PAPER – 9

STRATEGIC MANAGEMENT

CMA INTERMEDIATE

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What Our Students have to Say....

Aman Mahajan (CA AIR 19)

I really liked your classes, especially the practical linkages explained with amazing graphics. The full subject test serieshelped a lot in improving my writing speed and presentation skills.

Sundar Sri Renganathan B (AIR 33)

I took Accounting from IndigoLearn and the classes were really good. They emphasized on conceptual clarity over getting things done quickly, which is really vital to score good marks in practical papers. Other resources like Notes, Quizzes and Forum was beneficial too.

Dwarakesh

Thank you IndigoLearn team for the guidance and support throughout the past few months. I had great conceptual clarity in all the subjects and the revision classes by Suraj Sir were very helpful. Study planner and Free resources were very useful. Thank you Team IndigoLearn.

Yug Manoj Kumar Bhattad

I have cleared my CA Foundation examination with the total of 286. And this was not possible without the efforts and support of IndigoLearn. The way of teaching with utmost conceptual clarity is the best thing at Indigolearn.

Prakash Bhatt

Superb, one stop solution for All CA and Accountancy students they serve real Education at very very reasonable price

Naveen Kumar S

Good experience, unlimited views helped a lot in last one month preparation. Looking forward for

Bhagyasree Chougule

It was only because of Indigolearn that my concepts became very clear, and I was able to crack the exam. I wasn't 100% prepared I needed more practice but luckily I got through. I'm definitely choosing IndigoLearn for group 2 preparation. A big thanks!

Mohd Thayyab

Theoretical subjects made easier through story based examples and charts. Concept clarity 100%. Fully exam+practical oriented classes will help not only to retain the concepts during exams but for the longer duration.

Lalit Chetan Sanpal

Indigolearn has been fantastic and brilliant. Helped me alot in my preparations. I cleared both the groups in first attempt with your brilliant classes and notes. Thanks to all the faculties, coordinators, forum admins and everyone at Indigolearn. Really grateful. Will go for CA Finals at Indigolearn For sure. Thank you so much Indigolearn.

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Abishek M

I'd like to thank IndigoLearn for all the support they've provided me with. Modules were great. They were time saving and straight to the point. I extensively used the materials provided before exams, they were so helpful. Also I'd appreciate them for providing unlimited views as I kept looking into the maths modules till the end.

Munnur Nandini Sree

Accounting classes I have taken from IndigoLearn. Now I feel that it's a great choice that I have made (after seeing my result) because only in Accounting I got exemption. Thank you IndigoLearn.

Harshita G

Thank u so much IndigoLearn for your guidance. This is only possible because of u people.... For my finals also my journey will continue with IndigoLearn.

Bharathsha PS

I purchased Economics, IT, FM, EIS and Audit from Indigolearn. All your classes are superb and anyone can easily crack the CA exams. What makes u special is your classes help us to understand the concepts very well.Special thanks to the FM faculty, I studied only 2 chapters in economics,and still managed to score excemption in the 8th paper.

Nayi Mihir kumar

This platform is very helpful in all activity like mcq practise, notes, teaching activities, revisions and the forum interaction with all students which I like the most. If anybody want to clear their exams in first attempt then IndigoLearn is the best platform for them. My all regards to IndigoLearn. Thank you so much.

Rajalaxmi
CA Inter

Can't believe I cleared.Sathya Sir, Suraj Sir, Yogita Mam ... thanks to all my faculties. Basically an Eng student with zero accounts knowledge. Thanks IndigoLearn for making me clear in first attempt.

Priyanka Udeshi

All the faculties have excellent knowledge of the subject and deliver it in very crisp & effective manner. Also, quick response at Forums never let any of my doubts go unresolved no matter how small they were. Thank you once again to all the teachers & staff at IndigoLearn!

Naveen Kumar T

It been a great journey with indigo learn team. Thanks to all the facilities and forum friends who support me a lot.

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1. Introduction

This chapter deals with the significance of strategic management. With the increased competition, the management of business has acquired strategic dimensions. All executives and professionals, including the Chartered Accountants, working towards growth of business must possess sound knowledge of strategic management.

Business must win over competition and survive in an ever-changing business environment. Strategy plays an important role in helping business achieve their objectives.

Objectives of Strategy/ Strategic Management

- To create Competitive advantage, So that the company can outperform the competitors in order to have dominance over the market.
- To guide the company successfully through all changes in the environment.

2. Concept of Strategy

- 'Strategy' is something that has to do with war and ways to win over enemy.
- Businesses have a set of goals, objectives and mission
- Businesses function in a dynamic and ever-changing environment.
- Strategy seeks to relate the goals of the organization to the means of achieving them. It is the action plan for achieving the long- term goals of an organization.
- Strategies help businesses to reduce the impact uncertainties caused by environment.
- Strategies also help business to gain control over situations [caused by internal as well as external environments] with a long-range perspective.
- Strategies help businesses to secure advantageous position
- Strategies are consciously considered [It doesn't happen on its own]

2.1 Definitions

'Strategy' relates to the ways, the business decides to respond to dynamic and often hostile external forces while pursuing their vision, mission and ultimate objectives.

A long-range *blueprint* of an organization's *desired image*, *direction* and *destination*
- **what it wants to be,**
- **what it wants to do and**
- **where it wants to go**

Strategy is the *game plan* that the *management* of a business *uses* to take
- **market position,**
- **conduct its operations,**
- **attract and satisfy customers,**
- **compete successfully, and**
- **achieve organizational objectives .**

Strategy is **consciously considered and flexibly designed scheme** of corporate intent and action
- to mobilise resources,
- to direct human effort and behaviour,
- to handle events and problems,
- to perceive and utilise opportunities, and
- to meet challenges and threats for corporate survival and success.

A unified, comprehensive and integrated plan designed to assure that the basic *objectives of the enterprise are achieved*. - William F. Glueck

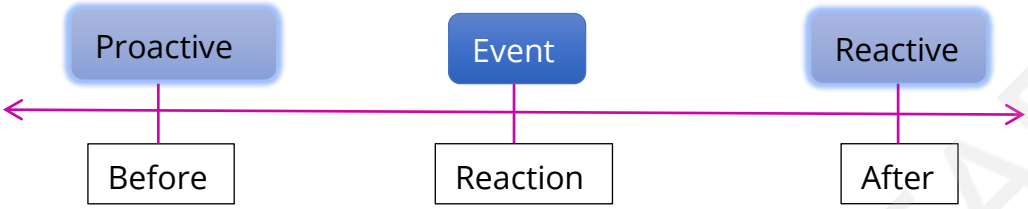
The common thread among the organization's activities and product-markets that defines the *essential nature of business that the organization has or planned* to be in future. - Igor H Ansoff

2.2 Goals and objectives

- Objectives and goals do not provided direction to organizations.
- An organization needs direction and focus.
- Strategy provides a sense of direction to achieve goals and objectives.

2.3 Strategies are both Proactive and Reactive

A company uses both proactive and reactive strategies to cope up the uncertain business environment.



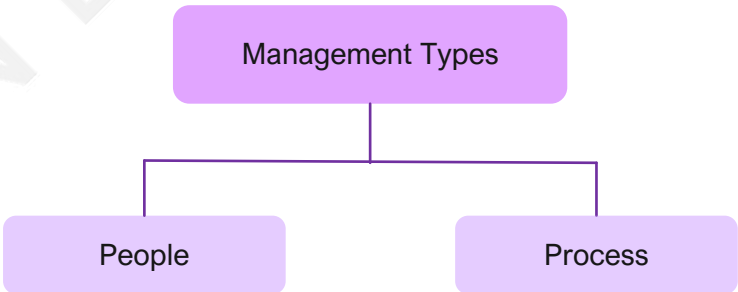
Proactive Strategy	Reactive /Adaptive Strategy
Proactive actions on the part of managers to improve the company's market position and financial performance	***Reactions*** to unanticipated developments and fresh market conditions
Developing new strategy instead of improving existing	It is responsive to new learnings (improvements to existing strategy)
Proactive strategy is planned strategy	Reactive strategy is adaptive

Exam Tip : Strategies are partly proactive and partly reactive.

2.4 Characteristics of Strategy

- Strategy is not a substitute to management.
- Strategies are flexible and require intervention of management to respond to the changing environment.
- Strategies are not perfect or flawless.
- A sound and alert management is necessary to execute the best of strategies

3. Concept of Management



What?	A key group of People who are in charge of the organisation.	Set of Inter related functions and processes carried out by the management
Purpose	To make an organization apurposeful entity	To attain organisation objectives

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How?	By bringing together and integrating resources like money, material, manpower, machinery, tech etc.	Performing functions like planning, organising, directing, staffing and controlling
Importance	To determine goals, mobilize resources, design organization, allocation of tasks and achieving the objective	To attain organization objectives

- Managers formulate organizational goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes in the environment.
- The survival and success of an organisation depends on a large extent on the management.

4. Strategic Management

4.1 Understanding Strategic management

Companies can operate successfully by creating and delivering superior value to target customers by

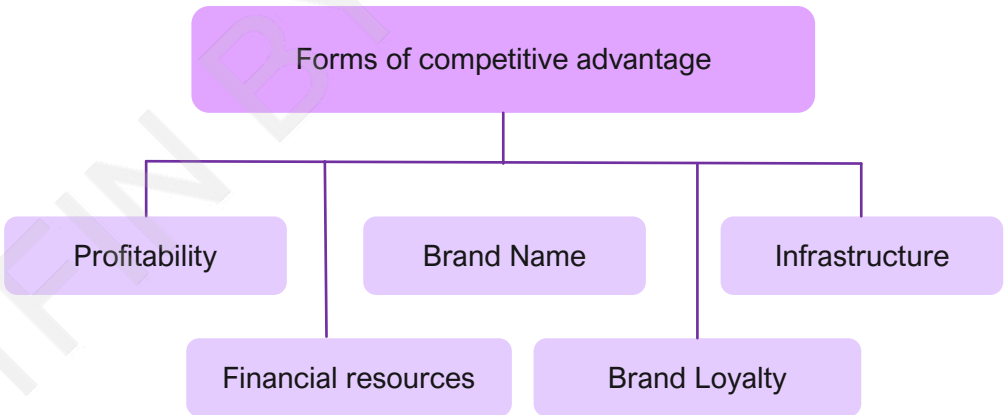
- Adapting to continuously changing business environment
- Catering and delivering to targeted customers
- Developing a long-term strategy
- Accommodating effects of changes and developments expected into the strategy

Strategic Management - A managerial process of developing ***Strategic vision, setting objective***, ***crafting strategy, Implementing*** the strategy, ***evaluating*** strategy and ***Initiating corrective adjustments*** where deemed appropriate

Strategic management – "Strategic management involves developing the company's vision, environmental scanning (both external and internal), strategy formulation, strategy implementation and evaluation and control".

4.2 Overall objective of Strategic Management

- Help organisation to develop core competencies and competitive advantages
- Helps them in working with the and changing environment and shaping it



4.2.1 Need and importance of Strategic Management

- It gives a direction to the company to move ahead.
- It defines the goals and mission.
- It helps organisations to be proactive instead of reactive in shaping its future.
- It helps management to define realistic objectives and goals which are in line with the vision of the company.
- Provides framework for all major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure.

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- It seeks to prepare the organisation to face the future.
- Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- It serves as a corporate defence mechanism against mistakes and pitfalls.
- It helps organisation to avoid costly mistakes in product market choices or investments
- It helps the organisation to develop certain core competencies and competitive advantages that would facilitate assist in its fight for survival and growth.
- It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- They are able to control their destination in a better manner.
- It helps to enhance the longevity of the business.

4.3 Limitation of Strategic Management

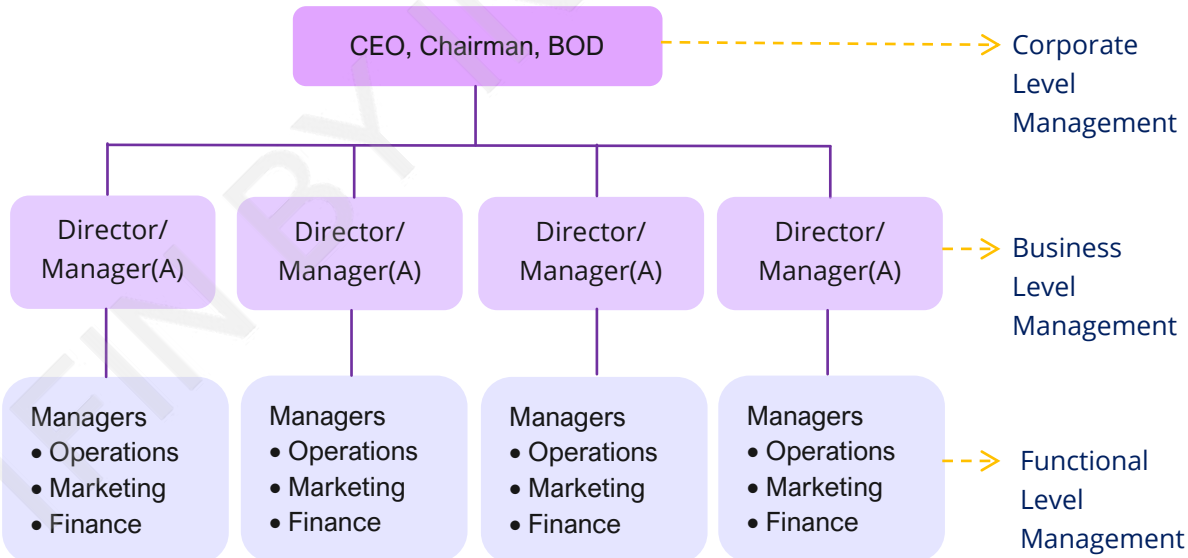
- Environment is highly complex and turbulent – The environment affect as the organisation must deal with, suppliers, customers, governments and other external factors
- It is a time-consuming process – Organisations spend lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business
- It is a costly process – Expert strategic planners need to be engaged
- Competitive responses to strategy - All trying to move strategically and makes difficult to estimate the competitive response to organization strategy.

5. Strategic Levels in an organisation

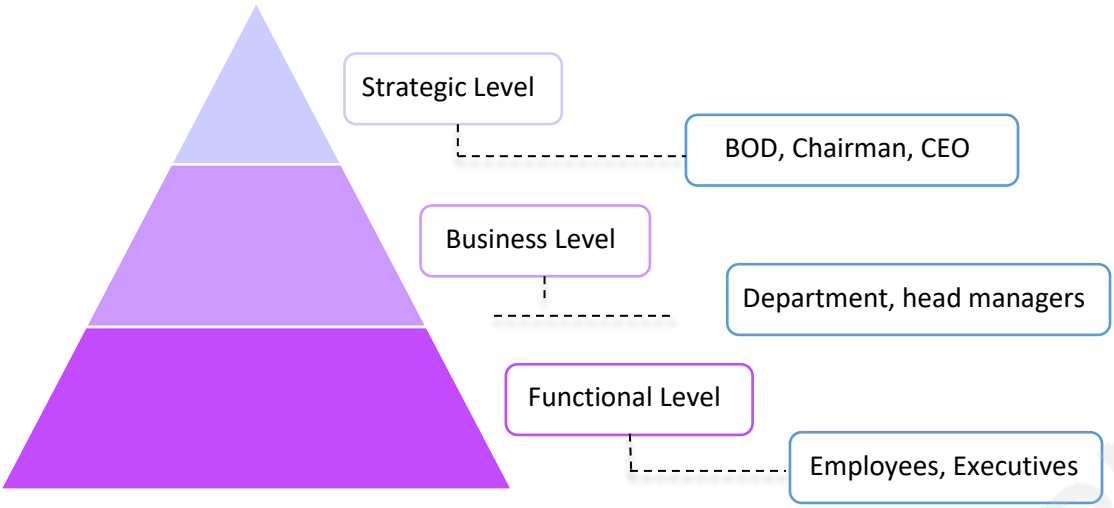
5.1 Levels in an organisation

Corporate level management gives an overall direction and strategy for the company / organisation as a whole. Bussiness level management are responsible for implementing the corporate strategy in each business within the company. Functional level is responsible for executing various functions like marketing, finance, operations etc.

For e.g. The corporate level chooses the strategy for ITC as a whole. Business level management chooses strategy for each business like tobacco, paper, hotels etc. Functional level takes decision for each function within a business.



5.2 Managers at different levels



5.3 Role played by managers at each level

	Board of Directors CEO, Chairman	Department / Business Heads, General Managers	Managers / Employees, Executives
Role	Oversee the development of strategies for the whole organization	Translate the general statement of direction and intent that come from corporate level into concrete strategies for individual business	Responsible for specific business functions or operations like marketing.
Activities	Set Vision, Defining Mission, Deciding businesses to be in, allocating resources among different Business, Formulating and implementing strategies, providing leadership, Managing divestment and acquisition processes.	Setting goals, Design strategies, implementing strategies for particular product line in align with Corporate stratey.	To develop functional strategies in their area that help fulfil the Strategic objectives set by business and corporate level general Manager.

5.4 Strategic Business Unit (SBU) – Definition [More on this in organisational structure]

Strategic Business Unit (***SBU***) – A ***self-contained division*** (with its functions like finance, purchasing, production and marketing departments) that provides a product or service for a particular market

5.5 Network of relationship between the three levels

There are 3 major types of networks of relationship between the levels and also amongst the same levels of a business;

Functional and Divisional Relationship: It is an independent relationship, where each function or a division is run independently headed by the function/division head, who is a business level manager, reporting directly to the business head, who is a corporate level manager.

- Functions - Finance, Human Resources, Marketing, etc
- Divisions depend on the products

Example of a Functional Relationship

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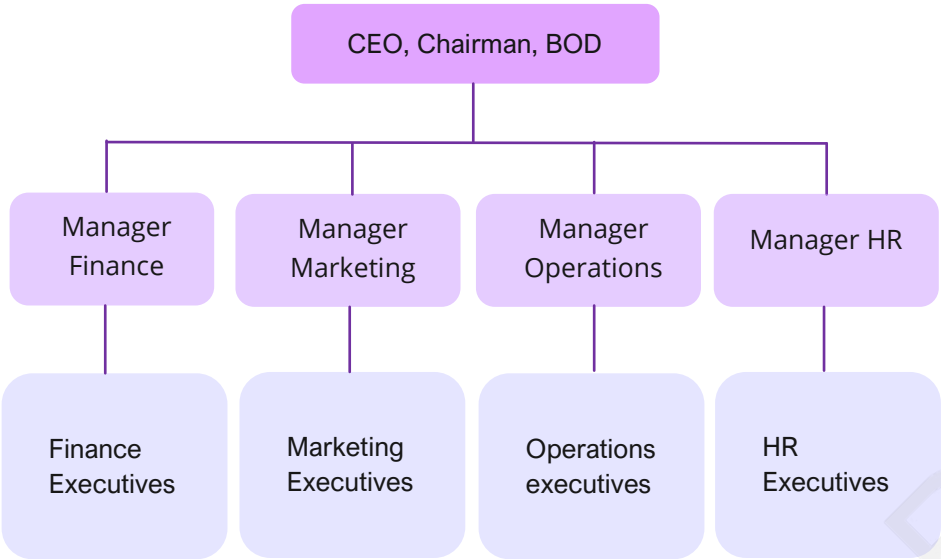
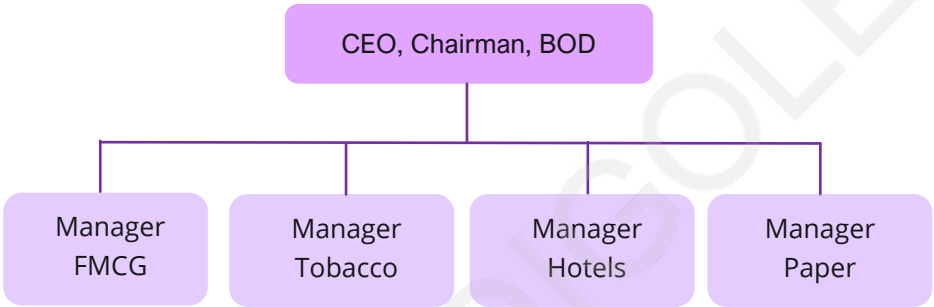


Various products may be handled by operations manager.

Divisional



Each Division may have functional divisions within them

Horizontal Relationship: All positions, from top management to staff-level employees, are in the same hierarchical position. It is a flat structure where everyone is considered at same level. This leads to openness and transparency in work culture and focused more on idea sharing and innovation. This type of relationship between levels is more suitable for startups where the need to share ideas with speed is more desirable.

Matrix Relationship: It features a grid-like structure of levels in an organisation, with teams formed with people from various departments that are built for temporary task-based projects. This relationship helps manage huge conglomerates with ease where it is nearly impossible to track and manage every single team independently.

In Matrix relationship - there are more than one business level managers for each functional level teams. It is complex for smaller organisations, but extremely useful for large organisations.

	Finance Manager	Production Manager	Marketing Manager	Operations Manager
Project A Manager	Finance Executives	Production Executives	Marketing Executives	Operations Executives
Project B manager	Finance Executives	Production Executives	Marketing Executives	Operations Executives

In a matrix structure there is a dual reporting structure. For e.g. finance executives would report to both finance manager and project managers. Matrix structures can be used in companies like construction companies where multiple construction projects are executed. Matrix structures can also be used in

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multinational companies where dual reporting (locally as well as internationally) is required.

6. Strategic Intent (Vision, Mission, Goals, Objectives & Values)

6.1. Strategic Planning

Strategic planning is the process of

- determining ***resources*** required
- to ***attain the objectives*** set for the firm and
- formulation of ***policies***
- to ***govern*** the acquisition, use and disposition of resources

Strategic Planning	Operational Planning
• Long term in nature • Top management • Gives overall direction to the business • Basis or foundation of operational planning	• Short to medium term in nature • Middle or lower management • Restricted to particular SBU or product • Derived from strategic planning

6.2. Strategic Decision Making

Decision making is a ***managerial process*** of selecting the best ***course of action*** out of several alternative courses for accomplishing ***organizational goal.***

Strategic decisions encompass,

- the definition of the business,
- products to be handled,
- markets to be served,
- functions to be performed and
- major policies needed for the organization to execute these decisions to achieve the strategic objectives

- Jauch and Glueck

Major Dimensions of Strategic Decisions

- It requires ***top management*** involvement
- Involves ***commitment*** of organisational resources
- Necessitate consideration of factors in the firm's ***external environment***
- It is likely to have a significant impact on the ***long-term prosperity*** of the firm
- They are ***future oriented***
- They have major ***multi-functional or multi-business*** consequences

Differences between Strategic and Operational decision making

Strategic Planning	Operational Planning
• Done by top management • Requires organizational resources • Long term vision • Affected by external environment • Impacts direction or overall objectives of the company	• Done by middle or lower level management • Short term management • Affected by internal environment • Impacts SBU or product level objectives

6.3. Strategic Intent

- Defines why the company is in ***existence***
- Provides a sense of ***destiny***
- Provides a sense of ***direction***
- Refers to **purposes** that an organisation wants to achieve
- Why they want to do? represents the strategic intent of the firm.

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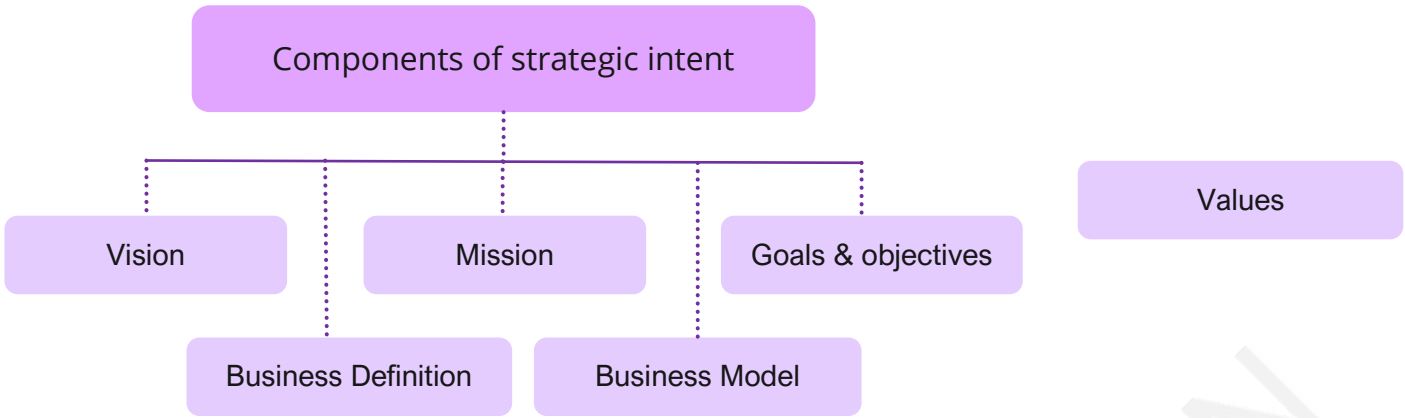

6.3.1. Vision

Strategic vision is a road map of company's future – providing specifics about

- Technology and customer focus,
- The geographic and product markets to be pursued,
- The capabilities it plans to develop, and the kind of company that management is trying to create.

It represents the blue print of the company's future position and depicts company's aspirations.

Key Elements of Vision

- Answers the question – **where we want to go?**
- Talks about ***future*** state of the company
- It must be ***inspiring***
- Show ***core value*** in some way (expressly or indicative)
- They should be ***bold*** and ***challenging***
- It should be ***creative***, yet ***clear***
- Is usually ***broad*** (though can be specific at sometimes too)
- Creates enthusiasm among members of the organisation

Other aspects

- It is one of the ***first step*** in strategic management process
- Not having a vision or ***lack of clear vision*** would lead to chaos
- It can be ***short and crisp*** or detailed
- It could be specific and ***short term or slightly generic*** and long term
- Either ways, a vision statement should be ***clear and well-articulated***
- It is an exercise in intelligent entrepreneurship

A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

Company	Vision	Mission
	to provide access to the world's information in one click	to organise the world's information and make it universally accessible and useful
	A trans-nationally competitive financial conglomerate of significance to societies and Pride of India	Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development.

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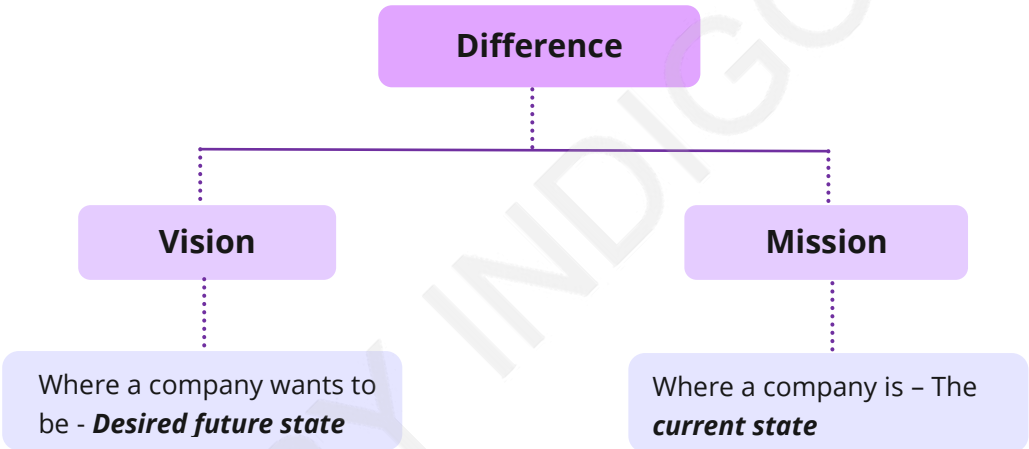
	To be world's leading accounting body	To explore and exploit all available and potential opportunities whereby newer avenues for professional development and growth may be assured for the Institute's members.

6.3.2. Mission Statement

- Mission statement talks about "***what business are we in and what we do***"
- It gives the organisation a ***special identity*** by setting apart from the rest
- An ideal mission statement answers the following questions
  - What is the ***ultimate purpose*** of the business?
  - ***What business*** are we in?
  - Do we ***understand*** our business and define it accurately?
  - Whom do we intend to serve? ***Target customers***?
  - What ***human needs*** do we intend to serve through our offer?
  - What is the ***nature of business*** and in future what would the business look like?
- By answering such questions, we get to know
  - What is the ***purpose*** of business?
  - What is the need for the ***existence*** of the business?
- What is the business ***doing currently?*** Vision and mission statements are corelated, yet they are different
- It is an expression of the ***growth ambition*** of the firm
- Acts as ***foundation*** for the network of goals and objectives that the firm builds



- Importance of mission statement –
  - It tells about the ***purpose*** behind company's existence and how it will achieve its vision
  - Helps in ***allocation of resources***
- Features of mission statement
  - Precise
  - Clear
  - Feasible
  - Distinctive
  - Motivating
- Thus, a mission statement is typically focused on company's present business scope – ***"Who we are and what we do"***. It describes company's present capabilities; customer focus activities and business make up
- The term ***mission*** is often used ***along*** with the word ***purpose***

Importance of mission statement

Why should an organisation have a mission?

- To ensure unanimity of purpose within the organisation.
- To develop a basis, or standard, for allocating organisational resources.
- To provide a basis for motivating the use of the organisation's resources.

- To establish a general tone or organisational climate, to suggest a business- like operation.
- To serve as a focal point for those who can identify with the organisation's purpose and direction.
- To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.
- To specify organisational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled

6.3.3. Goals and Objectives

- When the vision is broken into smaller measurable targets to be pursued in a relatively shorter time frame, they are known as goals and objectives
- While mostly synonymous, sometimes both terms - goals and objectives - are distinguished on some specific aspects by some authors
- Goals are open ended attributes that denote the future outcomes
- Objectives are close ended attributes that are precise, and expressed in specific terms
- However, the terms are used interchangeably in this chapter
- Goals / Objectives are organization's performance targets - the results and outcomes it wants to achieve.
- They function as yardsticks for measuring the organization's progress.
- Thus, there are two perspectives of looking at what 'goals' are:
- **Goals are the targets that the organization wants to achieve, in line with its vision.**
  - E.g.: Vision of a company is to be the best quick service restaurant, providing customers quality food and great experience.
  - Goals towards achieving this vision could be to reduce average waiting time over the next 1 one year by 25% (to become quick service restaurant), keep all outlets clean (to enhance customer experience) etc.
- **Goals work as benchmark to analyse progress and whether the organization is on the right path to achieve its vision.**
  - E.g.: In above example, where the vision is to be the best quick service restaurant, where average waiting time has increased rather than decreasing, it would serve as a check for the organization to alter its planning and take some other steps to move towards its vision.
- Organizational structure and activities are designed around goals and objectives
- The pursuit of objectives is a continuous, unending process

What are the Characteristics of a goal ?

***Acronym*- "SMART"**

- They must be clear and ***specific***, not vague
- They should be quantifiable i.e., ***measurable*** in terms of growth, market share, value, money or percentage
- They must be challenging or ***aggressive*** not very easily attainable
- They must be in sync with the vision
- They must be ***realistic*** as in, practical and achievable within the available resources and time considering the present situation
- They must be ***time bound***, meaning, there must be a time factor involved
- They should be ***facilitative*** towards achievement of mission and purpose
- They should provide ***standards for performance*** appraisal
- They should be set ***within the constraints*** of the organisational resources and external environment
- Different objectives should ***correlate*** with each other

Memory Technique

S	Specific
M	Measurable
A	Aggressive
R	Realistic
T	Time bound

Importance of goals and objectives

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

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aid in allocation of resources and design of jobs
provide direction

What is the time frame for setting goals and Objectives -

Target should be set for smaller periods so that it can be reviewed and corrected if there is deviation. Hence, company should have both short-term and long-term objectives.

- **Long-term objectives**
  - represent the results expected from pursuing certain strategies
  - usually range from 2-5 years
  - established usually in following 7 areas:
  - profitability
  - productivity
  - competitive position
  - employee development
  - employee relations
  - technological leadership
  - public responsibility
- **Short-term objectives**
  - can be derived from long-term objectives
  - can sometimes be identical to long-term objectives, especially if the company is already achieving the objective
  - most important situation when short-term differ from long-term objectives is when managers are trying to elevate organizational performance and the long-term objective cannot be achieved in one year. Thus, short-term objective act as steps towards achieving the long-term objective

Areas where goals and objectives can be set

Revenue
Profitability
Earnings per share
Market price per share
Competitive position
Diversification
Corporate social responsibility
Employee development and retention
Productivity and quality
Financial issues

6.3.4. Values

Values in a business and strategic context refer to the guiding principles and beliefs that shape an organization's culture, decision-making, and overall approach to achieving its goals. These values help define the company's identity, influence its strategic choices, and can have a significant impact on its success.

Integrity:	Acting with unwavering honesty and ethics in all actions and decisions, even when no one is watching.
Trust:	Building confidence through consistent reliability and transparent communication in relationships and transactions.
Accountability:	Taking responsibility for one's actions and their consequences, whether positive or negative.
Humility:	Demonstrating a modest and open-minded approach, acknowledging one's limitations and the contributions of others.
Innovation:	Fostering creative thinking and adapting to change to drive progress and solve problems effectively.
Diversity:	Embracing differences in people, perspectives, and backgrounds to promote a more

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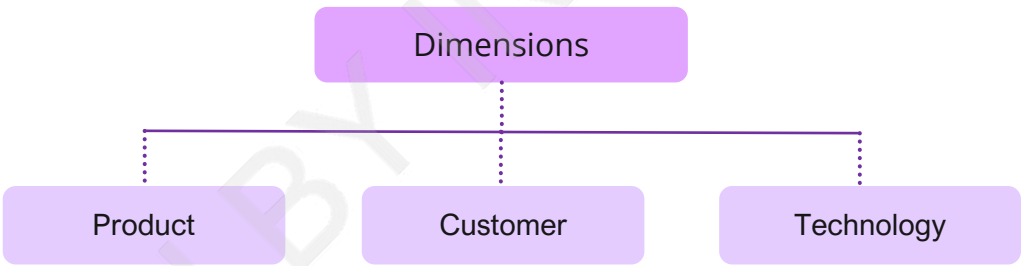
	inclusive and enriching environment.
Customer-Care:	Prioritizing exceptional customer service and satisfaction to build long-term relationships and brand loyalty.
Excellence:	Striving for the highest standards in all aspects of the business, from products and services to employee performance and operations.
Transparency:	Operating with openness and clarity in communication, decision-making, and business practices to build trust and accountability.
Resilience:	Demonstrating the ability to adapt and recover from setbacks and challenges, ensuring the organization's sustainability.

Why are values important?

- A company's value sets the tone for how the people of think and behave, especially in situations of dilemma.
- It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success.
- Employees prefer to work with employers whose values resonate with them - the ones they can relate to in their daily work and personal life.
- Customers prefer to buy products and services from companies that have a purpose that reflects their own value and belief system.
- Values serve as a guiding light during times of crisis or difficult decision-making (e.g during Covid pandemic)
- Values such as innovation and adaptability can foster a culture of continuous improvement

6.3.5. Business Definition

- Explains the business undertaken of the company, hence closely linked to mission statement
- Three dimensions of business definition:



- Thus, it is done in the context of target markets, customer needs and alternative technologies.
- Helps in ascertaining strategic alternatives
- Also aids organizational restructuring

6.3.6. Business Model

- Refers to the manner in which business is run – what assets are owned, what operating costs are incurred, how revenues are earned, how are funds raised etc.
- Different companies in same industry can have different business models

E.g.: For providing taxi on hire to customers, Company A could own the cars and hire drivers as employees to run them. On the other hand, Company B could enter into service arrangements with drivers who own cars and avail their services to provide taxi on hire to its customers.

7. Strategic Management Process

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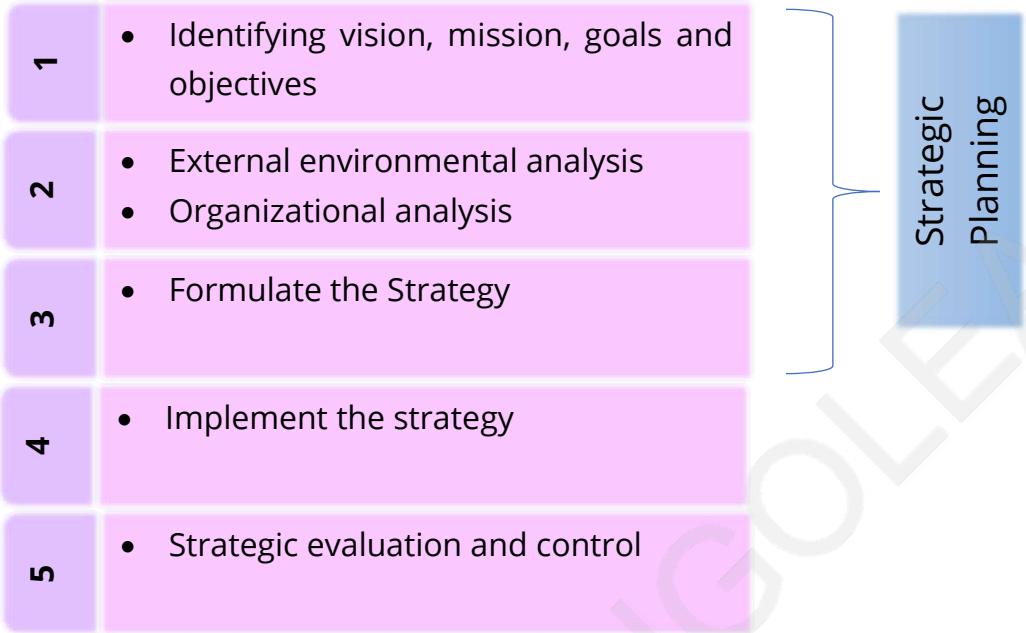
Strategic management is a dynamic process of formulation, implementation, evaluation and control of strategies to realize strategic intent.

A Strategic Management Model lists down all the stages / steps of Strategic Management Process.

8.1 Steps involved in strategic management process



STEP 1 – DEVELOPING STRATEGIC INTENT, i.e. VISION, MISSION, GOALS AND OBJECTIVES

- As a first step in the Strategic Management Process, a company must identify its vision, mission, goals and objectives, as they provide a sense of direction and destination to the company.
- The company must determine what directional path (vision) it should take and what kind of changes it should bring about in product – market – customer. – technology focus.
- A clearly defined strategic vision communicates the management's aspirations to stakeholders and helps steer (direct) energies of the company personnel (employees) in a common direction
- Having a clearly defined strategic intent and mission ensures that all the efforts made by the company and its people are in sync with the intent, thus leading to a coordinated action towards achieving the common goal. It prevents confusion or chaos at all stages.
- It not only helps insiders, but also makes the purpose of company's existence clear to the external environment.
- It serves as the basis for subsequent steps of analysis and strategy formulation, as these steps are undertaken keeping in mind the strategic intent of the company.
- Corporate goals and objsectives flow form the mission and growth ambition of the company.

STEP 2 - UNDERTAKING ENVIRONMENTAL AND ORGANIZATIONAL ANALYSIS

Next stage is undertaking a diagnosis of various forces that affect a company's working. This involves two types of analysis

- Environmental scanning
  - External environment consists of political, economic, social, technological, legal, competitive, environment factors etc.
  - Such external environment is dynamic and uncertain, and the organization usually has no control over it.
  - Hence, it is important for every organization to analyse the same and logically pre-empt, to the extent possible, the opportunities/ threats that such environment offers / poses.
- Organizational analysis

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- This involves a review of internal environment – financial resources, technological resources, productive capacity, manpower, marketing and distribution effectiveness, research and development, human resource skills etc.
- Thereafter, a SWOT (strengths-weaknesses-opportunities-threats) analysis is undertaken to help management in decision-making and strategy formulation. [Discussed in detail in Chapter 2]

STEP 3 – FORMULATING STRATEGY

- A list of strategic alternatives is developed in light of the SWOT analysis made by the company.
- Thereafter, a deep analysis of each of these alternatives is done, and the most appropriate alternative is chosen (discussed in detail in Strategy Decision Making above). There could be various strategies like:
  - stability strategy
  - growth or expansion strategy
  - retrenchment strategy
  - combination strategy

    [These strategies are discussed in detail in subsequent Chapter.]
- Strategy chosen depends upon the vision of the company and results of SWOT analysis.

STEP 4 – IMPLEMENTATION of STRATEGY

- This is the most demanding and time-consuming phase of the strategy management process
- It is in this phase that strategic plans are converted into actions, which then yield results.
- It involves constant endeavours by the organization and its people, in terms of:
  - developing budgets
  - staffing the organization with needed skills
  - keeping employees motivated
  - use best known practices to perform core business activities
  - create a conducive company culture and work environment
  - removing stumbling blocks, addressing issues that arise in the course of implementation of strategies formulated etc.
- Effective implementation of strategy depends upon:
  - clear ***communication*** of strategy chosen to the employees who need to implement the same
  - allocation of ***sufficient resources,*** commensurate with the requirement, to various activities
  - allocation of adequately trained ***skilled manpower***, and if not available, suitably hiring of such manpower
  - ensure that ***policies and procedures align*** with the chosen strategy, and are not in conflict
  - ***effectively managing changes***, as when changes are made, there could be resistance
  - ***Leadership*** skills by top management
  - Adopt ***best practices*** – culture and value system to align with strategy
  - ***Motivated workforce*** is present in the organisation

STEP 5 – EVALUATION AND CONTROL

- It is the final stage in the process – evaluating the company's progress and making corrective adjustments, as required.
- Evaluation -
  - It involves analysing actual vs. targets, and determining gaps or deviations
- Deviations -
  - Reconsidering external and internal factors
- Taking corrective actions -
  - Where the company's performance seems in line with strategy, only smaller updations or fine-tuning to strategic plans would be required.
  - However, where there have been significant disruptions, whether external or otherwise, the organization would need to re-visit its direction and strategy and determine cause-effect relationship with respect to various factors. Thereafter, suitable modifications would need to be made, to the strategy or goals or vision, as the case may be.

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- This exercise is an ongoing process and cannot just be annually or semi-annually.

[Strategic Implementation, evaluation and control is covered in detail in subsequent chapters]

8. Strategic uncertainty and how to deal with it?

Strategic uncertainty refers to the unpredictability and unpredictability of future events and circumstances that can impact an organization's strategy and goals. It can be driven by factors such as changes in the market, technology, competition, regulation, and other external factors. Dealing with strategic uncertainty can be challenging and organizations need to have the flexibility, resilience, and agility to quickly respond to changes in the environment and minimize its impact.

To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

How to handle uncertainty?

- Flexibility: Organizations can build flexibility into their strategies to quickly adapt to changes in the environment.
- Diversification: Diversifying the organization's product portfolio, markets, and customer base can reduce the impact of strategic uncertainty.
- Monitoring and Scenario Planning: Organizations can regularly monitor key indicators of change and conduct scenario planning to understand how different future scenarios might impact their strategies.
- Building Resilience: Organizations can invest in building internal resilience, such as strengthening their operational processes, increasing their financial flexibility, and improving their risk management capabilities.
- Collaboration and Partnerships: Collaborating with other organizations, suppliers, customers, and partners can help organizations pool resources, share risk, and gain access to new markets and technologies.

Impact of uncertainty: Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential businesses., a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty.

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Questions

Scenario Based Questions:-

1. Question

Mr. Raj has been hired as a CEO by XYZ ltd a FMCG company that has diversified into affordable cosmetics. The company intends to launch Feelgood brand of cosmetics. XYZ wishes to enrich the lives of people with its products that are good for skin and are produced in ecologically beneficial manner using herbal ingredients. Draft vision and mission statement that may be formulated by Raj.

Answer

Feelgood brand of cosmetics may have following vision and mission:

Vision: Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. Mr. Raj should aim to position "Feelgood cosmetics" as India's beauty care company.

Vision Statement for XYZ

To be India' largest beauty care company that improves looks, give extraordinary feeling and bring happiness to people.

Mission: Mission statement talks about "what business are we in and what we do". It gives the organisation a special identity by setting apart from the rest. Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. It is designed to help potential shareholders and investors understand the purpose of the company:

Mission statement for XYZ

•To be in the business of cosmetics to enhance the lives of people, give them confidence to lead.

•To protect skin from harmful elements in environment and sun rays.

•To produce herbal cosmetics using natural ingredients.

2. Question

Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former.

Discuss the strategic approach of the two companies. Which is superior?

Answer

Yummy foods is proactive in its approach. On the other hand, Tasty Food is reactive.

A proactive strategy is a planned strategy whereas reactive strategy is an adaptive reaction to changing circumstances. A company's strategy is typically a blend of proactive actions on the part of managers to improve the company's market position and financial performance and reactions to unanticipated developments and fresh market conditions.

If organisational resources permit, it is better to be proactive rather than reactive. Being proactive in aspects such as introducing new products will give you an advantage in the mind of customers. At the same time, crafting a strategy involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge-a reactive/adaptive strategy.

3.Question

Ramesh Sharma has fifteen stores selling consumer durables in Delhi Region. Four of these stores were opened in last three years. He believes in managing strategically and enjoyed significant sales of refrigerator, televisions, washing machines, air conditioners and like till four years back. With shift to the purchases to online stores, the sales of his stores came down to about seventy per cent in last four years.

Analyse the position of Ramesh Sharma in light of limitations of strategic management.

Answer

Ramesh Sharma is facing declining sales on account of large-scale shift of customers to online stores. While he is using the tools of strategic management, they cannot counter all hindrances and always achieve success. There are limitations attached to strategic management as follows:

•**Environment under which strategies are made is highly complex and turbulent**. Entry of online stores, a new kind of competitor brought a different dimension to selling consumer durables. Online stores with their size power could control the market and offer stiff competition to traditional stores.

•It is **difficult to predict** how things will shape-up in future. Ramesh Sharma, although managing strategically failed to see how online stores will impact the sales.

•Strategic management is a **time-consuming process**. However, he should continue to manage strategically. The challenging times require more efforts on his part.

•Strategic management is **costly.** Ramesh Sharma may consider engaging experts to find out preferences of the customers and attune his strategies to better serve them in a customized manner. Such customized offerings may be difficult to match by the online stores.

•**Difficult to predict competitive responses to strategy** - The stores owned by Ramesh Sharma are much smaller than online stores. It is very difficult for him to visualize how online stores will be moving strategically.

4. Question

Dharam Singh, the procurement department head of Cyclix, a mountain biking equipment company, was recently promoted to look after sales department along with procurement department. His seniors at the corporate level have always liked his way of leadership and are assured that he would ensure the implementation of policies and strategies to the best of his capacity but have never involved him in decision making for the company.

Do you think this is the right approach? Validate your answer with logical reasoning around management levels and decision making.

Answer

Promoting Dharam Singh to oversee both the sales and procurement departments suggests recognition of his capabilities and leadership skills. However, the fact that he has never been involved in decision-making at the corporate level raises questions about the effectiveness of this approach.

Functional managers provide most of the information that makes it possible for business and corporate level managers to formulate realistic and attainable strategies.

This is so because functional managers like Dharam Singh are closer to the customers/suppliers/ operations than the typical general manager is. A functional manager may generate important ideas that subsequently may become major strategies for the company. Thus, it is important for general managers to listen closely to the ideas of their functional managers and invoice them in decision making.

An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business level plans, and if they are involved in formulation, the clarity of thoughts while implementation can benefit too.

While Dharam Singh may excel in managing the day-to-day operations of the sales and procurement departments, his lack of involvement in corporate-level decision-making could potentially limit his ability to align his departments' activities with the broader strategic goals of the company.

Thus, the approach of Cylcix Corporate management is not right. They should involve Dharam Singh, as well as other functional managers too in strategic management.

5. Question

ABC Limited is in a wide range of businesses which include apparels, lifestyle products, furniture, real estate and electrical products. The company is looking to hire a suitable Chief Executive Officer. Consider yourself as the HR consultant for ABC limited. You have been assigned the task to enlist the activities involved with the role of the Chief Executive Officer. Name the strategic level that this role belongs to and enlist the activities associated with it.

Answer

The role of Chief Executive Officer pertains to corporate level.

The corporate level of management consists of the Chief Executive Officer (CEO) and other top-level executives. These individuals occupy the apex of decision making within the organization.

The role of Chief Executive Officer (Top Management/Corporate Level Managers) is to:

1.oversee the development of strategies for the whole organization;

2.defining the mission and goals of the organization;

3.determining what businesses it should be in;

4.allocating resources among the different businesses;

5.formulating,and implementing strategies that span individual businesses;

6.providing leadership for the organization;

7.ensuring that the corporate and business level strategies which company pursues are consistent with maximizing shareholders wealth; and

8.managing the divestment and acquisition process.

Descriptive Questions:-

1. Question

What is Strategic Management? What benefits accrue by following a strategic approach to managing?

Answer

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments were deemed appropriate.

The overall objective of strategic management is two-fold:

•To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.

•To guide the company successfully through all changes in the environment.

The following are the benefits of strategic approach to managing:

•Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

•Strategic management provides frameworks for all the major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.

•Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.

•Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

2. Question

Are there any limitations attached to strategic management in organizations? Discuss.

Answer

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines:

•Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.

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•Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.

•Strategic management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources.

•In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies.

3. Question

Explain the difference between three levels of strategy formulation.

Answer

A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional.

The corporate level of management consists of the chief executive officer and other top-level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a self-contained division with its own functions - For example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

4. Question

"Strategy is partly proactive and partly reactive." Discuss

Answer

Strategy is partly proactive and partly reactive. In proactive strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

There can be significant deviations between what was visualized and what actually happens. Strategies need to be attuned or modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

Past Exams, RTP and MTP Questions Compiler

1. Nov 2022 Exam, 1+4 = 5 marks| RTP May 2018|MTP Mar 2022, 5 marks| MTP Apr 2021, 5 marks

"The strategic management cannot counter all hindrances and always achieve success for an organization." Do you agree with this statement? Give arguments in support of your answer.

Answer

Yes, it is true that the presence of strategic management cannot counter all hindrances and always achieve success for an organization. This is on account of complex multiple forces acting on business organization and limiting its success.

These limitations are on account of following factors:

♦ **Environment is highly complex and turbulent**. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.

♦ **Strategic management is a time-consuming process**. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.

♦ **Strategic management is a costly process.** Strategic management adds a lot of expenses to an organization – particularly to small and medium organisations. Expert strategic planners need to be engaged; efforts are made for analysis of external and internal environments devise strategies and properly implement.

♦ **Competition is unpredictable.** In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

2. Dec 2021 Exam, 5 marks | RTP Nov 2022 | RTP Nov 2018

"Each organization must build its competitive advantage keeping in mind the business warfare. This can be done by following the process of strategic management." Considering this statement, explain major benefits of strategic management.

Answer

Each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following the process of strategic management. Strategic Management is very important for the survival and growth of business organizations in dynamic business environment.

Other major benefits of strategic management are as follows:

♦ Strategic management helps organizations to be more proactive rather than reactive in dealing with its future. It facilitates to work within vagaries of environment and remains adaptable with the turbulence or uncertain future. Therefore, they are able to control their own destiny in a better way.

♦ It provides better guidance to entire organization on the crucial point – what it is trying to do. Also provides frameworks for all major business decisions of an enterprise such as on businesses, products, markets, organizational structures, etc.

♦ It facilitates to prepare the organization to face the future and act as pathfinder to various business opportunities. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.

♦ It serves as a corporate defence mechanism against mistakes and pitfalls. It helps organizations to avoid costly mistakes in product market choices or investments.

♦ Over a period of time strategic management helps organization to evolve certain core competencies and competitive advantages that assist in the fight for survival and growth.

3. July 2021 Exam,1+3+1 = 5 marks

'ALBELA' Foods and 'JustBE' Foods are successfully competing chain of restaurants in India. ALBELA' s are known for their innovative approach, which has resulted in good revenues. On the other hand, JustBE is slow in responding to environmental change. The initial stages of Covid-19 pandemic and the ensuring strict lockdown had an adverse impact on both the companies. Realizing its severity and future consequences. ALBELA, foods immediately chalked out its post lockdown strategies, which include initiatives like:
(a) Contactless dinning
(b) New category of foods in the menu for boosting immunity
(c) Improving safety measures and hygiene standards
(d) Introducing online food delivery app
Seeing the positive buzz around these measures taken by ALBELA Food, JustBE Foods also thinks to introduce these measures.
(i) Identify the strategic approach taken by 'ALBELA' Foods and 'JustBE' Foods.
(ii) Discuss these strategic· approach.
(iii) Which strategic approach is better and why?

Answer
(i) 'ALBELA' foods is proactive in its approach. On the other hand**, 'JustBE' foods is reactive** in its approach.

(ii)

- Proactive strategy is planned strategy. While continuing with the previously initiated business approaches that are working well, the newly launched managerial initiatives aim to strengthen the company's overall position and performance. These are outcomes of management's analysis and strategic thinking about the company's situation and its conclusions about the positioning of the company in the marketplace. If done well, it helps the company to effectively compete for buyer patronage.
- Reactive strategy is an adaptive reaction to changing circumstances. It is not always possible for a company to fully anticipate or plan for changes in the market. There is also a need to adapt strategy as new learnings emerge about which pieces of strategy are working well and which aren't. By itself also, the management may hit upon new ideas for improving the current strategy.

(iii) In reference to the given case, proactive strategy seems to be better because ALBELA foods had been able to utilise available opportunities, reduce adverse impact, enhance the demand for product and is also able to avail the first mover advantage.

4. Jan 2021 Exam, 5 marks

ABC Limited is in a wide range of businesses which include apparels, lifestyle products, furniture, real estate and electrical products. The company is looking to hire a suitable Chief Executive Officer. Consider yourself as the HR consultant for ABC limited. You have been assigned the task to enlist the activities involved with the role of the Chief Executive Officer. Name the strategic level that this role belongs to and enlist the activities associated with it.

Answer
The role of Chief Executive Officer pertains to corporate level.
The corporate level of management consists of the Chief Executive Officer (CEO) and other top-level executives. These individuals occupy the apex of decision making within the organization.
The role of Chief Executive Officer is to:

1. oversee the development of strategies for the whole organization;
2. defining the mission and goals of the organization;
3. determining what businesses, it should be in;
4. allocating resources among the different businesses;
5. formulating, and implementing strategies that span individual businesses;
6. providing leadership for the organization;
7. ensuring that the corporate and business level strategies which company pursues are consistent with maximizing shareholders wealth; and
8. managing the divestment and acquisition process.

5. May 2019 Exam, 5 marks

'Strategic Management is not a panacea for all the corporate ills, it has its own pitfalls which can't counter all hindrances and always achieve success'.

Answer

It is true that the strategic management is not a panacea for all corporate ills. This is on account of complex multiple forces acting on business organization and limiting its success.

These limitations are on account of following factors:

♦ **Environment is highly complex and turbulent.** It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.

♦ **Strategic management is a time-consuming process.** Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.

♦ **Strategic management is a costly process.** Strategic management adds a lot of expenses to an organization – particularly to small and medium organisations. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement.

♦ **Competition is unpredictable.** In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

6. Nov 2018 Exam, 2 marks

List the different strategic levels in an organization.

Answer

There are three main strategic levels in an organization:

- Corporate Level – consisting of CEO, Board of Directors and other senior executives.
- Business Level - Divisional Managers and staff
- Functional Level – Functional Managers – Marketing, Finance, Production, Human Resource.

7. Nov 2018 Exam, 5 marks | RTP Nov 2020 | RTP May 2018 | MTP Mar 2021, 5 marks | MTP Oct 2019, 5 marks

"Strategy is partly proactive and partly reactive." Elaborate.

Answer

Yes, strategy is partly proactive and partly reactive. In proactive strategy, organisations will analyse possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a pre-determined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on. There can be significant deviations between what was visualised and what actually happens. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

8. May 2018 Exam, 5 marks | RTP Nov 2021 | RTP May 2021 | MTP Sep 2022, 5 marks

Define Strategic Management. Also discuss the limitations of Strategic Management.

Answer

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate. The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

These limitations are on account of following factors:

♦ **Environment is highly complex and turbulent.** It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.

♦ **Strategic management is a time-consuming process.** Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.

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♦ **Competition is unpredictable.** In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.

9. RTP May 2022

ABC Ltd. currently sells its product in two major markets – Europe and Asia. While it is a market leader in Europe, ABC Ltd. has struggled to penetrate the more competitive Asian market. ABC Ltd. hired a strategic consultant to analyze the situation and submit his report to them. After the report received from the strategic consultant, it has therefore decided to pull out of Asia entirely and focus on European markets only. This decision relates to which level in ABC Ltd. and explain the role of managers at this level in the organization.

Answer
Corporate level strategy relates to the markets and industries that the organization chooses to operate in, as well as other decisions that affect the organization as a whole. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

10. RTP Nov 2021

Mr. Mehta sharing with his friend in an informal discussion that he has to move very cautiously in his organization as the decisions taken by him has organisation wide impact and involves large commitments of resources. He also said that his decisions decide the future of his organisation. Where will you place Mr. Mehta in the organizational hierarchy and explain his role in the organization.

Answer
Mr. Mehta works in an organization at top level. He participates in strategic decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

11. RTP Nov 2020 | RTP Nov 2019

Ramesh Sharma has fifteen stores selling consumer durables in Delhi Region. Four of these stores were opened in last three years. He believes in managing strategically and enjoyed significant sales of refrigerator, televisions, washing machines, air conditioners and like till four years back. With shift to the purchases to online stores, the sales of his stores came down to about seventy per cent in last four years. Analyse the position of Ramesh Sharma in light of limitations of strategic management.

Answer
Ramesh Sharma is facing declining sales on account of large-scale shift of customers to online stores. While he is using the tools of strategic management, they cannot counter all hindrances and always achieve success. **There are limitations attached to strategic management as follows:**

- Environment under which strategies are made is highly complex and turbulent. Entry of online stores, a new kind of competitor brought a different dimension to selling consumer durables. Online stores with their size power could control the market and offer stiff competition to traditional stores.
- Another limitation of strategic management is that it is difficult to predict how things will shape-up in future. Ramesh Sharma, although managing strategically failed to see how online stores will impact the sales.
- Although, strategic management is a time-consuming process, he should continue to manage strategically. The challenging times require more efforts on his part.
- Strategic management is costly. Ramesh Sharma may consider engaging experts to find out preferences of the customers and attune his strategies to better serve them in a customized manner. Such customized offerings may be difficult to match by the online stores.

- The stores owned by Ramesh Sharma are much smaller than online stores. It is very difficult for him to visualize how online stores will be moving strategically.

12. RTP May 2020

Explain the difference between three levels of strategy formulation.

Answer

A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional. The **corporate level of management** consists of the chief executive officer and other top level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level. The development of strategies for individual business areas is the responsibility of the **general managers** in these different businesses or **business level managers**. A business unit is a self-contained division with its own functions - for example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. **Functional-level managers** are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

13. RTP Nov 2019 | MTP Nov 2021, 5 marks

Strategic management helps an organization to work through changes in environment to gain competitive advantage. In light of statement discuss its benefits.

Answer

Strategic management involves developing the company's vision, environmental scanning, strategy formulation, implementation, evaluation and control. It emphasises the monitoring and evaluation of external opportunities and threats in the light of a company's strengths and weaknesses and designing strategies for the survival and growth. It helps in creation of competitive advantage to outperform the competitors and also guide the company successfully through all changes in the environment.

The major benefits of strategic management are:

- Strategic management gives a direction to the company to move ahead. It defines the goals and mission.
- It helps organisations to be proactive instead of reactive in shaping its future.
- It provides framework for all major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- It helps organisations to identify the available opportunities and identify ways and means to achieve them.
- It serves as a corporate defence mechanism against mistakes and pitfalls.
- It helps to enhance the longevity of the business.
- It helps the organisation to develop certain core competencies and competitive advantages that would facilitate survival and growth.

14. RTP May 2019 | MTP Oct 2022, 5 marks | MTP May 2020, 5 marks

Are there any limitations attached to strategic management in organizations? Discuss.

Answer

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines:

♦ **Environment is highly complex and turbulent.** It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.

♦ **Strategic management is a time-consuming process.** Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
♦ **Strategic management is a costly process.** Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources.
♦ In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly **estimate the competitive responses** to a firm's strategies.

15. RTP Nov 2018 |MTP Oct 2020, 5 marks

What benefits accrue by following a strategic approach to managing?

Answer
The following are the benefits of strategic approach to managing:

♦ Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.
♦ Strategic management provides framework for all the major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
♦ Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
♦ Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It help organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

16. RTP Nov 2018

Define the role of corporate level managers.

Answer
Corporate-level managers participate in strategic decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

17. RTP May 2018

Define Strategic Management.

Answer
The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

18. RTP May 2018

State with reasons whether the following statement is correct/incorrect:
Strategic management involves huge cost.

Answer
Correct: Strategic management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged. Efforts are made for analysis of external and internal environments, devise strategies and properly implement them. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.

19. MTP Apr 2022, 5 marks

"A business organization cannot always plan all their strategies in advance and often need to blend planned strategies with reactive strategies." Do you agree with the statement? Give reasons.

Answer

Yes, a business organization cannot always plan all their strategies in advance and often need to blend planned strategies with reactive strategies. In planned strategy, organisations will analyse possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a pre-determined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on. There can be significant deviations between what was visualised and what actually happens. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

20. Nov 2022 Exam, 5 marks | RTP May 2020 | RTP May 2019 | RTP May 2018

"Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives." In the light of this statement, discuss the elements of strategic intent.

Answer

Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organization endeavours to achieve. It is a statement that provides a perspective. Strategic intent gives an idea of what the organization desires to attain in future. Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.

Elements of strategic intent are as follows:

i. **Vision:** Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organisation's aspirations and provides a glimpse of what the organization would like to become in future. Every sub system of the organization is required to follow its vision.

ii. **Mission:** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.

iii. **Business Definition:** It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices.

iv. **Business Model:** Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details. Rival firms, operating in the same industry rely on the different business model due to their strategic choice.

v. **Goals and Objectives:** These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan. However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

21. Nov 2021 Exam, 5 marks | Jan 2021 Exam, 5 marks | May 2018 Exam, 5 marks | RTP Nov 2021 | RTP Nov 2018 | MTP Sep 2022, 5 marks | MTP Oct 2021, 5 marks

What are the important aspects of the process of implementation of strategy?

Answer

Implementation and execution are an operations-oriented activity aimed at shaping the performance of core business activities in a strategy-supportive manner. To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company's competencies and competitive capabilities, create a strategy-supportive work culture, and meet or beat performance targets. Good strategy execution involves creating strong "fits" between strategy and

organizational capabilities, structure, climate & culture. **In most situations, strategy-execution process includes the following principal aspects:**

1. **Developing budgets** that steer ample resources into those activities critical to strategic success.
2. **Staffing the organization with the needed skills and expertise,** consciously building and strengthening strategy-supportive competencies and competitive capabilities and organizing the work effort.
3. **Ensuring that policies and operating procedures facilitate rather than impede** effective execution.
4. **Using the best-known practices** to perform core business activities and pushing for continuous improvement.
5. **Installing information and operating systems** that enable company personnel to better carry out their strategic roles day in and day out.
6. **Motivating people** to pursue the target objectives energetically.
7. **Creating a company culture and work climate conducive** to successful strategy implementation and execution.
8. Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

22. July 2021 Exam, 5 marks | RTP Nov 2021 | MTP May 2020, 5 marks

"Strategic decisions are different in nature than all other decisions." In the light of this statement explain major dimensions of strategic decisions."

Answer

Strategic decisions are different in nature than all other operational decisions. The dimensions of strategic decisions are not similar to that of other decisions which are taken at various levels of the organization during day-to-day working. The following major dimensions of strategic decisions make them different than operational decisions:

1. Strategic decisions require top-management decisions. Strategic decisions involve thinking in totality of the organizations and there is also a lot of risk involved in that.
2. Strategic decisions involve the allocation of large amounts of company resources - financial, technical, human etc.
3. Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm.
4. Strategic decisions are future oriented.
5. Strategic decisions usually have major multifunctional or multi-business consequences.
6. Strategic decisions necessitate consideration of factors in the firm's external environment.

23. Nov 2020 Exam, 5 marks | RTP Nov 2018

What is strategic vision? Describe the essentials of strategic vision.

Answer

Strategic Vision

A strategic vision is **a roadmap of a company's future** – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. It helps the company to answer the question **"where we are to go"** and **provides a convincing rationale** for why this makes good business sense for the company.

A strategic vision delineates organization's aspirations for the business, providing a panoramic view of the position where the organization is going. A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity.

Essentials of a strategic vision

- The entrepreneurial challenge in developing a strategic vision is to think creatively **about how to prepare a company for the future.**
- Forming a strategic vision is **an exercise in intelligent entrepreneurship.**
- A well-articulated strategic vision **creates enthusiasm among the members of the organization.**
- The best-worded vision statement **clearly illuminates the direction** in which organization is headed.

24. Nov 2019 Exam, 5 marks

Why an organisation should have a mission? What considerations are to be kept in mind while writing a good mission statement of a company?

Answer

Organization should have a mission on account of the following reasons:

- To ensure unanimity of purpose within the organization.
- To develop a basis, or standard, for allocating organizational resources.
- To provide a basis for motivating the use of the organization's resources.
- To establish a general tone or organizational climate.
- To serve as a focal point for those who can identify with the organization's purpose and direction.
- To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
- To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

The following points must be considered while writing a good mission statement of a company:

i. To establish the special identity of the business - one that typically distinct it from other similarly positioned companies.
ii. Good mission statements should be unique to the organisation for which they are developed.
iii. Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.

25. May 2019 Exam, 5 marks | RTP May 2022 | RTP May 2021

What are the characteristics which must be possess by objectives, to be meaningful to serve the intended role?

Answer

Objectives with strategic focus relate to outcomes that strengthen an organization's overall business position and competitive vitality. Objectives, to be meaningful to serve the intended role, must possess the following characteristics:

- Objectives should define the organization's relationship with its environment.
- Objectives should be facilitative towards achievement of mission and purpose.
- Objectives should provide the basis for strategic decision-making.
- Objectives should provide standards for performance appraisal.
- Objectives should be understandable.
- Objectives should be concrete and specific.
- Objectives should be related to a time frame.
- Objectives should be measurable and controllable.
- Objectives should be challenging.
- Different objectives should correlate with each other.
- Objectives should be set within constraints.

26. Nov 2018 Exam, 2 marks

Whether the following statement is correct or incorrect? Give reasons in brief for your answer.
Vision is one of the key elements of Strategic Intent.

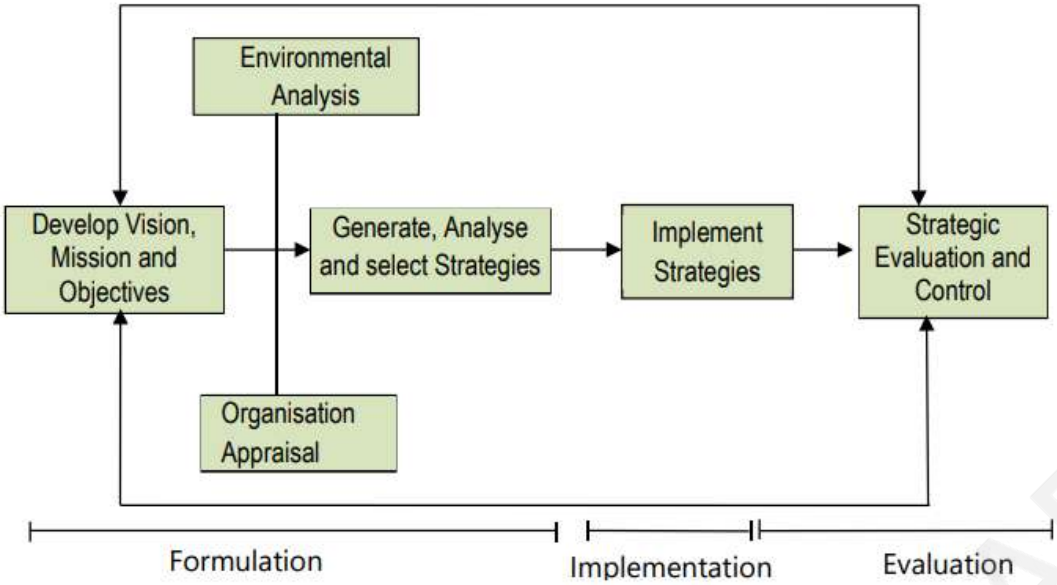
Answer

Correct: Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organisation's aspirations and provides a glimpse of what the organisation would like to become in future. Every sub system of the organisation is required to follow its vision.

27. Nov 2018 Exam, 2 marks

Present a diagrammatic representation of a Strategic Management model.

Answer



Source: ICAI Material

28. May 2018 Exam, 2 marks | RTP Nov 2018

Describe the term 'Strategic Vision.'

Answer

A strategic vision delineates organisation's aspirations for the business, providing **a panoramic view of the position where the organisation is going.** A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity.

A Strategic vision **is a roadmap of a company's future** – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

29. RTP Nov 2022

What should be the major components of a good mission statement?

Answer

Mission statements broadly describe an organizations' present capabilities, customer focus, activities, and business makeup. Following points are useful while writing a good mission statement of a company:

- Good mission statement is highly personalized – unique to the organization for which it is developed.
- Mission statement should emphasize on giving an organization its own special identity, business emphasis and path for development.
- Mission statement should clearly specify that, what needs it is trying to satisfy, customer groups it is targeting, technologies and competencies it uses and the activities it performs.
- Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- The mission should not be to make profit.

30. RTP May 2022 | MTP Mar 2022, 5 marks

Differentiate between Strategic Planning and Operational Planning.

Answer

Strategic Planning	Operational Planning
Strategic planning shapes the organisation and its resources.	Operational planning deals with current deployment of resources.
Strategic planning assesses the impact of environmental variables.	Operational planning develops tactics rather than strategy.

Strategic planning takes a holistic view of the organisation.	Operational planning projects current operations into the future.
Strategic planning develops overall objectives and strategies.	Operational planning makes modifications to the business functions but not fundamental changes.
Strategic planning is concerned with the long-term success of the organisation.	Operational planning is concerned with the short- term success of the organisation.
Strategic planning is a senior management responsibility.	Operational planning is the responsibility of functional managers.

31. RTP May 2020 | RTP May 2018

Rohit Seth in an informal discussion with his friend shared that he has to move very cautiously in his organisation as the decisions taken by him have organisation wide impact and involve large commitments of resources. He also said that his decisions decide the future of his organisation. Where will you place Rohit Seth in organisational hierarchy? What are the dimensions of the decisions being taken by him?

Answer

As the decisions taken by Rohit Seth have organisation wide impact, involves large commitments and have implication on the future, he is at the top level in organisational hierarchy. These characteristics also indicate that he is taking strategic decisions in the organisation. The major dimensions of strategic decisions are as follows:

- **Strategic decisions require top-management involvement:** Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.
- **Strategic decisions involve commitment of organisational resources:** For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.
- **Strategic decisions necessitate consideration of factors in the firm's external environment:** Strategic focus in organization involves orienting its internal environment to the changes of external environment.
- **Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm:** Generally, the results of strategic implementation are seen on a long-term basis and not immediately.
- **Strategic decisions are future oriented:** Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- **Strategic decisions usually have major multifunctional or multi-business consequences:** As they involve organization in totality, they affect different sections of the organization with varying degree.

32. RTP May 2019 | MTP Nov 2021, 5 marks | MTP Mar 2021, 5 marks

Shri Alok Kumar is having his own medium size factory in Aligarh manufacturing hardware consisting handles, hinges, tower bolts and so on. He has a staff of more than 220 in his organisation. One of the leading brands of Hardware seller in India is rebranding and selling the material from his factory. Shri Alok Kumar, believes in close supervision and takes all major and minor decisions in the organisation. Do you think Shri Alok should take all decisions himself? What should be nature of decisions that should be taken by him.

Answer

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational, i.e., which relate to general day-to-day operations. They may also be strategic in nature. As owner manager at the top level in the company, Shri Alok Kumar should concentrate on strategic decisions. These are higher level decisions having organisation wide implications. The major dimensions of strategic decisions are as follows:

- Strategic decisions require top-management involvement as they involve thinking in totality of the organization.
- Strategic decisions involve significant commitment of organisational resources.
- Strategic decisions necessitate consideration of factors in the firm's external environment.

- Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm.
- Strategic decisions are future oriented.
- Strategic decisions usually have major multifunctional or multi-business consequences.

33. RTP Nov 2018

State with reason whether the following statement is correct/ incorrect.
For a small entrepreneur vision and mission are irrelevant.

Answer
Incorrect: Entrepreneur, big or small has to function within several influences from external forces. Competition in different form and different degree is present in all kind and sizes of business. Even entrepreneur with small businesses can have complicated environment. To grow and prosper they need to have clear vision and mission.

34. RTP Nov 2018

Objectives' and 'Goals' provide meaning and sense of direction to organizational endeavour. Explain.

Answer
Business organization translates their vision and mission into objectives. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close -ended attributes which are precise and expressed in specific terms. Thus, the goals are more specific and translate to objectives to short term perspective. All organizations have objectives. The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavour. Organizational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

35. Q20. RTP May 2018

Briefly answer the following question.
How a company can deal with strategic uncertainty?

Answer
Strategic uncertainty denotes the uncertainty that has crucial implications for the organisation. An approach to deal with strategic uncertainty is by grouping them into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

36. RTP May 2018 | MTP Apr 2022, 5 marks

Distinguish between vision and mission.

Answer
The vision describes a future identity while the Mission serves as an on-going and time-independent guide. The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, and relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization. A mission statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a vision statement is more specific in terms of both the future state and the time frame. Vision describes what will be achieved if the organization is successful.

37. MTP Apr 2021, 5 marks | MTP Oct 2020, 5 marks

Mission statement of a company focuses on the question: 'who we are' and 'what we do'. Explain briefly.

Answer
A company's mission statement is typically focused on its present business scope — "who we are and what we

do"; mission statements broadly describe an organizations present capability, customer focus activities and business makeup. An organisation's mission states what customers
it serves, what need it satisfies, and what type of product it offers. It is an expression of the
growth ambition of the organisation. It helps organisation to set its own special identity, business emphasis and path for development. Mission amplifies what brings the organisation to this
business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business organisation. In other words, the mission serves as a justification for the firm's very presence and existence; it legitimizes the firm's presence.

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1. Strategic Analysis

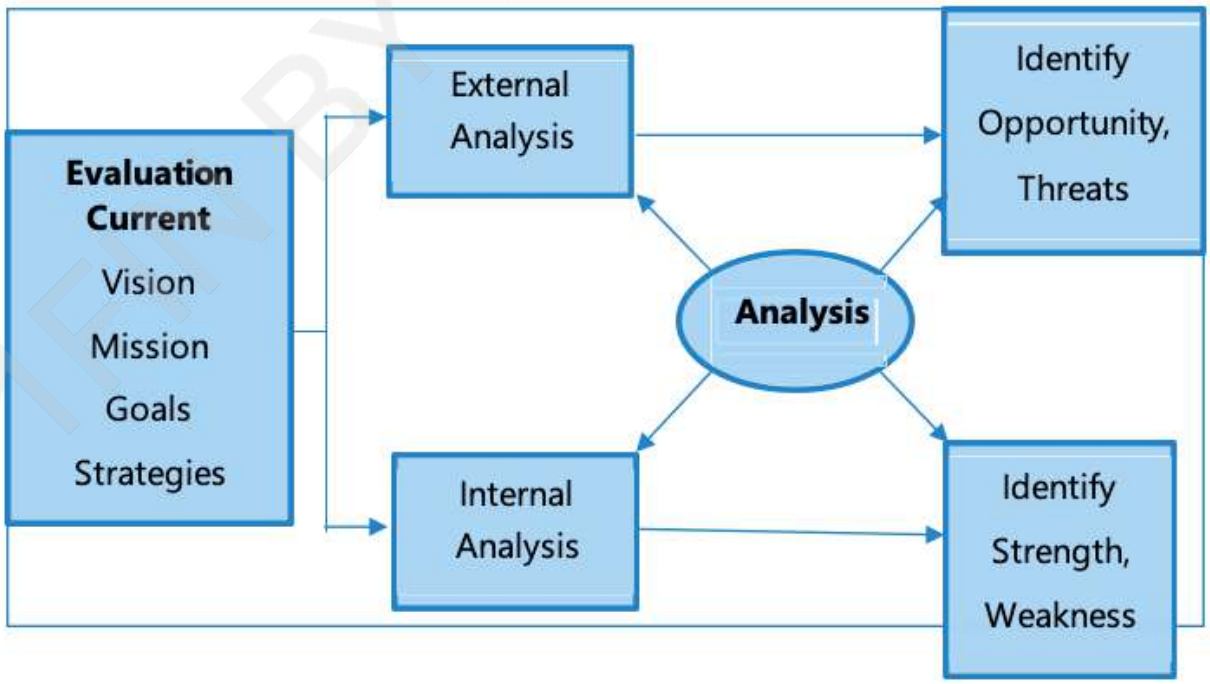
Strategic analysis is a process used by businesses and organizations to **assess their internal and external environments**, identify key factors influencing their success or failure, and make informed decisions about the direction and allocation of resources. It involves gathering, evaluating, and interpreting information to understand the current state of the organization, anticipate future opportunities and threats, and formulate effective strategies to achieve long-term goals.

Strategic formulation ***does not involve intuition, opinions, instincts or creative thinking.*** It flows directly from an analysis of firm's external environment & internal resources & capabilities. The analysis can be done using a formal or informal approach. Informal approach may result in missed opportunities for the business.

The majority of the rapidly expanding organisations use strategic planning throughout various stages of their operations. The strategic analysis is a component of business planning that has a methodical approach, makes the right resource investments, and may assist business in achieving its objective. It forces to think about the rivals and aids in the evaluation of business plans to stay ahead of the competition.

- Two most important situational considerations are-
  - Industry & competitive conditions [Competitive/External environment Analysis]
  - Organization's own competitive capabilities, resources, market position, strengths & weakness [Internal Analysis]

- Accurate diagnosis of the company's situation is necessary for deciding on a sound long-term plan, setting appropriate objectives and crafting winning strategy.
- Without understanding of the strategic aspects of the external & internal environment, the chances are higher that managers will finalise a strategic plan that does not fit the situation well.



1.1. Issues to consider for strategic analysis

1.1.1. Strategy evolves over a period of time:

- Everyday decisions impact and shape the strategy. It doesn't happen on a single day.

- The important aspect of strategic analysis is to consider the possible implications of routine decisions.
- Strategies are a result of a series of small decisions taken over an extended period of time.
- Strategies is influenced by experience and has to be updated when results are seen.

1.1.2. Balance of external & internal factors:

- Matching of internal potentials with external opportunities
- A perfect match as above is not feasible & hence a workable balance between diverse & conflicting decisions is necessary
- (example) There may be pressures driving towards entering a new market but, constraints such as existence of a big competitor may exist
- The impact of these constraining forces may vary in nature, degree, magnitude & importance where some can be managed & several beyond the control of the manager

1.1.3. Strategic risks

- Every strategy has a certain amount of risk involved in it. It may be Political, Legal, Economic etc.,
- Industries differ widely in their economic characteristics, competitive situations & future profit prospects.
- An important aspect of strategic analysis is to identify potential imbalances or risks & assess their consequences.
- A broad classification of strategic risk that requires consideration in strategic analysis is given below-

	Short - term	Long - term
External Risk	Errors in interpreting the external environment causing strategic failure	Dynamic nature of business environment leads to the obsolescence of strategy in the Long - run
Internal Risk	Organizational capacity and resources are unable to cope up with strategic demands	Organizational internal capabilities and preferences changes over time, which makes the current strategy redundant or inappropriate

- ***External risk*** is on account of inconsistencies between strategies & the forces in the environment. (opportunities, threats, trends, uncertainties)
- ***Internal risk*** occurs on account of forces that are either within the organisation or are directly interacting with the organisation on a routine basis.
  (strategic strengths, weakness, problems, constraints, uncertainties)

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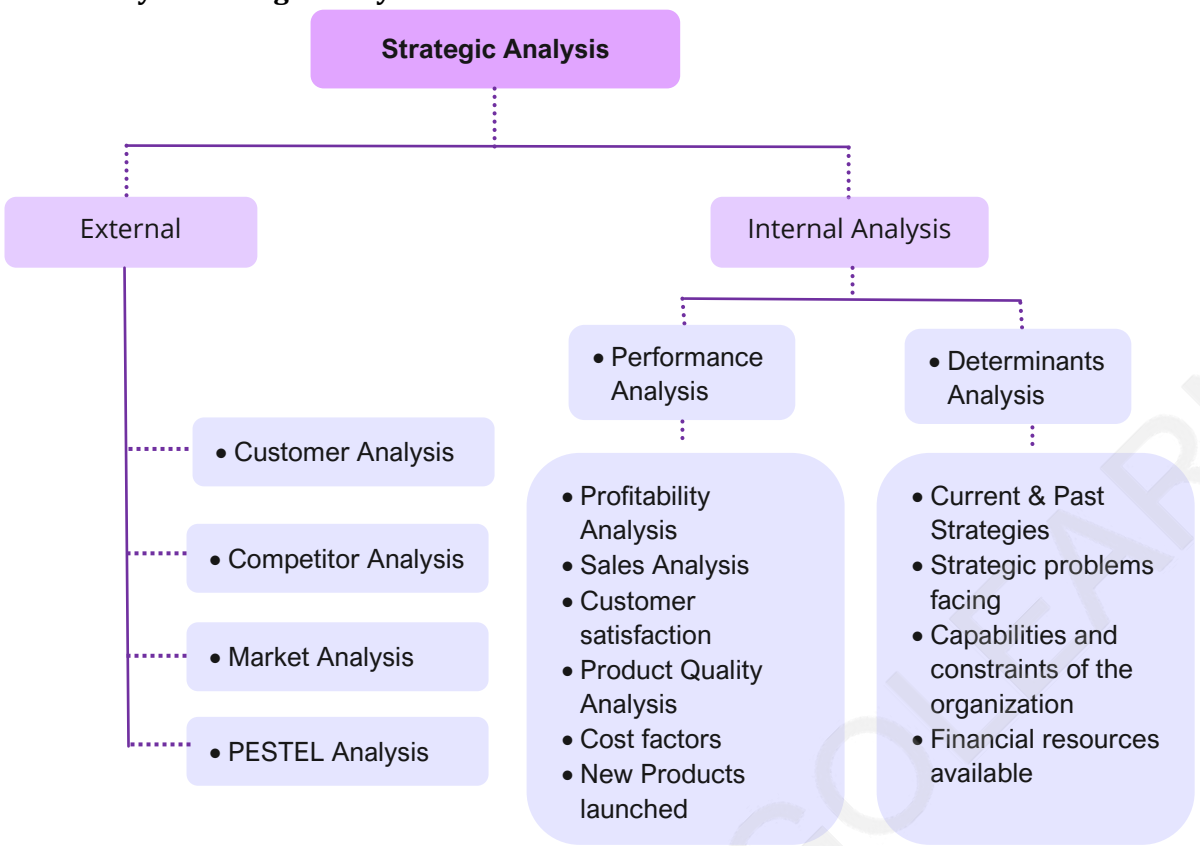
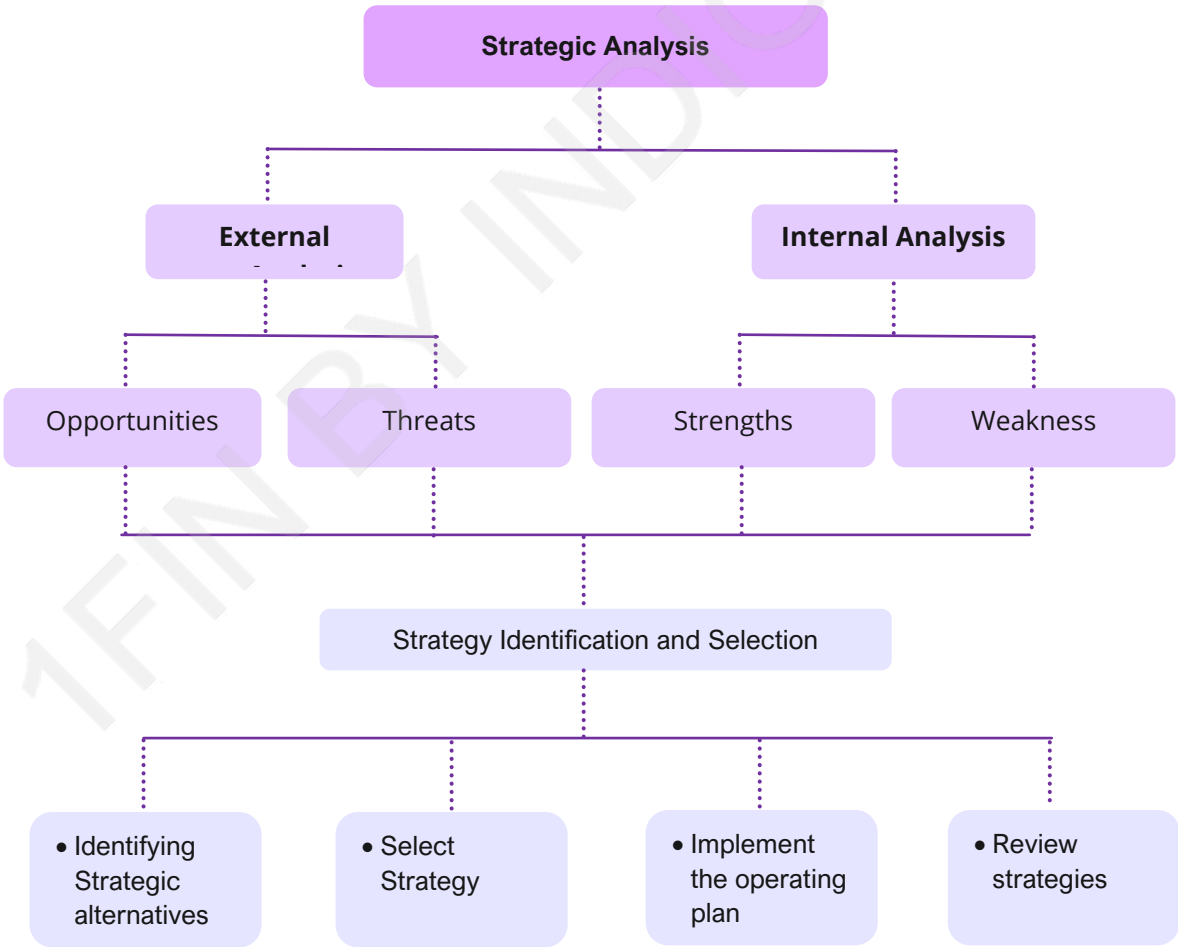
1.2. Summary of Strategic analysis





2. Strategy and Business Environment

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- The business environment is highly dynamic & evolving and hence businesses need to find unique strategies to stay competitive & succeed. The external environment affects the internal environment of the firm.

  The objective of a competitive strategy is to –

- Competitive advantage comes from a firm's ability to perform activities more effectively than its rivals. It is important to have sustainable competitive advantage.

- A competitive strategy consists of these actions-
  - Attract customers
  - Withstand competitive pressures
  - Strengthen market position

2.1. How does interaction with Environment help business?

Strategic management is involved with choosing a long-term direction in relation to these resources and opportunities. There is a close and continuous interaction between a business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. It helps the business in the following ways:

- **Determine opportunities and threats:**

  The interaction between the business and its environment would explain opportunities and threats to the business. It helps to find new needs and wants of the consumers, changes in laws, changes in social behaviours, and tells what new products the competitors are bringing in the market to attract consumers.

- **Give direction for growth:**
  The interaction with the environment enables the business to identify the areas for growth and expansion of their activities. Once the business is aware and understands the changes happening around, it can plan and strategise to have successful business.

- **Continuous Learning:**
  The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm of business.

- **Image Building:**
  Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate. For example, in view of the shortage of power, many companies have set up captive power plants with their factories to meet their own requirement of power as well as extend surplus capacities in the vicinity. Understanding the needs of the environment help to showcase that the business is aware and responsive to the needs. It creates a positive image and helps it to prosper and win over the competitors.

- **Meeting Competition:**
  It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly. The idea is to flourish and beat competition for its products and services.

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To flourish, a business must be aware of, assess, and respond to the many opportunities and threats present in its environment. In order to succeed, the business must not only be aware of the numerous aspects of its surroundings but also be able to handle and adapt to them. The business must continuously evaluate its environment and modify its operations in order to thrive and expand.

3. Micro & Macro Environment

The environment in which an organization exists can be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment.

The external environment can be categorised in two major types as follows:

- Micro environment
- Macro environment

3.1. **Micro-environment** is related to **small area or immediate periphery of an organization**. It influences an organization regularly and directly. Micro environment consists of suppliers, consumers, marketing intermediaries, competitors, etc. These are specific to the said business or firm and affect its working on a direct and regular basis. Within the micro or the immediate environment in which a firm operates we need to address the following issues:

- The employees of the firm, their characteristics and how they are organised.
- The existing customer base on which the firm relies for business.
- The ways in which the firm can raise its finance.
- Who are the firm suppliers and how are the links between the two being developed?
- The local community within which the firm operates.
- The direct competition and their comparative performance.

The factors in micro environment often relate an organization to the macro issues influencing the way a firm reacts in the market place. The macro environment is the portion of the outside world that significantly affects how an organisation operates but is typically much beyond its direct control and influence.

3.2. Elements of Macro Environment

Macro environment has broader dimensions consisting of

- economic,
- socio- cultural,
- technological, political and
- legal factors.

The classification of the relevant environment into components or sectors helps an organization to cope with its complexity, comprehend the different influences operating, and relating the environmental changes to its strategic management process.

The external environment of an organisation is made up of all the individuals, teams, organisations, agencies, and factors that it routinely interacts with when conducting business.

3.2.1. Demographic Environment

Demographics are the characteristics of a population that have been classified and explained according to certain criteria, such age, gender, and income, in order to understand the features of a specific group.

Demographical analysis considers factors such as race, age, income, education, possession of assets, house ownership, job position, region, and the degree of education. Data about these qualities across homes and

within a demographic variable are of importance to both businesses and economists. Marketers and other social scientists regularly divide up populations based on their demographic makeup. India has relatively younger population as compared to many other countries. Many multinationals are interested in India considering its population size.

Considering demographics is of immense importance for any business. Business Organizations need to study different demographic factors. Particularly, they need to address following issues:

- What demographic trends will affect the market size of the industry?
- What demographic trends represent opportunities or threats?

The size, age distribution, geographic dispersion, ethnic mix, and income distribution of a population are all of great importance to the organisation. Identifying the implications of changing demographic characteristics or population components for a future strategic competitiveness is often a challenge for strategists.

3.2.2. Socio-Cultural Environment

A general factor that influences almost all enterprises in a similar manner. It represents a complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict, cohesiveness and so forth. It differs from demographics in the sense that it is not the characteristics of the population, but it is the behaviour and the belief system of that population.

Socio-cultural environment consists of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the operations of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated.

The core beliefs of a particular society tend to be persistent. It is difficult for a business to change these core values, which becomes a determinant of its functioning. This means, that businesses have to adjust to social norms and beliefs to operate successfully. The social environment primarily affects the strategic management process within the organization in the areas of mission and objective setting, and decisions related to products and markets.

3.2.3. Economic Environment

Economic conditions have a direct bearing over the business strategies. The economic environment refers to the overall economic situation around the business and include conditions at the regional, national and global levels. It encompasses conditions in the markets for resources that have an effect on the supply of inputs and outputs of the business, their costs, and the dependability, quality, and availability.

Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability. Income distribution pattern determine the business possibilities. The important point to consider is to find out the effect of economic prospect, growth and inflation on the operations of the business.

The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market, interest rates, disposable income, unemployment, inflation, etc. All these factors generally tell the state of the economy. Whether it is doing good or is it performing poorly.

3.2.4. Political-Legal Environment

Political-legal environment takes into account elements like the general level of political development, the degree to which business and economic issues have been politicised, the degree of political morality, the state of law and order, political stability, the political ideology and practises of the ruling party, the effectiveness and purposefulness of governmental agencies, and the scope and type of governmental intervention in the economy and industry. It is partly general to all similar enterprises and partly specific to an individual enterprise.

Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business. A business has to consider the changes in the regulatory framework and their impact on the business. Taxes and duties are other critical areas that may be levied and affect the business.

Businesses prefer to operate in a country where there is a sound legal system. However, in any country businesses must have a good working knowledge of the major laws protecting consumers, competitions and organizations. Businesses must understand the relevant laws relating to companies, competition, intellectual property, foreign exchange, labour and so on.

3.2.5. Technological Environment

A highly important factor in the present times is technology. Technology has changed the way people communicate and do things. Technology has also changed the ways of how businesses operate now. Technology and business are linked and are interdependent on one another. Businesses help society access the outcomes of technological research and development, raising everyone's standard of living.

As a result, business leverages technology. Businesses use new discoveries to adapt themselves for the advancement of society. Technology has impacted on how businesses are conducted. With use of technology, many organisations are able to reduce paperwork, schedule payments more efficiently, are able to coordinate inventories efficiently and effectively. This helps to reduce costs of companies, and shrink time and distance, thus, capturing a competitive advantage for the company.

Technology is leading to many new business opportunities as well as making obsolete most of the existing business products and services. Technology can act as opportunity, when a business effectively adopts technological innovations to their strategic advantage. However, at the same time technology can act as a threat too. Artificial intelligence, machine learning, robotic process automation is some of the new technological tools that businesses are adopting and can act as both opportunity and threat to a business.

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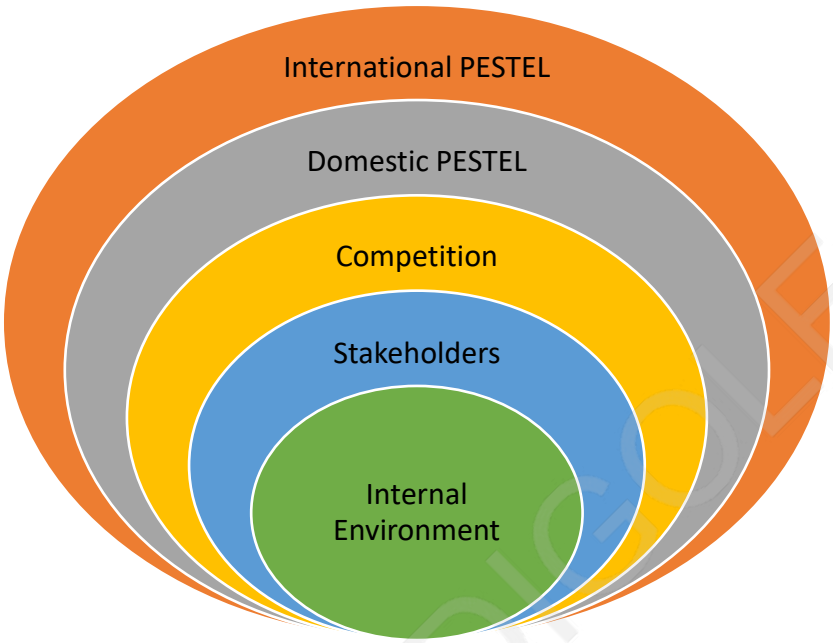
1. Business Environment

The business environment refers to the sum of all external and internal factors that influence an organization's operations, performance, and decision-making. These factors play a crucial role in shaping the success and sustainability of a business. Business environments can be categorized into two main components: internal and external.

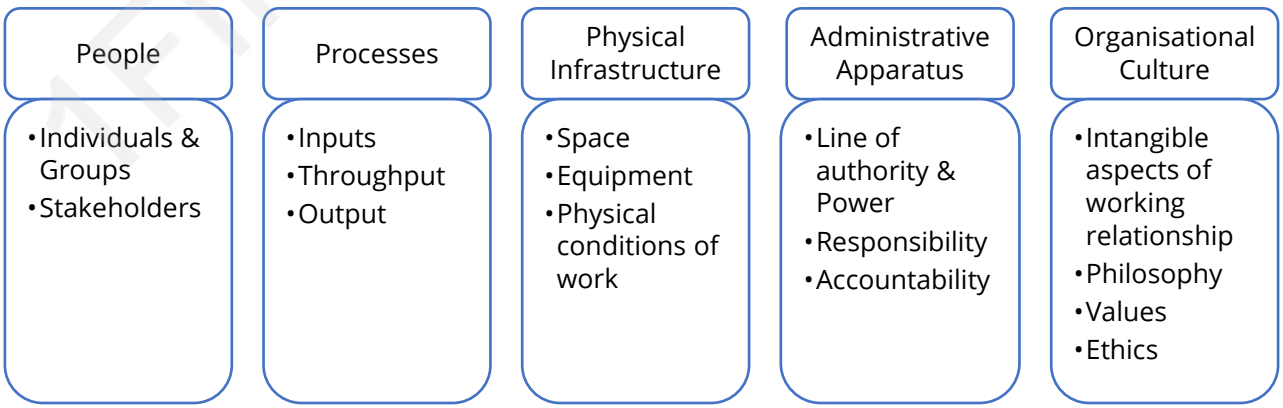


- PESTEL – Political, Economic, Social, Technology, Environment and Legal : These are part of external environment.
- Competition is also a part of external environment

2. Internal Environment

Internal environment refers to the sum-total of

- People
- Process
- Physical Infrastructure
- Administrative apparatus
- Organisational Culture



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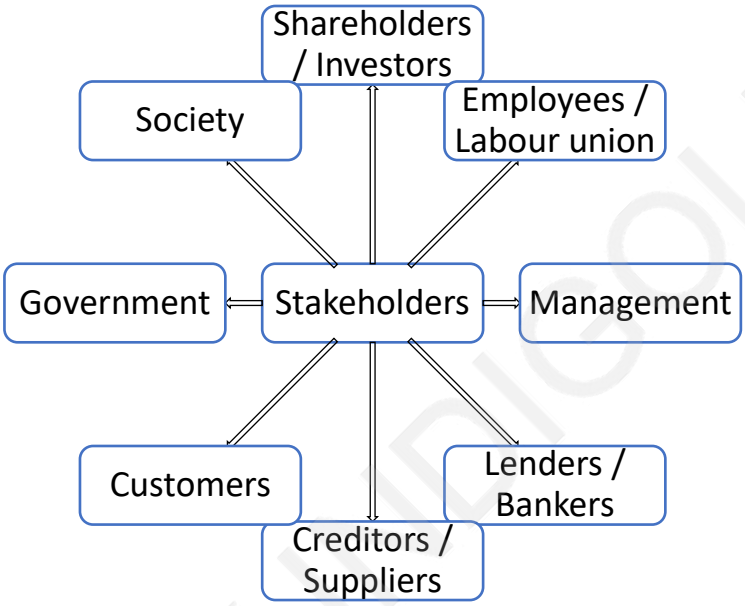
Internal Environment

- is specific to each organisation.
- is based on its structure and business model*
- includes all stakeholders like top management, investors, employees, board of directors, investors, etc.
- involves understanding of the ethics, principles, work environment, employee friendliness, confidence of investors and other philosophical and cultural aspects of business, which aim for the success of the organisation.

** A business model is a strategic framework that outlines how a company creates, delivers, and captures value. It describes the fundamental way in which a business operates and generates revenue.*

3. Stakeholders

3.1. Meaning – Someone who is interested in the organisation



- **Stakeholders** can be defined as
  - any person/group of individuals,
  - internal or external,
  - that has an interest in,
  - or impact on the business or corporate strategy of the organisation.
- They have the power to influence the strategy or performance of that organisation.
- Each stakeholder or stakeholder group will be affected by the business strategy that the organisation chooses and implements.
- Each stakeholder exerts a different level of influence and can have differing levels of interest in the organisation.
- Since the expectations of key stakeholders can influence the organisation's strategy, a clash of objectives may have unfavourable consequences for the organisation.

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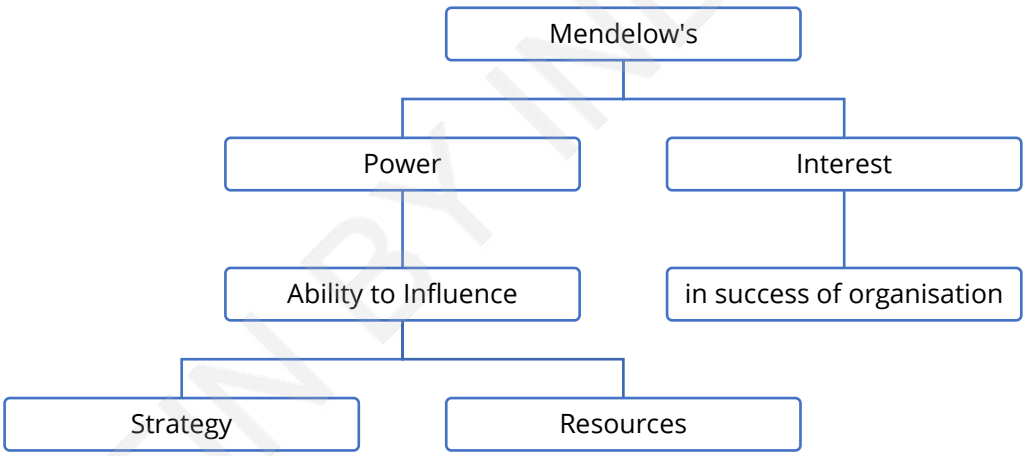
3.2. Example

Stakeholders	Requirements
Shareholders	♦ Innovation and continuous creativecontent ♦ Total shareholder return (RoI) ♦ Corporate social responsibility ♦ Top rankings of the organisation ♦ Highest market share
CEO and Board of Directors	♦ Prestige ♦ Market share ♦ Revenue and profit growth ♦ Market rankings
Major Vendors (Production Houses)	♦ Growth ♦ Stability of ordering ♦ Stable margins
Consumers (Viewers)	♦ New content - Innovation ♦ Better deals - Pricing Benefits ♦ Value for money ♦ Continuous supply
Employees	♦ Wages and benefits ♦ Stability of employment ♦ Pride of working for a reputed organisation

4. Mendelow's /Stakeholders Analysis / Power Interest Matrix



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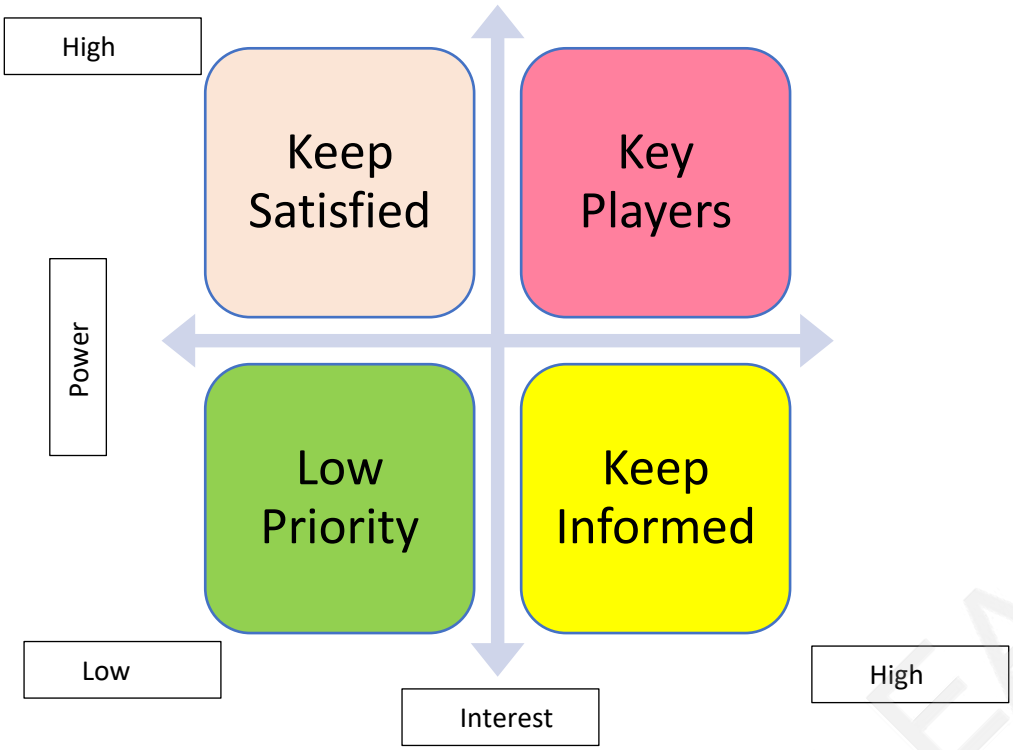

Key Players	Keep Satisfied	Keep Informed	Low Priority
Manage Closely	Consult often	Utilise high interest by engaging in decisions	Monitor only
Involve in decision making	Increase their interest	Consult in their areas of expertise and interest	No engagement
Engage regularly and build strong relationship	Can be hindrances to new idea or Strategic choices		General/Occasional communication

KEY PLAYERS Stakeholders: High power, highly interested people - Organisation's aim should be to fully engage this group of stakeholders, making the greatest efforts to satisfy them, take their advice, build actions and keep them informed with all information on a regular basis. For example, Shareholders, CEO, Board of Directors, etc.

KEEP SATISFIED Stakeholders: High power, less interested people - Organisation should put in enough work with these people to keep them satisfied with their intended information on a regular basis. For example, banks, government, customers, etc.

KEEP INFORMED Stakeholders: Low power, highly interested people - Organisation should adequately inform this group of people and communicate with them to ensure that no major issues arise. This audiences can also help with real time feedbacks and areas of improvement for an organisation. For example, employees, vendors, suppliers, legal experts, etc.

LOW PRIORITY Stakeholders: Low power, less interested people - Organisation should only monitor them with no actions to satisfy their expectations. Strategically, minimal efforts should be spent on this group of stakeholders while keeping an eye to check if their levels of interest or power change. For example, business magazines, media houses, etc.

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5. Strategic Drivers

Strategic drivers refer to the key factors or forces that influence an organization's strategic choices, decisions, and direction. These drivers shape the overall strategy of a company and guide its actions in achieving its long-term goals. Strategic drivers considers what differentiates an organisation from its competitors.

Analysis of strategic drives includes studying the important markets, customers, products, services, delivery channels, and competitive advantage of an organization. Some elements are connected, like markets and products, and channels and key customers. Evaluating a business's current performance can be done in different ways, depending on the management's chosen metrics and priorities, such as focusing on profit, purpose, or other criteria.

Key Strategic Drivers of Organisation include

- Industry & Markets
- Customers
- Products – goods & services
- channels

6. Industry and Markets (technically this forms part of external analysis)

An industry refers to a group of companies or businesses that produce similar goods or services and are engaged in similar economic activities. Industries can be broadly categorized based on the products or services they offer, their production processes, and the markets they serve.

It is very important for an organisation to understand it's relative position in the industry and in the market in which it operates. Similar companies based on products and services are grouped together into industries.

Industry	Companies
Automobiles	Maruti, Mahindra, Tata Motors etc
FMCG	ITC, HUL, Nestle etc
Petroleum	BPCL, HPCL, IOC, RIL etc
Telecom	Jio, Airtel, BSNL, Vi

A market is defined as the sum total of all the buyers and sellers in the area or region under consideration. The value, cost and price of items traded are as per forces of supply and demand in a market. The market may be a physical entity or may be virtual like e-commerce websites and applications. It may further be local or global, depending on which all countries the business sells its products in.

6.1. Strategic Group Mapping for Industry Analysis

Industry and market analysis is important to identify one's position as compared to the competitors. It is important to study the market positions of rival companies.

Strategic Group Mapping is a useful analytical tool for comparing the market positions of each firm separately or for grouping them into like positions when an industry has so many competitors that it is not practical to examine each one in-depth.

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A Strategic Group consists of those rival firms which have similar competitive approaches & positions in the market which maybe-

- Comparable product-line breadth
- Same price/quality range
- Same distribution channels
- Same product attributes
- Similar line of buyers
- Identical technological approach
- Offer buyers similar services

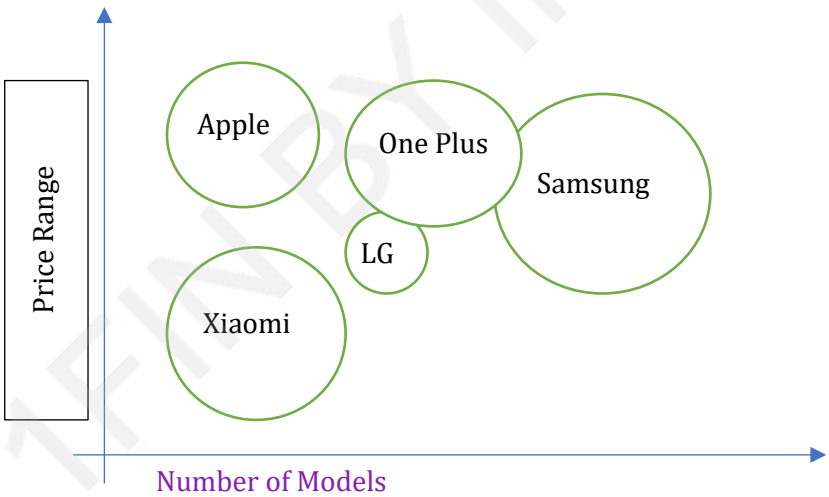
Procedure for constructing a strategic group map & deciding which firms belongs to which strategic group is as follows-

***Acronym*- "iPAD"**

- ***Identify*** the competitive characteristics that differentiate firms in the industry.
    - *The variables on which firms can be differentiate are price, geographic coverage, degree of vertical integration, product-line breadth, degree of services.*
- ***Plot*** the firms on a two variable map using pairs of these differentiating characteristics
- ***Assign*** the firms that fall in about the same strategy space to the same strategic group
- ***Draw*** circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenue

Memory Technique

I	Identify
P	Plot
A	Assign
D	Draw



In the above illustration of a strategic group mapping, the Y axis represents the price range and the X axis represents number of models. The size of circles represent the market size.

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7. Customers

Customers are individuals, businesses, or entities that purchase goods or services from a seller or provider. Consumers are individuals or entities that use the purchased goods or services for their personal use or consumption.

Consumers are a subset of customers. Not all customers are consumers; for example, a business buying office equipment is a customer but not a consumer, whereas an individual buying a laptop for personal use is both a customer and a consumer.

Understanding the different types of customers to whom the organisation's products/services are sold or provided, is not only important but also the first step in deciding the product/service. Different customers may have different needs and require different sales models or distribution channels.

As customers are often responsible for the generation of profits obtained by an organisation, it is important to be able to collect and display data in order to show customer trends and profitability. Issues with customers can be identified, and target areas for growth can be pursued based on the findings.

8. Product/Services

Product stands for the combination of "goods-and-services" that the company offers to the target market. Strategies are needed for managing existing product over time, adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warranties.

Products and services are closely linked and interrelated with the markets that the organisation wants to serve. The question that is asked is **- What business are we in and what should be done to win over competition in each product/service we serve.**

- The products can also be classified on the basis of industrial or consumer products, essentials or luxury products, durables or perishables.
- Some products have shorter life cycle and others have a longer life cycle.
- Products can also be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on.

  Organizations seek to hammer into customers' minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketer's product is different from others.

Fun Fact – Volkswagen group owns Audi, Skoda, Bentley, Bugatti, Lamborghini, Porche and Ducati!

Organizations formalize product differentiation through designating 'brand names' to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products and even firms' image is built around brands through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

For a new product, pricing strategies for entering a market need to be designed and for that matter at least three objectives must be kept in mind:

- Have customer-centric approach while making a product.
- Produce sufficient returns through a reasonable margin over cost.
- Increasing market share.

8.1. Marketing Techniques

What is marketing?

Companies produce goods and provide services to satisfy the needs and wants of the customers and the customer pays the price to the company. Customer is the central focus in marketing

Marketing encompasses all the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration.

Some techniques of marketing are given below

8.1.1. Social Marketing

It refers to the design, implementation and control of programs seeking to increase the acceptability of social ideas, cause or practice among a target group

For instance, the publicity campaign for prohibition of smoking in Delhi explained the place where one can and cannot smoke

8.1.2. Augmented Marketing

It refers to provision of additional customer services and benefits built around the actual products, and introduction of hi-tech services

E.g. movies on demand, online computer repair services, secretarial services etc. Such innovative offerings provide a set of benefits that promise to increase customer service to much higher levels

8.1.3. Direct Marketing

Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response

Direct marketing includes catalogue selling, email, telecomputing, electronic marketing, shopping, and TV shopping

8.1.4. Relationship Marketing

It is the process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders

This results in provision of special benefits to select customers, in order to strengthen bonds and build lasting customer relationships

E.g. Sending birthday wishes, giving access to VIP lounges, providing exclusive privileges

8.1.5. Services Marketing

It is applying the concepts, tools, and techniques of marketing to services

Services is any activity, or benefit that one party can offer to another that is essentially intangible and does not result in the banking, savings, retailing, educational or utilities

8.1.6. Person Marketing

It consists of activities undertaken to create, maintain or change attitudes and behaviour towards a particular person.

For example, politicians, film stars, sport icons etc. market themselves to get votes or promote their careers

8.1.7. Organization Marketing

It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organization

Both profit and non-profit organizations practice organization marketing

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8.1.8. Place marketing

It involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, business sites marketing, tourism marketing etc

8.1.9. Enlightened Marketing

It is a marketing philosophy holding that a Company's marketing should support the best long-run performance of the marketing system;

Its five principles include

- Customer oriented marketing,
- Value marketing,
- Societal marketing
- Innovative marketing,
- Sense of mission marketing and
- Societal Marketing

8.1.10. Differential Marketing

It is a market coverage strategy in which a firm decides to target several market segments and designs separate offer for each. For example, Hindustan Unilever Limited has Lifebuoy, Lux and Rexona in popular segment and Dove and Pears in Premium segment

8.1.11. Synchro Marketing

When the demand for a product is irregular due to season, some parts of the day or on an hour basis, causing idle capacity or overworked capacities, synchro-marketing can be used to find ways to alter the pattern of demand through flexible pricing, promotion, and other incentives

For example, products such as movie tickets can be sold at lower price over weekdays to generate demand

8.1.12. Demarketing

It includes marketing strategies to reduce demand temporarily, or permanently. The aim is to not destroy the demand, but only reduce or shift it. This occurs when there is overfull demand

Example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand

8.1.13. Concentrated Marketing

It is a market coverage strategy in which a firm goes after a large share of one or few sub-markets

9. Channels

Channels in the context of business refer to the distribution systems through which an organization delivers its products or provides its services to customers. These channels play a crucial role in connecting producers or service providers with their target audience. Channels can vary widely and may involve different intermediaries and methods based on the nature of the product or service and the target market.

Some examples of channels

Direct Sales channel	Producer directly sells to the consumer. For e.g. a local bakery
Wholesalers / Distributors	They buy products in bulk from manufacturers and sell to retailers
Retailers	They buy products from wholesalers / distributors and sell to end customer
E-Commerce	Products are sold online through websites/app

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Franchisee	They are authorised by companies to sell products under franchisor's brand. For e.g a fast food chain like McDonalds.

All the above are the channels via which companies sell their products and services to the customers. The wider and stronger the channel the better position a business has to fight and win over competition. Also, having robust channels of business distribution help keep new players away from entering the industry, thus acting as barriers to entry.
There are typically three channels that should be considered:

The sales channel - These are the intermediaries involved in selling the product through each channel and ultimately to the end user. Typically the manufacturer sells to the wholesaler/distributor who in turns sells it to the retailer and then to the customer.
The key question is: Who needs to sell to whom for your product to be sold to your end user?

The product channel - The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This channel focusses on the logistics aspect.

The service channel - The service channel refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance. For example, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets. When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers. Thus, analysis of channels that suit one's products and customers is of utmost importance.

10. Building Core Competency [CK Prahalad & Gary Hame]

- Competency is defined as a combination of skills & techniques rather than individual skill or separate technique which makes the whole organization utilize these several separate individual capabilities.
- It has to be the integration of many resources. The optimal way to define core competence is to consider it as a sum of 5-15 areas of expertise.

Core competencies is the collective learning in the organisation, especially coordinating diverse production skills and integrating multiple streams of technologies

An organisation's combination of
• technological & managerial know-how
• wisdom & experience
Are a complex set of capabilities & resources that can lead to a competitive advantage compared to a competitor.
- by, C.K. Prahalad & Gary Hame

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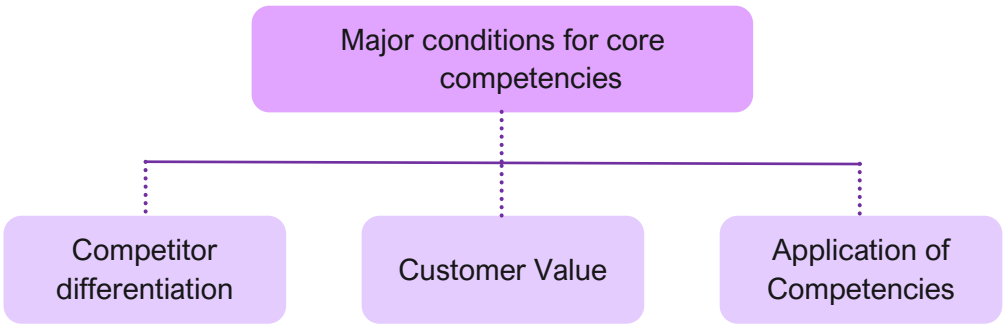

- **Competitor Differentiation:** The company is considered to have core competence if the competence ***is unique & difficult to imitate*** thereby providing a competitive edge over its competitors.

  Although all companies operating in the same market would have the equal skills & resources, if one company can outperform significantly better, the company has obtained a core competence.

- **Customer value:** When purchasing a product or service it must deliver a fundamental benefit to the end customer to be a core competence. The product/service must have a real impact on the customer for them to choose it. If customer has chosen the product without this impact, then competence is not a core competence & it will not affect the company's market position
- **Application of competencies:** Core competence must be applicable to the whole organization; it cannot be one skill or specified area of expertise. If it is not fundamental from the whole organisation's point of view, it will not be considered as core competence even if it is a special capability.

Some important points related to core competency

- Core competency are often visible in the form of orgnisation functions like marketing, R&D, etc.
- Core competency is something which a firm does best.
- Core technological competencies are also corporate assets; & as assets, they facilitate corporate access to a variety of markets & businesses.
- Core competencies distinguish a company competitively & reflect its personality. These competencies emerge over a period through a process of accumulating & learning how to deploy different resources & capabilities.
- It is important to identify core competencies because it is difficult to retain those competencies in a price war & cost-cutting environment.
- Core competencies are the knowledge, skills, and facilities necessary to design and produce core products.
- Core competencies are created by superior integration of technological, physical and human resources.
- They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities.

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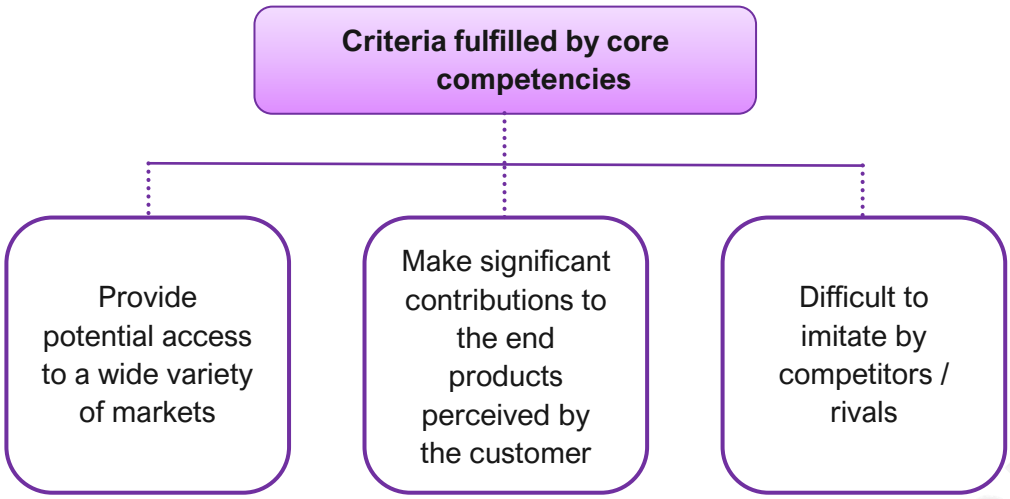

10.1. How to build Core competencies?

Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies are –

Valuable	♦ Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. ♦ If capabilities do not help organisation as explained above, they cannot be considered core competency
Rare	♦ Core competencies are very rare capabilities and very few of the competitors possess this. ♦ Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. ♦ Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.
Costly to Imitate	♦ Costly to imitate means such capabilities that competing firms are unable to develop easily. ♦ The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.
Non-Substitutable	♦ Capabilities that do not have strategic equivalents are called non-substitutable capabilities. ♦ There must be no strategically equivalent valuable resources that are themselves either not rare or imitable

10.2. Areas of Core Competencies

- Technological Resource
- Human resource
- Tangible resources
- Specified distribution channel
- Access to wide customer base
- Innovation
- Research and development
- Brand value
- Managerial skills

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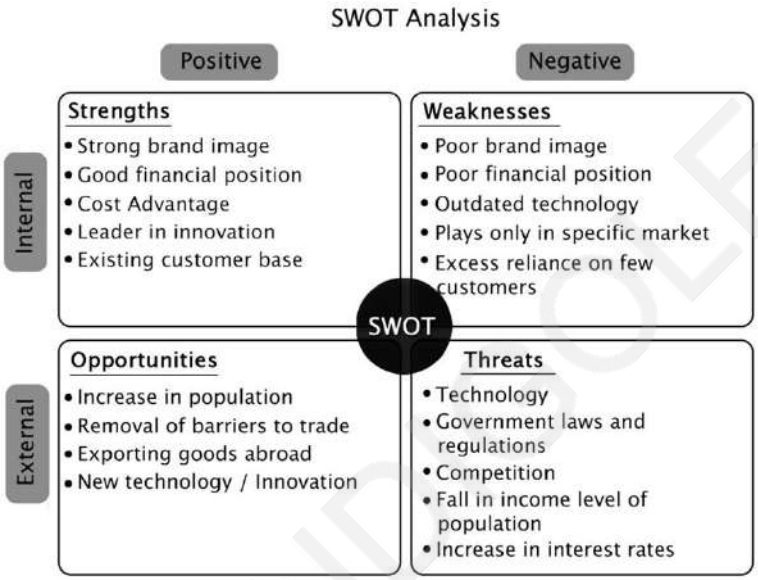
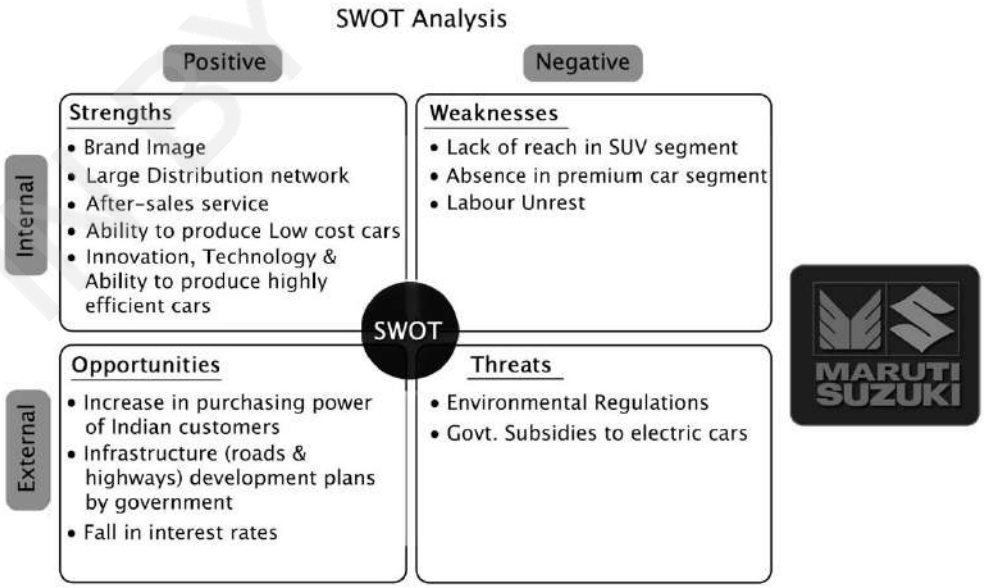
11. SWOT Analysis

The identification & analysis of Strength, Weakness, Opportunities and Threats is normally referred to as SWOT analysis.

	Helpful	Harmful
Internal	**Strength**	**Weakness**
	Inherent capability Gain Strategic Advantage	Inherent limitation/Constraint Creates Strategic Disadvantage
External	**Opportunity**	**Threat**
	Favourable Environment Condition Strengthen Position	Unfavourable Environment Condition Causes Risk/Damage to Position





- The organization's performance in the marketplace is significantly influenced by the following three factors:
  - Organisation's correct market position
  - Nature of environmental opportunities & threats
  - Organisation's resource capability to capitalize the opportunities & to protect against the threats

- The major purpose of SWOT analysis is to enable the management to create a firm- specific business model that will best align firm's resources & capabilities with environmental demands.
- Strategic managers compare & contrast various alternative strategies against each other w.r.t their ability to achieve major goals & superior profitability

The following decisions emerge from SWOT analysis -

Corporate Level	• What businesses should we be in to maximize the long-run profitability
Business Level	• How to do the above to gain competitive advantage • Encompasses business's overall competitive theme • Different positioning strategies that can be used in different industry settings to gain competitive advantage
Functional Level	• Directed at improving the effectiveness of operations within the company • Production, finance, marketing, materials management, product development, customer service, etc
Global Level	How to expand operations outside the home country to grow & prosper and to compete in a global level

11.1. Significance/Importance of SWOT Analysis

- **It provides a logical framework of analysis-**
  - Variation in managerial perception about the organizational strengths, weaknesses & environmental opportunities & threats lead to the approaches to specific strategies & finally the choice of strategy that takes place through an interactive process.

- **It presents a comparative account-**
  - Presents a structures form where it is possible to compare external & internal environments so that a strategist can come out with suitable strategy by developing certain patterns of relationship.

- **It guides the strategist in strategy identification-**
  - It is possible that the organisation may have several opportunities & some serious threats and also may have powerful strengths coupled with major weaknesses. In such situations, SWOT analysis guides the strategist to think of overall position that helps to identify the major purpose of the strategies under focus.

Potential Resource Strengths & Competitive Capabilities **A**	**Potential Resource Weaknesses & Competitive Deficiencies** **B**
Potential Company Opportunities **C**	**Potential External Threats** **D**

Analysis

- **Potential resource strengths and competitive capabilities**
  - Powerful strategy
  - Strong financial position
  - Brand image
  - Cost advantages

- Product innovation skills
- E-commerce technologies & processes
- Strong advertising & promotion
- Superior supply chain management
- Reputation for good customer service

- **Potential resource weakness and competitive deficiencies**
  - No clear strategic decision
  - Obsolete facilities/technology
  - Weak balance sheet/too much debt
  - Higher overall unit costs as compared to competitors
  - Internal operating problems
  - Underutilized plant capacity
  - Unable to attract new customers
  - Narrow product line in comparison to rivals
- **Potential company opportunities**
  - Expanding into new markets/segments
  - Exploiting emerging new technologies
  - Acquisition of rival firms
  - Ability to grow due to rising demand
  - Openings to take away market share from rivals
  - Using e-commerce to cut costs or pursue new growth opportunities
  - Forward/backward integration
  - Falling trade barriers in attractive foreign markets
- **Potential external threats to company's well-being**
  - Entry of potent new competitors
  - Loss of sales to substitute products
  - Slowdowns in market growth
  - Costly new regulatory requirements
  - Shift in buyer's tastes
  - Adverse demographic changes
  - Vulnerability to industry driving forces

12. Competitive advantage

- Competitive advantage is the ***achieved advantage*** over rivals when a company's ***profitability*** is greater than the average profitability of firms in its industry.
- It can be said that a firm is successful in achieving competitive advantage only after rivals efforts to ***duplicate or imitate it fails.***
- It is often strongly related to the resources firm holds & how they are managed.
- ***Unique bundles of resources*** are the foundation for strategy & lead to wealth creation.
- If a firm possesses resources & capabilities which are superior to those of competitors, then as long as the firm adopts a strategy that ***utilizes*** these ***resources & capabilities effectively***, it should be possible for it to establish a competitive advantage.
- Resources & capabilities ***create value*** only when the firm can use them to perform certain activities that result in competitive advantage.
- However, profitability from this competitive advantage can be assured only based on the ***time period over which the firm can sustain*** its position since all competitive advantages have a limited life.

12.1. Sustainable competitive advantage

Role of Resources, Capabilities and Value creation in achieving competitive advantage

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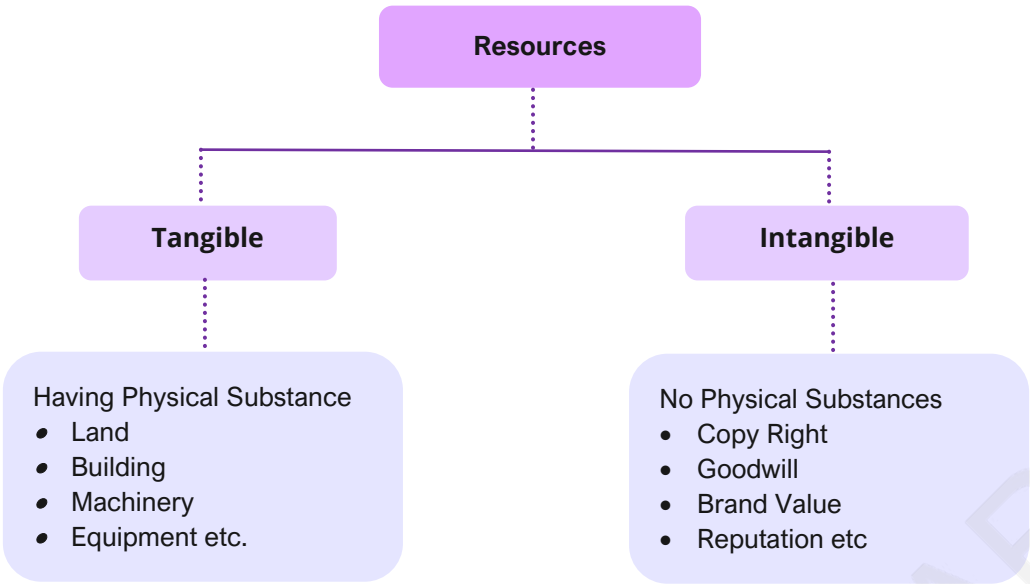

- Capability to manage , co-ordinate and put resources into productive use
  Examples of capabilities
  - Effective customer service
  - Product and design quality
  - Innovative merchandising
  - Effective use of logistics management techniques
- A long-term competitive advantage that is not easily duplicable by the competitors
- It can be maintained through continuous improvement of capabilities
- The sustainability of competitive advantage & a firm's ability to earn profits from its competitive advantage depends upon 4 major characteristics of resources & capabilities

12.2. Reasons for sustainable competitive advantage

Durability	▪ The rate at which the firm's resources & capabilities deteriorate is of concern ▪ If industry product innovation is fast, patents may become obsolete soon ▪ However, many brand names have a highly durable appeal
Transferability	▪ Durability is likely to be eroded by rivals ▪ It depends on the rivals gaining access to the resources & capabilities ▪ The easier it is to transfer the resources & capabilities, the less sustainable is the competitive advantage
Imitability	▪ If resources & capabilities can be purchased by a potential imitator, they must be built from scratch ▪ True test of imitability is how easily/quickly rivals can build the resources & capabilities on which the firm's competitive advantage is based
Appropriability	▪ Ability of the firm's owners to appropriate the returns on its resource base ▪ Even when the resources & capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources

13. Michael Porter's generic strategies

- According to Porter, strategies allow organizations to gain competitive advantage from three different bases – cost leadership, differentiation and focus.

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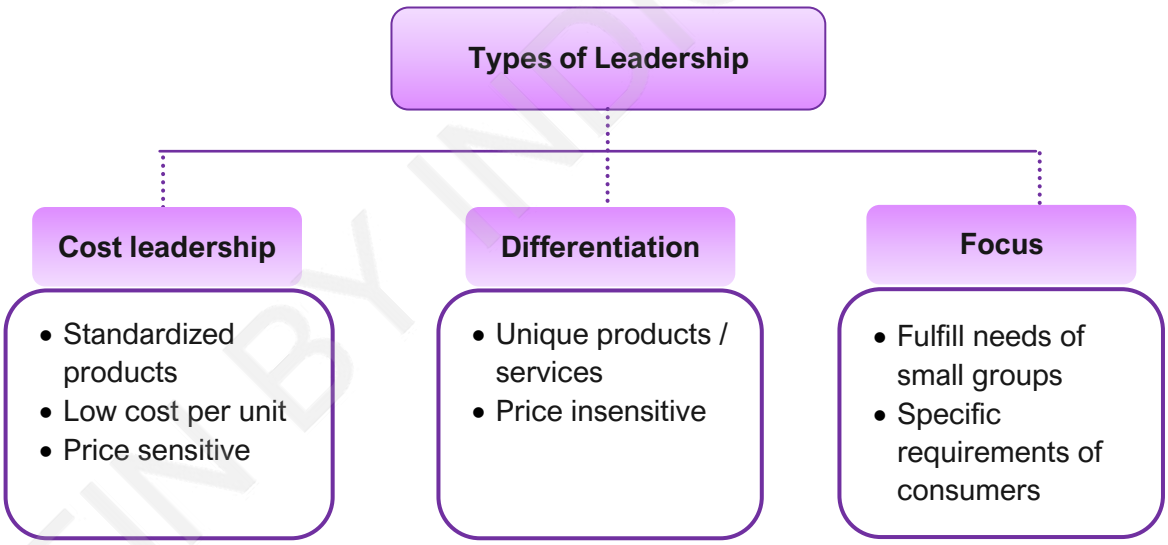
- These are also called generic, as they can be pursued by any type and size of business
- Larger firms with greater access to resources typically compete on a cost leadership and/or differentiation basis whereas smaller firm often compete on a focus basis.

COMPETITIVE SCOPE	COMPETITIVE ADVANTAGE: Low Cost	COMPETITIVE ADVANTAGE: Product uniqueness
Broad Target	Cost Leadership	Differentiation
Narrow Target	Focussed Cost Leadership	Focussed Differentiation

- Strategists need to perform cost benefit analysis to evaluate ***"sharing opportunities"*** among the firm's existing & potential business units
- Sharing resources enhances ***competitive advantage*** by either lowering costs or raising differentiation
- Porter stresses the need for firms to ***"transfer"*** skills & expertise among autonomous business units to gain competitive advantage
- Depending on ***type of industry,*** size of firm & nature of competition, the firm could yield advantages in cost leadership, differentiation & focus
- Larger firms with greater access to resources compete on a cost leadership &/or differentiation basis, whereas smaller firms often compete on a focus basis



13.1. Cost Leadership strategy

Cost leadership emphasises on producing standardised products at a very low cost per unit for consumers who are price sensitive.

- Low cost competitive strategy
- Aims at broad mass market
- Pursue Cost reduction in areas of
  - Procurement
  - Production
  - Storage
  - Distribution
  - Economies in overhead costs

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- Cost leader is able to
  - Charge same price and make high profits
  - Charge low price and make satisfactory profits
- Method of cutting cost, attain cost leadership position and pass on the benefit to the customers
  - Goods to be sold at lesser price which will attract more customers with same profits
  - When goods are sold at same price which will give higher profits

> In cost leadership key decision making factor is ***"Pricing"***

- Cost elements that affect the attractiveness of generic strategy
  - Economies/diseconomies of scale
  - Learning curve effect
  - Maximum capacity utilization
  - Linkages with suppliers/distributors
- Other cost elements to consider
  - R&D costs of new products
  - Costs of modifying existing products
  - Labour costs
  - Tax rates
- Striving to be low cost provider in an industry can be especially effective when
  - ***There are Price sensitive*** buyers
  - ***There is Low*** opportunity for ***product differentiation***
  - Buyers ***not inclined to brand***
  - ***There are Large*** number of buyers
  - ***Significant bargaining power*** of buyers
- Achieving cost leadership strategy - Actions

  ***Acronym*- "FOREST"**
  - ***Forecast demand*** of product/service promptly
  - ***Optimum utilization*** of resources to get cost advantages
  - ***Resistance*** to differentiation till it is essential
  - Achieving ***Economies of scale*** leading to lower cost p.u
  - ***Standardisation of products*** for mass production
  - Invest in cost saving Technologies/advance ***technologies***

13.1.1. Advantages of Cost Leadership to the firm

[The elements of entrants, substitutes, buyers, suppliers and rivalry is covered in Porter's five forces model]

Entrants - Barriers to market entry through continuous focus on cost reduction. New entrants find difficult to enter the market and compete.

Substitutes –

- Entity can
  - Lower costs further to induce customers to stay with their products and not switch to substitutes.
  - Invest to develop substitutes and gain market from competitor
  - Purchase patents to create low cost substitutes.

Buyers - Powerful buyers will not be able to exploit the cost leader firm & will continue to buy its product because of low cost.

Suppliers - Cost leaders are able to absorb greater price increases before it must raise price to customers

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Rivalry –

- o Competitors likely to avoid price wars
- o Low cost firm will continue to earn profits even if competitors compete away for profits

13.1.2. Disadvantages of Cost Leadership

- Cost advantage may not be remaining for long as competitors may also follow cost reduction technique.
- Cost leaders tend to keep their costs low by minimizing advertising, market research, and research and development, but this approach can prove to be expensive in the long run.
- Technology changes are a great threat to the cost leader.
- Cost leadership can succeed only if the firm can achieve higher sales volume

13.2. Differentiation

- Differentiation strategy involves creation of product/service that is perceived as unique by buyer in terms of
  - Product design
  - Brand image
  - Features
  - Technology
  - Dealer network
  - Customer service

The products are considered unique industry wide and are directed too consumers who are relatively price insensitive.

13.2.1. Benefits of Product Differentiation

- Due to differentiation, the business can charge a premium for its product
- When firms decide not to charge premium, the sales volume would increase (since customer can get better value at same prices) resulting in increase in revenue and profits

13.2.2. Reason for not achieving competitive advantage

- Differentiation does not guarantee competitive advantage when
  - Rapid ***imitation*** is possible by competitors
  - Standard products ***sufficiently meet customer needs***

13.2.3. Reason for achieving competitive advantage

- Customers may become ***strongly attached*** to the differentiation features, thereby the business gains customer loyalty
- Customer must be ***willing to pay*** the premium for such distinct features
- Successful differentiation can mean
  - Greater product flexibility
  - Greater compatibility
  - Price insensitive buyers
  - Lower costs
  - Barriers to quick copying by competitors
  - Improved service

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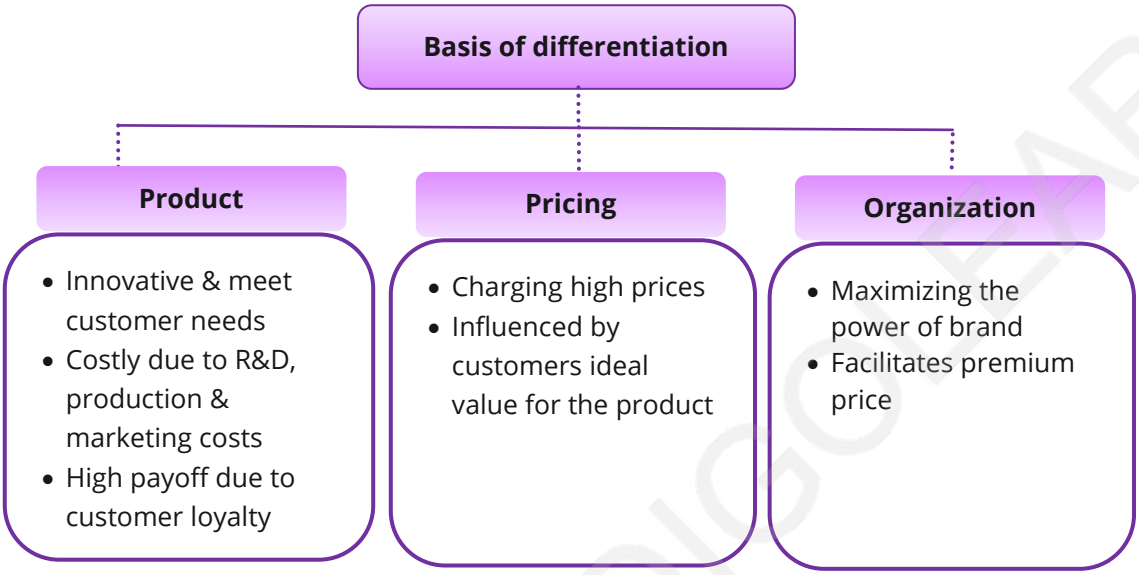
- Less maintenance
- Greater convenience
- Advanced features

- Differentiation should be adopted only after careful study of buyer's needs & preferences

13.2.4. Basis of differentiation

- Strategy that provides a unique product different from that of competitors
- Customer is always willing to pay premium prices
- Success of this strategy is dependent on the value attributed by the customer
- Differentiation can be achieved at three levels as follows



13.2.5. Essential for differentiation / Achieving differentiation strategy

***Acronym*- "PUPPER"**

- Elevate the ***Performance*** of the product
- Offer ***Utility*** to the customers & match the products with their tastes & preferences
- Offer the ***Promise*** of high-quality product/service for buyer satisfaction
- Fixing ***product Prices*** based on –
  - unique feature of the product, &
  - buying capacity of the customer
- Taking steps for ***Enhancing image*** & its brand value
- ***Rapid*** product ***innovation***

Memory Technique

P	**P**erformance evaluation
U	**U**tility
P	**P**romise quality
P	**P**roduct pricing
E	**E**nhancing product & brand
R	**R**apid innovation

13.2.6. Advantages of differentiation

Entrants	It is difficult for new entrants because ○ Innovative features are expensive ○ Tough to provide these features at comparable price
Substitutes	Less possibility to replace differentiated products which have high brand value & enjoy customer loyalty
Buyers	○ They do not negotiate premium price as they get special features ○ Fewer options available in the market

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Suppliers	○ Since a premium is charged, firm can afford to absorb higher costs of supplies ○ Customers are willing to pay extra too
Rivalry	○ Brand loyalty acts as safeguard ○ Customers will be less sensitive to price increases if firm can satisfy the needs

13.2.7. Disadvantages of differentiation

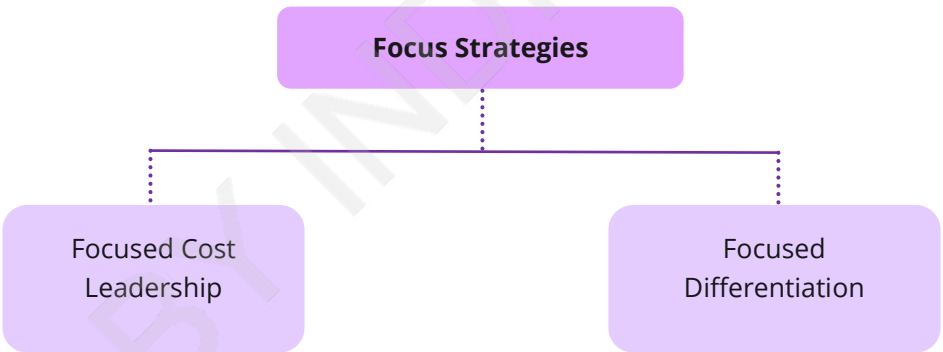
- Uniqueness is ***difficult to maintain*** in the long run
- Charging too high for the differentiated features may cause the customer to ***switch to an alternative***
- Differentiation ***fails to work*** if the basis is not valued as high by the customers

13.3. Focussed Strategy

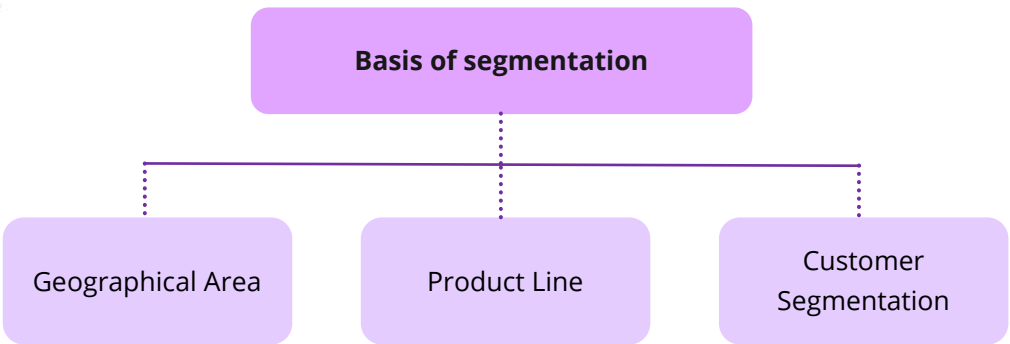
Focus means producing products and services that fulfil the needs of small group of consumers with very specific taste. A strategy that is dependent on an industry segment that has

- Sufficient size
- Growth potential
- Independent of competitors success
- Consumers with distinctive requirements
- Rivals not attempting to imitate

Is a "Focus Strategy"



- Strategies such as market penetration & market development offer substantial focusing advantages
- Midsize & large firms can pursue focus-based strategies only in conjunction with differentiation or cost leadership
- Logically, all firms follow a differentiated strategy since only one firm can differentiate itself as a low-cost provider. The remaining firms need to differentiate its products in other ways



13.3.1. Reasons for choosing Focus Strategy

- To ***focus on the narrow segment*** to offer the better products/ services in that specific segment

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- When ***competitors are not attempting to specialize*** in the target segment, to utilize that opportunity

13.3.2. Types of focus strategies

Focussed cost Leadership	Focussed Differentiation
Compete based on price and target narrow market	Compete based on uniqueness and target Specific narrow market
Does not necessarily charge lowest prices in the industry	Concentrate efforts on a particular sales channel – e.g selling on internet only.
Charges prices lower than competitors competing in target market	May target a particular demographic group

13.3.3. Achieving Focus Strategy

- ***Selecting*** specific niches which are not covered by cost leaders & differentiators.
- ***Creating superior skills*** for catering to such niche markets.
- ***Generating high efficiencies*** for serving such niche markets.
- ***Developing innovative ways*** in managing the value chain.

13.3.4. Advantages and disadvantages of Focus Strategy

Advantages	**Disadvantages**
Premium prices can be charged by the organizations for their focused product/services	Due to limited demand of products/services, the costs could be higher.
Rivals & new entrants may find it difficult to compete due to tremendous expertise of the goods/services that the focused organization offers	In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same features
	Firms lacking in distinctive competencies may not be able to pursue focus strategy

14. Best Cost Provider

- It is a further development of cost leadership, differentiation & focus generic strategies
- It is directed towards
  - giving customers more value for the money
  - emphasizing both low cost & upscale differences
- Objective is to keep costs & prices lower than those of other sellers of comparable products
- Best-cost provider strategy can be adopted by doing the following-
  - Charging similar price as the rivals for products with much higher quality & features
  - Offering products at a lower price than what is being offered by rivals for products of comparable quality & features

Best cost provider has a risk of overtaking the business by powerful cost leaders and differentiators existed in the industry

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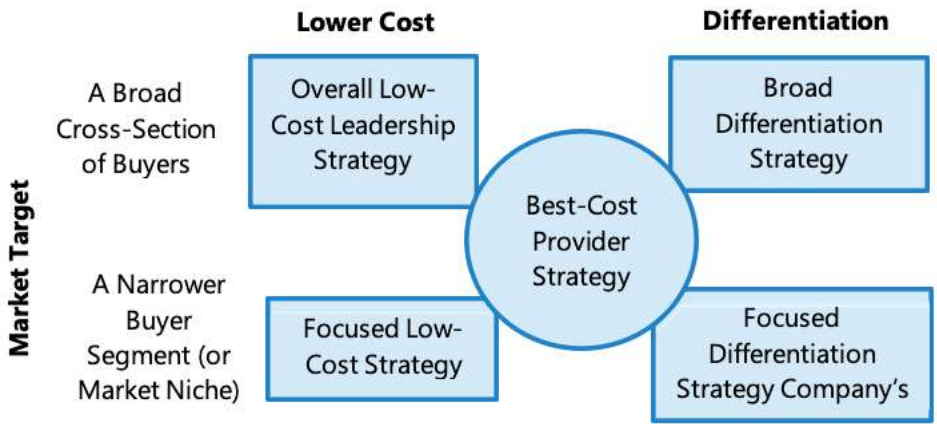

Questions

Scenario based Questions :-

1. **Question**

Rohit Sodhi runs a charitable organisation for promotion of sports in the country. His organisation conducts regular free training camps for youths interested in playing cricket, football, hockey, badminton and so on. Many of his trainees have reached national level contests. Rohit noticed that with success of IPL (Cricket) tournament there is an increasing trend to extend similar format in other sports as well. He wishes to know how the development is going help sports and to which industries it will offer opportunities and threats.

Answer

With the success of IPL, league matches are taking place in other sports as well. These are held in a grandeur manner between several teams. For example, league matches in magnificent manner now take place in Football, Kabaddi and Hockey in India. These events are profit and entertainment driven. These are going to help sports in India by generating interest in sports, making them more popular, increasing quality of competition and bringing money into sports.

A number of entities and processes are involved in these events from various industries offering opportunities and threats to them.

An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand, a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position. An opportunity is also a threat in case internal weaknesses do not allow organization to take their advantage in a manner rival can. It will offer opportunity and threats to the following:

Opportunities

- Stadium
- Manufacturers of sports goods.
- Media Industry – Sports channels / television, advertisers.
- Hotel Industry linking events with their offerings.

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Threats

- Entertainment industry engaged in TV serials, cinema theatres, Entertainment theme parks as competitors will be fighting for the same viewers/target customers.
- Event Management organisation engaged in non-sports events.

2. Question

Mr. Banerjee is head of marketing department of a manufacturing company. His company is in direct competition with thirteen companies at national level. He wishes to study the market positions of rival companies by grouping them into like positions.

Name the tool that may be used by Mr. Banerjee? Explain the procedure that may be used to implement the technique

Answer

A tool to study the market positions of rival companies by grouping them into like positions is strategic group mapping. Grouping competitors is useful when there are many competitors such that it is not practical to examine each one in-depth. In the given scenario there are thirteen competitors. A strategic group consists of those rival firms which have similar competitive approaches and positions in the market.

The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is as follows:

- Identify the competitive characteristics that differentiate firms in the industry typical variables that are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- Assign firms that fall in about the same strategy space to the same strategic group.
- Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

3. Question

Mohan has joined as the new CEO of XYZ Corporation and aims to make it a dominant technology company in the next five years. He aims to develop competencies for managers for achieving better performance and a competitive advantage for XYZ Corporation. Mohan is well aware of the importance of resources and capabilities in generating competitive advantage.

Discuss the four major characteristics of resources and capabilities required by XYZ Corporation to sustain the competitive advantage and its ability to earn profits from it.

Answer

XYZ Corporation, under the leadership of Mohan, the newly appointed CEO, is striving to emerge as a dominant technology company in the next five years. To achieve this goal, Mohan recognizes the importance of developing competencies among managers to enhance performance and gain a competitive advantage. Moreover, Mohan is keenly aware of the significance of resources and

capabilities in generating and sustaining competitive advantage. Therefore, XYZ Corporation must focus on the following characteristics of resources and capabilities:

Durability: The sustainability of XYZ Corporation's competitive advantage hinges on the durability of its resources and capabilities. In rapidly evolving industries like technology, where product innovation occurs swiftly, durability becomes crucial. For instance, patents on innovative products may become obsolete over time. However, certain resources like well-established consumer brand names can have enduring appeal, contributing to long-term competitive advantage.

Transferability: Even if XYZ Corporation possesses durable resources and capabilities, its competitive advantage can be eroded if rivals gain access to similar resources and capabilities. The ease with which resources and capabilities can be transferred between companies determines the sustainability of competitive advantage. If competitors can quickly acquire similar resources or capabilities, XYZ Corporation's advantage may diminish. Therefore, building resources and capabilities that are difficult to transfer or replicate is essential for maintaining a sustainable competitive edge.

Imitability: The imitability of XYZ Corporation's resources and capabilities is another critical factor in sustaining competitive advantage. Competitors may attempt to replicate XYZ Corporation's success by building similar resources and capabilities. However, the extent to which competitors can imitate these resources and capabilities determines the sustainability of XYZ Corporation's advantage. If capabilities rely on complex organizational routines or corporate culture, imitation becomes more challenging, enhancing the sustainability of the competitive advantage.

Appropriability: Appropriability refers to XYZ Corporation's ability to capture and retain the returns generated by its resources and capabilities. Even if XYZ Corporation possesses valuable and durable resources, the ability to appropriate the returns on these resources is essential for sustaining competitive advantage. Issues of appropriability arise when other entities attempt to claim a portion of the returns generated by XYZ Corporation's resources or capabilities. Therefore, ensuring that XYZ Corporation can effectively capture the returns on its investments in resources and capabilities is vital for maintaining its competitive position.

By focusing on resources and capabilities that exhibit these characteristics, XYZ Corporation can sustain its competitive advantage and position itself for long-term success in the technology industry.

4. Question

Airlines industry in India is highly competitive with several players. Businesses face severe competition and aggressively market themselves with each other. Luxury Jet is a private Delhi based company with a fleet size of 9 small aircrafts with seating capacity ranging between 6 seats to 9 seats. There aircrafts are chartered by big business houses and high net worth individuals for their personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by Luxury Jet.

Answer

The Airlines industry faces stiff competition. However, Luxury Jet has attempted to create a niche market by adopting focused differentiation strategy. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market.

Luxury Jet compete in the market based on uniqueness and target a narrow market which provides business houses, high net worth individuals to maintain strict schedules. The option of charter flights provided several advantages including, flexibility, privacy, luxury and many a times cost saving. Apart from conveniences, the facility will provide time flexibility. Travelling by private jet is the most comfortable, safe and secure way of flying your company's senior business personnel.

Chartered services in airlines can have both business and private use. Personalized tourism packages can be provided to those who can afford it.

5. Question

Gennex is a company that designs, manufactures and sells computer hardware and software. Gennex is well known for its innovative products that has helped the company to have advantage over its competitors. It also spends on research and development and concerned with innovative softwares. Often the unique features of their product, that are not available with their competitors helps them to gain competitive advantage. Gennex using the strategy is consistently gaining its position in the industry over its competitors.

Identify and explain the Porter's generic strategy which Gennex has opted to gain the competitive advantage.

Answer

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.

Gennex has opted differentiation strategy. Its products are designed and produced to give the customer value and quality. They are unique and serve specific customer needs that are not met by other companies in the industry. Highly differentiated and unique hardware and software enables Gennex to charge premium prices for its products hence making higher profits and maintain its competitive position in the market.

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.

6. Question

Sohan and Ramesh are two friends who are partners in their business of making biscuits. Sohan believe in making profits through selling more volume of products. Hence, he believes in charging lesser price to the customers. Ramesh, however, of the opinion that higher price should be charged to create an image of exclusivity and for this, he proposes that the product to undergo some change.

Analyse the nature of generic strategy used by Sohan and Ramesh.

Answer

Considering the generic strategies of Porter there are three different bases: cost leadership, differentiation and focus. Sohan and Ramesh are contemplating pricing for their product.

Sohan is trying to have a low price and high volume is thereby trying for cost leadership. Cost leadership emphasizes producing standardised products at a very low per unit cost for consumers who are price sensitive.

Ramesh desires to create perceived value for the product and charge higher prices. He is trying to adopt differentiation. Differentiation is aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price insensitive.

7. Question

Infant care is a successful store chain that caters products for expectant mothers and new moms. They offer everything from nursing classes to strollers, toys, infant clothes, diapers and baby furniture. Due to a one-stop shop for infants, they are charging a premium for its products.

Identify and explain how the strategy adopted by infant care.

Answer

The strategy adopted by Infant Care appears to be a differentiation strategy, particularly focused on product differentiation. The Differentiation Strategy focuses on creating a unique and distinctive product or service that is perceived as superior in the market, allowing the company to command a premium price and achieve a competitive advantage.

Here's how their strategy aligns with this approach:

Unique Product Offering: Infant Care differentiates itself by offering a comprehensive range of products and services specifically tailored to expectant mothers and new moms. By providing everything from nursing classes to strollers, toys, clothes, diapers, and furniture, they position themselves as a one-stop shop for infant care needs. This unique product offering sets them apart from competitors who may specialize in only one or a few of these categories.

Premium Pricing: As a result of offering a wide range of products and services under one roof and providing convenience to their target customers, Infant Care is able to charge a premium for its products. Customers are willing to pay a higher price for the convenience and peace of mind of being able to find everything they need for their infants in one place.

8. Question

A century-old footwear company "Mota Shoes" had an image of being the footwear choice for formal occasions. In an attempt to reinvent its brand, it tied up with a foreign footwear giant "Buffrine" to manufacture and sell its Hideseek brand in the country. Putting its best foot forward, it launched extra soft, casual and relaxed footwear for young. Aiming at a brand and image makeover the "Mota Shoes" decided to price the Hide Seek products at premium.

What kind of Michael Porter business level strategy is being used by "Mota Shoe company"? State its advantages.

Answer

Mota shoes is trying to use differentiation. This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer

network or customer service. Because of differentiation, the business can charge a premium for its product.

A differentiation strategy has definite advantages as it may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

i. Rivalry: Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.

ii. Buyers: They do not negotiate for price as they get special features and also, they have fewer options in the market.

iii. Suppliers: Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.

iv. New entrants: Innovative features are expensive to copy. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.

v. Substitutes: Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

9. Question

Rohit Patel is having a small chemist shop in the central part of Ahmedabad. What kind of competencies Rohit can build to gain competitive advantage over online medicine sellers?

Answer

Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies. A small chemist shop has a local presence and functions within a limited geographical area. Still, it can build its own competencies to gain competitive advantage. Rohit Patel can build competencies in the areas of:

(i) Developing personal and cordial relations with the customers.

(ii) Providing home delivery with no additional cost.

(iii) Developing a system of speedy delivery that can be difficult to match by online sellers. Being in central part of city, he can create a network to supply at wider locations in the city.

(iv) Having extended working hours for convenience of buyers.

(v) Providing easy credit or a system of monthly payments to the patients consuming regular medicines.

10. Question

'Value for Money' is a leading retail chain, on account of its ability to operate its business at low costs. The retail chain aims to further strengthen its top position in the retail industry. Marshal, the CEO of the retail chain is of the view that to achieve the goals they should focus on lowering the costs of procurement of products.

Highlight and explain the core competence of the 'Value for Money' retail chain.

Answer

A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. A core competency for a firm is whatever it does is highly beneficial to the organisation.

'Value for Money' is the leader on account of its ability to keep costs low. The cost advantage that 'Value for Money' has created for itself has allowed the retailer to price goods lower than competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

Descriptive Questions :-

1. Question

What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization?

Answer

An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

- Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
- Opportunity: An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
- Threat: A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

SWOT analysis helps managers to craft a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment. Key reasons for SWOT analysis are:

- It provides a logical framework.
- It presents a comparative account.
- It guides the strategist in strategy identification.

Past Exams, RTP and MTP Questions Compiler

1. May 2022 Exam, 5 marks | RTP May 2020

There are four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are known as core competencies. Explain.

Answer

Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

i. **Valuable:** Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.

ii. **Rare:** Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

iii. **Costly to imitate:** Costly to imitate means such capabilities that competing firms are unable to develop easily.

iv. **Non–substitutable:** Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

2. Dec 2021 Exam, 5 marks

STU's association with India goes back to 1967, when it played a key role in constructing a very long highway in India spreading over multiple states. Since then, it is contributing in many ways to the country's growth story. Now it is looking at playing an active role in the key projects taken up by the central government. Suggest few Opportunities and Threats that the company should consider.

Answer

Faced with a constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorized as an opportunity or a threat. The company has to review its strength and weakness in the background of environment's opportunities and threat, i.e., an organization's SWOT analysis.

STU is looking at playing an active role in the key projects taken up by the central government. Following are the potential opportunities and threats to STU:

Potential STU's Opportunities:

♦ Alliances or joint ventures with central government that expand the STU's market coverage or boost its competitive capability.
♦ Possibilities of working on the future projects of central government.
♦ Serving additional customer groups or expanding into new geographic markets.
♦ Utilizing existing company skills or technological know-how to enter new projects.
♦ Openings to take market share away from rivals.
♦ Openings to exploit emerging new technologies.
♦ Integrating forward or backward

Potential STU's Threats:

♦ Due to COVID-19 pandemic, companies can have face the lockdown situation.
♦ Economic factors such as recession etc.
♦ Likely entry of potent new competitors.
♦ Technological changes/innovations in construction equipment.
♦ Costly new regulatory requirements.
♦ Growing bargaining power of suppliers.
♦ Vulnerability to industry driving forces.

3. July 2021 Exam ,1+3+1 = 5 marks

A manufacturing company is in direct competition with fifteen companies at national level. Head of marketing department of this company wishes to study the market position of rival companies by grouping them into like positions. Name the tool that may be used by him/her. Explain the procedure that may be used to implement the techniques.

Answer

A tool to identify the market positions of rival companies by grouping them into like position is **strategic group mapping**. A strategic group consists of those rival firms which have similar competitive approaches and positions in the market.

The **procedure for constructing a strategic group map** and deciding which firms belong in which strategic group are as follows:

1. **Identify the competitive characteristics** that differentiate firms in the industry typical variables that are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
2. **Plot the firms on a two-variable map** using pairs of these differentiating characteristics.
3. **Assign firms that fall in about the same strategy space** to the same strategic group.
4. **Draw circles around each strategic group** making the circles proportional to the size of the group's respective share of total industry sales revenues.

4. Jan 2021 Exam, 5 marks| RTP Nov 2021| RTP Nov 2019

Core competencies provide edge to a business over its competitors. Discuss. Also, briefly state the three areas in which major core competencies are identified.

Answer

A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor.

According to C.K. Prahalad and Gary Hamel, major core competencies are identified in following three areas:

1. Competitor differentiation: The Company can consider having a core competence if the competence is unique and it is difficult for competitors to imitate. This can provide a company an edge compared to competitors. It allows the company to provide better products and services to market with no fear that competitors can copy it.

2. Customer value: When purchasing a product or service it has to deliver a fundamental benefit for the end customer in order to be a core competence. It will include all the skills needed to provide fundamental benefits. The service or the product has to have real impact on the customer as the reason to choose to purchase them. If customer has chosen the company without this impact, then competence is not a core competence and it will not affect the company's market position.

3. Application of competencies to other markets: Core competence must be applicable to the whole organization; it cannot be only one particular skill or specified area of expertise. Therefore, although some special capability would be essential or crucial for the success of business activity, it will not be considered as core competence if it is not fundamental from the whole organization's point of view. Thus, a core competence is a unique set of skills and expertise, which will be used throughout the organization to open up potential markets to be exploited.

5. May 2018 Exam, 2 marks

Explain the meaning of core competencies.

Answer

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A core competence is a unique strength of an organization which may not be shared by others. It is defined as a combination of skills and techniques rather than individual skill or separate technique. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses.

6. RTP Nov 2020| RTP Nov 2018

'Speed' is a leading retail chain, on account of its ability to operate its business at low costs. The retail chain aims to further strengthen its top position in the retail industry. The Chief executive of the retail chain is of the view that to achieve the goals they should focus on lowering the costs of procurement of products. Highlight and explain the core competence of the retail chain.

Answer

A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses. A core competency for a firm is whatever it does is highly beneficial to the organisation. 'Speed' is the leader on account of its ability to keep costs low. The cost advantage that 'Value for Money' has created for itself has allowed the retailer to price goods lower than competitors. The core competency in this case is derived from the company's ability to generate large sales volume, allowing the company to remain profitable with low profit margin.

7. RTP May 2019 | MTP Apr 2021, 5 marks

What is a Strategic Group? Discuss the procedure for constructing a strategic group map.

Answer

A strategic group consists of those rival firms which have similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in any of the several ways – have comparable product-line breadth, same price/quality range, same distribution channels, same product attributes, identical technological approaches, offer similar services and technical assistance and so on. The procedure for constructing a strategic group map and deciding which firms belong in which strategic group is as follows:

- Identify the competitive characteristics that differentiate firms in the industry typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product- line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
- Plot the firms on a two-variable map using pairs of these differentiating characteristics.
- Assign firms that fall in about the same strategy space to the same strategic group.
- Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.

8. Nov 2022 Exam, 1+2+2 = 5 marks

Quick N Sturdy Inc., a multinational company, is undergoing feasibility study to introduce new luxury and sports car for specific group of customers. The product is meant for customers with distinctive preferences and special requirements. The product is not a standard one and as such the target market is also narrow. Company knows that demand for the product is large enough to be profitable for the company, but small enough to be ignored by other major industry players. The company wants to position itself in the niche market with the prime consideration to offer unique features in the product for the target market. In the given situation, identify the generic strategy as suggested by Michael Porter. Also state the advantages and disadvantages of such strategy.

Answer

Quick N Sturdy Inc. has adopted **Focused Differentiation Strategy** which is one of the Michael Porter's Generic strategies. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. **Firms that**

compete based on uniqueness and target a narrow market are following a focused differentiation strategy.

Advantages of Focused Strategy

1. Premium prices can be charged by the organisations for their focused product/services.
2. Due to the tremendous expertise in the goods and services that the organisations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focused Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high, which can cause problems.
3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

9. Nov 2022 Exam, 1+3+1 = 5 marks

What is cost leadership strategy? Under what circumstances an organization can gain competitive advantages from cost leadership strategy? Is there any risk in pursuing cost leadership strategy?

Answer

Cost leadership strategy emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. It frequently results from productivity increases and aggressive pursuit of cost reduction throughout the development, production, marketing, and distribution processes. It allows a firm to earn higher profits than its competitors. The circumstances in which an organization can gain competitive advantages from cost leadership strategy are:

- when the market is composed of many price-sensitive buyers.
- when there are few ways to achieve product differentiation.
- when buyers do not care much about differences from brand to brand.
- when there are a large number of buyers with significant bargaining power.

The basic idea is to under price competitors and thereby gain market share driving some of the competitors out of the market.

Some risks of pursuing cost leadership are:

- that competitors may imitate the strategy, therefore driving overall industry profits down
- that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interests may swing to other differentiating features besides price.

10. Nov 2021 Exam, 5 marks

Inspite of high commodity inflation, shortage of components and the threat of third wave of COVID-19 pandemic in India, manufacturers of packaged goods, home appliances and consumer electronics are expecting the business to grow by 12 to 25 percent in the coming months. After one-and-a-half years of disruption, manufacturers are now confident about managing their inventories better, keeping their supply channels well-stocked and preparing themselves to minimalize the impact of any COVID related restrictions even as they gear up for the festive season, which usually accounts for 25 to 35 percent of their yearly sales. The home appliances sector could be an example. After a dismal April-June quarter in the year 2021; producers of air conditioners, refrigerators and washing machines are expecting their business to grow by 15-20 percent in the months to come. All the companies operating in the sector have geared up to grab the opportunities available in the market. A leading company in the home appliances domain, XXP India, is planning to launch various innovative product designs and offer loyalty programmes to lure consumers. With reference to Michael Porter's generic strategies, identify which strategy XXP India has planner for? Explain how this strategy will be advantageous to the company to remain profitable?

Answer

According to Michael Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.

XXP India Ltd. has planned for Differentiation Strategy. The company is planning to launch various innovative product designs and offer loyalty programmes to lure customers. Differentiation strategy should be

pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into
a unique product that features the desired attributes. A successful differentiation strategy allows
a firm to charge a higher price for its product and to gain customer loyalty, because consumers
may become strongly attached to the differentiated features.

Advantages of Differentiation Strategy

A differentiation strategy may help an organisation to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

1. Rivalry - Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
2. Buyers – They do not negotiate for price as they get special features, and they have fewer options in the market.
3. Suppliers – Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.
4. Entrants – Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
5. Substitutes – Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

11. Jan 2021 Exam, 5 marks | MTP Oct 2021, 5 marks

Spacetek Pvt. Ltd. is an IT company. Although there is cut throat competition in the IT sector, Spacetek deals with distinctive niche clients and is generating high efficiencies for serving such niche market. Other rival firms are not attempting to specialize in the same target market. Identify the strategy adopted by Spacetek Pvt. Ltd. and also explain the advantages and disadvantages of that strategy.

Answer

Spacetek Pvt. Ltd. company has adopted Focus strategy which is one of the Michael Porter's Generic strategies. Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. An organization using a focus strategy may concentrate on a particular group of customers, geographic markets, or on particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

Advantages of Focus Strategy

1. Premium prices can be charged by the organizations for their focused product/services.
2. Due to the tremendous expertise about the goods and services that organizations following focus strategy offer, rivals and new entrants may find it difficult to compete.

Disadvantages of Focus Strategy

1. The firms lacking in distinctive competencies may not be able to pursue focus strategy.
2. Due to the limited demand of product/services, costs are high which can cause problems.
3. In the long run, the niche could disappear or be taken over by larger competitors by acquiring the same distinctive competencies.

12. Nov 2020 Exam, 5 marks

ABC Ltd. is a beverage manufacturing company. It chiefly manufactures soft drinks. The products are priced on the lower side which has made the company a leader in the business. Currently it is holding 35 percent market share. The R & D of company developed a formula for manufacturing sugar free beverages. On successful trial and approval by the competent authorities, company was granted to manufacture sugar free beverages. This company is the pioneer to launch sugar free beverages which are sold at a relatively higher price. This new product has been accepted widely by a class of customers. These products have proved profitable for the company. Identify the strategy employed by the company ABC Ltd. and mention what measures could be adopted by the company to achieve the employed strategy.

Answer
According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies.

ABC Ltd. has opted Differentiation Strategy. The company has invested huge amount in R & D and developed a formula for manufacturing sugar free beverages to give the customer value and quality. They are pioneer and serve specific customer needs that are not met by other companies in the industry. The new product has been accepted by a class of customers. Differentiated and unique sugar free beverages enable ABC Ltd. to charge relatively higher for its products hence making higher profits and maintain its competitive position in the market. Sugar free beverage of ABC Ltd. is being accepted widely by a class of customers. Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, and dealer network or customer service.

Achieving Differentiation Strategy
To achieve differentiation, following strategies are generally adopted by an organization:
1. Offer utility to the customers and match products with their tastes and preferences.
2. Elevate/Improve performance of the product.
3. Offer the high-quality product/service for buyer satisfaction.
4. Rapid product innovation to keep up with dynamic environment.
5. Taking steps for enhancing brand image and brand value.
6. Fixing product prices based on the unique features of product and buying capacity of the customer.

13. Nov 2019 Exam, 5 marks | RTP May 2021 | RTP May 2019

Write a short note on the concept of cost leadership strategy and how to achieve it?

Answer
Cost leadership strategy requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Accordingly, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits. The low-cost leadership should be such that no competitors are able to imitate so that it can result in sustainable competitive advantage to the cost leader firm.

To achieve cost leadership, following are the actions that could be taken:
1. Forecast the demand of a product or service promptly.
2. Optimum utilization of the resources to get cost advantages.
3. Achieving economies of scale leads to lower per unit cost of product/service.
4. Standardisation of products for mass production to yield lower cost per unit.
5. Invest in cost saving technologies and try using advance technology for smart working.
6. Resistance to differentiation till it becomes essential.

14. May 2019 Exam, 5 marks

What do you mean by differentiation strategy? How is it achieved?

Answer
Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product. Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes.

To achieve differentiation, following measures can be adopted by an organization:
1. Offer utility for the customers and match the products with their tastes and preferences.
2. Elevate the performance of the product.
3. Offer the promise of high-quality product/service for buyer satisfaction.
4. Rapid product innovation.
5. Taking steps for enhancing image and its brand value.

6. Fixing product prices based on the unique features of the product and buying capacity of the customer.

15. Nov 2018 Exam, 2 marks | May 2018 Exam, 2 marks

What do you mean by "Economies of Scale"?

Answer

Economies of scale refer to the decline in the per unit cost of production as volume grows. A large firm that enjoys economies of scale can produce high volume of goods at lower costs. This tends to discourage new entrants.

Nov 2018 Exam, 5 marks

Sohan and Ramesh are two friends who are partners in their business of making biscuits. Sohan believe in making profits through selling more volume of products. Hence, he believes in charging lesser price to the customers. Ramesh, however of the opinion that higher price should be charged to create an image of exclusivity and for this, he proposes that the product to undergo some change. Analyse the nature of generic strategy used by Sohan and Ramesh.

Answer

Considering the generic strategies of Porter there are three different bases: cost leadership, differentiation and focus. Sohan and Ramesh are contemplating pricing for their product. Sohan is trying to have a low price and high volume are thereby trying for cost leadership. Cost leadership emphasizes producing standardised products at a very low per unit cost for consumers who are price sensitive. Ramesh desires to create perceived value for the product and charge higher prices. He is trying to adopt differentiation. Differentiation is aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price insensitive.

16. RTP May 2022

A business consultancy firm specializes in environment management consultancy. It advises client companies on how to set up environmental management accounting systems. For measuring recording and analyzing environmental costs. A large part of its business involves performing environmental audits to check whether companies have achieved an international assurance standard in environmental management; this is something that rival consultancy firms do not do. The firm also carries out other management consultancy projects for client, but these make up only a small proportion of its total annual fee income. Identify the strategy categories by Michael Porter which best describes the strategy of this firm.

Answer

By concentrating mainly on the 'market' for consultancy services in environmental management, the firm is pursuing a **focus strategy.** By offering audit services, which rival firms do not, this indicates a differentiation strategy within this chosen market niche. Hence, the firm is following Focus differentiation strategy. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Similar to focused low-cost strategy, narrow markets are defined in different ways in different settings. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.

17. RTP Nov 2020 | RTP May 2018

Airlines industry in India is highly competitive with several players. Businesses face severe competition and aggressively market themselves with each other. Luxury Jet is a private Delhi based company with a fleet size of 9 small aircrafts with seating capacity ranging between 6 seats to 9 seats. There aircrafts are chartered by big business houses and high net worth individuals for their personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by Luxury Jet.

Answer

The Airlines industry faces stiff competition. However, **Luxury Jet has attempted to create a niche market**

by adopting focused differentiation strategy. A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Luxury Jet compete in the market based on uniqueness and target a narrow market which provides business houses, high net worth individuals to maintain strict schedules. The option of charter flights provided several advantages including, flexibility, privacy, luxury and many a times cost saving. Apart from conveniences, the facility will provide time flexibility. Travelling by private jet is the most comfortable, safe and secure way of flying your company's senior business personnel. Chartered services in airlines can have both business and private use. Personalized tourism packages can be provided to those who can afford it.

18. RTP Nov 2020 | MTP Apr 2022, 5 marks | MTP Oct 2020, 5 marks | MTP May 2020, 5 marks | RTP Nov 2018

Distinguish between Cost Leadership and Differentiation Strategies.

Answer

Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in
conjunction with differentiation. Different strategies offer different degrees of differentiation. A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty.

19. RTP Nov 2019

A century-old footwear company "Mota Shoes" had an image of being the footwear choice for formal occasions. In an attempt to reinvent its brand, it tied up with a foreign footwear giant "Buffrine" to manufacture and sell its Hideseek brand in the country. Putting its best foot forward, it launched extra soft, casual and relaxed footwear for young. Aiming at a brand and image makeover the "Mota Shoes" decided to price the Hide Seek products at premium. What kind of Michael Porter business level strategy is being used by "Mota Shoe company"? State its advantages.

Answer

Mota shoes is trying to use differentiation. This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, the business can charge a premium for its product. A differentiation strategy has definite advantages as it may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.

i. **Rivalry:** Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
ii. **Buyers:** They do not negotiate for price as they get special features and also they have fewer options in the market.
iii. **Suppliers:** Because differentiators charge a premium price, they can afford to absorb higher costs of supplies and customers are willing to pay extra too.
iv. **New entrants:** Innovative features are expensive to copy. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
v. **Substitutes:** Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

20. RTP Nov 2018

Gennex is a company that designs, manufactures and sells computer hardware and software. Gennex is well known for its innovative products that has helped the company to have advantage over its competitors. It also spends on research and development and concerned with innovative softwares. Often the unique features of

their product, that are not available with their competitors helps them to gain competitive advantage. Gennex using the strategy is consistently gaining its position in the industry over its competitors. Identify and explain the Porter's generic strategy which Gennex has opted to gain the competitive advantage.

Answer

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. **Gennex has opted differentiation strategy.** Its products are designed and produced to give the customer value and quality. They are unique and serve specific customer needs that are not met by other companies in the industry. Highly differentiated and unique hardware and software enables Gennex to charge premium prices for its products hence making higher profits and maintain its competitive position in the market. Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.

21. MTP Mar 2022, 5 marks

A private Moneyload Ltd. Bank that targets high worth individuals. They offer a premium service with many additional and personal services not normally available through other banks. They charge a significant annual fee for these services. The company makes full use of information technology throughout its operations in order to minimize costs. Identify and explain the generic strategy adopted by Moneyload Ltd. Bank?

Answer

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. Moneyland Ltd. Bank targets a narrow segment of the market, offering unique and desirable products. The bank will want to keep its costs under control, but it will not reduce costs at the expenses of reducing the quality levels of the customer service it offers. By maintaining high quality levels, it will still be able to charge a premium for its services. **Thus, the strategy adopted by Moneyland Ltd. Bank is Focused Differentiation.** A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel, such as selling over the internet only. Others target particular demographic groups. Firms that compete based on uniqueness and target a narrow market are following a focused differentiations strategy.

22. MTP Nov 2021, 5 marks

BHAVNAV is a business which makes and sells laptop computers in France. In recent years it has
been struggling to compete with its rivals and has seen a significant fall in its market share. BHAVNAV's managers identify that majority of its products launched by BHAVNAV's rivals were high specification, with good quality materials and many innovative design features. Products with inferior quality, such as those sold by BHAVNAV have not sold well in France. This information led BHAVNAV's management team to decide to select a new business strategy based on Porter's Generic Strategic Model. Identify and suggest the best business strategy BHAVNAV's management has to opt for?

Answer

According to Porter, the three different business strategies are: cost leadership, differentiation, and focus. Porter called these base generic strategies. The information about competitor activities indicates that the market is uninterested in low-cost items, so a cost leadership approach is unlikely to be successful for BHAVNAV. **It is suggested to adopt a differentiation strategy and find some way of enabling its laptops to stand out from its rivals.** Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service.

23. MTP Mar 2021, 5 marks

X-Olympus is a gaming software company specializing in developing games for ZBox and GameStation- 4. The company is facing stiff competition due to saturation of market and price wars, which has excessively favor and highlight their dependence on gaming console manufacturers. Thereby, the company desires to establish a

competitive advantage over industry rivals by enhancing the gaming experience by expanding into Edge-Cloud Gaming Service on a monthly subscription basis. This service offering does not require dedicated gaming consoles yet provide customers game streaming in 4K resolution with an ample range of games to select from. This move is expected to insulate X-Olympus from price wars and provide a competitive advantage. Identify and explain the generic strategies adopted by X-Olympus?

Answer

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter called these base generic strategies. X-Olympus is facing cutthroat competition due to saturation of market and price wars as there is no clear leader out of the numerous competitors. For this, the strategy adopted by X-Olympus is Product Differentiation by introducing a unique product to cater the customer needs at a lesser cost which would insulate it from the fierce competition and never-ending price wars.

24. MTP Oct 2019, 5 marks

'Coffee Beans' is a coffeehouse chain that operates across the globe in different countries. 'Coffee Beans' has adopted a strategy to build business by establishing product uniqueness or qualities and gain competitive advantage based on features of its offerings in coffee business. Which type of strategy 'Coffee Beans' has adopted?

Answer

Coffee Beans is opting for differentiation strategy. This strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because of differentiation, Coffee Beans can charge a premium for its product.

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Strategic Analysis – External Environment

In this chapter we will understand various frameworks and tools to analyse the external environment including industry, competition and customers.

1. PESTLE Framework

It is a very simple & quick tool and is mainly used for the study and analysis of macro environmental factors. It helps management of an organisation in strategic decision-making function.
PESTLE is an acronym for: -
P- Political
E- Economic
S- Socio-Cultural
T- Technological
L- Legal
E- Environmental

PESTLE analysis is frequently used to assess the business environment in which a firm operates. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy.

Political Factors:

Political factors encompass the **role of government** in the business environment. Governments can intervene in the economy through **regulations, taxation policies, and trade agreements**. For instance, changes in tax policies can impact the profitability of businesses, while trade tariffs (e.g import duties) can influence the cost of importing and exporting goods. Political stability is crucial for business operations, as an unstable political climate can lead to uncertainty and risks.

Political factors may also influence goods and services which the government wants to provide or be provided and those that the government does not want to be provided. Furthermore, governments have great influence on the health, education and infrastructure of a nation.

Example: In 2017 , the Indian Government implemented GST which impacted the way businesses were carried out.

Economic Factors:

Economic factors significantly impact business operations. **Interest rates, inflation, and exchange rates** can affect a firm's cost of capital, pricing strategy, and international trade. Economic indicators such as **GDP growth, unemployment rates, and consumer spending patterns** provide insights into the overall health of the economy and guide business decisions.

Example: A rise in interest rates can increase borrowing costs for businesses, impacting their expansion plans and potentially slowing down economic activity.

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Social Factors:

Social factors reflect the **cultural and demographic aspects** of a society. They influence consumer behaviour, preferences, and the demand for products or services. Understanding social trends is crucial for businesses to align their strategies with societal values and lifestyle changes.

Example: The increasing focus on health and wellness has led to a growing demand for organic and health-oriented food products, influencing the strategies of food and beverage companies.

Technological Factors:

Technological factors encompass the impact of innovation on business operations. They include advancements in **technology, research and development, and automation**. Technology can create new opportunities, streamline processes, and change the competitive landscape.

Example: The rise of e-commerce and mobile technologies has transformed the retail sector, influencing consumer shopping habits and requiring traditional retailers to adapt to online platforms.

Legal Factors:

Legal factors refer to **the laws and regulations** that businesses must adhere to. They include labour laws, product safety standards, and industry-specific regulations. Compliance with legal requirements is essential for avoiding fines, lawsuits, and maintaining a positive business reputation.

Example: Changes in data protection laws, such as the implementation of GDPR in Europe, have compelled businesses to enhance their data privacy practices to avoid legal consequences.

Environmental Factors:

Environmental factors focus on the impact of the **natural environment** on businesses. Issues such as climate change, sustainability, and environmental regulations can affect industries like tourism, agriculture, and insurance.

Example: The increasing awareness of climate change has led to a surge in demand for eco-friendly products and sustainable practices, influencing companies to adopt environmentally responsible strategies.

Political	Economic	Social
Political stability Political principles and ideologies Current and future taxation policy Regulatory bodies and processes Government policies Government term and change Thrust areas of political leaders	Economy situation and trends Market and trade cycles Specific industry factors Customer/end-user drivers Interest and exchange rates Inflation and unemployment Strength of consumer spending	Lifestyle trends Demographics Consumer attitudes and opinions Brand, company technology image Consumer buying patterns Ethnic/religious factors Media views and perception
Technology	**Legal**	**Environmental**
Replacement technology/solutions Maturity of technology Manufacturing maturity and capacity Innovation potential Technology access, licensing, patents, property rights and copyrights	Business and Corporate Laws Employment Law Competition Law Health & Safety Law International Treaty and Law Regional Legislation	Ecological/environmental issues Environmental hazards Environmental legislation Energy consumption Waste disposal

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2. Internationalisation of Business

Internationalization has emerged as the dominant commercial trend over the last couple of decades. It enables a business to enter new markets in search of greater earnings and less expensive resources. Additionally, expanding internationally enable a business to achieve greater economies of scale and extend the lifespan of its products.

The strategic-management process is essentially the same for global firms as it is for domestic firms. International processes are much more complicated due to additional variables and linkages. A business can approach internationalisation systemically with the help of international strategy planning. One method for an organization to identify opportunities and threats in global markets is by scanning the external environment. The development of effective strategies and the formulation of global strategic objectives are made feasible by internationalisation.

Characteristics of a global business

- Global businesses have operations across different countries.
- It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.
- Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.
- The units respond to some common strategy. Besides, its managers and shareholders are also based in different nations.

Developing internationally

International development is expensive and challenging. The ideal approach is to move on in a thorough and structured manner.
The steps in international strategic planning are as follows:

- Evaluate **global opportunities and threa**ts and rate them with the internal capabilities.
  This step involves conducting a comprehensive analysis of the global market, including economic trends, political stability, cultural factors, legal considerations, and competitive landscape.
- Describe the **scope of the firm's global** commercial operations.
  Organization defines the extent of its international presence and the markets it intends to target. This includes determining which countries or regions to enter, the products or services to offer, and the distribution channels to utilize
- Create the **firm's global business objectives**.
  Based on the evaluation of opportunities and threats and the defined scope of operations, the organization sets objectives for its global business.

- Develop **distinct corporate strategies** for the global business and whole organisation.
  This step involves formulating strategies for the unique challenges and opportunities of the global market.

Why do businesses go global?

Technological developments and evolving political views are two important factors in the rapid rise of multinational organisations. Because of technological advances, the process of internationalisation is now simpler than it was previously. Worldwide communication makes it easier to define and implement global strategy by linking corporate headquarters with their abroad operations. In addition, introduction of improved transportation has increased the mobility of money, people, raw materials, and finished items. There are several reasons why companies go global. These are explained as follows:

- There is a **need to grow**. It is basic need of every organisation. Often finding opportunities in the other parts of the globe, organisations extend their businesses and globalise their operations.
- There is **rapid shrinking of time and distance** across the globe, because of **faster communication**, speedier transportation, growing financial flow of funds and rapid technological changes.
- It is being realised that the **domestic markets are no longer adequate**. The competition present domestically may not exist in some of the international markets.
- Need for **reliable or cheaper source of raw-materials**, cheap **labour**, etc. Many foreign businesses shift and set up some of their operations to take advantage of availability of vast pool of talent.
- **Reduce high transportation costs**. It may be cheaper to produce near the market to reduce the time and costs involved in transportation.
- When **exporting organisations** find foreign markets to open up or grow big, they may naturally look at overseas **manufacturing plants** and sales branches to generate higher sales and better cash flow.
- The rise of **services to constitute the largest single sector** in the world economy; and regional economic integration, which has involved both the world's largest economies as well as certain developing economies.
- The apparent and real collapse of i**nternational trade barriers** redefines the roles of state and industry. The trend is towards increased privatization of manufacturing and services sectors, less government interference in business decisions and more dependence on the value-added sector to gain marketplace competitiveness. The trade tariffs and custom barriers are getting lowered, resulting in increased flow of business.
- Globalization has made companies in different countries to form **strategic alliances** to ward off economic and technological threats and leverage their respective comparative and competitive advantages.

3. International Environment

An international organisation faces social, cultural, demographic, environmental, political, governmental, legal, technological factors. The number and complexity of these factors increase manifold (multiple times) as the number of products produced and geographic areas served increase.

An assessment of the external environment is the first step toward internationalisation. Analysing international environment is important since it allows organisation to discover opportunities in the global market and evaluate feasibilities of capitalising on these opportunities. Assessments of the international environment can be done at three levels: multinational, regional, and country.

Multinational environmental analysis involves identifying, anticipating, and monitoring significant components of the global environment on a large scale. It's about understanding what's happening globally and how it might affect the company. Understanding global developments covering economic and other macro elements is important. Governments may have free or interventionist tendencies in economies that needs to be carefully considered. These characteristics are evaluated based on their present and expected future impact.

Regional environmental analysis is a more in-depth evaluation of the critical factors in a specific geographical area. Instead of looking at the whole world, it focuses on a specific region. The emphasis would be on discovering market opportunities for a goods, services, or innovations in the chosen location.

Country environmental analysis has to take a deeper look at the important environmental factors. Study of economic, legal, political, and cultural dimensions is required in order for planning to be successful. The analysis must be customised for each of the countries to develop effective market entrance strategies.

4. Understanding Product & Industry

Businesses sell products. A product can be either a good or a service. It might be physical good or a service, an experience. Business products have certain characteristics as follows:

Products are either tangible or intangible.
A tangible product can be handled, seen, and physically felt, such as a car, book, pen, table, mobile handset and so on. Alternatively, an intangible product is not a physical good, such as telecom services, banking, insurance, or repair services.

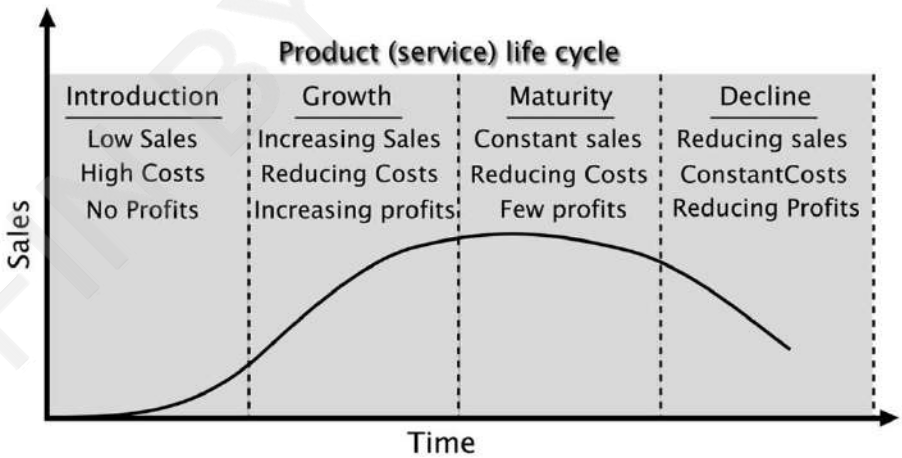
Product has a price.
Businesses determine the cost of their products and charge a price for them. The dynamics of supply and demand influence the market price of an item or service. The market price is the price at which quantity provided equals quantity desired. The price that may be paid is determined by the market, the quality, the marketing, and the targeted group. In the present competitive world price is often given by the market and businesses have to work on costs to maintain profitability.

Products have certain features that deliver satisfaction.
A product feature is a component of a product that satisfies a consumer need. Features determine product pricing, and businesses alter features during the development process to optimise the user experience. Products should be able to provide value satisfaction to the customers for whom they are meant.
Features of the product will distinguish it in terms of its function, design, quality and experience. A customer's cumulative experience with a product from its purchase to the end of its useful life is an important component of a product feature.

Product is pivotal for business.
The product is at the centre of business around which all strategic activities revolve. It represents what the company offers to its customers. The product enables production, quality, sales, marketing, logistics and other business processes. Product is the driving force behind business activities.

A product has a useful life. Every product has a usable life after which it must be replaced, as well as a life cycle after which it is to be reinvented or may cease to exist. We have observed that fixed line telephone instruments have largely been replaced by mobile phones

5. Product Life Cycle



- PLC is an S-shaped curve which exhibits the relationship of sales with respect to time for a product that passes through the four successive stages.

Introduction (Slow sales growth)	• **Competition is almost negligible** • **Prices are relatively high** • **Markets are limited** • Lower rate of sales growth due to lack of knowledge by customers
Growth (Rapid Market Acceptance)	• Demand expands rapidly • Fall in prices • Competition increase • Market expands • Customer has knowledge & is interested in buying
Maturity (Slowdown in growth rate)	• Market gets established • Competition gets tough • Profit reduces due to stiff competition • Organizations have to work for maintaining stability
Decline (Sharp downward drift)	• Sales & profits fall down sharply • Some new product replaces existing product • Combination of strategies can be used to stay in the market • Either diversification or retrenchment

Experience curve

Introduction (Development and Launch):

In this stage, the product is developed and introduced to the market. Smartphones were first introduced to the market in the early 2000s, with companies like Apple, Samsung, and BlackBerry pioneering the technology. During this phase, companies invest heavily in research and development to create a competitive product that meets consumer needs and preferences.

Growth:

Once smartphones were introduced, they quickly gained popularity and entered the growth phase. Demand for smartphones surged as they became more affordable and accessible to a wider range of consumers. During this phase, sales and market share increase rapidly as more consumers adopt the product. Companies expand their product lines and invest in marketing to capitalize on the growing demand.

Maturity:

As the market becomes saturated and competition intensifies, smartphones enter the maturity phase. Most consumers who want a smartphone already own one, so sales growth slows down. During this phase, companies focus on maintaining market share, improving product features, and reducing costs to remain competitive. Price competition may become more intense, leading to thinner profit margins.

Decline:

Eventually, smartphones enter the decline phase as newer technologies emerge and consumer preferences shift. Sales decline as consumers switch to newer devices or alternative technologies. During this phase, companies may decide to discontinue older smartphone models or exit the market altogether. Some companies may innovate and introduce new features or functionalities to extend the product's life cycle.

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- The experience curve theory states that the more experience a company has making product, the faster and cheaper it is to produce.
- The Concept is similar to ***learning curve***
- ***Efficiency increases*** by workers through ***repetitive productive work***
- ***Unit costs decline*** as a firm accumulates experience in terms of ***cumulative volume*** of production
- Larger firms in industry gain ***competitive cost advantage*** due to this
- It is a result of variety of factors- learning effects, economies of scale, product redesign & technological improvements in production
- It is a ***barrier for a new firm*** entering the industry
- Used to ***build market share*** & ***discourage competition***

6. Value Creation

- Value is measured by a product's features, quality, availability, performance, durability & by its services for which customers are willing to pay.
- Value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes
- This concept gives business a competitive advantage in the industry & helps them to earn above average profits
- How profitable a company becomes depends on three factors-
  - Value customers place on the company's products
  - Price the company charges for its products
  - Costs of creating those products
- The value customer place on a product reflects the utility they get
- Utility is a function of the attributes of the product, such as its design, performance, quality & point-of-sale & after-sale-service
- Companies are ultimately aiming to achieve sustainable competitive advantage which enables them to succeed in the long run

Customer surplus = Value to customer – price
Firm's Margin = Price - Cost

7. Value Chain analysis

Value chain analysis is a strategic management framework that helps companies understand the various activities involved in delivering a product or service to customers and how each activity adds value to the final product. It involves breaking down the entire process of creating and delivering a product or service into individual components or activities and analyzing each one to identify opportunities for cost savings, efficiency improvements, and differentiation.

- It is a means of ***describing the activities within and around*** an organization.
- Ability to assign or provide ***value for money,*** product or services.
- Assessing the ***competitive strength*** of an organization.

Why value chain analysis?

- Organizations are much more than just a random collection of machines, material, money and people.
- These resources are of no value unless deployed into appropriate activities.
- It is important to know the value which is perceived by the final consumer/user.
- Source of competitive advantage: Competencies to perform particular activities and the ability to manage linkages between these activities.

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7.1. Porter's Value Chain

- As per Michael Porter, an understanding of the strategic capability must start with identifying these separate value adding activities. The two basic steps of
  - identifying separate activities &
  - assessing value added from each

  were linked to an analysis of competitive advantage by Michael Porter.

Primary Activities

Inbound Logistics	Receiving, storing, distributing inputs to the product/service
	Includes material handling, stock control, transport, etc
Operations	Transform inputs into final product/service
	Machining, packaging, testing, assembly, etc
Outbound Logistics	Collect, store, distribute product to the customers
	For tangible products-warehousing, material handling, transport
	For services- arrangements for bringing customers to the service
Marketing and Sales	Consumers are made aware of the product/service
	Able to purchase it
	Includes sales admin, advertising, selling, etc
	Communication network helps users access a particular service
Service	Enhance/maintain the value of product/service
	Installation, repair, training, spares, etc

Secondary Activities

Inbound Logistics	Process of acquiring the various resource inputs to the primary activities
	Includes material handling, stock control, transport, etc
Technology Development	All value activities have technology (even if it is just know-how)
	Key technologies may be directly concerned with the product (R&D) or process (process development) or a resource (RM improvement)
Human Resource Development	Important area which covers all primary activities
	Recruiting, training, managing, developing, rewarding, etc
Infrastructure	Structures & routines of the organization which sustain its culture
	Systems of planning, finance, quality control, info management are crucially important to performance of primary activities

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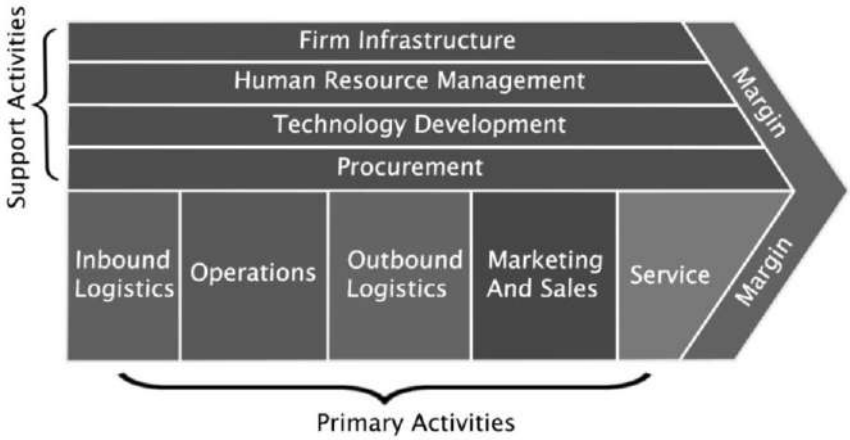
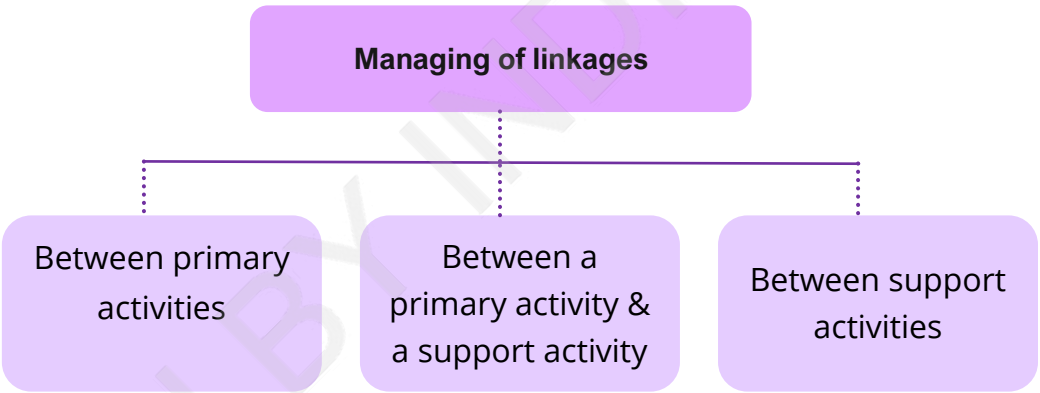


7.2. Managing Linkages

- Core competences may be imitated by competitors over time.
- But it may be robust & difficult to imitate if they relate to management of linkages within the organisation's value chain & linkages into the supply & distribution chains.
- Specialization of roles & responsibilities is one way in which high levels of competence in separate activities is achieved.
- However, it often results in an incompatible situation – different departments pulling in different directions – which adds to overall cost / diminishes value.
- This management of internal linkages in the value chain could create competitive advantage in a number of ways:



- In addition to the management of internal linkage, competitive advantage may also be gained by the ability to complement/co-ordinate the organisation's own activities with those of suppliers, channels or customers.
- This could occur in a number of ways:
  - ***Vertical integration*** attempts to improve performance through ownership of more parts of the value system. Practical ***difficulties & cost of coordination may outweigh*** the benefits.
  - Specifying requirements & controlling the performance of suppliers can be critical to both quality ***enhancement & cost reduction.***
  - ***Total quality management*** seeks to improve performance through closer working relationships between the specialists within the value system.

8. Industry Environmental Analysis

A combination of ideas and methodologies may be utilised to create a clear picture of key industry traits, competition intensity, industry change drivers, rival firms' market positions and tactics, competitive

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success, and profit forecasts. Industry analysis enable strategic understanding about the entire state of any industry and make decisions about whether the industry is a lucrative or not.

The analysis entails seeing the firm in the context of a bigger framework. The purpose of industrial analysis is to get insight into a wide range of elements within and outside the business. Analysing these elements enhances knowledge of surrounding and serves as the foundation for aligning strategy with changing industry circumstances and realities.

The goal of the industry environment analysis, which is typically an important step of strategic analysis, is to estimate the amount of competitive pressures the business is presently facing and is expected to face in the near future.

9. Competitive Landscape

- Competitive landscape is about identifying & understanding the competitors & at the same time it permits the comprehension of their mission, vision, core values, niche market, strengths & weaknesses.
- Understanding of competitive landscape requires an application of "competitive intelligence".
- In-depth investigation & analysis of a firm's competition allows it to assess the competitor's strengths & weaknesses in the market & helps it to choose & implement effective strategies that will improve its competitive advantage.

9.1. Steps to understand Competitive Landscape

Identify the competitor	Who are the competitors?
	What is their market share?
Understand the competitor	What are their products and services?
	Use Market research report, internet and other sources
Determine strengths of competitors	Why do customers give them business?
	What is their financial position?
	What gives the cost & price advantage?
Determine weakness	Where are they lacking?
	Go through consumer reports, complaints available in various media
Put all information together	What improvement does the firm need to make?
	Areas that need to be strengthened?
	How can firm exploit the weakness of the competitors?

9.2. Key success factors for competitive success

- An industry's Key Success Factors (KSFs) are those that ***most affect industry member's ability to prosper in the marketplace*** (resources, competencies, capabilities, etc) & ultimately achieve competitive success/failure.
- KSF's are so important that all firms in the industry must pay close attention to them because they are the rules that ***shape whether a company will be financially & competitively successful.***
- At the very least, managers need to understand the industry situation well enough to know what is more ***important to competitive success*** & what is not.

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- Misdiagnosing the industry factors critical to long term success greatly raises the risk of misdirected strategy.
- In contrast, an organisation with perceptive understanding of the industry's KSF's & stand out on a particular KSF enjoy a stronger market position.
- Hence, using the industry's KSF's & trying to gain sustainable competitive advantage by ***excelling at one particular KSF*** is a fruitful competitive strategy approach.
- How to identify industry's KSF's:

Questions to identify Key success factor

- On what basis do customers choose between the competing brands of sellers?
- What resources and competitive capabilities that a seller need to have to be successful?
- How can seller achieve a sustainable competitive advantage?

- Key success factors ***vary from industry to industry*** & even from ***time to time*** within the same industry as driving forces & competitive ***conditions change.***
- An industry at a time has only about ***three or four KSF*** & even among these only one or two outrank the others in importance.
- If managers compile a list of every factor that matters even a little bit, then it defeats the whole purpose of identifying & concentrating attention on the KSF's truly critical to long-term competitive success.

9.3. Prospects and financial attractiveness of industry

Draw conclusions on the relative attractiveness or unattractiveness of the industry using the results of analysis of the previous six issues.

The important factors on which to base such conclusions include-

- Industry's ***growth potential***
- ***Competitive*** forces will become stronger or weaker
- ***Profitability*** will be favourable or unfavourable due to present driving forces
- ***Degree of risk & uncertainty*** in the industry's future
- ***Competitive position*** is likely to grow stronger or weaker
- ***Potential to capitalise*** on vulnerabilities of weaker rivals
- ***Severity of problems*** confronting industry as a whole

If an industry's overall profit prospects are above average, the industry can be considered attractive; if below average it is unattractive. However, attractiveness is relative, not absolute. Industry environments maybe unattractive to weak competitors & attract to strong ones.

10. Porter's Five Forces Model

Porters Five-Force Model of competition is a powerful & widely used tool for systematically diagnosing the significant competitive pressures in a market & assessing the strength & importance of each.

- Five forces model

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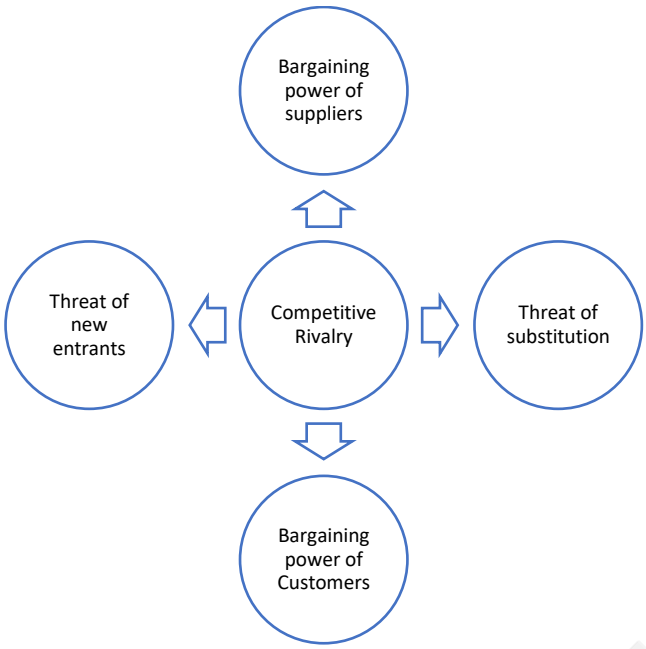

- The interrelationship among these five forces gives each industry its own particular competitive environment and helps the manager to assess their own firm's strength, weakness and future opportunities
  - Competitive pressures associated with the market maneuvering and jockeying for buyer patronage that goes on among rival sellers in the industry.
  - Competitive pressures stemming from supplier bargaining power & supplier- seller collaboration
  - Competitive pressures stemming from buyer bargaining power & seller-buyer collaboration
  - Competitive pressures associated with threat of new entrants into the market.

10.1. Threat of new entrant

- Barriers to entry represent economic forces/hurdles that slow down or impede entry by other firms.
- Common barriers to entry: ***Acronym***- **"BIG SPACE"**

Capital Requirements

- When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry.
- This enhances the profitability of the existing firms in the industry

Economies of scale

- Economies of scale refer to the decline in the per unit cost of production as activity grows
- A large firm that enjoys economies of scale can produce high volumes at lower costs which is not available to a new entrant

Product differentiation

- Cost of creating genuine differentiated product may be too high for new entrants
- It refers to physical or perpetual differences or enhancements that make the product special/unique
- Higher the product differentiation – higher will be the barrier to entry
- Lower the product differentiation – lower will be the barrier to entry

Switching cost

- New entrant must be able to persuade existing customer of other firms to switch to its product
- Buyers often incur substantial costs in switching between firms & are often reluctant to change
- Examples of switching cost –
  - Financial costs
  - Implicit costs (Psychological comfort or Brand image)
- Higher the switching cost – higher will be the barrier to entry

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- Lower the switching cost – lower will be the barrier to entry

Brand image

- It is particularly important for infrequently purchased products that carry a high unit cost to the buyer
- Significant difficulties are faced in building up the brand identity, since to do so they must commit resources over a long period of time
- Higher the brand image of existing customers – higher will be the barrier to entry
- Lower the brand image of existing customers – lower will be the barrier to entry

Access to distribution channels

- Existing firms have significant influence over the distribution channels & can control/restrict their use by new firms
- Unavailability of distribution channels poses significant entry barrier
- If distribution network of existing players is strong – High barrier to entry
- If distribution network is not relevant in the industry – low barrier to entry

Government regulations

- Government rules and regulations can form barriers to entry
- Where an industry are regulated by the government, entry into it cannot be made without government permissions
- Example – defence, railways etc

Intellectual Properties

- Sometimes intellectual properties like patents, trademarks also act as barrier to entry

Possibility of Aggression

- Mere threat of aggressive retaliation by existing firms can act as a barrier to entry
- Introduction of a product by a new firm may agitate the incumbent firms to indulge in extreme activities such as drastically reducing prices and increasing advertisement budgets

Memory Technique

B	**B**rand image
I	**I**ntellectual property rights
G	**G**overnment regulations
S	**S**witching cost
P	**P**ossibility of aggression
P	**P**roduct differentiation
A	**A**ccess to distribution channels
C	**C**apital requirements
E	**E**conomies of scale

10.2. Threat of substitutes

- A force that can influence industry profitability is the availability of substitutes for an industry's product.
- Firms must search for products that perform the same/nearly the same function as theirs.
- Substitutes can be either from the same industry (digital filmless cameras replaced film cameras) or other industry (smart phones replaced cameras to a great extent).
- Where threat of substitutes is high profitability is impacted
- Where threat of substitutes is low profitability will not be impacted

10.3. Bargaining power of Buyers

- Quite often, users of industrial products come together formally or informally and exert pressure on the producer.
- Buyers can sometimes exert considerable pressure on the firms to lower their prices or improve their services. It is evident when-
  - Buyers have ***full knowledge*** of the source of products and their substitutes
  - They spend a lot of money on the industry's products i.e. they are ***big buyers***
  - The industry's product is ***not perceived as critical*** to the buyer's needs
  - Buyers are ***more concentrated than firms*** supplying the product.
  - They can easily ***switch*** to the ***substitutes available.***

10.4. Bargaining power of suppliers

- The more specialised the offering from the supplier, greater is his clout.
- The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry
- Suppliers can command bargaining power over a firm when:
  - Their products are crucial to the buyer and ***substitutes are not available***.
  - They can erect ***high switching costs***.
  - They are more ***concentrated*** than their buyers.

Difference between Bargaining power of buyers and suppliers

Bargaining power of buyers	Bargaining power of suppliers
• Customer is large • Fewer customers – many suppliers • Product has many substitutes	• Supplier is large • Many customers – fewer suppliers • Product has fewer substitutes

10.5. Rivalry in the industry

- The rivalry among existing players is quite obvious. This is what is normally understood as competition.
- The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability
- The more intense the rivalry in an industry, the less attractive the industry is. The intensity of rivalry can influence attractiveness, profitability, cost of suppliers, distribution.
- Rivalry among competitors tends to be cutthroat & industry profitability lowers due to these factors – Acronym-"LC FC EPS"

Industry leader

- Existence of a ***dominant player*** in the industry
- A strong industry leader can ***discourage price wars***
- Due to its greater financial resources, a leader can ***outlast smaller rivals*** in a price war
- Due to this, smaller rivals usually avoid initiating such a war

Number of Competitors

- As ***competitors*** in an industry ***increase in number***, even when a leader exists, his ability to ***exert pricing discipline diminishes*** as communication between the leader and the players becomes difficult

Fixed costs

- When ***rivals*** operate at high fixed cost, they have the need to utilise their full/excess capacity & therefore end up ***cutting prices***
- Price cutting causes ***profitability to fall for all firms*** in the industry
- ***Sales volume*** must be ***increased*** to recover fixed costs
- Production must be increased to ***lower the cost per unit***

Exit Barriers

- ***Rivalry*** among competitors ***declines*** if some ***competitors leave an industry***.
- ***Profitability increases*** in industries with few exit barriers

Memory Technique

L	Industry **L**eader
C	Number of **C**ompetitors
F	**F**ixed **C**ost
E	**E**xit Barriers
P	**P**roduct differentiation
S	**S**low growth

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- When barriers to exit are powerful competitors desiring exit may refrain from leaving

Product differentiation

- Firms can sometimes insulate themselves from price wars by ***differentiating their products from those of rivals***
- Competitors have ***little opportunity*** to differentiate their offerings
- Profitability is higher in industries that ***offer opportunity*** for differentiation
- Profitability is lower in industries involving ***undifferentiated commodities***
- Customers are ***loyal*** to the brand
- ***Competition is less***

Slow growth

- Industries whose growth is slowing down ***face more intense rivalry***
- As growth slows, ***rivals must fight*** harder grow or even maintain their existing market share
- This intense rivalry tends to ***decrease the overall profitability***

Example of a car company (Porter's five forces model)

	Force	Intensity	Reason
Car Industry	• Threat of new entrant	• Low	• Entry Barriers
	• Threat of new	• High	• Not much of product differentiation
	• Bargaining power of suppliers	• High	• Depends on number of size and suppliers
	• Bargaining power of customers	• Low	• Customer is not valuable
	• Intensity of competition	• High	• Product differentiation • More players • Brand loyalty

11. Attractiveness of Industry

The industry analysis culminates into identification of various issues and draw conclusions about the relative attractiveness or unattractiveness of the industry, both near-term and long-term. Strategists assess the industry outlook carefully, deciding whether industry and competitive conditions present an attractive business opportunity for the organisation or whether its growth and profit prospects are gloomy. This is important because companies invest capital, either the promoters or from the public and should be inherent careful in choosing an industry. The important factors on which the management may base such conclusions include:

- The industry's growth potential, is it futuristically viable?

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- Whether competition currently permits adequate profitability and whether competitive forces will become stronger or weaker?
- Whether industry profitability will be favourably or unfavourably affected by the prevailing driving forces?
- The competitive position of an organisation in the industry and whether its position is likely to grow stronger or weaker. (Being a well-entrenched leader or strongly positioned contender in an otherwise lackluster industry can still produce good profitability; however, having to fight an uphill battle against much stronger rivals can make an otherwise attractive industry unattractive).
- The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- Whether the company is able to defend against or counteract the factors that make the industry unattractive?
- The degrees of risk and uncertainty in the industry's future.
- The severity of problems confronting the industry as a whole.
- Whether continued participation in this industry adds importantly to the firm's ability to be successful in other industries in which it may have business interests?

As a general proposition, if an industry's overall profit prospects are above average, the industry can be considered attractive; if its profit prospects are below average, it is unattractive. However, it is a mistake to think of industries as being attractive or unattractive to all firms in the industry and all potential entrants. Attractiveness is relative, not absolute. Industry environments unattractive to weak competitors may be attractive to strong competitors.

An assessment that the industry is fundamentally attractive typically suggests that current industry participants employ strategies calculated to strengthen their long- term competitive positions in the business, expanding sales efforts and investing in additional facilities and equipment as needed.

If the industry and competitive situation is judged relatively unattractive, more successful industry participants may choose to invest cautiously, look for ways to protect their long-term competitiveness and profitability, and perhaps acquire smaller firms if the price is right; over the longer term, strong companies may consider diversification into more attractive businesses.

Weak companies in unattractive industries may consider merging with a rival to bolster market share and profitability or, alternatively, begin looking outside the industry for attractive diversification opportunities.

12. Market and Customer

A market is a place for interested parties, buyers and sellers, where items and services can be exchanged for a price. The market might be physical, such as a departmental store where people engage in person. They may also be virtual, such as an online market where buyers and sellers do not meet in person but tools of technology to strike a deal.

Market might be used to describe the stock exchange, where securities are traded. It may also refer to a group of individuals trying to buy a specific commodity or service in a specific place, such as grain or vegetable market where farmers come to sell their produce. It may also be used to define a business or industry, such as the global oil market. The market is a place, business strategist work on marketing to improve the chances of success.

The term "marketing" encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution. Often market activities are categorised and explained in terms of four Ps of marketing – product, place, pricing, and promotion. These four kinds of marketing activities help marketers identify customer needs so they may meet their demands and deliver satisfaction. Delivering the best customer experience and establishing, maintaining, and growing relationships with customers are the main goals of marketing.

- The orientation of product marketing has evolved and acquired different dimensions centred around product, production, sales and customers.
- Businesses that have product orientation think that buyers will choose those products that have the best quality, performance, design, or features.
- Production- oriented businesses believe that customers choose low price products.
- Sales oriented businesses believe that if they spend enough money on advertisement, sales and promotion, customers can be persuaded to make a purchase.
- In a customer or market-oriented approach strategists prioritise efforts on their customers. In order to create better value propositions for customers, businesses gather, disseminate, and use customer and competitive information.
- A customer- centric business is one that continuously learn from its customers' needs and market dynamics. In the present times success, many business lies in customer centric approaches.

12.1. Customer

A customer is a person or business that buys products or services from another organisation. Customers are important because they provide revenue and organisations cannot exist without them.

All businesses look for customers, either by aggressively marketing their products or by lowering their pricing to boost their customer bases.

The terms customer and consumer are practically synonymous and are frequently used interchangeably. There is, however, a thin distinction. Individuals or businesses that consume or utilise products and services are referred to as consumers. Customers are the purchasers of products and services in the economy, and they might exist as consumers or only as customers. In homes groceries are often bought by a parent and consume by all the members of family.

Businesses routinely research the characteristics of their consumers in order to fine- tune their marketing strategies and adjust their inventory to attract the most customers. Customers are frequently categorised based on demographics like as age, race, gender, ethnicity, economic level, and geographic region, which may all assist businesses in developing a profile of a perfect customer.

12.2. Customer Analysis

Customer analysis is an essential marketing component of any strategic business plan. It identifies target clients, determines their wants, and then defines how the product meets those needs. Thus, it involves the examination and evaluation of consumer needs, desires, and wants.

Customer analysis includes the administration of customer surveys, the study of consumer data, the evaluation of market positioning strategies, development of customer profiles, and the selection of the best market segmentation techniques.

Using the facts generated by customer analysis, an effective profiling of customers may be established. Customer profiles can reveal demographic information about customers. A number of parties, including buyers, sellers, distributors, salespeople, managers, wholesalers, retailers, suppliers, and creditors, can assist in gathering information to effectively assess the needs and desires of consumers. Successful businesses constantly monitor the behaviour of existing and prospective customers.

12.3. Customer Behaviour

Customer behaviour explains how they purchase products. It examines elements like shopping frequency, product preferences, and the perception of your marketing, sales, and service offerings.

Understanding these details allows businesses to communicate with customers in an effective manner. Understanding the behaviours of customers enables businesses to establish effective marketing and advertising campaigns, provide products and services that meet their needs, and retain customers for repeat sales.

Consumer behaviour may be influenced by a number of things. These elements can be categorised into the following three conceptual domains:

- **External Influences:**
  External influences, like advertisement, peer recommendations or social norms, have a direct impact on the psychological and internal processes that influence various consumer decisions. The focus of external effects is on the numerous elements that have an impact on customers as they choose which needs to satisfy and which products to use to do so. These aspects are divided into two groups – the company's marketing efforts and the numerous environmental elements.

- **Internal Influences**: Internal processes are psychological factors internal to customer and affect consumer decision making. Consumer behaviour is influenced by a combination of internal and external influences, including motivation and attitudes.

- **Decision Making**: A rational consumer, as decision maker would seek information about potential decisions and carefully integrate this with the existing knowledge about the product. After weighing the advantages and disadvantages of each option, they would make a decision. The stages of decision making process can be described as:
  - Problem recognition, i.e., identify an existing need or desire that is unfulfilled
  - Search for desirable alternative and list them
  - Seeking information on available alternatives and weighing their pros and cons.
  - Make a final choice

This behaviour of making decisions happens very frequently. However, it mostly applies when the purchase is one that is significant to the customer, such as when the product could have a significant influence on their health or self-image. The process is extremely valid when purchasing a car, television or a refrigerator in contrast to purchase of ice creams or soft drinks.

Post-decision Processes: After making a decision and purchasing a product, the final phase in the decision-making process is evaluating the outcome. The consumer's reaction may vary depending upon the satisfaction. While a happy customer may make repeat purchase and recommend to others, customer with dissonance will neither purchase the product again nor recommend it to others

Questions

Scenario Based Questions :-

1. **Question**

Suresh Singhania is the owner of an agri-based private company in Sangrur, Punjab. His unit is producing puree, ketchups and sauces. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape.

Explain the steps to be followed by Suresh Singhania to understand competitive landscape.

Answer

Steps to understand the competitive landscape:

(i) **Identify the competitor**: The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share. Suresh should start by identifying all the companies that produce similar products

to his own, both locally and nationally. This includes direct competitors who offer similar products and indirect competitors who may offer alternatives to his product

(ii) **Understand the competitors**: Once the competitors have been identified, suresh can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products offered by them in different markets. This includes their product offerings, pricing strategies, distribution channels, market share, strengths, weaknesses, and any recent developments or innovations.

(iii)**Determine the strengths of the competitors**: Suresh should understand the strengths of the competitiors by answering following questions –

- What is the strength of the competitors?
- What do they do well?
- Do they offer great products?
- Do they utilize marketing in a way that comparatively reaches out to more consumers?
- Why do customers give them their business?

(iv)**Determine the weaknesses of the competitors**: Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

(v) **Put all of the information together**: At this stage, Suresh should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. Suresh can also know the areas which need to be strengthen by the firm.

2. Question

Eco-carry bags Ltd., a recyclable plastic bags manufacturing, and trading company has seen a potential in the ever-growing awareness around hazards of plastics and the positive outlook of the society towards recycling and reusing plastics.

A major concern for Eco-carry bags Ltd. are paper bags and old cloth bags. Even though they are costlier than recyclable plastic bags, irrespective, they are being welcomed positively by the consumers.

Identify and explain that competition from paper bags and old cloth bags fall under which category of Porter's Five Forces Model for Competitive Analysis?

Answer

Eco-carry bags Ltd. faces competition from paper bags and old cloth bags. Competition from paper bags and old cloth bags would fall under the category of "Threat of Substitutes" in Porter's Five Forces Model for Competitive Analysis.

Threat of Substitutes: This force examines the availability of alternative products or services that could potentially fulfill the same function or need as the company's offerings. Paper bags and old cloth bags serve as substitutes for recyclable plastic bags in terms of carrying items and are perceived as more environmentally friendly alternatives.

Paper Bags: Paper bags are biodegradable and are often perceived as more eco-friendly than plastic bags. They have gained popularity due to increasing environmental concerns and regulatory pressures to reduce plastic usage.

Old Cloth Bags: Cloth bags, especially those made from recycled materials or old clothing, are another substitute for plastic bags. They are reusable, durable, and have a lower environmental impact compared to plastic bags.

The presence of these substitutes poses a threat to Eco-carry bags Ltd. because they provide consumers with alternatives that align better with environmental values, even if they come at a higher cost. As consumers become more conscious about the environmental impact of their choices, the demand for paper bags and old cloth bags may continue to increase, further intensifying the competition for Eco-carry bags Ltd.

Substitute products are a latent source of competition in an industry. In many cases, they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.

3. Question

Baby Turtle is a children's clothing brand that has been created a new age demand for washable diapers. The major benefit for the brand has been that not many companies have shown interest in the product, thinking it is not viable, however, customers, majorly working mothers are loving their product. The core material needed for production is also used in many other water proofing products in various industries. Baby Turtle sources this material from a renowned supplier at comparatively low prices. Which of the five forces of competitive pressure would Baby Turtle experience due to above setup and what are major factors that create such pressure for a product? Do you think Baby Shark has an advantage in some way to fight off this pressure?

Answer

Baby Turtle would experience, Bargaining Power of Suppliers, as a competitive pressure for their washable diaper product. This is because the core material for production is sourced from a single supplier, who is renowned and in a position to create pressure in terms of prices.

Further, other factors that lead to such pressure are:

1.Their products are crucial to the buyer and substitutes to the material required for production are not available.

2.Suppliers can manipulate switching cost as the brand is in inception stage and making margins are important.

An advantage that Baby Turtle has is even though the material required has no substitutes, but it used to make many other products and thus there are many other suppliers who can provide that material. It might affect operations in short term but will help to fight off the pressure created by existing supplier

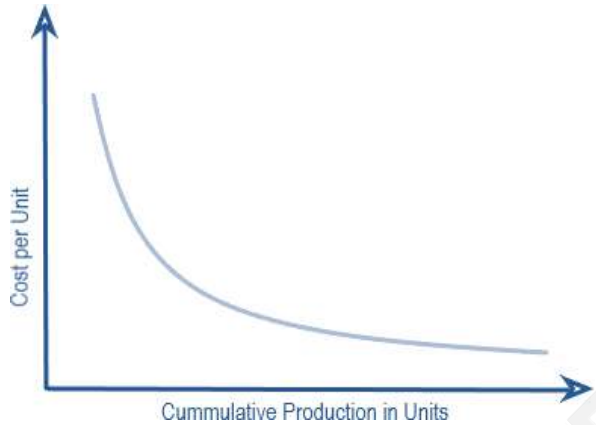
Descriptive Questions :-

1. Question

Explain the concept of Experience Curve and highlight its relevance in strategic management.

Answer

Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. It is represented diagrammatically as shown in the next page.



The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organizations, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition.

2. Question

Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis.

Answer

Product Life Cycle is an important concept in strategic choice and S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is also at a lower rate.

The second stage of PLC is the growth stage, in which the demand expands rapidly, prices fall, competition increases and market expands.

The third stage of PLC is the maturity stage, where in the competition gets tough and market gets stabilized. Profit comes down because of stiff competition.

The fourth stage is the declining stage of PLC, in which the sales and profits fall down sharply due to some new product replaces the existing product

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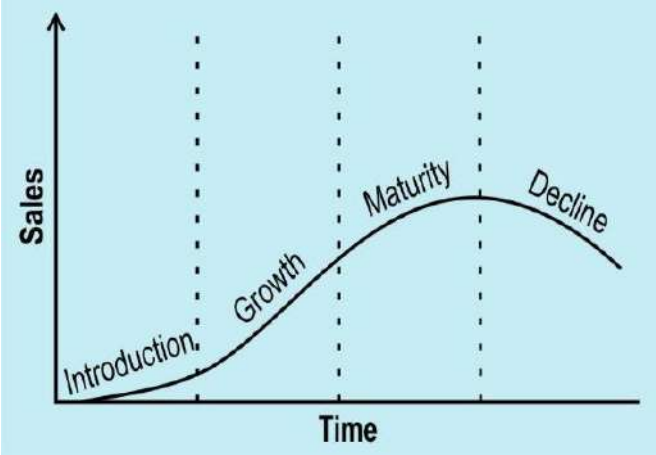

Product Life Cycle

PLC can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

3. Question

Explain Porter's five forces model as to how businesses can deal with the competition.

Answer

Porter's Five Forces Model is a framework used to analyze the competitive dynamics of an industry and assess the attractiveness of entering or operating within that industry. Businesses can use this model to understand the sources of competition and develop strategies to deal with it effectively. Here's how businesses can utilize Porter's Five Forces Model to deal with competition:

Threat of New Entrants: This force assesses the likelihood of new competitors entering the market and challenging existing businesses.

Bargaining Power of Suppliers: This force examines the power suppliers have over businesses in terms of pricing, quality, and availability of inputs.

Bargaining Power of Buyers: This force analyzes the power customers have to negotiate prices, demand higher quality, or switch to alternative products or services.

Threat of Substitute Products or Services: This force evaluates the availability of alternative products or services that could fulfill the same need or function as the business's offerings.

Intensity of Competitive Rivalry: This force assesses the level of competition among existing businesses in the industry.

By systematically analyzing these five forces and implementing strategies to address them, businesses can effectively navigate competitive pressures and position themselves for sustainable growth and success within their industry.

Past Exams, RTP and MTP Questions Compiler

1. July 2021 Exam, 5 marks| May 2019 Exam, 5 marks| RTP May 2018|MTP Sep 2022, 5 marks

"Understanding the competitive landscape is important to build a competitive advantage." Explain.

Answer

Competitive landscape is a business analysis which identifies competitors, either direct or indirect. Competitive landscape is about identifying and understanding the competitors and at the same time, it permits the comprehension of their vision, mission, core values, niche market, strengths and weaknesses.

An in-depth investigation and analysis of a firm's competition allows it to assess the **competitors' strengths and weaknesses** in the marketplace and helps it to **choose and implement effective strategies** that will improve its competitive advantage.

Steps to understand the competitive landscape for building competitive advantage are:

(i) Identify the competitor: The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.

(ii) Understand the competitors: Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.

(iii) Determine the strengths of the competitors: What are the strengths of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers? Why do customers give them their business?

(iv) Determine the weaknesses of the competitors: Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.

(v) Put all of the information together: At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm.

2. Nov 2020 Exam, 5 marks

Why companies should go global? Mention any five reasons.

Answer

There are several reasons why companies go global. These are discussed as follows:

- One reason could be the **rapid shrinking of time and distance across the globe** - thanks to faster communication, speedier transportation, growing financial flows and rapid technological changes.
- It is being realized that the **domestic markets are no longer adequate and rich.** Companies globalize to take advantage of opportunities available elsewhere.
- A new product may **gradually get acceptance and grow locally and then globally.** This may initially be in form of exports and then later production facilities may begin in other countries.
- Organizations may go global **to take advantage of cheaper raw material and labour costs.**
- Companies often **set up overseas plants to reduce high transportation costs.**
- The motivation to go global in **high-tech industries** is slightly different. Companies in electronics and telecommunications must spend large sums on research and
- development for new products and thus may be compelled to seek **ways to improve sales volume to support high overhead expenses.**
- The companies may also go global **to take advantage of local taxation laws.**

- **To form strategic alliances to ward off economic and technological threats** and leverage their respective comparative and competitive advantages

3. Nov 2018 Exam, 3 marks | MTP Mar 2021, 5 marks

Examine the significance of KSFs (Key Success Factors) for competitive success.

Answer

As industry's Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the market place – the particular strategy elements, product attributes, resources, competencies, competitive capabilities and business outcomes that spell the difference between profit & loss and ultimately, between competitive success or failure. KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success, or, to put it in another way, KSFs are the rules that shape whether a company will be financially and competitively successful.

4. Q11. May 2018 Exam, 2 marks| MTP May 2020, 5 marks

Explain the concept of competitive advantage.

Answer

Competitive advantage is the position of a firm to maintain and sustain a favourable market position when compared to the competitors. Competitive advantage is ability to offer buyers something different and thereby providing more value for the money. It is achieved advantage over rivals when a company's profitability is greater than average profitability of firms in its industry. It is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry. Competitive advantage may also be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large.

5. RTP Nov 2022

Woodworld Ltd. is a company manufactures a variety of household furniture items. They offered traditional designs, low-cost furniture items to low-income group customers. During the last couple of years, the company has been observing a fall in the market share. This is due to the change in the taste and preferences, designing, better quality, increase in purchasing power of buyers towards the household furniture. The customers are switching away traditional designs and material that have been the backbone of Woodworld Ltd. As a CEO of Woodworld Ltd., what can be the strategic options available with you.

Answer

Woodworld is having a product portfolio that is evidently in the decline stage. The product is being replaced with the latest designs with better quality of the product. Strategically, the company should minimize their dependence on the existing products and identify other avenues for the survival and growth. As a CEO of Woodworld Ltd., following can be the strategic options available with the CEO:

- Invest in new product development and switchover to the latest designs. Woodworld Ltd. also need time to invest in hiring interior designers.
- They can acquire or takeover a competitor, provided they have or are able to generate enough financial resources.
- They may also consider unrelated growth and identify other areas for expansion. This will enable Woodworld Ltd. to spread their risks.
- In longer run, they should divest the existing products. However, they may continue with the existing products in a limited manner for such time there is demand for the product.

6. RTP May 2021

ABC Ltd. manufactures and sells air purifier 'Fresh Breath'. The 'Fresh Breath' has seen sales growth of around 1% for the last two years, after strong growth in the previous five years. This is due to new products entering the market in competition with the 'Fresh Breath'. ABC Ltd. is therefore considering cutting its prices to be in line with its major rivals with a hope to maintain the market share. Market research indicates that this will now

cause a significant increase in the level of sales, even though in previous years price cuts have had little effect on demand. ABC ltd. is also planning to launch a promotional campaign to highlight the benefits of the 'Fresh Breath' against its rival products. Identify and explain the stage of the product life cycle in which 'Fresh Breath' falls.

Answer

Product Life Cycle is a useful concept for guiding strategic choice. PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift).

The product 'Fresh Breath' of ABC Ltd. falls under Maturity stage of product life cycle. In this stage, the competition gets tough and market gets stabilised. Profit comes down because of stiff competition. At this stage, ABC Ltd. have to work for maintaining stability by cutting the prices to be in line with its major rivals with a hope to maintain the market share and by launching a promotional campaign to highlight the benefits of the 'Fresh Breath' against its rival products.

7. May 2022 Exam, 2+3= 5 marks

"The bargaining power of suppliers determines an industry's attractiveness and profitability." Discuss.

Answer

Quite often, suppliers too, exercise considerable bargaining power over purchasing companies. The more specialised the offering from the supplier, greater may be its clout. Further, when the suppliers are limited in number, they may openly exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry, and therefore, an industry's attractiveness and profitability. Suppliers can influence the profitability of an industry in a number of ways.

Suppliers can command bargaining power over a firm when;

i. Their products are crucial to the buyer and substitutes are not available.
ii. They can erect/ensure high switching costs.
iii. They are more concentrated than their buyers. Less suppliers, more buyers.

8. Nov 2021 Exam, 5 marks | Nov 2019 Exam, 5 marks

What are the factors which determine the nature of rivalry in an industry?

Answer

The intensity of rivalry in an industry is a significant determinant of an industry's attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus, can directly affect the profitability. "The more intensive the rivalry, the less attractive is the industry".

Rivalry among competitors tends to be cutthroat and an industry's profitability is low when;

i. An industry has no clear leader. Therefore, continuous war for leadership.
ii. Competitors in the industry are numerous.
iii. Competitors operate with high fixed costs. Thus, aiming for better Return on Investment with more fierce tactics.
iv. Competitors face high exit barriers, and therefore, continue to fight for market share.
v. Competitors have little opportunity to differentiate their offerings.
vi. The industry faces slow or diminished growth.

9. July 2021 Exam, 5 marks

There are many companies in the market offering COVID vaccine. Analyse the product in terms of threat of new entrants.

Answer

There are three companies offering a vaccine for COVID-19 in India and a fourth company is awaiting approval from authorities. This product involves huge capital requirements and hence not every existing pharma

company is likely to get into the competition. However, once approved for use, the entire world is the target market. This would lead to economies of scale helping the company to recover the investments made. The product differentiation is in terms of the low after effect of the vaccine and the effectiveness of the vaccine in controlling COVID-19. Brand identity is becoming very important with people preferring international brands compared to a home – grown company. Factors like switching cost, access to distribution channels and possibility of aggressive retaliation do not apply at present because governments across the world are controlling these factors and the vaccine has not entered the phase of free competition.

10. May 2018 Exam, 5 marks | RTP May 2022 | RTP Nov 2018

Explain briefly the competitive forces in any industry as identified by Michael Porter.

Answer

Five forces model of Michael Porter is a popular tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five forces as follows:

1. **Threat of new entrants:** New entrants place a limit on prices and affect the profitability of existing players. The new capacity and product range the new entrants bring increases competitive pressure. bigger the new entrant, the more severe the competitive effect.
2. **Bargaining power of customers:** The bargaining power of the buyers influences not only the prices that the producer can charge but also influence costs and investments of the producer. This force will become heavier depending on the possibilities of the buyers forming groups or cartels, particularly in case of industrial products.
3. **Bargaining power of suppliers:** Often suppliers can exercise considerable bargaining power. If the suppliers are also limited in number, they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, can affect industry attractiveness and profitability.
4. **Rivalry among current players:** The rivalry among existing players is quite obvious. This is what is normally understood as competition. The impact is evident more at functional level in the prices being charged, advertising, and pressures on costs, product and so on.
5. **Threats from substitutes:** Substitute products are a latent source of competition in an industry. Substitute products offering a price advantage and/or performance improvement to the consumer can have significant impact.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/ profitability.

11. RTP Nov 2022

Rajiv Arya is owner of an electrical appliance company that specializes in manufacturing of domestic vacuum cleaners. There are four other manufacturers with similar products and sales volume. Current rival firms also own a number of patents related to the product. The supplier base for procurement of raw material is also very large as there are multiple suppliers. Identify Porter's Five Forces that may be classified as significant for the company? Explain.

Answer

The **competitive rivalry will be a significant force** in case of company of Rajiv Arya as all the rivals are similar in sizes and are manufacturing similar products. It is difficult for any single manufacturer to dominate the market. Large number of patents will make it difficult for new entrants to break into the market. Further, as there are a large number of small suppliers the power that suppliers can exert will also be low. There is no information relating to substitutes and bargaining power of customers in the information given in scenario. However, a domestic vacuum cleaner will directly compete with other options such as house maids. Availability of house maids at low cost can significantly disturb the sales of products. Further, as the products are similar customers can easily shift from one company to another. This will only enhance competitive rivalry. The competitive rivalry will be significant in Rajiv Arya's dealing industry as all rivals are similar in sizes and manufacture similar products, making it difficult for anyone manufacturer to dominates the market or gain market share. The large number of patents will make it hard for new entrants to break into the market, while the fact that Rajiv Arya buys from a large number of small suppliers suggests that supplier power is also low.

Finally, there is **no information relating to substitutes and bargaining power** of customers in the information given in scenario.

12. RTP Nov 2022

A startup company is thinking of launching of a low-cost detergent powder in the market. The market of the said product is already dominated by a big FMCG player. You are advised to put forward your suggestions to the management of the company to deal with the problems of 'Entry 'Barrier' while launching the low-cost detergent powder.

Answer

There are number of factors that can act as entry barrier for the start-up company. An FMCG, big in size, is already dominating the market space and will act as a strong deterrent for the new start-up. **The following will be some suggestions to the management of the start-up to deal with the problem of entry barriers:**

1. The company is working on producing low-cost detergent. Keeping other expenses also on the lower side the management can create price advantage that is competitive to the existing established players including the large FMCG.
2. The company focussing on single product in comparison to multiple products of an FMCG can develop competencies to produce and sell the low cost detergent that are difficult to deploy by the FMCG by its strategy that addresses needs of multiple products.
3. The start-up needs to have strong financial strength to sustain the onslaught from the dominant FMCG and other players. The start-up can identify sources of capital well in advance and be able to use it judiciously to their advantage.
4. The start-up should identify the customer segments that are likely to switch to the product well in advance so as to target the same and generate the initial hold on the market. Once the product gets some hold and their brands get some identity, the market can be further developed to address other customers.
5. The start-up should identify the environmental factors that go to their advantage. These may include special scheme of the government to encourage entrepreneurs, tax holiday, low interest rates, advantages available to small and medium sized enterprises alike.
6. It has to create an image in the market that its products are qualitative and 'Made in India' to attract a particular segment of customers.
7. They need to have a team of experts and dedicated management professionals who can implement strategies formulated by top management.

13. RTP Nov 2021

Easy Access is a marketing services company providing consultancy to a range of business clients. Easy Access and its rivals have managed to persuade the Government to require all marketing services companies to complete a time-consuming and bureaucratic registration process and to comply with an industry code of conduct. Do you think that by doing this Easy Access and its rivals has an advantage in some way to fight off competitors? Explain.

Answer

Yes, Easy Access and its rivals get advantage by this move. The new bureaucratic process is making it more complicated for organizations to start up and enter in Easy Access market, increasing barriers to entry and thereby reducing the threat of new entrants. New entrants can reduce an industry's profitability, because they add new production capacity, leading to increase in supply of the product, sometimes even at a lower price and can substantially erode existing firm's market share position. However, New entrants are always a powerful source of competition. The new capacity and product range they bring in throws up a new competitive pressure. The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players, which is known as Price War

14. RTP May 2021

Competitive pressures operate as a composite in five areas of the overall market. Elaborate.

Answer

Competition makes organizations work harder, however, it is neither a coincidence nor bad luck. All organizations have competition and its benefit are enjoyed by the markets. The customers are able to get better products at lower costs. They get better value for their money because of competition. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing

the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market as follows:

i. **Rivalry among current players:** Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
ii. **Threat of new entrants**: Competitive pressures associated with the threat of new entrants into the market.
iii. **Threats from substitutes:** Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
iv. **Bargaining power of suppliers:** Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
v. **Bargaining power of customers:** Competitive pressures stemming from buyer bargaining power and seller-buyer collaboration.

15. RTP Nov 2019

Buyers can exert considerable pressure on business. Do you agree? Discuss.

Answer

Buyers of an industry's products or services can exert considerable pressure on existing firms to secure lower prices or better services. This is evident in situations where buyers enjoy superior position than the seller of product. **This leverage is particularly evident when:**

i. Buyers have full knowledge of the sources of products and their substitutes.
ii. They spend a lot of money on the industry's products, i.e., they are big buyers.
iii. The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

16. RTP May 2019 | RTP May 2018

Rahul Sharma is Managing Director of a company which is manufacturing trucks. He is worried about the entry of new businesses. What kind of barriers will help Rahul against such a threat?

Answer

A firm's profitability tends to be higher when other firms are blocked from entering the industry. New entrants can reduce industry profitability because they add new production capacity leading to increase supply of the product even at a lower price and can substantially erode existing firm's market share position. Barriers to entry represent economic forces that slow down or impede entry by other firms.

Common barriers to entry include:

i. **Capital Requirements:** When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry.
ii. **Economies of Scale:** Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows.
iii. **Product Differentiation:** Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.
iv. **Switching Costs:** To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products. When such switching costs are high, buyers are often reluctant to change.
v. **Brand Identity:** The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer.
vi. **Access to Distribution Channels:** The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals.
vii. **Possibility of Aggressive Retaliation:** Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.

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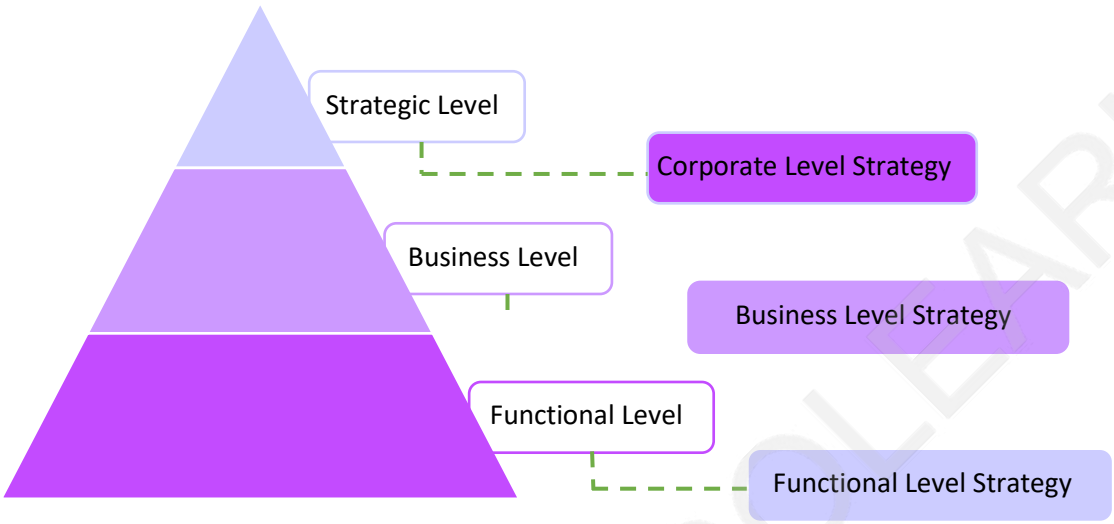
STRATEGIC CHOICES

1. Introduction

Strategies are formulated at different levels of an organization – corporate, business, and functional.

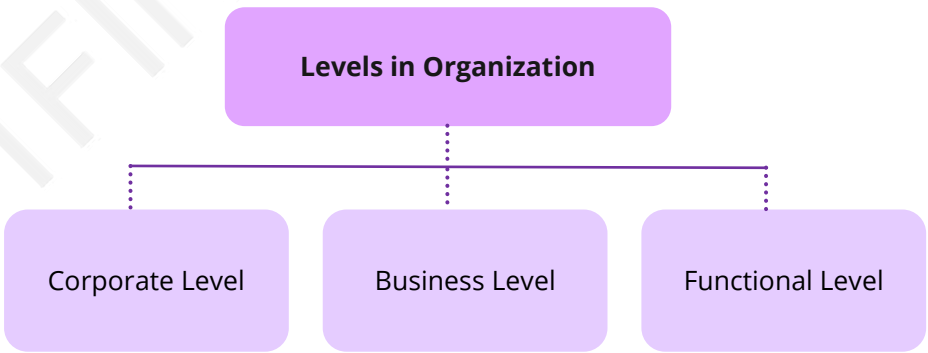


- Corporate level strategies occupy the highest level of strategic decision making
- Top management of the organization makes strategic decisions
- They deal in
  - Objective of firm
  - Acquisition
  - Allocation of resources
  - Coordinating strategies of various SBU's

2. Types of Strategies

We can classify the different types of strategies on the basis of levels of organisation, stages of business life cycle and competition

Level of the organisation



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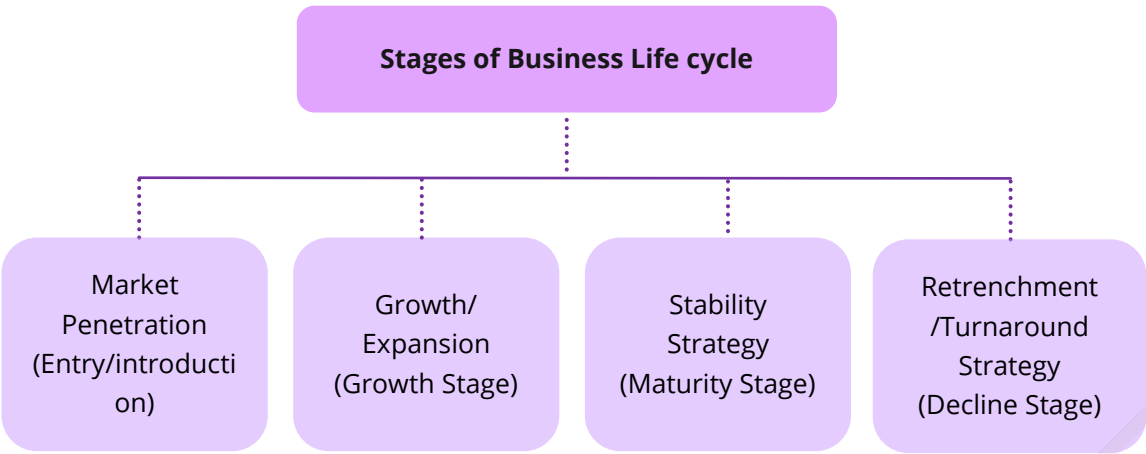
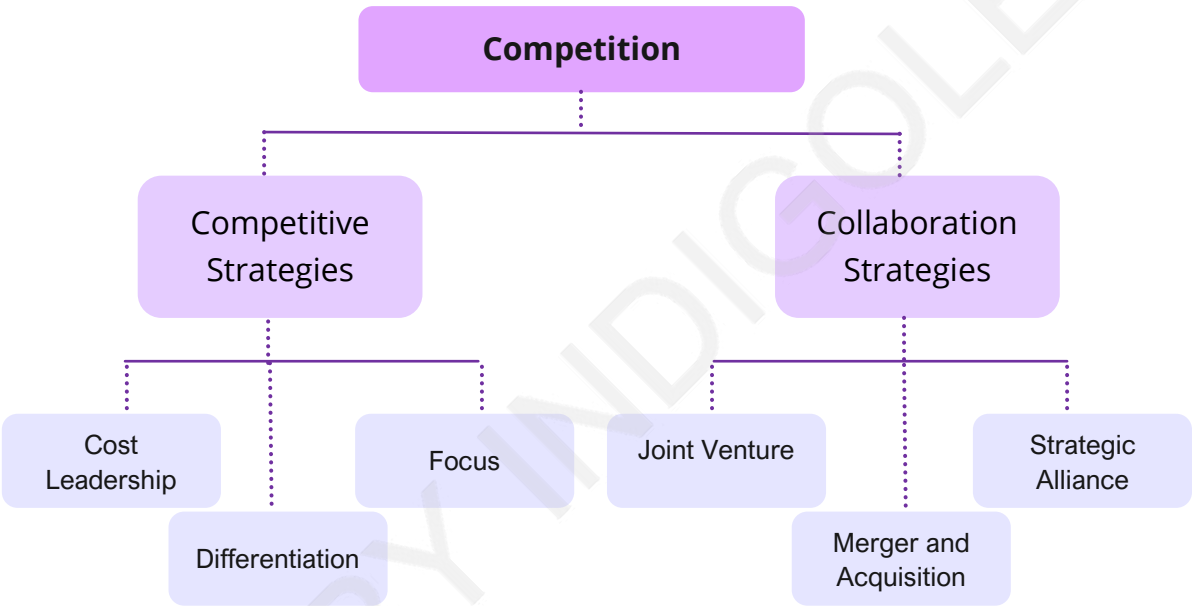
On the basis of Stages of Business Life Cycle



On the basis of competition



The corporate strategies a firm can adopt may be classified into four broad categories:

1. Stability strategy
2. Expansion strategy
3. Retrenchment strategy
4. Combination strategy

2.1 Stability Strategy

- It is a ***status quo-oriented*** strategy – may involve minor improvements in product and / or packaging.
- It is staying in and concentrating on the same business, same market and ***maintaining same level*** of effort as today.
- It is not a ***'do nothing'*** strategy – it involves keeping track of new development to ensure current strategy continues to make sense.
- It is a way of ***attempting to enhance*** functional efficiencies in an incremental way.
- It tries to ***protect existing strengths*** with very minimal additional investment and functional efficiencies.

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Focus of business enterprise

- ***Safeguarding*** its existed interests and strengths
- Pursuing well established and ***tested objectives***
- Continuing in the ***chosen business path***
- Maintaining the ***operational efficiency*** on a sustained basis
- Consolidating the ***commanding position*** already reached
- ***Optimise returns*** on the resources committed in the business

Features of Stability Strategy

- The ***goal*** is ***to serve in the same / similar markets***, and deal in same / similar products
- It is pursued when the ***focus*** of strategic decisions is ***on incremental improvement*** of performance
- It is taken by those ***firms*** whose product have ***reached the maturity stage*** of product life cycle
- When expansion is ***perceived*** as being threatening and therefore less changes are desirable
- Small organizations who want to ***consolidate their market position*** and prepare for launch of growth strategy

Characteristics of Stability Strategy

- ***Nothing new*** is being done i.e. same products, same business, same markets
- This strategy represents ***"Status quo"***
- ***Least risky*** strategy
- This does not warrant much of ***fresh investment***
- Involves ***minor improvements*** in the product and its packaging
- Company focuses on utilisation of its existing resources into existing products and markets to get the ***maximum achievable benefit***
- Company endeavours to enhance in an ***incremental way*** but not for exponential growth
- Only those companies with ***modest growth objective*** choose for this strategy

Major reasons for choosing Stability Strategy

- A product has reached the ***maturity*** phase
- Management and employees feel ***comfortable*** with the status quo
- Management is ***Risk averse*** in nature
- Expansion may be perceived as being ***threatening***
- Environment in which business operates is ***stable***
- After a period of rapid expansion/growth, for ***consolidating the market position***

2.2 Growth / Expansion Strategy

- When environment demands ***increase*** in pace of activity at a large scale
- It Involves ***redefining*** the business by enlarging scope of business without continuing the status quo leading to new products, new markets, and innovative decisions
- When expansion may lead to greater control over the market vis-à-vis competitors
- When advantages from the experience curve and scale of operations are likely to accrue
- It requires ***substantially increase*** in the fresh investments
- It is opposite of stability strategy – here, risks are high, and so are rewards.
- It will also include mergers and acquisitions
- Redefining business products, divisions markets
- Opposite to Stability Strategy
- High risks are compensated with high rewards
- Leads to Business growth
- Requires newer investments

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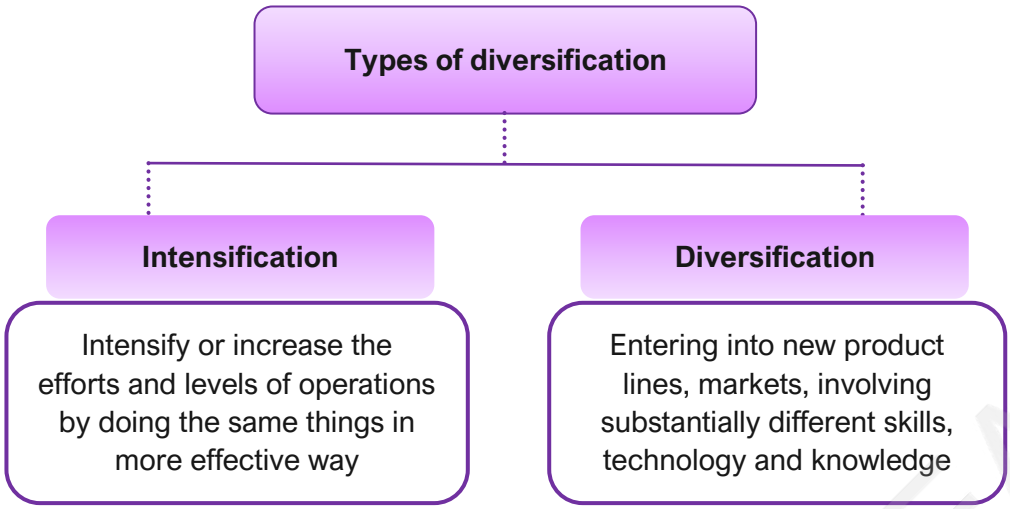
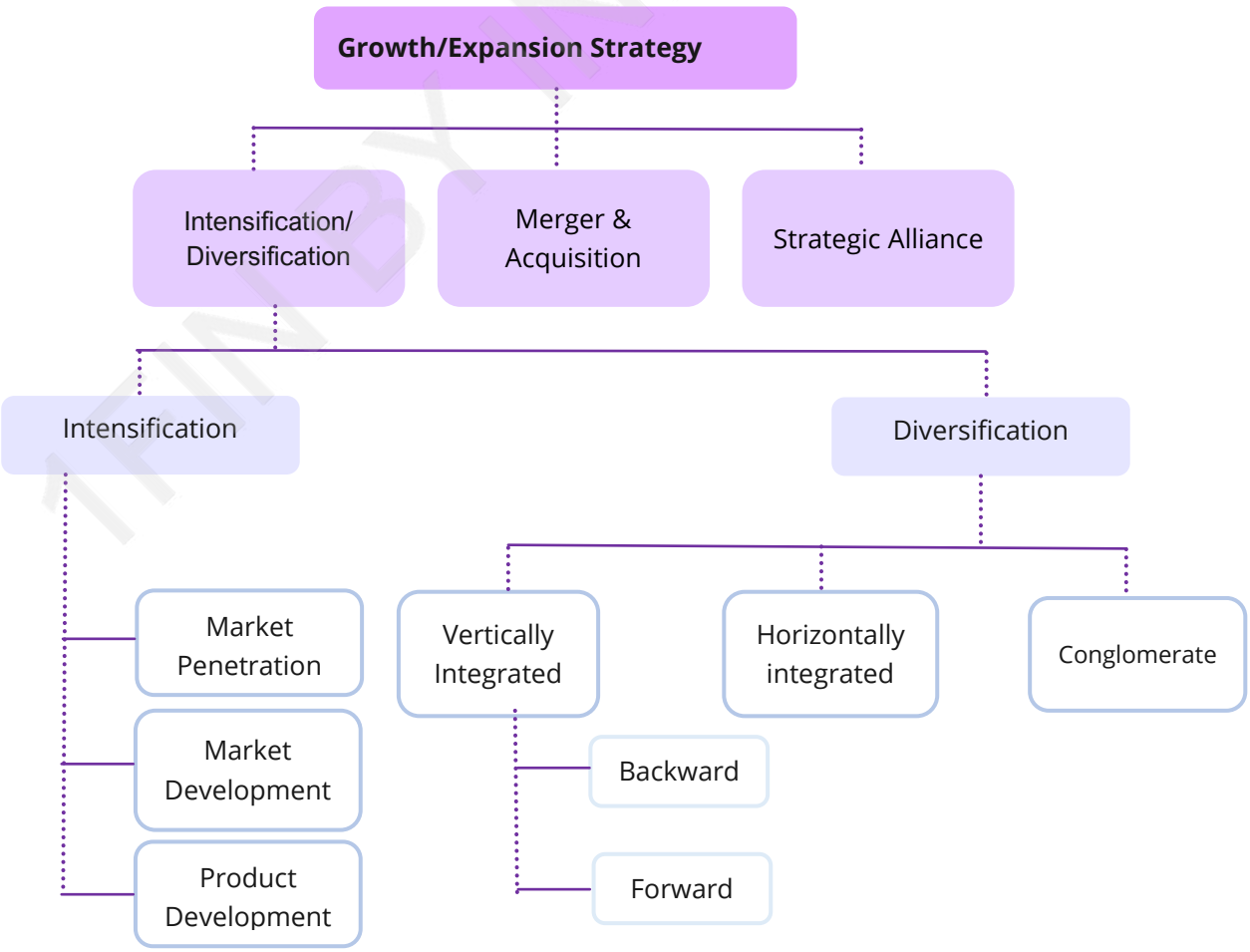
- Highly versatile strategy
- Internal Growth Strategies has two routes.
  - Intensification
  - Diversification



2.3.1 Major reasons for Growth/Expansions Strategy

- High growth environment with opportunities
- Growth oriented management
- After initial Consolidation when firm wants to grow exponentially
- To become strong player in the market, to take advantage over competitors
- Economies of scale

2.3.2 Kinds of growth Strategy



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Intensification and Diversification are internal whereas mergers, acquisitions and strategic alliances are external.

3 Internal Growth Strategies

This can happen in following ways

3.1 Intensification – Intensifies or increases the efforts and level of operations by doing the same things in a more effective way

- Market Penetration – Existing products in existing markets
- Market Development – Existing products in new markets
- Product Development – New products in existing markets

Market Penetration	Market Development	Product Development
• Increase market share, i.e. grow in existing markets • Increase frequency of usage • Increase quantity used • Find new application for new users	• Expand geographically to target new markets/ segments with existing products. • by adding new distribution channels etc.	• Substantial modification of existing products or creation of new but related items, to market to current customers in existing markets.

3.2 Diversification – It is a strategy adopted by those firms which want to launch new products in new markets. When a firm tries to grow and expand by diversifying into various products or fields, it is called growth by diversification.

This is also an internal growth strategy. Innovative and creative firms always look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship using their internal resources. They feel that diversification offers greater prospects of growth and profitability than intensification.

Diversification is defined as an entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.

This diversification can be classified on the basis of relation to existing business as

- Concentric – Related to existing business in some way and
- Conglomerate

Concentric diversification can be further classified as

- Vertically integrated
- Horizontally integrated

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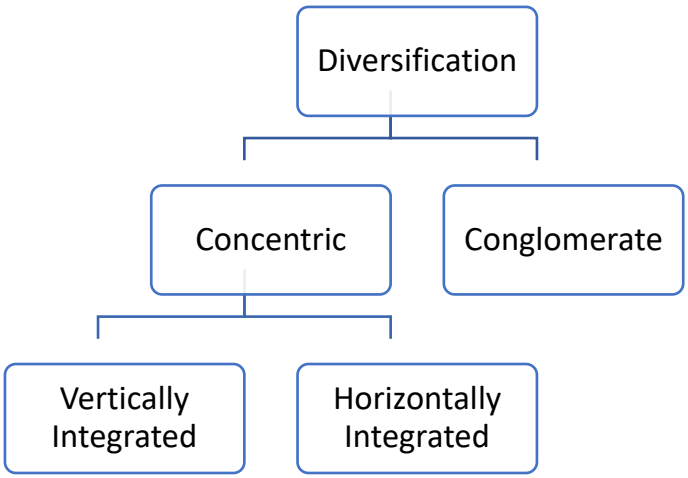

Concentric Diversification	Conglomerate Diversification
• New business is linked to existing business through process, technology or marketing • New product is spin-off from existing facilities and products / processes – benefits of synergy	• New business is disjoint from the existing business/ products in every way • No common thread (process/ technology/ function) with firm's present position
Vertically Integrated	**Horizontally Integrated**
• Engage in business which is related to existing business • Firm remains vertically within the same product-process sequence, and enter into product/process within that chain • Could be backward integration i.e. enter business of input providers • Could be forward integration, i.e. enter lines that use existing products • Benefits of synergy	• Acquisition of similar business, operating at the same stage of the production-marketing chain, i.e. going into complementary products, by-products, taking over competitors' products

Vertically integrated diversification

- Backward and forward integration
  - **Backward integration** – Firm engaging in any business which is currently being done by the suppliers

    For example, A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.
  - Reasons –
    - To secure the raw materials supply
    - To improve the profitability
    - To reduce the cost of raw material consumed
  - **Forward integration** – Firm engaging in business which reduces the intermediaries between the firm and the customer

    For example, A coffee bean manufacture may choose to merge with a coffee cafe.
  - Reasons –

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- To control the distribution (or) create better distribution network
- To increase the profitability

Horizontally integrated diversification

A firm gets horizontally diversified by integrating through acquisition of one or more similar businesses operating at the same stage of the production-marketing chain. They can also integrate with the firms producing complementary products or by-products or by taking over competitors' products.

Conglomerate Diversification

In conglomerate diversification, no linkages related to product, market or technology exist; the new businesses/products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position. For example, A cement manufacturer diversifies into the manufacture of steel and rubber products.

- **Related diversification** – Exchange or share assets or competencies by exploiting
  - brand name
  - marketing skills
  - sales and distribution capacity
  - manufacturing skills
  - R&D / new product capabilities
  - economies of scale

  Example: Concentric diversification
- **Unrelated diversification** – Investment in new product portfolios
  - Employment of new technologies
  - Focus on multiple products
  - Reduce risk by operating in multiple product markets
  - Defend against takeover bids
  - Provide executive interest

  Example: Conglomerate diversification

3.3 Innovation

Innovation drives upgradation of existing product lines or processes, leading to increased market share, revenues, profitability and most important, customer satisfaction. Innovation has following benefits

- **Helps to solve complex problems:** A business strives to find opportunities in existing problems of the society, and it does so though planned innovation in areas of expertise.

  This guided innovation help solve complex problems by developing customer centric sustainable solutions.

  For example – Vehicles with driver assistance help reduce accidents.

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- **Increases Productivity:** Innovation leads to simplification and in most cases automation of existing tasks. Productivity is defined as a measure of final output from a task or a process, and companies are willing to spend millions on increasing their productivity, Innovation, by automating repetitive tasks, and simplifying the long chain of processes, adds to productivity of teams and thereby the organisation as a whole.

  For example, with automation, companies can ensure automatic dispatches of products using robots and technology. Such digital innovation which leads to improved productivity, creates opportunities to further develop processes and products within and outside the organisatoin. Thus, innovation creates a ripple effect that has a far and wide impact across industries.

- **Gives Competitive Advantage:** A business which innovates faster is ahead of competition. For example Apple is pioneer in innovation and is considered as one of the leading companies in mobile and technology. The faster a business innovates, the farther it goes from its competitor's reach. Innovative products need less marketing as they aim to provide added satisfaction to consumers, thus, creating a competitive advantage. Innovation not only helps retain the existing customers but helps acquire new ones with ease.

4 External Growth Strategies

4.1 Expansions through Merger and acquisition

- Merger and Acquisition (M&A) is the process of combining two or more organizations together
- Merger is a process of two or more companies ***coming together*** to expand their business operations
- Acquisition is when one organization ***takes over*** another, and controls all its business operations. Usually, acquirer is financially stronger than the organization being acquired. Often unfriendly – a forced association for the acquired entity
- Instant means of achieving expansion – saves time and skills involved in screening internal growth opportunities and building up the resource base to pursue them
- Helps in achieving synergies from various perspectives - physical facilities, technical skills, distribution channels, R&D etc.
- The combination brings ***positive synergy***

  Reasons
  - Due to economies of scale
  - The unnecessary plants after merger will get shutdown
  - Different expertise/ specialisation processed by each companies are brought together

  Result
  - Increased Market Share
  - Increased Revenue
  - Lower Costs
  - Higher Profits
- The combination might bring ***negative synergy*** **–** when expected synergies are not achieved

  Reasons
  - Diverse work culture
  - Inefficient utilisation of resources

  Result
  - Failure of business
  - Losses to organisation

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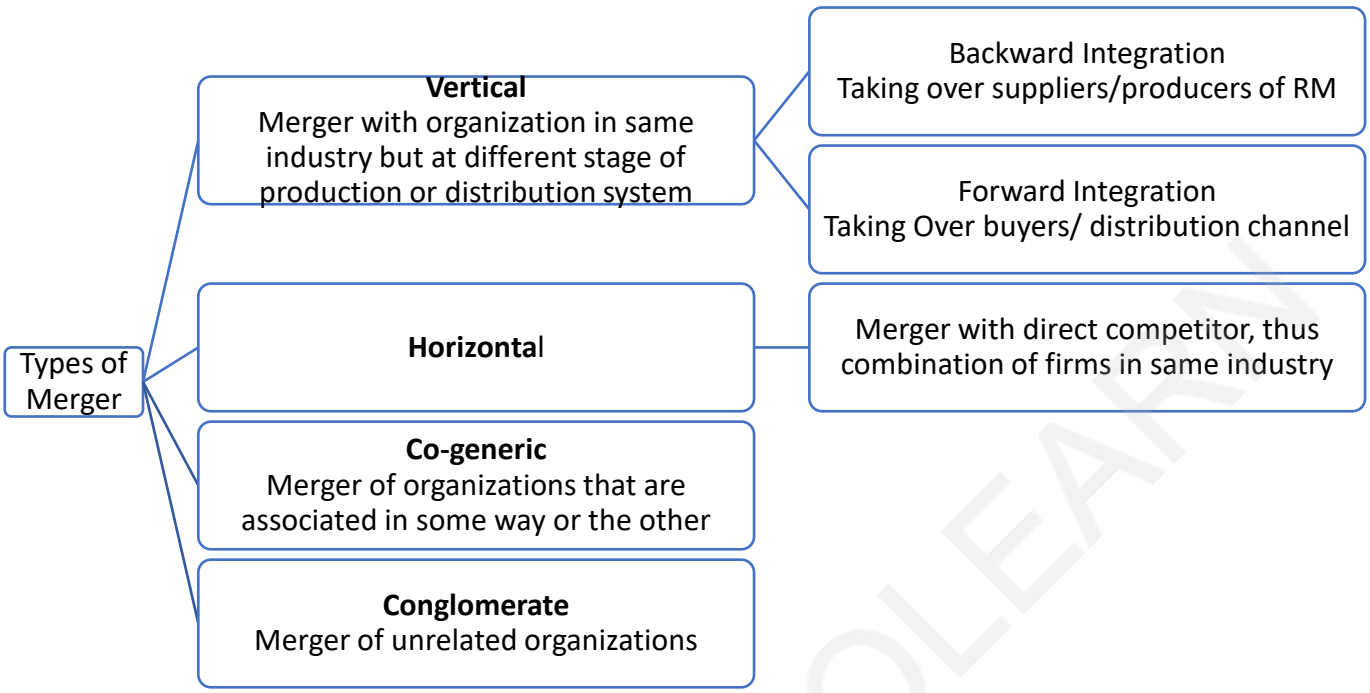
Types of Mergers



Vertical Merger	Horizontal Merger
• Results in increased synergies, operating and financial economies, helps control competition (by restricting raw material supply or by not letting use the distribution channel) • E.g Tata Motors acquiring Ceat Tyres	• Objective: to achieve economies of scale in production process, widen line of products, decrease working capital etc. • Shedding out the duplication of resources and functions • E.g.: Brooke Bond + Lipton India = Brook Bond Lipton India Ltd.
Co-generic Merger	Conglomerate Merger
• Merger of organizations that are associated in some way or the other related to the production processes, business markets, or basic technologies • Helps to diversify around a common set of resources • E.g.: Business of refrigerators merging with business of kitchen appliances	Merger of unrelated organizations - no linkage to customer groups or technologies or R&D or production and marketing

Horizontal Merger

Competitive firms in similar line of business merge together to save the time, efforts and resources that are used in competing against each other

5 Expansion through Strategic Alliance

- A ***relationship*** between two or more businesses which is entered into ***to achieve specified objectives***
- Neither of the business organization loses its ***independence and separate identity***
- Merely ***share controls and benefits*** over the partnership and ***mutually make contributions to the alliance*** until terminated
- Often formed across countries / regions

Advantages

- Sharing of resources in the form of marketing skills, distribution network, Production skills, Asset base, technical knowhow etc.,
- Greater economies of scale can be obtained in an alliance, as production volume can increase, with same fixed costs causing the cost per unit to decline
- Rivals can join together to cooperate instead of compete
- Vertical integration can be created where partners are part of supply chain
- Strategic alliance are formed with players in foreign markets
- These advantages usually accrue to all parties involved-

Various advantages of Strategic alliance at different levels are explained below

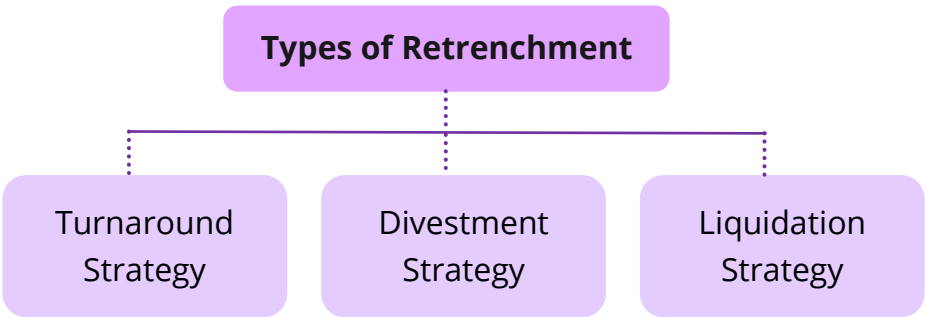
Organisational	Economic
• Improving necessary skills • Obtaining certain capabilities • Enhance productive capacity • Provide a distribution system • Extend supply chain	• Reduction in costs and risks • Achieving greater economies of scale • Utilizing co–specialization • Offering additional value to customers
Strategic	**Political**
• Pool resources and skills, thus creating competitive advantage • Get access to new technologies • Pursue joint R&D	• To gain entry into foreign markets, one may ally with local foreign business • To improve influence and position, one may ally with politically influential partners

Disadvantages

- Requirement to share profits, resources, knowledge, skills etc., such things organizations may not like, especially problematic when there are trade secrets involved
- Risk of creating a competitor – an ally may turn one, when it separates out in the future

6 Retrenchment Strategy / Strategic Exits

- This strategy is pursued when, an organisation substantially reduces the scope of its activities.



- Major reasons for retrenchment / strategic exits
  - Continuous losses and unavailability
  - Persistent negative cash flows
  - Severity of competition

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- Technology upgradation is required
- New facilities required
- Mismanagement

6.1 Turnaround Strategy

- When organisation wants to reverse the process of decline it adopts turnaround strategy
- It is a strategy to revive the growth for the company
- It is internal retrenchment to improve internal efficiencies
- Action plan for turnaround - Stages
  - ***Assess*** current problems, ***identify root causes*** and damage caused
  - ***Identify*** strategies, ***develop action plan*** and evaluate chances of survival with each of such plans
  - ***Implementing the action*** plan by taking HR, financial, operations, marketing actions to restructure debts, reduce costs, improve working capital etc.
  - ***Analyse*** and review cash forecasts, assets & debts position, etc., and take steps to ***restructure*** the business on the basis of
    - People
    - Product
    - Financial Assets
  - ***Evaluate*** if there are signs of returning to normal
- Important elements:
  - Changes in top management
  - Neutralise external pressures
  - Quick cost reductions
  - Revenue generation efforts
  - Asset liquidation for cash
  - Improve internal coordination
  - Initiate credibility-building

6.2 Divestment Strategy

- It involves sale or liquidation of a portion / division of business or a profit centre / SBU
- It is adopted when turnaround has been unsuccessful.
- It is a rehabilitation / restructuring plan
- Reason for divestment –
  - An acquisition proves to be a ***mismatch***, and cannot be integrated
  - There are persistent ***negative cash flows***
  - Inability to deal with ***severe competition***
  - Unable to invest in ***technological upgradation*** which otherwise is a must
  - A ***better alternative*** for investment is available

6.3 Liquidation Strategy

- It involves closing down the firm and selling assets
- It leads to unemployment, loss including reputational, hence the last resort
- Selling assets may be difficult and also it might become hard to find buyers
- It is the most unpleasant stage, yet desirable if closing down is less loss-making than running the business

6.4 Combination Strategy

- All the strategies are not mutually exclusive
- Companies may adopt a suitable mix – stability in some areas, expansion in some, and retrenchment in others.
- Main reasons for adopting combination strategy are:
  - organization is large and environment complex

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- it is composed of different businesses, in different industries

6.5 Major Reasons for retrenchment/turnaround strategy

- The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.
- The management feels that business could be made viable by divesting some of the activities or liquidation of unprofitable activities.
- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
- Severity of competition and the inability of a firm to cope with it may cause it to divest.
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
- A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.

7 Strategic Options

In the context of strategic management, strategic options refer to the various alternatives or courses of action that an organization can consider and pursue to achieve its long-term goals and objectives. Strategic management involves the process of analyzing the external environment, assessing internal capabilities, and formulating strategies to guide the organization toward success.

Strategic options are critical because they provide decision-makers with a range of choices for how to position the organization in relation to its competitors, adapt to changes in the business environment, and capitalize on opportunities. These options help organizations navigate uncertainties and make informed decisions about the direction they want to take.

Strategic options need to be carved out from existing products and innovations that are happening in the industry. There are a set of models that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that possess the greatest potential.

For instance, a diversified company may decide to divert resources from its cash- rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives efficiently.

In order to design the business portfolio, the management must analyse its current business portfolio and decide which business should receive more, less, or no investment. Depending upon analyses management may develop growth strategies for adding new products or businesses to the firm's portfolio.

7.1 Ansoff's product market growth matrix

- Companies should always be looking to the future & one useful tool for identifying growth opportunities for the future is the product/market expansion grid.
- Ansoff's product market growth matrix is a useful tool that helps businesses decide their product & market growth strategy.
- It is a portfolio-planning tool for identifying growth opportunities for the company.

7.1.1 Market Penetration

- Selling ***existing products*** into ***existing markets***
- More sales to present customers without majorly changing product
- Greater spending on ***advertising*** & personal selling
- Aggressive promotional campaign
- ***Pricing strategy*** that makes market unattractive for competitors
- Increase usage by ***existing customers***

7.1.2 Market Development

- Selling ***existing products*** into ***new markets***
- Identifying & developing new markets for current products
- Maybe achieved through
  - New ***geographical*** markets
  - New product dimensions/***packaging***
  - New ***distribution channels***
  - Different ***pricing policies***

7.1.3 Product Development

- Introduce ***new products*** into ***existing markets***
- May require the ***development of new competencies***
- Develop modified products which is appealing to existing customers

7.1.4 Diversification

- The business markets ***new products*** in ***new markets***
- ***Starting up***/acquiring businesses outside the company's current products
- & markets
- ***Risky*** strategy since it does not rely on the current successful position of the company in the market
- Moving into markets where company has little/no experience

	Existing Products	**New Products**
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

7.2 ADL Matrix

The ADL matrix approach forms a two-dimensional matrix based on stage of industry maturity (environmental assessment) & the firm's competitive position (business strength assessment).

Dominant	• Rare position • Monopoly • Strong & protected technological leadership
Strong	• Considerable degree of freedom • Act without its market position being threatened by rivals
Favourable	• Fragmented industry • No one competitor stands out clearly • Reasonable degree of freedom
Tenable	• Satisfactory performance • Staying in the industry is justifiable • Vulnerable in the case of intense competition from strong rivals
Weak	• Unsatisfactory performance • Opportunities for improvement exist

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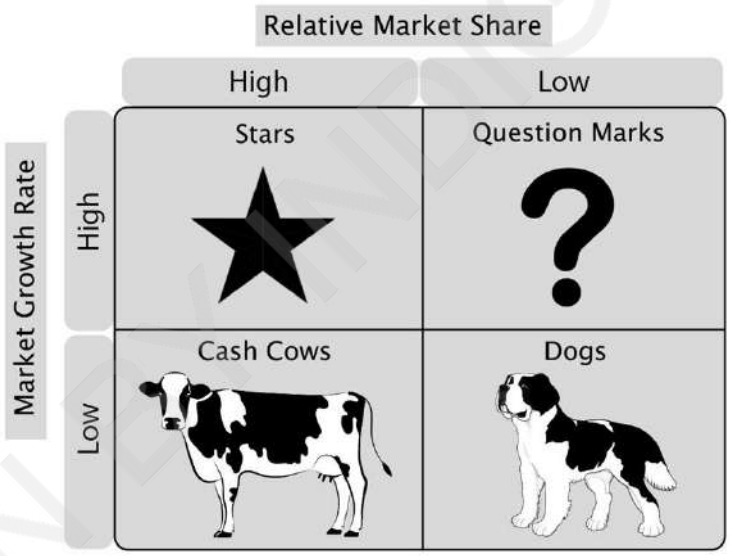
		INDUSTRY MATURITY			
		Embryonic	Growth	Mature	Ageing
COMPETITIVE POSITION	Dominant	• Increase customers • Act offensively	•Retain customers •Grow fast •Optimisation	• Retain market share • Grow • Re-invest	• Defend postion (or) • Withdraw
	Strong	• Grow fast • Differentiate	• Defend market share • Grow fast	• Retain market share • Grow	• Defend • Reduce expenses (or) withdraw
	Favourable	• Gain market share • Differentiate	• Defend market share • Grow fast	• Retain market share • Try to differentiate	• Harvest (or) withdraw
	Tenable	• Grow with industry • Find Niche	• Hold the niche position (or) • Withdraw	• Hold the niche position (or) withdraw.	• Hold (or) withdraw
	Weak	• Continue (or) • Withdraw	• Try to differentiate (or) • Withdraw	• Turn around (or) withdraw.	• Withdraw

7.3 Boston Consulting Group (BCG) Growth Share Matrix

The BCG growth share matrix is used for resource/investment allocation in a diversified company. Using the BCG approach, a company classifies its different businesses on a two- dimensional growth-share matrix. In the matrix

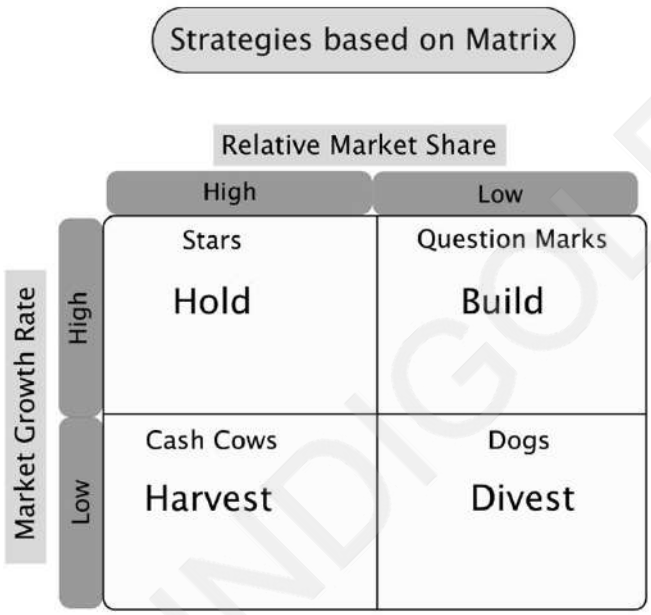
- Vertical axis represents ***market growth rate*** & a measure of ***market attractiveness***
- Horizontal axis represents ***relative market share*** & a measure of ***company strength***



Star	• Products or SBU's that are growing rapidly • Need heavy maintenance to finance their rapid growth potential • Represent best opportunity for expansion
Cash Cows	• Low growth, high market share • Generate cash & have low costs • Established, successful, need low investment • Stars become cash cows in the long run when growth rate slows down
Question Mark	• Called as problem child or wildcats • Low market share in high growth market • Need heavy investments with low potential to generate cash • If left unattended, capable of cash traps • Due to high growth rate, expansion is easier • Organization should strive to turn them to stars & then to cash • cows when growth rate reduces

Dogs	• Low growth, low share business/products • May generate cash to maintain themselves • Do not have much future • Sometimes may need cash to survive • Minimize dogs by divestment/liquidation

- After a firm has classified its products/SBU's as above, it must determine what role each will play in the future. The four strategies that can be adopted are:
  - ***Hold*** - preserve market share
  - ***Build*** - increase market share even by forgoing short term income to build large market share
  - ***Harvest*** – Increase cash flows
  - ***Divest*** - sell/liquidate since resources can be better used elsewhere



7.3.1 Limitations of the BCG growth share matrix

- Limitations of the BCG growth share matrix:
  - Difficult, time consuming, costly to implement
  - Difficult to define SBU's & measure market share and growth
  - Focuses on classifying current businesses while providing little advice for future planning
  - Places too much emphasis on increasing market share, growth & expansion into new markets which leads to risky ventures or divesting established units too quickly

7.4 General Electric Matrix (Stop – light Strategy Model)

The strategic planning approach in this model has been inspired from traffic control lights: green for go; yellow for caution; red for stop.

- The vertical axis indicated ***market attractiveness*** & the horizontal axis shows the ***business strength*** in the industry.

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Market attractiveness	Business strength: Strong	Business strength: Average	Business strength: Weak
High	Invest/Expand	Invest/Expand	Select/Earn
Medium	Invest/Expand	Select/Earn	Harvest/Divest
Low	Select/Earn	Harvest/Divest	Harvest/Divest

Market attractiveness is measured by factors like:
***Acronym*-"DISCS AT DOOR"**

- ***Demand*** variability
- ***Industry*** profitability
- ***Size*** of the market
- ***Competitive*** intensity
- ***Segmentation***
- ***Availability*** of technology
- Pricing ***Trends***
- ***Distribution*** structure
- ***Overall Risk*** of returns in the industry
- ***Opportunity*** for differentiation
- Market growth ***Rate***

Business strength is measured by drivers like:
***Acronym*- "CM PLATE RIMS"**

- Relative ***Cost*** position
- ***Management*** calibre
- ***Production*** capacity
- Customer ***Loyalty***
- ***Ability*** to compete on price & quality
- ***Technological*** capability
- Distribution ***Efficiency***
- ***Rate of market share*** growth
- Brand ***Image***
- Profit ***Margin***
- Market ***Share***

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Scenario based questions :-

1. Question

Gautam and Siddhartha, two brothers, are the owners of a cloth manufacturing unit located in Faridabad. They are doing well and have substantial surplus funds available within the business. They have different approaches regarding corporate strategies to be followed to be more competitive and profitable in future.

Gautam is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies. On the other hand, Siddhartha desires to start another unit to produce readymade garments.

Discuss the nature of strategic choices being suggested by the two brothers with reference to the payoffs and the risks involved.

Answer

Gautam wishes to diversify in a business that is not related to their existing line of product and can be termed as **conglomerate diversification**. He is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies, which is not related to their existing product.

In conglomerate diversification, the new businesses/ products are disjointed from the existing businesses/ products in every way; **it is an unrelated diversification**. In process/ technology/ function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position.

On the other hand, Siddhartha seeks to move forward in the chain of existing product by adopting **vertically integrated diversification/ forward integration.** The cloth being manufactured by the existing processes can be used as raw material of garments manufacturing business.

In such diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process and moves forward or backward in the chain. It enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain.

Both types of diversifications have their own risks. In conglomerate diversification, there are no linkages with customer group, customer marketing functions and technology used, which is a risk. In the case of vertical integrated diversification, there is a risk of lack of continued focus on the original business.

2. Question

XYZ Company is facing continuous losses. There is decline in sales and product market share. The products of the company became uncompetitive and there is persistent negative cash flow. The physical facilities are deteriorating, and employees have low morale. At the board meeting, the board members decided that they should continue the organization and adopt such measures such that the company functions properly. The board has decided to hire young executive Shayamli for improving the functions of the organization. What corporate strategy should Shayamli adopt for this company and what steps need to be taken to implement the strategic choice adopted by Shayamli?

Answer

XYZ Company is facing continuous losses, decline in sales and product market share, persistent negative cash flow, uncompetitive products, declining market share, deterioration in physical facilities, low morale of employees. In such a scenario, Shayamli may choose **turnaround strategy** as this strategy attempts to

reverse the process of decline and bring improvement in organizational health. This is also important as Board has decided to continue the company and adopt measures for its proper functioning.

For success, Shayamli needs to focus on the short and long-term financing needs as well as on strategic issues. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. A workable action plan for turnaround would involve:

Stage One – **Assessment of current problems**: In the first step, assess the current problems and get to the root causes and the extent of damage.

Stage Two – **Analyze the situation and develop a strategic plan:** Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – **Implementing an emergency action plan**: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.

Stage Four – **Restructuring the business**: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.

Stage Five – **Returning to normal**: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

3. Question

Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides Organo with a significant amount of its fresh produce. Organo feels that by purchasing the farms, it will have greater control over its supply chain. Identify and explain the type of diversification opted by Organo?

Answer

Organo is a large supermarket chain. By opting vertical backward integration and purchase a number of farms, it will have greater control over its supply chain. Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

Vertical Integration: By purchasing the farms that supply its fresh produce, Organo aims to vertically integrate its supply chain. Vertical integration involves expanding into different stages of the production or distribution process related to a company's core business. In this case, Organo seeks to gain greater control over the production of fresh produce, from cultivation to distribution, by owning the farms.

Supply Chain Control: By owning the farms, Organo can exert greater control over its supply chain for fresh produce. This may include ensuring consistent quality and availability of produce, reducing dependency on external suppliers, and potentially lowering costs through economies of scale or improved efficiencies in the production process.

Synergies: The farms' acquisition aligns with Organo's existing business model and can create synergies between its supermarket operations and the production of fresh produce. For example, Organo may be able to streamline logistics, optimize inventory management, or introduce new product lines based on the produce grown on the farms.

Risk Mitigation: Owning the farms can also help Organo mitigate risks associated with supply chain disruptions, such as crop failures, transportation delays, or price fluctuations in the fresh produce market. By diversifying its sourcing capabilities and securing a more reliable supply of fresh produce, Organo can enhance its resilience to market uncertainties.

4. Question

With the global economic recession Soft Cloth Ltd. incurred significant losses in all its previous five financial years. Currently, they are into manufacturing of cloth made of cotton, silk, polyster, rayon, lycra and blends. Competition is also intense on account of cheap imports. The company is facing cash crunch and has not been able to pay the salaries to its employees in the current month.

Suggest a grand strategy that can be opted by Soft Cloth Ltd.

Answer

Soft Cloth Ltd. is facing internal as well as external challenges. The external environment is in economic recession and the organization is facing cash crunch. The company needs to work on retrenchment / turnaround strategy. The strategy is suitable in case of issues such as:

- Persistent negative cash flow.
- Uncompetitive products or services
- Declining market share
- Deterioration in physical facilities
- Overstaffing, high turnover of employees, and low morale
- Mismanagement

The company may consider to substantially reduce the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems.

These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

5. Question

X Pvt. Ltd. had recently ventured into the business of co-working spaces when the global pandemic struck. This has resulted in the business line becoming unprofitable and unviable, and a failure of the existing strategy. However, the other businesses of X Pvt. Ltd. are relatively less affected by the pandemic as compared to the recent co-working spaces. Suggest a strategy for X Pvt. Ltd. with reasons to justify your answer.

Answer

It is advisable that divestment strategy should be adopted by X Pvt. Ltd.

In the given situation where the business of co-working spaces became unprofitable and unviable due to Global pandemic, the best option for the company is to divest the loss-making business.

Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy.

Further, divestment helps address issues like:

1. Persistent cash flows from loss making segment could affect other profit-making segments, which is the case in the given scenario.

2. Inability to cope from the losses, which again is uncertain due to pandemic.

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3. Better investment opportunity, which could be the case if X Pvt. Ltd. can invest the money it generates from divestment.

6. Question

Atrix Ltd. is a company engaged in the designing, manufacturing, and marketing of mechanical instruments like speed meters, oil pressure gauges, and so on. Their products are fitted into two and four wheelers. During the last couple of years, the company has been observing a fall in the market share. This is on account of shift to the new range of electronic instruments. The customers are switching away mechanical instruments that have been the backbone of Atrix Ltd.

As a CEO of Atrix Ltd., what can be the strategic options available with you.

Answer

Atrix is having a product portfolio that is evidently in the decline stage. The product is being replaced with the technologically superior product. Strategically the company should minimize their dependence on the existing products and identify other avenues for the survival and growth. As a CEO of Atrix Ltd., following can be the strategic options available with the CEO:

- Invest in new product development and switchover to the new technology. Atrix Ltd. also need time to invest in emerging new technology.
- They can acquire or takeover a competitor provided they have or are able to generate enough financial resources.
- They may also consider unrelated growth and identify other areas for expansion. This will enable Atrix Ltd. to spread their risks.
- In longer run, they should divest the existing products. However, they may continue with the existing products in a limited manner for such time there is demand for the product.

Descriptive Questions :-

1. Question

Describe the construction of BCG matrix and discuss its utility in strategic management.

Answer

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing portfolio of different business units or major product lines. The BCG growth- share matrix facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth share matrix. Two dimensions are market share and market growth rate. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company's strength in the market.

Thus, the BCG matrix depicts quadrants as shown in the following table:

Relative Market Share

Market Growth Rate		High	Low
	High	**Stars**	**Question Marks**
	Low	**Cash Cows**	**Dogs**

BCG Matrix

Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

(a) Stars are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.

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

(c) Question Marks, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

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

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.

(a) Build with the aim for long-term growth and strong future.

(b) Hold or preserve the existing market share.

(c) Harvest or maximize short-term cash flows.

(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

Thus, BCG matrix is a powerful tool for strategic planning analysis and choice.

2. Question

An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

Product	*Revenues (in ₹)*	*Percent Revenues*	*Profits ₹*	*Percent Profits*	*Percentage Market Share*	*Percentage Industry Growth rate*
A	*6 crore*	*48*	*120 lakh*	*48*	*80*	*+ 15*
B	*4 crore*	*32*	*50 lakh*	*20*	*40*	*+ 10*
C	*2 crore*	*16*	*75lakh*	*30*	*60*	*-20*

D	50 lakh	4	5 lakh	2	5	-10
Total	12.5 crore	100	250 lakh	100		

Answer

Using the BCG approach, a company classifies its different businesses on a two dimensional growth-share matrix. In the matrix, the vertical axis represents market growth rate and provides a measure of market attractiveness. The horizontal axis represents relative market share and serves as a measure of company strength in the market. With the given data on market share and industry growth rate of Soorya Ltd, its four products are placed in the BCG matrix as follows:

Retain Market Share

ket Growth Rate	High	Low
High	Product A [80% Market Share +15% Growth Rate] **Stars**	Product B [40% Market Share +10% Growth Rate] **Question Marks**
Low	Product C [60% Market Share -20% Growth Rate] **Cash Cows**	Product D [05% Market Share -10% Growth Rate] **Dogs**

Product A is in best position as it has a high relative market share and a high industry growth rate. On the other hand, product B has a low relative market share, yet competes in a high growth industry. Product C has a high relative market share but competes in an industry with negative growth rate. The company should take advantage of its present position that may be difficult to sustain in long run. Product D is in the worst position as it has a low relative market share and competes in an industry with negative growth rate.

*It is assumed that the market share given is relative market share.

3. Question

Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product Market Growth Matrix to advise them of the available options.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets.

	Existing Products	New Products
Existing Markets	**Market Penetration**	**Product Development**

New market

Based on the matrix, Aurobindo may segregate its different products. Being in pharmaceuticals, development of new products is result of extensive research and involves huge costs. There are also social dimensions that may influence the decision of the company. It can adopt penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way.

Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company.

Product development refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets.

Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

4. Question

In the context of Ansoff's Product-Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases:

(i)A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.

(ii)A business giant in hotel industry decides to enter into dairy business.

(iii)One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets.

(iv)A renowned auto manufacturing company launches ungeared scooters in the market.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. This matrix further helps to analyse different strategic directions. According to Ansoff there are four strategies that organisation might follow.

(i)Market Penetration: A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. It refers to a growth strategy where the business focuses on selling existing products into existing markets.

(ii)Diversification: A business giant in hotel industry decides to enter into dairy business. It refers to a growth strategy where a business markets new products in new markets.

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(iii)Market Development: One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets.

(iv)Product Development: A renowned auto manufacturing company launches ungeared scooters in the market. It refers to a growth strategy where business aims to introduce new products into existing markets.

Past Exams, RTP and MTP Questions Compiler

1. RTP May 2022| RTP Nov 2020

Explain the role of ADL Matrix in assessing competitive position of a firm.

Answer

The ADL matrix has derived its name from Arthur D. Little which is a portfolio analysis method based on product life cycle. The approach forms a two-dimensional matrix based on stage of industry maturity and the firm's competitive position, environmental assessment and business strength assessment. The role of ADL matrix is to assess the competitive position of a firm based on an assessment of the following criteria:

- **Dominant:** This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
- **Strong:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitors.
- **Favourable:** This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.
- **Tenable:** Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
- **Weak:** The performance of firms in this category is generally unsatisfactory.

2. RTP Nov 2021

Ajanta & Sons Limited are manufacturers of domestic household security alarms for high income group homeowners in India. The company is currently reviewing two strategic options.

Option 1: Selling the same alarms although with different coverings to smaller and low- income group households at a lower price.

Option 2: Development of new, more sophisticated alarms and a wide range of security services (guards and surveillance) for sale to industrial clients for higher prices.

The senior management team of Ajanta & Sons Limited are keen to analyse the two options using Ansoff's matrix.

Answer

Selling the same alarms with different coverings to smaller and low income group households at a lower price represents Market Development as the same products are being sold into a new market. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company.

While the development of new and more sophisticated alarms and a wide range of security services (guards and surveillance) for sale to industrial clients for higher prices is classified as Diversification, because it involves a new product, being sold in a new market. Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

3. RTP Nov 2018 | MTP Oct 2021, 5 marks

How Ansoff's Product Market Growth Matrix is a useful tool for business organizations?

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix a business can get a fair idea about how its growth depends in new or existing products in both new and existing markets. Companies should always be looking to the future. Businesses that use the Ansoff matrix can determine the best strategy. The matrix can help them to decide how to do this by demonstrating their options clearly, breaking them down into four strategies, viz., Market Penetration, Market Development, Product Development, Diversification. Determining which of these is best for their business will depend on a number of variables including available resources, infrastructure, market position, location and budget.

4. MTP Oct 2022, 5 marks| MTP Mar 2022, 5 marks

Sky chemical industry intends to grow its business. Advise the company on the available options using Ansoff's product market growth matrix.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets. The Ansoff's product market growth matrix is as follows:

	Existing Products	**New Products**
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Sky chemical industry can adopt market penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way.

Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company.

Product development refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets.

Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

5. Nov 2022 Exam, 1+4 = 5 marks

A company started its operation in 2015 with Product Alpha. In early 2021, with intent to have its better presence in the market, the company diversifies by acquiring a company with product Beta. After sometime, it was observed that product Beta is not faring well. Aggressive competition was therein market for the product. It was also revealed that though customers are not price sensitive, but product was not keeping pace with the fast-changing unique features as expected by its customers. Company has tried one of the retrenchment strategies by putting efforts to improve its internal efficiency, but could not get desired results. In the situation, company is of a considered view to remain and grow in product alpha and to decouple with product Beta from its portfolio. As a strategist, suggest the retrenchment strategy to be adopted by the company. Also delineate reasons why a company should adopt such strategy?

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Answer

As per the facts of the case, company had tried to improve its internal efficiency. In other words, had tried turnaround strategy but could not get the desired results. Company does not want to go for complete close down of business. Rather it wants to continue and grow in its original business i.e., product Alpha. As a strategist, it is advisable that the company should adopt **divestment strategy.** In the given situation where the business of product Beta is not faring well and became unprofitable and unviable due to aggressive competition in the market, the best option for the company is to divest the product Beta which is loss-making business. Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy.

A divestment strategy may be adopted due to various reasons:

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
3. Severity of competition and the inability of a firm to cope with it may cause it to divest.
4. It is not possible for the business to do Technological up-gradation that is required for the business to survive, a preferable option would be to divest.
5. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable business.

6. May 2022 Exam, 1+4 = 5 marks

ABC Steel Industries finds out that its products have reached at maturity stage and already has overcapacity. Therefore, it concentrates on maintaining operational efficiency of its plants. Identity the strategy implemented by ABC Steel Industries along with reasons.

Answer

ABC Steel Industries has opted to implement Stability strategy. Stability strategies are intended to safeguard the existing interests and strengths of business. It involves organisations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on. A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in same products and services. In stability strategy, few functional changes are made in the products or markets, however, it is not a 'do nothing' strategy. This strategy is typical for mature business organizations. Some small organizations also frequently use stability as a strategic focus to maintain comfortable market or profit position.

Major reasons for Stability strategy are:

- A product has reached the maturity stage of the product life cycle.
- The staff feels comfortable with the status quo as it involves less changes and less risks.
- It is opted when the environment in which an organisation is operating is relatively stable.
- Where it is not advisable to expand as it may be perceived as threatening.
- After rapid expansion, a firm might want to stabilize and consolidate itself.

7. May 2022 Exam, 2+3 = 5 marks

What do you understand by diversification? Distinguish between concentric and conglomerate diversification.

Answer

Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge. Diversification endeavours can be related or unrelated to existing businesses of the firm.

Following are the differences between the concentric diversification and conglomerate diversifications:

Concentric Diversification	Conglomerate Diversification

Meaning: It occurs when a firm adds related products or markets. **Linkage:** The new business is linked to the existing businesses through process, technology or marketing. **Reasons for pursuing:** The most common reason for pursuing a concentric diversification is that opportunities a firm's existing line of business are available.	**Meaning:** It occurs when a firm diversifies into areas that are unrelated to its current line of business. **Linkage:** Here no such linkages exist; the new business/ product is disjointed from the existing businesses/ products. **Reasons for pursuing:** The common reason for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

8. Nov 2021 Exam, 5 marks

"There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive". Discuss.

Answer

Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth. Conditions for turnaround strategies: When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment, they have to identify danger signals as early as possible and undertake rectification steps immediately.

These are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. **These danger signals are:**

- Persistent negative cash flow from business.
- Uncompetitive products or services.
- Declining market share.
- Deterioration in physical facilities.
- Over-staffing, high turnover of employees, and low morale.
- Mismanagement.

9. Nov 2021 Exam, 5 marks | Nov 2019 Exam, 5 marks | RTP May 2019 | RTP May 2018

GWA, a leading Japan based automobile company decides to make India a hub for the company's 250 cc motorcycle to be manufactured in collaboration with the TPR Group, a leading Indian motorcycle manufacturer. The production is to be exported to the company's home market as well as to other African countries. What is this growth strategy called? Point out the most important advantages both the companies expect from such strategy/ collaboration.

Answer

GWA of Japan and TRP group of India opted for strategic alliance as their growth strategy. A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. Strategic alliances are often formed in the global marketplace between businesses that are based in different regions of the world.

Advantages of Strategic Alliance

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows:

1. **Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Having a strategic partner who is well-known and respected also helps add legitimacy and creditability to a new venture.
2. **Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.
3. **Strategic:** Rivals can join together to cooperate instead of competing with each other. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.
4. **Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically influential partners may also help improve your own influence and position.

10. July 2021 Exam, 5 marks | RTP Nov 2020

The CEO of a textile mill is convinced that his loss-making company can be turned around. Suggest an action plan for a turnaround to the CEO.

Answer

A workable action plan for turnaround of the textile mill would involve:

- **Stage One** – Assessment of current problems: In the first step, assess the current problems and get to the root causes and the extent of damage.
- **Stage Two** – Analyze the situation and develop a strategic plan: Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions after analyzing strengths and weaknesses in the areas of competitive position.
- **Stage Three** – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.
- **Stage Four** – Restructuring the business: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.
- **Stage Five** – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

11. Jan 2021 Exam, 5 marks | MTP Apr 2022, 5 marks

X Pvt Ltd. had recently ventured into the business of co-working spaces when the global pandemic struck. This has resulted in the business line becoming unprofitable and unviable, and a failure of the existing strategy. However, the other businesses of X Pvt Ltd. are relatively less affected by the pandemic as compared to the recent co-working spaces. Suggest a strategy for X Pvt Ltd. with reasons to justify your answer.

Answer

It is advisable that divestment strategy should be adopted by X Pvt Ltd.

In the given situation where the business of co-working spaces became unprofitable and unviable due to Global pandemic, the best option for the company is to divest the loss-making business.

Retrenchment may be done either internally or externally. Turnaround strategy is adopted in case of internal retrenchment where emphasis is laid on improving internal efficiency of the organization, while divestment strategy is adopted when a business turns unprofitable and unviable due to some external factors. In view of the above, the company should go for divestment strategy.

Further, divestment helps address issues like:

1. Persistent cash flows from loss making segment could affect other profit-making segments, which is the case in the given scenario.
2. Inability to cope from the losses, which again is uncertain due to pandemic.
3. Better investment opportunity, which could be the case if X Pvt Ltd. can invest the money it generates from divestment.

12. Nov 2020 Exam, 5 marks | MTP Nov 2021, 5 marks | MTP Apr 2021, 5 marks | MTP Oct 2019, 5 marks

Briefly describe the meaning of divestment and liquidation strategy and establish difference between the two.

Answer

Divestment strategy involves the **sale or liquidation of a portion of business,** or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

Liquidation strategy is a retrenchment strategy considered the most extreme and unattractive strategy, which involves closing down a firm and selling its assets.

Basis of Difference	Divestment Strategy	Liquidation Strategy
Meaning	Divestment strategy involves **sale or liquidation of a portion of business.**	Liquidation strategy involves **closing down a firm and selling its business.**
Policy option	Divestment is usually a **part of rehabilitation or restructuring plan** and is adopted when a turnaround has been attempted but has proved to be unsuccessful. Option of a turnaround may even be ignored if it is obvious that divestment is the only answer.	Liquidation becomes **only option in case of severe and critical conditions** where either turnaround or divestment are not seen as solution or have been attempted but failed.
Purpose	Efforts are made for **survival** of the organization.	Liquidation as a form of **retrenchment strategy** is unattractive and considered as the **last resort.**
Consequences	Survival of organization **helps in retaining personnel,** at least to some extent.	There is **loss of employment and opportunities with stigma of failure.**

13. Nov 2019 Exam, 5 marks

An XYZ Company is facing continuous losses. There is decline in sales and product market share. The products of the company became uncompetitive and there is persistent negative cash flow. The physical facilities are deteriorating and employees have low morale. At the board meeting, the board members decided that they should continue the organization and adopt such measures that the company functions properly. The board has decided to hire young executive Shayamli for improving the functions of the organization. What corporate strategy should Shayamli adopt for this company and what steps to be taken to implement the corporate strategy adopted by Shayamli?

Answer

XYZ Company is facing continuous losses, decline in sales and product market share, persistent negative cash flow, uncompetitive products, declining market share, deterioration in physical facilities, low morale of employees. In such a scenario, Shayamli may choose **turnaround strategy** as this strategy attempts to reverse the process of decline and bring improvement in organizational health. This is also important as Board has decided to continue the company and adopt measures for its proper functioning. For success, Shayamli needs to focus on the short and long-term financing needs as well as on strategic issues. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning.

A workable action plan for turnaround would involve:

Stage One – Assessment of current problems: In the first step, assess the current problems and get to the root causes and the extent of damage.

Stage Two – Analyze the situation and develop a strategic plan: Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.
Stage Four – Restructuring the business: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.
Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

14. May 2019, 5 marks

Gautam and Siddhartha two brothers are the owners of a cloth manufacturing unit located in Faridabad. They are doing well and have substantial surplus funds available within the business. They have different approaches regarding corporate strategies to be followed to be more competitive and profitable in future. Gautam is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies. On the other hand, Siddhartha desires to start another unit to produce readymade garments. Discuss the nature of corporate strategies being suggested by two brothers and risks involved in it.

Answer

Gautam wishes to diversify in a business that is not related to their existing line of product and can be termed as conglomerate diversification. He is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies, which is not related to their existing product. In conglomerate diversification, the new businesses/ products are disjointed from the existing businesses/products in every way; it is a unrelated diversification. In process/ technology/ function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position.

On the other hand, Siddhartha seeks to move forward in the chain of existing product by adopting vertically integrated diversification/ forward integration. The cloth being manufactured by the existing processes can be used as raw material of garments manufacturing business. In such diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process and moves forward or backward in the chain. It enters specific product/process steps with the intention of making them into new businesses for the firm. The characteristic feature of vertically integrated diversification is that here, the firm does not jump outside the vertically linked product-process chain. Both types of diversifications have their own risks. In conglomerate diversification, there are no linkages with customer group, customer marketing functions and technology used, which is a risk. In the case of vertical integrated diversification, there is a risk of lack of continued focus on the original business.

15. Nov 2018 Exam, 2 marks

List the advantages of Strategic Alliances.

Answer

Advantages of strategic alliance are:

- **Organisational:** learn skills and obtain capabilities from strategic partners.
- **Economic:** Sharing of costs and risks by members of alliance.
- **Strategic:** Rivals can join together to cooperate rather than compete.
- **Political:** Alliance with partners with political influence improve overall power position of the organisation.

16. May 2018 Exam, 5 marks

XYZ Ltd. is a multi-product company, suffering from continuous losses since last few years and has accumulated heavy losses which have eroded its net worth. What strategic option is available to the management of this sick company? Advise with reasons.

Answer

XYZ Ltd. is a sick company with accumulated losses that have eroded its net worth. The multi-product company may analyse its various products to take decisions on the viability of each. **The company may consider**

retrenchment strategy. Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal.

Retrenchment strategy is adopted because of continuous losses and unviability and stability can be ensured by reallocation of resources from unprofitable to profitable businesses. Retrenchment strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems.

These steps result in different kinds of retrenchment strategies as follows:

Turnaround strategy: If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate revenue, improve coordination, better control, and so on.

Divestment Strategy: Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

Liquidation Strategy: In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. The management of multiproduct sick company manufacturing various items need to understand pros and cons of each strategic option. The decision will depend upon the specific circumstances of each product and management goals of the company.

17. RTP Nov 2022 | RTP May 2020 | RTP May 2018

Write a short note on Merger and Acquisition Strategy.

Answer

Merger and acquisition in simple words are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms but the impact of combination is completely different in both the cases. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers. When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

18. RTP Nov 2022

Airlines industry in India is highly competitive with several players. Businesses face severe competition and aggressively market themselves with each other. Luxury Jet is a private Delhi based company with a fleet size of 9 small aircrafts with seating capacity ranging between 6 seats to 9 seats. There aircrafts are chartered by big business houses and high net worth individuals for their personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by Luxury Jet.

Answer

The Airlines industry faces stiff competition. However, **Luxury Jet has attempted to create a niche market by adopting focused differentiation strategy.** A focused differentiation strategy requires offering unique features that fulfil the demands of a narrow market. Luxury Jet compete in the market based on uniqueness and target a narrow market which provides business houses, high net worth individuals to maintain strict schedules. The option of charter flights provided several advantages including, flexibility, privacy, luxury and many a times cost saving. Apart from conveniences, the facility will provide time flexibility. Travelling by private jet is the most comfortable, safe and secure way of flying your company's senior business personnel. Chartered services in airlines can have both business and private use. Personalized tourism packages can be provided to those who can afford it.

19. RTP May 2022

Racers Ltd. manufactures bicycles. Until recently it has adopted a differentiation strategy, offering high quality bicycles which Racers Ltd. sells at a high profit margin. In recent years, Racers Ltd. has entered a period of decline due to the market becoming flooded with cheaper, high-quality bicycles from abroad, where labour costs are lower. Racers Ltd. has therefore decided to adjust its strategy and adopt a focus approach, targeting its bicycles towards professional athletes. This will allow Racers Ltd. to continue earning high margins, though the size of its potential market will likely fall. Identify and explain the need of adopting this strategy by Racers Ltd. to manage decline?

Answer

Racers Ltd. has adopted Turnaround strategy. This involves Racers Ltd. repositioning itself in the market in an attempt to once again gain competitive advantage. Turnaround is needed when an enterprise's performance deteriorates to a point that it needs a radical change of direction in strategy, and possibly in structure and culture as well. It is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. It is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is difficult. The overall goal of turnaround strategy is to return an underperforming or distressed company to normalcy in terms of acceptable levels of profitability, solvency, liquidity and cash flow. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavourable industry characteristics.

20. RTP May 2022 | MTP Oct 2022, 5 marks

Diversification endeavours can be categorized into four broad classifications. State the basis for this classification and name the four categories. How is concentric diversification different from vertically diversification? Explain.

Answer

Diversification strategy involves expansion into new businesses that are outside the current business and markets of an organisation. Based on the nature and extent of their relationship to existing businesses, diversification can be classified into four broad categories:

1. Vertically integrated diversification
2. Horizontally integrated diversification
3. Concentric diversification
4. Conglomerate diversification

Concentric diversification takes place when the products are related. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations. However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. Sequence moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm. The new product falls within the firm's current process-product chain. In concentric diversification, there is a departure from this vertical linkage, a new related product is added to the existing business. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.

21. RTP Nov 2021

Leatherite Ltd. was started as a leather company to manufacture footwear. Currently, they are in the manufacturing of footwears for males and females. The top management desires to expand the business in the leather manufacturing goods. To expand they decided to purchase more machines to manufacture leather bags for males and females. Identify and explain the strategy opted by the top management of Leatherite Ltd.

Answer

Leatherite Ltd. is currently manufacturing footwears for males and females and its top management has decided to expand its business by manufacturing leather bags for males and females. Both the products are

similar in nature within the same industry. **The strategic diversification that the top management of Leatherite Ltd. has opted is concentric in nature.** They were in business of manufacturing leather footwears and now they will manufacture leather bags as well. They will be able to use existing infrastructure and distribution channel. Concentric diversification amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.

22. RTP Nov 2021

Explain the term Merger and Acquisition as a growth strategy. Differentiate between both of them. State the situations in which such strategies are considered by any organization.

Answer

Acquisition or merger with an existing concern is an instant means of achieving expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Many organizations in order to achieve quick growth, expand or diversify with the use of
mergers and acquisitions strategies. Merger and acquisition in simple words are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms but the impact of combination is completely different in both the cases.

Merger is considered to be a process when two or more organizations join together to expand their business operations. In such a case the deal gets finalized on friendly terms. Owners of pre-merged entities have right over the profits of new entity. In a merger two organizations combine to increase their strength and financial gains. While, when one organization takes over the other organization and controls all its business operations, it is known as acquisition. In the process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during economic recession or during declining profit margins. In this process, one that is
financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association.

23. RTP May 2021

Mini theatre Ltd. was a startup venture of three young IIM graduates. They developed an application to watch web-based content like web series, TV Shows, theatre shows, etc. after purchasing their exclusive rights. They were successful in getting many consumers enrolled with them. After a certain span of time, the company realized that some regional content like 'Bangla movies', 'Gujarati shows' etc. were having high cost and less viewership. The leadership team of Mini theatre Ltd. decided to sell the rights and curtail any further content development in these areas. Identify and explain the corporate strategy adopted by the leadership team of Mini theatre Ltd.

Answer

The leadership team of Mini theatre Ltd. decided to cuts off the loss -making units, reduces the functions performed that some of regional content like 'Bangla movies', 'Gujarati shows' etc. were having high cost and less viewership, it adopts a divestment strategy. The leadership team of Mini theatre Ltd. decided to sell the rights and curtail any further content development in these areas. Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

24. RTP May 2021 | MTP Mar 2021, 5 marks

Justify the statement "Stability strategy is opposite of Expansion strategy".

Answer

Stability Strategies, as name suggests, are intended to safeguard the existing interests and strengths of business. It involves organisations to pursue established and tested objectives, continue on the chosen path, maintain operational efficiency and so on. A stability strategy is pursued when a firm continues to serve in the same or similar markets and deals in same products and services. In stability strategy, few functional changes are made in the products or markets, however, it is not a 'do nothing' strategy. This strategy is typical for mature business organizations. Some small organizations also frequently use stability as a strategic focus to maintain comfortable market or profit position. On the other hand, expansion strategy is aggressive strategy as it involves redefining the business by adding the scope of business substantially, increasing efforts of the current business. In this sense, it becomes opposite to stability strategy. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigour, promise and success. Expansion also includes diversifying, acquiring and merging businesses. This strategy may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

25. RTP Nov 2020 | RTP Nov 2018

What is Divestment strategy? When is, it adopted?

Answer

Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. For a multiple product company, divestment could be a part of rehabilitating or restructuring plan called turnaround.

A divestment strategy may be adopted due to various reasons:

- When a turnaround has been attempted but has proved to be unsuccessful.
- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the whole company.
- Severity of competition and the inability of a firm to cope with it.
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it.
- A better alternative may be available for investment.

26. RTP May 2020

Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides Organo with a significant amount of its fresh produce. Organo feels that by purchasing the farms, it will have greater control over its supply chain. Identify and explain the type of diversification opted by organo?

Answer

Organo is a large supermarket chain. By opting backward integration and purchase a number of farms, it will have greater control over its supply chain. Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

27. RTP Nov 2019

Pizza Galleria was India's first pizza delivery chain enjoying monopoly for several years. However, after entry of Modino and Uncle Jack it is struggling to compete. Both Modino and Uncle Jack have opened several eateries and priced the product aggressively. In last four years the chain has suffered significant losses. The chain wishes to know whether they should go for turnaround strategy. List out components of action plan for turnaround strategy.

Answer

Pizza Chain may choose to have turnaround strategy if there are:

- Persistent negative cash flow from business.
- Uncompetitive products or services.
- Declining market share.
- Deterioration in physical facilities.

- Over-staffing, high turnover of employees, and low morale.
- Mismanagement.

For turnaround strategies to be successful, it is imperative to focus on the short and long- term financing needs as well as on strategic issues. The chain may attempt to leverage the potential Indian market by engaging a new logistics partner. It may bring innovation in food items, as well as quality and improvements in the overall dine-in and delivery experience. During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning.

A workable action plan for turnaround would involve:

Stage One – Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused.

Stage Two – Analyze the situation and develop a strategic plan: Before making any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.

Stage Four – Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.

Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

28. RTP Nov 2019

What is stability strategy? What are the reasons to pursue stability strategy?

Answer

One of the important goals of a business enterprise is stability - to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business. A stability strategy is pursued by a firm when:

- It continues to serve in the same or similar markets and deals in same or similar products and services.
- The strategic decisions focus on incremental improvement of functional performance.

Major reasons for stability strategy are as follows:

- A product has reached the maturity stage of the product life cycle.
- It is less risky as it involves less changes and the staff feels comfortable with things as they are.
- The environment faced is relatively stable.
- Expansion may be perceived as being threatening.
- Consolidation is sought through stabilizing after a period of rapid expansion.

29. RTP May 2019

With the global economic recession Soft Cloth Ltd. incurred significant losses in all its previous five financial years. Currently, they are into manufacturing of cloth made of cotton, silk, polyster, rayon, lycra and blends. Competition is also intense on account of cheap imports. The company is facing cash crunch and has not been able to pay the salaries to its employees in the current month. Suggest a grand strategy that can be opted by Soft Cloth Ltd.

Answer

Soft Cloth Ltd. is facing internal as well as external challenges. The external environment is in economic recession and the organization is facing cash crunch. The company needs to work on retrenchment / turnaround strategy. The strategy is suitable in case of issues such as:

- Persistent negative cash flow.
- Uncompetitive products or services
- Declining market share

- Deterioration in physical facilities
- Overstaffing, high turnover of employees, and low morale
- Mismanagement

The company may consider to substantially reduce the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

30. RTP Nov 2018

Vastralok Ltd., was started as a textile company to manufacture cloth. Currently, they are in the manufacturing of silk cloth. The top management desires to expand the business in the cloth manufacturing. To expand they decided to purchase more machines to manufacture cotton cloth. Identify and explain the strategy opted by the top management of Vastralok Ltd.

Answer

Vastralok Ltd. is currently manufacturing silk cloth and its top management has decided to expand its business by manufacturing cotton cloth. Both the products are similar in nature within the same inductry. The strategic diversification that the top management of Vastralok Ltd. has opted is concentric in nature. They were in business of manufacturing silk and now they will manufacture cotton as well. They wil be able to use existing infrastructure and distribution channel. Concentric diversification amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.

31. RTP Nov 2018 | RTP May 2018

Explain the meaning of the combination strategies.

Answer

Combination strategies refer to a mix of different strategies like stability; expansion, diversification or retrenchment to suit particular situations that an enterprise is facing. For instance, a strategy of diversification/acquisition may call for retrenchment in some obsolete product lines.

32. RTP Nov 2018

State with reason whether the following statement is correct/ incorrect.
Stability strategy is not a 'do-nothing' strategy.

Answer

Correct: Stability strategies are implemented by approaches wherein few functional changes are made in the products or markets. It is not a 'do nothing' strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for mature business organizations. Some small organizations will also frequently use stability as a strategic focus to maintain comfortable market or profit position.

33. RTP Nov 2018

Distinguish between the following:
Forward integration and backward integration.

Answer

Forward and backward integration form part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

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Backward integration is a step towards creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lower its cost of production. On the other hand, forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organisations enter into businesses of distribution channels.

34. RTP May 2018

State with reason whether the following statement is correct/ incorrect.
Turnaround should succeed liquidation strategy.

Answer

Incorrect: A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. In an ideal scenario, turnaround should be attempted first and should precede option of liquidation.

35. RTP May 2018

Swift Insurance is a company engaged in the business of providing medical insurance maintaining a market share of 25 to 30 per cent in last five years. Recently, the company decided to enter into the business of auto insurance by having foreign collaboration. Identify the strategy being followed by the Swift Insurance with its advantages.

Answer

Overall Swift Insurance is following growth or expansion strategy as it is redefining the business and enlarging its scope. The step will also substantially increase investment in the business. The new business is related and at the same time caters to a different segment and accordingly can be termed as related diversification. The new business falls within the scope of general insurance and horizontally related to the existing business.
In the process of expansion, the company will be able to exploit:

- Its brand name.
- The marketing skills available.
- The existing sales and distribution infrastructure.
- Research and development.
- Economies of scale

36. MTP Sep 2022, 5 marks

What do you mean by differentiation strategy? How is it achieved?

Answer

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. The uniqueness can be associated with product design, brand image, features, technology, dealer network or customer service. Because
of differentiation, the business can charge a premium for its product. Differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes.
To achieve differentiation, following measures can be adopted by an organization:

1. Offer utility for the customers and match the products with their tastes and preferences.
2. Elevate the performance of the product.
3. Offer the promise of high-quality product/service for buyer satisfaction.
4. Rapid product innovation.
5. Taking steps for enhancing image and its brand value.
6. Fixing product prices based on the unique features of the product and buying capacity of the customer.

37. MTP Mar 2022, 5 marks

There has been fierce demand for both Gecko and FlyBee for the last 3 years. Gecko makes mass consumption pens while FlyBee is a notebook and diary brand - both being complementary goods of each other. But to grow further, FlyBee decided to take up competition with Gecko in pens segment and thereby launched, FlyPens. Identify and explain the growth strategy opted by FlyBee?

Answer

FlyBee is a notebook and diary brand. But to grow further, FlyBee decided to take up competition with Gecko in pens segment and thereby launched, FlyPens. FlyBee that is hitherto not into producing pens starts producing them and other similar products is following concentric diversification which is basically related diversification.

In this form of diversification, the new business is linked to the existing businesses through existing systems such as processes, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. The most common reasons for pursuing a concentric diversification are that opportunities in existing line of business are available.

38. MTP Oct 2020, 5 marks

Write short note on expansion through acquisitions and mergers.

Answer

Acquisitions and mergers are basically combination strategies. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. In a merger, two organizations combine to increase their strength and financial gains along with breaking the trade barriers. When one organization takes over the other organization and controls all its business operations, it is known as acquisition. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it s power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

39. MTP May 2020, 5 marks | MTP Oct 2019, 5 marks

Explain in brief the reasons to adopt turnaround strategy.

Answer

Reasons to adopt Turnaround Strategy

1. Turnaround is needed when an enterprise's performance deteriorates to a point that it needs a radical change of direction in strategy, and possibly in structure and culture as well.
2. It is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level.
3. It is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is difficult.
4. The overall goal of turnaround strategy is to return an underperforming or distressed company to normalcy in terms of acceptable levels of profitability, solvency, liquidity and cash flow.
5. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavourable industry characteristics.

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STRATEGY IMPLEMENTATION AND EVALUATION

1. Introduction

- Strategic management process does not end when the firm decides what strategies to pursue
- There must be a translation of strategic thought into strategic action
- Strategy implementation requires introduction of change in the organisation to make organisational member adapt to the new environment

2. Strategy Implementation

- Strategy implementation concerns the ***managerial exercise*** of putting a freshly chosen strategy ***into action***
- It deals with ***translating*** a strategic decision into action
- ***Allocation of resources*** to new course of action
- Adapting the ***organization's structure*** to handle new activities as well as training personnel and devising appropriate systems

> A good strategy with bad implementation will not result in success

2.1 Relationship with Strategy Formulation

- There is a difference between strategy formulation and strategy implementation
- Both require different skill set.
- A company would be successful only if the strategy formulation is sound and implementation is excellent.

> Strategy implementation is linked with strategy formulation, they are not independent

2.2 Strategy formulation and implementation

Strategy		Weak	Excellent
	Sound	• Square A	• Square B
	Flawed	• Square C	• Square D
		Strategy Implementation	

Exam Tip

- ***Effectiveness*** – to do the right things
- ***Efficiency*** – to do the thing right

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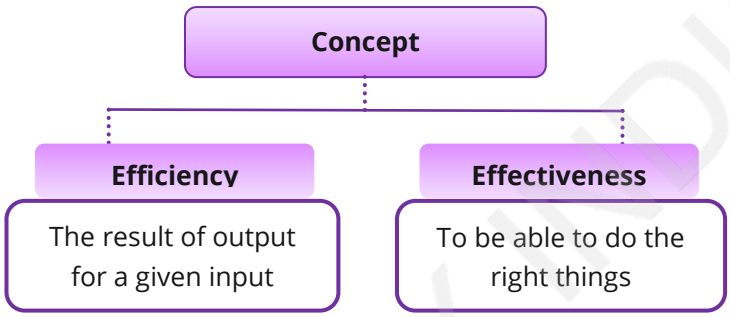
Sq	Understanding Strategies Executation and Formulation
A	• Very competitive strategy but difficulties in implementing it Successfully. • ***Reason*** – Lack of experience, lack of resources, missing leadership • ***How to improve*** – Appoint a team with experience
B	• ***Ideal Situation –*** Combination of sound and competitive strategy and has been successful in implementing it
C	• Have not succeeded in coming up with a sound strategy formulation and are bad at implementing their flawed strategy. • ***How to Improve –*** Business Model redesign and implementation readjustment
D	• Strategy formulation is flawed but the company is showing excellent. • ***How to improve –*** Redesign their strategy

Strategy is not a synonymous with 'long term plan'. It consists of an enterprise's attempts to reach some preferred future state by adapting its competitive position as circumstances change

2.3 Concept of Efficiency and Effectiveness



2.3.1 Effectiveness

- It refers to level of effectiveness of strategy formulation
- We can have ***Effective Strategy Formulation***

2.3.2 Efficiency

- It refers to the implementation of strategy
- We can have ***Efficient Strategy Implementation***

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		Strategy Formulation	
		Effective	**Ineffective**
Strategy Implementation	**Efficient**	• Thrive – 1	• Die Slowly – 2
	Inefficient	• Survive – 3	• Die Quickly – 4

	Understanding the strategies executation and formulation
Square 1	• Well-placed and thrives(flourish). • Organization has efficient input/output ratio and effective for changing environment
Square 2	• Doomed position • Organization is efficient but not effective to the changing environment
Square 3	• Organization is effective but not efficient. • It ensures survival as organization Strategic direction present to ensure effectiveness. • Efficiency is not necessary for survival
Square 4	• Inefficient and ineffective. • Worst situation and organization collapse quickly

2.3.3 Efficiency Vs. Effectiveness

Nature	**Efficiency**	**Effectiveness**
Meaning	To do the things in right manner	To do the right things
Focus	On relationship between inputs and outputs	On end objective
Nature	Generally short term and operational in nature	Generally more long term and strategic in nature
Responsibility	Responsibility for efficiency lies with operational managers	Responsibility lies with top management

Imperfect plan + well Implemented will achieve more than the Perfect plan + worst implementation

2.3.4 Strategy Formulation Vs. Implementation

Nature	**Strategy Formulation**	**Strategy Implementation**
Focus	Effectiveness	Efficiency
Process	Primarily an intellectual process	Primarily an operational process
Skills	Requires conceptual intuitive and analytical skills	Requires motivation and leadership skills

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Co-ordination	Requires coordination among the executives at top level	Requires coordination among the executives at middle and lower level
Type of activity	Entrepreneurial activity and based on strategic decision making	Administrative activity and is based on both strategic and operational decision making

2.3.5 Linkages

- Strategy formulation and Strategy implementation are interlinked with each other
- The two processes are intertwined and have two types of linkages
- Forward Linkages – Implementation of strategy is determined by formulation of strategy
  - Strategy formulation starts with ***objective setting*** through environmental and organizational appraisal.
  - ***Evaluating*** different ***alternatives*** for achieving objective and choose one of them.
  - Formulation of new strategies or changes in the existing strategies leads to ***many changes in the organization*** for implementation of decided strategy. Changes like change in ***organization structure, style of leadership***
- Backward Linkages – Formulation of strategy is also affected by factors related with implementation
  - The ***past strategic action*** helps in determining the choice of strategy.
  - Organization adopt those strategies which can be implemented with the help of the ***present structure*** of resources ***combined*** with some ***additional efforts***

3. Issues in Strategy Implementation

3.1 Issues in Strategy implementation

- Strategic plans are a ***statement of intent*** while implementation tasks are meant to realize the intent
  - Strategies are therefore activated through implementation
  - Strategic implementation should be done properly to ensure that, they achieve the desired results
- Strategies should lead to formulation of different kinds of ***programs***
  - A program is a broad term, which includes goals, policies, procedures, rules, and ***steps to be taken in putting a plan into action***
  - Example: Organization has a Research and development Program for gaining competitive advantage
- Program lead to the ***formulation of projects***
  - A project is a highly ***specific program*** for which the time schedule and costs are predetermined
  - Projects ***require resources***
  - It would be essential to see that a
    - ☞ proper ***organizational structure*** is designed,
    - ☞ ***systems*** are installed,
    - ☞ functional ***policies are devised***, and
    - ☞ various behavioral ***inputs are provided*** so that plans may work
  - Example: Research and development program may consist of several projects, each of which is intended to achieve a specific and limited objective within a set time schedule and cost

3.2 Challenges faced by strategist in implementing strategy

- Given below in sequential manner the issues in strategy implementation which are to be considered
  - Project implementation
  - Procedural implementation
  - Resource allocation

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- Structural implementation
- Functional implementation
- Behavioural implementation

- Each of the above activities can be performed simultaneously, certain activities may be repeated over time and some may be performed only once
- It is essential that divisional and functional managers be involved as much as possible in the strategy-formulation process
- Managers and employees throughout an organization should participate early and directly in strategy-implementation activities

3.3 Challenges faced by strategist in implementing strategy

Top management Responsibilities

- Management issues central to strategy implementation include
  - establishing annual objectives,
  - devising policies,
  - allocating resources,
  - altering an existing organizational structure,
  - restructuring and reengineering,
  - revising reward and incentive plans,
  - minimizing resistance to change,
  - developing a strategy- supportive culture,
  - adapting production/operations processes,
  - developing an effective human resource system and, Establishing a conducive organization environment

- Strategists' genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees
- Top-down flow of communication is essential for developing bottom-up support
- This is a challenge for strategists of the firm. Firms should provide training for both managers and employees to ensure that they have and maintain the skills necessary to be world-class performers

3.4 Key success factors that help in successful strategy implementation

Key success factors

- Assigning clear roles and responsibilities for implementation
- The transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers
- Allocate enough resources necessary for implementation
- Monitor and manage change process properly
- Evaluate the results and improve the strategy from those learnings

3.5 Factors that lead to failure of strategy implementation

Factors leading failure

- Lack of accountability
- Non-involvement of top management
- Existence of too many teams
- Lack of communication & coordination
- Employees resistant to change
- High emphasis on short run

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4. Strategic Change through digital transformation

- Changes in environmental forces requires business to make modifications in their existing strategies
- Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business
- Factors leading to change in an organization
  - Increasing competition
  - Potential competition
  - Change in environment
  - Change in technology
- If organization fail to recognize the importance of change, they are bound to die
- Changes are integral part of organization's journey
- Resistance to change has to be minimized

4.1 Reasons for employees resisting to change

- Fear of job security
- Averse to disrupt status quo
- They just resist the change despite the lack of knowledge
- To protect the interest of other employees
- Finding new targets as too difficult to achieve

4.2 Steps to initiate strategic change

Steps	Reasons	Purpose
Recognize the ***need for change***	• ***Analyzing*** the present corporate culture which parts of corporate culture are strategy supportive and which are not • Involves ***environmental scanning*** through SWOT analysis	• Determining where ***lacuna lies*** (gap or missing part) and scope for change exists
Create a ***shared vision*** to manage the change	• ***Objectives*** of both individuals and organization ***should coincide*** • Senior ***managers*** need to constantly and consistently ***communicate*** the vision to all the organizational members • Make employees part of change	Management has to ***convince*** that the change in business culture is not superficial or cosmetic
Institutionalize the change	• Basically, an ***action stage*** which requires implementation of changed strategy • Creating and ***sustaining*** a ***different attitude*** towards change is essential	• To ***implement changes*** in strategy of the organization

4.3 Kurt Lewin's Model of change

Three phases of the change process for moving the organization from the present to future

4.3.1 Unfreezing the situation

- Definition – Process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate.
- Process – Reasons for change to be explained to the employees

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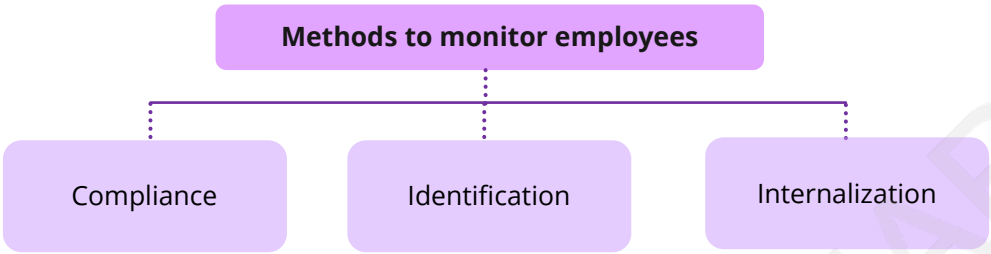
- Making announcements, holding meetings and promoting the new ideas throughout the organization.
- To make individuals ***aware of the necessity for change***
- ***Prepare*** them for such a change because sudden and unannounced change would be socially destructive and morale lowering.

4.3.2 Change to new situation

- Definition – Process of reassigning new patterns of behaviour for member of the organization
- Process – This happens in three ways



- **Compliance** – strictly enforcing the ***reward and punishment strategy*** for good or bad behaviour.
- **Identification** – occurs when members are psychologically impressed upon ***identify themselves with some role models*** whose behaviour they would like to adopt.
- **Internalization** – change in individuals ***thought processes*** in order to adjust to the changes introduced. Provide independence to learn and adopt new behaviour

4.3.3 Refreezing the situation

- Definition – Process of ***Stabilizing the new behaviour*** and continuously reinforced so that this new acquired behaviour does not diminish or extinguish
- Process – It occurs when the new behaviour becomes a ***normal way of life***. The new behaviour must replace the former behaviour completely for successful and ***permanent change to take place***

4.4 Digital Transformation

Change process is not a one-time application but a continuous process due to dynamism and ever-changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

The use of digital technologies to develop fresh, improved, or entirely new company procedures, goods, or services is known as "digital transformation." It's a fundamental adjustment that can be challenging to identify and even more challenging to implement.

Change management enters into the picture here. Organizations can plan, prepare for, and carry out changes to their operations, including digital transformations, with the aid of the discipline of change management. When implemented correctly, change management may assist firms in overcoming the obstacles posed by the digital transition and reaping the full rewards of their investment.

Change management in the digital transition consists of four essential elements:

1. Defining the goals and objectives of the transformation
2. Assessing the current state of the organization and identifying gaps

3. Creating a roadmap for change that outlines the steps needed to reach the desired state
4. Implementing and managing the change at every level of the organization

How does change management work?

Change management is a process or set of tools and best practices used to manage changes in an organization. It assists in making changes in a safe and regulated manner, reducing the possibility of detrimental effects on the company. Any sort of organisation, including enterprises, organisations, governmental bodies, and even families, can utilise change management to manage changes.

Change management models and methods come in a wide variety, but they all have key things in common. These include

- creating a clear vision for the change,
- involving stakeholders in the process,
- coming up with a plan for putting the change into action, and
- keeping an eye on the results.

Change management is viewed as a difficult and complicated process. It is vital for ensuring that digital transformation projects are successful.

The role of change management in digital transformation

Digital transformation is a process of organizational change that enables an organization to use technology to create new value for customers, employees, and other stakeholders. A good change management strategy is necessary for a successful digital transformation.

Change management is the process of planning, implementing, and monitoring changes in an organization. It provides organizations in achieving their objectives while reducing risks and disruptions. For any organisation undergoing a digital transition, change management is crucial.

A properly implemented change management strategy can help an organization to:

- Specify the parameters and goals of the digital transformation
- Determine which procedures and tools need to be modified.
- Make a plan for implementing the improvements.
- Involve staff members and parties involved in the transformation process.
- Track progress and make required course corrections

4.5 Change Management Strategies for Digital Transformation

The five best practices for managing change in small and medium-sized businesses are:

- **Begin at the top:**
  A focused, invested, united leadership that is on the same page about the company's future is reflected in change that begins at the top. The culture that will motivate the rest of the organisation to accept change can only be generated and promoted in this way.

- **Ensure that the change is both necessary and desired:**

  Any digital change should be necessary (required for the company) and desired (by employees). The fact that decision-makers are unaware of how to properly handle a digital transformation and the effects it will have on their firm is one of the main causes of failed digital transformation. If a

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corporation doesn't have a sound strategy in place, introducing too much too fast can frequently become a major issue.

- **Reduce disruption:**
  Employee perceptions of what is required or desirable change can differ by department, rank, or performance history. It's crucial to lessen how changes affect staff. The introduction of new tactics or technologies intended to improve management and corporate operations causes employee concern about change. It is possible to reduce workplace disruption by:
  - Getting the word out early and preparing for some interruption.
  - Giving staff members the knowledge and tools, they need to adjust to change.
  - Creating an environment that encourages transformation or change.
  - Empowering change agents to provide context and clarity for changes, such as project managers or team leaders.
  - Ensuring that IT department is informed of changes in technology or infrastructure and is prepared to support them.

- **Encourage communication:**
  Create channels so that workers may contact senior management with queries or complaints. Encourage departmental collaboration to propagate ideas and innovations as new procedures take root. Communication promotes efficiency and has the power to influence culture, just like company's vision. The people who will be affected the most by these changes are reassured that they are not in danger through effective communication, which keeps everyone on the same page.

- **Recognize that change is the norm, not the exception:**

  Change readiness may be defined as "the ability to continuously initiate and respond to change in ways that create advantage, minimize risk, and sustain performance." In order to keep up with the customers, businesses must also adapt their operations. They must prepare for change in advance and expect them.

4.6 How to manage change during digital transformation?

Any organisation may find the work of digital transformation challenging and overwhelming. To ensure that a digital transition is effective, change management is essential. Here are some pointers for navigating change during the digital transformation:

- **Specify the digital transformation's aims and objectives:**
  - What is the intended outcome?
  - What are the precise objectives that must be accomplished?
  It will be easier to make sure that everyone is on the same page and pursuing the same aims if everyone has a clear grasp of the goals.

- **Always, always, always communicate:** It might be challenging for people to accept change and adjust to it. Ensure that you routinely and honestly discuss the objectives of the digital transformation and how they will affect stakeholders, including employees, clients, and other parties.
- **Be ready for resistance**: Even when a change is for the better, it can be challenging for people to embrace it. Have a strategy in place for dealing with any resistance that may arise.
- **Implement changes gradually**: Changes should ideally be implemented gradually rather than all at once. In order to avoid overwhelming individuals with too much change at once, this will give people time to become used to the new way of doing things.

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- **Offer assistance and training**: Workers will need guidance in the new procedures, software applications, etc.

In conclusion, effective completion of the massive project known as digital transformation depends on meticulous planning and change management. Digital transformation efforts are more likely to fail without change management. Organizations can successfully integrate a new digital system by planning for and managing the changes that must take place. Any project involving digital transformation must include it.

5. Organisational Framework (McKinsey 7S Model)

The McKinsey 7S Model refers to a tool that analyzes a company's "organizational design." The goal of the model is to depict how effectiveness can be achieved in an organization through the interactions of hard and soft elements. The McKinsey 7s Model focuses on how the "Soft Ss" and "Hard Ss" elements are interrelated, suggesting that modifying one aspect might have a ripple effect on the other elements in order to maintain an effective balance.

The Hard elements are directly controlled by the management. The following elements are the hard elements in an organization.

- **Strategy:** the direction of the organization, a blueprint to build on a core competency and achieve competitive advantage to drive margins and lead the industry
- **Structure:** depending on the availability of resources and the degree of centralisation or decentralization that the management desires, it choses from the available alternatives of organizational structures.
- **Systems:** the development of daily tasks, operations and teams to execute the goals and objectives in the most efficient and effective manner

Hard elements are:

Strategy: What steps does the company intend to take to address current and futures challenges?

Structure: How is work divided, how do different departments work and collaborate?

Systems: Which formal and informal processes is the company's structure based on?

Soft elements are:

Shared Values: What is the idea the organization subscribes to? Is this idea communicated credibly to others?

Staff: This elements refers to employees development and relevant processes, performances and feedback programs etc.

Skill: What is the company's base of skills and competencies?

Style: This depicts the leadership style and how it influences the strategic decisions of the organization.

The Soft elements are difficult to define as they are more governed by the culture. But these soft elements are equally important in determining an organization's success as well as growth in the industry.

The following are the soft elements in this model;

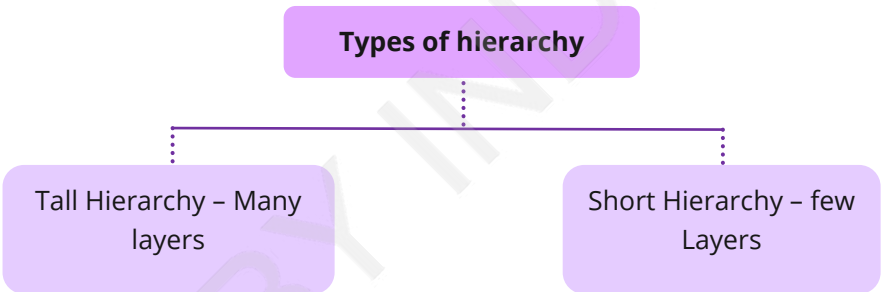
- **Shared Values:** The core values which get reflected within the organizational culture or influence the code of ethics of the management.
- **Style:** This depicts the leadership style and how it influences the strategic decisions of the organisation. It also revolves around people motivation and organizational delivery of goals.
- **Staff**: The talent pool of the organisation.
- **Skills:** The core competencies or the key skills of the employees play a vital role in defining the organizational success.

Limitations

- It ignores the importance of the external environment and depicts only the most crucial elements within the organization.
- The model does not clearly explain the concept of organizational effectiveness or performance.
- The model is considered to be more static and less flexible for deicion making.
- It is generally criticized for missing out the reals gaps in conceptualization and execution of strategy.

6. Organisation Structure

- The word organisation means groups of individual working together to achieve specific objective. The word structure means part of a system or object arranged for a particular purpose.
- There is a defined hierarchy in an organisation



- Organizational structure is the company's formal configuration of its intended
  - Roles
  - Procedures
  - Governance mechanisms
  - Authority and
  - Decision making process
- Organizational structure acts as a framework which reflects ***manager's determination*** of what a company does and how tasks are completed.
- Organization structure influence by factor such as
  - organization's age
  - organization's size
  - Type of organization

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6.1. Definition

An organizational structure is defined as "a system to define a hierarchy within an organization. It defines each job, its function and where it reports to within the organization"

6.2. Reasons for having a formal organizational structure

- Reasons for having a formal organizational structure
  - Roles and responsibilities
  - Personnel to whom reports should be submitted
  - Line of communication
  - Which issues to be reported
- The company's structure must be congruent with or fit with the company's strategy.
- Changes in corporate strategy often require changes in the way an organization is structured for two reason
  - Structure largely dictates how operational objectives and policies will be established to achieve the strategic objectives
  - Organization Structure dictates how resources will be allocated to achieve strategic objectives.

7. Types of Organisation Structure

- Differing from one organization to another there are different types of organizational structures

7.1 Simple Structure

- Simple structure is appropriate for
  - Where operations are limited to specific geographical market.
  - Implementing focused cost leadership or focused differentiation strategies.

Definition

A simple structure is an organizational form in which the ***owner-manager*** makes all major decisions directly and monitors all activities, while the company's staff merely serves as an ***executor.***

Characteristics

- Little specialization of tasks
- Few rules
- Little formalization
- Unsophisticated information systems
- Direct involvement of owner-manager in all phases of day-to-day operations

Advantages

- Communication is frequent and direct
- New products tend to be introduced to the market quickly.
- Competitive advantage.
- Ability to respond more rapidly to environmental changes.
- Greater structural flexibility.

Disadvantages

- As small companies grow, the company outgrows the simple structure due to following reason:

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- As small company grows, there are significant increase in the amount of competitively relevant information that requires processing. As a result, it put ***pressure on owner-manager***.
- To coordinate ***more complex*** organizational functions.

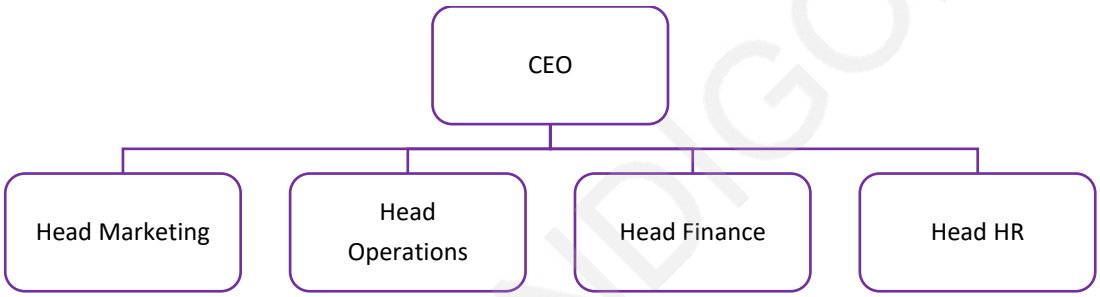
7.2 Functional Structure

Definition

A functional structure groups tasks and activities by business function, such as

- *production/operations,*
- *marketing,*
- *finance/accounting,*
- *research and development, and*
- *management information systems*

This structure is helpful when the organisation is in the growth stage (in terms of people, geographic location). This structure will not be appropriate for organizations with multiple products or operating in multiple geographies



Advantages and disadvantages

Advantages	Disadvantages
• Simplicity and ***low cost*** • Promotes ***specialization*** of labour • Encourages ***efficiency*** • Minimizes the need for an elaborate ***control system*** • Allows rapid ***decision making***	• Differences in functional specialization and orientation may impede ***communications and coordination*** • Functional specialists often may develop a ***narrow perspective*** • Losing sight of the company's strategic ***vision and mission***

Comparison with simple structure

Basis	Functional Structure	Simple Structure
Decision Making	• Corporate decision by CEO or MD and respective functional decision making by respective functional line manager.	• Done by owner or manager (single person)
Specialisation	• It leads to specialization in a particular task.	• Less specialization of task
Communication	• Differences in Functional specialization hamper communication and coordination	• Frequent and direct communication.

7.3 Divisional Structure

Organisation arranged in following ways

- The divisional structure can be organized in one of the ways:

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- by product or service, or
- by geographic area, or
- by customer, or
- by process or
- combination of the above

- In divisional Structure, functional activities are performed both centrally and, in each division, separately.
- Each division is managed by divisional manager
- Common divisions
  - Corporate Human resource
  - Corporate Finance
  - Corporate IT
  - Corporate Logistics

Divisional structure by Product (or service) wise

- When specific products or services need ***special emphasis***.
- When an organization offers only a ***few*** products or services.
- When an organization's products or services differ ***substantially***.
- Advantages and disadvantages

Advantages	Disadvantages
• Allows ***strict control*** over and attention to product lines.	• Require a more ***skilled management*** force and reduced top management control.

Divisional structure by geography

- Organizations whose strategies are formulated to fit the particular needs and characteristics of customers in ***different geographic areas***.
- Organizations that have ***similar branch facilities*** located in widely dispersed area.

Advantage
• Allows local participation in ***decision making*** and ***improved coordination*** within a region.

Divisional structure by customer

- When a few major customers are of paramount importance and ***many different services*** are provided to these customers

Advantage
• Allows an organization to cater effectively to the requirements of clearly defined customer groups.

Divisional structure by process

- Similar to a functional structure, activities are organized according to the way work is actually performed.
- E.g. : In a manufacturing company

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- Production division
- Packaging division

Advantages and disadvantages of Divisional Structure

Advantages	Disadvantages
• ***Accountability*** is clear. Divisional managers can be held responsible for sales and profit level. • ***Employee morale*** is generally higher in a divisional structure than it is in centralized structure because managers and employees can easily see the results of their good or bad performances. • Divisional managers can ***respond in better ways***. • Allows ***new businesses and products*** to be added easily. • Allows ***local control*** of local situations • Leads to a ***competitive climate*** within an organization. • It creates ***career development opportunities*** for managers.	• Division structure requires ***functional specialists*** who must be paid. • There exists some ***duplication of staff*** services, facilities, and personnel. • Involves ***additional cost.*** The divisional design forces delegation of authority better • Qualified individuals require higher salaries. • Certain regions, products, or customers may sometimes receive special treatment which is ***biased*** • It requires an ***elaborate***, headquarters-driven control system.

Important points

- Divisional structure is beneficial especially when the organization has multiple products, services, and markets
- Divisions are controlled based on financial performance

7.4 Multi-Divisional (M-Form) Structure

- It is just an extension of the divisional structure
- Multidivisional structure calls for:
  - Creating ***separate divisions,*** each representing a distinct business
  - Each division would house its ***functional hierarchy***;
  - Division managers would be given ***responsibility for managing*** day-to-day operations;
  - A small corporate office that would ***determine the long-term strategic direction*** of the firm and exercise overall financial control over the semi-autonomous divisions.
- When the firm is less diversified, strategic controls are used to manage divisions.

7.5 Strategic Business Unit (SBU)

Definition

An SBU is a ***grouping*** of related businesses, which is agreeable to composite planning treatment. A multi-business enterprise groups its businesses into a few distinct business units in a ***scientific way.***

Divisional Vs. SBU

Historical territorial structure problems

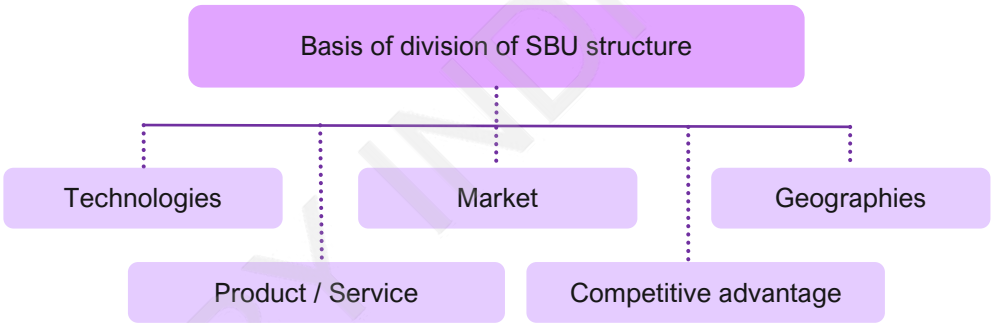
- Different structure for same products under different territories
- Single strategy for all products/ business under territory

Divisional Structure	Strategic Business Unit
• The responsibility for overall direction for each division lies with ***Corporate head office*** • Financial performance indicator is not relevant as authority to take decisions is the ***Corporate Head Office***	• The responsibility for overall direction for each division lies with the ***Strategic Business Unit (SBU)*** • Financial performance indicator is relevant for evaluation as ***SBU managers*** are autonomous to great extent

Characteristics of SBU

- It is a single business or a ***collection of related businesses*** which offer scope for ***independent planning*** and which might feasibly standalone from the rest of the organization
- It offers scope for ***independent planning*** for the respective SBU
- It has its ***own set of competitors***
- It has a ***manager who has responsibility*** for strategic planning and profit performance and control of profit-influencing factors
- Each SBU is a ***separate business*** from the strategic planning standpoint. In the basic factors, viz., mission, objectives, competition, and strategy-one SBU will be distinct from another
- Each SBU will have a ***separate CEO***. He will be responsible for strategic planning for the SBU and its profit performance.
- Some functions which operate commonly can be shared between the SBU's

SBU structure – Basis



Advantages of an SBU

- Within each SBU, divisions producing similar products and/or using similar technologies can be organized to achieve ***synergy***.
- A ***scientific method*** of grouping the businesses of a multi-business corporation which helps the firm in strategic planning.
- An improvement over the ***territorial grouping*** of businesses and strategic planning based on territorial units.
- Products/businesses within an SBU receive ***same strategic planning*** treatment and priorities.
- Enables the company to more ***accurately monitor*** the performance of individual businesses.
- Facilitates ***comparisons*** between divisions.
- Improving the ***allocation of resources***.
- Simplifying ***control*** problems.
- Stimulate managers of ***poorly performing divisions*** to seek ways to improve performance

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7.6 Matrix Structure

Definition

- In matrix structure, ***functional*** and ***product*** forms are combined simultaneously at the same level of the organization.
- Employees have two superiors, a ***product*** or ***project*** manager and a functional manager.
- A matrix structure is the ***most complex*** of all designs because it depends upon both vertical and horizontal flows of authority and communication .
- Simply matrix structure is a ***combination of Divisional and functional*** structure.

Limitations in a Matrix structure

Limitations

- ***Higher overhead*** because it has more management positions
- Dual lines of ***budget authority***
- ***Dual sources*** of reward and punishment
- ***Complexity*** in shared authority
- ***Dual reporting*** channels
- ***Need*** for an extensive and ***effective communication*** system
- Might be a continuous ***battle for power*** between product and functional manger
- Difficulties in ***implementation*** and trouble in managing

Advantages in a Matrix structure

Advantages

- Employee can adopt best practice from one division in another division
- It is easy to drop and add specific projects due to the availability of functional pools
- Stability of both functional and divisional structure
- It is very useful when the external environment is very complex and changeable
- Project objectives are clear

Need for Matrix Structure

Matrix structure was developed to combine the stability of the functional structure with the flexibility of the product form

Conditions

- Idea needs to be shared across projects or products
- Resources are scarce
- Improve the ability to process and make information

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Phases of Developing Matrix Structure

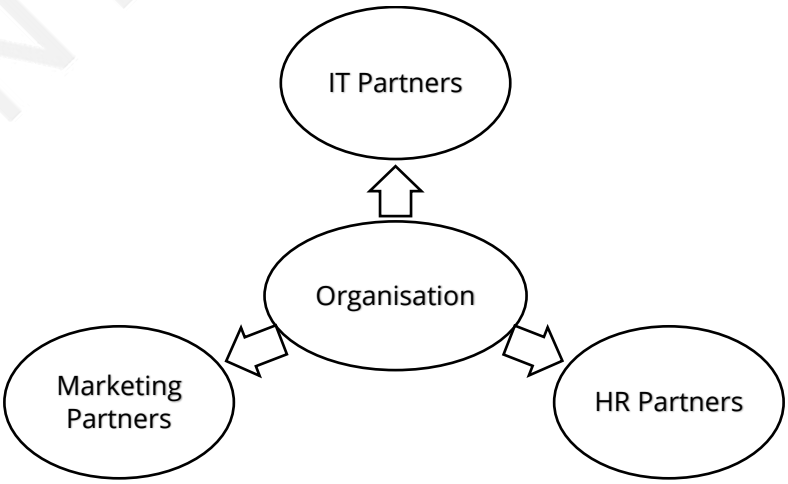
- Cross Functional Task forces –
  - Involves people from different functions forming a ***temporary task force*** under charge of project manager.
  - Temporary cross-functional task forces are initially used when a ***new product line*** is being introduced.
  - A ***project manager*** is ***in charge*** as the key horizontal link
- Product / Brand Management –
  - When the cross-functional task forces become more permanent, the ***project manager*** becomes a product or ***brand manager***.
  - Function is still the primary organizational structure, but product or brand managers act as the ***integrators of semi-permanent products*** or brands
- Mature Matrix –
  - Involves a ***true dual-authority*** structure.
  - Both the functional and product structures are ***permanent***.
  - All employees are connected to both a vertical functional superior and a horizontal product manager.
  - Functional and product managers have ***equal authority*** and must work well together to resolve disagreements over resources and priorities

7.7 Network Structure

Definition

A network organization is one that is created around a central organization which is also called the hub organization that has relationships and arrangements with some other organizations
For example – Manufacturing, marketing, accounts processing etc., performed by external organizations for the central or core organizations

- Network structure is termed a "non-structure" by its virtual elimination of in- house business functions
- A corporation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks



Development of network structure

- When the ***environment*** of a firm is ***unstable*** and is expected to remain so and there is usually a strong need for innovation and quick response
- As many activities of organization are outsourced. It can be called as a ***virtual organization***

- Instead of having salaried employees, it may contract with people for a ***specific project*** or length of time
- ***Long-term contracts*** with suppliers and distributors replace services that the company could provide for itself
- Works on "***BUY***" over a "***MAKE***" decision
- It is not located in a single building or area, an organization's business ***functions are scattered*** at different ***geographical locations***

Advantages

Advantages

- ***Flexibility*** in uncertain business environment
- Provides an organization with increased flexibility and ***adaptability*** to cope with rapid technological change and shifting patterns of international trade and competition.
- It allows a company to ***concentrate*** on its distinctive competencies.
- While gathering ***efficiencies*** from other firms who are concentrating their efforts in their areas of expertise

Disadvantages

Disadvantages

- The availability of ***numerous potential partners*** can be a source of trouble.
- Contracting out functions to ***separate suppliers/distributors*** may keep the firm from discovering any synergies by combining activities.
- If a particular firm over specializes on only a few functions, it runs the ***risk of choosing the wrong functions*** and thus becoming non- competitive

7.8 Hourglass Structure

Definition

- Hourglass organization structure consists of ***three layers*** with constricted middle layer.
- The structure has a short and ***narrow middle-management*** level
- Information ***technology links*** the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers

The managers in the hourglass structure are generalists and perform wide variety of tasks. They would be handling cross-functional issues emanating such as those from marketing, finance or production

7.8.1 Traditional vs. Modern Organisational Design

Traditional / Old	Modern / New
• ***One corporate*** to manage all the operation • Focus on ***vertical*** communication • ***Centralized*** decision making • ***Vertical*** Integration • ***Acquire units*** or firms in the supply chain as part of vertical integration • ***Specialized*** job designed focusing on an individual	• ***Multiple*** and smaller business units managing themselves to a large extent • Focus on ***Horizontal*** Communication • ***Decentralized*** decision making • ***Outsourcing*** non-core activities • ***Outsourcing*** preferred over acquiring • ***Value chain-based*** job design and creation

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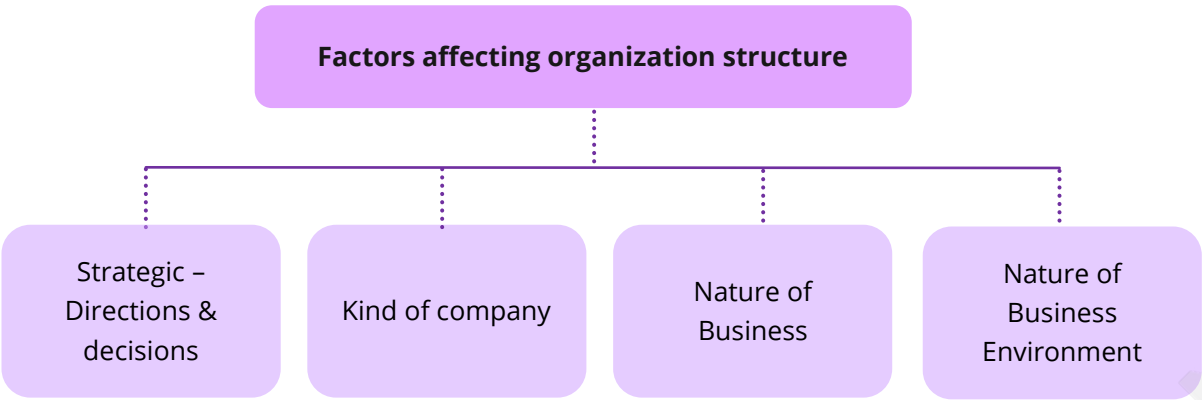
7.9 Factors affecting the nature of organisation structure



- The Organization structure determines how the operational policies are set
- Method of allocation of resources such as manpower money management
- Organization structure should change with change in strategy, otherwise the organization will become ineffective

7.10 Symptoms of an ineffective Organizational Structure

- Many levels of management
- Large span of controls
- Large number of unproductive meetings
- Objectives not achieved
- Inter-departmental or inter-unit conflicts

8. Aligning Strategy and Organisational Structure

Corporate strategy and organizational structure are intricately connected, often requiring adjustments to maintain alignment. This connection is vital for two main reasons.

- Firstly, the organizational structure significantly influences how operational objectives are established to achieve strategic goals. For instance, a geographic structure frames objectives in geographical terms, while a product-based structure formulates objectives around product groups. The chosen structural format impacts various strategy-implementation activities.

- Secondly, organizational structure determines resource allocation to achieve strategic objectives. If the structure is based on customer groups, resources are allocated accordingly; likewise, a functional structure allocates resources by functional areas. According to Chandler, changes in strategy necessitate changes in organizational structure. Structure should be designed or redesigned to facilitate strategic pursuits, with the principle that structure should follow strategy.

Chandler identified a recurring structural sequence as organizations grow and change strategies over time. While there's no universal optimal structure for a given strategy, successful firms in an industry tend to organize similarly.

For example, consumer goods companies often adopt a divisional structure by product. Small firms are typically functionally structured, medium-size firms are divisionally structured, and large firms often use a strategic business unit (SBU) or matrix structure.

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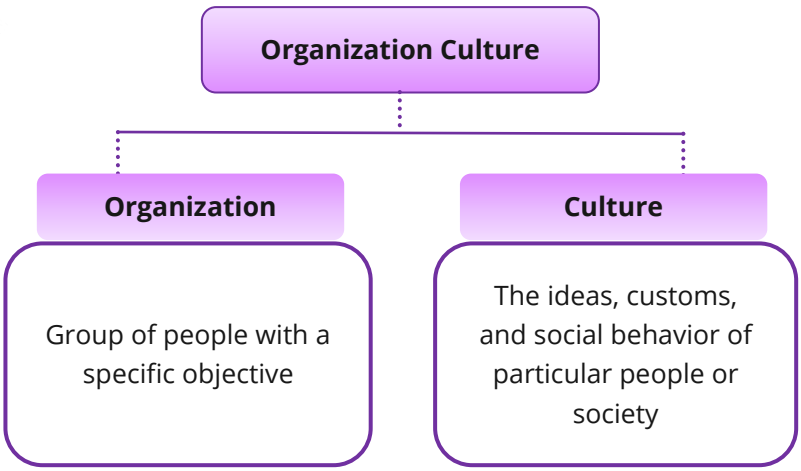
Chandler's Strategy-Structure Relationship:

Organizational performance decline may signal an ineffective structure, with symptoms such as excessive management levels, numerous meetings, interdepartmental conflicts, large spans of control, and unachieved objectives. Changes in structure can facilitate strategy implementation, but they won't transform a bad strategy or solve managerial or product issues.

Structure can also influence strategy choice; if a strategy requires extensive structural changes, it may not be an attractive option. However, the focus should be on determining the needed structural changes to implement new strategies effectively. Common organizational structures include functional, divisional by geographic area, divisional by product, divisional by customer, divisional process, strategic business unit (SBU), and matrix.

In conclusion, as companies formulate new strategies, increase in size, or alter diversification levels, adjustments to the organizational structure become essential for effective strategy implementation and management.

9. Organisation Culture



- Every organization has,
  - Its own philosophy and principles

- Its own history, values, and rituals.
- Its own way of approaching problems and making decision.
- Its own work climate.
- Its own embedded patterns of how to do things.
- Its own ingrained beliefs and thought patterns and practices

- All the above constitutes the ***Corporate culture***

Definition

Corporate culture refers to a company's

- values,
- beliefs,
- business principles,
- traditions,
- ways of operating, and
- internal work environment

It provides structure, standards, and a value system in which the company operate

Corporate culture

- A company culture Displayed in
  - ***Values*** and ***business principles*** that management preaches and practice
  - ***Ethical standards*** and ***official policies***
  - ***Stakeholder's relationship*** policies
  - ***Supervisory practice***
  - ***Employee's attitude*** and behaviour
  - ***Stories*** about the organization
  - ***Peer Pressure***
  - ***Organizational Politics***

Company culture – Ally or Obstacle

Organization Culture

Ally

When beliefs vision, objectives, and business approaches and practices of a company ***are compatible*** with its culture

Obstacle

When beliefs vision, objectives, and business approaches and practices of a company ***are not compatible*** with its culture

If the organization strategy is compatible with organizational culture, strategy implementation will be successful

Role of culture in the successful strategy implementation

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- Well-intentioned corporate culture required for good strategy execution.
- It helps to energize people throughout the company to do their jobs.
- Adding significantly to the power and effectiveness of strategy execution.
- It provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job

Perils of Strategy culture conflict

- When a company's culture is ***out of sync*** with corporate strategy then there is a strategy culture conflict.
- For resolving it, there will be ***overhauling of strategy*** to produce cultural fit or ***overhauling the mismatched cultural*** features to produce strategy fit.
- Strategy maker's responsibility – In every corporate culture there are some ***unchangeable parts***. To select a strategy compatible with the unchangeable parts of prevailing corporate culture.
- Strategy implementer's responsibility – To change whatever aspects of the ***corporate culture hinder*** effective execution

Generally, Organization culture is changed to align with the organization strategy or make it ***strategy-fit***

Changing a problem culture

- Culture is built over a period of time. Changing the culture is very difficult. As a matter of fact, human beings resist change, hence it becomes difficult
- Identifying – First step is to ***diagnose*** which aspects of the present culture are strategy supportive and which are not.
- Communicating – Managers have to ***talk openly and straightforwardly*** to all concerned people about those aspects of the culture that have to be changed. Make them understand the reason for change and take their feedback
- Action for implementation – An ***aggressive action*** to modify the culture are intended to establish a new culture more in tune with the strategy.
  The culture changing ***action includes*** –
  - ***Revising policies and procedures*** in ways that will help drive cultural change
  - Altering ***incentive compensation***
  - Visibly ***praising and recognizing*** people who display the new cultural traits.
  - ***Recruiting and hiring*** new managers and employees who have the desired cultural values.
  - ***Replacing key executives*** who are strongly associated with the old culture.
  - Capitalize every opportunity to ***communicate to employees*** the basis for cultural change and its benefits to all concerned

Adoption of change in an organization

- Changes must be adopted by all levels in an organization
- If employees at operational level do not adopt change, the change will not be successful
- Organizational changes are seldom accomplished successfully from an office
- Resolution – Communicate and explain the change. If change is not accepted, managers might have to be replaced
- Change in culture is not an overnight transformation, it takes longer time
- Major cultural change requires many initiatives from many people. Senior managers, department heads, and middle managers to create culture-strategy fit

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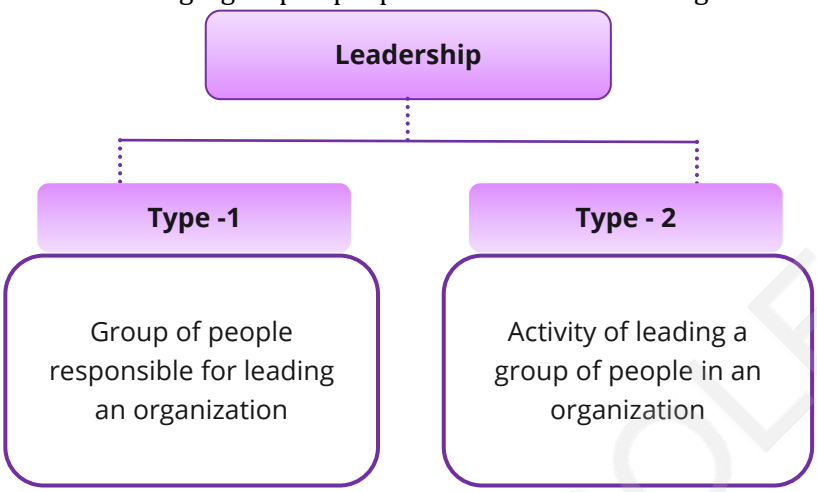
Implanting the needed culture-building values and behavior depends on a sincere, sustained commitment by the chief executive coupled with extraordinary persistence in reinforcing the culture at every opportunity through both words and deed

10. Strategic Leadership

Leaders are individuals leading a group of people to achieve a common goal



Strategic Leadership

- Strategic leadership ***sets the direction*** for the organization by
  - Developing and ***communicating vision*** of future
  - ***Formulate strategies*** in the light of internal and external environment
  - Brings about changes required to ***implement strategies***
  - Inspire the staff to contribute to ***strategy execution***
- Strategic leadership needs the ***ability*** to
  - Anticipate and imagine
  - Maintain flexibility
  - Empower others to create strategic change as necessitated by external environment

Leadership roles

- Strategic leader is –
  - Visionary
  - Chief strategist
  - Chief Entrepreneur
  - Resource acquirer & allocator
  - Chief administrator
  - Culture builder
  - Negotiator in case of conflicts
  - Crisis manager
  - Chief Spokesperson
  - Chief arbitrator
  - Capabilities builder
  - Motivator
  - Policy maker
  - Policy enforcer

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Leadership roles required for strategy execution – "M.T - CREPS"

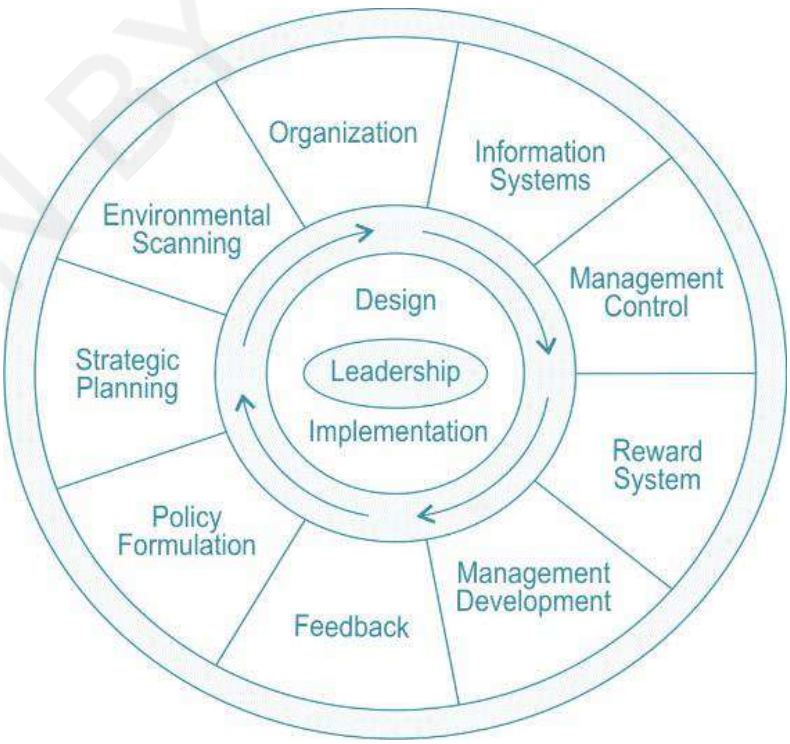
Leadership Roles	Roles
	• ***Staying on top*** of what is happening, closely monitoring progress, solving out issue and learning what obstacles lie in the path of good ution.
	• ***Promoting*** a culture of ***ESPRIT DE CORPS*** i.e. the common spirit existing in members of group ,mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level
	• Keeping the organization ***responsive to changing*** conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities
	• Exercising ***ethical leadership*** and insisting that the company conduct its affairs like a model corporate citizen.
	• Pushing ***corrective actions*** to improve strategy execution and overall strategic performance.

"***Esprit de corps***" is a feeling of loyalty & pride shared by the members of the group, who consider themselves to be different from others in some special way

Leadership roles in implementation

The strategic leaders must be able to use the strategic management process effectively by –

- Guiding the company in ways that result in the formation of strategic intent and strategic mission
- Facilitating the development and implementation of appropriate strategic plans and
- Providing guidance to the employees for achieving strategic goals



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Strategic leadership entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessitated by external environment. In other words, strategic leadership represents a complex form of leadership in companies. A manager with strategic leadership skills exhibits the ability to guide the company through the new competitive landscape by influencing the behaviour, thoughts, and feelings of co-workers, managing through others and successfully processing or making sense of complex, ambiguous information by successfully dealing with change and uncertainty.

Leadership role in case of change management

- Strategic leader plays a very important role in managing changes in an organization
- Leadership must be convinced that the change is required
- Reasons of change must be communicated to all those who are affected
- Major changes should be carried out in a top-down approach

Responsibilities of a strategic leader

Responsibilities

- Making ***strategic decisions***
- Formulating ***policies and action plans*** to implement strategic decision.
- Ensuring ***effective communication*** in the organization.
- ***Managing human capital*** (perhaps the most critical of the strategic leader's skills).
- ***Managing change*** in the organization.
- Creating and ***sustaining strong corporate culture***.
- Sustaining ***high performance*** over time

11. Leadership Styles

- Strategic leadership ***sets the firm's direction*** by developing and communicating a vision of future and inspire organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short- term, day-to-day activities
- Two basic approaches to leadership can be ***transformational leadership*** style and ***transactional leadership*** style

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Transformational	Transactional
Charisma and enthusiasm to inspire people to exert them for the good of the organization	On designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation.
Appropriate ○ In turbulent environments ○ In industries at the very start or end of their life cycles ○ In poorly performing organizations when there is a need to inspire a company to embrace major changes	Appropriate in ○ Static environment ○ In mature industry ○ In organization that are performing well.
Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission. Produce more dramatic changes in organizational performance	Prefer more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

12. Strategic Control

Definition

- The controlling function involves
  - ***monitoring*** the activity and
  - ***measuring*** results against pre-established standards,
  - ***analysing*** and correcting deviations as necessary and
  - ***maintaining***/adapting the system
- Controls are necessary to influence the behaviour of events and ensure that they conform to plans

Need for control

- To ensure and make possible the ***performance*** of planned activities
- To regulate and ***check the behaviour*** of events and people
- To ***place restraints*** on undesirable tendencies
- To make people ***conform to certain norms*** and standards
- To ensure ***proper use of resources***

Process of control has following elements

- Objectives of the business system which could be operationalized into measurable and controllable standards
- Mechanism for –
  - Monitoring and ***measuring the performance*** of the system
  - ***Comparing*** the ***actual results*** with reference to the standards
  - ***Detecting deviations*** from standards
  - ***Learning new insights*** on standards
  - ***Providing feedback*** and instruction ***for correction*** in system

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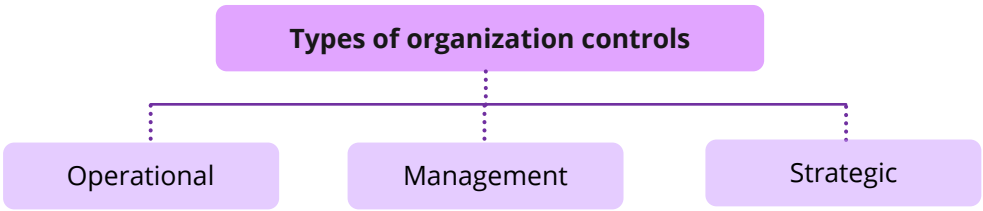
Types of organization Controls



Operational Controls

- Thrust of operational control is on ***individual tasks*** or transactions
- There is a ***measurable relationship between inputs and outputs*** which could be predetermined or estimated with least uncertainty
- Most of the control are operational control in organization
  - Each operational activity should have a ***standard***
  - Actual performance will be ***measured*** against those standards
  - Need to set a ***tolerance*** level
- Example of Operational control are stock control, production control quality control etc

Management Controls

It is the process by which managers assures, that the resources are obtained and used effectively and efficiently in the accomplishment of organization's objectives

- Management control is more ***inclusive*** and more aggregative when compared with operational control.
- Its ***integrated activities*** of a complete department, division or even entire organization, instead or mere narrowly circumscribed activities of sub-units.
- The basic purpose of management control is the achievement of ***enterprise goals*** - short range and long range - in a most effective and efficient manner

Strategic Controls

Strategic control is the ***process of evaluating strategy*** as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments

Focuses is on the dual questions of whether
- the strategy is being ***implemented as planned***
- the results produced by the ***strategy are those intended***

- There is often ***time gap*** between strategy formulation and implementation
- A ***strategy might be affected*** on account of changes in internal and external environments of organization.
- So, there is a ***need for warning*** systems to track a strategy as it is being implemented.
- It is directed towards ***identifying problems*** and changes in premises and making necessary adjustments

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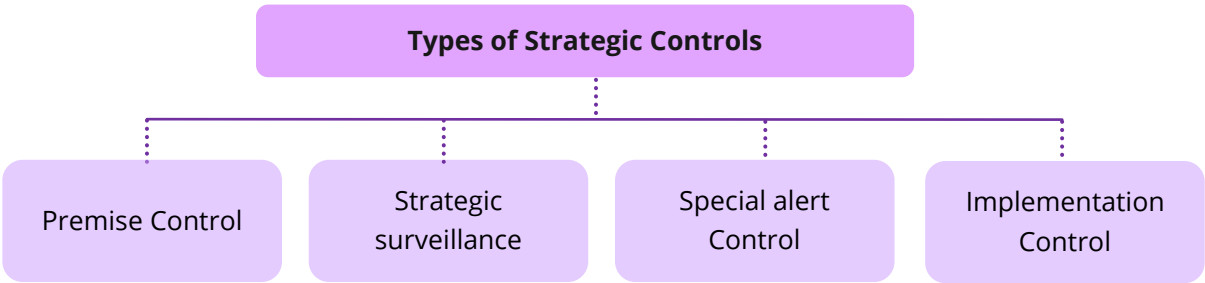
Types of Strategic Controls



Premise Control

- Certain assumption about the complex and turbulent organizational environment. A strategy is formed on the ***basis of certain premises***
- It is a tool for ***systematic and continuous monitoring*** of the environment to verify the validity and accuracy of the premises on which the strategy has been built
- Premise control involves monitoring two types of factors –
  - Environmental factors such as economic Technology, social and legal-regulatory.
  - Industry factors such as competitors, suppliers, substitutes
- Controlling premises –
  - It is ***neither feasible nor desirable*** to control all types of premises
  - Also, different premises may require ***different amount of control***
  - Thus, managers are required to ***select those premises*** that are ***likely to change*** and would severely impact the functioning of the organization and its strategy

Strategic Surveillance

- It involves ***general monitoring*** of various sources of information ***to uncover unanticipated information*** having a bearing on the organizational strategy
- We can say it is a ***casual environment browsing***
- Strategic surveillance may be loose form of strategic control but is ***capable of uncovering information*** relevant to the strategy.
- Example – Reading financial and other newspaper, attending conference, meetings etc

Special alert Control

- ***Unexpected events*** may force organizations to ***reconsider*** their strategy.
- To cope up with such eventualities, the organizations form ***crisis management teams*** to handle the situation.
- Examples of Unexpected events – change in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters

Implementation Control

- Strategy implement by ***converting*** major plan into concrete, sequential actions. These Sequential actions are ***incremental step*** in implementation process.
- Implementation control is directed towards ***assessing the need for changes*** in the overall strategy in light of unfolding events and results associated with incremental steps and actions
- Two basic forms of Implementation controls

  - Monitoring strategic thrusts –
    - ☞ It helps managers to determine whether the overall strategy is ***progressing as desired*** or whether there is need for readjustments
  - Milestone reviews –

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- ☞ It normally involves a complete ***reassessment*** of the Strategy.
- ☞ All major activities which are necessary for implementation of ***strategy are segregated*** in terms of time, events or major resources allocation.
- ☞ It also assesses the need to continue or ***refocus the direction*** of an organization

13. Strategic Performance Measures

A strategic performance measure is a metric or key performance indicator (KPI) used to assess the effectiveness and efficiency of an organization in achieving its strategic objectives. In the field of strategic management, performance measures are crucial for evaluating how well a company is executing its strategy and whether it is making progress toward its long-term goals.

Strategic performance measures are typically aligned with the key elements of an organization's strategy and are designed to provide insights into its overall performance. These measures can cover various aspects of the business, including financial performance, customer satisfaction, internal processes, and learning and growth initiatives.

Strategic performance measures are key indicators that organizations use to track the effectiveness of their strategies and make informed decisions about resource allocation. The measures provide a snapshot of the organization's performance, enabling leaders to assess whether their strategies are aligned with their goals and objectives and to make necessary adjustments to improve their performance.

A company's performance depends heavily on execution of strategy. Companies that continuously outperform their competitors are those who execute well. Executives in a variety of businesses should explore about utilizing strategic performance measurement (SPM).

SPM is a method that increases line executives' understanding of an organization's strategic goals and offers a continuous system for tracking progress towards these objectives using clear-cut performance measurements. SPM helps to eliminate silos (singularity) by establishing a common language among all divisions of the organisation so they may communicate openly and productively

Key performance measures and indicators must be created, selected, combined into reports and acted upon so that strategy implementation can have tangible outcomes.

- Firstly, there needs to be a clear cause and effect relationship between the indicators and strategic outcomes.
- Secondly, KPIs need to be carefully chosen because they will influence the behaviour of people within the organisation. However, managers should be aware of paralysis by over analysis.

Managing the political aspects of implementing a strategy

People involved in the planning process for the implementation of a strategy may be affected by two sets of forces. The "rational" forces of openness, communication, and self-analysis can exist on the one hand. On the other hand, there could be political forces concerned with preserving empires and fostering internal rivalry that urge knowledge retention, selective communication, and caution. When these two techniques conflict, the politically acceptable aspects may end up in the explicit strategy while the sensitive elements may form an unspoken plan that contains the implicit strategy.

Types of Strategic Performance Measures

There are various types of strategic performance measures, including:

- **Financial Measures:** Financial measures, such as revenue growth, return on investment (ROI), and profit margins, provide an understanding of the organization's financial performance and its ability to generate profit.
- **Customer Satisfaction Measures:** Customer measures, such as customer satisfaction, customer retention, and customer loyalty, provide insight into the organization's ability to meet customer needs and provide high-quality products and services.
- **Market Measures**: Market measures, such as market share, customer acquisition, and customer referrals, provide information about the organization's competitiveness in the marketplace and its ability to attract and retain customers.
- **Employee Measures:** Employee measures, such as employee satisfaction, turnover rate, and employee engagement, provide insight into the organization's ability to attract and retain talented employees and create a positive work environment.
- **Innovation Measures**: Innovation measures, such as research and development (R&D) spending, patent applications, and new product launches, provide insight into the organization's ability to innovate and create new products and services that meet customer needs.
- **Environmental Measures**: Environmental measures, such as energy consumption, waste reduction, and carbon emissions, provide insight into the organization's impact on the environment and its efforts to operate in a sustainable manner.

Importance of SPM

Strategic performance measures are essential for organizations for several reasons:

- **Goal Alignment**: Strategic performance measures help organizations align their strategies with their goals and objectives, ensuring that they are on track to achieve their desired outcomes.

- **Resource Allocation:** Strategic performance measures provide organizations with the information they need to make informed decisions about resource allocation, enabling them to prioritize their efforts and allocate resources to the areas that will have the greatest impact on their performance.
- **Continuous Improvement:** Strategic performance measures provide organizations with a framework for continuous improvement, enabling them to track their progress and make adjustments to improve their performance over time.

- **External Accountability:** Strategic performance measures help organizations demonstrate accountability to stakeholders, including shareholders, customers, and regulatory bodies, by providing a clear and transparent picture of their performance.

Choosing the Right Strategic Performance Measures

Organizations should choose strategic performance measures that are aligned with their goals and objectives and that provide relevant and actionable information. In selecting the right measures, organizations should consider the following factors:

- **Relevance**: The measure should be relevant to the organization's goals and objectives and provide information that is actionable and meaningful.

- **Data Availability:** The measure should be based on data that is readily available and can be collected and analyzed in a timely manner.

- **Data Quality**: The measure should be based on high-quality data that is accurate and reliable.

- **Data Timeliness**: The measure should be based on data that is current and up-to-date, enabling organizations to make informed decisions in a timely manner.

These measures provide a way for organizations to assess the success of their strategies, identify areas for improvement, and make informed decisions about how to allocate resources and adjust their strategies to achieve their desired outcomes. Effective strategic performance measures should be relevant, meaningful, and easy to understand and should be regularly reviewed and updated to ensure their continued alignment with the organization's goals and objectives.

Questions

Scenario based questions :-

1. Question

Ramesh, is owner of a popular brand of Breads. Yashpal, his son after completing Chartered Accountancy started assisting his father in running of business. The approaches followed by father and son in management were very different. While Ramesh preferred to use authority and having a formal system of defining goals and motivation with explicit rewards and punishments, Yashpal believed in involving employees and generating enthusiasm to inspire people to deliver in the organization.

Discuss the difference in leadership style of father and son.

Answer

Ramesh is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities. Such a leader believes in using authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Yashpal is follower of transformational leadership style. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

2. Question

Suresh Sinha has been recently appointed as the head of a strategic business unit of a large multiproduct company. Advise Mr Sinha about the leadership role to be played by him in execution of strategy.

Answer

2. Leading change has to start with diagnosing the situation and then deciding which of several ways to handle it. Managers have five leadership roles to play in pushing for good strategy execution:

(i) Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.

(ii) Promoting a culture of esprit de corps that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.

(iii) Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.

(iv) Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.

(v) Pushing corrective actions to improve strategy execution and overall strategic performance.

3. Question

KaAthens Ltd., a diversified business entity having business operations across the globe. The company leadership has just changed as Mr. D. Bandopadhyay handed over the pedals to his son Aditya Bandopadhyay, due to his poor health. Aditya is a highly educated with an engineering degree from IIT, Delhi. However, being very young he is not clear about his role and responsibilities,

In your view, what are the responsibilities of Aditya Bandopadhyay as CEO of the company.

Answer

Aditya Bandopadhyay, an effective strategic leader of KaAthens Ltd. must be able to deal with the diverse and cognitively complex competitive situations that are characteristic of today's competitive landscape.

A Strategic leader has several responsibilities, including the following:

- Making strategic decisions.
- Formulating policies and action plans to implement strategic decision.
- Ensuring effective communication in the organisation.
- Managing human capital (perhaps the most critical of the strategic leader's skills).
- Managing change in the organisation.
- Creating and sustaining strong corporate culture.
- Sustaining high performance over time.

4. Question

Manoj started his telecom business in 2010. Over next five years, he gradually hired fifty people for various activities such as to keep his accounts, administration, sell his products in the market, create more customers, provide after sales service, coordinate with vendors.

Draw the organization structure Manoj should implement in his organization and name it.

Answer

Manoj has started a telecom business. Accounts, Administration, Marketing (customer creation, after sales service, vendor coordination) are the functional areas that are desired in the organisational structure. Further there is inherent need to have a department for the management of telecom services/ operations.

Thus, the functional structure in the telecom business of Manoj can be as follows:

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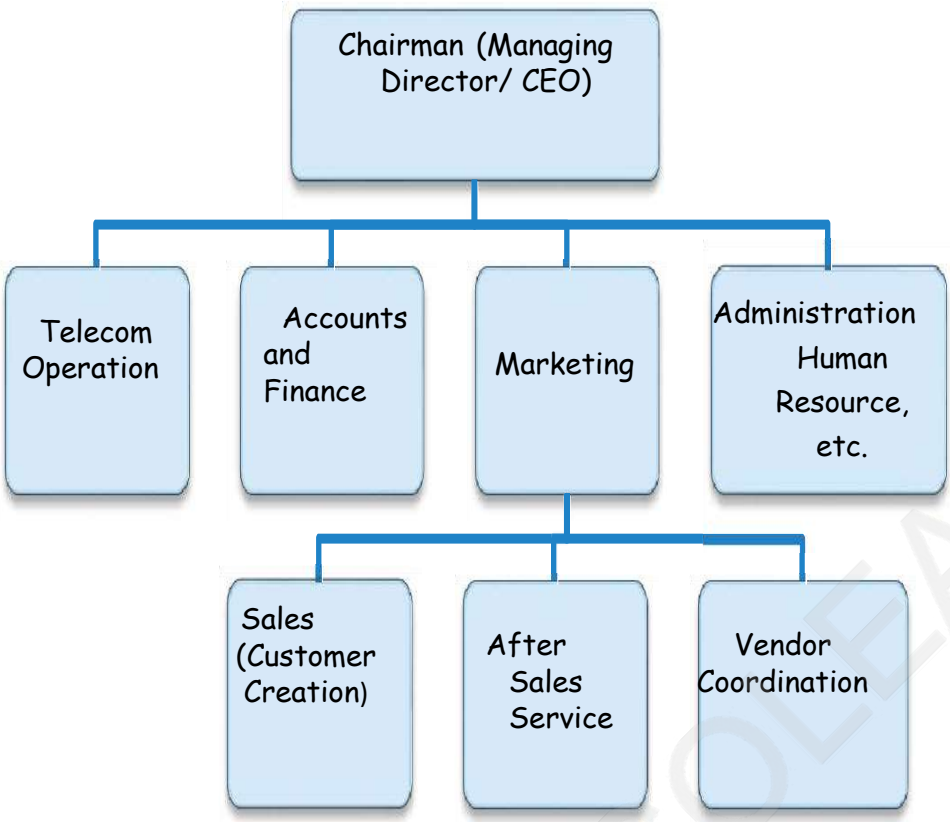


5. Question

Moonlight Private Limited deals in multi-products and multi-businesses. It has its own set of competitors. It seems impractical for the company to provide separate strategic planning treatment to each one of its product or businesses. As a strategic manager, suggest the type of structure best suitable for Moonlight Private Limited and state its benefits.

Answer

It is advisable for Moonlight Private Limited to follow the strategic business unit (SBU) structure.

Moonlight Private Limited has a multi-product and multi-business structure where, each of these businesses has its own set of competitors. In the given case, Strategic Business Unit (SBU) structure would best suit the interests of the company.

SBU is a part of a large business organization that is treated separately for strategic management purposes. It is separate part of large business serving product markets with readily identifiable competitors. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Very large organizations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units, just as is the case for Moonlight Private Limited. SBU structure becomes imperative in an organization with increase in number, size and diversity.

Benefits of SBUs:

1. Establishing coordination between divisions having common strategic interest.
2. Facilitate strategic management and control.
3. Determine accountability at the level of distinct business units.
4. Allow strategic planning to be done at the most relevant level within the total enterprise.
5. Make the task of strategic review by top executives more objective and more effective.
6. Help to allocate resources to areas with better opportunities.

Thus, an SBU structure with its set of advantages would be most suitable for the company with the given diverse businesses having separate identifiable competitors, but a common organizational goal

6. Question

Sanya Private Limited is an automobile company. For the past few years, it has been observed that the progress of the company has become stagnant. When scrutinized, it was found that the planning department was performing fairly well but the plans could not be implemented due to improper use of resources, undesirable tendencies of workers and non-conformance to norms and standards. You are hired as a Strategic Manager. Suggest the elements of process of control to overcome the problem.

Answer

Sanya Private Limited deteriorating performance due to poor implementation of plans that is improper use of resources, undesirable tendencies of the workers, and non-conformance to norms and standards, all point towards weak controls in the organization. Implementation of plans cannot assure results unless strong and sufficient controls are put in place. The management of the company should focus diligently on developing controls especially in the identified problem areas.

The process of control has the following elements:

(a) Objectives of the business system which could be operationalized into measurable and controllable standards.

(b) A mechanism for monitoring and measuring the performance of the system.

(c) A mechanism (i) for comparing the actual results with reference to the standards (ii) for detecting deviations from standards and (iii) for learning new insights on standards themselves.

(d) A mechanism for feeding back corrective and adaptive information and instructions to the system, for effecting the desired changes to set right the system to keep it on course.

Above elements of control would ensure a proper check on improper use of resources, undesirable tendencies of the workers, and non-conformance to norms and standards and ensure a result oriented implementation of plans.

Descriptive questions:-

1. Question

What is a strategic business unit? What are its advantages?

Answer

1A strategic business unit (SBU) is any part of a business organization which is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure. It is discrete element of the business serving product markets with readily identifiable competitors and for which strategic planning can be concluded. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Advantages of SBU are:

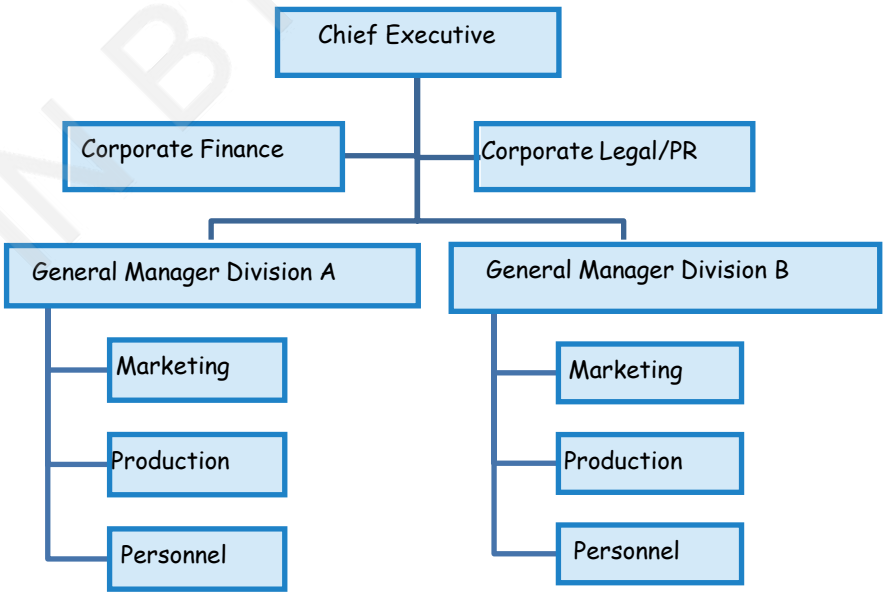
- Establishing coordination between divisions having common strategic interests.
- Facilitates strategic management and control on large and diverse organizations.
- Fixes accountabilities at the level of distinct business units.
- Allows strategic planning to be done at the most relevant level within the total enterprise.
- Makes the task of strategic review by top executives more objective and more effective.
- Helps allocate corporate resources to areas with greatest growth opportunities.

2. Question

Draw 'Divisional Structure' with the help of a diagram. Also, give advantages and disadvantages of this structure in brief.

Answer

Divisional structure is that organizational structure which is based on extensive delegation of authority and built on division basis. The divisional structure can be organized in one of the four ways: by geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and in each division separately.



Advantages of Divisional Structure

♦Accountability is clear: Divisional managers can be held responsible

for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances and thus their morale is high.

♦Other advantages: It creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products to be added easily.

Disadvantages of Divisional Structure

♦Higher cost: Owing to following reasons: (i). requires qualified functional specialist at different divisions and needed centrally (at headquarters); (ii). It requires an elaborate, headquarters –driven control system.

♦Conflicts between divisional managers: Certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, company-wide practices.

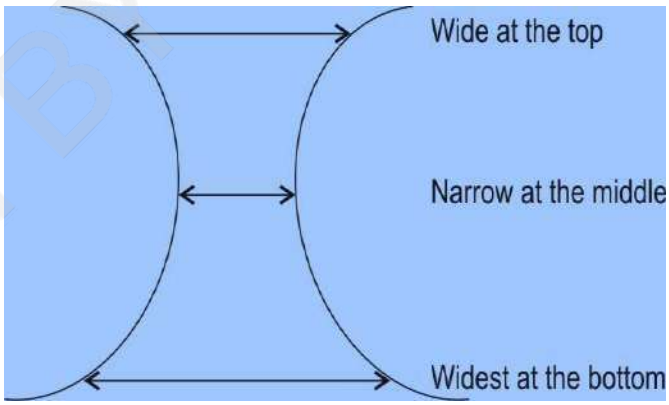
3. Question

What is an 'hourglass structure'? How can this structure benefit an organization?

Answer

In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers in an organisation structure with constricted middle layer. The structure has a short and narrow middle management level.

Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities.



Hourglass Organization Structure

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management, the promotion opportunities for the lower levels diminish significantly.

4. Question

How can you differentiate between transformational and transactional leaders?

Answer

Difference between transformational and transactional leadership

1.Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. Transactional leadership style uses the authority of its office to exchange rewards such as pay, status symbols etc.

2.Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organisations, when there is a need to inspire a company to embrace major changes. Transactional leadership style can be appropriate in static environment, in growing or mature industries and in organisations that are performing well.

3.Transformational leaders inspire employees by offering excitement, vision, intellectual stimulation and personal satisfaction. Transactional leaders prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. Transactional leaders focus mainly to build on existing culture and enhance current practices.

5. Question

What is strategic change? Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies?

Answer

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business.

To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

(a)**Unfreezing the situation**: The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change.

Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

(b)**Changing to New situation**: Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman proposed three methods for reassigning new patterns of behavior as compliance, identification and internalisation.

(c)**Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this newly acquired behaviour does not diminish or extinguish.

Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

6. Question

What are the differences between operational control and management control?

Answer

Differences between Operational Control and Management Control are as under:

(i)The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.

(ii)Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand, the basic purpose of management control is the achievement of enterprise goals – short range and long range – in an effective and efficient manner.

7. Question

What is strategic control? Briefly explain the different types of strategic control.

Answer

Strategic Control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

There are four types of strategic control:

♦Premise control: A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.

♦Strategic surveillance: Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.

♦Special alert control: At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.

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♦Implementation control: Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.

8. Question

What is implementation control? Discuss its basic forms.

Answer

Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basic forms of implementation control are:

(i)Monitoring strategic thrusts: Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

(ii)Milestone Reviews. All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

Past Exams, RTP and MTP Questions Compiler

1. Nov 2022 Exam, 5 marks

You have been appointed as a Chief Executive Officer (CEO) in a company which is facing many difficulties in proper execution of its strategy. Explain the leadership roles which you should play in pushing for good strategy execution.

Answer

A Chief Executive Officer (CEO) has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader.

Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

2. May 2022 Exam, 1+4 = 5 marks

Due to reoccurrence of various variants of Corona virus, LMN Ltd. is facing unstable environment and it has started unbundling and disintegrating its activities. It also started relying on outside vendors for performing these activities. Identify the organisation structure LMN Ltd. is shifting to. Under what circumstances this structure becomes useful?

Answer

LMN Ltd. is shifting into **network structure**. It is a newer and somewhat more radical organisational design. **The network structure could be termed a "non-structure"** as it virtually eliminates in-house business functions and outsource many of them. An organization organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration. The network structure provides organization with increased flexibility and adaptability to cope with rapid technological change and shifting pattern of international trade and competition.

3. Dec 2021 Exam, 5 marks

A Chennai based fast moving consumer goods (FMCG) major CDE Ltd. recently announced restructuring its business. The company indicated that the business would be split into mainly four different streams-FMCG, E-commerce, Retail, and Research & Development. The company management has decided that these four units will operate as separate businesses. The top corporate officer shall delegate responsibility for day -to-day operations and business unit strategy to the concerned managers. Identify the organization structure that CDE Ltd. has planned to implement. Discuss any four attributes and the benefits the firm may derive by using this organization structure.

Answer

CDE Ltd. has planned to implement Strategic Business Unit (SBU) structure. Very large organisations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units. SBU structure becomes imperative in an organisation with increase in number, size and diversity.

The attributes of an SBU and the benefits a firm may derive by using the SBU Structure are as follows:

- A scientific method of grouping the businesses of a multi – business corporation which helps the firm in strategic planning.
- An improvement over the territorial grouping of businesses and strategic planning based on territorial units.
- Strategic planning for SBU is distinct from rest of businesses. Products/ businesses within an SBU receive same strategic planning treatment and priorities.
- Each SBU will have its own distinct set of competitors and its own distinct strategy.
- The CEO of SBU will be responsible for strategic planning for SBU and its profit performance.
- Products/businesses that are related from the stand point of function are assembled together as a distinct SBU.
- Unrelated products/ businesses in any group are separated into separate SBUs.
- Grouping the businesses on SBU lines helps in strategic planning by removing the vagueness and confusion.
- Each SBU is a separate business and will be distinct from one another on the basis of mission, objectives etc.

4. Jan 2021 Exam, 5 marks

Moonlight Private Limited deals in multi-products and multi-businesses. It has its own set of competitors. It seems impractical for the company to provide separate strategic planning treatment to each one of its product or businesses. As a strategic manager, suggest the type of structure best suitable for Moonlight Private Limited and state its benefits.

Answer

It is advisable for Moonlight Private Limited to follow the strategic business unit (SBU) structure.

Moonlight Private Limited has a multi-product and multi-business structure where, each of these businesses has its own set of competitors. In the given case, Strategic Business Unit (SBU) structure would best suit the interests of the company. SBU is a part of a large business organization that is treated separately for strategic management purposes. It is separate part of large business serving product markets with readily identifiable

competitors. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests. Very large organizations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units, just as is the case for Moonlight Private Limited. SBU structure becomes imperative in an organization with increase in number, size and diversity.

Benefits of SBUs:

1. Establishing coordination between divisions having common strategic interest.
2. Facilitate strategic management and control.
3. Determine accountability at the level of distinct business units.
4. Allow strategic planning to be done at the most relevant level within the total enterprise.
5. Make the task of strategic review by top executives more objective and more effective.
6. Help to allocate resources to areas with better opportunities.

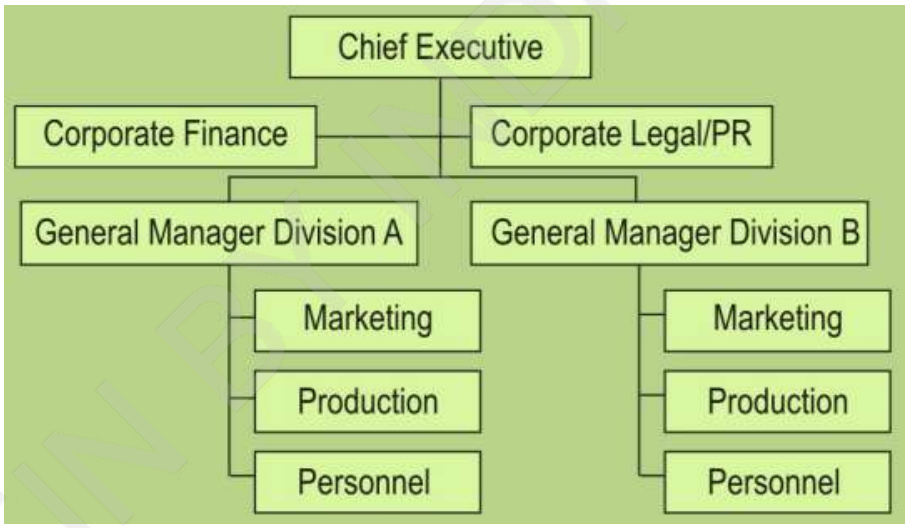
Thus, an SBU structure with its set of advantages would be most suitable for the company with the given diverse businesses having separate identifiable competitors, but a common organizational goal.

5. Nov 2020 Exam, 5 marks

Draw 'Divisional Structure' with the help of a diagram. Also, give advantages and disadvantages of this structure in brief.

Answer

Divisional structure is that organizational structure which is based on extensive delegation of authority and built on division basis. The divisional structure can be organized in one of the four ways: by geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and, in each division, separately.



Source: ICAI Study Material

Advantages of divisional structure

- **Accountability is clear:** Divisional managers can be held responsible for sales and profit levels. Because a divisional structure is based on extensive delegation of authority, managers and employees can easily see the results of their good or bad performances and thus their morale is high.
- **Other advantages:** It creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products to be added easily.

Disadvantages of divisional structure

- **Higher cost:** Owing to following reasons: (i). requires qualified functional specialist at different divisions and needed centrally (at headquarters); (ii). It requires an elaborate, headquarters –driven control system.

- **Conflicts between divisional managers:** Certain regions, products, or customers may sometimes receive special treatment, and it may be difficult to maintain consistent, company-wide practices.

6. Nov 2019 Exam, 5 marks | RTP Nov 2021 | RTP Nov 2020 | RTP May 2018 | MTP Sep 2022, 5 marks | MTP Oct 2021, 5 marks

Distinguish between transformational leadership style and transactional leadership style.

Answer

Difference between transformational and transactional leadership are as follows:

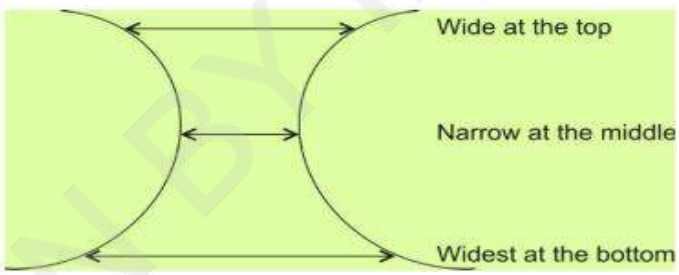
1. Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. Transactional leadership style uses the authority of its office to exchange rewards such as pay, status symbols etc.
2. Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organisations, when there is a need to inspire a company to embrace major changes. Transactional leadership style can be appropriate in static environment, in growing or mature industries and in organisations that are performing well.
3. Transformational leaders inspire employees by offering excitement, vision, intellectual stimulation and personal satisfaction. Transactional leaders prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. Transactional leaders focus mainly to build on existing culture and enhance current practices.

7. May 2019 Exam, 3 marks | RTP Nov 2019 | MTP Oct 2021, 5 marks

What is an Hourglass structure? How is it beneficial for an organization?

Answer

In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers in an organisation structure with constricted middle layer. The structure has a short and narrow middle management level. Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities.



Source: ICAI Study Material

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management, the promotion opportunities for the lower levels diminish significantly.

8. May 2019 Exam, 5 marks

Discuss the leadership roles played by the managers in pushing for good strategy execution.

Answer

A manager as a strategic leader has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker an so on. Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

9. Nov 2018 Exam, 5 marks | MTP Oct 2020, 5 marks | MTP Oct 2019, 5 marks

Describe corporate culture. Elaborate the statement "Culture is a strength that can also be a weakness".

Answer

Corporate culture refers to a company's values, beliefs, business principles, traditions, way of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers.

Culture as a strength – Culture can facilitate communication, decision making and control and create cooperation and commitment. An organisation's culture could be strong and cohesive when it conducts its business according to clear and explicit set of principles and values. The management devotes considerable time in communicating values & principles to employees and sharing them widely across the organisation.

Culture as a weakness – can obstruct the smooth implementation of strategy by creating resistance to change. An organisation's culture can be characterised as weak when many sub cultures exist, few values and behavioural norms are shared and traditions are rare. In such organisations employees do not have a sense of commitment, loyalty and a sense of identity.

10. Nov 2018 Exam, 5 marks

Manoj started his telecom business in 2010. Over next five years, he gradually hired fifty people for various activities such as to keep his accounts, administration, sell his products in the market, create more customers, provide after sales service, coordinate with vendors. Draw the organization structure Manoj should implement in his organization and name it.

Answer

Manoj has started a telecom business. Accounts, Administration, Marketing (customer creation, after sales service, vendor coordination) are the functional areas that are desired in the organisational structure. Further there is inherent need to have a department for the management of telecom services/ operations.

Thus, the functional structure in the telecom business of Manoj can be as follows:

Source: ICAI Study Material

11. Nov 2018 Exam, 2 marks

State whether the following statement is correct or incorrect. Give reasons in brief for your answer. Structure has no impact on the strategy of the organization.

Answer

Incorrect: Structures are designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reason for being, it will be difficult to design an effective structure. Strategic developments

may require allocation of resources and there may be a need for adapting the organisation's structure to handle new activities as well as training personnel and devising appropriate systems.

12. May 2018 Exam, 5 marks | RTP May 2021 | RTP May 2019 | MTP Apr 2022, 5 marks

Ram and Shyam are two brothers engaged in the business of spices. Both have different approaches to management. Ram prefers the conventional and formal approach in which authority is used for explicit rewards and punishment. While, on the other hand, Shyam believes in democratic participative management approach, involving employees to give their best. Analyse the leadership style followed by Ram and Shyam.

Answer

Ram is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities. Such a leader believes in using authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Shyam is a follower of transformational leadership style. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

13. May 2018 Exam, 2 marks

State whether the following statement is correct or incorrect. Give reasons in brief for your answer. Corporate culture is always identical in all the business organizations.

Answer

Incorrect: Every company has its own organisational culture. Each has its own business philosophy and principles, its own ways of approaching to the problems and making decisions, its own work climate, work ethics, etc. Therefore, corporate culture is not identical in all organisations. Organisations over a period of time inherit and percolate down its own specific work ethos and approaches.

14. RTP Nov 2022 | RTP Nov 2019

A strategy-supportive culture promotes good strategy execution.' - Explain.

Answer

Strong cultures promote good strategy execution when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioral norms that match what is needed for good strategy execution helps energize people throughout the organization to do their jobs in a strategy-supportive manner. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility. This is very conducive to successful execution of a strategy of delivering superior customer service. A work environment where the culture matches the conditions for good strategy execution provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job. A strong strategy-supportive culture makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the organizational vision, do their jobs competently and with enthusiasm, and collaborate with others.

15. RTP Nov 2022

"Samar Electronics Limited" is engaged in manufacturing and sale of consumer electronic goods globally. The company is rated 'best' in "customer satisfaction survey' for 5 years in a row. The spread of the current pandemic has affected the internal and external environment of the company adversely. Such adverse impact has negatively impacted the revenue of the company. In order to survive and· retain the business, the company

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decided to outsource a major part of its organisational activities, like manufacturing, distribution channels, after sales service etc. Now the organisation's business functions are scattered worldwide with a small headquarter connected to independent business units digitally. What type of organisational structure is the company transitioning into? List the basic features of this new structure and the disadvantages that the company may face in future in this new structural arrangement.

Answer

Samar Electronics Limited transitioning into **network structure.** It is a newer and somewhat more radical organisational design. Its essential features are as follows:

1. It is termed as "non-structure" as it eliminates in house functions and outsources many of them.
2. An organisation organised in this manner is often called "virtual organisation" because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cob-web like structures.
3. Network structures become most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response.
4. Instead of having salaried employees, it may contract with people for a specific project or length of time.
5. Long term contracts with suppliers and distributors replace services that company could provide for itself.

However, network structure does have following disadvantages that the company may face in future:

1. The availability of numerous potential partners can be a source of trouble.
2. Co-ordination among the functioning of business partners is perhaps, the biggest problem for the management in the networking structure.
3. Employees may lack the level of confidence necessary to participate actively in organisation sponsored learning experiences.

16. RTP May 2022 | RTP May 2020 | MTP May 2020, 5 marks

How the 'Strategic Business Unit (SBU), structure becomes imperative in an organization with increase in number, size and diversity of divisions?

Answer

SBU is a part of a large business organization that is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure. It is separate part of large business serving product markets with readily identifiable competitors. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Very large organisations, particularly those running into several products, or operating at distant geographical locations that are extremely diverse in terms of environmental factors, can be better managed by creating strategic business units. SBU structure becomes imperative in an organisation with increase in number, size and diversity.

SBUs helps such organisations by:

- Establishing coordination between divisions having common strategic interest.
- Facilitate strategic management and control.
- Determine accountability at the level of distinct business units.
- Allow strategic planning to be done at the most relevant level within the total enterprise.
- Make the task of strategic review by top executives more objective and more effective.
- Help to allocate resources to areas with better opportunities.

17. RTP May 2022

"A network structure is suited to unstable environment." Elucidate this statement.

Answer

Network structure is a newer and somewhat more radical organizational design. The network structure could be termed a "non-structure" as it virtually eliminates in-house business functions and outsource many of them. An organization organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.

The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself through vertical integration. The network structure provides organization with increased flexibility and adaptability to cope with rapid technological change and shifting pattern of international trade and competition.

18. RTP Nov 2021

Bunch Pvt Ltd is dealing in multiproduct like electronics and FMCG and are having outlets in different cities and markets across India. Due to scale of operation, it is having technical difficulty in dealing with distinct product line and markets especially in coordination and control related problems. Identify and suggest an ideal organizational structure for Bunch Pvt Ltd in resolving the problem?

Answer

To deal with the problems facing by the Bunch Pvt Ltd., we suggest **Multi divisional structure** for the organisation. Multidivisional (M-form) structure is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to division managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls. Multidivisional or M-form structure was developed in the 1920s, in response to coordination- and control-related problems in large firms. Functional departments often had difficulty dealing with distinct product lines and markets, especially in coordinating conflicting priorities among the products. Costs were not allocated to individual products, so it was not possible to assess an individual product's profit contribution. Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible). Top managers became over-involved in solving short-run problems (such as coordination, communications, conflict resolution) and neglected long-term strategic issues.

19. RTP May 2021 | MTP Oct 2022, 5 marks | MTP Mar 2021, 5 marks

How can management communicate that it is committed to creating a new culture assuming that the old culture was problematic and not aligned with the company strategy?

Answer

Corporate culture refers to company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Changing problem cultures is very difficult because of deeply held values and habits. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instil ones that are more strategy - supportive.

- The first step is to diagnose which facets of the present culture are strategy supportive and which are not.
- Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
- The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.

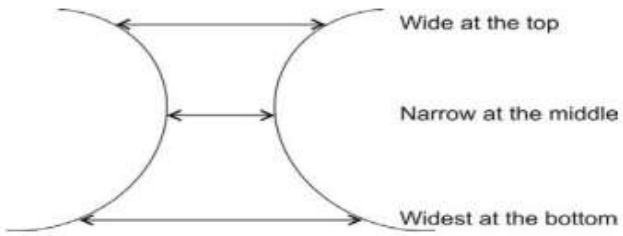
Management through communication has to create a shared vision to manage changes. The menu of culture-changing actions includes revising policies and procedures, altering incentive compensation, shifting budgetary allocations for substantial resources to new strategy projects, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

20. RTP Nov 2020 | MTP Oct 2020, 5 marks

Delta is an organization specializing in Information Technology enables Services (ITeS) and Communications business. Previous year the organization had successfully integrated an Artificial Intelligence (AI) tool named 'Zeus' into the existing ERP system. The AI tool using Deep Learning technique provided a digital leap transformation in various business processes and operations. It has significantly diminished the role played by specialist managers of the middle management. This technological tool in addition to saving organisational costs by replacing many tasks of the middle management, has also served as a link between top and bottom levels in the organization and assists in faster decision making. The skewed middle level managers now perform cross-functional duties. Which type of organisational structure is the company transitioning into?

Answer

The company Delta is transitioning into the Hourglass organization structure because it has used technological tools to transform various business processes and operations and has significantly diminished the role played by specialist managers of the middle management. The technological tool in addition to savings organisational costs by replacing many tasks of the middle management has also served as a link between top and bottom levels in the organization and assists in faster decision making. The skewed middle level managers now perform cross-functional duties. All these factors indicate towards Hourglass organization structure.



Source: ICAI Study Material

21. RTP May 2020 | RTP Nov 2019

KaAthens Ltd., a diversified business entity having business operations across the globe. The company leadership has just changed as Mr. D. Bandopadhyay handed over the pedals to his son Aditya Bandopadhyay, due to his poor health. Aditya is a highly educated with an engineering degree from IIT, Delhi. However, being very young he is not clear about his role and responsibilities. In your view, what are the responsibilities of Aditya Bandopadhyay as CEO of the company.

Answer

Aditya Bandopadhyay, an effective strategic leader of KaAthens Ltd. must be able to deal with the diverse and cognitively complex competitive situations that are characteristic of today's competitive landscape.

A Strategic leader has several responsibilities, including the following:

- Making strategic decisions.
- Formulating policies and action plans to implement strategic decision.
- Ensuring effective communication in the organisation.
- Managing human capital (perhaps the most critical of the strategic leader's skills).
- Managing change in the organisation.
- Creating and sustaining strong corporate culture.
- Sustaining high performance over time.

22. RTP May 2019

Discuss the concept of Multi Divisional Structure.

Answer

Multidivisional (M-form) structure is composed of operating divisions where each division represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to division managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages divisions through strategic and financial controls. Multidivisional or M-form structure was developed in the 1920s, in response to coordination- and control-related problems in large firms. Functional departments often had difficulty dealing with distinct product lines and markets, especially in coordinating conflicting priorities among the products. Costs were not allocated to individual products, so it was not possible to assess an individual product's profit contribution. Loss of control meant that optimal allocation of firm resources between products was difficult (if not impossible). Top managers became over - involved in solving short-run problems (such as coordination, communications, conflict resolution) and neglected long-term strategic issues. **Multidivisional structure calls for:**

- Creating separate divisions, each representing a distinct business.
- Each division would house its functional hierarchy.
- Division managers would be given responsibility for managing day-to-day operations.

- A small corporate office that would determine the long-term strategic direction of the firm and exercise overall financial control over the semi-autonomous divisions.

23. RTP Nov 2018

Davis and Lawrence have proposed three distinct phases to develop matrix structure. Explain.

Answer

For development of matrix structure; Davis and Lawrence have proposed three distinct phases:

- **Cross-functional task forces:** Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.
- **Product/brand management:** If the cross-functional task forces become more permanent, the project manager becomes a product or brand manager and a second phase begins. In this arrangement, function is still the primary organizational structure, but product or brand managers act as the integrators of semi-permanent products or brands.
- **Mature matrix:** The third and final phase of matrix development involves a true dual- authority structure. Both the functional and product structures are permanent. All employees are connected to both a vertical functional superior and a horizontal product manager.

24. RTP Nov 2018

Write short notes on the following:
Importance of corporate culture.

Answer

A culture where creativity, embracing change, and challenging the status quo are pervasive is very conducive to successful execution of a product innovation and technological leadership strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility is very conducive to successful execution of a strategy of delivering superior customer service. A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to success.

25. RTP Nov 2018

State with reasons which of the following statement is correct/incorrect:
Strategies may require changes in organizational structure.

Answer

Correct: Strategies may require changes in structure as the structure dictates how resources will be allocated. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, should follow strategy. Without a strategy or reasons for being, companies find it difficult to design an effective structure.

26. RTP Nov 2018

Explain strategic business unit (SBUs).

Answer

A strategic business unit (SBU) is a unit of the company that has a separate mission and objectives which can be planned independently from other company businesses. SBU can be a company division, a product line within a division or even a single product/brand, specific group of customers or geographical location. The SBU is given the authority to make its own strategic decisions within corporate guidelines as long as it meets corporate objectives.

27. RTP May 2018 | MTP Apr 2021, 5 marks

Suresh Sinha has been recently appointed as the head of a strategic business unit of a large multiproduct company. Advise Mr Sinha about the leadership role to be played by him in execution of strategy.

Answer

Leading change has to start with diagnosing the situation and then deciding which of several ways to handle it.

Managers have five leadership roles to play in pushing for good strategy execution:

i. Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.
ii. Promoting a culture of esprit de corps that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
iii. Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
iv. Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.
v. Pushing corrective actions to improve strategy execution and overall strategic performance.

28. May 2022 Exam, 5 marks

XYZ Ltd. is an automobile company that offers diversified products for all customer segments. Due to COVID-19, the changes took place in the economy forced the company to change its strategy. Being the CEO of the company, what stages will you follow for developing and executing the new strategy?

Answer

Today, India has become the outsourcing hub for many of the global automobile manufacturers. The auto industry comprises of four segments which are passenger vehicles, commercial vehicles, three wheelers and two wheelers. XYZ Ltd. is an automobile company that offers diversified products for all customer segments. The company has already in existence, so it has its own vision, mission and a strategy to execute for achieving its vision. While developing and executing the strategy, XYZ Ltd. might have followed the five-stage managerial process as given below:

1. Developing a strategic vision.
2. Environmental and organisational analysis.
3. Formulation of strategy.
4. Implementing and executing the strategy.
5. Strategic evaluation and control.

But due to COVID-19, the automobile industry has faced the lockdown situation. Changes in the economy forced the XYZ Ltd. to change its existing strategy and prepare the new strategy. The changes in the environmental forces due to COVID-19 requires XYZ Ltd. to make modifications in their existing strategies and bring out new strategies.

For initiating strategic change, three steps can be followed by the CEO of the company which are as under:

i. **Recognize the need for change:** This is the first step to diagnose facets of the corporate culture that are strategy supportive or not. This has already identified by the XYZ Ltd.
ii. **Create a shared vision to manage change:** Objectives and vision of both individuals and organization should coincide. The CEO of XYZ Ltd. need to constantly and consistently communicate the vision not only to inform but also to overcome resistance.
iii. **Institutionalize the change:** Creating and sustaining a different attitude towards change is essential to ensure that the XYZ Ltd. does not slip back into old ways of thinking or doing things. All these changes should be set up as a practice to be followed by the company and be able to transfer from one level to another as a well settled practice.

29. Nov 2021 Exam, 5 marks | MTP Sep 2022, 5 marks

Why is strategy evaluation more difficult? Give reasons.

Answer

Strategic evaluation involves measuring and evaluating performance. The goals achieved are compared with the desired goals to identify deviations and make necessary adjustments in strategies or in the efforts being put to achieve those strategies.

Reasons why strategy evaluation is more difficult today include the following trends:

- A dramatic increase in the environment's complexity.

- The increasing difficulty of predicting the future with accuracy.
- The increasing number of variables in the environment.
- The rapid rate of obsolescence of even the best plans.
- The increase in the number of both domestic and world events affecting organizations.
- The decreasing time span for which planning can be done with any degree of certainty.

30. Jan 2021 Exam, 5 marks | MTP Apr 2022, 5 marks

Sanya Private Limited is an automobile company. For the past few years, it has been observed that the progress of the company has become stagnant. When scrutinized, it was found that the planning department was performing fairly well but the plans could not be implemented due to improper use of resources, undesirable tendencies of workers and non-conformance to norms and standards. You are hired as a Strategic Manager. Suggest the elements of process of control to overcome the problem.

Answer

Sanya Private Limited deteriorating performance due to poor implementation of plans that is improper use of resources, undesirable tendencies of the workers, and non- conformance to norms and standards, all point towards weak controls in the organization. Implementation of plans cannot assure results unless strong and sufficient controls are put in place. The management of the company should focus diligently on developing controls especially in the identified problem areas.

The process of control has the following elements:

a) Objectives of the business system which could be operationalized into measurable and controllable standards.
b) A mechanism for monitoring and measuring the performance of the system.
c) A mechanism (i) for comparing the actual results with reference to the standards (ii) for detecting deviations from standards and (iii) for learning new insights on standards themselves.
d) A mechanism for feeding back corrective and adaptive information and instructions to the system, for effecting the desired changes to set right the system to keep it on course.

Above elements of control would ensure a proper check on improper use of resources, undesirable tendencies of the workers, and non-conformance to norms and standards and ensure a result-oriented implementation of plans.

31. Nov 2020 Exam, 5 marks

What is strategic control? Kindly explain the statement that "premise control is a tool for systematic and continuous monitoring of the environment".

Answer

Strategic control is the process of evaluating formulated and implemented strategy. It is directed towards identifying changes in the internal and external environments of the organization and making necessary adjustments accordingly.

Strategic Control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

Yes, Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily **involves monitoring two types of factors:**

i. Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory.
ii. Industry factors such as competitors, suppliers, substitutes.

It is neither feasible nor desirable to control all types of premises in the same manner.

Different premises may require different amount of control. Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

32. May 2019 Exam, 3 marks | MTP Oct 2021, 5 marks | MTP Mar 2021, 5 marks

Distinguish between Strategy Formulation and Strategy Implementation.

Answer

Although inextricably linked, strategy implementation is fundamentally different from strategy formulation in the following ways:

Strategy Formulation	Strategy Implementation
• Strategy formulation focuses on effectiveness. • Strategy formulation is primarily an intellectual process. • Strategy formulation requires conceptual intuitive and analytical skills. • Strategy formulation requires coordination among the executives at the top level.	• Strategy implementation focuses on efficiency. • Strategy implementation is primarily an operational process. • Strategy implementation requires motivation and leadership skills. • Strategy implementation requires coordination among the executives at the middle and lower levels.

33. Nov 2018 Exam, 7 marks

Write a short note on strategic change and explain the process of strategic change.

Answer

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Three steps for initiating strategic change are:

i. **Recognise the need for change** – The first step is to diagnose the which facets of the present corporate culture are strategy supportive and which are not.

ii. **Create a shared vision to manage change** – Objectives of both individuals and organisation should coincide. There should be no conflict between them. This is possible only if the management and the organisation members follow a shared vision.

iii. **Institutionalise the change** – This is an action stage which requires the implementation of the changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of doing things.

Kurt Lewin proposed three stages of the change process for moving the organisation from the present to the future.

i. **Unfreezing the situation** – The process of unfreezing makes the individuals or organisations aware of the necessity for change and prepares them for it. The change should not come as a surprise to the members of the organisation. Sudden and unannounced change would be socially destructive and morale lowering,

ii. **Changing to new situation** – once unfreezing is complete and members of the organisation recognize the need for change, then their behaviour patterns need to be redefined as:
   - **Compliance**– enforcing reward and punishment strategy for good or bad behaviour
   - **Identification**–members are psychologically impressed to identify themselves with some given role models whose behaviour they would like to adopt.
   - **Internalisation** - involves some internal changing of the individual's thought process. They are given the freedom to learn and adopt new behaviour.

iii. **Refreezing** – occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change. This can be achieved by continuously reinforcing the newly acquired behaviour. Change process is not a one-time application but a continuous process due to dynamism and ever-changing environment.

34. May 2018 Exam, 3 marks | RTP Nov 2022 | RTP May 2020

Explain different types of strategic control in brief.

Answer

Strategic Control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

There are four types of strategic control:

(a) **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.

(b) **Strategic surveillance:** Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.

(c) **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.

(d) **Implementation control:** managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and result.

35. RTP May 2022

Glassware Ltd. is about to go through a significant restructuring. The strategic change involves moving from a decentralized to a centralized structure. This will help Glassware avoid duplication of support activities and lower its costs. The management have held the first staff briefing in which they went to great lengths to explain that the change was necessary to equip the company to face future competitive challenges. Identify and explain the current stage of Glassware Ltd. from the Lewin's three-stage model of change?

Answer

Glassware Ltd. is currently in the **'unfreezing' stage,** where management is attempting to explain the need for change in an attempt to maximize buy-in by employees and reduce the amount of resistance.

Unfreezing the situation: The process of unfreezing simply makes the individuals aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change. Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making
announcements, holding meetings and promoting the new ideas throughout the organization.

36. RTP Nov 2021

Connect Group was one of the leading makers of the mobile handsets till a few years ago and which went at the bottom of the heap. Connect Group didn't adapt to the current market trends which eventually lead to its downfall. Which would have helped Connect Group to change, adapt and survive? Explain the steps to initiate the change.

Answer

Connect Group has to do strategic change for its survival. The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business. Unless companies embrace change, they are likely to be freeze and unless companies prepare to deal with sudden, unpredictable, discontinuous, and radical change, they are likely to be extinct.

Three steps for initiating strategic change are:

i. **Recognise the need for change** – The first step is to diagnose the which facets of the present corporate culture are strategy supportive and which are not.
ii. **Create a shared vision to manage change** – Objectives of both individuals and organisation should coincide. There should be no conflict between them. This is possible only if the management and the organisation members follow a shared vision.
iii. **Institutionalise the change** – This is an action stage which requires the implementation of the changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of doing things.

37. RTP Nov 2021 | RTP Nov 2019 | RTP May 2018

What is implementation control? Discuss its basic forms.

Answer

Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions. Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basic forms of implementation control are:

i. **Monitoring strategic thrusts:** Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

ii. **Milestone Reviews.** All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

38. RTP May 2021

Why is Strategic Control important for organizations? Discuss briefly 4 types of strategic control that can be implemented to achieve the enterprise goals.

Answer

Importance of strategic control: Strategic control is an important process that keeps organisation on its desired path. It involves evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments. Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

There are four types of strategic control:

- **Premise control**: A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
- **Strategic surveillance:** Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.
- **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
- **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.

39. RTP Nov 2020

Discuss three methods for reassigning new patterns of behaviour as proposed by H.C. Kellman.

Answer

H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

- **Compliance:** It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.
- **Identification:** Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.
- **Internalization:** Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.

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40. RTP May 2019

HQ is a service company? Two years back the company hired a reputed management consultant to formulate its strategy. The consultant recommended an aggressive expansion plan. Now in an internal review meeting the company finds that many of the suggestions are not even fully considered. Which part of strategic management process is missing in HQ?

Answer

Strategy implementation is missing in HQ. Implementation is the managerial exercise of putting a chosen strategy into action. It deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a strategic decision into action, which presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems. It is crucial to realize the difference between the formulation and implementation because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent.

41. RTP Nov 2018

Explain premise control.

Answer

A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

i. Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and regulatory.
ii. Industry factors such as competitors, suppliers, substitutes.

42. RTP Nov 2018

State with reasons which of the following statements are correct/incorrect:
Benchmarking and business process reengineering are one and the same.

Answer

Incorrect: Benchmarking relates to setting goals and measuring productivity based on best industry practices. The idea is to learn from the practices of competitors and others to improve the firm's performance. On the other hand, business process reengineering relates to analysis and redesign of workflows and processes both within and between the organizations.

43. RTP Nov 2018 | MTP Oct 2022, 5 marks

Distinguish between the following:
Operational control and management control.

Answer

Differences between operational control and management control are as under:

i. The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.
ii. Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand, the basic purpose of management control is the achievement of enterprise goals – short range and long range – in an effective and efficient manner.

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44. RTP May 2018

State with reasons whether the following statement is correct or incorrect:
Strategic surveillance is highly focussed and organised control activity.

Answer

Incorrect: The strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, attending meetings, conferences, discussions and so on. Strategic surveillance, a loose form of strategic control, is capable of uncovering information relevant to strategy.

45. RTP May 2018

Define Refreezing in Kurt Lewin's change process.

Answer

Kurt Lewin proposed three phases of the change process – Unfreezing, changing and then refreezing. Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. It may be achieved through continuous reinforcement.

46. MTP Mar 2022, 5 marks

Explain the steps for initiating strategic change.

Answer

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Three steps for initiating strategic change are:

i. **Recognise the need for change** – The first step is to diagnose the which facets of the present corporate culture are strategy supportive and which are not.
ii. **Create a shared vision to manage change** – Objectives of both individuals and organisation should coincide. There should be no conflict between them. This is possible only if the management and the organisation members follow a shared vision.
iii. **Institutionalise the change** – This is an action stage which requires the implementation of the changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of doing things.

47. MTP May 2020

Dr. Raman has been running a nursing home for about twenty two years now, and has gained enormous name for his benevolence in Balram district of Chhattisgarh. Recently, his daughter, Dr. Radhika completed her medicine degree from the United States of America and returned to her hometown to be a part of her father's practice. She has been given the baton to promote modern medicine and retain the local skilled youth in their practice. However, their nursing home's skilled youth has been more inclined to E-Commerce employment opportunities. Dr. Radhika has taken it as a challenge to imbibe the very essence of service in them, by being employed as nurses and caretakers of the ill. This shall be very crucial in growing the practice as desired. Which of the following phases of Kurt Lewin's Model of Change will be most challenging for Dr. Radhika to strategically positioning her father's nursing home?

Answer

Kurt Lewin's Model of Change proposes three phases of change process to make the change lasting. They are Compliance, Identification and Internalization.
For Dr. Radhika, Compliance and Identification will not a big challenge, as her father has been one of the most sort after personalities serving the ill in their district. And her return from the USA to serve her country, especially her district, will help the workforce identify her as a role model and there would actually be no need for compliance, i.e. Reward and Punishment for bringing about a change. However, the new lucrative E-

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Commerce employment opportunities will have to be fought through Internalization, i.e. internal changing of the individual's thought process, to give them freedom to learn and succeed. **Thus, Internalization will be the most challenging phase.**

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