Dr. Babasaheb Ambedkar
Open University
(Established by Government of Gujarat)

MBA
SEMESTER - 3
MBA03C301
Strategic Management

Message for the Students

Dr. Babasaheb Ambedkar Open (University is the only state Open University, established by the Government of Gujarat by the Act No. 14 of 1994 passed by the Gujarat State Legislature; in the memory of the creator of Indian Constitution and Bharat Ratna Dr. Babasaheb Ambedkar. We Stand at the seventh position in terms of establishment of the Open Universities in the country. The University provides as many as 54 courses including various Certificate, Diploma, UG, PG as well as Doctoral to strengthen Higher Education across the state.

On the occasion of the birth anniversary of Babasaheb Ambedkar, the Gujarat government secured a quiet place with the latest convenience for University, and created a building with all the modern amenities named 'Jyotirmay' Parisar. The Board of Management of the University has greatly contributed to the making of the University and will continue to this by all the means.

Education is the perceived capital investment. Education can contribute more to improving the quality of the people. Here I remember the educational philosophy laid down by Shri Swami Vivekananda:

> ***"We want the education by which the character is formed, strength of mind is Increased, the intellect is expand and by which one can stand on one's own feet".***

In order to provide students with qualitative, skill and life oriented education at their threshold. Dr. Babaasaheb Ambedkar Open University is dedicated to this very manifestation of education. The university is incessantly working to provide higher education to the wider mass across the state of Gujarat and prepare them to face day to day challenges and lead their lives with all the capacity for the upliftment of the society in general and the nation in particular.

The university following the core motto 'स्वाध्याय: परमम् तप:' does believe in offering enriched curriculum to the student. The university has come up with lucid material for the better understanding of the students in their concerned subject. With this, the university has widened scope for those students who are not able to continue with their education in regular/conventional mode. In every subject a dedicated term for Self Learning Material comprising of Programme advisory committee members, content writers and content and language reviewers has been formed to cater the needs of the students.

Matching with the pace of the digital world, the university has its own digital platform Omkar-e to provide education through ICT. Very soon, the University going to offer new online Certificate and Diploma programme on various subjects like Yoga, Naturopathy, and Indian Classical Dance etc. would be available as elective also.

With all these efforts, Dr. Babasaheb Ambedkar Open University is in the process of being core centre of Knowledge and Education and we invite you to join hands to this pious *Yajna* and bring the dreams of Dr. Babasaheb Ambedkar of Harmonious Society come true.

Prof. Ami Upadhyay
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Dr. Babasaheb Ambedkar Open University,
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MBA
SEMESTER-3 CORE
STRATEGIC MANAGEMENT
BLOCK: 1

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BAOU Education for All

STRATEGIC MANAGEMENT
MBA03C301
SEMESTER-3

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UNIT – 1	STRATEGIC MANAGEMENT

1.1 **Introduction**

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1.7 **Disadvantages of Strategic Management**

1.8 **Total Quality Management & Strategic Management**

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1.1 Introduction

Strategic Management is exciting and challenging. It makes fundamental decisions about the future direction of a firm – its purpose, its resources and how it interacts with the environment in which it operates. Every aspect of the organization plays a role in strategy – its people, its finances, its production methods, its customers and so on. Strategic Management can be described as the identification of the purpose of the organization and the plans and actions to achieve that purpose. It is that set of managerial decisions and actions that determine the long-term performance of a business enterprise. It involves formulating and implementing strategies that will help in aligning the organization and its environment to achieve organizational goals. Strategic management does not replace the traditional management Notes activities such as planning, organizing, leading or controlling. Rather, it integrates them into a broader context taking into account the external environment and internal capabilities and the organization's overall purpose and direction. Thus, strategic management involves those management processes in organizations through which future impact of change is determined and current decisions are taken to reach a desired future. In short, strategic management is about envisioning the future and realizing it.

The word 'strategy' is derived from the Greek word 'Strategos' which means 'military commander.

Strategic management's nature is different from other aspects of management. An individual manager is most often required to deal with problems of operational nature. He generally focuses on day-to-day problems such as the efficient production of goods, the management of a sales force, the monitoring of financial performance or the design of some new system that will improve the level of customer service.

1.2 Meaning, Definition

- **Definition of Strategy**

Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals. **Alfrred D. Chandler**

- **Meaning of Strategic Management**

  Strategic management is the comprehensive process of formulating, implementing, and evaluating long-term goals and initiatives undertaken by an organization to achieve competitive advantage and sustainable success in its chosen industry or market. It involves making critical decisions that shape an organization's direction, allocate resources effectively, and respond to both internal and external challenges and opportunities.

- **Definition of Strategic Management**

  - Strategic Management can be defined as an **art & science** of formulating, implementing and evaluating, cross-functional decisions that enable an organisation to achieve its objectives.
  - Strategic Management is a stream of decision and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives. **Glueck**
  - Strategic_management is the set of decisions and actions resulting in the formulation and implementation of plans designed to achieve a company’s objectives. **Pearce and Robinson, 1988**
  - Strategic management includes understanding the strategic position of an organization, making strategic choices for the future and turning strategy into action. **Johnson and Sholes, 2002**

  In essence, strategic management involves several key components:

- **Analysis:** This involves assessing the organization's internal strengths and weaknesses, as well as analyzing the external opportunities and threats present in the industry or market. This analysis helps to identify strategic options and formulate a clear direction.

- **Strategy Formulation:** Once the analysis is complete, the organization develops a strategy that outlines how it plans to achieve its objectives. This strategy can encompass various aspects, such as product development, market penetration, diversification, cost leadership, differentiation, and more.

- **Implementation:** This step involves executing the chosen strategy by allocating resources, setting up structures, processes, and systems, and ensuring that the organization's employees understand their roles and responsibilities in achieving the strategic goals.

- **Monitoring and Evaluation:** Regular assessment of the strategy's progress is crucial to determine if the organization is on track to achieving its goals. If deviations occur, adjustments or corrective actions may be necessary to realign the strategy with changing circumstances.

- **Adaptation:** As the business environment is dynamic and constantly evolving, strategic management also requires the ability to adapt to changes. This could involve modifying the strategy, exploring new opportunities, or addressing emerging threats.

1.3 Importance

Strategic Management provides a roadmap for an organization to navigate its way in a complex and dynamic business environment. Here are some key reasons highlighting the importance of strategic management:

- **Direction and Focus**: Strategic management helps an organization to define its long-term direction and provides a clear focus on where the organization is headed. It sets the overall vision, mission, and goals that guide all activities and decisions within the organization.
- **Alignment:** A well-defined strategic plan ensures that all departments and teams within an organization are aligned and working towards common objectives. This minimizes conflicts and encourages collaboration among various units.
- **Resource Allocation:** Strategic management helps in effective allocation of resources such as human capital, financial resources, and time. Resources can be channeled towards activities that contribute the most to the achievement of strategic goals.
- **Competitive Advantage:** Developing and implementing effective strategies can lead to a sustainable competitive advantage. Organizations can identify unique strengths and capabilities that set them apart from competitors, enabling them to capture a larger market share.
- **Adaptation to Change:** The business environment is constantly evolving, with new opportunities and challenges emerging. Strategic management equips an organization with the tools to proactively adapt to changes, whether they are technological, economic, or regulatory in nature.
- **Risk Management:** Strategic management involves assessing potential risks and uncertainties that could impact the organization's operations. By identifying these risks, organizations can develop contingency plans and mitigation strategies to minimize potential negative impacts.
- **Innovation and Growth**: Strategic management encourages organizations to explore new avenues for growth and innovation. It provides a framework for identifying emerging trends, technologies, and markets that can be capitalized upon to expand the business.
- **Performance Measurement**: Strategic management involves setting Key Performance Indicators (KPIs) to track progress towards strategic goals. Regular performance measurement and evaluation help organizations stay on track and make necessary adjustments.
- **Communication:** A well-developed strategic plan serves as a communication tool both internally and externally. It helps employees understand the organization's priorities and objectives, and it also communicates the organization's value proposition to customers, investors, and other stakeholders.
- **Long-Term Perspective:** Strategic management encourages organizations to think beyond short-term gains and take a long-term perspective. This can lead to more sustainable decision-making and a focus on building lasting value.
- **Reduced gaps and overlaps in activities:** With strategy formulation there is better understanding of the responsibilities of individuals and groups. This helps in a clear role identification by the employees which reduces the gaps and overlaps in the activities of groups and individuals.

In summary, strategic management is essential for organizations of all sizes and industries. It provides a structured approach to navigating the complexities of

the business landscape, making informed decisions, and positioning the organization for success in the long run.

1.4 Levels of Strategy – Objectives, Goals & Targets

Strategic management involves the formulation and execution of strategies to achieve an organization's long-term objectives and goals. Within the realm of strategic management, there are different levels of strategy, each with its own focus and scope. These three Level includes:

(1) Corporate level strategy
(2) Business Level Strategy
(3) Functional Level strategy

A brief explanation of each of the level of strategy is given below:

(1) Corporate Level Strategy:

- **Objectives**: Corporate-level objectives are the high-level goals that guide the entire organization. They often pertain to the overall direction and purpose of the company. Examples include achieving market leadership, expanding into new markets, or increasing profitability.
- **Goals:** Corporate-level goals are specific targets that support the objectives. They provide a more concrete and measurable way to track progress. For instance, a goal could be to increase annual revenue by 10% or to enter three new international markets within the next five years.
- **Targets**: Targets are even more specific and actionable than goals. They are typically short-term and quantifiable, helping to measure progress towards achieving the goals. An example might be to increase sales by 5% in the next quarter.

(2) Business Level Strategy:

- **Objectives:** Business-level objectives are specific to a particular business unit or division within the organization. These objectives align with and contribute to the achievement of corporate-level objectives. They might involve gaining a competitive advantage in a specific market segment or product line.
- **Goals:** Business-level goals are set to support the objectives and focus on what the specific business unit aims to achieve. For instance, a goal might be to increase market share in a particular geographic region by 15%.
- **Targets:** Similar to corporate-level targets, business-level targets are specific, measurable, and time-bound actions designed to reach the goals. For example, achieving a 10% increase in sales for a particular product line in the next six months.

(3) Functional Level Strategy:

- **Objectives:** Functional-level objectives are set within individual departments or functions of the organization (e.g., marketing, operations, finance). These objectives are designed to contribute to the achievement of business-level objectives, which in turn contribute to corporate-level objectives.
- **Goals:** Functional-level goals outline the specific outcomes or achievements that a department or function should aim for. For instance, a marketing department might set a goal to increase website traffic by 20%.

- **Targets:** Targets at the functional level are detailed, actionable steps that help accomplish the goals. These could include actions like launching a new advertising campaign or optimizing website content.

In summary, strategic management involves aligning objectives, goals, and targets at different levels of the organization to ensure that all efforts are coordinated and directed toward the overarching strategic vision. Objectives provide the broad direction, goals make objectives more specific, and targets establish measurable milestones to track progress. This hierarchical approach helps organizations stay focused on their strategic priorities and adapt to changing conditions in the business environment.

1.5 Strategic Management Process

The Strategic Management process is the way in which strategists determine objectives and make strategic decisions. Strategic Management can be found in various types of organizations, business, service, cooperative, government, and the like.

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 [i.e., regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment

Developing an organisational strategy involves four main elements – strategic analysis, strategic choice, strategy implementation and strategy evaluation and control. Each of these contains further steps, corresponding to a series of decisions and actions, that form the basis of strategic management process.

1. **Environmental Analysis:**

- **External Analysis:** Organizations begin by assessing the external environment, which includes factors like industry trends, market dynamics, competition, and macroeconomic influences. This is often done using tools like PESTEL analysis (Political, Economic, Social, Technological, Environmental, and Legal factors) and Porter's Five Forces analysis.
- **Internal Analysis**: Internal analysis involves evaluating the organization's strengths and weaknesses. This may include an assessment of its resources, capabilities, culture, and core competencies.

2. **Strategy Formulation:**

- **Mission and Vision:** The organization defines its mission statement, which explains its purpose and reason for existence. It also develops a vision statement that outlines its long-term aspirations.
- **Setting Objectives:** Specific, measurable, achievable, relevant, and time-bound (SMART) objectives are established to help the organization achieve its mission and vision.

- **Strategic Planning:** This involves developing strategies to achieve the objectives. Different levels of strategy (corporate, business, and functional) are developed to align with the organization's mission and vision.

3. **Strategy Implementation:**

- **Resource Allocation:** Once strategies are formulated, the organization allocates resources such as finances, personnel, and technology to support their execution.
- **Organizational Structure:** The organizational structure may need to be adjusted to support the chosen strategies effectively.
- **Policies and Procedures:** New policies and procedures are often developed to guide employees in implementing the strategies.
- **Leadership and Culture:** Effective leadership and a supportive organizational culture are critical to successful strategy implementation.
- **Performance Metrics:** Key performance indicators (KPIs) are used to measure progress and success.
- **Feedback and Learning:** The organization learns from both successes and failures, using this knowledge to improve future strategic decisions.

4. **Strategic Review and Adaptation:**

- **Periodic Review:** The organization periodically reviews its strategic plan to ensure it remains relevant and aligned with changing internal and external factors.
- **Adaptation:** Strategies may need to be adapted or revised in response to shifts in the business environment.

5. **Communication and Alignment:**

- **Internal Communication**: Clear communication of the strategy throughout the organization is vital to ensure that everyone understands and is aligned with the strategic objectives.
- **Stakeholder Engagement:** Engaging with key stakeholders, including employees, customers, and shareholders, can help ensure that their interests are considered in the strategic management process.

The strategic management process is not a one-time event but an ongoing cycle that organizations use to stay competitive and achieve their long-term goals. It requires careful analysis, planning, execution, and adaptability to navigate the complexities of the business environment.

1.6 Benefits of Strategic Management

Strategic management offers numerous benefits to organizations, helping them navigate the complexities of the business environment and achieve their long-term objectives. Some of the key benefits of strategic management include:

- ❖ **Clear Direction and Focus:** Strategic management provides a clear sense of direction for the organization by defining its mission, vision, and objectives. This clarity helps align the efforts of employees toward common goals.

- **Enhanced Decision-Making:** It facilitates informed decision-making by providing a framework for evaluating options and selecting the most appropriate strategies. This reduces ad-hoc decision-making and promotes consistency.
- **Resource Allocation:** Strategic management helps in the efficient allocation of resources, including financial, human, and technological assets, to support strategic priorities and maximize returns.
- **Adaptation to Change:** A strategic management process allows organizations to proactively respond to changes in the business environment, such as market shifts, technological advancements, or regulatory changes.
- **Improved Performance:** By setting specific objectives and monitoring progress, strategic management helps improve organizational performance and accountability at all levels.
- **Risk Management:** Strategic planning involves identifying and assessing potential risks and developing contingency plans to mitigate them, reducing the impact of unexpected events.
- **Innovation and Creativity:** Strategic management encourages organizations to explore new ideas and innovate, fostering a culture of creativity and adaptability.
- **Alignment of Efforts:** It ensures that all employees understand the organization's strategic direction and how their roles contribute to achieving strategic objectives, leading to better alignment of efforts throughout the organization.
- **Customer Focus:** Strategic management often emphasizes the importance of understanding customer's needs and preferences, leading to improve customer's satisfaction and loyalty.
- **Long-Term Perspective:** It promotes a long-term perspective, encouraging organizations to think beyond short-term gains and make decisions that benefit the organization in the future.
- **Continuous Improvement:** The strategic management process includes periodic reviews and evaluations, fostering a culture of continuous improvement and learning.
- **Stakeholder Engagement:** Organizations consider the interests of various stakeholders, such as customers, employees, shareholders, and the community, leading to more responsible and sustainable business practices.
- **Better Communication:** Strategic management encourages open and transparent communication within the organization, ensuring that employees and stakeholders are informed about the strategic direction and progress.
- **Measurement and Accountability**: It establishes key performance indicators (KPIs) and metrics for tracking progress, holding individuals and teams accountable for achieving strategic objectives.
- **Enhanced Organizational Resilience:** By anticipating and planning for various scenarios, organizations become more resilient and better prepared to withstand unexpected challenges.

In summary, strategic management is a crucial process that helps organizations chart a course for success, adapt to changing circumstances, and achieve their long-term goals while remaining competitive and responsive in dynamic markets.

1.7 Disadvantages of Strategic Management

While strategic management offers numerous benefits, it is not without its challenges and potential disadvantages. Some of the disadvantages of strategic management include:

- **Time-Consuming:** Developing and implementing a strategic plan can be a lengthy process, taking valuable time away from day-to-day operations.
- **Costly:** The resources required for strategic planning and execution, including personnel, consultants, and technology, can be expensive.
- **Complexity:** The strategic management process can be complex, especially for organizations with limited experience in formal planning, which may lead to confusion and resistance from employees.
- **Resistance to Change:** Employees and stakeholders may resist strategic changes, especially if they perceive the changes as disruptive or detrimental to their interests.
- **Uncertainty:** Despite careful planning, there is no guarantee that a chosen strategy will be successful, as external factors beyond an organization's control can impact outcomes.
- **Rigidity:** Overemphasis on a long-term strategic plan can make an organization inflexible in responding to rapidly changing market conditions.
- **Complacency:** Success in executing a current strategy can lead to complacency and a reluctance to adapt or innovate in the face of emerging challenges.
- **Overemphasis on Short-Term Results:** Organizations may focus too much on achieving short-term financial targets at the expense of long-term strategic goals.
- **Resource Constraints:** Smaller organizations with limited resources may struggle to allocate the necessary time and budget for strategic planning and execution.
- **Resistance to Feedback:** Organizations may resist changing their strategies even when evidence suggests that adjustments are needed, leading to suboptimal outcomes.
- **Conflict and Disagreement:** Developing and implementing strategies often involves diverse perspectives and can lead to conflicts and disagreements within the organization.
- **Inflexible Goals:** Setting rigid, long-term objectives may not account for changing circumstances or evolving market dynamics.
- **Failure to Adapt:** Organizations may become too committed to a particular strategic direction and fail to recognize the need for course corrections.
- **Overemphasis on Quantitative Metrics:** Relying solely on quantitative metrics can lead to a narrow focus on easily measurable outcomes, neglecting other important aspects of performance.

- **Loss of Creativity:** A strict adherence to a predefined strategic plan may stifle creativity and innovative thinking within the organization.

- **Resistance to Environmental Changes:** A rigid strategic plan may make it difficult for an organization to adapt to sudden and significant changes in its external environment.
- **Strategic Drift:** Over a time, organizations may unintentionally drift away from their original strategic intent, leading to misalignment between actions and objectives.

It's important to note that the disadvantages of strategic management can often be mitigated with careful planning, effective communication, and a willingness to adapt as circumstances change. Additionally, the benefits of strategic management, such as improved decision-making and long-term sustainability, often outweigh the potential drawbacks, making it a valuable process for most organizations.

1.8 Total Quality Management & Strategic Management

Total Quality Management (TQM) and Strategic Management are two distinct but interconnected concepts that play crucial roles in the success of organizations. Let's explore each of them individually and then discuss their relationship.

- **Total Quality Management (TQM):**
  Total Quality Management is an approach to manage an organization that focuses on continuously improving the quality of its products, services, and processes. TQM is rooted in the idea that everyone in the organization is responsible for ensuring quality, and it strives for customer's satisfaction by meeting or exceeding customer's expectations. Here are some key principles and components of TQM:

  - **Customer Focus:** TQM begins with a deep understanding of customer's needs and expectations. It aims to align all processes and activities with these customer requirements.
  - **Continuous Improvement:** TQM promotes a culture of continuous improvement. This involves identifying areas for enhancement, setting quality goals, and regularly reviewing and revising processes to achieve those goals.
  - **Employee Involvement:** Employees at all levels are encouraged to actively participate in improving processes and product quality. Their knowledge and insights are valuable for making improvements.
  - **Process Management:** TQM emphasizes the importance of well-defined processes. By improving processes, organizations can reduce defects, errors, and inefficiencies.
  - **Data-Driven Decision-Making**: TQM relies on data and statistical methods to measure and analyze quality performance. Data helps in making informed decisions to improve quality.
  - **Relationship Between TQM and Strategic Management:**
    Total Quality Management and Strategic Management are closely linked:
  - **Alignment with Customer Focus**: TQM ensures that quality aligns with customer expectations, which is a critical aspect of strategic management. Customer satisfaction is often a strategic goal.

- **Continuous Improvement:** TQM's focus on continuous improvement complements the iterative nature of strategic management. Strategies are regularly reviewed and adjusted based on performance, and TQM helps identify areas for improvement.
- **Employee Involvement:** Both TQM and strategic management benefit from employee engagement. Engaged employees can provide valuable insights for strategic decisions and quality improvement efforts.
- **Data-Driven Decision-Making:** Data and metrics are essential in both TQM and strategic management. TQM relies on data to improve quality, while strategic management uses data to evaluate strategy effectiveness.

In summary, TQM ensures that the organization's products and services meet or exceed customer expectations, which is a key element of strategic management. TQM provides the tools and methodologies for achieving quality goals, which are often integral to an organization's broader strategic objectives.

1.9 Key Words

Strategic management is a complex field with various key concepts and keywords. Here are some of the key words and concepts associated with strategic management:

Strategy: The overarching plan or approach that an organization adopts to achieve its long-term goals and objectives.

SWOT Analysis: An assessment of an organization's internal strengths and weaknesses, as well as external opportunities and threats.

Core Competencies: Distinctive capabilities or skills that are central to an organization's ability to achieve its strategic objectives.

Strategic Implementation: The actions and activities taken to execute a strategic plan and achieve its goals.

Strategic Leadership: Leadership that focuses on setting and executing a strategic vision for the organization.

Market Analysis: The evaluation of market trends, customer behavior, and competitive dynamics to inform strategic decision-making.

Strategic Alignment: Ensuring that all aspects of an organization, from its operations to its culture, are aligned with its strategic objectives.

Diversification: Expanding an organization's product or service offerings into new markets or industries.

These keywords represent some of the fundamental concepts and tools used in the field of strategic management. Understanding and effectively applying these concepts is crucial for developing and executing successful strategic plans within organizations.

❖ **Exercise**

Theoretical questions

1. Describe in detail the importance of Strategic Management for Organization.
2. Explain Strategy at Different Levels of a Business.
3. Explain the process of strategic management.

4. Elaborate the Functional Strategies.

Write a Short Notes:

1. Corporate Level Strategy
2. Business Level Strategy
3. Strategy Implementation

Multiple choice questions (MCQ)

1. What is the starting point of Strategic Intent?
   (a) Goal
   (b) Objective
   (c) Vision
   (d) Mission
   Answer (c)
2. Hierarchy of Strategic Intent:
   (a) Vision > Mission > Goals > Objectives > Plans
   (b) Mission > Vision > Goals > Objectives > Plans
   (c) Plans > Vision > Mission > Goals > Objectives
   (d) Goals > Vision > Mission > Objectives > Plans
   Answer (a)
3. SWOT stands for
   (a) Services worldwide optimization and transport
   (b) Special weapons for operations for timeless
   (c) Strength weakness opportunities and threats
   (d) Strength worldwide overcome threats
   Answer (c)
4. Which of the following is not a major element of the strategic management process?
   (a) Formulation strategy
   (b) Implementing strategy
   (c) Evaluating strategy
   (d) Assigning administrative tasks
   Answer (d)
5. Competitive advantage can be best described as
   (a) Increased efficiency
   (b) What sets an organisation apart
   (c) A strength and the organisations
   (d) Intangible resources
   Answer (a)
6. The primary focus of strategic management is
   (a) Strategic analysis
   (b) The total organization
   (c) Strategy formulation
   (d) None
   Answer (b)
7. Low cost, Differentiation and Focus are examples of
   (a) Corporate strategies

(b) Operational strategies
(c) Business strategies
(d) Functional strategies

Answer (c)

8. Which environment can create new markets and new business segments?
   (a) Political environment
   (b) Economic environment
   (c) Sociocultural environment
   (d) Technological environment

   Answer (d)

9. The word tactics is most likely to be associated with
   (a) Business strategy
   (b) Corporate strategy
   (c) Operational strategy
   (d) All of the above

   Answer (c)

10. The three organisational levels are
    (a) Corporate level, business level, functional level
    (b) Corporate level, business unit level, functional level
    (c) Corporate strategy level, business unit level, functional level
    (d) None

    Answer (a)

11. _________ is the strategy which includes Board of Directors and the chief Executive officer, is responsible for the organization's financial performance and other non-financial goals.
    (a) Business
    (b) Functional
    (c) Corporate
    (d) Financial

    Answer (c)

Fill in the blanks.

1. Strategic management provides overall .... to the enterprise. **(direction)**

2. Strategic management is a question of interpreting, and continuously ...., the possibilities presented by .... circumstances for advancing an organisation's objectives. **(reinterpreting, shifting)**

3. Organisations set up appropriate monitoring and control systems, develop standards and targets to judge ....**(performance)**

4. A .... can be defined as the overall goal of an organisation that all business activities and processes should contribute toward achieving. **(vision)**

5. Generally, only the .... has the perspective needed to understand the broad implications behind the strategic plans. **(top management)**

UNIT – 2 ANALYZING THE EXTERNAL ENVIRONMENT OF THE FIRM

2.1 Introduction

2.2 PEST Analysis

2.3 Porter's Five Forces Analysis

2.4 Industry Life Cycle Analysis

2.5 Competitor Analysis

2.6 Global Markets

2.7 Porter's Diamond (competitive advantage of nations)

2.8 Summary

2.9 Key Terms

❖ Exercise

2.1 Introduction

Purpose of environmental analysis

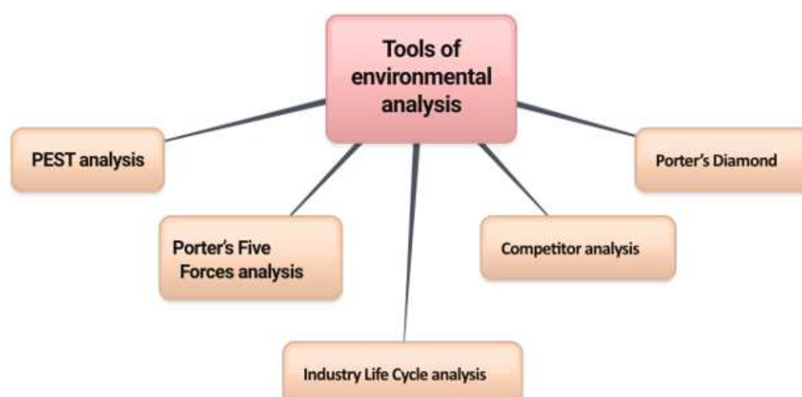
- To characterise the environment that can influence the business.
- To identify threats and be prepared to handle them appropriately.
- To identify opportunities and be prepared to benefit from them in a timely manner.
- To identify competitive strengths and weaknesses.
- To recognise competition in the market and how to compete more effectively.
- To identify stakeholders and what they require from the organisation.

Drawbacks of environmental analysis

- New technology constantly changes the competitive environment by introducing new products and their placement in the markets.
- A continuously weakening global economy has led to problems with the predictability of demand.
- An increasing number of factors affect an organisation as national borders blur.
- The emergence of high-growth economies (BRIC).
- Regular environmental analysis is necessary if it is to have any relevance to the organisation.

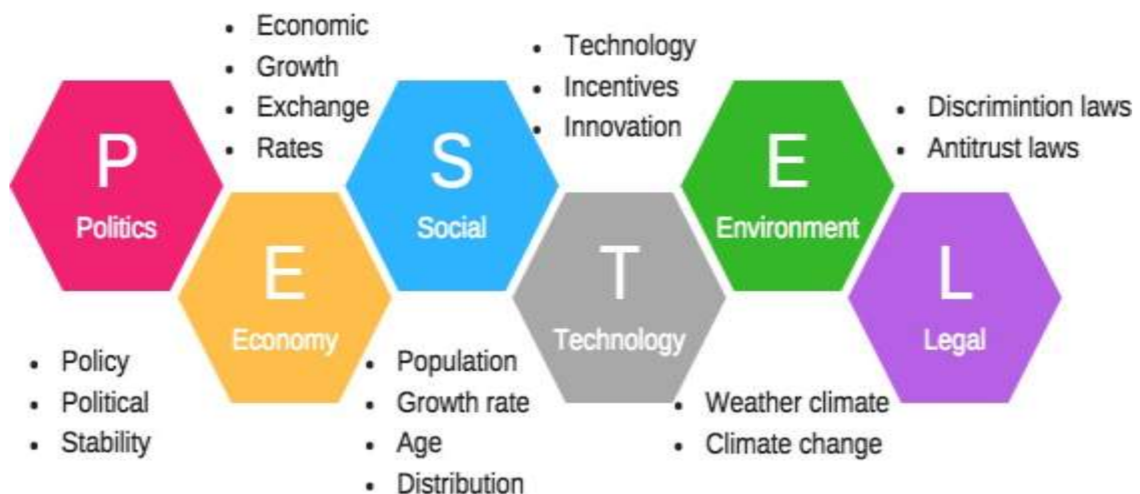
2.2 PEST analysis

Tools



- Specifically considers market conditions, i.e. growing or declining.
- Assesses the general environment
- Can also be used to identify opportunities and threats (SWOT).
- Focuses on four parameters:
  - Political factors
  - Economic factors
  - Social factors
  - Technological factors

- **Other variations of PEST include:**
  - SLEPT (Social, Legal Economic, Political, Technological).
  - **PESTLE/PESTEL** (Political, Economic, Social, Technological, Legal, Environmental).



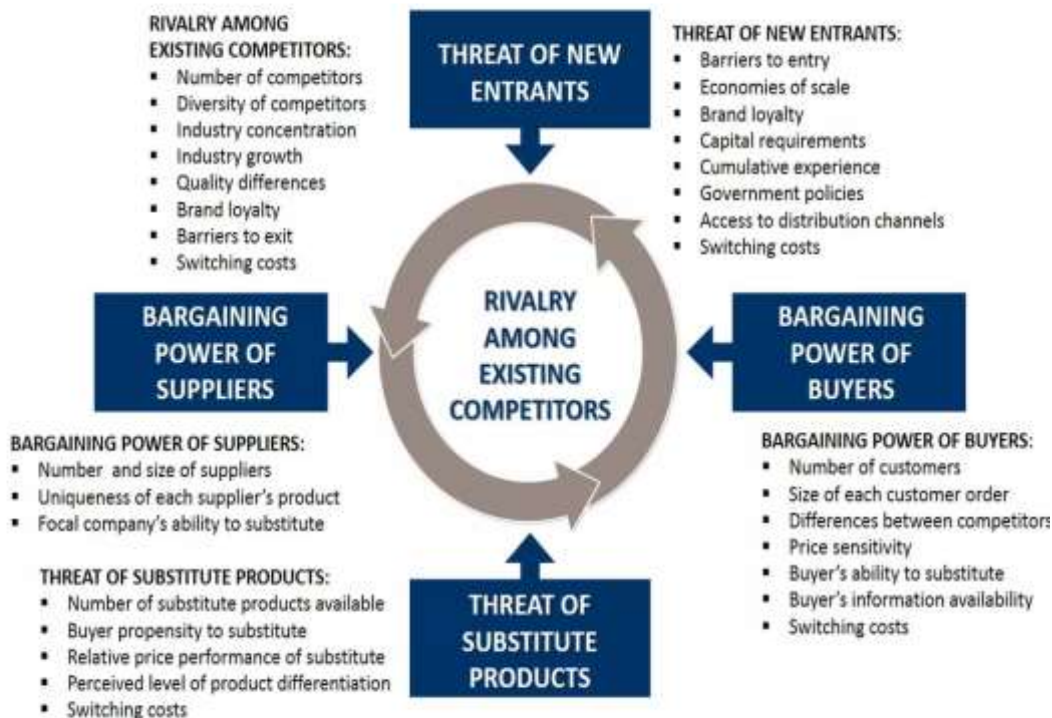
Drawbacks of PEST analysis

- PEST will quickly become irrelevant in industries where conditions change quickly.
- The opinions of different managers limit the objectivity of the analysis.
- It is impossible to identify each and every factor that is important for an organisation.

2.3 Porter's Five Forces analysis

- This model focuses on conditions within a specific industry.
- The five forces decide whether or not a business in that industry is profitable.
- Generally, the greater the forces, the lower the prospective profit potential.

- Success lies in minimising these forces so as to increase one's profit potential.



Power of buyers

- This is the bargaining power.
- Bargaining power is high when:
  - There are many buyers
  - There are many suppliers
  - Switching costs are low

Power of suppliers

- This is the bargaining power of suppliers, i.e. the influence of suppliers on the customer.
- Power is high when:
  - There are few suppliers, i.e. a monopoly
  - The product is crucial to the customer
  - Switching costs are high

Threat of new entrants

- This depends upon the barriers to entry in an industry.
- An organisation must know whether it is trying to enter or trying to prevent others from entering an industry.
- The barriers need to be identified.
- If the organisation seeks to enter, they will wish to be able to overcome these barriers.
- If it tries to prevent others from entering, it will try to intensify these barriers or paint the barriers as too difficult to overcome.
- Some of the barriers may be:
  - Economies of scale
  - High capital requirements
  - Difficult access to distribution networks

- Long-standing relationships of the companies in the industry
  - Expectation of retaliation from market leaders
  - Cumbersome legal requirements
  - Strong product differentiation
  - High switching costs for customers

Threat of substitutes

- Substitutes fulfil essentially similar needs or uses.
- Substitutes may be in direct or indirect competition.
- For instance:
  - Juices or soft drinks
  - Luxury car or luxury bike
  - A vacation or a home theatre

Rivalry among competitors

- Competition among similar products, e.g. Coke and Pepsi
- Competition may be intense where:
  - Competing organisations are of similar size.
  - Competitors have a similar market share.
  - The market is mature – the further along the life cycle, the greater the competition.
  - Differentiation of products is low, leading to greater rivalry on price.
  - Storage costs or capacity are high, necessitating the lowering of prices to increase sales.
  - There are high exit barriers, generating a fiercer need to stay and compete.

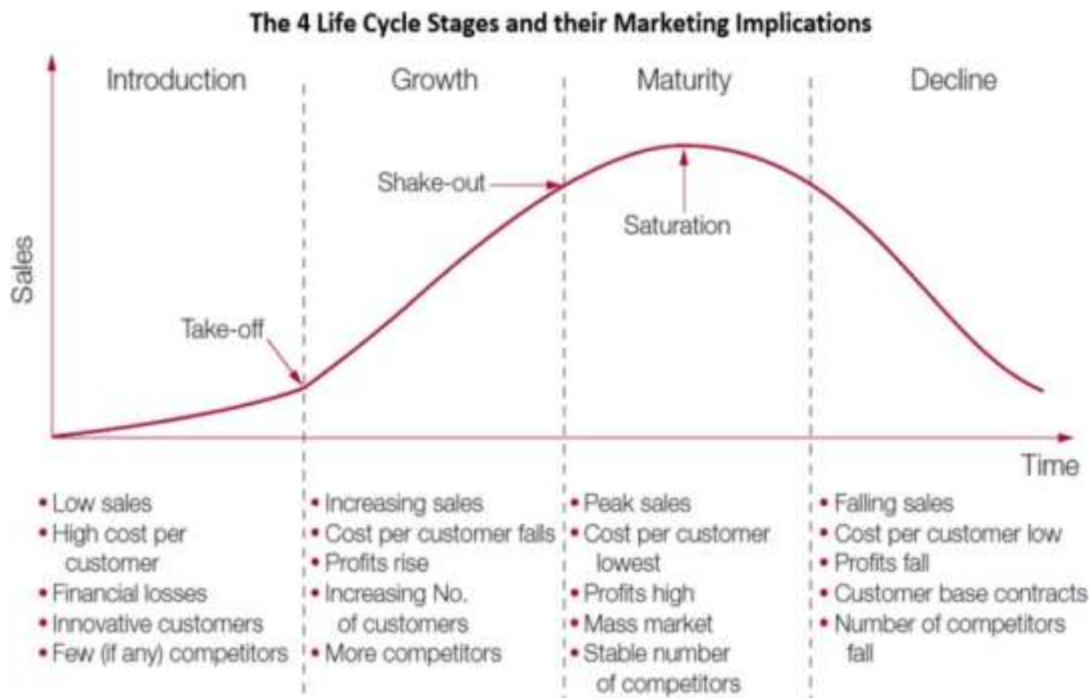
Drawbacks of Porter's model

- Customers are perceived as competitors (power of buyers).
- Its usefulness is low in dynamic industries where circumstances keep changing rapidly.
- It is difficult to apply to companies with specific differentiated competences.
- It is important to consider influential government actions in addition to these five forces.
- This model is based on the assumption that there are no alliances in business, which is false.
- Not suitable for not-for-profit organisations as it focuses on profitability.

2.4 Industry Life Cycle Analysis

- There are several stages in a product's life cycle.
- This analysis allows the implementation of different strategies at different stages togain maximum benefit.
- This life cycle analysis can be applied to both products and industries.
- The life cycle comprises the following stages:

  - Introduction
  - Growth
  - Maturity
  - Decline



Introduction stage

- New product introduced in the market.
- Low awareness of product.
- Low initial demand for new product.
- Production is, therefore, low at this stage.
- Costs are likely to be high at this stage, e.g. research & development and promotional costs.
- Competition is low.
- Pricing strategies could be either:
  - ***Penetration price***: setting a low price to gain market share.
  - ***Price skimming***: setting a high price to gain maximum benefit in the initial stages.

Growth stage

- Awareness of product increases.
- Demand levels increase.
- Production levels consequently increase.
- This might result in economies of scale.
- There might be price competition as competition grows.
- New competitors enter the market.
- Profitability and cash flows increase.
- It is likely that initial costs are recovered.
- It is important to develop brand loyalty at this stage.
- Products may be differentiated as more rivals enter the market.

Maturity stage

- Market growth reduces.
- Market becomes saturated.
- Competition becomes fiercer.
- Market share can only be increased at the expense of another.
- Extension strategies are sought for the product.
- Market niches may be developed or exploited.
- New product variations may be developed.

Decline stage

- Market shrinks.
- Buyers reduce.
- Demand lowers.
- Smaller suppliers exit.
- Prices are lowered (price cutting) to gain any share from leaving competitors.

How to benefit from life cycle analysis

- Have a mix of products at various stages.
- The cash flows of a mature product enable the funding of a new product.
- Profit from the novelty of a new product.
- Profit from low costs and economies of scale of mature products.
- SWOT is likely to be different at different stages.
- Adapt strategies according to the stage of the product.

Advantages of life cycle analysis

- Better strategic planning – more focused strategies can be implemented according to the stage, for instance, pricing strategies can differ at different stages.
- Helps budget better – helps understand the stages where costs will be incurred and where inflows can be expected.
- Proactive strategies – strategies can be implemented at the first sign of the product moving to the next stage for maximum profitability.

2.5 Competitor Analysis

- Seeks to understand competition.
- Aims to define a company's own position relative to its competitors regarding:
  - Competitive advantage
  - Current strategies
  - Prospective strategies
  - Competitor behaviour

1

IDENTIFYING COMPETITORS

Competition can be classified into four levels:

- **Brand competitors** – selling similar products to the same market segment e.g. burger from Hardees or Johnny Rockets.
- **Industry competitors** – selling similar products to different markets e.g. McDonald's in India and KFC in Pakistan.
- **Form competitors** – selling different products that cater to the same need e.g. heavy bike or sports car.
- **Generic competitors** – selling different products but aiming for the same income e.g. spending on a vacation or home theatre.

2

ANALYSING COMPETITORS

- In order to predict the competitor's strategy.
- To help foresee the competitor's response to our strategy changes.
- Need to determine the following:
  - The objectives of the competitor
  - The competitive strategy of competitor
  - The competency of the competitor
  - The assumptions held by the competitor

3

COMPETITOR RESPONSE PROFILES

- How a competitor responds to competition can be classified as:
  - Laid back: no response
  - Tiger: aggressive response
  - Selective: responds in certain cases
  - Stochastic: unpredictable

2.6 Global markets

Reasons for entering global markets

- Further expansion is not possible domestically.
- Emerging opportunities in foreign markets.
- Lowering of trade restrictions in foreign countries.
- Shareholder pressure to increase returns.

Risks in global expansion

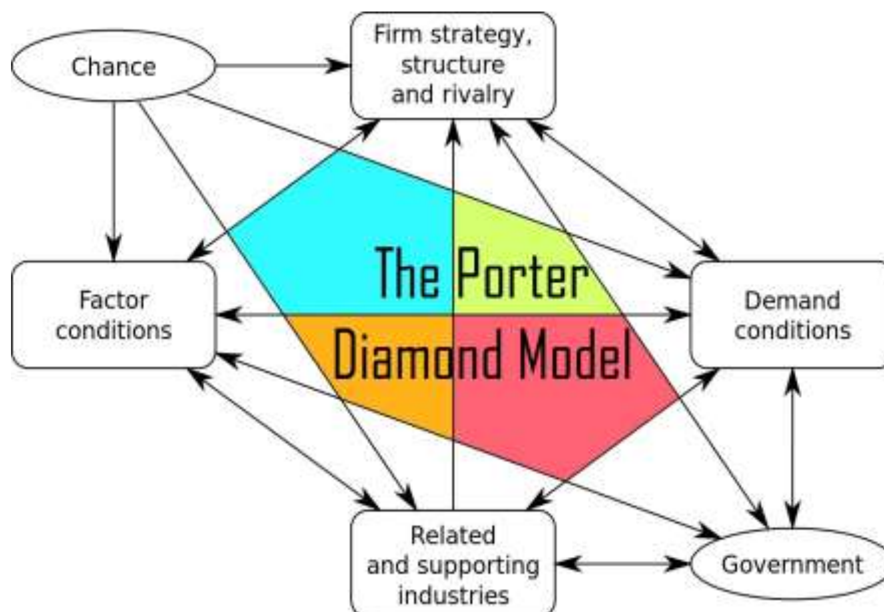
- Cultural differences cannot be ignored.
- Exchange rate volatility considerations.
- Different cost structures and factor quality.
- Level of competition in the foreign country.
- Political stability and government involvement.
- Conditions for entering the foreign country for trade.

Advantages of global expansion

- Benefit from economies of scale.
- Access to cheaper resources.
- Access to new markets.
- Opportunity for managers to experience different cultures.
- Risk-reduction in different economies.
- Governments may offer incentives for foreign investment.

2.7 Porter's Diamond (competitive advantage of nations)

- This model identifies the reason why nations excel in competition over others.
- It also identifies why specific industries cluster in specific areas in a country.
- It basically determines the competitive advantage of nations.
- It identifies the factors that cause some industries to succeed and not others.
- It can help assess factor conditions in a foreign country for expansion.
- Governments can use it to attract investment in specific industries.
- Porter identified four factors in his diamond model:
    - Factor conditions
    - Demand conditions
    - Strategy, structure and rivalry
    - Related and supporting industry
- He also identified two other influential factors:
    - The role of government
    - The role of chance events



Factor conditions

- Factor conditions mean the quality of supply factors.
- The factors that contribute to competitive advantage are not easy to duplicate.
- Generally, basic factors like unskilled labour are easily replicable.
- It is the advanced factors that help gain competitive advantage.

These factors include specific expertise in human, physical, knowledge and capital resources.

Demand conditions

- Cultured domestic customers lead to the development of competitive advantage.
- Leads to the development of extension strategies for declining products to extend their life.
- For instance, sophisticated Japanese electrical customers help Japanese

companies excel in unsophisticated markets.

Strategy, structure and rivalry

- This focuses on the competition element in the industry.
- The level and type of competition in the domestic industry can have a positive effect on companies.
- The stiffness of competition teaches companies how to better respond to competition.
- Government policy also influences the level of competition.

Related and supporting industry

- The presence of industries that support a specific business.
- A developed supporting industry helps develop the business.
- A developed supply industry also develops the customer business.

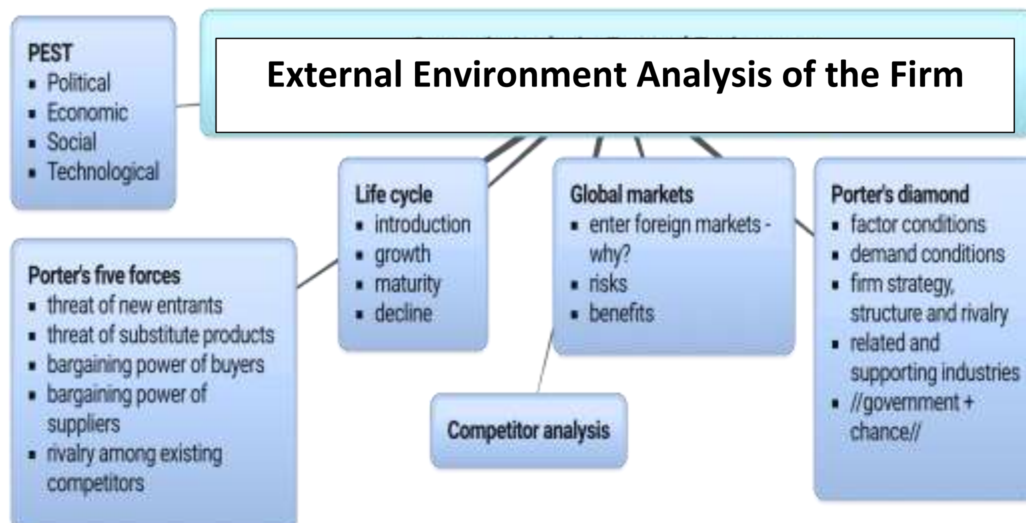
Other factors

- The role of government influences the development of national industries.
- The role of chance events can also help develop certain industries, e.g. wars lead to development in the ammunition industry.
- Extensive research is necessary before entering a foreign market.
- Organisations would prefer to expand into the foreign countries that are most favourable to them.
- Need to know the barriers to entering a foreign market.

Drawbacks of Porter's Diamond

- Porter's research for this model only included developed economies.
- Porter assumed incorrectly that domestic businesses cannot compete with foreign investment.
- Porter's Diamond does not factor in the success of multinational corporations.
- Every business in a country does not achieve success, which throws into doubt the importance of the Diamond alone for success.

Summary



❖ **Key Terms**

Acquisition:	When one company purchases another company.
Adaptability:	A willingness and capacity to reshape supply chains when necessary.
Backward integration strategy:	A strategy that involves a firm entering the business of one of its suppliers.
Backward vertical integration:	a strategy that involves a buyer entering the industry that it purchases goods or services from
Best value supply chains:	Supply chains that focus on the total value added to the customer as opposed to individual outcomes, such as speed or cost.
Best-cost:	A business-level strategy followed by firms that charge relatively low prices and offers substantial differentiation.
Business risk:	The potential that a business operation might fail.
Buyers:	Purchasers of the goods or services that the competitors in an industry create.
Competitors:	The set of firms that produces goods or services within an industry.
Core competency:	A skill set that is difficult for competitors to imitate, can be leveraged in different businesses, and contributes to the benefits enjoyed by customers within each business.
Corporate raiders:	An individual or firm that purchases stock in another firm with the goal of an eventual takeover.
Corporation:	A legal form of ownership wherein shares of ownership are publicly traded in stock markets and management is performed by professional executives.
Cost:	The price paid for supply chain inputs.
Demand conditions:	The nature of domestic customers, especially whether they have high expectations of the goods and services that they buy.
Divestment:	Selling off part of a firm's operations.
Economic risk:	The potential for a country's economic conditions and policies, property rights protections, and currency exchange rates to harm a firm's operations.
Economies of scale:	A cost advantage created when a firm can produce a good or service at a lower per unit price due to producing the good or service in large quantities.
Effective corporate governance:	The processes, policies, and laws that govern an organization (often corporations) establish accountability and try to eliminate conflicts of interest associated with the principle-agent problems.
Environment:	The set of external conditions and forces that have the potential to influence the organization.
Environmental determinism:	A theoretical perspective that contends that organizations are limited in their ability to adapt to the conditions around them.
Environmental segment:	The portion of the general environment that involves the natural environment.
Factor conditions:	The nature of raw material and other inputs that firms need to create goods and services.
Firm infrastructure:	How the firm is organized and led by executives.

Firm strategy, structure, and rivalry:	How challenging it is for firms to survive domestic competition.
Industry (or competitive environment):	Multiple organizations that collectively compete with one another by providing similar goods, services, or both.
Innovativeness:	The tendency to pursue creativity and experimentation.
Institutional investors:	Organizations that invest large sums of money into a broad portfolio of holding, such as banks, retirement funds, mutual funds, and pension funds.
Intellectual property rights:	The ability of an organization to protect intangible goods such as movies, software, and video games from piracy.
Legal segment:	The portion of the general environment that involves the law and courts.
Licensing:	One organization grants another the right to create its product, often using patented technology, in exchange for a fee.
Liquidation:	Shutting down portions of a firm's operations, often at a tremendous financial loss.
Management by objectives (MBO):	A process wherein managers and employees work together to create goals.
Market development:	Trying to sell existing products within new markets.
Market penetration:	An attempt to gain additional share of existing markets using existing products.
Merger:	The joining of two similarly sized companies into one company.
Offshoring:	The relocation of a business activity to another country.
Organizational culture:	Values and norms embraced by an organization that determine how people interact with other organizational members as well as external stakeholders.
Organizational structure:	How tasks are assigned and grouped together with formal reporting relationships.
PESTEL analysis:	The examination of political, economic, social, technological, environmental, and legal factors and their implications for an organization.
Political risk:	The potential for government upheaval or interference with business to harm an operation within a country.
Political segment:	The portion of the general environment that involves governments.
Price:	The amount firms charge for their goods or services.
Product:	Goods and services a firm sells to customers.
Product development:	Creating new products to serve existing markets.
Quality:	The relative reliability of supply chain activities.
Related and supporting industries:	The extent to which firms' domestic suppliers and other complementary industries are developed and helpful.
Resource-based theory:	A theory that contends that the possession of strategic resources can provide an organization with competitive advantages over its rivals.
Risk taking:	The tendency to engage in bold rather than cautious actions.
Substitutes:	Offerings from other industries that fulfill the same need or a very similar need as an industry's products or services.
Suppliers:	Providers of inputs that the competitors in an industry need

to create goods or services.

Supply chain: A system of people, activities, information, and resources involved in creating a product and moving it to the customer.

Technological segment: The portion of the general environment that involves scientific advances.

Threats: Events and trends that may undermine an organization's performance.

Value chain: A tool that charts the path by which inputs, including employees, create products and services for sale to clients & customers.

Vision: What the organization hopes to become in the future.

❖ **Exercise**

Long Questions

1. When reviewing an organization as part of the environmental scanning process, what political and ethical factors must be taken into account and why? What effect do the previous two factors have on an organization's leadership climate and why might this be important when developing strategy?
2. Discuss the various parts of the external environmental analysis process.
3. Explain the importance of analyzing and understanding the firm's external environment.
4. Identify the five competitive forces and explain how they determine an industry's profitability potential.

Multiple Choice Questions

1. Which of the following statements is true about customer needs?
   A. Companies that meet the need for communication by manufacturing mobile handsets or mobile ham radios are considered part of the same industry.
   B. Understanding them can be very helpful in defining the boundaries of an industry.
   C. They should be addressed only when many customers have similar needs that require attention.
   D. Two firms cannot be considered part of the same industry even if their products do the same job for customers.

   Ans: B

2. **-------- consists of economic conditions, economic policies, industrial policies and economic system.**
   A. Business Environment

   B. Economic Environment

   C. Natural environment

   D. None of the above

   Ans: B

3. **External environment of business is**
   A.Physical

   B.Demographical

   C.Economic

   D.All of these

   Ans: D

4. **The low income economies are sometimes referred to as -**
   A.First World

   B.Second World

   C.Third world

   D.None of these

   Ans: C
5. **The economic environment of a business includes**
   A.Economic system

   B.Economic policies

   C.Economic conditions

   D.All of these

   Ans: D
6. **An analysis of the external environment enables a firm to identify -**

   A.Strengths and opportunities

   B.Strength and weakness

   C.Weakness and threats

   D.Opportunities and threats

   Ans: D

UNIT – 3 ANALYZING THE INTERNAL ENVIRONMENT OF THE FIRM

3.1 Introduction

3.2 Reasons to Conduct an Internal Environment Analysis

3.3 Process to Conduct an Internal Analysis in Five Steps

3.4 Internal Analysis Tools

3.5 Importance of Internal Environment Analysis

3.6 The Challenge of Analysing Internal Environment

❖ **Exercise**

3.1 Introduction

An Internal Analysis is the process of an organization examining its internal components to assess its resources, assets, characteristics, competencies, capabilities, and competitive advantages. This helps management during the decision-making, strategy formulation, and execution processes by identifying the organization's strengths and weaknesses.

Simply put, an Internal Analysis enables a firm to determine what it can do, to increase internal capability to manage execution and change.

An Internal Analysis in strategic management should serve as the foundation of any business strategy, and we'll show you how to conduct one and which tools you have at your disposal to conduct an internal assessment in strategic management.

What is Internal Environment Analysis?

Internal environment analysis or internal analysis is the process of assessing internal resources and capabilities of an organization to know its strengths and weaknesses.
The organizational internal factors such as goals, policies, resources, structure, culture, etc. are the source of strengths and weaknesses that resides in different functional units such as HR, marketing, finance, production, accounting and R&D.
Internal strength and weakness together with potential opportunities and threats and a clear mission statement provide a base for a sound objective and strategy formulation.
The internal environment analysis seeks to give the answers to the following questions.

- How well the current strategy works?
- What is our current situation?
- What are our strengths and weaknesses?
- How many resources are available?

A number of various value chains are examined through internal analysis. It makes ensuring that the business's resources and competencies align with the external environment. It makes an effort to evaluate the intrinsic strength of the resource base, the quantity, type, and degree of uniqueness of the resources that are available.
The internal analysis then establishes the organization's strategic capability, which is the degree to which an organization's resources and abilities are sufficient and appropriate to ensure its survival and success.

3.2 Reasons to Conduct an Internal Environment Analysis

An Internal Analysis highlights an organization's strengths and weaknesses in relation to its competencies, resources, and competitive advantages.

Once complete, the organization should have a clear idea of where it's excelling, where it's doing okay, and where its current deficits and gaps are. The analysis gives management the knowledge to leverage the company's strengths, expertise, and opportunities. It also enables management to develop strategies that mitigate threats and compensate for identified weaknesses and disadvantages.

When your business strategy is based on real findings and not assumptions, you can be confident that you're funnelling your **resources**, time, human capital, and focus effectively and efficiently.

3.3 Process to Conduct an Internal Analysis in Five Steps

Conducting an Internal Analysis doesn't need to be as difficult as it seems (especially when you have our Internal Analysis Toolkit at your disposal).

1. Set the goal

The first step is to set the goal; this is essentially the answer as to why you're conducting an Internal Analysis. For example, the desired outcome of your Internal Analysis could be to ideate the UI direction for a new product.

2. Pick a template framework

The second step is to download our Free Internal Analysis Toolkit and choose the Internal Analysis Framework Template most aligned with the problem you're trying to solve and your goal.

3. Data collation

Use all internal sources to collate information to assist in achieving your goal. In the context of our example from above, research would include interviewing customer success managers, engineers etc. to gain a better understanding of the gap between the current and desired future state of the UI.

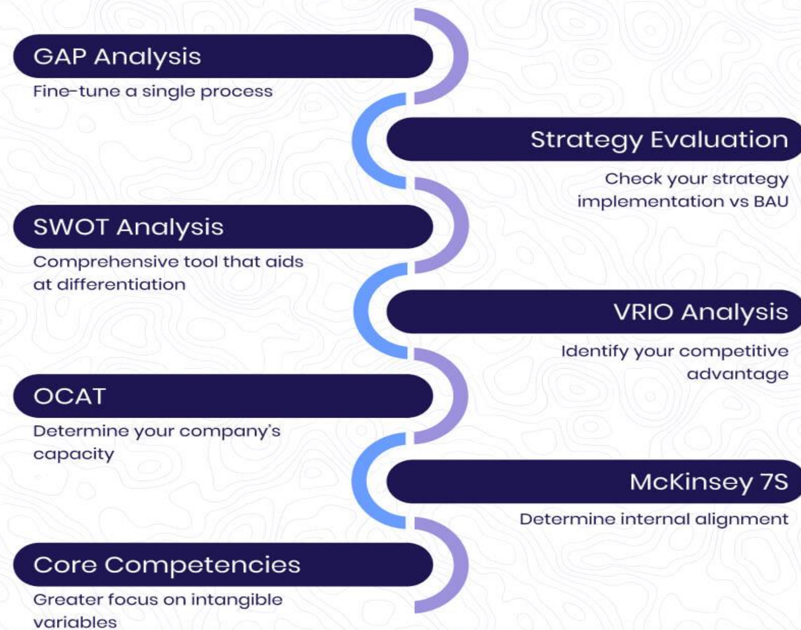
4. Framework time

Now you take into account all the data you collected from your research and execute it in the chosen framework. Once you have completed the framework, leverage the insights to best answer the question of why you conducted an Internal Analysis.

5. Create your plan

Once you have answered that question, take the insights and create a strategic plan that enables you to reach that initial goal. So in the case of our goal, to ideate the UI direction for a new product, the vision statement in our strategic plan could be something like, to create a seamless UI that improves user experience through increased retention time.

3.4 Internal Analysis Tools



Before conducting an internal analysis, you need to decide what tools you will use. There are many tools and frameworks, and each one can be valuable—but each one is also best for a specific purpose. The role played by Internal Analysis in strategic management is key to organizations having a robust strategy.

To help you choose the right framework, we've compiled a list of some of the most popular and effective ones, together with descriptions of what they'll help you achieve.

GAP analysis

GAP analysis is an evaluation tool that allows organizations to identify performance deficiencies and internal weaknesses.

It's a simple and practical framework. It helps you compare your current organizational state to your desired future state. It helps you identify and understand the gaps between the two states and makes it easier to create a series of actions to bridge those gaps.

GAP analysis helps management identify if their organization is performing to its potential, and if not, why. In addition, it helps to pinpoint flaws in the company resource allocation, planning, production, etc.

Why choose the GAP analysis framework
While other internal analysis tools, such as SWOT analysis, offer a more comprehensive study of the internal environment, GAP analysis is a better framework for fine-tuning a single process (or a selected few) instead of the company as a whole.

Strategy evaluation

A strategy evaluation analyzes the results of a strategic plan's implementation.

It's useful to conduct a strategy evaluation regularly to see if everyone understands and acts according to your business strategy. You might want to conduct such an evaluation every six months, every year, or after a revamped business strategy implementation. It mostly depends on the number of changes you're trying to implement.

The strategy evaluation process involves looking back at the goals of your strategic plan and assessing how well your strategic management initiatives fared in achieving them.

Why choose the Strategy evaluation framework

Strategy evaluation shows how your strategy implementation process fares against "business as usual". You might have created a great strategic plan, but it's of no use if it's not being executed.

SWOT analysis
SWOT analysis is one of the better-known and most commonly used business analysis frameworks.
It's popular due to its simplicity (it covers both internal and external analysis) and its efficacy. Its name is derived from the four factors that form the SWOT matrix:

- Internal **strengths**
- Internal **weaknesses**
- External **opportunities**
- External **threats**

SWOT matrix diagram

SWOT analysis can uncover a sustainable niche in your market and grow your market share. It allows organizations to discover external opportunities they can exploit while simultaneously identifying internal factors that cause weaknesses. It also helps to reduce the risk of impending possible threats.

Here's a simplified Internal Analysis example of Starbucks' SWOT:

Strengths

- Global leader in coffee and beverage retailing.
- Strong brand equity and great brand recall.
- One of the largest coffee houses globally, which allows it to price its products for the middle-income group.

Weaknesses

- Heavy dependence on coffee beans.
- Criticized in the past for procuring coffee beans from impoverished third-world farmers.
- The price is still costly for many working consumers.

Opportunities

1. Should expand to the tier-II cities of the emerging countries in order to further increase its customer base.
2. Should expand its product portfolio to venture into the full spectrum food and beverage business.

Threats

- Profitability is always at the mercy of the rising prices of coffee beans and the supply network.
- Strong competition from the local coffeehouses and specialty stores that offer similar products at a cheaper price.

Starbucks or any company can then use such analysis to develop strategic alternatives that will help it meet its goals by minimizing the company's weaknesses and threats and leveraging business opportunities and strengths.

Why choose the SWOT analysis framework

It helps organizations distinguish themselves from competitors by understanding their unique capabilities and sources of competitive advantage, which can help them compete in their given market place.

VRIO analysis

The VRIO framework is a great tool for assessing an organization's internal environment.

It looks at an organization's internal resources and categorizes them based on the overall value they contribute to the organization. VRIO is a framework that helps you create sustainable competitive advantages.

It enables you to identify your unique strengths and transform them from short-term competitive edges into sustainable performance drivers.

Why choose the VRIO analysis framework

If you're looking to develop a strategy that builds on your organization's competitive advantage, VRIO analysis is the tool you need. It will give you a deeper understanding of your assets and your organization’s added value.

OCAT

The Organizational Capacity Assessment Tool was designed for non-profit organizations looking to analyze their internal environments.

OCAT assesses how well your organization performs across the following 10 internal dimensions:

- Aspirations
- Strategy
- Leadership, Board & Staff
- Funding
- Marketing & Communications
- Advocacy
- Business Processes
- Infrastructure & Organizational Structure
- Culture and shared values
- Innovation and adaptation

The results of the assessment help non-profits evaluate and improve their organizational capabilities.

Why choose the OCAT framework

OCAT dives deeper into organizational structure and internal state than most other frameworks. Its power lies in translating organizational capacities into strategies that boost organizational performance to a new level.

McKinsey 7S framework

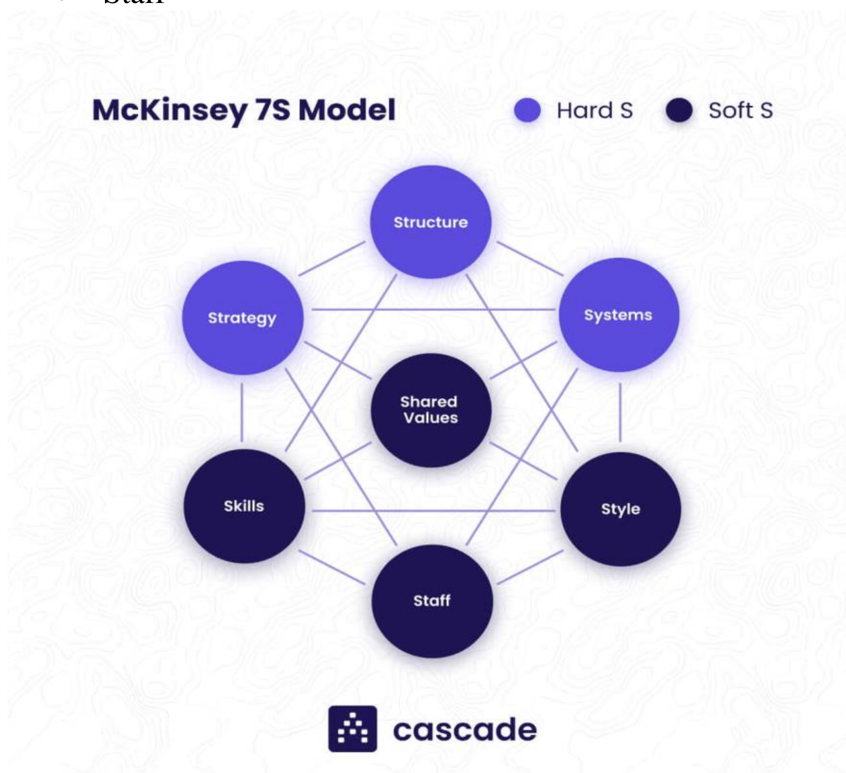
Another popular and battle-tested tool is the McKinsey 7S Framework**.**

McKinsey 7S is ideal for organizations looking to determine the state of alignment between departments and processes. The model can assess an organization's current state compared to a desired future state and evaluate the gaps and inconsistencies between them.

McKinsey 7S prompts you to analyze seven internal aspects that should be aligned if your organization is to reach its full potential. These seven aspects are:

- Strategy
- Structure
- Systems

- Shared Values
- Skills
- Style
- Staff



Why choose the McKinsey 7S framework

This framework provides an honest view of the organization’s internal alignment. It examines various internal elements, from the company’s culture to its staff, leadership capabilities, and process efficiency.

Core competencies analysis

The core competencies analysis helps organizations shape their unique advantage, which can help them overtake the competition.

The basic premise of the analysis is to identify the organization's core competencies—the combined resources, knowledge, and skills of an organization that provide unique value for its customer. Once an organization has identified its core competencies, it can implement strategies that focus specifically on its strengths and the added value it provides.

Why choose the Core competencies analysis framework

Compared to other types of analyses, this one puts a greater emphasis on intangibles instead of focusing solely on tangible resources. It focuses on unique advantages that also make strategic sense.

3.5 Importance of Internal Environment Analysis

Why internal environment analysis is important? Internal analysis is an effective approach to assessing organizational capability. The assessed information can be used in various ways. Some major ways internal analysis helps organizations are:

Helps to Identify Strengths

The first importance of internal analysis we may consider is that it helps to identify the relative strengths of the organization. The organizational strengths may be in terms of resource availability, innovation, skilled manpower, uniqueness, brand, etc.

In addition to identification, it also helps to use these strengths to exploit opportunities and accomplishment of goals.

Helps to Identify Weaknesses

Similar to the strengths, it also identifies the weaknesses of the organization which are weaknesses as compared to its competitors. Once identified, it further prepares the organization to reduce such weakening factors and mitigate external environment threats.

Helps to identify Unique Resources

To be competitive in the market, an organization needs to have unique resources. Unique resources are resources that make a firm different from its competitors.

Usually, the unique resources are valuable, inimitable, rare, and difficult to substitute. They help firms to develop core competencies that lead the organization toward sustainable competitive advantage.

Identifies Core Competency

Along with the identification of unique resources, internal environment analysis also helps to identify and develop core competencies.

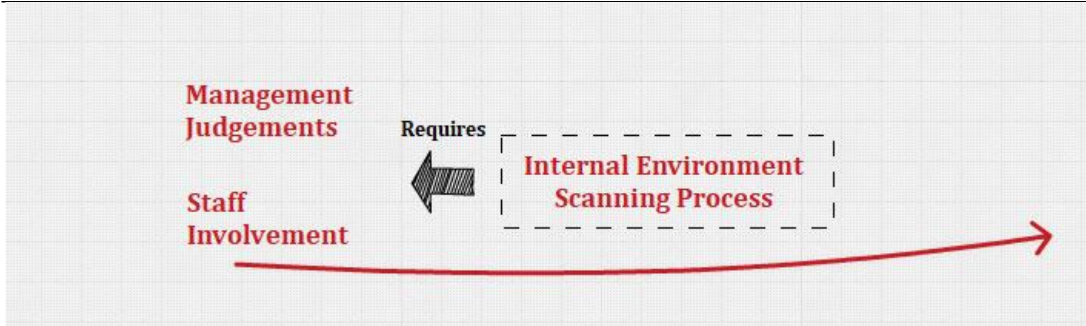
A competency is that in which the firm is well. And, core competency is the sum of that the whole organization is exceedingly well in doing then competitors.

They are the most important sources of competitive advantage. They reside in the functional areas of production, marketing, and human resources.

Strategy Formulation

Understanding every aspect of the organization makes the aware manager of capability, competencies, unique resources, strengths, and weaknesses and helps the manager formulate effective strategies.

3.6 The Challenge of Analysing Internal Environment



The strategic decisions that a firm makes about its internal environment can be as challenging and difficult as any other type of decisions management typically involves.
Making these decisions involves identifying, developing, deploying, and protecting resources, capabilities, and competencies. They are about choices with large impacts that firms need to understand and leverage properly. Making such choices would require unified knowledge and participation from people at many different levels of the organization.

Making these decisions also faces uncertainty because of a number of issues, including those of new proprietary technologies, rapidly changing economic and political trends, transformations in societal values, shifts in customers' demands, or trends in the environmental landscape.

Making these decisions also faces complexity because of the inter relationship between these involved factors. This natural tendency exponentially increases the range of issues firms must resolve when they try to take on these challenges.

Making these decisions may be shadowed by the intra-organizational conflict that occurs regarding which resources are strategic to the firm, which combination of resources and capabilities are considered core competencies, or which distinctive competencies a firm should develop and nurture.

Making these decisions may also be biased due to pressure on management to pursue short-term decisions that help the firm meet anticipated quarterly earnings, making it more difficult to accurately examine the firm's internal environment, strategic resources, capabilities, and core competencies.

Judgment is required in order to overcome these challenges.

Judgment is the capability of making successful decisions when no obviously correct model or rule is available or when relevant data are unreliable or incomplete.

In such situations, firms must be aware of possible cognitive biases, such as over confidence. Individuals who are too confident in the decisions they make about how to use the firm's resources may fail to fully evaluate contingencies that could affect those decisions.

Firms must also take intelligent risks as it makes judgment calls. In the current competitive landscape, executive judgment can become a valuable capability. Over

time, effective judgment allows a firm to build a strong reputation and retain the loyalty of stakeholders whose support is linked to above-average returns.

Firms must also find individuals who can make the best judgment about using the organization's resources, capabilities, and core competencies, even though this task can be a challenge.

Individuals holding these key decision-making positions are called strategic leaders. Strategic leaders as individuals with an ability to make effective decisions when examining the firm's resources, capabilities, and core competencies for the purpose of making choices about their use.

This is important because the quality of leaders' decisions regarding internal strategic factors can have a huge impact on the firm's decision-making process.

The involvement of managers and employees from different functions and divisions can help firms resolve these challenges.

Through involvement in performing an internal environment scanning, managers and employees from different functions and divisions of the firm come to understand the nature and effect of decisions in other functional business areas in their firm. They are also provided with more opportunities to understand how their jobs, departments, and divisions fit into the whole organization.

Knowledge of these relationships is critical for effectively overcoming obstacles in internal environment scanning and establishing objectives and strategies. Also, managers and employees generally perform better when they understand how their work affects other areas and activities of the firm.

The number of relationships among the functional areas of business increases dramatically with a firm's size, diversity, geographic dispersion, and the number of products or services offered.

Financial ratio analysis is a great tool to exemplify the complexity of relationships among the functional areas of business. A declining return on investment or profit margin ratio could be the result of ineffective marketing, poor management policies, research and development errors, or a weak management information system.

In organizations that do not use strategic management, marketing, finance, and manufacturing managers often do not interact with each other in significant ways, and thus fail on these communication lines.

In organizations that place too great of an emphasis on one function at the expense of others, this thinking is also detrimental to resolves the problems in the internal environment scanning process and generally, the strategic management process.

***Summary*:**
For a strategy to succeed, it should be based on a realistic assessment of the firm's internal resources and capabilities. An internal analysis provides the means to identify the strengths to build on and the weaknesses to overcome when formulating strategies. The internal analysis process considers the firm's resources; the business the firm is in; its objectives, policies, and plans; and how well they were achieved.

All organizations irrespective of their size, nature, and scope of business perform the functions of finance, production, marketing, and human resource development. For efficient strategic management, careful planning, execution, and coordination of various functions marketing, production and operations, finance and accounting, research and development, and human resource management is highly essential.

Each of the functional areas has strengths or weaknesses depending on how the function is being managed. The joint performance of these functions will have a direct bearing on the firm's performance in terms of superior product design and quality, superior customer service, and superior speed.

The management can be evaluated on the basis of the organizational profile of strengths and weaknesses in light of what it has or has not done, or what it has or has not achieved. Similarly, the role of the board of directors should also be analyzed. An organization's culture (shared values) should have a good fit with its strategy and other factors such as structure, systems, management style, and human resources (staff and their skills), as depicted in the McKinsey 7-S framework. If the existing culture will not be suitable for a desired strategic alternative, the management has to decide whether it will be feasible to change the culture and how much time and other resources would be required to achieve this culture change.

Value chain analysis divides a firm's activities into two major categories primary and support activities. Primary activities are those activities that are involved in the physical creation of the product (inbound logistics, operations, and outbound logistics), marketing and sales, and after-sales support. Firm infrastructure, human resource management, technology development, and procurement are the support activities.

Key Terms

Barriers to entry: Industry factors (such as high start-up costs) that can prevent new firms from successfully launching new operations in that industry.

Buyer power: In the relationship between a firm and its customers, buyers with high power can negotiate product price or features, while buyers with low power cannot.

Capabilities: A firm's skill at coordinating and leveraging resources to create value.

Competition: Business actions a firm undertakes to attract customers to its products and away from competitors' products.

Competitive advantage: When a firm successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do.

Competitive environment: Factors and situations both inside the firm and outside the firm that have the potential to impact its operations and success.

Cost-leadership strategy: A generic business-level strategy in which a firm tightly controls costs throughout its value chain activities in order to offer customers low-priced goods and services at a profit.

Demographics: Part of PESTEL that includes facts about the income, education, age, and ethnic and racial composition of a population.

Differentiation strategy: A generic business-level strategy in which firms add value to their products and services in order to attract customers who are willing to pay a higher price.

Economic factors: PESTEL category that includes facts (such as unemployment rates, interest rates, and commodity prices) about the state of the local, national, or global economy.

Environmental factors: PESTEL category that examines a firm's external situation with respect to the natural environment, including pollution, natural resource availability and preservation, and alternative energy.

Environmental scanning: The systematic and intentional analysis of a firm's internal state and its external environment.

External environment: The aspects of the world at large and of a firm's industry that can impact its operations.

External factors: Things in the world or industry environments that may impact a firm's operations or success, such as the economy, government actions, or supplier power. Strategic decisions can be made in response to these things but normally cannot directly influence or change them.

Focus strategy: A generic business-level competitive strategy that firms use in combination with either a cost-leadership or differentiation strategy in order to target a smaller demographic or geographic market with specialized products or services.

Generic business-level strategies: Basic methods of organizing firm value chain activities to compete in a product market that can be used by any sized firm in any industry.

Industry: A group of firms all offering products or services in a single category, for example restaurants or athletic equipment.

Industry rivalry: One of Porter's Five Forces; refers to the intensity of competition between firms in an industry.

Internal environment: Inner most layer of a firm's competitive environment, including members of the firm itself (such as employees and managers), investors in the firm, and the resources and capabilities of a firm.

Internal factors: Characteristics of a firm itself, such as resources and capabilities, that the firm can use to successfully compete against its rivals.

Legal factors: In PESTEL, the laws impacting business, such as those governing contracts and intellectual property rights and illegal activities, such as online piracy.

Macro environment: The outermost layer of elements in a firm's external environment that can impact a business but are generally beyond the firm's direct control, such as the economy and political activity.

Micro environment: The middle layer of elements in a firm's external environment, primarily concerned with a firm's industry situation.

New entrants: One of Porter's Five Forces, the threat of new entrants assesses the potential that a new firm will start operations in an industry.

Opportunity: A situation that a firm has the resources and capabilities to take advantage of.

PESTEL: A strategic analysis tool that examines several distinct categories in the macro environment: **p**olitical, **e**conomic, **s**ociocultural, **t**echnological, **e**nvironmental, and **l**egal.

Political factors: PESTEL factor that identifies political activities in the macro environment that may be relevant to a firm's operations.

Porter's Five Forces: Evaluates the interconnected relationships between various actors in an industry, including competing firms, their suppliers, and their customers, by examining five forces: industry rivalry, threat of new entrants, threat of substitutes, supplier power, and buyer power.

Primary activities: Firm activities on the value chain that are directly responsible for creating, selling, or servicing a product or service, such as manufacturing and marketing.

Resources: Things a firm has, such as cash and skilled employees, that it can use to create products or services.

Sociocultural factors: PESTEL category that identifies trends, facts, and changes in society's composition, tastes, and behaviors, including demographics.

Strategic analysis: Process that firms use to study and understand their competitive environment.

Strategic group: Businesses offering similar products or services and following the same generic competitive strategy.

Strategic positioning: Firm's decisions on how to organize its actions and operate to effectively serve customers and compete against rivals.

Strategy: Process of planning and implementing actions that will lead to success in competition.

Strengths: Resources and capabilities of a firm; what it is good at.

Substitutes: One of Porter's Five Forces; products or services outside a firm's industry that can satisfy the same customer needs as industry products or services can.

Supplier power: One of Porter's Five Forces; describes the balance of power in the relationship between firms in an industry and their suppliers.

Support activities: Value chain activities that a firm performs to sustain itself; do not directly create a product or service but are necessary to support the firm's existence, such as accounting and human resources.

Switching costs: Penalty, financial or otherwise, that a consumer bears when giving up the use of a product currently being used to select a competing product or service.

SWOT Strategic analysis tool used to examine a firm's situation by looking at its **s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats.

Technological factors: PESTEL category that includes factors such as the Internet, social media, automation, and other innovations that impact how businesses compete or how they manufacture, market, or sell their goods or services.

Threat Anything in the competitive environment that would make it harder for a firm to be successful.

Value chain: Sequence of activities that firms perform to turn inputs (parts or supplies) into outputs (goods or services).

VRIO: analytical tool that evaluates a firm's resources and capabilities to determine whether or not it can support an advantage for the firm in the competitive environment: value, rarity, imitation, and organization.

Weaknesses: Things that a firm does not have good capabilities to perform or gaps in firm resources.

❖ **Exercise**

Long Questions

1. Why is an internal analysis important?
2. How to conduct an internal analysis?
3. What are the various tools to analyse the internal environment of the firm?
4. What is the importance of analysing the internal environment of the firm?
5. Discuss various challenges in analysing the internal environment of the firm?

Multiple Choice Questions

1. Within project management, the SWOT analysis tool stands for strengths, weaknesses, opportunities and _____.
   a. Time
   b. Threats
   c. Trust
   d. Tools
   Ans: B
2. Some examples of internal environmental factors in an organization are _____.
   a. Management changes
   b. Employee moral
   c. Culture changes
   d. All of the answers are correct
   Ans: D
3. What is prepared at the end of internal analysis?
   a. Internal Factor Analysis Summary
   b. External Factor analysis summary
   c. Vision
   d. All of these
   Ans: A
4. An organization's ability or capacity to deploy or exploit resources is known as _______.
   a. Strengths of firm
   b. Weaknesses of firm
   c. Capability
   d. All of these
   Ans: C
5. If a resource is 'inimitable' a competitor finds it:
   a. Easy to copy
   b. Easy to acquire
   c. Easy to copy and easy to acquire
   d. Difficult to copy
   Ans: A

UNIT – 4

COMPANY REPORT ANALYSIS AND RECOGNIZING A FIRM'S INTELLECTUAL ASSETS

4.1 Introduction

4.2 Defining Company Reports and Intellectual Assets

4.3 Types of Company Report

4.4 Tools and Techniques for Analysis

4.5 Analytical Excellence - Unleashing Tools and Techniques for Firm Performance, Decision Making, and Competitive Advantage

4.6 Business Model - Putting Strategy into Action

4.7 Recognising Firm's Intellectual Assets

4.8 Challenges

❖ **Exercise**

4.1 Introduction

Companies play a significant role in the world, serving as engines of economic development, innovation, and employment. The contribution of companies extends beyond financial growth to encompass technological advancements, research and development, and the creation of diverse job opportunities. The responsible companies are also engaged in corporate social responsibility initiatives for addressing societal challenges, promoting ethical business practices, and supporting community development. On the other side the increasing power of companies also raises concerns about the influence of giant companies on world economic policies, political processes, and social well-being. These concerns are due to the corporate interests, they are driven by profit motive and shareholders demand. The profit motives may override considerations for environmental sustainability, social equity, and ethical business practices. Therefore there is a need to communicate to stakeholders about the nuanced understanding of a company that advocates for a balanced approach that aligns profit motives with societal well-being and environmental stewardship. The practice that a firm is not only generating wealth and prosperity for the shareholders but also focusing on positive change and contributes to a more interconnected and sustainable global society. The business communicates their prospects, practices, and performance through reports. Therefore the company reports should be analysed for informed decision making.

The company report analysis provides a comprehensive overview of a business's financial health, operational efficiency, and strategic direction. It provides insight into the organization's historical performance, current state, and projected future direction. The detailed analysis of financial statements, operational reports, and sustainability disclosures provides the company's profitability, liquidity, and overall stability.

Moreover, company report analysis goes beyond numbers, encompassing qualitative aspects such as corporate governance, social responsibility, and environmental impact. This information is important to the stakeholders for informed decision making.

The connection between company report analysis and strategic management is like a compass directing a ship through unknown waters. The company reports serve as a treasure trove of information of firm and the strategic management involves the

formulation and execution of plans to achieve organizational goals. The synergy created by using company report analysis as strategic input. The financial statement analysis can help to identify resources and constraints, informing strategic decisions on resource allocation and investment. The operational analysis can provide the information about strengths and weaknesses that helps in formulating operational strategies. Sustainability analysis provides a prism through which ethical issues may be included into the strategic framework. Therefore it can be said that company report analysis serves as the foundation upon which strategic management builds its roadmap, ensuring that decisions are rooted in a thorough understanding of the organization's internal dynamics and external landscape. The company reports analysis is a forward-looking tool that empowers strategic managers to navigate uncertainties, identify challenges, capitalize on opportunities, and guide their organizations toward long term sustainable success.

The primary objective of intellectual asset recognition in strategic management is to utilise and safeguard the intangible aspects that contribute significantly to a company's competitive advantage. Patents, trademarks, copyrights, software, and proprietary knowledge are examples of intellectual assets that embody the distinct qualities that distinguish a corporation in the marketplace. Understanding these assets and strategically utilising them to improve innovation, market positioning, and total value generation are all part of strategic management. Strategic managers may make informed judgements by recognising and valuing intellectual assets. In a continually changing business context, this indicates that the organisation maximises the potential of its intangible assets. Furthermore, it acts as a proactive approach to protect intellectual property, supporting long-term growth and resistance to competitive challenges.

4.2 Defining Company Reports and Intellectual Assets

4.2.1 Company Report

A company report is a well organised and objective presentation of a firm’s prospects, practices, and performances with factual information to meet specific purpose of organisation.

This definition explains that a company report is a rigorously designed and unbiased document that provides a thorough picture of a firm's future prospects, present operating techniques, and previous performances. This also stress on significance of presenting information objectively, creating trust in stakeholders who rely on the report for decision-making. The inclusion of factual information ensures the report's credibility, enabling stakeholders to base their assessments on reliable data. Essentially, the definition recognises that a corporate report is a specialised objective presentation, designed to meet the specific purpose of the organisation such as for informing investors, complying with regulations, or guiding internal decision-making processes. This definition highlights the role of company reports as strategic tools that provide a holistic, accurate, and purpose-driven understanding of a firm's position in the business landscape.

Company report analysis is a systematic examination, evaluation, and critical interpretation of various components of a company report.

The definition of company report analysis accentuate that the analysis is systematic, implying a scientific and organized approach to reviewing a company report. The term

"examination" emphasizes a thorough scrutiny of various components, including financial statements, operational strategies, and performance metrics. The term "evaluation" refers to the use of criteria to assess the company's strengths and weaknesses. The word "critical interpretation" highlights the importance of a discerning and impartial perspective in understanding the implications of the report's contents.

4.2.1 Intellectual Assets

Intellectual asset is an asset created or owned or controlled by individual or organisation representing valuable idea, design, processes, invention, innovation, or creative work.

These assets include patents, trademarks, copyrights, trade secrets, technology, software, domain name, unique processes, brand reputation and many more. These assets derive their value form creative and intellectual contribution. These assets have value in the market like other assets. They play a vital role in fostering innovation, competitive advantage, and long-term sustainability. The management and protection of intellectual assets is essential for firms to capitalize on their innovations, differentiate themselves in the market, and safeguard their intellectual property from unauthorized use or reproduction.

4.3 Types of Company Report

Sr. No.	Company Report	Explanation
	Time Based Reports	
1	Annual Report	An annual report is a comprehensive document prepared by a company at the end of each financial year. It provides a detailed overview of the company's financial performance and overall business activities throughout the year. The annual report is a key communication tool for a company to communicate with the shareholders, potential investors, regulators, and other stakeholders. It generally includes financial statements, Directors Report, Auditors Report, Management Discussions and Analysis (MD&A), and other relevant information.
2	Bi-Annual Report	A bi-annual report is similar to an annual report but is produced twice a year, generally covering a six-month period. It offers stakeholders a more frequent update on the company's performance and financial health. Bi-annual reports are common in industries where business conditions change rapidly, and stakeholders require more frequent insights.
3	Quarterly Report	A quarterly report is issued by a company every quarter i.e. every three months and provides a snapshot of its financial and operational performance during this period. It includes financial statements such as the income statement, balance sheet, and cash flow statement. Additionally, this report may provide

		details about updates on strategic initiatives, and any significant events or developments affecting the company.
	Entity Based Reports	
1	Standalone Report	A standalone report focuses specifically on the performance and activities of an individual entity, usually a parent company without considering contributions or impact of its affiliated entities. Standalone reports are useful for stakeholders who want detailed insights into the performance of a single entity of the business without the influence of other investment and affiliates businesses.
2	Consolidated Report	A consolidated report provides a comprehensive view of a company's financial and operational performance by combining the results of parent company and its affiliated companies such as subsidiaries, associates, and joint ventures. The purpose is to present the groups financial performance and position as a single economic entity. These reports are important for stakeholders who want to understand the overall performance and position of the entire corporate group rather than individual entities.
	Responsibility and Sustainability Reports	
1	Integrated Report	An integrated report combines financial and non-financial information to provide stakeholders with a holistic view of a company's performance. It integrates financial performance with sustainability, governance, and strategy. The main purpose of this report is to present a unified and coherent narrative that reflects the interconnected nature of various factors influencing the companies value creation over time.
2	Corporate Governance Report	This report outlines the structure, processes, and effectiveness of a company's corporate governance practices. This generally includes information about the composition and independence of the board of directors, executive compensation, risk management processes, and mechanisms for shareholder engagement. This report aims to give an idea of the firm’s commitment to transparency, accountability, and ethical conduct in its decision making.
3	Sustainability Report	This report provides detailed information of firm’s environmental, social, and economic impact. This covers a range of aspects, including energy consumption, carbon emissions, social responsibility initiatives, employee diversity, community engagement, and more. The purpose is to communicate the company's commitment to sustainable practices and the impact of its operations on the world.

4	ESG Report	ESG means Environmental, Social, and Governance. This report specifically focuses on a firm's performance in these three areas. This evaluates how the company manages its environmental impact, addresses social issues, and maintains good governance practices. This reporting is important for stakeholders who prioritize sustainable and socially responsible investments.
5	CSR Report	CSR means Corporate Social Responsibility. This report outlines a company's initiatives and contributions to social and environmental causes. This report encompasses philanthropy, community service, and ethical business practices. This report gives an idea of the company's commitment to making a positive impact beyond its core business activities.
	Performance Reports	
1	Financial Reports	These reports present formal records and statements that provide an overview of the firm's financial position, performance, and cash flows. The core financial statements include the balance sheet, income statement, and cash flow statement. These reports are crucial for stakeholders to assess the financial position and performance of a firm.
2	Operational Reports	These reports focus on the day-to-day activities and operational processes of a company. The report generally includes operational metrics and performance indicators that help the management to monitor and improve daily business operations. Examples: production reports, sales reports, inventory reports, efficiency metrics, etc. The purpose of operational reports is to optimize operational processes and ensure that daily activities align with the organizations broader goals.
3	Segmental Reports	These reports provide a breakdown of a company's financial and operational results by business segments or divisions. These segments can be based on product lines or geographical regions. They provide insights into the performance of individual business units within the organization, helping stakeholders understand how different parts of the business contribute to the overall success of the company.
4	Subsidiaries, Associates, and Joint Ventures Report	This report provides information about the financial and operational performance of affiliated entities in which the reporting company holds a significant interest. This includes subsidiaries (controlled entities), associates (entities with significant influence but not control), and joint ventures (joint control). This report provides stakeholders the insights into impact of affiliated firms on the overall

		performance and success of the reporting company.
	Informational	
1	Corporate Overview (about the company)	This provides a detailed introduction to the company. This generally covers the company's history, mission, vision, core values, business model, and key milestones. This report is the foundational document that helps stakeholders to understand the essence of the company.
2	Management Analysis and Discussion	This provides insights from the company's management about its financial performance, strategic initiatives, challenges faced, and future outlook. This report allows management to communicate their perspective on the company's performance and address key issues if any.
3	Board of Directors Report	The director’s report is a section within the annual report where the board communicates with stakeholders. This generally includes governance-related matters, such as changes in board composition, corporate governance practices, and the board's perspective on the company's performance. This report provides insights to stakeholders to understand the board's role in overseeing the company's affairs.
4	Auditor’s Report	This report is an independent assessment of a company's financial statements by external auditors. Auditors express their opinion on the fairness and accuracy of the financial statements. This report is important for providing assurance to stakeholders regarding the reliability of the company's financial information.
5	Awards & Accolades	This highlights any recognition or honours’ that the company has received. This can include industry awards, environmental certifications, workplace recognition, or any other form of acknowledgment for outstanding performance. This report showcases the company's achievements and contributions.
6	Other	This is a catch all reports not covered by specific types listed above. This may include specialized reports, ad-hoc reports, prospectus, or any additional information that the company deems relevant for stakeholders. This category allows flexibility in reporting based on specific circumstances or needs.

These time based reports, entity based reports, performance reports, sustainability and responsibility reports, and informational reports provide holistic and comprehensive picture of a firm and serves as a major tool of communication to all class of internal and external stakeholders.

4.4 Tools and Techniques for Analysis

The tools and techniques for analysing company reports are listed below. These versatile tools and techniques are not confined to any specific type of company report; instead, they are just recommended based on their appropriateness for each specific report.

<table>
<tr><th>Types of Company Report</th><th>Tools and Techniques for Analysis</th></tr>
<tr><td>Time Based Reports</td><td rowspan="4">Ratio Analysis
Trend Analysis
Comparative Analysis
Financial Modelling</td></tr>
<tr><td>Annual Report</td></tr>
<tr><td>Bi-Annual Report</td></tr>
<tr><td>Quarterly Report</td></tr>
<tr><td>Entity Based Reports</td><td rowspan="3">Ratio Analysis
SWOT Analysis
Benchmarking</td></tr>
<tr><td>Standalone Report</td></tr>
<tr><td>Consolidated Report</td></tr>
<tr><td>Responsibility and Sustainability Reports</td><td rowspan="6">GRI Standards Analysis
Triple Bottom Line Analysis
Materiality Analysis
Stakeholders Engagement
Corporate Governance Score Analysis</td></tr>
<tr><td>Integrated Report</td></tr>
<tr><td>Corporate Governance Report</td></tr>
<tr><td>Sustainability Report</td></tr>
<tr><td>ESG Report</td></tr>
<tr><td>CSR Report</td></tr>
<tr><td>Performance Reports</td><td rowspan="5">KPI and Ratio Analysis
Common Size Analysis
Variance Analysis
CVP Analysis
Market Share Analysis
Balanced Scorecard</td></tr>
<tr><td>Financial Reports</td></tr>
<tr><td>Operational Reports</td></tr>
<tr><td>Segmental Reports</td></tr>
<tr><td>Subsidiaries, Associates, and Joint Ventures Report</td></tr>
<tr><td>Informational Reports</td><td rowspan="7">SWOT Analysis
Reputational Analysis
Content Analysis
Board Composition Analysis
Risk Assessment
Stakeholders Analysis
Media Monitoring</td></tr>
<tr><td>Corporate Overview (about the company)</td></tr>
<tr><td>Management Analysis and Discussion</td></tr>
<tr><td>Board of Directors Report</td></tr>
<tr><td>Auditor’s Report</td></tr>
<tr><td>Awards & Accolades</td></tr>
<tr><td>Other</td></tr>
</table>

4.5 Analytical Excellence - Unleashing Tools and Techniques for Firm Performance, Decision Making, and Competitive Advantage

In present business world the strategic use of analytical tools and techniques has become paramount for companies seeking to enhance their performance, inform decision-making processes, and gain a competitive advantage in the market. The application of these analytical tools allows businesses to measure their performance with precision and helpful to management in evaluating various aspects of their operations. These tools provide invaluable insights of business prospects, practices, and performance that empower informed decision-making for various stakeholders. This comprehensive analysis not only streamlines performance measurement but also serves as a strategic compass that enables companies to navigate challenges and

capitalize on opportunities for sustained success and a distinct competitive advantage. Using analytical tools skilfully is becoming more and more essential in this changing period if one wants to succeed in the dynamic world of business and industry. How these tools and techniques are useful in firm performance measurement, decision making process, and to identify or gain competitive advantage are all considered and discusses as follows.

4.5.1 Ratio Analysis

The accounting ratio analysis involves evaluating the relationships between various financial variables in a firm, such as profitability ratios, liquidity ratios, efficiency ratios, and solvency ratios. The effective ratio analysis provides insights into the financial health of a firm by assessing its ability to meet short-term obligations, profitability, operating efficiency, and long term solvency position. The management use this information to make informed decisions about resource allocation, capital structure and overall financial strategy. The key metrics for this analysis are the return on capital employed and the debt-to-equity ratio. These metrics help to measure how well a company uses its resources and manages its financial structure. The higher return on capital employed ratio indicates efficient resource utilization, while a balanced debt - equity ratio reflects an optimal capital structure. These metrics contribute to the firm's competitive advantage by ensuring effective resource management and maintaining a healthy financial position.

4.5.2 KPI Analysis

The KPIs i.e. Key Performance Indicators are metrics that measure the performance of critical business activities. The KPI analysis involves assessing the performance of these indicators to gauge the effectiveness of organizational processes. This KPI analysis helps to align business activities with strategic objectives of the firm by providing a quantitative basis for measuring performance against key goals. Strategic managers use KPIs to track progress, identify areas for improvement, and ensure that operational activities contribute to overall strategic success. This analysis assists in setting performance targets and refining strategies to achieve organizational objectives. The key metrics for this analysis are the customer satisfaction score and the revenue growth rate. These metrics are important as they help the company to focus on core and critical areas of performance. The business may make sure it is serving consumer wants and expanding in a way that is consistent with its main objectives by monitoring customer satisfaction and revenue growth. Essentially, these indicators provide the business a competitive edge by directing its attention towards the most important aspects of success.

4.5.3 Trend Analysis

This analysis involves examining patterns and changes in various business metrics over time, such as revenue, costs, and market share. It helps to identify trends, cycles, and potential future developments. This analysis provides historical context and patterns of key metrics. Strategic managers use trend analysis to anticipate changes, identify emerging opportunities or risks, and make informed decisions for long-term planning. This analysis helps in forecasting future performance, adapting strategies to market dynamics, and ensuring the organization is well-positioned for evolving trends. The key metric of this analysis are the sales growth rate and employee productivity trends. The company gains an advantage in anticipating changes and adjusting its

tactics to match the developing dynamics of the market by keeping an eye on how the sales is increasing and understanding how productive employees are. This enables company to keep ahead of the competition and make sound business decisions.

4.5.4 Comparative Analysis

This analysis involves comparing the financial performance of a company with its peers or competitors or past years or industry benchmarks. This can include ratio comparisons, benchmarking against industry standards, and evaluating key financial metrics. This analysis helps in understanding how the company performs relative to competitors. Strategic managers use this information to identify areas of competitive advantage, benchmark against industry best practices, and inform strategies to outperform competitors in core areas. This provides insight into market dynamics and helps in developing strategies that enhance the company's competitive positioning in long term. The key metrics of this analysis such as revenue per employee and market share comparison helps companies to identify how well they are performing compared to their competitors. Revenue per employee measures how efficiently a company is using its workforce to generate revenue while market share comparison shows the company's portion of the market compared to its competitors. The analysis of these metrics can help businesses to pinpoint areas where they need to improve and to stay competitive in the market.

4.5.5 Common Size Analysis

Common size analysis expresses financial statement line items as a percentage of a common base, generally total revenue or assets. It standardizes financial statements to compare components within and across companies. This analysis helps in understanding the proportion of expenses relative to total revenue. Strategic managers use this for cost control, optimizing resource allocation, and identifying areas for efficiency improvement. The analysis of assets and liabilities provides insights into the composition of the balance sheet. This can be helpful in adjusting capital structure, optimizing asset utilization, and managing liabilities effectively. The key metrics for this analysis are the percentage of total revenue and the percentage of total assets. These measures assist in determining how many resources the company is utilising in contrast to its total income and assets. The capacity to optimise resource allocation and manage expenditures efficiently is the competitive advantage acquired from analysing these metrics. Understanding the revenue and asset proportions allows the organisation to make informed decisions to ensure that its resources are employed properly, resulting in enhanced financial performance and sustainability.

4.5.6 Financial Modelling

Financial Modelling involves creating mathematical models to simulate and analyse financial scenarios. It includes forecasting future financial performance, assessing the impact of various strategies, and making predictions based on different assumptions.

This financial modelling allows strategic managers to create scenarios and assess the potential outcomes of different strategic decisions. This analysis is crucial for evaluating the financial viability of investment projects which helps in prioritizing projects, allocating resources efficiently, and ensuring that investments align with overall strategic objectives. Moreover, assessing the sensitivity of financial outcomes with respect to changes in variables helps in understanding the robustness of strategic plans. The key metric of this analysis are projecting future cash flow and analysing

various financial scenarios. A competitive advantage can be gained by making well-informed decisions while considering various financial scenarios. This enables businesses to plan ahead, negotiate uncertainties, and select solutions best suited for various scenarios, ultimately contributing to their overall performance and resilience in a volatile business climate.

4.5.7 Variance Analysis

Variance analysis involves comparing actual financial outcomes with planned or budgeted outcomes and identifies the reasons for any deviations. This analysis helps in assessing the company's performance by highlighting areas where actual results differ from planned expectations. Managers use this information to understand the effectiveness of operational activities, identify areas for improvement, and make data-driven decisions to enhance overall performance. This is integral for operational performance monitoring and adjustment of strategies based on real-time financial data. The key metrics of this analysis are comparing the budgeted expenses and actual expenses and examining the variance in revenue. The competitive advantage is in detecting where the company's performance deviates from the budgeted performance. This allows the organisation to identify areas for development and improve operational efficiency. This approach provides for improved resource management and guarantees that the organisation is on pace to accomplish its financial objectives.

4.5.8 CVP Analysis

Cost-Volume-Profit analysis examines the relationships between costs, volume of production or sales, and profits. It helps in understanding how changes in these factors impact the company's profitability. CVP analysis is crucial for determining the break-even point, where total revenue equals total costs. This information is used to set pricing strategies, assess product/service profitability, and make decisions on resource allocation. This also presents different scenarios which help in identifying optimal pricing levels, sales targets, and resource utilization for maximizing profits through profit planning and strategic decision making. The key metrics of this analysis are the break even point and contribution margin that can be helpful in businesses to succeed. The break even point is the point where the company covers all its costs and the contribution margin is the percentage of revenue that contributes in covering these costs. These metrics are essential for businesses to set their pricing strategies and to ensure that they are making a profit. The companies can optimize their product profitability by understanding when they will start making profit (break-even point) and how much each sale contributes to covering costs (contribution margin). This competitive advantage allows businesses to make informed decisions about pricing and ensuring that they not only cover costs but also maximize their profits, contributing to their overall success.

4.5.9 Benchmarking

Benchmarking involves comparing a firm's performance, processes, or metrics against those of industry leaders. It provides a basis for identifying areas for improvement and implementing best practices. Benchmarking allows managers to identify areas where the company falls behind industry benchmarks. It can be helpful in formulating strategies for improving operational efficiency, product quality, or customer satisfaction. This analysis also helps in setting performance targets, identifying competitive advantages, and adapting strategies to stay ahead in the market. The key

metrics of this analysis are the industry average profit margin and a benchmark for customer satisfaction. The competitive advantage comes from using these indicators to learn from best practises in the market and improve the company's performance in comparison to industry norms. The company may establish itself as a leader in its sector and stay ahead of the competition by studying what works well in the industry and attempting to exceed customer satisfaction benchmarks.

4.5.10 SWOT Analysis

SWOT means Strengths, Weaknesses, Opportunities, and Threats. It involves an examination of internal and external factors that can impact a company. Strengths and weaknesses are internal factors, while opportunities and threats are external factors. SWOT analysis provides a comprehensive overview of the internal and external factors affecting the company. Managers use it to identify areas of competitive advantage (strengths), areas needing improvement (weaknesses), potential avenues for growth (opportunities), and external challenges (threats). It informs the development and adjustment of strategic plans to leverage strengths and opportunities while addressing weaknesses and mitigating threats. The key metric of this analysis are company's strengths, weaknesses, opportunities, and threats. The competitive advantage lies in using this analysis for firm’s benefit. A company can position itself strategically in the market by leveraging the strengths, addressing weaknesses, seizing opportunities, and mitigating threats. This is like playing with the strengths, improving where needed, grabbing opportunities, and protecting against potential challenges to stay ahead and succeed.

4.5.11 GRI Standards Analysis

The Global Reporting Initiative (GRI) Standards provide a framework for sustainability reporting, covering economic, environmental, and social dimensions. GRI analysis involves assessing a company's sustainability performance based on these standards. GRI analysis helps in evaluating the firm's performance in sustainability reporting. Managers use it to align business strategies with sustainability goals, meet stakeholder expectations, and enhance corporate reputation. It supports the integration of sustainable practices into the core of strategic decision-making, ensuring a balanced and responsible approach to business operations. The key metrics of this analysis are the environmental impact index and social responsibility metrics that helps a company to measure its impact on the environment and its commitment to social responsibility. The competitive advantage can be gained by aligning business strategies with sustainability goals. A company can ensure that its actions and plans are in line with making positive contributions to the environment and society and giving it a competitive edge in being socially responsible and environmentally conscious.

4.5.12 Triple Bottom Line Analysis

The Triple Bottom Line (TBL) considers the economic, social, and environmental impacts of a company's activities. It aims to measure the company's success in terms of financial strength, social responsibility and environmental stewardship. TBL analysis provides a holistic view of the company's impact on people, planet, and profit. Manger of the firm uses this for balancing economic goals with social and environmental responsibilities. It supports in formulation of strategies that contribute positively to society and the environment while maintaining financial viability. It

aligns business activities with the principles of corporate social responsibility (CSR) and sustainable development. The key metrics for this analysis are economic profit, social impact, and environmental footprint. The competitive advantage can be found in striking a balance between accomplishing economic goals and being socially responsible and environmentally conscious. This strategy guarantees that the company not only focuses on financial success but also positively contributes to society and reduces its negative environmental footprint, resulting in a sustainable and responsible business model.

4.5.13 Materiality Analysis

Materiality analysis involves identifying and prioritizing the most significant issues and information for inclusion in corporate reporting. It assesses the relevance and impact of different aspects on decision-making and stakeholder perception. This analysis helps strategic managers focus on key issues that significantly impact the company's performance, reputation, and stakeholder relationships. The decisions on what to prioritize in corporate reporting, ensuring transparency and accountability can be taken based on this analysis. This determining what matters most to stakeholders and allows organizations to address relevant issues, demonstrate responsiveness, and build trust with stakeholders. The key metric for this analysis is material issues identification for reporting this involves pinpointing important matters to include in company reports. The ability to focus on major issues and assuring transparency and accountability in the company's communication provides a competitive advantage. The company demonstrates its commitment to transparency and accountability and fostering confidence among stakeholders and the broader community by emphasising and addressing these critical challenges.

4.5.14 Corporate Governance Score Analysis

Corporate Governance Score Analysis assesses the quality of a company's corporate governance practices based on predetermined criteria. It evaluates factors such as board composition, transparency, and adherence to ethical standards. Analysis of corporate governance scores helps in assessing and mitigating governance-related risks. Managers can use this information to strengthen governance structures, ensure regulatory compliance, and enhance the overall governance framework. High governance scores enhance investor confidence and this create positive market image and also attracts investment. The key metrics of this analysis are board diversity score and transparency index that focuses on assessing the diversity within a company's board and the level of openness in its operations. The company can gain a competitive advantage by promoting a diverse board and maintaining transparency in its actions. This advantage stems from increased investor trust as a diverse and transparent board is viewed as more capable and trustworthy. It also ensures effective governance which contributes to a positive image and fosters stakeholder’s trust. In essence, these measures assist the organisation in laying a stronger basis for long-term performance by cultivating a diverse board of directors and ensuring transparency in its practises.

4.5.15 Market Share Analysis

This analysis involves evaluating a company's portion of the total market sales in relation to its competitors. It is calculated by dividing the company's sales by the total market sales. Market share analysis provides insights into the company's position in the market relative to competitors. Management use this information to identify areas

of strength or weakness, inform competitive strategies, and evaluate the impact of marketing efforts on market share. This also helps in identifying opportunities for growth in existing markets or entry into new markets. This is useful in adjusting marketing strategies, optimizing product offerings, or targeting specific customer segments to increase market share. The key metrics of this analysis are market share percentage that tells the company how much of the market a company holds and the growth in market share that indicates how this share is changing over time. The competitive advantage acquired from these measures is in identifying where the company stands in respect to others in the market. Knowing its market share and how it is increasing and this allows the company to make informed decisions that will lead plans for expanding its market presence. This is like having a map that depicts where the firm is and where it can go, allowing it to stay competitive and flourish in the business world.

4.5.16 Balanced Scorecard (BSC)

The Balanced Scorecard is a strategic performance management tool that uses a set of financial and non-financial indicators to evaluate a company's performance. It generally includes perspectives like financial, customer, internal processes, and learning/growth. The BSC provides a holistic and comprehensive view of the company's performance across various dimensions. Managers use it to align operational activities with strategic goals and ensure a balanced approach to performance measurement. The Balanced Scorecard aids in monitoring and measuring the execution of strategic plans. Management use it to ensure that initiatives contribute to overall strategic objectives and adjust strategies based on real-time performance data. The key metric for this analysis are based on four areas: financial, customer, internal processes, and learning/growth. The capacity to measure performance thoroughly and taking into account not only financial considerations but also customer happiness, internal process efficiency, and learning and growth prospects, provides a competitive advantage. This helps to link day-to-day operations with long-term strategic goals, resulting in a more complete picture of the company's overall performance.

4.5.17 Reputational Analysis

This analysis involves assessing and managing the perception and reputation of a company among stakeholders, including customers, investors, and the public. It often includes monitoring media coverage, customer feedback, and social media sentiment. Reputational analysis helps in understanding the strength and vulnerabilities of the company's brand. This analysis helps in enhancing positive aspects of the brand, addressing reputational risks, and managing crises effectively. The positive reputational analysis builds trust among stakeholders. Monitoring reputational analysis helps in anticipating and responding to crises that helps in developing crisis communication plans, addressing negative sentiment, and restoring trust during challenging times. The key metrics of this analysis are brand perception index, and public trust score, focus on how people see and trust the company. The company gains a competitive advantage by keeping a close eye on these scores. This advantage comes from actively managing and improving its public image and ensuring that people trust the company. The priority of companies becomes in building trust among stakeholders like customers and investors. This helps the company to maintain a positive reputation and stand out positively in front of the public.

4.5.18 Content Analysis

Content analysis is a method of examining the content of various documents, such as reports, speeches, or social media, to derive insights and patterns. It can be applied to both qualitative and quantitative data. Content analysis helps in understanding how competitors communicate their strategies, market positioning, and key messages. Moreover, analysing content across various platforms provides insights into the public perception of the company's brand. This is useful to managers in refining messaging strategies, addressing misconceptions, and aligning communication with brand objectives. The key metric of this analysis are the keyword density in marketing content and analyzing messages from competitors. This entails knowing how frequently essential words appear in business content and keeping an eye on what the competitors are saying. This gives us a competitive advantage because it allows firm to improve its communication techniques. The companies may improve the effectiveness of the messages by understanding which words are important and what the competitors are emphasising. This keeps businesses up to date on what is going on in the sector that allows companies to be informed and make better decisions.

4.5.19 Board Composition Analysis

Board composition analysis involves evaluating the composition of a company's board of directors in terms of skills, diversity, and experience. It assesses the alignment of the board with the company's strategic goals and industry dynamics. Ensuring the board has the necessary skills and diversity is critical for effective decision-making. This is useful to managers to identify areas for improvement, recruit directors with expertise aligned with strategic goals, and ensure a well-rounded board. This also assesses the board's ability to oversee and manage risks. The management use this in strengthening governance structures, enhancing risk management practices, and ensuring the board's alignment with the company's strategic risk appetite. The key metrics of this analysis are board skills diversity score and board independence index which helps a company in making better decisions, handling risks well and improving governance. The company can gain a competitive advantage by assessing the diversity of skills within the board and measuring its independence. This is helpful in the ability to make informed decisions, effectively manage risks, and maintain strong governance practices that are crucial for long-term success and stability.

4.5.20 Risk Assessment Analysis

Risk assessment analysis involves identifying and evaluating potential risks that may impact a company's performance. It assesses the likelihood and impact of various risks and prioritizes them based on their significance. Risk assessment analysis helps in identifying and assessing risks to develop proactive risk management strategies and managers use this information to strengthen the company's resilience to potential challenges, adjust business processes, and ensure alignment with overall strategic objectives. Mangers should see opportunities hidden behind risk and from this analysis they can identify potential areas for innovation, growth, or competitive advantage. The key metric of this analysis are about understanding and evaluating potential challenges a company might face (identified risks) and assessing how they could affect the business (impact assessment). The ability to be proactive in risk management ensures that the company is well prepared to handle issues and the competitive advantage is acquired from this procedure. Moreover, this allows for the

identification of new avenues for innovation and growth that builds the framework for a more robust and forward thinking business strategy.

4.5.21 Stakeholder Analysis

Stakeholder analysis involves identifying and understanding the interests, needs, and concerns of various stakeholders in the company. It helps in managing relationships and ensuring the organization's actions align with stakeholder's expectations. Engaging with stakeholders provides valuable insights for strategic decision-making. It helps in understanding diverse perspectives, identifying emerging trends, and aligning business strategies with stakeholder's expectations. This analysis is crucial for building positive relationships and managers use this tool to foster trust, gain support for initiatives, and enhance the company's social license to operate. The key metrics of this analysis are the stakeholder's influence power index and level of satisfaction which plays an important role in helping a company to make well informed decisions. The company gains valuable insights by assessing the influence of stakeholders and their satisfaction levels. This information gives the organisation a competitive advantage by allowing it to create strong relationships with stakeholders and maintain a social licence to operate. In essence, understanding and responding to stakeholder's influence and satisfaction contributes to the company's performance by influencing decisions and cultivating positive connections with individuals who have an interest in company.

4.5.22 Media Monitoring

Media monitoring involves tracking and analyzing media coverage of a company to understand public perception and manage the company's image. It often includes monitoring traditional media, social media, and other online platforms.

This analysis helps in adjusting communication strategies, responding to media narratives, and addressing reputational challenges. From this management can anticipate and respond effectively to media-related crises. This is also useful in understanding the competitive landscape, identifying areas for differentiation, and informing communication strategies to maintain a competitive edge. The key metrics of this analysis are media coverage tone and share of voice in media that plays a crucial role in managing a company's reputation. The media coverage tone helps assess how the media perceives the company whether positive or negative. The share of voice in media measures the company's presence compared to competitors in the media space. These measures are critical for reputation management because they enable the organisation to respond effectively to both favourable and negative media portrayals. Furthermore, understanding how the company is portrayed in comparison to competitors supports in refining communication strategy and navigating crises with clarity that adds to a market competitive advantage.

4.5.23 Shareholders Value Creation

Shareholders Value Creation analysis assesses the overall value generated for shareholders through factors such as dividends, stock appreciation, and other returns on investment. It provides insights into how well the company's strategies contribute to the creation of value for shareholders. Strategic managers use this information to align future strategies with shareholder's expectations and maximize overall shareholder's value. The key metric of this analysis is Total Shareholders Returns (TSR) which is crucial for businesses because it reflects the overall value generated

for shareholders. The competitive advantage comes from matching firm strategies with what shareholders want and gaining their trust and attracting investment through a high TSR. When a company performs well in TSR it demonstrates that the company not just creates values for its shareholders but is also a desirable investment option for prospective investors. This alignment with shareholder interests becomes a significant strength, encouraging trust and improving the company's market competitiveness.

4.5.24 Economic Value Added (EVA)

Economic Value Added (EVA) is a financial performance metric that measures the company's ability to generate value above its cost of capital. It subtracts the cost of capital from the net operating profit after taxes (NOPAT). EVA provides a comprehensive measure of economic profit, reflecting how well the company utilizes its resources to generate returns. Strategic managers use it to assess the efficiency of capital allocation and overall financial performance. The EVA is a key metric for analysis that helps companies assess how well they use their money to make more money. If a company maximizes its EVA it means the company is using its resources efficiently and creating a competitive advantage. Essentially, this indicator indicates that the corporation is outperforming its capital costs financially. This efficiency not only indicates sound financial management but it also gives the organisation a competitive advantage by demonstrating strong financial performance.

The use of analytical tools and techniques is essential for navigating the intricacies of modern corporate world. From ratio analysis to stakeholder involvement these analytical intelligence enable the management to make informed decisions and to correctly monitor performance and maintain a competitive advantage. This analytical intelligence acts as a strategic compass for steering organisations through obstacles and opportunities. Their implementation is not only a choice but a requirement for anyone seeking to prosper in the ever changing company and industry. As the business world advances the skilful use of these instruments becomes critical for long term success and to gain and maintain a distinct competitive advantage. These tools contribute to a holistic and informed approach to strategic management which ensures that companies are well positioned for long term success in a dynamic and competitive market in terms of assessing financial health, aligning strategies with stakeholder expectations or proactively managing risks.

4.6 Business Model - Putting Strategy into Action

A business model explains how a company works, what it does, and how it benefits the people involved with it. It shows the plan of the company and how it adds value to the stakeholders. A business model serves as the operational blueprint for translating a company's strategic objectives into actionable initiatives and ultimately contributing to gaining and sustaining competitive advantage. It outlines how a firm intends to make money, specifying its competitive tactics and interactions with stakeholders. The examples of companies like Netflix and Flipkart accentuate the transformative impact a well-crafted business model can have on competitiveness. The success of Netflix lies in its ability to monetize a vast user base through a subscription model while Flipkart's strategy focuses on dominating the e-commerce market by offering a wide range of products and excellent customer service. A synergistic alignment between strategy and a robust business model is essential for navigating the dynamic business landscape which ensures that actions taken are not only goal directed but also resilient and adaptive that fosters a sustainable competitive advantage.

SN	Business Model	Meaning	MNC	Indian
1	E-commerce	Involves buying and selling products or services online.	Amazon	Flipkart
2	Subscription	Customers pay a regular fee for continuous access to a product or service.	Netflix	Hotstar (for premium content)
3	Freemium	Offers basic services for free and charges for advanced features or premium content.	Spotify	Zomato Gold (offers free and premium features)
4	Advertising	Generates revenue through advertising products or services.	Google (through Google Ads)	Times of India (online platform)
5	Franchise	Allows individuals to own and operate outlets of a larger company.	McDonald's	Baskin-Robbins (ice cream franchise)
6	Razor and Blades	Sells a primary product at a low cost and makes a profit from complementary products.	Gillette (razor handles and blades)	Big Bazaar (razor and blades)
7	Affiliate Marketing	Earns a commission by promoting other companies' products or services.	Amazon Associates	CashKaro (cashback and affiliate marketing)
8	Crowdsourcing	Utilizes a large group of people to contribute ideas, services, or content.	Wikipedia	MyGov (crowdsourcing for government initiatives)
9	Peer-to-Peer	Connects individuals directly for sharing resources or services.	Airbnb	Ola (peer-to-peer ride-sharing platform)
10	Data Monetization	Generates revenue by selling or leveraging data.	Facebook (targeted advertising)	Jio (monetizing user data for targeted ads)
11	Leasing or Rental	Allows customers to rent or lease products or services for a specific period.	Hertz (car rental service)	Zoomcar (car rental service)
12	Bundling	Offers products or services as a package deal.	Microsoft 365 (software bundle)	Airtel (bundling internet and TV services)
13	Pay as you go	Customers pay for the services they use, as they use them.	AWS (Amazon Web Services)	Airtel (pay-as-you-go mobile plans)
14	Agency	Acts as an intermediary that connects buyers and sellers, earning a commission.	Booking.com	MakeMyTrip (online travel agency)

15	Direct Sales	Involves selling products directly to consumers without a middleman.	Avon	Amway India (direct selling of health products)
16	B2B	Involves transactions between businesses.	IBM (providing business solutions)	TATA Steel (business-to-business transactions)
17	B2C	Involves transactions between a business and individual consumers.	Apple (selling electronic devices)	Tanishq (business-to-consumer jewelry sales)
18	Platform as a Service	Provides a platform allowing customers to develop, run, and manage applications.	Salesforce	Freshworks (cloud-based business software)

The various business models adopted by multinational corporations (MNCs) and Indian firms emphasises the dynamic techniques used to put strategy into action. Each model represents a distinct method of creating and distributing value to stakeholders. The MNCs such as Amazon, Netflix, and Google demonstrate global scale operations, gaining a competitive advantage through e-commerce, subscription and advertising strategies. However, Indian companies such as Flipkart, Hotstar and Zomato demonstrate adaptation to local markets by catering to the preferences of a broad user base. The success of these companies emphasises the necessity of integrating strategy with a well-defined business model and the need for flexibility and creativity in the quickly changing environment of commerce and services.

4.7 Recognising Firm's Intellectual Assets

Intellectual asset is an asset created or owned or controlled by individual or organisation representing valuable idea, design, processes, invention, innovation, or creative work. These assets include patents, trademarks, copyrights, trade secrets, technology, software, domain name, unique processes, brand reputation and many more. These assets derive their value form creative and intellectual contribution. These assets have value in the market like other assets. They play a vital role in fostering innovation, competitive advantage, and long-term sustainability. The management and protection of intellectual assets is essential for firms to capitalize on their innovations, differentiate themselves in the market, and safeguard their intellectual property from unauthorized use or reproduction.

Sr. No.	Intellectual Assets	Meaning	Identifying	Valuing
1	Patents	Legal rights granted for inventions	Review legal databases, patent offices	Assess market exclusivity, potential licensing fees
2	Trademarks	Symbols identifying products/services	Search trademark databases, brand usage	Evaluate brand recognition, market position
3	Copyrights	Exclusive rights for creative works	Examine copyright registrations, legal	Consider market demand, licensing

			records	opportunities
4	Trade Secrets	Confidential business information	Identify confidential processes, internal knowledge	Assess impact on competitiveness, replacement cost
5	Domain Names	Web addresses for online presence	Monitor domain registrations, online presence	Consider brand association, online visibility
6	Software or Applicatio n	Computer programs or applications	Review software licenses, development records	Assess market demand, potential user base
7	Technolog y	Specialized knowledge or know-how	Evaluate proprietary technologies, R&D efforts	Consider technological uniqueness, industry demand
8	Creative Designs	Unique and aesthetically pleasing designs	Examine design registrations, creative portfolios	Assess aesthetic appeal, potential licensing
9	Unique Process	Specialized methods or production processes	Assess proprietary production methods, workflow	Evaluate efficiency gains, market differentiation
10	Brand Reputation	Positive perception of the company's brand	Analyze market surveys, customer reviews	Consider customer loyalty, brand equity

Recognising and maintaining intellectual assets is critical for a company's long-term profitability and strategic advantage. The Patents, trademarks, copyrights, trade secrets, domain names, software, technology, innovative designs, one-of-a-kind processes, and brand reputation all contribute to a company's intellectual capital. Identification of these assets necessitates a thorough analysis which includes checking legal databases, monitoring web presence, assessing internal knowledge, etc. The valuation necessitates a multidimensional strategy that takes into account variables such as market exclusivity, brand recognition, market demand, prospective licencing options, etc. The successful navigation of the intellectual asset landscape enables businesses to safeguard their inventions and increase competitiveness to capitalise on possibilities in today's volatile business environment.

4.8 Challenges

4.8.1 Company Report Analysis

The company report analysis is a useful technique for acquiring insights into a firm's performance but there are some potential challenges that might affect the accuracy and usefulness of such assessments. One common danger is relying on surface level information rather than going into the underlying subtleties which results in a superficial understanding of the company's dynamics. Another risk is the manipulation of financial indicators or selective disclosure which allows organisations to provide a distorted picture of their success. Furthermore, an overemphasis on historical data without taking into account market trends or external influences can impede the ability to make forward thinking strategic decisions.

4.8.2 Recognising Firm’s Intellectual Assets

Recognizing and valuing intellectual assets have several challenges for companies. One challenge lies in the intangible nature of these assets which making not easily quantifiable than physical assets. Intellectual assets such as brand reputation or skilled employee knowledge often lack a standardized valuation method leading to subjectivity and potential discrepancies. Moreover, the rapidly evolving nature of technology and market trends makes it challenging to assess the long term value of intellectual assets accurately. The companies may also face difficulties in protecting intellectual assets from infringement or unauthorized use which affects their market value. The dynamic and complex landscape of intellectual property laws and the lack of a universal framework for valuation further compound these challenges that necessitate a nuanced and multifaceted approach to recognizing and valuing intellectual assets.

❖ **Exercise**

1. What is company report? Discuss the types of company reports.
2. What is company report analysis? Mention the tools and techniques for company report analysis.
3. Discuss in detail the various analytical tools for company report analysis.
4. How the analytical tools can be helpful in strategic decision making?
5. Mention the key metrics for measuring firm performance and identifying competitive advantage.
6. Explain with example the various business models that translate strategy into action.
7. What is intellectual asset? Explain how to identify and value intellectual assets.
8. Write a detailed note on “Recognising Firm’s Intellectual Assets”.
9. Write a short note on challenges of company report analysis.
10. Write a short note on challenges of recognising firm’s intellectual assets.
11. Explain the following concepts in brief:
    a) Intellectual Assets
    b) Annual Report
    c) Consolidated Report
    d) Integrated Report
    e) Financial Modelling
    f) Variance Analysis
    g) CVP Analysis
    h) SWOT Analysis
    i) GRI Standard Analysis
    j) Triple Bottom Line Analysis
    k) Media Monitoring
    l) Shareholders Value Creation
    m) Economic Value Added
    n) Bundling
    o) Data Monetisation
    p) Freemium

Multiple Choice Questions:

1. The primary objective of intellectual asset recognition in strategic management is to __________the intangible aspects that contribute significantly to a company's competitive advantage.
   A. Utilise and Safeguard
   B. Communicate
   C. Presentation and Valuation
   D. None of the Above

2. A company report is a well organised and objective presentation of a firm's _________________with factual information to meet specific purpose of organisation.
   A. Prospects, practices, and performances
   B. People, planet, and profit
   C. Strength and weakness
   D. Opportunities and threats

3. The tools and techniques of company report analysis are useful in which of the following.
   A. Firm performance
   B. Decision making
   C. Competitive advantage
   D. All of the above

4. Which of the following are the key metric for trend analysis?
   A. Sales growth rate and employee productivity trends
   B. Percentage of total revenue and the percentage of total assets
   C. Comparing the budgeted expenses and actual expenses
   D. Financial, customer, internal processes, and learning/growth

5. __________________ serves as the operational blueprint for translating a company's strategic objectives into actionable initiatives (putting strategy into action), ultimately contributing to gaining and sustaining competitive advantage.
   A. Business Model
   B. Triple Bottom Analysis
   C. Intellectual Assets
   D. Company Reports

6. Which business model offers basic services for free and charges for advanced features or premium content?
   A. Freemium
   B. E-Commerce
   C. Advertising
   D. Razor and Blades

7. Which of the following brand uses razor and blades business model?
   A. Gillette
   B. Wikipedia
   C. Facebook
   D. Netflix

8. Which business model utilizes a large group of people to contribute ideas, services, or content?
   A. Crowdsourcing
   B. Data Monetization
   C. Agency
   D. Affiliate Marketing

9. Trade Secrets are______________________.
   A. Confidential business information
   B. Exclusive rights for creative works
   C. Symbols identifying products/services
   D. Web addresses for online presence

10. How to identify brand reputation?
   A. Analyze market surveys, customer reviews
   B. Assess proprietary production methods, workflow
   C. Review software licenses, development records
   D. Monitor domain registrations, online presence

UNIT – 5	BUSINESS LEVEL STRATEGY

5.1 Introduction, Concept and Meaning

5.2 Importance of business level strategy

5.3 Types of business level strategy

5.3.1 Cost leadership

5.3.2 Differentiation

5.3.3 Focus

5.3.4 Integrated

❖ **Excercise**

5.1 Introduction, Concept and Meaning

We have discuss the concept of strategy in the above chapters and it is now very clear what exactly the term strategy means. Now, when it comes to strategy it is very act that each business should have its own business strategy. A business strategy is basically a strategy or course of action which is competitive in nature, thereby a business is more concerned about how it successfully competes in the business environment. It can be better understood with reference to what choice of decisions are taken by the promoters at business level. The business strategy always revolves around following discussion areas:

- assessment of customer needs and requirements
- choice of products and target market
- protecting and developing market share
- trying to get some sort of formative advantage
- finding new opportunities and exploit it to on profit.

Hence, business level strategy takes the inputs from the corporate level strategy and tries to accommodate the corporate strategy into acquiring competitive position in the industry. The business strategy initiates the action on the motive generated by corporate level strategy and objectives.

The business-level strategy is often considered as an intermediary between an overall strategy and functional strategy hierarchy/pyramid. It is often considered or studied when the business organization makes strategic planning and implements initiatives for a particular business activity.

The ultimate aim of forming business level strategy is to provide valuable output to customers which is better than competitors and the same needs to be done consistently over a period of time by altering the strategy or course of action to suit the requirement of the target market, if need be. In order to achieve competitive advantage in the market, the business firm needs to develop such core competencies, which then, can be used for generating competitive advantage. This process of developing the core competencies cannot happen in short time. It is process, which requires lot of deliberations and commitment. It happens over a period of few years. Majorly, business level strategies are practiced in organizations that have multiple business unit. They are popularly known as Strategic Business Unit (SBU). The Strategic Business Units derives their strategy from corporate level objectives and then develops strategies for their individual business unit. These strategies mainly addresses following concerns:

- ✓ Customer Satisfaction
- ✓ Developing competitive edge over other participants in the market
- ✓ Avoid competitive disadvantage, if any.

"A **business level strategy** defines a business's goals and policies to deliver value to customers and have a competitive advantage over competitors. It determines the direction of the business, establishes its brand, and defines how a business serves its customers. "

✓ **Farhad usmani**

"A **business-level strategy** is a plan that a company uses to achieve its goals and objectives by leveraging its strengths and mitigating its weaknesses. This strategy is focused on how a company can compete successfully in its chosen market."

✓ **The Strategy Story**

5.2 Importance of Business Level Strategy

The importance or significance of business strategy lies in their capability to provide a complete and clear roadmap for organizations to acquire and develop competitive advantage in their target market. There are, of course, some key elements or aspects, which needs a greater attention in order to draw out effective significance, they are briefly explained below:

- ✓ Target Market – It is segment of market or group of consumers that the business firm is targeting to sell its product.
- ✓ Competitive Advantage – The uniqueness a company can bring to attract consumers
- ✓ Positioning – How the business intents to position their product in the mind of consumers to make them feel the need and buy the product.

Following are the essential elements that are significant for business level strategy:

1. **Differentiation or Uniqueness**

   One of the most critical elements of business level strategy is creation of differentiation. Differentiation helps business organization to distinguish themselves from their competitors by offering a unique product or output to their customers. It is the ability of the business organization to customize their product or value to their customers to stand out in the business environment. This can only happen if the organization has assessed the needs and wants of customer effectively.

2. **Resource Allocation**

   Allocating resources effectively is one of the key areas of any organization for long-term survival. The business level strategy developed by the SBU helps in guiding resource allocation or distribution of the firm. Business strategy ensures efficient allocation of resources and optimizing them to generate maximum returns. For instance, deploying funds in marketing drive, operational improvements, research and development, etc.

3. **Creating Value**

   In order to create or add value, an organization can adopt any of the following ways to perform their operations effectively:

   - ✓ **Storage**: Ability to store a product for a period of time and make them available whenever needed.
   - ✓ **Transport**: Moving a product from one place to another where its value can be created or enhanced.
   - ✓ **Alteration**: It refers to changing the form of input or entity to suit the requirement of target market. The alteration could be physical, chemical, mechanical or psychological.
   - ✓ **Inspection**: Value of any product or input can enhanced by adequate and timely inspection. For instance, Consultancy firms provides a true value of a product, be it a vehicle or investment avenue.

5. 3 Types of Business Level Strategy

Business level strategies can be of many types, they keep on altering as the complexity of the business, and environment grows. However, over few years, there has been a standard set of strategies, which has proven to be effective in major business conditions. Michael Porter, in his book claims three major strategies that any business unit can undertake. They have arguably proven to be forefront of strategic thinking then and is so much relevant now as well. These three strategies are discussed below:

5.3.1 Low Cost Leadership

It is the simplest, but not the easiest, form of strategy that any organization can adapt in order to be competitive. Low cost leadership, as the name suggests, is a strategy where the firm intents to produce and deliver the product or service at a price lower than its competitors. Here, the business unit consistently offers the product or service at the lowest price to the target audience as compared to the industry standards or scenario. A major contributing factor for such leadership is the benefits of economies of scale and efficiency in operating costs. Here, the firm tries to minimize an unnecessary overhead and makes sure that the wastage remains negligible.

This strategy works better or likely to work better, where the product that one is trying to produce is standardized and the demand is relatively consistent. Further, even the consumers are price sensitive and operates with lot of substitutes. The product is well established and consumers are aware about it. The firm focusing on achieving low cost leadership needs to be efficient and effective in engineering, purchasing, manufacturing and distributing. Selling costs account for a very minimum portion of the total cost.
McDonald's is the best example for low cost leadership. They use this strategy to streamline their operations and delivery standards along with optimizing its processes to offer standardized product at affordable rates.

Merits

- With low cost leadership as a competitive advantage, a firm help consumer in increasing their purchase power thereby supplying more products at less price. This will increase the sales and thus, in turn, profits.
- Being a low cost leader in a market for a long term will mean you have achieve large market share and thus can dominate the market to a great extent. For instance, Jio, which account for a more than 50 crore subscribers.
- It also provides or improves stability of the business in long run, especially when the economic conditions are not so good. In times of recession, businesses with low cost survive.

Demerits

- In order to be successful and reap major profits, the low cost leader needs to generate large volume of sales, which can be a challenge in certain type of products or services. It is difficult to achieve cost leadership in certain categories of product or services, especially, where the demand is not in high volume.
- Acquiring benefits of economies of scale requires huge investment in infrastructure, fixed assets and technology. Business firm needs to find such kind of money for making investment, which is again a challenge. Not everybody can find easy money.
- This strategy will not effective where the technological changes are frequent in the industry. Further, even the competitors can also imitate working model of the firm, which have achieve cost leadership.

5.3.2 Differentiation

This strategy plays on a different platform than cost leadership. Differentiation strategy aims to offer products or services that is unique from that of the competitors. This uniqueness offered in the product by the business is appreciated by the consumers and appeal them the most. The business firm can be in a position to charge price of their choice if the consumer perceives the product to be superior and unique than other products available in the industry. Hence, the company adopting this strategy tries to make their products novel and unique to attract the target audience. They will have to adapt to provide novelty every time and thus needs to make the improvement or alteration in the product on a continuous basis.
The business firm implementing this strategy can achieve differentiation in the product or service in following way:

- Offering higher quality than the competitors in various aspects of the product. (For instance, offering quality in mobile phone in terms of screen, display, processor, hardware, connectivity, etc.)

- Altering or changing the design to suit the requirement of consumers or creating such designs that appeal the target audience.
- Using state of the art technology, which no other firm uses it in the same market or industry. (For instance, Apple iPhone)
- Offering more features in the same product or service, which is unique and innovative.
- Business firm can also differentiate themselves by not only offering unique products but also by providing innovative customer services which are not been provided by anyone else.

Merits

✓ **Customer Loyalty**

One of the primary benefits of differentiation strategy is that of gaining loyalty of the customer. When a unique and innovative product appeals the consumer, they will stick to a particular brand or firm and would not try to switch their choices much. For instance, Raymonds in suiting and shirting, Amazon & Flipkart in e-commerce, etc.

✓ **Pricing Advantage**

Customer loyalty can lead the business organization to decide upon the price or rather it gives the business a little freedom to set the price without worrying about the prices prevailing in the market. Loyal customers are willing to pay a preferred price if they keep on getting the uniqueness in the product they buy from a particular firm. We do not say that the business firm can charge any price or are in a position to exploit, but they get the choice of deciding the price, which is adequate to cover the cost and make the profits.

✓ **Entry Barrier**

A business firm, by offering unique product creates a sort of artificial barrier to enter into the market. Any other business firm eying to enter in to the same product segment needs to offer some new to attract the consumers, which is a challenge.

Demerits

➢ **Risk of Imitation**

There is an inherent risk of being copied or imitated, when the unique product is available in the market and the competitors get their hands on it. The competitors may re-engineer the product and offer it will little alteration to the same market segment.

➢ **Complex Cost Structure**

Another demerit of adapting differentiation strategy is that of deciding upon the cost structure of each product each time when the uniqueness is incorporated in the product. It is not easy to arrive at accurate cost every time the novelty is introduced in the product or service.

5.3.3 Focus Strategy

Focused strategy can be of two types, namely, focused cost leadership strategy and focused differentiation strategy. The business firms very often make use of focused strategy in the market in different times or situation in order to stabilize demand and supply. The choice of strategy depends upon resources of the company, competition

level, conditions of the economy and market and preference of the target audience. Let us discuss these two strategies in detail:

a. **Focused Cost Leadership Strategy**

Focused cost leadership strategy involves aiming a niche or small segment of consumers and fulfilling their requirements in a better way as compared to the other group of consumers. The business firm focuses on narrow and specific segment of market, and offers its product at a price lower than the competitors offer. The target segment has requirements different from that of the market and the business firm addresses their needs at lower price.

b. **Focused Differentiation Strategy**

This strategy, again, involves a niche or small group of consumers and fulfil their requirements but not by offering the product at low price but by providing them, customized product to suit their requirements. The business firm aims to meet the consumers' unique requirements with specially tailored product or service. As discussed above in the differentiation strategy, the product differentiation can be offered in terms of quality, technology, customer service, features, etc.

5.3.4 Integrated Strategy

The name itself suggests, it is an integration of low cost leadership and differentiation strategy. It is popularly known as hybrid strategy. This strategy combines the components of both low cost leadership and differentiation strategies. The business firm adapting this strategy concurrently deliver differentiated value to the target audience while maintaining efficient pricing in the offering. For instance, Tata Salt. The business firm has been offering salt with best of features and quality, while maintaining cost efficiency and effectiveness in their operations.

Integrated strategy draws many benefits because of the flexibility and adaptability it offers to the firm. It prevents firm from getting complacent in course of time. Further, it also enhances customer satisfaction as they get the desired product tailored made with the price of their choice. There are also a few short-comings of this strategy. One of the major limitations of this strategy is the complexity it creates which leads to chaos and confusion in the business. The employees and managers may not like the idea of making everything customized every time. Further, it will require investment of lot of time and effort to understand and offer the tailor made product consistently over a period of time.

❖ **Key words**

Strategy	Setting goals and priorities, determining actions to achieve the goals, and mobilizing resources to execute the actions.
Business Level Strategy	It is course of action framed by a business organization in order to operate effectively. It is actually derived from the corporate level strategy.
Low Cost Leadership	It is a strategy adopted by business firm, where they try to offer a product at a lower price than offered in the industry.
Differentiation	It is a strategy by which business firm tries to create uniqueness in their product, which is not found in the competitor's product or service.
Value	It is a perceived benefit that a consumer derives from buying a product.

Integrated Strategy	It is a hybrid of cost leadership and differentiation strategy by a business unit.

❖ **Exercise**

Multiple Choice Questions

1. Tata salt largely focuses on which strategy?
   a. Low cost leadership
   b. Differentiation
   c. Focus
   d. Integrated
2. Apple largely focuses on which strategy?
   a. Low cost leadership
   b. Differentiation
   c. Focus
   d. Both (a) and (b)
3. Business level strategy is widely used by/at…
   a. Corporate level
   b. SBU
   c. Front-line manager level
   d. All of the above
4. 'U' in SBU stands for…
   a. Understanding
   b. Unit
   c. Unique
   d. None of these
5. Focused strategy includes …
   a. Cost leadership
   b. Differentiation
   c. Both (a) & (b)
   d. None of the above

Descriptive Questions

1. How do you formulate business level strategy? Explain with an example.
2. Discuss the concept of strategy and business level strategy. Also, explain how business level strategy is different from corporate level strategy?
3. What is business level strategy? Explain the significance of business level strategy.
4. Discuss the concept and importance of business level strategy.
5. Discuss various types of business level strategies.
6. Discuss how focused strategy involves both, cost leadership and differentiation strategies?
7. What is integrated strategy? How it is different from focused strategy?

MBA
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STRATEGIC MANAGEMENT
BLOCK: 2

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UNIT – 6 CORPORATE LEVEL STRATEGY

6.1 Introduction

6.2 Definition, Meaning and Importance

6.3 Levels of Diversification

6.4 Reasons for Diversification

6.5 Restructuring of Assets

❖ **Exercise**

6.1 Introduction

"L&T eyes banking space, may apply for a license."

"Shriram General Insurance aims for diversification: Focuses on non-motor segments."

"Diversification drive: Sobha Realty promoters expand horizons to hotels, investments and the US market."

"Five-Star Business Finance mulls diversification into affordable housing & used vehicle segments."

Diversification is not just a buzzword everywhere in the news, but a powerful strategy for organizations in the contemporary dynamic hypercompetitive business world. In this vast ocean of business, organizations sail through the dynamic waters of VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) offering several opportunities as well as challenges. To successfully navigate this ocean, organizations are constantly seeking avenues for sustainability and growth. The corporate level is responsible for making strategies to gain a competitive advantage by choosing and managing a group of diverse businesses competing in various industries and product markets. This is known as corporate-level strategy. Corporate-level strategies entail asking questions such as

- The extent to which the businesses in the portfolio generate greater value under that particular company's management compared to any other company's ownership?
- What businesses should the company be in?
- How should the company's corporate office manage the group of its businesses?

The major strategic decision that encompasses the corporate-level strategy is diversification. It serves as a strategic beacon guiding organizations to sail through this turbulent business environment by building resilience as seen in a few of the

examples in the above headlines. But management professionals are likely to have a few inquisitions like what is diversification, why it is important and what is the rationale for it, what are the levels of diversification, and what is the restructuring of assets. These areas are addressed in this chapter to guide management students in understanding the role of diversification in effective strategic management.

6.2 Definition, Meaning and Importance

As the old saying goes, avoiding putting all eggs in the same basket and mitigating risk is the core principle of diversification. With diversification, companies aim to hedge their risk primarily aiming to protect themselves in the VUCA world. Business diversification refers to the method of strategic expansion of a company into related/ unrelated products or markets to reduce risk, capitalize on new opportunities, and improve overall business resilience. A diversification strategy can take numerous forms, the strategy often includes entering into new markets or product lines that are diverse from the company's existing core business.

The importance of diversification can be seen in the expansion of the Indian conglomerate, ITC Ltd. through diversification. In February 2001, the Government of India (GOI) declared a ban on advertising by cigarette companies and restrictions on the sale and consumption of tobacco products. The ban on advertising and ban on tobacco advertising by GOI, the growing anti-tobacco campaigns, and the experience in developed countries were the red flags for the long-term profitability of the tobacco business in the future. Subsequently, ITC decided to diversify into non tobacco businesses and entered into its first nontobacco business in the 1970s, and since then it has not looked back. ITC is now a successful conglomerate with a wide variety of businesses in its portfolio including FMCG (cigarettes and cigar, food, personal care, education and stationery, agarbattis, safety matches), Hotels, Agribusiness, Paperboards and specialty papers, and Information Technology to name a few. Diversified entity ITC Ltd. on Monday reported a 6.51 percent rise in consolidated net profit to Rs.5,400.51 crore for the December 2023 quarter and its gross revenue from sales rose 2.3 percent to Rs.19,337.84 crore during the quarter under review. It was Rs.18,901.76 crore in the corresponding quarter a year ago.

Diversification strategy is important for several reasons:

- **Reduce dependence on one business:** It ensures that the company’s revenue streams are not dependent upon a single product/business. Hence, if one business of a company may suffer, it may still get a stream of revenue from other businesses. By diversifying businesses, companies can build resilience against market volatility, economic downturns, or sector-specific challenges.

- **Flexibility and adaptability:** Diversification facilitates flexibility to adjust business strategies in response to changing macro and micro environments.

- **Resource allocation amongst businesses:** Further, as per the guideline by Boston Consulting Group/ GE Matrix/ Shell’s Directional Policy Matrix, the organization can internally allocate the resources amongst its businesses in the portfolio as per the need (as per the industry growth-market share status) and can manage its survival, profitability, and growth.

- **Portfolio Optimization:** Diversification enables companies to optimize their investment portfolios by combining assets with different risk and return profiles, aiming to attain a balance between risk and reward that aligns with their objectives.

- **Market Expansion:** Companies can capitalize on opportunities in the new markets and emerging trends to generate new streams of revenue.

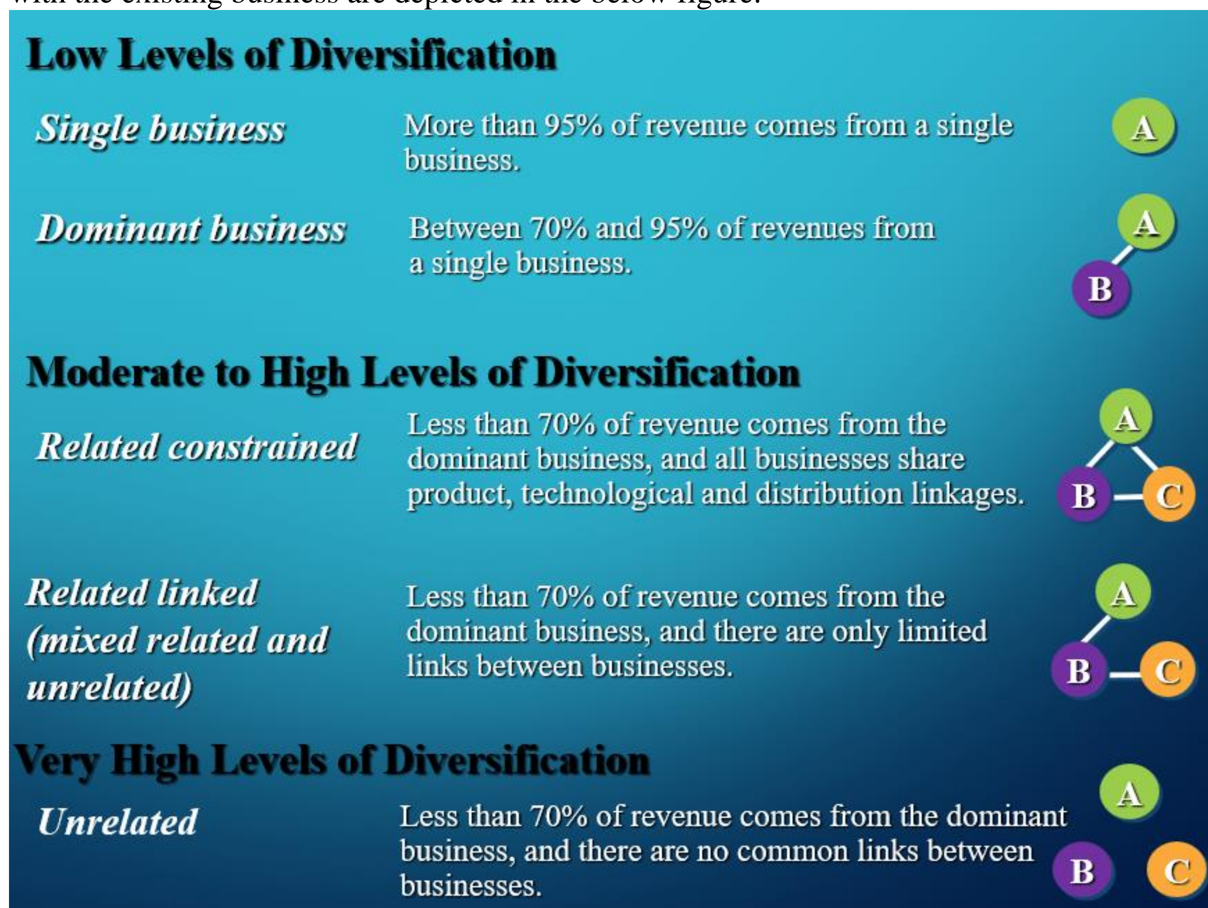
- **Gain economies of scale:** Companies can leverage the existing resources such as customer base, suppliers, raw materials, manufacturing facilities, distribution channels, etc. that can optimize costs and profitability.

Exercise 1:

Select any one Indian conglomerate of your choice and study their entire diversification journey.

6.3 Levels of Diversification

If a company plans to expand its business through diversification, the next big question is: should it venture into related products/industries or explore completely different ones? Both related and unrelated diversifications have their pros and cons. The levels and types of diversification depending on their intensity and relatedness with the existing business are depicted in the below figure:



Source: Adapted from R. P. Rumelt, 1974, Strategy, Structure and Economic Performance, Boston: Harvard Business School.

Assume that XYZ Institute of Management currently runs a two-year full-time MBA program which is a major source of its revenue (almost 95%+) and only a minor of

less than 5% comes from other sources such as the Faculty Development Program (FDP) and/or Management Development Program (MDP) for the industry and/or consultancy projects for the companies, to name a few. Then, a two-year full-time MBA program is still considered as a single business of the firm.

However, assume that a substantial amount of revenue 5% to 30% starts coming from secondary sources, say consultancy business, then in that case, the dominant business is still the two-year full-time MBA program, but it has a subsidiary business of consultancy providing 5% to 30% of the revenue.

Further, related constrained diversification has operational relatedness; meaning, operations in the form of activities, resources, or capabilities can be shared between multiple businesses of the firm. For e.g. this XYZ Institute of Management diversifying into MBA part time/ evening/ integrated courses; consultancy business; and certificate courses for management specialization subjects shall fall under related constrained diversification; as these businesses can share faculties and infrastructure amongst each other.

Related-linked diversification has corporate relatedness; meaning, the managerial or technical skills and expertise are shared between the businesses, or the mindset of running the business is similar/ common; but no activities/resources can be shared between the businesses. For e.g. if this XYZ Institute of Management diversifies into courses such as Microbiology, Biotechnology, etc., or a Medical college, that will be related linked diversification; as here no operations (no activities, resources or capabilities are shared but only the managerial expertise (mindset) of running the organization in an education sector can be shared amongst the various businesses.

Unrelated area diversification is where the existing businesses have neither operational nor corporate relatedness; meaning there is no link between existing businesses, they are completely unrelated. Such companies having a portfolio of unrelated businesses are known as conglomerates; for e.g. Tata Sons, Reliance Industries, ITC, etc. Hence, if this XYZ Institute of Management has diversified into setting up a canteen, fashion apparel stores, restaurants, etc., and each of these businesses generates major revenues in itself compared to the existing business, then, it can be said that XYZ Institute of Management has made unrelated area diversification; and it is a conglomerate.

[IMPORTANT NOTE: Educational Institutes fall under non-profit sectors and cannot be termed as businesses; here the word business is only in the context of different sources of revenue.]

6.4 Reasons for Diversification

Diversification is a double-edged sword; it has benefits as discussed above but may even create challenges for the firms. Nevertheless, companies adopt diversification strategy due to few of the reasons discussed below:

- **Gain economies of scope & optimal utilization of organizational resources**
  Economies of scale has been discussed in the above section which is when you just make more of the same thing – more volume equals lower costs. For instance, you manufacture necklaces; the more you make, the cheaper each necklace becomes to produce because the cost is spread across more units. An economy of scope is a bit different concept where instead of just making more of one thing, you start making different things using the same resources. So, besides necklaces, you would start making earrings, rings, and bracelets. Hence, by adding these new products to your

portfolio, for which you can still utilize the same resources (factory, equipment, raw materials, manpower, etc.), the average cost gets reduced.

Hence, often organizations diversify into other products to gain the advantage of economies of scope. For instance, L&T holds expertise in engineering and construction, and it diversified into the defense and aerospace sector to capitalize its organizational resources and capabilities. Looking at the Indian Government's emphasis on indigenous defense manufacturing, L&T identified the growth opportunities in India's defense industry and hence, strategically expanded its presence in this sector to enhance its revenue streams. Leveraging its engineering expertise, project management capabilities, and manufacturing facilities, it diversified into defense manufacturing launching products such as armored vehicles, naval ships, artillery systems, and aerospace components.

- **Increase market power**
  To gain a competitive edge and increase market power, organizations may diversify into new products and markets at the same level of the value chain, upstream, or downstream. For e.g. a saree manufacturer diversifies into yarn manufacturing (the raw material for making saree).

  Tesla handles many parts of making their products all at its own. Tesla not only builds cars but also makes the batteries that go in them. Also, the company has invested money into mining to get vital materials for those batteries, like lithium. This way, it ensures that the company always has a steady supply of key components and reduces overreliance on external suppliers.

- **Gain Financial economies**
  One of the major reasons for unrelated area diversification with no interlinkages between the businesses in the company's portfolio is to gain financial economies, which is cost savings realized through improved allocations of financial resources. Financial economies can be achieved in two ways: by efficient internal capital allocation and restructuring of assets.

- **Manage competition and tax laws**
  To mitigate the risk related to competitive pressure and laws in one industry, organizations diversify across a diverse portfolio of businesses. For instance, The Mahindra Group is into various businesses like automotive, farm equipment, technology services, financial services, renewable energy, logistics, hospitality, real estate, aerostructure & defense, etc.

  By diversifying into non-competing industries and geographic regions, Mahindra Group mitigates competition risks and optimizes its tax liabilities through strategic allocation of resources across its diverse portfolio of businesses.

- **To improve the organization's poor performance & mitigate the risk of uncertain future cash flows**
  To generate new streams of revenue when the organization's existing business or industry is underperforming, organizations may diversify. For instance, the Indian Hotels Company Limited (IHCL) which operates the iconic Taj Hotel chains encountered difficulties within the hospitality sector stemming from economic downturns, competitive pressures, and various tourism industry factors. In response, IHCL strategically diversified its portfolio beyond hospitality pursuits. For instance, it delved into the luxury retail domain by launching the Taj Khazana brand, curating upscale offerings spanning fashion, jewelry, and home decor inspired by Indian craftsmanship and heritage. Furthermore, IHCL bolstered its

foothold in the food and beverage realm by establishing restaurant brands like "Masala Kraft" and "Wasabi by Morimoto." Leveraging its hospitality expertise, these ventures capitalized on emerging revenue channels and consumer demographics. Furthermore, IHCL explored prospects in the wellness and lifestyle arena through the introduction of Taj Wellness Retreats, catering to the increasing demand for holistic wellness experiences and spa services. These strategic diversification endeavors aimed to reduce IHCL's reliance on the hospitality sector, offsetting the impact of poor hotel industry performance. Consequently, these initiatives facilitated revenue diversification, expanded clientele reach, and fortified IHCL's overall resilience amidst market challenges.

- **Diversifying managerial employment risk and increasing their compensation**
  This may be the motive of a few of the CEOs for diversification to safeguard their job and increase their compensation which indeed is a value-reducing reason for diversification. If the diversification is driven by the personal interest of the managers instead of the benefit of stakeholders at large, should not be motivated. However, if the managers are motivated to explore innovative products and businesses if the company is going through a temporary face of setback, to mitigate self and others employment risks, can lead to the generation of more revenue sources for the future. Such organizations can collectively navigate the difficult times for the survival of the organization and associated stakeholders.

Exercise 2:

CASE

Diversification Dilemma

ABC Corporation, a multinational conglomerate largely working in the automotive industry, is exploring diversification opportunities to reinforce its competitive stand and attain sustainable growth. Though ABC Corporation is successful in the automotive sector, it still acknowledges the significance of diversifying its business portfolio to reduce any potential risks related to the macro environment.

The company conducted extensive market research and strategic analysis and identified two possible sectors for diversification: technology services and food and beverage. In the technology sector, the company foresees to take advantage of its expertise in engineering and manufacturing. Whereas, the idea of diversifying into the company aims to capitalize on the increasing demand for sustainable and healthy food items by introducing a line of organic snacks and beverages.

In line with the above situation, attempt the questions given below:

Questions:

(1) ABC Corporation is successful in the automotive sector? Should it still diversify its business? Justify.

(2) What are the different levels of diversification that ABC Corporation is considering?

(3) If this company plans to diversify which type of the above two ventures you would recommend the company to venture into and why?

6.5 Restructuring of Assets

Diversification is a double-edged sword; it has benefits as discussed above but may even create challenges for the organizations; especially about allocating assets amongst the existing and diversified business. This necessitates restructuring of assets for reallocating resources effectively across different investments or business units of the organization. The restructuring of assets includes an array of activities intended to reshape the composition of an investment portfolio or business asset base. By restructuring the assets, companies can spread out the risk related to particular sectors or assets, thereby enhancing the resilience of the overall portfolio.

According to the Oxford Dictionary, restructuring means "to give a new structure to, rebuild or rearrange". Further, the Collins English Dictionary quotes corporate restructuring as a change in the business strategy of a company resulting in diversification, closing parts of the business, etc., to increase its long-term profitability. Restructuring can also be said as the corporate management activity of partly dismantling and rearranging a company with the intent to increase its efficiency and profitability. It may encompass selling, acquiring, reorganizing assets, reducing the number of employees, changing the debt-equity or management structure, to name a few, optimizing returns, reducing risk, adapting to changing market conditions, or achieving strategic objectives. It may also incorporate reorganizing legal ownership, operational or other structures of a company.

A few of the reasons for restructuring is:

- Declining or stagnant revenues
- Insufficient gross margins
- Excessive operating costs
- Poor cash flows
- Improper allocation of investment
- Key Performance Indicators (KPIs) subpar the industry benchmarks
- High labor expenditures
- Lack of clarity in roles and responsibilities
- Poor internal communication
- Ineffective leadership
- Inefficient business processes
- Ineffective allocation of marketing budgets
- Mergers & Acquisitions
- Diversification
- Various macro and external micro factors

A few of the strategic rationale for restructuring assets is to:

- Optimize the portfolio of the diversified business
- To align the asset base with the changing business structure
- To fund the new business, organizations may divest or downscope underperforming businesses, or downsize the staff to reduce the overhead in existing businesses.

There are three major types of restructuring:

- **Financial Restructuring**

  Financial restructuring represents the process of altering an organization's financial structure to boost its financial position. This may include modifications to debt and equity structure of the organization, as well its operations. Through financial

restructuring, an organization can lessen its debt obligations, expand cash flow, and strengthen profitability. For instance, in 2009 General Motors eased its debt burden by converting a portion of its debt into equity, thereby reducing its overall debt load and enhancing its financial stance.

- **Organizational Restructuring**

  Organizational restructuring includes reshaping the organization's structure and operations with the intend to enhance its efficiency and effectiveness. This may incorporate revisions in the company's business processes, systems, and management structure. For instance, in 2017, General Electric reduced the number of its business units and restructured its management hierarchy to reduce costs and enhance efficiency.

- **Portfolio Restructuring**

  Portfolio restructuring encompasses the divestment or acquisition of business segments or assets with the intent of strengthening a company's overall strategic position. This may entail divesting non-core assets or acquiring new businesses to diversify the company's portfolio. The primary goal of portfolio restructuring is to foster a more focused and strategically aligned organizational framework. For instance, in 2013 Microsoft acquired Nokia's handset business to enter into the mobile phone market and widen its portfolio of products.

Exercise 3:

CASE

Portfolio Restructuring: Microsoft's Acquisition of ZeniMax Media to foray into the Gaming industry

ZeniMax Media was established in 1999 and became a major player in the video game industry, publishing and developing some of the most iconic franchises out there, like "The Elder Scrolls," "Fallout," and "Doom." Microsoft, on the other hand, has been around since 1975 and is a huge multinational tech company known for making all sorts of software, from the Windows Operating System and Office productivity suite to their popular Xbox gaming division.

With an intent to diversify its portfolio of first-party game titles and expand its presence in the gaming market, in September 2020 Microsoft announced its agreement to acquire ZeniMax Media for $7.5 billion in cash. The acquisition was accomplished in March 2021, marking it as one of the biggest deals in the history of the gaming industry.

The restructuring initiatives undertaken post this acquisition were:

- ***Integration of gaming studios***
  Microsoft consolidated the creative talent and intellectual property of ZeniMax Media to increase its capacity to produce high-quality exclusive games for its Xbox gaming platforms and subscription services. For this, in its Xbox Game Studios division, Microsoft integrated ZeniMax Media's portfolio of game development studios, including id Software, Bethesda Softworks, and Arkane Studios.

- ***Expansion of the gaming ecosystem***

  ZeniMax Media's famous game franchises like ""Fallout" and "The Elder Scrolls" were also leveraged by Microsoft to augment its gaming ecosystem and attract a wider range of gamers.

- ***Strategic partnerships and cross-platform integration***

  To maximize the reach and impact of its gaming content, Microsoft also explored strategic partnerships and cross-platform integration with the subsidiaries of ZeniMax Media. This also incorporated alliances with other divisions of Microsoft like Xbox Cloud Gaming to facilitate cloud gaming and game streaming across various platforms and devices.

  This acquisition and subsequent restructuring initiative of Microsoft benefited the company:

  - *To get a competitive edge in the gaming industry by diversifying its portfolio of first-party game titles with new intellectual properties and iconic franchises.*
  - *To expand its gaming ecosystem by offering exclusive content and subscription offerings which enabled Microsoft to strengthen its position in the video game market.*
  - *To provide its wide range of global gamers with an engaging and immersive gaming experience to drive growth and engagement across all of its gaming platforms including Windows PCs, Xbox consoles, and mobile devices.*

Hence, restructuring can be an effective strategy for an organization intending to expand through diversification.

Exercise

Attempt the sample questions

Question 1: In what ways diversification can create value for a firm's shareholders? Discuss various approaches to create value through diversification.

Question 2: Discuss the levels of diversification with the strategic rationale and challenges for each.

Question 3: Assume that a company intending for diversification hires you as a consultant. To assess their readiness for diversification, what are the key questions you would ask the company's management?

Question 4: Provide a few examples where the company has diversified at the same level and the vertical level of the value chain. Discuss along with the reasons for the same.

Question 5: How is the concept of restructuring related to diversification strategy?

Question 6: How can restructuring initiatives facilitate diversification within a company?

Question 7: Describe a scenario where a company undertook restructuring to facilitate diversification. What were the outcomes or impacts of this restructuring?

Question 8: Due to the rise in the trend of online shopping, a large brick-and-mortar retailer "MegaMart" is witnessing a steady decline in its profits. The company's core businesses including consumer electronics & appliances,

and clothing are facing tough competition from gain e-commerce retailers. The board of MegaMart is considering diversification as a strategy for survival and resilience.

In line with the above situation, recommend any two businesses this company can diversify into (related or unrelated). Explain the rationale for each recommendation and the potential risks involved in the same.

UNIT – 7	INTERNATIONAL STRATEGY

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- **Exercise**

7.1 Introduction

International strategy refers to the comprehensive plan and approach that an organization adopts to expand its operations and compete in the global marketplace. It involves the process of taking a company's products, services, or operations beyond its domestic borders to leverage opportunities in foreign markets. International strategy is crucial for organizations looking to tap into new markets, increase revenue streams, gain a competitive advantage, and achieve sustainable growth. It involves selling products or services abroad and is driven by various motivations and opportunities.

7.1.1 International Strategy- Definition:

International strategy is a business plan that focuses on expanding a company's presence and sales in foreign markets. It involves adapting products, services, and operations to meet the needs and preferences of international customers. This strategy may encompass various approaches, such as exporting, licensing, franchising, forming joint ventures, or establishing wholly-owned subsidiaries in foreign countries.

7.1.2 Meaning: International strategy is a long-term plan that outlines how a company will enter, operate in, and compete in foreign markets. It involves making decisions regarding market selection, entry modes, resource allocation, and adapting to the specific challenges and opportunities of global markets.

Several compelling reasons drive the adoption of international strategies. Firstly, international markets offer new opportunities that can lead to increased revenue and profit, particularly in emerging markets with robust growth potential. Secondly, companies often expand globally to secure essential resources that are more accessible or cost-effective in specific foreign markets. Additionally, entering international markets can tap into greater product demand and diversify a company's customer base, reducing dependence on a single market. The allure of borderless demand for globally branded products can also drive companies to explore international markets. Furthermore, pressure for global integration in industries with complex supply chains necessitates international expansion to remain competitive. Lastly, expanding into new markets can breathe new life into products that have reached maturity or saturation in domestic markets, extending their product life cycle and revenue potential. Overall, international strategy is a dynamic approach that opens doors to growth, innovation, and global reach for businesses willing to embrace the challenges and opportunities of the global marketplace.

7.2 Importance of International Strategy

a. **International Markets Yield New Opportunities:**
International markets offer new customer bases, potentially leading to increased revenue and profit.
Emerging markets, in particular, can provide opportunities for rapid growth.

b. **Needed Resources Can Be Secured:**

Access to essential resources such as raw materials, skilled labour, or technology may be easier or more cost-effective in certain international markets.

c. **Greater Potential Product Demand:**

Expanding into international markets with high demand for specific products or services can drive sales growth. Diversifying market exposure reduces dependency on one market's demand fluctuations.

d. **Borderless Demand for Globally Branded Products:**

Some products or brands have global appeal and recognition, allowing companies to capitalize on the demand for globally recognized products.

e. **Pressure for Global Integration:**

In industries where global supply chains and integration are the norm (e.g., technology and automotive), international expansion is essential to remain competitive.

f. **New Market Expansion Extends Product Life Cycle:**

Products that have reached maturity or saturation in domestic markets can find new life cycles in international markets with untapped potential.

g. **Access to Needed Resources:** Companies may need access to specific resources that are abundant or of higher quality in certain foreign markets. For example, a car manufacturer might need access to rare metals that are only available in specific countries. By expanding internationally, they can secure a reliable supply of these resources.
h. **Market Saturation:** In some cases, domestic markets may become saturated, making it difficult to achieve significant growth. Expanding internationally provides access to new markets with untapped potential.
i. **Economies of Scale:** As a company's production and sales volumes increase through international expansion, they can achieve economies of scale, which can lead to cost savings and improved profitability.
j. **Risk Diversification:** Relying solely on a domestic market exposes a company to risk associated with that market. International diversification can spread risk across multiple markets and reduce the impact of economic or political downturns in one region.
k. **Innovation and Competitive Advantage:** Exposure to diverse international markets can stimulate innovation and help a company stay competitive by adapting to different market conditions and customer preferences.

7.3 Identifying International opportunity

Many firms opt for direct investment in assets rather than indirect investment for several compelling reasons. Firstly, direct investment provides a higher degree of protection for assets. When a company directly owns and controls its assets in a foreign market, it has a more secure hold on them, reducing the risk of losing or compromising these critical resources. Secondly, direct investment facilitates the development of relationships with key resources more rapidly. By establishing a direct presence, firms can engage with local partners, suppliers, and customers directly, fostering trust and collaboration faster than would be possible through intermediaries. Lastly, direct investment may offer a reduction in risk due to the establishment of direct connections. Having control and visibility into the operations and management of assets can lead to better risk management and mitigation strategies, reducing the uncertainties associated with relying on third parties. In summary, direct investment in assets is often favored for its ability to enhance asset protection, expedite relationship-building, and reduce risks through direct control and connections in foreign markets.

7.3.1 Incentives of International Strategy

The incentives and basic benefits of adopting an international strategy are numerous and can significantly impact a company's growth, profitability, and competitive positioning. Here are some of the key incentives and benefits:

1. **Revenue Growth**:
- International expansion opens new markets, driving increased sales and revenue.
- Vital when domestic markets are saturated or slow-growing.

2. **Diversification**:
- International strategy diversifies operations across countries, reducing dependency on one market.

- Mitigates risks tied to economic downturns or market-specific issues.

3. **Economies of Scale**:
- Operating in multiple countries yields cost-saving economies of scale.
- Optimized production, distribution, and procurement lower per-unit costs and enhance profit margins.

4. **Enhanced Profitability**:
- Access to new markets and customer segments boosts profitability.
- Some markets may pay premium prices, raising overall profit margins.

5. **Competitive Advantage**:
- International strategy offers access to tech, resources, and customer insights.
- Keeps companies ahead of competitors by expanding reach and capabilities.

6. **Innovation & Product Development**:
- International markets drive innovation.
- Tailored products meet diverse customer preferences, fostering creativity and market agility.

7. **Global Brand Recognition**:
- International success strengthens global brand recognition.
- Enhances credibility, reliability, and quality perception.

8. **Risk Diversification**:
- Diversification across markets reduces risk.
- Spreads impact of local economic, political, or regulatory challenges.

9. **Access to Resources**:
- International strategy provides resource access.
- Raw materials, skilled labor, or technology are often more accessible or cost-effective abroad.

10. **Extended Product Life Cycle**:
- International expansion revitalizes products at maturity or saturation.
- Untapped markets offer growth potential.

11. **Learning Opportunities**:
- Operating globally exposes companies to diverse markets.
- Insights inform better global decision-making.

12. **Market-Leading Position**:
- International strategy can establish market leadership.
- Influences industry trends and standards, enhancing competitiveness.

7.3.2 Basic Benefits of International Strategy:

1. Increased Market Size:

One of the fundamental benefits of international strategy is the expansion of the market size. By entering foreign markets, firms gain access to a larger customer base and a more extensive geographical reach. This increase in market size can lead to higher sales volumes, revenue growth, and potential for long-term profitability.

2. **Increased Economies of Scale and Learning:**

International expansion often leads to increased economies of scale. As firms expand their operations, they can optimize production processes and achieve greater efficiency. Learning from diverse international markets enhances a company's adaptability and competitiveness. Insights gained from operating in various cultural and economic contexts can inform better decision-making and innovation.

3. **Development of a Competitive Advantage Through Location:**

Location-based advantages are a key benefit of international strategy. Companies can strategically position themselves in regions that offer specific advantages, such as access to low-cost labour, critical resources, or proximity to key customers. Leveraging these advantages can improve cost-efficiency and enhance a firm's competitive position in the global marketplace.

4. **Classic Rationale: Extending The Product's Life Cycle**

The concept of "extending the product's life cycle" is a classic rationale for international diversification, and it involves a sequence of events and decisions made by a firm to keep a product or product line viable and profitable. This rationale is particularly relevant when a product reaches the mature or declining stage of its life cycle in the domestic market. Here's how the process typically unfolds:

A. Product Demand Develops and Firm Exports Products:

Initially, a firm develops and successfully sells its product in its domestic market.
As the product gains popularity and matures in the domestic market, the firm explores opportunities to expand its customer base.

B. Foreign Competition Begins Production:

As the product's reputation grows, foreign competitors recognize its potential and begin producing similar or competing products in their home markets. This can lead to increased competition in the domestic market, potentially affecting pricing and market share.

C. Firm Begins Production Abroad:

To stay competitive and maintain market share, the firm decides to start producing the product abroad. This often involves setting up manufacturing facilities in foreign countries or partnering with foreign manufacturers.

D. Production is Standardized and Relocated to Low-Cost Countries:

To achieve cost efficiencies and remain competitive, the firm may standardize production processes and relocate them to low-cost countries.
This relocation can lead to significant cost savings through lower labour, production, and operational expenses.

E. Firm Introduces Innovation in the Domestic Market:

While the core product is produced more cost-effectively abroad, the firm continues to innovate and introduce new versions or features of the product in the domestic market.

These innovations help rejuvenate interest in the product domestically, appealing to existing customers and potentially attracting new ones. By following this sequence, a firm can extend the life cycle of its product. Here's how each step contributes to achieving this goal:

Exporting and Expanding Demand: Initially exporting the product and expanding demand in international markets can counter balance the product's maturity or decline in the domestic market.

Competing with Foreign Manufacturers: The entry of foreign competitors into the domestic market can motivate the firm to seek competitive advantages through international expansion.

Lower Production Costs: By relocating production to low-cost countries, the firm can reduce production costs, potentially improving profitability.

Continuous Innovation: Introducing innovations in the domestic market keeps the product relevant and may attract new customers or retain existing ones.
This strategy is especially relevant in industries with mature products where sustaining growth and competitiveness is a challenge.

7.4 International Strategies

Firms employ various international strategies to navigate the complexities of global markets. These strategies can be broadly categorized into two basic types: International Business-Level Strategies and International Corporate-Level Strategies.

7.4.1. Business-Level Strategies:

International business-level strategies focus on how a company competes in a particular market or industry on a global scale. These strategies are about achieving a competitive advantage by offering products or services that meet the needs and preferences of international customers. Here are five common international business-level strategies:

a. Cost Leadership:

- Companies pursuing cost leadership aim to become the lowest-cost producer in their industry.
- This strategy often involves achieving economies of scale, optimizing production processes, and minimizing costs while maintaining acceptable product quality.
- Cost leadership is attractive in price-sensitive markets and requires a strong emphasis on efficiency.

b. Differentiation:

- Differentiation strategies involve offering unique products or services that are distinct from competitors in the market.

- Companies pursuing differentiation aim to command premium prices and build strong brand loyalty.
- Innovation and product quality are key drivers of differentiation.

c. Focused Cost Leadership:

- Focused cost leadership narrows the scope to a specific market segment, region, or product line.
- It combines cost leadership principles with a focus on a niche market to gain a competitive edge.

d. Focused Differentiation:

- Similar to focused cost leadership, this strategy targets a specific market segment but emphasizes differentiation.
- It involves tailoring products or services to meet the unique demands of a particular market niche.

e. Integrated Cost Leadership/Differentiation:

- This strategy combines elements of both cost leadership and differentiation.
- Companies aim to deliver superior value to customers through cost-effective production while offering unique features.

International firms typically develop these strategies based on their domestic capabilities and core competencies. However, as geographic diversity increases, the ability to leverage domestic advantages diminishes. The home country often remains the most important source of competitive advantage. This perspective aligns with Michael Porter's analysis of national competitiveness, where conditions in a firm's domestic market play a significant role in shaping international business-level strategy.

7.4.2. International Corporate-Level Strategies:

International corporate-level strategies focus on how a firm manages its operations and resources across multiple international markets. These strategies determine the overall scope and structure of a company's global activities. Three common international corporate-level strategies are:

a. Multi-Domestic Strategy:

This strategy assumes that there are significant country or cultural differences that necessitate tailoring products, services, and business practices to meet the specific needs and preferences of local markets.

Advantage: The primary advantage of the multi-domestic strategy is its ability to achieve high levels of local responsiveness. MNCs following this approach adapt their offerings to each market, allowing them to better meet customer demands and cultural expectations. By being attuned to local conditions, they can often gain a competitive edge in diverse markets.

b. Global Strategy:

The global strategy assumes that there is universal demand for standardized products or services, and it emphasizes the need for global integration and consistency.

Advantage: The key advantage of a global strategy is the pursuit of global efficiencies. MNCs following this approach aim to standardize their products and operations across multiple markets. This standardization can lead to cost savings through economies of scale, streamlined processes, and centralized decision-making. Companies adopting a global strategy often target mass markets and seek to establish a consistent global brand image.

c. Transnational Strategy:

The transnational strategy seeks to strike a balance between local responsiveness and global efficiencies. It recognizes that while standardization can lead to cost savings, ignoring local market differences can hinder competitiveness.

Advantage: The primary advantage of the transnational strategy is its pursuit of both local responsiveness and global efficiencies. MNCs following this approach aim to adopt and customize their products and services to meet local market demands while also benefiting from economies of scale and shared resources across borders. This strategy allows companies to be agile in responding to local needs while achieving cost savings through global integration.

In summary, these three international strategies reflect different approaches to navigating the complexities of global business. The choice of strategy depends on various factors, including the nature of the industry, customer preferences, regulatory environments, and the company's resources and capabilities. Many MNCs adopt a hybrid approach or adapt their strategies based on the specific requirements of each market they serve.

7.5 Determinants of national advantage

Each international strategy, whether at the business or corporate level, should be rooted in one or more core competencies. These strategies are often shaped by the structural characteristics of the economies in which companies operate, as highlighted by Michael Porter's four determinants of national advantage. The home market's conditions significantly influence a firm's ability to implement its international business-level strategy successfully.

International strategies are profoundly influenced by the determinants of national advantage, as articulated in Michael Porter's Diamond Model. Among these determinants, factors of production play a pivotal role in shaping a nation's or region's competitiveness in the global arena. These factors represent the essential inputs required for businesses to compete effectively in any industry. They encompass a range of elements, including labour, land, natural resources, capital, and infrastructure. Labour constitutes the workforce's quality, skills, and availability, which significantly impact an industry's performance. Land resources, both physical space and geographic location, can influence access to key markets and transportation hubs. Natural resources, such as minerals and energy sources, hold particular importance in resource-intensive industries. Capital, in terms of both domestic and foreign investment, is essential for funding innovation and

infrastructure development. Infrastructure, encompassing transportation networks and communication systems, is crucial for the efficient operation of businesses. Additionally, in today's interconnected world, advanced factors of production, including digital communication systems and an educated workforce, have emerged as vital components of national competitiveness. These advanced factors underpin innovation, knowledge-based industries, and global connectivity. Together, these factors of production serve as the foundation upon which nations and regions build their international strategies, fostering economic growth and competitiveness in an increasingly globalized world.

1. Demand Conditions:

Demand conditions refer to the nature and size of the domestic market's needs for a particular industry's goods or services. The characteristics of demand in the home market can have a significant impact on international competitiveness.
Key points related to demand conditions:

- Scale-Efficient Facilities: A large and dynamic domestic market can lead to the development of scale-efficient production facilities. Companies that serve a sizable home market may be able to produce at lower costs.
- Efficiency and Dominance: Efficiency gained from serving a large domestic market can help firms dominate the industry domestically. This competitive advantage can then be leveraged for expansion into international markets.
- Specialized Demand: Specialized or unique demand in the home market can create opportunities for firms to develop specialized products or services that can be exported to other countries with similar needs.

2. Related and Supporting Industries:

Related and supporting industries include the network of suppliers, supporting services, facilities, and other firms that contribute to the success of a particular industry. These industries play a vital role in enhancing the competitiveness of the focal industry. Key points related to related and supporting industries:

- Support in Design: Collaborative relationships with firms in related industries, such as design firms or technology suppliers, can enhance product innovation and quality.
- Support in Distribution: Efficient distribution networks, logistics providers, and transportation services are critical for reaching international markets.
- Supplier and Buyer Relationships: Strong relationships with suppliers and buyers in related industries can lead to cost efficiencies and mutually beneficial collaborations.

3. Firm Strategy, Structure, and Rivalry:

- Firm strategy, structure, and rivalry encompass the pattern of competition and the strategies employed by firms within an industry in a particular nation or region.
- Competitive dynamics among firms can influence the overall competitiveness of the industry.
- Key points related to firm strategy, structure, and rivalry:

- Common Technical Training: A shared pool of skilled labor with similar technical training can foster innovation and process improvement.
- Methodological Improvement: The presence of competitive firms often drives continuous product and process improvement.
- Cooperative and Competitive Systems: Collaborative partnerships among firms can lead to industry-wide efficiency gains, while healthy competition can drive innovation and productivity.
- Understanding and leveraging these determinants can guide international strategies and foster economic growth and competitiveness on a national and global scale.

7.6 Environmental Trends

International strategies are influenced by various environmental trends and factors, two of which are the "Liability of Foreignness" and "Regionalization." These trends play a crucial role in shaping a company's approach to global markets.

1. Liability of Foreignness:

The Liability of Foreignness refers to the challenges and disadvantages that company's face when entering and operating in foreign markets. This concept recognizes that conducting business in unfamiliar territories can be complex and costly. Here's a detailed exploration:

a. Cost Factors:

Market Entry Costs: Establishing a presence in a foreign market often involves substantial expenses, including legal compliance, permits, licenses, and market research.
Cultural Adaptation: Understanding and adapting to local customs, languages, and consumer behaviors can be resource-intensive and time-consuming.
Political and Regulatory Risks: Navigating diverse regulatory environments and political landscapes can require specialized legal and compliance expertise.
Distribution Costs: Building efficient distribution networks in a new market can be a significant financial investment.

b. Complexity Factors:

Cultural Differences: Variations in language, customs, and consumer preferences necessitate tailored marketing strategies and product adaptations.
Administrative Distances: Operating in unfamiliar administrative environments can lead to operational inefficiencies and compliance challenges.
Geographic Distances: Coordinating and managing operations across vast geographical distances can be logistically challenging.
Economic Distances: Economic disparities, currency fluctuations, and income levels can complicate pricing strategies and financial management.

c. Risk Factors:

Political Instability: Uncertain political environments in foreign markets can lead to unforeseen risks, such as expropriation or changes in regulations.
Cultural Misunderstandings: Misinterpreting or failing to respect local cultural norms can harm a company's reputation and relationships.

Market Competition: Competition in foreign markets can be intense, requiring firms to adapt quickly and effectively to gain a competitive edge.

2. Regionalization:

Regionalization is a strategic approach where companies focus their efforts on specific geographic regions, rather than pursuing a global or one-size-fits-all strategy. This trend recognizes that markets within a region often share commonalities and may benefit from region-specific strategies. Here's an in-depth examination of regionalization:

a. Regional Focus:

Resource Optimization: Regionalization allows companies to concentrate their resources, talent, and efforts on a select number of geographic areas. This focus can lead to better resource allocation and utilization.

Market Understanding: By concentrating on specific regions, companies can gain a deeper understanding of local market dynamics, cultural nuances, legal frameworks, and social norms.

b. Cost and Efficiency Benefits:

Economies of Scale: Concentrating operations in a region can help companies achieve economies of scale, reducing production costs.

Supply Chain Efficiency: Regionalization often leads to more efficient supply chain management, reducing transportation costs and delivery times.

c. Tailored Strategies:

Local Adaptation: Companies can tailor their products, marketing, and distribution strategies to meet the unique needs of each regional market. This customization can enhance customer satisfaction and competitiveness.

Compliance and Regulation: Regionalization allows firms to focus on compliance with regional regulations, potentially simplifying their legal and regulatory responsibilities.

d. Trade Agreements:

Leveraging Trade Agreements: Regional trade agreements, such as the European Union (EU), North American Free Trade Agreement (NAFTA), and others, promote trade and collaboration within regions. Companies can leverage these agreements for market access, reduced trade barriers, and simplified cross-border operations.

In conclusion, the Liability of Foreignness and Regionalization are important environmental trends that significantly impact international business strategies. Companies must carefully assess the challenges and opportunities associated with entering foreign markets while considering the benefits of regional focus and customization to succeed in an increasingly interconnected global marketplace.

7.7 Choice of International Entry Mode

The choice of international entry mode is a critical decision for businesses seeking to expand their operations beyond domestic borders. It involves selecting the most suitable method to enter and establish a presence in foreign markets. The five main entry modes are exporting, licensing, strategic alliances, acquisitions, and establishing new wholly-owned subsidiaries. Each of these modes has its own advantages and challenges, and the choice depends on factors such as market conditions, risk tolerance, available resources,

and strategic objectives. Here's an in-depth exploration of these entry modes and the dynamics involved:

1. Exporting:

Definition: Exporting involves selling products or services produced in the home country to customers in foreign markets. This can be done directly or indirectly through intermediaries like distributors or agents.

Advantages:

- **Low Initial Investment**: Exporting typically requires less initial capital investment compared to other entry modes, making it suitable for smaller businesses.
- **Market Diversification**: Exporting allows a company to diversify its customer base and reduce dependence on a single domestic market.
- **Quick Market Entry**: It is a relatively quick way to access international markets and can be used to test market demand.

Challenges:

- **Limited Control**: Companies have limited control over distribution, marketing, and customer relationships in foreign markets.
- **Transportation Costs**: Exporting can involve high transportation costs, especially for products with low value-to-weight ratios.
- **Competitive Pressure**: Entering foreign markets through exporting may expose a company to intense competition from local and global competitors.

2. Licensing:

Definition: Licensing involves granting another company (the licensee) the rights to use intellectual property, such as patents, trademarks, or technology, in exchange for fees or royalties.

Advantages:

- **Low Risk and Investment**: Licensing requires minimal capital investment and poses low financial risk for the licensor.
- **Revenue Generation**: It can generate revenue from licensing fees and royalties without the need for direct involvement in foreign operations.
- **Market Access**: Licensing allows a company to enter foreign markets quickly through established local partners.

Challenges:

- **Loss of Control**: The licensor has limited control over how the licensee uses its intellectual property, which may impact brand reputation.
- **Limited Profits**: Licensing agreements often result in lower profit margins compared to other entry modes.
- **Dependency**: Over-reliance on licensing can make a company vulnerable if the licensee performs poorly or violates the agreement.

3. Strategic Alliances:

Definition: Strategic alliances involve partnerships with foreign firms for various purposes, such as joint ventures, collaborative agreements, or cooperative marketing efforts.

Advantages:

- **Risk Sharing**: Strategic alliances allow companies to share financial, operational, and market risks with local partners.
- **Local Expertise**: Local partners provide valuable knowledge of the foreign market, including consumer preferences and regulatory requirements.
- **Resource Sharing**: Companies can combine resources and capabilities to pursue opportunities that may be beyond their individual reach.

Challenges:

- **Conflict Resolution**: Managing differences in management styles, cultural norms, and strategic objectives can be challenging.
- **Loss of Control**: Collaborative ventures may require compromise and entail a loss of control over certain aspects of the business.
- **Ownership and Equity Issues**: Determining ownership stakes and equity distribution can be complex and lead to disputes.

4. Acquisitions:

Definition: Acquisitions involve purchasing an existing company or a significant stake in a foreign company to gain access to its assets, customer base, and market presence.

Advantages:

- **Immediate Market Presence**: Acquisitions provide an instant foothold in foreign markets with an established customer base.
- **Control**: Acquiring a foreign firm offers control over operations, management, and strategic decisions.
- **Synergy**: Companies can leverage synergies and economies of scale through acquisitions.

Challenges:

- **Integration Issues**: Merging different corporate cultures, systems, and processes can be complex and challenging.
- **High Costs**: Acquisitions often involve substantial financial outlays, including purchase price and integration expenses.
- **Risk of Overpaying**: Overvaluing the target company or misjudging market conditions can lead to financial setbacks.

5. New Wholly Owned Subsidiary:

Definition: Establishing a new wholly-owned subsidiary in a foreign market involves creating a separate legal entity under the ownership and control of the parent company.

Advantages:

- **Full Control**: Companies have complete control over the subsidiary's operations, strategies, and management.
- **Brand Consistency**: It allows for consistent branding, product quality, and customer service.
- **Long-term Growth**: Subsidiaries can be valuable assets for long-term growth and market development.

Challenges:

- **High Investment**: Setting up and operating a wholly-owned subsidiary can be capital-intensive.
- **Market Learning Curve**: Companies must learn about local market conditions, regulations, and consumer behaviours.
- **Risks and Responsibility**: The parent company bears full responsibility for the subsidiary's performance and risks.

6. Dynamics of Mode of Entry:

The choice of entry mode is influenced by several dynamic factors, including:

- **Market Assessment**: Companies evaluate market conditions, demand, competition, and growth potential to determine the most suitable entry mode.
- **Resource Availability**: The availability of financial, human, and technological resources impacts the chosen entry mode.
- **Risk Tolerance**: Companies assess their risk tolerance and the level of control they want over foreign operations.
- **Legal and Regulatory Considerations**: Compliance with foreign laws, regulations, and intellectual property protection plays a significant role.
- **Cultural and Language Factors**: Understanding local cultures and languages is crucial for effective market

7.8 Strategic Competitive Outcomes

International strategies aim to achieve several key competitive outcomes in the global marketplace:

1. **International Diversification and Returns**:

- International diversification involves expanding into multiple global markets.
- Initially, as a firm diversifies internationally, returns may decrease due to the challenges of managing expansion.
- However, returns can quickly increase as the firm learns to manage international operations effectively.
- Broad diversification into multiple international markets, especially in core business areas, often leads to the most positive stock returns.
- Factors contributing to positive effects of international diversification include ownership structure, economies of scale and experience, location advantages, increased market size, and risk reduction.

2. **Enhanced Innovation**:
- International expansion exposes firms to new products and markets, fostering innovation.
- It provides opportunities to integrate new knowledge into operations.
- Generates resources to sustain innovation efforts.
- The relationship between international geographic diversification, innovation, and returns is complex.
- Adequate performance is necessary to fund geographic diversification and investment in research and development (R&D).
- Effective R&D enhances returns, which, in turn, provides more resources for further geographic diversification and R&D investment.

7.9 Risks in an International Environment

Expanding into international markets offers numerous opportunities, but it also exposes businesses to various risks. Two significant risks in an international environment are political risks and Economic risks.

1. Political Risks:
Political risks refer to the potential disruptions of Multinational corporation (MNC) operations caused by political forces or events. These risks can originate from host countries, the home country, or changes in the international environment. Political risk analysis is crucial before implementing international strategies to assess potential noncommercial disruptions to foreign investments and operations. Here are some examples of political risks:

Government Instability: Political instability, such as frequent changes in government leadership, can lead to uncertainty and unpredictability for businesses operating in a foreign market.

Conflict or War: Regions with ongoing conflicts or the threat of war can pose significant risks to MNCs, including physical damage to assets and disruptions in supply chains.

Government Regulations: Sudden changes in government regulations, including trade policies, taxation, and licensing requirements, can affect a company's ability to operate profitably.

Conflicting and Diverse Legal Authorities: Navigating legal systems in multiple countries with differing laws and regulations can be complex and costly.

Potential Nationalization of Private Assets: Some governments may choose to nationalize private assets, leading to loss of ownership and control over assets.

Government Corruption: Corruption in host countries can affect business operations, lead to unfair competition, and increase operational costs.

Changes in Government Policies: Shifts in government policies related to foreign investments, labour, or environmental standards can impact a firm's operations and profitability.

2. Economic Risks:

Economic risks arise from fundamental weaknesses in a country or region's economy, and they have the potential to adversely affect the successful implementation of a firm's international strategies. These risks can significantly impact a company's financial performance and stability. Some examples of economic risks include:

Currency Volatility: Currency exchange rate fluctuations can impact the financial performance of a multinational company, particularly if revenues and costs are denominated in different currencies. Exchange rate volatility can affect pricing, profitability, and cash flow.

Government Oversight and Control of Economic/Financial Capital: Some governments may tightly control economic and financial capital, limiting a company's ability to manage its financial resources effectively.

Weak Intellectual Property (IP) Rights Protections: Inadequate IP rights protection can lead to intellectual property theft, impacting a firm's competitiveness and attractiveness for foreign direct investment (FDI).

Investment Losses Due to Political Risks: Investments made in a foreign country may be subject to losses due to political risks, including expropriation or nationalization.
Terrorism: Regions with a high risk of terrorism can disrupt business operations and pose security threats to employees and assets.

Security Risk of Foreign Firms Acquiring Key Natural Resources or Strategic IP: Foreign firms acquiring critical natural resources or strategic intellectual property may lead to security risks and resource scarcity for MNCs.

Mitigating these risks requires careful planning, risk assessment, and the development of strategies to manage or minimize potential disruptions. Companies often use tools such as political risk insurance, hedging against currency fluctuations, and diversification of operations to different regions to mitigate these risks and ensure the successful implementation of international strategies.

7.9.1 Limits to the positive effects of diversification associated with international strategies:

Indeed, while international diversification can offer numerous benefits, there are also limits and challenges associated with it. Here are some key reasons explaining the limits to the positive effects of diversification associated with international strategies:

1. **Geographic Dispersion**:
    - Operating in multiple countries can lead to geographical dispersion, making it challenging to coordinate and manage operations effectively.
    - Physical distance can result in slower response times to market changes and difficulties in monitoring and controlling business activities.
2. **Trade Barriers**:
    - Trade barriers such as tariffs, import quotas, and export restrictions can hinder the flow of goods and services across borders.

- These barriers can increase the cost of doing business internationally and limit market access.

3. **Logistical Costs**:
   - International logistics and supply chain management can be complex and costly.
   - Shipping, customs clearance, warehousing, and transportation expenses can erode the cost advantages gained through international diversification.

4. **Cultural Diversity and Barriers**:
   - Cultural differences in language, customs, and business practices can pose communication and relationship-building challenges.
   - Misunderstandings or misinterpretations can impact business negotiations and partnerships.

5. **Complexity of Competition**:
   - Entering foreign markets often means competing with local and global competitors who may have a better understanding of the local market and stronger market presence.
   - Intense competition can erode profit margins and increase the difficulty of gaining market share.

6. **Relationship Between Firm and Host Country**:
   - The relationship between a multinational firm and the host country can be influenced by political, economic, and social factors.
   - Host country regulations, policies, and attitudes toward foreign businesses can impact the firm's operations and success.

7. **Other Country Differences**:
   - Apart from culture, other differences in legal systems, regulatory environments, and business norms can create additional complexities.
   - Firms must adapt to these differences, which can be time-consuming and resource-intensive.

8. **Market Size and Maturity**:
   - Not all international markets offer the same growth potential or maturity levels.
   - Some markets may have limited growth opportunities or be saturated, limiting the benefits of diversification.

9. **Currency Risks**:
   - Fluctuations in currency exchange rates can impact revenues, costs, and profitability for multinational firms.
   - Managing currency risk can be challenging and may offset some of the advantages of international diversification.

Conclusion: Despite these challenges and limits, many companies continue to pursue international diversification strategies because of the significant advantages, including access to new markets, increased economies of scale, and the potential for higher returns. Successful international diversification requires careful planning, risk management, and a deep understanding of the specific challenges associated with each target market.

- **Exercise**

Long Questions

1. Describe the various International Strategies.
2. Discuss the Incentives and Basic Benefits of International Strategy.
3. What are some key environmental trends that can impact a company's International Strategy?
4. What factors should companies consider when choosing an entry mode for international markets?
5. How do international strategies impact a company's competitive advantage in global markets?
6. What are the main types of risks that companies face in the international business environment?
7. What is International Strategy? Explain in detail.
8. Explain the Importance of International strategies.

Short Notes

1. Business level strategy.
2. Corporate level strategy.
3. Determinants on National advantages.
4. Choice of international entry mode?
5. Risk Factors associated with International Environment.

Multiple Choice Questions

1. What is the primary objective of international strategy?
A. Reducing operational costs
B. Maximizing domestic market share
C. Expanding into foreign markets
D. Minimizing competition

2. Which entry mode involves granting another company the rights to use intellectual property in exchange for fees or royalties?
A. Exporting
B. Licensing
C. Strategic Alliances
D. Acquisitions

3. What is the primary advantage of forming strategic alliances in international strategy?
A. Full control over operations
B. Risk sharing with local partners
C. Low capital investment
D. Rapid market entry

4. What is the main purpose of international diversification in an international strategy?
A. Reducing cultural diversity
B. Increasing logistical costs
C. Enhancing innovation
D. Spreading business risks

5. Which environmental trend involves analyzing potential non-commercial disruptions to foreign investments and operations?
A. Liability of foreignness
B. Regionalization
C. Political risk analysis
D. Economic risk assessment

6. What type of risk can arise from currency exchange rate fluctuations in international business?
A. Political risk
B. Economic risk
C. Cultural risk
D. Currency risk

7. Which of the following is a potential consequence of weak intellectual property (IP) rights protections in a foreign market?
A. Enhanced innovation
B. Increased attractiveness for FDI
C. Intellectual property theft
D. Strengthened competitive advantage

8. What does the term "global brand recognition" refer to in international strategy?
A. A brand that is recognized only in the home country
B. A brand that is recognized worldwide
C. A brand that is focused on local markets
D. A brand that is recognized in a specific region

9. What is a primary factor contributing to the complexity of international competition for multinational firms?
A. Government regulations
B. Currency stability
C. Homogeneous markets
D. Limited customer diversity

10. Which of the following is not a form of international entry mode?
A. Exporting
B. Licensing
C. Domestic expansion
D. Acquisitions

11. What is the primary purpose of diversifying geographically into core business areas in international strategy?
A. To simplify operations
B. To reduce risk
C. To decrease market size
D. To limit market access

12. Which risk factor in international strategy is related to the threat of war and physical damage to assets?
A. Currency risk
B. Political risk
C. Economic risk

D. Cultural risk

13. What type of risk arises from inadequate protection of intellectual property rights in foreign markets?
A. Currency risk
B. Economic risk
C. Political risk
D. Intellectual property risk

14. What is the primary challenge of managing international operations due to geographic dispersion?
A. Rapid response to market changes
B. Simplifying operations
C. Reducing supply chain costs
D. Coordinating and managing operations effectively

15. Which of the following is an example of an economic risk in international business?
A. Currency exchange rate fluctuations
B. Government regulations
C. Cultural differences
D. Language barriers

Answer

1) C	2) B	3) B	4) D	5) C
6) D	7) C	8) B	9) A	10) C
11) B	12) B	13) D	14) D	15) A

UNIT – 8	STRATEGY IMPLEMENTATION

UNIT – 8 STRATEGY IMPLEMENTATION

8.1 Introduction to Strategy Implementation

- **8.1.1 Definition**
- **8.1.2 Meaning**

8.2 Importance of Strategy Implementation

8.3 Organizational Design and Competitive Advantage

8.4 Strategy and Structure

8.5 Organizational Culture, Value, Norms & Artifacts

8.6 Strategic Control & Reward systems

❖ **Exercise**

8.1 Introduction to Strategy Implementation

Strategy implementation is a fundamental component of the strategic management process. It is the phase that follows the formulation of a strategic plan and involves putting that plan into action to achieve the organization's goals and objectives. Essentially, it's the process of executing a chosen strategy effectively throughout the organization. While strategy formulation is about making decisions, strategy implementation is about making those decisions work.

8.1.1 Definition

Strategy implementation can be defined as follows:
Strategy implementation is the process of translating a strategic plan or set of strategies into actions, initiatives, and projects that an organization can undertake to accomplish its strategic goals and objectives. It involves allocating resources, establishing clear roles and responsibilities, and monitoring progress to ensure that the strategies are executed successfully.

8.1.2 Meaning of Strategy Implementation:

To understand the meaning of strategy implementation, let's break it down further:

1. **Translating Strategies into Actions:** This involves converting the high-level strategic concepts and ideas from the planning phase into concrete, actionable steps that teams and individuals across the organization can follow.

2. **Allocating Resources:** It means assigning the necessary resources such as budgets, personnel, technology, and time to support the initiatives and projects identified in the strategic plan.

3. **Establishing Responsibility:** This includes defining who is responsible for what aspects of the plan, ensuring that there's accountability throughout the organization, and that everyone knows their role in executing the strategy.

4. **Monitoring and Adjusting:** Strategy implementation requires continuous monitoring of progress, tracking key performance indicators (KPIs), and making adjustments as needed to stay on track and achieve the desired outcomes.

8.2 Importance of Strategy Implementation:

The importance of strategy implementation cannot be overstated:

1. **Achievement of Objectives:** Strategy implementation is the bridge between planning and execution. It ensures that the organization moves from conceptualizing strategies to realizing them, ultimately achieving its intended goals.

2. **Competitive Advantage:** Effective implementation of a well-formulated strategy can lead to a sustainable competitive advantage. It allows the organization to respond proactively to market changes and capitalize on opportunities faster than competitors.

3. **Resource Utilization:** Proper implementation ensures that resources are allocated efficiently, reducing waste and ensuring that they are directed toward activities that align with the strategic direction.

4. **Accountability:** It establishes clear accountability within the organization. When roles and responsibilities are defined, it becomes easier to identify and address issues or obstacles that may arise during implementation.

5. **Adaptability:** Effective implementation includes mechanisms for adapting to changes in the business environment. It ensures that the organization can pivot or adjust its strategies when needed.

6. **Communication and Engagement:** When employees understand the strategic goals and their role in achieving them, it boosts morale and engagement. A well-implemented strategy aligns the entire organization and fosters a sense of purpose.

So, strategy implementation is a critical phase in the strategic management process, as it is where strategies are transformed into tangible actions and results. Its significance lies in its ability to turn organizational aspirations into reality, drive competitive advantage, and ensure efficient resource allocation while fostering accountability and adaptability within the organization.

8.3 Organizational Design and Competitive Advantage

Organizational design plays a crucial role in an organization's ability to achieve and sustain a competitive advantage. It involves structuring the organization's components, such as its hierarchy, processes, and systems, to optimize efficiency, effectiveness, and

agility. Here, we'll discuss in detail how organizational design influences and contributes to a competitive advantage:

1. Alignment with Strategy:

- Effective organizational design aligns with the organization's strategic objectives. It ensures that the structure, processes, and systems are designed in a way that supports the chosen strategic direction. When alignment exists, the organization can execute its strategy more efficiently and effectively, leading to a competitive advantage.

2. Efficiency and Productivity:

- A well-designed organization can eliminate redundancy, reduce bureaucracy, and streamline processes. This leads to higher efficiency and productivity, as employees can focus on their core responsibilities without unnecessary layers of approval or communication bottlenecks. Increased efficiency often translates into cost savings and the ability to offer competitive prices or higher profit margins.

3. Innovation and Agility:

- Organizational design can foster innovation and agility by creating a structure that encourages cross-functional collaboration and the flow of information. When teams are structured to work closely together, share ideas, and adapt quickly to changing market conditions, the organization can respond more rapidly to emerging opportunities or threats.

4. Customer-Centric Approach:

- Organizational design can be tailored to prioritize customer-centricity. When the structure and processes are designed with a focus on understanding and meeting customer needs, the organization can deliver better products or services, enhancing customer satisfaction and loyalty, which can be a significant source of competitive advantage.

5. Talent Management:

- Organizational design also impacts how talent is managed and developed within the organization. It can enable the identification of high-potential employees and provide clear career paths. An effective design allows for the efficient allocation of human capital to roles where they can have the most impact on achieving strategic objectives.

6. Scalability:

- A well-thought-out organizational design can facilitate scalability. When the organization can easily expand or adapt its structure to accommodate growth or market changes, it maintains a competitive edge by being nimble and responsive to new opportunities.

7. Culture and Values:

- Organizational design should reflect the desired culture and values of the organization. A strong culture aligned with strategic goals can differentiate a company from its competitors. Employees who understand and embrace the

company's culture are more likely to contribute positively to the organization's performance.

8. Resource Allocation:

- Organizational design helps in optimizing resource allocation. It ensures that resources such as capital, human resources, and technology are allocated to the most critical areas that directly contribute to the competitive advantage. This prevents wasteful spending on non-essential activities.

9. Risk Management:

- An effective organizational design can also enhance risk management. By having clear lines of responsibility and accountability, the organization can better identify and mitigate risks that may threaten its competitive position.

8.4 Strategy and Structure

The relationship between strategy and organizational structure is a fundamental aspect of strategic management. How an organization's strategy aligns with its structure or how its structure supports its strategy can greatly influence the organization's ability to achieve its goals and competitive advantage. Let's delve into this topic in detail:

1. Alignment of Strategy and Structure:

- **Strategy Drives Structure:** The organization's strategy often serves as the primary driver for its structure. Different strategies require different organizational structures to effectively execute them.
- **Cost Leadership Strategy:** A cost leadership strategy, which aims to produce goods or services at the lowest cost in the industry, often leads to a more centralized and hierarchical organizational structure. This structure helps centralize decision-making and standardize processes to achieve efficiency.
- **Differentiation Strategy:** A differentiation strategy, which focuses on offering unique or premium products or services, may require a more decentralized structure that encourages innovation and flexibility. Cross-functional teams and a flatter hierarchy can be beneficial.
- **Focus Strategy:** In a focus strategy, where the organization targets a niche market segment, the structure may be tailored to serve that specific segment effectively. This could mean a structure that's small, agile, and highly specialized.

2. Types of Organizational Structures:

Different types of organizational structures can align with various strategies:

- **Functional Structure:** This type groups employees by function, such as marketing, finance, or operations. It's suitable for organizations pursuing a cost leadership strategy where efficiency is crucial. Each department focuses on its specialized function.
- **Divisional Structure:** In a divisional structure, the organization is divided into separate divisions or business units, each responsible for a specific product, market, or geographic area. It suits organizations pursuing a differentiation strategy as each division can have its own unique approach.

- **Matrix Structure:** The matrix structure combines elements of both functional and divisional structures. Employees report to both a functional manager and a product or project manager. It's often used in organizations that need flexibility and collaboration, suitable for differentiation strategies.
- **Network Structure:** Some organizations rely heavily on external partnerships, alliances, and collaborations to execute their strategies. This networked structure focuses on creating and maintaining these external relationships.

3. Strategy Implementation and Structure:

- **Effective Execution:** An organization's structure can significantly impact its ability to execute its strategy effectively. The structure should facilitate the coordination of activities, allocation of resources, and communication necessary for strategy implementation.
- **Cultural Alignment:** The alignment of the organizational structure with the strategy also influences the organizational culture. A structure that promotes innovation, for example, is more likely to foster a culture of creativity and risk-taking, which can be crucial for differentiation strategies.

4. Structure and Adaptability:

- **Adaptability to Change:** Different structures have varying degrees of adaptability to change. Organizations with a flatter, more decentralized structure may be better positioned to respond quickly to market shifts, which is vital for strategies focused on innovation and differentiation.
- **Organic vs. Mechanistic:** Organizational theorists often refer to organic and mechanistic structures. Organic structures, with more flexibility and adaptability, align better with strategies emphasizing innovation and responsiveness. Mechanistic structures, which are more rigid and hierarchical, may align better with cost-focused strategies.

5. Evolving Structures:

- Organizations may need to adapt their structures as their strategies evolve. As a company grows, enters new markets, or diversifies its product offerings, its structure may need to change to support these strategic shifts.

In conclusion, the relationship between strategy and structure is dynamic and interdependent. An organization's structure should be chosen or adapted to align with its strategic objectives and the competitive landscape in which it operates. A well-matched strategy and structure can enhance an organization's ability to achieve its goals, gain a competitive advantage, and respond effectively to changing market conditions.

8.5 Organizational Culture, Value, Norms & Artifacts

Organizational Culture is a vital component of an organization's identity and plays a significant role in shaping its behaviour, values, and norms. This culture, in turn, influences how employees interact with each other and with external stakeholders. To understand organizational culture, it's essential to delve into its key elements: values, norms, and artifacts.

1. Organizational Values:

- **Definition:** Organizational values are the fundamental beliefs and principles that guide the actions, behaviors, and decisions of individuals within the organization. They represent what the organization stands for and what it considers important.
- **Significance:**
    - Values serve as a compass for employees, helping them make decisions aligned with the organization's mission and strategic objectives.
    - They shape the organization's ethical standards, affecting how it conducts business and interacts with customers, partners, and the community.
    - Values can attract and retain employees who resonate with the organization's mission and culture, contributing to a cohesive workforce.
- **Examples:**
    - Integrity, customer-centricity, innovation, teamwork, accountability, social responsibility, excellence, diversity, and inclusion.

2. Organizational Norms:

- **Definition:** Organizational norms are unwritten rules and expectations that govern behavior within the organization. They define how employees should interact, communicate, and perform their roles.
- **Significance:**
    - Norms help maintain order and consistency in the workplace by providing guidelines for appropriate behavior and communication.
    - They foster a sense of belonging and cohesion among employees who share common expectations about how things should be done.
    - Norms can reinforce the organization's values by translating them into actionable behaviors.
- **Examples:**
    - Punctuality, open-door policy, respectful communication, dress code, work ethic, meeting etiquette, and conflict resolution approaches.

3. Organizational Artifacts:

- **Definition:** Organizational artifacts are tangible manifestations of the organization's culture. These can include symbols, physical objects, rituals, stories, and visible behaviors that reflect the underlying values and norms.
- **Significance:**
    - Artifacts serve as tangible reminders of the organization's culture and values, helping to reinforce them among employees.
    - They provide a way to communicate and socialize newcomers into the organization's culture, making it easier for them to understand and assimilate.

- **Examples:**
    - Logo and branding, office layout and design, company events and traditions, mission statements, slogans, awards and recognition programs, and shared stories about the organization's history.

4) **Interactions Among Values, Norms, and Artifacts:**

- Values serve as the core of organizational culture, influencing the establishment of norms and artifacts.
- Norms arise from the shared values, and they shape the behaviors and practices of employees.
- Artifacts are physical or observable representations of values and norms. They help to make these abstract concepts more concrete and visible.

5) **Cultural Change:**

- Organizational culture can evolve over time due to shifts in leadership, industry changes, or internal developments. Managing cultural change involves re-evaluating and, if necessary, realigning values, norms, and artifacts to support new strategic directions or address challenges.

6) **Impact on Organizational Performance:**

- A strong and positive organizational culture can have a profound impact on an organization's performance:
    - It can enhance employee engagement, satisfaction, and retention.
    - It can lead to better teamwork and collaboration.
    - It can drive innovation and adaptability.
    - It can improve customer satisfaction and loyalty.
    - It can foster a positive reputation and attractiveness to potential employees.

In summary, organizational culture, consisting of values, norms, and artifacts, is a powerful force that shapes an organization's identity, influences employee behavior, and ultimately impacts its performance and competitive advantage. Understanding, nurturing, and aligning culture with strategic objectives is essential for organizations aiming to thrive in a rapidly changing business environment.

8.6 Strategic Control & Reward Systems

Strategic control and reward systems are critical components of strategic management. They play a pivotal role in aligning an organization's activities with its strategic objectives, monitoring progress, and motivating employees to contribute to the achievement of strategic goals. Let's discuss these topics in detail:

1. Strategic Control:

- **Definition:** Strategic control refers to the process of monitoring and regulating an organization's strategic activities to ensure that they are in line with the planned

strategic direction. It involves measuring performance, comparing it to the established goals, and taking corrective actions if necessary.

- **Types of Strategic Control:**
    - **Premise Control:** Examines the assumptions and external factors on which the strategy is based, ensuring they remain valid.
    - **Implementation Control:** Focuses on the execution of the strategy, monitoring activities and processes to ensure they align with the strategic plan.
    - **Strategic Surveillance:** Involves continuous monitoring of the external environment for potential threats and opportunities that may require strategic adjustments.
    - **Special Alert Control:** Responds to unexpected events or crises that may necessitate immediate strategic changes.
- **Significance:**
    - Strategic control helps prevent deviations from the planned strategy.
    - It enables timely identification and resolution of issues that may hinder the achievement of strategic goals.
    - It supports adaptability by allowing the organization to adjust its strategy in response to changing market conditions.
- **Key Metrics and Indicators:** Key performance indicators (KPIs), benchmarks, and financial metrics are commonly used for strategic control, depending on the nature of the organization and its strategy.

2. Reward Systems:

- **Definition:** Reward systems, also known as incentive systems, are mechanisms put in place by organizations to motivate and reward employees for their contributions and performance. These rewards can take various forms, such as monetary compensation, recognition, promotions, or additional benefits.
- **Types of Rewards:**
    - **Financial Rewards:** These include salary, bonuses, profit-sharing, and stock options.
    - **Non-Financial Rewards:** These encompass recognition, awards, promotions, extra vacation days, and professional development opportunities.
    - **Intrinsic Rewards:** These are intangible rewards related to the satisfaction derived from doing meaningful work, personal growth, and achieving mastery.
- **Significance:**
    - Reward systems play a critical role in aligning individual and team efforts with the organization's strategic objectives.
    - They motivate employees to exhibit behaviors and achieve results that contribute to the organization's competitive advantage.

    - Well-designed reward systems can attract and retain top talent and promote a positive organizational culture.
- **Link to Strategic Objectives:** Reward systems should be closely linked to an organization's strategic objectives. For example, if the strategy emphasizes innovation, rewards may be tied to the successful development of new products or ideas.

3. Challenges and Considerations:

- **Balance:** Striking the right balance between financial and non-financial rewards is essential. Monetary incentives alone may not foster long-term commitment or creativity.
- **Fairness and Equity:** Reward systems should be perceived as fair and equitable by employees to maintain morale and motivation.
- **Alignment:** Regularly assessing and adjusting reward systems to ensure alignment with changing strategic priorities is crucial.
- **Transparency:** Employees should have a clear understanding of how rewards are determined and the connection between their performance and rewards.

4. Integration with Strategic Control:

- Reward systems can be closely integrated with strategic control by tying rewards to the achievement of specific strategic goals. When employees see a direct link between their efforts and rewards, they are more likely to align their behavior with the organization's strategic objectives.

In conclusion, strategic control and reward systems are integral components of strategic management. Strategic control helps organizations monitor progress, adapt to changing circumstances, and ensure strategic alignment, while reward systems motivate employees to contribute to the achievement of strategic goals. When effectively designed and integrated, these systems can drive performance, foster a positive organizational culture, and enhance the organization's competitive advantage.

❖ Exercise

Long Questions

1. Discuss the meaning of Strategy Implementation.
2. Describe the importance of Strategy Implementation.
3. What is the Strategy and Structure? Explain in detail.
4. Write a note on Strategic Control and Reward system.
5. Discuss the Organizational Culture in details.
6. What do you mean by Organizational Design?
7. Explain the Competitive Advantage.

Short Questions

1. What do you mean by strategy implementation?
2. What are the types of organizational structure?
3. What do you mean by organizational norms?
4. Explain the organizational values.
5. Discuss the impact on organizational performance.

Multiple Choice Questions.

1. What is the primary purpose of strategy implementation in the strategic management process?
   a. Strategy formulation
   b. Setting long-term goals
   c. Translating strategic plans into actions
   d. Market research
2. Why is strategy implementation considered a crucial phase in strategic management?
   a. It sets financial goals.
   b. It determines the company's mission.
   c. It bridges the gap between planning and execution.
   d. It defines the competitive landscape.
3. What does strategy implementation involve?
   a. Formulating strategic goals
   b. Allocating resources effectively
   c. Conducting market research
   d. Generating new product ideas
4. Why is strategy implementation important for organizations?
   a. It helps identify market trends.
   b. It aligns the organization with competitors.
   c. It translates plans into results and achieves goals.
   d. It minimizes the need for strategic planning.
5. Which type of organizational structure is suitable for cost leadership strategies?
   a. Functional structure
   b. Matrix structure
   c. Divisional structure
   d. Network structure
6. In which type of organization structure do divisions operate independently, each responsible for specific products or markets?
   a. Functional structure
   b. Matrix structure
   c. Divisional structure
   d. Network structure
7. Which organizational design is most appropriate for organizations pursuing differentiation strategies?
   a. Functional structure
   b. Matrix structure

c. Divisional structure
d. Network structure

8. How does organizational design impact competitive advantage?
a. It minimizes the need for strategic planning.
b. It reduces resource allocation.
c. It aligns the organization with competitors.
d. It can enhance efficiency, innovation, and adaptability.

9. What drives the organization's structure?
a. Employee preferences
b. Market demand
c. Competitive advantage
d. Organizational culture

10. Which organizational structure is characterized by a combination of functional and divisional elements?
a. Functional structure
b. Matrix structure
c. Divisional structure
d. Network structure

11. When might a network structure be suitable for an organization's strategy?
a. When it focuses on cost leadership
b. When it relies heavily on external partnerships
c. When it aims for product differentiation
d. When it is a small startup

12. How can organizational structure impact an organization's ability to respond to market changes?
a. It has no impact on adaptability.
b. It can hinder adaptability by creating too much bureaucracy.
c. It can facilitate adaptability by promoting flexibility and cross-functional collaboration.
d. It only affects innovation, not adaptability.

13. What are organizational values?
a. Tangible symbols of culture
b. Fundamental beliefs and principles guiding behavior
c. Unwritten rules and expectations
d. Stories shared among employees

14. Which of the following is an example of an organizational artifact?
a. Core values
b. Employee dress code
c. Shared beliefs
d. Norms of conduct

15. How do organizational norms contribute to the workplace?
a. By creating a sense of order
b. By representing tangible symbols

c. By defining fundamental principles
d. By guiding strategic decisions

16. Why is organizational culture significant for an organization?
a. It limits adaptability.
b. It attracts only like-minded individuals.
c. It fosters a sense of belonging and guides behavior.
d. It encourages individualism.

17. What is the primary purpose of strategic control in the strategic management process?
a. To dictate organizational culture
b. To set financial targets
c. To monitor and regulate strategic activities
d. To manage external partnerships

18. Which type of strategic control focuses on continuous monitoring of the external environment for potential threats and opportunities?
a. Premise control
b. Implementation control
c. Strategic surveillance
d. Special alert control

19. How can a well-designed reward system motivate employees to align their actions with strategic objectives?
a. By imposing strict rules and regulations
b. By offering monetary incentives exclusively
c. By clearly linking performance to rewards
d. By ignoring individual contributions

20. What role do reward systems play in achieving competitive advantage?
a. They have no impact on competitive advantage.
b. They can reduce employee satisfaction.
c. They can motivate employees to contribute to the organization's strategic goals.
d. They only affect financial performance.

Answers:

1) C	**2) C**	**3) B**	**4) C**	**5) A**
6) C	**7) B**	**8) D**	**9) C**	**10) B**
11) B	**12) C**	**13) B**	**14) B**	**15) A**
16) C	**17) C**	**18) C**	**19) C**	**20) C**

UNIT – 9 STRATEGIC CONTROL AND CORPORATE GOVERNANCE

9.1 Introduction and Concept

9.2 Importance of Strategic Control

9.3 The shared value creation framework

9.4 Corporate Governance

9.5 Strategy and Business Ethics

❖ **Key words**

❖ **Exercise**

9.1 Introduction and Concept

The effectiveness and success of a strategy rely on its meticulous execution. In organizations, top management ensures implementation through the practice of Strategic Control—a specialized form of management control designed to address issues and uncertainties. Managers provide warning signals, assess progress, and determine future courses of action based on evaluation.

Managers actively evaluate and ensure that the chosen strategy is progressing in the right direction. They monitor ongoing processes, measure results, identify deviations, and take corrective actions. Additionally, they strive to identify and address potential or existing loopholes in the strategic plan.

Managers are committed to aligning inputs effectively to produce the desired output, fostering progress towards the achievement of strategic goals. Strategic Control serves as a report card, comparing standards with current performance, providing insights into whether the organization is on the right track. It helps managers detect potential deviations and understand the reasons behind them, allowing for corrective actions to keep the plan on course.

The purpose of Strategic Control becomes apparent when addressing two key questions:

- Is the implementation of the strategy aligned with the plan?
- Is there a need to modify or alter the strategy?

This approach comprehensively measures overall organizational performance, assessing the positive or negative impacts of internal and external factors influencing the strategy.

"Strategic control is the forward-looking evaluation process focused towards monitoring, measuring and managing the execution of formulated strategies and making necessary adjustments."

Control is implemented at various levels within an organization, with managers at each level exercising strategic control. The extent of control varies across four fundamental levels:

1) **Corporate Level Managers:** This includes Chief Officers, Board of Directors, President, Vice President, etc., who operate at the highest echelon of the organization.

2) **Divisional Level Managers:** Managers at this level may include Marketing Managers, Finance Managers, Sales Managers, etc., overseeing specific divisions or business units within the organization.

3) **Functional Level Managers:** This category comprises managers such as Production Managers, Operations Managers, Accounts Managers, etc., who are responsible for specific functions or departments.

4) **First Level Managers:** These managers, including Floor Managers, Supervisors, Store Managers, etc., operate at the grassroots level, directly overseeing operational aspects.

Each level of management is involved in assessing and ensuring the alignment of strategic objectives. The scope and focus of control may differ based on the specific responsibilities and functions of managers at these distinct levels within the organizational hierarchy.

9.2 Importance of Strategic Control

Strategy is a dynamic process that unfolds over time, requiring careful selection and implementation. However, as strategies are forward-looking and crafted to achieve future objectives, it becomes imperative to exercise control over their execution. Strategic controls can be enforced by certain operational controls that are discussed below:

1. **Premise Control:** Premise control is a systematic and continuous evaluation of the validity of premises established during the planning and implementation processes. For instance, a bank adopting an aggressive marketing strategy for 15% annual growth may set a planning premise that non-performing assets should not exceed 10%. Premise control would involve regular monitoring of non-performing assets at branch levels.

2. **Implementation Control:** Implementation control assesses whether the results of the overall strategy align with incremental steps and actions. For example, a renowned fast-food chain decided to maintain a 3:1 ratio between company-owned and franchisee outlets to control quality. However, increasing competition led to a strategic shift, reversing the ratio to open outlets in new locations.

3. **Strategic Surveillance:** Strategic surveillance monitors a broad range of events inside and outside the company that could impact the firm's strategy. For instance, the Institute of Chartered Financial Analysts of India (ICFAI) initially targeted the financial services sector for CFA courses. However, due to instability in the sector, ICFAI shifted focus to other sectors like marketing, HRD, information technology, and strategic management.

4. **Special Alert Control:** Special alert control involves a thorough and rapid reconsideration of the firm's basic strategy in response to sudden, unexpected events. For example, political coups or internal disturbances in a country may lead exporters to reconsider their export market strategy. Similarly, a major air crash could prompt an airline company to reassess its strategy swiftly.

9.3 The shared value creation framework

Creating Shared Value (CSV) is a business strategy concept introduced by Michael Porter and Mark Kramer. It suggests that businesses can simultaneously enhance their competitiveness and contribute to societal well-being. CSV challenges the traditional notion that economic success and social progress are conflicting objectives. Instead, it proposes that companies can create shared value by aligning their business activities with social needs and challenges.

The core idea of CSV is to integrate social and environmental considerations into a company's strategy, operations, and value chain. Rather than viewing corporate social responsibility (CSR) as a separate and optional activity, CSV asserts that societal issues can be addressed in ways that also generate economic value for the business. In other words, creating shared value means identifying opportunities to advance both business interests and social progress.

CSV is built on three main principles:

1. Reconceiving Products and Markets: Companies can innovate and create new products or services that address societal needs. By aligning business offerings with social value, organizations can tap into new markets and gain a competitive advantage.
2. Redefining Productivity in the Value Chain: Businesses can improve their operational efficiency and reduce costs by considering social and environmental factors. This involves optimizing the supply chain, minimizing resource use, and fostering positive relationships with suppliers, which can lead to shared economic and social benefits.
3. Enabling Local Cluster Development: Companies can contribute to the development of local economies by participating in or supporting business clusters. These clusters involve interconnected businesses, suppliers, and infrastructure in a specific geographic area, fostering economic growth and creating shared value for both the company and the community.

CSV encourages a more holistic and strategic approach to corporate responsibility, emphasizing that addressing social challenges can be integral to long-term business success. It goes beyond philanthropy and compliance, urging companies to proactively identify opportunities to create shared value throughout their operations.

Evaluation of CSV

Creating Shared Value (CSV) encompasses both advantages and potential challenges, commonly referred to as drawbacks. Let's delve into the key benefits and disadvantages associated with the adoption of CSV:

Advantages of Creating Shared Value (CSV):

1. Sustainable Business Practices: CSV promotes the adoption of sustainable practices, considering social and environmental factors. This fosters long-term viability, aligning business goals with broader societal interests.
2. Enhanced Corporate Reputation: Proactively addressing societal challenges enhances a company's reputation and brand image. This positive perception can attract socially conscious customers, investors, and stakeholders.

3. Innovation Opportunities: Reimagining products and markets to address social needs can stimulate innovation. Companies integrating social considerations into product development may discover new markets and revenue streams.
4. Cost Savings and Efficiency: Redefining productivity in the value chain often involves optimizing resource use and improving operational efficiency. This leads to cost savings for the company while minimizing environmental impact.
5. Local Economic Development: Enabling local cluster development contributes to economic growth in specific regions. Supporting local businesses and communities fosters mutually beneficial relationships, creating shared value.

Challenges of Creating Shared Value (CSV):

1. Implementation Challenges: Integrating CSV into business practices may pose challenges, especially for companies unfamiliar with the approach. Implementation may necessitate changes in organizational culture, processes, and strategies.
2. Short-Term Financial Pressures: Transitioning to CSV practices may subject companies to short-term financial pressures. Initial investments in sustainability and social initiatives might not immediately yield financial gains.
3. Balancing Priorities: Striking a balance between the pursuit of shared value and traditional business objectives can be challenging. Companies must carefully plan strategies to harmonize profitability and societal impact.
4. Measurement and Metrics: Measuring the success of CSV initiatives and demonstrating shared value creation can be complex. Developing meaningful metrics for social impact and aligning them with financial performance metrics poses a significant hurdle.
5. Resistance to Change: Employees, management, and stakeholders may resist changes associated with CSV. Overcoming resistance and fostering commitment to shared value across the organization require significant effort.

In conclusion, while Creating Shared Value presents potential benefits for businesses and society, successful implementation demands commitment, strategic alignment, and adept navigation of challenges associated with organizational change and long-term value creation.

9.4 Corporate Governance

Corporate Governance encompasses the processes, customs, policies, laws, and institutions that influence the direction, administration, and control of a corporation. It involves the relationships among various stakeholders and the overarching goals that guide corporate governance. Key participants include shareholders, management, and the board of directors, while other stakeholders encompass employees, suppliers, customers, banks, regulators, and the broader community.

This multifaceted concept addresses issues of accountability and fiduciary duty, emphasizing the need for guidelines and mechanisms to ensure ethical behavior and protect shareholders' interests. Additionally, the economic efficiency perspective advocates for optimizing economic outcomes, placing a strong emphasis on shareholders' well-being. Corporate governance also considers the stakeholder view, urging increased attention and accountability to entities beyond shareholders.

In recent times, the corporate governance practices of modern corporations have gained significant attention, particularly following the notable collapses of major U.S. firms like Enron Corporation and Worldcom. To enhance corporate governance, board members and those overseeing these practices are increasingly seeking the assistance of external providers for anti-corruption measures, auditing, due diligence, and training.

Meaning and Definition

The term corporate governance has come to mean two things:

- The processes by which companies are directed and controlled
- A field in economics, which studies the many issues arising from the separation of ownership and control

The corporate governance structure outlines the rules and procedures governing decision-making in corporate affairs. It establishes the framework for setting company objectives and the methods for achieving and monitoring their performance. Corporate governance serves as a monitoring tool to ensure that outcomes align with plans, motivating the organization to stay well-informed and make adjustments to its activities as needed. It functions as a mechanism to encourage individuals to align their actual behaviours with the overarching objectives of the organization.

"Corporate governance is about promoting corporate fairness, transparency and accountability".

- **James D. Wolfensohn**

"Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders."

- **The Institute of Company Secretaries of India**

Features/Essential Elements of Good Corporate Governance

Key elements of sound corporate governance principles encompass honesty, trust, and integrity, coupled with openness, a performance-oriented mindset, responsibility and accountability, mutual respect, and unwavering commitment to the organization. It is crucial for directors and management to establish a governance model that aligns with the values of corporate participants, periodically evaluating its effectiveness. Senior executives, in particular, should uphold honesty and ethical conduct, especially when dealing with real or perceived conflicts of interest, and should prioritize transparency in financial reporting.

Commonly accepted principles of corporate governance include:

1. Rights and Fair Treatment of Shareholders:

Rights and Fair Treatment of Shareholders Organizations must uphold the rights of shareholders and facilitate their exercise of these rights. This involves transparent communication of information in an understandable manner and encouraging shareholder participation in general meetings.

2. Consideration for Other Stakeholders

Organizations are obligated to acknowledge legal and other responsibilities to all legitimate stakeholders beyond shareholders.

3. Role and Responsibilities of the Board

The board requires a diverse set of skills and understanding to address various business issues, with the capacity to review and challenge management performance. It should be appropriately sized and demonstrate a committed level of engagement to fulfil its duties. The composition of executive and non-executive directors is a critical consideration, and it is recommended to separate the roles of chairperson and CEO.

4. Integrity and Ethical Conduct

Organizations should establish a code of conduct for directors and executives to promote ethical and responsible decision-making. While relying on integrity and ethics is important, many organizations implement Compliance and Ethics Programs to mitigate the risk of ethical and legal violations.

5. Disclosure and Transparency

Organizations must elucidate and publicize the roles and responsibilities of the board and management to ensure shareholder accountability. Procedures should be in place to independently verify and safeguard the integrity of the company's financial reporting. Timely and balanced disclosure of material matters is essential to provide all investors with clear, factual information.

9.5 Strategy and Business Ethics

At this juncture, it is very apt that we define the term ethics before we discuss and related business ethics with strategy. In general opinion, what can solve the problem is ETHICS. Ethical corporate behaviour is considered as an appropriate tool to enforce the mechanism to uphold social objectives through the corporate mission. What is required is to understand the role of ethics in corporate context and transcribing the ethical principles into ethical behaviour.

The term ETHICS has been derived from the Greek word, ‘ETHIKOS’ which means CHARACTER. When we apply this term to business it means possessing or having character for business or corporate. There are, of course, several meaning of the term ethics due to different perspectives. In general sense, ethics means awareness regarding ‘What is Right and What is Wrong’. A person should be able to understand this fundamental and take actions which are right and avoid the ones which are wrong or detrimental. Ethics is also known as ‘principles of governing an individual or group’. The dictionary meaning of the term ethics is ‘the study of morality’. Thus, ethics is a set of principles and standards of human conduct that govern the behaviour of individuals or organisation. Further, it is not our natural science but a creation of human mind. Ethics is not absolute and is open to the influence of time, place and situation.

A similar word which is connected with the term ethics and is used and confused many a times with term ethics is ‘MORALITY’. They are sometimes used interchangeably but are quite different from each other. The term Morality is derived

from the Latin word ‘MORALIS’ which means ‘BEHAVIOR’. Thus, morality is external in nature and is a response that a person gives or expresses towards any interaction or stimuli.

What is Business Ethics?

When ethics is applied to business it is known as business ethics. Hence business ethics is an applied form of pure ethics. It is the application of moral principles or ethical norms to business practices. This ethics also refers to a code of conduct which businessmen is expected to follow while dealing with others. It actually comprises a principles and standards that type of behaviour in the conduct of business. Business ethics is important as it helps in making the trade-off between the profitability and shareholders expectations. In today’s world its scope has widened to cover various dimensions including customers, employees, suppliers, bankers etc.

Business ethics is concerned with the character and the behaviour of a businessman in conducting his or her business. The longevity and growth of business unit depends largely on the ethical practices of a businessman. Of course, the ethics in business takes time to develop but certainly needs to be developed in order to have conducive working environment in harmony. Business ethics is universal as it is applicable to any type of business. Generally, ethics in business are concerned with the impact of the decisions of the businessmen on society and other concerned parties. Ethics in business has been the need of hour as there are so many issues which are not covered in the law but they are needed to be followed in order to build sustainable economy and society.

In many organisations, ethics committee is formed which totally devote their time and energy in building ethical environment in the organisation. The committee arranges various programs and conducts workshops for the employees and helps them resolve the ethical dilemma that they face in the organisation. The committee formulates ethical policies and develops ethical standards. It also evaluates the performance of organisation on ethical front. The members of the ethical committee needs to be selected with due diligence and they should have knowledge of code of ethics, community standards and knowledge of the industry.

The scope of business ethics is also very wide as it covers ethics in compliance, ethics in finance, ethics in human resources, ethics in production, ethics in marketing, etc.

According to Wheeler, *‘business ethics art and science for maintaining harmonious relationship with society, its various groups and institution as well as reorganising the moral responsibility for the rightness and wrongness of business conduct’*.

According to Rogene A. Buchholz, ‘*business ethics refers to right or wrong behaviour in business decisions’*.

Strategy and Business Ethics – An Ethical Strategy for Business

The pursuit of sound ethics and an ethical culture is a shared goal for most organizations. However, the challenge of building and sustaining an ethical organization is often exacerbated by the lack of prioritization in ethics management. Ethics is frequently addressed reactively, responding to problems after they occur, rather than proactively and systematically.

To better achieve an organization's ethical goals, a clear ethics strategy is essential, encompassing six key focus areas. The initial two areas lay the foundation, while the remaining four represent ongoing activities crucial for effective ethics management.

1: Setting Ethical Standards An organization's ethical standards should be unequivocally defined through its values and regulations, including a comprehensive code of conduct and policies. Values should establish desired behavioral parameters, translating into acceptable and unacceptable behaviors outlined in the code of conduct. The influential role of leaders in embodying these standards is paramount, as they serve as powerful role models, setting and reinforcing ethical norms.

2: Establishing an Ethics Committee The establishment of an ethics committee, mandated by the Companies Act for most companies, is valuable for an ethics strategy. The committee's effectiveness depends on its composition, requiring senior members capable of making decisions and authorizing necessary actions. However, it should not singularly bear the responsibility for ethics; instead, every member of the organization should recognize their role in maintaining ethical standards.

3: Building Ethical Awareness Ethics awareness is a potent approach to enhancing workplace ethics and reducing unethical behavior. Similar to visible policing acting as a deterrent, a high level of ethical awareness serves as a constant reminder of acceptable behavior. Positive examples from organizational leaders contribute significantly to promoting ethical behavior.

4: Measuring and Monitoring Ethical Status Measurement and monitoring of a company's ethical status are crucial components of an effective ethics strategy. The ability to measure ethics is essential for successful management. Conducting ethics surveys, such as the Ethics Monitor, provides valuable insights into important ethical issues, offering guidance on actions to improve ethics and meeting reporting requirements.

5: Taking Action Improving workplace ethics involves a dual approach: actions to enhance ethical behavior and actions to mitigate unethical behavior. An ethics survey identifies specific areas requiring attention, with likely areas for improvement including values, leadership, organizational culture, communication, and training.

6: Maintaining an Ethical Culture While building an ethical workplace is a significant achievement, the ongoing task of maintaining an ethical culture is perpetual. A proactive, regular management approach is crucial, paying continuous attention to the outlined focus areas.

Together, these focus areas constitute a robust strategy capable of realizing organizational ethical goals, differentiating an ethical organization in the competitive business landscape.

❖ **Keywords**

- **Strategic control** – It is forward looking evaluation process focused towards monitoring, measuring and managing the execution of formulated strategies and making necessary adjustments.
- **Premise Control** – It is a systematic and continuous evaluation of the validity of premises established during the planning and implementation processes.

- **Special Alert Control:** Special alert control involves a thorough and rapid reconsideration of the firm's basic strategy in response to sudden, unexpected events.
- **Corporate Governance** – It encompasses the processes, customs, policies, laws, and institutions that influence the direction, administration, and control of a corporation.
- **Business Ethics** – It is ethics applied to business. It is concerned with the character and behaviour of a businessman in conducting his or her business.
- **Corporate** – It is any organization or firm operating in the business environment for earning profit out of selling products to society.
- **Governance** – It is a system by which an authority exert pressure and regulate the working of business organization.
- **Control** – It is a process by which organization's performance is aligned with the objectives and goals of the organization.

❖ Exercise

Multiple Choice Questions

1. The word ethics has been derived from which word?
   a. Ethnic
   b. Ethikos
   c. Both (a) & (b)
   d. None of the above

2. Ethics is derived from_______ word.
   a. Greek
   b. Latin
   c. Goth
   d. Both A & B

3. Morality is derived from _____
   a. Greek
   b. Latin
   c. Goth
   d. Both A & C

4. Business ethics is _____ form of ethics.
   a. Corporate
   b. Policy
   c. Applied
   d. Professional

5. Strategic control apparently addresses which issues?
   a. Implementation of strategy aligning with the plan
   b. Need for modification in strategy
   c. Both (a) & (b)
   d. None of the above

6. Strategic controls can operated at what level?
   a. Corporate level

b. Divisional level
c. Functional level
d. First level managers
e. Only (a) & (c)
f. a,b,c, and d

7. A in ICFAI stands for…
   a. Autonomous body
   b. Authority
   c. Analysts
   d. Advisor

8. Creating Shared Value (CSV) was introduced by…
   a. Michael Porter
   b. Mark Kramer
   c. Peter Drucker
   d. Both (a) & (b)

9. __________ encompasses the processes, customs, policies, laws, and institutions that influence the direction, administration, and control of a corporation.
   a. Corporate Governance
   b. Strategic Control
   c. Value creation
   d. None of the above

10. Find the odd one out with reference to corporate governance
    a. Integrity and ethical conduct
    b. Disclosure and transparency
    c. Rights and equitable treatment of shareholders
    d. Seldom engagement of board in decision making

Descriptive Question

1. What is strategy? What is strategic control? Discuss the importance of strategic control.
2. "Strategic control is the forward-looking evaluation process focused towards monitoring, measuring and managing the execution of formulated strategies and making necessary adjustments."- Elucidate.
3. Discuss the shared value creation framework introduced by Michael Porter and Mark Kramer.
4. The core idea of CSV is to integrate social and environmental considerations into a company's strategy, operations and value chain. – discuss
5. Critically evaluate shared value creation framework.
6. What is corporate governance? Discuss features of good corporate governance.

7. “Corporate Governance is about promoting corporate fairness, transparency and accountability.” – Discuss
8. Discuss the term ethics and business ethics. Discuss why ethical problems occur in business?
9. “Strategy and Business Ethics – An Ethical Strategy for Business” – Elucidate
10. The scope of business ethics is also very wide as it covers ethics in compliance, ethics in finance, ethics in human resources, ethics in production, ethics in marketing, etc. – Discuss.

UNIT – 10 MANAGING INNOVATION: E-STRATEGY CASE

10.1 Introduction

10.2 Competition Driven by innovation

10.3 Strategic & Social Entrepreneurship

10.4 Innovation & the industry life cycle

10.5 Types of Innovation

❖ **Exercise**

10.1 Introduction

10.1.1 Managing innovation

Within the context of an organisation, managing innovation entails systematically leading the action of creating, refining, and introducing new concepts, goods, or procedures.
Establishing an atmosphere that encourages innovation, taking calculated risks, and developing fresh concepts is also known as managing innovation.

10.1.2 Key Elements of effective Managing Innovation:

1. **Equilibrium between management of innovation and Risk:** In any business activity, risk factor is inevitable. Hence, while manging innovation, the organization has to deal with the aspect of managing risk. With a view to managing innovation effectively, the organization should balance between the inevitability for innovation and the control of related risks - monetary outlay, market appropriateness, and technological viability.
2. **Headship:** The first step in managing innovation is a strong leadership that clearly defines the organization's innovative aims and ties them in with overarching business objectives. In other words, strong leadership having clear vision for the organization's innovative goals with a view to achieve obtain overall business objectives is mandatory for successful innovation management.
3. **Idea Generation and Screening:** To manage innovation, it is primarily required to have innovative idea and with a view to generate innovative idea, it is required to implement innovative idea generation techniques into practice. e.g. idea management stages, open innovation projects, and brainstorming groups. It is also required to have proper screening process to assess and choose the most promising innovative idea for additional development.
4. **Intellectual Property Right:** Protection of innovative ideas is also crucial and therefore managing innovation covers the management of intellectual property. The organization can effectively use and defend intellectual property rights by protecting creative concepts and ideas through various techniques of intellectual property rights such as trade secrets, copyrights, patents, and trademarks.
5. **Performance measurement:** Measurement of innovations is also prerequisites of innovation management. Hence, organization is required to define key performance indicators (KPIs). e.g. For measuring effectiveness of innovative

product, KPIs such as time-to-market, revenue from new products, number of launched products, and customer satisfaction with innovative solutions should be earmarked by the organization.

6. **Philosophy of Innovation:** Effective innovation management requires cultivating an environment that values thrill-seeking, originality, and constant development. This could entail launching a setting where staff members are stimulated to offer suggestions and try out novel strategies.
7. **Resource Apportionment:** For the proper management of the innovation, organization is required to apportion suitable resources—finance, expertise, as well as time—to promote the creation and execution of creative ventures.
8. **Strategy:** For managing innovation in an organization, it is required to create proper strategic planning and with a view to Creating an organised strategy for innovation includes defining objectives, assigning funds, and putting procedures in place for assessing and ranking creative concepts.
9. **Teamwork:** With a view to have effective innovation management, teamwork of various departments as well as functions plays an important role. Hence, Organization should promote cross-functional teamwork i.e. cooperation between various teams and departments to take use of the various viewpoints and areas of expertise that are available for the innovation process.
10. **Unremitting Upgradation:** Managing innovation is ongoing process and hence it requires unremitting upgradation. The organization, therefore, needs to establish systems for obtaining input from the stakeholders and users on regular basis. Based on feedback received, the management should draw lessons from both achievements and setbacks and thereby using such feedback to enhance the innovation management procedure over time.

10.1.3 E-strategy and managing innovation

In contemporary time, e-strategy should be developed with a view to manage innovation in an organization and for development of e-strategy for managing innovation requires utilizing online platforms and digital technology. Promotion and encouragement of innovative projects within an organisation is a key component of developing a successful e-strategy for managing innovation. Organisations can capitalise on the potential of digital technology to stimulate innovation, accelerate innovation processes, and take full advantage of new opportunities in the digital economy through the combination of e-strategy with innovation management methods.

10.1.4 Importance of E-Strategy in managing innovation can be highlighted as under:

1. **Digital Innovation Platforms:** Organization should put in place digital tools and platforms for managing innovation so that partners, customers, and staff should be eased to team up, share thoughts, and share acquaintance. e.g. platforms for the development of ideas, and project management tools.
2. **Data analytics and business intelligence:** Organisations may more efficiently manage resources and prioritise their innovation initiatives with the aid of data-analytics and business intelligence. For example, for identification of market inclinations, customer likings, and incipient opportunities for origination, Data-driven decision-making can be helpful.

3. **Connect with external innovators:** Organizations may collaborate with independent innovators via publicly accessible innovation portals and digital networks by leveraging e-strategy. Examples of independent innovators are startups, academic institutions, and commercial acquaintances.
4. **Flexible Innovation Process:** Flexible innovation process can speed up the creation and implementation of novel goods and services and E-strategy can facilitate collaborative teamwork in online environments and fast experimentation on innovative concepts, consequently boosting flexible innovation processes.
5. **Highlight new products:** Innovation management covers introduction of creative products, experimentation of novel concepts, and gathering responses from customers. In such a situation, organisations can use e-strategy to create digital marketing campaigns that highlight new products and involve customers in engaging ways.

10.2 Competition Driven by innovation

Innovation is now recognized as an essential component in fostering competitive differentiation and market supremacy in today's lightning-fast and constantly shifting corporate environment.

The term "Competition Driven by Innovation" describes the ever-evolving method through which businesses work to obtain a competitive edge by repeatedly creating and launching innovative and upgraded goods, services, procedures, or business models.

In general, innovation-driven competition stimulates enterprises to push beyond the boundaries of what is feasible and offer additional benefits that benefit customers and develop the sector, which in turn propels growth in the economy and socioeconomic advancement.

10.2.1 Features of competition driven by innovation:

1. **Exceptionality:** To be in a competition, the product of the organization should be exceptional and hence businesses aim to set themselves apart from rivals by providing distinctive and cutting-edge solutions that creatively meet the needs of end-users. As a result, there should be continuous innovation that results into improvements in design and features of the products, revolutionary business concepts, or technical breakthroughs.
2. **Rapidness:** Businesses frequently vie to be on the top to adopt innovative technology or seize new opportunities in the market. Thus, the factor of rapidness is crucial in getting competitive advantage. It is also relevant in managing innovation and therefore with a view to gaining a competitive advantage requires the capacity to swiftly introduce novel goods and services to the market.
3. **Delivering superior value:** The goal of innovation-driven competition is to offer consumers with better value through the provision of goods and services which are more improved in regards to attributes, functionality, affordability, or accessibility.
4. **Incessant Enhancement:** In order to stay ahead of rivals, companies must consistently innovate and enhance their products and services while adapting

to the shifting needs of their client and the ever-changing conditions of the market.

5. **Intellectual Property:** Businesses struggle to generate and safeguard significant intellectual property, particularly trade secrets, copyrights, trademarks, and patents, which may grant them an edge over others as well as make it tougher for competitors to break into the market.
6. **Cooperative Environments:** Though organization hides their intellectual property from the rivals to maintain its distinctiveness, it is required to work with them jointly on its innovative idea because of its limitations. Hence, With a view to take advantage of harmonizing skill sets and quicken the speed of invention, organisations occasionally work together with vendors, business associates, or even rivals on joint innovation projects.

10.3 Strategic & Social Entrepreneurship

Social entrepreneurship places a spotlight on applying innovative techniques that tackle issues affecting society and generate positive effects on society, whereas strategic entrepreneurship mainly deals with establishing and maintaining distinctive advantages in the commercial world. These two ideas come together to represent a comprehensive strategy for entrepreneurship that takes into account both social and economic factors. An increasing number of people are realizing that social initiatives can benefit from applying strategic entrepreneurship concepts to improve their long-lasting viability and performance. To maintain long-term survival, social companies may need to implement strategic approaches like collaborations, adaptability, and productive utilization of resources. As part of a larger movement towards sustainable and socially conscious practices, some strategic entrepreneurs are considering social and environmental factors into their business plans.

10.3.1 Strategic Entrepreneurship

Definition: "With a view to establish and maintain an edge over rivals, strategic entrepreneurship integrates business activities with strategic management tactics."

Characteristics:

1. **Innovation:** Likings, preferences of the consumers change over a period of time. It is therefore not possible to maintain the consumers with the products having same features. Hence, with a view to gain a competitive advantage, strategic entrepreneurs frequently innovate through the creation of new products, procedures, or approaches to business.
2. **Measured Risk:** The contemporary business world is full of opportunities and possibilities. Those entrepreneurs who can take risk are able to seize opportunities by removing barriers from the path of the opportunities. In order to seize possibilities and conquer barriers in the fast-paced business world, Strategic entrepreneurs are prepared to take measured risks.
3. **Initiative:** To get competitive advantage, an organization should stimulate initiatives. Strategic entrepreneurship is distinguished by proactive conduct, requiring an innovative strategy for spotting and seizing novel developments.
4. **Acquisition of Resource:** To achieve business objectives, resources are mandatory. Strategic entrepreneurship focuses on acquisition and utilization of resources. Hence, Strategic entrepreneurs should be skilled at locating and wisely using resources to accomplish business objectives.

10.3.2 Social Entrepreneurship:

Definition: "Social entrepreneurship brings constructive social transformation, using entrepreneurial ideas and methods by solving problems related to the environment and society."

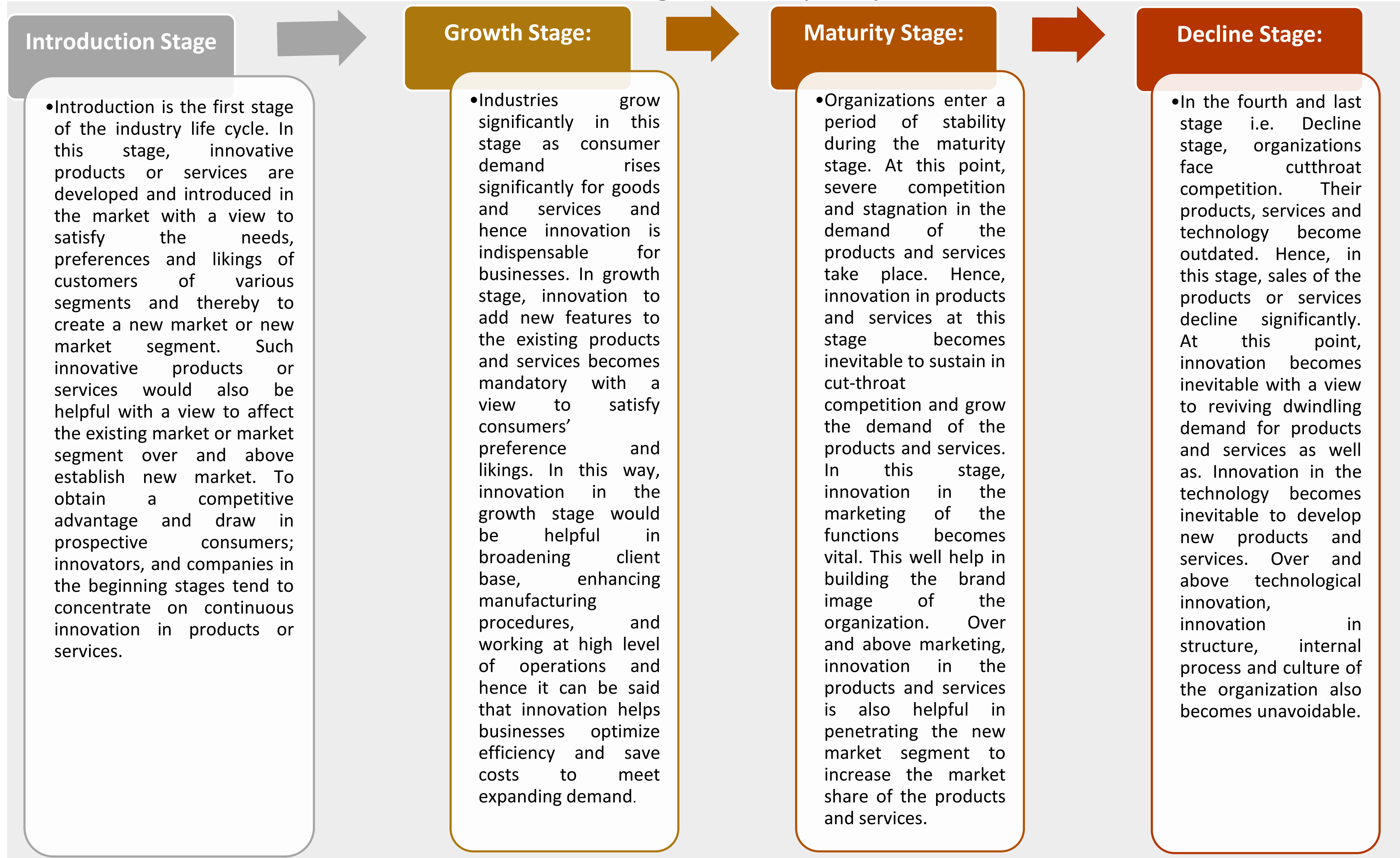
Characteristics:

1. **Social Impact:** Creating a good social and environmental impact is of greater significance than merely focusing on profit maximisation. Hence, the social entrepreneurship focuses on making social impact by solving the social as well as environmental problems.
2. **Persistent remedies:** It is important to solve the problems pertaining to the society and environment permanently. For solving such fundamental social issues, innovative and long-lasting strategies are required to be implemented. Hence, utilising innovative and sustainable strategies, social entrepreneurs strive to come up with persistent remedies for fundamental issues.
3. **Strengthening Underprivileged:** Underprivileged people do not have access to resources and opportunities. It is social responsibility of the enterprise to strengthen them by establishing proper system and mechanism. By giving underprivileged groups and individuals access to resources and possibilities, many social entrepreneurship ventures strive to strengthen them.
4. **Positive Impact:** The entrepreneurs are guided by the various objectives and one of the social objectives of the entrepreneurs is to bring change in society positively. If an organization is successful in bringing the positive change in society, it is considered to be successful performance of the organization in terms of social outcomes. Hence, the goal of social entrepreneurs is to effect good change, and they frequently gauge their performance in terms of their impact on society.

10.4 Innovation & the industry life cycle

The philosophies of innovation and the industry life cycle are closely related and have a noteworthy influence on how industries develop and compete. Innovation is an impulse that changes the development path of industries as they progress through various phases, which is how innovation and the industrial life cycle are related. Enterprises that adeptly utilize innovation across several stages of the industry life cycle; i.e. introduction, growth, maturity, and decline: might situate themselves for everlasting prosperity as well as importance in ever-changing and cutthroat marketplaces. Innovation is essential to the industry life cycle at every point. Innovation at the introduction stage is frequently concentrated on creating novel technology or commercial strategies to get momentum in the competitive marketplace. In order to take benefit from increasing customer demand, innovation during the growth stage can concentrate on growing product lines, streamlining operations, and boosting productivity. Innovation plays a crucial role in maintaining competitiveness during the maturity period. This can be achieved through product differentiation, market expansion, or the reinterpretation of business models in order to meet evolving customer demands and technological breakthroughs. Innovation can be used to rejuvenate or modify enterprises as they enter the decline stage of an industry in order to lessen the effects of expiry.

10.4.1 Stages of Industry life cycle



10.5 Types of Innovation

There are various types of innovations take place in an organization. These innovations may be in the form of development of new product or service. Adding new features to the existing features to cop with their likings and requirements. There can be innovations in the technology to be used for the manufacture of the products because the production technology gets obsolete over the period of time. Recently innovation in the business model; e.g. traditional method of trading of goods is replaced by online trading; has also become essential. Even the way or mode of selling the goods and services needs innovation. In this way, there are many types of innovations having their peculiar features and having noteworthy influence on organizations and industries.

Sr No	Type of Innovation	Description	Examples
1	Product Innovation	Product Innovation usually refers to development of new product. New product development is the technique that generates innovative goods or services to enter in the existing market for the new organization; while for the existing organization enhancement of the existing product or service can involve improving the customer's experience, aesthetics, usability, effectiveness, or features.	1. Smartphone models with cutting-edge features, 2. Electric cars with extended battery life 3. Novel medical procedures 4. Smartwatches 5. Clothes with diverse fabrics, materials & Styles e.g. wrinkle free fabrics 6. Modes of Digital payment 7. Features used by Ride-sharing companies e.g. Track route, share updates with friends, selection of vehicle size
2	Process Innovation	Different procedures, practices, and frameworks are used in production of the goods as well as delivery of services. These procedures, practices, and frameworks require improvement over a period of time with a view to improve quality of goods or services, save operating expenses, expedite processes, and boost effectiveness. Thus, process innovation is concerned with upgrading the procedures, practices, and frameworks utilized in the production of goods and provision of services.	1. Automation in manufacturing 2. Implementation of lean production methods, 3. Tesla’s Gigafactory - Supply chain management 4. Henry Ford – Innovation in assembly line 5. MBA polymers – innovation in plastic recycling process 6. eBay - innovation in auction in an intuitive online marketplace
3	Business Model Innovation	Creation of new value for customers and stakeholders is required over a period of	1. Transition from traditional retail to e-commerce platforms 2. Launch of subscription-based

		time and for the purpose updating and revamping the core elements of a business model is required which is known as business model innovation. To create new value for the customers and stakeholders, organizations make changes in methods of delivery and supply of goods and services, relationship with customer. They also make alteration in cost structures as well as sources of revenues.	services 3. Netflix - Online streaming services (Made Video Cassettes/DVD Rentals business obsolete) 4. Dell - 'made-to-order' (Customized PC at low prices.)
4	Marketing Innovation	Marketing goods or services with innovative techniques is known as marketing innovation. Innovative approaches to the marketing involve digital marketing, new supply and distribution channels and methods and creative strategies for branding of the goods or services. Marketing innovations consist of different types such as radical innovation (emphasises on complete change in product, positioning or process e.g. iphone- completely different product), incremental innovation (does not emphasize on complete change in, but adding features to product e.g. google – add features such as Gmail, Google drive, Google meet etc) and disruptive innovation (emphasizes on target market to provide customised product e.g. Netflix	1. Social Media Marketing (Instagram – stories, posts, details and ads about the organizations as well as feedback from consumers) 2. Mobile App – (L'Oreal developed special Mobile App to try & sell products, explore looks) 3. Website – (SmartBuyGlasses developed website to try pair of glasses according to face shape) 4. Ikea – Ready-to-assemble furniture, post-purchase needs, sell of second-hand furniture 5. General Electric – "Healthymagination" to create brand awareness and nurture customer relations
5	Organizational Innovation	Organizations aim to increase their overall effectiveness by making participation and involvement of employees in	1. Adoption of flexible work schedules for employees 2. Implementation of innovative management of projects 3. Establishment of innovation labs

		decision making process. To fulfil the above-mentioned goal, organizations take help of organizational innovations which consist of innovations in organizational frameworks, operations as well as traditions to great extent. These innovations result into promotion of innovation and teamwork among employees. They also bring swiftness, and elasticity in the organizational operations and thereby improve overall effectiveness of the organizations.	within businesses 4. McDonalds – "Noodle Team" instead of rigid hierarchies ("Noodle Teams" consist of employees at all levels to develop new ideas) 5. Samsung - From manufacturer of cheap goods to innovative companies (It broke completely hierarchical thinking) 6. Microsoft – "Agility as an dominant principle" (Casual dressing for employees at all levels)
6	Technological Innovation	To enter into the market, organizations come up with new innovative technology of production or solutions. Moreover, prevailing technology used in productions of goods and providing services become obsolete or outdated over a period of time and hence it needs improvement or updating at regular intervals of time. In both the above situations, organizations should rely upon the technological innovations. Hence, Technological innovation is the technique of coming up with innovative solutions by means of the invention and use of emerging technologies or the enhancement of prevailing technologies.	1. Innovations in biotechnology 2. Innovations in hardware 3. Innovations in software 4. Development of 3D printing technology, 5. Formation of self-directed vehicles 6. Practice of blockchain for protected transactions. 7. Cloud Computing 8. Artificial Intelligence • Machine Learning (improvements in image recognition, natural language processing, and data analysis) • Robotics (advancements in industrial automation, healthcare robotics, autonomous vehicles, and human-robot interaction) • Virtual Assistants (Apple's Siri, Google Assistant, Amazon's Alexa)

Exercise

Theoretical Questions

1. "Establishing an atmosphere that encourages innovation, taking calculated risks, and developing fresh concepts is known as managing innovation."– Do you agree with the statement? Discuss your views in light of key elements of managing innovation in detail.
2. How should e-strategy be developed with a view to manage innovation in an organization? How is it vital in managing innovation?
3. What do you mean by "Competition Driven by innovation"? Discuss features of competition driven by innovation in detail.
4. "Social entrepreneurship brings constructive social transformation, using entrepreneurial ideas and methods by solving problems related to the environment and society." – Do you agree with the statement. Discuss the characteristics of social entrepreneurship in detail.
5. "With a view to establish and maintain an edge over rivals, strategic entrepreneurship integrates business activities with strategic management tactics." - Do you agree with the statement. Discuss the characteristics of strategic entrepreneurship in detail.
6. "The philosophies of innovation and the industry life cycle are closely related and have a noteworthy influence on how industries develop and compete." – Discuss the importance of innovation in various stages of the industry life cycle.
7. "There are many types of innovations having their peculiar features and having noteworthy influence on organizations and industries." – Keeping in mind the statement, discuss different types of innovations with appropriate examples.

Short Notes

1. Key elements of managing innovation
2. Importance of E-Strategy in managing innovation
3. Features of competition driven by innovation
4. Strategic Entrepreneurship
5. Social Entrepreneurship
6. Stages of Industry life cycle
7. Product Innovation
8. Process Innovation
9. Business Model Innovation
10. Marketing Innovation
11. Organizational Innovation
12. Technological Innovation

MCQs

1. Within the context of an organisation, managing innovation entails systematically leading the action of creating, refining, and introducing_______ .
   a) new concepts, goods, or procedures
   b) new compensation plan
   c) new team-based compensation
   d) new performance-based compensation

2. Artificial Intelligence is an example of ______.
   a. Product Innovation
   b. Process Innovation
   c. Organizational Innovation
   d. Technological Innovation

3. Electric cars with extended battery life are an example of ______.
   a. Product Innovation
   b. Process Innovation
   c. Organizational Innovation
   d. Technological Innovation

4. _______ which consist of innovations in organizational frameworks, operations as well as traditions to great extent.
   a. Product Innovation
   b. Process Innovation
   c. Organizational Innovation
   d. Technological Innovation

5. Transition from traditional retail to e-commerce platforms is an example of ____
   a) Business Model Innovation
   b) Marketing Innovation
   c) Technological Innovation
   d) Artificial Intelligence

6. In ____, innovation to add new features to the existing products and services becomes mandatory with a view to satisfy consumers' preference and likings.
   a. Decline Stage
   b. Introduction Stage
   c. Growth Stage
   d. Maturity Stage

7. At ___ , innovation becomes inevitable with a view to reviving dwindling demand for products and services.
   a. Decline Stage
   b. Introduction Stage
   c. Growth Stage
   d. Maturity Stage

8. With a view to establish and maintain an edge over rivals, ____ integrates business activities with strategic management tactics
   a. Strategic Entrepreneurship
   b. Social Entrepreneurship
   c. E-Commerce Entrepreneurship
   d. Business model Entrepreneurship

9. ___ brings constructive social transformation, using entrepreneurial ideas and methods by solving problems related to the environment and society.
   a. Strategic Entrepreneurship
   b. Social Entrepreneurship
   c. E-Commerce Entrepreneurship
   d. Business model Entrepreneurship

10. The term _____ describes the ever-evolving method through which businesses work to obtain a competitive edge by repeatedly creating and launching innovative and upgraded goods, services, procedures, or business models.
    a. Competition Driven by Innovation
    b. Product Driven by Innovation
    c. Process Driven by Innovation
    d. Business Model Driven by Innovation

Answer Key of MCQs

1	2	3	4	5	6	7	8	9	10
a	d	a	c	a	c	a	a	b	a

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Education for All

स्वाध्यायः परमं तपः

યુનિવર્સિટી ગીત

સ્વાધ્યાયઃ પરમં તપઃ
સ્વાધ્યાયઃ પરમં તપઃ
સ્વાધ્યાયઃ પરમં તપઃ

શિક્ષણ, સંસ્કૃતિ, સદ્‌ભાવ, દિવ્યબોધનું ધામ
ડૉ. બાબાસાહેબ આંબેડકર ઓપન યુનિવર્સિટી નામ;
સૌને સૌની પાંખ મળે, ને સૌને સૌનું આભ,
દશે દિશામાં સ્મિત વહે હો દશે દિશે શુભ-લાભ.

અભણ રહી અજ્ઞાનના શાને, અંધકારને પીવો ?
કહે બુદ્ધ આંબેડકર કહે, તું થા તારો દીવો;
શારદીય અજવાળા પહોંચ્યાં ગુર્જર ગામે ગામ
ધ્રુવ તારકની જેમ ઝળહળે એકલવ્યની શાન.

સરસ્વતીના મયૂર તમારે ફળિયે આવી ગહેકે
અંધકારને હડસેલીને ઉજાસના ફૂલ મહેંકે;
બંધન નહીં કો સ્થાન સમયના જવું ન ઘરથી દૂર
ઘર આવી મા હરે શારદા દૈન્ય તિમિરના પૂર.

સંસ્કારોની સુગંધ મહેંકે, મન મંદિરને ધામે
સુખની ટપાલ પહોંચે સૌને પોતાને સરનામે;
સમાજ કેરે દરિયે હાંકી શિક્ષણ કેરું વહાણ,
આવો કરીયે આપણ સૌ
ભવ્ય રાષ્ટ્ર નિર્માણ...
દિવ્ય રાષ્ટ્ર નિર્માણ...
ભવ્ય રાષ્ટ્ર નિર્માણ

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