MASTER IN MANAGEMENT STUDIES

SEMESTER - III (CBCS)

STRATEGIC MANAGEMENT

SUBJECT CODE : UMMSIII.2

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Semester	**:**	**III-Core**			
Titleof theSubject/course	**:**	**StrategicManagement**			
CourseCode	**:**				
Credits	**:**	**4**	**Duration**	**:**	**40**

Learning Objective

1	To appreciate the role of Strategic thinking in changing business environment
2	To understand the process of Strategy Formulation, Implementation & Evaluation
3	Focus on application & decision making

Prerequisites if any	
Students to refresh themselves on criticalconcepts and models in the areas of wrt HR, Marketing, Finance, Operations	The subject provides knowledge about corporate level strategies with cross functional perspective. Hence basic orientation of all relevant business disciplines is appreciated

Module

Sr. No	Content	Activity	Learning out comes
1	Introduction to Strategic Management and schools of Strategic formulation and implementation & evaluation	Lecture and Case discussion	Familiarization with Term inologies and processes of Strategic Management
2	Globalization, addressing a VUCA environment with a bottoms – up approach (Volatile, Uncertain, Complex and Ambiguous time)	Lecture and Case discussion	Understanding of Strategic Management so as to enable the students shoulder responsibilities in the ever Changing global arena

3	PESTEL & SWOT as tools for strategic formulation	Lecture and Case discussion	Environmental scanning and appreciation of external business environment for Effective strategy formulation
4	BCG matrix/ GE matrix,7S McKinsey models as tools for strategic formulation	Lecture and Case discussion	SBU portfolio management and strategic coherence
5	An soff matrix, Grand strategy as tools for strategic formulation	Lecture and Case discussion	Acqua instance with tools of strategic fit
6	Porter's Generic strategies and Value chain	Lecture and Case discussion	Understanding industry analysis and sustainable Competitive advantage
7	Internal Competences & Resources Core, Distinctive, Strategic & Thres hold Competence, Competencevs Capability, Resource Analysis, Value Chain Analysis, Strategic Outsourcing Core competence and synergy, Distinctive competencies, VRIO analysis	Lecture and Case discussion	Leveraging Sustainable unique advantage with path dependence
8	Red–Blue-Purple Ocean strategy	Lecture and Case discussion	Identifying strategic gaps in the market and filling them With unique advantage

9	Competing in Global Markets: Differences in Cultural, Demo graphic and Markets, Multi Country and Global competition concepts, Strategy options Competing in Emerging Markets	Lecture and Case discussion	Understanding organizational growth options, strategizing and implementing them
10	Mergers and Acquisitions, Strategic alliance & Joint Ventures, Vertical Integration, Offensive, Defensive Strategies,	Lecture and Case discussion	Understanding non-financial perspective and strategic Parameters in the globalized world
11	Strategy Evaluation and Control Types of Control, Evaluation & Control Criteria Pre & Post Implementation	Lecture and Case discussion	Understanding of evaluation and control processes to ensure effective implementation
12	Change management and Turn – around strategies	Lecture and Case discussion	Multi directional, innovative ways of business growth, aligning organizational forces To achieve desired objectives
13	Case studies & presentation		

Texts Books

1. Pierce & Robinson, "Strategic Management : Formulation, Implementation & Control", 9th Ed, Tata McGraw – Hill, N. Delhi
2. David Fred R, "Strategic Management : Concepts & Cases", 10th Ed, Pearson–Prentice Hall, N. Delhi
3. Thomson, Strickl and, Gamble & Jain, "Crafting & Executing Strategy", 14th Ed, Tata McGraw – Hill, N. Delhi
4. Hit, Ireland, Hoskisson & Manikutty, "Strategic Management : A South–Asian Perspective", 9th Ed, Cengage Learning, Delhi

Reference Books :

1. Pierce & Robinson, “Strategic Management : Formulation, Implementation & Control”, 9th Ed, Tata McGraw – Hill, N. Delhi

2. David Fred R, “Strategic Management : Concepts & Cases”, 10th Ed, Pearson–Prentice Hall, N. Delhi

3. CherunilamF rancis, “Strategic Management : A Book on Business Policy & Corporate Planning”, Himalaya Publishing House, Mumbai, 2008

4. Johnson & Scholes, “Explaining Corporate Strategy”, 6th Ed, Pearson Education, DelhiKachru Upendra, “Strategic Management : Concepts and Cases”, Excel Books, N. Delhi

5. Barney Jay, “Gaining & Sustaining Competitive Advantage”, 2nd Ed, Prentice–Hall, N. Delhi

6. Patil Ashish, “Mergers & Acquisitions” SAAA Capital Pte. Ltd, Singapore

7. Renee Mauborgue, W. Chan Kim, Blue Ocean Strategy, Harvard Business Review, 2005

8. Gary Hamel, C. K. Prahalad, Competing for the Future, Harvard Business Review, 1994

9. Thomson, Strickl and, Gamble & Jain, “Crafting & Executing Strategy”, 14th Ed, Tata McGraw – Hill, N. Delhi

10. NagA, “Strategic Management –Analysis, Implementation & Control”, - Vikas Publishing House, 2011

11. Mintzberg Henry, “Strategic Safari”, 2009, Prentice - Hall Inc, New York.

12. Grant Robert, “Contemporary Strategic Management”, 6th Ed, Wiley India

13. Hit, Ireland, Hos kisson & Manikutty, “Strategic Management : A South – Asian Perspective”, 9th Ed, Cengage Learning, Delhi

14. Wheelen & Hunger, “Strategic Management and Business Policy”, 8th Ed, Prentice Hall, N. J.

15. Kazmi & Kazmi, "Strategic Management and Business Policy", 4th Ed, Tata McGraw – Hill, N. Delhi

16. Rajiv Gupte & Shailesh Kale, "Strategic Management in the age of Globalization", 1st Ed, Himalaya Publishing House, Mumbai, 2007 (proposed)

Assessment

Internal	40%
Semester-end	60%

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1

INTRODUCTION TO STRATEGIC MANAGEMENT

Unit Structure :

1.0 OBJECTIVES

- Discuss the fundamentals of strategy management and its definitions
- Understand the concepts of strategy and study the difference between corporate strategy, business strategy and functional strategy.
- Understand the relationship between strategy formulation and implementation.
- Leading Strategically through Effective Vision and Mission.

1.1 WHAT IS STRATEGIC MANAGEMENT?

"Strategic management is defined as the process by which a firm manages the formulation and implementation of its strategy[1]"(Carpenter, M. A., & Sanders, W. G. (2009). The word strategy comes from the Greek word, strategos, meaning the "General's views".

In the words of Andrews (1980)[2], "corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.It defines the businesses in which a company will compete, preferably in a way that focuses resources to convey distinctive competences into competitive advantages."

Strategy is the pattern of decisions in a company that determines or reveals its objectives, purposes or goals and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers, and communities. This definition links strategy to such activities as setting objectives, determining policies, and the formation of action plans.

A study of the definitions given above shows that a strategy combines **explicit statements and implicit beliefs and understandings in and around an organization**about[3]:

- Mission:
    - Its core purpose (mission) and how, if at all, its mission will (or must) change in future.
- Vision:

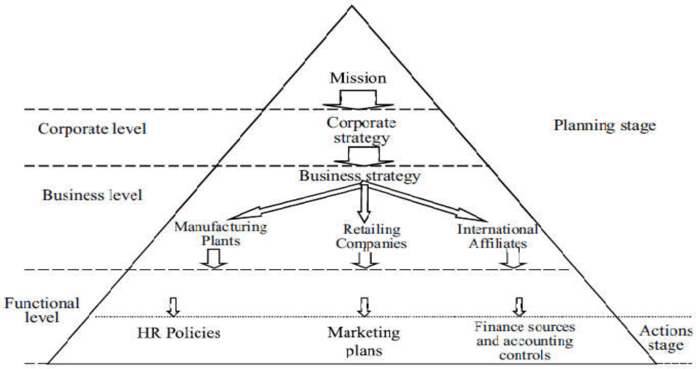
  - o Animage of its future direction and what it intends to achieve.
- Clientele
  - o Its scope, meaning, thereby,its main clientele now and those in the future (and consequently the potential clienteles that are and will remain outside its scope).
- Resources
  - o The resources and competences that create value for its clientele and how these will (or must) change to maintain and enhance the future value created.
- Present and Future
  - o The foundations of its present competitive standing and future sustainability.

Hambrick and Fredrickson define strategy as“the central, integrated, externally oriented concept of how a firm will achieve its objectives.” A strategy, then, encompasses the pattern of organizational actions that have been taken and those that are to be taken by an organization in pursuing its objectives. Strategy outlines the means by which a firm intends to create unique value for customers and other important stakeholders.

Alfred Chandler Jr. suggests, “the determination of the basic long-term goals and objectives of an enterprise, and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals”.

Porter relates strategy to the success of a company “obtaining a competitive position or series of competitive position that lead to superior and sustainable financial performance”.

1.2 LEVELS OF STRATEGY



Corporate Strategy vs Business Strategy

Corporate strategy addresses three key questions:[4]

- “In what businesses will we compete?
- How can a corporate parent add value to our various lines of business?

- How will diversification (or our entry into a new industry) help us compete in our other industries?"

Business strategy refers to how a firm will compete with current and future rivals within an industry. Two critical questions that business strategy must address are:

- how the firm will achieve its objectives today when competitors may be present and

- how the firm plans to compete in the future.

Here strategy is about which products or services should be developed and offered to which markets and the extent to which the customer needs will be met whilst achieving the objectives of the organization.

Functional Strategies or operational strategies are at departmental level like accounting, HR, manufacturing, marketing.Such strategies show as to how different functions of the businesses support the corporate and business strategies. They are concerned with how various functions of the organizations contribute to the achievement of the corporate and business strategies.

1.3 DIFFERENCE BETWEEN PLAN AND STRATEGY

Quite often, the words "plan" and "strategy" are used interchangeably. However, there are significant differences between these terms.

A plan is an arrangement, a pattern, a programme, or a scheme for a definite purpose. A plan is very concrete in nature and does not allow for deviation. If "Plan A" doesn't work, you don't alter "Plan A" and try again. Rather, you move to "Plan B;" which may be totally different.

A plan is most useful when staying well organized and on-track is the highest priority. A plan provides a coherent framework from which to build and a sure direction to follow, with intermittent milestones to pass in order to reach an end goal

A strategy, on the other hand, is a blueprint, layout, design, or idea used to accomplish a specific goal. A strategy is very flexible and open for adaptation and change when needed.

A strategy is most useful when creativity, collaboration, and innovation are of the utmost importance. A strategy encourages openness and debate from every side of the equation. A strategy embraces questions and out-of-the-box, effective answers. A strategy allows for a natural flow of thought and continual momentum that builds till success is reached.

1.4 ROLE OF STRATEGIC MANAGEMENT

Studies have revealed that organizations following strategic management have outperformed those that do not. Strategic planning ensures a rational allocation of resources and improves co-ordination between various divisions of the organization. It helps managers to think ahead and anticipate problems before they occur. The main benefit of the planning process is a continuous dialogue about the organization's future between the hierarchical levels in the organization.

In short, the most highly rated roles of strategic management in anorganization are:

- Clarity of strategic vision for the organization.
- Focus on what is strategically important to the organization.
- Better understanding of the rapidly changing business environment.

Strategic management need not always be a formal process. It can begin withanswering a few simple questions:

1. Where are we now?

2. If no changes are made, where we will be in the next one year? Next twoyears? Next three years? Next five years? Are the answers acceptable?

3. If the answers are not acceptable, what actions should the top managementtake? With what results and payoffs?

Today, businesses are becoming more complex due to rapid changes inenvironment. It is becoming increasingly difficult to predict the environment accurately.The internal and external environments of organizations are now driven by multitudesof forces that were hitherto non-existent. Earlier, the changes in technology were notso rapid but today the information from all over the globe is pouring in through thecomputers. The world in fact has shrunk. This has created fierce competition as thecustomers and stakeholders have become more aware of their rights.The number of events that affect domestic and world market are now far toomany and too often. Over reliance on experience in such situations may really workout to be very costly for companies.

Example 1: Reliance has shifted to more creativity, innovation and new ways of looking at business and doing it in novel ways. The earlier concepts of having highly specialized departments and developing specialization of labour is losing its credibility. Organizations are becoming more responsive, flexible, and adaptable to changing business situations. In such an environment that are charged with high level of competition, developing competitive edge for survival and growth has become imperative for companies.

Example 2: ITC began a tobacco company. Over the years, it has diversified into paper (ITC Bhadrachalam), hotels (Welcome Group), food (ITC Agro), and garments (Wills Lifestyle) in order to take advantage of changing environments and to achieve its growth objectives

1.5 FUNCTIONS OF STRATEGIC MANAGEMENT

Strategic management is an externally oriented philosophy of managing an organization that links strategic thinking and analysis to organizational action. As an explicit philosophy of managing an organization, strategic management discharge the following functions:

- provides a framework for thinking about the business;
- creates a fit between the organization and its external environment;
- provides a process of coping with change and organizational renewal;
- fosters anticipation, innovation, and excellence; facilitates consistent decision making;
- creates organizational focus; and
- facilitates the process of organizational leadership.

Strategic management provides an ongoing structure for rationally thinking about the plans and actions of the organization. It attempts to orchestrate a fit between the organization's external environment (political, regulatory, economic, technological, social, and competitive forces) and its internal situation (culture, organization structure, resources, services, and so on). In some cases, this may mean responding to external forces, whereas in other cases the organization may attempt to actually shape its environment (change the rules for success). At any rate, external change is inevitable, often the shifts may be subtle; sometimes they can be discontinuous and extremely disruptive. When such changes occur, new opportunities emerge and new competencies are born, while others die or are rendered inconsequential. Inevitably, the basic rules of competing and survival will change.

Strategic management is an organization's mechanism for understanding and constructively managing change and the process for reinventing or renewing the organization. Strategic management is both externally and internally oriented. It focuses on anticipating external change, fostering innovation in the services and processes of the organization, and promoting excellence. At the same time, strategic management sets direction for the organization and through a common understanding of the vision and broad goals provides everyone in the organization a template for making consistent decisions.

The process of strategic management defines where the organization is going and, sometimes more importantly, where it is not going. It creates organizational definition and focus. Strategic management has become an integral part of the philosophy of senior leadership of organizations and is no longer viewed as a separate discipline. As Max DePree has suggested, "leaders are obligated to provide and maintain momentum". Although organizations may accomplish superior results for a brief period of time, it takes the orchestration of management as well as leadership to perpetuate these capabilities far into the future.

Strategic thinkers constantly relate the organization to its external environment, not just to ensure compatibility and survival, but also to understand or alter the environmental trends well enough to create the future. Thus, it represents a moving and flowing process of analysis and evaluation to continuously monitor the environment and adapt the organization. Strategic management is the process of organizational leadership.

1.6 BENEFITS OF STRATEGIC MANAGEMENT

Strategic management allows an organization to be more proactive than reactive in shaping its own future; it allows an organization to initiate and influence (rather than just respond to) activities—and thus to exert control over its own destiny. Small business owners, chief executive officers, presidents, and managers of many for-profit and nonprofit organizations have recognized and realized the benefits of strategic management. Historically, the principal benefit of strategic management has been to help organizations formulate better strategies through the use of a more systematic, logical, and rational approach to strategic choice. This certainly continues to be a major benefit of strategic management, but research studies now indicate that the process, rather than the decision or document, is the more important contribution of strategic management. Communication is a key to successful strategic management. Through involvement in the process, in other words, through dialogue and participation, managers and employees become committed to supporting the organization.

The manner in which strategic management is carried out is thus exceptionally important. A major aim of the process is to achieve the understanding of and commitment from all managers and employees. Understanding may be the most important benefit of strategic management, followed by commitment. When managers and employees understand what the organization is doing and why, they often feel they are a part of the firm and become committed to assisting it.

This is especially true when employees also understand linkages between their own compensation and organizational performance. Managers and employees become surprisingly creative and innovative when they understand and support the firm’s mission, objectives, and strategies. A great benefit of strategic management, then, is the opportunity that the process provides to empower individuals. Empowerment is the act of strengthening employees’ sense of effectiveness by encouraging them to participate in decision making and to exercise initiative and imagination, and rewarding them for doing so.

More and more organizations are decentralizing the strategic-management process, recognizing that planning must involve lower-level managers and employees. The notion of centralized staff planning is being replaced in organizations by decentralized line-manager planning. For example, Walt Disney Co. dismantled its strategic-planning department and gave those responsibilities back to the Disney business divisions. Former CEO Michael Eisner had favored the centralized strategic-planning approach, but CEO Robert Iger dissolved Disney's strategic-planning department within weeks of his taking over the top office at Disney.

The process is a learning, helping, educating, and supporting activity, not merely a paper-shuffling activity among top executives. Strategic-management dialogue is more important than a nicely bound strategic-management document. The worst thing strategists can do is develop strategic plans themselves and then present them to operating managers to execute. Through involvement in the process, line managers become "owners" of the strategy. Ownership of strategies by the people who have to execute them is a key to success!

Although making good strategic decisions is the major responsibility of an organization's owner or chief executive officer, both managers and employees must also be involved in strategy formulation, implementation, and evaluation activities. Participation is a key to gaining commitment for needed changes.

An increasing number of corporations and institutions are using strategic management to make effective decisions. But strategic management is not a guarantee for success; it can be dysfunctional if conducted haphazardly

1.7 WHY SOME FIRMS DO NOT ENGAGE IN STRATEGIC PLANNING?

Some firms do not engage in strategic planning, and some firms do strategic planning but receive no support from managers and employees. Some reasons for poor or no strategic planning are as follows:

- Lack of knowledge or experience in strategic planning - No training in strategic planning.
- Poor reward structures - When an organization assumes success, it often fails to reward success. When failure occurs, then the firm may punish.
- Firefighting - An organization can be so deeply embroiled in resolving crises and firefighting that it reserves no time for planning.
- Waste of time - Some firms see planning as a waste of time because no marketable product is produced. Time spent on planning is an investment.
- Too expensive - Some organizations see planning as too expensive in time and money.
- Laziness - People may not want to put forth the effort needed to formulate a plan.

- Content with success - Particularly if a firm is successful, individuals may feel there is no need to plan because things are fine as they stand. But success today does not guarantee success tomorrow.

- Fear of failure - By not taking action, there is little risk of failure unless a problem is urgent and pressing. Whenever something worthwhile is attempted, there is some risk of failure.

- Overconfidence - As managers amass experience, they may rely less on formalized planning. Rarely, however, is this appropriate. Being overconfident or overestimating experience can bring demise. Forethought is rarely wasted and is often the mark of professionalism.

- Prior bad experience - People may have had a previous bad experience with planning, that is, cases in which plans have been long, cumbersome, impractical, or inflexible. Planning, like anything else, can be done badly.

- Self-interest - When someone has achieved status, privilege, or self-esteem through effectively using an old system, he or she often sees a new plan as a threat.

- Fear of the unknown - People may be uncertain of their abilities to learn new skills, of their aptitude with new systems, or of their ability to take on new roles.

- Honest difference of opinion - People may sincerely believe the plan is wrong. They may view the situation from a different viewpoint, or they may have aspirations for themselves or the organization that are different from the plan. Different people in different jobs have different perceptions of a situation.

- Suspicion - Employees may not trust management.

1.8 EFFECTIVE IMPLEMENTATION OF STRATEGIC MANAGEMENT

Failing to follow certain guidelines in conducting strategic management can foster criticisms of the process and create problems for the organization. Issues such as “Is strategic management in our firm a people process or a paper process?” should be addressed.

Even the most technically perfect strategic plan will serve little purpose if it is not implemented. Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as after thoughts! Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

Strategic management must not become a self-perpetuating bureaucratic mechanism. Rather, it must be a self-reflective learning process that familiarizes managers and employees in the organization with key strategic issues and feasible alternatives for resolving those issues. Strategic management must not become ritualistic, stilted, orchestrated, or too formal, predictable, and rigid. Words supported by numbers, rather than numbers supported by words, should represent the medium for explaining strategic issues and organizational responses. A key role of strategists is to facilitate continuous organizational learning and change.

R. T. Lenz offered some important guidelines for effective strategic management:

Keep the strategic-management process as simple and nonroutine as possible. Eliminate jargon and arcane planning language. Remember, strategic management is a process for fostering learning and action, not merely a formal system for control. To avoid routinized behavior, vary assignments, team membership, meeting formats, and the planning calendar.

The process should not be totally predictable, and settings must be changed to stimulate creativity. Emphasize word-oriented plans with numbers as back-up material. If managers cannot express their strategy in a paragraph or so, they either do not have one or do not understand it. Stimulate thinking and action that challenge the assumptions underlying current corporate strategy. Welcome bad news. If strategy is not working, managers desperately need to know it. Further, no pertinent information should be classified as inadmissible merely because it cannot be quantified.

Build a corporate culture in which the role of strategic management and its essential purposes are understood. Do not permit "technicians" to co-opt the process. It is ultimately a process for learning and action. Speak of it in these terms. Attend to psychological, social, and political dimensions, as well as the information infrastructure and administrative procedures supporting it.

An important guideline for effective strategic management is open-mindedness. A willingness and eagerness to consider new information, new viewpoints, new ideas, and new possibilities is essential; all organizational members must share a spirit of inquiry and learning. Strategists such as chief executive officers, presidents, owners of small businesses, and heads of government agencies must commit themselves to listen to and understand managers' positions well enough to be able to restate those positions to the managers' satisfaction.

In addition, managers and employees throughout the firm should be able to describe the strategists' positions to the satisfaction of the strategists. This degree of discipline will promote understanding and learning. No organization has unlimited resources. No firm can take on an unlimited amount of debt or issue an unlimited amount of stock to raise capital.

Therefore, no organization can pursue all the strategies that potentially could benefit the firm.

Strategic decisions thus always have to be made to eliminate some courses of action and to allocate organizational resources among others. Most organizations can afford to pursue only a few corporatelevel strategies at any given time. It is a critical mistake for managers to pursue too many strategies at the same time, thereby spreading the firm's resources so thin that all strategies are jeopardized.

Joseph Charyk, CEO of the Communication Satellite Corporation (Comsat), said, "We have to face the cold fact that Comsat may not be able to do all it wants. We must make hard choices on which ventures to keep and which to fold." Strategic decisions require trade-offs such as long-range versus short-range considerations or maximizing profits versus increasing shareholders' wealth. There are ethics issues too.

Strategy trade-offs require subjective judgments and preferences. In many cases, a lack of objectivity in formulating strategy results in a loss of competitive posture and profitability. Most organizations today recognize that strategic-management concepts and techniques can enhance the effectiveness of decisions. Subjective factors such as attitudes toward risk, concern for social responsibility, and organizational culture will always affect strategy-formulation decisions, but organizations need to be as objective as possible in considering qualitative factors.

1.9 THE PHILOSOPHY OF THE STRATEGIC MANAGEMENT PROCESS

To define the strategic management process, look at it as a philosophical approach to doing business. This is a blanket terminology that refers to a process by which managers come up with, and implement an operational strategy that grants the organization a competitive advantage. The upper management of an organization must first use data analytics to think strategically, then use the strategic management process to put the thought into action.

So, **what is strategic management process (SMP)?**

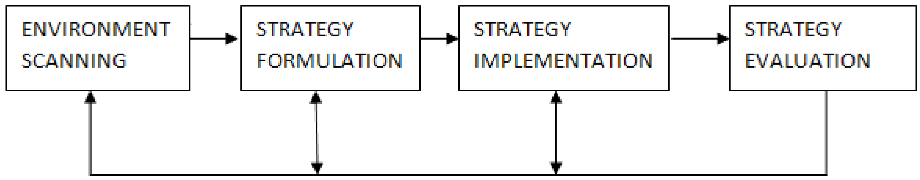
Strategic management process is a continuous culture of appraisal that a business adopts to outdo the competitors. Simple as it may sound, this is a complex process that also covers formulating the organization's overall vision for present and future objectives.

The way different organizations create and realize their management strategies differ. As a result, there are different models of SMP that the organization can adopt. The right model depends on various factors including:

- The existing culture of the organization.
- Market dominance of the organization.
- Leadership style.
- The organization's experience in creating and implementing SMPs.
- Industry and competition.

1.10 STRATEGIC MANAGEMENT PROCESS

The process of strategic management consists of an ongoing analysis, decisions, and actions/ activities to create and sustain competitive advantages in order to obtain the desired competitive position and achieve the strategic objectives. The process is summarized in the following distinctive steps:



Components of Strategic Management Process

Environment Scanning allows strategist to be knowledgeable of and understand the environments, both external and internal, in order to know where the firm is and foresee where the firm wishes to be in the future, recognize the firm's rivals, their strategic positions and profiles, be aware of key industry's success factors, attractiveness and determine distinctive competencies and competitive advantages.

Strategy formulation requires, on the basis of information gathered from situation analysis, to set strategic direction through business mission and vision statements, and establish strategic objectives to reach there, and generate, evaluate and select corporate, business and functional strategies topursue.

Strategy implementation: Successful strategies are dependent on effective implementation. Strategy implementation is thefine art of detailing: what all is to be done, when various tasks are to beperformed, where are they to be performed, how they are to be performed and who will perform. Strategy implementation is the process of executing the strategy - of taking the actions that put the strategy into effect and ensure that organizational decisions are consistent with it. While strategy formulation is the process of deciding what to do, strategy implementation is the process of performing all the activities necessary to do what has been formulated.

Strategy evaluation is a logical step to obtain feedback from strategy's performance and taking corrective actions, if needed, in the light of constant external and internal changes. Strategy evaluation is needed because success today is no guarantee of success tomorrow.

1.11 WHY IS STRATEGIC MANAGEMENT PROCESS IMPORTANT?

The primary purpose of strategic management process is to help the organization achieve a sustainable strategic competition in the market. When properly conceived and implemented, SMP creates value for the organization by focusing on and assessing opportunities and threats, then leveraging its strengths and weaknesses to help it survive, grow, and expand. Strategic management process can help a business achieve this by:

1. Acting as the reference for any major decisions of the organization.
2. Guiding the business to chart its future and move in that direction. SMP involves formulating the organization's goals, fixing realistic and achievable objectives, and ensuring that they are all aligned with the company's vision.
3. Assisting the business to become proactive, not reactive. With the SMP, the business can analyze the competitor's actions vis-à-vis market trends and come up with the steps that must be taken to compete and succeed in the market.
4. Preparing the organization for any potential challenges and explore possible opportunities that the business must pioneer in. The strategic management process steps also involve identifying the best ways to overcome the challenges and exploiting new opportunities.
5. Ensuring that the organizations copes with the competition in a dynamic environment and survives in an uncertain market.
6. Helping in the identification and maximization of the organization's competitive advantages and core competencies. These are responsible for the business' survival and future growth.

1.12 STRATEGIC LEADERSHIP

Strategic leadership is defined as the task of managing an overall enterprise and influencing key organizational outcomes. This is significantly broader in scope than general leadership – which is defined as the task of exerting influence on other people's pursuit of goals in an organizational context. Strategic leadership includes responsibility for firm'slong term vision, its performance, competitive superiority, innovation, strategic change, and survival. An ability to model and communicate the vision and mission is essential to strategic leadership. Henry Mintzberg's classic study suggests that strategic leaders fill ten key roles that are grouped into three major categories:

- **Interpersonal Roles**: figurehead (ceremonial), liaison (with external stakeholders), leader (authority to provide motivation and direction).

- **Informational Roles**: monitor (collecting information), disseminator (passing along information to the appropriate internal stakeholders), spokesperson (passing along information to external stakeholders).

- **Decision Roles**: entrepreneur (designing firm strategy), disturbance handler (managing conflicts – both internal and external), resource allocator (allocating the firm's resources by balancing tradeoffs), and negotiator (managing non-routine transactions with other organizations).

The concept of strategic leadership is crucial to effective strategy formulation and implementation by addressing the following:

- Vision, mission, values and strategies
- Shaping purpose and coherence
- Understanding the role of stakeholders
- Recognizing the role ethics

1.13 DEFINING VISION AND MISSION

Creating vision is the essential act of leadership. The vision must relate to the expectations of its customers, while being grand enough and imaginative enough to fuel the employees' spirit. The vision gives the organization its energy. The vision usually requires a "leap of faith" and an "act of courage". A vision is an optimistic, inspiring picture that brings with it the responsibility to make it happen. A vision is a dream of greatness!

Vision is a simple statement or understanding of what the firm will be in the future. A vision is forward looking and identifies the desired long-term status. A vision statement should answer the basic question, "What do we want to become?" A clear vision provides the foundation for developing a comprehensive mission statement. Many organizations have both a vision and a mission statement, but the vision statement should be established first and foremost. Ideally, vision statement should be short, preferably one sentence, and as many managers as possible should contribute to developing the statement.

The mission statement is usually depicted as the starting point in the strategic planning process. The mission statement spells out the underlying motivation for being in business in the first place - the contribution to society that the firm aspires to make. A mission statement is called a statement of purpose, a statement of philosophy, a statement of beliefs, a statement of business principles, or a statement "defining our business,". A mission statement reveals what an organization wants to be and whom it wants to serve. Organizational mission statements should include ten components: customers, products or services, markets, technology, concern for survival, growth and profitability, philosophy, self-concept, concern for public image, and concern for employees.

1.14 TRANSLATING VISION AND MISSION STATEMENTS INTO GOALS AND OBJECTIVES

To be effective, visions and mission must be translated into specific quantitative or qualitative goals and objectives to direct strategic actions. Superordinate goals serve as an overarching reference point for other goals and objectives. The balanced scorecard has been adopted in a large number of firms now. This provides a system for tracking strategic progress. Tangible performance is measured by such criteria as return on equity, return on sales, sales growth, and customer retention.

1.15 IMPORTANCE OF VISION AND MISSION STATEMENTS

Business is not defined by its name, statutes or articles of incorporation. It is defined by the business vision and mission. Only a clear definition of the mission and purpose of the organization makes possible clear and realistic business objectives. Business Week reports that firms using mission statement have a 30 percent higher return on financial measures than those without such statements.

Reasons for Developing a Written Vision &Mission Statement

- To ensure unanimity of purpose within the organization
- To provide a basis, or standard, for allocating organizational resources
- To establish a general tone or organizational climate
- To serve as a focal point for individuals to identify with the organization's purpose and direction, and to deter those who cannot from participating further in the organization's activities
- To facilitate the translation of objectives 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 objectives in such a way that cost, time, and performance parameters can be assessed and controlled.

Characteristics of Vision Statement

Business strategy and leadership writers have proposed different characteristics that a vision should have, some commonly shared characteristics can be identified (Kantabutra) by conciseness, clarity, future orientation, stability, challenge, abstractness; and,desirability or ability to inspire.

Some specific guidelines for developing a vision are provided below. A leader should espouse a vision that:

- is brief (so that it can be remembered and repeated easily);

- contains a prime goal to be achieved;

- can encompass all organizational interests;

- is not a one-time, specific goal that can be met, and then discarded;

- provides a source of motivation for employees to do their best by including a degree of difficulty or stretch (e.g. to achieve a national/international status);

- offers a long-term perspective for the organization and indicates the future environment in which it will function;

- is unlikely to be changed by market or technology changes; and

- is viewed as desirable by employees.

Visions containing these characteristics are expected to bring about higher performance outcomes, initially through employee and customer satisfaction, than those without.

Characteristics of a Mission Statement :

Declaration of Attitude: An effective mission statement arouses positive feelings and emotions about an organization; it is inspiring in the sense that it motivates readers to action. The length of effective mission statements isideally restrictedto less than 200 words.

Customer Orientation: A good mission statement reflects the expectation of customers. Rather than developing a product and then trying to find a market, the operating philosophy of organizations should be to identify customers' needs and then to provide a product or service to fulfill those needs.

Declaration of Social Policy: The words social policy embraces managerial philosophy and thinking at the highest levels of an organization.

We study the statements of two leading banks in India:

State Bank of India
Vision Be the bank of choice for a transforming India **Mission** Committed to Providing Simple Responsive and Innovative Financial Solutions

Source:https://www.sbi.co.in/web/about-us/about-us

ICICI Group
Vision To be the leading provider of financial services in India and major global bank. **Mission** We will leverage our people, technology, speed and financial capital to: • Be the banker of first choice for our customers by delivering high quality, world class products and services • Expand the frontiers of our business globally. • Play a proactive role in the full realization of India potential. • Maintain a healthy financial profile and diversify our earnings across businesses and geographies. • Maintain high standards of governance and ethics. • Contribute positively to the various countries and markets in which we operate.

Source:http://www.icicigroupcompanies.com/corporate_governance.html

1.16 SUMMARY

In conclusion, the field of strategy has progressed very significantly in recent years. The strategicmanagement process is dynamic and continuous. High performing firms tend to carry outsystematic planning in order to prepare for future changesin the external and internal environments. The concept of Strategic Management requires a specialized and exclusive set of managerial competencies, strategy formulation and implementation.

1.17 QUESTIONS

1. Which of the following maintains the ultimate responsibility for strategy within an organization?

   A. senior management B. lower-level employees
   C. mid-level executives D. Employee from competing firms

2. Executive activities can be divided into three basic areas that include interpersonal, Informational, and

   A) Managerial B) Supervisory
   C) Decisional D) Relational

3. All of the following are examples of a leader's interpersonal roles except ________.

   A) Liaison B) Monitor C) Leader D) Figurehead

4. The terms leadership and strategic leadership may be used interchangeably. True/False

5. The terms vision and mission may be used interchangeably. True / False

ANSWERS

1. A 2. C 3. B 4.False 5. False

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2

GLOBALIZATION AND VUCA WORLD

Unit Structure :

2.0 OBJECTIVES

- To understand the importance of strategic management in global competitiveness.
- To know the VUCA world.
- To understand Strategic Management in the VUCA world.

2.1 INTRODUCTION

Despite the fact that globalisation is a well-established aspect of the modern world, we frequently overlook the advantages it brings to our daily lives. Globalization is thought to make it simple to access a wide range of diverse cultures or cutting-edge technologies created by nations around the world. Without a doubt, globalisation has benefited corporate operations on a daily basis, and strategic management is no exception. A company adopts tactics to stay competitive and outperform its rivals. Even though globalisation improves our quality of life, as a company expands internationally, it also has an impact on the operations and strategic management of the company. The notion of globalisation, as well as its advantages and disadvantages, will be briefly covered in this review. First, several sectors of application will be used to explain how strategic management is applied to the idea of globalisation, and later in the assessment it will be completely explored how globalisation is affecting strategic management of a business moving beyond national borders.Each year, the global economy saw the movement of products, services, and capital worth many millions of dollars. Businesses were expanded globally by entrepreneurs. There are new hazards associated with these new prospects that entrepreneurs should be aware of. Three major changes - internationalization, liberalisation, and technical innovation have contributed to the development of the world economy.

Business has been so quickly globalised that a new discipline called "Global Strategic Management" has now developed. This emerging discipline creates global strategies for multinational firms by infusing strategic management with international business.

2.2 GLOBALIZATION

The process of interaction and integration between individuals, organisations, and governments on a global scale is known as globalisation. Since the 18th century, technological developments in transportation and communication have increased globalisation. In actuality, the term "globalisation" refers to an unrestricted exchange of information, technology, and goods between nations and customers.

The many connections between business, geopolitics, technology, travel, culture, and the media all contribute to this enormous flow. The globe is getting smaller every day, so businesses must embrace globalisation if they want to keep up with the smaller, faster world and succeed. If not, rival companies will seize fresh chances in the worldwide market. Business transactions are now simpler and take less time because to globalisation.

2.3 IMPORTANCE OF STRATEGIC MANAGEMENT IN GLOBAL COMPETITIVENESS

The term "globalisation" has gained popularity in the age of business. Nowadays, everything is going global, including organisational businesses. Due to increased market competition brought on by globalisation, the company must maintain its right strategy. For instance, the company should develop the appropriate plan to offer a higher standard of service.

Thus, by creating plans and policies, strategic management aids in giving the business a general direction. These strategies are intended to help you reach your goals. Therefore, strategic management can aid a firm in gaining an edge over rivals.

2.4 IMPACT OF GLOBALIZATION ON STRATEGIC MANAGEMENT

Business has been so quickly globalised that a new discipline called "Global Strategic Management" has now developed. This emerging discipline creates global strategies for multinational firms by fusing strategic management with international business. The revolutionary events of the last few years make it evident that the present is not regular, but the majority of research in this sector concentrate on typical economic settings. A new age in world politics is beginning to emerge as a result of epoch-making events like the fall of communism, the unification of Europe, the information revolution, the emergence of an environmental ethic, and other spectacular new developments. This article discusses a more comprehensive method of global strategic management that takes these revolutionary shifts into account.

What effects has globalisation had on business owners? Both positive and negative effects of globalisation are possible to perceive. The opening of new markets, increased resource allocation efficiency, decreased prices for supplies of goods and services, increased consumer and trader choice, increased business and employment opportunities, and increased international competition all contributed to the proponents of globalization's positive view of the process.

Globalization encourages nations to have more worldwide contacts, greater economic and political freedom, and enhanced bilateral interactions between nations from a political and economic standpoint. The amount of poverty in emerging nations has decreased as a result of globalisation, and as more jobs and business opportunities are developed, people's quality of life has increased. However, others who were against it asserted that it was a procedure that primarily served corporate interests, with no regard for human rights or environmental concerns.

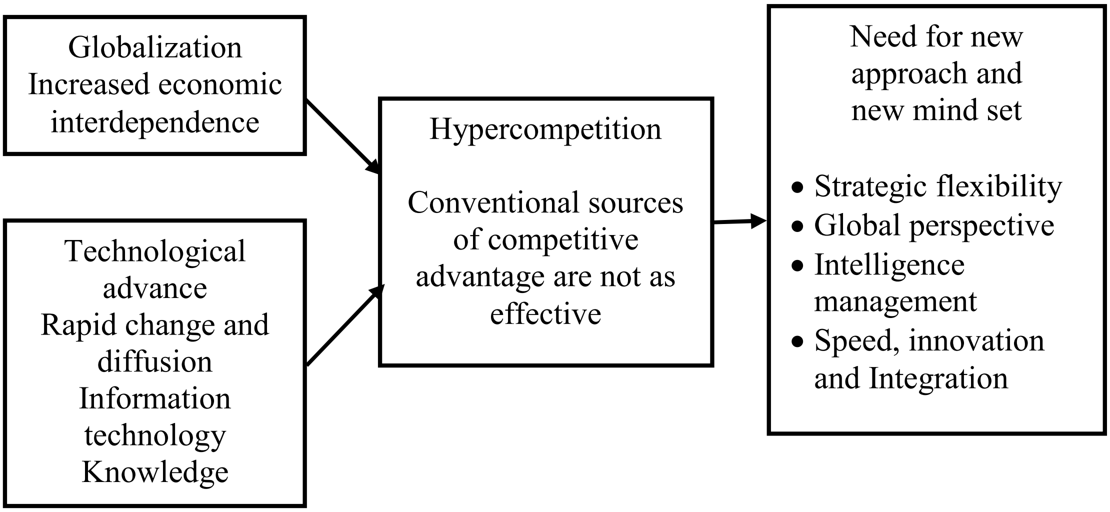
MNCs that set up branches in developing nations were allegedly doing so only to take advantage of the low-cost environment or any incentives offered by the host government. Minimum wages and other labour rights have been neglected. Some have contended that developed or industrialised countries benefit from globalisation more than emerging or underdeveloped countries. Others believed that the United States was using globalisation to extend its influence over less developed countries on the political and economic fronts. For instance, lending money to less developed nations going through economic crises was a way for rich countries to meddle in other countries' internal affairs.

2.5 THE IMPACT OF GLOBALIZATION TO COMPETITIVE LANDSCAPE

Many businesses now have to deal with global markets, products, and demands as a result of globalisation. Entrepreneurs are no longer limited to the domestic market for their management goods, services, procedures, and policies.

As a discipline of management, strategic management has traditionally focused on how well an organisation performs and what it does to gain a competitive edge and add value for its stakeholders and customers. The competitive climate is made more intense by globalisation and the quickening pace of technological progress. For instance, advances in information technology, an increase in the intensity of knowledge, and the rate of technical change and spread. The competitive landscape has changed as a result of globalisation, as seen in the model below.

The model below depicts how globalisation, technical advancements, and changing competitive environments affect the firm's strategic decisions. The model outlines the need for changes—a changing mind set of the firm is required to compete fiercely in the global economy, which means entrepreneurs must be more flexible in their business dealings, managers must consider the big picture when making decisions, and speed, quality, and innovation become the benchmarks for customer preference and firm performance.



2.6 THE SOCIAL AND ECONOMIC IMPACT OF GLOBALIZATION

The globalization's social and economic effects have significantly impacted the welfare of the entire world. Effects of globalization on world nations can be observed more clearly, especially in nations where economic crisis occurs.

The Thai economy was negatively impacted by the Asia crisis in December 1997, while the Russian economy was negatively impacted by the financial crisis in August 1998. The fiscal crisis that Turkey experienced in February 2001 illustrates the unavoidable impacts of globalization on other nations.

There are also social implications of globalization. On World Trade Organization (WTO) sessions in Seattle, Prague, and Geneva, in particular, anti-liberalist civil groups and organizations expressed their opposition to globalization.

In fact, the national income inequality between developed and less developed nations helps to better understand globalization. For the prosperity of world nations, it is therefore necessary to close the income gap and quicken the development of less developed regions and nations.

As a result of dealing with the rest of the world, developing nations are able to expand economically and eradicate poverty. Due to trade restrictions in the past, emerging nations were unable to participate in the global economy. They are unable to have the same economic growth as developed nations. However, as a result of globalization, the World Bank and International Management push poor nations to implement radical changes and market reforms by providing them with significant loans. By reducing tariffs, several emerging countries started to open their markets and liberalize their economies. The rich nations were able to invest in the developing countries, resulting in the creation of jobs for the underprivileged. Making developing nations stronger and each country more dependent on one another.

The local cultures of people all across the world have been harmed by improved economic conditions, more acknowledgment of human rights, unparalleled mobility, and interactions between individuals from other nations.

Globalization's transnational workforce and mass immigration, which disperse distinct cultures in different nations, are creating a single global culture that combines a variety of regional cultures. Global societal ideals, objectives, attitudes, and life styles are becoming more and more similar. Local traditions, religious beliefs, and fundamental societal principles have been reframed, and the meaning of human life is changing as a result.

2.7 APPLICATION OF STRATEGIC MANAGEMENT IN GLOBALIZATION

By implementing strategic thinking into the firm, the concepts and theories of strategic management assist entrepreneurs in having a clear and practical approach. The strategic management model was utilized by strategic thinking managers to comprehend the current state and intended future of their organizations. The business owner will comprehend not just the company's current state but also its future course.

The staff, departments, and levels can work together more effectively with the use of a shared integrated framework. When decisions are made in concert, they can be reached more quickly. Therefore, strategic management enables better delegation because domestic and international branches' expectations are more in line. This can provide shared understanding, a common language, and alignment of mental models throughout the firm in today's international corporate environment.

Choices are crucial to strategy. Before choosing their tactics, the majority of practitioners typically take the industry structure, firm-specific resources, and talents into account. The integrated approach's contribution is to underline the significance of collaborative strategies. This implies that business owners might collaborate with other parties during economic turmoil to improve resource capacities or mitigate the negative effects of the economy.

Entrepreneurs can effectively and practically integrate strategic thinking in their firms by using strategic management principles and ideas. Strategic thinking managers used the strategic management model to understand the present state and anticipated future of their organization. The business owner will be knowledgeable about both the present and future of the company. A shared integrated framework makes it feasible for staff, departments, and levels to coordinate better. Decisions can be made more rapidly when they are coordinated. Strategic management enables better delegation since expectations between the domestic branch and the overseas branch are more aligned. In a transnational company environment, this can facilitate a shared knowledge and language as well as mental model congruence across the organization.

The core of strategy is choice. The majority of practitioners will consider the details of the firm and the industry structure. They must take into account their resources and talents before choosing a plan. By highlighting the importance of collaborative strategies, the integrated approach contributes. This implies that entrepreneurs may work together with other partners to increase resource capacity or lessen the negative effects of the economy during difficult times. And finally, what should business owners do when the world is in turmoil? According to the integrated theory, cooperative approaches can aid firms in performing better, at least in part, in addition to firm resources or skills and adaptation to its continually competitive industry. Porter's five forces lend weight to this notion.

2.8 INTRODUCTION TO VUCA

Origin –

The term "VUCA" stands for "volatility, uncertainty, complexity, and ambiguity," and was originally used in 1987, building on the leadership theories of Warren Bennis and Burt Nanus. The term "VUCA," which stands for "volatile, uncertain, complex, and ambiguous," was developed by the U.S. Army War College to describe the multilateral world that was seen as emerging after the Cold War. The word "VUCA," which comes from this abbreviation from military education, started to be used and discussed more frequently in 2002. It has since become ingrained in new theories of strategic leadership that are applicable in a variety of for-profit enterprises to non-profit organizations of all sizes.

Meaning –

The deeper significance of each VUCA component contributes to the strategic importance of foresight and insight, as well as the actions of teams and individuals inside businesses. It examines organizational failures' defining traits, systemic and behavioral failures.

- **V = Volatility:** the characteristics and dynamics of change, as well as the kind and rate of the forces and catalysts of change.
- **U = Uncertainty:** which can be defined as the absence of predictability, the potential for surprise, and the knowledge and comprehension of problems and events.
- **C = Complexity**: It is characterised by a multiplicity of forces, a confounding of problems, a lack of a cause-and-effect relationship, and organisational complexity.
- **A = Ambiguity:** the haziness of reality, the possibility of misinterpretations, and the multiple meanings of conditions; a mismatch between causes and effects.

These elements present the context in which organizations view their current and future state. They present boundaries for planning and policy management. They come together in ways that either confound decisions or sharpen the capacity to look ahead, plan ahead, and move ahead. VUCA sets the stage for managing and leading.

The particular meaning and relevance of VUCA often relates to how people view the conditions under which they make decisions, plan forward, manage risks, foster change and solve problems. In general, the premises of VUCA tend to shape an organization's capacity to:

1. Be aware of the issues that influence
2. Recognize the effects of decisions and actions.
3. Recognize how variables are interdependent.

4. Get ready for new challenges and alternative realities
5. Recognize and take advantage of pertinent opportunities

VUCA is a useful acronym for awareness and readiness that may be used by the majority of modern institutions, including businesses, the military, schools, governments, and others. There is a body of knowledge about learning models for VUCA preparedness, anticipation, evolution, and intervention that goes beyond the basic acronym.

Impact –

People can better grasp the issues that businesses and organizations are actually facing by using the VUCA model, which may help them feel more in control of situations over which they have little influence. It aids in their comprehension of how the VUCA environment affects both life and business and how mastering its nuances is essential for long-term success.

VUCA will always have an impact on how organizations and the people who work there make decisions. It will have an impact on how people make decisions, handle risks, adjust to change, and resolve issues. We must modify our methodologies and take a fresh, original approach to these problems because we can't always rely on the conventional approaches to predicting and planning. It aids in the creation of plans that can flex when necessary and adjust to ongoing developments.

In the conclusion, VUCA makes us aware that we cannot rely on our old methods of doing things, and that success in a VUCA world requires being adaptable and agile. We must now truly learn to live in the present and adapt as necessary because our journey will not always be linear.

“VUCA is more than a buzzword! It is a way of thinking and approaching solutions to the problems of our digital and dynamic world” -Waltraud Glaeser

2.9 FOUR COMPONENTS OF VUCA

Volatility: Volatility refers to the accelerating pace of change in the markets, the sector, or the globe at large. It is obvious that things change continuously, and even how they change is evolving. This volatility has recently increased as a result of globalisation and technological advancement. It is also known that things change more quickly and that what is right today might not be right tomorrow in a dynamic society.

Characteristics: The challenge may be unexpected, unstable, or of unknown duration, but it is not always difficult to comprehend because information on it is frequently accessible

Example: Price fluctuate after a natural disaster takes his sources offline

Approach: Building in slack and allocating resources to preparedness, such as stockpiling inventory or hiring more people, are good approaches.

The average cost of these steps should be balanced against the associated risk.

Uncertainty: The degree to which we can anticipate the future with reasonable accuracy is what is uncertain. In a corporate setting, we cannot rely on our ability to forecast what will occur, and the more uncertain a situation is, the more difficult it is to make predictions about it. The risk of shocks has increased as it gets harder and harder to predict what will happen.

Characteristics: Despite the lack of additional details, the events' fundamental cause and effect are understood. Change is not a given, but it is possible.

Example: A competitor's upcoming product introduction predicts how the market and business will develop.

Approach: Gathering, interpreting, and distributing investing information. This works best in conjunction with structural modifications that can lessen ongoing concentration, such as the addition of an information analysis network.

Complexity: It refers to the numerous, interrelated components that make up the issues we encounter. It gets harder to analyse and find a logical solution the more components there are in a problem or situation. An action may have unintended repercussions in complex situations.

Characteristics: There are numerous interrelated elements and variables in the circumstance. Although some information is available or may be foreseen, its quantity or complexity can make it difficult to process.

Example: You conduct business in a variety of nations, each with its own regulatory frameworks, tariffs, and cultural norms.

Approach: Reorganize, hire or train specialists, and gather enough resources to handle the complexity.

Ambiguity: It refers to a lack of sufficient clarity understanding a problem to enable informed decision-making. Information might be inconclusive, contradictory, or too imprecise for firm judgments to be made. There are many facets to problems and the current scenario where there is ambiguity, leaving you to face the unknown with a lack of clarity.

Characteristics: Nothing seems to be clear about casual relationships. You face "unknown unknowns" since there are no references.

Example: You make the decision to launch products outside of your area of expertise or enter developing or emerging markets.

Approach: Experiment. It takes creating and testing hypotheses to understand cause and effect. Create your experiments with a broad application of the lessons learned in mind.

2.10 STRATEGIC MANAGEMENT IN THE VUCA WORLD

Even in a stable context, strategic management has frequently been the topic of conversation. Research on the failure rates of corporate strategy execution gave an optimistic estimate of 50%. In the VUCA environment, mistakes have a fatal price. Companies now need to exert more effort in order to attain goals.

It is logical to assume and the research supports it that, generally speaking, all survival strategies in the VUCA world are linked with the idea of ongoing organisation learning and adaptation.

In Strategy Safari: A Guided Tour through the Wilds of Strategic Management, Henry Mintzberg classified strategy into two categories.

- Prescriptive schools make up the first group
- And descriptive schools make up the second.

Since the 1950s, prescriptive schools of strategy have dominated the business world. It is a programme where the planning and execution phases were independent tasks that were separated in time. Even before it is put into practise, such a strategy can be out of date. This strategy might work in a stable setting, but it is wholly incompatible with what the VUCA reality requires.

There was at least one descriptive school of strategic management, known as the Learning School that was founded on the ideas of constant adaptation and lifelong learning. Charles E. Lindblom, known as the "father" of this school, popularised the technique of sequential comparisons using a finite set of options, which allows for the creation of workable temporary solutions.

This flexible method became known as **incrementalism**.

Incrementalism

The management strategy known as incrementalism involves making frequent, minor choices and milestones. A pragmatic approach to dealing with reality and weighing opportunities and threats is demonstrated by this. The logic of incrementalism was at the core of various descriptive schools of strategy and was also similar to the beliefs of the Japanese Kaizen method of continual incremental improvement, which was developed by Toyota in the 1970s.

It suggests that, typically, the leader shapes the route. The stages of goal achievement should be developed clearly, along with the ultimate aim. Assuming that multiple goals can lead to a single goal and that selection effectiveness is a function of particular external circumstances, the incrementalism approach allows for flexibility and a wide range of goal fulfilment techniques.

Due to the following factors, incrementalism is quite effective in the VUCA world:

- It uses chains of minor modifications.
- Small changes can help you reach your objective faster than huge ones.
- They also help you avoid major risks and give your company greater flexibility and adaptability.
- Small steps are easier for task-performers to understand and do not cause them to reject.

The fragmentation and lack of clear guidelines for its use are incrementalism's weaknesses:

- The solutions are employed to address issues rather than seize opportunities.
- Incrementalism is characterised by "strategic drift": gradually, without even realising it, an organisation may stray from the adopted plan.
- The answers are local, frequently unrelated, and may even conflict with one another.

In effect, incrementalism has one significant disadvantage in that the business is tempted to take baby steps rather than building resources and planning for market breakthroughs. Call this avoiding large wagers. The competition will continuously eat up the company's income until it declares bankruptcy if it is unable to place large wagers. When risk avoidance becomes the standard for a business, incrementalism becomes risky.

The comparable idea of "logical incrementalism," put out by James B. Quinn, specifically because of its continuous emphasis on organisational milestones, strategic goals, and the integration of suggested modifications, eradicated the shortcomings of incrementalism.

2.11 HOW VUCA WORLD IS IMPACTING VARIOUS BUSINESS AND INDUSTRIES?

Following 5 Signs shows that VUCA World is Impacting Various Business and Industries:

1. Hyper-competition :

The business world is ripe for young entrepreneurs as about 100 million new enterprises are launched each year, and tough competitors are developing faster than ever before. The business world has expanded to a battlefield where only the strongest can withstand.

2. New Technology :

Latest technological advancements, ranging from block chain to artificial intelligence, are altering markets and client preferences daily. Keeping up with such trends is essential for long-term survival but predicting what is genuinely worth investing in is difficult.

3. Changing Customers :

In an era of unprecedented choice, consumer loyalty is far from assured. Customers are increasingly difficult to acquire, engage, and retain because they want greater value and more personalised purchasing experiences.

4. Destabilized Markets :

Our world is becoming more volatile, which has an impact on global and local market behaviour. Terrorist attacks, insecure regimes, and global financial crises, for example, have already wreaked havoc on our economy and global connections.

5. Downturns and Upturns in the Domestic Economy :

Finally, market volatility that shows in domestic markets as broad economic downturns or upturns should be investigated. While such developments seldom have an immediate impact on small firms, they can have a considerable influence on the consumer bases on which such businesses rely.

2.12 BUSINESSES GETTING MOST IMPACTED BY VUCA

1. Myntra

Myntra is an excellent example of a company that has thrived in the VUCA World. Myntra executives proactively positioned their firm and created value by aiding their clients in recovering and growing their vision. Myntra identified a demand for loungewear and leisure apparel at the outset of COVID since people were working from home and spent time in front of their laptops. Myntra quickly solicited the assistance of its fashion partners and began manufacturing masks and personal safety devices.

2. Amazon

Surging online sales helped Amazon report record earnings in July, making it one of the few corporations to benefit from the coronavirus pandemic. Even during the COVID pandemic, Amazon became the default store and service for many consumers, thanks to its large selection and low pricing. They stocked up on groceries and home items, then ordered office materials and workout equipment as the crisis progressed so they could acclimatize to remaining indoors.

3. Nykaa

Despite the Covid-19 issue, which has severely impacted offline retailers, beauty and lifestyle company Nykaa anticipated online sales to recover faster than physical store sales. Shampoos, skincare, moisturizers, were deemed as essentials, and Nykaa had these everyday basic items. Nykaa then decided to convert its website to sell these products, and as a result, they entered phase one, where they recorded some turnover, which was 10% to 15% of their normal business.

4. Urbanic

After the popular online app Shein was banned in India, people, especially girls started to look for another retailer brand that could fulfil their fashion needs. Urbanic saw the needs of the Indian fashion market and already having those trendy products, they levelled up with their advertising to make themselves visible to more of their potential customers. Now, Urbanic is one of the most loved fashion brands in India and it also recently collaborated with Myntra and Flipkart to expand its customer base.

5. Walmart

Walmart's mission statement and motto sum up the company's primary purpose, "**We save people money so they may live better.**" Walmart has created a strong and loyal client base by staying true to its objective and continually striving to deliver low everyday costs to its customers throughout its 50-plus-year history. Customers know they can expect inexpensive costs when they come into a Walmart store.

2.13 TOOLS FOR THE VUCA WORLD

The way businesses gather and evaluate data, make strategic decisions, create plans, and put those plans into action must change in the VUCA era. The three stages for these are:

Data collection and analytics

The planning horizon must be expanded and a greater number of aspects must be taken into account in the VUCA world. As a result, forecasting techniques are becoming more and more common. These techniques can all be grouped under the umbrella term of foresight.

Unlike forecasting, which refers to conventional prediction models, foresight is different. whereas forecasting is based on extrapolating previous data into the future. Advanced methods of anticipatory logic that allow for the possibility of scenarios based on shaky signals, new trends, coexisting present conditions, and future evolutionary paths are included in foresight. Situations that fit the description of a VUCA context make good use of strategic foresight.

The foresight procedure is closely linked to scenario planning, another crucial skill in the VUCA world. A single aim can be accomplished in a variety of methods, as was already mentioned. Based on the knowledge, resources, talents, and other factors at their disposal, the management team selects the most probable course of action when creating a plan. Any method, including decision makers' cognitive predispositions, leaves the impression of subjectivity and insufficient knowledge. But what if nothing goes according to plan?

The picture is a comprehensive plan, a collection of presumptions outlining a different perspective on the future, which is then utilised to build or test a strategy. The major goals of scenario planning are to provide answers to the questions "What could happen?" and "What impact would it have?" The business will be less vulnerable because it is prepared for a variety of potential future development paths.

Crafting a strategy

Since it is the most unpredictable, it frequently appears as a simple "black box" in representations. The plan itself is developed during this phase. In most cases, it is a plan of initiatives based on a series of goals, a scorecard used in the Robert S. Kaplan and David P. Norton-developed Balanced Scorecard (BSC) approach.

The period between strategy and execution, during which "the plan remains the plan," is crucial for both the stage of developing a strategy and the following stage of its implementation. A dynamic strategic plan, which should be regularly modified and refined, is one of the modern solutions to the challenges listed above.

The most comprehensive implementation of dynamic planning concepts may be accomplished with the assistance of a strategic management tool such as roadmapping.

Roadmapping

Across all VUCA technologies, roadmapping best embodies the concepts of dynamic planning, continual adaptation, and learning. The most important aspect of roadmapping is that it completely incorporates the ideas of logical incrementalism and dynamic planning. A road map is a dynamic strategy plan that provides answers to three questions:

- Where are we going? (Specifying quantitative and qualitative goal measurement)
- So, where are we now? (based on an evaluation of the company's key performance metrics)
- the action-plan itself

Roadmapping allows firms to remain flexible in their goal-attainment methods and approaches, concentrating on strategic goals largely through the use of milestones. Another significant characteristic of roadmapping is that it functions as a strategy as well as a medium of communication. The fundamental reason of strategy failure, according to Bernard Marr, is a lack of communication: "Strategies are not communicated adequately, therefore nobody understands them." Rob Phaal of Cambridge Roadmapping emphasised that "the process of roadmapping is more important than the roadmap itself." Roadmapping, as a versatile tool that facilitates the integration of initiatives, encourages strategic dialogue and provides a better understanding of strategic goals and strategies for attaining them. On the other hand, it continues to be one of the most successful ways of expressing ideas.

2.14 SUMMARY

The VUCA world is a complicated and contentious place. On the one hand, it motivates businesses to develop and seek out new solutions. On the other side, overly rapid adaptation necessitates simplicity. As a result, in order to survive, corporations will occasionally simplify their products and shorten their development time.

Productive behaviour in the VUCA environment is based on forecasting the trends of all critical aspects that impact business (foresight), as well as logical, controlled procedures of continuous learning and adaptation. At the same time, the management team should constantly keep the company's strategic goals and milestones in mind. Responses to VUCA events are concealed at the intersection of organisation and reality. The strength of any plan is not its strictness and consistency, but its ability to capitalise on chances and act correctly in the face of uncertainty.

Roadmapping, with its unique characteristics such as transparency, visibility, and adaptability to strategic goals and milestones, is an ideal tool for managing the future under VUCA situations, which are becoming the new standard and need us to acquire new efficiency and accuracy.

2.15 QUESTIONS

1. Define VUCA world.
2. Discuss globalization in VUCA world
3. Discuss various strategies in VUCA world

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3

PESTAL AND SWOT ANALYSIS: TOOLS FOR STRATEGIC FORMULATION

Unit Structure :

3.0 OBJECTIVES

- Describe and explain characteristics of business environments.
- The internal and external forces that affect organizations
- Using the PESTEL framework to analyze business environments.
- Using SWOT as tool for strategic formulation

3.1 PESTEL FRAMEWORK

The PESTEL framework identifies various macro-environmental factors that can influence business strategy and manages analytical tools for assessing how various environmental factors affect current and future performance. The PESTEL framework includes six key environmental impacts: political, economic, social, technological, environmental and legal. These factors should not be considered independent factors. Factors such as technological advancements can affect the social and economic conditions of various markets**.** Therefore, it is important for business managers to discover the key drivers of change that can affect business strategy, and discover the factors that are most likely to impact company performance. A PESTEL analysis is an audit or external scan of an organization's environmental impacts to aid planning and strategic decision-making. It is referred to as providing a "big picture" of the environment in which the company operates. Often be It is envisioned that if companies could study the current environment and assess potential changes, they would be better able to adapt to change than its competitors. Analysis often identifies issues/events that are likely to impact the business. These are generally considered to be beyond the company's control. PESTEL is an acronym for the category of external macroenvironmental factors considered in the analysis.

Political
Economic
Social
Technological
Environmental
Legal

3.2 PESTEL ENVIRONMENTAL FACTORS

- **Political :**

This coefficient describes how and to what extent the government influences the economy and specific businesses. This can be done at the federal, state, or local level. Political factors concern how and to what extent governments intervene in the economy. Organizations must adapt their marketing policies to comply with current and anticipated future legislation.

- **Economic :**

Economic factors have a significant impact on how an organization conducts business and its profitability. These factors can have direct or indirect long-term effects on businesses as they affect the purchasing power of consumers and can alter the supply and demand patterns of the economy. As a result, it also affects how businesses price their products and services.

- **Social :**

These are areas that influence the common beliefs and attitudes of the population. This general environmental dimension represents the demographic characteristics, norms, habits, and values of the population in which the organization operates. Many of these factors can affect how does business and interacts with its customers.

- **Technological :**

These factors relate to technological innovations that may have a beneficial or adverse effect on the operation of the industry and market. This relates to technology incentives, innovation, automation, research and development (R&D), technological change, and the level of technological awareness that the market has. These factors can influence decisions about whether to enter a particular industry, whether to launch a particular

product, and whether to outsource manufacturing activities. Awareness of what is happening technologically prevents your company from spending large sums of money developing technology that will quickly become obsolete due to disruptive technological changes elsewhere. maybe you can.

- **Environmental :**

Environmental factors have received attention only relatively recently. The scarcity of raw materials, the pollution target set by the government, and the carbon footprint target make these critical. These factors include ecological and environmental aspects such as weather, climate, environmental offsets and climate change, which can particularly affect industries such as tourism, agriculture, agriculture and insurance. Additionally, growing awareness of the potential impacts of climate change is impacting the way companies operate and the products they offer. This has led many companies to take an interest in practices such as corporate social responsibility (CSR) and sustainability.

Legal :

This factor relates to all laws directly related to a business or company and its areas of business. It is clear that for a business to be successful and operate ethically, it needs to know what is legal and what is not.

3.3 STEPS IN PERFORMING PESTEL ANALYSIS

This platform basically is the main working space of the mentor as well as the mentee.

Step 1. Enumerate your company's external PESTEL factors.

- Brainstorm and discuss some PESTEL elements.
- Expertise in a particular field is an advantage

Step 2. Identify the impact of each PESTLE factor. Determine the impact of each listed factor.

- Impacts Over Time - Short, Medium or Long
- Impacts by Type - Positive or Negative
- Dynamic Impacts - Severity/Importance of Impacts of time and a given level of difficulty.

Step 3. Impact and Likelihood Assessment

- Assess potential business impact – high to low
- Assess Likelihood of Occurrence – low to high in the form of activities or MCQ's.

Step 4. Take further action

Conduct further analysis in the form of SWOT analysis or scenario building. There is a need to. The development of "what-if" scenarios allows visualization of different alternative futures for the company, with emphasis on high-frequency and high-impact combinations.

3.4 PESTEL ANALYSIS: MOTHER DAIRY – CRAFTING A NATIONAL FOOTPRINT

- **Political Factors :**

MOTHER DAIRY is government-backed and a subsidiary of NDDB, but this makes it impossible for them to make proactive and timely decisions on their own behalf, compelling them to grow at a slow pace.

The Government of India has enacted a number of laws and regulations for the dairy processing industry to ensure safety, hygiene and service standards.

- **Economic Factors :**

The urban population is growing and the demand for milk is growing rapidly. The Indian dairy market is expected to grow at a CAGR of 5%, with its annual turnover expected to reach INR 500 billion.

NDP will be implemented by NDDB with a budget of INR 1.73 billion with the aim of doubling the country's milk production by 2020.

- **Social Factors :**

India's growing youth population and burgeoning middle class. The majority of the population is lacto-vegetarian for religious and cultural reasons. People are looking for convenience and health, and consumption of packaged goods, dairy and health products is increasing.

- **Technological Factors :**

Sell bulk milk using a network of vending machines. Mother Dairy's manufacturing processes are evaluated against industry-leading standards for continuous improvement of infrastructure and system requirements. State-of-the-art facilities including milk filtration, clarification, pasteurization, chilling, bottling, packaging and storage.

- **Environmental Factors :**

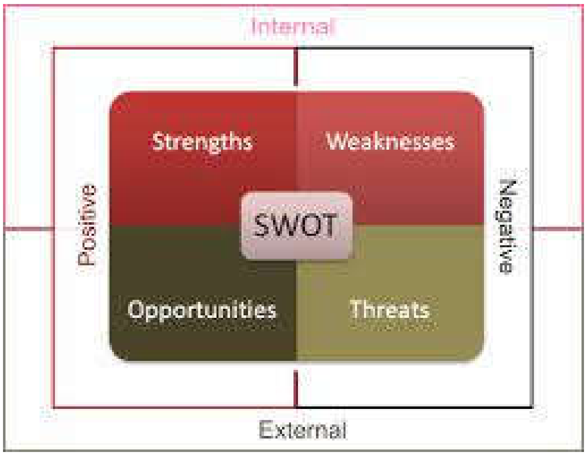
By adopting the token distribution system, saves 5.5 to 6 tons of plastic entering the Delhi market every day. Minimize the carbon footprint of our factories and reduce waste through effective supply chain management.

- **Legal Factors :**

The MMPO enforces and regulates the supply of liquid milk in quantities necessary for the public good and regulates its production and distribution. BIS Order: - Establishes Standards for Processed Foods. BIS is eligible for the ISI Mark which can be displayed on product packaging.

3.5 INTRODUCTION TO SWOT ANALYSIS

SWOT analysis is also called **"Situational Analysis"**. It is an acronym for **"Strength, Weakness, Opportunity, and Threats".** This analysis helps us understand where one organization stands in the market and how can it grow as a business in terms of success or failure. It helps an organization know where they are going right and what needs to be changed in the workplace. This analysis is a planning methodology that helps organizations build a strategic plan to meet their goals, and improve their operations that are relevant to their business. During these SWOT analyses what organizations actually do is identify strengths, weaknesses, opportunities, and threats which are inclined towards organizational growth, products and services, business objectives, and market competition.



(Fig- 3.1)

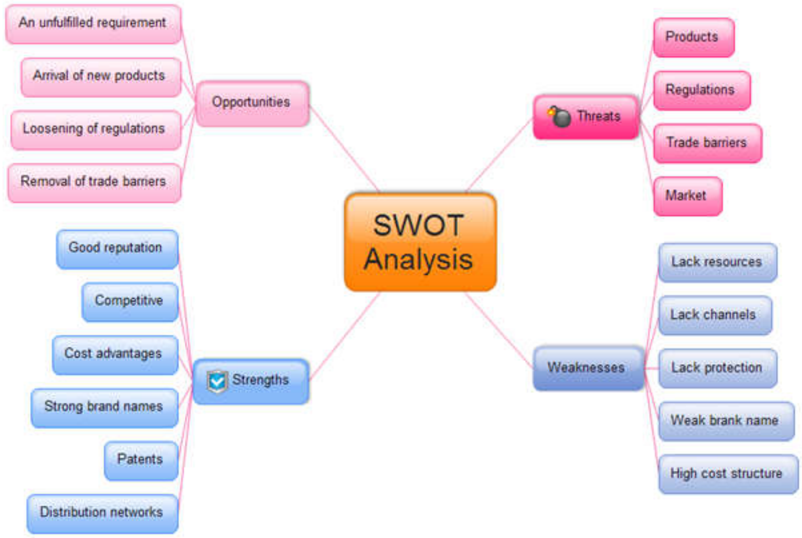
Basically, these 4 matrices are subdivided into horizontal pairings of Internal as well as External factors. Also, it includes positive and negative criteria necessary for achieving a common objective. **[Internal factors]** include- [strengths and weakness] and **[External factors]** include- [opportunities and threats]. **[Positive factors]** involve [strengths andopportunities] and **[Negative factors]** involve [weaknesses and threats]. The final results of the analysis will help an organization to detect whether objectives, goals, and services are a strategic fit. The best strategy of any organization is when the internal environment aligns purely with the external environment. SWOT analysis is a kind of framework where a company can know its Financial competitive position in the market based on its evaluation. This is basically used to determine the data which is factual in sense, data -driven in terms of past performance and also with numbers in comparison with other companies either outside the industry or within.

The organization then has to keep the information accurate, mainly focusing on real life contexts rather than pre-conceived beliefs or gray areas. SWOT analysis mainly works best when diverse groups of people within an organization are free to provide realistic data points rather just messaging. The origin for SWOT analysis is often synthesized to support single objective of an organization. Using the technique companies can move towards the strategies which are more likely to be successful and move away from those which are less likely to be successful. Firstly, SWOT analysis was just to analyse business but now these are more likely used by governments, non-profit individuals including investors and entrepreneurs.

3.6 COMPONENTS OF SWOT ANALYSIS

SWOT analysis is a valuable tool for evaluating the strategic position and market evaluation of a particular organization. It enables a business firm to use its strengths to exploit the opportunities provided by the environment. On the other hand, threats of environment are reduced by lowering its weakness to the minimum level. There are basically 4 components in SWOT analysis. They are:

1. Strengths
2. Weakness
3. Opportunities
4. Threats



(Fig- 3.2)

Strengths:

Strengths are the internal factors of any organization which gives you an upper hand over any other organizations. This particular component differentiates your organization from the rest in the market. It basically determines what good reputation you have in the market, how competitive you are with others, the network your organization has and lastly how we have created the strong brand name. The strengths of an organization mainly describe in which area they excel and how they are differentiated in these particular areas from others.

Many factors are involved such as:

- A Strong Brand
- Loyal Customer Base
- A Strong Balance Sheet
- Unique Technology and so on

These are the firms' resources and capabilities that can lead to the competitive advantage. For any organization the factor determine is only a strength when it gives you a clear competitive advantage.

Example : Walmart is a well-known brand name and is the largest retailer in the United States. This brand does command a loyal customer base that visits the stores irrespective of the economic conditions. Due to its ability to achieve economies of scale, Walmart offers products at lower prices than its competitors. Walmart also has a robust, technologically advanced information system to track orders, maintain inventory and manage customer relationships.

Weaknesses: Weaknesses is another internal factor or a characteristics that puts an organization behind by their competitors. Also, it stops an organization from performing to its optimum level. There are areas in an organization were business needs to improve as stay upfront in the market. Basically, these are controllable measures. They must be minimized and eliminated. These weaknesses at times deteriorates influences on the organization success and weakness.

Many factors can be such as:

- Lack of commitment from the top management
- Limited production capability
- Lack of accessibility to innovate technologies
- Poor organizational policies
- Large wastage of raw materials
- Narrow product range

Example : The organizational policies of Walmart are not up to the standards. The organization has faced several lawsuits with regards to improper treatment of employees, workplace discrimination and unfair promotions. Walmart has high employee turnover rates. The organization has consistently failed to facilitate a workplace that motivates employees and cares for their well-being.

Opportunities: Opportunities are the external factors influencing any organization. Opportunities are presented by the environment within which our organization operates. These rise up when a business enterprise can take gain of conditions in its surroundings to plot and execute strategies that permit it to emerge as greater worthwhile. Organizations can advantage aggressive benefit via using possibilities. Organization should be careful and cautious to recognize and grasp the opportunity whenever they arise. For this u don't need to be game changers. Just a small advantage can increase an organization competitiveness.

Opportunities include:

- High demand for our products and services
- Little competition in the industry
- Favourable Legal conditions

Opportunities may also arise from marketplace, competition, industry/government and technology.

Example : If there is an opportunity, the organization can acquire a small-scale, financially stable firm within the same industry to strengthen its base in the existing market and expand into new target markets. Similarly, tariff cuts could be an opportunity for an organization to export its products to a new market and increase the market share.

Threats : Threats are the external factors that specifies risks to a particular business and its ability to operate them in future. These are somewhat similar to opportunities but are directionally opposite. Basically, these are the circumstances or elements that could cause trouble to an organization. Threats from external areas of the business may directly affect you, but we as an organization many have a little control over them.

Some of the factors which may have a negative impact on the organization involve:

- Unforeseen competition (local or foreign)
- Dissolution of markets
- Adverse weather
- Entry of new competitor
- Increased bargaining power of the suppliers and buyers
- Major changes in technology and government laws
- Slow market growth

Threats arise when external environment affects the reliability and profitability of the organization business. When it comes, stability and survival can be at stake.

Example : Think about some boundaries you face in getting your product to marketplace and selling. You may word that nice standards or specifications to your products are converting, and that you may want to alternate those merchandise if you're to stay in the lead. Evolving generation is an ever-gift danger, in addition to a possibility.

3.7 STEPS FOR SWOT ANALYSIS IN STRATEGIC MANAGEMENT

1. Determine your objective :

A SWOT analysis cam be broadly stated and will have more value if generates analysis directly on point. With an objective in mind, a company may have an idea about what they want to achieve at the end.

2. Gather Resources :

Every analysis will be different depending upon the company and its data sets. Firstly, a corporation ought to pick out or begin the analysis by using understanding what information it has get right of entry to to, what records barriers it's going to face and the way reliable its external sources are. All these elements collectively determine what resources a corporation calls for doing a correct analysis toward success.

3. Compile Ideas:

For each of the four components of the SWOT analysis, the group of people assigned to performing the analysis should begin listing ideas within each category.

Internal factors :

What occurs in the employer serves as a extremely good source of facts for the strengths and weaknesses categories of the SWOT analysis
Examples involve: Financials and human resources, tangible and intangible assets.

External factors :

What occurs outdoor of the corporation is equally as important to the fulfilment of a corporation even as SWOT analysis.
Examples involve: Monetary policies, market changes, access to suppliers etc.

4. Redefine Findings :

With the list of ideas within each category, it is now time to clean-up the ideas. By refining the mind that everybody had, a organization can attention on best the quality ideas. This level may additionally require considerable debate amongst evaluation contributors, which include bringing in higher control to help rank priorities

5. Develop the strategy :

Finally with the ranked list of strengths, weaknesses, possibilities, and threats, it is time to convert the SWOT evaluation right into a strategic plan. Members of the analysis team take the bulleted list of items within each category and create a synthesized plan that provides guidance on the original objective. This will help to identify the areas where the company lacks and where it can do much better than before.

Once we are done with brainstorming, we will create a final plan, prioritize version of the SWOT evaluation, listing the factors in each category in order from highest on the pinnacle to lowest at the bottom and paintings as an enterprise to promote achievement and better subculture. At last, this analysis identifies what is working and what needs to be changed.

3.8 BENEFITS OF SWOT ANALYSIS

- **A SWOT Analysis makes complex problems more manageable:** There can be some amount of data to analyse and also relevant points to consider when making a complex decision. In popular, a SWOT evaluation that has been prepared by way of paring down all thoughts and ranking bullets through importance will mixture a large, potentially overwhelming trouble into a more digestible record. It will clear up complex troubles via bifurcating them into various factors and operating as a consequence.

- **A SWOT analysis can be applied to almost every business question:** The analysis can relate to an agency, crew, or person. It can also analyse a full product line, modifications to emblem, geographical expansion, or an acquisition. The SWOT analysis is a versatile tool that has many packages.

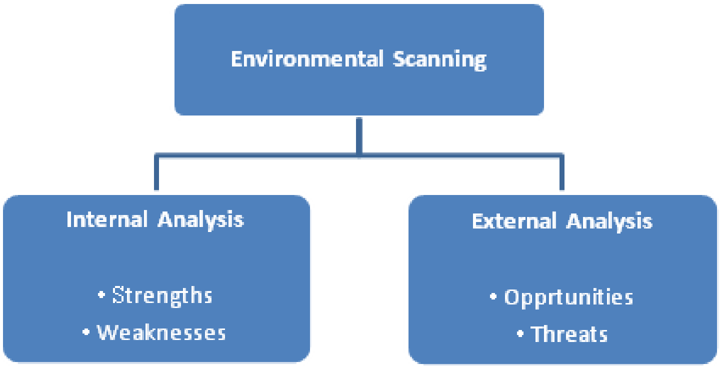
- **A SWOT analysis leverages different data sources:** A company will likely use internal information for strengths and weaknesses. The employer may even want to gather outside statistics relating to broad markets, competitors, or macro-monetary forces for possibilities and threats. Instead of relying on a unmarried, probably biased supply, an awesome SWOT evaluation compiles numerous angles.

- **A SWOT analysis may not be overly costly to prepare:** Some SWOT reports do not need to overly technical; therefore, many different staff members can contribute to its preparation without training or external consulting.

  Also, SWOT analysis facilitates in strategic management of any enterprise in many methods consisting of:

- It is a supply of records for strategic planning
- Builds organization's strengths
- Reverse its weaknesses
- Maximize its reaction to possibilities
- Overcome enterprise's threats
- It facilitates in identifying centre abilities of the corporation

- It helps in knowing beyond, gift and future in order that by using the usage of beyond and current facts, destiny plans can be chalked out.



(Fig-3.3)

3.9 ACTION STRATEGY FOR STRATEGIC MANAGEMENT

1. **Strengths + opportunities = aggressive strategy**. i.e., Taking advantage of the strengths of the business enterprise.

2. **Weaknesses + threats = defensive strategy**. That is being set on staying on the market.

3. **Strengths + threats = conservative strategy**. This is set the situation when the strengths of the enterprise neutralize its threats, e.g., massive monetary reserves assist to live on seasonal stoppages in orders.

4. **Weaknesses + opportunities = competitive strategy**. In this situation, the key action is to eliminate those elements which do not take advantage of incoming opportunities.

These are basically some of the action strategies which indicates how an organization should take a decision based on their current market condition. It depends upon the situation when and where a particular strategy has to be looked upon or has to be acted upon to keep our workplace in the race.

3.10 CASE STUDY- "STARBUCKS"

SWOT Analysis

Following is the case study on "Starbucks" and its SWOT analysis has been done to recognize what factors they possess as an organization to stand out from the crowd in the form of strength, its weaknesses, what opportunities they will have in present or in future and its threats.

Strengths	Weaknesses
Strong brand recognition Clients love the environment Presence all around the world Great supply chain management Strong retail network Large and loyal customer base	Product is not customized to local taste Not easily affordable to all countries High employee turnover Expensive and pricey
Opportunities	**Threats**
Easy access to new countries Agreements with movie producers Gen Z/ millennials entering workforce Technology creating easy payments and communication	Saturation of the US market Healthier lifestyle trends NAFTA changes prices of coffee beans High tariff on goods exported to China Competition with low-cost coffee makers

Observations:

- ✓ Develop PR Campaigns to promote "greenness" of Starbucks
- ✓ Offer discounts, coupons and loyalty rewards on mobile app
- ✓ Look to create join ventures with China tea/coffee distributor to enter market
- ✓ Create mobile app set up for ordering and payment for quicker drive thru
- ✓ Lower prices than competition
- ✓ Invest in coffee producing countries and create a stable pricing deal
- ✓ Increase the awareness of the great things Starbucks does for local communities
- ✓ Slow down the rates of new licensed stores
- ✓ Fix the refill policy which makes Starbucks stand out from the crowd
- ✓ Bring back some kind of secret shopper
- ✓ Weed out partners who just don't care about or have bad attitude

3.11 SUMMARY

This analysis is a great way to handle business strategy meetings. It's important when everyone is present to discuss about company's core strength and weaknesses, define its opportunities and threats and brainstorm their respective ideas. A corporation can use a SWOT for standard enterprise method periods or for a selected phase including advertising, production, or sales. This way, you can see how the overall strategy developed from the SWOT analysis will filter down to the segments below before committing to it. You can also work in reverse with a segment-specific SWOT analysis that feeds into an overall SWOT analysis.SWOT analyses makes brief and effective picture of company's situationbut theorists and practitioners generally agree that the result of a SWOT analysis can result in a short evaluation of the state of affairs, which remains approximate and incomplete. Therefore, SWOT analysis' findings should be used quickly in the subsequent stages of strategic management. Hence which ever company or organization we are dealing with, it's important that we do a SWOT analysis for them so that we come to know what all is required to be worked upon in an organization to retain the position in the market.

3.12 QUESTIONS

1. Firms can achieve a competitive advantage by configuring value-chain activities in ways that add more value to their products and services. True /False
2. Resources are the inputs that firms use to create goods or services. True/False
3. Tangible resources include knowledge, culture, and patents. True/False
4. SWOT is an acronym for strengths, weaknesses, opportunities and ________.
   A) technologies B) threats C) tools D) tradeoffs
5. Tangible resources do not include ________.
   A) patents B) unskilled labor
   C) standard inventory components D) debt financing

Answers: 1. True 2. True 3. False 4. b 5. a

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4

BCG MATRIX AND GE MCKINSEY MATRIX

Unit Structure :

4.0 OBJECTIVES

- Describe a framework for evaluating strategies.
- Discuss the importance of contingency planning in strategy evaluation.
- To know various tools of strategic formulation

4.1 INTRODUCTION

Strategy formulation is the process of determining appropriate courses of action for achieving organizational objectives and thereby accomplishing organizational purpose. Managers formulate strategies that reflect environmental analysis, lead to fulfilment of organizational mission, and result in reaching organizational objectives. There are many special tools they can use to assist them in formulating strategies. This chapter covers various tools for strategic formulation.

4.2 BCGMatrix

The creation of the growth share matrix was a collaborative effort. BCG's Alan Zakon—who would go on to become the firm's CEO—first sketched it and then refined it together with his colleagues. BCG's founder, Bruce Henderson, popularized the concept in his essay The Product Portfolio, in 1970. At the height of its success, the growth share matrix was used by approximately half of all Fortune 500 companies; today, it is still relevant in business school teachings on business strategy.

In the BCG matrix, SBU(Strategic Business Unit) is a unit of the company that has a separate mission and goals that may be planned independently from the organization's otherbusinesses. Diverseorganizations having numerous SBUs (Strategic Business Units) use the BCG Matrix. These SBUs form the 'business portfolio' of the company. Organization use the BCG matrix is as a portfolio planning tool.

This matrix has four steps:

- Dividing the business-organization. into several (at least two) SBUs
- Determining the potentialities of each SBU of the organization
- Evaluating each SBU in comparison to other SBUs with the help of a matrix (two-dimensional)
- Setting strategic goals for each SBU.

4.3 WHAT IS THE STRATEGIC BUSINESS UNIT (SBU)?

In the BCG matrix, SBU (Strategic Business Unit) is a company that has a separate mission and objectives and can be planned independently from the organization's other businesses.

A strategic business unit (SBU) is a relativelyself-sustaining unit of a firm. In a diversified corporation, each business unit is an SBU. A division of a company may also be treated as Strategic Business Units (SBUs).

According to Pearce and Robinson, Strategic Business Units (SBUs) should have certain characteristics:

- A unique business mission
- An identifiable set of competitors
- The SBU strategic manager can make or roll out a strategic decision relatively independent of other SBUs
- Vital operating decisions can be made within the SBU.
- An SBU is accountable for its products, services ‘and markets and, therefore, it is also responsible for developing its separate strategy. Usually, an SBU is independent in business operations has its managerial resources and has all its assets under its surveillance and control.
- For instance, PNG has 21 business units for the production of textile products, ceramics, pharmaceutical products, etc. Each of these units is treated as an SBU.
- They, however, work under the Tesla corporate management. In a diversified company, all the business-units constitute its business portfolio. Each business unit of the organization or SBU is treated as a standalone profit centre.
- A business portfolio approach is often followed in a diversified company for corporate strategic analysis.
- The business strategy for each SBU is set in such a way that it is consistent with the overall resource capabilities of the organization.
- Each unit is classifiedand assessed as a separate entity after a portfolio approach is followed.
- As remarked by Hill and Jones, the portfolio approach is a visual way of identifying and evaluating alternative strategies for the generation and allocation of company resources.
- One of the most widely used portfolio approaches is the Boston Consulting Group (BCG) Matrix.

Before we understand how to construct BCG Matrix lets understand these terms first

1) Market growth rate

2) Relative Market Share

3) **SBU** (Strategic Business Units)

1) Market growth rate :

The 1st variable on Y- axis is **the** Market Growth Rate. The rate at which a market’s size is growing. Market growth rates are usually available in reports online. The formulae to calculate Market growth rate is

Market Growth Rate = Total sales in current year / Total sales in previous year

Competition is very aggressive in markets that has low growth, in such a case, every company is fighting to get some share in the fixed pie.

2) Relative market share :

The 2nd variable on X- axis is the Relative Market share. One such assumption that we take in BCG matrix is that a company is successful from a financial stand point because it has very good market share. Market share is generally expressed as a percentage and to have high market share, companies generally have to be in market for a very long time, having benefited from economies of scale and customers having purchased their products and have been somewhat satisfied if they're going to generate high market share.

Market share is defined in terms of the percentage of a company in the industry that is measured either in revenue terms or unit volume terms. So the formulae to calculate market share is:

Market share = (Company's Total sales / Total Industry Sales) * 100

3) Strategic Business Unit (SBU) :

SBU is an independent completely functional business unit which has its own vision and mission purpose goal and objectives. They have their own functions like HR, Finance, Operations and so on.

4.4 HOW TO CONSTRUCT BCG MATRIX

- Construct a square matrix of 2×2.
- On the Y-axis list Market growth rate and on X-axis list Market share.
- Add SBU's as "Star, Cash Cows, Question Mark, Dogin each of the four quadrants based on following:

▪ **Stars** in the Top Left matrix. They are the one whose both market share and growth rate are high. Company's ultimate purpose is to keep all it's products in Star. But more star means greater expenses and costs. Additionally, the stars lead to a massive amount of cash generation and cash consumption. There net income is typically modest. These business units are highly competitive in their industry and are located in a robust industry. Therefore, an attempt must be made to maintain market share and support further growth; otherwise, a star might turn into a cash cow.

- **Key points**

- Market share is high in these business units in a growing market
- They are the best brands in the business
- Both the product and the market are strong
- They are likely to turn into the next cash cow
- There is a lot of marketing spending on this product, and it generates and uses loads of cash

- **Strategic Choices**

  - **Vertical Integration**
  - **Horizontal Integration**
  - **Market penetration**
  - **Market development**
  - **Product development**

- **Cash Cows** in the bottom left matrix. They are those whose market share is high but Growth rate is low. Money could be taken from here and be invested somewhere else. Basically, cash cows of company contribute in investing money in profitable ventures like Stars. Maturity phase of product generally come under cash cows. As theorganization's main cash source, these SBUs are specifically the core business. In case of cash cows,it is advisedto engage in a harvest strategy which means reducing the financial support. The product is already going to sell by itself because of previous investments and its stability in the market. At this stage, it requires little funding and the focus instead, should be on generating as much cash inflow as possible. Companies in this category generally follow stability strategies. These businesses require little investment and generate cash that can be used for investment in other business units.

- **Key Points**

  - Their market share is high in a low growth market
  - They are most likely the foundation of the company and without them the organization would probably not exist
  - It is usually a relatively low investment unit
  - In the product lifecycle, cash cows are mostly in the mature stage. Which indicates that they have little growth potential
  - There are many brands with large, positive cash inflows, so they are cash rich brands
  - These products usually generate large sums of cash that may be used to develop products with better prospects, such as question marks and stars

- **Strategic choices**

  - **Product development**
  - **Diversification**
  - **Divestiture**
  - **Retrenchment**

- **Question marks** in Top right matrix. They are also known as problem children because they usually are problematic. They are the ones whose market share is low but their growth rate is high. The future predictions for question marks as well as their current standing in the market is uncertain. In order to maintain or increase market share large amounts of cash are required. New goods and services with good commercial prospects in the market, are generally placed in question marks because when new products are introduced in a growing market, one cannot ascertain its market share. When the company believes it has achieved a dominant market share, it mayundertake an expansion strategy, otherwise it may retrench. When a firm takes on a high growth market, which already has a large market share, it is usually a question mark. If there is an absence of investment, question marks will most likely become dogs, but in presence of big investments, they can shift from question mark to star but direct shift is uncommon. Although, it has beennoted that companies in question mark has the potential to enter Star.

- **Key points**

  - Previous stars often turn into question marks
  - The market share is low in a fast-growing market
  - The company has potential; however, its future is uncertain.
  - They are heavy cash users with low returns
  - Question marks today may become stars tomorrow. They can even be dogs

- Strategic choices
  - Market penetration
  - Market Development
  - Product development
  - Divestiture

- **Dogs** in the lower right matrix. SBUs which have low market share and low growth rate are labelled as dogs. Declining phase of product typically comes under dog. Dogs are low-growth, low-market share businesses, and products. They may generate sufficient cash to maintain themselves but do not promise to be huge resources of cash. Due to their low market share, these businesses face cost risks.

It has a weak competitive position in a low-growth industry. Dogs cannot generate cash, and also, have a dim prospect.

The corporate head office has to determine its future. It can be divested or liquidated or turned around if there are sufficient reasons for its revival. The purpose of retrenchment is that these firms can only increase market share at the expense of it’s competitors/rivals.

Dogs are in the low attractiveness, low competitiveness (low relative market share) quadrant. Due to high costs, low quality, insufficient marketing, etc., these firms have weak market shares. If the prospect of gaining market share is low, a dog should ideally be liquidated unless it has some other strategic goal. The number of dogs within an organization should be kept to a minimum.

- Key points

  - Dogs are products in a low-growth market with a low share

  - Businesses in low growth market are weak

  - Products are in decline phases of their lifecycles

- o There is no to be cash generated or consumed
- o It generates enough cash to only sustain itself
- o Organizations typically aim at minimizing dog SBUs

- Strategic choices
  - o Retrenchment
  - o Divestiture
  - o Liquidation

4.5 BCG MATRIX EXAMPLE

BCG Matrix of Apple Company:

Apple has large variety of products ranging from iPhone to Laptops to iPod and many more.

Star : iPhone is Apple's star as it generates huge profits and cash inflows, it captures a huge market share (across USA iPhone holds 57% of the market share in the sales segment) and dominates the growing smartphone market.

Question mark : Apple are now introducing Apple Smart TV's.

Cash Cows : iPads, 10 years ago when it first came out was a star for Apple but not now. Apple's MacBook was once an innovative product but are no longer in a fast-growing industry. Although, it has steady market share and generates healthy profits for the company, which makes MacBook a cash cow for the Apple. Cash cow has higher return on assets than its market growth rate, therefore Apple can invest the excess cash generated in other projects or products.

Dogs : iPods when launched werethe best thing that they hadlaunched at that time but it has now been cannibalized by iPhones and should no longer receive further heavy investments.

4.6 FOURSTRATEGIES OF BCG MATRIX

Build

Increase market share by making further investments

Hold

Maintain the status quo.

Harvest

Reduce the investment (revel in healthy cash flow and maximize profits from a star or a cash cow)

Divest

Dispose the dogs or reduce the investments in them, and use the capital to invest in stars and question marks.

4.7 WHEN TO USE BCG MATRIX

The BCG matrix should be used as part of strategic portfolio management to manage cashflow (McDonald, 1999). The matrix helps in determining which assets could produce future revenues and make funding and investment decisions that ensures that the funds are allotted to the right assets.

The tool can unveil portfolio weaknesses which may threaten a company's future cashflow. If a company is not developing many Question Marks, it needs to consider how they will maintain a healthy cash flow in the organization in future.

4.8 ADVANTAGES OF BCG MATRIX

- It is straightforward- simple to implement and easy to understand. Big organizations can use it for the seeking volume and experience effects. It predicts the future approach that an organization may take. Therefore, helping the company decide its proper management strategy.
- Beneficial for managers to evaluate balance within the firm's current portfolio of Stars, Cash Cows, Question Marks, and Dogs
- The matrix indicates that the earnings of the company is directly associated with its market share. Consequently, a firm can increase market share if it seems profitable.
- It has only 4 categories that makes it simple and it operates efficaciously.

4.9 LIMITATIONS OF BCG MATRIX

While BCG Matrix produces a framework for allocating resources amongst different business units and makes it possible to compare many other business units, BCG matrix is not without its limitations.

- BCG matrix classifies businesses and products as low and high, but generally, businesses can be medium also. Thus, the true nature of the business may not be mediated.
- Profitability does not continually follow high market share. High market share is associated with large costs as well.
- The distinction between high and low is very subjective.
- The use of BCG analysis cannot help managers bear in mind the synergies that could possibly exist among the various SBUs within the product portfolio.
- The market is not clearly defined in this model.
- The problems of getting statistics on the market share and market growth.
- The framework assumes that each business unit is independent of the others.

4.10 GE-MCKINSEY MATRIX

In 1970s, General Electric was managing a huge and complicated portfolio of unrelated products and was unsatisfied about the returns from its investments in the products. At the time, corporations usually depended on projections of future cash flows, future market growth or some other future projections to make investment decisions, which was an unreliable method to allocate the cash and other resources. Therefore, GE consulted the McKinsey & Company asked its consultant McKinsey to develop a portfolio management modelto analyse the composition of each of its 150 portfolios- also known as strategic business units (SBUs) and as a result the nine-box framework was designed. The GE McKinsey Matrix permits a large, decentralized company to determine wherein best to make investments with its cash. It aids the company injudging each of its SBU, whether or not it will do well in the future. This matrix is a strategy tool that offers steerage on how a corporation should prioritize its investments among its business units, leading to three possible situations: invest, protect, harvest, and divest.

The nine-box matrix plots the BUs on its 9 cells that indicate whether the business should invest in a product, harvest/divest it or do further research on the product and invest in it if there're still a few resources left. The BUs are evaluated on two axes: industry attractiveness and a competitive strength of a unit.

4.11 DRIVERS OF THE GE MCKINSEY MATRIX

Before any business can plot their products in the matrix, they must first define both competitive advantage and industry attractiveness.

INDUSTRY ATTRACTIVENESS

This factor refers to the convenience with which the business unit will be able to acquire profits in the industry. The attractiveness of a company is purely dependent on its profit returns and its market base, i.e., the amount of income and profits it earns monthly and annually. When a company has high earnings, it will certainly attract the attention of competitors and possible investors

When evaluating the business alongsidethis dimension, one must consider factors like

- Market size and existing players
- Market growth and growth projection over a period of time
- Lifecycle of the market
- Market segmentation
- Entry and exit barriers
- Pestel factors
    - Political
    - Economical
    - Social
    - Technological
    - Environmental
    - Legal
- Porters five forces
    - Competitive rivalry
    - Consumer strength
    - Supplier power
    - Threat of new entrants
    - Threat of substitution
- Changes in demand
- Trend of prices
- Seasonality
- Availability of labour

The vertical axis of this matrix – Industry Attractiveness – is split into High, Medium and Low. Industry attractiveness represents the profit potential of the industry for a company to enter and compete in that industry. The higher the profit potential, the more appealing is the industry. An industry's profitability is affected by the current level of competition and future changes in the competitive landscape. When evaluating industry attractiveness, evaluate how an industry will change ultimately as opposed toits growth in the short-term.

Additionally, what is well worth noting is:

- Attractive does not mean there is necessarily a low cost of entry
- Attractive does not mean there may always be similarities between it and the contemporary market

4.12 STRUCTURE OF THE GE MCKINSEY MATRIX

The matrix incorporates two axes.The competitive strength of the individual SBUs is represented on the x-axis while market attractiveness is represented on the y-axis. Both competitive strength and market attractiveness are determined by a weighted score calculated from the relevant factors that apply to each.Each parameter is further divided into 3 categories – low, medium, and high.This creates a matrix of 9 cells.

To calculate a weighted score for each SBU, follow these steps:

i. **Make a list of factors -** What are the competitive strength and market attractiveness functions that are most relevant to the organization?

ii. **Attribute weights -** These define the relative importance of each factor.

The scale that is used is up to the discretion of the business.

For example, one may use a value of 1 to denote extreme unimportance with a value of 100 denoting extreme importance.

In this case, the individual weights that are assigned to each factor should add up to 100.

iii. **Rate the factors -** Then, rate them according to how well each SBU satisfies them.Most businesses use a scale of 1 to 10.

iv. **Calculate total scores -** To arrive at a total score for each SBU, multiply the weight assigned in step two with the rating assigned in step three.

v. Repeat the process for each factor and sum each score to arrive at a total score.

vi. Plot the scores on the matrix

With the total scores identified for industry attractiveness and competitive strength, the x and y-values of each SBU can be plotted on the matrix using a circle.

The size of each circle should correspond to how much revenue the small business unit generates.

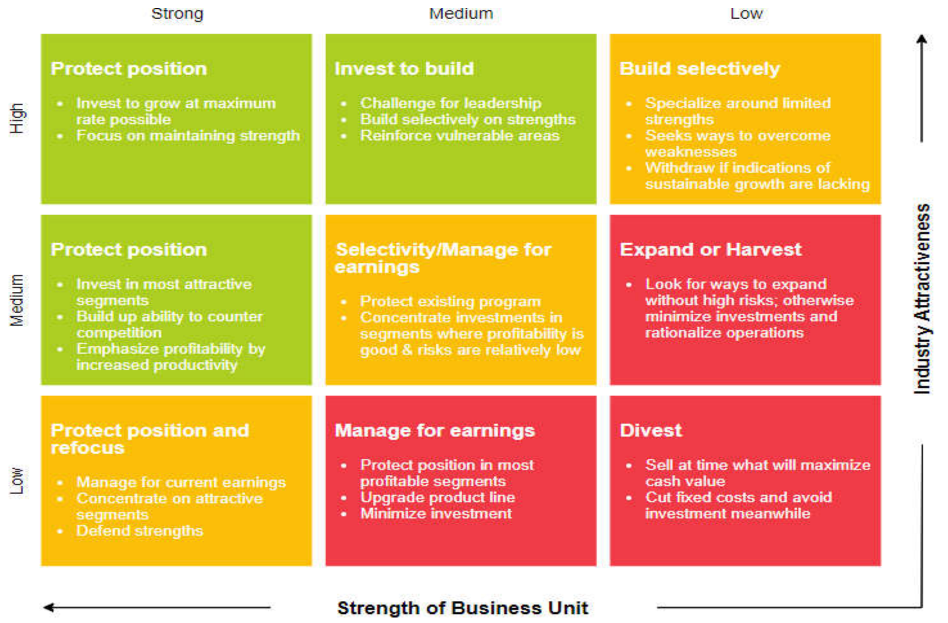
Which means that if an SBU that generates 40% of company revenue should be twice the size of an SBU that generates 20% of revenue.

Note also that the nine cells are divided by a diagonal line running from the bottom left to the top right of the matrix.

When a product is placed on the matrix, its position relative to the diagonal line determines the strategy that should be used.

Products that fall above the diagonal line tend to be better performers with high growth or cash flow potential.

Conversely, products that fall below the line tend to have little capacity for growth and are costing the company money to sell.



4.13 ADVANTAGES OF THE GE MATRIX

- Helps to prioritize the limited resources in order to gain the best returns.
- Managers end up being more aware of how their products or business units perform.
- It's more sophisticated business portfolio framework than the BCG matrix.

- Identifies the strategic steps the company should make to improve the performance of its business portfolio.
- It is a simple tool to show the whole business portfolio in one image
- It fits with all organizations and is easy to use

4.14 DISADVANTAGES OF THE GE MATRIX

- The decisions around attractiveness and strength can be subjective
- It requires a lot of statistics and market data in order to map out the results, which for a company with a diverse portfolio can be an intensive venture
- Business units may also assist multiple products and can have distinctive strengths in each
- Some of the strategic implications might not align with the company's core values
- Requires a consultant or a highly experienced character to determine industry’s attractiveness and business unit strength as accurately as possible.
- It is costly to conduct.
- It doesn’t take into account the synergies that could exist between two or more business units.

4.15 GE MCKINSEY MATRIX VS. BCG MATRIX

BCG matrix was developed by Bruce D. Henderson in 1968 and served as the template for the GE McKinsey matrix in the following decade.

As a result, the two matrices are similar but with a few key differences which are outlined below.

Purpose

The GE matrix is a multifactor portfolio matrix that tells a firm which strategy to follow based on the position a product occupies in the grid.

The matrix has nine cells that account for varying degrees of industry attractiveness and competitive advantage.

BCG matrix, on the other hand, is more primitive.

It features only 4 cells and categorizes products according to their relative market share and growth rate.

Level of detail

The GE McKinsey matrix offers concrete instruction on how a business can calculate industry attractiveness and competitive advantage or business unit strength.

As noted earlier, the organization lists crucial elements and then assigns a weighting to each.

The consequent calculation then yields x and y values that can be plotted on the matrix to determine the best course of action moving forward.

The BCG matrix does not clarify how market share and market strength should be calculated. In BCG matrix, competitive strength of a business unit is equal to relative market share, which assumes that the bigger the market share a business has, the better it is positioned to compete in the market. This is true, but it's too simplistic to assume that it's the only component affecting the competition in the market. The same is with industry attractiveness that is measured only as the market growth rate in BCG.

In fact, one of the main criticisms of the matrix is that it is too simplistic.

Smaller businesses with market shares that are too small to quantify may also find that the BCG matrix is unsuitable for their needs.

Strategy

The nine-box GE matrix features 3 different strategies that in some interpretations are color-coded in the following way:

- **Grow/invest (green)** – any product that falls in a green box is representative of a business in a good position.
- **Hold (amber)** – with the way forward more difficult to define, these boxes require the skilled decision-making of experienced employees.
- **Harvest (red)** – these products require close monitoring because they have the potential to negatively affect the company's bottom line.

Strategies here are primarily based on strong, average, and weak competitive advantage and high, medium, and low industry attractiveness.

Conversely, the less versatile BCG matrix is by and large concerned with identifying the business units where investment should be prioritized.

Market share and market growth are only measured in terms of high or low, which makes the resultant strategy far more general and obscure:

- **Dogs** – in maximum cases, these products should be removed from the portfolio due to the fact that they are a drain on resources.

- **Question marks** – as the name suggests, these are products that may or may not respond to increased investment. Some may turn into stars, while others will turn into dogs or fall somewhere in between.
- **Stars** – products that require ongoing investment to sustain market dominance.
- **Cash cows** – these are mature, properly set up products that should be "milked" for as long as feasible.

4.16 MCKINSEY 7-S MODEL

The McKinsey 7S Model is a framework for organizational effectiveness that postulates that there are seven internal factors of an organization that need to be aligned and reinforced in order for it to be successful. The framework is used as a strategic planning tool by organizations to show how seemingly disparate aspects of a company are, in fact, interrelated and reliant upon one another to achieve overall success.

McKinsey's 7S framework is a model for analyzing organizations and their effectiveness.It was developed in the early 1980s by Tom Peters and Robert Waterman, two consultants working at the McKinsey & Company. The basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful. 7S Framework is a strategic assessment and alignment model and is good for discussion around organizational activities, infrastructure, and interactions

The Seven Elements of the McKinsey 7-S Framework

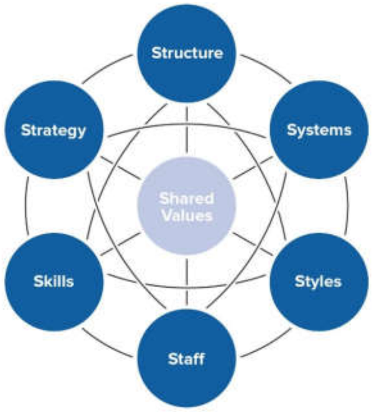
The model categorizes the seven elements as either "hard" or "soft":

The Hard elements:

The three "hard" elements are strategy, structures (such as organization charts and reporting lines), and systems (such as formal processes and IT systems.) These are relatively easy to identify, and management can influence them directly. These are **Strategy, Structure and Systems.**

The Soft elements:

The four "soft" elements can be harder to describe, less tangible, and more influenced by company culture. However, they are just as important as the hard elements if the organization is going to be successful. **Shared values, Skills, Style, Staff** constitute the "soft" elements.



Let us look at each of the elements individually.

Strategy : It transforms the organization from the present position to the new position described in the objectives subject to constraints of the capabilities. This is the organization's plan for building and maintaining a competitive advantage over its competitors. Different companies may have different strategies.

Structure : Structure refers to the organization's arrangement of units and jobs/positions. As with superordinate goals, the practical questions which managers/leaders should also ask are: "how do we identify, establish, and modify the structure to most appropriately fit the changing situation?" Such decisions are likely to be most effective if managers pay careful attention to: ensuring appropriate participation in decisions and planning, effective communications with stakeholders, coordination and cooperation, managing potentially damaging conflicts, considering the need for competence in all positions, and the intrinsic and extrinsic rewards which the respective positions provide. The structure defines the roles, responsibilities and accountability relationships. Traditionally, structures were tall with many layers and with the top-down approach was used for communication. If the flow of communication got choked at any point, it would give rise to grapevine that is informal communication channels. Today, a flat structure, where the work is done in teams of specialists, is more common.

Systems : This is the business and technical infrastructure that employees use, on a day to day basis, to accomplish their aims and goals. In the past, organizations followed a bureaucratic style process model where most decisions were taken at the higher management levels. The daily activities and procedures that staff use to get the job done have become standardised procedures for smooth functioning, like implementation of an enterprise-wide software like SAP,

Shared values : Shared values or "superordinate goals" are similar to Mintzberg's strategy as perspective. These are the core values of the organization, as shown in its corporate culture and general work ethic. They were called "superordinate goals" when the model was first developed. These are built over time and the top management is responsible for inculcating and honing these values. In one of the leading FMCG giants operating in India, as the story goes, sons of the chairmen, on 2 occasions were not selected since they did not meet the selection criteria.

Style : It is the style of leadership adopted. This is the behavioural element in organizations that leaders use and the culture of interaction. It also encompasses the way managers interact with the employees and the way they spend their time. Traditionally, businesses were influenced by the military style of management and culture, where strict adherence to the upper management orders and procedures was expected from the lower-rank employees. Today, a leader has to change the style to a more open, innovative and friendly one with fewer hierarchies and smaller chains of command. A leader should create a culture where people say what they mean and where it is safe enough for people to speak from their heads and hearts. L&Ts AM Naik, would have an authoritative style of leadership, while Novartis's Vas Narsimhan's style would be more of altruistic and inclusive.

Staff : The employees and their general capabilities. This is the employee base, staffing plans and talent management. It is important for the organization to instil confidence among the employees about their future in the organization and future career growth prospects as an incentive for hard work.

Skills : The competencies of the organization's employees. It is the ability to do the organization's work and it reflects in the performance of the organization.

Placing Shared Values in the centre of the model emphasizes that these values are pivotal to the development of all the other critical elements. The model states that the seven elements need to balance and reinforce each other for an organization to perform well. To create a workable framework for Board engagement, the framework distinguishes between four roughly sequential types of strategic activities. These are:

- **Strategic thinking**. Strategic thinking embodies a focus on intent, and it reflects a systems or holistic view that appreciates how the different parts of the organisation influence and impinge on each other as well as their different environments. The collection, analysis and discussion of information about the environment of the firm, the nature of competition and business model.

- **Strategic decision making**. Making a set of core directional decision that define fundamental choices concerning the business portfolio and the dominant business model, which serves as the platform for the future allocation of limited resources and capabilities. Many a times, choosing what not to do is also a very important decision.

- **Strategic planning**. This step involves identifying priorities, amongst the choices, setting objectives and securing and allocating resources to execute the chosen directional decisions. The strategic plan revolves around the firms' Mission and Vision statements.

- **Strategy execution**. Implementation and monitoring results and taking appropriate corrective action. At this stage, strategic thought is converted into strategic action. It is a shift in responsibilities from strategists to operational / functional managers. Unlike strategy formulation which is common across several industries / sectors, strategy implementation is now a growing profession globally. This phase of strategy development can involve the allocation of funds, acquisitions and divestitures. Ample research has proven that there are several ways of executing a strategy by making use of the available resources to the best extent possible. Collaboration within the value chain components leads to more products / services and improved quality of the delivered products / services.

Merits of 7-S Framework

Firstly, the virtue of 7-S framework is that it highlights some important organisational interconnections and their roles in affecting change. It illustrates, in a simple way, that the real task of implementing strategy is one of bringing all the 7-S's into harmony. When all the 7-S's are in good alignment, an organisation is poised and energized to execute strategy to the best of its ability.

Secondly, the Mc Kinsey's model provides a convenient checklist for judging whether an organisation is ripe for implementing strategy. It also helps in diagnosing why the results emanating from the implementation of a strategy fall short of expectations and therefore, what new 'fits' would be required.

Thirdly, the framework also helps strategists in evaluating their organisations along each of the seven dimensions, thereby identifying organisational strengths and weaknesses. And finally, Mc Kinsey's 7-S framework is a powerful expository tool. However, it should be remembered that changing the organisational elements is not an easy task. However, that should not deter one from striving to bring about change.

Limitations of 7-S Framework

The 7-S framework shows that relationships exist and it provides some limited clues as to what constitutes more effective strategy implementation. Beyond this, however, it is not precise. For example, the framework says little about the how and why of interrelationships. The model is therefore poor at explaining the logic and methodology in developing the links between the elements.

A further weakness is that the framework does not highlight or emphasize other areas that have subsequently been identified as being important for strategy. Those areas are: Innovation, Knowledge, Customer-driven Service and Quality. These four elements are equally important for any organisation to succeed. In spite of the above limitations, the 7-S framework provides an effective way of examining the organisation's dynamics and what contributes to its success. It is good at capturing the importance of the links between the various elements. That is why

McKinsey's used it as a starting point for their search for more detailed interconnections.

4.17 SUMMARY

- The Boston Consulting Group matrix is a strategic planning tool. It is also called a Growth/Share matrix. Bruce Henderson created the BCG matrix in the early 1970s. BCG matrix is a 2D matrix. People often use the BCG matrix to determine where a business currently sits concerning other business regarding its market share and market growth.
- The BCG Growth Share Matrix can be used to analyse businesses or products based on their market shares and growth rates relative to their largest competitors to aid with their long-term strategic planning. The matrix helps companies identify new growth opportunities and decide how they should invest for the future. Most companies offer a wide variety of products, but some deliver greater returns than others Its recent use has diminished because of inherent limitations. With the limitations in mind, it can be a useful tool and despite its age, is still in use today.
- The GE-McKinsey Matrix (a.k.a. GE Matrix, General Electric Matrix, Nine-box matrix) is a portfolio analysis tool used in corporate strategy to analyse strategic business units or product lines. This matrix combines two dimensions: industry attractiveness and the competitive strength of a business unit into a matrix. It helps manager deploy a systematic approach for the multi-business corporation to prioritize investments among its business units.
- McKinsey's 7-S model is good at capturing the importance of all these elements in the implementation of strategy. A company's ability to acquire sufficient resources needed to support new strategic initiatives and steer them to the appropriate organisational units has a major impact on
- the strategy implementation process.

4.18 QUESTIONS

1. The processes of formulation and implementation are iterative and interdependent.

   True/False

2. Strategy implementation often fails because of managers' inability to assess potential implementation obstacles.

   True/False

3. Before strategy implementation is attempted, firms should assess their existing attributes including all, except which of the following?

   A) resources B) implementation levers
   C) management action-plans D) history

4. Effective strategy implementation is most critical in ________.

   A) highly competitive industries B) conglomerates
   C) moderately competitive industries D) small businesses

5. All of the following are elements of an organization's structure except ________.

   A) authority B) hierarchy
   C) reward systems D) coordination mechanisms

6. Discuss various components of BCG matrix.

7. Explain 7S Mckinsey model

Answers

1. True 2. True 3. d 4.a 5. c

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5

ANSOFF MATRIX AND GRAND STRATEGY

Unit Structure :

5.0 OBJECTIVES

- To understand the growth strategies
- To know various diversification strategies
- To get acquainted with various tools of strategic fit.

5.1 WHAT EXACTLY IS ANSOFF MATRIX?

The Ansoff Matrix, also known as the Product/Market Expansion Grid, is a two-by-two framework that management teams and analysts use to plan and evaluate growth initiatives. The tool, in particular, assists stakeholders in conceptualising the level of risk associated with various growth strategies.

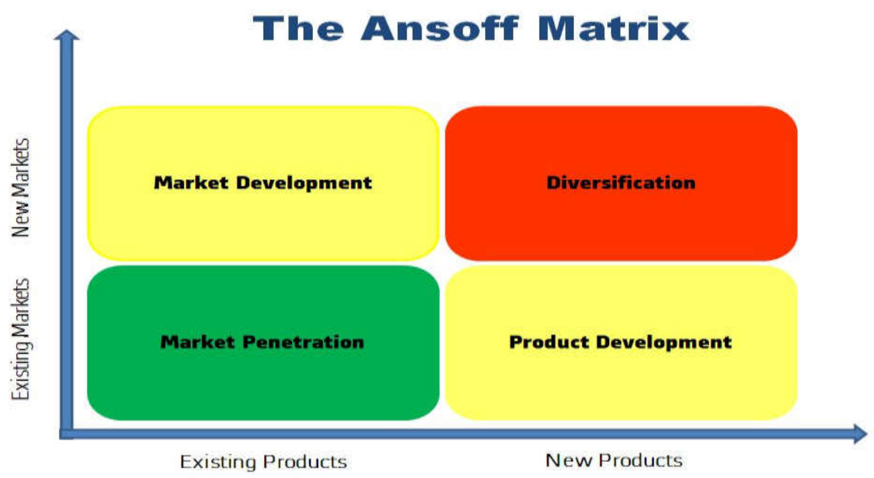
The matrix was created by H. Igor Ansoff, an applied mathematician and business manager, and was published in the Harvard Business Review in 1957.To support more robust assessments of business growth drivers, the Ansoff Matrix is frequently used in conjunction with other business and industry analysis tools such as the PESTEL, SWOT, and Porter's 5 Forces frameworks.

5.2 THE ANSOFF MATRIX: AN OVERVIEW

Business schools all over the world teach the Ansoff Matrix as a fundamental framework. It is a simple and intuitive way for a management team to visualise the levers that can be pulled when considering growth opportunities. Products are on the X-axis, and Markets are on the Y-axis.

Within the Ansoff framework, the concept of markets can mean a variety of things. It could be a jurisdiction or geography (for example, the North American market); it could also refer to customer segments (for example, target market/demographic).

The Matrix is used to assess the relative attractiveness of growth strategies that leverage both existing products and markets and new ones, as well as the level of risk associated with each.



Each box in the Matrix represents a different growth strategy. They are as follows:

- Market Penetration - The concept of increasing existing product sales in an existing market.

- Market Development is concerned with selling existing products into new markets.
- Product development is concerned with introducing new products into an existing market.
- Diversification entails entering a new market with entirely new products.

5.3 MARKET PENETRATION

Market penetration is, relative to other risks, the least dangerous.

Management tries to sell more of its current products into markets they are familiar with and where they already have contacts when they use a market penetration strategy. Increasing the current market share is the key goal while employing this method. But while the market is still expanding, you can also put a market penetration strategy in place. When the market is fully saturated, you should adopt a new tactic. Typical methods of execution include:

- Either stepping up marketing initiatives or simplifying the distribution chain.
- Lowering costs to draw in new clients within the market sector.
- Acquiring a rival in the same industry.

Take into account a company that offers consumer packaged goods to supermarket chains. In order to acquire additional shelf space for various lines of its pet food items in addition to packaged food products, management may adjust pricing for a major chain in an effort to increase penetration.

Dangers of a market penetration strategy:

Utilizing this strategy, the main objective is to increase the current market share. However, you may also implement a market penetration plan while the market is still growing. You should switch to a different strategy after the market is fully saturated.

- Less income: While introducing deals and discounts will help you boost sales; the profit margin will also suffer. By producing in large quantities, large businesses can reduce production costs and still turn a profit, regardless of discounts. Small businesses, however, might not be able to survive if their goods have a high cost of manufacture.
- Uncertain reputation: Let's say a high-end company gave a sizable discount on one of their goods. If so, it might have an effect on other expensive goods. Customers may begin to prefer affordable goods over expensive ones, which will harm the company's reputation in general.

5.4 MARKET DEVELOPMENT

Because it does not necessitate a sizable investment in R&D or product development, a market development approach is the second least hazardous. Instead, it enables a management team to capitalise on current items and introduce them to a new market. Methods include:

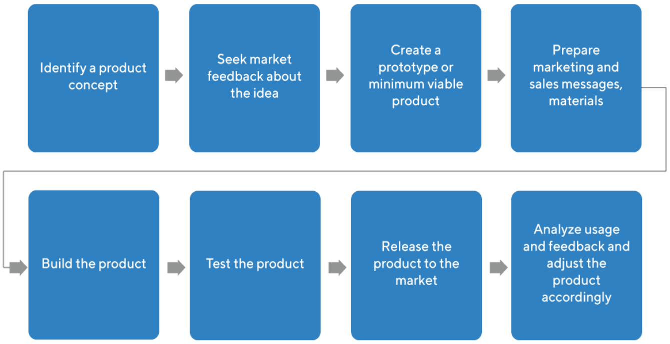
- Serving a different customer base or target market.
- Launching a new domestic venture (regional expansion).
- Launching an overseas market entry (international expansion).

For instance, Lululemon's management decided to aggressively enter the Asia Pacific market in order to promote its already extremely well-liked athleisure products. Even while developing an advertising and logistics infrastructure in a foreign market entails risks, the fact that they are marketing a product with a tested road map makes it less dangerous.

5.5 PRODUCT DEVELOPMENT

A company that has successfully captured the attention of a specific market or target audience may seek to increase its share of wallet from that customer base. Consider it a play on brand loyalty, which can be obtained in a variety of ways, including:

- Investing in R&D to create an entirely new product.
- Purchasing the rights to manufacture and sell another company's products.
- Developing a new offering by branding a white-label product manufactured by a third party.



Dangers involved in product development:

Research & development must be heavily funded in order to generate new products. The following list of dangers connected to the creation of new products:

- **Interviewing Candidates :** The hiring of the right individuals consumes a significant portion of this investment. There is no assurance that a hired individual will remain with the business throughout the product development process, even if candidates are carefully vetted through many interviews. Their preferences and expectations may evolve over time.

- **Presenting Fresh Technology :** Analyse the state of the industry today and launch new technology early to allow enough time for product development. If the technology is released either too soon or too late, the new product might not succeed.

- **Projects with high risks :** The number of investments in high-risk ventures is rising as a result of the relaxation of rules and better access to credit. Project managers must manage these initiatives carefully and reduce risks related to delays or other difficulties with product development.

5.6 DIVERSIFICATION

In terms of risk, diversification strategies are typically the riskiest because they require both product and market development. Even though it is the riskiest method, it has the potential to produce enormous returns, such as opening up entirely new revenue prospects or decreasing a company's reliance on a particular product/market fit (for whatever reason).

A management team might consider one of two types of diversification strategies:

- **Related Diversification :** Where potential synergies between the existing business and the new product/market can be realised.
- **Unrelated Diversification :** Where real synergies between the existing business and the new product/market are unlikely to be realised.

Criteria	Related Diversification	Unrelated Diversification
Basic Characteristics	Diversification related to existing business (similar market in terms of marketing, distribution, production technology)	Diversification into new business unrelated to existing business
Method	Use of existing brand name, resources, technology, marketing ability, etc.	M&A and/or R&D
Transferable Resources	Operational skill, distribution system, production resource, etc.	General management skills, capital resources
Expected Result (Object)	Economy of scale, specialty, synergy, operational efficiency, market power, stable revenues and profits	Risk reduction, growth opportunity, cost reduction, efficient capital and resource management, lower cost of capital, stable revenues and profits
Possibility of Earning Potential Profit	Difficulty of integrating the new business into an existing business; thus, more difficult	Relatively easier due to no issues of integration and control

5.7 FINANCIAL ANALYSIS USING THE ANSOFF MATRIX

Many people believe that financial analysis is only a quantitative endeavour. While it's true that analysts need to grasp assets and liabilities, sift through 10K filings, and construct financial models, it's also crucial that they comprehend the factors that drive business success, as these factors will influence a wide range of model assumptions.

World-class analysts are adept at translating qualitative findings from PESTEL and SWOT analyses, Ansoff Matrixes, and Porter's Five Forces frameworks into model assumptions. As important credit metrics and valuation estimates are impacted by growth drivers, high-quality due diligence includes an understanding of how to analyse them effectively.

5.8 PROBLEMS WITH THE ANSOFF MATRIX

The Ansoff Matrix divides expansion plans into market and product sectors, but there are some issues that prevent its mainstream implementation. The following are these difficulties:

- **Rivals :** The Ansoff Matrix ignores market competition, making it more appropriate for ideal situations with little competition. A company, on the other hand, would have to strategize and outperform existing competitors in any market or product.

- **Analyse the cost-benefit ratio :** The Ansoff Matrix does not take into account the benefit gained from investing in a specific growth strategy, making it difficult to weigh these options and select the most advantageous one.

- **Precision :** The Ansoff Matrix is simple to understand and apply, but it may not accurately predict how a market will react to a new or existing product.

5.9 THE ANSOFF MATRIX'S ADVANTAGES

The Ansoff Matrix assists organisations in evaluating their growth strategies. It assesses and weighs all growth options in order to select the best one. The Ansoff Matrix has several other advantages, including:

- **Minimalism :** The Ansoff Matrix is simple to comprehend and use. It presents four potential growth plans in an easy-to-understand manner, making it easier for decision-makers without a background in marketing.
- **Risk assessment :** The matrix makes sure that after employing these techniques, firms won't face unanticipated hazards.
- **Solutions :** It offers a variety of growth strategy options, assisting you in choosing the optimal one depending on your goals and plan.

5.10 GRAND STRATEGY ALTERNATIVES

Corporate strategies are also known as grand strategies, the four main grand strategic alternatives are –

- Stability strategies
- Expansion strategies
- Retrenchment strategies
- Combination strategies

Stability Strategy : It is a defensive kind of strategy. This kind of strategy is used when a company wants to move slowly, it may be because the firm is facing a volatile and hostile environment. An enterprise adopts these policies when there is a lack of resources, confidence as expansion strategy is risky. This strategy is generally adopted when economy is in recession or economy is slowing down, company wants more liquidity in their balance sheet rather than investing the cash for expanding the business. It can also be adopted when there is too much debt in the balance sheet, using money for expansion can lead to liquidity crunch for the company. It can also be adopted when company is operating in a new industry where they see no room for growth.so if the profit is less then stability strategy is used.

- Company operates in a same market, sell the same product to same target market
- Focuses on taking small steps at a time and pursues same goals and objectives
- Generally used by small enterprises and used in combination with other growth strategies
- Can be used when an enterprise is satisfied with where it stands now and sees no reason for change
- Organization wants to pause and proceed with caution

Expansion Strategy : Every organization has a long-term goal of expansion, in order to gain competitive advantage over other firms of national and international market. With growth comes responsibilities and opportunities for that we need a proper strategy that would help an organization maintain its position after the expansion. Growing economy, growing market offer opportunities for companies to seek expansion and is adopted when a company wants to achieve high growth as compared to its past achievements.

Retrenchment Strategy : This strategy is adopted when an organization aims at a contraction of its activities so that they don't suffer more losses, it could be due to loss, unviability, hostile environment, less resources. Meant to revive the organizations resources and capabilities, there are 4 types of recovery situations

- Non recoverable situation
- Temporary viability
- Survival is possible but potential for growth is limited
- Good and long-term recovery

Combination Strategy : when a company don't want to use one strategy for its business but a combination of multiple grand strategies given above.

5.11 GRAND STRATEGY MATRIX

Grand strategy matrix has four quadrants which represents the company's position in the market. Depending on the company's position certain strategies are written in each quadrant which could be used by the organization. Before using a grand strategy matrix one should be aware of the current market conditions and the position of the company.

- **Quadrant 1** (Rapid market growth and strong competitive position)
  - Product development
  - Market development
  - Market penetration
  - Forward and backward integration
  - Concentric diversification

If your firm falls under quadrant one it has a strong competitive position in the market and can consider the options of entering into different market and expanding their business, this would create more opportunities and strengthen the position in the market and is essential for the growth.

- **Quadrant 2** (Rapid market growth and weak competitive position)
  - Product development
  - Market development
  - Market penetration
  - Horizontal integration or vertical integration
  - Liquidation or divestiture

If your firm falls under this quadrant the firm has weak competitive position but still there is a room for growth and for that the strategies mentioned could be used, there is a possibility of change and improvement if you fall in this quadrant

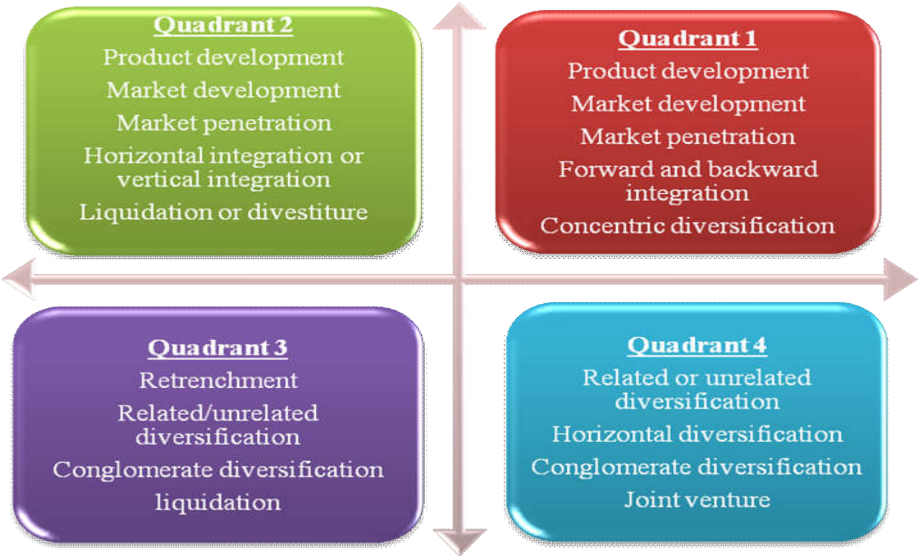
- **Quadrant 3** (Slow market growth and weak competitive position)
  - Retrenchment
  - Related/unrelated diversification
  - Conglomerate diversification
  - liquidation

If your firm falls under this quadrant then it would be a task to survive in the market, the firm is already in a weak position so therefore to save themselves from further losses liquidation and retrenchment would be the only option.

- **Quadrant 4** (slow market growth and strong competitive position)
  - Related or unrelated diversification
  - Horizontal diversification
  - Conglomerate diversification
  - Joint venture

If your company is in this position than there is a room for survival as you have strong competitive position but the market is moving at a slow pace here a firm can use the strategies mentioned above in order to strengthen its position and not let the declining market affect the company's operations

5.12 PROS AND CONS OF GRAND STRATEGY MATRIX



Advantages of using Grand strategy matrix:

- This matrix is easy to understand and use when you are aware of the current market scenario and your market position
- It contains a list of strategies that could be used by an organization depending upon which quadrant it falls
- It offers multiple strategic options which strikes debate and helps in arriving at a perfect decision
- It can be used by a company regardless which market or industry it belongs
- It helps the company to use a strategy which could help them to survive and expand their business unit in the potential market segment

Disadvantages of using a Grand strategy matrix:

- Though it provides variety of strategic options but those options may or may not be a success for the organization
- The matrix cannot be used alone, it is to be used with other tools
- Putting your company in one particular quadrant can be difficult if your company offers variety of products and services, your company can also fall in multiple quadrants depending on your product and services

5.13 SUMMARY

From the explanation above, it is clear that businesses must expand in order for their resources to produce the returns necessary for the businesses to turn a profit and provide value to their shareholders. Additionally, businesses must always seek for ways to grow their market share in order to benefit their stakeholders. Because it illustrates the methods that the firms must employ in each option—again, a combination of the enterprises' current skills and the prospect for fresh market-led growth—the Ansoff Matrix has grown in popularity. The Ansoff Matrix is extremely significant in these difficult economic times since any company that wants to use it can do so either to broaden into additional markets or to make use of its current capabilities.

The grand strategy alternatives which includes **stability, expansion, retrenchment and combination strategies** each of them are used under different situations depending on the position of the company in the growing market.

Detailed view of grand strategy matrix explains what a company should do if its business falls under different quadrant. Each quadrant symbolizes the market and company's position to arrive at different strategic alternatives. Quadrant 1 (Rapid market growth and strong competitive position), Quadrant 2 (Rapid market growth and weak competitive position), Quadrant 3 (Slow market growth and weak competitive position), Quadrant 4 (slow market growth and strong competitive position)

5.14 QUESTIONS

1. Explain Ansoff Matrix
2. Discuss various diversification strategies.

5.15 REFERENCES

1. Strategic management concept and cases, Fred r David, 2014
2. Strategic Management Theory: An integrated approach, Charles W.L.Hill and Gareth R. Jones, 2011

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6

COMPETITIVE ADVANTAGE

Unit Structure :

6.0 OBJECTIVES

- Understanding competitive advantage.
- Analyzing markets through the application of Porter’s 5-forces model.
- Understanding the concepts of value chain.

6.1 INTRODUCTION

Customer preference is influenced by your company's competitive edge. Companies can increase their market share by recognising and promoting such an advantage. [6] If a company maintains profits that are higher than the norm for its industry, it is considered to have a competitive edge over its competitors. A lasting competitive advantage is the aim of a lot of company strategies.

Michael Porter identified two basic types of Competitive advantage:

1. Cost Advantage

2. Differentiation Advantage

1. Cost Advantage : When a company can offer the same benefits as rivals but at a lower price, it has a cost advantage. The most obvious method of gaining a competitive advantage is this. Customers always pay attention to prices and, given a choice, will go with the one that is least expensive. Low expenses are necessary for low prices to be sustained.

2. Differentiation Advantage : The firm has a differentiation advantage when it can offer benefits that are superior to those of rival items. If the product is unique in a way that consumers value, it might provide a competitive advantage.

Since they identify the company's position in the market as a leader in either cost or differentiation, cost and differentiation advantages are referred to as prospective advantages.

A resource-based perspective stresses how well a company uses its assets and skills to forge a competitive edge that leads to greater value creation.

Resources & Capabilities:

The resource-based view contends that a company needs resources and capabilities that are better than those of its rivals in order to gain a competitive advantage.

recognising a resource as a strength that companies can use to develop and carry out their strategies. The primary competencies for designing strategy are the firm's resources and capabilities, which ensure greater performance for the business.

Resources : Resources are the assets that are unique to the company and that few competitors can easily obtain valuable for building a cost or differentiation advantage. Despite the broad variety of resources, the following categories can be used to group them: resources, both material and intangible.

Capabilities : Describe the company's capacity for efficient resource management. A capability can be the capacity to advertise a product more quickly than rivals. The firm's distinctive strengths are formed by its resources and capabilities combined.

Resources are the fundamental units of analysis since they are inputs into the manufacturing process. The firm's individual resources include things like machinery, intellectual property, patents, brands, and so forth, whereas a capability is the ability of a group of resources to carry out a specific task or activity. Although the firm's capabilities come from its resources, its competitive advantage mostly comes from its capabilities.

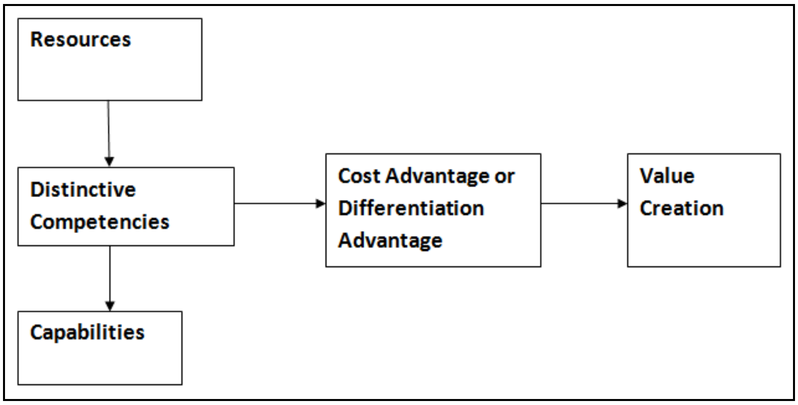

Fig. 3: Model of Competitive Advantage

6.2 PRINCIPLES OF COMPETITIVE ADVANTAGE

A product must be created that meets a real need in the world, charge a price for it, and be made available in a way that is inexpensive enough to leave a large profit margin.

Elements of Competitive Advantage:

1. Uniqueness - Finding new chances and solutions requires creativity, perception, foresight, and the guts to go after them. Unique is brand-new and distinctive, but most importantly, it is unproven and untested. A unique solution is no longer unique for the following company by the time it is proven to be lucrative. Additionally, if it has a distinct commercial competence or model, competitors are unlikely to be able to quickly compete with it.

2. Strategic Focus - In order to create a superior value proposition, differentiated talent and purpose must be combined strategically. Creating a longer-term competitive advantage through a combination of purpose, skill, and value proposition is what strategic focus entails. This fosters an internal climate with the assurance and implicit encouragement to further develop and perfect that focus by strengthening competencies and strengthening the value proposition.

3. Strategic Intent/Vision/BHAGs - Strategic intent places a clear emphasis on impossible goals that necessitate the creation of new skills in order to attain, challenging and guiding the company to accomplish the impossible.

4. Innovation - The application of creativity for financial gain is innovation. In order to maintain a competitive advantage in a changing economy, the business organisation must innovate at a rate that matches or exceeds its surroundings.

5. Continual Innovation - Making innovation a continuous process across all domains.

6. Democratic Principles - To effectively engage the active participation of varied thinkers from across the organisation, democratic ideals are required. Innovation is enhanced by a large and diversified participation.

7. Strategic Management as a self-improving learning process - The organisation must use strategic management as a means of learning and self-improvement, among other things.

8. Dynamic Capabilities - Dynamic capabilities—the capacity to continuously create and use new capabilities—are what ultimately underpin sustained competitive advantage.

6.3 VALUE CHAIN

Michael Porter created and popularised the Value Chain concept in his key book "Competitive Advantage," which examined the application of competitive strategy to improve business performance, in 1985. Porter conceived of the "value chain" as the union of nine generic values added activities functioning within a corporation - activities that work together to offer value to customers. Porter defined value as the sum of what buyers are prepared to pay for what a firm provides. Porter connected the value chains between businesses to create what he referred to as a value system; however, in the current era of increased outsourcing and collaboration, the term "value chain" is now more frequently used to refer to the linkage between the value-creating processes of various businesses.It is built on a series of actions that a business does to produce value for its clients. In result, this tactic boosts competitive advantage and increases profitability.

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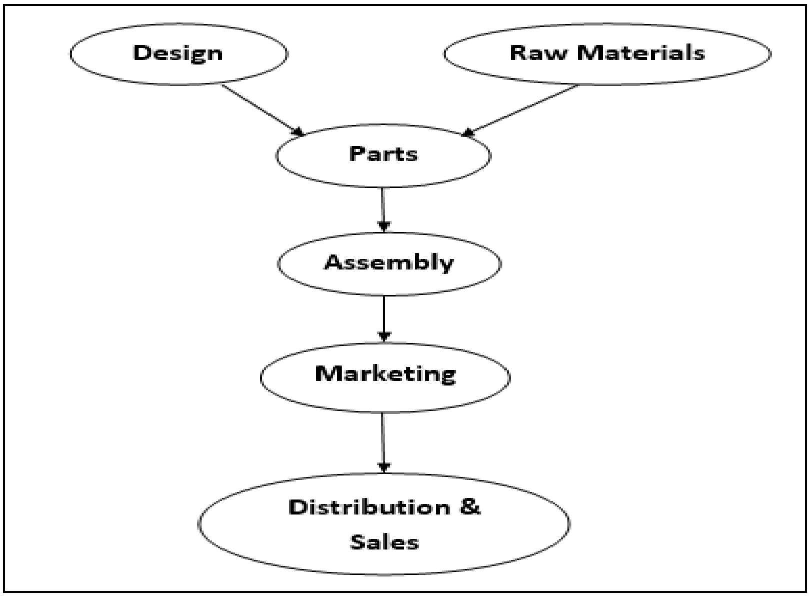


Fig 6.1: Basic Value chain of an Automobile Industry

The profession of a diamond cutter can be used to demonstrate the value chain and cost differences. Although the cutting process is relatively inexpensive, it significantly increases the value of the finished product because a rough diamond is far less valuable than a cut diamond. The value chain framework, a potent analysis tool for strategic planning, swiftly rose to the top of management philosophy. Large Petrochemical Plant Maintenance Organizations have also used value chain analysis to effectively demonstrate how Work Selection, Work Planning, Work Scheduling, and finally Work Execution may (when viewed as elements of chains) assist promote Lean methods to maintenance.

6.4 PORTER'S VALUE CHAIN MODEL

The Porter value chain is a framework for creating an analytical structure that tracks interdependent actions from the procurement of raw materials or an idea through production and, ultimately, into the hands of a client. This concept is still valuable today as it was more than 35 years ago since companies in all industries can find partnerships or connections between the separate operations that go into creating their products.

The concept of the value chain is based on the organisational process, which proposes to view a manufacturing (or service) organisation as a system made up of subsystems, each of which has inputs, processes for transforming inputs into outputs, and outputs itself. Money, labour, materials, equipment, buildings, land, administration, and management are examples of resources that are acquired and consumed as part of the inputs, transformation processes, and outputs. Costs and profits are determined by how value chain operations are performed.

The majority of businesses do hundreds or even thousands of activities in order to transform inputs into outputs. These can be broadly categorised as primary or supporting activities that are necessary for all businesses to perform in one way or another.

Primary activities are:

The physical creation, marketing, upkeep, and support of a good or service is the primary activities. These are what they include:

1. Inbound logistics : Inbound logistics entail interactions with suppliers and all actions necessary to collect, store, and distribute inputs. Value creation in this context depends heavily on supplier relationships.[5]

2. Operations : All of the actions necessary to convert inputs into outputs are referred to as operations (products & services). Systems in operation here add value.[5]

3. Outbound Logistics : All tasks necessary to gather, store, and distribute the output are included in outbound logistics. These actions provide your customer with your good or service.

4. Marketing & Sales : Activities in marketing and sales educate consumers about goods and services, encourage them to buy them, and make purchases easier. How well you convey the advantages that you have to offer is what makes this situation valuable.

5. Service : All the tasks necessary to ensure that the product or service continues to serve the customer effectively after it has been purchased and delivered are categorised as service.

Support Activities are:

These actions assist the earlier primary functions. The dotted lines in the diagram demonstrate how each support activity—also known as a secondary activity—can contribute to each primary activity. For instance, while supporting marketing and sales with other activities, procurement also supports operations with some activities.

1. Procurement : The acquisition of inputs, or resources, for the company is known as procurement.

2. Human Resource Management : All procedures involved in finding, selecting, training, advancing, compensating, and letting go or laying off employees are considered to be part of human resource management.

3. Technological Development : The tools used by the company to convert inputs into outputs—including its hardware, software, processes, and technical know-how—are referred to as its technological development.

4. Infrastructure : It consists of departments or functions like accounting, legal, finance, planning, public affairs, government relations, quality assurance, and general management. It serves the needs of the company and unites its various parts.

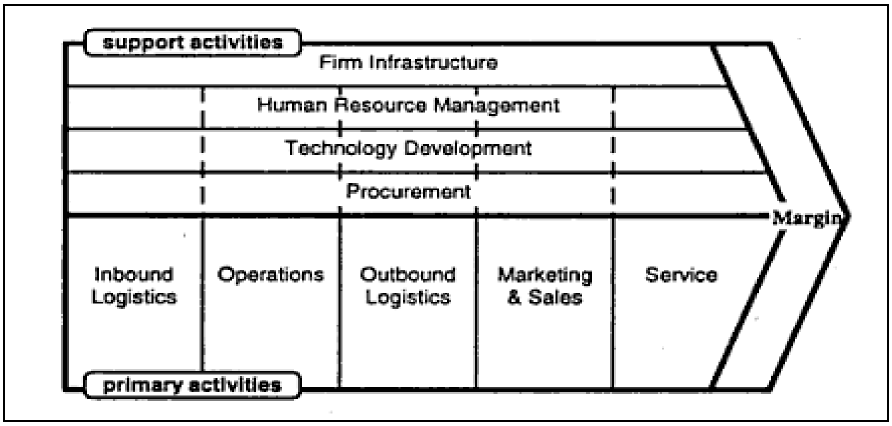


Fig 6.2: Porter's Generic Value Chain

6.5 WHY VALUE CHAIN NOW?

Since Porter's groundbreaking book "Competitive Advantage," there has been an increasing interest in value chains. Since Adam Smith first distinguished between use-value and exchange-value in his early work, researchers in business and economics have been interested in the concept of value. However, maximising operational efficiency has been the main focus in industrial engineering, which has led to a concentration on supply chains and production processes. The demand for operations-oriented analysis from a value chain perspective is now being driven by a number of key factors. These consist of following factors;-

- Increasing competition and an increasing focus on innovation as an element of strategy
- Evolving governance models for the extended enterprise
- The trend towards globalization of supply and production
- Benefits already wrung out of manufacturing and the supply chain
- Trends in Management Discourse

1. Increasing Competition and the Primacy of Strategy – A strategic theory of company competitiveness gave rise to the concept of the value chain, which is first and primarily a strategic one. The emphasis is shifting to alternate strategies to maintain competitiveness as businesses struggle in a climate of globalisation and fierce competition. As a result, there is growing interest in value chains as a tool for modelling the extended enterprise and developing competitiveness strategies.

2. Evolving Governance Models for the Extended Enterprise – The information age has boosted general commercial and research interest in alternate value chains and business models as a result of the recent concentration of capital investment on internet technologies and "dot-com" business models. The emphasis on Core Competencies and the firm's Resource Based View (RBV) has both helped to advance this in the study literature. The interest in the Value Chain as a fundamental architecture for study of new models for company governance has developed as a result of the expansion in modular/virtual collaborative enterprise business models.

3. Globalization of Supply and Production – The expansion of global sourcing and supply has started a protracted process of levelling the playing field for value addition globally. Due to the fact that global value chains are the most common form of company in many industries, it becomes necessary to model them.

4. Many Benefits Already Wrung out of Manufacturing and the Supply Chain – The efficiency of manufacturing and supply chain operations has long been increased by the disciplines of industrial engineering and operations management, as well as management and operations improvement programmes like lean manufacturing, TQM, and Six Sigma. Academic theorists and practitioners at many of the more advanced organisations are starting to adopt a larger view of the enterprise in order to continue contributing to improved competitive stance, even if there is still much work to be done in the sector. Shifting focus from the supply chain to the value chain is necessary to enhance the operational capacity of other value-added business activities like product development.

5. Trends in Management Discourse – The nature of management fashion trends in academic and management discourse may be the final factor contributing to the increased interest in Value Chains. In a study of Quality Circles, Abrahamson and Fairchild established a lifecycle process that shows how management knowledge entrepreneurs contribute to the development of trends in discourse. Two conclusions from this study are pertinent:

1) Management fads typically have a wave-like, frequently asymmetrical, and transient popularity curve in the beginning of their lifecycle.

2) A management fashion within a niche is started when three things happen at once: (a) a fashion within that niche must collapse; (b) there must be a significant performance gap within that niche that a latency-phase replacement fashion within that niche can credibly address; and (c) Discourse must have brought this gap to the attention of many management-fashion consumers.

6.6 ADVANTAGES OF VALUE CHAIN MODELING

Value chain modelling has many advantages. According to Porter's book Competitive Advantage: Creating and Sustaining Superior Performance, "Competitive advantage typically results from detecting new methods to configure and manage the complete value system."

Although Porter's general value chain model is extensive and comprehensive, it is not unqualified. Instead, the model can be modified to fit the specific requirements of each organisation. You can think of it as a beginning point that needs to be examined and modified as the market changes, the level of competition rises, new technology is developed, or clients demand change. A value chain, for instance, might assist a company in identifying internal and external outsourcing options that benefit from cost reductions and specialised knowledge. Ultimately, value chain modelling offers the following Advantages:

Cost reduction

Competitive differentiation

Increased profitability and business success

Increased efficiency

Decreased waste

Higher-quality products at lower costs

6.7 DISADVANTAGES OF VALUE CHAIN MODELING

Although doing a value chain analysis has numerous advantages, there are also some substantial negatives since activities designed to boost productivity, create value, and save costs can often have unintended consequences.

1. Loss of target : If too much emphasis is placed on the microdata, the greater strategic view may be overlooked. Although the goal of value chain analysis is to examine a company's operations section by segment, it can be simple to overlook how the many events connect generally.

2. Difficulty in developing chains : Even if value chain analysis is carried out in various phases, creating it is a challenging undertaking. The process of gathering data is slow and laborious, deciding what adds value or not can occasionally be arbitrary (owing to inappropriate consumer behaviour), and implementing the strategy can be labor- and time-intensive.

3. High implementation costs : Value chain analysis is an ongoing process since competition never ceases and continual benchmarking is required to stay one step ahead of the competition. An organisation that has never employed value chain analysis previously may incur hefty installation costs.

6.8 PORTER'S FIVE FORCE MODEL

Porter created a special competitive analysis tool called Porter's Five Forces before writing about value chain models. This tool analyses competitive market factors critically in an effort to spot opportunities or risks; it is akin to a SWOT analysis (strengths, weaknesses, opportunities, and threats). In order to create a framework for proactive improvement, Porter's tool analyses changing conditions.

The "five forces model," as it has come to be known, was introduced by Michael Porter. An industry's competitors, future competitors, suppliers, buyers, and alternative solutions to the issue at hand are all included in this idea.

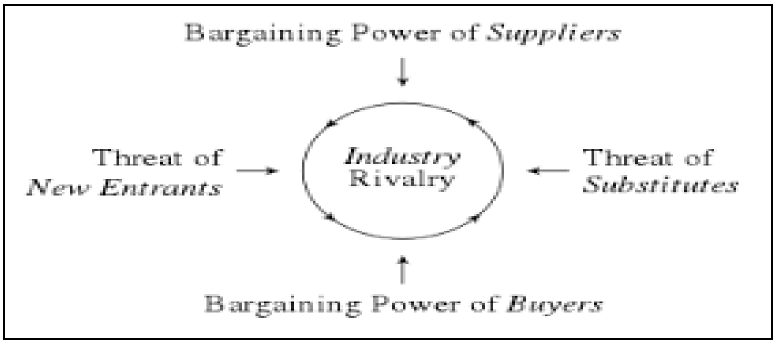


Fig. 6.4: Porter's Five Force Model

1. Threat of Potential Entrants :

The ease with which a new firm or a company with a different product area can enter a certain trade sector is referred to as the threat of new entrants. The requirement for capital, knowledge, and skills is one barrier to entry into a given market. The automobile assembly industry, for instance, has extremely high entry barriers. To begin making cars, one must create a new model line, construct a car assembly factory, hire several component suppliers, and establish a dealer network. Contrarily, starting a firm that makes personal computers is significantly simpler because the necessary components are inexpensive and there is less of a need to invest in large-scale production facilities or product development makes a start.

2. Threat of Substitution :

When a new product that performs the same function as the present product or service becomes available, substitution poses a danger to established players. The classic examples include the (partial) replacement of natural fibres like cotton and wool with synthetic fibres or the substitution of glass bottles in particular sectors of the packaging industry with plastic alternatives. Existing players can safeguard themselves by maintaining an updated product.

3. Bargaining power of Buyers :

The cost of manufacturing and distributing a product must be less than the amount it can sell for in order for a firm to be profitable. The buyer is in a good position to negotiate for a low price and other advantageous terms of trade when there are numerous rivals on the market or an excess of supply.

4. Bargaining power of Suppliers :

The company will seek favourable terms from its own suppliers at the next step along the value chain while attempting to negotiate a fair price with its customers. The organization's standing with its customers mirrors how well it can negotiate. It should obtain a good price if there is a large supply and/or numerous suppliers. The supplier is in a better position if the product is in short supply or there are few suppliers that can match its demand.

5. Competition between existing players :

The competition between the market's current players is the last force. Gaining customers and trading at a price that generates a respectable profit are the objects of competition. The generic competitive advantage of cost or differentiation is used to win that competition. The agreement each organisation may reach with its suppliers determines how competitive it is.

6.9 COMPETITIVE ADVANTAGE STRATEGIES

1. Interact with your customers :

Your clients may be online, but your business is not. Even though you may run your entire company from a collection of laptops, your clients are still paying you with money. It is crucial to listen to your customers. Take note of what they are saying. Make it better if they don't like it. Give them the things they want or wish to purchase. Don't just keep using accessories and makeup since women are your target market. If stay-at-home mothers are your particular target audience, showcasing furnishings on your website might be beneficial.

2. Use social media as your weapon :

Today's most effective platform is social media. By looking into their private lives, you will be able to identify every one of your potential customers. You can observe their interests and routines. Spend a lot of money on social media. Even better, you can link directly to your website from social media. Just like on Facebook, someone may share one of your posts if they find it interesting. Your post will be viewed by a larger audience this way. That is the charm of social media, I suppose.

3. Go niche (protection) rather than mass :

On this platform, you can meet people of any kind. Teenagers, mothers, and even grandparents are present. You'll require actors, singers, politicians, make-up artists, and so on. Realizing that the entire globe is your audience may leave you feeling overburdened. Instead of grabbing everyone, attempt to focus on a particular target audience. Your website ought to focus on a particular set of individuals who have similar interests. You can advertise your company with just one target market in mind. Simply concentrate on artists rather than musicians if you want simply artists to find your company.

4. Personalize your website :

You cannot simply create a website that is unattractive to your target audience. Your website needs to seem appealing so that visitors want to return. Yes, but don't make it too challenging to use while trying to make it costly. Make sure it is simple to use your website. Make it elegantly easy so that users of laptops and smartphones can access it. Today's technology makes it possible to tailor product recommendations based on customers' past purchases. You can utilise that software to demonstrate your concern for your customers.

5. Prepare the right content :

Content is crucial. Your website's content can change in an instant. You must consider the requirements of your audience. Make sure to post content that women are more likely to be interested in if you are targeting them, rather than simply any random article about automobiles, if you are.

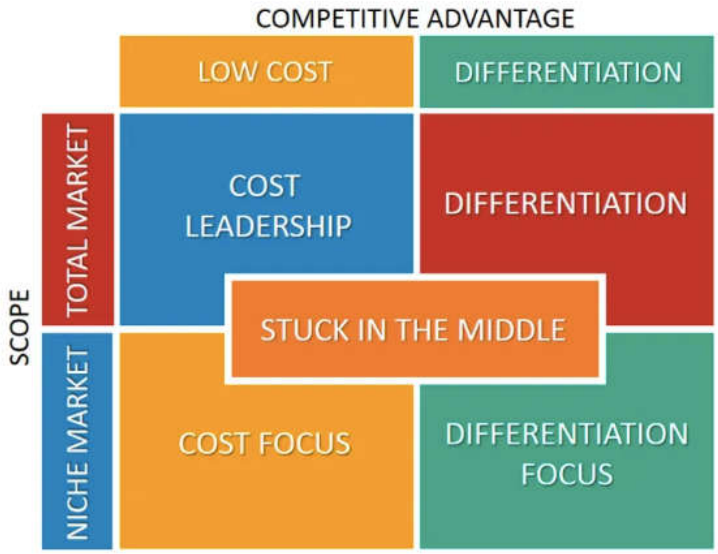
Use of SEO-friendly keywords is strongly advised. This is due to the fact that your website will appear on the list when your customer types in that keyword on Google or Bing.

6.10 PORTER'S GENERIC STRATEGIES

Porter's generic strategies outline how a business seeks to get a competitive edge within the parameters of its preferred market scope. Three or four generic tactics are available: focused, differentiated, or lower cost. A business can choose to pursue one of two types of competitive advantage: cutting costs relative to its rivals or distinguishing along customer-valued dimensions in order to charge a higher price. A corporation also decides between two scope options: focused (providing its products to certain market groups) or industry-wide (selling its product across a wide range of market sectors). The generic strategy represents the selections made with reference to the type and scope of competitive advantage. Michael Porter first explained the idea in 1980.

Strategy should either aim for cost leadership, distinctiveness, or focus, according to Porter in 1980. These three approaches, referred to as Porter's three generic strategies, are adaptable to any type or size of firm. According to Porter, a corporation should only select one of the three alternatives to avoid wasting valuable resources. Porter's generic strategies describe how a company's cost-cutting, product-differentiation, and market-focused strategies interact.

Multiple segments within an industry might be targeted by a corporation, according to Michael Porter. Low cost or difference from competitors were the two categories of competitive advantage that Porter identified. The ability of a company to manage the five factors more successfully than its competitors is what leads to competitive advantage. Porter stated that in order to gain a competitive advantage, a company must decide on the kind of advantage to pursue and the parameters of how it will do so.



1. Cost Leadership Strategy

Cost Leadership is a type of competitive strategy in which an organization actively seeks out

- Effective large-scale production facilities
- Reduces costs
- Utilizes economies of scale
- Gains production expérienceand,
- Employs strict cost controls

to be more efficient in the production of products or the offering of services than competitors: the objective is to be the low-cost producer in the industry.

There are two main ways of achieving competitive advantage within Cost Leadership strategy:

- Increasing profits by reducing costs, while charging industry-average prices.
- Increasing market share by charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.

Different methods can be used to implement this technique. Outsourcing is a typical strategy for reducing the cost of goods and services. Businesses frequently use new technology in an effort to reduce their existing cost structures (e.g., WalMart). Operations managers research cost-cutting strategies in the production process by studying ideas of efficiency like Lean Sigma. When outdated cost structures are replaced by more effective ones, there is a risk that competitors (new entrants) will enter the market (ex. Southwest Airlines). The present company can be trapped paying higher costs (like fuel) when new competitors can do so at cheaper costs. They might provide their employees lower compensation. Some businesses make up for lesser pay by providing intangible benefits like stock options, insurance, or promotions. Others profit from surpluses of unskilled labour.These companies can take advantage of economies of scale and bulk purchasing as they expand. Walmart and Costco are two instances of businesses that have achieved cost leadership by occasionally paying their employees less than the cost of living. Increased minimum wage legislation pose a threat to this benefit.

When done well the Cost Leadership Strategy opens up several options to companies:

- Increasing your profit margins by maintaining your current cost
- Resisting price increases when competitors are forced to do so
- Reducing the price to become more competitive
- Investing the profits into diversifying your business, automation for further cost reduction, or shareholder value

A low-cost position also means that a business may offer equivalent quality at fair profits by undercutting competitors' costs, for instance through penetration pricing. Low-cost producers often market generic goods and services. It may be helpful to bring in the Five Forces analysis of marketplace for this strategy and consider the Supplier and Buyer powers.

Lastly, Cost Leadership is about minimizing the cost to the organization of delivering products and services. The cost or price paid by the customer is a separate issue!

2. The Differentiation Strategy

Making your goods and services more distinctive and alluring than those of your rivals is the goal of differentiation strategy. The specifics of your industry and the products and services themselves determine how to accomplish this, but it usually involves providing features, functionality, durability, support, and a brand image that the customers appreciate. Organizations require the following to succeed with a differentiation strategy:

- Good development, innovation, and research.
- The capacity to provide top-notch goods or services.
- Effective sales and marketing are necessary to ensure that the market is aware of the advantages provided by the unique services.

Examples of sub-strategies for differentiation include:

- Product functionality (Speed, strength, etc.)
- Quality of the manufacturing process.
- Durability of the Good
- Appearance
- Functionality (e.g., simplicity of use, features, etc) (e.g., ease of use, features, etc.)
- Company Image (e.g., luxury goods Rolex)
- Innovation and Novelty
- Operating Effectiveness
- Support for the Client (Warranty, Guarantee, Customer Service)
- A company will need to identify distinctive traits about its product or service that can differentiate it from other goods or services on the

market in order to use this strategy. To do this, one must have a thorough understanding of both their own product and every other product on the market.

A successful differentiation strategy gives businesses various possibilities, including:

- Enter new markets to increase revenue diversity
- Increase current revenue streams through upsells or by closing more business
- Increase current revenue by raising prices
- launching marketing campaigns that include news about features or items
- creating a community around new features within your client base
- Increasing consumer loyalty by making them happy

Apple serves as a prime illustration of this strategy. The iPhone was novel because it combined the functionality of a computer with a basic portable device. Quality indicates that a company offers the best good or service. Because customers consider Tiffany's to be considerably superior than other jewelry stores, it is able to charge more. Customer service, in essence, refers to going above and beyond to please customers, as was done by Nordstrom's, the first retailer to accept returns with no questions asked.

A business that uses differentiation to its advantage can command a premium price, which typically translates to a bigger profit margin. However, some risks associated with this strategy include imitation by competitors and changes in customers tastes and preferences.

3. Focus Strategy

Due to the limited market, this dimension is not a distinct business strategy for large corporations. The same big businesses that opted to use differentiation methods may also choose to use focus techniques (either cost or differentiation). However, small businesses should surely use this tactic if they wish to stay out of competition with larger ones.

The business should adopt a limited focus by concentrating on a small number of target markets (also called a segmentation strategy or niche strategy). This ought to be distinct groups with unique requirements. Low prices or distinctive products/services should be offered depending on the needs of the chosen market segment and the firm's resources and skills. It is intended that by concentrating your marketing efforts on one or two specific niche markets and customizing your marketing mix for these niche markets, you will be able to better serve your target market's demands. Instead of focusing on efficiency, the company often seeks to establish a competitive advantage through product innovation and/or brand promotion. To provide an above-average return on investment, a concentrated strategy should target market sectors that are less susceptible to substitutes or where a competition is weakest.

Examples of companies that use a focus approach are Southwest Airlines, United, and American Airlines, which offer short-haul point-to-point flights as opposed to the hub-and-spoke model of mainstream carriers.

The Cost Focus Strategy

The Cost Leadership Strategy has evolved into the Cost Focus Strategy.

This business strategy has two components, as the name would imply. The term "Focus" describes the process through which a business zeroes in on a specific industry or geographic region and masters the art of providing for that market. Similar to the Cost Leadership Strategy we previously discussed, the term "Cost" refers to the cost to the organization producing the good or service. You pick a market with little competition—a "targeted market"—and you set your price as low as you can. This technique allows you to select a certain niche market to target, and by comprehending the dynamics of these market segments and the preferences of the consumers, you can make sure that expenses are kept to a minimum (cost advantages).

As an example, these low-cost producers include low-cost budget airlines, who increase their market share by focusing on cost-effective techniques such providing basic services at a cheaper cost than the major airlines, which charge significantly higher costs.

All of the advantages of cost leadership are included in this strategy, and it also offers more options:

- Assuming leadership roles in an industry

Establishing collaborations with businesses in the similar sector

The Differentiation Focus Strategy

A development of the Differentiation Strategy is the Differentiation Focus Strategy.

There are two parts:

- Emphasizes the differentiation component of the strategy

- Attention to the fact that the company is pursuing a niche market

Utilizing a differentiation focus strategy may enable the company to identify unmet requirements or wants and satisfy them through distinctive product features. A firm offers a distinctive product to the market when it uses differentiation as its primary marketing strategy. Customers' strong brand loyalty to the product is necessary for this. Because client loyalty is built on a product's originality, it is crucial to maintain its distinctive features.

This tactic offers more possibilities while maintaining all the advantages of Differentiate:

- Cross-selling among clients in markets
- By substituting products, the market or customers are altered.
- Developing novel supplementary services to market as auxiliary goods

4. Stuck In The Middle

A corporation is said to be "stuck in the middle" if it tries to implement each generic approach but is unsuccessful in doing so. Regardless of the industry it operates in, such a corporation lacks a competitive advantage. In actuality, such a company will compete at a disadvantage given that the industry's "cost leaders," "differentiators," and "focusers" will be better positioned to compete.

These general approaches are not always complementary to one another. A company may not succeed in gaining any benefit at all if it makes every effort to gain an advantage. For instance, if a company distinguishes itself by offering products of extremely high quality, it runs the danger of eroding that quality if it aspires to become the lowest cost provider. Even if the quality was unaffected, the company would run the danger of giving off a cloudy impression. Michael Porter claimed that a corporation should only choose one of these three generic strategies in order to achieve long-term success. Otherwise, the company will be "stuck in the middle" and fail to gain a competitive advantage if it employs more than one generic strategy.

- According to Porter, businesses that are successful at pursuing numerous strategies frequently do so by setting up distinct business units for each plan. A firm is less likely to get "caught in the middle" by dividing the strategies into different units with distinct policies and even distinct cultures.

6.11 SUMMARY

The term "competitive advantage" describes the qualities that provide an organization the edge over its rivals. The phrase is frequently used in business, but it also refers to nations, organisations, and people. Companies can get a competitive edge when selling their goods or services by using cost leadership, differentiation, and focus.

To formulate an effective strategy, it is crucial to understand the internal and external environment. It provides business opportunities to the firm and is a source of threats (which may impede the successful implementation of a strategy). The environment exerts a strong influence on firms' profitability. The Porter's 5-Forces Model and value chain analysis are important tools to study the impact of environment on the strategies of any company.

Gaining market share by cutting costs while preserving profitability is one benefit of achieving cost leadership for an organisation. Another benefit is maintaining average prices while raising profits. All of this is accomplished by bringing costs down to a level that is lower than those of the organization's rivals.

6.12 QUESTIONS

1. Discuss Porter 5 Forces's Model

2. Examine the Role of Value Chain Analysis in Business.

3. Explain various Porter's Generic Strategies.

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7

STRATEGIC COMPETENCE AND CAPABILITY ANALYSIS

Unit Structure :

7.0 OBJECTIVES

- Understand the concept of internal analysis and its contribution to strategy formulation;
- Understand concept of core competence and guidelines to assess what resources and abilities constitute core competency of an organization;
- Examine type of resources which organizations possess and their strategic importance;
- Understand the concept of value chain framework

7.1 INTRODUCTION

Unlike earlier times, today's commercial competition is fierce and well-informed. In light of this, Henry Ford's maxim: "You can have any colour as long as it's black" is no longer a practical way to satisfy customer demands. Companies now need something unique to compete in the tough market competition. The market is very sophisticated and there is stagnation to growth and development. So when we define what is new for a company or how a company excels, we define competencies. Competence is a group of observable characteristics and abilities that facilitate and increase the effectiveness of work performance. Despite the similarities, competencies and talents are not the same. Competencies, such as knowledge, skills, and collaborative abilities, are attributes that a person naturally possesses as opposed to learned skills.

The concept of core competencies was developed in the field of management. C. K. Prahalad and Gary Hamel introduced the concept in a 1990 Harvard Business Review article, "The Core Competence of the Corporation." They wrote that a core competency is "an area of specialized expertise that results from the harmonization of complex streams of technology and work activities." As an example, they cited Honda's engine expertise, which has enabled it to develop a number of well-regarded products, including lawnmowers, snow blowers and automobiles. When determining a company's core competencies, identify the core skills, capabilities, knowledge, experience, technology, or process that enable the company to deliver its unique set of products or services. High-performing companies develop new core competencies and expand their existing ones to enter new and future markets. At this level of operation, the company recognizes the needs and wants of customers in new and future markets and develops the competencies necessary to fulfil those needs and wants.

Any business differentiates itself from its competitors by specializing in a specific set of capabilities, also called "core competencies." Knowledge is power in today's competitive world and having knowledge that others do not would undoubtedly give you an upper hand.

As a result, core competence is considered one of the most important assets a company can have. Despite the fact that it is one of the most important elements, experts in the field have not agreed on the definition of a core competence. However, if we need to define core competencies, we can because core competencies are distinct advantages compared to competing businesses in the sector and serve as a cornerstone for delivering added value.

The relationship between corporate strategies, core competencies, and competitive advantage is that core competencies shape corporate strategies that lead to competitive advantage and superior profitability. However, it is also necessary to take into account that the strategies used by the company can either create new resources and capabilities or strengthen the existing resources and capabilities of the company, thereby enhancing the distinctive competencies of the company. Building core competencies rather than vertical integration is more important and required for success in the emerging global market. In order to be competitive, an organization needs not only tangible resources, but also intangible resources, such as core competencies, which are difficult and challenging to achieve. It is essential to manage and improve competencies in response to future changes in the industry. For example, Microsoft has expertise in many IT-based innovations where, for various reasons, it is difficult for competitors to replicate or compete with Microsoft's core competencies.

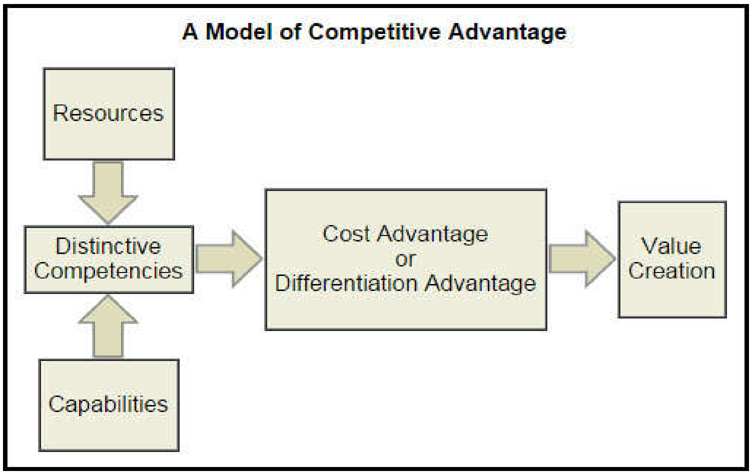


Fig 7.1 A Model of competitive advantage

7.2 CORE COMPETENCY

The resources and skills that make up a company's competitive advantages are its core competencies. According to contemporary management philosophy, a company must identify, develop, and capitalize on its core strengths in order to outperform the competition.The core competencies of an organization—also referred to as core capabilities or distinctive competencies explain what it is capable of doing better than any other business and why. These capabilities offer a solid base from which the company can give value to stakeholders and customers, grasp new opportunities, and expand. They distinguish the business from its rivals and support the development of a persistent competitive advantage in the market or industry.

The 1990 Harvard Business Review article "The Core Competence of the Corporation" is when the relatively new management concept of core competency first appeared.

Three requirements are discussed in the essay by C.K. Prahalad and Gary Hamel for a company activity to qualify as a core competency:

- The action must offer the consumer higher value or advantages.
- It should be challenging for a rival to copy or imitate it.
- It should be rare.

Core Competencies in Business

A company can decide to be excellent at operations in a variety of ways. The following are typical core competencies in business:

1. **Greatest Quality Products** - The company's goods are the most reliable, long-lasting, and durable due to this core competency. The

business most likely made investments in the most effective quality control procedures, technically skilled personnel, and premium raw materials.

2. **Most Innovative Technology-** Because of this key competency, the business dominates its industry and sector. The organization is likely to have made significant financial investments in R&D, possess numerous patents, and hire professionals in their respective industries.

3. **Best Customer Service-** Customers benefit greatly from this fundamental capability both during and after their purchase. The business probably made investments in employee training, a sizable staff of customer support representatives, and procedures for handling exceptions or problems as they arise.

4. **Largest Buying Power-**This core skill makes use of a company's scale economies. This business probably made investments in mergers and acquisitions and developed close relations with suppliers to obtain advantageous terms or services.

5. **Strongest Company Culture-** This key competency enhances the company's workplace culture. By making significant investments in staff recognition, growth, or cooperative, enjoyable activities, the company hopes to draw the greatest talent.

6. **Fastest Production or Delivery-** The organization can produce or deliver goods the quickest due to its fundamental competency. The business probably made investments in networked software systems, production procedures, and distribution networks.

7. **Highest Degree of Flexibility**- This key ability enables the firm to quickly change course in response to opportunities or difficulties. The business probably made investments in agile software solutions or cross-training of staff members.

How to Identify Core Competencies :

While certain basic competencies emerge naturally, others need to be deliberately and intentionally developed over time. Here are some methods for organizations to determine what their core competencies are or could be, regardless of how long a firm has been around.

1. **Analyze the mission statement, values statement, or slogan of the business.**

If a company has devoted time and effort to create a brand, chances are good that it has also given some thought to what it wants to be known for. What a company wants to be or how it wants to be perceived by customers may be stated in its mission statement, value statement, or other branded content.

2. Compare the company to its competitors

A core competency is a distinct quality that is difficult for other businesses to imitate. Therefore, by considering how the company differs from other businesses, a company can determine its key competencies. This includes variations in goods, procedures, markets, delivery practices, costs, or employee populations.

3. Interview internal staff or major customers

A company's strengths (or flaws) may be known to various major stakeholders of the business. In some instances, the regular employees may be more aware of the company's strengths. Primary clients who have the most hands-on experience with the company's goods or services may also provide feedback.

4. Brainstorm what benefits the company provides customers

Core skills frequently go back to the goods or services that the business offers. For instance, is the product the best value, the easiest to use, or the highest quality? Customers who benefit from the company's products (pay the lowest prices, for example) can frequently be turned into a core competency.

5. Understand the processes required to make goods

A corporation should analyze the processes involved in producing the items in addition to the particular products. This comprises the work, resources, information, techniques, tools, or research that must be conducted beforehand.

6. Identify unique aspects of the company

If all else fails, it can be easiest to focus solely on the company's distinctive qualities. This may have to do with the company's past, particular perks it may provide employees, the sector it operates in, or what it hopes to accomplish in the world.

7.3 SYNERGY

In the context of strategic management, synergy refers to the additional advantages that result from complementary actions and resources that strengthen and magnify the effects of one another. This is due to the fact that these components work together to provide better outcomes than they could have independently.

Importance of Synergy in Strategic Management

The major significance of synergy in the discourse on strategic management is that it creates opportunities for exponential growth and an edge over competitors. Synergies are encouraged by strategic management theorists because they increase the value of a company's available resources and skills.

The phrase "the total is worth more than the sum of the individual pieces" is commonly used to describe this in texts on strategic management. In the context of mergers and acquisitions, synergy theory is equally crucial. This is due to the fact that such endeavors have numerous moving pieces. The end outcome is significantly stronger when these components work together in harmony.

Types of synergy in strategic management

1. **Strategic fit synergy**

One of the most significant synergies anticipated in mergers and acquisitions is this one. To create a synergy of strategy, the company that is being acquired or the organizations that are merging must be able to "fit" together. A situation where one business can strengthen the other through mutual synergies would be an ideal fit.

2. **Resource Synergy**

Companies achieve success in this situation when their resources and competencies are linked, either internally or with those of other businesses. Intangible resources like brand recognition and technology can be combined with tangible resources like machinery and plant to create resource synergy. A company alliance is better able to interconnect intangible resources like knowledge and human resources.

3. **Product Synergy**

When a company's product line—or the product lines of several companies within a group—complements one another. As a result, there is a synergy in product offerings that more effectively meets customers' general demands. Companies can keep customers inside their own sales funnel by expanding their product lines to satisfy end-to-end requirements.

4. **Process Synergy**

When value-addng activities from several businesses or business units are integrated and linked to improve or optimize performance, this occurs. This leads to operational efficiencies that are advantageous to both the performance of the individual entities and the whole group.

5. **Sequential synergy**

This is a particular kind of process synergy when one of the collaborating partners must finish a task or project before passing it to others. This is evident in the situation of businesses that engage joint venture partners for post-sale services.

6. **Financial synergy**

An important primary premise or justification for mergers and acquisitions is frequently financial synergy. Companies anticipate that by axing redundant personnel and divisions, they will be able to reduce their salary costs. At the management level, where the elimination of senior posts might result in considerable cost savings, this is especially to be expected.

7. Technology synergy

In today's corporate environment, which is constantly touched by cutting-edge technical breakthroughs, technology synergy is a crucial source of competitive advantage. Sharing valuable intellectual property, including patented technology, facilitates the development of products that outperform the competition. However, this is not restricted to just product technology. To increase operational efficiencies, it is possible to share even cutting-edge process capabilities.

8. Market synergy

When two businesses with diverse client bases and geographic scopes join or work together, one can benefit from having access to a wider consumer base or geographic scope. Each of them would earn more money as a result of this.

Benefits of Synergy in Business

- Opens the possibility of backward or forward integration.
- Helps achieve economies of scale.
- Enables low-cost strategies
- Cost savings
- Growth opportunities
- Increased bargaining position
- Better decision making

Disadvantages of synergy in business

- Difficulty in identifying and capitalizing on synergies
- Unpredictability in achieving the expected benefits
- Possibility of expected costs exceeding expected benefits
- Competition between players involved

7.4 VRIO ANALYSIS

VRIO is a business analysis framework that is integrated into a company's bigger strategic plan. The fundamental strategy process followed by any company starts with a vision statement and includes objectives, internal and external analysis, strategic decisions (both at the corporate and business levels), and strategic implementation.

Every business is designed to provide a certain benefit or resource to its target market. The VRIO framework is an internal examination that aids companies in discovering the benefits and assets that offer them a competitive edge.

The acronym for the many success metrics that apply to your organization is the VRIO framework. It includes **value, rarity, imitability, and organization.** These four areas serve as indicators of the distinctive worth and assets that make up your company, and a review of their data can show you what the long-term benefits are for your firm.

You can determine each of these factors for your company or the business model you're examining by using the VRIO framework. The basic goal of the VRIO framework is to recognize these components; after doing so, you can move on to ask more detailed questions to get additional information about them.

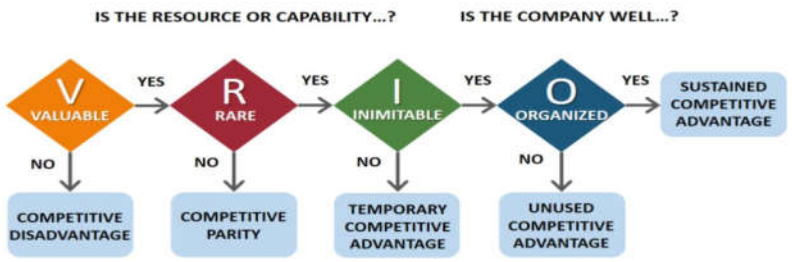
With this framework, identification is crucial because if you are unable to identify one of these variables, you should reconsider some of the earlier processes or go back and conduct an additional study on the main topic you are examining.

An organized method for analyzing an organization's internal environment realistically is the VRIO Framework. It belongs to a larger group of tools known as situational analysis tools. These tools are typically employed in the initial stages of creating and updating a strategic plan, but with proper use, they may also help establish the strategic direction and direct the implementation of a strategic plan.

All situational analysis techniques were created to assist organizations in more objectively assessing their strengths and shortcomings in comparison to those of other organizations, external factors, and/or internal resources. The leadership of the organization may create a true picture of the organization if honest assessments are made, and they can utilize this knowledge to create strategies to gradually build and strengthen competitive advantages.

The VRIO uses organizational characteristics to determine whether the business can utilize its resources for growth and competitiveness. This organization is closely related to non-substitutability, which was a feature of the previous business model and elaborated on special resources available to the company that provided it a competitive advantage.

To acquire an advantage over competitors in the market, Netflix usually uses the VRIO analysis to design competitive strategies based on the company's key strengths and resources.



Additionally, knowing whether a company has VRIO resources will probably help you understand how competitive they are. As shown in the image, a firm's performance in comparison to its industry peers is likely to change depending on how well its resources, skills, and eventually core competencies meet VRIO criteria

VRIO Framework Advantages & Limitations

When evaluating the competitive advantage your company has compared to the rest of the ecosystem, the VRIO framework is a highly useful tool. There are some other benefits that, in my opinion, deserve to be highlighted separately.

1. To emphasize your distinctive value, might assist in prioritizing the deployment of business resources.
2. It can draw attention to internal assets and benefits that would otherwise be difficult to see.
3. Helps to emphasize the most critical elements in establishing and keeping a competitive edge over other firms.
4. Allows you to recognize and rank your competitive advantage and offers a fantastic option to hold a virtual internal workshop.
5. Determine a competitive edge i.e it helps you to make use of previously hidden competitive advantages and turn them into a competitive edge.
6. Boost Performance, it might enable you to better allocate corporate resources and choose the course for the next initiatives. Increasing the effectiveness of your business model as a result.
7. Identify Threats and Opportunities, it can produce insights that help in detecting and assessing potential threats and opportunities to decide which ones need more attention.
8. Minimize operating costs, the relative importance feature allows managers to more clearly identify which jobs need to have priority over others, which can lower operating expenses.

The VRIO framework is a highly useful tool for many enterprises, but it might also be too limited to meet all of their requirements. Here are a few of the VRIO framework's drawbacks.

1. Your unique value and edge cannot be foreseen in the long run due to the competitive ecosystem's cyclical nature.
2. Only established organizations have true access.
3. Many of the major terminologies in the VRIO architecture may be difficult to describe for many smaller businesses.
4. only examines your resources and abilities, without considering external opportunities.
5. Market Demand isn't Considered, the model does not consider internal aspects, such as how market demand shifts and changes.
6. It can be time-consuming.
7. 7. It relies on a lot of subjective judgment.

VRIO Analysis of Amazon

The global leader in e-commerce, Amazon, has experienced significant growth over the past few years. Along with solid financial results and rapid market capitalization expansion, it has also experienced substantial growth in the cloud industry. The growth of Amazon from a small online bookseller to the biggest e-commerce company and a key participant in the cloud has been phenomenal. Today, it sells and sends millions of items every day to customers all over the world.

Amazon's market value has surpassed $1.3 trillion, and in addition to being a big rival for other online retailers like Walmart and Costco, it has also become a major player in the physical retail space.

Core Competency	Valuable	Rare	Inimitable	Organized	Implication
Brand Name	✓	✓	✓	✓	Competitive Advantage
Customer Experience	✓	✓		✓	Temporary Advantage
Research and Development	✓	✓	✓	✓	Competitive Advantage
Distribution Network	✓	✓	✓	✓	Competitive Advantage
Product Range	✓	✓	✓	✓	Competitive Advantage
Customer Base	✓	✓	✓	✓	Competitive Advantage
HRM	✓	✓	✓	✓	Competitive Advantage
Marketing	✓	✓		✓	Temporary Advantage
Customer Loyalty	✓	✓		✓	Temporary Advantage

AMAZON VRIO TABLE

7.5 RESOURCES

Resources are the property of the company. Resources for business can be characterized as tangible or intangible. Resources usually do not help a company gain a competitive advantage by themselves or in isolation. To build a capability, they must be combined or integrated with other company resources. These capabilities have the potential to develop into core competencies and provide a competitive advantage when recognized and developed.

Type of resources

• Tangible resources

A tangible asset is one that often has a physical form and a limited monetary value. The ability to exchange tangible assets for money is normally always possible, however market liquidity will fluctuate.

A firm's material resources can generally be classified into one of four categories:

- Financial resources such as borrowing capacity
- Organizational resources such as formal structure and reporting systems
- Physical resources such as location
- Technological resources such as patents and trademarks

• Intangible resources

Intangible resources are the intangible assets that managers and other employees produce, including brand names, company reputation and expertise that employees have acquired through experience, and the company's intellectual property, including its patents, copyrights, and trademarks.

A firm's intangible resources can be classified as:

- Human resources such as knowledge, trust and managerial skills
- Innovation resources such as scientific capabilities and innovation capacity
- Sources of reputation, such as the company's reputation with customers or suppliers

The term "resources" is used in so many different contexts in ordinary everyday language that resource-based theory can be confusing. It is important to distinguish strategic resources from other types of resources. For most people, money is a valuable resource. Material possessions such as a car and a house are also important resources. However, when analyzing organizations, common resources such as cash and vehicles are not considered strategic resources. Resources like cash and vehicles are of course valuable, but they can be easily acquired by competitors. Consequently, an organization cannot hope to maintain a competitive advantage based on shared resources. A strategic resource is an asset that is valuable, uncommon, difficult to duplicate, and indispensable. Apple has a wealth of strategic resources, including proprietary software and hardware platforms that have evolved from numerous innovations and improvements over literally decades; Apple store; many aspects of the overall shopping experience, including price; and innovative culture. For many years they were led by Steve Jobs, a charismatic and innovative thinker. With razor-thin profit margins, many computer companies struggled to turn a profit. Apple achieved years of record profits by using a different business model focused on their strategic resources. Apple was once the most valuable company in the world by stock market value. Competitors try to replicate resources that are difficult to imitate. Some resources can and are protected by various legal means, such as trademarks, patents, and copyrights, making it difficult for competitors to imitate them. Other resources are difficult to replicate because they evolve over time and reflect unique aspects of society.

Management of resources in the organization

In every organization there is a need to make better use of the available organizational resources. The term "organizational resource management" refers to the optimization of the use of assets, information, human and financial resources. Many organizations fall short of their goals due to lack of proper resource management.

Human Resources

Human resources are essential in every organization. As a result, employee motivation is critical to improving productivity and thus the organization. Employee motivation can be achieved by providing competitive salary, health benefits and bonuses. Employees are fundamentally attracted to a company that cares about their well-being as individuals. A positive employer-employee relationship leads to improved performance. In addition, proper resource planning in an organization contributes significantly to the productivity of human resources. Organizational resource planning ensures that employees are not overwhelmed by busy schedules and assigned responsibilities. As a result, investing in a policy framework that outlines a work plan for employees would alleviate their frustration.

- **Time resources**

The most important resources in modern times are time and human resources. There is never enough time. If mismanaged, it can have a detrimental effect on the productivity of both employers and employees in the workplace. Organizations should make sure that employees have the tools they need to complete their tasks as planned. A master calendar and ensuring that employees regularly measure their time are just two examples of how time can be managed in an organization. The time productivity of employees can be significantly affected by the culture of the organization. This should be driven by an ongoing, productive time management culture.

- **Financial resources**

An organization can create a proper strategy for managing its financial resources. For example, budgets are created, funding gaps are identified, and costs are tracked and recorded. As a result, the company can allocate resources to resilience-related tasks and use the rest to support revenue-generating activities.

- **Effective asset management**

This is another crucial element that affects how well a business works. Both physical and intellectual property belonging to an organization are considered assets. A business can maximize productivity by ensuring that its assets are properly cared for in terms of servicing and even licensing its intellectual property.

7.6 CAPABILITIES

Overview

The ability of a corporation to effectively employ its resources is referred to as its capability. These abilities are found in an organization's norms, practises, and routines, or in the way in which it controls its internal operations and takes decisions in order to accomplish organisational goals.

More generally, an organization's organisational structure, processes, control systems, and hiring practises produce its capabilities. They outline the manner in which decisions are made inside an organisation, the types of actions that are rewarded, and the cultural norms and values of the organisation.

When resources are consciously combined to complete a given task or set of activities, capabilities are created. These duties include everything from choosing the right human resources to promoting products and doing research and development. Capabilities are frequently centred on developing, carrying, and transferring information and knowledge through the firm's human capital, which is essential to the development of competitive advantages. From repeated encounters with clients and the knowledge gained about their needs, client-specific talents frequently emerge. As a result, skills frequently advance and change throughout time. The personnel of a company's unique talents, knowledge, and frequently their functional expertise form the basis of numerous competencies. Therefore, it is impossible to overestimate the importance of human capital in terms of creating and utilising talents and, ultimately, core competencies.

Global business leaders are increasingly of the opinion that human capital's knowledge is one of the most important organisational capabilities and may ultimately be the source of all competitive advantages, but businesses also need to be able to use their knowledge and transfer it among their business units. Given this reality, the challenge for the company is to establish a setting where people may combine their individual knowledge with that of others in the company so that the company as a whole has substantial organisational knowledge.

Capabilities are frequently established in particular functional areas (such as manufacturing, R&D, and marketing) or in a subset of a functional area, as shown (e.g., advertising). Organizational functions are grouped in Table 1, along with the skills that some organisations are regarded to have in terms of all or some of those functions.

Examples of a firm's capabilities

Table 1Examples of a firm's capabilities

Functional Areas	**Capabilities**	**Examples of firms**
Distribution	Effective use of logistics management techniques	Walmart
Human Resources	Motivating, empowering, and retaining employees	Microsoft
Management Information System	Effective and efficient control of inventories through point of-purchase data collection methods	Walmart

Marketing	Effective promotion of brand-name products Effective customer service Innovative merchandising	Procter & Gamble Polo Ralph Lauren Corp. McKinsey & Co. Nordstrom Inc.
Management	Ability to envision the future of clothing Effective organizational structure	Hugo Boss PepsiCo
Manufacturing	Design and production skills yielding reliable products Product and design quality Miniaturization of components and products	Komatsu Witt Gas Technology Sony
Research and Development	Innovative technology Development of sophisticated elevator control solutions Rap id transformation of technology into new products and processes Digital technology	Caterpillar Otis Elevator Co. Chaparral Steel

7.7 COMPETENCE V/S CAPABILITIES

The following are some distinctions between these two terms:

- Capabilities are a person's actual capacity to carry out a task or perform a job, whereas competencies are what an employee delivers in terms of knowledge, skills, and personal traits.
- To be able to fulfil a role, people frequently build their capabilities on the job, whereas they frequently acquire their competences through education and training.
- While competences are related to a certain role within an organisation, people frequently employ them in a variety of positions and settings.
- Employees can improve capabilities through training and education, whereas competencies are more frequently related to a person's personality and may be harder to change or grow.
- While capabilities mostly pertain to hard skills, competencies can incorporate both soft and hard skills.

Table 2 Difference between Capabilities and competence

Parameters of comparison	Capabilities	Competence
Definition	Possessing the ability to do the work	Having the skills and talents to do the work
Example	He will see how well he works on a job.	Decision-making, problem-solving, communication, leadership, and outcome skills
Origin	It is derived from the French word 'capabilite' and Latin word 'capabli'.	t is derived from the Latin word 'competentia'
Performance in workplace	You won't need to perform to a high quality because the emphasis is primarily on the ability component.	You must execute to a certain standard.
Knowledge	Theoretical	Knowledge required for the workplace

7.8 RESOURCE ANALYSIS

For an organisation to gain a competitive edge, scanning and assessing the external environment for opportunities and dangers is insufficient. In order to find internal strategic factors—those crucial strengths and weaknesses that are likely to influence whether the company can take advantage of opportunities while averting threats—strategic managers must also look within the organisation itself. The goal of this internal study, which is also known as organisational analysis, is to discover and develop an organization's resources.

According to the resource analysis approach to competitive advantage, a firm's internal resources matter more to developing and maintaining competitive advantage than external factors do. It is also known as 'Resource Based View of the firm (RBV)'.

According to the RBV view, internal resources—which may be divided into three broad categories: physical resources, human resources, and organisational resources—will largely decide how well an organisation performs. Organizational resources include firm structure, planning procedures, information systems, patents, trademarks, copyrights, databases, and other intellectual property. Physical resources include all machinery and equipment, location, technology, raw materials, and machines. Human resources include all employees, training, experience, intelligence, knowledge, skills, and abilities. According to RBV theory, a firm's resources are what truly enable it to take advantage of opportunities and counteract dangers.

The RBV's fundamental tenet is that while developing strategies that can result in long-term competitive advantage, a firm's internal resources should be taken into account first and foremost. Developing and utilising a firm's special resources and competencies, as well as continuously preserving and bolstering such resources, are all parts of strategic management, according to the RBV. According to the notion, it is advantageous for a company to adopt a strategy that is not currently being used by any rival firms. According to RBV theorists, a focal firm has a lasting competitive advantage when other firms are unable to imitate a certain strategy.

Basic principles

Not every resource can be a source of competitive advantage, according to the resource-based view. It must have a multitude of qualities, and they must all exist at the same time.

- Resources must be valuable. A resource is useful if it takes advantage of opportunities and/or mitigates dangers in a business's environment or, put another way, "enable[s] a firm to conceive of or implement strategies that improve its efficiency and effectiveness". Be aware that even while a resource might have been valuable in the past or might be valuable now, the environment may change in the future, making it less valuable due to new technology, changing client wants, or the entry of new competitors (Barney, 1995). A resource might even stop functioning properly. Resources could develop into "competency traps" or "core rigidities" (Levitt and March, 1988). (Leonard-Barton, 1992). As a result, resources that have been used well in the past but are now embedded in a system might become dysfunctional. They can prevent adaptability to environmental changes, stifle innovation, and encourage the continuance of subpar work practises. Because they see it as being a part of the definition of the term resource, authors typically do not describe this attribute individually. It is assumed that the resource is valued when they use the phrase.

- Resources must be rare, which means they cannot be held by a lot of businesses. A resource that is shared by many companies cannot provide a source of long-term competitive advantage, and resources that are identical cannot have "differential abilities" (Conner, 1994). Resources that have high value but are plentiful can only be used to create competitive parity (Barney, 1995). While some resources could be necessary, they are simply prerequisites; they qualify an order rather than determine the order's winner. This is not to say that these resources are unimportant; on the contrary, a company needs them to compete and thrive in the market. They are essential if it wants to be a participant in the sector. This implies that the only resources capable of having a positive impact are those that can be a source of competitive advantage.

- Resources must be imperfectly mobile, that is, difficult to exchange. If resources are easy to purchase and exchange, they cannot be a source of differentiation or a long-term competitive advantage.
- Resources must be imperfectly imitable, which means that other businesses cannot acquire them through copying. Once more, if an organization's competitors can copy a resource, the resource no longer has a "differential ability" (Conner, 1994), and the advantage of the company will be lost.
- There are no alternatives that are equally effective from a strategic standpoint. A resource cannot be a source of competitive advantage if it is easily replaced by another resource with the same strategic consequences.

Purpose of Resource Analysis :

The resource-based view of the firm's main value is that it inspires managers to look within for a competitive edge. The resource-based approach focuses on crucial sources of advantage that other strategic management viewpoints, like industrial organisation (IO) economics, have avoided, misunderstood, or failed to perceive in the past. The resource-based view recognises that since tangible resources are easily traded (equipment, software, and other items can be purchased off the shelf), competitive advantage is likely to come from intangible/idiosyncratic resources by focusing on resources that are rare, imperfectly imitable, and imperfectly mobile.

The way these resources are used is what is also likely to make a difference amongst firms. The understanding that people matter is a result of the realisation that intangible resources are the most probable source of competitive advantage. Physical resources are vital to organisational performance, even though they are unlikely to provide a long-term competitive advantage. This does not mean, however, that they are irrelevant. Resource Analysis also addresses the 7 Cs of strategic management: Context, Competence, Culture, Control, Competing, Change and Corporate strategy.

7.9 STRATEGIC OUTSOURCING

Outsourcing is a business strategy that involves selecting a different person or organization to carry out duties, provide services, or manage operations that would otherwise be handled by corporate workers in order to cut costs and improve efficiency. In other terms, outsourcing is the practise of having some job duties performed by an outside organisation. Contracting out refers to the process of outsourcing business functions. Strategic outsourcing differs from more limited and conventional service supply and employee employment in that it is results-based and accountable.

Strategic outsourcing is used by businesses to improve their business models and boost profitability. Strategic managers often start the process of strategic outsourcing by identifying the value-chain activities that underlie a business's competitive edge; these are obviously kept within the company to safeguard them from rivals. Managers systematically analyse the non-core functions after that to determine whether they may be carried out more effectively and efficiently by independent firms that specialise in those tasks. These businesses can carry out specific tasks more cheaply or differently because they specialise in doing them. These tasks are delegated to those experts if managers determine there are cost or differentiating advantages.

An outsourcing project aims to leverage external resources in a way that maximises the utilisation of the technologies and know-hows available on the market to increase a company's efficiency and competitiveness. A value chain is built as a result of a successful outsourcing project so that resources that are crucial from a strategic standpoint are available at every stage of internal business process. It’s critical to develop your strategic position before evaluating the viability of outsourcing specific value chain components.

Reasons for Outsourcing

- Lowering the cost of operations, labour, and overhead by giving more attention to the company's core strengths and outsourcing labor-intensive tasks to outside businesses, it can increase its competitive advantages.
- Releasing internal resources and putting them to use elsewhere
- Risk reduction through the sharing of risks with third parties and the development of fruitful partnerships
- Delegating difficult-to-manage and -control responsibilities to external organisations will increase flexibility and efficiency.

Types of Strategic Outsourcing

- **Professional outsourcing:** Specialized professional services like accounting, purchasing, and administration are included in this kind of strategic outsourcing. This is a more affordable option than subjecting your workers to a drawn-out and demanding training programme. This type of outsourcing is typical for big companies with a large production cycle. Very often, it makes no sense to organize certain stages within their own capacities. For example, automotive production is a complex process where many operations are outsourced to outside performers and producers.

- **IT-outsourcing**: The cost of hiring a qualified IT specialist is high, and not every business has the workload to support a full-time staff. Outsourcing becomes a viable option under such circumstances for both small businesses and established organisations. Businesses can tackle the issue of finding competent employees and save money by outsourcing their IT needs, as well as on the cost of equipment and software upgrades.

- **Business Process Outsourcing**:It suggests that internal business procedures will be handed off to an outside contractor. Companies started contracting with other businesses to handle tasks like accounting, market research, hiring employees, and other business operations at the end of the 1990s. This kind of outsourcing typically involves complex procedures. These are typically connected to the business's financial management or legal protection.

7.10 VALUE CHAIN ANALYSIS

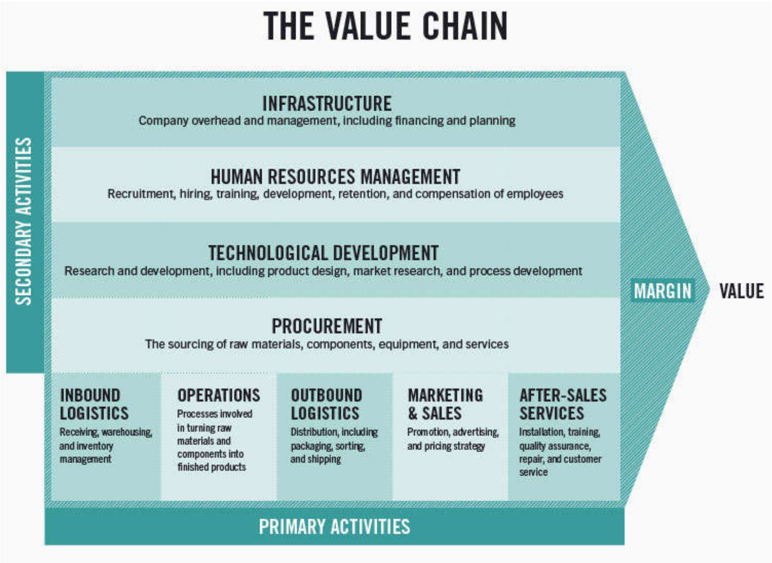
The term value chain refers to the various business activities and processes involved in creating a product or performing a service.A value chain can include every phase of the lifecycle of a good or service, from research and development through sales and everything in between. One can learn more about what goes into each transaction by taking stock of the processes that make up your company's value chain. Your business can be better positioned to share more value with customers while also snatching up a larger share if it maximizes the value created at each step along the supply chain. In a similar vein, being aware of how your company generates value can help you better comprehend its competitive edge. One is prompted to think about how each phase adds or subtracts value from your ultimate product or service when you conduct a value chain analysis. In turn, this can assist you in realizing a competitive advantage, such as:

- Lowering costs by improving the effectiveness of each value chain activity and lowering the costs as a result

- Product differentiation is the process of making a product stand out from the competition by devoting extra time and money to activities like research and development, design, or marketing.

Components of Value Chain

Porter's definition states that all of a company's value chain's activities may be divided into two groups that affect its margin: primary activities and support activities.



Primary activities are those that go directly into the creation of a product or the execution of a service, including:

- **Inbound logistics :** Activities related to receiving, warehousing, and inventory management of source materials and components
- **Operations :** Activities related to turning raw materials and components into a finished product
- **Outbound logistics :** Activities related to distribution, including packaging, sorting, and shipping
- **Marketing and sales :** Activities related to the marketing and sale of a product or service, including promotion, advertising, and pricing strategy
- **After-sales services :** Activities that take place after a sale has been finalized, including installation, training, quality assurance, repair, and customer service

  Secondary activities help primary activities become more efficient—effectively creating a competitive advantage—and are broken down into:

- **Procurement :** Activities related to the sourcing of raw materials, components, equipment, and services
- **Technological development :** Activities related to research and development, including product design, market research, and process development
- **Human resources management :** Activities related to the recruitment, hiring, training, development, retention, and compensation of employees
- **Infrastructure :** Activities related to the company's overhead and management, including financing and planning

Value Chain Vs Supply Chain

A supply chain and value chain are similar, but the value chain takes a few more things into consideration.

The supply chain generally looks at the parts or materials that go into a product, where a product is manufactured, and the transportation logistics of getting it from the factory to the store," said Jon Gold, vice president of supply chain and customs policy at the National Retail Federation.

The value chain "takes into consideration contributions such as product design, research and development, advertising, and other marketing," he said. "Even the work of lawyers, bankers, accountants and IT experts who help make a product possible is taken into consideration.

Benefits of Value Chain Analysis

Value chain analysis has a variety of advantages, including:

- Gain a ground-level understanding of the various processes your business uses and the purpose for each.
- Identify current or potential bottlenecks in workflow and other inefficiencies.
- Find tasks that can be automated, outsourced or redesigned.
- Reduce waste and eliminate or de-prioritize unproductive tasks

Value chain analysis provides insights that businesses may use to prioritize processes, improve workflow, and boost productivity. These, in turn, lower expenses and overhead, resulting in higher profit margins for the company.

7.11 SUMMARY

Resources, Capabilities, and Competencies Comprehending what creates a distinctive competency requires understanding the difference between resources and capabilities. Even if a company possesses valuable and firm-specific resources, it might not be able to develop a differentiating competency without the capacity to employ such resources efficiently. Additionally, it's critical to understand that a business might not require firm-specific and priceless resources to develop a differentiating capability if it contains qualities that none of its rivals do.

In an organization, it's crucial to take care of different resources as well as all the crucial components that have an impact on the firm's main business. When discussing sustainable business acumen, many factors must be taken into account. Due to carelessness with regard to essential components like customer service or human resources, the majority of the firm has experienced losses. Resource management and development are effective approaches for a business to create large amounts of income over the long term.

A technique to supply chain management called "strategic outsourcing" specifies information gathering and utilization so that a company can use its combined purchasing power to get the best prices in the market and match its buying strategy to corporate objectives.

Value chain analysis (VCA) is a procedure where a company pinpoints its primary and secondary operations that enhance the value of its finished good or service. In this situation, process analysis enables the discovery of actions that support cost-cutting or competitiveness-boosting measures.

7.12 QUESTIONS

- Define capabilities and discuss how they are developed
- Describe resources and capabilities as core competencies
- Distinguish elements of strategic capability in organizations: resources, competences, core competences and dynamic capabilities need to be discussed.

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8

RED-BLUE-PURPLE OCEAN STARTEGY

Unit Structure :

8.0 OBJECTIVES

- To know Strategic Marketing
- To understand various Global Marketing Strategies

8.1 INTRODUCTION

Organizational growth and sustainability depend heavily on strategic planning and decision-making. Strategic management employs a number of different sorts of strategies, including Red ocean, Blue ocean, Green ocean, Purple ocean, and Black ocean strategies. Top senior managers in firms employ these tactics to face or diverge from the competition as well as to ensure long-term organisational viability. According to organisational analysis, it is found that many firms adopt a new form of strategy that is derivable from the aforementioned five types of sustainability strategies.

Decision-making and strategic planning are crucial in corporate operations. A long-term plan for the entire organisation or for a single person to guarantee the effective completion of any action in a corporation is known as a strategy. The majority of large corporations engaged in domestic and international trade create corporate strategy at the executive level.

Corporate strategy is the positioning and linking of the company/organization to its environment in a way that will ensure its success going forward and protect it from surprises. The success of a company strategy is determined by a number of elements, including growth, stability, profitability, and efficiency. A firm can grow through expanding its markets, goods, services, scale, etc. Having the resources to support expansion, recognising the markets where development is worthwhile, and outperforming competitors in these markets are the cornerstones of effective growth plans.

Prior to a period of expansion, stability frequently entails a consolidation strategy for the organisation. Before continuing, the organisation must first develop clear policies and systems. Profit-seeking is a crucial business approach, especially in companies where shareholders wield significant power.

Efficiency looks at how effectively resources have been used to achieve organisational goals. It is critical for public sector service organisations to demonstrate effective use of taxpayer money. In addition to this, market leadership strategies seek to capture the global.

In addition to this, market leadership plans attempt to seize the international market. Because other businesses would by definition have a smaller market share and thus fewer prospects for economies of scale, the market leader is able to achieve significant cost advantages over competitors. Beyond all of these, surviving in a fiercely competitive corporate world is crucial. For most organisations, survival is paramount. They can only create new strategies by surviving.

8.2 TYPES OF STRATEGIES

In addition to the categories listed above, strategies of an organisation or person can be classified into the following categories:

1) The Red Ocean Strategy, a competitive strategy
2) The Blue Ocean Strategy, a monopoly tactic
3) The Green Ocean Strategy, a sustainable tactic
4) The Purple Ocean Strategy, a hybrid of Blue and Green
5) The One-Time Unethical Strategy survival called black ocean strategy and combined/white ocean strategies

Imagine the market as an ocean, with rival businesses acting like sharks battling it out for supremacy. The ocean turns scarlet from the bloodshed. Because of this, firms' competing tactics are referred to as "red ocean strategies". All of the current industries in the recognised market space are represented by red oceans. Industry borders are established and acknowledged in red oceans, and the game's rules of competition are widely known. Here, businesses strive to outperform their rivals in order to take a bigger piece of the market. Prospects for growth and profit are diminished as the area becomes more and more populated. Products become commodities, and as competition rises, the river becomes crimson.

Red ocean strategy helps a business compete in the current market, out perform its rivals, take advantage of current demand, make a value/cost trade-off, and align the entirety of its operations with its strategic decision of differentiation or low cost. Blue oceans represent all the industries that do not yet exist and the untapped, unpolluted market space. Demand is created rather than contested in blue oceans. There are many opportunities for quick, profitable expansion. Blue oceans can be produced in two different methods.

Companies can occasionally lead to whole new industries similar to how eBay handled the online auction sector. But most often, a startup that changes the parameters of an established industry creates a blue ocean from within a red ocean. The blue ocean approach helps to break the value/cost trade-off, establish uncontested market space, render the competition obsolete, generate and capture new demand, and align the entirety of a company's operations in pursuit of distinctiveness and low cost. The best aspects of Blue ocean and Red ocean tactics are combined in this hybrid mechanism, claims the second school of thinking.

S.No.	Type of Strategy	Details
1	Red Ocean Strategy	Red ocean strategy support stocompete in existing market space, beat the competition, exploit existing dem and, maket he value/ costtrade - off, align the whole system of a company's activities with its strategic choice of differentiationor lowcost.
2	Blue Ocean Strategy	Blue ocean strategy support stoc reateun contested market space, make the competition irrelevant, create and cap turenew demand, break the value/ cost trade-off, align the whole system of a company's activities in pursuit of differentiation and low cost.
3	Green Ocean Strategy	Green ocean strategy to support the impact of environmental foot prin to nhumanlives. From different unstructured documents like news papers, magazines, world wide web pages, it is revealed that auto mobile industry happens to be one of the largest contributors of environmental pollution throughout the world. India, as anemerging economy, has become alucrative market destination for auto mobiles.

4	Purple Ocean Strategy	A mix of Blueocean and Green ocean strategy is called Purple ocean strategy.
5	Black Ocean Strategy	Black ocean strategy is a kind of survival strategy to foresee the organizational problems and solve them successfully to continue in its business market by means of a kind of black magic may be legally or illegally, ethically or unethically.
	White Ocean Strategy(Dana Chanchaochai's Model)	White Ocean's concept is concerning about "social" more than "profit" that made WOS outstanding than the others oceans which is gaining reputation and profit from their customer by using any strategies to be apart or win the competition in market. The concept of WOS is focusing on People, Planet, Profit and Passion. Concerning in sociological and environment are most important in this ocean. Both WOS and Green ocean strategies have same objective of preserving Environment and hence society.
6	White Ocean (Proposed in this paper)	Mixture of redocean, blue ocean, green ocean and black ocean strategies for organizational survival, sustain ability and profit.
7	Ideal strategy	A planning and execution strategy which con firms the success soft he work in any Situational conditions and constraints. This strategy ensures the sustain ability of the organization with huge profit.

8.3 RED OCEAN STRATEGY

Today's businesses face intense industry competition as they fight to stay viable. Both businesses must compete on an equal footing. Making money is ultimately what matters. Red ocean strategy is one of the tactics companies employ to acquire a competitive edge. In a red ocean strategy, rivalry is frequently intense, as established companies compete to prosper in their respective industries.

An illustration of a red ocean business is the auto industry. Every business is engaged in a struggle to address the same issue or market need. It would be riskier for a new company, especially a start up, to survive in an environment that is very competitive. Indigo and SpiceJet are two examples of Indian businesses using the red strategy

Low-cost airlines that have attracted consumers but are always in rivalry with one another are offered; this is known as the "Red Ocean" strategy. On a global or national level, it is the principle of the strongest surviving.

Red Ocean Strategy's Methodology:

You must instigate a market disruption if you wish to enter a market that is heavily oriented toward a red ocean strategy. You can create a niche market for your offering by creating a novel or unique product or service. By creating a stir in the market, this will help you draw in the attention of most of your clients; it will then be up to them to support your brand.

Jio is a wonderful illustration of this. Offering free services when it initially entered the market sparked a commotion and upended the entire telecom industry.

The main objective of your brand should be to exceed the competition in a red ocean strategy in order to maximise value and financial gain by outperforming the competition and luring customers to your brand.

One of the best ways to succeed in such a market is to offer your clients a lot of value. Even if there may be competition between rival businesses, the customers remain the major focus. They ought to obtain the most value for their money, helping the business capture more than 60% of the market.

8.4 BLUE OCEAN STRATEGY

In contrast, BLUE OCEANS represent all the sectors that do not yet exist and the untapped, unaffected market space. Demand is created rather than contested in blue oceans. There are many opportunities for quick, profitable expansion.

Competition is unimportant in blue oceans since the rules of the game are still being established. An analogy used to depict the greater and deeper potential to be discovered in untapped market space is a "blue ocean." In terms of lucrative growth, a blue ocean is large, deep, and strong.

Why Red and Blue? What Do These Colors Mean?

The Red Ocean Strategy uses the colour Red to symbolise how fierce the rivalry is, while the colour Blue stands for depth, possibility, and the potential to reach an untapped market. Competition will emerge fast to take a piece of that market, even if you develop a Blue Ocean Strategy. Fighting fiercely for that pie is at the heart of Red Ocean Strategies used by food companies like Uber Eats, Zomato, and Swiggy, among others.So what is the winning strategy?

How a Blue Ocean Works

Companies compete with one another for every available market share share in a mature industry. The rivalry is frequently so fierce that some businesses cannot survive. This style of industry depicts a saturated market that has been ravaged by competition as a red ocean. 1

The opposite is true for blue waters. In search of a market with little or no competition, many businesses decide to innovate or grow. Entrepreneurs are very interested in blue ocean markets.

In general, blue ocean marketplaces feature a number of qualities that entrepreneurs and innovators adore. A market with a clear blue ocean has no rivals. First-mover advantages, cost benefits in marketing with no competition, the freedom to establish pricing without being constrained by competitors, and the flexibility to

What Are the Steps to Implement a Blue Ocean Strategy?

Let's now discuss the use of the blue ocean strategy using the well-known ERRC framework as an example, as described in the book by Chan Kim and Mauborgne. Along with some preparation, there are four basic steps.

1. Examine industry trends. To find a new trend or demand, you should first do a thorough examination of the market. Check to see if clients are happy with the services they have already received.
2. Identify the issue. Consider what you can do to alleviate this consumer suffering and make them happier with your offer as soon as you discover something that isn't as wonderful as it could be. Instead than focusing on what your rivals have done wrong, consider how you might improve the lives of your customers.

8.5 BLUE OCEAN VS. RED OCEAN STRATEGIES

A red ocean, as opposed to a blue ocean, refers to an environment of fierce competition among numerous industrial competitors. Due to the abundance of competitors in the market, new businesses must contend vehemently for a piece of any earnings.

Businesses operating in a "red ocean" will adopt quite different business tactics from those operating in an exclusive market. Red ocean businesses focus on luring existing customers in through marketing, lower prices, or better products rather than attempting to generate demand. Consider the market for auto insurance as an illustration. The majority of insurers sell almost identical products and compete for customers by providing more alluring terms than their rivals.

RED OCEAN STRATEGY	BLUE OCEAN STRATEGY
Compete in **existing** market space	Create **uncontested** market space
Beat the competition	Make the competition **irrelevant**
Exploit **existing** demand	Create and capture **new** demand
Make the value-cost trade-off	**Break** the value-cost trade-off
Align the whole system of a firm's activities with its **strategic choice of differentiation or low cost**	Align the whole system of a firm's activities in **pursuit of differentiation and low cost**

8.6 PROS AND CONS OF THE BLUE OCEAN STRATEGY

Pros of the blue ocean strategy

These are some of the benefits of the blue ocean strategy :

- You stay away from crowded markets. Your small business faces competition from major competitors in your industry, including megacorporations. However, if you use the blue ocean technique, your product won't be exactly like any other while still meeting client wants and being offered at competitive pricing. The influential big names in your field won't pose a threat to you in the end.

- It offers the possibility of growth. Creating new value for your customers by balancing product or service innovation with cost and usefulness is known as the "blue ocean" strategy. Word-of-mouth marketing has the potential to boost demand as more people buy what you're selling.

- You'll converse with clients at their level. Blue ocean thinking places equal weight on value and affordability. Your ideas will always be released at a price point that your target market can afford. This strategy lowers

Cons of the blue ocean strategy

These are some downsides of the blue ocean strategy:

- It might be overly ambitious. According to the blue ocean strategy's reasoning, any company can develop a competitively-free, reasonably priced product or service. Being thus inventive isn't always simple, though. Even if you really have a brilliant idea, practical limitations could prevent you from implementing it.

It might be too dangerous. Perhaps you've discovered a cost-effective technique to create something wholly original. You may have reached this decision-making point because customers in your small business specialty would buy from you. But what if these are the only customers that are interested in your products? If so, the blue ocean strategy might unnecessarily limit you.

8.7 EXAMPLES OF BLUE OCEAN STRATEGY

The blue ocean strategy might sound new, but businesses have been successfully using it for quite some time – even before Kim and Mauborgne named the approach. Here are two examples.

Netflix

Twice, Netflix has successfully used the blue ocean strategy. In 1997, Reed Hastings and Marc Randolph established the firm as the world's first mail-order DVD rental service. It goes without saying that Netflix eventually popularised the streaming TV model that permeates almost every facet of contemporary life. In both instances, the plan worked and elevated Netflix to the status of Amazon or Walmart among household names.

Apple Inc.

Apple Inc. found a blue ocean with its iTunes music download service. While billions of music files were being downloaded each month illegally, Apple created the first legal format for downloading music in 2003.

It was easy to use, providing users with the ability to buy individual songs at a reasonable price. Apple won over millions of music listeners who had been pirating music by offering higher-quality sound along with search and navigation functions. Apple made iTunes a win-win-win for the music producers, music listeners, and Apple by creating a new stream of revenue from a new market while providing more convenient access to music.

8.8 PURPLE OCEAN STRATEGY

The phrase "Purple Ocean" describes businesses with mature products (goods and/or services) that create additional distribution channels for products unrelated to their core business in order to assure their long-term survival and sustainability. These companies are "fighting" their immediate rivals for market share on their core products in "red oceans," but they lack the adaptability to reallocate resources and concentrate on developing cutting-edge goods and services.

According to Boni and Joseph, businesses implementing Purple Ocean strategies are those that take advantage of possibilities to develop new product lines in current markets that are unrelated to their main markets.

8.9 SUMMARY

- Strategic marketing analyses various factors such as organization performance, competition environment, competitors and demographic behavior of customers to achieve organizational goals.
- Blue ocean strategy is the simultaneous pursuit of differentiation and low cost to open up a new market space and create new demand. It is about creating and capturing uncontested market space, thereby making the competition irrelevant.
- A red ocean strategy involves competing in industries that are currently existing. This often requires overcoming an intense level of competition and may often involve the commoditization of the industry where companies are competing mainly on price.

8.10 QUESTIONS

1. What are the focus are of Blue ocean strategy

(i) simultaneous pursuit of differentiation

(ii) low cost to open up a new market space

(iii) create new demand

(iv) All the above

2. What are the key goals of Red Ocean Strategy?

(i) beat the competition and exploit existing demand.

(ii) market-creating innovation.

(iii) higher value at lower cost.

(iv) All the above

3. Discuss difference between Red and Blue Ocean strategy.

Answers: 1. (iv), 2. (i)

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9

GLOBAL COMPETITION AND GLOBAL STRATEGY

Unit Structure

9.0 OBJECTIVES

- Define global strategy and understand why a firm would want to expand internationally
- Vehicles for international expansion
- Understanding organizational growth options

9.1 INTRODUCTION

With the removal of economic obstacles, globalization has gained traction in recent years. The ability to tap into global talents and capabilities for an appropriate competitive advantage is made possible by an organization's expansion into overseas markets. This chapter looks at a few international business strategies and tactics.

Market globalization is the process of combining and integrating many global marketplaces into one market. This approach entails identifying some shared norms, values, preferences, tastes, and conveniences and gradually encourages a cultural shift toward the adoption of a standard good or service.

Global Competition and Ways to Ensure Business Competitiveness

Competition in international relations is increasing and taking on more challenging shapes in the age of globalization and monopolistic dominance. Global rivalry develops into a type of international competition when an enterprise's standing in one nation influences its competitive standing in other nations. Companies are thus battling with one another for global supremacy. As a result of this conflict, the economy is becoming more international. By making the company more competitive, the positions of the company are maintained and strengthened. A company's level of economic security should ensure the preservation and strengthening of its positions in the domestic and international markets in the face of global instability. All of this enables the defense against new dangers, adaptation to difficulties, and sustainable development. The more developed the factors that affect a company's competitiveness are, the more solid and viable it is in the face of internal and external threats that are continually emerging. Competitors, who are the most significant element of every company's external microenvironment, should also not be overlooked. Because of this, a company's performance in the current market greatly depends on how competitive its products, goods, or services are and what steps the company takes to maintain it in the face of shifting market conditions. The business considers the strategies of competitors as well as the needs of its customers when planning its actions. The firm's plan for the development of the market as well as the overall strategy of the enterprise are mostly established based on the facts learned while researching the circumstances of competition.

To develop a global market, a company doesn't always need to be very big. Even tiny businesses can benefit from this expanding phenomenon. Even when markets have become more globalized, national market distinctions remain. Because of these variations, the businesses must develop unique strategies for every market.

Reasons for Globalization

Massive industrialization made mass production possible. The corporations decided to pursue overseas markets since they discovered that the home market was far too tiny to support the production output.

- Companies diversify their portfolio of nations to lower risk.
- Companies expand into international markets to boost earnings and accomplish objectives.
- Companies were compelled to expand their markets internationally by the unfavourable business climate in their own nations.
- to provide the demand for their goods in international markets.
- The inability of domestic businesses to meet client demands prompted foreign nations to advertise their goods.

Pros of Globalization of Markets

- Increase in the amount of capital employed and unrestricted capital flow.
- Unrestricted transfer of technology from developed to poorer nations.
- Distributed production facilities all across the world.
- Balanced growth of the world's economy.
- Growth in output production and consumption.
- Commodities with excellent quality yet at lower prices.
- Cultural interaction and the need for a range of goods in international markets.
- Increased income and employment opportunities.
- Balanced national economic well-being and prosperity.

Cons of Globalization of Markets

- Local (small) enterprises are wiped out by globalization.
- human resource exploitation in multinational corporations.
- in developing nations results in underemployment and unemployment.
- Domestic items are less in demand.
- imbalance in the distribution of wealth.
- At risk is national sovereignty.
- may pave the way for future colonization in developing nations.

9.2 CROSS-COUNTRY DIFFERENCES IN CULTURE, DEMOGRAPHY AND MARKET CONDITIONS

Small businesses are currently competing for global markets where there is a wide range of market conditions. It presents a significantly greater difficulty than simply competing at home.

Small businesses initially approach international markets to gauge their capacity to adapt to cross-country variations in culture, demography, and market conditions. It makes it more difficult to compete against other players. The most tough and difficult challenge for small businesses accessing international markets is this. To balance pressures and respond appropriately to local circumstances in each country is one goal. Additionally, there is a variety of pressure to reduce the expenses and prices of the goods and services provided.

The Potential for Locational Advantages Stemming from Country to Country

The ability for a company to obtain a competitive edge also depends on the foreign city in which it chooses to locate its production centre or any other infrastructure. This is a really important area of worry. Rivals might have more affordable locations, which is a significant strategic problem.

Fluctuating Exchange Rate

The foreign city in which a firm decides to locate its production centre or any other infrastructure will also have an impact on its potential to gain a competitive edge. This is a very significant source of concern. There may be competitors with more affordable locations, which is a serious strategic issue.

Domestic Government Restrictions and Requirements

The domestic government enacts a variety of policies that have an impact on how businesses operate and how other nations conduct themselves on their markets. The domestic government may impose tariffs or import quotas, place conditions and restrictions on export to ensure adequate local suppliers, and regulate the prices of both imported and locally produced goods. It may also set local content requirements for outputs made within its borders by foreign-based companies. In addition, rules and regulations governing product certification and technical requirements may apply to outsiders. Some governments extend aid to foreign businesses in the form of subsidies, preferential market access, and technical support in an effort to attract new factories and jobs.

9.3 MULTI-COUNTRY COMPETITION OR GLOBAL COMPETITION

When proficiency in one national market is unrelated to proficiency in another national market, multi-country or multi-domestic competitions occur. A collection of national marketplaces is all that exists when we talk about an "international market."

When national market competition is closely linked to creating a genuinely global market where the top competitors face off against each other in many nations, there is an international competition.

Rival businesses strive for national leadership in multi-country competition. Competitive industries on a global scale pit rival businesses against one another for domination.

A company's business plan needs to alter from one nation to the next in order for it to be successful in new markets. The commercial and competitive climate must be considered.

9.4 STRATEGIC CHOICES FOR COMPETING IN FOREIGN MARKETS

Options for a corporation entering a foreign market and competing there if it decides to branch out outside its native market and compete abroad or globally. The following is a list of crucial strategic options for a business competing in an international market:

- Export strategies
- Licensing strategies
- Franchising strategies
- A multi-country strategy vs. global strategy
- Pursuing competitive advantage by competing in a multinational
- Strategic alliances and joint ventures

Export Strategy

The business produces goods and services for export to overseas markets. It's a great first approach to seeking foreign sales. The risk and capital requirements are reduced. By contracting with foreign wholesalers that have experience in importing to handle the whole distribution and marketing of outputs and marketing function in their countries and regions of the world, a manufacturer can limit its involvement in overseas markets with an export strategy. If it offers the Company additional benefits and must exert dominance over the control of these functions. A manufacturer may choose to set up shop in part or all of the desired international markets in this scenario.

The relative cost competitiveness of a production base in the home country determines whether an export strategy can be pursued successfully over the long term. In some nations, businesses increase their sales economies by consolidating manufacturing among a number of enormous plants, whose output capacity exceeds the market need in every nation. When domestic production prices are significantly higher than those in other nations where competitors have factories or when shipping expenses are quite high, businesses may choose to pursue an export strategy. Exporters' success will be constrained if they can't keep their production and shipping costs competitive with rivals who have low-cost factories nearby end-user markets.

Licensing Strategy

The licensing model poses no financial risk to the licensor, whether it is allowing foreign businesses to utilize the company's technology or granting authorization to create and market the company's goods and services. The granting of licenses is politically and economically unstable. The company assumes no risk by licensing the technology or the production rights to a foreign-based company. The licensee can earn money from royalties while being shielded from the risk of a defective product.

Pros of Licensing Strategy

- The licensor faces less financial risk while using the licensing model.
- Without much work on his part, the licenser can research the international market.
- With only a small investment in R&D, the licensee receives all the advantages.
- Failure of the product carries no risk for the licensee.

Cons of the Licensing Strategy

- The market potential for both the licensee and the licenser are decreased by licensing agreements.
- Both parties are accountable for preserving the product's quality and for its promotion. Thus, the acts of one party may have an impact on the other.

- Inconvenient and expensive litigation may arise, harming both the parties and the market.
- Despite the efficiency of the agreement, there is a chance for miscommunication between the parties.
- The leaking of the licensor's trade secrets is an issue.
- The licensee could establish a good reputation.
- The licensee may sell the good outside of the specified market area and/or beyond the contract's expiration.

Franchising Strategies

The company that entered the worldwide market and increased its product and service offerings is better equipped for franchising methods. A type of licensing is franchising. Compared to licensing, franchising has more control over its franchisees. In franchising, a different company known as the franchisee runs the business under the name of another corporation known as the franchiser. The franchisee is required to pay fees to the franchisor under this agreement. The following services are offered to the franchisee by the franchisor:

- Trade mark
- Operating Systems
- Continuous support systems like advertisement, Human-Resource development, reservation services and quality assurance programmes.
- Franchising Agreements

Important clauses like those listed below should be included in the franchise agreement:

- A set sum plus a royalty based on sales must be paid by the franchisee to the franchisor. The franchisee must consent to abide by the franchisor's rules about things like appearance, financial reporting, operational procedures, and customer service, among others.
- Franchiser assists the franchisee in developing the facilities for production, services, providing expertise, advertising, and corporate image, among other things.
- To accommodate local preferences and tastes, the franchisor gives the franchisee some leeway.
- For instance, major IT companies have franchised computer training facilities all over India.

Pros of Franchising

- Franchisees can easily and affordably enter international markets.
- Franchisees can obtain free information about marketplaces, many cultural facets of the new market, and the general atmosphere of the host city or country.
- Franchiser gains more knowledge from the franchisees' experiences than he could have gained from the market in his home nation.
- Due to his choice of an established and tested operating system and product, the franchisee may launch a firm early and with little risk.

- The advantages of research and development are affordably available to franchisees.
- Franchisees are not exposed to the risk of defective products.

Cons of Franchising

- International franchising can become more complicated than domestic franchising.
- It is difficult to have full control over an international franchisee.
- Franchising agents reduce the market opportunities for both the franchiser and franchisee.
- Both parties have equal responsibility of maintaining the quality of the product and also in promotion of the product.
- There is scope for misunderstanding between the parties. There can be leakage of trade techniques and other secrets.

Strategic Alliance

- Under strategic alliance agreement for cooperation is entered between two or more independent firms to work together towards common goals. Strategic alliance can help a company to develop more effective process, expand into a new market or develop an advantage over a competitor. Strategic alliance can take several forms such as cross-licensing of proprietary information, production sharing, joint R&D and marketing of each other's products using existing distribution channels. Strategic alliance is one of the means of expanding internationally.

- The basis of strategic alliance is cooperation among firms. Strategic alliance must clearly decide on
  (a) selection of partners
  (b) deciding on ownership forms and (c) evaluating joint management concerns.
  Strictly, strategic alliance is used as a market entry strategy. It is also used as a competitive strategy. Automobile industry has seen many alliances for oversee operations. The Isuzu Motors Ltd. and Fuji Heavy Industries Lid. Of Japan have established a joint plant in the US which can build cars for Fuji and trucks for lsuzu. Tata Tea has alliance with Tetley, to utilize expertise of Tetley to market tea abroad. It thus becomes clear that strategic alliance is voluntary, formal arrangement between two or more parties to pool resources to achieve a set of common objectives that meet critical needs while remaining independent entities. Strategic alliance involves exchange, sharing and co-development of products, services, procedure and processes. Strategic alliance can terminate when it objectives have been met or cannot be met.

- Types of Strategic Alliance: 1. Comprehensive alliance: Comprehensive alliance involves an agreement by participants to perform all the relevant functions right from production to marketing.

Such alliance is the result of joint ventures. MNCs are known to follow this form of alliance. Comprehensive alliance is complex in nature because a large number of activities have to be undertaken. Some of the common examples include Nestle, Philips, Proctor and Gamble, GE, General Mills and so on. 2. Functional alliance: For each functional area of business there is possibility of entering into strategic alliance. As the alliance refers to one functional area therefore its scope is narrow. In order to execute functional alliance, there is no need to have joint venture.

- Under functional alliance, following are the important ones:
- Production alliance: Two or more firms manufacture products or provide services in a common or shared facility e.g., automobile and computer industry.
- Marketing alliance: Two or more firms share marketing expertise or services. Quite likely, one partner enters the market where the other partner already has its presence. The established firm helps the newcomer in exchange for a fee.
- Financial alliance: Every alliance partner is interested to cut down its financial risks associated with the project. As a practice, alliance partners contribute finances towards the projects. This contribution is shared or a partner provides bulk of the amount while the other partner provides expertise.
- R&D alliance: Ordinarily, partners undertake joint research to develop new products or services. New technology has limited life span and R&D costs have increased. R&D takes the form of cross-licensing.
- Technology development alliance: In this alliance, economy and profits are two main elements. Different partners come alliance involves together to cut down costs and reduce risks related to all the relevant technology development. Business partners pool R&D efforts by exchanging information and ideas.
- Operations and logistics alliance: Logistic alliance is a group of trading experts who work together to help companies to manage and deliver their products. The products are transported over vast distances to the distributors. It is a complicated issue to establish shipping methods and supply chain. As a way out, companies use logistics alliance to provide help in establishing supply chains for the company.
- Marketing, sales and service alliance: Business partners enter into an understanding to use the marketing, sales and service set up of one another. It is very popular in overseas marketing. The objective is to survive in foreign markets and face competition. Under sales alliance, a company shares its customers with another business in exchange for a commission.

- Single country or multi-country alliance: When alliance develops between business partners the main objective is to survive and earn good profits. Such an alliance may be restricted to one country or it may extend to more than one country. Single country alliance is popular in domestic market. In export market, multi-country alliance is more common e.g., a foreign buyer having offices in different welcome proposal where he can make full use of his infrastructure

Joint Venture:
A joint venture is a partnership between two or more parties to establish a single company or project for profit while sharing the risks involved with its growth. The joint venture must include at least two natural persons or entities as partners. Although some legal characteristics of a joint venture (such as income tax status) may be governed by partnership rules, a joint venture is not a partnership or a corporation. Joint ventures are frequently employed to obtain access to international markets. Foreign entities create joint ventures with domestic firms that are already present in the markets into which the foreign entities wish to enter. The foreign corporation. For example, may offer new technology or business methods to the joint venture, whereas the domestic firm already has commercial contacts and the necessary governmental documentation within the nation, in addition to being established in the domestic sector.

Advantages of Joint Venture

1. Shared investment Depending on the conditions of the partnership agreement, each participant in the venture provides a set amount of initial cash to the project, reducing some of the financial load put on each firm.

2. Shared expenses Each party shares a shared pool of resources, which can reduce total expenses.

3. Technical expertise and know-how Each company partner frequently provides particular skills and information, which helps the joint venture be strong enough to develop aggressively in a certain path.

4. New market penetration A joint venture allows corporations to enter a new market rapidly since the local player handles the required legislation and logistics. A common joint venture agreement is one between a corporation located in country "A" and a company headquartered in country "B" that wishes to get access to the nation "A" markets. The joint venture allows the firms to grow their product variety and market size, and the nation B company has simple access to the market in country A.

5. New revenue streams Small firms sometimes confront limited resources and money for expansion efforts. The small firm can develop more swiftly by forming a joint venture with a larger company that has more financial resources. Larger and/or more diverse revenue streams may be provided by the larger company's wide distribution networks to the smaller organization.

6. Intellectual property gains It is generally challenging for corporations to develop advanced technologies in-house. As a result, organizations frequently form joint ventures with technology-rich enterprises to acquire access to such assets without having to invest the time and money developing the assets in-house. A major corporation with strong access to funding may provide operating capital to a joint venture with a firm that has limited financial capabilities but may supply important technologies for product or service development.

i. Additional Advantages of joint venture strategy are below:
   a. Joint ventures are useful to developing countries for improving industrial growth through the inflow of foreign capital, machinery and technology
   b. Foreign firms participating in joint ventures benefit from the foreign exchange earned through dividends.
   c. Joint ventures promote exports and reduce imports
ii. Business risks are shared between the participants.
iii. Joint ventures facilitate the import of technology and technical services to countries with limited
   a. Joint ventures help to bring together varied resources like human technical, marketing, financial, etc.
   b. They allow companies to enter into new geographic markets or gain new technological knowledge.
   c. Joint ventures end in a sale by one partner to the other.

9.5 INTERNATIONAL STRATEGY VS. GLOBAL STRATEGY

Many marketers confuse international and global strategy. However, they are not the same. An international strategy entails techniques used in different nations that are distinctive to the markets of those countries, but a global strategy is a notion that entails putting together strategies that are unique to the global market. International strategy refers to the strategies made by strategic managers to guide business transactions involving companies from several nations. In basic terms, it is the process through which a company decides on purchasing and deploying resources to attain worldwide aims and objectives.It is a company's globalization strategy that connects it to the rest of the globe. In other terms, a global strategy refers to an organization's goals to expand beyond its local or domestic borders. Its specific goal is to increase foreign sales of goods or services.

Even though these two terms sometimes sound similar, these two phrases have distinct meanings. Let us look at some major distinctions between the two terminologies that show their disparities:

a. Based on Service or Product offering

A corporation develops a worldwide strategy by providing the precise product or service descriptions supplied to clients in all regions where it operates. While developing an International strategy, each market is supplied with specialized and personalized items that are most suited to the buyers in that market.

b. Based on Customers' Engagement

When it comes to consumer engagement, global plans are highly effective; yet, a firm may connect with its customers in international strategies by establishing better communication channels. Because they function with a personalized approach for each country, international tactics appear to generate more engagement than global marketing.

c. Based on Advertisements

Advertising in a global plan are often shown on global platforms, but in an international strategy, corporations tend to air specialized advertisements suited to the local markets of that area.

d. Based on research and development and marketing research

In practice, R&D and marketing research are extensive in both global and international plans. In certain cases, firms fail to conduct adequate research, and as a result, their goods fail horribly in the worldwide market.

e. Based on the integration of strategy and competitive moves

An international strategy gives subsidiaries the freedom to develop and execute various competitive actions. Global strategy, on the other hand, prepares and executes competitive conflicts on a global scale and does not allow for the execution of specialized competitive movements.

9.6 SUMMARY

There are two primary patterns of International Competition: Multi-country Competition and Global Competition.

Characteristics of Multi-Country Competition includes Market contest among rivals in one country not closely connected to market contests in other countries, Buyers in different countries are attracted to different product attributes, Sellers vary from country to country and Industry conditions and competitive forces in each national market differ in important respects. In Multi-Country Competition Rival firms battle for national championships – winning in one country does not necessarily signal the ability to fare well in other countries!

Characteristics of Global Competition includes Competitive conditions across country markets are strongly linked, many of same rivals compete in many of the same country markets, A true international market exists, A firm's competitive position in one country is affected by its position in other countries, Competitive advantage is based on a firm's world-wide operations and overall global standing. In Global Competition Rival firms in globally competitive industries vie for worldwide leadership!

It can be inferred that in order to compete in this quickly globalizing world, the majority of successful firms must employ some kind of strategy that suits their demands. As a result, it is advised that any firm striving to success avoid focusing on a particular market given the fierce competition of today. Then long-term success would soon come after them.

9.7 QUESTIONS

1. Explain difference between International Strategy and Global Strategy.
2. What are the different strategy options for competing in emerging markets.
3. Why Companies Expand into Foreign Markets?
4. Discuss various Reasons for Globalization.

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10

BUSINESS AND CORPORATE STRATEGIES

Unit Structure :

10.0 OBJECTIVES

- To understand generic strategies and show how they relate to a firm's strategic position.
- To know corporate strategy
- To identify the different types of diversification
- To understand vehicles for international expansion

10.1 INTRODUCTION TO BUSINESS STRATEGIES

Business strategy refers to choices that a firm makes about its competitive posture. These choices can be summarized by the strategy diamond and its five elements of strategy. To assess a strategy, the criterion is consistency between a firm's resources and its environment. Corporate-level strategy, concerned with questions about what businesses to compete in, and business-level strategy, concerned with questions of how to compete within a particular business. Differing conceptual schemes and associated analytic techniques have been proposed to aid top managers in making decisions about the two different kinds of strategy

10.2 TYPES OF STRATEGIES

Strategic positioning refers to the ways managers position a firm relative to its rivals along important competitive dimensions. Michael Porter's generic strategy model is a classic work. The purpose of strategic positioning is to reduce the effects of rivalry and thereby improve profitability. Managers use the model to stake out a position for their firm relative to its rivals in ways that reduce the effects of intense rivalry and, consequently, on profitability.

Strategic positioning relates to the strategy diamond's arenas (geographic breadth and product scope), differentiators, and economic logic. The choice between low cost and differentiation is critical to the issue of economic logic. A firm's choice of position depends on two important factors, viz., (1) firm resources and capabilities and (2) industry structure.

10.3 GENERIC STRATEGIES

While various types of organizational strategies have been identified over the years, Porter's generic strategies remain the most commonly supported and identified in key strategic management textbooks. Porter (1980) proposed three generic strategies yielding competitive advantage, namely cost leadership, product differentiation, and focus. Porter (1980) suggests for long-term profitability, a firm must make a choice between one of the **three generic strategies** rather than end up being "stuck in the middle."

Cost Leadership : Lower costs and cost advantages result from process innovations, learning curve benefits, economies of scale, reductions, product designs that reduce manufacturing time and costs, and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business entity designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology to lower costs.

Product Differentiation : Product differentiation fulfils a unique customer need by tailoring the product or the service, thereby enabling organizations to charge a premium price while capturing market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer (USP) through product quality, features, or after-sale support. The quality may be real or perceived based on fashion, brand name, or image. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The differentiation strategy appeals to a sophisticated or knowledgeable consumer who wants a unique, quality product and is willing to pay the higher price. In the field of banking, while most banks sell credit cards, product differentiation enables one bank to sell its cards better than others.

Focus : Focus, the third generic strategy, is based on adopting a narrow competitive scope within the industry. Focus strategies grow market share through operating in a niche market or markets not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, product specifications, or requirements. A successful focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of key importance to major competitors. Market penetration or market development can be an important focus strategy. Sometimes companies, by their very establishment are born with focus, as seen in the case of Payments and Small Finance Banks.

Porter (1985) also asserts focus can be based on (1) differentiation targeting a specific segment of the market with unique needs not met by others in the industry or (2) cost focused where the company has access to specialized production and operations equipment to save costs from smaller production lots or runs. Midsized and large firms use focus-based strategies only in conjunction with differentiation or cost leadership strategies. Focus strategies are most effective when consumers have distinct preferences, for example, demand for gold loans in South India, or competitors overlook the niche (David, 2002).

Porter’s generic strategies identify four positions—low-cost, differentiation, focused cost leadership and focused differentiation. Porter’s generic strategies are referred to as strategic positions – since they are not true strategies in the way the text defines them using the strategy diamond. Selecting an intended generic strategic position gives the firm a head start and guidance on making specific choices regarding the five elements of the strategy diamond.

10.4 CORPORATE STRATEGY

Corporate-level strategy is defined in terms of variation in the deployment of a firm's resources among the portfolios of industries within which all business firms compete. Hofer and Schendel propound this view: "corporate-level strategy is concerned primarily with answering the question of what set of businesses should we be in. Consequently, scope and resource deployments among businesses are the primary components of corporate strategy". Thus, a firm's corporate-level strategy can be operationalized in terms of the distribution of firm assets, sales, employment, capital-budget, or other indexes of firm resources among the range of existing industries.

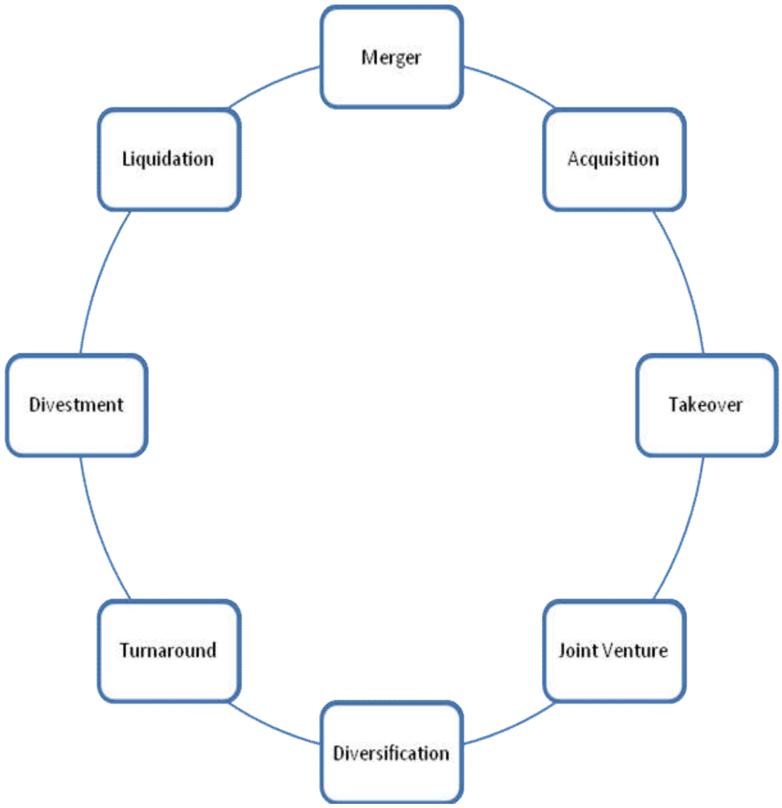
Corporate strategy is related to decisions concerning entering or exiting an industry and the management of a multi-business enterprise to achieve synergies. Three issues addressed are:

1. In which business arenas should a company compete?
2. Which vehicles should it use to enter or exit a business?
3. What underlying economic logic makes it sensible to compete in multiple businesses?

Synergy is the case when the combined benefits of a firm's activities in two or more arenas are more than the simple sum of those benefits alone. Corporate-level strategy must maintain strategic coherence across business units and facilitate cooperation (or competition) among units in order to create value for shareholders. Managers can create (and squander) value through diversification. The opening vignette stresses that corporate portfolios can be built in a number of different ways.

An example of corporate strategy can be seen in the shift of IDBI Bank Ltd from predominantly a corporate bank to a bank which made large inroads into retail banking – sometime around 2014.

Types of Alternative Strategies



10.5 DIVERSIFICATION

Expanding the firm's scope doesn't necessarily create value for shareholders. Two concepts for evaluating diversification and value creation are *economies of scope* and *revenue-enhancement opportunities*. It may be noted that collectively these are referred to as synergy.

Types of Diversification

A firm can expand the scope of its operations with *vertical*, *horizontal*, and *geographic* diversification arenas.

Vertical Scope

Vertical scope may stem from the need to protect critical input, supplier firms lacking investment to satisfy the needs of buyer, or simply to take advantage of growth opportunities. Vertical expansion in scope is a logical growth option because a firm is familiar with the arena it is entering. Firms may create value by moving into suppliers' or buyers' value chains if they can bundle complementary products.

The Pitfalls of Increased Vertical Scope

Even though an adjacent segment is profitable, it doesn't follow that it's a good arena for a firm to enter. In some cases, the firm may simply not have the resources needed to compete and incumbents may enjoy significant cost advantages. Even the unwritten rules of competition in a segment may be fundamentally different. A thorough analysis should be conducted prior to moving vertically into an adjacent segment.

Horizontal Scope

A firm increases its horizontal scope in one of two ways:

1. Move from an industry market segment into another, related segment
2. Move from one industry into another.

An example of horizontal diversification can be seen in many banks, which had strong retail lending base to expand into the credit card market, using the clientele garnered from retail lending to sell them credit cards. A number of new Private Sector Banks in India come in this segment.

Desirability of horizontal expansion depends on the relatedness to a firm's home industry in terms of similarity of human capital, similarity in value-chain activities, or share customers with similar needs. The more such factors are present, the greater the degree of relatedness.

10.6 MERGER AND ACQUISITIONS

Merger

A merger occurs when two or more separate firms combine to establish a new company. The merged company typically adopts a new name, ownership, and management team made up of staff from both businesses. Since the merging companies combine their resources to seek specific gains, even at the expense of reducing their respective strengths, the choice to merge is always consensual. Typically, no money is exchanged. Mergers may be done to grow market share, break into new markets, cut operational costs, boost revenue, and increase profit margins. The size and scope of activities of the parties to the contract are generally comparable, and they treat one another on an equal footing.New shares are issued by the merged firm, and they are distributed proportionately to the current shareholders of both parent companies.

Example : Zee Entertainment Enterprises Limited (ZEEL) and Sony Pictures Networks India (SPNI) in 2021

Acquisition

One organization purchasing the operations of another is known as an acquisition. Absolute control over the target company can only be obtained by the acquirer by purchasing at least 51% of its equity. A financially stronger organization typically acquires a smaller, comparably weaker one when it happens between two enterprises of different sizes. The choice need not be reciprocal; a hostile takeover occurs when one firm takes over the operations of another without the latter's agreement. Under the name of the bigger corporation, the smaller business continues to operate. The acquirer has the option of keeping or firing the acquired company's employees.In actuality, the purchased firm no longer exists under its prior name and instead trades on the name of the purchasing company. Only in a few instances does the acquired company get to keep its original name. There are no new shares issued. Similar reasons exist for mergers and acquisitions. By pooling resources with another firm, the primary goal is to acquire a stronger competitive edge.

Example : The American supermarket business Whole Foods Inc. was purchased by e-commerce behemoth Amazon in 2017 for $13.7 billion. The latter is still operated by its original CEOs, John Mackey and Walter Robb, and still goes by its original name, but all of its activities are under the exclusive authority of parent corporation Amazon.

Depending on the target company's board of directors' permission, M&A agreements can be friendly or hostile.

key differences between Mergers & Acquisitions (M&A)

	Merger	Acquisition
Procedure	A new business entity is created when two or more independent businesses come together.	The operations of another company are entirely taken over by another.
Mutual Decision	By mutual permission of the parties involved, a merger is approved.	The choice to acquire another business may not be mutual; in this instance, it is referred to as a hostile takeover if the acquiring company takes over the target company without the latter's agreement.
Name of Company	The merging company now goes by a different name.	Most of the time, the acquired company uses the name of the parent corporation. But occasionally, if the parent firm agrees, the former might keep its old name.
Comparative Stature	In a merger, the parties are of comparable stature, size, and operational scope.	The target company is smaller, and the purchasing company is more financially stable.
Power	The power amongst the involved firms has been diluted.	The acquiring business controls the acquired business completely.
Shares	The merged company issues new shares.	New shares are not issued.

Reasons for Mergers and Acquisitions (M&A) Activity

The following are the reason for mergers and acquisitions taking place:

1. Unlocking synergies :

The primary goal of mergers and acquisitions (M&A) is to maximize synergies so that the merged business is more valuable than the two separate businesses. Synergies may result from lower costs or higher sales. While revenue synergies are frequently produced through cross-selling, gaining market share, or raising prices, cost synergies are produced as a result of economies of scale. Cost synergies are the easier of the two to quantify and calculate.

2. Higher growth :

In most cases, inorganic expansion through mergers and acquisitions (M&A) is a faster approach for a firm to increase revenues than expanding organically. Instead of taking the risk of creating the same capabilities internally, a business can benefit by acquiring or merging with a business that has the most recent capabilities.

3. Stronger market power :

A horizontal merger will give a new organization a larger market share and the ability to control prices. Vertical mergers also increase a company's market power because they provide it with more control over its supply chain and help it avoid supply shocks from outside sources.

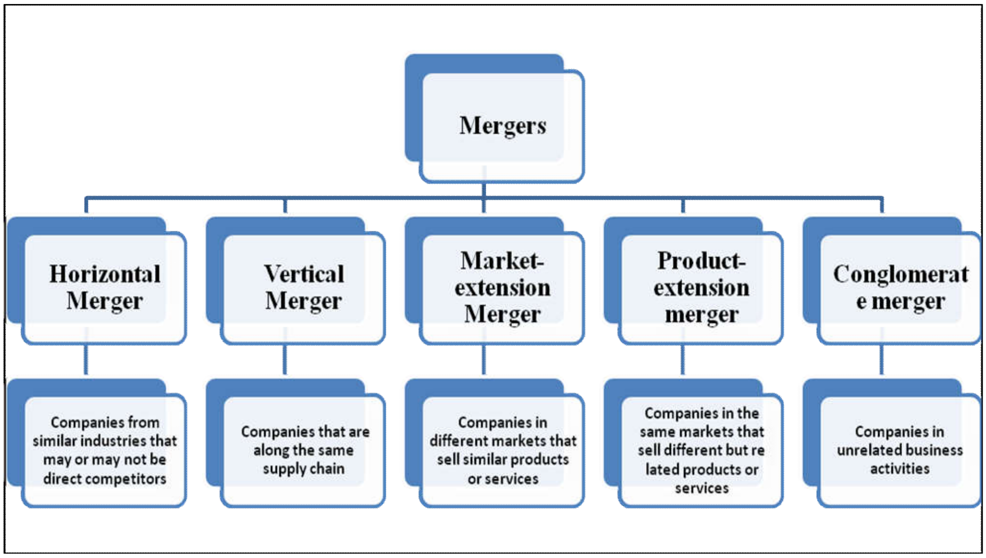
4. Diversification :

Businesses in cyclical industries feel compelled to diversify their cash flows in order to minimize losses when their sector experiences a downturn. A business can diversify and lower its market risk by acquiring a target in a non-cyclical industry.

5. Tax benefits :

When one business generates a sizable amount of taxable income and another experiences tax loss carryforwards, tax benefits are examined. The acquirer can use the tax losses to reduce its tax obligation by purchasing the business with the tax losses. Mergers, however, are not typically carried out only for tax purposes.

Types of Mergers :



1. Horizontal Merger

A horizontal merger is a union of businesses that are in direct opposition to one another. Horizontal mergers are conducted to broaden the application of economies of scale, boost market share, and take advantage of merger synergies.

Example: A well-known instance of a horizontal merger is the 2011 union of HP (Hewlett-Packard) and Compaq. These two businesses successfully combined to form a leader in global technology with an estimated worth of about US$87 billion.

2. Vertical Merger

A vertical merger is a union of businesses that use the same supply chain. A vertical merger is the joining of businesses involved in a company's manufacturing and distributionprocesses. Higher quality control, greater information flow along the supply chain, and merger synergies are justifications for vertical mergers.

Example: In 2000, Time Warner and America Online underwent a noteworthy vertical merger. Because of how each business operated in the information supply chain—Time Warner provided information through CNN and Time Magazine, while AOL dispersed information online—the transaction was regarded as a vertical merger.

3. Market Extension Merger

A market-extension merger is a union of businesses that sell the same goods or services but do business in several markets. Gaining access to a greater market and, thus, a larger client/customer base, is the aim of a market-extension merger.

Example:The 2002 merger of RBC Centura and Eagle Bancshares Inc. was a market-extension merger that aided RBC in expanding its operations in the North American market. With over 250 employees and $1.1 billion in assets, Tucker Federal Bank was one of the largest banks in Atlanta and was owned by Eagle Bancshares.

4. Product Extension Merger

A product-extension merger is a union of businesses that sell similar goods or services and compete in the same market. A product-extension merger enables the merging firm to categorize its products and get access to new customers. It is significant to note that while the two companies' products and services are not identical, they are linked. The crucial factor is that they both make use of comparable supplier chains and common, or related production processes.

Example: An illustration of a product-extension merger is the union of Mobilink Telecom Inc. and Broadcom. The two businesses, which both work in the electronics sector, merged, as a result, allowing them to pool their technological resources. The merger made it possible to combine Mobilink's 2G and 2.5G technology.

5. Conglomerate Mergers

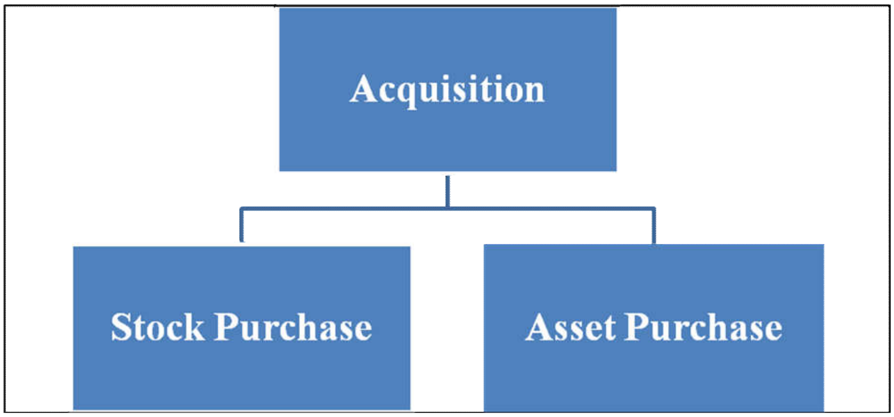
A conglomerate merger is a union of completely unrelated businesses. A conglomerate merger might be either pure or mixed.

- Companies operating in different markets and with no connection to one another are included in a pure conglomerate merger.
- Companies wanting to expand their product ranges or target markets are included in mixed conglomerate mergers.

As the two companies compete in entirely separate markets and provide unrelated goods and services, the biggest risk in a conglomerate merger is the abrupt change in business operations that results from the merger.

Example:The union of the Walt Disney Company with the American Broadcasting Company (ABC). The American Broadcasting Company is a US commercial broadcast television network (media and news), whereas the Walt Disney Company is an entertainment company.

Types of Acquisition:



1. Stock Purchase

In a stock purchase, the acquirer exchanges shares of the target company for cash and/or stock from the target firm's stockholders. In this case, the shareholders of the target, not the target, receive compensation. When buying stocks, there are a few things to keep in mind:

- All of the target's assets and obligations, even those that are not shown on the balance sheet, are taken on by the acquirer
- The shareholders of the target must unanimously accept the transaction for the acquirer to be paid, which can be a drawn-out procedure
- As they receive their reward directly, shareholders are responsible for paying the taxes

2. Asset purchase

In an asset buy, the acquirer pays the target directly after purchasing the target's assets. When purchasing an asset, a number of factors should be taken into account, including:

- The acquirer won't take on any of the target's liabilities because it only buys the assets.
- Unless the assets are substantial (i.e., more over 50% of the company), shareholder approval is typically not needed because the payment is delivered straight to the target.
- The compensation is taxed as capital gains by the target at the corporate level.

10.7 JOINT VENTURE STRATEGY

A joint venture is a partnership between two or more parties to establish a single company or project for profit while sharing the risks involved with its growth. The joint venture must include at least two natural persons or entities as partners. Although some legal characteristics of a joint venture (such as income tax status) may be governed by partnership rules, a joint venture is not a partnership or a corporation.

Joint ventures are frequently employed to obtain access to international markets. Foreign entities create joint ventures with domestic firms that are already present in the markets into which the foreign entities wish to enter. The foreign corporation. For example, may offer new technology or business methods to the joint venture, whereas the domestic firm already has commercial contacts and the necessary governmental documentation within the nation, in addition to being established in the domestic sector.

A strategic joint venture is a commercial arrangement between two firms who actively decide to collaborate in order to achieve a certain set of goals and increase each company's bottom line.

Strategic joint ventures can also help businesses achieve better scale economies by integrating assets and operations.They may also assist businesses in gaining access to unique talents and capabilities that they would not be able to develop otherwise.

Joint ventures can allow the organizations involved to reduce the risks of investments or projects while gaining access to the other's technologies, increasing revenues, expanding client bases, and expanding product distribution channels.

Advantages of Joint Venture:

1. Shared investment :

Depending on the conditions of the partnership agreement, each participant in the venture provides a set amount of initial cash to the project, reducing some of the financial load put on each firm.

2. Shared expenses :

Each party shares a shared pool of resources, which can reduce total expenses.

3. Technical expertise and know-how :

Each company partner frequently provides particular skills and information, which helps the joint venture be strong enough to develop aggressively in a certain path.

4. New market penetration :

A joint venture allows corporations to enter a new market rapidly since the local player handles the required legislation and logistics. A common joint venture agreement is one between a corporation located in country "A" and a company headquartered in country "B" that wishes to get access to the nation "A" markets. The joint venture allows the firms to grow their product variety and market size, and the nation B company has simple access to the market in country A.

5. New revenue streams :

Small firms sometimes confront limited resources and money for expansion efforts. The small firm can develop more swiftly by forming a joint venture with a larger company that has more financial resources. Larger and/or more diverse revenue streams may be provided by the larger company's wide distribution networks to the smaller organization.

6. Intellectual property gains :

It is generally challenging for corporations to develop advanced technologies in-house. As a result, organizations frequently form joint ventures with technology-rich enterprises to acquire access to such assets without having to invest the time and money developing the assets in-house. A major corporation with strong access to funding may provide operating capital to a joint venture with a firm that has limited financial capabilities but may supply important technologies for product or service development.

Examples of Successful Joint Ventures:

a) BMW and Brilliance Auto Group

In 2003, BMW launched a joint venture with Chinese automobile maker Brilliance Auto Group. BMW Brilliance was founded to build and sell BMW vehicles in China.

The partners agreed to spend €450 million in the partnership, with BMW owning 50% of the child firm and Brilliance Auto owning 40.5%. The remaining 9.5% went to the city administration of Shenyang.

This example of a horizontal joint venture arose as a result of Chinese rules requiring industrial enterprises to be at least 50% Chinese owned. However, China has recently moved to eliminate this restriction for autos, and BMW announced intentions to grow its share in BMW Brilliance to 75% in 2018(as reported by Green Car Congress). This makes BMW the first foreign car manufacturer to take control of its joint venture in China.

b) Microsoft and General Electric

Microsoft and General Electric (GE), the world's largest energy company, formed a joint venture in 2012 to use data to enhance healthcare quality and patient experience.

The Caradigm collaboration is perhaps one of the most well-known examples of a joint venture. Its idea was to combine Microsoft's skills in building large-scale data platforms with GE's experience in developing healthcare apps to establish a child firm that could move more quickly than either parent company.

It began with 750 people and was created as a 50/50 joint venture. Caradigm products, on the other hand, were used by over 1,500 hospitals worldwide four years later.

According to GeekWire, at this time, GE purchased Microsoft's interest in the firm and held it entirely until it was acquired by cancer informatics and digital pathology workflow solution provider, Inspirata.

In 2018, GE and Microsoft entered into a new collaboration (their largest one yet, according to Microsoft).

Forms of Joint Ventures:

The forms of joint ventures are as noted below:

(a) Mixed companies: Here, the capital is contributed jointly by a foreign multinational and a company from the host country.

(b) Joint ownership companies: Here, the company from the host country provides factory premises, raw materials labor, etc., while the foreign company provides machinery, technology and capital for the production activities in the host country. The benefits of new venture are shared by both (as per the agreement). Such company can be started by two or more domestic companies also.

(c) Jointly operated undertakings: Here, the foreign company provides capital and goods i.e., plant, machinery, equipment, etc., on loan basis to a company in the host country for production purposes. The company from the host country repays the loan in the form of export of a part of the total output produced as per the agreement. Majority of joint ventures in developing countries belong to this category.

(d) Limited co-operation: This is when you agree to work with another company in a restricted and defined capacity. For example, a small firm with an intriguing new product may choose to sell it through the distribution network of a larger corporation. The two partners reach an agreement on a contract outlining the terms and circumstances of how this would function.

(e) Separate joint venture business: This is when you form a distinct joint venture firm, maybe a new one, to handle a certain contract. This type of joint venture firm might be a very flexible alternative. The partners each hold stock in the firm and agree on how it should be run.

(f) Business partnerships: A limited business may not be the best option in some instances. You might instead create a company partnership or a limited liability partnership. You could even combine the two companies.

(g) Project Joint Venture: The most prevalent type of joint venture. It might be used to build a toll road or an office building, among other things. The key feature is that the objective is defined and confined to the execution of a specific project as per the venture agreement. The Joint Venture comes to an end after the project is done. In February 2020, Trilogy Metal and South 32 launched the firm Ambler Metals LLC in Vancouver, with the goal of advancing Arctic and Bornite projects and exploring the Ambler mining region.

(h) Functional Joint Venture: This is a model in which both organizations collaborate because they both have competence in one or more business tasks and aim to create a symbiotic environment for each other and benefit from the synergies that result. For example, if one firm owns a fleet of transportation and another has spare storage space, both can assist one other in inventory management and save each other's expenditures of owning individual fleets or storage spaces and using them during idle time.

(i) Vertical Joint Venture: The Joint venture, like vertical M&A, is between two commercial organizations in the same supply chain. This is done when one of the entities produces a specific type of good for which it requires a specialized raw material. To that end, it can work with the supplier to create and maintain the capacity of such manufacturing, so avoiding the uncertainty caused by the unavailability of this input material. This is the situation when the manufacturing business desires to preserve a certain level of secrecy or when the demand for this input is minimal but the demand for the finished product is extremely high. A real-world example would be a certain type of computer chip utilized in the manufacture of certain patented technological goods. This is true even when expenses may be avoided; for example, Marks & Spencer operates sweat shops in South East Asian countries since it is more cost efficient.

(j) Horizontal Joint Venture: Similarly, this type of joint venture involves two businesses that produce the same items or services. This has the advantage of allowing one of the enterprises to join a new market, such as a geographical region. The local partner possesses local knowledge, such as an established distribution network, whilst the international partner can benefit from economies of scale. Furthermore, rules often require the presence of a local firm, therefore joint venture is one of the available ways to access such markets.

10.8 STRATEGIC ALLIANCE

Under strategic alliance agreement for cooperation is entered between two or more independent firms to work together towards common goals. Strategic alliance can help a company to develop more effective process, expand into a new market or develop an advantage over a competitor. Strategic alliance can take several forms such as cross-licensing of proprietary information, production sharing, joint R&D and marketing of each other's products using existing distribution channels. Strategic alliance is one of the means of expanding internationally. The basis of strategic alliance is cooperation among firms. Strategic alliance must clearly decide on

(a) selection of partners
(b) deciding on ownership forms and
(c) evaluating joint management concerns. Strictly, strategic alliance is used as a market entry strategy. It is also used as a competitive strategy.

Automobile industry has seen many alliances for oversee operations.

The **Isuzu Motors** Ltd. and Fuji Heavy Industries Lid. Of Japan have established a joint plant in the US which can build cars for Fuji and trucks for lsuzu. **Tata Tea** has alliance with Tetley, to utilize expertise of Tetley to market tea abroad. It thus becomes clear that *strategic alliance is voluntary, formal arrangement between two or more parties to pool resources to achieve a set of common objectives that meet critical needs while remaining independent entities*. Strategic alliance involves exchange, sharing and co-development of products, services, procedure and processes. Strategic alliance can terminate when it objectives have been met or cannotbemet.

Types of Strategic Alliance

1. Comprehensive alliance :

Comprehensive alliance involves an agreement by participants to perform all the relevant functions right from production to marketing. Such alliance is the result of joint ventures. MNCs are known to follow this form of alliance. Comprehensive alliance is complex in nature because a large number of activities have to be undertaken.Some of the common examples include Nestle, Philips, Proctor and Gamble, GE, General Mills and so on.

2. Functional alliance :

For each functional area of business there is possibility of entering into strategic alliance. As the alliance refers to one functional area therefore its scope is narrow. In order to execute functional alliance, there is no need to have joint venture. Under functionalalliance, following are the important ones:

- **Production alliance :** Two or more firms manufacture products or provide services in a common or shared facility e.g., automobile and computer industry.Marketing alliance: Two or more firms share marketing expertise or services. Quite likely, one partner enters the market where the other partner already has its presence.The established firm helps the newcomer in exchange fora fee.

- **Financial alliance :** Every alliance partner is interested to cut down its financial risks associated with the project. As a practice, alliance partners contribute finances

- towards the projects. This contribution is shared or a partner provides bulk of the amount while the other partner provides expertise.

- R&D alliance: Ordinarily, partners undertake joint research to develop new products or services. New technology has limited life span and R&D costs have

- increased. R&D takes the form of cross-licensing.

3. Technology development alliance :

In this alliance, economy and profits are two main elements. Different partners come alliance involves together to cut down costs and reduce risks related to all the relevant technology development. Business partners pool R&D efforts by exchanging information and ideas.

4. Operations and logistics alliance :

Logistic alliance is a group of trading experts who work together to help companies to

manage and deliver their products. The products are transported over vast distances to the distributors. It is acomplicated issue to establish shipping methods and supply chain. As a way out, companies use logistics alliance toprovide help in establishing supply chains for the company.

5. Marketing, sales and service alliance :

Business partners enter into an understanding to use the marketing, sales and service set up of one another. It is very popular in overseas marketing. The objective is to survive in foreign markets and face competition. Under sales alliance, a company shares its customers with another business in exchange for a commission.

6. Single country or multi-country alliance :

When alliance develops between business partners the main objective is to survive and earn good profits. Such an alliance may be restricted to one country or it may extend to more than one country. Single country alliance is popular in domestic market. In export market, multi-country alliance is more common e.g., a foreign buyer having offices in different welcome proposal where he can make full use of his infrastructure.

Difference between Joint Venture and Strategic Alliance

The Basic Comparison	Joint Venture	Strategic Alliance
Meaning	A joint venture is a type of business organization formed by two or more company organizations to carry out a certain mission or commercial activity.	A strategic alliance is an agreement between two or more entities to collaborate in order to improve both sides' performance.
Independent Organization	The separate entities join forces in a joint enterprise. Do not function as separate entities.	The two additional corporations form a strategic alliance but continue to function as separate and independent entities.

Contract	In a joint venture, there is a need for a contract so a contract exists in a joint venture.	In a strategic alliance, there may or may not be a contract.
Form of	Strategic alliance	Collaboration or corporate partnering
Separate legal entity	A joint venture is a separate legal entity	A strategic alliance is not a separate legal entity
Objective	The risk of a joint venture is minimal.	The reward is maximized in a strategic alliance.
Management	Management in a joint venture is done bilaterally.	In a strategic alliance, management is delegated.
Resources	Joint venture resources provide huge leverage, decreased risk, and optimal resource usage.	Product, knowledge, experience, goodwill, finance, and other resources are examples of strategic partnership resources.
Part	A joint venture is a complex component of a strategic alliance.	A strategic alliance is an alliance between two distinct enterprises.
Duration	The lifespan of the joint venture is limited to one to five years.	The lifespan of a strategic alliance might be long or brief depending on the requirement for time.
Risk	There is and minimal risk to the parties participating in the agreement in a joint venture.	Because there may or may not be a contract, there is a higher risk in a strategic alliance owing to the trust connection between two parties.

10.9 VERTICAL INTEGRATION

Vertical integration is seen as a business tactic that enables an organisation to own or control its many key vertical business channels, such as distributors, retailers, or suppliers, in order to manage its supply chain. Using this commercial approach, a company expands by purchasing the former distributor or supplier of the company.

Vertical integration is the phrase used to describe a company's control over one or more levels or stages of its production process or supply chain.

Purpose of Vertical Integration

Following are a few reasons for companies using a vertical integration strategy:

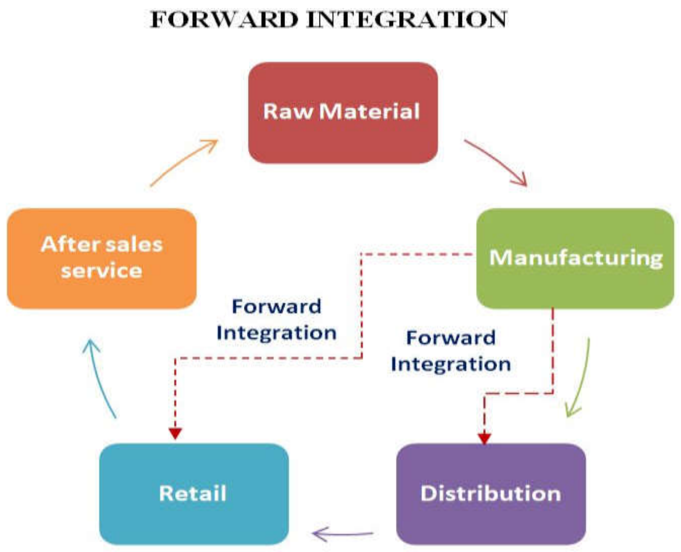
- To engage new distribution-related channels
- To increase earnings and production efficiency,
- To reduce manufacturing costs
- To lessen distribution delays.

Types of Vertical Integration strategy

There are two major kinds of vertical integration:

- Forward integration and
- Backward integration.

A) Forward integration



A forward integration plan is a type of vertical integration where a company moves ahead in an effort to control how its products are distributed. In other terms, forward integration refers to a company's forward expansion in its supply chain, such as the purchase of a store by a manufacturer to gain control over distribution channels.

A company carries out forward integration by the purchase or merger of other businesses that were once its clients, while still maintaining control over its core operations. A manufacturing company uses a forward integration strategy if it participates in sales or after-sales channels. Businesses employ this tactic to increase their market share and achieve economies of scale.

Merits of the forward integration strategy

Typically, businesses are able to maintain earnings by lowering profit losses when they use a forward integration approach. The tactic has a number of benefits, including:

1**. Hike in a firm's market share :**

A company may increase its market share by putting a forward integration plan into action. Typically, the method reduces a variety of transportation and transaction costs. This eventually determines the low final cost of the company's goods. In this manner, the company may lower product costs while increasing market share.

2. Command over distribution channels :

Companies employ the forward integration approach to maintain control over their market's distribution channels. This guarantees that the business can function as a strategic firm that is autonomous from outside parties.

3. Competitive benefit :

If a forward integration plan is effectively implemented in a business, it might provide the organization a competitive edge over its rivals. Having more control over the industry's distribution channels and lower costs are important variables that aid in attaining a competitive edge.

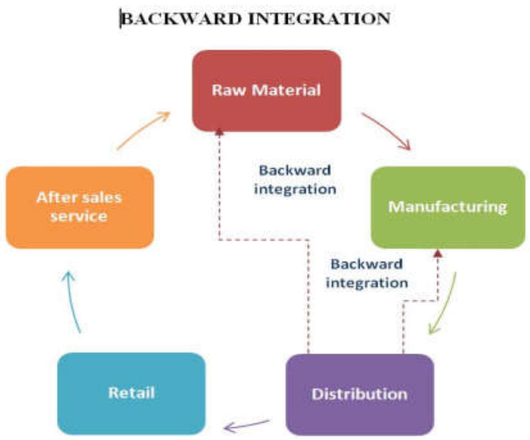
4. Barriers to potential rivals :

Forward integration fortifies the company's position inside its sector and erects barriers pro future rivals. Potential competitors could have limited access to distribution channels, for instance, if a corporation and a store in a big industry integrate.

5. Increase in sales :

By avoiding distributors, dealers, and retailers who might not give their all to promoting sales of the items, forward integration can increase sales.

B) Backward Integration



Backward integration is the process of a firm acquiring control of entities that provide the raw materials needed for the manufacture of finished goods for the company through a merger or acquisition. In other words, backward integration refers to the growth of a business in a backward or upstream manner in order to obtain control over manufacturing components by moving back in its supply chain.

As an illustration, a retailer or distributor may buy the manufacturer or supplier of the raw materials for one of its goods. A firm's raw material supplier may combine into it, which might save costs as the company would no longer need to rely on outside suppliers for such items. Therefore, by employing a backward integration approach, the large distribution or retail corporations buy manufacturers or suppliers of their goods that reduce transportation costs.

Merits of Backward integration strategy

1. **Control on expenses or costs**

Numerous intermediaries are involved in the supply chain process, and they have the chance to make money at each stage of the process. As a result, once the goods is in the company's warehouse, its price is doubled or tripled. The final user or consumer will pay extra for the completed items as a result.

A corporation can acquire raw material suppliers and get rid of the intermediaries involved in the production process by using a backward integration approach. This lowers the price of buying raw materials. By managing the whole supply chain, reduced waste, transportation expenses, and other associated costs are incurred before raw materials are delivered to the company's warehouse.

2. **Better control over the supply chain**

By purchasing the raw materials from manufacturers, a firm may have far more control over the whole process of its supply chain, from the manufacturing of raw materials to the production of final items. The manufacturer may exert more control over the quality, distribution, and volume of raw materials by acquiring raw material providers.

3**. Edge over competitors**

Companies also employ the backward integration method to gain a competitive advantage over rivals. For instance, technological businesses use backward integration to acquire access to patents, trademarks, and other intellectual property.

By buying such businesses, rivals are prevented from using the same resources, and other businesses must go elsewhere in the market for alternatives. Acquiring suppliers results in the creation of entry barriers. The new rivals may have difficulties in obtaining the production process connected to raw material suppliers.

10.10 OFFENSIVE AND DEFENSIVE STRATEGIES

Offensive strategies:

A sort of business strategy known as offensive strategy is aggressively pursuing changes within the industry. Businesses that are run as offensively competitive tend to make significant investments in R&D and technology in an effort to keep one step ahead of the competition. By focusing on the safety of its own products, a business may be able to draw attention to the questionable track record of a well-known industry leader in product safety.

Objectives of offensive strategies:

- Maximization of sales
- Destabilize of the current market leader
- Acquiring market share

Defensive strategies:

Management methods called defensive tactics can be used to repel an assault from a prospective rival. Consider it a battlefield where you must defend your market share to maintain consistent profitability and pleased consumers. Knowing the market you can operate in most effectively and when to broaden your appeal to reach other markets are key to defending your business plan. The established business simply swatted the newcomer away with its defensive marketing to boost consumer confidence in its goods.

Objectives of Defensive strategies:

- Maintaining the existing market share and to maximizing profitability
- Safeguarding the existing levels of competitive advantage
- Keeping up top position in local and existing markets.

Businesses that use offensive methods go after the rivals from which they want to gain market share. Defensive strategies focus on protecting what you already have and exploiting your competitive edge to keep rivals at away, as opposed to offensive tactics, which try to attack your market competition. When a rival uses an offensive strategy, defensive techniques are utilised to counter it or discourage it.

10.11 SUMMARY

Business strategy refers to choices that a firm makes about its competitive posture. These choices can be summarized by the strategy diamond and its five elements of strategy. They include business, corporate and international strategies.

Strategic alliance vs. joint venture Both terms are important in the business world. The corporation that wishes to make the best use of its resources can choose either of them. A clear understanding between the parties concerned is required for a strategic partnership. A joint venture has a formal contract, therefore there is no room for misunderstanding. However, both terms are important in the business world.

A joint venture may be used to finish work in less time since the task can be completed even faster with the cooperation of two parties. Strategic loyalty can be used to achieve a shared aim of a corporation or organization as needed.

10.12 QUESTIONS

1. A successful strategy must be consistent with both a firm's resources and the competitive environment. (Ture /False)

2. Focused differentiation targets unique products to relatively small segments. (True/False)

3. Mature industries often undergo consolidation. (True/False)

4. Michael Porter's generic strategy model is useful to help select a ________.

   A) low competition business for a firm to enter

   B) starting strategic business position

   C) new CEO

   D) product development team

5. All of the following are generic strategies except ________.

   A) low-cost leadership B) better quality

   C) differentiation D) focused low cost

Answers: 1.True 2. True 3. True 4. B 5. B

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11

STRATEGY EVALUATION & CONTROL

Unit Structure :

11.0 OBJECTIVES

- To understand the concept of strategic implementation.
- To examine the issues in strategic implementation.
- To discuss the process of strategic control.

11.1 STRATEGIC EVALUATION

Strategic evaluation and control may be defined as the process of determining the efficacy of a particular strategy in achieving the goals of an organization and taking corrective measures as and whenever required. By formulation of crisis management teams and contingency plans, control can be exercised.

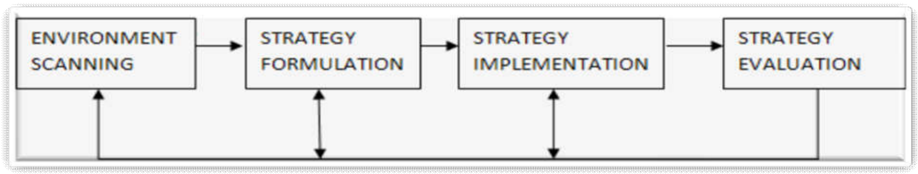
Every organizational strategy is regularly examined and updated. To support an organization's survival and growth, a company's strategy must adapt as its internal and external circumstances do.

Therefore, it is crucial to have a standardized procedure for assessing an organizational strategy's performance in order to ensure that the particular strategy contributes to the organizational objectives. It makes sure that the business is headed in the proper direction and is continually adjusting in a dynamic market.

Strategic evaluation tends to ignore short-term factors that could affect an organization's operational effectiveness in favour of trends that will determine the organization's success or failure. A lot of coordination between managers, groups, and departments is necessary for the strategic evaluation process within an organisation. Strategic evaluation is significant since it can serve as the foundation for the organization's future strategy definition, reward and incentive system design, overall strategic management process, etc.

Strategy evaluation is the last part of the strategy management process.

The strategic management process is shown below



11.2 NEED FOR STRATEGY EVALUATION

Strategy evaluation is that phase that helps ensure that the implementation of the particular strategy will help the organization achieve its goals. The need for evaluation of business strategy arises from the fact that a strategy may fail at the time of implementation and corrective action needs to be taken on time based upon the detailed evaluation report. Without this particular step in the strategic management process, it would be difficult to identify whether the implemented strategy is generating the desired effect or not.

In addition to all this, strategy evaluation also helps in:

- Checking the validity of the strategic choices the organization has made
- Assessing whether the decisions taken during the strategy implementation stage meet the intended strategy requirements or not
- Provides insights and experiences into the strategies that can be used in reformulating new strategies
- In order to explain issues caused by changes in the internal and external environment and also in taking precautions and to avoid making wrong decisions

Rarely does one come across a manager who has never had a strategy fail in his or her career. It is inevitable to fail. The most crucial thing for a manager to do is to take lessons from these mistakes.

Analyzing failed cases can teach people more about how to succeed in the future. They become more circumspect, methodical in their EAD execution, and concerned with strategy implementation. Actually, executives who have bad luck are those who have never failed in their professional careers.

If no evaluation is done, business organizations may also fail. There are companies where the man won't admit defeat and doesn't do a good job of evaluating the present business strategies. Their decision-making is purely based on the company's present business strategy. Strategic evaluation takes a back seat for them as they refuse to deviate from the existing strategy. Due to accumulating losses, they are compelled to leave the organization, and their successors decide to divest.

11.3 ELEMENTS OF STRATEGY EVALUATION

We must comprehend the need for strategy evaluation and assessment before we can attempt to analyse a company's executed plan. This is crucial because it will give us the groundwork for such activities. Strategy evaluation may not have much of an effect on organisational performance over time if this is not made evident to the managers in the organisation. As a result, one must be aware of the three fundamental components that serve as the foundation for the strategy evaluation before doing so.

These are the essential components:

(A) Is the organisation benefiting from the current strategy?

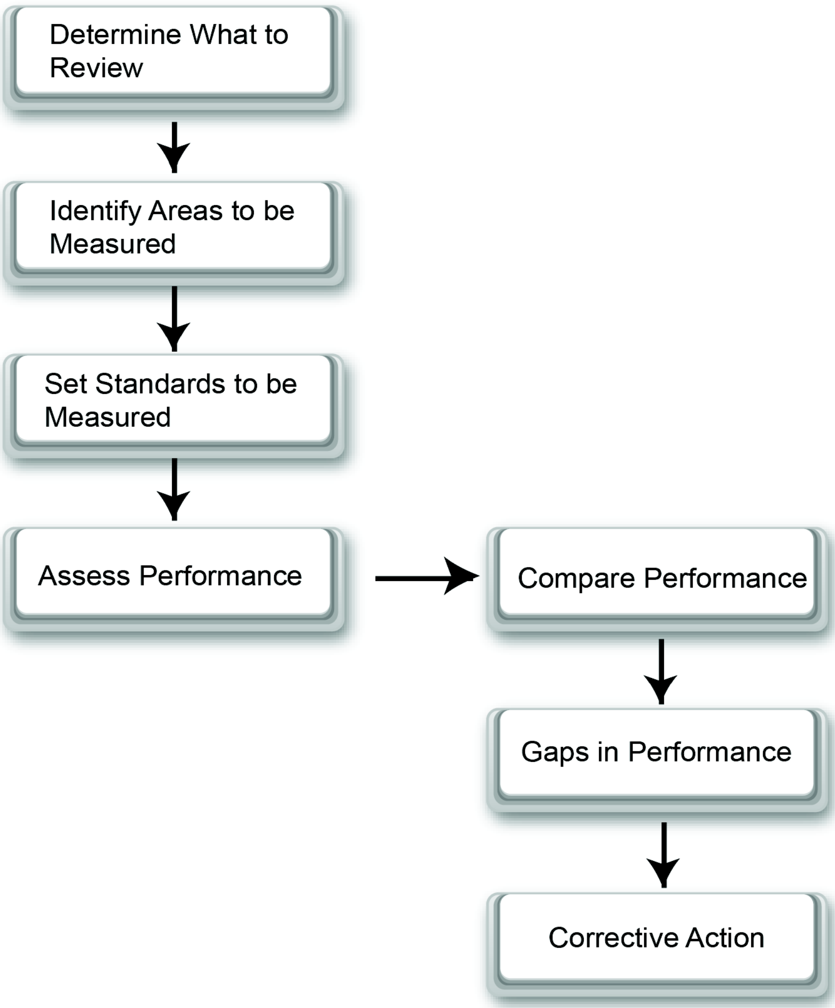
(b) Will the strategy prove to be good for the organization in the future?

(c) Should the strategy be changed?

It is crucial for the manager of an organisation to analyse the internal and external situations and determine whether the existing strategy is appropriate for the organisation with regard to the first element, which is whether the plan is effective overall. The result or answer from this will serve as the basis for figuring out if the organisation will benefit from the adopted strategy in the future or not. The need to modify the plan can then become necessary.

The organisation should be made ready for the shifting business environment, which is another goal of assessing the executed plan. Business always evolves. So that the adopted strategy won't prevent the organisation from attaining the organisational goals and objectives that had been defined previously under different assumptions and situations, the organisation must change and realign some activities. Organizations must re-evaluate their strategy as the socioeconomic and geopolitical landscape constantly evolves in order for them to be effective in the incredibly ambiguous commercial environment.

11.4 PROCESS OF STRATEGY EVALUATION



Fixing Benchmark of Performance :

It involves determining what to review, identifying areas to be measured and setting standards to be measured. While fixing the benchmark, strategists encounter various questions such as – what benchmarks need to be set, and how to set and express these benchmarks. For the benchmark performance to be set, it is important to discover the special requirements for performing the main task.The performance indicator that best identifies areas to be measured and identifies and expresses the special requirements might then be determined to be used for evaluation. For a thorough evaluation of performance, the organization may use both quantitative and qualitative criteria.

A quantitative criterion includes the evaluation of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Along with the Qualitative factors, there is a subjective evaluation of factors such as – skills and competencies, risk-taking potential, flexibility, etc.

1. Measurement of Performance :

The standard performance is a benchmark with which the actual performance is compared. The reporting and communication mechanism facilitate performance evaluation. Evaluation of a plan is made simpler if the relevant standards are specified and the right tools are available for monitoring performance.

However, other aspects, like the manager's contribution, are challenging to measure. Similarly, sometimes divisional performance becomes difficult to measure as compared to individual performance. As a result, flexible goals must be developed in order to assess performance.

The measurement needs to be done at the right time else evaluation will not meet its purpose. For measuring the performance, financial statements like – balance sheet, profit and loss account must be prepared on annually.

3. Analyzing Variance :

There may be variations that need to be analysed while measuring the real performance and comparing it to the standard performance.

Positive deviation denotes higher performance, but continually exceeding the target is quite unusual. The negative deviation is a cause for concern as it indicates a shortfall in performance. Therefore, in this scenario, the strategists must identify the root causes of deviation and implement corrective measures to overcome them.

4. Taking Corrective Action :

It is critical to design a corrective action as soon as the performance deviation is identified. If the performance consistently falls short of the desired performance, the strategists must do a detailed analysis of the contributing variables. The standards must be lowered if the strategists find that organisational potential does not fulfil performance needs.

Reformulating the strategy is another uncommon and drastic corrective action that necessitates returning to the strategic management process, reshaping plans in accordance with new resource allocation trends, and as a result, necessitates returning to the strategic management process's starting point.

11.5 CRITERIA FOR STRATEGY EVALUATION

1. Consistency :

Strategic consistency lacks in many different ways. The current strategy must not be inconsistent with the broad plans and directives of business strategy. For instance, poorly formulated strategic plans may result in compromises between competing power groups or they may materialize as interdepartmental conflicts that contribute to organizational conflict.

Operating issues are raised in order to restructure the policies for their successful execution. Once more, the objectives' structure may be inconsistent. One organizational objective's accomplishment is interpreted as the failure of another unit. the strategic discrepancy between organizational aims and managerial groups' values. As a result, the evaluation calls for ongoing verification of the strategy's goals and policies.

2. Consonance :

The key to evaluate consonance is to understand the existence of business, how it is currently thought to be valued, and how the current pattern differs from prior patterns are essential.The company needs to fit into and adapt to the important changes taking place in its environment.

The scope of business and the understanding of economic relationships are linked to changing social and economic conditions. As a result, the assessor must look at the fundamental economic relationship pattern that defines the business and decide whether the value generated is enough to support the strategy or not.

3. Advantage:

There are two facets to a company's environmental objective. The company must, among other things, blend in with its surroundings. The second factor is that businesses have to compete with other companies that are making an effort to adapt to their surroundings. In contrast to their common element, the second aspects of company missions give them a competitive edge over other organisations.

The benefit of a competitive strategy may be in its development or upkeep to demonstrate its supremacy in terms of resources, abilities, and positions. Analysis of specific competencies and assets pertinent to the domains of competition is necessary for strategy evaluation. Positional advantages, successful trade names, source ownership, geographic location, leadership in service field, reliability, and product or service quality are a few examples of competitive advantages.

4.Feasibility :

The test for strategy is feasibility, which determines whether or not the company can maintain the strategy. Whether a company has the high level of coordination and integration needed to execute the strategy, or if it can compete with the strategies of other companies and the environment. These are qualitative criteria that can be used profitably once the implementation is finished if the viability is determined.

5. Acceptability of the Degree of Risk Involved in the Strategy:

The management's attitude in the current situation is to reduce any risks associated with the strategy. This criterion does not necessarily mean that the chosen method is the least risky. High profits frequently accompany high levels of risk.

The degree of risk involved in the strategy is dependent on three factors:

(i) Internal of external changes can cause uncertainty of available resources over the anticipated period
(ii) The risk is involved in the time period of available resources with the difficulty of foreseeing long-term environmental changes.
(iii) The proportion of resources is committed to a single venture.

The degree of risk increases with the increase in the magnitude of the above factors.Non-utilization of internal resources to the fullest may be the riskiest strategy.

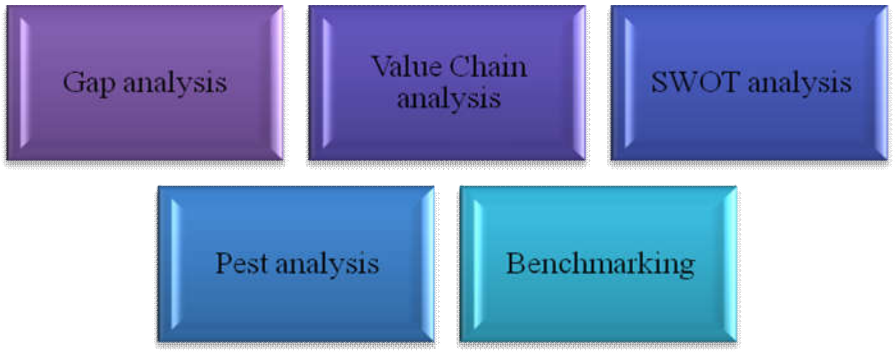
6. Appropriates of Time Horizon of the Strategy :

The time horizon is also significant when analysing a plan since it shows how well the project or chosen approach can be implemented. Before adopting the plan, a detailed assessment should be done if the time horizon is very long and the level of risk is significant.

Strategies are not just time-bound but also goal-oriented. Only if the goal is completed within the allotted time can the introduction of a new product, market, or installation of a plant be considered to be of strategic importance. The plan is evaluated effectively and efficiently when the goals are achieved within the proper time frame.

11.6 STRATEGIC EVALUATION TECHNIQUES

Analyzing the internal and external forces that influence strategy implementation is part of evaluating a strategy's efficacy. The methods listed below can help you assess these elements and make wise strategic decisions.



Gap analysis

Gap analysis is a strategic evaluation technique, that is used to determine and quantify the difference between your organization's current state of performance and the desired state. It can be used to evaluate a variety of aspects of business, from profit and production to marketing, management information system, and research and development.An organisation can use a strategic gap analysis as one tool to assess whether its resources are being utilised to their full potential. An organisation can discover possible areas for development and the resources needed to help it reach its strategic objectives by conducting a strategic gap analysis.

Value chain analysis

This examination looks at the range of tasks the business undertakes to create and promote a good or service. It aids in determining which operations are most beneficialto the business and which require improvement in order to function more effectively.

Steps to conduct value chain analysis are as follows:

a) Identifying the value chain activities

b) Determining the value and cost of the activities

c) Identifying opportunities for competitive advantage.

SWOT analysis

Another useful technique used by strategists to evaluate the current state of an organization's internal and external settings is a SWOT analysis. It assists you in gaining an understanding of both your internal and external environments through the analysis of strengths and weaknesses and opportunities and threats. Strengths and weaknesses are the internal factors, and opportunities and threats are the internal factors. The goal is to take advantage of the strengths and the opportunities and to combat the weaknesses and threats.

Pest analysis

PEST Analysis (political, economic, social, and technological) is a management technique that enables a company to evaluate the key external elements that affect its operation in order to increase its competitiveness in the market.For a more thorough outcome, PEST Analysis can be combined with other types of strategic business analysis, such as the SWOT (strengths, weaknesses, opportunities, and threats) model. Comparing these finished assessments can offer a very reliable foundation for making knowledgeable decisions.

Benchmarking

Benchmarking is a strategy evaluation technique that helps to evaluate how close an organization has come to its objectives. Organizations can benchmark them with themselves or with another organization. By using this technique, a variety of measures can be evaluated and improvements can be made.

11.7 STRATEGICCONTROL

The goal of strategic control is to monitor the strategy's execution, spot issues or changes inthe environment, and make the required corrections. Strategic control, as opposed to post-action control, focuses on managing and directing actions in support of the plan as they areoccurring.

Two sets of questions are of particular interest to managers in charge of a strategy and itssuccess:

1. Is the way we're going the right one? Are the major trends and developments we as sumetobeoccurring true? Do weneed to change our approach?
2. How are things going for us? Are our goals and deadlines being met? How closely docosts, revenues, and cash flows match forecasts? Do we need to adjust our operational procedures?

These queries are addressed by strategic controls.

It is possible to think about strategy control as a type of "Steering Control." A strategy' sinitial deployment and the realization of targeted goals typically occur over a long period oftime. The new strategy is put into action throughout that time by a variety of projects, investments, andactions.

The environmental situation and the internal circumstances of the company are both changing throughout this time. To steer the business through these situations, strategic controls are required. They must serve as the foundation for amending the firm's activitiesand directives in carrying out its strategy as developments and changes in its internal and external circumstances take place.

11.8 TYPESOFSTRATEGICCONTROL

Control is typically ex-post analysis, when actual results are contrasted with anticipate dresults. The scope of strategic controls is much broader, though, and they not only compareactual results with expected results; they also serve as a steering mechanism, ensuring thatactions are taken and results are obtained in the desired way. Therefore, strategic controls start with the planning phase of strategy formulation and continue through to the finish, rather thanonly evaluating strategy attheend.

A manager can direct a company's strategic course and guide it toward the organization's long-term objective by being aware of the many types of strategic control and using them appropriately. By using specific examples to illustrate the various types of strategic control,we can see how each one can be used to keep track of a strategy, identify any issues orchanges that can affect the outcome, and make the necessary adjustments to preventunintended consequences.

There are four different categories of strategy controls and these are:

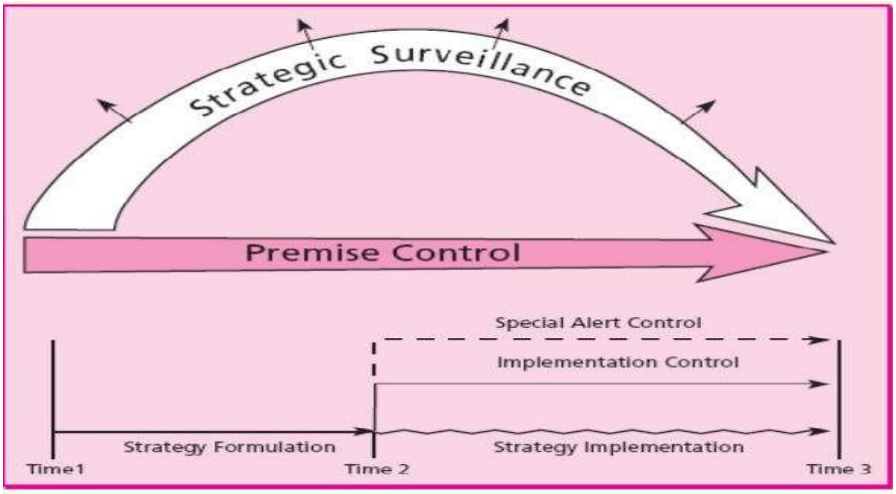
i) PremiseControl

ii) ImplementationControl

iii) StrategicSurveillance

iv) SpecialAlertControl

Each of the secontrol shastimings and can be represented diagrammatically as follows:



1.PREMISECONTROL

Each strategy is predicated on a set of assumptions about organizational and environmental factors. There is little doubt that some of these forces or elements are highly sharp, and anychange in them will undoubtedly have a significant impact on the approach. There fore,premise control is essential to pinpoint the important hypotheses and monitor any changes to the minor dertogauge their influence on strategy and, consequently, its implementation.

These assumptions may be related, for instance, to shifting governmental regulations ormarket competitiveness. Change in composition as a result of abrupt killer viruses, widespread warfare, or natural disasters, as well as organizational variables including modifying manufacturing technology, implementing the VRS program to recruit high-tech workers,and implementing market innovation strategies.

Premise control in this cases ervesto continuously test these hypotheses to see if they are still true. This enables the strategists to make the necessary corrections when they areneeded rather than continuing with a plan that is based on flawed or unreliableassumptions.

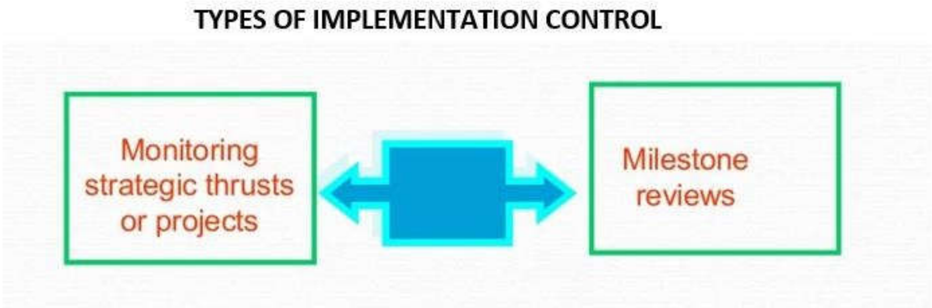
Premise control is typically the duty of the corporate planning department, which defines the essential assumptions and keeps a close eye on the irveracity.Your company's strategy is predicated on the assumption that certain events will take placein the future. When you put your thoughts into practice, premise controls let you check tosee if this assumption is still valid. Environmental elements like inflation, interest rates, andsocial changes, as well as industry factors like competitors, suppliers, and entry barriers, may have an impact on a property. These controls will make it easier for you to spot changes to the premise and modify your strategy accordingly.

2. IMPLEMENTATIONCONTROL

There must be a significant number of plans, programs, and projects prepared in order tocarry out the chosen strategy. Again, resources are allotted for carrying out these plans,initiatives, and projects. The goal of implementation control is to determine whether or notthese plans, programs, and projects are really leading the organization toward itspredetermined goals.

There is a need for corresponding adjustment if it is felt at any moment that allocatingresources to a plan, program, or project is not producing the desired results. That is,rethinking or strategic rethinking is the essence of implementation control, which aims toprevent all types of waste. Implementation control can be used, for example, to find andtrack strategic beat points or throb points, such as gauging the marketing success of a newproduct after pre-testing it or determining whether a diversification program is feasible after initialat temptsat securing technological collaboration.

3. STRATEGICSURVEILLANCECONTROL



Strategic surveillance is broad in scope, in contrast to premise and implementation control, which are both particular. It encompasses a broad range of occurrences that may have asubstantial impact on the effective development of the strategy, both inside and outside the organization. Even though it is of a generic character, it might non etheless turn up important facts and occurrences that could materially affect a strategy's course of action.

Therefore, strategy must be modified in light of the disclosure of new information andevents.

Strategic surveillance relies on a variety of information sources because it is general innature. Due of its broad breadth and all-encompassing character, it can predict any unexpected incident in the environment and take preventative measures to mitigate it.Thus, although being very adaptable (because to its generality), strategic surveillance offersan organization broad vigilance, which is useful in disclosing information that is important to an organization.

As a small-business owner, you must safeguard your enterprise against external dangersthat could undermine the effectiveness of your plan. You can keep an eye on these risksfrom a variety of sources thanks to strategic surveillance controls. Constantly protect yourapproach by reading trade publications, going to conferences, and being up to date on market develop mentstohandle these dangers as they appear.

Strategic surveillance is a more generalized and overriding control that is intended to monitor a wide range of events both inside and outside the organization that are likely tothreaten the very course of a firm's strategy, whereas premise and implementation strategic controls are more specific by nature. A broad-based, general monitoring based on chosen informations our cescan be used for this type of strategic surveillance to identify occurrences that could potentially affect an organization's strategy.

4. **SPECIALALERT CONTROL**

This Special alert control is built around a trigger mechanism that allows for a quickresponse and immediate reevaluation of a given strategy in the wake of a sudden and unexpected incident. By creating backup plans and entrusting crisis management teams with the task of resolving unfore seen situations, special alert control can be implemented. Examples of such abrupt and unexpected events include sudden changes in the federal or state governments, industrial accidents, and disasters like earth quakes, floods, and fire.

Your business will experience a difficult period from time to time that is brought on by some unanticipated event that has a detrimental effect on your organization. This can involve adramatic decline in the value of the US stock market, a domestic terrorist attack, or even anatural disaster that changes the purchasing patterns of your clients. Without having to completely alter your strategy to deal with this new incident, special alert control enables your company to react to these events.

For instance, many commercial airlines were compelled to adopt tougher safety standards in response to the great anxiety that customers experienced when flying after the September 11, 2001, terror is tattacksin the U.S.

These unexpectedly sudden cat astrophes could take the form of

- Natural disasters
- Terrorist attacks
- Defective products
- Chemical spills,etc.

Examples of quick, unexpected events include the Bhopal Gas tragedy in 1984, which the Union Carbide Factory was responsible for, and the FSSAI's 2015 decision to ban Maggi Noddle for violating food safety regulations.

Strategic controls are ongoing steering controls that make sure the organization's strategy works as intended and aids in achieving desired outcomes. They are not just end controls that evaluate strategy at the conclusion of the process.

If controls find that a strategy is not producing the desired results, the strategy is immediately adjusted to make sure it is still producing the desired results. In extreme circumstances, it is possible that the existing approach will become obsolete and in effectiveowing to the occurrence of some unanticipated occurrences.

11.9 PRE-IMPLEMENTATION

During pre-implementation, you will focus on activities that will help ensure a smooth implementation and launch. Some of the most important activities include:

• Ensuring you have enough resources allocated to the project

• Make sure everyone on your team agrees on the scope of the project

• Ensuring that business requirements are not confused

After completing the pre-implementation phase, your ERP project team will move directly into the design phase, where you will determine the exact functionality of your system. That's why it's important to get everyone on the same page before moving forward.

1. Assemble the project team

The project will be divided into a number of tasks that have already been set and each has its own deadlines and requirements. In order for the project to move forward, it is essential to assemble a team that can oversee or carry out these activities.

When building your team, look for workers with experience from multiple divisions. Similarly, choose a project manager who is well-versed in your industry, has a track record of success, and works well with a variety of personality types.

2. Define resource strategy and backup strategy

Many businesses find it difficult to understand the resources required to deploy an ERP system. This often happens when the ERP provider doesn't set reasonable expectations.

The fact is that your business will likely be responsible for a number of critical project tasks, including data migration and change management, that may or may not be listed in the vendor's project plan.

Open communication with your supplier, knowledge of implementation best practices, and an awareness of the importance of change management are essential to ensure sufficient resources.

In addition to a resource strategy, you will also require a backup plan. How will your business continue to operate and scale when so many of your A-Teams are dedicated to working on your ERP project? While it can be challenging to remove important team members from their regular duties, you can always use the back fill technique. In order for project team members to focus on the ERP project, you are sure to have the resources to take over or support these activities.

3. Define and implement a data strategy

Your data plan should include the steps you will take to transfer your company's data from your old systems to your new ERP system. To do this successfully, clear data conversion and data reconciliation processes must be defined. Other requirements are the assignment of data owners and the distribution of responsibilities.

Analyzing the current state of your data is the first stage of ERP data migration. Then there is the consideration of the technical data conversion tools you will need to transfer data from one repository to another.

It is important to ensure that any unsystematic data you import during this process is free of duplicates, errors, and redundancy. The new information you add should be true, accurate, consistent, comprehensive and current.

Remember to move things gradually to reduce the chance of error, rather than all at once.

4. Infrastructure settings and environment settings

In this step, you choose the exact system infrastructure that will support your ERP solution. On-premise ERP and cloud ERP are the two most popular options.

There is no one-size-fits-all solution, so you need to consider your specific business needs, budget and long-term goals when choosing the infrastructure that's ideal for your organization.

Next, think about how many different system environments are needed. Do you require a sandbox testing environment? How about one for teaching end users? Who has access to these environments and how often are they updated?

5. Create a project charter

An ERP project charter is a short document that describes the most important aspects of your project. Some of the key details to include are:

- Your project goals
- The steps you will take to achieve these goals
- Your key stakeholders
- All identified risks
- Overview of the general budget

This document can serve as a resource to return to if you feel your project is veering off course.

6. Educate executives to ensure continuous buy-in

We recommend calculating the expected ERP business benefits so that your leaders continue to offer critical assistance. How much money would the system help the company save? Will the key performance indicator (KPI) improve by a specific percentage?

These participants have invested a significant amount of money in your work. They can more easily see value and return on investment if they create a benefits realization strategy. With the help of an ERP consulting company, you can calculate possible cost savings and other specific benefits of ERP.

7. Focus on change management

It's undeniable that ERP initiatives can make employees feel uneasy, especially those who haven't been part of the effort since its inception. To that end, as you prepare to roll out your new ERP solution, you may encounter some resistance.

It is important to ensure awareness of the project to alleviate any concerns. In other words, specify any necessary position adjustments and communicate as often as possible. Additionally, you need to be accessible to respond to inquiries as they come.

These initiatives must be part of an overall organizational change management strategy that controls opposition, transitions employees, and promotes enterprise-wide adoption of change.

8. Standardize and streamline the business process

Whenever you deploy new business technology, it's helpful to give your current business processes a second look. Where can you standardize and streamline to increase efficiency?

While it's easy to get carried away and want to redo everything, keep in mind that ERP customization can be a costly and time-consuming process.

This means that we recommend keeping in mind the pre-installed functionality of your ERP software to ensure that the system will be able to handle your requirements with minimal modifications.

In other words, any business process reengineering you do should have a strong focus on standardization and adoption of best practices within the ERP system.

11.10 POST IMPLEMENTATION

Despite best intentions, production implementations don't always go as planned.

In cases where all the objectives can't be delivered in the manner that they are planned, a Post Implementation Review is required.

A Post Implementation Review (PIR) is nothing more than a Root Cause Analysis (RCA) but focused on the IT Change that was unsuccessful.

The PIR identifies the one or more items that need attention so that the risk of a reoccurrence is minimized.

The focus is on helping not blaming.

After the system has been in operation for some time, the Post-Implementation Review is performed to assess how well the system was developed (normally 6 months). The goals are to find out if the system does what it was intended to do: Does it provide the user with the necessary assistance in an effective and efficient manner? The efficiency of the life-cycle development activities that resulted in the system should also be evaluated, along with the system's functionality, performance, cost, and benefits. The review's findings may be applied to improve both system development processes and the system itself.

The review is planned to occur after a system or system revision has been released and by an acceptable period of time.

Here’s an example of a finished product for a senior leader in an IT company to understand what caused the unsuccessful change.

Category	Insufficient Requirements
Problem Statement	Claim Processing System release upgrade rolled back as the application was unable to connect to database and throwing SSL security error
Root Cause	Vendor failed to provide requirement that TLS 1.0 and 1.1 be enabled and TLS 1.2 be disabled during software installation.

Contributing Factors	1. Vendor product does not support encrypted B connections Factors 2. No lower environment to perform upgrade and test.
Preventative Actions	1. Create a non-production environment for testing Actions 2. Research if installing TLS 1.0 and 1.1 creates additional risk

Assemble the right PIR team

- Change Management: Facilitate the PIR starting with problem statement, also conduit to other ITSM teams.
- CAB Board Member: Owns the RCA beyond any process related findings.
- Change Assignee Manager and Peer reviewer: Explains, Implementation, Testing, Validation and Back-out plan.
- Other Implementing Teams: Represents their activities
- Architecture, PMO,QA: Speaks to best practices.

11.11 SUMMARY

Decisions on important matters pertaining to what the organization should do to attain itsgoals are decided throughout the strategic controlling process. Processes for monitoring, analyzing, and evaluating are used to steer the company's trajectory in the appropriatedirection.

In order to improve strategic planning abilities, assigning appropriate management tasks, managing the process of their implementation, and monitoring results, the concept of strategic controlling was developed. Following are some characteristics of strategic controlling:

- Built up on strategic plans
- Is centered on strategic management strategies and approaches.
- Using techniques for calculating the divergence of strategic indicators,
- Gives information for long-term choices that will be made with a time horizon longer than a year.

  The four types of strategic control are premise control, implementation control, strategic surveillance and special alert control.
- Premise controls provide you the chance to check whether this assumption is still validwhen you put your theories into practice. You can adjust your strategy in response to changes in the premise with the aid of these controls.

- You must put your business strategy into action once it has been created. Utilize implementation controls while you take the essential actions to carry out your plan to make sure no changes to your strategy are required.
- A wider information scan is strategic surveillance. Its goal is to find under value delements both inside and outside the organization that could have an impact on your strategy.
- In the event of unexpected developments, you will need to have systems in place to evaluate your company's position. You can re-evaluate your strategy's applicability in light of these fresh developments thank stospecialalert controls.

11.12 QUESTIONS

1. Which of these is/are a basic activity of strategy evaluation?

a.Reviewing the underlying internal and external factors that represent the bases of current strategies

b. Measuring organizational performance

c. Taking corrective actions

d. All of the above.

e. Both b and c

2. What is happening to strategy evaluation with the passage of time?

a. increasingly difficult

b. much simpler

c. very convenient

d. an unnecessary activity

e.less important

3. Discuss different types of strategic controls.

Answers: 1 (d), 2 (a)

11.13 REFERENCES

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- Strategic Management: A Competitive Advantage Approach Concepts and Cases- by Fred R. David
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12

CHANGE MANAGEMENT AND TURNAROUND STRATEGIES

Unit Structure :

12.0 OBJECTIVES

- To know the concept of Change management.
- To understand the forces and different types of Changes
- To identify process and strategies for Change
- To describe reasons for resistance to Change
- To know turnaround strategies

12.1 INTRODUCTION TO CHANGE MANAGEMENT

Anyone who works in an organization will by default be involved in organizational transformation at some time. You will either be the recipient of change or will be entrusted with developing and executing it.

They say that the only constant in life is change - and this is never true.You may be perplexed by the company's change management programme.Alternatively, you may be a manager who has been requested to participate in a change management initiativeprogramme for the first time, or you may be in a position of leadership and searching for new ideasregarding your function and how to effectively lead change

Change management is the process of moving a company from where it is to where it wants to be. Change management is mainly concerned with the process of change rather than the process of deciding what the ultimate outcome should be. A variety of Change may be necessitated by factors such as:

- A strategic assessment
- A cost-cutting push
- Restructuring to accommodate a new system
- Reorganization in preparation for development and growth
- Reorganization in preparation for new goods
- Reorganization for geographical considerations
- Or just to provide the CEO a means to make a difference!

The reasons and causes of organizational change are numerous and diverse, yet they always end in change.

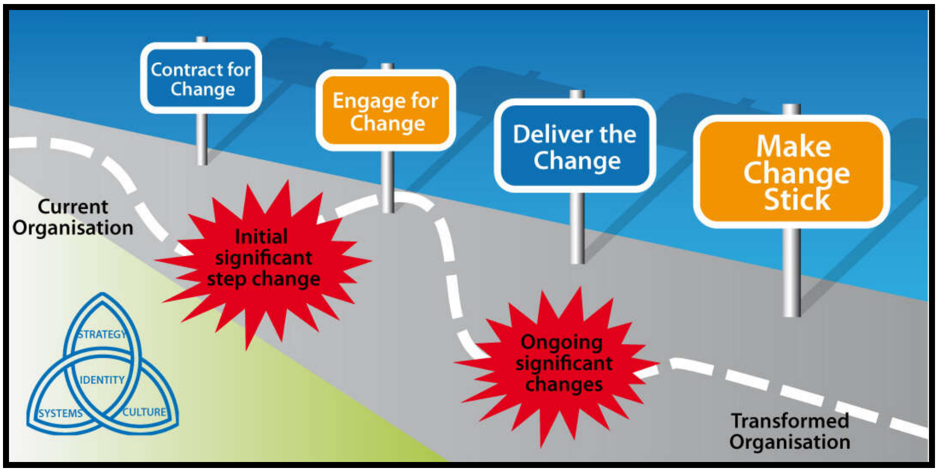

Fig 12.1:Change Management Process Flow

12.2 NEED OF CHANGE MANAGEMENT

Individual employees are intricately linked to the effects and outcomes of workplace reforms by conducting their duties in various ways. At times a flawlessly developed procedure no one follows, hence there is no gain in performance. Nobody utilities a properly conceived technology, thus provides no added value to the organization. Employees that do not perform established job duties do not provide long-term outcomes. Whether at work or at home, your neighbourhood or in government, the link between two parties are responsible for quality solutions and benefit fulfilment.

Change management helps people to adapt a change in order to achieve corporate objectives. It is the link between solutions and outcomes, and it is primarily about people and our collaborative responsibility in translating change into positive outcomes for our businesses. But what precisely is change management and what does it mean to manage the human side of change? How can good change management occur? To address these issues, the fundamental concepts of change management must be established. This foundation in the reality of how change occurs will allow for a more thorough knowledge and use of the tools and processes for managing the people side of change. Each of these concepts will build on the others, forming the foundation for the what and why of change management.

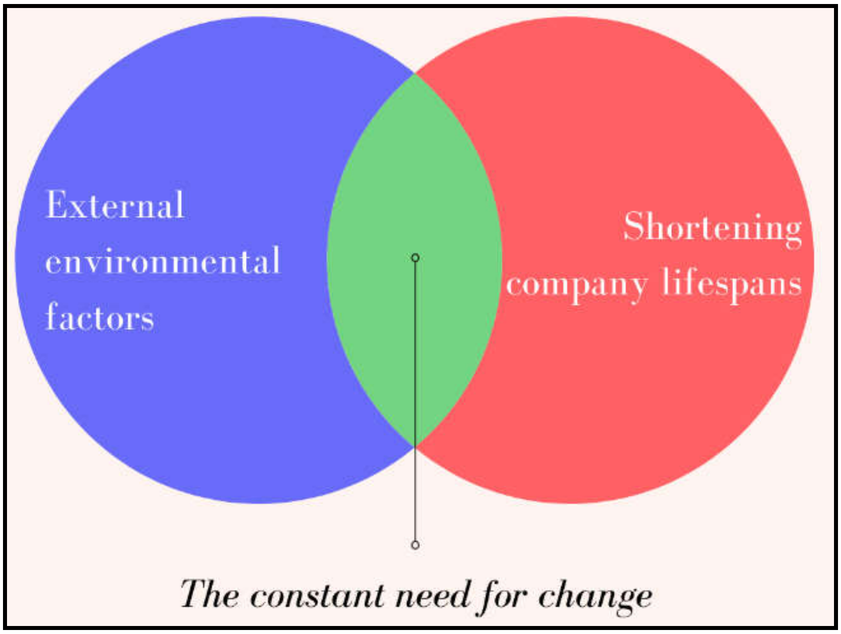

Fig 12.2: Need for Change Management

To begin, we need an anchor point on which majority will agree and which sets a beginning point for formal discussion: We evolve for a reason. As basic as it seems, a fundamental premise for managing change is that a future state that is different from now may be imagined, and we shift to that future state to reach a specified and desired end.When we say that we change for a reason, we do not imply that the reason for each change is the same, but rather that there is a specific purpose or aim for a certain change.

The motivations for change are as diverse as the phenomenon itself. Revenue growth, higher customer happiness, lower expenses, better product or service quality, decreased risk exposure, enhanced quality of life, and so on are all motivations for change. Projects and initiatives are conducted not because they are enjoyable and interesting, but because there is an opportunity or a problem to be solved; most significantly, there is a potential to enhance performance in a meaningful way. The possibility of something different is a fundamental notion of change. This offers us our anchor point and the first change management tenet.

12.3 TYPES OF CHANGE MANAGEMENT

Your change approach will be determined by the sort of change you are attempting to achieve, whether it is developmental, transitional, or transformative. Changes in development are frequently layer-focused on just the people and processes engaged in one part of the business. Transitional and transformational changes may necessitate more broad-reaching modifications that affect numerous departments or teams.

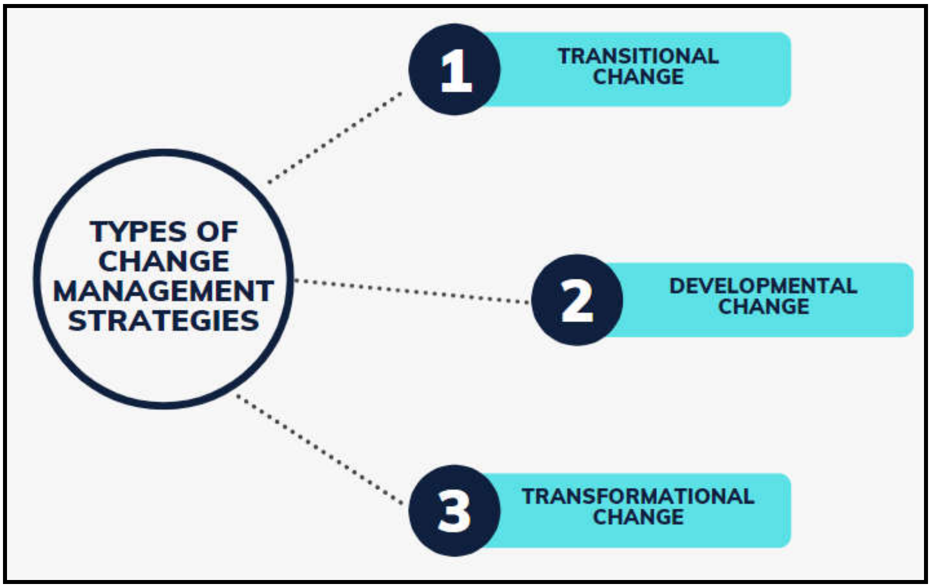

Fig12.3: Change Management Strategies Types

(i) **Transitional change**: Transitional modifications are those that are implemented to replace old procedures with new ones. Transitional change is more difficult to implement and might cause pain among your personnel. Transitional change can occur as a result of business restructures, mergers, or acquisitions, the development of new goods or services, or the use of new technologies. Staff may experience anxiety throughout the 'transitional' period of removing old systems and procedures and adopting new ones. When implementing transitional modifications, remember to:

a) Clearly describe the consequences and advantages you anticipate as a result of your adjustments.

b) reassure staff about their jobs safety

c) Take into account your employees' opinions and contributions while making adjustments.

(ii) **Developmental change :** Modifications made to improve present company practices are referred to as developmental changes. As long as you keep your employees aware of changes and provide them with the training they need to adopt process improvements, development change should cause little stress. Some instances could be:

a) enhancing current billing and reporting techniques

b) Payroll procedures must be updated.

Developmental change might be the initial step toward making other adjustments to your organization that will assist you in meeting the expectations of your market. Managing these little steps properly shows your team that you are adopting a rational, deliberate approach to change. When making developmental adjustments, it is critical that you: explain your reasons for the changes train your employees to utilise new procedures and technology demonstrate your dedication to minimising the effects of change on your business.

(iii) **Transformational changes :** Transformational changes are ones that radically alter your business strategy and operations, frequently resulting in a transformation in work culture. These modifications might be the result of significant or unanticipated market developments. Transformational change may instil anxiety, doubt, and insecurity in employees and must be carefully managed, as an example of transformational change, consider the following: putting big strategic and cultural reforms in place.

Transformational transformations typically include both transitional and developmental change, as firms recognize the need to rework their business practices. It is critical that when implementing transformational changes, you: Develop and convey a well-defined plan that describes the ways you are taking to change and the goals you are establishing. Reinforce your reasons for the changes on a regular basis.Plan and carefully execute new business systems and processes. Involve your employees in all stages of change conversations and planning, and communicate constantly throughout the process.

12.4 IMPORTANCE OF CHANGE MANAGEMENT

Change management seems imperative for reasons:

a) **External factors**: External forces have a major impact on structure transformation. Organizations area unit being forced to adapt as a results of globalisation and therefore the quick development of recent digital solutions. Ignoring such external circumstances is probably going to jeopardize the success of your organization. For ex: Nokia was once the world's largest movable firm, however it had been on the verge of bankruptcy. this can be thanks to the very fact that it didn't sustain with advancements in mobile technology. As a result, Nokia's devices were unappealing to customers, and therefore the company's market share fleetly plummeted.

b) **Making ideas succeed**: Many organizations use amendment, the management ways to make sure the success of innovations, development managers, diversity agents and assist project managers in delivering new capabilities into a corporation by making certain that personnel area unit ready to absolutely utilize the new skills.

c) **Enabling cross-functional changes**: Almost each useful unit in an exceedingly up to date firm depends on amendment management to: Align the amendment strategy with the broader strategy of the corporate. Improve internal and external demands and services; Track and address issues..

d) **Engaging people with the change process**: Engaging individuals involved in an amendment endeavour is an important aspect of managing amendment in a company. workers can ultimately be concerned within the amendment method, therefore informing and fascinating with them a couple of amendment set up early helps establish the framework for its subsequent success.

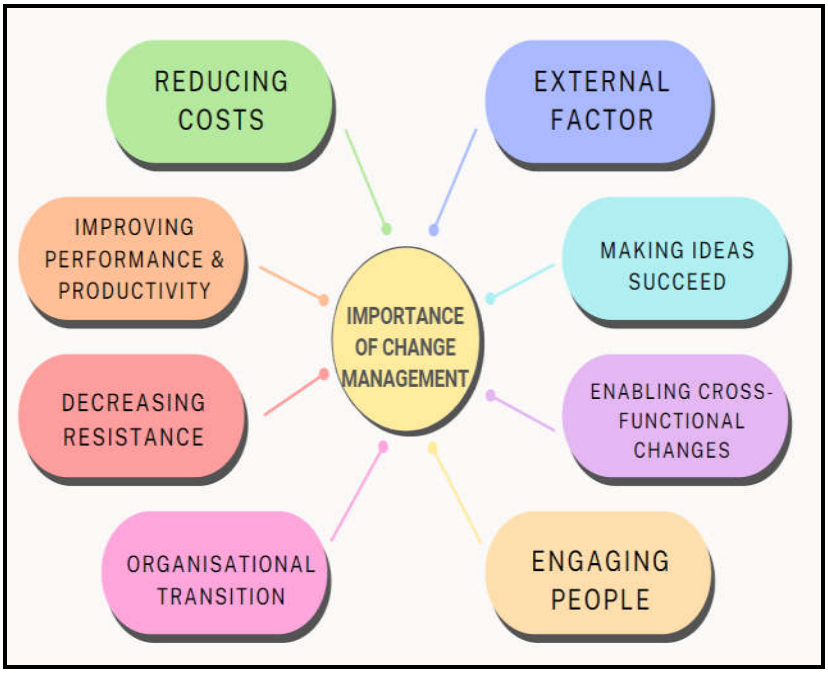

Fig12.4: Importance of Change Management

e) **Preparing for organisational transition** : Transformation managers area unit often recruited to make sure that structure amendment goes like the wind. To implement changes, they use amendment management approaches such as: Job role restructuring; business method restructuring; and therefore the implementation of latest technologies.

f) **Decreasing resistance to a change initiative**: People usually realize it disconcerting to be asked to control in new and sudden ways in which, thus resistance is inescapable in any amendment endeavour. As a result, amendment managers ought to usually anticipate a denial reaction from staff. Overcoming those responses takes time.

g) **Improving performance and productivity**: When a corporation adopts higher ways in which of operating, productivity rises. At an equivalent time, it promotes creativeness. As a consequence, it ensures bigger performance and tends to place an organisation in an exceedingly healthier climate wherever it's a lot of possible to thrive.

h) **Reducing costs**: When positive amendment is enforced befittingly, it helps to attenuate waste and therefore expenses. Effective amendment management permits a corporation to create sound selections. It boosts productivity, reduces risks, and thus contributes to an organization's profit.

12.5 STEPS IN CHANGE MANAGEMENT

Often said that one-size-fits-all but that doesn't hold good for change management. The variables that drive change may differ among businesses, but the fundamental concepts of change management remain the same. The steps below will help you satisfy the specific demands of your organization:

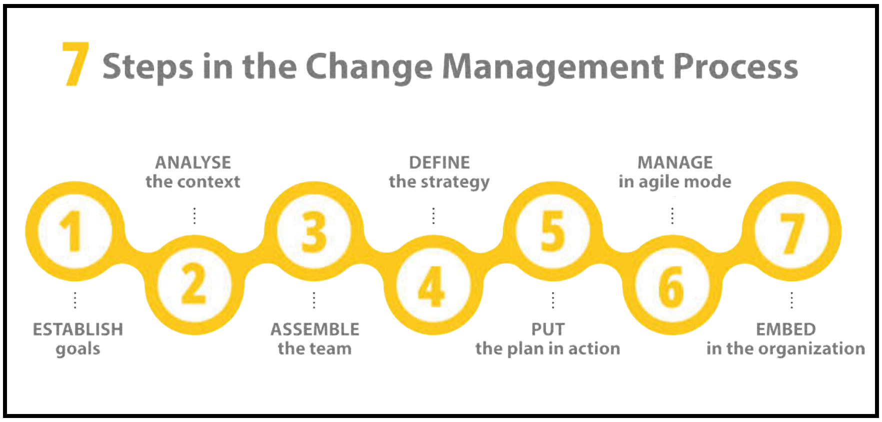

Fig12.5: Steps in Change Management

a) **Establish your goals**: The first stage is to define and explain your objectives. Despite the fact that it may appear generic and routine, this stage is critical to your overall success. Realize the main purpose of your assignment/project. To boost your bottom line? Increase your bottom line? How can you improve consumer satisfaction? Gain control of a new market? Are your objectives primarily financial, sales-oriented, or human resource-related? And what quantifiable markers can you use to determine whether your project is on track? You should be able to clearly define your main aim and any associated success indicators by the end of this phase. Once you've established your goals, you can use a project tracker to chart a clear route to fulfilling all of your KPIs.

b) **Identify your constraints**: This stage involves assessing your organization's existing situation and the impact that a change might have. Depending on step 1, the study may emphasise your company's market position, competitors, values and culture, internal organisation, and so on. The purpose is to identify possible consequences and limits to change in connection to the aforementioned dimensions.

A team effort collecting important stakeholders - individuals from the functions that the change would most effect - improves the identification of constraints and the discovery of suitable solutions. This collaborative effort would also improve your change management process by assuring the collaboration of your stakeholders.

c) **Assemble your dream team**: Change does not happen overnight, nor is it readily accepted by everybody. As a result, your starting team should meet the following two requirements: It should reflect the business functions that will be impacted by the change (your pilot groups and/or the groups that are critical to the overall success), and it should be largely made up of innovators and early adopters.

d) **Define your strategy and action**: When introducing something new, your objective should be to progressively move all of your employees through this cycle, beginning with the least risky (innovators). Keeping this in mind, you must devise a communication plan to convey the change's aims and advantages. You could wish to use awards and bonuses to promote loyalty, especially among early adopters. You must create implementation stages that will make the change easier to adopt in your organization.

e) **Put your plan into action**: After you've defined your strategy and action plan, you must put it into action, beginning with internal communications about change.

f) **Keep at it in agile mode**: Change is a protracted process that necessitates the change management team's ongoing efforts and tenacity. Indeed, various people in your business will have a varied pace when it comes to change. As innovators and early adopters may be in stage 5 (confirmation) of their journey, the bulk of early adopters may be at stage 1 and require you to focus on awareness and value communication. Your action plan may need to be tweaked gradually as a result of your change management approach and first feedback. Following the initial favourable outcomes, new objectives may be established in order to deepen the transformation.

g) **Embed it into the organization**: When the majority of people (innovators, early adopters, early majority, and first late majority users) have embraced the invention, it is time to make it mainstream. This stage entails documenting the best change procedures and incorporating them into business rules and regulations. Communicating about the results at this point also helps to illustrate the worth of your change management and the fact that change has become ingrained in the business.

12.6 STRATEGIES OF CHANGE MANAGEMENT

Organizational success is dependent on effective change management. When you establish a clear route to transformation, you can promote genuine change inside your organisation. That being said, if you haven't altered your plan in the last few months, it's definitely time to do so. There's a strong likelihood that circumstances have altered dramatically in a couple of months as a result of a confluence of variables such as the emergence of big data, broad cloud use, empowered customers, and, yes, the covid-19. To put it another way, the change management strategy must adapt in reaction to external influences. We'll go through the components of a good change management framework in this section.

a) **Run a Change Impact Analysis**: Begin by doing a change impact evaluation. This approach tries to impact the many elements that will be utilized to promote the proposed change and should achieve the following goals: The magnitude of the change is determined by comparing the existing condition to the anticipated goal. Calculating the impact of this adjustment Then, describe the criteria for transition support. Priority and effect ratings are used to prioritize needs. Making judgments based on the specifications.

b) **Make the Case to Stakeholders**: Transforming organizational culture needs top-down leadership. Fundamental modifications to old processes may necessitate a considerable initial commitment in both time and money. To begin, you'll need to make your case to senior decision makers, utilizing statistics to highlight the possible impact of changing the change management approach on the bottom line.

c) **Build a Team of Sponsors**: Choose a group of sponsors who will be active and visible participants throughout the project's life cycle. According to the organisation, the number one factor to a successful change management strategy is leadership engagement. Sponsorship should be proportionate to the magnitude and breadth of the proposed change, the size and structure of the business, and the amount of influence on workflows and employee roles. During the transition, this group may be utilised to connect directly with employees and generate a sense of transparency (and psychological safety).

d) **Create a Communication Plan Involve the Team Early and Often**: Change management methods, no matter approach, live and die by effective communication. Clear, consistent message, access to data, and supporting resources area unit needed for effective transformation. It additionally necessitates two-way communication channels for exchanging input on what's and is not functioning. Your communication techniques ought to empower worker decision-making, contextualize new methods, and make a case for the impact of the amendment on all parts of the duty. This technique supports employees and their capability to barter change/shifting cultural norms, that may be a vital driver for positioning your individuals with the massive transition.

e) **Involve the Team Early and Often**: Once you've received approval from the highest, you'll have to rally the troops and this can be possibly your toughest drawback, as individuals area unit scared of amendment. By incorporating people too soon, you'll combat these negative sentiments. Be honest regarding how the amendment might have an effect on the organization and individual responsibilities. Begin creating modest method enhancements, get feedback, and adapt approach. Supporting activities and tools area unit typically established and maintained by the amendment management "coalition" or the stakeholders concerned in a very sure project/process/department. Within the context of software system development, it is smart for the event team to guide the charge whereas collaborating closely with those tormented by the amendment C-suite, product leads, and so on.

f) **Reduce Cultural Tension**: According to Gartner, a lot of than 80% of workers encounter cultural friction within the geographical point once managing amendment, citing incompatible goals as a reason for stress. Profits vs. people, potency vs. innovation, and quality vs. speed area unit some examples. Seniority, experience, business conventions, hierarchies, and a scarcity of structure coherence should all be thought-about. As a result, your amendment management arrange should mirror the specified culture instead of the established order. Otherwise, you will be having an equivalent problems.

g) **Identify the Activities & Tools that Support the Change Management Strategy**: Determine the resources needed to support the amendment. counting on the sort of modification you propose to implement, this may embrace any of the following: finance in new infrastructure, training workers, and/or new software. Discovering new ways and procedures. making a business case, further as milestones and KPIs. making coaching materials and documentation of processes. creating a roadmap for implementation, a concept for managing opposition, or a method for method improvement. Introducing new tools to assist with the method.

Fig12.6: Strategies in Change Management

h) **Develop an Official Resistance Management Plan**: People dread amendment for a range of reasons, together with a worry of the unknown, a loss of management, or new hazards that may jeopardize the success of the project, or worse, your entire business. Arm yourself with tools and ways for managing resistance to alter. Managers might arrange sooner than time to avoid human hindrances down the road. produce proactive techniques that determine places wherever you're possible to fulfill objections and apply them to come up with early support. Develop reactive methods for managing opposition because it arises. Finally, it's crucial to acknowledge and celebrate the accomplishment of all parties engaged within the method, each groups and people. This will increase the speed of adoption of each the amendment management method and also the amendment itself.

i) **Focus on Generating Early "Quick-Wins"**: Targeting "low or bottom hanging fruit" is usually a fast and low-priced approach to possess a decent business impact. it's additionally a necessary step in getting buy-in from resistive employees. workers begin to feel hopeful once they witness the primary proof of excellent amendment (change that they helped to bring about). Long-term, these very little victories area unit crucial in generating long enhancements within the development process—and, by extension, the standard of products and services. it's additionally a vital facet in preventing and combating burnout. basically, these early "fast wins" illustrate that, yes, there's a solid explanation for forcing everybody to just accept new ways of working—and that their efforts really build a distinction.

j) **Change management frameworks should always be changing**: Your amendment management approach ought to be repetitious, cooperative, and ever-evolving, just like the Agile development method. ensure all stages of the amendment management method, further as goals and KPIs, area unit visible to help assess progress and determine and eliminate bottlenecks. Everyone, from the C-suite to the front lines, in-house or outsourced, ought to be able to monitor what is going on. Ensure your arrangement is pliable enough to permit for changes as groups progress through the project and see higher ways that to accomplish things. it's important to understand that there's a necessity to switch Agile principles/values to match new circumstances.

12.7 MODELS OF CHANGE MANAGEMENT

As firms' policies, procedures, and business processes area unit perpetually evolving, it's crucial to effectively manage and convey them throughout the geographical point. as a result of every firm has distinctive company values, culture, goals, and alter objectives, not each amendment management strategy is appropriate for everybody. So, let's cross-check many amendment management approaches for to place confidence in.

(i) **The McKinsey 7-S model**:The McKinsey 7-S approach, developed by McKinsey & Company consultants, entails breaking down a change programme into seven elements to focus on:

a) **Strategy**: is your company's arrange for gaining and retentive a competitive advantage over its competitors.

b) **Structure**: your company's structure (how departments and groups area unit structured, together with who is reporting and managing whom).

c) **Systems**: are the regular actions and processes that workers apply to try to their tasks.

d) **Shared Values**: These area unit the organization's basic values that represent its overall work ethic. once the paradigm was at the start established, they were cited as "super extra ordinate goals."

e) **Style**: The leadership vogue that has been adopted.

f) **Staff**: Workers and their general competencies area unit cited as employees.

g) **Skills**: Employee skills and competencies: The real skills and core competences of the workforce.

(ii) **ADKAR change management model**: Organizational change cannot occur without the support of employees at all levels, which is always difficult. It's human nature for certain people to resist change, which can range from small setbacks to entirely derailing your change endeavours. Enter ADKAR, Prosci's business transformation approach that focuses on the people side of change. In particular, it prioritises individual change over anything else. After all, an organisation is basically a collection of people, thus for reforms to be effective, everyone must contribute. The Prosci ADKAR model continues to be the industry standard for change management initiatives all around the world. It is beneficial for both individual and corporate change.

The ADKAR model may be a modification management technique that's wont to verify why modification is tough and why bound changes succeed whereas others fail. ADKAR may be a modification model that several modification leaders use.

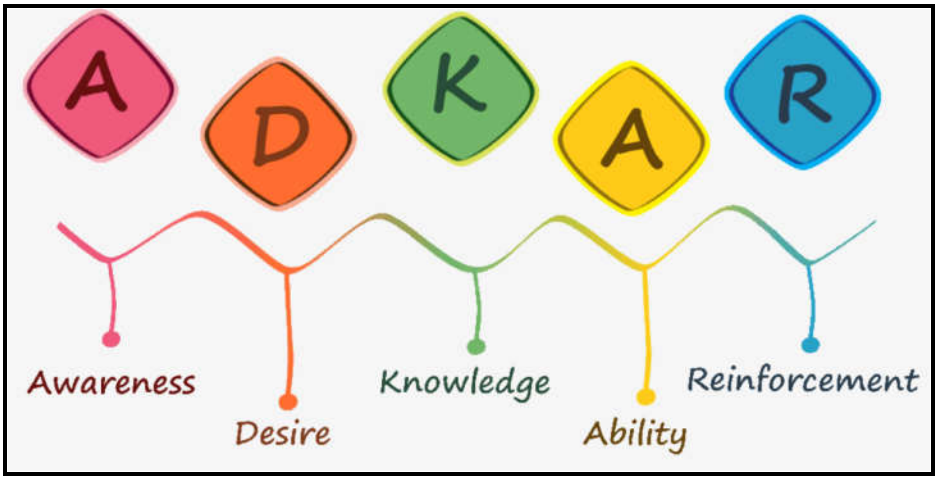

Fig12.7: ADKAR Design Model

The ADKAR model splits the amendment method into 5 elements, every of that focuses on the persons suffering from amendment and their reactions to change:

a) Awareness: Recognized the requirement for change

b) Desire: Desire to be the part of the process

c) Knowledge: Understanding of how to modify

d) Ability: Capability to carry out the modification

e) Reinforcement: Reinforcement is needed to keep the transition going.

12.8 CHANGE MANAGEMENT TOOLS

A change management tool is any technology – platform, software, or otherwise – that an organization may use to ensure that there is no tension throughout the transition process. Companies may follow the process, collect feedback, and note hurdles and accomplishments for future changes by adopting a change management technology or numerous tools.

Some are listed below:

a) **Whatfix**: Whatfix is focused on changes like workers on-boarding and off-boarding, further as large-scale multi dimensional technology adoption. It intends to revolutionise application coaching, learning, and support material by providing discourse, interactive, real-time, and autonomous user recommendation. The feature includes: time period, in-app help tailored to specific jobs, Increase the effectiveness of coaching by providing context and significance to the learner's expertise. have interaction users by displaying the foremost relevant and timely data in-app. create content with no code.

b) **SunView ChangeGear**: SunView ChangeGear is designed to assist enterprises satisfy auditing and compliance standards by streamlining modification and unleash management procedures. It contributes to DevOps initiatives by rushing modification procedures and reducing unleash bottlenecks. This resolution offers associate degree enterprise-wide read of the modification schedule, permitting you to coordinate and track modification activities with alternative planned events throughout the business.

The feature includes: cut back risks and increase system availableness by automating best practises in modification management. Meet compliance and alternative needs by making documented modification management strategies. On the modification Calendar, you'll be able to see planned modification events like modification Windows and Blackout Periods as visual cues. so as to create the Update Calendar on the market for each modification, plant it directly into a modification Request kind. Pre-authorizations supported team performance facilitate to expedite approvals. Approval and routing automations, modification model workflows while not writing for ITIL, DevOps, and business processes modify the assembling of vital risk work and therefore the history of modification records.

12.9 TURNAROUND STRATEGIES

The goal of a turnaround strategy is to shift course and try to turn around a company's fortunes by basic tactical changes like acquisition and divestment. Operating turnarounds include changing how things are done in processes like manufacturing in order to increase the firm's productivity.

It is suggested that turnarounds fall into three categories: piecemeal tactics, product-market trimming, and typical asset cost surgery. Good management is one of the traits that successful turnaround methods share because it is thought to be essential to a long-term recovery. A smaller organisational structure with fewer layers in the hierarchy is frequently indicative of one that is acceptable. Instead of cost reduction, tightly regulated costs mean greater controls.

Our review revealed a very high level of convergence in the findings of the prior studies. In essence, six turnaround strategies were consistently identified in the literature as effective in helping firms make a sustained recovery from a period of performance decline. Four of these relate to the content or main objectives of the turnaround, namely cost efficiencies, asset retrenchment, a focus on the firm's core activities and building for the future. The remaining two relate to accompanying change processes required for implementation: reinvigoration of firm leadership and corporate culture change. In the first part of this paper we discuss the elements involved in each of these strategies, reviewing the literature with an emphasis on capturing and synthesising the lessons for practice. In the second part of the paper we provide a contemporary example to illustrate the application of these strategies in the current economic environment. In our concluding section highlight areas where the knowledge on business turnarounds remains limited and suggest potentially fruitful directions for future research. Finally, I provide a Summery, which summarises in table form the individual findings and methodologies of the prior empirical studies that form the evidence base of our review.

In the first part of this paper we discuss the elements involved in each of these strategies, reviewing the literature with an emphasis on capturing and synthesising the lessons for practice.

12.10 DIFFERENT TURNAROUND RECOVERY TECHNIQUES

1.Cost-effectiveness tactics :

The majority of businesses use turnaround recovery tactics in an effort to cut costs. A wide number of actions are involved in cost savings, many of which are targeted at giving a corporation rapid wins. The actions taken could increase a company's cash flow or maintain its financial stability before developing more intricate plans.

Any recovery strategy will frequently start by implementing cost-saving measures. Companies prefer cost-efficient turnaround recovery techniques because they are simple to adopt, need minimal cash, and virtually instantly produce results. Research and development (R&D), accounts payable, pay increases, accounts receivable, inventory reduction, investment diversification, and marketing activities are just a few examples of cost-oriented turnaround tactics.

By reorganising finances, the steps may be followed by lessened debt payback pressure. However, there is some danger involved in such a move. Because employee morale is low, businesses that simply rely on cost-cutting as a turnaround recovery strategy run the danger of seeing increasing worker turnover. Cost-cutting tactics may potentially deplete the resources needed to support a company's primary objective.

Strategy will frequently start by implementing cost-saving measures. Companies prefer cost-efficient turnaround recovery techniques because they are simple to adopt, need minimal cash, businesses that simply rely on cost-cutting as a turnaround recovery strategy run the danger of seeing increasing worker turnover.

2. **Asset reduction techniques :**

Companies that are experiencing a decline in performance frequently go after asset reduction initiatives after a cost-efficiency drive. Companies use the method to assess underperforming areas and determine how to improve or remove them. Company may re-focus on loyal or less price-sensitive customer segments or product lines best known to it.

Retrenching assets as part of a turnaround recovery strategy is only effective if a company can create cash flow. For instance, a business might sell off its old assets to make money or buy new ones.

3. Concentrate on a business's core functions :

Businesses can turn to concentrating on their core competencies as a turnaround recovery approach. Companies who embrace the metrics as their primary focus of their firm's activities discover markets, customers, and products that have the potential to generate large profits. For example, a company may re-focus on loyal or less price-sensitive customer segments or product lines best known to it. It may develop a clear competitive strategy through focus. It is inspired by the idea that CEOs bear the responsibility for a company's negative position, and their replacement serves as a signal of change. CEO replacement can always be accompanied by an overhaul of the top management

Build for the future is aligned with a recovery phase of the turnaround process. This recovery should naturally be undertaken in a cautious and considered manner, and will often be embarked upon as a growth strategy from the strong core focus that the firm has developed. It is about positioning for long-term growth rather than short-term day-to-day survival.

4. A change in the top-down :

Companies frequently choose new CEOs as part of their turnaround recovery strategy. In order to infuse the top management with a fresh perspective during turnaround circumstances, the majority of businesses name new CEOs from outside the organisation.

For example, a company may re-focus on loyal or less price-sensitive customer segments or product lines best known to it. It may develop a clear competitive strategy through focus.

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The steps may be followed by lessened debt payback pressure. However, there is some danger involved in such a move. Because employee morale is low, businesses that simply rely on cost-cutting as a turnaround recovery strategy run the danger of seeing increasing worker turnover.

5. Change of leadership :

Companies often replace incumbent CEOs as a turnaround recovery strategy. During turnaround situations, most companies appoint new chief executives from outside the company as a way of injecting a new way of thinking into the top management. Businesses that simply rely on cost-cutting as a turnaround recovery strategy run the danger of seeing increasing worker turnover. Cost-cutting tactics may potentially deplete the resources needed to support a company's primary objective.

It is inspired by the idea that CEOs bear the responsibility for a company's negative position, and their replacement serves as a signal of change. CEO replacement can always be accompanied by an overhaul of the top management team to avoid repetition. As a result, a new senior management team can enable a company to focus on new strategies to lead the turnaround.

However, there is some danger involved in such a move. Because employee morale is low, businesses that simply rely on cost-cutting as a turnaround recovery strategy run the danger of seeing increasing worker turnover.

12.11 STRATEGIES

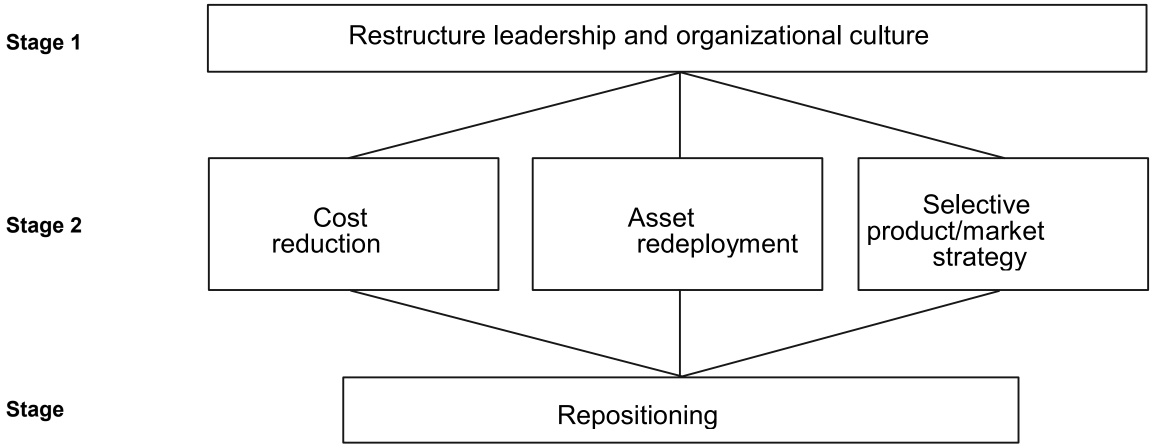

Figure 12.8 Five generic strategies of recovery

Stage / Strategy	**Action**	**Conditions**
1 Restructuring	Replace top managers	Internal causes of turnaround
	Use temporary structures	Need to diversify
	Alter organizational structure	Control and communications problems
	Alter culture	Aid repositioning Culture change Structure change
2 Cost reduction	Reduce expenses	Internal causes of decline
	Institute controls	Sales 60-80% of break-even
Asset	Sell assets	Over-expansion/low capacity use
Redeployment	Shutdown or relocate units	Sales 30-60% of break-even Rapid technological change
Selective product/	Defensive	Rapid entry of new competitors
market strategy	Decrease marketing effort Divest products	Over-expansion External causes of turnaround
	Offensive	High capacity use
	Increase marketing	Possessing operating and
	Increase prices Improve quality, service	Strategic weaknesses

3 Repositioning	Defensive	Over-expansion (defensive)
	Niche	Improved short-run profitability
	Market penetration	External causes for turnaround
	Decrease price	Major decline in market share
	Divest products	Non-diversified firms faced with
	Offensive Diversification into new products	external causes of decline (offensive)

12.12 SUMMARY

Change management is a systematic approach to dealing with the transition or transformation or both of an organization's goals, operations, or technology. The goal of change management is to develop techniques for bringing about change, regulating change, and assisting individuals in adapting to change. To be effective, the change management plan must analyse how a modification or replacement would affect the organization's processes, systems, and workers.

A method for planning and testing change, communicating change, scheduling and executing change, documenting change, and assessing its consequences is required. Documentation is an essential component of change management, not only for maintaining an audit trail in the event that a rollback is required, but also for ensuring compliance with internal and external controls, including regulatory compliance. Because each change request must be reviewed for its influence on the project, change management is critical in project management. Project managers, or senior executives in charge of change control, must consider how a change in one area of the project may influence other areas, as well as the impact that change may have on the whole project.

A systematic approach to change management assists firms in mitigating disruption, lowering costs, reducing time to implementation, improving leadership abilities, driving innovation, and increasing morale. Also Companies that are building a change management programme from the bottom up confront several hurdles. A full awareness of corporate culture is required, as is a precise accounting of the systems, applications, and workers that may be affected by a change. Overall, business change is frequent and unavoidable, and when it is not handled properly, it may generate organisational stress as well as unneeded and costly rework.

12.13 QUESTIONS

1.What are the two types of change management?

A) Real change and superficial change
B) Incremental change and circular change
C) Radical change and transformational change
D) Incremental change and transformational change

2.Identify the correct sequence of the key activities in the strategic management process.

A) Analysis, formulation and evaluation

B) Analysis, implementation and evaluation

C) Formulation, implementation and evaluation

D) Formulation, evaluati

2. Identify the correct sequence of the key activities in the strategic management process.

A) Analysis, formulation and evaluation
B) Analysis, implementation and evaluation
C) Formulation, implementation and evaluation
D) Formulation, evaluation and implementation

3. Discuss various change management tools.

4. Give various reasons and causes of organizational change.

Answers: 1 (D), 2 (C)

12.14 REFERENCES

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2) The Theory and Practice of Change Management. By John Hayes

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