensioners at theatres.
- New marketing and distribution channels. Making a product available on the Internet with the necessary search engine optimisation means that anyone looking can find it, rather than rely on your marketing message to reach them by conventional means. The supermarkets sell financial services to people who wouldn't contact a broker or agent.
- Entering new geographic markets by moving from local to regional to national and finally international. This may require the business to acquire new capabilities including exporting, understanding different cultures and language skills.

OPTION 4: DIVERSIFICATION

This option is the most controversial since diversification involves taking new products to new customers. There are three levels of diversification:

- Diversification into related markets – while the customers and products are both new, there is a logic about the move that makes sense to the outside world.
- Diversification into unrelated markets using existing resources and capabilities – while the customers and products are different, they all rely on the existing strengths of the business. Metal fabricators and plastic extrusion manufacturers are able to move across markets and produce custom designed products relatively easily because customers are buying access to the core competences.
- Diversification into unrelated markets which require new resources and capabilities.
- Diversification is the most risky growth strategy in Ansoff's growth matrix and especially if it requires the development of new resources and capabilities. It has even been referred to as the “suicide cell”.

The big advantage of diversification is that while each move is risky, if it is successful, it reduces the overall risk of the business to factors outside of the control of the business like the wider economic environment, climate change etc. It may also make the business much less seasonal – think bikinis and other swimwear for the summer, umbrellas for the spring and autumn and heavy overcoats for the winter.

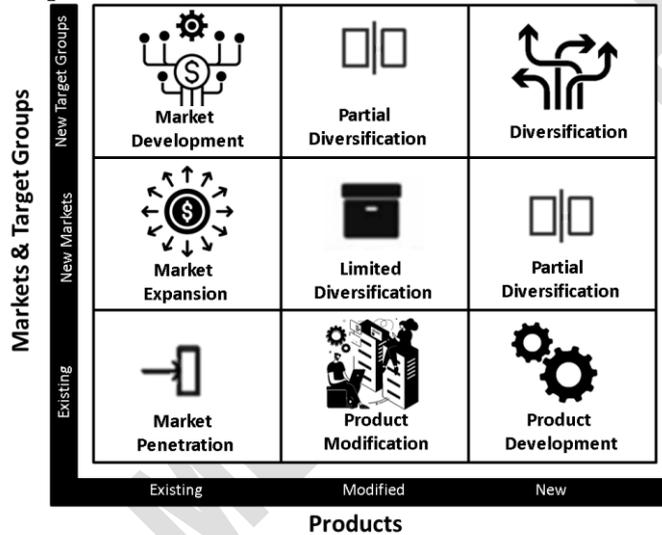
How to use Ansoff Growth Matrix

There are two ways to use the Ansoff Growth Matrix:

1. As a tool for brainstorming to help identify possible strategic options.
2. As a tool for assessing preferred strategic options to check for some kind of balance. There aren't right or wrong answers but you might be shocked to discover that all six growth strategies you intend to follow fall into the diversification box.

DEVELOPMENTS TO THE ANSOFF GROWTH MATRIX

The original matrix developed by Ansoff was the simple 2 x 2 matrix presented above. Ansoff later refined the matrix into a 3 dimensional version which is placed below.



Others have turned the matrix from 2x2 into 3x3 by introducing middle categories for expanded markets and modified products to give more flexibility to the tool. This allows shading from “a little different” to “very different”.

ADL MATRIX

The Arthur D. Little provides with the ADL matrix that is a portfolio management method based on thought of product life cycle. The ADL portfolio management involves the dimensions of environmental assessment and business strength assessment. The environmental assessment approaches to industry maturity whereas business strength assessment leads to competitive position. In determining both assessments, the matrix helps out the firms in analyzing their business role in the market place.

ADL Matrix (Portfolio Management)

		Industry Life Cycle Stage			
		Embryonic	Growth	Mature	Aging
Competitive Position	Dominant	All out push for share, Hold Position.	Hold Position, Hold Share.	Hold Position, Grow with Industry.	Hold Position.
	Strong	Attempt to improve position. All out push for share.	Attempt to improve position. Push for share.	Hold Position. Grow with Industry.	Hold position or Harvest
	Favorable	Selective or all out push for share. Selectively attempt to improve position.	Attempt to improve position. Push for share.	Custodial or maintenance. Find niche and attempt to protect it.	Harvest, or phase out withdrawal.
	Tenable	Selectively push for position.	Find niche and protect it.	Find niche and hang on, or phased out withdrawal.	Phased out withdrawal, or abandon.
	Weak	Up or out	Turnaround or abandon.	Turnaround, orphaned out withdrawal.	Abandon

INDUSTRY MATURITY OR LIFE CYCLE STAGE

In ADL portfolio management, industry maturity is very close to the product life cycle or it could be renamed as industry life cycle, though with the industry segments are also considered. Industry maturity is classified in four following divisions:

- ❖ **Embryonic:** It involves the introduction stage by following rapid market growth, no or little competition, high prices and investments and new technology.
- ❖ **Growth:** In this stage, market is strengthening as the sales increases, few competitors make an appearance and company achieves excellence in bringing up a new product.
- ❖ **Mature:** At maturity stage the market is completely stable with well established base of customers and market shares are also stable. Customers are making repeated orders, but, with a lot of competitors, the company has to make efforts in differentiating their product from competitors.
- ❖ **Aging:** The last stage of the market in which market volume shrinks as the demand declines, snatching market shares from the competitors becomes difficult, then company requires innovating or modifying the product or to make an exit.

The assessments of the industry life cycle are based on the facts like business market share, investment, profitability and cash flow.

COMPETITIVE POSITION

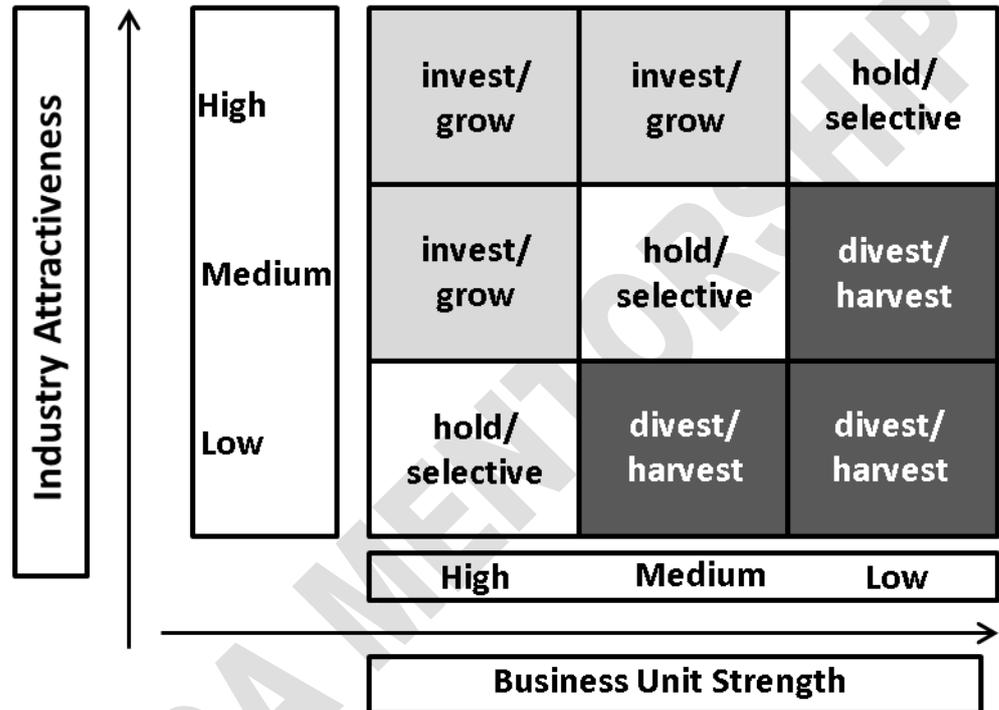
Competitive position is derived from different segments in which Strategic Business Unit operates. It is more focused on the organization's competitive position which involves the strong strength of the product and the dispersed geographical factors means that it works in the area of product and place. Competitive position comprises of five categories that are:

- ✓ **Dominant:** this is a rare phenomenon , as it is a near monopoly situation, appears in results of innovative out of the box product/technology is introduced in the market by a very strong brand.
- ✓ **Strong:** market share is higher as the position of company is comparably powerful although the competitors are working

	<p>aggressively.</p> <ul style="list-style-type: none"> ✓ Favorable: Company has a strong edge in certain limited segments of its competitive strengths. Strength of the product and geographical advantages are taken into consideration at this stage and need to be constantly protected. ✓ Tenable: - The company keeps strong position in small niche, specific geographic location or very focused product differences. The force of competitors strengthens and causes difficulties for the company. ✓ Weak: The profitability is not satisfactory making position of the company unattractive, the market share is declining though they have opportunities in order to enhance their position in the market and becoming favorable. <p><u>HOW TO USE ADL MATRIX?</u></p> <p>Following are the steps that are involved in using the ADL Matrix:</p> <ul style="list-style-type: none"> • Identify the industry maturity category; • Determining competitive position; • Plot the position of the matrix.
<p>GE MCKINSEY MATRIX</p>	<p>GE McKinsey Matrix is a strategy tool for a multi business corporation used in brand marketing and product management that assists a company to decide about the products to be added to its portfolio and opportunities to be prioritized in the market for investment. It is a framework that evaluates business portfolio, provides further strategic implications and helps to prioritize the investment needed for each business unit (BU).</p> <p>Though it is conceptually similar to BCG analysis, but somewhat more complicated than BCG Matrix. This is so because, in BCG analysis, a two-dimensional portfolio matrix is created, while, with the GE model the dimensions are multi-factorial. One dimension comprises industry attractiveness measures; the other comprises of internal business strength measures. The GE matrix helps a strategic business unit (SBU) to evaluate its overall strength.</p> <p><u>Understanding the tool</u></p> <p>In the practical business world, the problem of resource scarcity has a bearing on the decisions made by any business organisation. Among such limited resources, as there are plenty of avenues to use such resources for many opportunities available, the crucial question remains how to use their cash best. Such a tussle takes place at every level in the company i.e. between teams, functional departments, divisions or business units.</p> <p>This decision of resource allocation becomes even more crucial for a diversified businesses which are supposed to manage complex business portfolios involving as much as 50 to 100 products and services simultaneously. The products or business units are diverse in characteristics and future prospects. This makes it a tough decision to choose products/services for allocating resources.</p> <p>Keeping this in mind, the BCG matrix and its improved version GE-McKinsey matrix was developed. In 1970s, General Electric was managing a huge and complex portfolio of unrelated products and was unsatisfied about the returns from its investments in the products. At the time, companies usually relied on projections of future cash flows, future market growth or some other future projections to make</p>

investment decisions, which was an unreliable method to allocate the resources. Therefore, GE consulted the McKinsey & Company and designed the nine-box framework.

The nine-box matrix plots the Business Units on 9 cells that indicate whether the company should invest in a product, harvest/divest it or do a further research on the product and invest in it if there're still some resources left. Both these tools have served the purpose by comparing the business units and dividing them in suitable groups as per their worth.



INDUSTRY ATTRACTIVENESS

Industry attractiveness indicates how hard or easy it will be for a company to compete in the market and earn profits. The more profitable the industry is the more attractive it becomes. When evaluating the industry attractiveness, analysts should look how an industry will change in the long run rather than in the near future, because the investments needed for the product usually require long lasting commitment.

Industry attractiveness consists of many factors that collectively determine the competition level in it. There's no definite list of which factors should be included to determine industry attractiveness, but the following are the most common :

- Long run growth rate
- Industry size
- Industry profitability (by using Porter's Five Forces)
- Industry structure (by using Structure-Conduct-Performance framework)
- Product life cycle changes
- Changes in demand
- Trend of prices
- Macro environment factors (through use of PEST or PESTEL)
- Seasonality
- Availability of labor
- Market segmentation.

COMPETITIVE STRENGTH OF A STRATEGIC BUSINESS UNIT OR A PRODUCT

Along the X axis, the matrix measures how strong, in terms of competition, a particular business unit is against its rivals. In other words, managers try to determine whether a business unit has a sustainable competitive advantage (or at least temporary competitive advantage) or not. If the company has a sustainable competitive advantage, the next question is: "For how long it will be sustained?"

The following **factors determine the competitive strength** of a business unit:

- Total market share
- Market share growth compared to rivals
- Brand strength
- Profitability of the company
- Customer loyalty
- VRIO (Value, Rareness, Imitability, Organization) resources or capabilities
- business unit strength in meeting industry's critical success factors
- Strength of a value chain
- Level of product differentiation
- Production flexibility.

USING THE TOOL

There are no established processes or models that managers could use when performing the analysis. Therefore, we designed the following steps to facilitate the process:

Step 1. Determine industry attractiveness of each business unit

- **Make a list of factors:** The first thing you'll need to do is to identify, which factors to include when measuring industry attractiveness. We've provided the list of the most common factors, but you should include the factors that are the most appropriate to your industries.
- **Assign weights:** Weights indicate how important a factor is to industry's attractiveness. A number from 0.01 (not important) to 1.0 (very important) should be assigned to each factor. The sum of all weights should equal to 1.0.
- **Rate the factors:** The next thing you need to do is to rate each factor for each of your product or business unit. Choose the values between '1-5' or '1-10', where '1' indicates the low industry attractiveness and '5' or '10' high industry attractiveness.
- **Calculate the total scores:** Total score is the sum of all weighted scores for each business unit. Weighted scores are calculated by multiplying weights and ratings. Total scores allow comparing industry attractiveness for each business unit.

This is a tough task and one that usually requires involving a consultant who is an expert of the industries in question. The consultant will help you to determine the weights and to rate them properly so the analysis is as accurate as possible.

Step 2. Determine the competitive strength of each business unit

'Step 2' is the same as 'Step 1' only this time, instead of industry attractiveness, the competitive strength of a business unit is evaluated.

- **Make a list of factors:** Choose the competitive strength factors from our list or add your own factors.

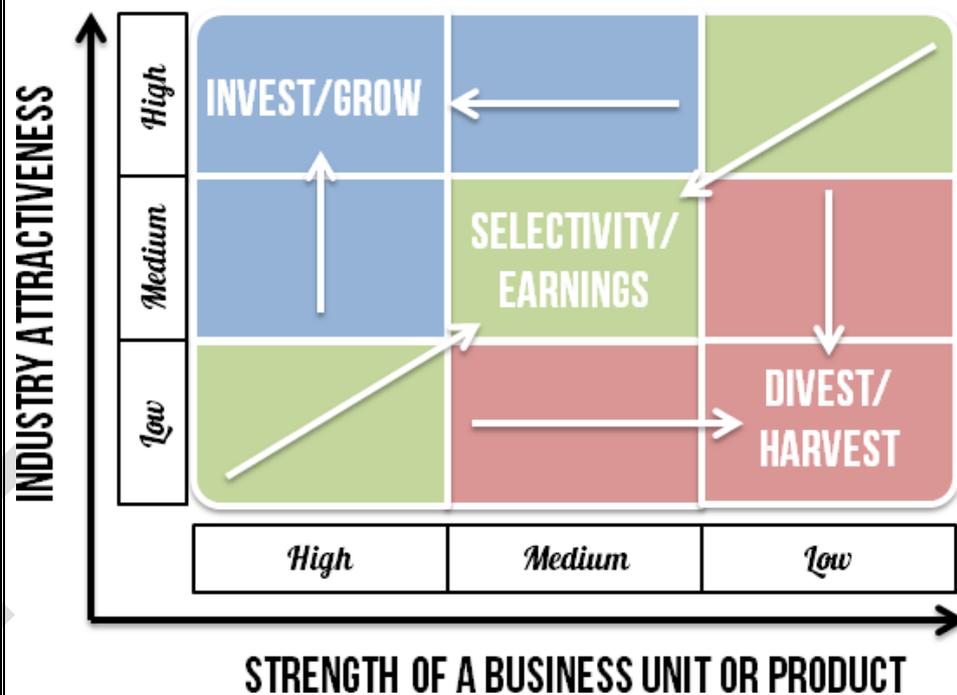
- **Assign weights:** Weights indicate how important a factor is in achieving sustainable competitive advantage. A number from 0.01 (not important) to 1.0 (very important) should be assigned to each factor. The sum of all weights should equal to 1.0.
- **Rate the factors:** Rate each factor for each of your product or business unit. Choose the values between '1-5' or '1-10', where '1' indicates the weak strength and '5' or '10' powerful strength.
- **Calculate the total scores:** See 'Step 1'.

Step 3. Plot the business units on a matrix

With all the evaluations and scores in place, we can plot the business units on the matrix. Each business unit is represented as a circle. The size of the circle should correspond to the proportion of the business revenue generated by that business unit. For example, 'Business unit 1' generates 20% revenue and 'Business unit 2' generates 40% revenue for the company. The size of a circle for 'Business unit 1' will be half the size of a circle for 'Business unit 2'.

Step 4. Analyze the information

GE-MCKINSEY MATRIX INVESTMENT IMPLICATIONS



There are different investment implications you should follow, depending on which boxes your business units have been plotted. There are 3 groups of boxes: investment/grow, selectivity/earnings and harvest/divest boxes. Each group of boxes indicates what you should do with your investments.

INVEST/GROW BOX.

- ✓ Companies should invest into the business units that fall into these boxes as they *promise the highest returns in the future*.
- ✓ These business units will *require a lot of cash* because they'll be operating in growing industries and will have to maintain or grow their market share.

- ✓ It is essential to provide as much resources as possible for BUs so there would be no constraints for them to grow.
- ✓ The investments should be provided for R&D, advertising, acquisitions and to increase the production capacity to meet the demand in the future.

SELECTIVITY/EARNINGS BOX.

- ✓ You should invest into these BUs *only if* you have the money left over the investments in invest/grow business units group and if you believe that BUs will generate cash in the future.
- ✓ These business units are *often considered last* as there's a lot of uncertainty with them.
- ✓ The general rule should be to invest in business units which operate in huge markets and there are not many dominant players in the market, so the investments would help to easily win larger market share.

HARVEST/DIVEST BOX.

- ✓ The business units that are operating in *unattractive industries*, don't have sustainable competitive advantages or are incapable of achieving it and are performing relatively poorly fall into harvest/divest boxes. What should companies do with these business units?
- ✓ First, if the business unit generates surplus cash, companies should treat them the same as the business units that fall into 'cash cows' box in the BCG matrix. it's worth to invest into such business as long as investments into it doesn't exceed the cash generated from it.
- ✓ Second, the business units that only make losses should be divested. If that's impossible and there's no way to turn the losses into profits, the company should liquidate the business unit.

Step 5. Identify the future direction of each business unit

The GE McKinsey matrix only provides the current picture of industry attractiveness and the competitive strength of a business unit and doesn't consider how they may change in the future. Further analysis may reveal that investments into some of the business units can considerably improve their competitive positions or that the industry may experience major growth in the future. This affects the decisions we make about our investments into one or another business unit.

For example, our previous evaluations show that the 'Business Unit 1' belongs to invest/grow box, but further analysis of an industry reveals that it's going to shrink substantially in the near future. Therefore, in the near future, the business unit will be in harvest/divest group rather than invest/grow box. Would you still invest as much in 'Business Unit 1' as you would have invested initially? The answer is no and the matrix should take that into consideration.

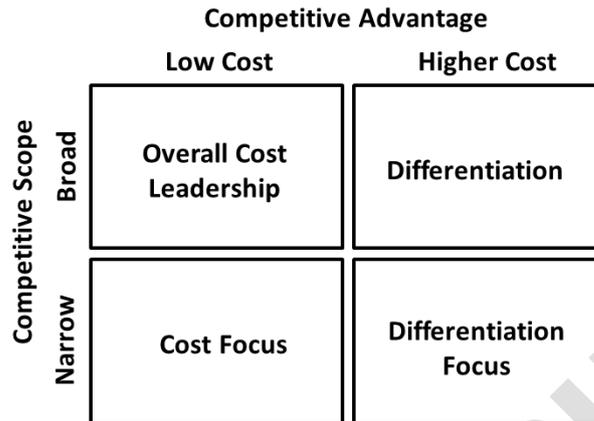
How to do that? Well, the company should consult with the industry analysts to determine whether the industry attractiveness will grow, stay the same or decrease in the future. You should also discuss with your managers whether your business unit competitive strength will likely increase or decrease in the near future. When all the information is collected you should include it to your existing matrix, by adding the arrows to the circles. The arrows should point to the future position of a business unit.

Step 6. Prioritize your investments

	<p>The last step is to decide where and how to invest the company's money. While the matrix makes it easier by evaluating the business units and identifying the best ones to invest in, it still doesn't answer some very important questions:</p> <ul style="list-style-type: none"> • Is it really worth investing into some business units? • How much exactly to invest in? • Where to invest into business units (to R&D, marketing, value chain) to improve their performance? <p>Doing the GE McKinsey matrix and answering all the questions takes time, effort and money, but it's still one of the most important product portfolio management tools that significantly facilitate investment decisions.</p> <p><u>ADVANTAGES</u></p> <ul style="list-style-type: none"> • Helps to prioritize the limited resources in order to achieve the best returns. • Managers become more aware of how their products or business units perform. • It's more sophisticated business portfolio framework than the BCG matrix. • Identifies the strategic steps the company needs to make to improve the performance of its business portfolio. <p><u>DISADVANTAGES</u></p> <ul style="list-style-type: none"> • Requires a consultant or a highly experienced person to determine industry's attractiveness and business unit strength as accurately as possible. • It is costly to conduct. • It doesn't take into account the synergies that could exist between two or more business units.
<p>STRATEGIC ALTERNATIVES</p>	<p>There are many strategic alternatives that can be adopted by an organisation to attain its objectives. The most famous ones are Glueck & Jauch Generic Strategic Alternative and Porter's Generic Strategies as discussed hereunder:</p>
<p>GLUECK & JAUCH GENERIC STRATEGIC ALTERNATIVE</p>	<p>While developing generic strategic taxonomies, the work of Glueck and Jauch is widely referred to. These authors developed a complex matrix involving expansion/retrenchment and stability aspects across products/markets and functions. Using this matrix, Hitt et al. and Pearce et al. postulate that there exist four grand strategic alternatives:</p> <ul style="list-style-type: none"> ➤ Stability; ➤ Internal growth; ➤ External acquisitive growth; ➤ Retrenchment. <p><u>STABILITY</u></p> <p>The stability strategy involves the maintenance of the current business definition by safeguarding the existing interests and strengths. It continues to peruse its well established and tested objectives and goals and optimizes the resources committed to attain such goals. It may also change the pace of effort within its stable business definition in order to become more efficient or effective. Pearce et al. operationalise the stability strategy along four dimensions:</p> <ul style="list-style-type: none"> • Implemented wherein few functional changes are made in the

	<p>products/markets;</p> <ul style="list-style-type: none"> • A business continues to serve existing customers in the same or similar market segment with same portfolio of products; • Instead of a “do nothing” strategy, it is a “do nothing new” strategy; • It has its sharp focus on incremental improvement of functional performance; • It continues to pursue same set of objectives and goals; and • The business adjusts the level of improvement he equivalent proportion every year; • Involves keeping track of new developments to ensure that strategy continues to make sense. <p><u>AN INTERNAL GROWTH (EXPANSION) STRATEGY</u></p> <p>An internal growth strategy involves re-defining of business definition by substantially scaling the level of operations through internal development and not taking help of other corporations or businesses. Market penetration, market development and product development are emphasised to develop new products, enter new markets and embracing new technology.</p> <ul style="list-style-type: none"> • Implemented by redefining the business by adding business scope substantially, which increases the efforts of current business; • Promising and famous strategy, which may take company along relatively less risky untraveled paths; <p><u>EXTERNAL EXPANSION</u></p> <p>Glueck and Jauch note that there are a number of terms used for external expansion. These include acquisitions, mergers (one business loses its identity), consolidations (both businesses lose their identity, and a new business arises) and joint ventures. The distinguishing feature of all external growth strategies, though, is that they involve another company or business.</p> <p><u>RETRENCHMENT</u></p> <p>Pearce et al. operationalise a retrenchment strategy along three dimensions: improvement in performance by scaling down the level and/or scope of product/market objectives; cut back in costs; and reduction of the scale of operations through the divestment of some units or divisions. Glueck and Jauch also suggest that retrenchment also involves a reduction in functions. Internal retrenchment is, labelled as an operating turnaround strategy where the emphasis is on reducing costs, increasing revenues, reducing assets, and reorganising products and/or markets to achieve greater efficiency. External retrenchment constitutes a more serious form of strategic turnaround, including such measures as divestiture and liquidation. Glueck and Jauch’s typology introduces the concepts of stability and external versus internal aspects of growth and retrenchment.</p> <p><u>COMBINATION STRATEGIES</u></p> <p>The above discussed strategies are not mutually exclusive but can be used in a combination to suit the needs of the organization.</p>
<p>PORTER’S GENERIC STRATEGIES (JUNE 2024 EXAMS)</p>	<p>✓ In 1985, in his book “Competitive Advantage: Creating and Sustaining Superior Performance” Michael Porter <u>pronounced the three generic strategies</u> namely “Cost Leadership” (no frills), “Differentiation” (creating uniquely desirable products and services) and “Focus” (offering a specialized service in a niche market).</p>

- ✓ Thereafter, he then sub-divided the 'Focus' strategy into two parts: "Cost Focus" and "Differentiation Focus."



Porter's Generic Strategies

THE COST LEADERSHIP STRATEGY

- ✓ This strategy also involves the firm winning market share by appealing to cost-conscious or price-sensitive customers.
- ✓ This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive).
- ✓ To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals.
- ✓ There are three main ways to achieve this:
- ✓ The first approach is achieving higher asset utilization. In manufacturing, it will involve production of high volumes of output. These approaches mean fixed costs are spread over a larger number of units of the product or service, resulting in a lower unit cost, i.e. the firm hopes to take advantage of economies of scale and experience curve effects.
- ✓ The second dimension is achieving low direct and indirect operating costs. This is achieved by offering high volumes of standardized products, offering basic no-frills products and limiting customization and personalization of service.
- ✓ The third dimension is control over the value chain including all functional groups (finance, supply/procurement, marketing, inventory, information technology etc.) to ensure low costs. Wal-Mart is known for squeezing its suppliers to price its products reasonably low.
- ✓ The **greatest risk** in pursuing a Cost Leadership strategy is that the competitors may follow the same cost reduction strategies, therefore, the company has always to be on its toes to continuously reduce its cost. This can be done by adopting the Japanese Kaizen philosophy of "continuous improvement" among other techniques of reducing cost.

THE DIFFERENTIATION STRATEGY

- ✓ A differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy.
- ✓ Differentiation is deemed to be successful when a company is able to fetch a premium price for its products or services, has increased revenue per unit, or is able to retain loyalty of its customers.

- ✓ Adopting this strategy, Apple could brand its i-phones, computers and i-pads; Mercedes-Benz C-Class could sell its cars as most expensive ones, Café Coffee Day could differentiate its coffee, and Nike could brand sports clothing and shoes. Fashion brands and multinational companies have to depend greatly on this strategy.
- ✓ However, this is not an apt strategy as it is not suitable for smaller companies but for big brands.
- ✓ However, for ensuring success of its Differentiation strategy, a company must:
 - Undertake high-quality research, development and innovation.
 - Be able to deliver premium products/services.
 - Rigorous branding and marketing about differentiated offerings.
 - Need to stay agile with their new product development processes.

THE FOCUS STRATEGY (NICHE STRATEGY)

- ✓ Companies adopting focus strategies focus on niche markets and, by get hold of the dynamics of such niche market and unique requirements of its customers.
- ✓ Based on such understanding, they develop exclusively low-cost products particularly for such niche market.
- ✓ Due to this, a strong brand loyalty is developed with its customers making it difficult for competitors to enter.
- ✓ Such a strategy is often used by small firms/companies.
- ✓ Further, such companies may either use a 'cost focus' or a 'differentiation focus'. While cost focus makes the firm the lowest cost producer in such niche or segment, differentiation focus creates competitive advantage through differentiation within the niche or segment.

Lesson 5 Competitive Positioning

PORTER'S GENERIC STRATEGIES

In 1985, Michael Porter in his book "Competitive Advantage: Creating and Sustaining Superior Performance" pronounced the three generic strategies namely "Cost Leadership" (no frills), "Differentiation" (creating uniquely desirable products and services) and "Focus" (offering a specialized service in a niche market). Thereafter, he then sub-divided the 'Focus' strategy into two parts: "Cost Focus" and "Differentiation Focus." These are shown in the below figure:

		Competitive Advantage	
		Cost	Uniqueness
Competitive Scope	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Focus cost Leadership	Focused differentiation

Source: Michael E. Porter, "Competitive Advantage", Free Press, New York, 1985, p.12

COST LEADERSHIP STRATEGY

Example

Amazon is an excellent illustration of a cost leadership strategy. Even though their profit margin is so tiny, economies of scale allow them to remain profitable. They draw sizable crowds of customers by selling things for less money.

Ways to achieve Cost leadership

- Quick demand forecasting for the product or service.
- Effective utilization of the firm's resources to avoid wastage.
- Attaining economies of scale which results in lower per-unit cost.
- Investing in high-end technology for smart working.
- Product standardization for mass production, which leads to economies of scale.

PROS OF USING COST LEADERSHIP STRATEGY

There are several potential benefits to using a cost leadership strategy.

1. **Low costs enable low prices.** To cut manufacturing costs, cost leaders concentrate their efforts on making production processes more efficient. They may cut prices while still turning a profit because to their cheap costs.
2. **Cost leaders are more able to withstand price wars.** Cost leaders are well-equipped to cut expenses, which can put the brakes on competitiveness. If they cannot be certain they will succeed, higher-priced competitors are less likely to want to actively compete with cost leaders.
3. **Increased market share.** Customers that are sensitive to pricing tend to favour businesses who sell products at the lowest prices.

CONS OF USING COST LEADERSHIP STRATEGY

Using a cost leadership strategy can have several downsides. Consider the potential drawbacks to cost leadership.

1. **Risky Approach.** Cost leaders must continually come up with fresh strategies. Competitors are likely to copy an efficient cost-cutting strategy as soon as it is discovered by a corporation. Cost leaders risk suffering big losses if they are unable to maintain constant cost reduction.
2. **Difficult to maintain perceptions of quality.** When the marketing approach is based on providing the most affordable products, it becomes challenging to maintain the perception of quality. Cost leaders need to figure out how to provide affordable goods and services while also upholding a strong reputation and fostering brand loyalty.
3. **Dependent on a high volume of sales.** Cost leaders inevitably operate with thin profit margins. This means they have to maintain a high volume of sales to be successful.
4. **Cost leaders may be slow to adapt to market changes.** When your business-level strategy is centered around cost reduction, it can be challenging to keep up with consumer trends and tastes.

DIFFERENTIATION STRATEGY

PROS OF USING DIFFERENTIATION STRATEGY

1. **Lower Price Competition:** Companies frequently engage in pricing wars with rivals. But an organization can compete its rivals by differentiating the product or service. Even if competitors' costs are cheaper, they will struggle to compete if the quality of our product is unsurpassed.
2. **Unmatched Products and Services:** We can make our product distinctive by using cutting-edge marketing and promotion techniques and make our products stand out from the competition.
3. **Greater Profit Margins:** Company can increase the price of goods by differentiating the offerings. It will increase in repeat business after product becomes sticky with target market. This would imply that company can generate more money even with fewer sales.
4. **Brand Loyalty:** The product carves out a special position in the consumer's mind if we differentiate the product with other ones.

CONS OF DIFFERENTIATION STRATEGY

While discussing the differentiation strategy advantages and disadvantages, we must list these disadvantages that organizations must watch out for:

1. **Increased Cost:** There is an undeniable increased cost component every time a company considers utilising a differentiated marketing strategy. There will always be an additional expense when you produce different iterations of the same kind of product. Because of this, several businesses find it challenging to differentiate their products.
2. **consistency:** Companies with significantly distinct offers frequently suffer from poor communication. It's crucial to have umbrella communication, like cutting-edge technology and innovative leadership in the case of Apple Inc., even though they deal with many areas and niches, to get over this disadvantage of the differentiation strategy.
3. **Affordability:** The premium price of products reflects the intrinsic cost of differentiated marketing strategy. Such products frequently face competition from imitations of their own brand. Although such products don't have trouble sustaining their pricing point with proper packaging, design, and communication.

4. *Cannibalization:* While a few goods would have sufficed, businesses frequently produce too many differentiated offerings. This can result in brand cannibalization. It's critical to produce a small number of differentiated items in order to counteract this drawback of the differentiation strategy.

FOCUS STRATEGY

TYPES OF A FOCUS STRATEGY

There are two types of focus strategy, a brief about each is as follows:

Focused Low-Cost Strategy

Companies choose for this approach when they first join the market. It indicates that the business provides a unique product with additional advantages to the clients at a low cost. Yet, this does not imply that established businesses cannot or should not adopt this tactic; businesses of all stripes could do so.

The best strategy for new businesses to enter the market and engage in indirect competition is this one. Some businesses choose to join the market with their products and services at low costs in order to gain market share. They would find it challenging to carry out this plan over the long haul.

Focused Differentiation Strategy

It is a form of strategy approach that, as its name suggests, focuses on developing a product that is unique for a certain client market group. When a business adopts the differentiation strategy approach, it concentrates on reducing the size of the targeted client segment by providing unique and personalised features in the product.

A fantastic illustration of the focused differentiation strategic strategy in action is Breezes Resort. The hospitality company fulfils the needs of couples and business partners by providing them with a quiet, child-free atmosphere. Partners and couples would adore to visit this location and take advantage of their services.

PROS OF USING FOCUS STRATEGY

Some of the key benefits and advantages of focus strategy are as follows;

1) *Availability of Resources:* It is crucial to have the necessary financial and other resources available when organization plan to adopt the targeted strategic approach. The price of manufacturing the correct product for the particular customer market segment is higher. Yet, if a business is using scarce resources to create a rare product, it needs to ensure that those resources are available.

2) *Competitive Edge:* Gaining a competitive edge is the crucial component of putting the concentrated strategic approach into practise. When a business makes a distinctive offer to a certain client market segment, it will be easy to stand out from the competition. When organization provides its clients something worthwhile, it will be tough for your rivals to quickly imitate it.

3) *High Growth:* Companies and corporations should never forget that there is always potential for expansion. Businesses and firms who are not evolving with the times and the market find it challenging to thrive. The organization should assess the segment's growth prospects before focusing on it as a target market segment.

4) *Increased Profitability:* The smaller client market niche is simple to locate and cater to. Yet, it is important to consider whether the market niche you are aiming for is profitable. It's because making a profit is always

a company or business's primary goal. Such market groupings need to be sizable enough to bring in money.

CONS OF USING FOCUS STRATEGY

Some of the main disadvantages and challenges of the focus strategy are as follows:

1) Changing Preferences: Customers' preferences and choices are always shifting, and they strive to reflect the consensus opinion. When a business provides a unique offering that matters to the customer, they will choose it and it will last longer.

2) High Competition: A focused strategic strategy seeks to gain a competitive edge by providing something special and worthwhile. Being ahead of the competition is challenging since they are constantly trying to get better. The organization must monitor its development and take the offering seriously. The market's increased completion reduces the company's profitability.

Distinctive Features of the Generic Competitive Strategies			
Type of Feature	Low-Cost Leadership	Differential	Focus
Strategic target	A broad cross-section of the market.	A broad cross-section of the market.	A narrow market niche where the buyer, needs and preferences are distinctively different from the rest of the market.
Basis of competitive advantage	Lower costs than competitors.	An ability to offer buyers something different from competitors	Lower cost in serving the niche or an ability to offer niche buyers something customized to their requirements and tastes.
Product line	A good basic product with few frills (acceptable Quality and limited selection).	Many product variations, wide selection, strong emphasis on the chosen differentiating features.	Customised to fit the specialized needs of the target segment
Production emphasis	A continuous search for cost reduction without sacrificing acceptable quality and essential features	Invent ways to create value for buyers.	Tailor-made for the niche.
Marketing emphasis	Try to make a virtue out of	<ul style="list-style-type: none"> • Build in whatever 	Communicate the focusser's

		product features that lead to low cost.	<p>features buyers are willing to pay for.</p> <ul style="list-style-type: none"> • Charge a premium price to cover the extra costs of differentiating features. 	<p>unique ability to satisfy the buyer's specialized requirements.</p>
	Sustaining the strategy	<ul style="list-style-type: none"> • Economical prices/ good value. • All elements of strategy aim at contributing to a sustainable cost advantage — the key is to manage costs down, year after year, in every area of the business. 	<ul style="list-style-type: none"> • Communicate the points of difference in credible ways. • Stress constant improvement and use innovation to stay ahead of imitative competitors. • Concentrate on a few key differentiating features; use them to create a reputation and brand image. 	<p>Remain totally dedicated to serving the niche better than other competitors; don't blunt the firm's image and efforts by entering other segments and adding other product categories to widen market appeal.</p>
STRATEGIC IMPLEMENTATION	<ul style="list-style-type: none"> ✓ Strategy implementation is a process through which a strategy is <i>put into action</i>. ✓ Strategies are only 'means' to an 'end' i.e. accomplishment of organization's objectives which have to be activated through implementation. ✓ This is because both strategic formulation and strategic implementation process are intervened in real life situation. ✓ A good strategy without effective implementation is futile for success of an organization. ✓ The implementation of policies and strategies is concerned with the <i>design and management of systems</i> to achieve the best integration of people, structures, processes and resources in reaching organization objectives. ✓ Strategy implementation may also consist of securing resources, organizing these resources and directing the use of these resources within and outside the organization. ✓ In an action, the strategy chosen is a promise and implementation is to turn the promise into performance. These tasks of transformation warrant structural and administrative mechanism which can be compatible and workable to be established to reinforce the chosen strategic direction for action. ✓ Once the strategy has been determined; it is the job of the management 			

	<p>to ensure that the strategy is implemented.</p> <ul style="list-style-type: none"> ✓ The <i>major task</i> of implementation strategy is to create a fit between the company goals and its other activities. ✓ Generally two types of fits need to be created— <ul style="list-style-type: none"> (i) fits between the strategy and functional policies; and (ii) fits between the strategy and the organizational structure, process and systems. ✓ Implementation of strategy in an organization covers a number of inter-related decisions, choices, and a broad range of activities such as the commitments and cooperation of all units, sections and departments. There are two inter-related tasks involved in the process, i.e. differentiation and integration. ✓ An effective implementation of strategy is significant for an organization's growth, whereas failure in effective strategy implementation may have negative consequences for an organization.
<p>STRATEGY FORMULATION AND IMPLEMENTATION</p>	<ul style="list-style-type: none"> ✓ Strategy formulation is largely an <i>intellectual process</i> whereas strategy implementation is <i>more operational</i> in character. ✓ Strategy formulation requires good conceptual, integrative and analytical skills but strategy implementation requires special skills in motivating and managing others. ✓ Strategy formulation occurs primarily at the corporate level of an organization while strategy implementation permeates all hierarchy levels. ✓ In fact, they are not supplanting each other but supplementing each other. In other words, they are not conflicting but contemporary to each other. ✓ The relation between strategy formulation and implementation can be best understood by their inter-dependence. There are two types of linkages between strategy formulation and implementation i.e. forward linkage and backward linkage. <p><u>Forward linkage</u> is concerned with the influence of the formulation on implementation. Strategy formulation has forward linkage with implementation in the sense that total implementation activities are geared according to strategy chosen for implementation. The nature and type of organizational processes and systems are conditioned by the strategy for its successful implementation. Thus, implementation is dependent upon formulation.</p> <p><u>Backward linkage</u>, on the other hand, deals with the influence in the opposite direction. Strategy formulation has backward linkage with implementation as organization tends to adopt those strategies which can be implemented with the help of existing structure of resources joined with some additional efforts. The strategy is formulated in a particular environment which is dynamic. The feedback from operations, a result of strategy implementation gives notices of the changing environmental factors to which strategy should be seen in continuity rather than in discrete form.</p> <p><u>STRATEGY IMPLEMENTATION – SUPPORTING FACTORS</u></p> <p>The development and selection of strategies to pursue in an organization is considered easier and less time consuming than implementing these strategies once they have been chosen. An effective implementation of strategy in an organization needs multiple supporting factors. Some of these factors include the following:</p> <ul style="list-style-type: none"> (i) Action Planning: Organizations to be successful in strategy

implementation need to develop a detailed action plan i.e., chronological lists of action steps (tactics) which add the necessary detail to strategies and assign responsibility to specific individual or group for accomplishing those actions. They should also set a due date and estimate the resources required to accomplish each of their action steps. Thus, they translate their broad strategy statement into a number of specific work assignments.

- (ii) **Organizational Structure:** Successful strategists should also give proper thought to their organizational structure and see whether the current structure is appropriate for their intended strategy because different structures suit the implementation of different strategies.
- (iii) **Human Resource Factors:** Human Resource factors through framing strategic plan play a vital role in successful implementation of strategies in an organization. Strategist realize that the human resource issue is really a two part story. The consideration of human resources requires the management to think about the organization's communication needs. Further, managers successful at implementation are aware of the effects each new strategy will have on their human resource needs.
- (iv) **Annual Business Plan:** Organizations successful at implementation are well aware of their need to fund their intended strategies. They think about necessary financial commitment in the planning process. For firming up their commitments to strategic plans, companies monetize their strategy. That way, they link their strategic plan to their annual business plan.
- (v) **Monitoring and Control:** Monitoring and controlling the plan covers a list of options to get back on course if company should veer off. Those options include changing the schedule, changing the action steps, changing the strategy or changing the objective.

Developing an effective strategic plan is only half the battle. Getting it implemented is the other half – completing the tactics to accomplish the strategies and objectives within the plan. Monitoring the implementation of strategic plan is justified on the following grounds:

- (i) It helps to assure the organization efforts conform to the plan.
- (ii) It enables the organization to ensure that the results achieved correspond to our quantified objectives.
- (iii) Further monitoring allows for corrective action.
- (iv) Since monitoring is part of control process, it encourages improved performance.
- (v) Monitoring provides the essential link between the written plan and the day-to-day operations of the business. It demonstrates to all that organization is really managing the business according to its strategic plan.

To set functional area goals, the following steps should be taken:

1. For each functional area, compare present functional goals with new enterprise, corporate and business- level goals.
2. Decide what new goal areas (functional variables) are needed for each function.
3. Set new goal levels (values for each functional area's variables).

ISSUES IN STRATEGY IMPLEMENTATION

An organization is confronted with a number of issues in the process of strategy implementation. Some of the important issues are discussed as follows:

(i) Project implementation

Project is a highly specific program for which time schedule and specific cause are determined in advance. Projects create all necessary conditions and facilities required for the strategy implementation, the discipline of project management. A project basically passes through various phases which are given below before a set of task can be accomplished:

- (a) Detailed planning related to different aspects of projects such as infrastructure design, schedules, budgets etc., has to be completed.
- (b) Ideas generated during the process of strategic alternatives and choice consideration form the core of the future projects that may be undertaken by the organization.
- (c) After a set of projects have been identified and arranged according to the priority, they have to be subjected to preliminary project analysis pertaining to technical, financial, marketing and economic aspects. After the screening, the viable projects are taken up and feasibility studies are conducted.
- (d) Detailed engineering, awarding contracts, civil and other types of construction etc., are to be undertaken during the implementation phase leading to the testing trail and commissioning of the plant.
- (e) The final phase deals with disbanding the project.

(ii) Procedural implementation

- Strategy implementation also requires executing the strategy based on the rules, regulations and procedures formulated by the Government.
- Though many procedures are simplified with the liberalization, privatization, and globalization of the Indian economy, certain procedures are still applicable in the process of strategic implementation such as, licensing requirements, Foreign Exchange Management Act requirements, collaboration procedures, import and export requirements, incentives and benefits, requirements of Labour Laws and other Legislations.

(iii) Organisational Structure and Strategies

Organizational structure is a means for achieving organization mission and objectives. Thus, it is an important source of strategic implementation. Organizational structure refers to the method of allocating duties and responsibilities to individuals, and the ways these individuals are grouped together into units, departments and divisions. Companies form structures for their organizations based on their strategies. There are number of methods in which the organizations can be structured. A simple strategy requires simple structure whereas the growth strategies require a flexible structure and complex strategies necessarily influence to build the matrix structures.

(iv) Resource Allocation

- Resource allocation involves the process of allocating organizational resources to various divisions, departments and strategic business units.
- It deals with the procurement, commitment and financing the physical and the human resources required to accomplish strategic tasks for the achievement of organizational objectives.

(v) Functional Policies

- Functional policies describe functional guidelines to operating managers so that coordination across functional units can take place.
- Once the strategy of the companies is decided, modification in functional policies may become necessary to meet the demands of the new business.

	<p><u>(vi) Communication Strategy</u></p> <ul style="list-style-type: none"> ▪ Communication strategy covering the mission, objectives, market scope, technology and all the issues related to implementation, to different levels in the organization is very important for its success. ▪ This is because strategy is implemented through people who ought to be clear about their roles which they have to play in relation to each other. <p><u>(vii) Leadership</u></p> <ul style="list-style-type: none"> ▪ Appropriate leadership is necessary for developing effective structure and systems for the success of strategy. ▪ Leadership is the key factor for developing and maintaining right culture and climate in the organization. <p><u>(viii) Challenges to Change</u></p> <ul style="list-style-type: none"> ▪ The strategy implementation process generally involves a change. The change can be minor or major. ▪ The process of change may cover in freezing, moving and refreezing. <p><u>(ix) Pre-implementation Evaluation Strategy</u></p> <p>Before the implementation of the strategy, it is advisable to go for a final scrutiny so as to avoid failure due to weaknesses in the analysis, if any and to ensure that the strategy decided for the organization is optimum.</p>
<p>MANAGING STRATEGIC CHANGES (JUNE 2024 EXAMS)</p>	<p>Problems of overcoming resistance to change can be managed in the following ways:</p> <ol style="list-style-type: none"> (i) <u>Education and Communication:</u> If misinformation and lack of information create barriers to managing change, education and communication might be appropriate. It requires an atmosphere of mutual trust and confidence and respect between managers and employees. (ii) <u>Participation:</u> Participation helps to give people in organizational change a feeling of importance. It creates the feelings among the employees that the decision is their own. They realise that the change process is a must. Those people who are directly affected by the change should be given opportunity to participate in that change before the final decisions are reached. (iii) <u>Obtaining commitment:</u> Commitment to take part in changed programme can be obtained in private from each individual. However, getting a person to commit himself in private to a changed programme may yield fewer results than if he voluntarily and publicly gives his commitment to an idea of change. (iv) <u>Leadership:</u> A transformational leader can use personal reasons for change without arousing resistance. An effective leader tries to change the psychological needs of his followers. (v) <u>Training and Psychological Counselling:</u> Management can change the basic values of the people by training and psychological counseling. People should be educated to become familiar with change, its process, and working. They must be taught new skills, helped to change attitudes and indoctrinated in new relationships. (vi) <u>Coercion or Edict:</u> Coercion or edict is the imposition of change or the issuing of directives about change. It is the explicit use of power. Coercion is the least successful style of managing change except in a state of crisis or confusion.
<p>STRATEGIC</p>	<p>Strategic leadership is a type of leadership in which the leader persuades</p>

LEADERSHIP

followers to support a broad vision for the success of the business. Since it prioritises the greatest sustainability initiatives, strategic leadership is now significant to the majority of firms. You may manage a company more successfully if you are aware of the different approaches to show strategic leadership. In this piece, we examine examples of strategic leadership and pinpoint the competencies that are pertinent to this type of leadership.

It takes strategic leadership to identify your organization's strengths so you can set yourself out from the competition. It necessitates a more imaginative strategy than only looking for simple answers. Future organisational growth is highly dependent on leadership.

“Strategic leadership is defined as the ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organization while maintaining its short-term financial stability”. (W. Glann Rowe, 2001).

LEADERSHIP AND ITS FORMS

Types of Strategic Leadership

There are following three well-defined types of strategic leadership:

(a) **Transactional Leadership**

The transactional leaders make certain that everyone is aware of the expectations for the procedures and results. They strike a balance between strategic management and leadership by gauging employee performance and inspiring them to do better. For good performance, they employ incentives like increased pay, promotions, and bonuses. But they may also discipline poor performance by cutting pay or eliminating jobs. A leadership technique like this might provide results, but not always the best ones.

Nonetheless, this kind of strategic leadership is incorporated to some level in the majority of leadership philosophies. A leader's reliance on this approach affects whether or not they meet the criteria for transactional leadership.

(b) **Transformational Leadership**

Transformational leaders integrate leadership and strategy, and they use their vision to direct the employees' activities and behaviours. They affect both the organisation and the people within it to change. Such a leadership tactic entails persuading people to change. The organization's advantage is the main goal of this innovative strategy. The transformative leader builds the team's confidence while helping them recognise roles and set goals. Strategic leadership of this kind encourages action and is adaptable.

According to Northouse (2001) “transformational leadership is a process that changes and transforms people. Transformational leaders can motivate people to change to improve their circumstances”.

(c) **Charismatic Leadership**

Charismatic leaders work their charm to persuade others. Charismatic leaders have the drive and passion to get their work done. While charismatic leaders share quite a few similarities with transformational leaders, the focus of their work is a change in the status quo and not necessarily a change in the organization.

STRATEGIC LEADERSHIP SKILLS

According to Harvard Business Review, strategic leadership competencies include six essential skills:

- **Anticipate:** Collect information from a wide range of sources both inside and outside your company's industry or function to predict competitors' moves and reactions to new initiatives or products.
- **Challenge:** View and reframe a problem from multiple angles to understand its underlying causes.
- **Interpret:** Exhibit curiosity and openness when testing several working hypotheses and involve others before coming to any conclusions.
- **Decide:** Weigh long-term investments for growth with short-term pressure for results, as well as the risks and trade-offs for customers and other stakeholders, when making decisions.
- **Align:** Examine stakeholders' incentives and tolerance for change and identify conflicting interests.
- **Learn:** Convey stories of success and failure to advocate learning. Course-correct decisions after they have been made if there is refuting evidence.

STRATEGIC THINKING SKILLS

All abilities that help you apply critical thinking to solve complicated problems and make future plans are considered strategic thinking abilities. These abilities are necessary to attain professional goals, get over roadblocks, and deal with hurdles, especially if they are anticipated to take weeks, months, or even years to complete. It contains:

- ❖ **Analytical skills:** You must be able to analyse a wide range of inputs, from financial statements to market circumstances, developing business trends, and internal resource allocation, in order to come up with a plan that helps your organisation achieve its goals. To develop a plan that is in line with the present situation your firm is facing, this preliminary analysis is essential.
- ❖ **Communication skills:** Regardless of the size of your business, developing a strategy will involve effective communication. Strategic thinking is mostly based on the capacity to effectively convey complicated concepts, interact with internal and external stakeholders, forge agreement, and make sure that everyone is on the same page and pursuing the same objectives.
- ❖ **Problem-solving skills:** Strategic planning is frequently utilised to address issues or problems, such as unmet financial goals, ineffective processes, or a new rival. You must first comprehend the issue and its potential remedies in order to put into action a plan that solves the primary obstacle you are facing. From there, you can develop a plan of action to resolve it.
- ❖ **Planning and management skills:** In addition to thinking of a solution, strategy also entails its implementation. To put everything together after data analysis, problem comprehension, and solution identification, you need to have good planning and management abilities.

E-BUSINESS AND STRATEGY

An e-business strategy is a long-term plan for implementing the appropriate digital technology to enable a firm to manage all of its partners, both internally through the intranet and outside through customers, suppliers, and other partners. To put it another way, an e-business plan is a detailed strategy for implementing effective digitization so that a company may perform all of its computerised interactions with all stakeholders – both internally via the web and globally via clients, vendors, and other

collaborators.

This tactic is not just applicable to online businesses. Any business that transacts online needs to have an e-business strategy. It outlines all the short-term and long-term goals that demand careful planning and expertise.

E-BUSINESS STRATEGIC FRAMEWORK

The e-business strategic framework addresses three broad sets of questions. These are:

1. Where do we (as a company) want to compete?
2. What type of value do we want to create?
3. How should we set up and organize our company to deliver the desired value?

The above three areas are interlinked and cannot answer one question without considering the other two. Strategies are thus more likely to be successful if managers take into consideration all relevant dimensions.

The first broad section in the e-business strategy framework deals with a firm's external environment. **THE KEY QUESTION HERE IS: 'WHERE DO WE WANT TO COMPETE?'** Answering this question depends in part on the following factors:

- **The macro-environment:** Analyzing the macro-environment helps us to gain an understanding of trends within the political, economic, social or technological spheres.
- **Industry structure:** Porter's five forces offer a framework for figuring out how appealing a particular industry is. This involves a review of industry competition, entry obstacles, competing products, and the bargaining power of customers and suppliers. The co-opetition value net is also provided as an addendum to the five forces framework.
- **Markets:** Consumers have varying expectations and tastes. So, it is beneficial to divide markets into several categories that correspond to the features of clients' purchasing behaviour, such as age, gender, income level, etc.

Value generation is the subject of the second section of the e-business strategy framework. **WHAT TYPE OF VALUE DO WE WANT TO PRODUCE FOR OUR CONSUMERS IS THE CRUCIAL QUERY HERE.** We address two relevant topics in order to respond to this query:

- 1) the concept of value creation in e-business; and
- 2) strategy options for value creation.

- **The concept of value creation in e-business:** We first need to examine the economic value that a corporation generates in order to determine its potential to gain a competitive edge. Understanding what drives consumer benefits and what drives expenses is necessary for this.
- **Strategy options for value creation:** A company has a variety of strategy options when choosing how to add value for its clients. These two possibilities, cost leadership and distinction, are the two most common choices. Additionally, businesses can aim to stray from conventional forms of rivalry by creating new market niches and reinventing their value propositions.

The third section of the e-business strategy framework deals with the internal organization of a firm. **THE KEY QUESTION HERE IS: 'HOW**

SHOULD WE SET UP AND ORGANIZE OUR FIRM TO DELIVER THE DESIRED VALUE?

In the context of the internal organization, we need to look at three dimensions:

- 1) the horizontal boundaries of the firm,
- 2) the vertical boundaries of the firm, and
- 3) the internal organization.

- **Horizontal boundaries:** What scale and scope should our organisation have is the first question we must address before talking about the horizontal limits. Knowing the scale and the scope can help you determine how big your company should be and how big of a market you need to succeed. How swiftly should we aim to grow is the second question, which has to do with horizontal boundaries. One of the guiding principles of the Internet boom years was growth at all costs. Early market entry and rapid growth are favoured by a number of benefits. Yet, there are a number of drawbacks that many ambitious e-business start-ups ignored.
- **Vertical boundaries:** A lengthy discussion on how integrated a company should be in the Internet era was sparked by the concepts of deconstructing the value chain and unbundling the enterprise. During the height of the Internet boom, it was widely believed that businesses should concentrate on their core competencies (or core businesses) and contract out all other value-creating tasks to other parties. This, however, did not prove to be a miracle cure. Thus, how should we set up our company's value chain is the primary concern with respect to vertical borders.
- **Internal organization:** This relates to how the company is structured within. Thus, the key query is: "How should we internalise our firm?" This speaks to the selection of organisational structures, distribution methods, and online consumer interactions.

ARTIFICIAL INTELLIGENCE

- Artificial Intelligence (AI), or machine intelligence, is the field developing computers and robots capable of parsing data contextually to provide requested information, supply analysis, or trigger events based on findings.
- Through techniques like machine learning and neural networks, companies globally are investing in teaching machines to 'think' more like humans.
- Artificial Intelligence, or simply AI, is the term used to describe a machine's ability to simulate human intelligence.
- Actions like learning, logic, reasoning, perception, creativity, that were once considered unique to humans, is now being replicated by technology and used in every industry.
- A common example of AI in today's world is chatbots, specifically the "live chat" versions that handle basic customer service requests on company websites.
- The Artificial Intelligence and Business Strategy initiative explores the growing use of artificial intelligence in the business landscape. The exploration looks specifically at how AI is affecting the development and execution of strategy in organizations.
- The initiative researches and reports on how AI is spurring workforce change, data management, privacy, cross-entity collaboration, and generating new ethical challenges for business. It looks at new risks and threats in dependency, job loss, and security. And it seeks to help managers understand and act on the tremendous opportunity from the

combination of human and machine intelligence.

NINE AREAS FOR DEVELOPING AI BUSINESS STRATEGY

1. Business strategy

Creating an AI strategy for the sake of it won't produce great results. To get the most out of AI, it must be tied to your business strategy and your big-picture strategic goals. That's why the first step in any AI strategy is to review your business strategy. (After all, you don't want to go to all this trouble and apply AI to an outdated strategy or irrelevant business goals.)

In this step, ask yourself questions such as:

- Is our business strategy still right for us?
- Is our strategy still current in this world of smarter products and services?
- Have our business priorities changed?

2. Strategic AI priorities

Now that you're absolutely clear on where your business is headed, you can begin to identify how AI can help you get there.

In other words:

- What are our top business priorities?
- What problems do we want or need to solve?
- How can AI help us deliver our strategic goals?

The AI priorities that you identify in this phase are your use cases. To ensure your AI strategy is focused and achievable, I'd stick to no more than 3–5 AI use cases.

Examples of AI priorities or use cases include:

- Developing smarter products and services.
- Making business processes and functions (such as accounts, sales and HR) more intelligent.
- Automating repetitive or mundane tasks to free people up for more value-adding activities.
- Automating manufacturing processes.

3. Short-term AI adoption priorities

Transforming products, services or processes is never going to be an overnight task. It may take some time to deliver the use cases you've identified. For that reason, I find it helps to also identify a few (as in, no more than three) AI quick wins – short-term AI priorities that will help you demonstrate value and gain buy-in for bigger AI projects.

Ask yourself:

- Are there any opportunities to optimise processes in a quick, relatively inexpensive way?
- What smaller steps and projects could help us gather information or lay the groundwork for our bigger AI priorities?

4. Data strategy

AI needs lots and lots of data to work. Therefore, you need to review your data strategy in relation to each AI use case and pinpoint the key data issues.

This includes:

- Do we have the right sort of data to achieve our AI priorities?
- Do we have enough of that data?
- If we don't have the right type or volume of data, how will we get the data we need?
- Do we have to set up new data collection methods, or will we use third-party data?
- Going forward, how can we begin to acquire data in a more strategic way?

5. Ethical and legal issues

Let's not beat around the bush: the idea of super-intelligent machines freaks people out. It's therefore crucial that you apply AI in a way that's ethical and above board.

Here, you'll need to ask yourself questions like:

- How can we avoid invading people's privacy?
- Are there any legal implications of using AI in this way?
- What sort of consent do we need from customers /users/ employees?
- How can we ensure our AI is free of bias and discrimination?

The ethical implications of AI is a huge topic right now. Notably, tech giants including Google, Microsoft, IBM, Facebook and Amazon have formed the Partnership on AI, a group that's dedicated to researching and advocating for the ethical use of AI.

6. Technology issues

Here you identify the technology and infrastructure implications of the decisions you've made so far.

Consider:

- What technology is required to achieve our AI priorities (for example, machine learning, deep learning, reinforcement learning, etc.)?
- Do we have the right technology in place already?
- If not, what systems do we need to put in place?

7. Skills and capacity

For those companies who aren't Facebook or Google, accessing AI skills can be a real challenge. Therefore, this step is about reviewing your in-house AI skills and capabilities, and working out where you need a skills injection.

For example:

- Where are our skills gaps?
- To fill those gaps, do we need to hire new talent, train existing staff, work with an external AI provider or acquire a new business?
- Do we have awareness and buy-in for AI from leadership and at other levels in the business?
- What can we do to raise awareness and promote buy-in?

8. Implementation

Here you need to think about how you'll turn your AI strategy into reality. This might surface questions such as:

- How will we deliver our AI projects?
- What are the key next steps?
- Who is responsible for delivering each action?
- Which actions or projects will need to be outsourced?

9. Change management issues

Because people are so wary of AI, particularly what it might mean for their jobs, change management is a really important part of any AI project.

Example questions include:

- Which employees and teams will be impacted by this AI project?
- How can we communicate effectively with those people about the change?
- How should the change process be managed?
- How will AI change our company culture, and how will we manage that culture change?

FINTECH

- Financial technology (Fintech) is used to describe new tech that seeks to improve and automate the delivery and use of financial services.
- At its core, fintech is utilized to help companies, business owners and consumers better manage their financial operations, processes, and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones.
- Fintech, the word, is a combination of “financial technology”.
- Broadly, the term “financial technology” can apply to any innovation in how people transact business, from the invention of digital money to double-entry bookkeeping.
- When fintech emerged in the 21st Century, the term was initially applied to the technology employed at the back-end systems of established financial institutions. Since then, however, there has been a shift to more consumer-oriented services and therefore a more consumer-oriented definition.
- Fintech now includes different sectors and industries such as education, retail banking, fundraising and nonprofit, and investment management to name a few.
- Fintech now describes a variety of financial activities, such as money transfers, depositing a check with your smartphone, bypassing a bank branch to apply for credit, raising money for a business startup, or managing your investments, generally without the assistance of a person.
- Fintech also includes the development and use of crypto-currencies such as bitcoin.

Some of the **most active areas of fintech innovation** include or revolve around the following areas:

- **Cryptocurrency and digital cash.**
- **Blockchain technology**, including Ethereum, a distributed ledger technology (DLT) that maintain records on a network of computers, but has no central ledger.
- **Smart contracts**, which utilize computer programs (often utilizing the blockchain) to automatically execute contracts between buyers and sellers.
- **open banking**, a concept that leans on the blockchain and posits that third-parties should have access to bank data to build applications that create a connected network of financial institutions and thirdparty providers. An example is the all-in-one money management tool Mint.
- **Insurtech**, which seeks to use technology to simplify and streamline the insurance industry.
- **Regtech**, which seeks to help financial service firms meet industry

compliance rules, especially those covering Anti-Money Laundering and Know Your Customer protocols which fight fraud.

- **Robo-advisors**, such as Betterment, utilize algorithms to automate investment advice to lower its cost and increase accessibility.
- **Unbanked/underbanked**, services that seek to serve disadvantaged or low-income individuals who are ignored or underserved by traditional banks or mainstream financial services companies.
- **Cybersecurity**, given the proliferation of cybercrime and the decentralized storage of data, cybersecurity and fintech are intertwined.

Regulation and Fintech

- Financial services are among the **most heavily regulated sectors** in the world. Not surprisingly, regulation has emerged as the number one concern among governments as fintech companies take off.
- As technology is integrated into financial services processes, regulatory problems for such companies have multiplied.
- For example, automation of processes and digitization of data makes fintech systems **vulnerable to attacks from hackers**.
- Because of the diversity of offerings in fintech and the disparate industries it touches, it is **difficult to formulate a single and comprehensive approach** to these problems.
- For the most part, governments have used existing regulations and, in some cases, customized them to regulate fintech.
- They have **established fintech sandboxes** to evaluate the implications of technology in the sector.
- The passing of General Data Protection Regulation, a framework for collecting and using personal data, in the EU is another attempt to limit the amount of personal data available to banks.
- Several countries where ICOs are popular, such as Japan and South Korea, have also taken the lead in developing regulations for such offerings to protect investors.

BLOCKCHAIN TECHNOLOGY

- Blockchain is a series of data linked together.
- Every single transaction is linked to the chain using cryptographic principles in batches, making blocks.
- The blocks are connected to each other and have unique identifier codes (called hashes) that connect them to the previous and the subsequent blocks. This forms a blockchain, usually in the form of a continuous ledger of transactions.
- It isn't owned by any one individual. The series is managed and stored across several computer systems. Each ledger is shared, copied and stored on every computer connected in the system.
- This decentralised nature of storage provides security, since changing the details of one record will cause the hash of that block to change, disconnecting it from the next one and causing the latter's hash to change, and further such disruptions.
- Since the data is stored on multiple systems, any person looking to change the details on one system will have to do it for every other system as well.

Importance of Blockchain

- Blockchain technology has been the **backbone of bitcoin and other cryptocurrencies**.
- The transparency and the security offered by the technology are some of the main reasons why cryptocurrency has become so popular.

- This technology is increasingly being adopted in the **retail, manufacturing and banking sectors** due to its benefits, like eliminating middlemen, providing data security, reducing corruption and improving the speed of service delivery.
- It can be particularly useful in **maintaining government data related to public transactions**. For instance, if all land records are moved on a blockchain, with each subsequent buying and selling of a property being recorded as a block that can be publicly accessed, corruption can be arrested and governing will be made so much easier.
- Similarly, **hallmarked gold jewellery** can be moved on an open-source blockchain ledger, which can be maintained by jewellers and viewed by consumers.
- However, blockchain technology must be adopted in a gradual manner. Bitcoin and other cryptocurrencies have seen wild fluctuations in value, due to the lack of regulatory supervision.
- The open nature of the technology implies that anyone can adopt it, which is partly why the government is hesitant to go ahead and use it.
- Scalability, transaction speed and data protection are key technological hurdles, along with the difficulty of integrating the technology into existing financial systems. Many legal and regulatory challenges are also involved.

THE THREE PILLARS OF BLOCKCHAIN TECHNOLOGY

The three main properties of Blockchain Technology which have helped it gain widespread acclaim are as follows:

- Decentralization
- Transparency
- Immutability

Pillar 1: Decentralization

- In a decentralized system, the information is not stored by one single entity. In fact, everyone in the network owns the information.
- In a decentralized network, if you wanted to interact with your friend then you can do so directly without going through a third party. That was the main ideology behind Bitcoins.
- You and only you alone are in charge of your money. You can send your money to anyone you want without having to go through a bank.

Pillar 2: Transparency

- One of the most interesting and misunderstood concepts in blockchain technology is “transparency.” Some people say that blockchain gives you privacy while some say that it is transparent.
- A person’s identity is hidden via complex cryptography and represented only by their public address.
- So, while the person’s real identity is secure, you will still see all the transactions that were done by their public address.
- This level of transparency has never existed before within a financial system. It adds that extra, and much needed, level of accountability which is required by some of these biggest institutions.

Pillar 3: Immutability

- Immutability, in the context of the blockchain, means that once something has been entered into the blockchain, **it cannot be tampered with**.
- The reason why the blockchain gets this property is that of the **cryptographic hash function**.

- In simple terms, hashing means taking an input string of any length and giving out an output of a fixed length.
- In the context of cryptocurrencies like bitcoin, the transactions are taken as input and run through a hashing algorithm (Bitcoin uses SHA-256) which gives an output of a fixed length. So basically, instead of remembering the input data which could be huge, you can just remember the hash and keep track.

The blockchain gives internet users the ability to create value and authenticates digital information. **Following new business applications** will result from this:

- Smart contracts.
- Crowdfunding.
- Governance.
- Supply chain auditing.
- Protection of intellectual property.
- Internet of Things (IoT).
- Anti-money laundering (AML) and know your customer (KYC).
- Data management.
- Land title registration.
- Stock trading.

Lesson 6 Managing the Multi-Business Firm and Analyzing Strategic Edge

BUSINESS PROCESS RE- ENGINEERING (BPR)

Also known as Business Process Redesign, Business Transformation, or Business Process Change Management, Business Process Reengineering (BPR) is an endeavour to fabricate the operations of the business on an extensive scale and the act of recreating a core business process with the goal of improving product output, quality, or reducing costs.

Adopting BPR as a change management tool requires the organizations to make an introspection about the fundamentals of the company itself i.e. 'What they do?', 'Why they do things?' and 'Why do we do things the way we do it?'.

The primary objective of BPR is to:

- Eliminate redundancies or futile layers in the whole process.
- Eliminate enterprise costs.

Reengineering should not be about making marginal changes but ensuring quantum leaps in performance. In other words, BPR is another form of process innovation because it attempts to re-create processes.

Origin

Business process reengineering became popular in the business world in the 1990s, inspired by an article called Reengineering Work: Don't Automate, Obliterate, an article in Harvard Business Review which was published in the Harvard Business review by Michael Hammer, the then professor of Computer Science at MIT. Hammer tested BPR as an examination of the manner Information Technology was having an impact on business processes.

The underlying principle of BPR is that the managers must demolish such components of work that do not make any value addition and further automating it if possible. At the core of BPR was viewed as a revolutionary, fast track and drastic change process (rather than incremental one) that could trigger fundamental changes in the business process itself such as job design, organizational structures, or management systems.

After evolution of the concept, BPR was successfully implemented by a few high-profile organisations such as Hallmark, a famous greeting card company. Hallmark completely re-engineered its new product process. Similarly, the popular company Kodak also re-engineered its black-and-white film manufacturing process and cut the firm's response time of new orders to the tune of fifty per cent. Furthermore, with the advent of enterprise resource planning (ERP) which enabled electronic communications across company business processes, BPR got more popularity.

Objectives of Business Process Reengineering

The following are the objectives for entities to opt for BPR:

- Boost effectiveness and produce higher quality products for end customer.
- Improve efficiency in the production processes.
- Cost saving in the long run.
- Providing more meaningful work to employees.

- To be more adaptable and flexible towards future changes.
- Enable new business growth and expansion.

TYPOLGY OF BPR PROJECTS

Earl provides a four-strand typology of BPR projects which can be applied across any organization irrespective of what business it is involved in. These are:

- ❖ **Core Processes:** Core processes are central to business functioning and represent the primary value chain activities which relate directly to external customers. Examples being order fulfillment processes.
- ❖ **Support Processes:** Support processes are back office processes which reinforce the core processes. These are typically secondary value-chain activities and relate more to internal customers. Typical examples being information technology, financial systems, and human resources systems.
- ❖ **Business Network Processes:** Business network processes are the processes which extend beyond the boundaries of the organization into other organizations such as suppliers and customers.
- ❖ **Management Processes:** Those processes through which firms plan, organize and control resources. Examples include strategy development, direction setting, and managing the organization.

FACTORS FOR SUCCESSFUL IMPLEMENTATION OF BPR

As per Hammer and Champy, “BPR is certainly a ‘Change Management’ approach that aims at bringing in fundamental improvements in the business performance of any organisation. It is a detailed blueprint of how the new processes are tested, the plan of redeployment of employees, the re-arrangement of resources and controlling and monitoring of its implementation plan.” Al-Mashari and Zairi have identified five factors for a successful implementation of BPR i.e.

- Change in management
- Management competencies
- Organizational structure
- BPR project management
- IT sub-structures.

BPR is commonly termed as a bi-fold challenge viz. technical and socio-cultural (Reijersa and Mansarb, 2005). The technical challenge consists of creating radical process design to improve existing systems. The sociocultural challenge stems from reaction against change from organisational employees. Therefore, the reasons for failure of BPR may be:

- Employees’ resistance against change
- Communication breakdown
- Personnel turnover during transition.

STEPS INVOLVED IN BUSINESS PROCESS REENGINEERING (JUNE 2024 EXAMS)

A well-conducted execution of Business Process Reengineering can prove to be a game-changer for an organization. BPR can revive a failing entity and lead it to the path of profit maximization. However, executing BPR may not be easy as it involves enforcing a change in the entire organization. BPR comprises the following steps:

❖ **Define : Objectives and Framework**

There must be a clear definition of the objectives of choosing BPR.

Such objectives must be clearly laid out in qualitative and quantitative terms. After defining such objectives, the requirement for change must be communicated to the employees to apprise them about the upcoming processes. This becomes important as the willingness of the employees to adopt the change is a key for the success of BPR.

❖ **Identify : Customer Needs**

The requirements and feedback of the customers must be given due importance while designing the BPR. It must be ensured that the new processes are able to deliver the added value to the customer.

❖ **Study: The Existing Process**

In order to re-engineer, the company must have to analyze its existing business process. A SWOT should be carried out to have a clear view of the strengths and weaknesses of the existing processes.

❖ **Formulate: A Redesigned Business Plan**

After an analysis of the prevailing business process, the modifications to be made are chalked down. These modifications form a base for the re-designing of process. Then, a plan is laid down by selecting the best alternative.

❖ **Implement: The Redesign**

The last step is to implement the redesigned plan. Management should make sure that the new process is operational and adopted by the team. Such a support from the team is indeed critical to the success of BPR.

BENCHMARKING

Benchmarking : Definition

According to Camp, benchmarking is simply “Finding and implementing the best business practices”.

Benchmarking is a strategy tool of comparison. It is used to compare the performance of the business processes and products of a company with that of the best performances of other companies inside and outside the industry which the company is a part of. Managers use the tool to identify the best practices in other companies and apply those practices to their own processes in order to improve the company’s performance. Improving company’s performance is, without a doubt, the most important goal of benchmarking.

Understanding the tool

In order to know the standing of one’s business, it needs to be compared with the competitors. For example, your top management may be pleased with the fact that the rate of customer satisfaction for your company till they come to know that industry average for this variable is 95 per cent. In this situation, though the rate of 85 per cent seemed too brilliant initially, yet, the will look dull when compared to industry. Therefore, use of ‘benchmarking’ becomes obvious.

Such a type of comparison as mentioned above was not considered important management tool until late 1980s and 1990s. Then, Xerox introduced the process benchmarking technique. Such a comparison proved very valuable and Xerox, AT&T and other companies started to compare the performance of their processes with that of the best standards in the industry. The following table shows how benchmarking evolved into a modern strategy tool:

Benchmarking history	
1950-1975	Reverse engineering
1976-1986	Competitive benchmarking

1982-1986	Process benchmarking
1988+	Strategic benchmarking
1993+	Global benchmarking

TYPES OF BENCHMARKING

Three major types of benchmarking were identified by Tuominen and Bogan and English:

- ***Strategic benchmarking:*** This type of benchmarking is used to identify the best way to compete in the market. In this type of benchmarking, the companies identify the winning strategies (typically outside the boundaries of their own industry) used by successful companies and thereafter adopt them in their own strategic processes.
- ***Performance benchmarking:*** Performance benchmarking determines how strong a company's products and services are when compared to competition. According to Bogan and English, the tool mainly focuses on product and service quality, features, price, speed, reliability, design and customer satisfaction, but it can measure anything that has the measurable metrics, including processes.
- ***Process benchmarking:*** It requires to look at other companies that engage in similar activities and to identify the best practices that can be applied to your own processes in order to improve them. It usually derives from performance benchmarking. This is because companies first identify the weak competing points of their products or services and then focus on the key processes to eliminate those weaknesses.

APPROACHES

- ***Internal benchmarking:*** In large organizations that have operations in multiple geographic locations within or outside national and regional boundaries, or organisations managing plentiful products and services, duplicating functions and processes are usually performed among different teams, business units or divisions of the same organisation. Internal benchmarking is used to compare the work of such teams, units or divisions to identify the ones that are best performing and share the knowledge throughout the company to other teams to achieve higher performance.
- ***External or competitive benchmarking:*** Competitive benchmarking refers to a process when a company compares itself with the competitors inside its industry itself. External benchmarking looks both inside and outside the industry to find the best practices, thus, including competitive benchmarking.
- ***Functional benchmarking:*** Managers of functional departments find it useful to analyze how well their functional area performs compared to functional areas of other companies. It is quite easy to identify the best marketing, finance, human resources or operations departments, in other companies, that excel in what they do and to apply their practices to one's own functional area.
- ***Generic benchmarking:*** General benchmarking refers to comparisons which "focus on excellent work processes rather than on the business practices of a particular organization". For example, a company tries to improve its marketing capabilities and benchmarks itself against company 'X'. While observing company's 'X's' marketing processes, it also notices the efficiency in

management of its human resources by using 'big data' analytics. This gives it an idea to implement such analytics in its own HR department to significantly improve its overall performance.

Advantages

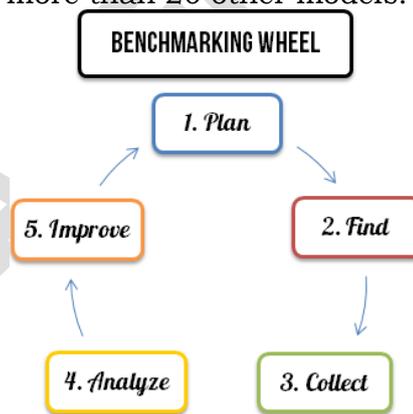
- Easy to understand and use.
- If done properly, it's a low cost activity that offers huge gains.
- Brings innovative ideas to the company.
- Provides with insight of how other companies organize their operations and processes.
- Increases the awareness of costs and level of performance compared to rivals.
- Facilitates cooperation between teams, units and divisions.

Disadvantages

- Requires identification of a benchmarking partner.
- Sometimes impossible to assign a metric to measure a process.
- Might need to hire a consultant.
- The initial costs could be huge.
- Managers often resist the changes.

BENCHMARKING WHEEL

The benchmarking wheel model was first brought out in an article "Benchmarking for Quality". This is a five stage process that was created by analyzing more than 20 other models.



1. **Plan:** Clearly define what you want to compare and assign metrics to it.
2. **Find:** Identify benchmarking partners or sources of information.
3. **Collect:** Choose the methods and gather the data for the metrics defined.
4. **Analyze:** Compare the metrics to identify the gap in performance between your company and the benchmarking partner. Provide the results and recommendations.
5. **Improve:** Implement the changes to your own products, services, processes or strategy.

TOTAL QUALITY MANAGEMENT

Total Quality Management (TQM) is a concept given by W. Edwards Deming. Total Quality Management is a management approach that originated in the 1950s and has steadily become more popular since the early 1980s. It was originally introduced in Japan after World War II to assist the Japanese companies to re-build their economy. The main focus of TQM was and is continuous quality improvement in the areas of product or service, employer-employee relations and consumer-business relations. Total Quality is a description of the culture, attitude and organization of a company that strives to provide customers with products and services that satisfy their needs. The culture requires quality in all aspects of the company's operations, with processes being done right for the first time to eradicate defects waste from operations.

TQM Defined

"Quality" is "a degree of excellence", it is a degree to which a product lives up to its performance, endurance, maintainability, and other attributes expected by a customer while buying that specific product. For meeting such expectations of the customer, one must instill the concept of TQM in product development process. The word "total" means the sum total of every process, every job, every resource, every output, every person, every time and every place.

TQM is a management philosophy that views an organization as a collection of processes such as marketing, finance, design, engineering, and production, customer service, etc. thereby, focussing on meeting customer needs and organizational objectives.

The simple objective of TQM is "Do the right things, right the first time, every time." Although originally applied to manufacturing operations, TQM is now becoming recognized as a Generic Management tool and is being widely applied in a number of service and public sector organizations all over the world.

Some examples of the companies who have implemented TQM include Ford Motor Company, Phillips Semiconductor, SGL Carbon, Motorola and Toyota Motor Company.

There are a number of evolutionary strands, with different sectors creating their own versions from the common ancestor. TQM is the foundation for activities, which include:

- Commitment by senior management and all employees.
- Meeting customer requirements.
- Reducing development cycle times.
- Just in time/demand flow manufacturing.
- Improvement teams.
- Reducing product and service costs.
- Systems to facilitate improvement.
- Line management ownership.
- Employee involvement and empowerment.
- Recognition and celebration.
- Challenging quantified goals and benchmarking.
- Focus on processes / improvement plans.
- Specific incorporation in strategic planning.

This shows that TQM must be practiced in all activities, by all personnel, in manufacturing, marketing, engineering, R&D, sales,

purchasing, HR, etc.

CHARACTERISTICS OF TOTAL QUALITY MANAGEMENT

The most practical implementations of Total Quality Management involve the following most widely principles:

- **Total involvement of employees:** The most fundamental characteristic of TQM is total employee involvement. Only empowered and valiant employees who can take a stand for their work and understand the mechanism of operations of their organization operates as a whole can achieve desired level of performance by improving their efficiency. Further, employee involvement can also be attained by adopting a culture of continuous improvement and team empowerment.
- **Customer focus:** TQM views end customers as the sole measure of quality and success. Any effort, including employee training, infrastructure upgrades, software investments, or product releases, is worthwhile only if it aims at benefitting customers.
- **Continual improvement:** Organizations who practice TQM believe that merely maintaining the same level of quality and customer satisfaction is not enough to outperform competition. Rather, top management has the responsibility for promotion of culture of innovation and creativity to customers' expectations and maintain competitiveness.
- **Process approach:** It calls for breaking all processes into a series of steps, be it internal or external. The rationale of this is that each such step can be analyzed, measured and improved upon to attain desired results.
- **System Approach to Management:** All inter-related processes should be managed as a system to ensure that improvement efforts are focused on 'key' processes and integrated to achieve the desired results.
- **Fact-based decisions:** TQM requires organizations to collect data to improve decision-making, reach agreements on key business directions and make predictions based on historical data.
- **Leadership/strategy definition:** A strategic plan should be developed to achieve organization's vision, objectives and goals with 'quality' as a key component. Leadership is a key attribute as it establishes the direction of the organization. TQM advocates that leaders create an enabling environment for achieving business objectives.
- **Mutually beneficial relationship with suppliers:** An organization depends on its suppliers and this relationship should be strengthened to ensure that a mutually beneficial relationship is sustained.

PRINCIPLES OF TOTAL QUALITY MANAGEMENT

There are eight principles of Total Quality Management which are discussed below:

- **Customer-focused**

The customer ultimately determines the level of quality. No matter what an organization does to foster quality improvement – training employees, integrating quality into the design process, upgrading computers or software, or buying new measuring tools – the customer determines whether the efforts were worthwhile.

- **Total Employee Involvement**

All employees participate in working toward common goals. Total

employee commitment can only be obtained after fear has been driven from the workplace, when empowerment has occurred, and management has provided the proper environment. High-performance work systems integrate continuous improvement efforts with normal business operations. Self-managed work teams are one form of empowerment.

- ***Process-centered***

A fundamental part of TQM is a focus on process thinking. A process is a series of steps that take inputs from suppliers (internal or external) and transforms them into outputs that are delivered to customers (again, either internal or external). The steps required to carry out the process are defined, and performance measures are continuously monitored in order to detect unexpected variation.

- ***Integrated System***

Although an organization may consist of many different functional specialties often organized into vertically structured departments, it is the horizontal processes interconnecting these functions that are the focus of TQM.

- ***Strategic and Systematic Approach***

A critical part of the management of quality is the strategic and systematic approach to achieving an organization's vision, mission, and goals. This process, called strategic planning or strategic management, includes the formulation of a strategic plan that integrates quality as a core component.

- ***Continual Improvement***

A major thrust of TQM is continual process improvement. Continual improvement drives an organization to be both analytical and creative in finding ways to become more competitive and more effective at meeting stakeholder expectations.

- ***Fact-based Decision Making***

In order to know how well an organization is performing, data on performance measures are necessary. TQM requires that an organization continually collect and analyze data in order to improve decision making accuracy, achieve consensus, and allow prediction based on past history.

- ***Communications***

During times of organizational change, as well as part of day-to-day operation, effective communications play a large part in maintaining morale and in motivating employees at all levels. Communications involve strategies, method, and timeliness.

CONTINUOUS IMPROVEMENT BY TQM

TQM is mainly concerned with continuous improvement in all work, from high level strategic planning and decision-making, to detailed execution of work elements on the shop floor. It stems from the belief that mistakes can be avoided and defects can be prevented. It leads to continuously improving results, in all aspects of work, as a result of continuously improving capabilities, people, processes, technology and machine capabilities.

Continuous improvement must deal not only with improving results, but more importantly with improving capabilities to produce better results in the future. The five major areas of focus for capability improvement are:

- Demand generation,
- Supply generation,

- Technology,
- operations, and
- People capability.

IMPLEMENTATION PRINCIPLES AND PROCESSES

Assess the organization’s current reality: A preliminary step in TQM implementation is to assess an organization’s current reality. Relevant preconditions have to do with the organization’s history, its current needs, precipitating events leading to TQM, and the existing employee quality of working life. If an organization has a track record of effective responsiveness to the environment, TQM will be easier to implement.

However, if there is no track-record of responsiveness, there will be both employee skepticism and a lack of skilled change agents. If this condition prevails, a comprehensive program of management and leadership development may be instituted. A management audit is a good assessment tool to identify current levels of organizational functioning and areas in need of change.

An organization should be basically healthy before beginning TQM. If it has significant problems such as a very unstable funding base, weak administrative systems, lack of managerial skill, or poor employee morale, TQM would not be appropriate. However, a certain level of stress is probably desirable to initiate TQM.

A crisis, if it is not too disabling, can also help create a sense of urgency which can mobilize people to act. In the case of TQM, this may be a funding cut or threat, or demands from consumers or other stakeholders for improved quality of service. After a crisis, a leader may intervene strategically by articulating a new vision of the future to help the organization deal with it. A plan to implement TQM may be such a strategic decision. Such a leader may then become a prime mover, who takes charge in championing the new idea and showing others how it will help them get where they want to go. Finally, action vehicles are needed and mechanisms or structures to enable the change to occur and become institutionalized.

SIX SIGMA

PURPOSE AND NEED OF SIX SIGMA: (JUNE 2024 EXAMS)

Six Sigma is a disciplined, statistical-based, data-driven quality control program. It is a methodology for continuous cycle time improvement (the reduction of manufacturing defects to a level of no more than 3.4 per million) by eliminating defects in any product, process or service. Developed by Motorola in middle 1980’s, Six Sigma is based on quality management fundamentals. Due to its accuracy and merits, the approach became popular at General Electric (GE) in the early 1990’s. Today, thousands of organisations across the globe have adopted Six Sigma. Six Sigma is:

A Business Strategy: Using Six Sigma Methodology, a business can strategize its plan of action and drive revenue increase, cost reduction and process improvements in all parts of the organization.

A Vision: Six Sigma Methodology helps the Senior Management create a vision to provide defect free, positive environment to the organization.

A Benchmark: Six Sigma Methodology helps in improving process metrics. Once the improved process metrics achieve stability; we can use Six Sigma methodology again to improve the newly stabilized

process metrics. For example: The Cycle Time of Pizza Delivery is improved from 60 minutes to 45 minutes in a Pizza Delivery process by using Six Sigma methodology. Once the Pizza Delivery process stabilizes at 45 minutes, we could carry out another Six Sigma project to improve its cycle time from 45 minutes to 30 minutes. Thus, it is a benchmark.

A Goal: Using Six Sigma methodology, organizations can keep a stringent goal for themselves and work towards achieving them during the course of the year. Right use of the methodology often leads these organizations to achieve these goals.

A Statistical Measure: Six Sigma is a data driven methodology. Statistical Analysis is used to identify root-causes of the problem. Additionally, Six Sigma methodology calculates the process performance using its own unit known as Sigma unit.

A Robust Methodology: Six Sigma is the only methodology available in the market today which is a documented methodology for problem solving. If used in the right manner, Six Sigma improvements are bullet-proof and they give high yielding returns.

Six Sigma can also be thought of as a measure of process performance. once the current performance of the process is measured, the goal is to continually improve the sigma level striving towards 6 sigma. Even if the improvements do not reach 6 sigma, the improvements made from one sigma level to other will still diminish costs and augment customer satisfaction.

Why Six Sigma

With the budding costs cost of resources and rise in other factors such as competition, the organizations are forced to look around for alternative methods which add to efficiency. Adoption of Six Sigma methodology helps in improving efficiency in any organization as it meticulously identifies defects and minimizes the variations within a process. This is because, each Six Sigma project is supposed to follow a defined sequence of steps and includes specific improvement targets. Some examples could include:

- Decrease in process cycle time.
- Decrease of scrap generated by a process.
- Growing customer satisfaction.
- Decline in the number of factory defects.
- Decrease or elimination of costly reworks.

The scope of Six Sigma is not curtailed to the manufacturing industry rather the tools and techniques of Six Sigma are presently being used to improve processes in all type of business organizations, routine office operations, business processes and customer service processes

How does 6 Sigma work?

A typical Six Sigma project determines the existing state and enhances the performance of the business process to a new and statistically significant improved state with the use of statistical tools. There can be two situations: First, the process already existing but it is not working “reasonably” well; second, there is no process in existence at all.

Situation 1: The process already existing but it is not working

“reasonably” well. This scenario focuses on use of DMAIC (which stands for Define, Measure, Analyze, Improve and Control):

1. Define problem statement process goals in terms of key critical parameters on the basis of customer requirements or Voice Of Customer (VOC) and setting project boundaries.
2. Measure a complete picture of the current state of the process and establishes a baseline through measurement of the existing system in context of goals and collecting the data regarding possible causal factors.
3. Analyze the current scenario in terms of causes of variations and defects and determining the root cause.
4. Improve the process by systematically reducing variation and eliminating defects and root causes.
5. Control future performance of the process and support and maintain the gains realized.

Situation 2: This is the situation when there is no process in existence at all and it has to be designed using Design For Six Sigma (DFSS) approach. DFSS approach typically requires **IDOV**:

1. **I**dentify process goals in terms of critical parameters, industry & competitor benchmarks, Voice Of Customer (VOC).
2. **D**esign involves enumeration of potential solutions and selection of the best.
3. **O**ptimize performance by using advanced statistical modeling and simulation techniques and design refinements.
4. **V**alidate that design works in accordance to the process goals.

Note, sometimes a DMAIC project may turn into a DFSS project because the existing process may require complete re-design making room for a new process due to lack of effectiveness of existing system. Such a development may be discovered during ‘improvement phase’ of DMAIC.

THE SIX SIGMA TRAINING AND CERTIFICATION LEVELS

The Six Sigma training and certification levels are emulated from the martial arts. “Six Sigma” management has several levels of certification i.e. Champion, Yellow Belt, Green Belt, Black Belt, and Master Black Belt. Each level of certification is described below.

Champion

A Six Sigma Champion is the most basic form of Six Sigma certification. A Champion understands the theory of Six Sigma management, but does not yet have the quantitative skills to function as an active Six Sigma project team member.

Yellow Belt

A Six Sigma Yellow Belt is an individual who has passed the Green Belt certification examination but has not yet completed a Six Sigma project. A Yellow Belt should have a basic understanding of Six Sigma, statistical tools and DMAIC methodology. However, executives in Six Sigma organizations function as champions of Six Sigma projects.

Green Belt

A Six Sigma Green Belt is an individual who works on projects part-time either as a team member for complex projects, or as a project leader for simpler projects. Green belts are the “work horses” of Six

Sigma projects.

Green Belts receive training on DMAIC methodology, statistical tools, proper data collection and analysis of the data collected. Most managers in a mature Six Sigma organization are green belts.

Black Belt

A Black Belt receives the highest level of training in the statistical tools of Six Sigma. Black Belts, as a rule, develop the plans for Six Sigma project implementation. Their responsibilities include creating project plans, leading cross- functional projects and directing team members, including Green and Yellow Belts. Black Belts usually train other team members on the proper use of Six Sigma tools and techniques, such as control charts, histograms and Root Cause Analysis (RCA).

Master Black Belt

A Master Black Belt is classically trained in statistical tools, Six Sigma methodology and management processes. Master Black Belts mentor and direct groups of Black Belts and Six Sigma teams through various problems that need to be reviewed.

A Comparison of Business Process Reengineering vs. Six Sigma

Features	BPR	Six Sigma
General Tendency	Radical redesign	Align and maintain
Business drivers	Recession and changing market needs	Service bundling and internet
Goals	Streamlining	Process alignment
Tools	Process maps	Statistical analysis
Method	Challenge process fundamentals	Prioritize by COPQ (Cost of Poor Quality) and Capability
Deployment	Top-down	Top-Bottom-middle
Key feature	Outside consultants	Internal experts
Impact	Short and medium term	Short, medium and long-term
Role of technology	Enabler	Enabler
Risk/return	High-low	Medium-high