# Strategic Management

## DEMGN226

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# Strategic Management

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# Unit 01: Strategic Management

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## Objectives

After studying this unit, you will be able to,

- state the meaning of strategy.
- understand the nature of strategy.
- explain the components of strategy development.
- develop awareness about the historical development of strategic management in India and around the world.
- grasp the concept of strategy and its limitations.
- outline the hierarchy of strategic intent
- describe the procedure for strategic management.
- analyse the three steps involved in developing, implementing, and evaluating a strategy.
- understand how analysis and intuition be combined in strategic management.

## Introduction

Strategy (from Greek στρατηγία stratēgia, "art of troop leader; office of general, command, generalship") is a general plan to achieve one or more long-term or overall goals under conditions of uncertainty. The Greek term "strat gos"—from stratus, which means army, and "ago," which means leading or moving—is the source of the English word "strategy."

Planning a strategy requires keeping in mind that choices are not made in a vacuum and that any action taken by a company is likely to elicit a response from those it will likely impact, including rivals, clients, employees, or suppliers.

The understanding of objectives, the unpredictability of events, and the necessity of taking into account other people's potential or real behaviour are additional definitions of strategy. A company's strategy outlines its objectives, goals, key policies, and plans for achieving them.

It also describes the type of business the company will conduct, the kind of economic and social organization and also, what the business wants to be, and the contributions it intends to make to its shareholders, clients, and society at large.

Managers use strategy to accomplish one or more of the organisation's objectives. A general direction established for the business and its various parts to attain a desired state in the future is another definition of strategy. The process of meticulous strategic preparation yields strategy.

## 1.1 Definition of Strategy

The understanding of objectives, the unpredictability of events, and the necessity of taking into account other people's potential or existing behaviour are other definitions of strategy.

A company's strategy outlines its objectives, goals, key policies, and plans for achieving them. It also describes the type of business the company will conduct, the kind of economic and social organisation it wants to be, and the contributions it intends to make to its shareholders, clients, and society at large.

A clear plan for an organisation is its strategy. It outlines an organization's overall goal, vision, and course. The goal of a strategy is to maximise an organization's strengths and reduce competition strengths.

In a nutshell, strategy fills the space between "where we are" and "where we want to be".

## 1.2 Components of Strategy

Since predicting the future is impossible, strategy is important. The organisations must be prepared to handle the uncertain occurrences that make up the business environment even without full foresight.

Instead, then focusing on daily operations, strategy considers long-term trends, such as the likelihood that new technologies may result in innovative goods, production methods, or markets in the future. Since predicting the future is impossible, strategy is important. The firms must be prepared to handle the uncertain events that make up the business climate even without perfect foresight.

Instead of focusing on daily operations, strategy considers long-term developments. These can be developments such as the likelihood that new technologies will result in innovative goods, production methods, or markets in the future.

The creation of strategy takes into consideration the likely customer and competitor behaviour. Employer-focused strategies will forecast staff behaviour. Strategy, in short, bridges the gap between "where we are" and "where we want to be".

Strategy is a well-defined roadmap of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors.

The creation of strategy takes into account the likely customer and rival behaviour. Employer-focused strategies will forecast employee behaviour.

Figure 1 below shows the components of strategy.

Vision

Mission

Objectives

*Figure 1: Components of Strategy*

## 1.3 Mission and Vision

Both the mission and the vision of an organisation relate to its purpose, and they are usually expressed in writing. The organisation's mission and vision statements provide answers to the questions of who we are, what we value, and where we're heading.

### Mission Statement

A mission statement explains the organisation's purpose and how it intends to benefit its main constituencies. The stakeholders that are most frequently highlighted are customers, workers, and investors, but other stakeholders, such as the government or communities (i.e., in the form of social or environmental effect), can also be discussed.

Mission statements are often longer than vision statements. Sometimes mission statements also include a summation of the firm's values. Values are the beliefs of an individual or group, and in this case the organization, in which they are emotionally invested.

**Mission Statement of Starbucks**

*Figure 2: Starbucks and its Mission Statement*

The Starbucks mission statement describes six guiding principles that, as you can see, also communicate the organization's values:

1. Provide a great work environment and treat each other with respect and dignity.
2. Embrace diversity as an essential component in the way we do business.
3. Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
4. Develop enthusiastically satisfied customers all of the time.
5. Contribute positively to our communities and our environment.
6. Recognize that profitability is essential to our future success (Starbucks, 2008).

### Vision Statement

A vision statement, in contrast, is a future-oriented declaration of the organization's purpose and aspirations. In many ways, you can say that the mission statement lays out the organization's "purpose for being," and the vision statement then says, "based on that purpose, this is what we want to become."

Since the strategy's goal is to realise the vision and thereby fulfil the organisation's purpose, it should naturally follow from the vision. It reflects the aspirations of a company.

**Example**: As is the case with Starbucks' vision statement, which reads: "Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow," most vision statements are fairly succinct. (Starbucks, 2008)

**Task:** Find out the Mission and the Vision statements of Tesla and try to write down the ideology of the company behind these statements ?

## Mission Vs Vision

The query "Who are we?" is answered by mission statements. also "What values does our organisation uphold?" whereas, the question "Where is this organisation going?" is addressed in vision statements, which are usually brief, future-focused statements.

Organizations are increasingly including a values statement as well, which either reiterates or states explicitly the organisation's values that may not be clear from the goal or vision statements.

*Figure 3: Amazon and its Guiding Principles*

## Four guiding principles of Amazon

The four guiding principles of Amazon are: obsessing over the client rather than the competition, being passionate about invention, being dedicated to operational excellence, and having a long-term perspective.

Amazon aspires to be the planet's most customer-focused business, finest employer, and safest workplace.

*Figure 4: Customer Centric*

### *Innovations*

Some of the innovations made by Amazon include 1-Click shopping, personalised recommendations, customer reviews, Prime, Fulfillment by Amazon, AWS, Kindle Direct Publishing, Kindle, Career Choice, Fire tablets, Fire TV, Amazon Echo, Alexa, Just Walk Out technology, Amazon Studios, and The Climate Pledge.

Figure 5: One-Click Checkout

Figure 6: Innovation and Amazon

Amazon fire TV stick is a media streaming device which lets you stream video, install apps, play music etc. on your tv. It's built on the Android platform and it converts your normal tv to a smart tv. You can install android apps on the device and play games and enjoy music too.

### *The climate pledges*

The Climate Pledge is a commitment to reach net-zero carbon emissions by 2040—10 years ahead of the Paris Agreement. Amazon co-founded The Climate Pledge in 2019 to build a cross-sector community of companies, organizations, individuals, and partners working together to address the climate crisis and solve the challenges of decarbonizing our economy.

### *Leadership Principles of Amazon*

- We hold ourselves and one another responsible for consistently acting in a way that exemplifies the Leadership Principles.
- Our Leadership Principles lay out how Amazon conducts business, how leaders lead, and how we maintain the needs of our customers at the forefront of all that we do.
- Our Leadership Principles, which sum up the distinctive Amazon culture, guide us as we tenaciously pursue our goal of being the most customer-centric, best-employer, and safest business on Earth.

## 1.4 Strategic Management's and its Origins

The first instance of strategic management can be found in 1911, when Harvard Business School developed a comprehensive management capability-building course dubbed "business policy."

The Association to Advance Collegiate Schools of Business, an organisation that regulates business schools, made the business policy course a criterion for recognition in 1969.A research conference held in 1977 at the University of Pittsburgh contributed to the transition from corporate strategy via strategic planning to strategic management.

The term 'Business Policy' had been traditionally used though titles such as Strategic Management, Corporate Strategy, Corporate Strategy and Policy, Competitive Strategy, etc. are now used extensively for the course.

Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems. With time these techniques failed to adequately emphasise the role of future long-range planning.

Later long-range planning was replaced by strategic planning, and later by strategic management: a term that is currently used to describe the process of strategic decision making.

The first phase of evolution of strategic management, which can be traced back to the mid-1930s, rested on the paradigm of ad hoc policy-making. Due to the increasing environmental changes in 1930s and 40s in the U.S. planned policy formulation replaced ad hoc policy-making.

Formal management education started in India in the late fifties and gained an impetus with the setting up of the Indian Institutes of Management (IIMs) and the Administrative Staff College of India in the early sixties. The All-India Council of Technical Education (AICTE), the prescribed strategic management, first in 1990 and again in 1995.

Strategic Management Forum of India is an actively functioning, professional association exclusively devoted to the development and propagation of the theory and practice of strategic management in India.

## 1.5 Strategy

A strategy could be: a plan or course of action or a set of decision rules making a pattern or creating a common thread. The pattern or common thread related to the organisation's activities which are derived from the policies, objectives and goals.

It is related to pursuing those activities which move an organisation from its current position to a desired future state. It is concerned with the resources necessary for implementing a plan or following a course of action.

It is connected to the strategic positioning of a firm, making trade-offs between its different activities, and creating a fit among these activities. It is the planned or actual coordination of the firm's major goals and actions, in time and space that continuously co-align the firm with its environment.

### Levels at which Strategy operates

There are different levels at which a strategy operates.

#### *Strategic Intent*

The organisation's success will be measured using the criteria set forth in the strategic intent, which depicts a desirable leadership position. Additionally, the idea embraces an active management procedure that entails:

- Concentrating the organisation's efforts on what makes a winning strategy
- Expressing the importance of the aim to inspire individuals
- Affirming both individual and group contributions
- Preserving excitement by offering fresh operational definitions.

**De Beers**

De Beers S.A., South African company that is the world's largest producer and distributor of diamonds. Through its many subsidiaries and brands, De Beers participates in most facets of the diamond industry, including mining, trading, and retail.

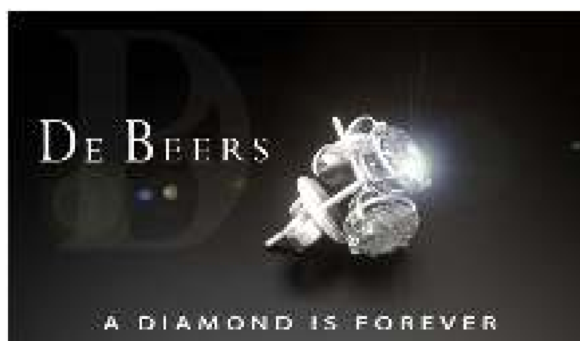


*Figure 7: De Beers*

### De Beers and the challenges faced

DeBeers dominated the diamond industry in the early 1990s. Even though it had produced only 45% of the raw diamonds in the world, its marketing division in London sold at least 80% of the overall supply.

Due to its market domination, its Central Selling Organization had complete discretion over who, how much, and at what price to sell to. DeBeers, a major diamond producer, had its eye on the synthetic diamond market as a possible disruptor.

DeBeers was considering how to handle the threat in 2009, following years of deliberate efforts to repair its tarnished reputation as the dominant player in the market. DeBeers faced many challenges along the way.

DeBeers had to decide whether to enter the market with its own synthetic diamonds or to have trust that synthetics would be a fleeting craze and that buyers would always prefer purchasing what, in DeBeers's opinion, was the real thing.

However, the company's predicament was made more difficult by the fact that it was attempting to restore its reputation, which had been damaged by years of anti-competitive business tactics, to one that was demand-driven and brand-focused.

DeBeers used to produce 45% of the rough diamonds in the world and sell 80% of the overall supply, but by 2007, those numbers had dropped to 40% and 45%, respectively. The Soviet Union had sold all of its diamond output to DeBeers' Central Selling Organization in a marketing arrangement dating back to the late 1950s, when Siberian diamond reserves were first identified.

DeBeers was unable to enforce contracts and Russian diamonds were soon being smuggled onto the international market causing prices to fall. The Argyle diamond mine in Australia, which produced low-quality diamonds ideal for affordable jewelry, decided to end its contract with DeBeers and start marketing its own diamonds in 1996, which dealt DeBeers its second setback.

In that year, it sold 42 million carats straight to polishers in Antwerp. Angola, the third-largest producer of rough diamonds in the world, was taken over by rebel groups opposed to President Dos Santos in the middle of the 1990s.

As soon as the rebels took over the nation's diamond production, they flooded the market with up to $1.2 billion worth of raw diamonds. DeBeers was forced to purchase what were known as "blood diamonds" in order to maintain control over supply and prices.

### New strategies

On the recommendation of American consulting company Bain and Company, DeBeers made the decision to "ditch its role as buyer of last resort" and create a demand-driven, brand-focused strategy where profits were prioritised over market dominance in 1998.

The Managing Director of DeBeers explained the company's strategic shift by saying, "We don't have to be dashing about the world attempting to buy every diamond. Why do we purchase diamonds at prices that are close to our selling price?

DeBeers stopped accumulating diamonds, stopped purchasing them on the open market, and started solely selling diamonds that came from its own operations as part of its plan. DeBeers had to forge new ties with its suppliers in order to implement a new demand-centered strategy.

DeBeers had to forge new ties with its suppliers in order to implement a new demand-centered strategy. This resulted from a programme known as the "Supplier of Choice," whose objective was to transform DeBeers into the supplier of choice in the perspective of its clients rather than the buyer of last resort.

DeBeers reduced the number of its sight holders from 120 to 80 and established official commercial partnerships with individuals who were selected through a written contract. The requirement for sight holders to buy the stones DeBeers gave them had been removed.

Instead, they made a particular request for a package of stones based on the sales and marketing plans they had developed. The requirements for being a sight holder no longer depended on financial stability and manufacturing prowess, but rather on marketing acumen.

This resulted from the "Supplier of Choice" initiative, whose objective was to elevate DeBeers to the status of a preferred supplier in the eyes of its clients. The DeBeers Forever mark, a microscopic marking engraved into natural diamonds that verified polished diamonds were natural, ethically traded, and untreated, was made available to sight holders under the terms of the new agreement. (The Forever mark diamond was sold in Hong Kong, China, Japan, and India.)

**Forever mark**

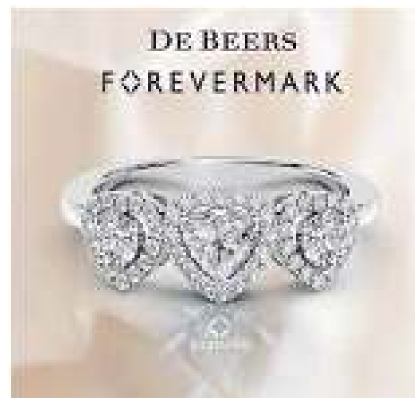


*Figure 8: Forever mark*

Hand-selected And Hand-crafted. Less Than 1% Of Diamonds Are Eligible to Be Forever mark.

***New strategies***

The Forever mark diamond was sold in Hong Kong, China, Japan, and India. Sight holders also profited from DeBeers' marketing data, which included information on global engagement rates and consumer purchasing patterns. Sight holders who were successful in creating enduring brands had some of their advertising and marketing expenses repaid.

DeBeers created a marketing and retail plan to promote their diamonds as a recognisable high-end good. Unlike other manufacturers of premium brands, the lack of branding among diamond producers had resulted in poor financial performance over time.

However, a Boston-based diamond wholesaler had shown that branding diamonds could be successful, particularly as the market shifted to a demand-driven approach. The wholesaler started selling a branded diamond named Hearts on Fire in 1997. He obtained his raw stones from DeBeers sight holders and other sources.

Alongside DeBeers' efforts to diversify its clientele, it positioned its brand accordingly. The "Celebrate Her" campaign, which invited men to display their love for their significant others by purchasing her a three-stone diamond ring, was one of many non-wedding commercial campaigns that were launched.

*Figure 9: Hearts on Fire*

Will you marry me again? asked the middle-aged man in the advertisement for the campaign. A campaign called "Women of the World Raise Your Right Hand" urged women to treat themselves to a diamond ring to be worn on their right hand as a statement of individual style.

## 1.6 Definition of Strategic Management

The constant planning, monitoring, analysis, and assessment of all requirements that an organisation needs to accomplish its goals and objectives is known as strategic management. Organisations will have to re-evaluate their success strategies on a regular basis as a result of changes in the business environment.

There are various schools of thought in strategic management. While a descriptive method focuses on how strategies should be implemented, a prescriptive approach to strategic management specifies how strategies should be established. Whether strategies are created via an analytical process, in which all dangers and opportunities are taken into account, or if they are more like general guiding principles to be applied, is where these schools diverge.

*"It is the study of the functions and responsibilities of general management and the problems which affect the character and success of the total enterprise".*

**Learned (1965)**

*"Strategic management is a process that deals with the entrepreneurial work of the organisation, with organisational renewal and growth, and, more particularly, with developing and utilizing the strategy which is to guide the organisation's operations".*

**Schendel and Hofer (1979)**

*"Strategic management is an on-going process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly".*

**Lamb Robert (1984)**

*"Strategic management entails the analysis of internal and external environments of firms to maximize the utilization of resources in relation to objectives".*

**Bracker (1980)**

## Objectives of Strategic Management

The following are the objectives of strategic management;

- To create new and different opportunities for future.
- To offer the conceptual frameworks necessary for a manager to comprehend the crucial connections between actions, circumstances, and performance.
- To make an organisation more competitive.
- To maintain and strengthen that position by the use of suitable resources, their acquisition, and monitoring and responding to environmental changes.
- To keep track of and address the needs of important stakeholders.
- To locate, entice, and retain customers.
- To make sure that the business is fulfilling the demands and desires of its clients.
- To maintain one's standing as a contender.

## Stages of strategic management

There are three stages of strategic management as discussed below:

- Strategy formulation
- Strategy implementation
- Strategy assessment

### *Strategy formulation*

This includes formulating of a strategy, creating a vision and goal, and assessing external opportunities and dangers for an organization. The key aspects of this function include;

- Identifying one's own strengths and weaknesses.
- Formulation of long-term goals.
- Developing alternate tactics.
- Selecting certain tactics to use.

### *Strategy Implementation*

Establishing annual goals, creating policies, inspiring staff, and allocating resources are all necessary for strategy implementation, also known as the action stage, which allows for the execution of developed plans are importants aspects of implementation.

### *Strategy Assessment*

Identifying the techniques that aren't working is assessment of the strategy. It comprises of these essential actions:

- Examining the internal and external influences that form the foundation of the current strategies
- Evaluating performance and making adjustments

## Concepts in Strategic Management

The following are the main concepts in strategic management that need to be understood.

### *Competitive advantage*

This is everything a company does particularly well in comparison to what other companies do, or something it has that rival companies covet. In order to maintain a competitive advantage, a company must work hard.

### *Strategists*

These are the most accountable for an organisation's success or failure. They assist a company with information gathering, analysis, and organization of information for strategy development.

### *Statements of the mission and vision*

*The question of "What do we want to become?" is answered in a vision statement.*

*The question of "What is our business?" is answered by a mission statement.*

### *External Opportunities and Threats*

Economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly help or hurt an organisation are referred to as external opportunities and threats.

### *Internal Strengths and Internal Weaknesses*

These are those aspects of an organisation's-controlled operations that are carried out especially well or poorly as compared to rivals.

### *Long-Term Objectives*

These are specific outcomes that an organisation aspires to in order to carry out its core goal. Long-term objectives should be demanding, measurable, repeatable, realistic, and transparent.

### *Strategies*

Long-term goals may be accomplished by a variety of strategies, including as joint ventures, regional expansion, diversification, acquisition, product development, and market penetration.

### *Long-term objectives*

long-term objectives should be created at the corporate, divisional, and functional levels in a large organisation. They should be measurable, quantitative, demanding, realistic, consistent, and prioritised.

### *Policies*

A purposeful set of rules designed to direct behaviour and produce logical results is called a policy. A policy is a declaration of intent that is carried out through a method or protocol. Typically, a governance board inside an organisation adopts policies.

## The Strategic Management Model

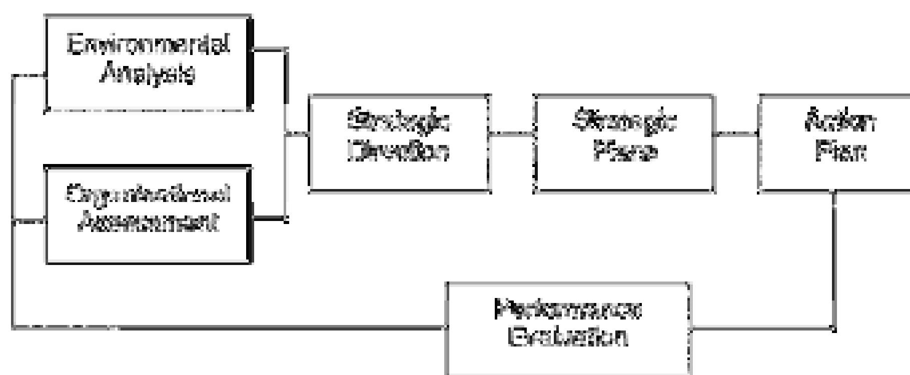


*Figure 10: Strategic Management Model*

### *Focus*

Now, where are we?

Where are we headed?

How will we get there?

*Figure 11: Coca Cola and its Focus*

As depicted in Figure 11, the focus of Coca-Cola lies on different aspects ranging from Brand Ownership to its Portfolio Management.

## Benefits of Strategic Management

Strategic management has numerous benefits. It outlines the goals, strategies, core skills, and competitive advantages that are essential to the success of a company. It entails developing and putting into action plans to guard against risks from rival market participants and assure the long-term expansion and prosperity of a business.

Additionally, strategic management finds opportunities for people to develop through training and development and makes sure that everyone works together to reach organisational goals. An organisation's ability to innovate, adapt, and align with rapidly changing conditions that may significantly affect its aims is ensured by effective strategic management.

### *Financial Advantages*

When compared to companies without regular planning efforts, businesses utilising strategic-management concepts exhibit a considerable gain in sales, profitability, and productivity. High-performing businesses frequently engage in methodical planning to get ready for potential changes to their internal and external environments.

### *Non-Financial Advantages*

The non-financial advantages can be listed as follows:

- Increased awareness of dangers outside
- Improved comprehension of the tactics used by rivals
- Increased output from employees
- Less opposition to change
- Greater comprehension of the connections between performance and reward

## Challenges of strategic planning

The challenges of strategic management can be listed as follows:

- Using strategic planning to influence choices and allocation of resources
- Merely carrying out strategic planning to meet accreditation or regulatory criteria
- Moving from mission development to strategy formulation too quickly

- Employees are left in the dark about the plan due to a failure to explain it to them.
- Top executives frequently deviate from the stated strategy with their instincts
- The strategic planning process is not actively supported by top managers
- Failing to evaluate performance using plans as a benchmark
- Instead of involving all managers, delegating planning to a "planner”.
- Not involving important personnel in all planning stages.
- Failing to foster a cooperative environment that is change-friendly.
- Being so preoccupied with current issues that inadequate or no planning is done for the future.
- Planning may be too formal and may lack spontaneity and flexibility and hinder the strategic planning process.

### Distinction between military and corporate strategy

A key distinction between military and corporate strategy is that the former is developed, put into practice, and assessed under the premise of competition, whilst the latter is predicated on the premise of combat.

Organizations in both the military and business sectors must adapt to change and keep getting better.

## Summary

- A company's strategy outlines its objectives, goals, key policies, and plans for achieving them.
- Managers use strategy to accomplish one or more of the organisation's objectives. A general direction established for the business and its various parts to attain a desired state in the future is another definition of strategy.
- A clear plan for an organisation is its strategy.
- The creation of strategy takes into consideration the likely customer and competitor behaviour.
- The first instance of strategic management can be found in 1911, when Harvard Business School developed a comprehensive management capability-building course dubbed "business policy."
- There are different levels at which a strategy operates.
- Strategy formulation includes formulating of a strategy, creating a vision and goal, and assessing external opportunities and dangers for an organization.
- A key distinction between military and corporate strategy is that the former is developed, put into practice, and assessed under the premise of competition, whilst the latter is predicated on the premise of combat.

## Keywords

***Mission:*** A mission statement explains the organisation's purpose and how it intends to benefit its main constituencies.

***Vision:*** A vision statement, in contrast, is a future-oriented declaration of the organization’s purpose and aspirations.

***Strategy:*** A strategy could be: a plan or course of action or a set of decision rules making a pattern or creating a common thread.

***Strategic Management:*** "It is the study of the functions and responsibilities of general management and the problems which affect the character and success of the total enterprise".

***Policy:*** A purposeful set of rules designed to direct behaviour and produce logical results is called a policy.

## Self Assessment

1. ____________ is an actively functioning, professional association exclusively devoted to the development and propagation of the theory and practice of strategic management in India.

A. Strategic Planning Forum of India
B. Strategic Management Forum of India
C. Strategic Mission Forum of India
D. Strategic Platform of India

2. The first instance of strategic management can be found in the year;

A. 1911
B. 1921
C. 1981
D. 2002

3. The following are the objectives of strategic management;

A. To create new and different opportunities for future.
B. To offer the conceptual frameworks necessary for a manager to comprehend the crucial connections between actions, circumstances, and performance.
C. To make an organisation more competitive.
D. All of the above

4. There are _____ stages of strategic management

A. 1
B. 5
C. 3
D. 7

5. This is everything a company does particularly well in comparison to what other companies do, or something it has that rival companies covet.

A. Competitive features
B. Competitive Edge
C. Strategic Intent
D. Competive Intent

6. A company's ______ outlines its objectives, goals, key policies, and plans for achieving them.

7. A _______ statement explains the organisation's purpose and how it intends to benefit its main constituencies.

8. A ________ statement, a future-oriented declaration of the organization's purpose and aspirations.

9. The organisation's success will be measured using the criteria set forth in the_______, which depicts a desirable leadership position
10. A purposeful set of rules designed to direct behaviour and produce logical results is called a ______.
11. Organizations in both the military and business sectors must adapt to change.

A. True

B. False

12. DeBeers ddominated the diamond industry in the early 1990s.

A. True

B. False

13. DeBeers created a marketing and retail plan to promote their diamonds as a recognisable high-end good.

A. True

B. False

14. Marketing Managers assist a company with information gathering, analysis, and organization of information for strategy development.

A. True

B. False

15. The goal of a strategy is to minimise an organization's strengths.

A. True

B. False

## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | B | 2. | A | 3. | D | 4. | C | 5. | B |
| 6. | Strategy | 7. | Mission | 8. | Vision | 9. | Strategic Intent | 10. | Policy |
| 11. | A | 12. | A | 13. | A | 14. | B | 15. | B |

## Review Questions

1. State the meaning of strategy and explain its nature and components?
2. Outline the historical development of strategic management in India and around the world.
3. Outline the hierarchy of strategic intent?
4. Explain the model of strategic management? Outline the benefits of strategic management?
5. Analyse the three steps involved in developing, implementing, and evaluating a strategy.

6. Outline the challenges faced by DeBeers and different strategies that were adopted to meet these challenges?
7. Outline the four guiding principles of Amazon incorporation? Also outline the other strategies adopted by Amazon?

## Further Readings

Strategic Management and Business Policy by Azhar Kazmi, Mc Graw Hill. Strategic Management Concepts: A Competitive Advantage Approach by Fred R. David, Purva Kansal and Forest R David, Pearson.

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# Unit 02: Strategic Intent

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## Objectives

After studying this unit, you will be able to,

- describe the purpose of mission statements in strategic management and their function.
- understand on how to create a mission statement.
- describe on how mission might help other strategic management initiatives.
- outline the qualities of an effective mission statement.
- identify the elements of mission statement.
- understand the importance of a business vision.
- describe the relevance of a vision for a business.
- understand the concept of business decision making.
- describe goals and objectives.

## Introduction

Resource management, analysis of internal and external forces, and the creation of plans are all components of strategic management. Businesses can execute their strategies using one of five main phases.

A company must first set definite, attainable goals. Its objectives must to explain what the organisation hopes to accomplish and why. The business can then specify the objectives, or how the goals will be attained, once they have been set. The business can describe its vision and both its long-term and short-term aims during this stage.

After that, organisations must be able to analyse, comprehend, and define how internal and external factors affect their operations, objectives, and ability to compete. During this stage, analytical techniques like a SWOT analysis are useful.

The company can then create its strategy, explaining how it will accomplish its objectives, based on the findings of the analysis. The business will determine the necessary personnel, equipment, and other resources at this phase, along with how they will be distributed among various activities and the performance criteria that will be used to gauge success. Gaining support from key stakeholders and company executives is also essential. There are some key components of strategic management, discussed in the following paragraphs.

## 2.1 Strategic Goals

The strategic goals are essential for articulating its vision since they make it concrete and define the results. This includes clearly stated objectives and strategic goals that allow managers to manage and encourage personnel at the organisation. They also help to bring the organisation's vision to life.

*Figure 1: Strategic goals*

## 2.2 Mission

A mission statement is a statement of purpose that endures. For setting goals and creating strategies, it is crucial to have a clear purpose statement. An effective mission statement outlines the core, distinctive purpose that distinguishes the organisation from others in its field.

It also incorporates the company's business and personnel treatment philosophies. In a nutshell, the mission articulates the company's focus areas for products, markets, and technologies in a way that represents the objectives and values of the strategic decision makers.

The organisation's mission statement outlines the rationale for its existence. The mission specifies the range of its activities in terms of the products an organisation offers and the markets it serves. A declaration of an organization's "reason for being." It answers the pivotal question "What is our business?" It is essential for effectively establishing objectives and formulating strategies.

### *Definitions of Mission*

*"Purpose or reason for the organization's existence".*

**Hunger and Wheelen**

*"The essential purpose of the organisation, concerning particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy".*

**Thompson**

**Feature of a Good Mission Statement**

A strong mission statement encourages the development and examination of a variety of workable alternative goals and plans without unduly restricting management innovation.

To effectively bridge disparities amongst and appeal to an organisation's different stakeholders, a mission statement must be broad.

A good mission includes consideration of the general public, unions, competitors, stockholders, boards of directors, customers, suppliers, distributors, creditors, governments (local, state, federal, and foreign), and other stakeholders.

### Pre-requisites of a good mission statement

A good mission statement consists of nine elements: clients, goods or services, markets, technology, worry about survival/growth/profits, philosophy, self-concept, worry about reputation, worry about staff.

Must define who the organisation is and what it hopes to become in its mission statement. Be both restrictive enough to keep some endeavours out and inclusive enough to foster creative growth.

Differentiate a certain company from all others. Must be broad in scope; excludes numerical values, percentages, ratios, and aims. Should not be more than 150 words. Must determines the usefulness of a company's products, demonstrates the company's social responsibility., demonstrates the company's environmental responsibility.

Must be motivating and generate inspiration, should act as a framework for assessing both ongoing and upcoming initiatives and be made plain enough to be understood by everyone within the organisation.

### Importance of mission statement

A mission statement ensures that everyone in the organisation is working towards the same goals. It gives an organisation's resource allocation a foundation or benchmark. It creates an overall tone or climate inside the organisation.

It acts as a focal point for people to connect with the organisation's direction and goal. It makes it easier to translate objectives into tasks delegated to accountable individuals inside the organisation. It identifies the corporate purpose and then assists in converting this purpose into objectives so that time, cost, and performance metrics can be measured and managed.

### Characteristics of a mission statement

*Short:* A mission statement ought to be succinct.

*Clear:* The organisation's principles, aims, and goals should be clearly stated and simple to comprehend so that everyone inside the business can use it as a guide.

*Broad:* A mission statement should be broad but not overly vague, striking a good balance between the two.

*Inspiring:* A mission statement should inspire readers to take action. Such an organisation should make working there rewarding for its employees.

*Involve all:* Both internal and external stakeholders should feel good about the organisation as a result.

*Reflect the company's value:* A mission statement should provide the sense that the company is deserving, successful, and headed in the right way.

*Relevant:* A mission statement ought to be pertinent to the company in terms of its common values, history, and culture.

*Currently focussed*: Over time, a goal statement may become dated. One may probably only expect to be good enough for ten years. The mission statement may need to be modified when environmental and organisational circumstances change.

*Unique:* A company's mission statement ought to convey the distinctiveness and personality of the business.

*Evolving:* An organisation's mission statement should continuously direct and motivate the pursuit of its objectives. Although it might not be fully accomplished, it ought to present management and staff with challenges.

*Basis for instruction:* The mission statement need to offer helpful standards for picking a foundation for creating and vetting strategic possibilities.

*Customer-focused:* A strong mission statement highlights how a company's goods or services can benefit its clients and draws them in.

*A statement of social policy*: A mission statement should include its social responsibility philosophy, including commitments to stakeholders and society at large.

*Focused on Values, beliefs, and philosophy:* Emphasis should be placed in the mission statement on the values and philosophy that the company upholds.

### *Mission components*

*Basic product or service:* What are the firm's major products or services? A mission statement must provide this information.

*Primary markets:* Where does the firm compete?

*Principal technology:* Is the firm technologically current?

*Customers:* Who are the firm's customers? The target customer and the focus must be provided explicitly.

*Concern for survival, growth and profitability:* Is the firm committed to growth and financial soundness?

*Company philosophy:* What are the basic beliefs, values, aspirations and ethical priorities of the firm?

*Company self-concept:* What is the firm's distinctive competence or major competitive advantage?

*Concern for public image*: Is the firm responsive to social, community and environmental concerns?

*Concern for employees:* Are employers considered a valuable asset of the firm?

*Concern for quality:* Is the firm committed to highest quality.

## Formulation of mission statements

Typically, mission statements are written as follows: In many instances, the mission is inherited, meaning that the founder defines it. This purpose may stay the same over time or it may be updated as circumstances change.

The CEO, board of directors, or a special committee of strategists may write the mission statement in some situations. It's also typical to hire consultants to write the mission statement.

To create a mission statement, many businesses invite senior executives to brainstorming sessions. It's also usual to ask employees for their opinions. When the paper is in its final form, a decision must be made regarding the best way to convey the mission to all management, employees, and external constituencies of an organisation.

Some businesses also conduct workshops at two levels of the company, with the corporate planning group serving as the facilitators. Unions are also involved in formulating mission statements.

Mission Statement

*Figure 2: Mission statement of Disney*

## 2.3 Vision

*"A challenging and imaginative picture of the future role and objectives of an organisation, significantly going beyond its current environment and competitive position."*

***Richard Lynch***

*"A mental perception of the kind of environment that an organisation aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception".*

**E1-Namaki**

*"A description of something (an organisation, corporate culture, a business, a technology, an activity) in the future."*

**Kotter**

Vision is the goal towards which organisations should strive. It acts as a road map or objective. It can be described as inspiring, motivational, emotional, or analytical, depending on the description. A vision is an inspiring dream about the company's future.

It serves as a potent catalyst for action. People's hearts and minds are both captured by it. It expresses a vision of the organization's future that is more appealing, reasonable, and credible than the status quo. One of the major responsibilities of the leader is creating and executing a vision. He should have a "plan" to put his "strong sense of vision" into action.

### An Effective vision, consist of two things:

A cognitive component (which focuses on outcomes and how to achieve them)

An affective component (which helps to motivate people and gain their commitment to the objective.

Case Study: **Amazon and its vision**

On July 5, 1994, Amazon.com was launched in Bellevue, Washington, in the United States. Due to the constantly changing environment, only the finest businesses can thrive in web-based retailing for a very long time. Amazon has proven that it belongs in this category by growing steadily and successfully against all odds.

In an ideal scenario, an organization's vision statement would determine the direction it should take and the time frame it should occupy. The vision statement of Amazon focuses on dominating globally while providing customers with a beneficial buying

experience.

The hypothetical means listed in their mission statement are those that the organisation believes are both appropriate and feasible for achieving their objective. In the case of Amazon, the organization's mission statement focuses on the attraction of the general assistance that is offered to its target audience.

Amazon pays particular attention to reasonableness and other client-friendly features that distinguish the company. The foundation's model's success is largely dependent on its goal, vision, and guiding principle, all of which are crucial to the organization's ability to carry out its duties.

https://www.aboutamazon.com/about-us

### Characteristics of good vision statements

*Possibility*–It means the vision should entail innovative possibilities for dramatic organisational improvements.

*Desirability*–It means the extent to which it draws upon shared organisational norms and values about the way things should be done.

*Actionability*- It means the ability of people to see in the vision, actions that they can take that are relevant to them.

*Articulation* – It means that the vision has imagery that is powerful enough to communicate clearly a picture of where the organisation is headed.

*Simple*- It must be simple to communicate and clear enough for everyone to comprehend.

*Visually Appealing* - It must depict the type of business the management is attempting to build. It must also be appealing to the stakeholders' and protect their long-term interests.

*Directional* - it must describe the company's path or endpoint.

*Attainable* - The organisation must be able to reasonably anticipate to achieve it in due course.

*Narrowly targeted* – Must be narrowly targeted and sufficiently detailed to give managers direction when making decisions.

*Adaptable:* It must allow the company's future course to shift as circumstances and events develop.

### Importance of vision statements

A vision statement gives a sense of purpose. Writing a vision statement is beneficial for businesses of all sizes. The world's most prominent and powerful organisations use vision statements as totemic expressions that can direct decades or even centuries of corporate operations.

But creating and implementing a vision statement may be extremely beneficial for even the tiniest organisations. It takes thoughtful reflection and evaluation of your company's underlying principles to create a vision statement.

Identifying the aspects of running a business you won't compromise on—cost, quality, the speed of service, or the impact on the environment—and enshrining those beliefs in a vision statement will help you understand the course that your organisation is taking. Companies that are growing and adapting can look back at earlier statements to see which ideals have been abandoned and which ones are still there.

#### *Advantages of having a vision*

A clear vision encourages long-term thinking. It forges a shared sense of identity and mission. In order for the company to know what it is to be, it represents a discontinuity, a step function, and a leap forward.

It encourages taking chances and trying new things. A strong vision is innovative, competitive, and distinctive. In the marketplace, it makes sense. An honest vision displays integrity. It can be used to the advantage of people and is genuinely genuine.

#### *Causes of failure of a vision*

*Too precise* – the vision statement fails to include a certain amount of ambiguity.

*Ambiguous* – it cannot serve as a signpost.

*Insufficient* – It only addresses limited issues and does not see the entire perspective of a company.

### *Formulation of a vision statement*

Nutt and Backoff identify three different processes for crafting a vision: Leader-dominated Approach, Pump-priming Approach and the Facilitation Approach.

### *Leader-dominated Approach*

In this approach, the CEO establishes the organization's strategic direction. This strategy is criticised because it goes against the empowerment idea, which holds that everyone in the organisation should be involved in the processes and decisions that have an impact on them.

### *Pump-priming Approach*

The CEO provides visionary ideas and selects people and groups within the organisation to further develop those ideas within the broad parameters set out by the CEO.

### *Facilitation Approach*

It is a "co-creating approach" where a variety of people take part in the process of generating and communicating a vision. The CEO facilitates the writing process by managing it. Nutt and Backoff contend that because more individuals were involved in its formulation and will consequently be more eager to follow it, this strategy is more likely to result in better visions and more successful organisational change and performance.

## 2.4 Business Decision

Any choice made by a business professional that determines the short-term or long-term corporate activities is referred to as a business decision, also known as an operational decision. A manager may apply the appropriate decision-making skills to a number of various situations by knowing the significance of business decisions and different sorts.

Professionals respond to a wide range of situations by making business decisions, such as:

- choosing which job candidate to hire
- allocating department budgets
- Business decision
- deciding when to enter a new product market,
- deciding whether to merge branches,
- and other circumstances that call for well-considered actions.

### Why is it imperative to think through a business decision?

A good business decision regarding hiring and training initiatives can have a positive impact on the success of hiring initiatives. This includes selecting candidates who have the necessary skills for the position and making adjustments to training procedures that have an impact on employee satisfaction and retention rates.

It's critical to know how to make wise business decisions whether you're a department employee, a business owner, or someone in a leadership position. Any choice that has an impact on a company's operations, objectives, or upcoming actions is a business decision.

A good business decision regarding hiring and training initiatives can have a positive impact on the success of hiring initiatives. This includes selecting candidates who have the necessary skills for the position and making adjustments to training procedures that have an impact on employee satisfaction and retention rates.

Makes a professional impression: Overall, your team, superiors, and outside stakeholders will be more impressed with your professionalism if you can think things through and make the best choices for your company.

*Figure 3: Taking a business decision*

### Types of business decisions

The different types of business decisions are discussed below;

#### *Operational*

Employees of a company frequently make operational choices as part of regular business operations. Decisions about product inventory, client orders, shipping requirements, departmental organisation, department budgets, or sales and marketing objectives are just a few examples of operational business decisions.

#### *Strategic*

Any choices that firms make in order to achieve a future objective are considered strategic business decisions. Redesigning onboarding processes to boost new recruit productivity, making an investment in a specialised product to attract more customers, or merging two branch offices to cut expenses and improve communication are a few examples of how to do this.

#### *Hiring*

Any business decisions made around identifying recruiting needs, creating job descriptions, assessing job candidates, and choosing which individuals to interview or even hire for the organisation are reflected in hiring decisions. Additionally, choices for start times, training schedules, and onboarding procedures may be included.

#### *Structuring*

Before beginning operations, business owners often decide on the business structure. However, after operating for a while, some business owners may decide they need to alter their organisational structure. Business structures are the legal forms that corporations can take.

#### *Financial*

Financial business decisions include any business decisions that promote the financial health of a company. This includes budget distribution across a company, product pricing and manufacturing costs, investment opportunities, debt payment options or the amount of money budgeted for job positions.

#### *Policy*

Any decisions pertaining to employee benefits, paid time off, sick leave, maternity leave, internal HR policies relating to confidentiality, and other sorts of policies that have an impact on customer interactions and employee welfare are considered business policy decisions.

#### *Technology*

Business professionals that work in the field of technology make judgements based on the technology requirements of their departments or the entire organisation. Examples might include HR software, messaging apps, business databases, manufacturing equipment, or office supplies.

## 2.5 Business Models

*"The logic of the firm, the way it operates, and the way it creates value for its stakeholders."*

*"A representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network."*

The business model is the basic logic of a company that can help to understand the benefits provided to the stakeholders. Those benefits return to the company in the form of revenue.

### Components of a business model

A business model includes information on customer relationships, product, service, and value dimensions, the procedures, talents, and resources that add value, partner, partner channels, and partner relations are all included in the partner dimension and revenues and expenses are included in the financial dimension.

*Figure 4: Components of a business model*

### Importance of business models

Business models are crucial because they help companies focus their customer bases. It aids in developing marketing plans and budget projections while taking into account the various business models and target markets.

Valuating the business model helps the investors to get the overall view about the company's products, its business strategies and future prospects. Reviewing the business model will help investors understand the competitive advantage of the company. Investors benefit from a clearer understanding of the business model and financial facts.

**Example:** Take company ABC Inc, which rents and sells video games and boxes, as an illustration. Therefore, the corporation is involved in the video game industry. Previously, the business made a 5-million-dollar profit after investing 3 million in their video game inventory.

The market was disrupted by the arrival of the Internet. The company now needs to adapt its business strategy to remain competitive. The company decides to go for the launch of game applications that use the internet. They developed technology for the same.

Even though with the arrival of internet sales get reduced but the company was able to expand its business as technology helped it to change course. In the similar way there are various types of business models.

**Advantages of business models**

A strong business plan gives the organisation a competitive edge in the market. A solid business strategy gives the company a positive reputation in the marketplace. This encourages investors to keep their money in the company.

Strong company models generate recurring profits, which grow cash reserves and spur additional investment. A tested business model gives a company financial security.

Once a company model is established, it is difficult to implement fresh concepts for the product. A business model takes time to develop because there are many elements to take into account. There's a danger that the business model will prove to be incorrect.

## 2.6 Goals

Any organisation is always capable of having a set of objectives. It must make a decision between these objectives. This decision needs to be clarified and stated in terms of practical and quantifiable objectives. Goals are the things that an organisation wants to accomplish in the future.

Goals are clear and easy to understand. Critical difficulties must be handled and included in a goal. A goal must include both the financial and non-financial components of a firm. The time frame for a proper aim must be specified, and it must be included in that time range.

***Strategic goals***

Strategic goals may be either "hard" or "soft"—that is precisely measurable or not. Both types of goals should be defined for a variety of stakeholders, including customers, employees, communities and shareholders.

***Importance of strategic goals***

Organise activities related to budgeting, capability requirements, resource allocation, and priority setting. They clearly defined individual and team goals are utilised to direct and coordinate the work of all personnel. They assist in framing the future marketing, operations, IT, and human resource plans. Also, set benchmarks so that you may compare intended and achieved achievements.

***Goals Vs objectives***

Goals and objectives are quite similar; the main difference is that a goal is something that is wanted, whereas an object is something that is defined. Goals and objectives are the only basic building blocks for developing a strategy and later, strategic management objectives.

## 2.7 Objectives

They stand in for the state or result of current work in the future. The means by which the goals are to be accomplished are known as the objectives. In contrast to goals, they are precise and concrete.

***Importance of objectives***

The organization's interaction with its surroundings is determined by its objectives. An organization's objectives aid in achieving its vision and goal. The foundation for making strategic decisions is set by objectives. The criteria for performance evaluation are provided by the objectives.

**Characteristics of objectives**

Objectives should be clear. They should be explicit and measurable and time-related. They should be tough and should be related to one another. Also, they should be defined within restrictions.

## Summary

- The strategic goals are essential for articulating its vision since they make it concrete and define the results.

- A mission statement is a statement of purpose that endures. For setting goals and creating strategies, it is crucial to have a clear purpose statement.
- Vision is the goal towards which organisations should strive.
- Any choice made by a business professional that determines the short-term or long-term corporate activities is referred to as a business decision.
- A business model includes information on customer relationships, product, service, and value dimensions, the procedures, talents, and resources that add value.
- Goals are the things that an organisation wants to accomplish in the future.
- Objectives should be clear. They should be explicit and measurable and time-related. They should be tough and should be related to one another.

## Keywords

***Mission:*** Purpose or reason for the organization's existence.

***Vision:*** A description of something (an organisation, corporate culture, a business, a technology, an activity) in the future.

***Business Model:*** The business model is the basic logic of a company that can help to understand the benefits provided to the stakeholders.

***Objectives:*** They stand in for the state or result of current work in the future.

## Self Assessment

1. A good mission statement consists of ______ elements.

A. 3
B. 7
C. 9
D. 4

2. These are the components of strategic management.

A. Resource management
B. Analysis of internal and external forces
C. Creation of plans
D. All of the above

3. The organisation's ________statement outlines the rationale for its existence.

A. Mission
B. Plan
C. Vision
D. Goal

4. An organisations______ serves as a potent catalyst for action.

A. Mission
B. Plan
C. Vision

D. Goal

5. The business _________ is the basic logic of a company that can help to understand the benefits provided to the stakeholders.

A. Mission

B. Plan

C. Vision

D. Model

6. The organization's interaction with its surroundings is determined by its ________.

7. The ______ statement is a declaration of an organization's "reason for being."

8. In the ________ approach, the CEO establishes the organization's strategic direction.

9. Any choices that firms make in order to achieve a future objective are considered _________ business decisions.

10. A strong business plan gives the organisation a/an _______ edge in the market.

11. It is a "co-creating approach" where a variety of people take part in the process of generating and communicating a vision.

A. True

B. False

12. A good business decision regarding hiring and training initiatives *cannot* have a positive impact on the success of hiring initiatives

A. True

B. False

13. Before beginning operations, business owners often decide on the business structure.

A. True

B. False

14. Business models are crucial because they help companies focus their customer bases. It aids in developing marketing plans.

A. True

B. False

15. The business model is the basic logic of a company that can help to understand the benefits provided to the stakeholders.

A. True

B. False

## Answers for Self Assessment

| 1. | C | 2. | D | 3. | A | 4. | C | 5. | D |
|---|---|---|---|---|---|---|---|---|---|

| 6. | Objectives | 7. | Mission | 8. | Leader Dominated | 9. | Strategic | 10. | Competitive |
|---|---|---|---|---|---|---|---|---|---|
| 11. | A | 12. | B | 13. | A | 14. | A | 15. | A |

## Review Questions

1. Define the purpose of mission statements in strategic management? Describe on how mission might help other strategic management initiatives.
2. How should a mission statement be created? What are the elements of mission statement.
3. Take the example of Tesla's Mission statement and outline its basic implications?
4. Explain the importance of a business vision? Describe the relevance of a vision for a business? Take the example of Amazon Incorporation.
5. What is a business model? What are the components of a business model?
6. Differentiate between goals and objectives? What can the goals and objectives of an educational institution?
7. What do you understand by business decisions? What are the essential decisions that have to be taken by companies?

## Further Readings

Strategic Management and Business Policy by Azhar Kazmi, Mc Graw Hill. Strategic Management Concepts: A Competitive Advantage Approach by Fred R. David, Purva Kansal and Forest R David, Pearson.

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# Unit 03: Environmental Appraisal

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## Objectives

After studying this unit, you will be able to,

- state the meaning of strategy.
- describe the concept of environment in the context of strategic management.
- understand the internal environment and its importance.
- understand the external environment and its importance.
- understand the need of environment appraisal.
- describe how environment appraisal

## Introduction

The organisation and its activities are impacted by a wide range of circumstances. These elements have the potential to have both positive and negative effects on the organisation. recognising the problems and difficulties. For an organisation, being present in the outside world is crucial.

A procedure of industry environment appraisal is required in order to determine the external environment elements. The ability to analyse the competitive structure, competitive position, and competitors' positions of the organisation is made easier for managers through environmental appraisal.

Marketers are able to distinguish and emphasise opportunities from dangers and strengths from weaknesses by studying a company's external environment. the External factors are those that are independent of an organisation and do not depend on that organization's operations to survive.

Opportunities and dangers are external and outside the control of the organisation, whereas strengths and weaknesses are internal. Opportunities are those circumstances that businesses can

take advantage of. Threats, on the other hand, are undesirable circumstances that, if not immediately addressed, can undermine the organization's health.

## 3.1 Environment

Environment refers to the physical surrounds, outside factors, influences, or circumstances under which something or someone exists. Any organization's environment is the totality of all circumstances, occurrences, and influences that surround and have an impact on it.

A change in environment may have different bearings on various firms operating in the same industry. In the pharmaceutical industry in India, for instance, the impact of the new IPR (Intellectual Property Rights) law will different for research-based pharmacy companies It may be an opportunity as well as a threat to expansion:

### Characteristics of environment

*Environment is Complex*: The environment consists of a number of factors, events, conditions and influences arising from different sources.

*It is Dynamic:* The environment by its very nature is a constantly changing one.

*Environment is multi -faceted:* The same environmental trend can have different effects on different industries.

*Far-reaching impact:* It can have a far-reaching impact on the growth and profitability of an organization.

### Environment in General and the Relevant Environment

The global, national, and local economies, social changes, demographic factors, political systems, technology, business attitudes, energy supplies, raw materials and other resources, and numerous other macro-level aspects are all included in the external environment. These fall under the category of the overall environment.

Any organization's immediate concerns are only relevant to a small portion of the overall environment that is highly relevant from a strategic perspective. This area of the environment could be referred to as the environment that is immediately relevant or just the environment.

## 3.2 Internal vs External Environment

The primary distinction between the internal and external business environments is that the former is particular and directly affects the firm, whilst the latter affects all business units, not just one in particular.

Analysis of both the internal and external environment is crucial to a business's success. The external environment is regarded as a macro environment, whereas the interior environment is also referred to as a micro environment.

### Internal Environment

The term "internal environment" refers to all internal organisational elements that affect or result in strategic strengths or weaknesses. Strength is a natural ability that an organisation can employ to its advantage. Weakness is an inherent limitation or constraint which creates strategic disadvantages.

The term "internal environment" describes an environment that is in close proximity to a business organisation and has the potential to significantly impact that organization's day-to-day operations. The internal environment consists of elements including rival companies, suppliers, clients, staff members, and shareholders.

In other words, the forces that are near to the company organisation make up the internal environment. Additionally, these elements have an immediate effect on the organisation.

*The impact of various internal environment factors on the firm is described in the paragraphs as follows:*

- *Suppliers:* They give the company the raw materials and other supplies it needs to make its products.
- *Rivals:* They compete in the market by offering similar goods or services.

- *Customers:* They are said to as the "king of business" since they buy goods or services.

The company is made up of a variety of components, including shareholders, investors, employees, and a board of directors who are concerned with the success and stability of the company.

SWOT analysis, in general, is used to examine the internal environment. Strength, Weaknesses, Opportunities, and Threats. A business entity can decide various things using this analysis. For instance, the company can grow by identifying weaknesses in its internal environment, such as staff training needs, resource allocations, etc.

### External Environment

The variables outside the organisation that present possibilities or hazards to the organisation are all included in the external environment.

Opportunity is a fortunate circumstance in the surroundings of the organisation that allows it to solidify and strengthen its position. Threat is a bad circumstance in the organization's surroundings that puts the organisation at risk or harms it.

External environment of a business refers to the outside factors that influence the organizational performance, decision making and strategy of all businesses. It does not affect only one business entity but has an impact on similar business groups at the same time.

The external environment is often referred to as the macro environment. It refers to a broad or huge scale in the macro sense. It also has a dynamic nature that is always evolving.

#### *PESTLE analysis*

PESTLE analysis is a term used to describe the examination of the external environment. PESTLE stands for political, economic, social, technological, legal, and environmental aspects that are changing in the outside world. '

Both economic and non-economic elements are taken into account by these variables.These include social problems, political worries, ethnic diversity, family structure, population size, income distribution, features of the GDP, political stability, taxes and duties, etc.

By recognising external business environments or by performing PESTLE research, firms can become stronger. As a result, new products will be developed, prices will alter, new businesses will be found, market share will rise, etc.

### Similarities Between Internal and External Environment?

For a firm to grow, it is crucial to analyse its internal and external environments. In order to keep a business running smoothly and sustainably, it is vital to assess both the internal and external environments.

Internal environments, also known as micro environments, are particular and directly affect the business. The external environment, also referred to as the macro environment, affects all company groupings even though it has no direct effect on any particular business.

### Conclusion

The internal business environment can be analysed using a SWOT analysis, whilst the external business environment can be analysed using a PESTLE analysis. Furthermore, internal environmental factors are within the business's control, whereas external environmental ones are outside of its control.

An organization's internal environment is any environment that it comes into direct touch with and that has the potential to have an impact on its day-to-day operations. In contrast, the term "external environment of a business" refers to external elements that have an impact on how well organisations perform, make decisions, and formulate strategies.

In conclusion, the main distinction between the internal and external environments is that the former is particular and directly affects the firm, whilst the latter affects all business units, not just a single one.

## 3.3 Understand the SWOT Analysis

Strengths, Weaknesses, Opportunities, and Threats is referred to as SWOT. A common framework for summarising a company's predicament or current position is the SWOT analysis. Any business engaging in strategic planning must perform a SWOT analysis.

Strategic management's foundational tool is the SWOT analysis. It is crucial to remember that relative to competitive dynamics, strengths and weaknesses are intrinsic (possible) value-creating skills, assets, or a lack thereof.

Strengths, Weaknesses, Opportunities, and Threats (SWOT) involves determining the current position of a business in light of its strengths, weaknesses, opportunities, and threats. Internal analysis gives information needed to identify strengths and weaknesses, whilst environmental and industry assessments provide information needed to identify opportunities and dangers.

### Strengths

Strengths are qualities or skills that an organisation possesses or excels at. Examples include a talent, priceless assets, partnerships or joint ventures, an experienced sales team, simple access to raw materials, a good name in the market, etc. A expanding market, new products, etc. are not strengths.

### Weaknesses

Weaknesses: A weakness is a deficiency or subpar performance of a corporation. Examples include a lack of knowledge or competence, asset deficiencies, functional area deficiencies, etc.

Although a company's weaknesses are frequently considered as the logical "inverse" of its threats. A company's lack of strength in a particular sector or market is not always indicative of a relative weakness because other companies may also be lacking in this particular strength.

### Opportunities

Opportunities are significant positive circumstances in the surroundings of a firm. The depth of opportunity analysis depends on the level of detail and perceived realism.

*Figure 1: Opportunities*

### *Threats*

A threat is a significant adverse circumstance in an organization's surroundings. Examples include greater competition, slow market development, increased purchasing or supplier power, and regulatory changes, among others. The opportunity that your rival has could pose a threat to ones company.

### Performing SWOT Analysis

A SWOT analysis initially assesses the strengths and weaknesses in terms of capabilities, resources, and skills. The analyst should then determine whether internal resources can meet the requirements of the major success factors. SWOT analysis is illustrated in Figure 2;

*Figure 2: SWOT Analysis*

## Performing SWOT Analysis

In order to seize opportunities and combat threats in the environment, a strategist's task is to maximise an organization's strengths while minimising the consequences of its shortcomings.

Performing SWOT Analysis comprises of three steps;

### *Identify*

The company's resource advantages and competitive advantages. The company's resource limitations and weak points in the marketplace. The business's opportunities. The external threats

#### *Conclusion*

Draw conclusions about the company's overall situation. The limitations and weakness help in identifying areas that need strengthening.

#### *Translation*

Act on the conclusions to transform them into strategic actions. Address critical weaknesses. Build protection against external threats.

## Strategies in SWOT analysis

Strategic evaluation heavily weighs an organization's surroundings. The organization's requirement for resources comes from the environment. Executives must decide on a variety of strategic options, and it presents possibilities and threats.

### *SO strategies*

Thinking of how a business can use its strengths to seize opportunities leads to the creation of SO strategies. This is the most advantageous and desirable strategy because it aims to combine the firm's strengths to take advantage of chances.

### *ST strategies*

To take advantage of the expanding potential of the food business, ITC, for instance, has been enhancing its strengths by acquiring companies in the food sector. In order to avoid dangers, ST strategies make use of a company's advantages.

A business can take on a new competitor by leveraging its strengths in marketing, finance, and technology. Proctor and Gamble, for instance, has been using this tactic to counter the growing competition from businesses like Unilever Ltd.

### *WO Strategies*

WO Strategies make an effort to strengthen its deficiencies in order to seize chances. For instance, The approach taken to encourage R&D to create homegrown technology in order to better take advantage of the opportunity presented by the rising demand for a product.

### *WT Strategies*

WT Strategies are essentially defensive tactics with a focus on reducing vulnerabilities and averting dangers. For instance, changing the managerial staff, providing training and development, etc., can address managerial weaknesses.

Restructuring, downsizing, delaying, and voluntary retirement programmes can be used to overcome weaknesses brought on by an overabundance of workers. Figure 3 illustrates the SWOT analysis of Tesla Inc.

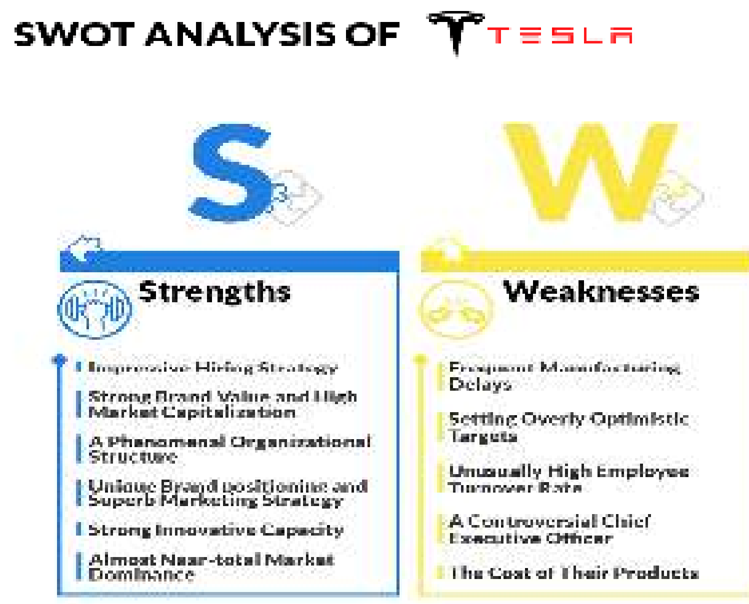



*Figure 3: Strength and Weakness analysis of Tesla*

*Figure 4: Opportunity and Threats analysis of Tesla*

## 3.4 Environmental Factors

Environmental factors affect the operations and management of a business organization. They range from factors like economic factors, technological factors, social factors, etc. Businesses are affected by environmental factors that can impact the business directly or indirectly.

When launching a new company or entering a new market, it is helpful to use a PESTLE or PESTEL study. When combined with the more inward-looking models, such as SWOT analysis and Poter's Five Forces, it can be a potent ally for evaluating external issues and offer a thorough "inside-and-out" perspective on your company and strategy.

Environmental Factors are depicted in Figure 4 illustrated below;

*Figure 5: Environmental Factors*

### Political

How much does a government interfere with the economy or industry (or with a specific corporation if it is on the verge of monopoly power or doing so)? This may include every factor that affects the company, including taxes, procurement rules, treaty implementation, trade agreements, and environmental regulations.

The government may contain both beneficial and negative influences, such as restrictions that restrict or large-scale purchases of health and educational services.

### Economic

The main factors that determine how well an economy performs. This may include growth, exchange rates, inflation, interest rates, consumer income, confidence, and unemployment rates.

The demand for, cost, and supply of your company's goods and services could all be affected by these factors since they all have the potential to affect demand and supply in the economy.

**Social**

This includes the population trends, cultural norms, and attitudes that are changing (e.g., be greener and leaner, place a higher value on experiences than material goods). Marketers need to be aware of these aspects in order to focus their products to certain customer groups and market niches.

**Technological**

Does the company face a threat from new technology or an opportunity from it? Or perhaps a mix of the two? The level of R&D, technical incentives, and market technology awareness are all included in this category.

These variables can affect whether the company decides to develop or buy anything. Also, whether a company decides to enter a given market. and whether they invest a lot of money on technology that might soon become outdated due to disruption in other areas.

**Legal**

Similar to the political aspect, but this aspect focusses more on the laws and legal frameworks that currently govern your current firm or any potential future expansion. It is recommended to consult a lawyer in cases like this.

An excellent illustration would be how, as a result of Brexit, the rules and regulations for British businesses that do business with or have a supply chain in the European Union have altered.

**Environmental**

Due to the emphasis on issues like environmental protection, global warming, sustainable products, companies are under pressure to assess their environmental footprint and work to reduce it in order to avoid alienating stakeholders.

## 3.5 UNILEVER's Pestle Analysis

Unilever's PESTLE analysis looks at the numerous external factors—political, economic, social, and technological—as well as the legal and environmental ones—that have an impact on company operations.

The PESTLE Analysis emphasises the various extrinsic circumstances that have an impact on the brand's business. PESTLE analysis is a methodology that is essential for businesses like Unilever since it helps them better understand market dynamics and continuously improve their operations.

**Political**

Unilever is a massive manufacturer with a focus on the following industries: water purifier, food and beverage, home care, and beauty and personal care. Fast Moving Consumer Goods account for the majority of its sales. Unilever must therefore adhere to the rules established by the Food and Drug Administration.

Additionally, it must obey local regulations in countries where it has established a presence. The country in which it locates, the current government's stance is one of the key political variables that will seriously affect Unilever. The administration introduces new rules for foreign companies, these have to be considered.

**Economic**

More profits and revenues result from a flourishing economy. The likelihood of growth is very high in developing nations like China and India. But there are certain dangers involved. On the other hand, wealthy nations offer a better economy.

The employment situation in a country has a significant economic impact on a company's chances. Purchasing power of the people, disposable incomes effect the number of consumers. The overall economy impacts the business.

**Social**

Unilever must introduce products and sell them in a way that appeals to the socioeconomic demographics given its presence in more than 100 countries. The fact that the majority of Unilever's commercials are available in a number of languages indicates that the company is aware of this. For instance, advertisements for The Lifebuoy Soap appeared in Hindi, Telugu, Tamil, and Malayalam in India.

Additionally, its segment for beauty and care holds a lot of potential. Everyone, regardless of age, has an unspoken desire to look beautiful. Thanks to current technology, businesses are able to make high-quality goods. Better target segmentation and positioning are therefore necessary, especially for this industry.

### Technological

Unilever needs to keep a pace with the technology in order to sustain in the market or stay ahead of others in the race. Constant improvements in the operating processes are required in order to increase the efficiency and decrease the costs.

Sufficient number of resources should be put into the R&D division so that new products can be launched which can further help Unilever to capture the market space.  Having a setup facility with automated operations can also help Unilever in saving the time.

### Legal

With more than 400 brands in its product portfolio, Unilever has a considerable legal and regulatory burden. Unilever must yet safeguard its patents as well. Fraudulent businesses frequently use the patents of other businesses as selling factors and to confuse consumers.

Therefore, to prevent this, a robust legal department that is watchful and equipped to take appropriate action is needed. Additionally, you should make sure that your clients are knowledgeable about the laws and procedures. Customers begin to trust the business as a result, and they become loyal.

### Environmental

Unilever has been effective in projecting itself as an environmentally friendly business and in keeping its promise. Unilever is pursuing UN sustainability goals, which will improve its brand and bottom line. The business is committed to achieving its target of 100% recyclable plastic packaging.

Additionally, Unilever must come up with strategies or technology to cut back on the amount of plastic used in unit packaging. This has the potential to significantly lower the company's and its clients' carbon footprints.

*Figure 6: Plastic free packaging initiative by Unilever*

## 3.6 Scanning the Environment

The process by which firms analyse their pertinent environment to find opportunities and dangers affecting their business in order to make strategic decisions is known as environmental scanning.

Events are significant and unique phenomena occurring in various environmental sectors. They should be taken into consideration when conducting an environmental scan.  The broad patterns or trajectories that events follow is known as trends.

Issues are the present problems brought on by events and tendencies. Expectations are the demands put out by interested parties in response to such concerns.

### Approaches to Environmental Scanning

There are different approaches top scanning of the environment.

#### *Systematic method*

This method involves systematic information gathering for environmental scanning.

#### *Ad hoc strategy*

Using this strategy, an organisation may occasionally carry out specialised surveys and research to address certain environmental challenges.

#### *Processed-form methodology*

The organisation employs information in a processed form that is available from various sources both inside and outside the business in order to adopt this strategy.

### Information Resources for Environmental Scanning

Publications that serve as secondary or archival sources of knowledge. These could include trade and industry association newsletters, newspapers, magazines, journals, and books. Internet, social media, radio, and television are examples of mass media.

Sources that are internal to the organisation, such as personnel records, management information systems, databases, and internal reports and memos. Customers, marketing middlemen, suppliers, trade associations, government organisation, etc. are examples of external agencies.

Personnel, market research firms, consultants, and educational institutions that conduct official studies. Spying and surveillance through former employees of rival businesses or commercial espionage by placing people in rival firms.

### Techniques used for Environmental Scanning

Formal, organised strategies and informal approaches, both are accessible. The tools and strategies can be chosen by strategists depending on their requirements for the quantity, quality, availability, timeliness, relevance, and cost of environmental information.

There are many online templates for environmental scanning, including the PESTLE template for examining the main environmental sectors including political and economic. Environmental scanning processes based on processes, such as QUEST (Quick environmental scanning technology).

LeBell and Krasner have presented nine groups of techniques: single-variable extrapolation, (Under this method, based on records and information, the future situation is estimated. The management assumes that the same types of events will happen in the coming year as the previous year.

Time series, regression analysis, trend analysis, and forecasting techniques are used in this method). theoretical limit envelopes, dynamic modes The environment scanning is not rigid. It changes with the changing situations. Holistic view – Rather than focusing partially, the environment scanning is mainly concerned with a complete view., mapping, multivariable interaction analysis, unstructured expert opinion, structured expert opinion, structured inexpert opinion, and unstructured inexpert speculation. The opinions of experts in field of business, in related industry, working in similar type of markets can be used for the purpose of environmental scanning.

### Problems in environmental scanning

Strategic planners occasionally focus too much on the relevant environment's influences and neglect to take into account the more important trends and problems in the broader environment. There is a risk that environmental scanning may produce an abundance of information that could delay taking prompt action.

Finding influences that will be important for future organisational strategic decision-making is the goal of environmental scanning. Environmental scanning should only be utilised for this reason, and it should not be lost.

The organization's operational and functional operations shouldn't be too intimately intertwined with the environmental scanning function. As a result, it shouldn't be made into a line function because that would link it too closely with the objectives of those activities.

**Factors Affecting Environmental Appraisal**

The factors that affect the Environmental Appraisal are illustrated in Figure 7 below;

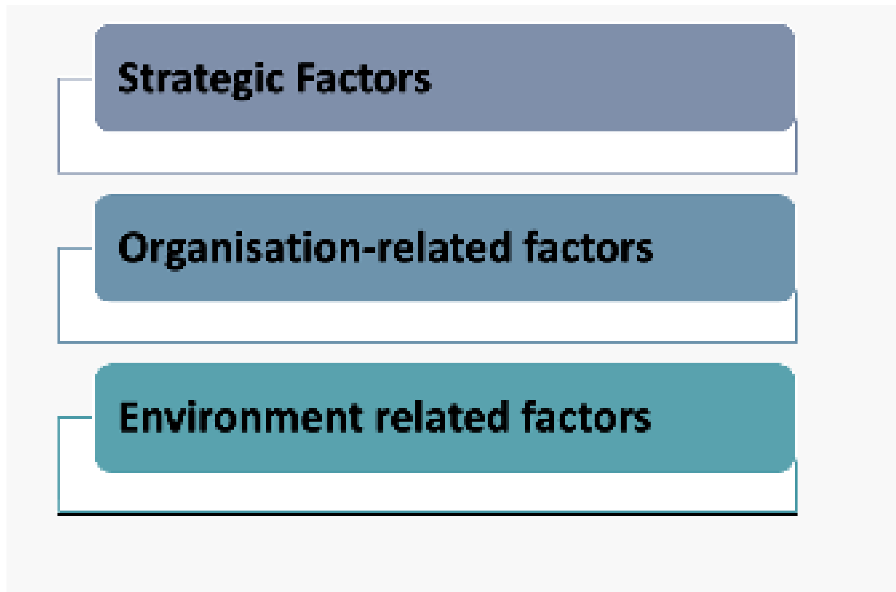



*Figure 7: Factors Affecting Environmental Appraisal*

***Strategic Factors***

Factors that affect strategists' ability to assess their organization's environment include age, education, experience, motivation level, cognitive style, ability to resist time constraints, and stress from responsibilities.

***Organisation-related factors***

organizational-related elements characteristics such as the type of business the organisation is in, its size, complexity, age, and the markets it serves as well as the goods or services it offers

***Environment-related factors***

The complexity, volatility or turbulence, hostility, and diversity of the environment determine its nature. According to perspectives on information processing, scanning activity will rise in response to escalating environmental uncertainty.

**Performing Environmental Appraisal**

In order for the strategists to have a clear understanding of where the environmental opportunities and risks are, it is helpful to identify environmental factors while designing environmental appraisal. Since environmental challenges cannot be easily categorised into neat groups, structuring the environmental appraisal is a challenging procedure.

Multiple environmental sectors could all be having an impact at once. In order for clarity to emerge, strategists must utilise their judgement and experience to assign the many environmental forces to their primary areas of influence.

***ETOP Analysis***

The process by which organisations analyse their pertinent environment to find opportunities and dangers influencing their business in order to make strategic decisions is known as ETOP analysis (environmental threat and opportunity profile).

Environmental danger and opportunity profiles are created in ETOP. The environment is segmented into various sectors, and the impact of each sector on the organisation is then examined.

Each environmental sector must be broken down into smaller components for a thorough ETOP, and the influence of each component on the organisation must then be stated.

*Need for ETOP*

- Provides the strategists with information on which sectors will benefit the organisation.
- Assists organisation in identifying O-T. Consolidates and strengthens organization's position.
- Aids an organisation in understanding where it stands in relation to its environment.
- Aids in creating a SWOT analysis and a strategy that is appropriate.
- Performing ETOP
- Dividing the environment in different sectors.
- Examining how each area affects the organisation.
- Breaking down each environmental area into smaller components.
- An impact statement for each subsector on the organisation.

**Different types of Environmental Factors are illustrated below;**

1] Economic factors:
- ✓ General economic condition.
- ✓ Rate of inflation.
- ✓ Interest rate/Exchange rate

3] Socio cultural factors:
- ✓ Demographic characteristics.
- ✓ Social attitudes.
- ✓ Education level, awareness, and consciousness of rights.

5] Political factors:
- ✓ Political system.
- ✓ Political structure, its goals and stability.
- ✓ Government policies , degree of intervention

**Environmental Factors**

2] Technological factors:
- ✓ Source of technology.
- ✓ Technological development.
- ✓ Impact of technology

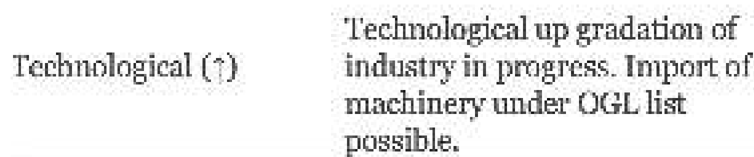
4] Environmental factors:
- ✓ Weather change
- ✓ Climatic change.
- ✓ Demand related factors.
- ✓ Suppliers related factors.

6] Legal factors:
- ✓ Policies related to licensing , monopolies.
- ✓ Policies related to export and import.
- ✓ Policies related to distribution and pricing.

*Figure 8: Environmental Factors*

The ETOP of a Two-wheeler company is illustrated in Figure 9.

| | |
|---|---|
| Social (↑) | Customer preference for motorbike, which are fashionable, easy to ride and durable. |
| Political (→) | No significant factor. |
| Economic (↑) | Growing affluence among urban consumers; Exports potential high. |
| Regulatory (^) | Two Wheeler industry a thrust area for exports. |
| Market (^) | Industry growth rate is 10 to 12 percent per year, For motorbike growth rate is 40 percent, largely Unsaturated demand. |
| Supplier (↑) | Mostly ancillaries and associated companies supply parts and components, REP licenses for imported raw materials available. |



| Technological (↑) | Technological up gradation of industry in progress. Import of machinery under OGL list possible. |
|---|---|

*Figure 9: ETOP of a Two-wheeler company*

## Summary

- A procedure of industry environment appraisal is required in order to determine the external environment elements.
- A change in environment may have different bearings on various firms operating in the same industry.
- The primary distinction between the internal and external business environments is that the former is particular and directly affects the firm, whilst the latter affects all business units, not just one in particular.
- PESTLE analysis is a term used to describe the examination of the external environment. It stands for political, economic, social, technological, legal, and environmental aspects that are changing in the outside world.
- Strengths are qualities or skills that an organisation possesses or excels at.
- A weakness is a deficiency or subpar performance of a corporation.
- Opportunities are significant positive circumstances in the surroundings of a firm.
- A threat is a significant adverse circumstance in an organization's surroundings.
- Strategic evaluation heavily weighs an organization's surroundings. The organization's requirement for resources comes from the environment. Executives must decide on a variety of strategic options, and it presents possibilities and threats.
- Environmental factors affect the operations and management of a business organization.

## Keywords

***Environment:*** This refers to the physical surrounds, outside factors, influences, or circumstances under which something or someone exists.

***SWOT analysis:*** in general, is used to examine the internal environment. Strength, Weaknesses, Opportunities, and Threats.

***Internal environment:*** This refers to all internal organisational elements that affect or result in strategic strengths or weaknesses.

***External environment:*** The variables outside the organisation that present possibilities or hazards to the organisation are all included in the external environment.

## Self Assessment

1. The process by which organisations analyse their pertinent environment to find opportunities and dangers influencing their business in order to make strategic decisions is known as _______ analysis.

A. ETPO

B. EOPT

C. ETOP

D. EPOT

2. Similar to the political aspect, but this aspect focusses more on the laws and legal frameworks that currently govern your current firm or any potential future expansion.

A. Political

B. Social

C. Legal

D. All of the above

3. ________ environmental stands for the population trends, cultural norms, and attitudes that are changing.

A. Social

B. Legal

C. Political

D. Economic

4. For a firm to grow, it is crucial to analyse its environment(s)

A. Internal and External

B. Internal

C. External

D. None of the above

5. ________ analysis is a term used to describe the examination of the external environment.

A. SWOT

B. ETOP

C. SWAT

D. PESTLE

6. In a SWOT analysis, a ______ is a significant adverse circumstance in an organization's surroundings.

7. In order for the strategists to have a clear understanding of where the environmental opportunities and risks are, it is helpful to identify environmental factors while designing environmental ______.

8. In SWOT analysis, _______ are qualities or skills that an organisation possesses or excels at.

9. ____________ refers to the physical surrounds, outside factors, influences, or circumstances under which something or someone exists.

10. ______environments, also known as micro environments, are particular and directly affect the business.

11. Organizations in both the military and business sectors must adapt to change.

A. True

B. False

12. Multiple environmental sectors cannot all be having an impact on a company at once.

A. True

B. False

13. Strengths, Weaknesses, Opportunities, and Threats is referred to as SWOT.

A. True

B. False

14. ST Strategies in SWOT, make an effort to strengthen a company's deficiencies in order to seize chances.

A. True

B. False

15. Opportunities and dangers are external and outside the control of the organization.

A. True

B. False

## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | C | 2. | C | 3. | A | 4. | A | 5. | D |
| 6. | Threat | 7. | Appraisal | 8. | Strengths | 9. | Environment | 10. | Internal |
| 11. | A | 12. | B | 13. | A | 14. | B | 15. | A |

## Review Questions

1. Outline the concept of environment in the context of strategic management? Differentiate 'Environment in General' and the 'Relevant Environment'?
2. Explain internal environment and external environment and the importance of scanning them?
3. Explain the need of environment appraisal? How is it done?
4. What is SWOT analysis? How is it performed?
5. Outline PESTEL Analysis? What are its components?
6. Find out the SWOT analysis of Amazon? Explain it in detail?
7. What are the challenges that may arise in environmental scanning?

## Further Readings

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# Unit 04: Organisational Appraisal

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## Objectives

After studying this unit, you will be able to,

- understand the dynamics of internal environment.
- describe the link between strategy and culture.
- understand value chain analysis.
- discuss the process of conducting organisational appraisal.
- understand the major methods and techniques used for organisational appraisal.

## Introduction

In the earlier chapters, we discussed about SWOT analysis, a crucial tool for conducting internal analysis earlier. However, there are additional tools that assist businesses with internal analysis. The purpose of the internal corporate analysis is to determine the key capabilities or value proposition of your company.

These are also sometimes referred to as your core competencies, competitive advantages, or strategic competitive advantages, although they all essentially refer to the same thing. To enable you to establish a unique market position, conduct an internal analysis.

## 4.1 Strategy and Culture

The culture of a company can has a significant impact on how every employee behaves. A challenge for an organisation with a strong culture is that changing its mission, aims, strategies, or policies without also changing its culture is unlikely to be successful.

Therefore, it may have a significant impact on a company's capacity to implement new tactics. Corporate culture frequently depends on maintaining stable connections and recurring behavioural

patterns; therefore, it has a strong tendency to resist change. As illustrated in the figure below, a reflection of an organizational culture can be male dominated

*Figure 1: Organization Culture*

Case Study: **Women in the Workplace**

According to the most recent "Women in the Workplace" report from LeanIn.Org and McKinsey, the gap between men and women leaving their jobs is the largest it has been since the report was first published eight years ago.

The exodus of female leaders, which has been dubbed the Great Breakup, is attributable in part to the persistent gap in pay between men and women.

Unequal compensation remains a critical pain point for many women, but corporate culture can exert an even more profound influence on how they experience the workplace. According to Rachel Thomas, CEO of LeanIn.Org and a coauthor of the report, women are leaving companies that fail to deliver on "the cultural elements of work that are critically important to them.

https://sloanreview.mit.edu/article/the-toxic-culture-gap-shows-companies-are-failing-women/

## 4.2 Strategy and Culture

No single business culture is the best. The company's mission and strategy will be best supported by a culture that is ideal. This means that business culture should complement the strategy, just like structure and leadership should.

Any significant change in strategy should be followed by a change in the organization's culture, unless the strategy and culture are completely in sync. Changing business cultures is possible, but it frequently takes a lot of time and work. "Managing corporate culture" is consequently a crucial responsibility of management.

In order to determine whether a change in culture is necessary and whether an endeavour to do so is worthwhile, management must first assess what a specific change in strategy entails for the corporate culture.

### Strategy and Culture Fit

People across the organisation are motivated to work in a strategy-supportive manner. This exists when the company has a culture that is anchored in values, practises, and behavioural norms that match what is required for good strategy execution.

However, the culture becomes a roadblock when it conflicts with some elements of the company's vision, performance goals, or strategy. Establishing and fostering a strong "fit" between culture and strategy is therefore crucial to managing the process of implementing a plan.

***WEX Uses Data to Drive Culture Forward***

WEX is a top provider of financial technology solutions, motivated by a passion for both people and technology. Through its insights, millions of customers worldwide may make informed business decisions.

In order to make sure that the business and solution they chose matched their values of honesty, innovation, execution, relationships, and community, WEX researched a number of software options. They discovered a seamless fit between their values and the survey's Great Place to Work Trust IndexTM questions.

They also understood that they would learn more about the working conditions of their staff members and be able to use their comments to continue luring, grooming, and keeping talent. Today, feedback is regularly used as inputs in discussions across all teams and informs new people practices and KPIs.

## 4.3 Value Chain Analysis

The concept of value chain analysis was introduced by Michael Porter in 1985. This concept is derived from an established accounting practice that calculates the value added to a product by individual stages in a manufacturing or service process.

Every organisation is made up of a series of interconnected tasks that work together to increase the company's worth. Basically, they are buying raw resources, producing products, distributing them, and marketing them.

Together, these actions make up its value chain. The value chain highlights the process steps where value is added and connects those steps to the primary organisational functional areas. Due to the fact that such networks are frequently exclusive to a company, it is utilised to create competitive advantage.

Then it makes an effort to evaluate how each component contributes to the total added value of the company.

Porter essentially connected two areas in this analysis.

1. The added value that each part of the organisation contributes to the whole organisation; and
2. The contribution that each part makes to the competitive advantage of the whole organisation.

A corporation with multiple product areas should undertake the study at the level of product groups rather than corporate strategy. As a network of value-creating activities, the organisation is seen by Value network as such.

Value is the price that consumers are prepared to pay for the benefits that a product offers. It reflects how much the value it obtains is greater than the overall cost incurred in producing its products. A crucial notion in assessing a company's competitive position is producing value for customers that surpasses the cost of production (also known as margin).

According to Porter, customer value is derived from three basic sources.

- Activities that differentiate the product
- Activities that lower its costs
- Activities that meet the customer’s need quickly.

According to Porter, value chain activities are divided into two broad categories, as shown in the Figure 2.

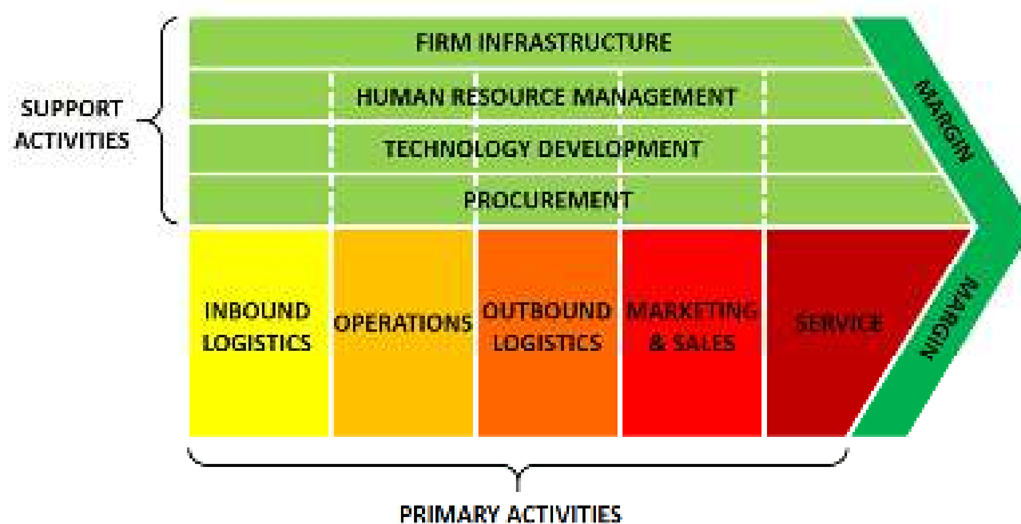


*Figure 2: Value Chain Analysis*

**Primary activities** - contribute to the physical creation of the product or service, its sale and transfer to the buyer and its service after the sale.

**Support activities-** These include such activities as procurement, HR etc. which either add value by themselves or add value through primary activities and other support activities.

## Primary Activities

Primary Activities may include the following;

### *Inbound Logistics*

These activities focus on inputs. They include material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers of inputs and raw materials.

### *Operations*

These include all activities associated with transforming inputs into the final product, such as production, machining, packaging, assembly, testing, equipment maintenance etc.

### *Outbound Logistics*

These operations involve gathering, keeping, and physically distributing finished goods to clients. They consist of order processing, scheduling, truck operation, material handling and delivery, and storage of finished items.

### *Marketing and Sales*

These actions are connected to the final goods that clients purchase as well as the incentives offered to persuade them to acquire the business's goods. They consist of pricing, channel selection, channel relationships, sales force, and promotion.

## Support Activities

Support Activities may include the following;

### *Procurement*

Purchase and provision of machinery, lab equipment, office equipment, and other consumables as well as raw materials, supplies, and other procurement-related activities. Included are tasks like leasing buildings, establishing contracts with suppliers, buying raw materials, servicing equipment, and supplies.

### *Technology Development*

Activities relating to product R&D, process R&D, process design improvements, equipment design, computer software development etc.

***Human Resource Management***

Activities associated with recruiting, hiring, training, development, compensation, labour relations, development of knowledge-based skills etc.

***Firm Infrastructure***

Activities relating to general management, organisational structure, strategic planning, financial and quality control systems, management information systems etc. However, the value chain exercise must take the entire process, or the full value system, into account.

This means, for instance, that even if a company doesn't generate its own raw materials, it still needs to figure out how those sources affect the end product and what role they play in it.

Similar to this, even if it is not accountable for after-sales service. It must take into account how the effectiveness of individuals who provide the service affects the entire cost and quality of the product or service.

## 4.4 Conducting a Value Chain Analysis

### Choose Activities

The division of a company's operations into distinct activities and their classification as primary and secondary activities constitute the first step in value chain analysis. A company often engages in a variety of discrete operations within each category, some of which may highlight its main advantages and disadvantages.

### Distribute costs

The allocation of costs to each activity is the next phase. Each step of the value chain involves spending money, time, and resources. Managers must allocate resources and expenditures to each activity in a value chain analysis. It has a distinct perspective on costs than conventional cost accounting techniques. The alternative approach is known as activity-based costing.

### Examine the Value Chain

Once the value chain has been determined, managers need to identify the activities that are critical to buyer satisfaction and market success.

The value chain idea demonstrates how businesses can obtain a competitive edge by managing cost or value drivers and/or reconfiguring the value chain, that is, finding a more effective way to develop, produce, distribute, or market a good or service.

### Describe the organisational capability factors

The resources of an organisation determine its capabilities. The mechanisms through which an institution creates value are its resources. This amount is subsequently dispersed for various goals.

The Resource Based View (RBV) of a corporation, made popular by Barney, is the ideal tool for illuminating a company's resources and capabilities. RBV sees the company as a collection of resources, including physical, intangible, and organisational assets.

This viewpoint contends that the development of unique resource and capability bundles is the primary source of competitive advantage.

### Resources

A resource might be an object that an organisation controls or a skill, method, or body of information. A strategic viewpoint defines an organization's resources as both those that the organisation owns and those that it can access to support its strategies. A company's network of connections or clients, for example, may be considered strategically significant resources that are not owned by the company.

Different categories of resources have been illustrated below;

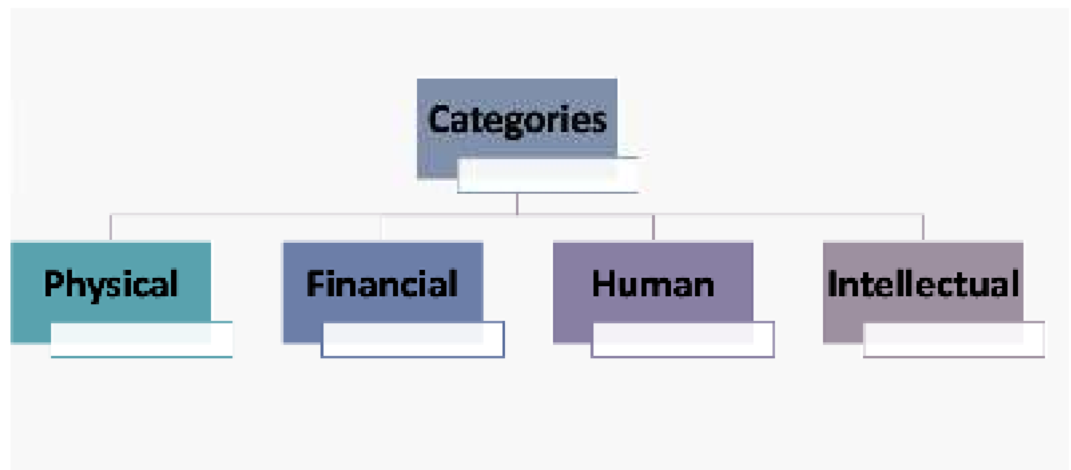


Figure 3: Resource Categories

*Physical resources* – These include plant and machinery, land and buildings, production capacity etc.

*Financial resources* - These include capital, cash, debtors, creditors etc.

*Human resources* – These- include knowledge, skills and adaptability of human resources.

*Intellectual capital* – These are an organization's intangible resources. These includes the information that has been preserved in partner connections, corporate systems, customer databases, brands, and patents. Intellectual capital is going to be the main asset of many firms in a knowledge-based economy.

## Capabilities

Resources on their own don't produce much. They require organisation skills. The talents a company uses to convert inputs into outputs are referred to as organisational capabilities.

They demonstrate the company's capacity to combine resources, personnel, and operational methods to get the intended outcomes. An organisational competence, according to Prahalad and Hamel, is a "bundle of skills and technologies" that are incorporated into people skills and business processes.

Therefore, the firm's resources, how they are applied and organised, internal systems and processes, and skill sets unique to the company all influence capabilities. Rarely are capabilities exclusive, and other businesses in that sector can also obtain them.

When a company performs certain of these abilities better than its competitors, some of these talents may become "distinctive competencies".

### *Core Competence*

Core competencies are a group of standout skills that give a business a steady source of competitive advantage. The ability of the company to use various resources and talents in a range of scenarios to establish and maintain competitive advantage is reflected in the core competencies that develop over time.

Core competencies are actions or procedures that a company must master in order to have a competitive edge. They develop and maintain the capacity to outperform their rivals. There are certain requirements that must be met by core competencies in order to attain this advantage.

### *Criteria of a core competence*

It is essential for the firm to find out that what are the main resources in an organisation? Then arises a need to create a competitive advantage

Using of the resources to gain a competitive advantage in the market has to be done. This is followed by the listing of the resources of the company and categorise them according to their strengths and shortcomings.

Consolidation the company's advantages into focused skills and valuating the financial potential of these assets and skills is done. Deciding on the approach that best takes advantage of the firm's resources and competencies in relation to outside prospects is followed.

Identification of resource gaps and make investments to strengthen weak points is done.

**Resource based strategy**

The resource-based strategy is illustrated below;

| | Same as competitors' or easy to imitate | Better than competitors' and difficult to imitate* |
|---|---|---|
| RESOURCES | Threshold resources | Unique resources |
| COMPETENCES | Threshold competences | Core competences |

*Threshold Resources*

A company needs a certain set of **fundamental resources** in order to exist and survive in the market. Over time, this threshold usually rises. Therefore, in order for a company to remain in operation, its threshold resource base must always be improved.

*Unique Resources*

The resources that are specifically needed to gain a **competitive advantage** are known as unique resources. For e.g. the knowledge possessed by a surgeon. These special resources are what allow an organisation to meet the essential success criteria in a specific market niche.

*Threshold Competencies*

Threshold competencies are the **necessary traits** (often knowledge or fundamental abilities) that are required for everyone in a position to function at a minimum level of effectiveness but do not separate great performers from average ones. The person would not be deemed capable of performing the job if they fell below this standard.

## 4.5 Organizational Appraisal

An organisation might identify its vulnerabilities and then take several steps to strengthen it. It is crucial for a firm's strategic formulation to assess its strengths and weaknesses and match them with environmental opportunities and challenges.

**Factors Affecting Organisational Appraisal**

How well the various forces and effects working inside the internal environment are assessed depends on the strategists' capacity to understand complexity. The quality of the appraisal is impacted by the organization's size. It is typically harder to evaluate larger companies than smaller ones.

The quality of appraisal is likely to degrade if the internal atmosphere of an organisation is poisoned by competing political forces and power struggles. On the other hand, a cohesive management team is more likely to evaluate the organisation more favourably.

**Techniques of Organisational Appraisal**

When the strategists choose formal strategic planning systems, a systematic technique is implemented as a proactive measure to evaluate the organisation. Ad hoc methods are typically employed as a quick fix in response to an emergency or out of the ordinary situation. Collecting employee feedback, maintaining firm records, Proper documentation, maintaining financial statements, management information system, and other internal sources may all be used in the evaluation of organisational capabilities.

## 4.6 Techniques of Organisational Appraisal

There are many techniques of organisational appraisal, discussed in the following sections;

### 1. Internal Analysis- Using VRIO Framework

Barney, in his VRIO framework of analysis, suggests four questions to evaluate a firm's key resources.

- Value: Does it provide competitive advantage?
- Rareness: Do other competitors possess it?
- Imitability: Is it costly for others to imitate?
- Organisation: Is the firm organised to exploit the resource?

| Internal Analysis | Comparative Analysis | Comprehensive Analysis |
|---|---|---|
| 1. VRIO framework | 1. Historical analysis | 1. Key factor rating |
| 2. Value chain analysis | 2. Industry norms | 2. Business intelligence systems |
| 3. Quantitative analysis | 3. Benchmarking | 3. Balanced sccrecard |
| i. Financial analysis | | |
| ii. Non-financial analysis | | |
| 4. Qualitative analysis | | |

### VRIO analysis of Starbucks

**Valuable:** Having a strong brand presence worldwide is certainly a valuable resource. It means more market access, increased revenue, and a certain amount of protection from negative press.

**Rare:** While there certainly are other global coffeehouse chains, Starbucks is by and far the most recognizable.

**Inimitable:** It's extremely hard to imagine another coffeehouse chain competing with Starbucks on a brand level, at least for now.

**Organization:** The infrastructure is in place for them to open stores worldwide

### 2. Internal Analysis- Using Value Chain Analysis

According to Porter, customer value is derived from three basic sources.

- *Activities that differentiate the product*
- *Activities that lower its costs*
- *Activities that meet the customer's need quickly.*

**Primary activities** - contribute to the physical creation of the product or service, its sale and transfer to the buyer and its service after the sale.

**Support activities-** These include such activities as procurement, HR etc. which either add value by themselves or add value through primary activities and other support activities.

However, the value chain exercise must take the entire process, or the full value system, into account. This means, for instance, that even if a company doesn't generate its own raw materials, it still needs to figure out how those sources affect the end product and what role they play in it.

Similar to this, even if it is not accountable for after-sales service. It must take into account how the effectiveness of individuals who provide the service affects the entire cost and quality of the product or service.

### 3. Internal Analysis Techniques: Quantitative Analysis

The liquidity, profitability, leverage, and activity characteristics of any company are evaluated using a technique called financial ratio analysis.

It offers useful information that can be utilised in organisational appraisal and can be used to analyse strengths and weaknesses.

Economic value-added (EVA) is the business management framework that measures profitability as the excess of returns on invested capital over the cost of capital utilised. The main value chain operations inside a company are identified using activity-based cost (ABC) accounting, which also tracks the costs associated with each activity.

### 4. Internal Analysis Techniques: Qualitative Analysis

Since it is possible to measure and compare on a numerical or financial basis, an organisational appraisal might be based solely on quantitative analysis. Quantitative analysis needs to be balanced with qualitative analysis because quantification has its limitations.

Such an analysis is predicated on a well-informed opinion, judgement, hunch, or intuition. Many of an organization's strengths and problems cannot be described in quantitative terms. Quantitative analysis can be successfully combined with qualitative analysis. On the other hand, quantitative analysis might be utilised to strengthen and complement qualitative evaluation.

### Comparative Analysis: Historical Analysis

Starting with a historical review of one's own organisation across time is one technique to compare performance and find strengths and flaws. Historical analysis is a useful tool for assessing how effectively or poorly an organisation has developed in relation to its prior performance.

Comparative data from the previous year or for the same time period in the prior year is used to illustrate how well businesses have performed. This procedure is typical for the balance sheet and profit and loss account presentations in annual reports of firms.

### Comparative Analysis: Industry Norms

The most logical choice for comparison across a wide variety of criteria is the industry to which a business belongs. A business may determine whether its cost structure is comparable to that of its rivals or whether the amount of money allocated to advertising is the same as that of its closest competitor.

As a result, it is presumed that businesses within an industry operate in a similarly relevant environment, and a comparison could produce useful data that could be used to determine one's position in relation to others.

### Comparative Analysis: Benchmarking

The process of benchmarking involves comparing the business processes and performance measures, such as cost, cycle time, productivity, or quality, to another that is generally accepted to be a benchmark or best practice for the industry.

In essence, benchmarking gives an overview of a company's performance and reveals where one stands in regard to a given standard.

By comparing your company's success to that of other, comparable businesses, you may determine whether there is a performance gap that can be filled by enhancing your own performance. Studying other businesses can show you what it takes to boost your organization's productivity and establish a stronger position in your sector.

### Benefits of benchmarking

There are many benefits of benchmarking, especially when compared to internal standards, benchmarking your processes and procedures can help your team improve its productivity and efficiency over time.

Recognising what is and is not working. You can spot trends and patterns that you might not have observed as they were occurring by conducting a thorough, in-depth review of your company's historical performance. You can clearly see from this data which behaviours and practises enhance overall business success and which ones don't by looking at it.

## Process of Benchmarking

Benchmarking, in its most basic form, entails figuring out where you are, where you want to be, and how you want to get there. Here is a quick summary of the steps in the benchmarking procedure that the majority of firms use:

### Identify the benchmarks you want to use

The first step in benchmarking is deciding what you want to measure. Define the activities you're measuring and the key indicators you'll use to evaluate progress, whether it's salary, sales, team development, or another area of growth.

### Carry out research to gather pertinent information

Once you've decided what you want to measure, you may start talking to the people who might be affected or involved in your business, such as customers, competitors, and workers. starting individual or group discussions, or obtaining survey results from These groups can offer insightful feedback that can help your benchmarking process.

You should also examine the present state of other businesses or departments. When comparing salaries, for instance, you should check websites like Glassdoor and Payscale to see what other employers are willing to pay for the same positions and titles inside your company. You may more effectively set your own standard for gauging the performance of your business by being aware of the sector or departmental average.

### To determine where you are and where you want to be, analyse the data

You may compare your current performance to that of other businesses or departments using the information you've acquired and the research you've done, and you can use this information to set reasonable goals for improvement.

You may get a comprehensive understanding of any performance gaps and how far you still have to go to reach your desired benchmark by presenting your statistics in an easy-to-understand format (such as graphs or charts).

### Create an action strategy

The benchmarking process' implementation phase is when you'll come up with concrete activities you and your stakeholders may take to accomplish your objectives. You have a clear path to achieving your benchmarks when you define success and create an action plan in advance.

Utilising popular goal-setting techniques like SMART (Specific, Measurable, Actionable, Relevant, Time-Bound) and HEART (Habit-Forming, Emotional, Actionable, Realistic, Time-Bound) is an excellent place to start.

### Keep track of your development

Check your team's progress periodically against the outlined objectives in your action plan. It's crucial to track your metrics consistently, whether it's weekly, monthly, quarterly, or yearly. Your plan has been successful if you are hitting your benchmarks, so keep going. If not, you might need to review your strategy and make course corrections.

Despite the fact that these procedures can be applied to a wide range of business operations, your organisation may want to create a custom benchmarking procedure depending on the objectives you have in mind. Some steps might be harder or need for outside assistance depending on where you are now and where you want to go.

## Types of Benchmarking

### Process benchmarking

It is when a company sets out to find and study the best practises from one or more benchmark organisations. This is done by concentrating its observation and analysis of business processes. Activity analysis will be necessary for comparing cost and efficiency, and it will be used more frequently for back-office tasks where outsourcing might be an option.

### Financial benchmarking

This involves carrying out a financial study and contrasting the outcomes to evaluate your overall productivity and competitiveness.

### Benchmarking from the viewpoint of an investor

Expanding the benchmarking universe to include comparisons to peer firms that, from the investor's perspective, provide alternative investment options.

### Performance benchmarking

This technique enables the initiator company to evaluate its competitive position by contrasting its goods and services with those of the target companies.

### Strategic benchmarking

This is watching how competitors behave. It is best to look at various sectors because this type is typically not industry-specific.

### Product benchmarking

This is the procedure for creating brand-new products or improving ones that already exist. Reverse engineering, the technique of disassembling competitors' products to identify strengths and shortcomings, can occasionally be used in this procedure.

### Functional benchmarking

In order to enhance the performance of a specific function, a corporation will concentrate its benchmarking efforts on that function. In order to create meaningful comparisons, complex services like human resources, finance and accounting, and information and communication technology may need to be broken down into individual processes.

### Best-in-class benchmarking

This involves researching the industry leader or business that performs a particular function the best.

### Operational benchmarking:

This includes analysis of executed procedures as well as staffing and productivity.

#### Comprehensive Analysis: Key Factor Rating

Consultants have developed a variety of ways to evaluate the strengths and weaknesses of organisations. These systems essentially rely on ranking based on a variety of important characteristics, each of which is examined using a series of in-depth and insightful questions.

An accurate evaluation of an organisation is produced through a thorough investigation of the topics covered by these questions. The questions are arranged in roughly the same order as functional capacity factors.

#### Comprehensive Analysis: Business Intelligence Systems

The term "business intelligence" (BI), which was first used in 1989 by Howard J. Dresner of the Gartner Group, gained popularity in the late 1990s. With the help of BI, it is possible to glean

insights from enormous amounts of unstructured data and turn them into meaningful, valuable, and practical business information.

Decision support systems, query and reporting, online analytical processing, statistical analysis, forecasting, and data mining are some of the applications of business intelligence. BI has the ability to aid firms in the process of strategic decision-making, SWOT analysis, and strategic planning.

**Comprehensive Analysis: Balanced Scorecard**

A balanced scorecard is a tool for evaluating an organization's strengths and flaws. The balanced scorecard was developed by Robert S. Kaplan and David P. Norton in an effort to eliminate the tendency for performance metrics to favour financial indexes and create a more comprehensive system of monitoring.

Four major performance measures are identified by the balanced scorecard as follows:

- an economic perspective
- customer viewpoint
- internal view of the business
- growth and learning

## Summary

- The culture of a company can has a significant impact on how every employee behaves.
- Corporate culture frequently depends on maintaining stable connections and recurring behavioural patterns; therefore, it has a strong tendency to resist change.
- The concept of value chain analysis was introduced by Michael Porter in 1985. This concept is derived from an established accounting practice that calculates the value added to a product by individual stages in a manufacturing or service process.
- A resource might be an object that an organisation controls or a skill, method, or body of information.
- The talents a company uses to convert inputs into outputs are referred to as organisational capabilities.
- An organisation might identify its vulnerabilities and then take several steps to strengthen it. It is crucial for a firm's strategic formulation to assess its strengths and weaknesses and match them with environmental opportunities and challenges.
- The liquidity, profitability, leverage, and activity characteristics of any company are evaluated using a technique called financial ratio analysis.
- Economic value-added (EVA) is the business management framework that measures profitability as the excess of returns on invested capital over the cost of capital utilised.
- Historical analysis is a useful tool for assessing how effectively or poorly an organisation has developed in relation to its prior performance.
- The most logical choice for comparison across a wide variety of criteria is the industry to which a business belongs.
- The term "business intelligence" (BI), which was first used in 1989 by Howard J. Dresner of the Gartner Group, gained popularity in the late 1990s. With the help of BI, it is possible to glean insights from enormous amounts of unstructured data and turn them into meaningful, valuable, and practical business information.

## Keywords

***Value:*** Value is the price that consumers are prepared to pay for the benefits that a product offers.

***Primary activities:*** These contribute to the physical creation of the product or service, its sale and transfer to the buyer and its service after the sale.

***Support activities:*** These include such activities as procurement, HR etc. which either add value by themselves or add value through primary activities and other support activities.

***Inbound Logistics:*** These activities focus on inputs. They include material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers of inputs and raw materials.

***Financial Ratio Analysis:*** The liquidity, profitability, leverage, and activity characteristics of any company are evaluated using a technique called financial ratio analysis.

***Benchmarking:*** The process of benchmarking involves comparing the business processes and performance measures, such as cost, cycle time, productivity, or quality, to another that is generally accepted to be a benchmark or best practice for the industry.

## Self Assessment

1. The concept of value chain analysis was introduced by _________ in 1985.

A. Michael Porter
B. Henry Fayol
C. Mike Wilson
D. JPMorgan Chase & Co.'s

2. _______ is a top provider of financial technology solutions, motivated by a passion for both people and technology.

A. WXE
B. WEX
C. P&G
D. Unilever

3. In Value Chain Analysis, These activities focus on inputs. They include material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers of inputs and raw materials.

A. Outbound Logistics
B. Primary Activities
C. Secondary Activities
D. Inbound Logistics

4. It is a type of benchmarking, when a company sets out to find and study the best practises from one or more benchmark organisations.

A. Process
B. Financial
C. Product
D. Strategic

5. A company needs these certain set of fundamental resources in order to exist and survive in the market.

A. Unique
B. Financial
C. Threshold

D. Strategic

6. ________ is the technique of disassembling competitors' products to identify strengths and shortcomings.
7. _______ activities contribute to the physical creation of the product or service, its sale and transfer to the buyer and its service after the sale.
8. A _________ might be an object that an organisation controls or a skill, method, or body of information
9. _________ are a group of standout skills that give a business a steady source of competitive advantage.
10. A __________ is a tool for evaluating an organization's strengths and flaws.
11. The process of benchmarking involves comparing the business processes and performance measures.

A. True

B. False

12. Human resources include plant and machinery, land and buildings, production capacity etc.

A. True

B. False

13. Support activities include such activities as procurement, HR etc. which either add value by themselves or add value through primary activities and other support activities.

A. True

B. False

14. Any significant change in strategy should be followed by a change in the organization's culture, unless the strategy and culture are completely in sync.

A. True

B. False

15. The resources that are specifically needed to gain a competitive advantage are known as 'Threshold Resources'.

A. True

B. False

## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | A | 2. | B | 3. | D | 4. | A | 5. | C |
| 6. | Reverse Engineering | 7. | Primary | 8. | Resource | 9. | Core Competencies | 10. | Balanced Scorecard |
| 11. | A | 12. | B | 13. | A | 14. | A | 15. | B |

## Review Questions

1. Explain the dynamics of internal environment.
2. Describe the link between strategy and culture.
3. Explain the value chain analysis in a detail?
4. Discuss the process of conducting organisational appraisal. Explain the major methods and techniques used for organisational appraisal.
5. What is a core competence? Identify the core competence of at least 5 different companies.
6. What are the different types of resources? Explain the different resource based strategies that are considered by companies.

## Further Readings

Strategic Management and Business Policy by Azhar Kazmi, Mc Graw Hill. Strategic Management Concepts: A Competitive Advantage Approach by Fred R. David, Purva Kansal and Forest R David, Pearson.

Strategic Management Concepts and Cases, Fred R. David, Pearson Prentice Hall, 2007.

The Art of Strategy: A Game Theorist's Guide to Success in Business & Life, Avinash K. Dixit, Barry Nalebuff.

### Web Links

https://asq.org/quality-resources/benchmarking

https://hbr.org/1980/07/strategic-management-for-competitive-advantage

https://www.managementstudyguide.com/strategic-management.htm

https://pll.harvard.edu/subject/strategic-management

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https://www.etcases.com/case-categories/strategic-management-case-studies.html

# Unit 05: Nature of Corporate Strategy

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Objectives
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5.1 Corporate Strategy
5.2 Main Components of a Corporate Strategy
5.3 Corporate-Level Strategies
5.4 Business Combination
5.5 Types of Business Combination
Summary
Keywords
Self Assessment
Answers for Self Assessment
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Further Readings

## Objectives

After studying this unit, you will be able to,

- understand the concept and nature of corporate strategies.
- describe a business combination and its purpose.
- understand the concept of mergers and acquisitions.

## Introduction

A corporate strategy is an overall business plan that aims to provide value and boost profits while being in line with the company's vision and objectives. It takes into account an organization's overall goals, ecosystem, and nature. It supports the efficient use and distribution of resources.

By implementing efficient administration, management, and centralization of corporate activities, it can serve as a template for the entire organisation to reduce risk and maximise growth and expansion. Additionally, it seeks to grow over the long run by establishing an advantage over competitors.

## 5.1 Corporate Strategy

A corporate strategy is a useful instrument for enhancing and outlining a company's values. Corporate strategies are used by businesses to establish and track long-term objectives for growth and success. A company can improve its overall company earnings and financial stability by knowing what a corporate strategy is.

Corporate strategy is the design framework for a company's growth and development. Its main goal is for the company to grow in a specific direction, to a specific extent, at a specific rate, and at a certain point in time. Corporate strategy involves the design, implementation, and control of firm objectives that are beneficial to the company's growth.

The mission, vision, and long-term development and expansion of the corporation are all determined by this. The administration of the company's corporate policy is based on its corporate strategy.

### Nature of corporate strategy

Corporate strategy primarily focuses on the company's decision-making on its businesses, products, and markets. The following describes the nature, breadth, and issues with corporate strategy. It can be integrated and viewed with the firm's objectives-designed framework plan.

The company's strategic planning deficit is being filled by a strategy-designed framework. Actually, it has to do with the company's ability to choose its markets and goods differently. It typically entails modifications to the firm's current product market positions in businesses, including additions, deletions, and revisions

It meets and serves both company needs as well as the needs and requirements of customers. It can make sure that a company's business environment and operations are a good fit for each other.

### Role of Corporate Strategy Ensure in Firm's Businesses

First-time implementation of corporate strategy ensures proper alignment of the company with its environment and business success. It is prepared to assist and guarantee that the design approach for bridging the strategic gaps in business is implemented.

Corporate strategy intentionally turns a firm's weaknesses into strengths and its risks into opportunities to protect the firm's enterprises. The major strategy of the company ensures that the correct opportunity is identified and worked out in order to meet the firm's internal environment and its relevant competitive advantages.

It makes sure that a firm's existence in the market includes adapting to the environment. It guarantees to raise a significant question about which is better and

## Types of corporate strategies

There are

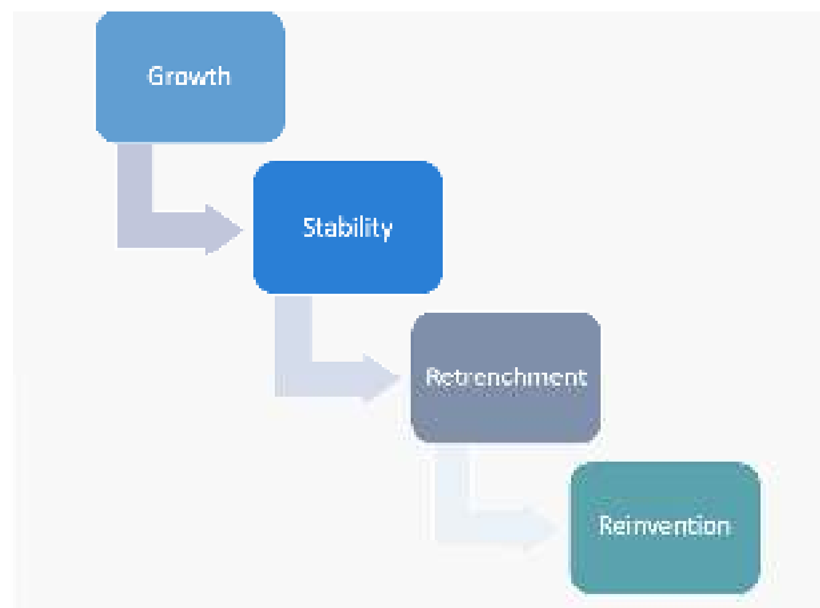



Figure 1: Corporate Strategies

types of corporate strategies as discussed in the following sections as depicted in Figure 1:

### *Growth*

A growth strategy is a plan or objective for the business to generate significant growth in several sectors. It might be used to describe general growth or it could only apply to certain aspects, such sales, revenue, following, or firm size.

Growth plans can be implemented by businesses through concentration or diversification. Concentration is when a corporation invests in growing the core of its operations, such when a bookshop makes investments to increase book sales. When a business expands into new markets, that is known as diversification.

***Stability***

Stability strategies relate to a business remaining in its existing market or industry since it is currently successful there. To do this, the business may make investments in its high-performing areas, such as customer happiness.

By preserving the company's profitable practises, this method keeps the business successful. To further enhance customer satisfaction, the marketing team might, for instance, design advertisements with coupons on them to distribute to clients.

***Retrenchment***

The company is encouraged to change directions to strengthen the business via the retrenchment approach. This could entail changing markets or company models. Reduce or control business components that don't benefit the company as a whole.

A business may accomplish this by changing the course of the enterprise or by dismantling some components. For instance, the product management team may decide to discontinue a product line if it is hurting firm sales in order to preserve profit.

***Reinvention***

Using an old or irrelevant component of their business and reinventing it is known as an innovation strategy. It might receive an update from the corporation with new designs, technologies, or goods. By drastically altering a good or service, a project manager could implement this method by reinventing a function. Converting a physical store to an online store could serve as an illustration of this.

## 5.2 Main Components of a Corporate Strategy

The following are the main components of a corporate strategy;

**Portfolio management**

Portfolio management is used in corporate strategy to choose which parts of the business to work on or invest in, such as: selecting a market, vertebrate integration, investing in fresh possibilities, changing the company's focus and examining the opposition.

***Portfolio management of Apple***

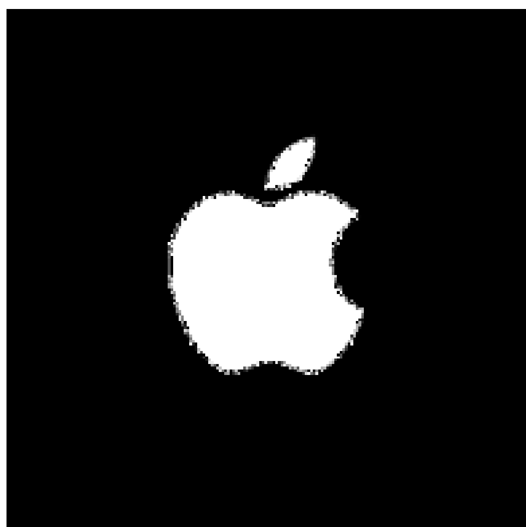


Figure 2: Corporate Portfolio of Apple

Apple Inc (Apple) designs, manufactures, and markets smartphones, tablets, personal computers, and wearable devices. The company also offers software applications and related services, accessories, and third-party digital content. Apple's product portfolio includes iPhone, iPad, Mac, iPod, Apple Watch, and Apple TV.

To sell the Apple I personal computer kit, Steve Jobs, Steve Wozniak, and Ronald Wayne founded Apple on April 1st, 1976. They are currently recognised for developing the iPod, iPhone, and Macintosh computer line as well as for having a devoted following.

With sales and marketing at an all-time low after leaving the firm in 1985, Steve Jobs came back when Apple acquired his company Next. Apple is the largest information technology firm in the world by revenue, total assets, and second-largest mobile phone maker thanks to Jobs' vision for the company.

## Product portfolio of Apple

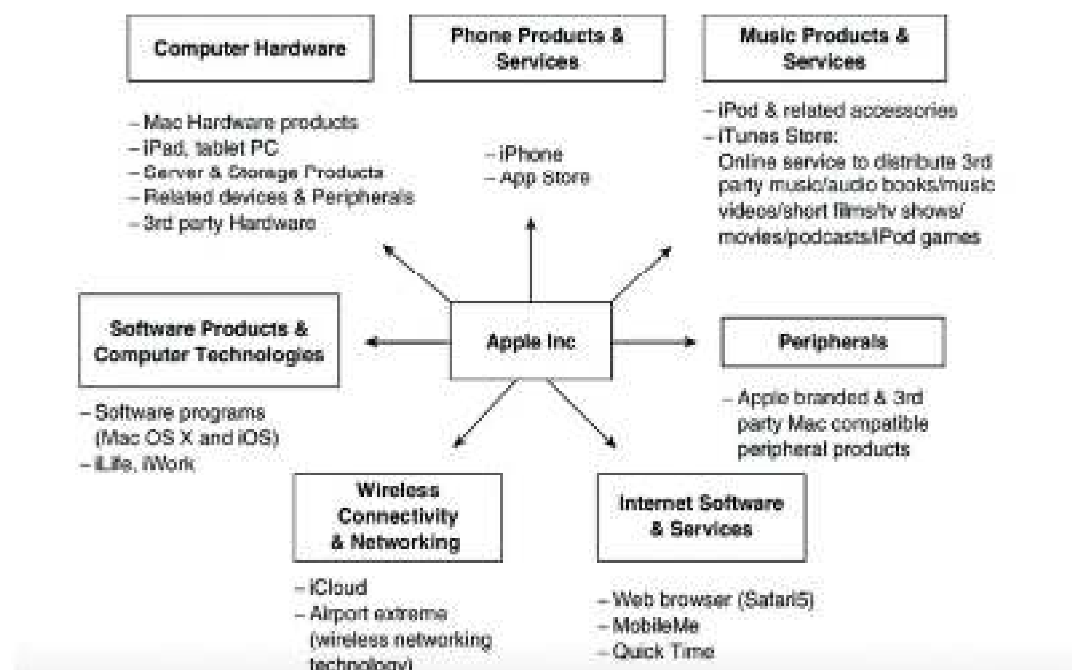



Figure 3: Product Portfolio of Apple

Personal computers, media players, and other portable digital music players are all products of Apple Inc. The business uses an integrated model—vertical and horizontal—to create a unique and sustainable competitive advantage. However, changes in market growth represented by emerging markets have an impact on how competitively priced the company's products are.

Apple entered the new model by making legal downloads available through the iTunes Music Store. Apple's iTunes is compatible with any PC, iPhone, iPod, and iPad, unlike other companies who failed to give customers with compatible goods with those they gave.

### Objectives

Employees often need to define objectives in order to develop and carry out a corporate strategy. A corporate strategy is a plan, objective, or direction that a business should take. The plan is made up of tasks that explain the business's aim. Because employees may monitor whether they've finished a goal, objectives allow a business to track and measure its development.

### Resources

Resources include the people, things, and money needed to run the business. The distribution of resources in a way that best supports the growth of the organisation is a crucial aspect of corporate

strategy. A management may delegate resources to other divisions of the company to accomplish this.

### Design

Design in a business strategy makes sure that the workers arrange the company's structure to maximise efficiency. This can refer to how authority is divided inside an organisation, such as establishing the firm hierarchy or the decision-making process. Choosing how much independence or power a certain department has is one illustration of this.

***Understand the strategic alternatives at corporate level.***

A company's strategy at the corporate level serves as its cornerstone. It determines how a company's mission has an impact on all of the business tactics. The formulation of strategy is influenced by organisational assessment and environmental analysis.

There are many different strategies, and how well an organisation can assess its strengths and weaknesses and relate them to external opportunities and dangers will determine which strategy is best for it.

Corporate level strategies primarily deal with resource allocation and resource transfer across businesses. These choices are made in a way that advances organisational goals. These tactics provide general direction for managing the firm.

In terms of its general attitude towards growth and the administration of its range of businesses and product lines, it describes the overall orientation of a corporation. A collection of strategic alternatives that the company can choose from will be presented in an analysis based on the business definition.

## 5.3 Corporate-Level Strategies

The following are the different corporate level strategies adopted by companies.

*Growth*

One of the best ways to accomplish the required growth is through expansion. A larger customer base or the use of alternative technology to improve performance can both broaden the company's scope. Growth or intensification strategies are other names for expansion plans.

**Example:** Fair and Lovely initially targeted women, but it now now appeals to men by introducing cream for them.

### Stability strategies

These are intended to strengthen an organization's current position with the goal of developing a strategic environment that will allow for more flexibility in the employment of expansion or retrenchment tactics in the future.

The objectives of stability strategies include profit preservation, cost containment, and the exploration of potential future strategic options.

Figure 4: SAIL

**Example:** The Steel Authority of India established a stability strategy that prioritised improving efficiency above expanding its plant base. By addressing the overcapacity in the sector, this action enabled the company maintain its ranking as the third-fastest growing steel producer in the world.

### *Retrenchment strategies*

These are a response to unprofitable or damaging elements of a business or organization, such as the following: Eliminating unprofitable assets and eliminating product lines.

**Example:** General Motors (GM), formerly the biggest carmaker in the world, began executing retrenchment plans as it withdrew its brands from significant international markets like Western Europe, Russia, and India. The primary causes were declining sales and profitability as its rivals constantly outperformed it in terms of sales.

### *Combination Strategy*

Even though they seem to be at odds with one another, organisations occasionally go for combination strategies.

**Example:** a business might choose a stability and retrenchment approach to maintain capital growth while maintaining profit.

When an organisation is vast and working in a complex environment, such as when there are multiple businesses operating in various industries with various needs, a combination strategy can be helpful. McDonald's keeps pursuing growth by entering new areas throughout the world, all the while preserving a lucrative core menu and emphasizing increasing operational effectiveness.

The following Figures illustrate the growth strategies adopted by Coca-Cola.

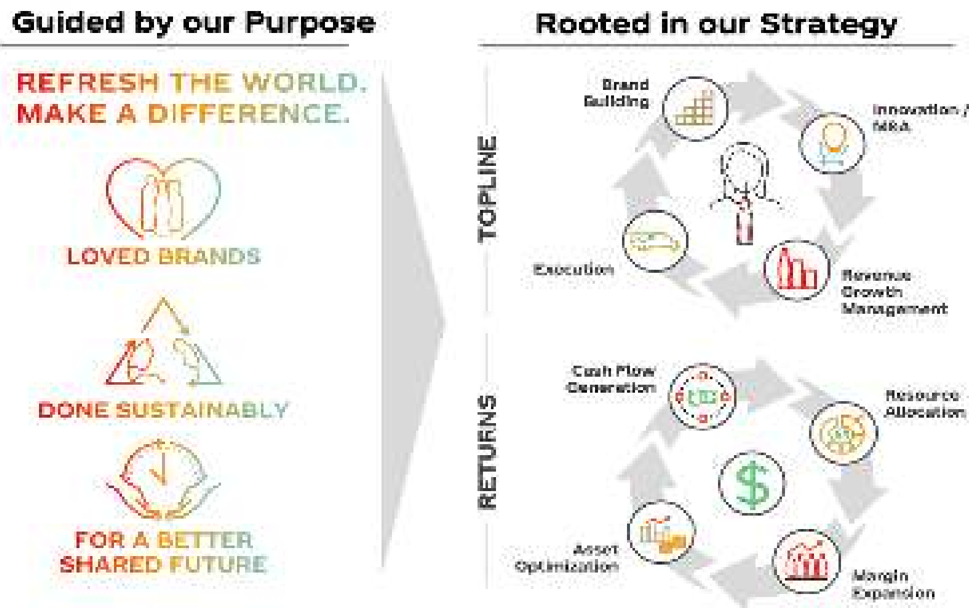



Figure 5: Growth Strategy of Coca-Cola

Figure 6: Growth Strategy of Coca-Cola

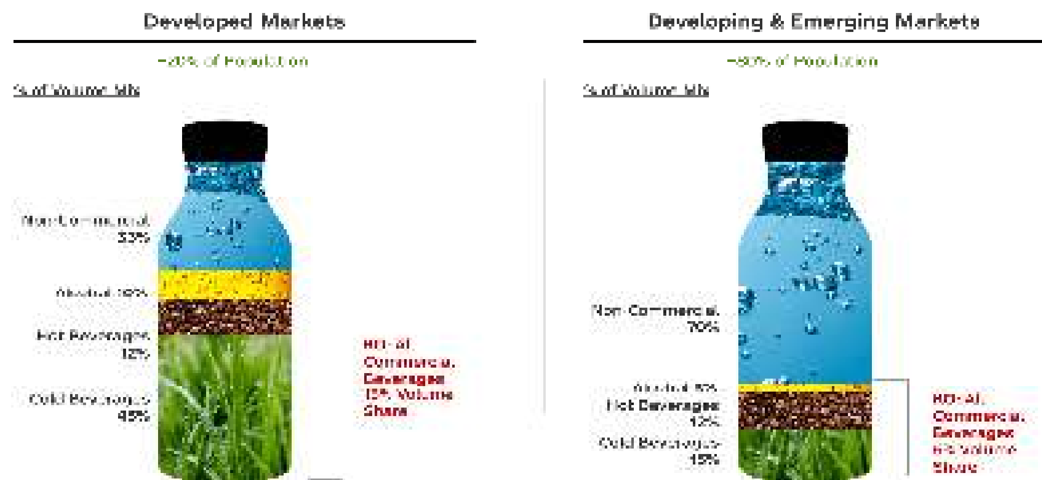



Figure 7: Growth Strategy of Coca-Cola

## 5.4 Business Combination

When two or more entities merge, a business combination agreement is created. In the process, one company buys another company, which aids in their ability to diversify, grow in size, and expand their market and customer base.

Unlike organic growth, which occurs internally and calls for the use of a company's resources, this process involves one corporation buying another in order to grow and expand. It enables the acquiring firm to gain access to more of the target company's assets, goodwill, cash, and other important assets.

The liabilities are also incurred during the accounting for business combinations. The process begins after the contact is made. But the target company must operate in a sector that can satisfy customers' needs and create value.

The acquiring business does not, however, obtain complete control.

### Characteristics of a Business Combination

The following are the characteristics of a business combination;

#### *Viability of the Target Business*

In order for the Acquiring Organisation to profit from the Transaction, the Target Business Must Have Assets, Processes, or Other Inputs That Can Be Viable.

#### *Consideration*

The business combination accounting transaction is only complete when the acquiring organisation gives the target business a pre-agreed sum in the form of cash, stock, or receivables. This transfer is referred to as consideration.

#### *Control of the Business*

To hold the organization's controlling rights, the purchasing organisation must own 50% of the target organisation.

## 5.5 Types of Business Combination

The following section shows the different types of business combinations.

## Horizontal

This kind of consolidation aims to combine the operations of two or more businesses that operate in the same industry. A smaller amount of competition and a higher market value arise from this combination.

*Fb, Instagram and Wats App*

Figure 8: Social Media Platforms

One of the better examples of horizontal mergers in the modern era is this one. These were all independent social media networks that were launched one by one by various businesses. Over time, they merged to form Meta Platforms Inc., a single, sizable social media company run by Mark Zuckerberg. Despite the integration, each platform maintains its independence, and the individual websites are unaltered.

Users can freely communicate with one another across all platforms connected to the same network, though. One goal of the merger with WhatsApp was to deploy end-to-end encryption to safeguard customer privacy. For an established company like Facebook, integration is a growth strategy.

## Vertical

The vertical combination combines various phases of the same company. For instance, numerous companies run autonomous enterprises at various phases.

Sequence combination or process combination are other names for this. It unifies many departments under a single point of authority. The main goal is to lower the production cost per unit.

*Target*

One example of a company that is vertically integrated is Target, which has its own store brands and manufacturing plants. It creates, distributes, and sells its products—eliminating the need for outside entities such as manufacturers, transportation, or other logistical necessities.

## Lateral

This kind of corporate combination combines two companies that operate in different industries but are nevertheless linked in some way. Insights from the management of both organisations will be incorporated into the new business form to assist establish an organisational and functional structure that will result in the most effective manner to run the company.

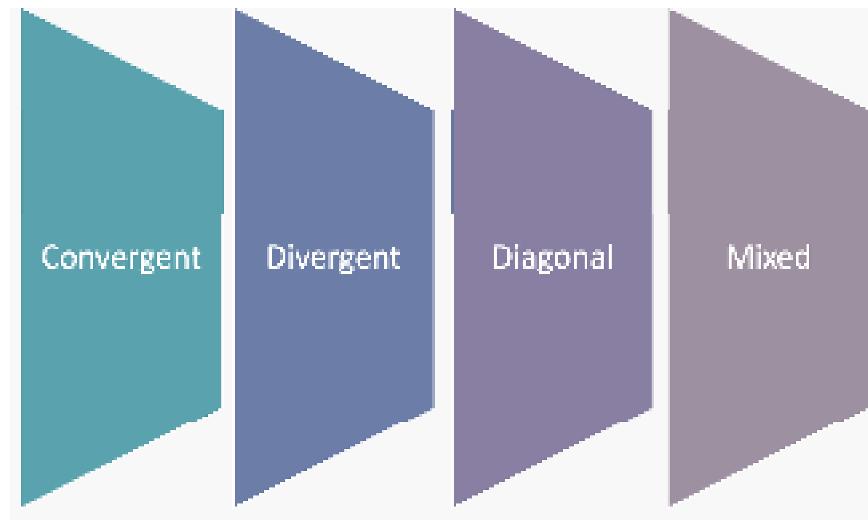



Figure 9:Types of lateral combination

### Convergent

The merger of various business units, such as raw material suppliers to a large company, is known as a convergent combination. In this kind of arrangement, the larger company gains from providing raw materials and having access to its inventory.

**Example:** Printing press unit may integrate with the units dealings in machinery, types, papers and ink.

### Divergent

The merging of significant enterprises that operate in related industries and use the goods of the major firm as a raw material is known as a divergent combination.

**Example:** A flour mill that supplies flour to several businesses, including a bakery, candy shop, and hotel, serves as an example of divergent lateral integration.

The fundamental advantage of lateral integration is that the new combination is guaranteed a supply of raw materials as well as availability and existence of demand.

### Diagonal

A "diamond combination" is when a manufacturing company joins forces with a service-related enterprise. Since the customer can expect after-sales service from the company itself, the goals of the business combination in this case are to provide service for the sold products and to foster customer satisfaction and trust.

**Example:** When an iron and steel company takes the services of a power supply company, it may be referred to as a diagonal combination. It makes sure that the manufacturing sector receives consistent and uninterrupted service.

### Mixed

Agreements for mixed-business combination are sometimes known as circular combinations. A new company known as a mixed combination is created when these unrelated enterprises come together. A circular combination, also known as a mixed combination, is when businesses manufacturing completely unrelated goods join under the control of a single central organisation.

**Example:** An example of a circular or mixed combination is a cotton mill joining forces with a plastics plant and a sugar company.

## Summary

- A corporate strategy is a useful instrument for enhancing and outlining a company's values.
- Corporate strategy primarily focuses on the company's decision-making on its businesses, products, and markets.
- Corporate strategy intentionally turns a firm's weaknesses into strengths and its risks into opportunities to protect the firm's enterprises.
- Portfolio management is used in corporate strategy to choose which parts of the business to work on or invest in, such as: selecting a market, vertebrate integration, investing in fresh possibilities, changing the company's focus and examining the opposition.
- Unlike organic growth, which occurs internally and calls for the use of a company's resources, this process involves one corporation buying another in order to grow and expand.
- Horizontal combination is one in which the consolidation aims to combine the operations of two or more businesses that operate in the same industry.
- The vertical combination combines various phases of the same company. For instance, numerous companies run autonomous enterprises at various phases.
- Lateral combination combines two companies that operate in different industries but are nevertheless linked in some way.
- The merger of various business units, such as raw material suppliers to a large company, is known as a convergent combination.
- The merging of significant enterprises that operate in related industries and use the goods of the major firm as a raw material is known as a divergent combination.
- A "diamond combination" is when a manufacturing company joins forces with a service-related enterprise.
- Agreements for mixed-business combination are sometimes known as circular combinations. A new company known as a mixed combination is created when these unrelated enterprises come together.

## Keywords

***Growth:*** A growth strategy is a plan or objective for the business to generate significant growth in several sectors.

***Stability:*** Stability strategies relate to a business remaining in its existing market or industry since it is currently successful there.

***Retrenchment:*** The company is encouraged to change directions to strengthen the business via the retrenchment approach.

***Reinvention:*** Using an old or irrelevant component of their business and reinventing it is known as an innovation strategy.

***Business Combination:*** When two or more entities merge, a business combination agreement is created. In the process, one company buys another company, which aids in their ability to diversify, grow in size, and expand their market and customer base.

## Self Assessment

1. This strategy is a response to unprofitable or damaging elements of a business or organization, such as the following: Eliminating unprofitable assets and eliminating product lines.

A. Growth

B. Stability
C. Retrenchment
D. Combination

2. This is one of the best ways to accomplish the required growth is through expansion.

A. Growth
B. Stability
C. Retrenchment
D. Combination

3. The merger of various business units, such as raw material suppliers to a large company, is known as a ________ 'business combination'.

A. Divergent
B. Convergent
C. Mixed
D. Diagonal

4. _______ strategies relate to a business remaining in its existing market or industry since it is currently successful there.

A. Growth
B. Stability
C. Retrenchment
D. Combination

5. This kind of consolidation aims to combine the operations of two or more businesses that operate in the same industry.

A. Horizontal
B. Vertical
C. Lateral
D. None of the above

6. _________ primarily focuses on the company's decision-making on its businesses, products, and markets.
7. With sales and marketing at an all-time low after leaving the firm in 1985, _______ came back when Apple acquired his company Next.
8. A _____ strategy is a plan or objective for the business to generate significant growth in several sectors.
9. ________ in a business strategy makes sure that the workers arrange the company's structure to maximise efficiency.
10. The company is encouraged to change directions to strengthen the business via the ________ approach.

11. Using an old or irrelevant component of their business and reinventing it is known as an innovation strategy.

A. True

B. False

12. Employees do not need to define objectives in order to develop and carry out a corporate strategy.

A. True

B. False

13. Resources include the people, things, and money needed to run the business.

A. True

B. False

14. When an organisation is vast and working in a complex environment, such as when there are multiple businesses operating in various industries with various needs, a Retrenchment' strategies can be helpful.

A. True

B. False

15. Vertical combination combines two companies that operate in different industries but are nevertheless linked in some way.

A. True

B. False

## Answers for Self Assessment

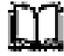
| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | C | 2. | A | 3. | B | 4. | B | 5. | A |
| 6. | Corporate Strategy | 7. | Steve Jobs | 8. | Growth | 9. | Design | 10. | Retrenchment |
| 11. | A | 12. | B | 13. | A | 14. | B | 15. | B |

## Review Questions

1. What is a corporate strategy? Explain its nature, role and types?
2. Find out the portfolio of products of the following companies;

a. Tesla
b. Apple
c. Unilever
d. IBM

3. Write a detailed note on corporate level strategies with the help of examples.
4. Explain the 'Growth Strategies' adopted by Coca-Cola?
5. What is a business combination? What are its different types? Give examples?



## Further Readings

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# Unit 06: Corporate Level Strategies

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## Objectives

After studying this unit, you will be able to,

- state the meaning of strategy.
- describe the nature of corporate strategy.
- understand the importance of corporate strategy.
- describe the expansion strategy.
- describe the growth strategy
- describe the retrenchment strategies.
- understand the circumstances in which each strategy is adopted by companies.
- understand the combination strategies.

## Introduction

A corporate strategy is a useful instrument for enhancing and outlining a company's values. Corporate strategies are used by businesses to establish and track long-term objectives for growth and success. You can improve overall company earnings and financial stability by knowing what a corporate strategy is.

A corporate strategy is a long-term plan with specific objectives for a business. Although each goal's objective may vary, the main aim of a corporate strategy is to advance the business. The corporate strategy of a corporation could put an emphasis on leadership, expansion, or sales. For instance, a company may develop a corporate strategy to increase sales to various markets or customers. To set priorities for resources, it could also employ business strategy. Creating firm value and inspiring people to work towards it or a set of goals is another goal of corporate strategy.

Corporate strategy essentially concerns the decision of the corporate overall direction. A corporate strategy's primary goal is to increase the value of each member company. Corporate strategy is a

collection of high-level management choices that guide the corporation's course in terms of its products, markets, advertising, and pricing points.

## 6.1 Nature of Corporate Strategy

A corporate strategy entails choices regarding the following: selection of businesses, distribution of resources among various businesses, transfer of skills and capabilities from one group of businesses to another, management and nurturing of a portfolio of businesses in a way that creates synergies between product lines and business units.

### Levels of Strategy Creation

There are three levels of Strategy Creation; The corporate level, the business level, and the functional level are the three levels at which strategy can be created.

#### *The Corporate Level*

This is where your organization's overall strategy is developed. Decisions pertaining to the numerous business sectors in which the company competes are covered by corporate strategy.

#### *Business Level*

To make the corporate vision a reality, strategy is developed at the level of the business unit.

#### *Functional Level*

At this level, a strategy is developed to achieve the goals and objectives at the business unit level while using your organization's assets.

### Corporate Vs Business Strategy

There is a difference between corporate and business strategy. In essence, a corporate strategy focuses on the markets a company wants to penetrate and the rival companies it wants to compete with, whereas a business strategy focuses on how a company expects to compete in a market.

**Business strategy includes all strategic choices made in business related to things like customer satisfaction, competitive advantage, and product selection.**

**Corporate strategy focuses on the overall goal and reach of the company to meet stakeholders' expectations.**

The differences have been illustrated in the figure below:

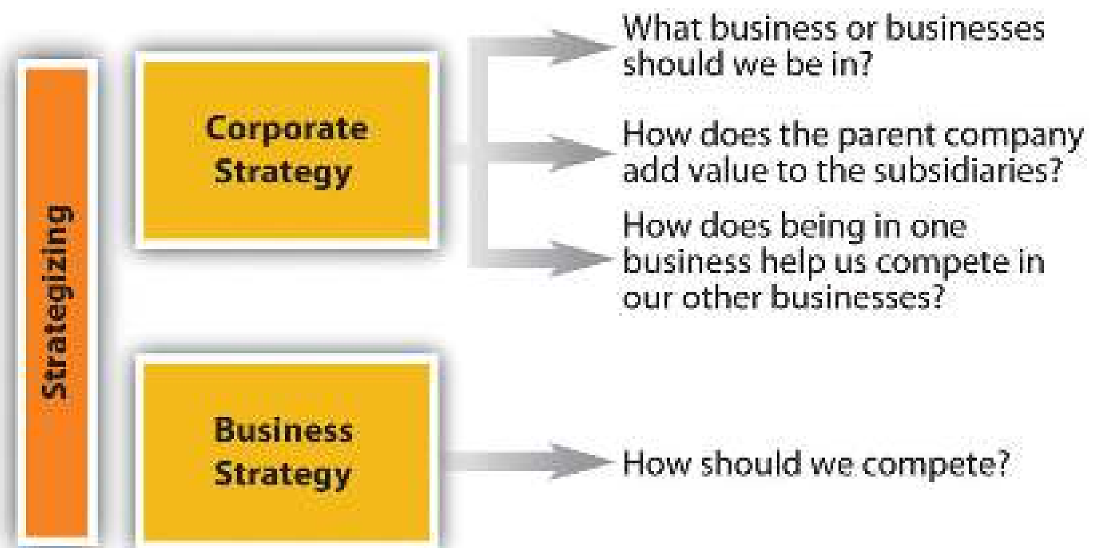



*Figure 1: Corporate Vs Business Strategy*

### Challenges of Corporate Strategy

Some of the main challenges of corporate strategy include; What businesses should a firm compete in? How can these businesses be co-ordinated and managed so that they create "Synergy." Other challenges include; How the management coordinates the operations and develops competencies across business units and product lines. Also, the portfolio analysis considers the market a company competes in through its business and product units.

## 6.2 Synergy

Synergy refers to the idea that the whole is more than the sum of its parts. Organizationally speaking, synergy refers to how different departments of a company work together and interact to produce more than they would individually.

In strategic management, the corporate parent must successfully coordinate the operations of the many business units to foster synergy, ensuring that the corporate total is greater than the sum of the individual parts.

### Synergy and its forms

There are several forms of synergy.

*Knowledge Exchange:*

Combination units frequently gain from knowledge and skill exchange. Another name for this is utilising core competencies.

*Coordinated plans:*

By lowering competition and creating a coordinated response to shared competitors, aligning the business plans of two or more business divisions may give a company synergy.

*Shared Tangible Resources*

By pooling resources like a common R&D lab or manufacturing facility, combined entities might occasionally save money.

*Economies of Scale or Scope*

By coordinating the flow of goods or services from one unit with those of another unit, inventory can be decreased, capacity can be used more effectively, and market access can be facilitated.

*Pooled Negotiating Power*

Combined units can combine their purchasing to gain bargaining power over common suppliers to reduce costs and improve quality. The same can be done with common distributors.

*New Business Creation*

By integrating the various activities into one new unit or by forming joint ventures among internal business units, knowledge and skill exchange can facilitate the development of new goods or services.

## 6.3 Expansion Strategies

Growth strategies are the most widely pursued corporate strategies. Companies that do business in expanding industries must grow to survive. A company can grow internally by expanding its operations or it can grow externally through mergers, acquisitions, joint ventures or strategic alliances.

For the following reasons, businesses typically pursue growth strategies: To gain economies of scale Growth aids businesses in setting up large-scale operations, allowing fixed expenses to be dispersed over a significant amount of output.

***To draw talent:*** Talented people like companies with growth.

***To raise profits:*** In the long run, growth is essential for boosting an organization's bottom line, particularly in today's chaotic and intensely competitive climate.

***To satisfy a natural urge***. A healthy company typically has a desire for growth. Opportunities for growth act as powerful stimuli for this need.

***To assure survival***

Growth is occasionally necessary for survival. In some circumstances, a company might not be able to continue without a vitally important minimum amount of business. Furthermore, a company's competitiveness may be harmed if it stagnates while its rivals expand.

## Categories of Growth Strategies

Growth strategies can be divided into three broad categories: This has been depicted in Figure 2.

## A. Concentration Strategies

By using aggressive advertising and realigning the product and market possibilities at the company's disposal, it might be possible to draw clients without expanding beyond the current scope of goods or services.

The company will be able to grow its sales and market share of the current product line more quickly by stepping up its efforts. This is arguably the internal growth strategy that works best for businesses whose goods or services are nearing the end of their useful lives. Realignments of the product and market are the focus of the majority of intense strategy techniques.

Thus, there are three important intensive strategies:

### Market penetration

Market penetration seeks to increase market share for existing products in the existing markets through greater marketing efforts.

This can be accomplished by:

*Increasing the purchase amount*

For instance, if twice-thrice daily handwash users are persuaded to wash hands often, the product's sales to current users may virtually double.

*Attracting competitor's customers*

This can be done through Increasing promotional effort and establishing sharper brand differentiation.

*Attracting non-users to buy the product*

This can be done by Inducing trial use through sampling, price incentives and advertising new uses of the existing product.

Market Penetration by Mc Donald's

Figure 2: Market Penetration by Mc Donald's

McDonald's applies a number of techniques to offer its current products to its existing markets. It has different kinds of products such as fries, burgers, beverages, salads, and desserts. It has meals for both adults and kids.

### Market development

By introducing current items to new markets, market development aims to enhance market share. By expanding into new geographical markets a business that has only operated in one area of a nation might now branch out into other areas and international markets.

Market development can be accomplished by: Regional expansion, National expansion or International expansion.

It started its journey in the USA; however, did not confine itself to the home market only. Rather, it had expanded and went beyond the national border.

Currently, McDonald's operates in over 100 countries (McDonald's, 2023). These global markets contributed $11.16 billion to its total revenue in 2022 (Statista, 2023).

### Product Development

By creating new or enhanced products for existing markets, product development aims to increase market share. In response to growing concerns about the health implications of fast food, McDonald's has introduced a range of healthier menu options. These include salads, wraps, and grilled chicken sandwiches. This commitment to offering healthier choices has helped McDonald's stay ahead of competitors to some extent.

## B. Integrative Strategies

Integration is essentially the combination of activities related to a firm's current activity. The industry value chain can be used as the foundation for such a combination. A business engages in a variety of activities to convert an input into an output.

From the acquisition of raw materials to the creation of finished goods and their marketing and distribution to the final consumers, these operations are all included.

These activities are also known as value chain activities. Therefore, a company that adopts integration may advance or retreat along the industry value chain.

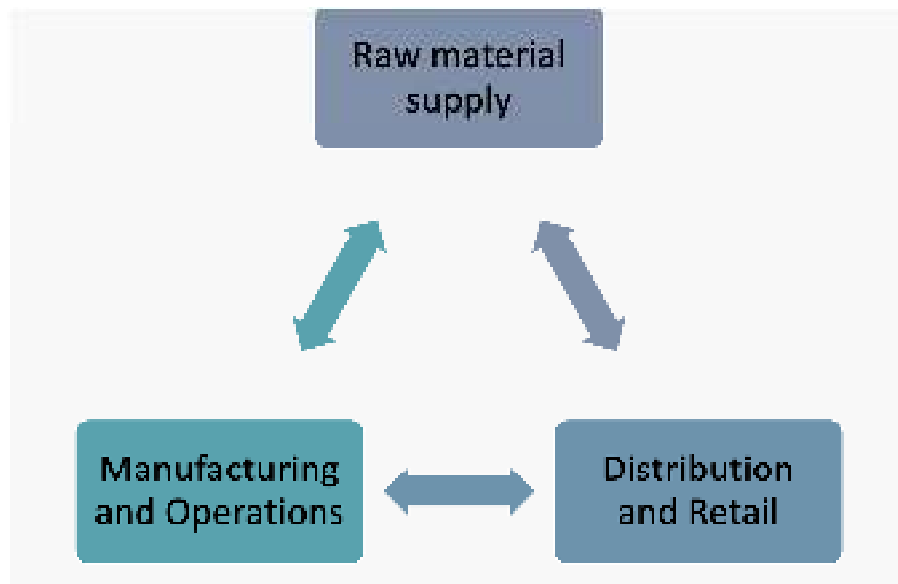



Figure 3: Value Chain Activities

***Integration is basically of two types:***

***Vertical integration***

This involves gaining ownership or increased control over suppliers or distributors. Vertical Integration can be further divided into the following;

***Backward Integration***

Taking ownership of or exercising more influence over a company's suppliers is known as backward integration (As illustrated in the figure below).

Figure 4: Backward Integration

For instance, a manufacturer of finished goods might take over the operations of a supplier that creates inputs like raw materials and component parts. Backward integration is demonstrated by Tata's purchase of tea plantations.

***Forward Integration***

Gaining ownership or greater influence over distributors or retailers is known as "forward integration."

***Horizontal integration***

Horizontal integration is a strategy of seeking ownership or increased control over a firm's competitors.

## C. Diversification Strategies

The process of expanding a company's existing businesses is known as diversification. In other words, diversification expands the existing markets or products. A company that operates two or more different businesses is said to be diversified.

In order to increase revenues, the diversification approach focuses on reaching a larger market with a wider variety of products. Diversification can be achieved through a variety of ways:

- Through mergers and acquisitions.
- Through joint ventures and strategic alliances.
- Through starting up a new unit (internal development)

*Mc Donalds Diversification*

The launch of McCafe by McDonald's is a great illustration of diversification. McDonald's has introduced new products through McCafe that aren't seen in the chain's original locations. McCafe serves as an illustration of diversification in action by creating new goods and markets.

## 6.4 Stability Strategies

The Stability Strategy is used when an organisation tries to maintain its current position and only considers small improvements by adjusting one or more of its business operations from the standpoint of customer groups, customer functions, and technology alternatives, either individually or collectively.

Small businesses, which are typically risk cautious, often choose the stability strategy. If the market is unfavourable and the firm is happy with its performance, it will not make any significant changes to how it does business. Additionally, businesses that are slow to adapt and resistant to change consider the stability strategy to be safe and do not search for alternative solutions.

### Need for stability strategy

The reasons a business might decide to implement a stability strategy are as follows: To strengthen its position within the sector in which it is engaged. This tactic might enable a business to relax after experiencing rapid expansion in the previous few years.

By using this strategy, the business can pool its resources and outcomes in order to plan its upcoming actions. In difficult economic times, family-owned firms may decide to cut back on operations. To prevent any loss of financial control, they take this action.

### Types of strategies

There are different strategies that may be adopted by companies.

*No Change*

As the name suggests, a company following this strategy does not take up any new activities. Instead, the company continues with its current business. Companies that are well established may go for this strategy.

*Modest Growth Strategy*

A corporation works to meet the same goal as it did in the past under this. For instance, if a business achieved 5% growth last year, it aims for the same proportion this year as well (after accounting for inflation). Given the low risk involved and the lack of additional work or resources required by the business, it is the most lax strategy.

*Sustainable Growth Strategy*

If a company thinks the external environment is unfavourable, it will employ this strategy. For instance, if there is a financial resource shortage or the economy is in a recession.

*Profit Strategy*

A corporation may choose to employ this technique if its goal is to make money. A business with a profit-oriented strategy might be prepared to give up some of its market share in exchange for money.

*Pause Strategy*

If a company has already experienced quick growth, it may employ this method.The company intends to take a break before recommitting to growth through the use of this method. It is only a short-term tactic. A business might use the downtime to increase production efficiency and take advantage of new opportunities.

### Advantages of the stability strategy

This approach does not interfere with everyday tasks. Unless a business is in dire straits, this tactic is less dangerous. It enables the business to reconsider its long-term plans.

**Example:** Steel Authority of India Limited (SAIL) opted for the stability strategy because of overcapacity in the steel sector. SAIL concentrated on increasing its operational efficiency, rather than going for expansion.

## 6.5 Retrenchment Strategy

Retrenchment strategy describes a company's strategic choice to scale back activities, cut expenses, and concentrate on its core strengths in order to enhance overall performance. Various retrenchment strategies can be used by businesses, depending on their unique objectives and circumstances.

When a company's performance is bad, with declining sales and earnings, due to a weak competitive position in some or all of its product lines, it may seek retrenchment methods. Management may employ one or more of the following retrenchment tactics in an effort to strengthen the company's weak points.

### Reasons For Retrenchment Strategy

There are different reasons for adopting of the retrenchment strategy.

*Poor Workmanship*

When performance is poor and losses are generated, it makes perfect sense to close down business lines or centers that are not adding value and act as productivity laggards in the organisation.

*Threat to company*

When unanticipated activity in the markets for its products threatens the company's success, a firm frequently shutters a portion of its activities. A strategy like this is frequently mandated by the company's shareholders as well.

***Resource Redistribution***

If other outstanding investment opportunities materialise, the organisation may be obliged to reduce operations in the current business and move the resources freed to more productive areas.

***Insufficient Resources***

Additionally, the company might need money to keep its current market position. The company can lack the funds and be forced to cut off ineffective sections of its activities in order to reallocate its resources.

***To guarantee improved management and increased effectiveness***

Diversification can sometimes go too far for a company. It thus loses control, which has an effect on operational effectiveness. By reducing its product line, retrenching aids in the company's ability to lower its size to a manageable level.

## Types of Retrenchment strategies

The following are the type of turnaround strategies.

### A. Turnaround

Do businesses become sick overnight and meet the criteria for potential turnaround candidates, or do they deteriorate gradually and can be halted by prompt corrective action? Clearly, the latter is accurate in the majority of situations. However, it's also true that when businesses fall ill, they frequently do not acknowledge this reality and do not act quickly to correct the situation.

When a company experiences a significant financial shortage or a persistent decline in operational earnings, it is said to be sick. If no proper internal and external activities are made to alter the firm's financial situation, such businesses eventually become bankrupt.

The term "turnaround strategy" refers to this healing procedure. Turnaround recovery strategies are a set of measures that companies use to address a decline in performance. Companies use turnaround recovery strategies to mark an upturn period after a significant period of negativity.

Some of the common turnaround recovery strategies used by companies include a change of leadership, focus on core business activities, and asset retrenchment

### Phases of a Turnaround Strategy

The diagnosis of looming trouble is the first stage. Numerous authors and research studies have identified clear signs of corporate sickness as early warning signs. In order to put the company back on the path to profitability, the second phase entails investigating the illness's root causes. Both short-term and long-term actions are taken by these measures.

Implementing the change process and monitoring it comprise the third and final phase. When is Turnaround required and when is Turnaround required?

### Types of Turnaround Strategies

There are different types of turnaround strategies that can be adopted by the companies.

***Changes in Leadership and Restructuring***

Changing the company's current leadership structure is the first step in restructuring and improving the company's overall health. This will necessitate the implementation of temporary structures or adjustments to the current organisational structure and hierarchy of the company. The existing managers' responsibilities and positions may change within the organisation. It might cause the company's current hierarchy to shift.

***Cost cutting***

The majority of businesses use a cost-cutting or cost-efficiency strategy to control spending, lower expenses, and boost margins. Cost cutting directly affects profitability and aids the business in

getting back on track. The company's cash flow would be stabilised and steadily improved as a result of the cost cutting approach.

### B. Divestment

Divestment is the selling of a division or portion of an organisation. This tactic is frequently employed to acquire money for additional strategic investments or acquisitions. Divestiture is frequently utilised to get rid of enterprises that are not lucrative, demand too much capital.

Selling subsidiary assets, investments, or business divisions is a process called "divestment," which aims to increase the value of the parent firm. Alternatively known as divestiture, a divestment is typically carried out when a subsidiary asset or business division is not operating as expected. It is the exact opposite of an investment.

*When is this strategy adopted?*

- When a business is to blame for a firm's overall poor performance.
- When a business cannot be turned around.
- When a business requires more resources than the organisation can offer.
- When a company that doesn't fit in with the rest of the organisation
- When a substantial sum of money is needed right away.
- When a firm is threatened by legal action taken by the government.

### Types of divestments

There are different types of divestments.

#### *Spin-Off Divestment*

When an existing parent company distributes free shares of the new firm to its owners on a pro-rata basis, it is a form of demerger. The transaction is recognised as a stock dividend even if there is no money involved or revaluation of the subsidiary's assets.

Following the spin-off, both businesses continue to operate and exist. A new company is formed during a spin-off. The new firm that is spun off gains the stockholders of the parent company. Spin-offs occur when the equity owners of the parent company receive equity stakes in the newly spun off company.

**Example:** when Agilent Technologies was spun off from Hewlett-Packard (HP) in 1999, the stockholders of HP received Agilent stock.

### Sell-off Disinvestment

Selling a division to another business is a type of restructuring. Payment for the business unit is often made in cash or securities when it is sold. When a company decides to sell a struggling division, this asset is transferred to a new owner, who probably values it higher because he can make better use of it than the previous owner.

Cash is given to the seller in lieu of the asset. Therefore, the company can use this money more effectively than it was able to do with the sole asset. In general, sell-offs have a positive effect on the share prices of the buyer and seller companies. Therefore, sales are advantageous for the shareholders of both companies.

#### *Voluntary corporate liquidation*

It's also referred to as a complete sell-off. Normally, businesses choose voluntary liquidation because it benefits the shareholders. In liquidation, the company might be worth more than its current market value.

Here, the company sells its divisions and assets to a number of buyers, potentially realising a higher price than if it had to sell them all at once.

An example is if a high-cost oil producer foresees a period of low oil costs for the future. They may voluntarily decide to liquidate even if they are not technically bankrupt yet.

#### *Equity carveouts*

It is comparable to the parent company's initial public offering (IPO) of a part of the equity stock of a wholly owned subsidiary. The parent firm has two options: it can sell all of its shares in the subsidiary company or it can decide to stay in the subsidiary's industry by selling only a portion of its stake instead.

The shares of the subsidiary company will be listed and traded separately after being sold to the general public. Cash is received by the parent business through the sale of the subsidiary firm's stock. By owning a majority interest in the subsidiary, the parent firm may still retain influence over the business.

### *Bankruptcy*

This is an example of a defensive tactic. It enables entities to petition the court for the firm's legal protection in the event that the firm is unable to pay its debts. The court resolves the corporation's duties and rules on any claims against it.

The worldwide recession of 2008, Kodak's inability to keep up with the development of digital photography, which has all but eliminated the demand for conventional photographic film, and the sheer weight of hefty pension payments were some of the reasons given by the firm for declaring bankruptcy.

### *Liquidation*

When a business is completely disbanded and its assets are sold, this is known as a liquidation. It is an approach used as a final option.

A firm may be wound up and its assets sold to pay off debts if there are no purchasers for a business that wants to be sold.

When is Liquidation done?

1. When a company has tried both a turnaround and a divestment plan without success.

2. When bankruptcy is an organization's only option. Legally, a business may first file for bankruptcy before being dissolved in order to acquire the funds required to settle its debts.

3. When a company's stockholders can reduce their losses by offloading its assets.

### *Blockbuster Liquidation*

Blockbuster Video, a major provider of home movie and video game rentals, was established in 1985 and is unquestionably one of the industry's most recognisable names. At its height in 2004, Blockbuster had 9,094 locations and 84,300 employees globally. Blockbuster declared bankruptcy in 2010 after failing to make the switch to a digital business model.

Figure 5: Blockbuster Liquidation

### Blockbuster Liquidation

Blockbuster was approached by Netflix in 2000 with an offer to purchase the company for $50 million USD. The Blockbuster CEO passed on the offer because he considered it to be a "very small

niche business" that was currently losing money. With 103.95 million customers globally and $8.8 billion in revenue as of July 2017, Netflix.

## 6.6 Combination Strategy

A business may combine two or more corporate strategies at the same time. However, if used excessively, a combination strategy can be extremely risky. No company has the funds to implement every strategy that can be advantageous to the business.

*There are tough choices to be made. It is necessary to set priorities.*

Organisations must select from a variety of tactics because, like individuals, they have limited resources. When separate divisions pursue diverse objectives, a combination strategy is frequently used in large, diversified corporations. Additionally, organisations that are struggling to survive might combine different defensive tactics.

**Example:** Initially, Reliance Industries produced textiles. However, the company was compelled to open its own retail stores under the name "Vimal" due to distribution inefficiencies in the market. Reliance was able to avoid the wholesalers and merchants in the market who weren't promoting his items by switching to direct retailing of its products. As a result, Reliance combined horizontal and vertical integration.

Reliance used a lot of petrochemicals in its current operation, therefore the company decided to start making them so that it could offer competitive prices on its products.

It was included in the production of Polyester Staple Fibre (PSF). Reliance Industries expanded into crude oil refining and built a top-notch oil refinery in Hazira. To achieve their goals, large, varied corporations use combination strategies. Additionally, this satisfies the varied requirements of all a company's strategic business units. A corporation can practice multiple techniques at once rather than being a prisoner to one.

Some organisational units may be pursuing growth strategies, whereas other organisational units may be in a stabilisation or retrenchment process due to declining or mature product life cycles.

The following categories of combination tactics are possible

- Stability in some areas of the company while expanding in others.
- Stability in some industries and layoffs in others.
- Retrenchment in one industry and growth in others.
- stability, expansion, and job cuts across diverse industries.

### When is the Combination strategy adopted?

A combination strategy may be adopted in the following situations.

***Different goods in Different Product Life Cycles***:

A company's many goods are in various product life cycle stages. Investing heavily in advertising and sales promotion, for instance, is necessary for items that are in the growth stage since the company wants more and more consumers to sample the product at this point.

Similar to how items at the maturity stage of the product life cycle require a stability strategy, the company is attempting to benefit from these products by not making any additional investments in them. Retrenching is necessary for products that are declining.

***Business Cycle***

The business cycle has varying effects on the company's various divisions and products. For some businesses, this may provide expansion chances, while for others, it could mean disaster. As a result, some businesses will see growth while others will experience retrenchment.

***Number of Businesses***

Companies sometimes grow so fast that the number of products and businesses become unmanageable. Hence it makes sense for the management to reduce the number of businesses. This is also necessary as the resources available are limited and can only be allocated to companies where the returns are maximum.

### Types of combination strategies

There are two types of combination strategies;

***Simultaneous Combination***

Using this tactic, a Strategic Business Unit (SBU) or product line could be divested while a new SBU or product line was added in a different location. A turnaround plan may be used by the corporation for some goods or enterprises, while a growth strategy may be used for others. The corporation might be harvesting some items while pursuing growth with others.

***Sequential Combination***

The company can use this in the following ways: Using a growth strategy initially, and then converting to a stability plan. Implementing a turnaround approach first, and as the situation on the ground improves, switching to a growth strategy.

## Summary

- Corporate strategies are used by businesses to establish and track long-term objectives for growth and success.
- There are three levels of Strategy Creation; The corporate level, the business level, and the functional level.
- In strategic management, the corporate parent must successfully coordinate the operations of the many business units to foster synergy, ensuring that the corporate total is greater than the sum of the individual parts.
- By using aggressive advertising and realigning the product and market possibilities at the company’s disposal, it might be possible to draw clients without expanding beyond the current scope of goods or services.
- Integration is essentially the combination of activities related to a firm's current activity.
- The process of expanding a company's existing businesses is known as diversification.
- A business may combine two or more corporate strategies at the same time. However, if used excessively, a combination strategy can be extremely risky.
- The Stability Strategy is used when an organisation tries to maintain its current position and only considers small improvements
- When a business is completely disbanded and its assets are sold, this is known as a liquidation. It is an approach used as a final option.

## Keywords

***Business strategy***: This includes all strategic choices made in business related to things like customer satisfaction, competitive advantage, and product selection.

***Corporate strategy***: This focuses on the overall goal and reach of the company to meet stakeholders' expectations.

***Synergy:*** refers to the idea that the whole is more than the sum of its parts.

***Market penetration:*** This seeks to increase market share for existing products in the existing markets through greater marketing efforts.

***Market development:*** By introducing current items to new markets, market development aims to enhance market share.

***Vertical integration:*** This involves gaining ownership or increased control over suppliers or distributors. Vertical Integration can be further divided into the following.

***Horizontal integration:*** This is a strategy of seeking ownership or increased control over a firm’s competitors.

***Retrenchment strategy:*** This describes a company's strategic choice to scale back activities, cut expenses, and concentrate on its core strengths in order to enhance overall performance.

## Self Assessment

1. Market development can be accomplished by:

A. Regional expansion
B. National expansion
C. International expansion.
D. All of the above

2. Using this combination tactic, a Strategic Business Unit (SBU) or product line could be divested while a new SBU or product line is added in a different location

A. Liquidation
B. Sequential
C. Simultaneous
D. None of the above

3. In such a situation a company may seek retrenchment methods.

A. When a company's performance is bad
B. With declining sales and earnings
C. Due to a weak competitive position in some or all of its product lines
D. All of the above

4. When a business is completely disbanded and its assets are sold, this is known as a _______. It is an approach used as a final option.

A. Liquidation
B. Bankruptcy
C. Merger
D. Remerger

5. When an existing parent company distributes free shares of the new firm to its owners on a pro-rata basis, it is a form of a:

A. Demerger
B. Merger
C. Conversion
D. None of the above

6. _________ is essentially the combination of activities related to a firm's current activity.

7. Market __________ seeks to increase market share for existing products in the existing markets through greater marketing efforts.

8. A _________ entails choices regarding the following: selection of businesses, distribution of resources among various businesses

9. _________ refers to the idea that the whole is more than the sum of its parts.

10. Companies use ___________ recovery strategies to mark an upturn period after a significant period of negativity.

11. Corporate strategy includes all strategic choices made in business related to things like customer satisfaction, competitive advantage, and product selection.

A. True

B. False

12. Vertical integration involves gaining ownership or increased control over suppliers or distributors.

A. True

B. False

13. The process of expanding a company's existing businesses is known as concentration.

A. True

B. False

14. Taking ownership of or exercising more influence over a company's suppliers is known as backward integration

A. True

B. False

15. Divestiture is frequently utilised to get rid of enterprises that are not lucrative, demand too much capital.

A. True

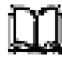
B. False

## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | D | 2. | C | 3. | D | 4. | A | 5. | A |
| 6. | Integration | 7. | Penetration | 8. | Corporate Strategy | 9. | Synergy | 10. | Turnaround |
| 11. | B | 12. | A | 13. | B | 14. | A | 15. | A |

## Review Questions

1. State the nature and importance of corporate strategy?
2. Explain the growth and expansion strategies adopted by companies, take suitable examples?
3. Why would a company adopt retrenchment strategies? What are its different types?
4. Find out about any one company which went bankrupt? List down the reasons behind its bankruptcy?
5. Outline the circumstances in which a combination strategy is adopted by companies? How did Reliance adopt a combination strategy?
6. What is liquidation? Outline the reasons of liquidation of Jet Airways? (Use this link to study the article. https://www.potjonker.nl/app/uploads/2020/08/Jet-Airways-India-Ltd.-liquidation-report-nr.-3-English-translation.pdf)
7. What is divestment? What are the different forms of divestment?



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# Unit 07: Business Level Strategies

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## Objectives

After studying this unit, you will be able to,

- understand the generic business strategies.
- describe Porter's Five Force Model.
- describe business tactics and how they are employed.
- understand how business strategies differ for different industry conditions.

## Introduction

A thorough business strategy establishes a framework for organisations to carry out their organisational objectives. It aids them in locating growth prospects and preserving their market relevance. The strategy eliminates threats and weaknesses so that firms may capitalise on their advantages. It serves as a reference for important choices including employment procedures and educational requirements.

A plan that aids a business in achieving its objectives is called a business strategy. It comprises strategies for operations, marketing, and other disciplines. Creating a competitive advantage for the business is the goal of a business strategy.

Different types of company strategy exist. Cost leadership, differentiation, and focus are a few popular examples. Depending on its objectives, a corporation may employ one or more of these tactics.

A business that wants to grow, for instance, would adopt a growth strategy, whereas a business that seeks to increase profitability might use a cost-cutting plan. Successful companies often have a well-defined strategy and processes that are updated on a regular basis.

## 7.1 Business Strategy

A comprehensive business strategy creates a framework that enables firms to achieve their organisational goals. It helps them identify development opportunities and maintain their market relevance. In order for businesses to capitalise on their advantages, the strategy eliminates threats and weaknesses. It acts as a resource for significant decisions, such as those involving workplace practises and educational requirements.

A business strategy is essentially a competitive strategy, and it focuses more on how an organisation may successfully compete in the target market. The corporate strategy's direction serves as a guide for business strategy. It gets its inspiration from the corporate strategy's priorities.

**Business Strategy**

The choices made for products and markets, customer satisfaction, market share protection, competitive advantage, exploitation of existing possibilities or creation of new ones, and business unit profitability are the main topics of strategic business decisions.

A multi-business firm like ITC, for instance, allocates emphasis to each of its numerous companies, such as cigarettes, vegetable oils, hotels, agro-based products, financial services, etc., in its corporate strategy.

These priorities inform how these units create their business strategy. Decisions at the business level assist in bridging those at the corporate and functional levels.

## 7.2 Porter's Five Force Model

An industry's vulnerabilities and strengths can be ascertained using Porter's Five Forces, a model that identifies and examines five competitive forces that affect every industry. The structure of an industry is typically identified using the Five Forces analysis to develop company strategy.

Frameworks can generally be utilised as brainstorming tools to produce fresh responses to industry competitiveness. It is simpler to comprehend what is going on and to come up with original answers if you have a framework for thinking about competition.

Porter's five forces, sometimes referred to as the Industry and Competitive Analysis, is one of the most well-known frameworks for analysing a firm's competitive environment. In the words of Porter, "analysing [these] forces illuminate an industry's fundamental attractiveness, exposes the underlying drivers of average industry profitability, and provides insight into how profitability will evolve in the future."

The five forces that this framework (Figure 2) takes into account are: (1) the level of competition among current rivals; (2) the threat of new entrants; (3) the threat of replacement goods or services; and (4) the threat of price increases. Any sector of the economy can benefit from using Porter's model to better understand industry competition and increase long-term profitability.

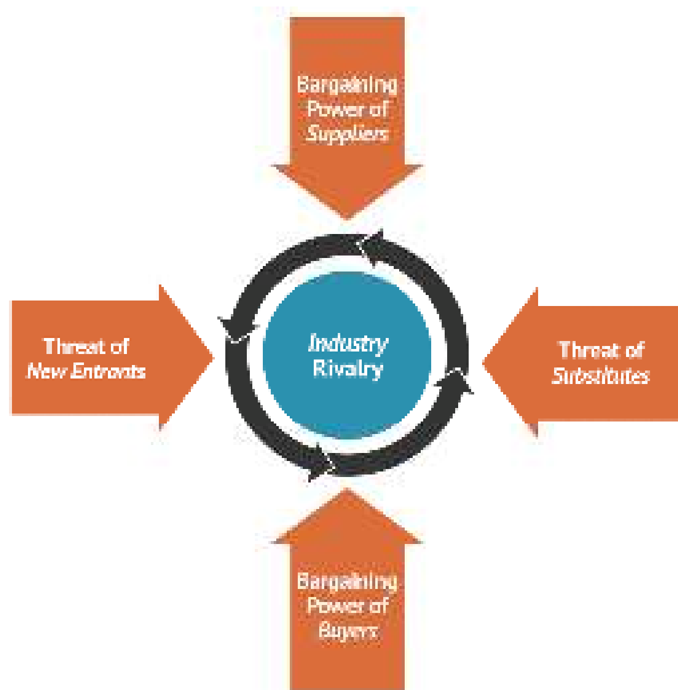



Figure 1: Porter's Five Force Model

**Example:** An industry can experience harsh shocks from new technologies. Think about how the five forces affecting music stores have changed as a result of the Internet's growth. Traditional music stores like Tower and Virgin discovered that customers were looking for music online as the Internet developed. These companies rushed to make investments in the new channel since it was seen as necessary.

They now compete online as well, which intensifies their rivalry because they no longer solely compete based on where brick and mortar stores are physically located. Due to the high risk and cost of internet investments, some businesses have partnered with (then) upstarts like Amazon.

**Example:** With the introduction of the iPod and the development of smartphones with built-in media players due to developments in the tech market, our listening habits also changed. The ease of transporting or streaming tens of thousands of music exceeds the little quality loss that most of us would consider to be acceptable. For the longest time, no other company, online or off, sold more music than iTunes. Considering all the available subscription services, including their own Apple Music.

## 7.3 Porter's Generic Competitive Strategies (ways of competing)

There are four basic generic competitive strategies as explained by Porter.

### Cost Leadership

Cost Leadership is a type of competitive strategy in which an organisation actively seeks out the following: Effective large-scale production facilities, reduces costs, utilises economies of scale, gains production experience, and 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. A low-cost position also means that a business can offer equivalent quality at fair profits by undercutting competitors' costs, for instance through penetration pricing.

Low-cost producers often market generic goods and services. Southwest Airlines, Wal-Mart, McDonald's, EasyJet, Costco, and Amazon are a few examples of businesses that have cost leadership positions.

#### *Cost leadership requirements*

Cost-cutting across all aspects of the company's value chain, including R&D, services, sales personnel, advertising, etc. The requirements for cost cutting are as follows;

- Aggressive facility construction at scale.
- Adamantly seeking cost savings.
- Strict cost and overhead management.
- Avoiding marginal client accounts.

## 7.4 Walmart's Cost Leadership

It was challenging for EDLP to sell goods, especially in the beginning when Wal-Mart wasn't a well-known retailer. The business actively pursued a cost leadership strategy that included creating economies of scale and consistently attempting to cut expenses.

The surplus was reinvested in the construction of large-scale facilities, the acquisition of contemporary business-related equipment, and the use of cutting-edge technology.

The company's reinvestments enabled it to keep its position as the industry leader in terms of cost. The surplus was reinvested in the construction of large-scale facilities, the acquisition of contemporary business-related equipment, and the use of cutting-edge technology. The company's reinvestments enabled it to keep its position as the industry leader in terms of cost.

### Differentiation

Differentiation is a form of competitive strategy used by businesses to set their goods and services apart from those of rivals in an effort to stand out from the crowd. To make a product stand out, a

business may employ innovative marketing strategies, distinctive product characteristics, higher quality, better performance, outstanding service, or new technology.

If customers are devoted to a company's brand, a differentiation strategy might lessen conflict with rivals. Therefore, businesses that pursue differentiation rely heavily on client loyalty. Companies using this type of strategy typically charge their items more than rivals due to their distinctiveness.

Differentiation consists of offering a product or service that is perceived as unique or distinctive by the customer. This allows firms to command a premium price or to retain buyer loyalty because customers will pay more for what they regard as a better product.

**Example:** Apple, Harley-Davidson, Nespresso, LEGO, Nike, and Starbucks are a few examples of businesses with distinctive goods and services.

Products can be distinguished from standardised items in a variety of ways, including the following:

- Excellent quality
- Unique or special characteristics
- Better customer service response times
- Modern technology
- Dealership system.

## 7.5 Apple's Differentiation

Product differentiation is a marketing tactic used by businesses to set their own products apart from those of their rivals. Apple Inc. has been using product differentiation to set its goods apart from those of other electronics manufacturers since the 1980s.

Apple has used a differentiation approach for all of its products, from the MacIntosh personal computers to the iPod music players to the iPhone and iPad mobile devices, to target a specific customer market and convey a strong message that its goods stand apart from the competition. Plans for product differentiation also take into account the firm's price policies.

Steve Jobs, the co-founder of Apple Computers, aimed to produce an excellent product with significant profit margins and a cost commensurate with its level of quality. The most affordable Apple goods are typically in the middle of the price range, but consumers are prepared to pay that amount for the excellent user experience.

***Challenges in differentiation***

It is challenging to determine whether differentiation-related additional costs can be met by increased prices charged to customers. A competitive product that successfully differentiates itself may entice rivals to imitate it and enter the market.

## 7.6 Focus

Focus is a form of competitive strategy that places an emphasis on concentrating on a niche or a particular local market or customer base. Instead of making it available across the industry, the corporation will either employ a differentiation strategy or a cost leadership plan, but solely for a certain target market.

In order to best serve those segments, to the exclusion of others, the organisation first chooses a segment or collection of segments within a certain industry. As previously indicated, there are two variations of the focus strategy: differentiation focus and cost focus. In terms of their competitive breadth, these two strategies simply differ from Differentiation and Cost Leadership.

**Two types of focus**

There are two types of focus;

***Cost focus***

A firm seeks to achieve low-cost position in its target segment only. For example, a firm seeks to differentiate its products in its target segment only. Rolls Royce, Omega, Prada, and Razer are a few examples of businesses that use a differentiation focus strategy. Companies that use a cost emphasis strategy include Claire's,

### *Challenges of focus strategy*

The niche is small by definition and might not be significant enough to warrant attention. If economies of scale are significant in a sector, like the automotive industry, it may be challenging to focus on costs. The market is obviously specialised and could eventually go away.

**Rolls Royce's Focus**

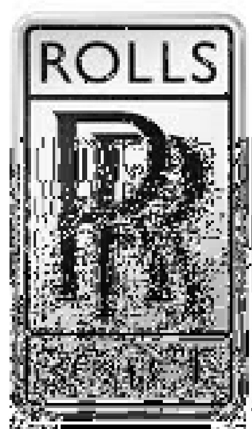



Figure 2: Focus Strategy of Rolls Royce

Rolls-Royce is a well-known example of a business or company using a concentrated differentiation approach. The car manufacturer offers a wide range of items to the limited market sector of clients that desire goods that are symbols of luxury, distinction, and engineering expertise.

## 7.7 Stuck-in-the Middle

Professor Porter suggested that there are genuine consequences for the corporation that engages in severed generic strategies but fails to realise any of them as he wrapped up his research of what he called the main generic strategies.

Therefore, he emphasised the significance of having a distinct positioning, i.e., either differentiation or cost leadership.

He referred to companies that lack a distinct strategic orientation and make decisions that combine a few components from many strategies (such as some components of differentiation and some components of cost leadership) as "firms stuck in the middle."

He asserted that such businesses fail to create competitive advantages. But there has been some disagreement over the idea of being "stuck in the middle."

## 7.8 Business Tactics

Tactics should support a company's strategy and are a necessary set of conditions for the plan to be carried out. A tactic is a tool the company employs to achieve the objectives your strategy has specified. They are the group of acts required to carry out your strategy, they should always be considered in relation to one another.

### Characteristics of tactics

A sub-strategy is a tactic. It is "a particular operations plan that outlines the timing and location of how a strategy will be implemented. By definition, tactics are more focused and have a shorter time horizon than plans.

**When creating and carrying out company plans, two types of tactics are used:**

### Timing (when)

A corporate strategy move's timing might be just as crucial as its content. Here, the timing of the implementation of a corporate strategy is crucial. Low-cost, differentiating, or focusing business strategies could actually be the best course of action, but only if done at the appropriate moment.

Early and late adopters: The pioneer or first mover organisation is the first business to produce and market a novel good or service. The organisations that later join the sector are known as late movers. The firms that respond quickly to the first-movers are occasionally included in a middle category of second-movers.

### Location (where)

This section addresses the question of where to compete. Market location could be categorised based on the function that firms perform within the target market and the kinds of business strategies they use to perform such a function.

This refers to the target market that the firm pursues when putting its business strategy into practice. Market location strategies can be divided into four categories based on the roles that firms play in the target market: leaders, challengers, followers, and niches.

### Location Tactics: Types

The types of location tactics have been mentioned below;

#### *Market Leaders*

These are companies with the biggest market share in the industry for the relevant product and who frequently set the standard for the rest of the sector in areas like technological advancements, product and service qualities, price benchmarks, or distribution channel design.

With 37.8 percent market share, Amazon still leads the pack in retail e-commerce. Amazon still holds the largest slice in the U.S. eCommerce pie.

#### *Market Challengers*

These are companies that rank second or lower in their respective industries. These organisations have the option to oppose the market leader or decide to do so. When they attempt to compete against the market leader, they do so with the anticipation of being able to increase their market share.

Pepsi is a good example of a challenger brand. It ran a series of taste-test campaigns wherein people rated its cola taste higher than Coke's

#### *Market Followers*

These are businesses that emulate market leaders without upsetting the equilibrium of the industry's power dynamics. They want to avoid direct conflict, stay out of the way of rival groups, and profit from market leaders' advances by imitating them.

#### *Market Nichers*

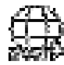
These are businesses that carve out a specific market niche that the other businesses in the sector haven't addressed or that is of little or no interest to them. The niche business strategies are comparable to focus business strategies since they aim to service a niche market that is both small and distinct and needs specialised skills.

Case Study: **Wipro's low or no-cost Eco Energy solution is aimed at winning the war against rising energy costs impacting Water Utilities.**

Wipro’s low or no-cost Eco Energy solution is aimed at winning the war against rising energy costs impacting Water Utilities. The solution includes consulting and strategy

around energy assessment, data management and conservation measures. We combine our domain expertise with uniquely innovative and intelligent analytics-based management systems that eliminate device-level inefficiencies and drive savings.

Wipro is enabling electric, gas and water utilities to leverage digital and data capabilities to reinvent themselves, streamline and accelerate business performance, deliver a superior customer experience and help them transition to a low-carbon, decentralized, federated energy ecosystem.



https://www.wipro.com/utilities/energy-optimization---recovery/

## 7.9 Further Tactics in Business

Further tactics that are used by companies may include the following;

### Research and Development

Some businesses utilise research and development spending as a key strategy to outperform rivals. This is especially true in the manufacturing sector, where innovative product technology can result in cost savings and consumer-pleasing items.

The ability to innovate can mean the difference between success and failure for larger organisations, while smaller enterprises may not have the resources or internal skills to invest directly in research and development.

**ITC Life Sciences and Technology Centre (LSTC)**

In order to support and expand ITC's portfolio of top-tier products and brands, science-led product innovation is being spearheaded by the company's cutting-edge ITC Life Sciences and Technology Centre (LSTC) in Bengaluru.

The mission of the LSTC team, which consists of approximately 350 highly qualified scientists, is to develop science platforms that are ready for the future. It also aims at creating products that are distinctive in order to meet specific demands, and provide Indian customers with the best possible benefits.

ITC LSTC has developed throughout time and is currently outfitted with cutting-edge facilities Its world-class scientific infrastructure to produce knowledge and develop intellectual property through process development, rapid prototyping, and experimental research.

In a relatively short amount of time, over 800 patent applications were filed, attesting to the strength and potential of LSTC.

### Diversification

The scope of a corporation is addressed by two distinct business strategies: specialisation and diversification. A company can diversify by simply increasing the range of its goods and services, as by creating a new division, or by acquiring or merging with another company.

The antithesis of diversity is specialisation. It alludes to focusing a company's offerings on a smaller range of goods. A company may aim to raise the quality of its remaining items by concentrating its limited resources on a narrower product line, or it may choose to simply get rid of an unproductive product.

**Unilever and Diversification**

Unilever is a consumer goods company that has diversified into related and unrelated businesses. Unilever has achieved success in this diversification strategy by leveraging its global reach and scale, investing in research and development, and forming strategic partnerships.

### Risk Management

Each company uses risk management in a different way. Since it can be challenging to anticipate market trends and consumer behaviour, even the simple act of starting a firm carries some risk. Making wise choices about where to invest money and which product categories to concentrate on are key components of managing risk for an established organisation.

### Brand Management

The use of strategic brand management is one strategy that practically all businesses use. Companies need a strategy for explaining their offerings and company ethos to prospective clients. A company can build a reputation over time that offers its brand name an edge over less well-known rival.

In order to convey an image that is in line with the mission and vision of the organisation, brand management also includes effective public relations and advertising. To find out how it is viewed and what adjustments are required, a corporation may also survey the general population or do research.

**Netflix's Brand Management**

Netflix is evidence that consistent analysis and optimisation may help a brand effortlessly engage with consumers. Netflix's marketing approach is characterised by flexibility, data gathering, user centricity, personalisation, and commitment. Netflix positions itself as 'movie enjoyment made easy,' and offers an uplifting brand experience.

## 7.10 Describe the Industry Life Cycle

Product life cycle is one of the most well-known and enduring marketing ideas. Products are created, their sales increase, they mature, they experience a downturn, and finally they are destroyed. The industries that make things have life cycles.

In an Industry life cycle the supply-side counterpart of the product life cycle is the industry life cycle. The life cycle of an industry is likely to be longer than that of a single product to the extent that it creates a variety and sequence of products.

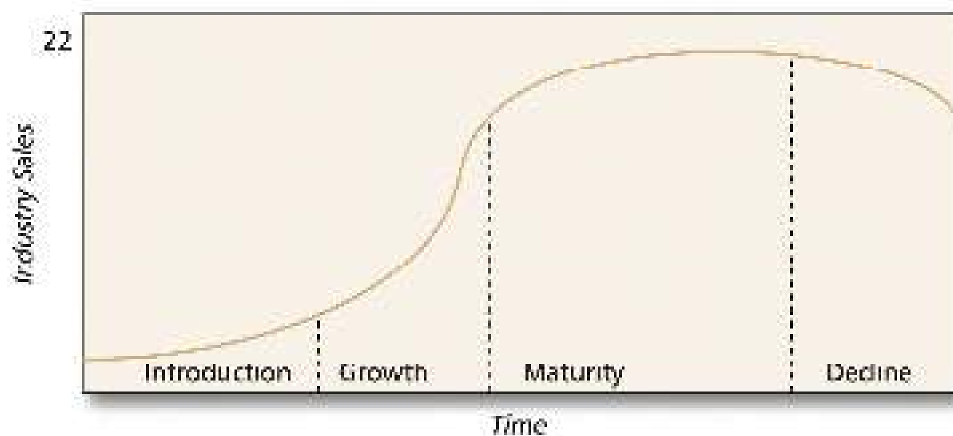



Figure 3: Industry Life Cycle

### Industry life cycle stages

The stages of the industry life cycle have been explained below;

***Introduction***

In this stage, due to the industry's products' limited visibility and tiny client base, sales are low and the rate of market penetration is low at the debut stage.

High costs and poor quality are caused by the novelty of the technology, the limited production scale, and lack of experience. Customers that purchase new items are typically well-off, open to innovation, and risk-tolerant.

***Growth***

The growth stage is distinguished by quickening market penetration. As product technology gets more standardised and prices decrease, market penetration accelerates during the expansion stage. Ownership moves from clients with greater incomes to the general public.

***Maturity***

As new demand gives way to replacement demand, the maturity stage and declining growth are brought on by growing market saturation.

When a market reaches saturation, all demand is for replacement, whether it is through direct replacement (where customers switch from old to new items) or indirect replacement (where new customers switch from old customers).

### *Decline*

The industry finally enters its decline stage as it is threatened by new industries that produce technologically superior substitute items.

## Diffusion of Knowledge

Knowledge is the second force behind the industry life cycle. An industry is born out of new knowledge in the form of product innovation, and the dual processes of knowledge production and knowledge transmission have a significant impact on industry evolution.

Competition between various data storage methods (audio tapes vs. floppy discs), visual displays (TV receivers vs. dedicated monitors), operating systems (CPM vs. DOS vs. Apple II), and microprocessors was evident in the early years of the home computer market (1978–1982).

**Example:** IBM and Knowledge Diffusion

The IBM PC launched in 1981 established the basic design parameters of the personal computer as well as the key technical standard that was eventually to dominate the industry (the so-called "Wintel" standard).

### Competition, and Success Factors over the Life Cycle

Changes in demand growth and technology over the cycle have implications for the following: Industry structure, sources of competitive advantage (key success factors) and the level of competition.

### Product Differentiation

Emerging industries are characterized by a wide variety of product types that reflect the diversity of technologies and designs. There is also a lack of consensus over customer requirements.

If producers are unsuccessful in creating new dimensions for distinction, such as marketing factors and supplementary services, a product may become a commodity as a result of standardisation during the growth and maturity phases.

### Organizational Demographics and Industry Structure

In the early years of an industry's existence, the number of firms grows quickly. Initially an industry may be pioneered by a few firms. However, as these businesses gain recognition, failure rates fall and the number of new businesses being founded rises. Newcomers come from extremely various backgrounds.

With the advent of maturity, the number of enterprises begins to diminish. Industries frequently go through one or more "shakeout" phases where the rate of firm failure sharply rises. After this point, entry and exit rates begin to decline and incumbent survival rates sharply rise.

As industries become increasingly concentrated and the leading firms focus on the mass market, so a new phase of entry may take place as new firms take advantage of opportunities in peripheral regions of the market.

An example of this "resource partitioning" is the US brewing industry: as the mass market became dominated by a handful of national brewers, so opportunities arose for new types of brewing companies

### Location and International Trade

The industry life cycle involves the international migration of production. The life cycle theory of trade and direct investment is based on two assumptions: First, that demand for new products

emerges first in the advanced industrialized countries of North America, western Europe, and Japan and then diffuses internationally.

Second, that with maturity, products require fewer inputs of technology and sophisticated skills. The result is the following development pattern: new industries begin in high-income countries (United States, Japan, and western Europe).

This is because of the presence of a market and the availability of technical and scientific resources. As demand grows in other countries, they are serviced initially by exports The advanced industrialized countries begin to import. 4 With maturity, commoditization, and de-skilling of production processes, production shifts to developing countries where labor costs are lowest.

Continued growth of overseas markets and reduced need for inputs of technology and sophisticated labor skills make production attractive in newly industrialized countries.

### The Nature and Intensity of Competition

Competition changes in two ways over the course of the industry life cycle. First, there is a shift from nonprice to price competition. Second, the intensity of competition grows, causing margins to narrow. During the introduction stage, competitors battle for technological leadership and competition focuses on technology and design.

Gross margins can be high, but heavy investments in innovation and market development tend to depress return on capital.

## Summary

- A thorough business strategy establishes a framework for organisations to carry out their organisational objectives.
- An industry's vulnerabilities and strengths can be ascertained using Porter's Five Forces, a model that identifies and examines five competitive forces that affect every industry.
- The five forces that this framework (Figure 2) takes into account are: (1) the level of competition among current rivals; (2) the threat of new entrants; (3) the threat of replacement goods or services; and (4) the threat of price increases.
- Differentiation consists of offering a product or service that is perceived as unique or distinctive by the customer.
- Tactics should support a company's strategy and are a necessary set of conditions for the plan to be carried out.
- Market leaders are companies with the biggest market share in the industry for the relevant product and who frequently set the standard for the rest of the sector in areas like technological advancements, product and service qualities, price benchmarks, or distribution channel design.
- Market followers are businesses that emulate market leaders without upsetting the equilibrium of the industry's power dynamics.
- Market nichers are businesses that carve out a specific market niche that the other businesses in the sector haven't addressed or that is of little or no interest to them.
- A company can diversify by simply increasing the range of its goods and services, as by creating a new division, or by acquiring or merging with another company.
- Specialisation alludes to focusing a company's offerings on a smaller range of goods.
- The use of strategic brand management is one strategy that practically all businesses use. Companies need a strategy for explaining their offerings and company ethos to prospective clients.
- An industry is born out of new knowledge in the form of product innovation, and the dual processes of knowledge production and knowledge transmission have a significant impact on industry evolution.

## Keywords

***Business Strategy:*** A plan that aids a business in achieving its objectives is called a business strategy.

***Cost Leadership:*** This is a type of competitive strategy in which an organisation actively seeks out to be the low-cost producer in the industry.

***Differentiation***: This is a form of competitive strategy used by businesses to set their goods and services apart from those of rivals in an effort to stand out from the crowd.

***Focus:*** This is a form of competitive strategy that places an emphasis on concentrating on a niche or a particular local market or customer base.:

***Tactics:*** They are the group of acts required to carry out your strategy, they should always be considered in relation to one another.

## Self Assessment

1. A ________ strategy is essentially a competitive strategy, and it focuses more on how an organisation may successfully compete in the target market.

A. Business
B. Corporate
C. Organisational
D. Company

2. The _________ strategy's direction serves as a guide for business strategy.

A. Business
B. Corporate
C. Organisational
D. Company

3. Products can be distinguished from standardised items in a variety of ways, including the following:

A. Excellent quality
B. Unique or special characteristics
C. Better customer service response times
D. All of the above

4. ____________ is a form of competitive strategy used by businesses to set their goods and services apart from those of rivals in an effort to stand out from the crowd.

A. Cost Effectiveness
B. Specialization
C. Concentration
D. Differentiation

5. In this stage in Industry Life Cycle, the is threatened by new industries that produce technologically superior substitute items.

A. Introduction

B. Growth

C. Decline

D. Maturity

6. Unilever has achieved success in this diversification strategy by leveraging its _________.

7. An industry's vulnerabilities and strengths can be ascertained using ______ Five Forces Model.

8. __________ is a type of competitive strategy in which an organisation actively seeks out to reduce costs and utilises economies of scale.

9. A Business _______ is a tool the company employs to achieve the objectives your strategy has specified.

10. Competition changes in ________ ways over the course of the industry life cycle.

11. Market Nichers are businesses that carve out a specific market niche that the other businesses in the sector haven't addressed or that is of little or no interest to them.

A. True

B. False

12. Each company uses risk management in a similar manner.

A. True

B. False

13. A company can diversify by simply increasing the range of its goods and services, as by creating a new division, or by acquiring or merging with another company.

A. True

B. False

14. Unilever has achieved success in this diversification strategy by leveraging its global reach and scale, investing in research and development, and forming strategic partnerships.

A. True

B. False

15. Netflix is evidence that consistent analysis and optimisation may help a brand effortlessly engage with consumers.

A. True

B. False

## Answers for Self Assessment

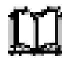
| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | A | 2. | B | 3. | D | 4. | D | 5. | C |
| 6. | Global | 7. | Porter’s | 8. | Cost | 9. | Tactic | 10. | Two |

Reach Leadership

11. A 12. B 13. A 14. A 15. A

## Review Questions

1. Describe Porter's Five Force Model. What are the forces that are defined in the model? Take the example of the music industry and try to explain the role of the five forces?
2. Outline the generic business strategies in detail, support with relevant examples.
3. Write a detailed note on Walmart and how it has emerged as a global company with focus on cost leadership. Use this link to study (https://ecampusontario.pressbooks.pub/strategicmanagement/chapter/cost-leadership/)
4. What is a business strategy? What is its relevance?
5. Describe business tactics and how they are employed?
6. Explain the industry life cycle in detail, take examples from the corporate world.
7. Write a note on the strategic brand management of Netflix. Use this link to study (https://mapandfire.com/branding-strategies/netflix/)



## Further Readings

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Strategic Management Concepts and Cases, Fred R. David, Pearson Prentice Hall, 2007.

The Art of Strategy: A Game Theorist's Guide to Success in Business & Life, Avinash K. Dixit, Barry Nalebuff.

## Web Links

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# Unit 08: Functional Level Strategies

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## Objectives

After studying this unit, you will be able to,

- understand the nature of functional strategies.
- describe the important elements of a marketing strategy.
- describe the elements of a sound financial strategy.
- describe the elements of an operational strategy.
- understand the elements of a Human Resources Strategy.

## Introduction

Functional strategy is the method used by a functional area to maximise resource productivity and meet corporate and business unit objectives and plans. It focuses on creating and fostering a unique competence to give a corporation or business unit a competitive advantage.

Different functional domains in an organisation are addressed by a functional strategy. These include finance, marketing, and technology. The functional level strategy of an organisation determines its success. Each department in your company, whether it be production or advertising, should cooperate with them.

## 8.1 Functional Strategies

Each business unit has its own set of departments, each with its own functional plan. A multi-divisional organisation has numerous business units, each with its own business strategy. Different functional domains in an organisation are addressed by a functional strategy. These include finance, marketing, and technology. The functional level strategy of an organisation determines its success. Each department in your company, whether it be production or advertising, should cooperate with the main strategy of the company.

Functional strategy frequently tries to increase the efficiency of a company's internal departmental operations. Employees in these divisions frequently discuss their marketing strategies, human resource strategies, or innovation strategies. The business and corporate objectives are ultimately accomplished when all of a company's functional departments cooperate in the same direction.

As a result, the objective of functional strategy is to connect these strategies to the company strategy as much as possible. The marketing department should create effective marketing campaigns that target innovators and early adopters through the appropriate channels if the business strategy is to deliver new items to customers.

Operating level strategies are referred to as functional strategies. At this level, choices are referred to as tactical choices. Since these choices are mostly operational in nature, they are not truly strategic. Therefore, it is preferable to refer to them as tactics rather than strategies. However, the major goal of a functional strategy is not to attain functional excellence but rather to support the company's strategy.

### Nature of Functional Strategies

Implementing functional strategies is crucial for corporate strategy. In actuality, how a corporate or business strategy is implemented at the functional level has a significant impact on how well it works. A company's long-term direction and scope are determined by its business strategy.

The company's competitive positioning within an industry is described in its business plan. The operational managers' likelihood of success is increased by the functional strategy's clarification of the business plan and provision of detailed short-term direction in the areas of operations, marketing, finance, HR, and R&D.

If a business unit pursues differentiation through high-quality products, its departments will follow the following strategies: Its production strategy will emphasise high quality assurance procedures over less expensive, high-volume production.

The human resource will emphasise functional strategy involving hiring and training of an expensive, highly skilled workforce. The marketing functional strategy will emphasise extensive advertising to increase demand rather than using marketing incentives to retailers. All functional strategies will complement the business strategy if the business unit adopts a low-cost competitive strategy.

### Need for Functional Strategies

Expectations for efficiency improvements have risen as a result of macrotrends like globalisation, digitization, automation, outsourcing, increasing competition, and process improvement. Consequently, when corporate and business strategies are inconsistent, the business functions are frequently the first to suffer.

The majority of businesses also have several, conflicting priorities for each of their company functions. Functional strategy is becoming more significant and relevant as a result. Functional techniques aid their organisation in becoming coherent and purpose-fit as the demand for attention increases.

Functional strategies aid in improving emphasis on the activities in the company's value-adding portfolio that are most crucial from a strategic standpoint. As a result, functional strategy also contributes to a company's unique value proposition. At the end of the day, functional strategy also influences corporate strategy.

Functional level strategy is typically more challenging to establish than corporate and company strategies because of how specific it is. But spending the time to iron out each department's concrete plans will help you align goals at all levels of your organisation, from the top down to the individual workers.

This will make it easier for the managers in your entire organisation to comprehend how the operations and corporate strategies are impacted by the departments and personnel in their charge. Success is inevitable when all of these parts work together to accomplish a single objective.

## 8.2 Marketing Strategy

The following are important elements of an effective marketing strategy. While developing a proper strategy, marketers need to focus on two key elements: Knowledge and relationships and Competencies and customers.

The elements of a marketing strategy may include;

a) Segmentation.
b) Targeting.
c) Positioning.
d) Customer relationship management.

## 8.3 Marketing Planning

*"Market planning is the process of organizing and defining the marketing aims of a company and gathering strategies and tactics to achieve them".*

**Corporate Finance Institute**

The process of organising and defining a company's marketing goals and compiling strategies and methods to attain them is known as market planning. A strong marketing strategy should include the company's value proposition, details about its target market or customers, a comparison of where its rivals are in the market, promotion tactics, routes for distribution, and budget set aside for the plan. The marketing plan should be consulted by all pertinent teams inside the organisation.

## 8.4 Strategic Vs Marketing Planning

Strategic planning consists of a stream of decisions and actions that lead to effective strategies that help the firm to achieve its objectives.

Marketing planning is the process of anticipating future events and developing strategies to achieve the organisational objectives.

### Market Analysis/Consumer Analysis

Market analysis includes topics such as market definition, market size, industry structure, market share and trends, and competitor analysis.

Consumer analysis includes the target market demographics and what influences their buying decisions; e.g., loyalty, motivation, and expectations.

## 8.5 Segmentation

Organising potential customers into groups or segments with comparable demands and responses to marketing actions is referred to as market segmentation in marketing. Market segmentation helps businesses to target various customer groups who view the entire worth of particular goods and services in a variety of ways.

*"Market segmentation is the process of dividing up mass markets into groups with similar needs and wants".*

**Pride et al.**

Three factors can typically be used by businesses to distinguish between various market segments:

- Within a section, homogeneity or shared requirements

- Differentiating oneself from other people or organisations
- Reaction to the market, or a comparable response

### Bases of segmentation

The bases of market segmentation can be broadly divided into three major groups: Demographic segmentation, Geographic segmentation, Psychographic segmentation and Behavioral segmentation.

#### *Demographic segmentation*

Mc Donald's Happy Meal would be an example of Demographic (Age) segmentation

Female consumer acceptance of the Apple Watch is extremely important for the smartwatch industry who, until now, has mostly male buyers.

Smartwatch companies have, for the most part, failed to convince women that smartwatches are useful, trendy, and aspirational.

#### *Geographic segmentation*

An ice cream company segmenting a country by how hot different regions are and targeting those specific areas that are hottest and therefore more likely to buy ice cream.

#### *Psychographic segmentation*

Psychographic segmentation aims to categorise consumers based on their lifestyle, personality, attitudes, and interests. This technique to market segmentation is frequently the most challenging. Since these features (1) could change easily and (2) would not have readily available objective data, doing this might be more challenging.

However, because it organises people based on inherent motivations rather than external data points, this strategy may produce the strongest market segment outcomes. The elements that have been taken into consideration are depicted in Figure 2.

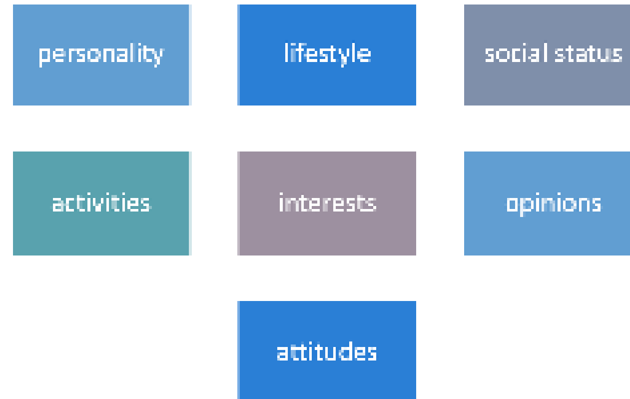


Figure 1: Psychographic Segmentation

**Example:** Starbucks adopts psychographic segmentation, and this largely defines their relatability as a brand. They have the, "non-coffee drinkers who still want to socialize" (catered too by selling Frappuccino's and sandwiches in-stores)

## 8.6 Targeting

*"Targeting is the process of identifying the most attractive segments from the segmentation stage, usually the ones most profitable for the business".*

**Bowen, John (1998)**

#### *Standardisation*

The firm offers the same product to different market segments. Same flavour, advertising, and packaging across segments is adopted. When a company standardises, it means that it uses the same or similar marketing materials for all of its audiences, regardless of linguistic or cultural differences. This type of marketing creates a unified appeal that enables customers to have faith in the company's name and goods.

**Example:** A line of Apple items. The corporation unifies its Mac computers, iPhone, and iPad across the globe. Apple gadgets function and look the same everywhere. Due to variations in power voltage across the globe, only the power supply for the devices is altered. Standardisation enables Apple to improve device recognition globally, accelerate product introductions, and streamline production.

### Differentiation

A differentiated targeting strategy, which is frequently referred to as segmented marketing, is created to identify and concentrate on major target categories that have the greatest potential value for your company. The objective then becomes creating unique market targeting methods for each of your primary objectives. The firm alters its products as per different segment needs and expectations.

**Example:** A restaurant owner uses differentiated marketing to promote their offerings. The owner may define two or more target markets their services appeal to. In this case, they define their target markets as such: Families and children.

### Focus

This is a combination of standardisation and differentiation. Automobile companies focus their strategy on both the economy and premium segments.

## 8.7 Positioning

Positioning is the process of creating a distinct mental position or image of a product or a service in the mind of the customers as compared to other brands in the market.

The position your brand or product should have inside a specific target market is referred to as positioning. More specifically, how you promote your brand or product to consumers in order to reach that position is part of the market positioning and brand positioning processes.

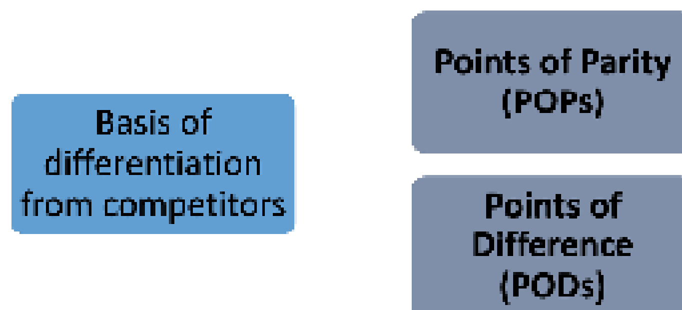


Figure 2: POP and POD in Positioning

POP lets your target market know that your good or service satisfies their fundamental demands. POD explains to customers why they should choose your product or service over those of rivals who offer similar essentials. Although your areas of difference should be the main message, points of parity should be emphasised.

### Points of Parity (POPs)

If Samsung wants to compete with iPhone, they will have to include a 12-megapixel camera that is not patented by apple currently.

### Points of Difference (PODs)

This feature cannot be replicated by any other company and forms a point of difference for the brand.

**Example:** Taking the example about the iPhone 11 Pro, this brand has an exclusive feature of wide-angle cameras which is a point of difference for iPhone over the other mobiles, also, this feature cannot be replicated by any other company and forms the unique selling point for Apple's brand of iPhone 11 pro.

### Perceptual Maps

A perceptual map is a diagram that businesses and market researchers use to illustrate and comprehend how target customers perceive and feel about a specific brand or product. Product positioning maps are another name for perceptual maps. (Illustrated in Figure 3, perceptual map for fast food companies)

Figure 3: Perceptual Map for Fast Food Companies

## 8.8 Re-positioning

"*Repositioning is changing consumers' perceptions of a brand in relation to competing brands.*"

**Lamb, Hair, & McDaniel, 2009**

**Example:** Dominos - "New and Better". Domino's began to gain a terrible internet reputation for serving "crap pizza," resulting in poor sales results. In an attempt to overcome their bad image, they modified their recipe and launched a new marketing campaign centered on their "new and better" pizza. With this method, they were able to successfully modify consumers' perceptions of their brand.

## 8.9 Customer Relationship Management

*"Customer relationship management (CRM) is a process in which a business or other organization administers its interactions with customers, typically using data analysis to study large amounts of information".*

**Marco Bardicchia**

### Components of CRM

Customer relationship management (CRM) is a collection of data-driven, integrated software tools that manage, track, and store information about the existing and potential clients of your business. There are some prime components of customer relationship management.

### *Automation of Workflow*

CRM implementations conduct multiple concurrent processes at once. This necessitates simplifying processes and effective cost reduction. This is done through the process of workflow automation. It not only lowers unneeded expenses, but it also discourages individuals from performing monotonous activities.

For instance, several steps in the business process need the completion of forms and documents. Yet these two procedures frequently go unused because they could be avoided. Automation of CRM workflows eliminates time wastage and pointless overwork.

## Human Resource Administration

This crucial CRM element is accurately and effectively using human resources. HR management makes ensuring that the professionals' skills and intelligence levels are appropriate for the jobs. Why is it a crucial CRM component for your company? First off, it serves medium-sized industries as well as those of huge corporations. It also involves putting an effective solution for skill development and human resources to use.

### *Automated Sales*

If marketing and sales were to function independently, a business would not be benefited. These two complementing processes are taken care of by your CRM software. The marketing department can send leads directly to sales if marketing and sales force integration is successful.

### *Lead Administration*

In the CRM implementation, lead management is utilised to monitor the distribution of prospects. This element is often employed in the operations of sales, marketing, and customer support. Effective campaign management, customised forms, and even communications are all included. Additionally, it analyses consumer purchasing patterns to find possible sales leads.

### *Lead Management*

Lead management is used in the CRM implementation to track the distribution of prospects. In the activities of sales, marketing, and customer support, this component is frequently used. Included are efficient campaign management, customisable forms, and even communications. It also examines customer spending trends to identify potential sales leads.

### *Client Services*

The purpose of customer service is to gather data from customers, including their purchasing patterns and other pertinent information. Businesses can better comprehend client requirements and complaints thanks to this information.

### *Financial Reporting*

CRM systems are in charge of providing different business records. Multiple accurate and precise reports can be produced using it. CRM systems export business reports to connected networks in addition to producing reports themselves.

### *Analytics*

Every firm needs analytics since they are the means of analysing and reflecting data to monitor market trends. Data must be simple to understand and analyse in order to fully grasp trends. This is made possible by displaying the data as diagrams, histograms, or graphs. Both old and new data are used in these renderings.

After the sale is completed, your relationship with the customer does not end. Order fulfilment, queries, and even complaints must all be attended to. You need a CRM programme if you want your clients to be happy with your goods or services. It will manage case management and customer service for your company.

## Sustainable Marketing

*"The concept of sustainable marketing holds that an organization should meet the needs of its present consumers without compromising the ability of future generations to fulfill their own needs."*

**Philip Kotler**

**Corporate Social Responsibility**

Corporate Social Responsibility is an ethical management concept where companies aim to integrate social, economic and environmental concerns along with the consideration of human rights into their business operations.

## 8.10 Finance Strategies

Implementing this approach may involve; raising the necessary funds, creating forecasted financial statements, creating financial budgets and determining the value of a company.

**Decisions that may require finance/accounting policies are:**

1. To raise capital by the issuance of common stock, preferred stock, long-term debt, or short-term debt

2. Purchasing or leasing fixed assets

3. To choose a suitable dividend payment ratio

4. To employ a market-value accounting strategy, LIFO (Last-in, First-out), FIFO (First-in, First-out), or both.

5. To lengthen the period of time when accounts are due

6. To set up a specific percentage discount on accounts within a defined time frame.

7. To determine how much cash needs to be on hand.

### Acquiring Capital to Implement Strategies

Successful strategy execution frequently necessitates more funding. Debt and equity are two fundamental sources of capital for an organisation, in addition to net profit from operations and the sale of assets. Determining the right ratio of debt to equity in a company's capital structure can be crucial for the effective execution of a strategy.

The different strategies that may be adopted may include;

### EBIT Analysis

The most popular method for deciding whether debt, stock, or a combination of debt and stock is the best solution for obtaining capital to carry out strategies is an EPS/EBIT (Earnings Per Share/Earnings Before Interest and Taxes) analysis.

This method entails comparing the effects of stock financing vs debt financing on earnings per share under various EBIT assumptions. Theoretically, a company's capital structure should include enough debt to increase its return on investment by allocating debt to initiatives and products that generate income that exceeds the cost of the debt.

Too much debt in a company's capital structure during a time of poor earnings might threaten stockholder returns and the viability of the business. Regardless of the situation, fixed debt commitments generally need to be fulfilled.

This does not imply that when raising capital, stock issuances are always preferable to debt. Dilution of ownership, impact on stock price, and requirement to distribute future earnings to all new shareholders are some particular issues with stock issuances.

### New Funding Source

Since credit unions stayed out of the subprime loan market, many of them have plenty of money to lend, especially to small businesses.

Credit union deposits increased as more investors left the stock market. Of the 8,147 credit unions in the United States, about 27% provide business loans.In 2008, there were $33 billion worth of business loans made, with a $215,000 average loan size.

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In 2008, there were $33 billion worth of business loans made, with a $215,000 average loan size. Credit unions are incorporated as nonprofit, member-owned cooperative institutions. An unfair competitive advantage over conventional banks, according to bankers, would result from allowing credit unions to offer more business loans.

## Projected Financial Statements

A key strategy-implementation tool is projected financial statement analysis, which enables an organisation to assess the anticipated outcomes of different courses of action and strategies. This kind of analysis can be used to predict the effects of different implementation decisions.

**These decisions can be as follows:**

- raising salaries by 25% to support market penetration
- increasing promotion spending by 50% to support market development
- raising R&D spending by 70% to support product development
- selling $1 million of common stock to raise money for diversification.

uestion No: 01

**ITC India Limited**
**Balance sheet: December 31, 2019 and 2018**

| Assets | 2019 | 2018 | Liabilities | 2019 | 2018 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 22,000 | 42,000 | Current | | |
| Accounts receivable | 90,000 | 73,000 | Accounts payable | 90,000 | 50,000 |
| Inventory | 143,000 | 145,000 | Accrued liabilities | 5,000 | 10,000 |
| Total current assets | 255000 | 260000 | Long-term liabilities | | |
| Plant assets, net | 460,000 | 210,000 | Notes payable | 160,000 | 80,000 |
| | | | Stockholders' Equity | | |
| | | | Common stock * | 370,000 | 250,000 |
| | | | Retained earnings | 110,000 | 80,000 |
| | | | Treasury stock * | (20,000) | 0 |
| Total Assets | 715,000 | 470,000 | Total liabilities and stockholders' equity | 715000 | 470000 |

*The details of the transactions carried out by the company*: *Purchase of treasury stock and issuance of common stock for cash. Purchase of plant assets for cash Rs310000, Cash receipts from sale of plant assets (book value 40,000) Rs50,000 Payments of dividend Rs10,000, Cash receipts from issuance of notes payable Rs90,000 Cash Payment of notes payable Rs10,000

Source: https://www.itcportal.com/

### Financial Budgets

A financial budget is a written plan that outlines how money will be raised and spent over a given time period. Although a budget can cover a length of time from one day to more than ten years, annual budgets are the most typical.

Fundamentally, creating a financial budget is a way to outline the steps that must be taken in order to properly implement a strategy. Financial planning should be viewed as a strategy for maximising the effectiveness and profitability of an organization's resources rather than as a way to control spending.

Financial budgets can be thought of as the planned distribution of a company's resources based on future projections. Budgets play a crucial role in directing strategy execution when an organisation is having financial issues. Financial budgets come in approximately as many varieties as there are different kinds of organisations:

- Cash budgets
- operating budgets
- sales budgets
- profit budgets
- manufacturing budgets
- capital budgets
- expense budgets
- divisional budgets
- variable budgets
- flexible budgets

### Evaluating the Worth of a Business

The sale of a part of an organisation or of the company itself may be the result of other strategies, such as retrenchment and divestment. In the United States, businesses are acquired and sold in thousands of transactions annually. To successfully implement strategies in each of these situations, it is essential to determine the financial worth or cash value of a corporation.

Because integrating, intensifying, and diversifying strategies are frequently implemented by acquiring other businesses, determining the value of a business is essential to strategy implementation. The sale of a part of an organization, or of the company itself may be the result of other strategies, such as retrenchment and divestment.

In the United States, businesses are acquired and sold in thousands of transactions annually. To successfully implement strategies in each of these situations, it is essential to determine the financial worth or cash value of a corporation.

The second method of determining a company's worth is based on the idea that any corporation should be valued primarily on the potential future gains that its owners may experience from net earnings. A conservative guideline is to multiply a company's current yearly profit by five to determine its value.

### Deciding Whether to Go Public

Going public entails selling out a portion of your business to investors in order to acquire money, which lessens the owners' authority over the company. It is not advised for businesses with less than $10 million in annual sales to go public because the initial costs may be too high for the company to produce enough cash flow to justify going public.

The average cost to pay legal, accountants, and underwriters for first stock issuances under $1 million is one dollar in four; for issuances over $20 million, the average cost to pay these professionals is one dollar in twenty.

### Research and Development (R&D) Issues

Personnel involved in research and development (R&D) can be crucial to the success of a plan. These people are typically in charge of creating new goods and upgrading existing ones in a way that will enable successful plan implementation. Complex technology is transferred, processes are tailored to local raw materials and markets.

Products are customized to unique tastes and requirements by R&D professionals and management. The effective development of new products and the significant improvement of existing products are prerequisites for strategies like product development, market penetration, and associated diversification.

### R&D policies can help with strategy implementation by:

- Stressing improvements to products or processes.
- Highlight basic or practical research.

- Take the lead or follow in R&D.
- Create automated or manual procedures.
- Put a lot, average, or little money into research and development.
- Carry out R&D internally or hire other companies to do it for you.
- Make use of researchers from universities or the private sector.

**Management Information Systems (MIS)**

Businesses that efficiently receive, integrate, and assess both internal and external information have an advantage over rival businesses. The most crucial aspect of separating one company from another may be having a successful management information system (MIS).

In companies with a strong information system, the strategic management process is greatly facilitated.

Information gathering, retrieval, and storage can be utilised to gain a competitive edge in a variety of ways, including cross-selling to customers, monitoring suppliers, informing managers and staff, coordinating efforts across departments, and managing finances.

Information is today recognised as a valuable organisational asset that can be managed, just like inventories and human resources. Companies will benefit from competitive advantages in the twenty-first century if they implement strategies based on the best available information.

A strong information system can help a business cut expenses. For instance, internet orders from salespeople to production facilities can speed up the purchasing process for supplies and lower the cost of inventories. Element of the value chain can be linked together directly between suppliers, manufacturers, marketers, and customers as if they were one organisation.

## 8.11 Conclusion

All functional and divisional managers within an organisation must work together for successful strategy implementation. Implementing strategies that call for fast gains in sales revenues in new markets and with new or upgraded products is frequently the responsibility of marketing departments.

Managers of finance and accounting must create cost- and risk-effective strategies for implementing their plans. To properly implement strategies, R&D managers must transfer difficult technologies or create new technologies.

Managers of information systems are increasingly expected to mentor and train all employees within the company. Organisational performance is largely determined by the kind and function of marketing, finance/accounting, R&D, and management information systems activities.

## 8.12 Operations strategy

*"Operations strategy is a comprehensive system of choices that aims to shape operations' long-term capabilities, regardless of the type of operation, as well as their contribution to the attainment of the overall strategy"*

**Slack and Lewis**

Operations strategy is the collection of choices an organisation makes in order to put competitive business strategies into practise. Short-term and long-term operational decisions can be linked to business strategy with the help of operations strategy.

This is also considered a process of making key operations decisions by maintaining consistency with the overall objectives of the organization.

**Operations strategy – Key Components**

Market requirements and operational resources are the two key components of an operation strategy. Performance-related objectives including quality, flexibility, time, cost, and dependability are included in the market criteria.

The key ideas that affect performance objectives include addressing the right consumer demands with offers and luring clients away from rival businesses.

### Competitive Capabilities and Core Competencies

Operations strategy places a lot of emphasis on key operational competencies that help an organisation acquire a competitive edge. The strengths and unique resources of an organization are its core competencies that the organization should develop, practice, and improve constantly.

By achieving excellence in these competencies, a company can succeed on the market. In other words, competitive capabilities are those that operations function develops to give an organisation a competitive advantage in its market or industry.

#### *Competitive Priorities*

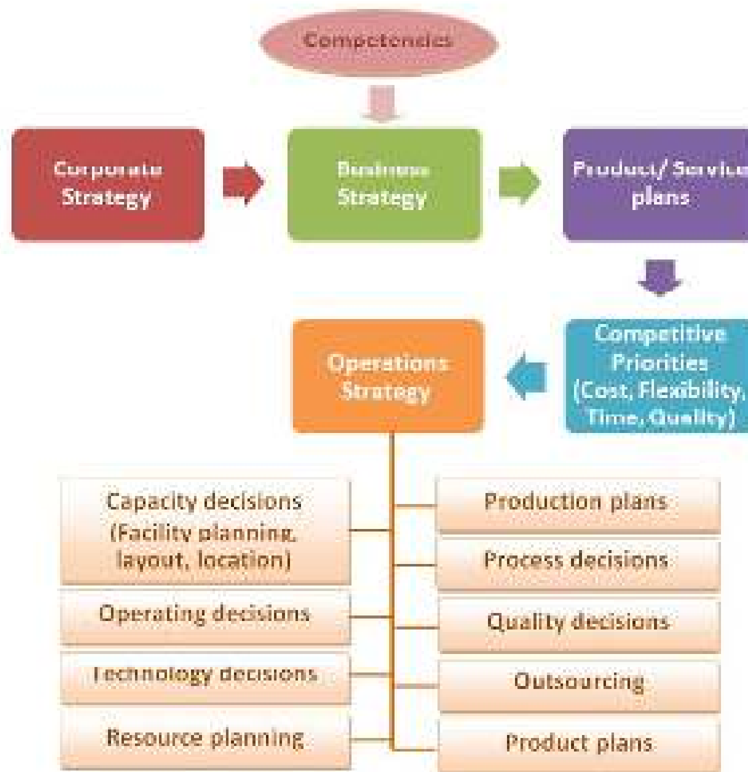
Competitiveness is a key issue to consider when making decisions about an organization's growth and survival since it is linked to how well the organisation outperforms its rivals in satisfying customer demands.

Organisations rely on their operational strengths for this and use them as their competitive priority or competitive weapons, coupled with opportunities. Figure 4 depicts different competencies.

Figure 4: Competitive Priorities

### Operations Strategy Development

Figure 5 depicts the process of Operations Strategy Development.




As depicted in the above figure, the connection between the corporate strategy, business strategy, and competitive priority of operations strategy is also shown, along with a variety of other aspects that are part of operations strategy.

The building of facilities, the introduction of new technologies, the determination of product capacity, and the appropriate decision-making on improving and sustaining product quality are all directly related to long-term strategic operations decisions.

**McDonald's Operations Strategy based on Competitive Priorities are as follows;**

Figure 5: Four Basic Components of Mc Donald's Operation Strategy

As depicted in the Figure 5, Mc Donald's operational strategy revolves around four basic concepts, discussed below.

### *Cost Reduction*

To offer products to customers at a bargain and to cut the cost of its operations, McDonald's has employed a variety of operational tactics. The business has quick machinery that accelerates the

production of its goods. McDonald's uses low-consumption fluorescent lighting, which is essential to cutting operating costs.

The company uses cooking oil in its transportation operations, which also helps to cut costs. By acquiring the majority of the veggies (particularly potatoes) directly from the farmers, McDonald's has also decreased operating expenses.

This made it easier for the business to lower the cost of making chips. In addition to the aforementioned, McDonald's also uses a low-cost supply chain system and a just-in-time approach to cut costs associated with waste and unused storage.

### *Quality*

The length of time it takes to process orders and customer purchases can be used to gauge how well McDonald's services its customers. McDonald's has implemented the five Ps policy, which stands for product, price, people, promotion, and place, to improve the calibre of their services.

The product is made up of the firm's goods' quality, flavour, and cost. McDonald's has always prioritised maintaining food quality. The employees of McDonald's are professionally trained to provide clients with speedy service.

The business always makes the required adjustments to lower operating expenses. Place has modern McDonald's amenities such restaurants, restrooms, and kitchens, as well as relevant, spotless surroundings. The consumers' safety and comfort are its top priorities.

In addition, McDonald's has three high-quality locations in North America, Europe, and Asia. These quality control facilities make sure that popular McDonald's products like French fries, Big Macs, and Chicken McNuggets consistently satisfy their requirements and have outstanding flavour. The business uses these facilities to train its suppliers and check the uniformity and taste of its products.

### *Time Saving*

McDonald's began offering quick, accurate, and friendly services in response to customer demand by keeping in mind that quick delivery services are a top priority for customers.

Additionally, one of the factors contributing to fast order delivery is the fact that most of McDonald's products are ready to eat rather than having to wait for them to cook in high-quality ovens, which often takes only a few minutes.

### *Flexibility*

There are three sorts of flexibility in McDonald's;

*Flexibility in product mix*: means producing a variety of goods in one operation so that clients can choose from them.

*Product or service flexibility:* This entails coming up with fresh concepts or methods to implement into the production of food products or services to make them more appealing to consumers.

*Volume flexibility:* To deal with unforeseen fluctuations in product demand, McDonald's is making adjustments to its output level in this area.

## Global Strategies and Role of Operations Strategy

When developing a business plan from a global perspective, it is important to take into account local conditions as well as current capabilities, strengths, and shortcomings.

When designing the business strategy, various factors, including current competition, market potential, and technological, social, political, and economic developments are taken into account as well as other aspects of the overall environment.

Organisations use two primary strategies as part of their global strategy: strategic alliances, setting up shop in another country, and after-sales support. When two parties or organizations enter into an agreement for promoting their products or services then it is considered as a strategic alliance and partners act as joint partners.

## Strategic Alliance

Agreements between two or more separate businesses to work together on the production, development, or sale of goods and services, as well as other business goals, are known as strategic alliances.

In a strategic alliance, for instance, Company A and Company B pool their resources, skills, and core competencies to create shared interests in the creation, production, or distribution of goods or services.

***Forms of the strategic alliance are as follows:***

There are three types of strategic alliances as discussed below;

***Collaboration***

When a corporation with a core competency in a given product joins forces with another company that wants to market the product in its home market, this is referred to as a collaboration agreement between the two companies.

Therefore, rather than creating a duplicate product, both businesses work together to promote the product in line with their shared interests. Additionally, to maintain the reputation of the goods, the local business adopts a collaborative company's operational plan.

***Joint venture***

This is seen as a contract between two businesses to make goods together. The joint venture model aids in opening up access to international markets.

In this case, an outside firm provides the technology and experience, and a local company provides the necessary resources, including processing, operations, infrastructure, people, etc.

This tactic has been used by numerous auto manufacturers, including Honda, Maruti Suzuki, and others.

**Example:** BMW and Brilliance Auto Group. Car manufacturer BMW formed a joint venture with the Chinese Automobile manufacturer Brilliance Auto Group in 2003. The venture, named BMW Brilliance, was formed to produce and sell BMW cars in China. The partners jointly agreed to invest €450 million in the venture, with BMW taking a 50% stake in the child company while Brilliance Auto took a 40.5% stake. The remaining 9.5% went to the Shenyang municipal government.

***Licensing or Technology Transfer***

Technology transfer refers to several procedures that allow the transfer of technological information between or within organisations.

This knowledge can be found in a variety of ways, including through services and people, technical documents and designs, etc. Wherein, licencing is connected to a business contract that enables one organisation to authorise another organisation to manufacture its product in exchange for specific payment terms.

## 8.13 Human Resources Strategy

A people-centered approach to solving an organization's most pressing problems is outlined in the HR strategy. This approach underlines the importance of hiring, talent management, compensation, succession planning, and company culture and calls for HR input during policy creation.

### Pre-requisites of a HR Strategy

Learn about the company and its goals, examine employee skill sets, perform a gap analysis, analyze the talent strategy, develop existing employees, limit turnover, plan ahead of time for filling positions and perform HR Analytics (turnover, employee engagement rates).

### Types of HR Strategy

There are different types of HR strategies that must be adopted. A people-centric approach to solving an organization's main problems is outlined in the HR strategy. This strategy emphasises the significance of hiring, talent management, remuneration, succession planning, and corporate culture and necessitates HR engagement during policy formation.

An HR strategy plan helps you choose how to accomplish your objectives and provides a picture of where your organisation is right now. To assess your organization's goals, develop new ones, and place the proper people in jobs that make the most of their skill sets, think about employing a SWOT analysis.

Plans for your HR strategy can also assist you in deciding which additional positions to create and what kind of programmes will best support your employees as your business grows.

HR strategy can be divided into two categories: comprehensive and specific. Comprehensive HR plans take into account the overall management of an organisation. Specific HR functions, including as hiring, salary planning, and employee development, are the focus of these strategies. Although each HR strategy is distinct and catered to the particular requirements of each organisation, typical HR strategies generally include:

- Constant interaction between team members, leadership, and HR.
- Making provisions for satisfying onboarding and offboarding.
- Inclusive and diverse hiring procedures.
- Mobility in the workplace and professional growth.
- Compensation and perks that are competitive.
- Integrity and trust.
- Putting emphasis on staff members' physical and mental well.

## Summary

- Different functional domains in an organisation are addressed by a functional strategy. These include finance, marketing, and technology.
- Expectations for efficiency improvements have risen as a result of macrotrends like globalisation, digitization, automation, outsourcing, increasing competition, and process improvement.
- Strategic planning consists of a stream of decisions and actions that lead to effective strategies that help the firm to achieve its objectives.
- Marketing planning is the process of anticipating future events and developing strategies to achieve the organisational objectives.
- A differentiated targeting strategy, which is frequently referred to as segmented marketing, is created to identify and concentrate on major target categories that have the greatest potential value for your company.
- Implementing this approach may involve; raising the necessary funds, creating forecasted financial statements, creating financial budgets and determining the value of a company.
- Operations strategy is the collection of choices an organisation makes in order to put competitive business strategies into practise.

## Keywords

***Market planning***: This is the process of organizing and defining the marketing aims of a company and gathering strategies and tactics to achieve them.

*Segmentation:* Organising potential customers into groups or segments with comparable demands and responses to marketing actions is referred to as market segmentation in marketing.

**Targeting:** This is the process of identifying the most attractive segments from the segmentation stage, usually the ones most profitable for the business.

***Positioning:*** This is the process of creating a distinct mental position or image of a product or a service in the mind of the customers as compared to other brands in the market.

## Self Assessment

1. __________ explains to customers why they should choose your product or service over those of rivals who offer similar essentials.

A. Points of Parity
B. Points of Difference
C. Points of Retention
D. Points of competition

2. Psychographic segmentation aims to categorise consumers based on there;

A. Lifestyle
B. Personality
C. Attitudes
D. All of the above.

3. When a company _____________it means that it uses the same or similar marketing materials for all of its audiences, regardless of linguistic or cultural differences.

A. Standardizes
B. Targets
C. Positions
D. Customize

4. The most popular method for deciding whether debt, stock, or a combination of debt and stock is the best solution for obtaining capital to carry out strategies is an _______ analysis in financial planning.

A. ETIB
B. EBIT
C. BIET
D. TIBE

5. Agreements between two or more separate businesses to work together on the production, development, or sale of goods and services, as well as other business goals, are known as ______

A. Strategic alliances
B. Liquidations
C. Bankruptcies
D. Incorporation

6. A _________ is a diagram that businesses and market researchers use to illustrate and comprehend how target customers perceive and feel about a specific brand or product.

7. The process of organising and defining a company's marketing goals and compiling strategies and methods to attain them is known as ________.

8. A ________ budget is a written plan that outlines how money will be raised and spent over a given time period

9. Short-term and long-term operational decisions can be linked to business strategy with the help of _________ strategy.

10. ____________ is a key issue to consider when making decisions about an organization's growth and survival since it is linked to how well the organisation outperforms its rivals in satisfying customer demands.

11. Functional strategy frequently tries to increase the efficiency of a company's internal departmental operations.

A. True

B. False

12. Consumer analysis includes topics such as market definition, market size, industry structure, market share and trends, and competitor analysis.

A. True

B. False

13. Only functional and not divisional managers within an organisation must work together for successful strategy implementation.

A. True

B. False

14. A people-centered approach to solving an organization's most pressing problems is outlined in the HR strategy.

A. True

B. False

15. Specific HR plans take into account the overall management of an organisation.

A. True

B. False

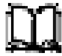
## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | B | 2. | D | 3. | A | 4. | B | 5. | A |
| 6. | Perceptual Map | 7. | Marketing Planning | 8. | Financial | 9. | Operations | 10. | Competitiveness |
| 11. | A | 12. | B | 13. | B | 14. | A | 15. | B |

## Review Questions:

1. Explain the nature of functional strategies?
2. Outline the important elements of a marketing strategy? Outline the marketing strategy of Walmart. Use this link to study (https://www.simplilearn.com/tutorials/marketing-case-studies-tutorial/walmart-marketing-strategy).
3. What is market segmentation? What are the different types of segmentation? Give relevant examples?
4. Describe the components of a sound financial strategy?

5. Outline the fundamentals of an operational strategy? Outline the operation strategies of Amazon. Use this link to study (https://panmore.com/amazon-com-inc-operations-management-10-decisions-areas-productivity)
6. Explain the main rudiments of a Human Resources Strategy?



## Further Readings

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# Unit 09: Strategic Analysis

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## Objectives

After studying this unit, you will be able to,

- describe the concept of corporate portfolio analysis.
- understand parenting framework.
- understand the patching approach adopted by companies.
- analyse the framework of industry analysis
- describe the need of an industry analysis.

## Introduction

A company can develop a multi-business strategy by using portfolio analysis. This is an analytical tool that considers a corporation as a collection of products or business units that should be managed for the best possible results.

It is very possible that the various products in an organization's portfolio will be at various stages of development. Some of them will be rather old, while others will be newer. Many businesses won't want to take the chance of having all of their items at the same developmental stage.

It is advantageous to have both items with significant growth potential but who may still be in the infancy stage, as well as some with restricted growth but steady profitability. Therefore, the

essential goal is to create a balanced portfolio of products, some of which have low risk but slow growth and others of which have high risk but significant potential for growth and profit. We refer to this as portfolio analysis.

### Objective of Portfolio analysis

To evaluate its current portfolio of businesses and choose which should receive more or less investment is the first objective of corporate analysis, then comes creating growth plans for expanding the portfolio with new companies and determining which businesses shouldn't be kept.

### Balancing the Portfolio

There are different models that have been developed by consultancy firms to undertake the Portfolio Analysis, and have been discussed in the following paragraphs.

## 9.1 BCG Matrix developed by Bruce Henderson

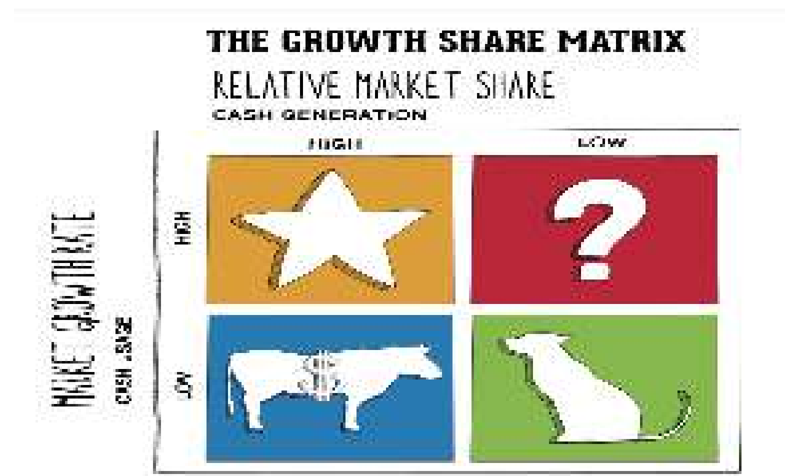



Figure 1: BCG Matrix developed by Bruce Henderson

Bruce Henderson, the creator of BCG, popularised the idea in his 1970 essay The Product Portfolio. About half of all Fortune 500 businesses employed the growth share matrix when it was at its most successful, and it continues to be a key component of corporate strategy lessons taught in business schools today.

The reasoning behind the growth share matrix is that market leadership yields greater profits that are sustainable. In the end, the market leader achieves a cost advantage that is difficult for rivals to match. The markets with the highest development potential are then indicated by these high growth rates.

The matrix displays two aspects that businesses should take into account when determining where to invest: firm competitiveness and market attractiveness. The underlying drivers of both parameters are relative market share and growth rate.

Each of the four quadrants reflects a particular ratio of growth and market share relative to other quadrants:

Low Growth, High Share; Companies should milk these "cash cows" for cash to reinvest.

High Growth, High Share. Companies should significantly invest in these "stars" as they have high future potential.

High Growth, Low Share; Companies should invest in or discard these "question marks," depending on their chances of becoming stars.

Low Share, Low Growth; Companies should liquidate, divest, or reposition these "dogs."

## 9.2 GE Matrix developed by Mckinsey and Company CONSULTANCY GROUP

Figure 2: 2.:GE Matrix developed by Mc Kinsey and Company consultancy group

A strategy tool called the GE-McKinsey nine-box matrix provides a methodical method for multi-enterprise corporations to prioritise their investments among their business divisions.

The nine-box matrix depicts the business units (BUs) on its 9 cells to show whether the corporation should harvest/divest a product, invest in it, or conduct additional study on the product and invest in it if there are still resources available. The industry attractiveness and a unit's competitive strength are the two criteria used to evaluate BUs.

### Attractiveness of the industry

The attractiveness of an industry reflects how challenging or straightforward it will be for a business to gain market share and turn a profit. The industry grows more appealing the more profitable it is. Because the capital required for the product typically demand long-term commitment, analysts should consider how an industry will evolve over the long term rather than in the near future when assessing the industry's attractiveness.

### Business Unit Strength

The matrix calculates each business unit's competitive strength against its rivals along the X axis. In other words, managers look to see if a business unit has a long-term (or at the very least, temporary) competitive edge. If a company has a competitive advantage that is sustainable, the next concern is how long it will last.

### Investment Implications

Depending on the boxes your company units have been plotted in, there are different investment implications you should follow. Investment/grow, selectivity/earnings, and harvest/divest boxes are the three categories of boxes. What you should do with your investments is indicated for each group of boxes.

*Box Invest/Grow.*

Businesses that fit into these categories are the best to invest in since they offer the biggest potential profits. Due to the fact that these business units will be competing in expanding markets, they will need a lot of capital to retain or increase their market share.

It is crucial to give BUs as many resources as possible so that there are no limitations on their ability to expand. Investments ought to be made in R&D, marketing, acquisitions, and expanding production to keep up with demand in the future.

### *Hold/Protect*

Only if you have funds remaining from your investments in the group "Invest/Grow Business Units" and if you think the BUs will create cash in the future should you consider investing in these BUs. Due of the high level of uncertainty they present, these business divisions are sometimes regarded as the last. The basic rule should be to invest in companies that serve vast markets where there are few dominant players, as this will make gaining a higher market share much easier.

### *Harvest/Divest*

Harvest/divest boxes apply to business units that are engaged in unattractive industries, lack lasting competitive advantages or are unable to develop them, and exhibit generally subpar performance. What should businesses do with these divisions?

## 9.3 Hofer Matrix

Two factors are used to form the matrix: the maturity of the industry, which is broken down into five phases, and the competitiveness of the enterprises operating in the industry. In this approach, circles are produced that symbolise the various business divisions, and the size of the circle corresponds to the size of the sector.

The circle may occasionally gain divisions that represent the market share of a particular company in the industry. When interpreting it, consideration should be given to potential product strategies, the stages of their life cycles, and the markets in various industries.

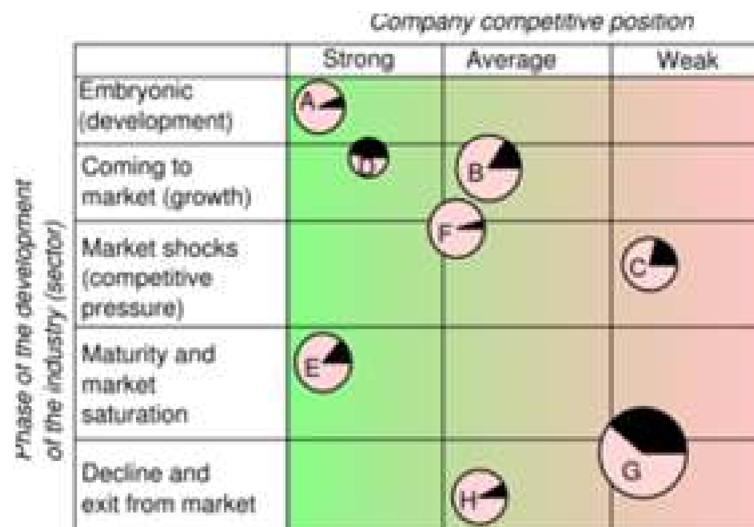



Figure 3: Hofer Matrix

**Products A -** Dilemmas that have chance of success with appropriate marketing strategies and financial aid

**Products B** - Winners, require appropriate marketing strategies and financial aid, if company has limited resources for advertising managers must make a choice between products A and B

**Products C** - Potential losers, the weak position, the sector in the growth phase - managers should make additional analyses to rule out the possibility of going through the shock phase

**Products D** - despite the current difficulties can become market leaders or profitable producers

**Products E and F -** They are profitable, so it is possible to introduce other products in the phase of shock and generate considerable profits

**Products G and H-** They are the losers are in the exit phase of the market, ahead of the full withdrawal managers should use strategies for "gathering the harvest".

## 9.4 Directional Policy Matrix (DPM)

Figure 4: Directional Policy Matrix (DPM)

Shell Chemicals, UK, created this matrix. The "business sector prospects" and the "company's competitive capabilities" are the two dimensions used.

Business sector prospects are categorised as attractive, average, and unattractive, while a company's competitive capabilities are categorised as strong, average, and weak. The result is a matrix with 9 cells.

## 9.5 Arthur D Little Portfolio Matrix (ADL)

The product life cycle stages and organisational strength are connected via a matrix developed by Arthur D. Little Company. Businesses are categorised according to their business strength on the vertical axis as weak, tenable, preferred, strong, or dominant.

Four stages of the product life cycle—embryonic, growth, mature, and decline—are denoted along the horizontal axis, are depicted in Figure 5.

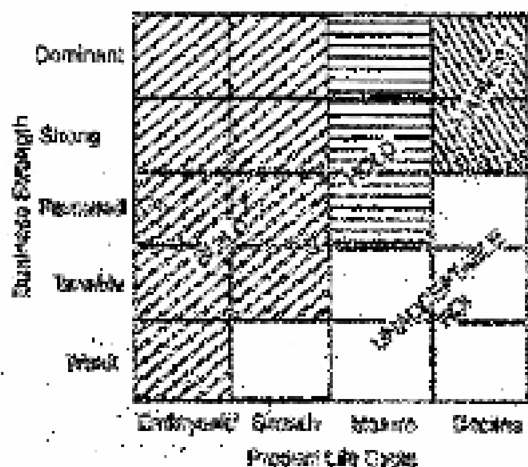


Figure 5: Arthur D Little Portfolio Matrix

The business's position in relation to its business strength (competitive strength) and the stage in the product life cycle would naturally affect the strategic approach. Therefore, if a company has favourable or strong business strength, the plan should be to invest in it when it is still in the beginning or growth stage.

For such a business unit, the "BUILD" strategy is advised. Although they may have beneficial, strong, or dominant business strengths, businesses whose goods are in the mature stage are advised to adopt the "HOLD" strategy. "HARVEST" approach is advised for companies whose goods are in the decline stage and who have a significant or dominant competitive advantage. "DIVEST" strategy is required if a business is maturing yet has weak business strength. This

## 9.6 Profit Impact of Market Strategy (PIMS)

The model makes advantage of statistical correlations gathered from business history.

By conducting multi-dimensional cross-sectional regression analyses of the profitability of more than 2000 enterprises, the Strategic Planning Institute often creates an industry characterises. In order to identify the key to proper strategic approaches, the performance in the concerned company is compared with the industry characteristic.

Of fact, PIMS has several inherent flaws. It presumes that the company's main objective is short-term profits. The research is based on historical data, and the model does not account for any future changes to the external environment of the organisation.

Internal dependencies and possible synergies within firms are not taken into account by the model. Each company is looked at separately.

## 9.7 SPACE Matrix

The axes of the space matrix represent two internal dimensions, namely, financial strength and competitive advantage and two external dimensions, namely, environmental stability and industry strengths.

The directional vector of each profile indicates the type of strategies to pursue: conservative, aggressive, defensive or competitive (Figure 6).

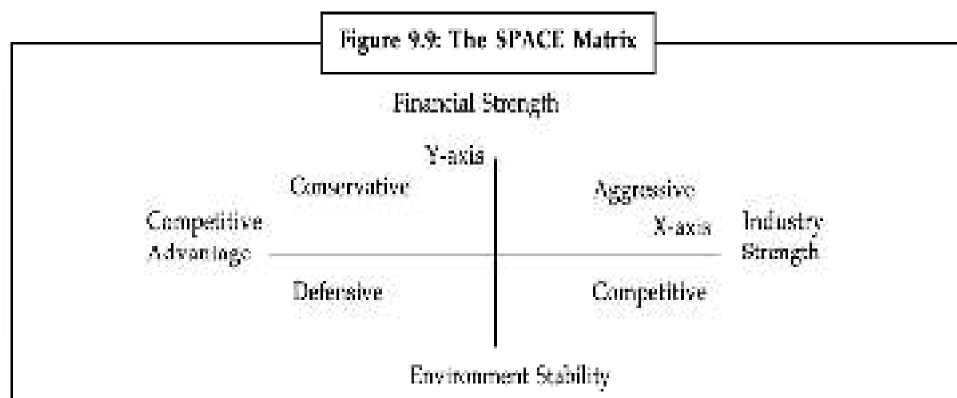



Figure 6: The SPACE Matrix

## 9.8 Quantitative Strategic Planning Matrix (QSPM)

The process of executing a QSPM consists of the three phases used for formulating strategies:

*Define strategic factors, strategic analysis (SWOT) (measuring advantages and disadvantages of each option) and Decision-making*

*Quantitative Strategic Planning Matrix of a Beauty Saloon*

| External Opportunities of Beauty Industry | Weight | Rating | Weight score |
|---|---|---|---|
| O1. Increase demand in personal grooming. | 0.15 | 4 | 0.60 |
| O2. Ease to look for suppliers. | 0.12 | 3 | 0.36 |
| O3. Increasing focus on technology. | 0.14 | 3 | 0.42 |
| O4. Festive season. | 0.14 | 4 | 0.56 |
| O5. Consumer buying power. | 0.10 | 1 | 0.10 |
| **External Threats of Beauty Industry** | **Weight** | **Rating** | **Weight score** |
| T1. Cultural influence. | 0.04 | 1 | 0.04 |
| T2. Replication risk. | 0.08 | 2 | 0.16 |
| T3. Low entry barrier. | 0.08 | 4 | 0.32 |
| T4. Rising labor cost. | 0.05 | 1 | 0.05 |
| T5. Product safety concern. | 0.10 | 3 | 0.30 |
| TOTAL | 1 | | 2.91 |

Figure 7: Quantitative Strategic Planning Matrix of a Beauty Saloon

## 9.9 Corporate Parenting Framework

Most chief executives today ignore two important issues when formulating corporate-level strategy: Which businesses should this company own, as opposed to competitors' companies, and why?

What type of organisational structure, managerial methods, and philosophy will encourage its enterprises to perform better? The parenting framework makes up for the flaws in the core competency idea.

It offers both the tools and a comprehensive conceptual model required for successful corporate-level planning. The parenting framework is based on study with some of the most prosperous, diversified firms in the world, and it is based on the economics of competitive strategy.

Multi-business organisations add value by controlling or parenting the companies they own. The best parent firms generate greater value than any of their competitors would if they controlled comparable enterprises.

For instance, the parent company can enhance the plans and budgets of the businesses, encourage stronger connections between them, provide particularly capable central functions, or make sensible decisions regarding its own acquisitions, divestments, and new enterprises.

In contrast, the parenting framework puts an emphasis on the parent organization's capabilities and the value that results from the partnership between the parent and its enterprises. The parent company acts as a go-between for investors and companies.

Whether parent managers provide or eliminate value is the crux of parenting advantage. If a multi-business organisation can generate more value than its rivals for similar businesses, it will have a parenting advantage.

### Styles of corporate parenting

There are different components of corporate parenting.

#### *Strategic planning*

In this approach, the corporate parent's job is to increase synergies across the business units. This can be done through imagining a shared goal, promoting collaboration between businesses, and offering centralised services and resources.

#### *Strategic Control*

In this approach, the corporate parent makes the most of its capabilities and resources to add value to its subsidiaries. A company might, for instance, have a valuable brand or a specialised talent. The corporate parent makes use of its parental skills to capture development chances.

#### *Financial control*

In this model, the corporate parent's responsibility is to keep an eye on and assess the financial success of the individual business units' investment portfolios. The corporate managers search for and buy viable assets and enterprises on behalf of shareholders and financial markets.

The authority to conduct business operations and reach their own conclusions is granted to the business unit managers. For purposes of control, the corporate parent does however set performance standards.

## Propositions for Parenting Approach

The following are the propositions for parenting approach.

### *Justifying the Parent*

Numerous businesses in multi-business corporate enterprises might be successful on their own. Since the corporate parent doesn't have any external clients for its goods or services, it can defend its existence if it helps enterprises as a whole perform better than they would individually.

The corporate parent's justification challenge is significant because it draws attention to whether and how its operations provide value. It also eliminates pointless and bureaucratic routines in business activities.

### *Parenting Advantage*

Corporate parents compete with one another for firm ownership. The parents must therefore add more value to the businesses in their portfolio than would other competing parents in order to retain their stakeholders (particularly enterprises).

This goal, known as "achieving parenting advantage," ought to be among the top priorities of corporate strategy. The guiding principle for corporate-level strategy should instead be parenting advantage, just as competitive advantage is for business-level strategy.

### *Value Destruction*

Multi-business firms generally have a tendency to devalue their assets. Corporate hierarchy, particularly senior management, is what necessarily dilutes value to some extent.

The inclination of business managers to filter the information they supply to corporate management in order to put their businesses in the best light is related to value destruction drivers, also known as information filters.

Corporate parents need to be more disciplined if they want to avoid value destruction. This means staying out of businesses unless they have specific reasons to think that their influence will be positive or staying out of expanding their portfolio into new businesses unless they are confident that they will be able to add value.

Therefore, good business strategy should be developed to minimise the effects of these tendencies as much as possible.

### *Lateral Synergies*

The primary responsibility of parent managers should be to foster synergy because there are lateral linkages between the businesses in a corporate company or have the potential to exist.

It basically entails their pursuit of genuine synergy prospects and their constructive interference in the lateral commercial partnerships. The parent managers should also encourage market place relationships across business units while concentrating their efforts solely on synergies that require central action.

As a result, corporate parents must pay significantly more attention to alternative sources of value creation. These can be their capacity to enhance performance in each individual firm as a stand-alone entity, given the significance of lateral synergies in producing value in corporate enterprise.

### *Value Creation*

Value is primarily created when a parent recognises a potential for a business to perform better and has the knowledge, assets, and other qualities to support the business in taking advantage of the opportunity.

This indicates that the parent increases both the value of the links between the businesses and their individual performance. It also suggests that the parent adds value by changing the portfolio's business portfolio's composition through its corporate development operations.

The conditions for value creation are crucial because they compel the corporate parent to consider significant opportunities for added value through corporate strategy. They also direct corporate parent's efforts towards developing specialised competencies or skills that are appropriate for the specific opportunities targeted by the businesses.

### *Corporate office and Management*

There is no doubt about the significance of managing corporate operations (including planning, performance aiming and monitoring, etc.) as well as the size, staffing, and design of the corporate office. Managers give these issues a lot of attention.

The company operations and procedures, however, may result in little to no performance improvement if they are not developed as an essential component of the overall value-adding company strategy. Possessing the abilities necessary for the parenting chances targeted by the corporate-level strategy is significantly more crucial for parent managers.

### *Diversity*

The management of very diversified corporate businesses is inherently more challenging than that of less diverse ones. Therefore, developing reliable indicators of diversity provides crucial managerial assistance for corporate parents.

In that regard, the greatest way to gauge variety is to compare the opportunities and parenting requirements of various companies in a portfolio. Corporate parents should base their portfolio on companies that share similar demands and possibilities for parenting in order to avoid having too much diversity.

### *Stretch and Fit*

Corporate parents need to be realistic about their ability to learn new skills and comprehend new business models quickly. It is expected to constantly look for new opportunities, hone and expand parenting techniques, support creative thinking, and aid in preventing many of the mishaps caused by excessive corporate ambition.

Therefore, companies that do venture into new markets will fare better if they pick those that are compatible with the parenting skills they can learn. In order to get better fit, it is preferable to select a smaller range of companies. A successful business strategy should strike a balance between reaching for new prospects and fitting in with the parent company's existing strengths.

## Defining Corporate Structure

Corporate parents need to be honest about their capacity to pick up new skills rapidly and understand novel business strategies. It is meant to continuously seek out new opportunities, improve and broaden parenting skills, encourage original thought, and help avoid many of the disasters brought on by excessive corporate ambition.

As a result, businesses who do enter new markets will do better if they choose those that are compatible with the parenting skills they can acquire. The selection of a smaller number of organisations is recommended in order to achieve better fit. An effective business plan should balance pursuing new customers with playing to the strengths of the parent company.

## 9.10 The Patching Approach

The method used by corporate executives to frequently "remap" their operations to reflect quickly changing market prospects. This can involve adding, dividing, moving, selling, or combining different business segments.

When markets are reasonably stable, patching is less important; nevertheless, when markets are volatile, patching becomes essential. Patching is viewed as essential to the generation of economic value in a multi-business corporation when markets are volatile and changing quickly.

Corporate executives constantly remap businesses to shifting market opportunities through the strategic process known as patching. It may involve acquiring, dividing, moving, selling, or merging portions of businesses.

Corporate managers can concentrate on the best chances while ignoring the less promising ones thanks to this strategy. Managers are more likely to concentrate on high-potential businesses, to identify the profit levers driving effective strategy in those businesses, and to generate financial value for the company by dynamically adapting businesses to match changing market opportunities.

Think of patching changes as periodic, small-scale adjustments that reflect evolution rather than revolution. Patching company managers pay close attention to the size of their business units, which should be both tiny and large enough to be effective.

**Case Study: The Patching Approach at Hewlett Packard**

Managers at the Hewlett-Packard branch in Boise, Idaho, started a small company based on laser technology for computer printing applications in 1984. Initial unit sales were expected to be 10,000 per month; instead, they quickly reached 100,000.

By the end of the decade, HP's managers had transformed their Boise start-up into a $5 billion growth engine that was powered by three different printer technologies rather than just one. In today's world, the printing industry also includes digital photography, wireless information transmission, and e-commerce imagery.

It still fuels corporate expansion. To build an ever-changing portfolio of sharply focused, closely integrated businesses that could react to evolving market opportunities, HP's managers adopted a corporate-level procedure known as patching.

In the instance of laser-jet printing, the executives split off bits of the main business to create additional industries like networked printers, keeping the management of the laser-jet firm focused on their burgeoning industry.

They started companies selling related goods like scanners and fax machines. To effectively utilise expertise and maximise growth, they moved enterprises from one division to another. In order to generate a critical mass and boost cash flow, they integrated firms to spur fresh growth.

Most importantly, the leadership at Hewlett-Packard exploited patching to create a second printer industry based on inkjet technology and eventually to revive their Wintel and UNIX computer companies. Currently, these firms account for about 80% of total company sales.

**Source**: https://hbr.org/1999/05/patching-restitching-business-portfolios-in-dynamic-markets

## 9.11 Industry Analysis

An "industry" is a collection of businesses that offer rival goods or services, amid which each business operates. Thus, an industry is a collection of businesses offering comparable goods or services. Goods/Services that consumers think can be used in place of one another.

The figures below depict companies belonging to different industries.

Figure 8: Top Companies in the Pharma Sector

**Electronics Industry**

Figure 9: Top Companies in Electronics Industry

Each industry has its own set of "rules of combat" governing things like product quality, pricing, and distribution, even if competitors typically have some variances. This is particularly true in sectors where there are plenty of businesses providing uniform goods and services.

Businesses cannot function in a single, well-defined industry in an ideal world. Businesses compete across numerous industries and strategic managers monitor the closely related businesses to grasp the industrial environment that surrounds their company.

As a result, before deciding how to effectively compete, strategic managers must comprehend the structure of the industry in which their companies operate. Therefore, a crucial phase in a firm's strategic analysis is industry analysis (depicted in Figure 11).

Figure 10: Industry Analysis

Assessing a company's strengths and shortcomings in relation to its industry competitors is the primary goal of an industry study. It aims to draw attention to the structural realities and level of competitiveness in a given industry. A company can determine the attractiveness of the sector and evaluate its own position within the sector by doing such a study.

Assessing a company's strengths and shortcomings in relation to its industry competitors is the primary goal of an industry study. It aims to draw attention to the structural realities and level of competitiveness in a given industry.

## 9.12 Framework for Industry Analysis

Industry analysis requires understanding different aspects as depicted in Figure 12.

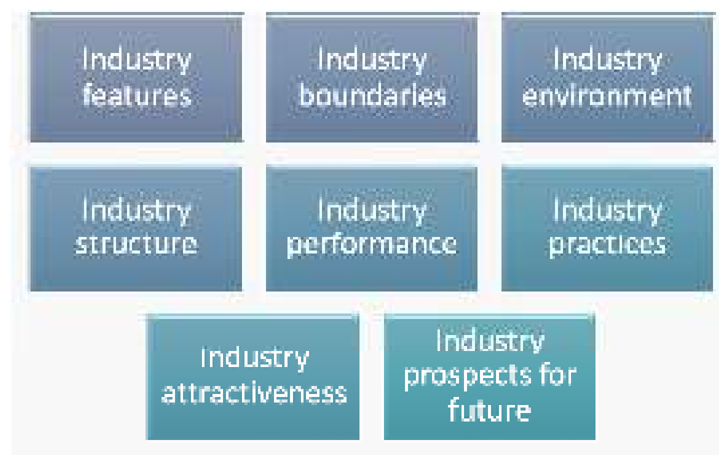



Figure 11: Industry Analysis

Industry analysis covers two important components: There are factors within each component that needs a thorough analysis.

***Industry Features***

- Market size overall
- Market growth rate
- Market geography
- Number and size of rivals
- Rate of technical change

- Product developments

*Industry boundaries*

- Breadth of market
- Product/service quality
- Geographic distribution
- Level of vertical integration
- Profit motives

## Industry environment

There may be different types of industries;

Emerging industries: Are those in the introductory and growth phases of their life cycle.

Mature industries: Are those who reached the maturity stage of their life cycle.

Declining industries: Are those in the transition stage from maturity to decline.

Global industries: Are those with manufacturing bases and marketing operations in several countries.

## Industry prospects for future

A booming industry is sparked by a number of things. One of them is the emergence of cutting-edge technologies, which might inspire entrepreneurs and startups to create brand-new goods and services for the sector. The justification for investing in such technologies is the promise of exponential future growth given the constantly evolving nature of technology.

Earlier in this decade, the smartphone sector, which combined several cutting-edge technologies into a single device, started to grow. Recent examples of this strategy include virtual reality (VR) and machine learning. A computer-generated, immersive VR experience can imitate a real-world encounter. It can be used in a wide range of sectors, including VR gaming headsets, driving test simulations, and

## Competitive environment

Dealing with competition is the core of strategy formulation. Industry-wide fierce competition is not a coincidence. Its underlying economics serve as its foundation. The monopoly hypothesis and the perfect competition theory are the two main economic theories.

In a situation where there is a monopoly, one company is insulated from competition and has the chance to take all of the industry's profits for itself. In a "perfectly competitive" industry, competition is tough and entry to the industry is easy. This kind of industry structure, of course, offers the worst prospects for long-run profitability.

Competitive forces include customers, suppliers, and competitors. These forces influence how fiercely a market is competitive. The ultimate profit potential of an industry is determined by the combined strength of these forces. In certain industries, it is severe, while in others, it is modest.

Understanding these fundamental rivalries enables you to: Lay the foundation for a strategic agenda, draw attention to the company's advantages and disadvantages in the marketplace and put the company's industry positioning into motion.

Processing vast amounts of data for research purposes or to spot trends and statistical probability is known as big data. Big data businesses offer services to major corporations or sectors, such the healthcare industry. As the technology gains popularity, the number of startups and businesses in the field has increased. Investors often place a multiple on a company's existing earnings and projected future growth.

Regulations can be changed to promote growth. For instance, changes in insurance-related regulations are a major driver of growth in the healthcare sector. Investors are placing their money into solar and renewable energy company stocks as a result of the deregulation of the power markets and growing public awareness of sustainable living.

A firm that gains from shifting legislation and its technological prowess is Tesla Inc. (TSLA), one of the most valuable automakers. Due to the company's promise of a brighter future and the cutting-edge technology found in its cars, investors have flocked to it.

A third element influencing the growth of some sectors is a shift in customer tastes and way of life. Consumers have started travelling more as a result of having more free time, as well as the availability of technology and transportation choices. There are several websites and apps for travel. Startups focused on the travel industry, including Airbnb and Uber, have achieved record valuations in the private market and are viewed as hot commodities in the public market.

## Summary

- A company can develop a multi-business strategy by using portfolio analysis.
- To evaluate its current portfolio of businesses and choose which should receive more or less investment is the first objective of corporate analysis, then comes creating growth plans for expanding the portfolio.
- Corporate parenting offers both the tools and a comprehensive conceptual model required for successful corporate-level planning.
- The method used by corporate executives to frequently "remap" their operations to reflect quickly changing market prospects is called the patching approach.
- Before deciding how to effectively compete, strategic managers must comprehend the structure of the industry in which their companies operate.

## Keywords

***BCG Matrix:*** Most popular and the simplest matrix to describe a corporation's portfolio of businesses or products.

***Display Matrices:*** Frameworks in which products or business units are displayed as a series of investments from which top management expects a profitable return.

***Market Growth Rate:*** The percentage of market growth, that is, the percentage by which sales of a particular product or business unit have increased.

***Portfolio strategy approach:*** A method of analysing an organisation's mix of business in terms of both individual and collective contributions to strategic goals.

***Relative Market Share:*** The ratio of the market share of the concerned product or business unit in the industry divided by the share of the market leader.

***Strategic Choice:*** Selection of a strategy that will best meet the firm's objectives.

## Self Assessment

1. All those industries that are those in the introductory and growth phases of their life cycle are known as _________ industries.

A. Mature
B. Declining
C. Emerging
D. Global

2. The method used by corporate executives to frequently "remap" their operations to reflect quickly changing market prospects. This can involve _______ different business segments.

A. Adding
B. Dividing, combining
C. Moving, selling
D. All of the above

3. A/an __________ is a collection of businesses that offer rival goods or services, amid which each business operates.

A. Company
B. Organisation
C. Industry
D. Competition

4. A strategy tool called the _________ a nine-box matrix provides a methodical method for multi-enterprise corporations to prioritise their investments among their business divisions.

A. BCG Matrix
B. SPACE Matrix
C. Hofer Matrix
D. GE-McKinsey

5. The axes of the ________ represent two internal dimensions, namely, financial strength and competitive advantage in the following matrix;

A. BCG Matrix
B. SPACE Matrix
C. Hofer Matrix
D. GE-McKinsey

6. By conducting multi-dimensional cross-sectional regression analyses of the profitability of more than 2000 enterprises, the _______ often creates an industry characteristic.
7. The reasoning behind the __________ matrix is that market leadership yields greater profits that are sustainable.
8. In the BCG matrix, the harvest/divest boxes apply to business units that are engaged in ________ industries.
9. Corporate _________ offers both the tools and a comprehensive conceptual model required for successful corporate-level planning.
10. ______ is primarily created when a parent recognises a potential for a business to perform better and has the knowledge, assets, and other qualities to support the business in taking advantage of the opportunity.

11. Assessing a company's strengths and shortcomings in relation to its industry competitors is the primary goal of an industry study.

A. True

B. False

12. Making growth plans is the first and foremost objective of corporate analysis.

A. True

B. False

13. About half of all Fortune 500 businesses employed the growth share matrix when it was at its most successful.

A. True

B. False

14. The primary responsibility of parent managers should be to foster synergy because there are lateral linkages between the businesses in a corporate company.

A. True

B. False

15. Corporate parents do not need to be realistic about their ability to learn new skills and comprehend new business models quickly.

A. True

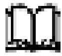
B. False

## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | C | 2. | D | 3. | C | 4. | D | 5. | B |
| 6. | Strategic Planning Institute | 7. | BCG | 8. | Unattractive | 9. | Parenting | 10. | Value |
| 11. | A | 12. | B | 13. | A | 14. | A | 15. | B |

## Review Questions:

1. State the meaning of strategy and explain its nature and components?
2. Describe the concept of corporate portfolio analysis? What is the importance of corporate analysis?
3. Explain parenting framework. What is the purpose of its creation?
4. Explain the patching approach adopted by companies with help of relevant examples?
5. Outline the framework of industry analysis? What is the purpose of doing an industry analysis?
6. Who designed the BCG Matrix? Use the following link to study and explain the BCG Analysis of Amazon Inc. (https://www.edrawmax.com/article/amazon-bcg-matrix-analysis.html).
7. What is the purpose of a GS Matrix? Use the following link to study and explain the BCG Analysis of Hindustan Unilever Limited (https://www.scribd.com/doc/60305202/GE-McKinsey-Matrix-Group-4-Marketing-Finance).



## Further Readings

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## Web Links

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# Unit 10: Strategic Leadership

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## Objectives

After studying this unit, you will be able to,

- describe the concept of strategic leadership.
- understand the concept of corporate culture.
- describe concept of strategy supportive culture.
- understand the issues of a problematic culture and how to manage a cultural change.
- describe intrapreneurship, its importance and its process.
- describe the process of entrepreneurship and the qualities of an entrepreneur.

## Introduction

Leadership is the practise of persuading others to work voluntarily and enthusiastically towards the accomplishment of an organization's goals. Particular techniques to developing and putting into action strategies are frequently associated with particular leadership philosophies.

The term "strategic leader" refers to a person with strategic vision who actively directs the organization's purpose and strategy rather than letting them just happen after debate. By creating and sharing a future-focused vision and motivating the organization's members to take that path, strategic leadership determines the firm's direction.

## 10.1 Strategic Leadership

Strategic leadership, as opposed to managerial leadership, is typically focused on short-term, day-to-day operations, is concerned with: determining the firm's strategy, direction, and alignment of that strategy with its culture, modelling and communicating high ethical standards and launching changes to that strategy when necessary.

The most effective leadership communicates confidence, zeal, and dedication to strategy rather than just defining an organization's vision and objective in a detached, abstract manner. Strategic leadership thus enhances prospects for the organisation's long-term success, while at the same time maintaining its short-term financial stability.

Executives that practise strategic leadership create a vision for their company that will allow it to adapt to or remain competitive in a changing economic and technical environment utilising various management techniques. In order to achieve change inside their organisation, strategic leaders can use this vision to inspire staff members and departments by encouraging a feeling of unity and direction.

The major goals of strategic leadership are to improve strategic productivity, foster creativity, and create an environment that motivates staff to work hard, act independently, and advance their own ideas. To motivate staff members and assist them in achieving their objectives, strategic leaders occasionally deploy incentive or reward programs.

**Strategic leaders who have shaped their companies**

Bill Gates of Microsoft.

Narayana Murthy of Infosys.

Ratan Tata of Tata.

Jack Welch of General Electric.

Jeff Beroz of Amazon.

Gianni Agnelli of Fiat.

## 10.2 Roles in Strategic Leadership

To be strategic, leaders must first comprehend the mission of their organisation. This entails having a thorough understanding of the company's goals, its target market, and the precise ways in which it can benefit them.

Strategic leaders must then develop a vision of how that mission will appear at a particular point in the future.

Finally, leaders must develop a plan to implement that goal. The plan should outline the actions a business must take or the adjustments it must make to get from its current situation to its ideal situation. Six crucial and interconnected tasks are performed by leaders as part of the implementation of strategies:

Defining the strategic purpose, determining the course, establishing a business, establishing corporate culture, making an organisation that is learning and fostering moral behaviour. However, a strategic leader may perform the following main tasks;

### Clarifying strategic intent

By outlining a clear picture of where the company's strategy needs to lead the organisation, leaders inspire staff to embrace change.

### Setting the direction

By developing proper corporate and business strategies, leaders define the direction and reach of the firm.

### Building the organisation

Since leaders are trying to embrace change, they frequently need to rebuild their organisation to fit the needs of the strategy and the constantly shifting environment.

And such an effort frequently entails overcoming change resistance and dealing with issues like the following:

**Shaping a learning organisation**

A learning organisation needs to be created with a strong focus on leaders. A learning organisation is one that adjusts to change fast. The five essential components of a learning organisation are: Inspiring and motivating employees with a mission or purpose, empowering employees at all organisational levels, accumulating and sharing internal knowledge, gathering external information and challenging the status quo to foster creativity.

**Instilling ethical behaviour**

This can be characterised as a set of moral principles. The application of general ethical norms to commercial enterprises is known as business ethics and the organization's leaders are crucial in fostering ethical behaviour.The promotion of ethical behaviour among employees is often seen to depend heavily on the ethical perspective of the boss.

Leaders who uphold high ethical standards serve as examples for others within the organisation and improve the moral climate within.

## 10.3 Challenges in Strategic Leadership

There are few challenges like defining roles and responsibilities for managers and organisational units, empowering managers and decentralising authority.

Organisational culture uses shared presumptions and social norms to direct behaviour and convey aims through values and beliefs. Negative organisational cultures can especially influence strategic leadership because managers with vested interests in the old culture or who find it difficult to adapt to the changes present in the modern workplace actively sabotage initiatives. Negative cultures can make it difficult for change to occur, whether through manipulation or complacency.

Even the best of us experience project demotivation from time to time as leaders. The causes may come from within or without. But you must keep in mind that, as a leader, you are expected to be the inspiration and inspiration for your team.

Maintaining relationships, politics, and self-image in the workplace is one of the most leadership tasks. This entails securing managerial backing, managing upward, persuading others, and winning over other departments, organisations, or people.

One of the reasons leaders struggle with innovation and creativity is a rigid and traditional management paradigm. A corporation must walk a fine line between implementing change and remaining profitable. What use is it if the bulk of the organisation can't advance fresh ideas, even if the company is willing to accept and invest in them?

## 10.4 Leadership Approaches

There are different approaches to leadership as depicted in Figure 1;

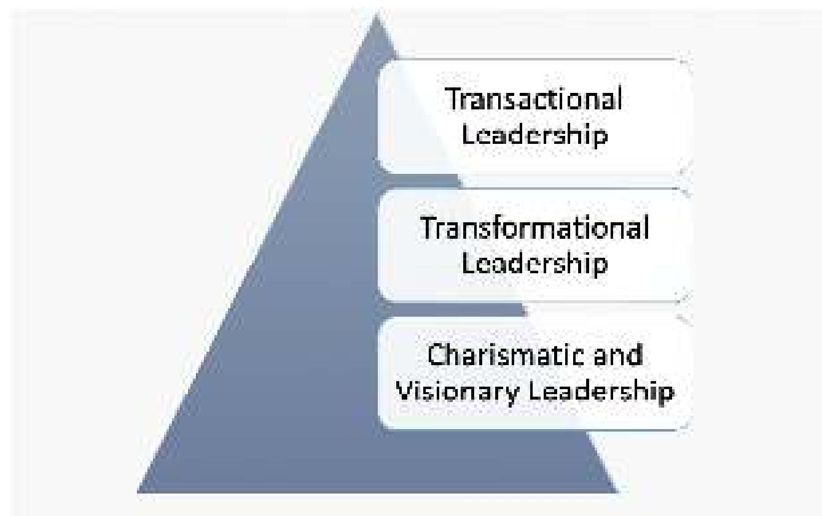


Figure 1: Leadership Approaches

## Transactional Leadership

Transactional leaders establish structure, define roles and responsibilities for subordinates, offer suitable rewards, and make an effort to be sensitive of and satisfy their social needs. Productivity may increase due to the transactional leader's capacity to appease subordinates. Management tasks are mastered by transactional leaders.

They put in a lot of effort and have a fair thinking. They take delight in maintaining order and effectiveness. The impersonal parts of performance, like as plans, timetables, and budgets, are frequently emphasised by transactional leaders.

They adhere to the organization's standards and ideals and feel a sense of commitment to it. They have a sense of loyalty towards the organisation and conform to organisational norms and values. Transactional leaders seek to enhance an organisation's performance steadily. Transactional leadership is important to all organisations, but leading change requires a different approach, viz. transformational leadership.

## Transformational Leadership

Transformational leaders have a vision to bring about innovation and change. They push the followers to question the status quo. They have the skill to lead change in the organisation's mission, strategy, structure and culture as well as encourage innovation in products and varied technologies.

Transformational leaders do not rely particularly on tangible rules and incentives to control specific transactions with followers. They focus on intangible qualities such as vision, shared values, and ideas to build employee relationships and tend to find common ground in bringing changes and development.

Innovation and change can be brought about more easily by transformational leaders. They exhort their adherents to challenge the current quo. They can drive changes in the organization's mission, strategy, structure, and culture and encourage the development of new goods and technology.

To regulate particular interactions with followers, transformational leaders don't just rely on observable laws and rewards. In order to forge connections and discover common ground to participate in the transformation process, they place a strong emphasis on intangible traits like vision, shared values, and ideas.

## Charismatic and Visionary Leadership

Transactional and transformational leadership are not the only types of charismatic leadership. Despite challenges and personal sacrifice, the charismatic leader has the power to inspire and motivate followers to go above and beyond what they would ordinarily do. For the benefit of the leader, followers put the interests of others ahead of their own.

Visionary leadership is a skill that charismatic leaders frequently possess. A vision is a plausible, desirable future that is appealing but not immediately accessible. Visionary leaders inspire followers to hope for a better future by seeing beyond the limitations of the present.

They appeal to their followers' hearts and give them a sense of belonging to something greater than themselves.

Thus, compelling future visions and the ability to inspire people to contribute to realising them are characteristics of visionary leaders.

They are able to communicate the vision to others in a way that makes it real, personal, and important to others, which has an emotional impact on subordinates.

**Charismatic Leaders**

Marc Benioff of Salesforce.

Elon Musk of Tesla.

Tim Cook of Apple.

Indra Nooyi of PepsiCo.

Brian Chesky of Airbnb.

## 10.5 Corporate Culture

Corporate culture is an organization's set of shared ideals, traditions, and norms. Corporate culture is an organization's set of shared ideals, traditions, and norms. Corporate culture examples include a focus on customer service, a supportive workplace, and ethical behaviour. Other instances include emphasising productivity, teamwork, and technology utilisation.

A focus on customer service, a supportive workplace and ethical behaviour are aspects of a good corporate culture. The adaptive culture framework is depicted in Figure 2;

Figure 2: Adaptive culture framework

It is used to describe a company's ideals, conduct, and working style. It reveals how a business interacts with its community, clients, and workers. For instance, one business might prioritise profitability over the environment, whilst another might be more focused on boosting its bottom line even if its operations have a negative impact on the environment. Similar to this, one business can strive to maximise employee performance at the expense of their personal lives and health, while another might be more kind to its personnel.

Even while a single policy or act does not, by itself, define the corporate culture, it unmistakably reveals the culture of the organisation. For instance, a business that strives to produce high-quality goods wouldn't attempt to sell them to customers even if doing so resulted in greater earnings. Just as organisations describe their mission through mission statements, they may do the same for their business culture. However, it largely emerges naturally over time from the accumulated mentality and attitude of the management and the personnel it hires.

The corporate culture is not defined by a single policy or conduct, but it is unmistakably shown by it, regardless of the fact that this is the case. For instance, even if doing so increased profits, a

company that seeks to manufacture high-quality goods wouldn't try to sell them to customers. Organisations may explain their company culture in the same ways that they express their mission statements. However, it mostly develops organically over time from the managements and the staff it hires's collective culture and attitude.

## 10.6 Impact of Culture on Employee Behaviour

The culture of a company can has a significant impact on how every employee behaves. It also impacts a company's capacity to implement new tactics. A challenge for an organisation with a strong culture is that changing its mission, aims, strategies, or policies without also changing its culture is unlikely to be successful.

Corporate culture frequently depends on maintaining stable connections and recurring behavioural patterns; therefore, it has a strong tendency to resist change.

**Six elements of a good work culture have been reflected in the figure below;**

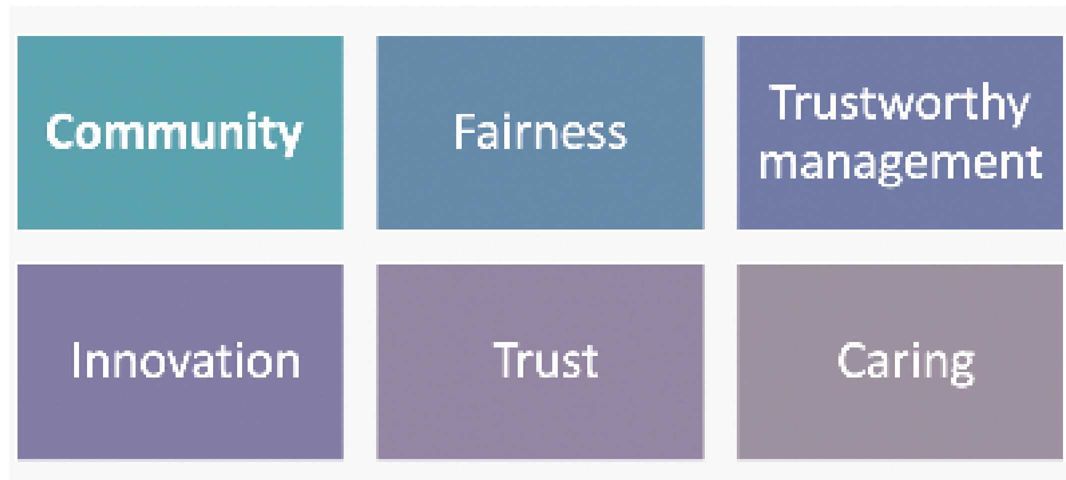


Figure 3: Good Corporate Culture

Case Study: **Unilever- Work Culture**

We're harnessing our business, our influence and our partnerships to drive action in the key areas of respecting rights, building skills and creating opportunities for women.

That means we're taking a holistic approach that works to build equality and empowerment throughout our value chain and beyond. Our plan of action is obvious in that we can only contribute to the social improvements we desire if we first take care of our personal affairs by concentrating on our workplaces and business operations.

Our strategy for attaining equity in our policies and practises, employee experience, talent recruitment and selection, representation and retention, and other areas is centered on gender.

By advancing our initiatives on women in leadership, equal pay, and the gender pay gap, through our campaign to #Unstereotype our workplaces, and through our framework of inclusive policies, we are taking action across our workplace.

Women and leadership roles are also well defined. They have 54 percent female management. Unilever reached gender parity at the management level in 2019 and 2020 thanks to several of our longest-running programmes that have a focus on leadership and gender balance. Women made up 54% of their managerial staff in 2022.

Progress has been made thanks to programmes to attract, retain, and develop female talent, explicit targets and measurement, ongoing leadership accountability and awareness development, internal and external communications and engagement, and our network of diversity and inclusion champions.

Women made up 23% of our most senior level, the Unilever Leadership Executive (ULE), in 2022, and 31% of senior management (those reporting to ULE).

**Source:** https://www.unilever.com/planet-and-society/equity-diversity-and-inclusion/gender-equality-and-womens-empowerment/

Figure 4: Bloomberg Gender-Equality Index

### Strategy Supportive Culture

It is challenging to adjust a plan once it has been put in place.

The choice of a strategy must be in line with the dominant corporate culture of the business, according to the strategy developer.

If changing the corporate culture is not possible, it is the implementer's duty to ensure that the chosen plan is carried out as effectively as possible.

### Changing a challenging culture

One of the most difficult management challenges is altering a company's culture to make it more strategic. The reason for this is that people emotionally cling to the tried-and-true and strongly held ideals and practises.

To eradicate some undesirable behaviours and install more strategy-supportive ones, managers must work together in concert over an extended period of time.

### Changing a problematic culture

Culture change calls for capable leadership at the top. To overcome the springback resistance of ingrained cultures, serious cultural change requires considerable strength, which typically only exists at the top.

***Steps to change a problematic culture***

Step 1: Sort current cultural facts into those that are and are not strategy-supportive.

Step 2: Clearly identify the major components of the "new" culture and the expected new behaviours.

Step 3: Discuss openly the issues with the current culture and how adopting new practises will enhance performance.

Step 4: Take subsequent, forceful measures to change culture.

## 10.7 Managing Culture Change

It takes both symbolic and substantive acts to change culture. They call for the senior management to devote themselves fully. The following actions can help create a culture that is supportive of strategy:

***Highlight key themes or dominant values***:

Through internal company communications, leaders must highlight dominant values. They must reiterate the benefits of cultural change for the business at every opportunity.

***Relate to legends and stories:***

In order to bolster fundamental beliefs, leaders must narrate legends, anecdotes, and stories. Members of the organisation must identify with them and hold the same principles and ideals.

***Rewarding behaviour***

Gently rewarding those who exhibit new cultural norms by publicly praising them will gradually alter the culture.

***Hiring and recruiting effectively***

It is important to find new managers and workers who share the desired cultural values.

***Making changes***

Making a change to policies and processes that will support the new culture.

***Setting an example***

Senior management must exhibit low-cost leadership if it is part of the organization's plan.

## 10.8 Managing Clashes in Culture

Top management must take into account a potential conflict of corporate cultures when merging or purchasing another company. A majority of businesses find that integrating cultures is their biggest issue. The assumption that the companies may easily be incorporated into the same reporting systems is risky.

The quicker executives in the acquired firm leave their positions and significant talent is gone, the larger the cultural divide between the two firms.

There are four general methods of managing two different cultures. They are: (1) Integration (2) Assimilation (3) Separation, and (4) Deculturation.

***Methods of managing two different cultures***

There are different methods of managing two different cultures.

***Integration***

This entails combining the two cultures while ensuring that the distinct cultures of the two enterprises are retained in the final culture.

***Assimilation***

In this scenario, the acquired company voluntarily gives up its culture and embraces that of the acquiring business.

Methods of managing two different cultures

***Separation***

In this instance, the cultures of the two businesses are distinct. Without any cultural exchange, they are fundamentally divided.

***Deculturation***

This involves forcibly imposing the acquired firm with the culture of the acquiring firm. This frequently causes a great deal of uncertainty, disagreement, animosity, and tension.

## 10.9 Intrapreneurship

An entrepreneur starts their own business, whereas an intrapreneur works for a business that another person created.

An intrapreneur is an employee who is given the authority and support to create a new product without having to be concerned about whether or not the product will bring profitability for the company or not.

**Characteristics of Intrapreneurs**

***Diversification:*** Intrapreneurship encourages teams that include members from various fields, age groups, cultures, and genders.

***Innovative Approach:*** It is a creative idea for the advancement of the worker and the business.

***Concept of restoration***: An intrapreneur adds value to an established business by enhancing its goods, services, procedures, or perceptions.

***Mutual Benefit:*** Through intrapreneurship, a worker can become empowered and self-actualized, while the business also experiences impressive growth.

***Calculated Risk:*** Before starting a project, an intrapreneur thoroughly assesses and plans the risks involved.

***No Intrapreneur Investment:*** Although the intrapreneur is the idea's creator, they are not required to invest any money in the project. Every stage of the business is financed by the corporation.

## Process of Intrapreneurship

The process of intrapreneurship is as follows;

Step 1: Encouraging employees to express their ideas and thoughts is the first step. The staff should also be made aware of the authority figure to whom they can propose their ideas.

Step 2: The following is an analysis of the idea's suitability for the organization's requirements, including its mission, goals, values, and vision.

Step 3: Examine the concept from several angles in order to identify any areas for improvement.

Step 4: This phase is extremely important since it seeks to obtain consent for the implementation of the idea from all relevant parties, including the team, colleagues, investors, and even consumers (in the case of industrial buyers).

Step 5: The last step in determining whether a project is feasible is to establish the SWOT (strengths, weaknesses, opportunities, and threats) for both the idea and the individual putting it forth.

Step 6: The idea is adjusted and sculpted so that it may be implemented by the organisation after being thoroughly examined for compatibility, applicability, and viability.

## Benefits of Intrapreneurship

The following are the benefits of intrapreneurship;

***Shares Ideas:*** An intrapreneur may offer a viewpoint that differs from that of the management. This concept could be a strong input for the business.

***Identifies Employee Potential:*** By bringing out the intrapreneur in each employee, their potentials can be explored.

***Develops Leadership:*** When given the correct opportunity, intrapreneurs become leaders who can serve as role models for other employees.

***Provide competitive edge:*** As a highly effective workforce with great problem-solving and competitive skills, intrapreneurs are regarded as providing a competitive edge

***Practical technique:*** This keeps people engaged in their work, coming up with creative solutions to every issue they encounter, and developing as intrapreneurs.

***Positive Change:*** Innovative concepts and critical analysis are generally assertive for the growth and advancement of the business.

### Issues in Intrapreneurship

Figure 5: Issues in Intrapreneurship

There are few examples that are discussed below;

**Example:** Google's email tool, Gmail, was developed as a result of intrapreneurship. Paul Buchheit, the creator of Gmail, worked independently to build the first version of the tool.

**Example:** Apple's Macintosh is an example of a product that was created via intrapreneurship. Steve Jobs organized a group of intrapreneurs to work independently to develop the computer.

**Example:** Facebook hosted hackathons that allowed employees to work on projects they were passionate about. A prototype for the "Like" button was developed as a result of these hackathons.

## 10.10 Entrepreneurship

A business owner manages their own enterprise. For better or worse, they are entirely responsible and free. An existing organisation (often a large one) must innovate, and this is the responsibility of an intrapreneur. Although intrapreneurship has less risks, it also offers less freedom. A successful idea or product also typically has a lesser payoff.

### *Entrepreneur qualities*

An entrepreneur needs to have a few characteristics in order to properly plan and manage a firm. Several of them are;

You can only earn other people's trust if you have faith in yourself. The ability to make independent decisions is the most crucial quality for an entrepreneur. Capacity for taking calculated risks and experimenting are essential business skills. Entrepreneurs must be capable of taking risks.

Entrepreneurs should always be able and willing to make judgements that are in the best interests of their companies. Entrepreneurs should constantly be prepared to compromise and deal with opposition.

Entrepreneurs need to be able to consider issues from various angles. Another virtue that is crucial for entrepreneurship is patience, as the road to success is frequently very difficult and calls for a lot of endurance. Emotional tolerance Another crucial characteristic of an entrepreneur is their capacity to maintain a healthy balance between their personal and business lives.

Entrepreneurs should possess the leadership quality to guide, control, and inspire the masses. Entrepreneurs should at the very least have a fundamental understanding of the technologies that will be used if they are to keep up with the times.

Entrepreneurs should be able to manage a variety of individuals, including customers, employees, coworkers, competitors, etc. Entrepreneurs must constantly challenge their thinking, raise their IQ, and broaden their expertise.

Entrepreneurs should possess the ability to settle any kind of conflict. They should have excellent organisational skills and be able to keep things in a format and style. Entrepreneurs need to be highly motivated. They ought to be able to inspire everyone to put forth their best effort.

They should be inventive and open to fresh creative suggestions from others. They must be grounded in reality and possess logical reasoning.

## 10.11 Types of Entrepreneurship

The following paragraphs discuss the different types of entrepreneurship;

### *Small Business Entrepreneurship*

Small business owners generate income to maintain a basic standard of living and support their families. Small enterprises struggle to acquire venture funding for smooth operation because they are small and lack the unique element. They borrow money from friends and relatives. The workers are frequently neighbours or family members.

### *Large Company Entrepreneurship*

Businesses that have a limited lifespan exhibit large-company entrepreneurship. When a small business experiences rapid growth, it can quickly scale up to become a major corporation. This is also feasible if a major corporation buys them.

### *Scalable Startup Entrepreneurship*

This kind of business begins with a novel notion that has the potential to effect change. They identify a need in the market and develops a solution before launching the business. They hire specialised workers in order to achieve their goals of quick growth and huge profits.

### *International Entrepreneurship*

This can entail setting up a sales office abroad or exporting items from India to another nation. When domestic demand for goods and services is falling and international demand is increasing, international entrepreneurship is advantageous. International business owners typically sell goods in India till they reach the mature stage and then sell them in other markets to make money.

### *Social Entrepreneurship*

Entrepreneurs that practise social entrepreneurship identify a social issue and design their activities to add value to society. These businesspeople create products, services, or solutions to address pressing societal problems and promote social change. This societal transformation could be associated with efforts to safeguard the environment, animal rights, or underserved communities through charitable endeavours'.

### *Environmental Entrepreneurship*

An ecopreneur follows business principles and practises that are extremely environmentally conscious. Additionally, they strive to replace the current goods or services with ones that are safe for the environment. In other words, environmental entrepreneurship prioritises social and environmental effect over financial gain.

### *Technopreneurs*

A technopreneur combines technical expertise with entrepreneurial acumen and skills to create a company that heavily relies on technology. Technopreneurs take calculated risks with the potential to be profitable. These are businesspeople who, in a nutshell, have the power to transform the market and provide clients ground-breaking items.

### *Hustler entrepreneurs*

Entrepreneurs who hustle are independent thinkers driven by a desire to succeed in business. Such people strive arduously to expand their businesses after starting modest. They put their best effort into achieving their business goals rather than using money or capital. Since they create opportunities, they never wait for them to present themselves.

**Case Study**: **Impact of Consumers' Self-Image and Demographics on Preference for Healthy Labelled Foods**

Consumers with a self-image of health consciousness differ in how they see themselves

**Source** :https://www.zamaros.net/Impact%20of%20Consumer's%20Self-Image.pdf

**Example:** Differentiation

## 10.12 The Entrepreneurship Process

The entrepreneurship process consists of the following steps;

### *The generation of ideas*

Every new endeavour starts with an idea. An idea is understood to be a statement of a need or issue faced by a particular constituency along with a hypothesis for a potential remedy.

### *Opportunity Evaluation*

In this step, you determine whether an opportunity is one that is worth investing in. Investments primarily consist of capital, whether it comes from insiders of the business or external investors, as well as the labour of a group of people. However, you should also take into account other assets like knowledge, relationships, physical assets, etc.

### *Planning*

After deciding to take advantage of an opportunity, you need a strategy for doing so. A strategy initially consists of a straightforward set of ideas, but as the firm develops, it becomes more intricate.

### *Company formation/launch*

Once the idea and the plan are sufficiently appealing, the entrepreneurial team will proceed to selecting the best corporate entity type and actually forming the enterprise as a legal organisation.

### *Development*

Following launch, the business works to develop its product or service, bring in money, and progress towards sustainable performance. Planning is no longer the primary focus; implementation is.

**Example:** Elon Musk is the founder, CEO and chief engineer of SpaceX; angel investor, CEO and product architect of Tesla, Inc.; owner and CEO of Twitter, Inc.; founder of the Boring Company; co-founder of Neuralink and OpenAI; and president of the philanthropic Musk Foundation.

**Example:** Thomas Edison – General Electrics. Edison was intelligent, but his economic acumen, not his inventive talent, plainly demonstrates his intelligence. Even though he helped start General Electric (GE), Edison is responsible for the creation of other modern businesses, including Edison Electric, Con Edison, and others. Even though Edison had far more corporate connections than he did patents, it is the businesses that will continue Edison's legacy.

**Example:** Sam Walton – Walmart. Sam Walton chose a market that nobody wanted and then implemented a retail distribution system nobody had ever tried. Walton was able to reduce shipping costs and get goods to busy stores considerably faster by constructing warehouses between a number of his Wal-Mart (WMT) locations. With the

addition of a cutting-edge inventory management system, Walton was able to keep his cost margins substantially below those of his main rivals.

## Summary


- The term "strategic leader" refers to a person with strategic vision who actively directs the organization's purpose and strategy rather than letting them just happen after debate.
- One of the most difficult management challenges is altering a company's culture to make it more strategic.
- It takes both symbolic and substantive acts to change culture. They call for the senior management to devote themselves fully.
- Corporate culture is an organization's set of shared ideals, traditions, and norms. Corporate culture is an organization's set of shared ideals, traditions, and norms.


## Keywords

***Mission:*** A mission statement explains the organisation's purpose and how it intends to benefit its main constituencies.

***Integration:*** This entails combining the two cultures while ensuring that the distinct cultures of the two enterprises are retained in the final culture.

***Assimilation:*** In this scenario, the acquired company voluntarily gives up its culture and embraces that of the acquiring business.

***Separation:*** In this instance, the cultures of the two businesses are distinct. Without any cultural exchange, they are fundamentally divided.

***Deculturation:*** This involves forcibly imposing the acquired firm with the culture of the acquiring firm. This frequently causes a great deal of uncertainty, disagreement, animosity, and tension.

## Self Assessment

1. ____________ leaders establish structure, define roles and responsibilities for subordinates, offer suitable rewards.

A. Charismatic
B. Transformational
C. Transactional
D. Visionary

2. Organisational culture uses shared ______ norms to direct behaviour and convey aims through values and beliefs.

A. Personal
B. Social
C. Political
D. Economic

3. The ________leader has the power to inspire and motivate followers to go above and beyond what they would ordinarily do

A. Charismatic

B. Transformational

C. Transactional

D. Visionary

4. ________ entails combining the two cultures while ensuring that the distinct cultures of the two enterprises are retained in the final culture.

A. Assimilation

B. Integration

C. Separation

D. Deculturation

5. A __________ combines technical expertise with entrepreneurial acumen and skills to create a company that heavily relies on technology.

A. Social entrepreneur

B. Environmental Entrepreneur

C. Hustler entrepreneur

D. Technopreneur

6. __________ is the practise of persuading others to work voluntarily and enthusiastically towards the accomplishment of an organization's goals.

7. _______________ involves forcibly imposing the acquired firm with the culture of the acquiring firm. This frequently causes a great deal of uncertainty, disagreement, animosity, and tension.

8. An ____________ is an employee who is given the authority and support to create a new product without having to be concerned about whether or not the product will bring profitability for the company or not.

9. A ____________business begins with a novel notion that has the potential to effect change. They identify a need in the market and develops a solution before launching the business.

10. One of the most difficult management challenges is altering a company's culture to make it more ___________.

11. Strategic leadership, as opposed to managerial leadership, is typically focused on short-term, day-to-day operations.

A. True

B. False

12. Top management must not take into account a potential conflict of corporate cultures when merging or purchasing another company.

A. True

B. False

13. The culture of a company can has a significant impact on how every employee behaves.

A. True

B. False

14. Elon Musk is the founder, CEO and chief engineer of SpaceX; angel investor, CEO and product architect of Tesla.

A. True

B. False

15. In 'integration of two cultures', scenario, the acquired company voluntarily gives up its culture and embraces that of the acquiring business.

A. True

B. False

## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | C | 2. | B | 3. | A | 4. | B | 5. | D |
| 6. | Leadership | 7. | Deculturation | 8. | Intrapreneur | 9. | Start-up | 10. | Strategic |
| 11. | A | 12. | B | 13. | A | 14. | A | 15. | A |

## Review Questions

1. State the concept of strategic leadership. What are the roles a strategic leader has to perform?
2. What are the different approaches of leadership?
3. What is corporate culture? Explain the corporate culture of Unilever?
4. What are the issues of a problematic culture and how can a manager manage a cultural change?
5. Explain intrapreneurship and outline its process?
6. What kind of a leader is Elon Musk? How have the companies under his leadership progressed? Explore his leadership journey?
7. Find out above any transformational leader and outline his success story?
8. What is entrepreneurship? What are the different types of entrepreneurs?
9. Find out about any three people who have had successful start-ups? Outline their leadership styles.

## Further Readings

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# Unit 11: Strategy Implementation

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## Objectives

After studying this unit, you will be able to,

- describe how strategies are activated.
- understand the nature and barriers in strategy implementation.
- understand the model of strategy implementation.
- Describe the McKinsey 7S Model.

## Introduction

The procedure required to make sure a strategic plan is carried out is known as strategy implementation. It entails converting the broad goals and objectives mentioned in a company's strategic plan into particular projects and actions that staff members at all organisational levels may carry out.

The execution of plans and strategies in order to achieve the organization's long-term goals is referred to as strategy implementation. It transforms the chosen strategy into the organisational motions and actions to accomplish the goals.

Simply expressed, strategy implementation refers to the process by which a business develops, makes use of, and integrates its structure, culture, resources, workforce, and control system in order to implement its plans and gain an advantage over rival businesses in the market.

The other three stages of the strategic management process—determining the strategic mission, vision, and objectives, conducting an environmental and organisational analysis, and defining the strategy—are followed by the fourth stage, which is called strategy implementation. Strategic Evaluation and Control come next.

## 11.1 Strategic Implementation

Setting annual or short-term goals, assigning resources, creating programmes, policies, structures, functional strategies, etc. are all part of the process of putting an organization's varied strategies into action.

Even the most effective strategic plan will be useless if it is not effectively carried out. Therefore, the most challenging step in the strategic management process is strategy implementation. This is true because the organisation and the plan must "fit" together.

### *Strategic implementation process*

This may include the following steps;

- Establishing a company that is equipped to successfully implement the strategies.
- Supplying appropriate resources to activities that are crucial to the plan.
- Creating regulations that support strategy.
- These programmes and policies are used to support ongoing improvement.
- Combining the compensation scheme for accomplishing the goals.
- Using tactical leadership.

Even the best-laid plans fall short if they are not put into practise properly. Additionally, it should be kept in mind that only effective implementation is possible if strategy and other components, such as resource allocation, organisational structure, work climate, culture, process, and reward system, are in line.

### Strategies in action

A well-designed strategy may not necessarily be immediately approved and put into action. Therefore, the strategic leader must defend the plan from every viewpoint, explain how its implementation will benefit the entire business, and win the unwavering support of all personnel at all levels.

The strategic leader needs to spell out priorities, the procedure for implementing the programs, budgets, etc. to keep everything organised and ensure that nothing is left to chance.

### Essentials of strategy implementation

The essentials of strategic implementation include the following;

### *Institutionalisation of Strategy*

The strategy must first be institutionalised in the sense that the person who formulated it must support or argue for it in front of the members for fear that it would be attacked.

### *Creating an effective organisational climate*

An effective organisational climate entails the elements of the internal environment, such as cooperation, personnel development, level of dedication and determination, efficiency, etc., that turn the goal into outcomes.

### *Making operations plans*

operations plans are the action plans, choices, and initiatives that are frequently carried out in many departments of the firm. By focusing on the important variables, they help the organisation achieve its goals if they are written to show the suggested strategic results.

### *Creating a sound organisational structure*

Organisation structure refers to the connections between the many components of an organisation. It draws attention to the connections between various titles, functions, and positions. The structure must be created in accordance with the strategy's specifications in order to be put into action.

### *Periodic Review of Strategy*

A periodic review of the strategy is required to see whether the implementation of the strategy is consistent with the organization's mission. A review is necessary to determine whether the organisation can meet its needs because it operates in a dynamic environment that could alter at any time.

## 11.2 Formation of a Company

This must follow the guidelines in the Companies Act of 1956, which address matters including the creation of a company, its registration, acquiring the proper licences before starting activities, and raising capital in compliance with the SEBI Act of 1992.

The company must follow the following:

a. Import/export restrictions
b. FERA regulations (FEMA regulations, 2000)
c. Patent, trademark, and copyright requirements

   (Indian Patents Act 1995, The Trade and

   Merchandise Marks Act 1958, The Copyrights Act 1957, etc.)

d. Labour Laws (regarding employment of women,
e. Children, payment of wages, and other provisions)
f. Other laws relating to intellectual property.
g. Provisions of competition law

## 11.3 Nature of Strategy Implementation

Setting up troops before an action is strategy formulation. Managing forces during an action involves implementing a strategy. The development of a strategy emphasises efficacy. Efficiency is emphasised throughout strategy implementation. The process of developing a strategy is essentially intellectual.

The process of implementing a strategy is essentially an operational one. Effective strategy formulation involves both intellectual and intuitive abilities. Leadership and unique motivation are needed for strategy implementation. The creation of a strategy necessitates collaboration between a few people.

**Strategic Implementation Vs Formulation**

Strategy Formulation and Strategy Implementation are the two most important phases of strategic management process. Strategy Formulation requires a periodic review of the strategy. This is required to see whether the implementation of the strategy is consistent with the organization's mission. A review is necessary to determine whether the organisation can meet its needs because it operates in a dynamic environment that could alter at any time.

On the other hand, Strategy Implementation refers to the execution of the opted strategy, i.e., it converts the chosen strategy into action, for the realization of organizational goals and objectives.

*The following are the primary distinctions between developing and implementing strategies:*

Designing the strategy is referred to as strategy formulation. Executing the chosen strategy is referred to as strategy implementation. While strategy implementation focuses on controlling those forces while an action is being carried out, strategy formulation puts those forces in their proper positions before an action is taken.

While strategy implementation is an operational process, strategy formulation is an intellectual process. While strategy implementation places more emphasis on efficiency, strategy formulation places more emphasis on effectiveness.

Top management is responsible for formulating strategies. On the other hand, strategy implementation falls under the purview of middle management. It takes intuition to develop a strategy. Unlike the implementation of strategies, which calls for motivational abilities.

Developing strategies is an entrepreneurial activity. Strategy Implementation, on the other hand, is a managerial task. While strategy implementation is focused on action, strategy formulation is tied to planning.

## 11.4 Barriers in Strategy Implementation

There are some barriers in strategy implementation and have been discussed in the following sections;

### *Timeline*

Both long-term and short-term aspects of these systems exist. For instance, incentives like productivity bonuses must to be based on quantitative evaluations of short-term success. On the other hand, it is appropriate to associate long-term benefits with some pertinent qualitative indicators.

### *Risk Consideration*

Qualitative performance indicators, such as bonuses or stock options, may be more advantageous when risk-taking behaviour is required. This is so that results can be achieved rather than risk-prone activity that quantitative measures can encourage.

### *Criteria of Individual Rewards*

Reward systems ought to be connected to a person's aptitude, effort, and job happiness. Rewards that are exclusively focused on one aspect may have a detrimental impact on how well people perform in other areas.

### *Criteria of Group Rewards*

Having individual incentives versus group rewards is a crucial decision in reward systems. Unless the organisational structure allows for individual performance to be isolated from that of others, rewarding people for effort and performance may be challenging. Individual awards may be advantageous and reasonable, for instance, when considering the managerial contribution to company performance, given that each person's contribution is mostly independent of others.

On the other hand, it would be appropriate to establish plans based on collective performance if individual contributions are somewhat dependent. Once more, where entrepreneurial or creative actions are hoped to be encouraged, rewarding people may be required. Group reward programmes, on the other hand, would be preferable if increased cooperation and teamwork were to be rewarded.

### *Balancing Corporate and SBU Interests*

Business units should have more autonomy and independence under reward systems that balance company objectives with those of the Strategic Business Units (SBUs) in multi-divisional organisations. Likewise, unit-based award programmes would be more advantageous if SBUs are not anticipated to have an impact on corporate performance.

### Strategy Implementation of Apple Inc.

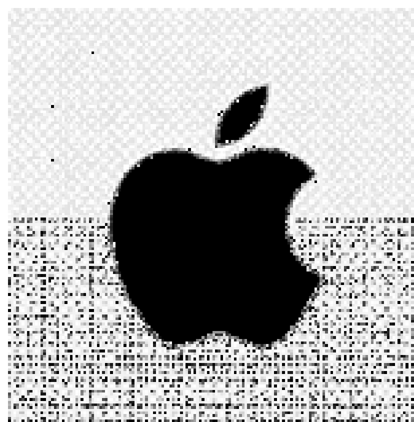

*Figure 1: Strategy Implementation of Apple Inc.*

With one of the most well-known brands in the world, Apple Inc. is undoubtedly one of the most successful businesses in existence. The company made use of the elements of strategic implementation, the strategic goal of creating new products while placing a strong emphasis on design has been a success.

The corporation has invested a significant number of resources in the creation of new products, frequently through well-thought-out and organised methods. Apple Inc. has developed some of the top design practises in the industry as a result of the establishment of best practises for continuous development.

Apple has some of the highest quality standards in the industry. These design teams there are considered to go above and beyond to make sure that the products they manufacture meet the highest standards. The success of the company's design strategy can also be attributed to tying rewards to the accomplishment of important strategic goals.

Bonus payments made in response to the company's successful performance might be considered a sort of compensation that encourages staff members to create items that perform better. The reason the company has grown so rapidly since Steve Jobs came in 1998 is because a strong organisation was created by concentrating on the areas that needed improvement.

The business has been able to concentrate on creating new items that are better designed than those of rivals and has consistently improved on these products. With all the qualities developed by Clausewitz, including intelligence, the guts to create novel items for the market, the capacity to adapt to change, and moral fortitude, Steve Jobs did a commendable work.

It might be argued that the CEO's personality attributes played a role in the strategic success of the company. As Apple Inc. is in the electronics and telecommunications industries, the corporation has made sure that its support systems are some of the best and that their implementation is done properly.

The company has many operation centres around the world, but despite this, the research and production of new goods seem to proceed without any problems. This is because of the great support system that the company's employees use.

Apple Inc. has ensured that its support systems are some of the best. The deployment of these systems is done properly because the company is in the electronics and telecoms industries.

## 11.5 Stages of Strategic Management Process

The first three stages of the strategic management process are determining the strategic mission, vision, and objectives, conducting an environmental and organisational analysis, defining the strategy. These are followed by the fourth stage, which is called strategy implementation. Strategic Evaluation and Control come next.

More than a simple set of guidelines can be found in the strategic management process. It is a way of doing business that is philosophical. Prior to putting that concept into action on a process, upper management must first consider strategically. The strategic management process works best when everyone in the company is aware of the plan.

Implementing a strategy and putting it to practise requires a variety of; Interconnected choices, decisions, activities and integration of people, structures and procedures.

The renowned American consulting company McKinsey Company created the 7-S framework in the 1970s. The purpose of the model is to show the interrelationship between different elements of an organisation, and the need to bring them together.

The main focus of this framework is organisational change. The organization's strategy is only one aspect of the change's key focus. The 7-S of the organization-strategy, structure, systems, style, staff, skills and super-ordinate goals are a part of this Mc Kinsey's framework. (Figure 1)

*Figure 2:Model of strategy implementation*

Model of strategy implementation has the following elements;

### Strategy

"Strategy" is the long-term direction and scope of an organisation. It is the route that the company has chosen to achieve competitive success.

### Structure

"Structure" refers to the company's organisational structure. One crucial responsibility of top management is the creation of the organisational structure. Organisational ties and arrangements that are comparatively more permanent are referred to as organisational structure. It outlines the formal connections between distinct duties and responsibilities, channels of communication, and roles that different members of an organisation are expected to play.

*Four primary tasks are carried out by organisational structure are as follows;*

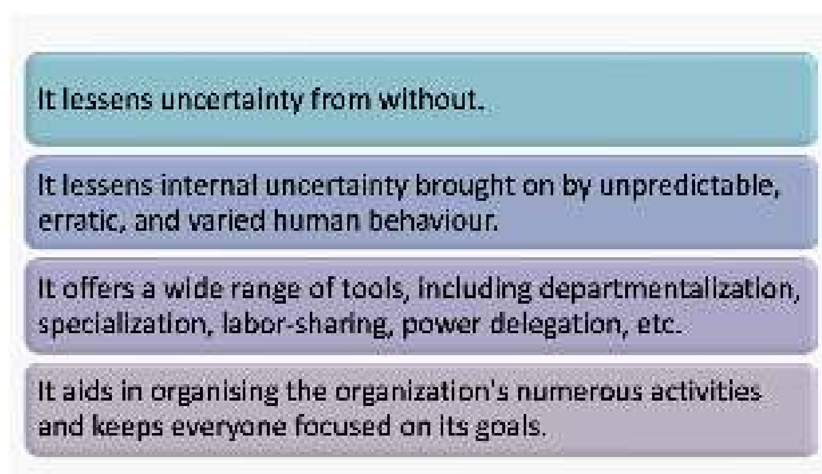


*Figure 3: Primary tasks are carried out by organisational structure*

### Systems

"Systems" refers to the processes that keep an organisation running smoothly. They comprise the explicit and informal policies, guidelines, and practises that support the organisational structure.

"Systems" like capital budgeting, cost accounting, production planning and control, and performance evaluation are only a few examples. System adjustments are frequently necessary when a strategy is changed.

### *Style*

"Style" refers to the way the firm operates. Top executives can utilise style to affect change in their organisations. Organizations' "styles" of operation vary from one another. According to the McKinsey framework, an organization's style can be determined by patterns of action that the top management team takes over time. So, creating and fostering a good "fit" between culture and strategy is crucial to managing change.

### *Staff*

The term "staff" refers to the group of individuals who need to be trained, pushed, and motivated. The ability of the personnel to assist in the accomplishment of goals should be ensured. There are three crucial components of staff:

The three crucial components of staff are:

1. Choosing deserving candidates for particular organisational posts.

2. Improving their capacities and abilities to take on difficult tasks.

3. Encouraging them to give their all-in order to realise strategic objectives.

### *Skills*

The most important characteristics or competencies of an organisation are their "skills." They are "distinctive competencies" in the 7-S framework. A variety of factors contribute to the development of skills over time. As a result, developing new abilities is required in order to implement a new plan.

For instance, IBM is renowned for its customer service, IBM is renowned for its engineering, Du Pont is renowned for its research and development, and Sony is renowned for its new product development. Hindustan Lever is renowned for its marketing expertise.

### *Super-ordinate goals*

"Goals of a higher order that express the values, vision, and mission that senior management brings to the organisation" are referred to as "super-ordinate goals." These might be thought of as the underlying principles on which a company is based. As a result, they stand in for an organization's fundamental principles and goals. They are the broad ideas that will guide the future.

They are comparable to "organisational purposes," in that sense. For instance, "customer service" has been IBM's overarching purpose, but "innovative people at all levels in the organisation" has been Hewlett-Packard's.

When clearly stated, super-ordinate goals can give employees of an organisation a fundamental purpose and serve as a solid foundation for the organization's stability in a continuously changing environment.

## 11.6 McKinsey 7S Model Factor Analysis of Amazon

### *Strategy*

Amazon follows the cost leadership business model. Due to economies of scale, innovation in numerous business processes, and ongoing company diversification, the largest online retailer in the world has been able to maintain this strategy.

Furthermore, fostering communication among the various elements of Amazon's ecosystem is a key component of its business strategy. Retailers, authors, reviewers, publishers, app developers, and the information market of commenters, analysts, journalists, and feature writers are among the components of the Amazon ecosystem.

### *Structure*

Amazon has a hierarchical organisational structure. Due to its enormous size, the corporation finds it challenging to adopt a different structure, such a divisional or matrix one. The e-commerce

behemoth specifically employs some 647,500 employees to serve hundreds of millions of customers globally.

*These are two of Amazon's primary distinguishing characteristics:*

The flexibility of the business, which is unusual for a firm of this size and the stability in the top management, or low turnover in the senior management team.

### *Systems*

There are numerous systems that support Amazon operations. These consist of systems for hiring and choosing employees, team development and orientation, transaction processing, customer relationship management, business intelligence, knowledge management, and other systems.

Each of these systems is regularly evaluated critically by the firm with the goal of enhancing their effectiveness and, as a result, the business's competitive edge.

### *Skills*

The comprehensive list of abilities and skills needed to succeed at Amazon includes, among others, inventiveness, the capacity to work well under pressure, ingenuity, and physical stamina.

It's vital to highlight that due to certain elements of the organisational culture at Amazon, interpersonal skills seem to link to the company less strongly than they do to other e-commerce companies like Alphabet or Facebook. Additionally, it can be said that, of all the abilities and competences stated above, the capacity to operate under pressure is the one that Amazon employees are expected to possess the most.

### *Staff*

More than 560,000 full- and part-time workers who work for Amazon are referred to as Amazonians. However, because of seasonal considerations that affect its operations, employment numbers change. The corporation also uses temporary workers and independent contractors to augment its staff.

On LinkedIn's list of the top US companies where professionals wish to work, Amazon comes in first place. In order to get the most out of its workforce by giving them a massive and lengthy job, Amazon uses human resources as one of its main sources of value creation.

### *Style*

At the executive level, Amazon's leadership style can be categorised as visionary because founder and CEO Jeff Bezos frequently expresses his commitment to providing great customer service and being highly customer-focused.

However, middle and floor level management typically exhibits an autocratic leadership style, with Amazon facilities being renowned for their micromanagement.

### *Shared Values*

The strategic level management of Amazon makes an effort to spread the notion of customer-centricity throughout the whole workforce. The following is stated on the business's official website:

“We aim to be the firm on Earth that puts the consumer first. Four principles serve as our compass: customer obsession above competitive concentration, invention fervor, dedication to operational excellence, and long-term thinking. We provide our core client sets, which include consumers, sellers, developers, and businesses, in each of our categories”.

## Summary

- A periodic review of the strategy is required to see whether the implementation of the strategy is consistent with the organization's mission.
- A well-designed strategy may not necessarily be immediately approved and put into action.

- Strategy Formulation and Strategy Implementation are the two most important phases of strategic management process.
- Business units should have more autonomy and independence under reward systems that balance company objectives with those of the Strategic Business Units (SBUs) in multi-divisional organisations.
- Unit-based award programmes would be more advantageous if SBUs are not anticipated to have an impact on corporate performance.
- The first three stages of the strategic management process are determining the strategic mission, vision, and objectives, conducting an environmental and organisational analysis, defining the strategy. These are followed by the fourth stage, which is called strategy implementation. Strategic Evaluation and Control come next.
- The renowned American consulting company McKinsey Company created the 7-S framework in the 1970s.
- The purpose of the model is to show the interrelationship between different elements of an organisation, and the need to bring them together.

## Keywords

***Strategy:*** This is the organization's alignment of resources and capabilities to win in its market.

***Structure:*** This describes how the organization is organized. This includes roles, responsibilities and accountability relationships.

***Systems:*** This is the business and technical infrastructure that employees use on a day-to-day basis to accomplish their aims and goals.

***Shared Values:*** This is a set of traits, behaviors, and characteristics that the organization believes in.

***Skills:*** This is the ability to do the organization's work. It reflects in the performance of the organization.

## Self Assessment

1. The renowned American consulting company McKinsey Company created the ______ framework in the 1970s. Strategic Planning Forum of India

A. 3-S

B. 7-S

C. 4-S

D. 2-S

2 Goals of a higher order that express the values, vision, and mission that senior management brings to the organisation" are referred to as ___________ goals.

A. Super-ordinate

B. Clear

C. Achievable

D. Strategic

3. Formation of a company must follow the guidelines in the Companies Act of ________.

A. 1966

B. 1956

C. 1919

D. 1980

4. Strategy ___________refers to the execution of the opted strategy, i.e., it converts the chosen strategy into action, for the realization of organizational goals and objectives.

A. Implementation

B. Evaluation

C. Designing

D. Approval

5. __________ in the Mc Kinsey's framework outlines the formal connections between distinct duties and responsibilities, channels of communication, and roles that different members of an organisation are expected to play.

A. Skills

B. Strategy

C. Structure

D. Staff

6. Having individual incentives versus _________ rewards is a crucial decision in reward systems.

7. On LinkedIn's list of the top US companies where professionals wish to work, ________ comes in first place.

8. ________ is the long-term direction and scope of an organisation.

9. ________ in the Mc Kinsey's framework refers to the processes that keep an organisation running smoothly.

10. The term ________ in the Mc Kinsey's framework refers to the group of individuals who need to be trained, pushed, and motivated.

11. In a company the CEO's personality attributes played no role in the strategic success of the company

A. True

B. False

12. Implementing a strategy and putting it to practise requires a variety of; Interconnected choices, decisions, activities and integration of people, structures and procedures.

A. True

B. False

13. Qualitative performance indicators, such as bonuses or stock options, may be 'less' advantageous when risk-taking behaviour is required.

A. True

B. False

14. Business units should have more autonomy and independence under reward systems that balance company objectives with those of the Strategic Business Units

A. True

B. False

15. Managing forces during an action involves implementing a strategy.

A. True

B. False

## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | B | 2. | A | 3. | B | 4. | A | 5. | C |
| 6. | Group | 7. | Amazon | 8. | Strategy | 9. | Systems | 10. | Staff |
| 11. | B | 12. | A | 13. | B | 14. | A | 15. | A |

## Review Questions:

1. What is strategy implementation? What are the essentials of strategy implementation?
2. What are the different barriers in strategy implementation? How does 'Apple Inc' do strategy implementation?
3. Explain with examples each of the different steps in the strategic management process.
4. Explain the McKinsey 7S Framework? Outline the 7S framework of Amazon Inc?
5. What is the importance of having a concise business strategy for achieving success in a business? Explain the purpose of a strategy and identify its key elements. Provide an example, in your own words.
6. https://www.essay48.com/case/14949-Tesla-Motors-Mckinsey-7s, using the link study and write the McKinsey 7S Framework of Tesla Motors.

## Further Readings

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# Unit 12: Organizational Structure

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## Objectives

After studying this unit, you will be able to,

- understand the basic principles of organisational structure.
- analyse the relationship between strategy and structure.
- describe the types of organisational structures.
- describe the nature and need of functional strategies.
- analyse functional plans and policies.

## Introduction

Organisational structure consists of the collection of official responsibilities delegated to people and organisations. Formal reporting arrangements, including hierarchical levels, lines of power, and areas under a manager's supervision. The creation of procedures to guarantee efficient departmental employee collaboration.

An organisational structure is a framework that describes how certain tasks are managed to accomplish a strategic goal. These activities involve rules, duties, and obligations. The information flow between corporate divisions is also governed by the organisational structure. In contrast to a decentralised structure, which distributes decision-making authority across the organisation, a centralised structure, for instance, takes decisions from the top down.

An organisational structure outlines the direction that particular operations are given to achieve a company's goals. Clear organisational structures define each employee's function and how it fits into the overall system.

While centralised arrangements have a clear chain of command, decentralised systems give almost every person a high level of personal agency. Examples of organisational structures include functional, divisional, and matrix structures.

Senior executives should take into account a number of factors, such as the company's goals, industry, and culture, before deciding which organisational style is best for their business. Organisational structures are crucial to all kinds of businesses. They create a hierarchy within the company. A successful organisational structure defines each employee's position and how it fits into the bigger system. Simply put, the organisational structure determines who does what so that the business can achieve its goals.

This organisation gives a clear picture of how a business is set up and how it may achieve its objectives. Although organisational variables can take many different forms, they are typically represented as a pyramid chart or diagram, with the most powerful individuals at the top and the least powerful individuals at the base.

Without a clear structure in place, certain organisations could struggle to operate. For instance, workers can be uncertain of who they should report to. This could make it unclear within the organisation who is in charge of what. A structure can increase productivity and clarity for all parties involved. Because it will put more emphasis on energy and time, this suggests that each department can be more productive.

## 12.1 Structure of an Organisation Structure

It's possible to have a centralised or decentralised organisational structure. Traditional organisational structures include centralised leadership and a clearly defined chain of command.

A lengthy and intricate hierarchy of superiors and inferiors is characteristic of the military's highly centralised organisational structure. Each position in a centralised organisational structure has very distinct duties, and subordinate functions look to their superiors for leadership.

There have been more decentralised organisations, as is the case with many technological enterprises. Businesses may remain swift, adaptable, and flexible as a result, and almost every employee enjoys a high degree of personal agency.

Even decentralised businesses typically have hierarchies (the company's chief officer, for instance, has a greater position than an associate at the entry level). Teams, on the other hand, are free to decide for themselves and reach the optimal solution without requiring "approval" from above.

An organisation structure consists of two components as displayed in Figure 1.

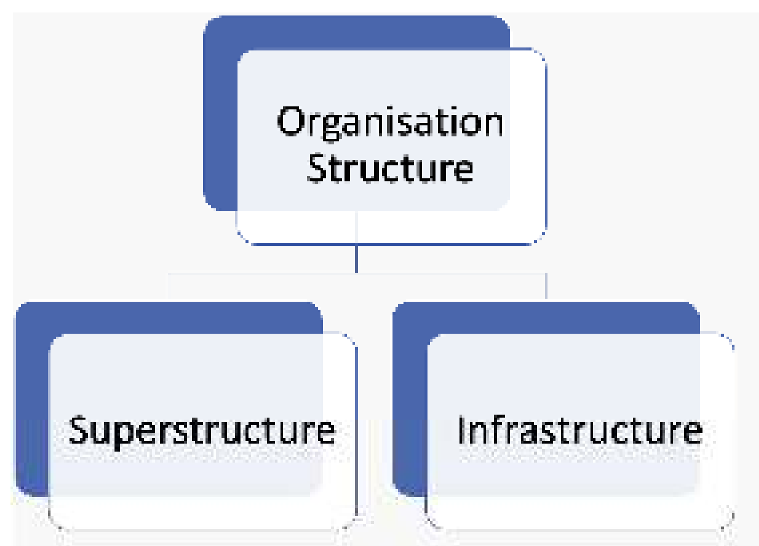



*Figure 1: Organisational Structure*

### Superstructure

This is the element of the organisational structure that is most readily seen. This shows how people are organised into various departments, divisions, and sectors and how they relate to one another. The organisational superstructure also outlines the key methods by which organisational processes are coordinated and integrated.

### *Infrastructure*

This section of the organisational structure is relatively less obvious. It is concerned with things like procedures, information systems, communication, specialisation, and delegation of authority. The company is able to carry out a variety of unrelated tasks while maintaining coordination thanks to the infrastructure.

## 12.2 Principles of Organisational Structure

The following are the principles of an effective organisation structure.

### Hierarchy

Who reports to whom and the scope of influence are determined by hierarchies. The number of employees who report to a supervisor is known as the span of control. It defines how closely a boss can watch on employees. Tall structures have a wide span and a complex hierarchy.

Communication between levels of the hierarchy becomes challenging. Flat structures have fewer levels in the hierarchy and are horizontally scattered. In order to improve coordination and communication, flat structures that allow for greater spans of control have been more popular recently.

### Chain of Command

The chain of command is a continuous line of authority that connects every individual in an organisation and identifies who is responsible for what. It is founded on two ideas.

According to unity of command, just one manager is responsible for each employee. The scalar principle refers to an organization's line of authority being clearly delineated. Each task's authority and duty should be clearly defined.

### Specialization

The degree of organisational task separation into distinct positions is known as specialisation, sometimes known as division of labour. If workers are allowed to specialise, work can be done more effectively. This is due to the fact that each department's employee exclusively handles duties associated with his or her specific job function.

Despite the apparent benefits of specialisation, a lot of firms are abandoning this idea. When employees are overly specialised, they are isolated and only perform one tedious task. Therefore, many businesses are expanding employment to offer higher difficulties or giving tasks to teams so that workers can switch between multiple tasks carried out by the team.

### Authority, Responsibility and Delegation

A manager's formal and legal ability to make decisions, give orders, allot resources, and enforce compliance is known as authority. Responsibility is the obligation to carry out the work or activity that has been delegated to an employee. Accountability refers to the requirement that persons in positions of power and authority report to and defend the results of their work to those in positions of authority above them.

In order to give managers, the most flexibility to satisfy customer requests and adapt to the environment, the majority of organisations nowadays urge managers to delegate responsibility to the lowest level practicable. Managers are urged to assign authority, even though they frequently find it challenging.

### Centralization and Decentralization

Centralization or decentralisation refers to the level at which decisions are made. Centralization is the practise of making decisions at the highest levels of an organisation. Decentralisation is the practise of an organisation in which decision-making is transferred to lower levels. While excessive centralization slows down replies and demotivates personnel at lower levels, it facilitates better coordination.

Senior managers' workloads are lessened by decentralisation, which also maximises the use of employees' skills, guarantees that decisions are made by informed people, and permits swift response to external changes. This does not, however, imply that all organisations should decentralise. Managers must evaluate the organisational environment to determine the proper level of decision-making.

### Formalization

The level of formalisation refers to how much written documentation is utilised to manage and direct staff. Rules, regulations, policies, processes, job descriptions, etc. are all included in written documentation. They are low-cost means of organising activities.

These documents provide descriptions of duties, responsibilities, and authority, which complement the organisational structure. The bureaucratic organisational paradigm includes the employment of rules and regulations.

**Strategy and organizational structure**

We organise the effort to implement the strategy using structure. Building a structure without a plan is equivalent to having a map but no place to go. Additionally, having a strategy but no structure leads to procedures that are unfocused and poorly scheduled, poor resource utilisation, and ineffective technology leveraging.

As the overarching managerial discipline, strategy offers a comprehensive overview of the most crucial internal and external aspects that an organisation must consider. An internal and external alignment of the organisation is facilitated by such an overview. Organisational action is governed by strategy.

## 12.3 Types of Organisational Structures

The structure of an organisation can help or hinder its progress towards achieving these aims. Organisations are set up in certain ways to achieve various goals. Both large and small businesses can increase their sales and other profits by correctly balancing their operational needs with their organisational structure.

### Simple structure

The owner-manager is in charge of everything in this arrangement and controls all decisions. For new and tiny organisations, this structure might be suitable. Task coordination is carried out under direct supervision. Task specialisation is minimal, there are few laws and norms, and communication is informal.

### Functional structure

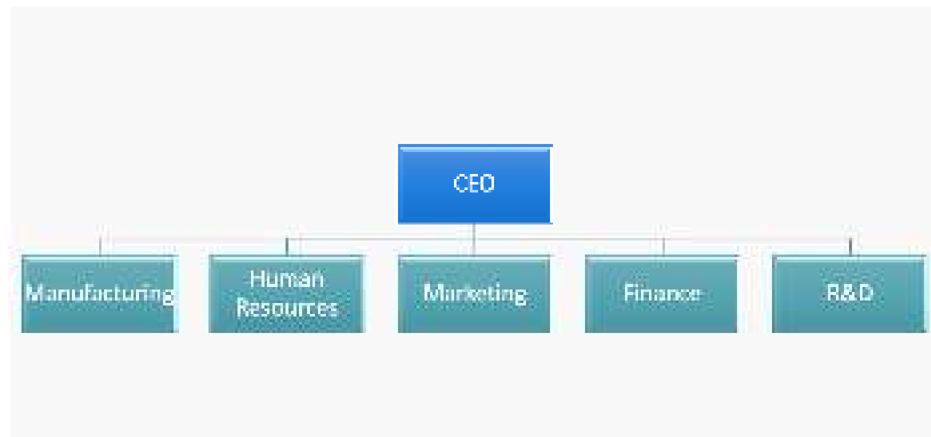



*Figure 2: Functional structure*

Based on the primary functions carried out, functional structures are categorised. A functional specialist is in charge of each function. In organisations with just one or many closely connected products or services, functional structures develop.

Each component of the organisation is organised into functional groups according to its purpose. A marketing department, a sales department, and a production department might exist in this kind of organisation. For small organisations where each department can rely on the skills and knowledge of its employees and support itself, the functional structure works quite well.

The organisational barriers created by having the various departments operate independently can, however, limit collaboration and communication between departments, which is one of the disadvantages of having a functional structure.

### Divisional structure

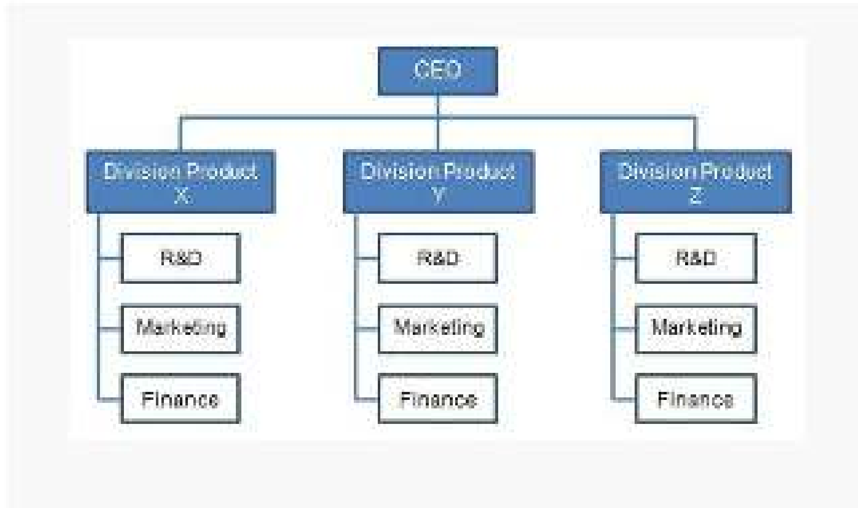



*Figure 3:Divisional Structure*

Diverse organisations make use of divisional structures. In a divisional organisation, divisions are established as independent entities with own functional departments. A division may be set up according to geography, products, clients, etc. The corporate headquarters sets corporate strategy, distributes resources to divisions, and names and rewards the divisional heads.

Larger businesses that operate across a big geographic area or that have separate smaller organisations inside the umbrella group to address various product kinds or market niches frequently utilise divisional structures. For instance, the now-defunct Tecumseh Products Company had divisions for each geographic area to serve particular demands, as well as divisions for small engines, compressors, parts, and other items.

Because each division can function fairly independently for the other divisions in the organisation, needs can be handled more quickly and precisely under this organisational structure. A divisional structure can, however, also be inconvenient because it prevents staff from collaborating across departments, which hinders communication.

### Matrix Structure

The matrix structure, which is frequently employed in major international corporations, enables functional and divisional structures to coexist advantageously in a single organisation. Because most departments inside the organisation will have dual management, with a functional manager working at the same level as a product or divisional manager and sharing some of the same managerial territory, this might lead to power disputes.

There are functional managers and product or project managers in this arrangement. Employees are subordinate to a project manager and one or more functional managers. A product group might seek to create a new product, for instance. Personnel from functional departments including finance, production, marketing, human resources, engineering, etc. are obtained for this project.

The structure of a matrix structure is depicted in Figure 4.

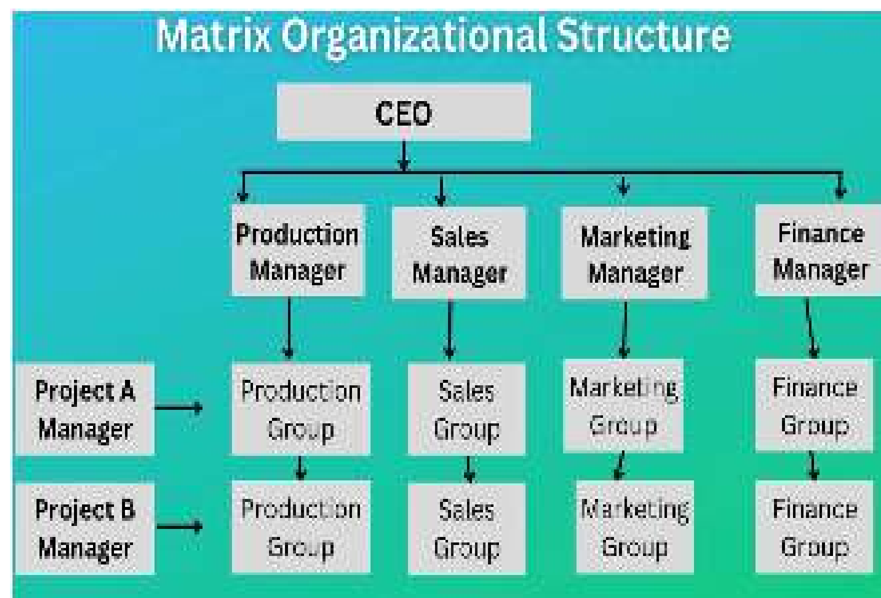



*Figure 4: Matrix Structure*

### Network Structure

A network company subcontracts or outsources many of its key operations to different businesses, and it manages and directs its operations from a modest headquarters. Activities like design, manufacturing, marketing, distribution, etc. are outsourced to several companies that are electronically connected to the central office rather than being situated under one roof.

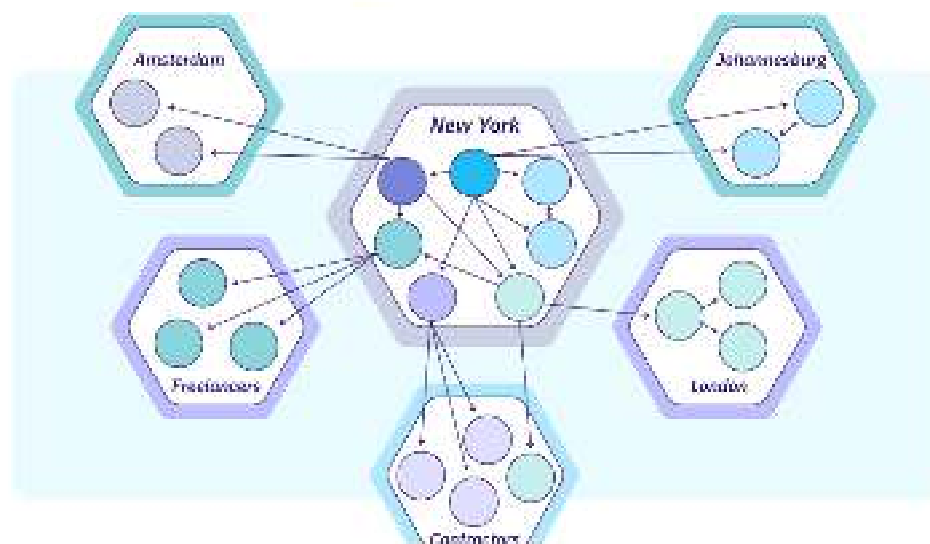



*Figure 5:Network Structure*

### Virtual Structure

In this strategy, autonomous entities form short-term partnerships to take advantage of certain possibilities, The virtual organisations are made up of a network of autonomous businesses that are linked together to share resources such as markets, costs, and rewards. These businesses could be suppliers, customers, or even rivals. Members of a virtual organisation pool and exchange one another's knowledge and expertise.

*Figure 6:Virtual Structure*

**Modular structure**

Individual modules (functions, teams, etc.) are given responsibility for coordination in modular organisations, and coherence is easily attained through interfaces that have been fully specified. This structural, hierarchical function-based decomposition results in the localization of environmental disturbance effects within specific modules, increasing the immunity and adaptability of the overall organisation in a turbulent environment.

## 12.4 Functional Strategies

Functional strategy is the method used by a functional area to maximise resource productivity and meet corporate and business unit objectives and plans. It focuses on creating and fostering a unique competence to give a corporation or business unit a competitive advantage.

Each business unit has its own set of departments, each with its own functional plan, just as a multi-divisional organisation has numerous business units, each with its own business strategy. Functional strategies are created by corporate and business strategies and are then implemented in the organisation through functional and operational execution.

This tactic alludes to single function operations and the associated tasks. This level of strategy is operational. At this level, choices are referred to as tactical choices. Functional strategy's primary goal is to achieve corporate and business level objectives in a particular functional area by efficiently allocating the available resources to increase profitability.

### Nature of Functional Strategies

Implementing functional strategies is crucial for corporate strategy. In actuality, how a corporate or business strategy is implemented at the functional level has a significant impact on how well it works. A company's long-term direction and scope are determined by its business strategy.

The company's competitive positioning within an industry is described in its business plan. The operational managers' likelihood of success is increased by the functional strategy's clarification of the business plan and provision of detailed short-term direction in the areas of operations, marketing, finance, HR, and R&D.

### Need for Functional Strategies

All organisational components put the strategic decisions into action. There is a foundation in place for managing operations in many functional areas of a business. Functional managers might spend less time making decisions.

The functional managers deal with similar circumstances that arise in many functional areas in a consistent manner. Where necessary, coordination between various functions is carried out.

Gareth R. Jones explains that "functional strategy is a plan of action to strengthen an organization's functional and organisational resources, as well as its coordination abilities, in order to create core competencies." Functional strategies are created by corporate and business strategies and are then implemented in the organisation through functional and operational execution.

This tactic alludes to single function operations and the associated tasks. This level of strategy is operational. At this level, choices are referred to as tactical choices. Functional strategy's primary goal is to achieve corporate and business level objectives in a particular functional area by efficiently allocating the available resources to increase profitability.

The fundamental goal of functional level strategies can only be achieved when all functional departments, including marketing, finance, human resources, operations, legal, supply chain, and information technology, collaborate in the same direction to address the business level objectives and thereby achieve the corporate level goals.

By carrying out short- and medium-term plans, each functional department fulfils its particular functional responsibilities while contributing to the achievement of overall corporate goals. For instance, when building a marketing strategy, the process would concentrate on choosing the target market and creating a plan that might meet the general requirements of the target clients.

The functions in human resource strategy may deal with hiring and choosing personnel, keeping them around, providing for their training and development, evaluating them, and paying them. Issues relating to finance, shares, debt financing, depreciation, etc. may be included in a financial plan.

The operational divisions are related to by the functional strategy, which connects them to the value chain and business processes. These strategies are necessary for higher-level strategies because they supply information for corporate- and business-level strategies. The functional units then translate the higher-level plans into the course of action plan, which each department is expected to fulfil in due time for the strategy's success.

A company with several units that are engaged in multiple businesses at once develops a business plan for each business, and each business with distinct sets of departments develops its own functional strategies for each department. For instance, if a company chooses to pursue a differentiation strategy, every activity carried out by each department must be directed solely towards achieving that goal.

The approach may be centered on offering individualised products, emphasising the production of product value, assessing high prices, and delivering new and improved products through research and development. Gaining a competitive edge and maximising resource productivity in terms of greater cost-effectiveness is the whole point of the creation of these strategies.

Each of the various business units that make up a corporation has its own set of departments and functions. Each business unit sets its own functional and business-level strategies. The company level strategy largely determines the functional strategy's orientation. If the unit adopts a cost leadership strategy at the business level, a set of functional strategies would be required to support that goal.

## 12.5 Functional Plans and Policies

Creating functional plans and policies follows a similar procedure to creating strategies, with the exception that functional heads are in charge of both their creation and execution. Each functional area's specific environmental factors will have an effect on the tactics that are selected.

Finally, a discussion between functional managers and business unit managers takes place during the actual decision-making process. As a result, functional strategies are typically developed in each of the major functional areas. A set of policies will need to be established for the appropriate business areas for each of the functional strategies.

The policies will guarantee that the strategies are implemented as planned and that the various functional areas are pursuing the same objectives. A functional strategy is a company's short-term game plan for a crucial functional area. It is a strategy used by a functional area to maximise resource productivity in order to accomplish corporate and business unit objectives and strategies.

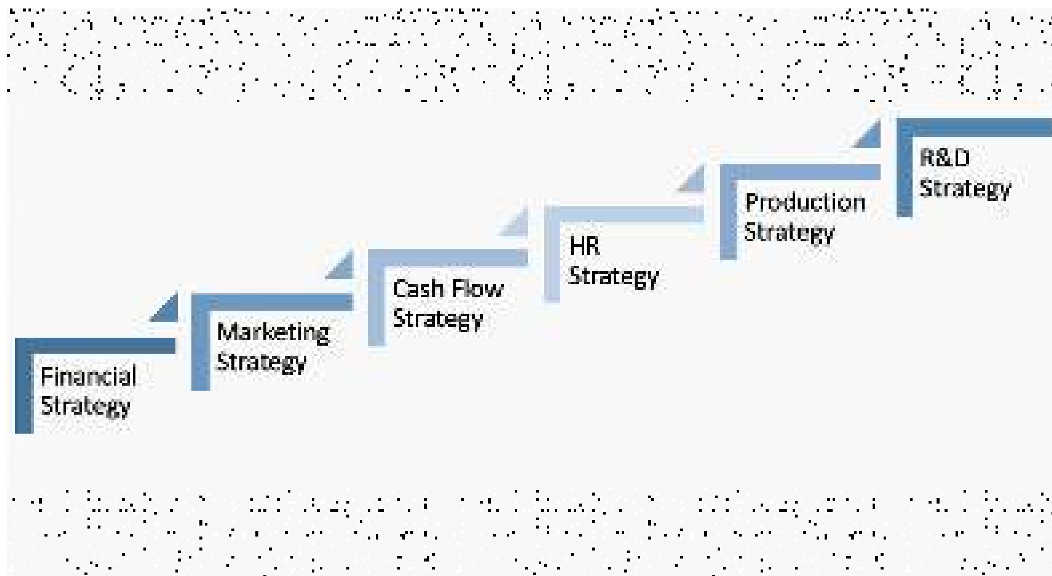
It deals with a comparatively constrained plan that outlines the goals for a particular function, allocates resources among various operations within that functional area, and makes it easier for those operations to coordinate so that they can best contribute to the achievement of the business's and the corporation's overall goals.

Nearly all significant aspects of a company are covered by plans and policies. The company should, at the very least, have core functional areas of each major business strategy. The functional strategies must be thorough, but they must also avoid giving operating managers too many options that might cause them to perform poorly or against their own interests.

The functional strategies should be adaptable enough to allow managers to act rapidly in emergency situations and provide exceptions as necessary. Functional strategies are created by corporate and business strategies and are then implemented in the organisation through functional and operational execution.

This tactic alludes to single function operations and the associated tasks. This level of strategy is operational. At this level, choices are referred to as tactical choices. Functional strategy's primary goal is to achieve corporate and business level objectives in a particular functional area by efficiently allocating the available resources to increase profitability.

## 12.6 Key Functional Strategies




### Financial Strategy

The strategy's main focus in the domain of financial management is the acquisition and use of funds. The sources from which the funding will come—equity or borrowing—represent significant difficulties. Which portion of the borrowing will be long-term and which portion will be short-term.

In terms of how money is used, policy choices would be made regarding whether and how much money needs to be invested in current and fixed assets. Decisions about long-term or capital investments affect whether to buy or rent fixed assets. Leasing rather than purchasing may be required by the firm due to a budget crunch or downsizing strategy.

Every area/section that falls under financial management is covered by financial strategy. Planning, acquiring, using, and controlling a corporation's financial resources are primarily the emphasis of the strategy. If we dive a bit deeper, a financial plan covers things like issuing or raising capital, buying assets, investing, setting budgets, managing working capital, using money, paying dividends, etc.

Cash flow is one factor in financial strategy that affects other functional areas in addition to capital planning. Based on cash flow, a corporation may design its bonus and dividend programmes. A corporation may lower bonus and dividend if it proposes expansion using internally produced capital. This is especially true if it has developed ambitious expansion objectives that demand significant financial resources.

Similar to this, if the company engages in high-risk activity, it should maintain a conservative debt-to-equity ratio to protect itself against a large interest burden. The accounts receivable and payable policies are also influenced by top management's financial situation and optimisation attitude. Accounting policies may even be determined by financial strategies and policies since these have an impact on profitability, balance sheets, and therefore cash flow through taxes, dividends, bonuses, etc.

## Marketing Strategy

For marketing mix decisions, sometimes known as the four Ps of marketing (Product design, Product distribution, Pricing, and Promotion), functional marketing strategies are needed. In terms of particular, product decisions include things like product diversity (form, size, model, etc.), quality standards, product introductions and withdrawals, client demographics, etc.

By generating leads, nurturing them, and turning them into customers, marketing assists companies in raising consumer awareness of their goods. It continues to market the product and interact with customers in order to increase sales in the future. Many things need to be considered;

*Are specific regulations needed for merchants or direct selling as distribution channels?*

*What would the distribution network's spread be?*

*Whether existing dealers will grow or whether new ones will be established?*

The promotion tactics will be based on the type (corporate, product, or brand promotion), coverage, and form of promotion.

## HR Strategy

HR planning, recruiting and selection, training and development, compensation management, performance management, rewards and incentives, and other issues are covered by HR strategy.

Every facet of an organization's human resource strategy relates to the workforce of that organisation. Any HR department's main job is to support staff development and provide them with favourable working circumstances and career possibilities so they can support organisational objectives. HR also deals with hiring, training, motivating, developing, and keeping personnel.

What compensation/reward system would be able to entice the right kind of employees to join the company and fulfil the tasks that the plan demands? What methods are required to train internal candidates for new positions?

In the context of turnaround strategies, the issue worsens. One the one hand, the company has trouble finding qualified replacements when the most qualified employees depart. On the other side, it struggles with the issue of too many employees. Although painful, HR retrenchment methods are essential yet challenging to establish.

## Production Strategy

Production functions require strategies for quality control, equipment utilisation, facility location, line balance, production scheduling, and materials management. A distinct strategy for product quality and upkeep will be required for accessing the export market. The proximity of a facility to a market or an input supply point may influence its location.

Depending on the cost difference, availability, necessity of the item, criticality of the item, and capacity if expansion becomes necessary, decisions must be taken regarding whether and how much to create or acquire. Policies addressing the number of suppliers and the selection criteria for them are required in the case of purchased items.

Everything pertaining to the production process is managed by a production plan. The production system, supply chain management, logistics, and operational planning and control are all part of this process. A production strategy's main goal is to

**Example:** Quality -The quality of the production process is improving.

Delivery - Reducing time wasted.

Efficiency minimizing - controlling delays in the production process.

### R&D Strategy

Functional strategies defining the nature of research are required in the field of research and development. The importance of basic and applied research must be heavily emphasised in cases of expansion through new product creation.

## Summary


- An organisational structure is a framework that describes how certain tasks are managed to accomplish a strategic goal.
- Who reports to whom and the scope of influence are determined by hierarchies.
- Each component of the organisation is organised into functional groups according to its purpose.
- Diverse organisations make use of divisional structures. In a divisional organisation, divisions are established as independent entities with own functional departments.
- The matrix structure, which is frequently employed in major international corporations, enables functional and divisional structures to coexist advantageously in a single organisation.
- A network company subcontracts or outsources many of its key operations to different businesses, and it manages and directs its operations from a modest headquarters.


- A network company subcontracts or outsources many of its key operations to different businesses, and it manages and directs its operations from a modest headquarters.


- Functional strategy is the method used by a functional area to maximise resource productivity and meet corporate and business unit objectives and plans.
- Creating functional plans and policies follows a similar procedure to creating strategies, with the exception that functional heads are in charge of both their creation and execution.


## Keywords

***Chain of command:*** This is a continuous line of authority that connects every individual in an organisation and identifies who is responsible for what.

***Specialization:*** The degree of organisational task separation into distinct positions is known as specialization.

***Authority:*** A manager's formal and legal ability to make decisions, give orders, allot resources, and enforce compliance is known as authority.

***Responsibility:*** This is the obligation to carry out the work or activity that has been delegated to an employee.

***Accountability:*** This refers to the requirement that persons in positions of power and authority report to and defend the results of their work to those in positions of authority above them.

***Centralization:*** This is the practise of making decisions at the highest levels of an organisation.

***Decentralisation:*** This is the practise of an organisation in which decision-making is transferred to lower levels.

***Formalisation:*** This refers to how much written documentation is utilised to manage and direct staff.

## Self Assessment

1. The __________ is a continuous line of authority that connects every individual in an organisation and identifies who is responsible for what.

A. Hierarchies
B. Chain of command
C. Authority
D. Accountability

2. The degree of organisational task separation into distinct positions is known as _____________.

A. Strategy
B. Formalisation
C. Specialization
D. Delegation

3. Who reports to whom and the scope of influence are determined by ______.

A. Hierarchies
B. Chain of command
C. Authorities
D. Accountability

4. ____________ is the obligation to carry out the work or activity that has been delegated to an employee.

A. Responsibility
B. Accountability
C. Authority
D. None of the above

5. A manager's formal and legal ability to make decisions, give orders, allot resources, and enforce compliance is known as _________.

A. Responsibility
B. Accountability
C. Authority
D. None of the above

6. ________ is the practise of an organisation in which decision-making is transferred to lower levels.

7. The _________structure, which is frequently employed in major international corporations, enables functional and divisional structures to coexist advantageously in a single organisation.

8. The level of ____________ refers to how much written documentation is utilised to manage and direct staff.

9. A lengthy and intricate hierarchy of superiors and inferiors is characteristic of the military's highly ___________ organisational structure.

10. Organisational structure consists of the collection of official _______ delegated to people and organisations.

11. The proximity of a facility to a market or an input supply point may influence its location.

A. True

B. False

12. Production functions require strategies for quality control, equipment utilisation.

A. True

B. False

13. HR planning, recruiting and selection, training and development, compensation management, performance management, rewards and incentives, and other issues are covered by the 'Finance Strategy'.

A. True

B. False

14. A 'modular' company subcontracts or outsources many of its key operations to different businesses.

A. True

B. False

15. Diverse organisations make use of divisional structures.

A. True

B. False

## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | B | 2. | C | 3. | A | 4. | A | 5. | C |
| 6. | Decentralisation | 7. | Matrix | 8. | Formalisation | 9. | Centralised | 10. | Responsibilities |
| 11. | A | 12. | A | 13. | B | 14. | B | 15. | A |

## Review Questions

1. State the meaning of strategy and explain its nature and components?
2. Explain basic principles of organisational structure.
3. Describe the relationship between strategy and structure.
4. What are the different types of organisational structures?
5. What are functional strategies? Outline their nature and their importance?
6. What are the key functional strategies? Explain them with help of relevant examples?

## Further Readings

Strategic Management and Business Policy by Azhar Kazmi, Mc Graw Hill.
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# Unit 13: Evaluation and Control

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## Objectives

After studying this unit, you will be able to,

- describe the nature of strategic evaluation.
- describe the importance and barriers in strategic evaluation.
- understand the nature of strategic control.
- describe the types of strategic control.
- understand the process of strategic control.
- describe the techniques of strategic control.

## Introduction

The last stage of the strategic management process is strategic evaluation and control. To make sure the strategy is accomplishing the goals and objectives established for the strategy is its primary goal. It makes a comparison between performance and the anticipated outcomes and offers the feedback required for management to make adjustments.

One of the most important elements in the process, strategic evaluation is the process by which management determines whether a given strategy has been successfully implemented and is successful or not is known as strategy evaluation. Simply expressed, strategy evaluation comprises assessing the method used to implement the plan and determining how well the strategy is working.

The required corrective actions should be identified and put into place if the strategy's execution is not going as expected, say because of strategy limits that are preventing the attainment of organisational goals. The strategy is improved by evaluation, which also helps to identify what works and what doesn't. Evaluation also contributes to the strategy's continuing evolution and adaptation to the industry's complicated conditions and changing situations.

## 13.1 Strategic Evaluation

The two levels of strategy evaluation are operational and strategic. The attention is placed on the strategy's compatibility with the environment at the strategic level, and the effectiveness with which the organisation is implementing the strategy is evaluated at the operational level.

Strategists can ensure that the through the process of strategy evaluation,

- The assumptions stated when developing a strategy are accurate.
- The organization's strategy directs it towards achieving its goals.
- Managers are acting as they should to successfully implement the strategy.
- The business is operating efficiently, sticking to its plans, and making good use of its resources.
- Whether or not the approach needs to be reformulated

Three fundamental tasks are included in strategy evaluation. Analysing the fundamental principles underlying a company's strategy, contrasting anticipated and actual outcomes and implementing corrective measures to ensure performance is in line with expectations.

### Nature of Strategic Evaluation

Creating a plan that will aid an organisation in achieving its stated goals and objectives is the responsibility of strategists in organisations. A system must exist to determine whether the strategy is effective in achieving the goals established by the organisation.

Strategic evaluation is used to evaluate strategies and is essential to the organisation. Without strategic evaluation, the organisation will be unable to assess the success of the adopted plan.

### Process of Strategic Evaluation

The steps that make up the strategy evaluation process are as follows: -

*Setting performance benchmarks*

When setting performance benchmarks, strategists must decide what standards to set, how to create them, and how to represent them. It is crucial to learn about the unique criteria for carrying out the primary work in order to establish the benchmark performance to be used.

It may then be decided which performance indicator will be utilised for evaluation and which one will best identify and convey the particular requirements. The organisation can evaluate performance using both quantitative and qualitative factors. Calculating net profit, ROI, earnings per share, production costs, employee turnover rates, and other quantitative metrics are among the quantitative criteria. Subjective evaluation of elements like talents and competencies, for example, is one of the qualitative factors.

### Performance Measurement

The benchmark performance serves as a basis for comparison with the real performance. 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 influence of managers, are challenging to quantify.

Similar to individual performance, divisional performance can also be challenging to gauge. As a result, flexible goals must be developed in order to assess performance. The evaluation will not serve its goal if the measurement is not performed at the appropriate time. Financial statements like the balance sheet and profit and loss account must be created annually in order to measure performance.

*Analysing Variance*

Variances may be present while evaluating the real performance in comparison to the benchmark performance. The degree of tolerance limitations between which the difference between actual and expected performance may be acceptable must be mentioned by the strategists.

Positive deviation denotes higher performance, but consistently exceeding the target is highly exceptional. Because it shows a performance gap, the negative deviation is a cause for concern. Therefore, in this scenario, the strategists must identify the root causes of deviation and implement corrective measures to eliminate them.

### *Taking Corrective Action*

It is crucial to design a corrective action as soon as the performance deviation is recognised. If the performance consistently falls short of the desired performance, the strategists must do a thorough investigation of the contributing variables.

The standards must be decreased if the strategists find that organisational potential does not fulfil performance needs. Reformulating the strategy is another uncommon and harsh corrective measure 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' starting point.

## Importance of Strategic Evaluation

The evaluation phase of a strategy helps ensure that the organisation will achieve its goals as a result of the application of that plan. It would be challenging to determine if the implemented strategy is having the expected effect without this phase in the strategy management process. Additionally, plan evaluation is beneficial.

It assists to verify that the organization's strategic decisions are sound and determine whether the choices made throughout the strategy implementation stage adhere to the requirements of the strategy as planned. It also gives the strategists knowledge and experience that can be used to reformulate or create new strategies. Furthermore, it exposes the problems brought on by internal and external environment changes, take measures, and refrain from making poor decisions.

### Performance Measurement

The organisation receives a set of qualitative and quantitative criteria from the strategic evaluation process to use in evaluating the performance of both its employees and the organisation as a whole. The quantitative criteria comprise more hard variables like the return on equity, ROI, profitability, etc. while the qualitative criteria contain more soft factors like skills, competencies, and flexibility.

### Analysis

The regular practise of "strategic evaluation" enables the organisation to assess the effectiveness of the established plan and to make any necessary adjustments. If there is a positive difference between performance and the standard, the strategy is functioning and the organisation should keep doing what it is doing. If there is a negative difference, the strategy is flawed and changes need to be made.

### Corrective Actions

The organisation can address the areas that the strategic review identifies as weak areas. For instance, if it turns out that the employees' lack of skills is a significant barrier preventing the strategy from achieving its goals, the business can start a big training programme.

### Re-assessment of Goals

The organization's aims and objectives may be questioned as a result of the examination of the organization's performance. For instance, poor team support, changes in market dynamics, or incorrect strategy definition could all contribute to a team's failure to successfully implement a strategy.

### Threat Alert

The organisation is also made future-ready via strategic evaluation. It detects concerns and problems early on so that the organisation may take action to address them right away before they grow too large to handle.

## Challenges of Strategic Evaluation

There may be some reasons behind failure of strategic evaluation.

### *Having a plan simply for plans sake*

Some organizations go through the motions of developing a plan simply because common sense says every good organization must have a plan. Don't do this. Just like most everything in life, you get out of a plan what you put in. If you're going to take the time to do it, do it right.

### *Not understanding the environment or focusing on results*

Planning teams must pay attention to changes in the business environment, set meaningful priorities, and understand the need to pursue results.

### *Partial commitment*

Business owners/CEOs/presidents must be fully committed and fully understand how a strategic plan can improve their enterprise. Without this knowledge, it's tough to stay committed to the process.

### *Not involving the appropriate parties*

The people responsible for carrying out the strategy should be involved from the beginning. The plan's creators will be dedicated to seeing it through to completion.

The incapacity or unwillingness to change. Your business and your strategy plan must be adaptable and quick to respond to shifting market conditions.

### *Selecting the incorrect individuals for leadership roles*

To make sure the appropriate people are in the right leadership positions, management must be prepared to make the difficult decisions. The "right" people are those who will promote and support the strategic plan and keep the business on course.

### *Ignoring assumptions, facts, and market reality*

When it comes to market realities, don't stick your head in the sand, and don't ignore possible issues just because they haven't yet had a direct impact on your company. If you have a plan, you'll be prepared for the incoming tide.

### *There is no responsibility or action*

Once the strategy has been defined and resources have been committed, be firm and make sure there are penalties for failing to execute the plan.

### *Unrealistic objectives or a lack of resources and concentration.*

Strategic plans need to have a clear focus and a manageable number of objectives, targets, and programmes. Better than many and hazy is fewer and concentrated. Be prepared to allocate enough resources as well in order to achieve the plan's aims and objectives.

## 13.2 Strategic Control

A technique for managing a strategic plan's execution is called strategic control. It is regarded as special in the management process since it can handle the ambiguous and unknown while monitoring the implementation of a strategy and the consequences that follow. To put it another way, strategic control is a way to develop new ways to carry out a strategy by adjusting to shifting internal and external elements.

At both the strategic and operational levels, many control systems are employed for this goal. The process of evaluating a given strategy's success in reaching organisational goals and implementing appropriate corrective action as needed is referred to as strategic control.

Monitoring the strategy once it has been put into practise within the organisation is the subject of strategic control. This entails evaluating the approach and making any necessary adjustments or resolving any issues discovered during its execution. The phrase "steering control" was used by the authors Newman and Logan to highlight a few crucial components of strategic control.

The initial implementation of the approach and the final outcome typically take a long time. While waiting for the plan to be fully implemented, the organisation makes significant time, project, and capital commitments. Events in the organization's external environment have an impact on the strategy as well. To navigate through this situation, the organisation needs steering control.

Therefore, strategic control gives the organisation the capacity to track the implementation of the strategy's progress, spot any problems, and make the required adjustments. A crucial role in this is played by the analysis of the implementation-related data. Data is gathered and then compared to predetermined standards in order to identify any significant performance deviations. To enable the business to take rational actions as a result of the data analysis, a sizable volume of data must be collected for this purpose.

## Nature of Strategic Control

Strategic control entails the following: Monitoring a strategy's execution, spotting issues or modifications to its underlying assumptions and making the appropriate corrections. Strategic control, as opposed to post-action control, aims to direct action on behalf of the plans both as they are being implemented and when the final outcome is still years away.

Strategic control systems thus offer a framework for tracking, evaluating or reorienting the functioning of the firm's strategy.

**Types of General Control**

There are two types of general control;

### Input Control

The number of resources, such as employee knowledge, skills, and talents, to be used in performance is specified by input controls. These controls work best when the output is challenging to measure.

### Behaviour Control

Behaviour controls outline the proper course of action. Policies, regulations, standard operating procedures, and directives from superiors are used to exercise this control. When performance results are difficult to measure, these controls are the most suitable.

Rules create consistency in behaviour and predictability in results. If personnel obey the rules, actions are carried out and decisions are handled consistently. All control systems strive for predictability and precision as a result.

The main mechanisms of behaviour control are:

*Figure 1: Main mechanisms of behaviour control*

### Operating budget

A company's expected future revenue and expenses are projected in great detail in an operating budget. Near the conclusion of the year, businesses typically create an operating budget to show expected activity the following year.

***Standard operating practices***

A standard operating procedure (SOP) is a set of detailed instructions created by a company to aid employees in doing common tasks. SOPs seek to minimise misunderstandings and failure to adhere to industry laws while increasing effectiveness, high-quality output, and consistency of performance.

### *Rules and Procedures*

A procedure is a step-by-step process that provides information on the order to arrive at the final goal. A rule is a hard statement that delivers particular information to everyone.

### Output Control

Output controls outline what is to be done by concentrating on the final outcome. Setting goals, benchmarks, or milestones for each division, department, area, and executive is done through performance monitoring.

When precise output metrics have not been decided upon, these controls are applicable. Rewards and incentives are frequently tied to performance objectives.

## Types of Strategic Control

There are different types of strategic control.

### *Premise Control*

Strategy is built around several assumptions or predictions, which are called planning premises.

### *Industry Factors*

Industry factors also affect the performance of a company. Competitors, suppliers, buyers, substitutes, new entrants etc. are some of the industry factors about which assumptions are made.

### *Strategic Surveillance*

This is a broad-based vigilance activity in all daily operations both inside and outside the organisation.

### *Special Alert Control*

Sudden, unexpected events can drastically alter the course of the firm’s strategy.

*Figure 2: Business Strategy Analysis*

**Case Study**: Tesla Company – Business Strategy Analysis

In 2003, Silicon Valley saw the founding of Tesla Inc. The automobile industry is a corporate business. The company was formed by Martin Eberhard and Marc Tarpenning to produce electric vehicles that are friendly to the environment.

Tesla's main objective was to promote sustainability in transportation by providing electric vehicles with zero emissions. The organisational structure, leadership, staff, as well as other organisational structures and procedures, will have the greatest impact on how well the strategy is implemented.

As a result, Tesla Motors must decide which organisational priorities should be translated into operational level objectives. According to Elon Musk, co-founder and

CEO of Tesla Motors, the grand plan is to: produce sports cars, use the money to construct inexpensive cars, use the money to build even more affordable cars and provide zero emission electric power generating alternatives while doing so.

Elon Musk, the CEO of the company, claims in the company overview that their goal when they launched Tesla a decade ago was the same as it is today: To hasten the world's transition to electric transportation by bringing to market a broad range of progressively affordable electric vehicles.

Managers must make sure that the used method is sufficiently analysed and regularly checked in this regard. The evaluation can be done by comparing this year's performance to last year's or by competing with competitors.

https://vestedfinance.com/in/blog/tesla-strategy-analysis/

## 13.3 Techniques of Strategic Control

There are different techniques of strategic control.

### Management Information systems

The study of people, technology, organisations, and their relationships is known as management information systems (MIS). MIS specialists assist businesses in getting the most out of their investments in people, technology, and operational procedures. MIS is a people-focused industry with a focus on providing services using technology.

### Benchmarking

It is a comparative strategy where a company looks for the best practises in a certain area and then makes an effort to align its own performance with the best practise. The benchmarks that a company should use as its guidelines for exercising operational control are known as best practises.

Benchmarking
Performance can be continuously assessed using this method until it achieves the best practise level. A company must surpass the standards in order to succeed. In this way, benchmarking gives businesses a concrete way to assess performance.

#### Types of Benchmarking

**Internal benchmarks** quantify and contrast several aspects of your own company. Internal benchmarking includes things like comparing your revenues this quarter to the same period last year.

**External benchmarking** contrasts elements of your company with norms outside of it. An instance of external benchmarking is comparing your current quarter's sales to those of a competitor.

#### E-commerce

Benchmarks are frequently used by e-commerce websites to produce useful metrics like average cost per conversion. E-commerce sites can identify which aspects of their operations are doing well and which aren't by comparing their performance to both their own historical data and that of competitors in the market.

These websites may employ benchmarks to evaluate the performance of specific product categories and forecast seasonal sales patterns. They also review their target markets based on customer information and analytics data.

### Balanced Scorecard

The balanced scorecard is a management technique designed to convert an organization's strategic goals into a list of organisational performance objectives. These objectives are then assessed, followed up on, and modified as needed to make sure the strategic goals are achieved.

#### Components of the balanced scorecard

*Figure 3: Components of the balanced scorecard*

### *Financial Component*

A company's objective from a financial standpoint is to make sure that it generates a return on its investments and controls major risks associated with operating a business. By meeting the demands of all parties engaged in the firm, including shareholders, clients, and suppliers, the objectives can be accomplished.

### *Customer Component*

The viewpoint of the customer keeps track of how the corporation gives value to its clients and assesses the degree of client satisfaction with the company's goods or services. The level of customer happiness reflects the performance of the business. A company's profitability can be impacted by how well it treats its consumers.

### *Internal Business Process Component*

How efficiently an organisation operates is determined by its internal procedures. A balanced scorecard puts into perspective the metrics and goals that can improve the efficiency of the company.

Additionally, the scorecard aids in assessing the company's goods and services to see if they meet client expectations. This viewpoint places a strong emphasis on attempting to respond to the question, "What are we good at?"

### *Organisation Capacity Component*

The ability of the organisation plays a key role in optimising goals and objectives and producing positive outcomes. The employees in the various departments of the organisation must exhibit good performance in terms of leadership, the culture of the organisation, application of knowledge, and skill sets.

## Process of a Balanced Scorecard

The following is the process of designing a balanced scorecard.

### *Define your strategic goals and themes in step one*

The first stage is to determine and rank your strategic goals and themes, which should reflect your vision and mission. These are the key objectives for each of the four perspectives that you want to accomplish. Your financial goals can, for instance, be to boost profitability while cutting costs and boosting revenue.

Increasing satisfaction, loyalty, and retention of your customers may be among your customer objectives. Increasing quality, effectiveness, and innovation may be among your internal process goals. Developing skills, talents, and culture may be among your learning and growth goals.

***Create your performance metrics and objectives***

The next step is to create your performance indicators and targets, which will be used to track your accomplishment of your strategic goals. You will utilise these particular, quantifiable, and time-limited measures to keep track of and assess your performance. Your financial metrics, for instance, can include revenue expansion, cost cutting, and return on investment.

The level of customer happiness, the retention rate, and the net promoter score are possible consumer indicators. You may use the defect rate, cycle duration, and innovation index as internal process indicators. The level of competency, turnover rate, and employee engagement are possible learning and growth metrics.

***Designing your strategic initiatives and action plans***

Design strategic initiatives and action plans that support and facilitate your strategic objectives is the third step. You will put these plans into action to raise your performance and bridge the gaps between your present situation and your ideal condition. Your financial initiatives, for instance, can involve rolling out new goods, expanding into new areas, and improving your pricing tactics.

Offering loyalty programmes, enhancing the calibre of your services, and setting up avenues for consumer feedback are a few examples of customer initiatives. Adopting best practises, optimising workflows, and promoting an innovative culture can be some of your internal process initiatives. Offering training, coaching, and mentoring as well as improving talent management are some examples of learning and growth activities.

***Align your business with available resources***

Aligning your organisation and resources with your balanced scorecard is the fourth phase. This entails ensuring that your organization's structure, culture, and systems support and reinforce your strategy as well as the alignment and integration of your people, processes, and technology.

To meet your strategy themes and objectives, for instance, you might need to reorganise your teams, roles, and responsibilities. To inspire and empower your personnel, you might need to make changes to your incentives, rewards, and recognition programmes. To support data-driven and agile management, you might need to modernise your information, communication, and decision-making technologies.

### Key Factor Rating

It is an approach that considers important elements in a number of areas before attempting to gauge performance using them. This approach is highly thorough because it considers all aspects of an organization's performance.

A key factor is described as an element in an undertaking's activities that, at a certain moment in time or over time, will limit the output volume. Other synonyms are scarcity factor, principal budget factor, and limiting factor. Both internal and external forces might operate as limiting constraints.

This approach takes into account the important elements influencing how an organisation function. The essential factors' information is often gathered via a series of meetings, debates, and surveys. A detailed examination of the responses in each functional area is being done in order to rank the important variables.

## Management by Objectives

The goal of the strategic management paradigm known as "management by objectives" (MBO) is to increase an organization's performance by establishing goals that both management and people can support. According to the principle, giving employees a voice in goal development and action plans promotes employee engagement and participation while also coordinating organisational goals.

A manager and employee agree on precise performance goals, and then a strategy is created to help them be achieved. This approach is known as management by objectives (MBO). It is intended to improve staff engagement and commitment while bringing organisational goals into alignment.

MBO calls for constant two-way communication to track progress towards goals. This presents several opportunities to make any uncertainties regarding individual duties and expectations clear and, if necessary, to revise goals.

### Procedure for Management by Objectives

The following are the steps of management by objectives.

#### *Establish the organization's aims*

Setting goals serves a number of functions in addition to being essential to any company's success. When defining goals, it must involve numerous different kinds of managers. The supervisors' goals are tentative and are based on their interpretation and assessment of what the business can and should accomplish in a given amount of time.

#### *Specify the goals of the staff*

The managers can begin working with their subordinates on creating their own objectives once they have given the staff a briefing on the overall objectives, plan, and techniques to be used. In a one-on-one conversation, the employees will inform the managers of their objectives, the goals they can achieve within a certain time frame, and the resources they will need to do so. They might then discuss which objectives the organisation or department would find realistic in a preliminary manner.

#### *Ongoing evaluation of results and development*

Although the management by objectives approach is crucial for boosting managers' effectiveness, it is also crucial for tracking the development and performance of every person within the company.

#### *Performance assessment*

The MBO framework calls for the involvement of the relevant management to carry out the performance review.

#### *Offering suggestions*

The continual feedback on results and targets is the most crucial phase in the management by objectives approach since it allows employees to monitor and adjust their actions. Regular formal evaluation sessions, where superiors and subordinates can discuss progress towards goals and receive further feedback, are held in addition to the continuing input.

#### *Performance evaluation*

Within MBO organisations, performance reviews are a common way to assess an employee's performance.

### Benefits of Objective-Based Management

Employees who are managed by targets are more appreciative of their tasks and duties at work. Each employee's Key Results Areas (KRAs) are tailored to them based on their interests, educational background, and areas of expertise. The MBO strategy typically produces better communication and teamwork.

The expectations for the staff are made very plain to them. Every team member has goals set for them by their managers, and each employee is given a list of specific duties to do. Each employee is given certain objectives. As a result, each employee starts to feel indispensable to the company, which leads to a sense of loyalty.

## Network Techniques

For the operational controls of scheduling and resource allocation in projects, network techniques like the Critical Path Method (CPM), Programme Evaluation and Review Technique (PERT), and their variants are widely employed.

Network approaches are transformed into extremely efficient operational controls for project costs and performance when used as a cost accounting system.

## Summary


- The last stage of the strategic management process is strategic evaluation and control.
- It makes a comparison between performance and the anticipated outcomes and offers the feedback required for management to make adjustments.
- The two levels of strategy evaluation are operational and strategic.
- The evaluation phase of a strategy helps ensure that the organisation will achieve its goals as a result of the application of that plan.
- Strategic control entails the following: Monitoring a strategy's execution, spotting issues or modifications to its underlying assumptions and making the appropriate corrections.
- Internal benchmarks quantify and contrast several aspects of your own company. Internal benchmarking includes things like comparing your revenues this quarter to the same period last year.
- External benchmarking contrasts elements of your company with norms outside of it. An instance of external benchmarking is comparing your current quarter's sales to those of a competitor.


## Keywords

***Strategic control:*** A technique for managing a strategic plan's execution.

***Operating budget:*** A company's expected future revenue and expenses are projected in great detail in an operating budget.

***Standard operating procedure (SOP):*** It is a set of detailed instructions created by a company to aid employees in doing common tasks.

***Management Information systems:*** The study of people, technology, organisations, and their relationships is known as management information systems.

**Balanced scorecard:** This is a management technique designed to convert an organization's strategic goals into a list of organisational performance objectives.

***Key Factor Rating:*** It is an approach that considers important elements in a number of areas before attempting to gauge performance using them. This approach is highly thorough because it considers all aspects of an organization's performance.

***Management by Objectives:*** The goal of the strategic management paradigm known as "management by objectives" (MBO) is to increase an organization's performance by establishing goals that both management and people can support.

## Self Assessment

1. A company's expected future revenue and expenses are projected in great detail in an operating ________.

A. Statement

B. Document

C. Balance sheet

D. Budget

2. The number of resources, such as employee knowledge, skills, and talents, to be used in performance is specified by ________ controls.

A. External

B. Internal

C. Input
D. Output

3. A __________ is a step-by-step process that provides information on the order to arrive at the final goal.

A. Rule
B. Procedure
C. SOP
D. Operation

4. The study of people, technology, organisations, and their relationships is known as:

A. MSI
B. MIS
C. Benchmarking
D. Managing

5. The _______ performance serves as a basis for comparison with the real performance.

A. Actual
B. Recorded
C. Benchmark
D. None of the above

6. MBO calls for constant ________ communication to track progress towards goals.

7. __________ benchmarking includes things like comparing your revenues this quarter to the same period last year.

8. _______ is described as an element in an undertaking's activities that, at a certain moment in time or over time, will limit the output volume.

9. According to the _________ principle, giving employees a voice in goal development and action plans promotes employee engagement and participation

10. The two levels of strategy evaluation are operational and _______.

11. A standard operating procedure (SOP) is a set of detailed instructions created by a company to aid employees in doing common tasks.

A. True

B. False

12. An instance of external benchmarking is comparing your current quarter's sales to those of a competitor.

A. True

B. False

13. The last stage of the strategic management process is strategic implementation.

A. True

B. False

14. Each employee's Key Results Areas (KRAs) are tailored to them based on their boss's parameters.

A. True

B. False

15. Input controls, in strategic control, outline the proper course of action.

A. True

B. False

## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | D | 2. | C | 3. | B | 4. | B | 5. | C |
| 6. | Two-Way | 7. | Internal | 8. | Key Factor | 9. | MBO | 10. | Strategic |
| 11. | A | 12. | A | 13. | B | 14. | B | 15. | B |

## Review Questions

1. State the meaning of strategic evaluation?
2. What is the importance of strategic evaluation and what are its barriers?
3. Outline the nature of strategic control and describe its types?
4. Outline the process of strategic control?
5. Describe the techniques of strategic control in detail?
6. What is management by objectives? What is its process?

## Further Readings

Strategic Management and Business Policy by Azhar Kazmi, Mc Graw Hill. Strategic Management Concepts: A Competitive Advantage Approach by Fred R. David, Purva Kansal and Forest R David, Pearson.

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***Strategic management***

https://www.etcases.com/case-categories/strategic-management-case-studies.html

# Unit 14: Strategic Issues

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## Objectives

After studying this unit, you will be able to,

- outline the elements and importance of corporate governance.
- describe the structure of corporate governance.
- understand the principles of corporate governance.
- describe the concept of sustainability in strategy.

## Introduction

Corporate governance, which consists of rules, practises, regulations, policies, and procedures, is an organization's operating system. These regulations govern businesses. Corporate governance underpins how an organisation operates and does business.

Corporate governance refers to the set of guidelines, customs, and procedures that regulate and control a business. Corporate governance generally entails striking a balance between the needs of all of a company's various stakeholders, including shareholders, senior management, clients, suppliers, financiers, the government, and the local community.

Corporate governance, which includes almost every aspect of management from action plans and internal controls to performance assessment and corporate transparency, serves as the framework for achieving a company's goals.

## 14.1 Corporate Governance

Specific rules, regulations, policies, and resolutions put in place to guide business behaviour are referred to as the governance framework. In governance, a board of directors is essential. Shareholders and proxy advisors are significant stakeholders with influence over governance.

An important aspect of community and investor relations is communicating a company's corporate governance. For instance, the board of directors and management team of Apple Inc. are described

on the company's investor relations website. It offers information on corporate governance, such as committee charters and governance papers including bylaws, guidelines for stock ownership, and articles of incorporation.

The majority of businesses aim for excellent corporate governance. Simply being profitable is not sufficient for many shareholders. Additionally, it must exhibit excellent corporate citizenship by a commitment to the environment, moral conduct, and effective corporate governance.

## Elements of Corporate Governance

A streamlined corporate organisation with distinct roles, obligations, rules, regulations, and codes of conduct. Mechanisms for risk management that are carefully crafted. Amiable relationships and confidence between the many stakeholders. Protecting and consolidating the voting and dividend rights of shareholders.

Disclosure of all relevant corporate information, including the sustainability report on ESG (Environmental, Social, and Governance) practices. Preventing the use of proxies, manipulated voting, and other unfair methods.

Timely evaluation and modification of pay. Granting auditors the flexibility to examine the company's books and provide unbiased audit reports.

## Structure of Corporate Governance

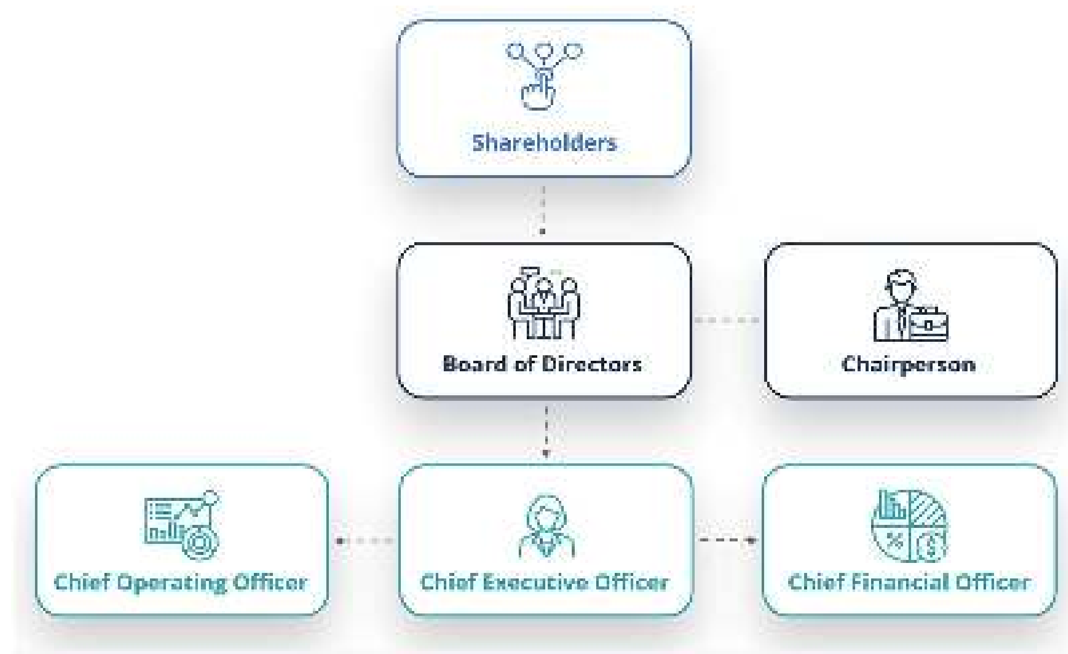


*Figure 1: Structure of Corporate Governance*

The CEO is the most senior member of the C-suite, which makes operational decisions for the company. The Board of Directors (BOD) receives reports from the CEO.

The BOD is in charge of directing and carrying out the corporate governance function under the guidance of the Board Chair. The most direct stakeholder influencing corporate governance is the board of directors. Directors are chosen by the board of directors or chosen by the shareholders. They speak for the company's stockholders.

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In certain circumstances, such as when shareholder resolutions demand certain social or environmental concerns be prioritised, a board's responsibility go beyond financial optimisation.

Important choices including executive salary, dividend policy, and the nomination of corporate officers are up to the board.

In certain circumstances, such as when shareholder resolutions demand certain social or environmental concerns be prioritised, a board's responsibility go beyond financial optimisation. The company's shareholders must vote on every appointee to the Board. This makes the BOD dependent on shareholders in numerous ways. The majority of BODs have traditionally worked along these lines.

The idea of "shareholder primacy" refers to the tacit recognition that every choice taken within a company must take the best interests of its shareholders into consideration.

## Principles of Corporate Governance

The following are the Principles of Corporate Governance.

### *Fairness*

The board of directors must treat all stakeholders fairly and equally, including shareholders, employees, suppliers, and communities.

### *Transparency*

The board should notify shareholders and other stakeholders in a timely, accurate, and understandable manner about items like financial performance, conflicts of interest, and hazards.

### *Management of Risk*

The board and management must decide how to appropriately control risks of all kinds. To manage them, they must follow their advice. The presence and status of hazards must be communicated to all pertinent parties.

### *Responsibility*

The board is in charge of regulating business affairs and managerial actions. It must be informed about and committed to the company's successful, ongoing performance. Its duty includes finding and appointing a CEO. It must operate in a company's and its stockholders' best interests.

### *Accountability*

The aim of a company's operations and the outcomes of its behaviour must be disclosed by the board. It is responsible for evaluating a firm's capability, potential, and performance along with the company leadership. It must let stockholders know about important matters.

## Four Ps of Corporate Governance

The following are the 4Ps of corporate governance.

*Figure 2: Four Ps of Corporate Governance*

### *People*

People are the organisers who choose a goal to strive towards, create a methodical plan to accomplish it, assess their performance outcomes, and use those outcomes to build both their own and other people's character.

### *Process*

To constantly accomplish their goals, procedures are improved over time, thus it's wise to always look at your governance processes critically. Can they be made simpler? Are they successfully reaching their goals?

### *Performance*

In any industry, performance analysis is a critical ability. One of the main purposes of the governance process is the capacity to assess a process's outcomes, decide if it was successful (or sufficiently effective), and then apply the results to the rest of your business.

### *Purpose*

Every aspect of government has a goal it is trying to accomplish. The organization's founding values make up the word "for." their declaration of purpose. Every single one of their initiatives should serve to forward this agenda.

## Four Pillars of Corporate Governance

The following are the pillars of corporate governance.

*Figure 3: Four Pillars of Corporate Governance*

***Accountability***

Accountability is making corporate management and the board of directors accountable for their deeds and decisions. This entails making certain that they act in the organization's and its shareholders' best interests and that they are accountable for any transgressions of legal or ethical requirements. Any wrongdoing, conflicts of interest, or unethical behaviour on the part of company officials should be reported and addressed.

***Transparency***

It makes ensuring businesses are open and transparent and that stakeholders may access information. Transparency entails providing details regarding a company's financial performance, operational procedures, risks, governance structure, and other pertinent issues. This enables stakeholders to comprehend the business' operations, performance, and decision-making procedures clearly.

***Fairness***

It ensures that companies treat their shareholders, employees, clients, suppliers, and communities fairly and equally. Businesses should create policies and guidelines that promote fairness and prevent discrimination, bigotry, and unfair treatment.

***Responsibility***

Businesses ought to think about the effects their choices will have on society, the environment, and future generations. This comprises putting ethical and environmentally friendly corporate practises into practise, such as reducing negative environmental effects, promoting diversity and inclusion, respecting human rights, and boosting community well-being.

## Importance of Corporate Governance

Corporate governance guarantees that stakeholders' rights are not violated. It also makes compliance easier. It starts the process of creating transparent procedures and practises. It restricts fraud and other wrongdoings.

Better risk mitigation is made possible by an effective structure, and well-balanced businesses draw in more investors. Top talent is drawn to good governance. In the end, a company that has good governance will run well and have higher share prices.

A company culture of integrity is fostered by strong and effective corporate governance, which promotes excellent performance and a long-term profitable enterprise. It basically serves to promote accountability across all staff members and groups inside your organisation, aiming to avert errors before they even happen.

Strong corporate governance sends a message to the market that an organisation is well managed and that management's interests are aligned with those of external stakeholders. It can therefore give your business a significant competitive advantage.

Strong and efficient corporate governance, which encourages exceptional performance and a long-term profitable organisation, fosters a corporate culture of integrity. In essence, it works to encourage accountability across all staff members and organisational groups, seeking to stop mistakes in their tracks.

Strong corporate governance tells the market that a company is well managed and that the interests of external stakeholders and management are compatible. As a result, it may give your company a considerable competitive advantage.

### Amazon’s Corporate Governance

**A Message to Our Shareowners**

A fundamental measure of our success will be the shareholder value we create over the long term." From the very beginning, our emphasis has been on the long term and as a result, we may make decisions and weigh tradeoffs differently than some other companies. Accordingly, it is important for you, our shareholders, to understand our fundamental management and decision-making approach so that you may ensure that it is consistent with your own investment philosophy. We will continue to: to;

- Focus relentlessly on our customers
- Make bold investment decisions in light of long-term leadership considerations rather than short-term profitability considerations.
- There is more innovation ahead of us than behind us, and to that end, we are committed to extending our leadership in a way that benefits customers and investors.
- Focus on cash. When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.
- Work hard to spend wisely and maintain our lean culture. We understand the importance of continually reinforcing a cost-conscious culture.
- Focus on hiring and retaining versatile and talented employees, and weight their compensation to significant stock ownership rather than cash.
- We know our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner.

explain why good ethics are needed for a good business.

discuss why social responsibility and policy are key issues in strategic planning.

## 14.2 Business Ethics

Organisational standards of conduct that direct behaviour and decision-making. Implementing proper corporate policies and practises with regard to apparently contentious matters is referred to as practising business ethics.

It is a set of rules for conducting various procedures in an ethical manner. The goal is to stop unethical commercial practises, both intentional and unintentional. Some unethical actions avoid being caught by the law. Even then, companies run the danger of incurring an additional expense: reputation damage.

Corporate responsibility, personal responsibility, social duty, loyalty, fairness, respect, dependability, and technology, all these have to follow the ethical code. Ethics place a strong emphasis on brand loyalty, personnel retention, and sustainability.

## Factors Influencing Business Ethics

The business owners' personal values determine how ethics are adopted. Leader's individual ethics ultimately help in framing ethics of the company. Management is also responsible for any unethical behaviour carried out by an executive or employee.

There are government regulations for social obligations, product safety, working conditions, and statutory warnings that are industry-specific. Ethics are influenced by societal culture, and corporations are expected to follow particular ethical standards.

## Strategy of Developing Business Ethics

Setting business ethics requires the following;

### *Setting the ethical standards*

An organization's ethical standards must be distinctly stated through its beliefs and policies, such as its code of conduct. The company's code of conduct and associated policies should translate the values into acceptable and unacceptable behaviour by identifying the intended behavioural characteristics.

### *Setting up an ethics committee*

Most businesses must now have a social and ethics council, with the exception of small businesses, according to the Companies Act. An ethics committee, however, can be a useful component of an ethics strategy even in the absence of legislation. Every organisation member should be aware of their place in and contribution to the moral standing of the business.

### *Creating ethical awareness*

By serving as a constant reminder of what constitutes appropriate behaviour inside the organisation, ethical awareness can help encourage ethical behaviour. This works especially well when the visible examples come from the good deeds of the organization's leaders.

### *Measuring and monitoring ethical status*

A successful ethics strategy must also include the measuring and monitoring of a company's ethical standing. While a poor ethical standing can be very detrimental on many levels, including customer retention, business reputations, and brand equity, a good standing generally has many advantages.

### *Taking action*

The findings of an ethics survey will outline what steps should be taken in each department of the firm. Values, leadership, organisational culture, communication, and training are the most likely avenues for fostering ethical behaviour, while laws, rules, and regulations (including a code of conduct and policies), systems and procedures, and transparency are the most likely avenues for stifling it.

### *Maintaining an ethical culture*

Achieving a high ethical status and creating an ethical workplace are notable accomplishments. As maintenance is a never-ending work, preserving an ethical culture surpasses them. Companies must develop a strategy based on the proactive, regular management of ethics in order to realise this.

## Why Is Ethics in Business Important?

Business ethics are crucial for success in contemporary business for a number of reasons. The most significant benefit of specified ethics programmes is the creation of a code of conduct that influences behaviour among all levels of employees, from executives to middle management to the newest and youngest. When every employee acts morally, the business develops a reputation for moral conduct. As its reputation rises, it starts to gain the advantages a moral organisation enjoys:

- Brand awareness and expansion
- Improved negotiating skills improved belief in goods and services
- Customer loyalty and expansion

- Draws in talent and investments

## Business Ethics Types

Although there are numerous theories and varieties of business ethics, practises in corporate social responsibility, openness and dependability, fairness, and technological innovation set businesses apart.

### Corporate Social Responsibility

Meeting stakeholder demands while taking into account the effects that doing so has on employees, the environment, society, and the neighborhood in which the firm works is known as corporate social responsibility (CSR). Finances and profits are essential, but they should come after the welfare of society, clients, and staff because, according to research, good corporate governance and ethical behaviour boost financial performance.

### Transparency and Trustworthiness

It is crucial for businesses to make sure they are transparently disclosing their financial performance. This holds true for all reports in general, not just obligatory financial reports. For instance, many businesses distribute yearly reports to shareholders.

The majority of these reports include information on the decisions that were made, whether objectives were fulfilled, and variables that affected performance in addition to the reports that were given to regulators. CEOs summarise the business's yearly performance and provide their projections in writing.

Press releases are an additional method for businesses to be open. Regardless of whether there is good news or bad news, events that are significant to investors and customers should be published. It is crucial for businesses to make sure they are transparently disclosing their financial performance. This holds true for all reports in general, not just obligatory financial reports. For instance, many businesses distribute yearly reports to shareholders.

### Technological Ethics and Practises

As technology of various kinds is increasingly used in corporate operations, it is necessary for a company to guarantee that the technology and data it collects are handled responsibly. Additionally, it should make sure that the technology is as safe as possible, especially since many companies retain consumer information and gather data that might be used by people with bad intents.

### Fairness

Regardless of ethnicity, religion, beliefs, age, or identity, a workplace should be welcoming, diverse, and equitable for all of its employees. Every employee can advance, receive a promotion, and find success in their own right in a fair workplace.

### Keeping an eye out for and reporting unethical behaviour

Companies frequently rely on managers and employees to report any incidents they witness or encounter in order to stop unethical behaviour and rectify its negative side effects. However, constraints within the workplace culture (such as the worry of facing reprisals for reporting misconduct) may make this impossible.

The Global Business Ethics Survey of 2021, released by the Ethics & Compliance Initiative (ECI), polled over 14,000 employees in 10 countries about the various sorts of misconduct they saw in the workplace. 22% of the employees polled stated they had seen behaviour they would classify as abusive, and 49% of them claimed they had seen misconduct. Employee reporting of observed wrongdoing was indicated by 86% of respondents. 79% of respondents who were asked if they had encountered reprisals for reporting claimed they had.

## 14.3 Standard of Conduct of HUL

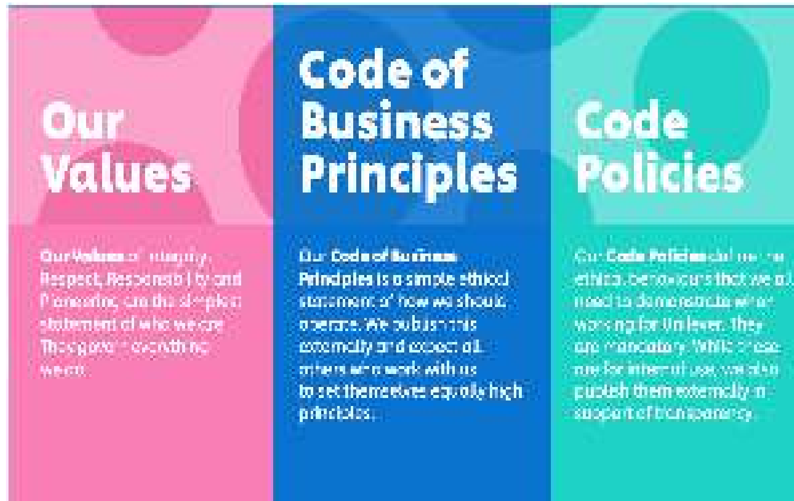



*Figure 4: Standard of conduct*

"We conduct our operations with honesty, integrity and openness, and with respect for the human rights and interests of our employees. We shall similarly respect the legitimate interests of those with whom we have relationships. We are committed to providing transparency across all our operations ensuring stakeholders trust what we do".

### *Public Activities*

"Unilever companies are encouraged to promote and defend their legitimate business interests. Unilever will co-operate with governments and other organisations, both directly and through bodies such as trade associations, in the development of proposed legislation and other regulations which may affect legitimate business interests. Unilever neither supports political parties nor contributes to the funds of groups whose activities are calculated to promote party interests".

### *Employees*

"Unilever is committed to a working environment that promotes diversity, inclusion, life-long learning and equal opportunity, including for those with disabilities. We believe in a workplace where there is mutual trust, respect for human rights and no discrimination. We support the physical and mental wellbeing of our employees, ensuring safe working conditions".

### *Consumers*

"Unilever is committed to providing purposeful branded products and services which consistently offer value in terms of price and quality, and which are safe for their intended use. Products and services will be accurately and properly labelled, advertised and communicated".

### *Business Partners*

"Unilever is committed to establishing mutually beneficial relations with our suppliers, customers and business partners. In our business dealings, we expect our partners to adhere to business principles consistent with our own. This means compliance with our third party policies and a commitment
to working with us to address issues that negatively impact society and the planet".

### *Shareholders*

"Unilever will conduct its operations in accordance with internationally accepted principles of good corporate governance. We will provide timely, regular and reliable information on our activities, structure, financial situation and performance to all shareholders".

### *Responsible Risk Management*

"Risk management is integral to Unilever's strategy and to the achievement of Unilever's long-term goals. Our success as an organisation depends on our ability to identify and exploit the opportunities generated by our business and the markets Unilever operates in".

***Product Safety & Product Quality***

"Unilever's reputation and success is founded upon providing safe high-quality products and services that meet all applicable standards and regulation, both internal and external within the end-to-end value chain".

***Avoiding Conflicts of Interest***

"Conflicts of interest can have a significant negative impact on the reputation and effectiveness of Unilever, its business and its people. They arise when an employee allows their actual, perceived or potential personal, financial or non-financial interests to affect their objectivity when performing their job at Unilever".

***Responsible Innovation***

"Innovation is fundamental to Unilever's business success and a core part of our global strategy. The integrity and objectivity of our Science are a key foundation for our approach to responsible innovation. Safety is non- negotiable".

***Promoting Health & Hygiene and Nutrition***

A focus on nutrition, advocacy for behaviour change, sanitation and cleanliness, waste management, collection, and segregation, as well as the provision of appropriate medical support through Telemedicine Centres, Mobile Medical Units, Health Camps, etc. are all ways to promote and encourage healthy and sanitary behaviours.

***Eco Model Villages***

Encouraging the creation of awareness, creativity, and incubation. support for the National Rural Employment Guarantee Scheme (MGNREGS)'s implementation of soil and moisture conservation measures.

***Rural Development, Skill Development, Entrepreneurship Development***

Strengthening rural communities through the promotion of alternative livelihoods, the empowerment of women entrepreneurs, the advancement of gender equality, and other means. Promoting education through special education and developing infrastructure of aanganwadi centers, primary schools, etc.

***Disaster Response***

if applicable, managing and responding to disasters; carrying out relief, rehabilitation, and re-construction measures and operations.

## 14.4 Sustainability

In order to create long-term benefits for an organisation and its employees while keeping an eye on resource conservation and protection, a sustainable business strategy takes economic, environmental, and social factors into account in all of its policies, practises, and procedures.

### Need for sustainability

By 2025, it's anticipated that there will be 8.1 billion people on the planet. The earth, however, is currently estimated to be 197 million square miles in size, with 71% of that area being covered by water and the remaining 29% by land.

The need for sustainability arised after consumers and businesses started paying attention to the increase in: Natural disasters, labour scandals, enormous oil spills and global warming.

## 14.5 Sustainability Strategies

Businesses and as communities, need to make the most of what the earth has to offer without endangering the viability of human habitation. Companies need to create goods that will allow them to profit today without endangering their ability to expand.

*There are different strategies that are being adopted by companies.*

*Figure 5: Choking in Plastic*

## Plastic Sustainability

Mohwak is the biggest flooring company in the world and operates in the mill goods sector. Mohawk produces all types of flooring under a number of well-known brands, including carpets, solid wood flooring, luxury vinyl, and laminate. Mohawk used to manufacture their carpet products using virgin polyester.

Currently, only plastic bottles are used to make these carpets, and switching to this manufacturing approach has had a considerable positive impact on the environment. Mohawk recycles roughly 3 billion plastic bottles annually. "There is no waste because the entire plastic bottle is used in the carpet fibres. Additionally, it creates the softest and stain-resistant carpet available.

## Supply Chain Integration

Lack of balance between demand and supply. Overproduction results from a mismatch between supply and demand, and waste is the direct result of overproduction. Over-sourcing of raw materials, stockpiling of goods that may never be sold, and even mistrust of your suppliers' capacity to supply what you require when you require it can all contribute to overproduction.

Dead inventory, unusable or perishable goods, and unsatisfactory vendor relations are all issues that a business can address, improve, and manage. The global supply chain, business earnings, and the environment are all harmed by resource and completed goods waste. You can influence the development of a more sustainable supply chain by putting safeguards in place around it and increasing your visibility.

It is now much easier than it used to be to control resource overexploitation, stock overproduction, and subpar vendors thanks to software equipped with business intelligence, which includes the following: Data analytics, demand forecasting and vendor monitoring.

### Mohawk's Supply chain integration

Using a network of 700 trucks in North America alone, Mohawk purchases, processes, manufactures, and distributes raw materials using SAP software. Additionally, it runs over 320 retail outlets and a number of distribution centres around North America. The key is automation. For instance, warehouse automation ensures that nothing stops when orders for carpet arrive. Within 35 minutes, the order is processed, the inventory is assigned, and the carpet roll is picked up and placed into a vehicle.

## Ethical Procurement & Transparency

Determining the ethics, trade, and sustainability practises of the suppliers can be very difficult depending on the sector and the length of the supply chain, especially if it crosses international borders. Understanding how one's suppliers extract or produce raw materials—and if they are using ethical labour and trade practices will help a company create a more sustainable business and supply chain.

Transparency is essential for a supply chain to function properly. The existence of blockchain technology and the Internet of Things (IoT) is helpful. These kinds of technologies enable a company to examine a vendor's and supplier's procurement practises, as well as monitor and report on environmental and working conditions. It is simpler to be honest with consumers, investors, and other organisations if the supply chain is integrated.

### Optimized Logistics & Shipments

The movement of goods to and from various locations is referred to as Logistics. Logistics can be powered by fossil fuels, also known as fuels derived from long-dead animals that are unlikely to reappear, go extinct, and then be buried deep beneath the earth for us to harvest again.

Similar to how route optimisation is the most efficient approach to offer quick fulfilment, route optimisation is the most effective strategy to reserve fossil resources. Pollution levels from freighters and vehicles also need to be monitored.

Companies can strategically pack shipments and containers to make the most of the available space to deliver much in one go. With the help of business intelligence, companies may more accurately forecast how many items can be transported or received at once in the most practical and long-lasting manner.

## Environmental Sustainability

Massive oil spills have caused great damage to wetlands off the Gulf Coast. Forest fires have destroyed millions of acres of land in California. Powerful hurricanes have a particular passion for battering the east coast. Changing temperatures in the Midwest have caused an increase in droughts, and flooding, and agriculture is the most damaged.

Companies need to understand how best to work with their community in order to make policy change, safeguard themselves against natural disasters, and do what your company can do to help sustain the environment.

### IKEA Sustainability

IKEA always seeks out methods to get more out of less. In a world with limited resources, IKEA assists their consumers in improving their lives at home. They rethink everything, from the materials they use to the way their stores are powered to the cycle of repair, reuse, and recycling.

To ensure that they produce value rather than waste, they strive to employ recycled and renewable materials as effectively as possible across their value chain. They also assist in extending the life of the products after customers are done with them.

They believe into turning waste into resources and sourcing food and materials in a responsible way and protecting natural resources. They are energy independent, and are making the switch to renewable energy.

Sustainability process involves designing business strategies, paying attention, internally and externally, maintaining overlapping timelines, developing a basket of metrics, linking sustainability with diversity, equity, inclusion, and justice.

### Attention, internally and externally

The "outside-in" strategy focuses on hearing the demands and worries of all stakeholders, including consumers, investors, and potential workers. Listening enables businesses to recognise and customise their reaction to fresh sustainability concerns as they arise.

It also helps them clear their position relative to competitors and recognize novel opportunities for leadership.

*Figure 6: Mc Donald's and Greenpeace*

When Greenpeace confronted the fast-food chain about its usage of soybeans farmed on land removed from the Amazon rainforest, the two organisations ultimately collaborated to remove that soy from the company's supply.

The "inside-out" strategy necessitates reflection. It entails gathering those who shape a company's culture (board members, and the star employees) and having a conversation about the purpose of the business and the impact it hopes to have on society. An important point of reflection is to consider the balance between these modes.

### Maintain overlapping timelines

There lies a need to describe remedies for any particular sustainability issue over a range of time periods (months, years, and decades).

*Figure 7: Biolife*

BioLife is making immediate efforts to reduce plastic use and recycle particular parts of its blood plasma collection kits, which are challenging to recycle because they are marked as biohazardous and made of a variety of polymers.

BioLife is working to create a more circular system with its strategic suppliers over the course of the next few years, or the medium term. The company's goal is to completely eradicate plastics within the longer time frame possible.

Their short-term and intermediate actions are specifically intended to advance them towards the long-term objective, even though this could take decades given the operational, regulatory, and supply chain difficulties connected with such work.

### Develop a basket of metrics

Prior to joining coalitions and establishing codes of conduct for supply chain partners, businesses should first clarify their overarching aims by developing principles and purpose statements. Although these do not seem like metrics at first, "a metric can be a binary variable"

### Link sustainability with diversity, equity, inclusion, and justice

This may involve the following;

#### *Establish Mission and Vision*

Companies can join coalitions and create codes of conduct for supply chain partners. They should develop overarching intentions by creating principles and purpose statements. The phrase "a metric can be a binary variable".

#### *Define Processes*

Companies should be clear about the processes they've established to move toward sustainability. For example, how many of their plants have ISO certification? How many products are imprinted with labels that imply a basic level of sustainability? How many materials come from sources that are certified as sustainable?

#### *Measure Outcomes*

Businesses must track those results. What are the annual emissions of greenhouse gases? How much waste is produced each month, in tonnes? Utilising these outcome metrics, sustainability progress is benchmarked. It is crucial that these indicators be specific enough to spur change.

### Walmart and Sustainability

*Figure 8: Walmart and Sustainability*

https://corporate.walmart.com/photos/sustainability-goals

**Case Study**: Walmart Doubles Down on Reducing Waste To Create More Sustainable Omnichannel Fulfilment Network

By adopting efforts to lessen the amount of packaging waste associated with online orders, Walmart has announced new initiatives to help make the daily option the more environmentally friendly choice. This entails switching from single-use plastic bags for online pickup orders to recyclable paper mailers, correctly sizing cardboard box packaging, letting customers choose to combine shipping on eCommerce orders, and optimising last mile delivery to cut down on mileage and delivery times.

Walmart ships hundreds of millions of packages to customers every year, so the company is making it even simpler for consumers to cut plastic waste. The majority of

orders currently shipped in plastic mailers from Walmart Fulfilment Services' shops, marketplace, and fulfilment centres will start to arrive in recyclable paper bag mailers. By the end of the current fiscal year, this move should eliminate 65 million plastic bag mailers, or more than 2,000 tonnes of plastic, from use in the United States.

Customers around the country will also soon have the option to refuse single-use plastic bags for their online Pickup shopping. Early trials show encouraging adoption rates, which could contribute to the annual elimination of millions of single-use bags from circulation. By the end of the year, Walmart anticipates finishing the deployment across the country.

By switching to right-sized packing technologies in around half of its fulfilment network, Walmart is also assisting in the reduction of the amount of cardboard used to ship goods to customers. With the use of this technology, a package can be made specifically for the customer's order. This method eliminates wasted space in the box, lowering the requirement for filler by 60% and decreasing waste from big boxes by up to 26% thus, improving the unwrapping experience for customers.

Last but not least, Walmart makes use of applied AI to determine when an online order may be fulfilled from a store rather than a fulfilment centre. This lowers the amount of shipping boxes needed and the distance travelled. The business aggregates several orders on a single delivery route and distributes them using electric vehicles to ensure that goods can travel from stores to consumers' homes in a more environmentally friendly manner. In order to shorten customer delivery times and cut down on fleet miles and emissions, Walmart uses its 4,700 stores as fulfilment centres, turning on its end-to-end network in line with its goal of achieving zero emissions by the year 2040.

https://corporate.walmart.com/newsroom/2023/06/01/walmart-doubles-down-on-reducing-waste-to-create-more-sustainable-omnichannel-fulfillment-network

## Summary

- Corporate governance, which consists of rules, practises, regulations, policies, and procedures, is an organization's operating system.
- Specific rules, regulations, policies, and resolutions put in place to guide business behaviour are referred to as the governance framework.
- The CEO is the most senior member of the C-suite, which makes operational decisions for the company. The Board of Directors (BOD) receives reports from the CEO.
- The BOD is in charge of directing and carrying out the corporate governance function under the guidance of the Board Chair.
- Leader's individual ethics ultimately help in framing ethics of the company. Management is also responsible for any unethical behaviour carried out by an executive or employee.
- A successful ethics strategy must also include the measuring and monitoring of a company's ethical standing.
- In order to create long-term benefits for an organisation and its employees while keeping an eye on resource conservation and protection, a sustainable business strategy takes economic, environmental, and social factors into account in all of its policies, practises, and procedures.

## Keywords

***Corporate governance:*** It refers to the set of guidelines, customs, and procedures that regulate and control a business.

***Accountability:*** It is making corporate management and the board of directors accountable for their deeds and decisions.

***Transparency:*** It entails providing details regarding a company's financial performance, operational procedures, risks, governance structure, and other pertinent issues.

***Fairness:*** It ensures that companies treat their shareholders, employees, clients, suppliers, and communities fairly and equally.

***CSR:*** Meeting stakeholder demands while taking into account the effects that doing so has on employees, the environment, society, and the neighborhood in which the firm works is known as corporate social responsibility (CSR).

## Self Assessment

1. ________ is making corporate management and the board of directors accountable for their deeds and decisions.

A. Accountability
B. Responsibility
C. Authority
D. Fairness

2. To constantly accomplish their goals, procedures are improved over time, thus it's wise to always look at your governance _________critically.

A. People
B. Processes
C. Purposes
D. Performances

3. The _________ strategy focuses on hearing the demands and worries of all stakeholders, including consumers, investors, and potential workers.

A. Complete
B. Inside-in
C. Outside-in
D. Focused

4. The __________ is/are in charge of directing and carrying out the corporate governance function under the guidance of the Board Chair.

A. Chairman
B. Board of Directors
C. Owner
D. Employees

5. The board of directors must treat all stakeholders fairly and equally, including:

A. Shareholders
B. Employees
C. Suppliers
D. All of the above

6. The business owners' personal _________ determine how ethics are adopted.

7. __________ underpins how an organisation operates and does business.

8. The movement of goods to and from various locations is referred to as ________.

9. The aim of a company's operations and the outcomes of its behaviour must be disclosed by the _______.

10. It is crucial for businesses to make sure they are ________ disclosing their financial performance.

11. Businesses and as communities, need to make the most of what the earth has to offer without endangering the viability of human habitation.

A. True

B. False

12. Companies may be unclear about the processes they've established to move toward sustainability.

A. True

B. False

13. Prior to joining coalitions and establishing codes of conduct for supply chain partners, businesses should first clarify their overarching aims by developing principles and purpose statements.

A. True

B. False

14. Walmart has been aiming to switch from single-use plastic bags for online pickup orders to recyclable paper mailers.

A. True

B. False

15. In any industry, performance analysis is not a critical ability.

A. True

B. False

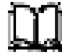
## Answers for Self Assessment

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1. | A | 2. | B | 3. | C | 4. | B | 5. | D |
| 6. | Values | 7. | Corporate Governance | 8. | Logistics | 9. | Board | 10. | Transparency |
| 11. | A | 12. | B | 13. | A | 14. | A | 15. | B |

## Review Questions

1. State the meaning of strategy and explain its nature and components?
2. Explain the elements of corporate governance. What is the importance of corporate governance?
3. Describe the structure of corporate governance. What are the 4 pillars of corporate governance?

4. Explain the principles of corporate governance?
5. What is the importance of sustainability as a strategy? Outline the sustainability initiatives of Walmart?
6. Find out about the corporate governance of Amazon? Try to describe it in your own words. Use this link to study. (https://www.aboutamazon.com/planet).



## Further Readings

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Strategic Management Concepts and Cases, Fred R. David, Pearson Prentice Hall, 2007.

The Art of Strategy: A Game Theorist's Guide to Success in Business & Life, Avinash K. Dixit, Barry Nalebuff.

## Web Links

https://corporate.walmart.com/purpose/sustainability

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