STRATEGIC MANAGEMENT

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UNIVERSITY OF GLOBAL VILLAGE (UGV)

- STRATEGIC MANAGEMENT
- Total Credit: 3 Hours
- CIE Marks: 90
- Marks: 60
- SEE Exam (SEE): 3 Hours

Course Learning Outcomes (CLO)

After successful completion of the course, the students will be able to:

1. Students will understand and analyze strategies, strategic management concepts, processes, benefits, and pitfalls while differentiating between business and military strategy and applying various strategic approaches.

2. Students will understand and analyze strategies, strategic management concepts, processes, benefits, and pitfalls while differentiating between business and military strategy and applying various strategic approaches.

3. Develop the skill at analyzing the industry forces and the forces relating to remote environments as well as recognize the opportunities and threats to come up with appropriate responses.

4. Understand core concepts like resources, competencies, value chains, and global strategies to analyze operational effectiveness and competitive advantage.

Course Learning Outcomes (CLO)

After successful completion of the course, the students will be able to:

5. Learn various corporate strategies including vertical integration and their advantages and disadvantages.

6. Understanding the foundation of business-level strategies based on market segmentations and at each stage of the industry development process.

7. Understanding the foundation of functional strategies based on market segmentations and at each stage of the industry development process.

Course Learning Outcomes (CLO)

- TEXT BOOK:
- Nitish Sengupta & J S Chandan, “Strategic Management”. (1st Edition)
- REFERENCE BOOKS:
- Hit. Ireland & Hoskisson, Strategic Management. (Latest Edition)
- Thompson and Strickland, Strategic Management: Concepts and Cases

STRATEGY & STRATEGIC MANAGEMENT

A strategy can be defined as a step-by-step plan to achieve a goal. An integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.

WHAT IS STRATEGY?

"A strategy is a set of decision-making rules for the guidance of organizational behaviour".

STRATEGY IS:-

A plan or course of action or a set of decisions/rules making a pattern or creating a common thread.

A pattern or common thread related to the organization's activities which are derived from the policies, objectives and goals.

Involves overseeing day-to-day operations, monitoring performance, and providing guidance to teams to ensure quality, efficiency, and continuous improvement in business operations.

A pattern or common thread related to the organization's activities which are derived from the policies, objectives and goals.

William Glueek defines the term strategy as "the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through implementation process"

Five P's of Strategy

- Strategy as a Plan
- Strategy as a Ploy
- Strategy as a Pattern
- Strategy as a Position
- Strategy as a Perspective

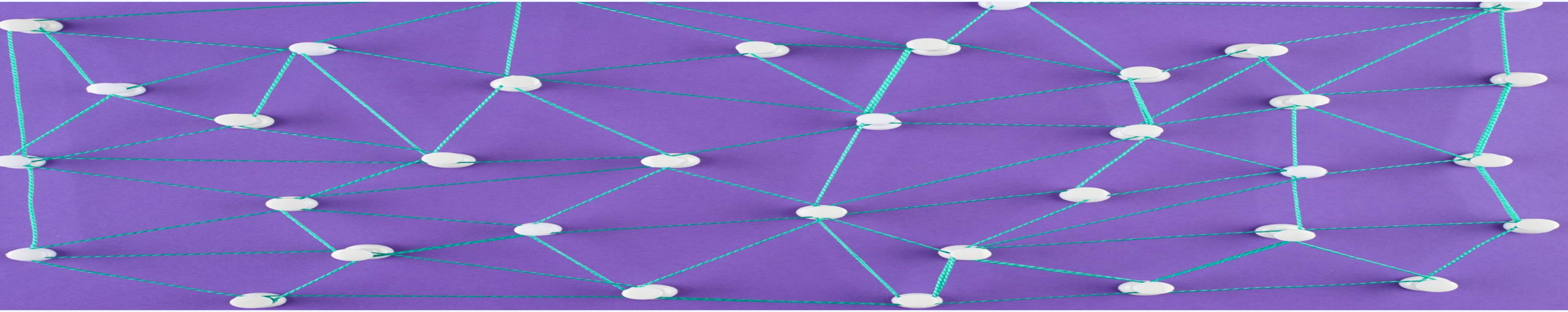
STRATEGY AS PLAN:

Strategy is a plan - some sort of consciously intended course of action, a guideline (or set of guidelines) to deal with a situation. By this definition strategies have two essential characteristics: they are made in advance of the actions to which they apply, and they are developed consciously and purposefully.

STRATEGY AS PLOY:

Mintzberg says that getting the better of competitors, by plotting to disrupt, dissuade, discourage, or otherwise influence them, can be part of a strategy. This is where strategy can be a ploy, as well as a plan. For example, a grocery chain might threaten to expand a store, so that a competitor doesn't move into the same area; or a telecommunications company might buy up patents that a competitor could potentially use to launch a rival product.

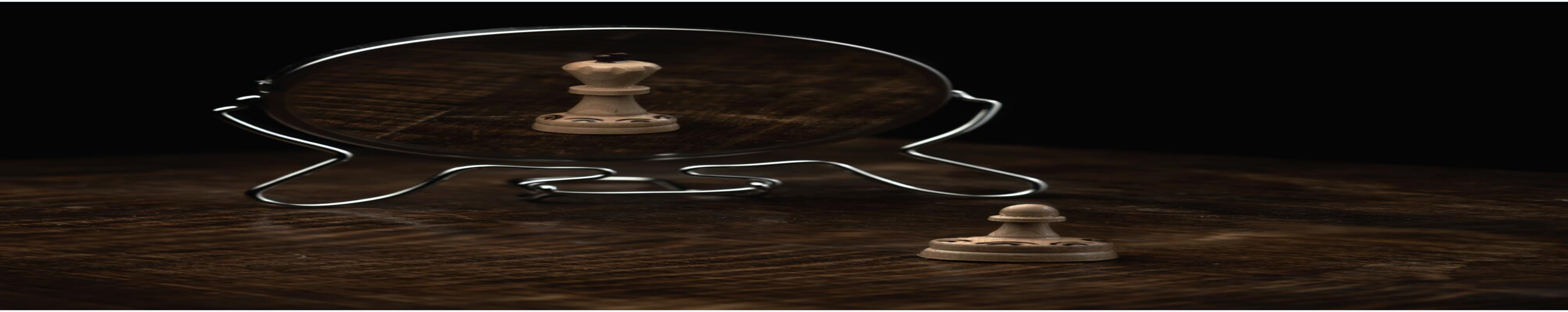
STRATEGY AS A PATTERN:



What types of strategies have organizations used in the past and what was the result managers Just follow the pattern for making strategy

Strategic plans and ploys are both purposeful exercises. Sometimes, however, strategy emerges from past organizational behaviour. Rather than being an intentional choice, a consistent and successful way of doing business can develop into a strategy.

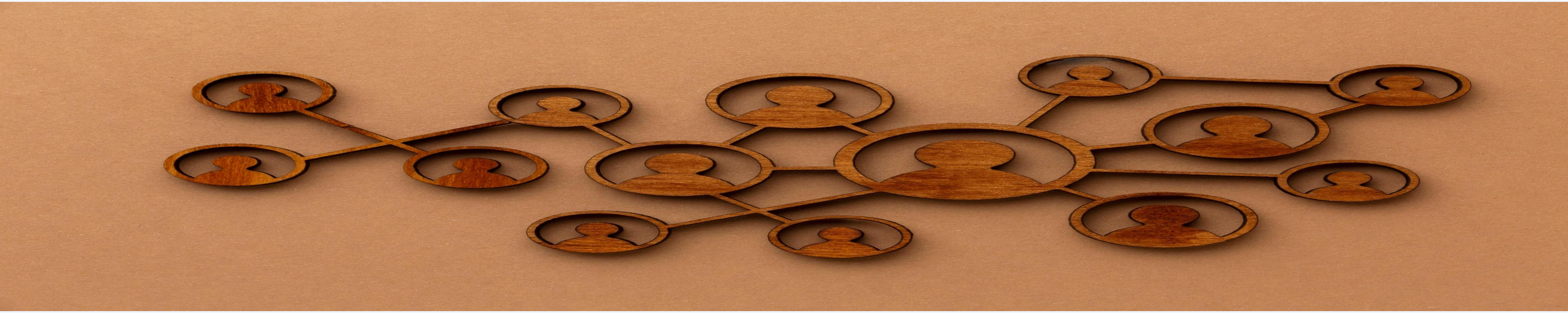
STRATEGY AS POSITION:



When we want to make a strategy what types of market position does the org have? It has to be considered.

"Position" is another way to define strategy – that is, how you decide to position yourself in the marketplace. In this way, strategy helps you explore the fit between your organization and your environment, and it helps you develop a sustainable competitive advantage.

STRATEGY AS PERSPECTIVE:



This considers the cultural perspectives of the organization. The choices an organization makes about its strategy rely heavily on its culture – just as patterns of behaviour can emerge as strategy, patterns of thinking will shape an organization's perspective, and the things that it is able to do well. *For instance*, an organization that encourages risk-taking and innovation from employees might focus on coming up with innovative products as the main thrust behind its strategy. By contrast, an organization that emphasizes the reliable processing of data may follow a strategy of offering these services to other organizations under outsourcing arrangements.

USING THE 5 Ps AS STRATEGY

As such, there are three points in the strategic planning process where it's particularly helpful to use the 5 Ps:

- ➢When you're gathering information and conducting the analysis needed for strategy development, as a way of ensuring that you've considered everything relevant.
- ➢When you've come up with initial ideas, as a way of testing that they're realistic, practical and robust.
- ➢As a final check on the strategy that you've developed, to flush out inconsistencies and things that may not have been fully considered.

TYPES OF STRATEGY:

- Corporate Strategy
- Business Level Strategy
- Functional Level Strategy

CORPORATE STRATEGY:

Corporate strategy is the long-term strategy encompassing the entire organization. Corporate strategy address fundamental questions such as what is the purpose of the enterprise, what business/businesses it wants to be in and how to expand/get into such business/businesses. In other words,

“**corporate-level strategic management is the management of activities which define the overall character and mission of the organization, the product/service segments it will enter and leave, and the allocation of resources and management of synergy among its SBUs**”

Corporate strategy is formulated by the top-level corporate management (board of directors, CEO, and chiefs of functional areas.)

BUSINESS STRATEGY:

A business unit is a self-contained division (with its own functions, for example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market. The principal general manager at the business level, or the business-level manager, is the head of the division.

The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. Whereas corporate-level general managers are concerned with strategies that span individual businesses, business-level managers are concerned with strategies that are specific to a particular business.

At GE, a major corporate goal is to be first or second in every business in which the corporation competes. The general managers in each division work out for their business the details of a business model that is consistent with this objective.

FUNCTIONAL STRATEGY:

Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division. Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfill the strategic objectives set by business- and corporate-level managers.

In GE's aerospace business, for instance, manufacturing managers are responsible for developing manufacturing strategies consistent with corporate objectives. Moreover, functional managers provide most of the information that makes it possible for business- and corporate-level managers to formulate realistic and attainable strategies.

Strategic Management is a set of managerial decisions and actions that determines the long-run performance of a corporation.

WHAT IS STRATEGIC MANAGEMENT?

The study of strategic management, therefore, emphasizes the monitoring and evaluating of external opportunities and threats in light of a corporation's strengths

STRATEGIC MANAGEMENT:

Strategic management involves the formulation and implementation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes.

Strategic management provides overall direction to the enterprise and involves specifying the organization's objectives, developing policies and plans designed to achieve these objectives, and then allocating resources to implement the plans.

STRATEGIC MANAGEMENT:

According to Smith, Arnold and Bizzle, “Strategic management is the process of examining both present and future environments, formulating the organizations objectives and making, implementing and controlling decisions focused on achieving these objectives in the present and future environments.”

- They mentioned about the advantage of strategic management as:
- it provides organizations with a clearer goals and direction.
- The strategic management approach helps management to focus on future opportunities and threats.
- The strategic management process helps relate a firm's decision-making process to relevant environmental conditions.
- it reduces the risk of catastrophic problems and increases the probability of a firms taking advantage of environmental opportunities as they arise.

NATURE OF STRATEGIC MANAGEMENT

The term "Strategic Management" is gaining importance in the era of privatization, globalization and liberalization. A few aspects regarding the nature of strategy are as follows:

- Strategic Management is related mostly to external environment.
- Strategic Management is being formulated at the higher level of management. At operational level, operational strategies are also formulated.
- Strategic Management integrates three distinct and closely related activities in strategy making. The activities are strategic planning, strategic implementation and strategic evaluation and control.

NATURE OF STRATEGIC MANAGEMENT

- Strategic Management is related to the long term.
- It requires systems and norms for its efficient adoption in any organization.
- It provides an overall framework for guiding enterprise thinking and action.
- It is concerned with a unified direction and efficient allocation of organization resources.
- Strategic Management provides an integrated approach for the organization and aids in meeting the challenges posed by the environment.

BENEFITS OF STRATEGIC MANAGEMENT:

According to Greenley, strategic management has the following benefits:

- It allocates for identification, prioritization, and exploitation of opportunities.
- It provides an objective outlook on management problems.
- It characterizes a framework for improved synchronization and control of activities.
- It reduces the effects of adverse conditions and changes.
- It allows major decisions to better support established objectives.
- It allows more effective distribution of time and resources to identified opportunities.

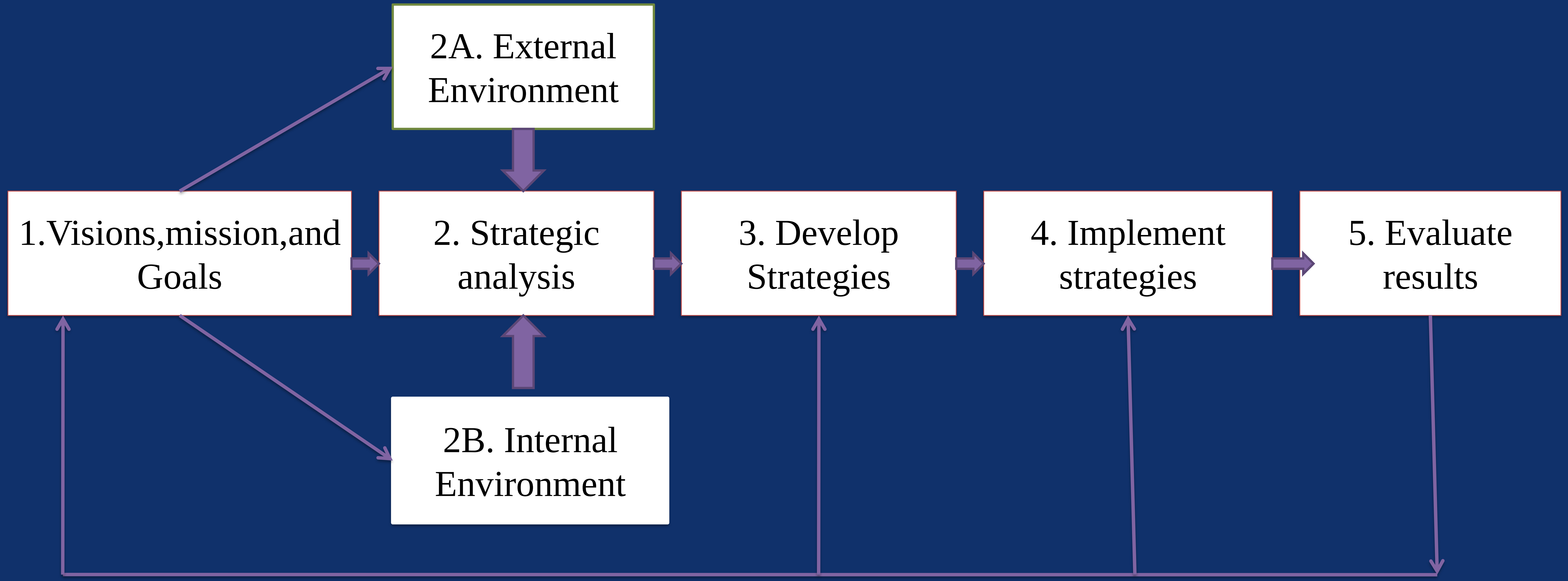
BENEFITS OF STRATEGIC MANAGEMENT:

- It permits fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.
- It generates a framework for internal communication among personnel.
- It helps integrate the behaviour of individuals into a total effort.
- It provides a foundation to clarify individual responsibilities.
- It promotes forward thinking.
- It provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities.
- It encourages a positive attitude toward change.

GUIDELINES FOR EFFECTIVE STRATEGIC MANAGEMENT:

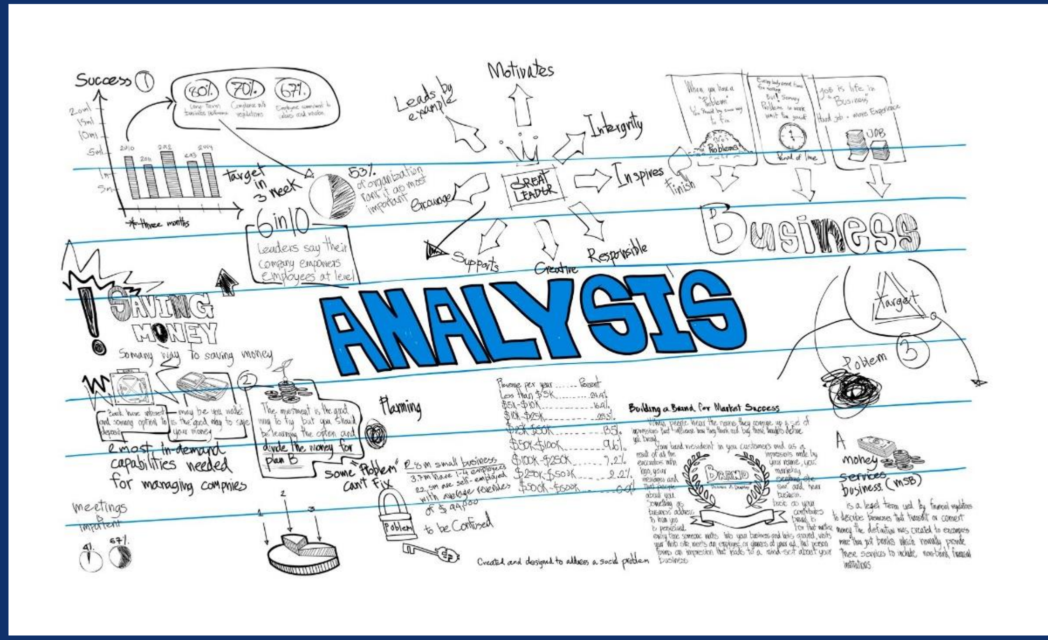
- The most technically perfect strategic plan will serve little purpose if it is not implemented
- Keep the strategic management process as simple and non-routine as possible it fosters learning and action not merely a formal control system.
- Strategic manager should be open minded and flexible
- Decisions & strategic plans require trade-off which includes long Vs short term considerations and ethical challenges

STRATEGIC MANAGEMENT PROCESS



VISION, MISSION, GOALS & STRATEGIC ANALYSIS

The vision reflects how far into the future strategic managers can see and how they choose to position the company. This contributes to positioning the company competitively. The mission statement defines the organization’s businesses and portfolio and articulates its goals and main philosophical values. Goals specify what the organization hopes to achieve in terms of tangible output.



It is the process of analyzing the external environment for threats and opportunities and the internal environment in terms of resources including human capital.

DEVELOP STRATEGIES & STRATEGY IMPLEMENTATION

Strategies are comprehensive and usually long-term plans for accomplishing strategic goals and objectives. Strategies are formulated generally at four levels in an organization- Corporate, business, functional and international.

Even the best strategy can be rendered useless unless it is implemented effectively and successfully. Strategy implementation is the process of putting the organization's various strategies into action. The strategy has to be implemented accurately and with the full support of all members.

EVALUATION OF RESULTS

Strategy evaluation is the process of monitoring strategy implementation, judging its performance and value of outcomes. The progress of the strategy is tracked to ensure that it is carried out successfully.

WHY SOME FIRMS DO NO STRATEGIC PLANNING

01

POOR ORGANIZATIONAL STRUCTURE:

Managers are not motivated they are reluctant to examine and consider change, especially if the organizational policy is such that success is not rewarded but failure is readily punished.

02

WASTE OF TIME:

Since there is a substantial time investment into strategic planning, it can be perceived as a waste of time and resources.

03

COMPLACENCY:

When a business is successful, and everybody concerned is satisfied with the success, there can be a mind set that says- ‘don’t fix it if it is not broken’.

04

CULTURAL BARRIERS:

In some organizational cultures, there is tremendous resistance to spending resources on actions where the outcome is no clear. Since planning has to be done by individuals, the factors related to people are important:

WHY SOME FIRMS DO NO STRATEGIC PLANNING

05 LAZINESS

06 FEAR OF FAILURE

07 OVERCONFIDENCE

08 PRIOR BAD EXPERIENCE

09 SELF INTEREST

10 SUSPICION

11 FEAR OF UNKNOWN

Research Articles:

- Bayiley, Y. T., & Behaylu, R. H. (2020). Linking strategic management and corporate entrepreneurship for firm value creation: A developing country perspective. Journal of african business, 1–25. https://doi.org/10.1080/15228916.2020.1812979

- Al-Dhaafri, H., & Alosani, M. S. (2021). Role of leadership, strategic planning and entrepreneurial organizational culture towards achieving organizational excellence: evidence from public sector using SEM. Measuring Business Excellence. https://doi.org/10.1108/mbe-02-2021-0021

Case Studies:

Henry Ford's Business STRATEGY made FORD a billion dollar company: Business Case study

- https://www.youtube.com/watch?v=8mef_bxijJk

Can Meesho's Business strategy beat Amazon and Flipkart? | Business Case Study

- **https://www.youtube.com/watch?v=s1sv7iFDdxY**

VISION, MISSION, GOALS & OBJECTIVES

VISION STATEMENT:

Vision is a descriptive image of what a company wants to be or want to be known for. Vision reminds us of what the goals are. Without vision performance of the business are likely to be affected. A vision is a statement for where the organization is heading over the next five to ten years. It is the statement that indicates mission to be accomplished by the management distant future.

Warren Bennis and Burt Nanus described the role of vision as follows "To choose a direction, a leader must first have developed a mental image of a possible and desirable future state of the organization which we call a vision. Vision articulates a view of a realistic / credible, attractive future for the organization with a vision, the leader provides the all important bridge from the present to the future of the organization".

CHARACTERISTICS OF AN EFFECTIVE VISION STATEMENT:

- It should paint a picture of the kind of business organization.
- It should be forward-looking
- It should be sufficiently specific
- It should be flexible enough to accommodate any change
- It should be realistic
- It should have a narrow focus
- It may not fit exactly into present circumstances but needs to be credible for the future
- An idealistic vision is emotionally motivating & can arise employ enthusiasm.
- It should be easy to explain to all stakeholders and short like-
    - ‘A car in every garage (Henry Ford)
    - ‘To be the world’s best quick service restaurant’ (McDonald’s)
    - ‘To be the happiest place of the world’ (Disneyland)

POTENTIAL SHORTCOMINGS OF VISION STATEMENT:

01 Vague and incomplete: The statement is not specific or clear regarding what the company is doing to prepare for the future.

02 Not forward-looking: The statement does not indicate how the management plans to change and move from present focus to future focus.

03 Too broad: The statement is too generic in nature; it appears that the company can follow any direction or enter any industry or market.

04 Uninspiring: The statement does not generate enthusiasm among employee and fails to motivate them.

05 Not distinctive: The statement does not provide a unique company identity.

MISSION STATEMENT:

A Business organization can not set objectives without a mission statement. Therefore, it is of utmost importance to frame a mission statement. Many organizations define the basic reason for their existence in terms of a mission statement.

An organization's mission includes both a statement of organizational philosophy and purpose. The mission can be seen as a link between performing some social function and attaining the objectives of the organization.

MISSION STATEMENT:

In military circles, the word " Mission " is used instead of objectives. It also denotes and end point of the activities which doer wants to fulfill.

In business management terminology, a mission is an objectives that has been psychologically accepted by the doer. A mission explains the reason for the existence and operation of an enterprise.

It is a key statement that provides guidelines for the company's business objectives. Mission indicates what is the company's business and what should it be. It reflects the company's philosophy and values.

MISSION STATEMENT:

California Energy Commission-USA----

Vision Statement of Ford Motors:

Become the main company of the world in products and services of the car.

Mission Statement of Ford Motors:

We are a global, diverse family with a proud inheritance, providing exceptional products and services.

CHARACTERISTICS OF A MISSION STATEMENT:

01

DECLARATION OF ATTITUDE:

A Mission statement is a declaration of attitudes and outlook. It is meant to provide motivation, general direction, an image and a philosophy to guide the enterprise.

CUSTOMER ORIENTATION:

02

A good mission statement reflects the anticipation of customers. The operating philosophy of the organization is to identify customer needs and then provide a product or service that fulfils those needs.

03

DECLARATION OF SOCIAL POLICY:

Socially oriented policies suggest that the company takes into consideration not only profits owed to shareholders and what it owes to major stakeholders but also seriously responds to responsibilities towards consumers, minority communities and other groups. The term 'social policy' reflects managerial philosophy and is taken into consideration while drafting a mission statement. The social policy directly impacts customers, products, services, technologies, image and also profitability.

COMPONENTS OF A MISSION STATEMENT:

1. Product or service: A mission statement invariably includes mention of the product or service that the company offers to customers.
2. Customers: The information in the mission statement describes the profiles of customers and the organization it serves.
3. Technology: This component of the mission statement generally refers to means of production, operations and organizational function. It includes elements such as equipment, materials, techniques, processes, machine and tools.
4. Survival, growth and profitability: Most mission statement make a general reference to the company's survival and healthy functioning, which includes growth and profitability.
5. Company philosophy: Statement about company philosophy reflect the basic beliefs, values, aspirations and ethical priorities of the company that the employees in conducting organizational functions.
6. Public image: This element of the mission statement deals with how the company wishes to be viewed by external constituencies. The negative image can be extremely detrimental to the company's survival.
7. Employees: As part of developing and creating its public image, a company could include concern for and recognition of the value of the employees in the statement.

ORGANIZATIONAL GOAL:

- A goal is a specific target that a firm intends to reach in the long term
- A goal describes clearly the activities and tasks to be completed by an individual, a department or an organization
- It provides the basis for measuring the company ‘s performance & the progress it is making towards its vision.

TYPES OF GOAL:

01 FINANCIAL GOAL

It focuses on achieving a central level of financial performance measured in terms of return on investment or growth of revenues.

02 STRATEGIC GOAL

These goals focus on achieving strategic or competitive advantages within the industry. Such as technological leadership, creativity & innovation and superior customer service.

CHARACTERISTICS OF GOALS:

- Goal should be specific so that it can easily be measurable
- Short-term goals should be assigned lower lower-level employees and long-term goals or where there is some ambiguity should be assigned to the top or middle-order employees
- Goal should be well structured so that it can be realistic and challenging
- Specification of the time, period and availability of reward

BUSINESS OBJECTIVES:

- An objective is something aimed at or something sought for. It is nothing but the goal or destination of the organization. Objectives should be very clearly spelt out, as clearer the objectives the more the strength one derives to achieve them. The organization should see to it that while fixing business objectives interest of all groups should be considered and under no circumstance should it be sacrificed for others.

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According to George Terry " A Managerial objective is the intended goal which prescribes definite scope and suggests direction to efforts of a manager ".

According to D. E. McForland " Objectives are the goals, aims or purposes that organizations wish to achieve over a varying period of time ".

FEATURES OF BUSINESS OBJECTIVES:

1.Future-oriented: Objectives are future destinations which the organization wants to reach. However, these objectives are finalized after considering the past trends and the past performance of the organization.

2. Guides: Objectives, whether economic, social or human guide the organization in making relevant and quick decisions. **Objectives guide in formulating the policies, the programs and the plans which in turn guide the employees while implementing the plans to achieve the objectives**

3. Flexibility: The business environment is very complex. Change in one environment may have different impacts on the other environmental factors. Moreover, these environmental factors are uncontrollable. **Objectives have to be modified continuously in order to suit the changed environment.**

FEATURES OF BUSINESS OBJECTIVES:

4. Qualitative: There are certain objectives which are of a qualitative nature, especially advertising objectives. Advertising objectives can be creating awareness, changing attitudes, and perceptions, enabling recognition of the brand etc. Qualitative objectives are therefore difficult to measure.

5. Quantitative: Quantitative objectives are those which can be measured in volume or value terms. Marketing objectives are generally of quantitative in nature. Some of the common marketing objectives are increasing sales, increasing market share, financial objectives increasing profits etc.

6. Hierarchical: All objectives may not be equally important at a given moment of time, for instance, if the organization is new, its objective generally is survival, rather than growth or achieving prestige and recognition. However, since many groups are involved like shareholders, creditors, employees etc. identifying a proper hierarchy is difficult.

IMPORTANCE OF BUSINESS OBJECTIVES:

1. Identity of the organization: Every organization must have an objective. It is the objectives that justify an organization's existence. Outwardly all organizations may be similar but what differentiates one organization from another is its objectives.

2. Facilitates coordination: There are various departments in an organization. The success of any organization depends upon the achievements of each department, which in turn depends upon the proper coordination between people and functions of different departments. This would enable the different departments to work as a cohesive unit.

IMPORTANCE OF BUSINESS OBJECTIVES:

3. Guides decision-making: The top management has to take number of decisions in different areas everyday. Decisions can be relating to extending the product line or changing the pricing structure or the place of sale. Decisions depend entirely upon the objectives of the organization. So, it is the objectives that guide individual as well as group decision making.

4. Motivation: Motivation is the simulation to work with zeal and enthusiasm. When objectives are clear, the employees know what is expected to them and the reward which they would earn on achieving those objectives. So clear definition of business objectives motivates employees to put in their best efforts as they are aware as to what to achieve.

IMPORTANCE OF BUSINESS OBJECTIVES:

5. Ensures planning: It is said that most people don't succeed in life because they don't know what they want to achieve. One can plan properly only when one knows what one wants to achieve. Moreover, implementation would be effective only if it is planned properly. Therefore, objectives ensures proper planning.

6. Reduces wastage: Objectives facilitate preparing programs and schedules for achieving the predetermined goals. Men, money, materials etc. are scare. Success of a business organization depends upon the effective utilization of the resources. So to the extent possible wastage of resources should be avoided

Research Articles:

- Slamet, S., Ridho, A., Marno, M., & Efiyanti, A. Y. (2024). Impact of mission and vision on academic services mediated by governance and human resources in higher education institutions of Indonesia. Problems and Perspectives in Management, 22(1), 477-490.

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ENVIRONMENTAL ANALYSIS Both Internal & External

MEANING OF ORGANIZATIONAL ENVIRONMENT:

The organizational environment is always dynamic. It is ever-changing. Changes today are so frequent and every change brings so many challenges that managers and leaders of the organization need to be vigilant about the environmental changes. Every organization, whether business or non-business, has its environment.

The environment of an organization consists of its surroundings that affects its operations, favorably or unfavorably. Managers can not make appropriate and sound strategies simply based on their guesses and instincts. They must use relevant information that directly flows from the analysis of their organization’s environment.

MEANING OF ORGANIZATIONAL ENVIRONMENT:

Actually, Business Environment consists of all those forces both internal and external that affect the working of a business. It refers to the conditions, forces, events and situations within which business enterprises have to operate. Business and its environment are closely related and the effectiveness of interaction of the two determines the success or failure of a business.

According to Wheeler "Business Environment is the total of all things external to firms and individuals, which affect their organization and operations".

TYPES OF ORGANIZATIONAL ENVIRONMENT:

1. **External environment:** External environment consists of an organization's external factors that affect its businesses indirectly. The organization has no or little control over these factors. External environmental factors can be divided into two groups:

   (a) General environment and

   (b)Industry environment/task environment/immediate operating environment.

2. Internal Environment: An organization's internal environment is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior.

ELEMENTS OF EXTERNAL ENVIRONMENT:

1. Demographic Environment: Demographic environment studies the human population concerning its size, density, literacy rate, gender-ratio, age composition etc. These factors affect the demand for goods and services, quantity and quality of production, distribution etc. e.g. a rapidly growing population indicates growing demand for many products.

2. Natural Environment: Business firms use natural resources like water, land, iron, crude oil etc. All business units are directly or indirectly dependent upon the natural environment. Business firms are responsible for the ecological imbalance. So, they should take the necessary measures to control pollution

ELEMENTS OF EXTERNAL ENVIRONMENT:

3. Economic Environment: A business firm closely interacts with its economic environment. The economic environment is generally related to those external forces, which have a direct economic effect on business.

The economic environment is a total of--

a. Economic conditions in the market

b. Economic policies of the government

c. Economic system of the country.

ELEMENTS OF EXTERNAL ENVIRONMENT:

Economic systems

Economic systems mean the classification of economies based on the role of the government in the functioning of the economy. An economic system can be classified as

Capitalist Economy – There exists the least government control in regulating the working of a market. E.g. U.S.A.

Socialist Economy – The government has major control over all activities e.g. China.

Mixed Economy – It combines the features of both capitalist and socialist economies where both private and public sectors play an equally important role e.g. India

ELEMENTS OF EXTERNAL ENVIRONMENT:

4. Political Environment: It refers to the influence exerted by political institutions namely the legislature, the executive and the judiciary in developing and controlling business activities. Business decisions are greatly influenced by the developments in the political environment.

5. Legal Environment / Regulatory Environment: The legal environment includes laws, which define and protect the fundamental rights of individuals and organizations. It creates a framework of rules and regulations within which business units have to operate.

ELEMENTS OF EXTERNAL ENVIRONMENT:

6. **Cultural Environment:** Every society has a culture of its own. Culture includes knowledge, belief, art, morals, laws, customs and other capabilities and habits acquired by an individual as a member of society. Cultural values are passed on from one generation to another. Culture thus determines the types of goods and services a business should produce. Businesses should realize the cultural differences and bring out products accordingly.

7. **Technological Environment:** Technology is the systematic application of scientific or other organized knowledge to practical tasks. Technological advancement makes it possible to improve the quality of products, increase the output and decrease the cost of products. Technological changes are rapid and to keep pace with it, businessmen need to be alert and flexible to quickly incorporate them in their business organization to survive and succeed in the competitive business world.

ELEMENTS OF EXTERNAL ENVIRONMENT:

8. International Environment: The international environment is an outcome of political and economic conditions in the international market. Business firms engaged in foreign trade are more affected by the changes in the international environment factors like war, civil disturbances, political instability, and changes in trade policies.

The components of the international environment are-

- Import and Export policy of a country.
- Rules and regulations laid down by International Institutions like IMF, World Bank etc.
- The policies of trading blocks like SAARC, EEC, ASEAN etc.
- Foreign exchange regulations like tariffs, and quotas.
- Trade cycles like boom, and recession at the world level

HOW DO ORGANIZATIONS RESPOND TO EXTERNAL ENVIRONMENT

1. Lobbying: Company can hire strong lobbyists to bargain with regulators to change any law or to refrain them from enacting new laws that may adversely affect business activity. In Bangladesh, FBCCI is a very strong lobbyist.
2. Influencing customers: Organization can influence their customers in different ways. Managers may devise/create new uses of a product.
3. Influencing suppliers: One of the ways to directly influence the environment is to establish a long-lasting relationship with suppliers. Organizations can do it by signing long-term contracts with fixed prices. Or producing their materials.
4. Boundary spanning: A firm may engage itself in boundary spanning to learn about what other organizations are doing. A person is called a boundary spanner who collects information outside the organization like salespeople, purchasing agent, relationship managers etc.

HOW DO ORGANIZATIONS RESPOND TO EXTERNAL ENVIRONMENT

5. Environmental scanning: Organizations can influence the external environment based on information collected through regular observation and analysis. This is known as environmental scanning.
6. Strategic response: A firm may alter its strategy to deal with environmental changes. The strategy alteration may take any of the forms-slight change in the strategy, adopting an entirely new strategy.
7. Organizational combinations: in order to enter into new markets or uphold prominence in the current market or for some other strategic reasons, a firm may resort to merger, acquisition, takeover or alliance. Two or more firms may combine together (merger), and a firm may buy another firm to acquire its assets(acquisition).

WHAT IS INDUSTRY ENVIRONMENT?

The industry environment also know as ‘immediate operating or task environment’ is really the competitive environment of a business organization. It substantially affects a firm’s business operations.

Every firm operates its business in an industry and therefore its activities are directly affected by any change in the industry environment. Changes in the general environment can have direct impact on any of the factors in the industry environment. An organization has grater control over the industry environmental factors than the general environmental factors.

ELEMENTS OF INDUSTRY ENVIRONMENT

1. Suppliers: Suppliers are important sources of resources like raw materials, components, equipment, financial support, service and office supplies. In order to ensure long-term survival and growth of a company, it is essential to develop a dependable relationship between a business firm and its suppliers.
2. Customers: Strategic managers must understand the composition of the company's customers. With this end in view, they need to develop an exhaustive customer profile of both present and potential customers.

ELEMENTS OF INDUSTRY ENVIRONMENT

3. Competitors: A firm need to analyze the competitive intensity in the industry. It needs to understand its competitive position in the industry to improve its chances of designing winning strategies. Many firms develop a ‘competitors' profile’ to more accurately forecast their short and long-term growth and profit potentials.
4. New entrants: The new entrants are the potential competitors of the firm. They are potential competitors because if they enter into the industry with similar types of products, the competitive intensity will increase.
5. Substitute products: The producers of substitute products are indirect competitors. The substitute product serves the same categories of customers. They can meet the similar needs of the customers and therefore, emerge as threats.

ENVIRONMENT APPRAISAL

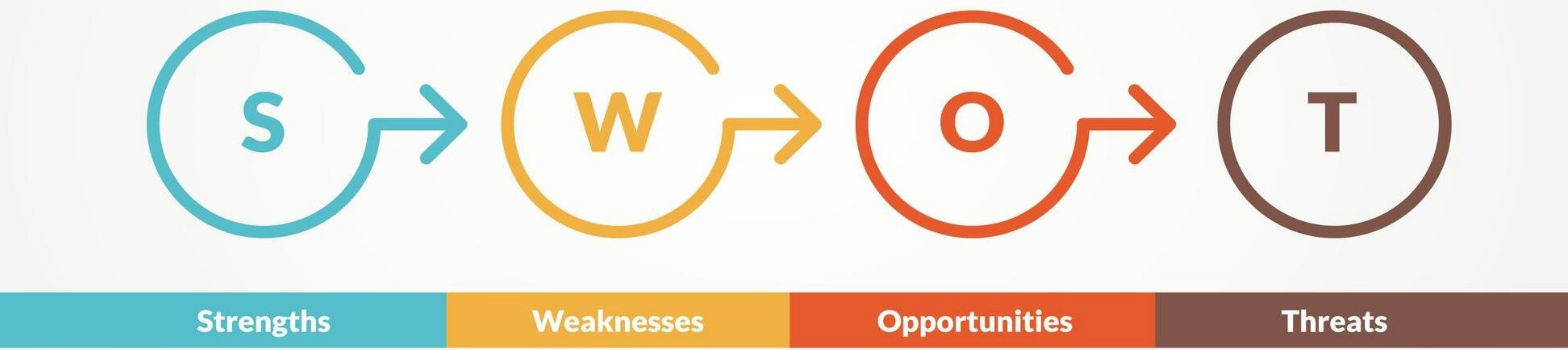
Strategy-related environmental appraisal would depend upon the skill, experience & attitude of decision-makers & the ability to correctly identify the nature of such environmental factors

The appraisal would depend upon whether the organization is small or big, simple or complex, multinational or domestic

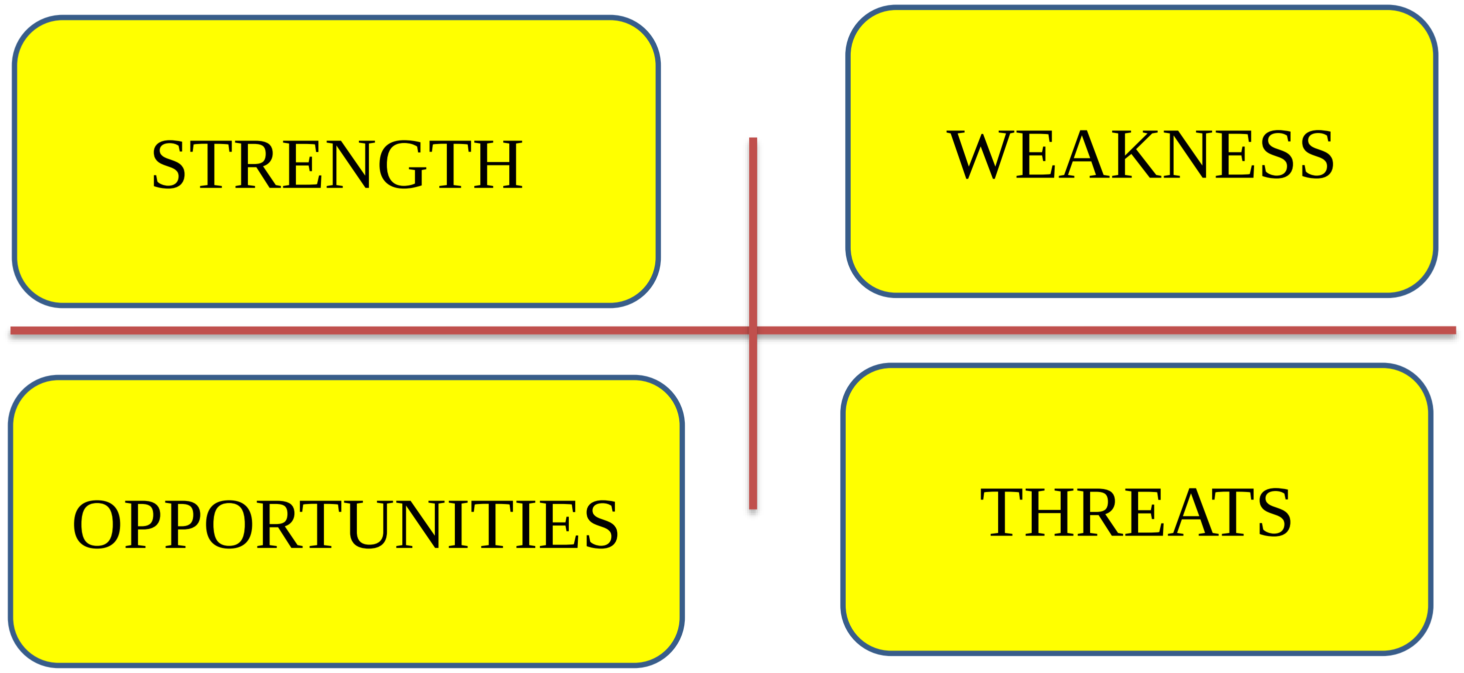
SWOT ANALYSIS

To survive and grow in this competitive environment, every business organization needs to undertake a SWOT analysis.

The process by which enterprises monitor their relevant environment to identify their business opportunities and threats affecting their business is known as environmental analysis or SWOT analysis. In other words, analyzing the surrounding environment before framing policies and making business decisions is called a SWOT analysis.



SWOT ANALYSIS



Data sources	Positive Factors	Negative Factors
Internal Data	STRENGTH	WEAKNESS
External data	OPPORTUNITIES	THREATS

STREANGTH

Strengths and weaknesses are derived from the internal environment . Opportunities and threats arise from external environment. SWOT analysis helps the business unit to know its positive points as well as negative points. Strength is an inherent capacity which an organization can use to gain strategic advantage over its competitors

A Strength is something a company is good at doing or a characteristic that gives it an important capability. Possible strengths are :

- Distinctive competencies in key areas
- Technologically enhanced physical assets
- Skilled workforce
- Valuable organizational assets
- Organization's intangible assets
- Valuable alliances

WEAKNESS

Weaknesses is an inherent limitation, which creates a strategic disadvantage for the organization e.g. limited finance. A Weakness is something a company lacks or does poorly (in comparison to others) or a condition that places it at a disadvantage. Possible weaknesses are :

– No clear strategic direction
– Higher overall unit cost relative to competitors
– Inability to raise capital
– Poor record in implementing strategies
– Deficiency to competitively important tangible & intangible assets
– Low employee loyalty and morale
– Internal operating problems
– Poor marketing skills

OPPORTUNITIES

An opportunity is a favorable condition in the organization's environment that enables it to strengthen its position. Possible opportunities are :

- Strong economy
- Possible new market
- Emerging new technology
- Sales decline of substitute products
- New distribution outlets
- Favorable demographic change
- Online sales via the internet
- Opportunities for favourable merger & acquisitions

THREAT

A threat is an unfavorable condition in the organization's environment that creates a rise or causes damage to the organization. Possible threats are:-

- Entry of lower-cost foreign competitors
- Cheaper technology adopted by rivals
- Rising sales of substitute products
- Shortage of available resources
- Changing buyer’s needs and demands
- Recession in economy
- Adverse demographic changes

TOWS Analysis

A TOWS Analysis is an extension of the SWOT Analysis framework that identifies your Strengths, Weaknesses, Opportunities and Threats but then goes further in looking to match up the Strengths with Opportunities and the Threats with Weaknesses.

The main purpose of a TOWS Analysis is to:

- Reduce threats
- Take advantage of opportunities
- Exploit strengths
- Remove weaknesses

TOWS Analysis

The organisation	Stengths – S 1. Existing brand 2. Existing customer base 3. Existing distribution	Weaknesses – W 1. Brand perception 2. Intermediary use 3. Technology/skills 4. X-channel support
Opportunities – O 1. Cross-selling 2. New markets 3. New services 4. Alliances/Co-branding	SO strategies Leverage strengths to maximise opportunities = Attacking strategy	WO strategies Counter weaknesses through exploiting opportunities = Build strengths for attacking strategy
Threats – T 1. Customer choice 2. New entrants 3. New competitive products 4. Channel conflicts	ST strategies Leverage strengths to minimise threats = Defensive strategy	WT strategies Counter weaknesses and threats = Build strengths for defensive strategy

What is the difference between SWOT and TOWS?

- The big difference between a TOWS and a SWOT is the relationships between the internal and external factors, examining how they link up, impact and influence each other...
- **Strengths to Opportunities:**
- The S-O focuses on how you can the threats of the business. exploit your strengths to respond to the potential opportunities in the market.
- **Strengths to Threats:**
- The S-T examines how strengths can be used to mitigate or remove the threats to the business, and in some cases looks at how threats can be transformed into opportunities.
- **Weaknesses to Opportunities:**
- The W-O can be the hardest consideration, as it doesn’t always come naturally. Consider how your opportunities can remove your weaknesses.
- **Weaknesses to Threats:**
- The W-T highlights how weaknesses can play into, develop or enhance

PESTEL ANALYSIS

PESTEL Analysis is a [strategic]() framework used to evaluate the external environment of a business by breaking down the opportunities and risks into **P**olitical, **E**conomic, **S**ocial, **T**echnological, **E**nvironmental, and **L**egal factors.

PESTEL Analysis can be an effective framework to use in Corporate Strategy Planning and for identifying the pros and cons of a Business Strategy

P

- Government policy
- Political stability
- Corruption
- Foreign trade policy
- Tax policy
- Labour law
- Trade restrictions

E

- Economic growth
- Exchange rates
- Interest rates
- Inflation rates
- Disposable income
- Unemploy-ment rates

S

- Population growth rate
- Age distribution
- Career attitudes
- Safety emphasis
- Health conscious-ness
- Lifestyle attitudes
- Cultural barriers

T

- Technology incentives
- Level of innovation
- Automation
- R&D activity
- Technological change
- Technological awareness

E

- Weather
- Climate
- Environmen-tal policies
- Climate change
- Pressures from NGO’s

L

- Discrimina-tion laws
- Antitrust laws
- Employment laws
- Consumer protection laws
- Copyright and patent laws
- Health and safety laws

PESTEL ANALYSIS

- **Political Factors**
- When looking at political factors, you are looking at how government policy and actions intervene in the economy and other factors that can affect a business. These include the following:
- Tax Policy
- Trade Restrictions
- Tariffs
- Bureaucracy

Economic Factors

Economic Factors take into account the various aspects of the economy, and how the outlook on each area could impact your business. These economic indicators are usually measured and reported by Central Banks and other Government Agencies. They include the following:

- Economic Growth Rates
- Interest Rates
- Exchange Rates
- Inflation
- Unemployment Rates

PESTEL ANALYSIS

- **Social Factors**
- PESTEL analysis also takes into consideration social factors, which are related to the cultural and demographic trends of society. Social norms and pressures are key to determining consumer behavior. Factors to be considered are the following:
- Cultural Aspects & Perceptions
- Health Consciousness
- Populations Growth Rates
- Age Distribution
- Career Attitudes

PESTEL ANALYSIS

Technological Factors

- Technological factors are linked to innovation in the industry, as well as innovation in the overall economy. Not being up to date to the latest trends of a particular industry can be extremely harmful to operations. Technological factors include the following:
- R&D Activity
- Automation
- Technological Incentives
- The Rate of change in technology

PESTEL ANALYSIS

Environmental Factors

Environmental factors concern the ecological impacts on business. As weather extremes become more common, businesses need to plan how to adapt to these changes. Key environmental factors include the following:

- Weather Conditions
- Temperature
- Climate Change
- Pollution
- Natural disasters (tsunamis, tornadoes, etc.)

Legal Factors

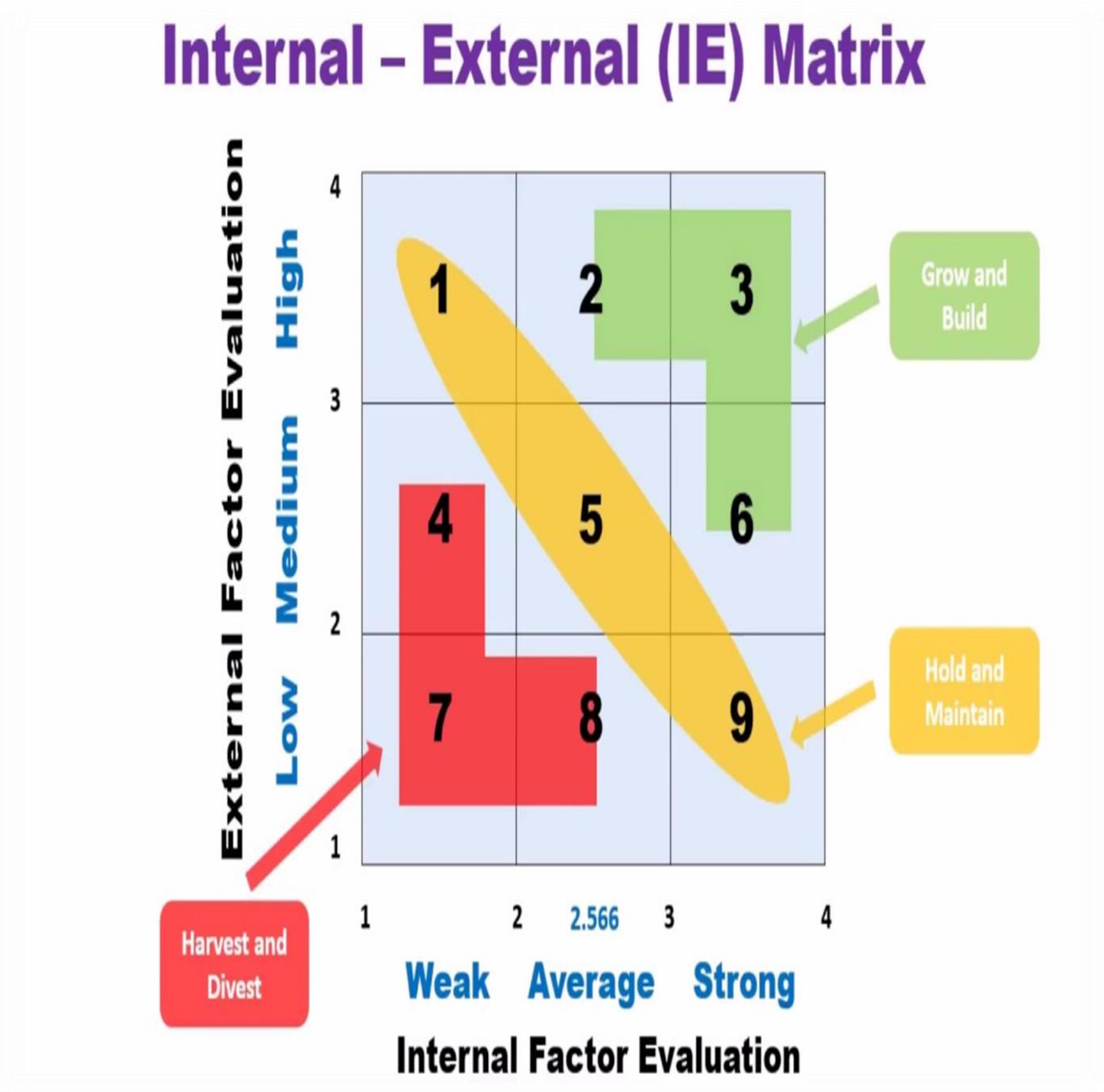
There is often uncertainty regarding the difference between political and legal factors in the context of a PESTEL analysis. Legal factors pertain to any legal forces that define what a business can or cannot do. Political factors involve the relationship between business and the government. Political and legal factors can intersect when governmental bodies introduce legislature and policies that affect how businesses operate.

Legal factors include the following:

- Industry Regulation
- Licenses & Permits
- Labor Laws
- Intellectual Property

IFE Matrix (Internal Factor Evaluation)

- **Internal Factor Evaluation (IFE) matrix** is a strategic management tool for auditing or evaluating major strengths and weaknesses in functional areas of a business.
- IFE matrix also provides a basis for identifying and evaluating relationships among those areas. The *Internal Factor Evaluation matrix* or short IFE matrix is used in strategy formulation.
- The **IFE Matrix** together with the EFE matrix is a strategy-formulation tool that can be utilized to evaluate *how a company is performing* in regards to identified *internal strengths and weaknesses* of a company. The IFE matrix method conceptually relates to the Balanced Scorecard method in some aspects.



How can I create the IFE matrix?

The IFE matrix can be created using the following five steps:

- **Key internal factors**...

  Conduct internal audit and identify both strengths and weaknesses in all your business areas. It is suggested you identify 10 to 20 internal factors, but the more you can provide for the IFE matrix, the better. The number of factors has no effect on the range of total weighted scores (discussed below) because the weights always sum to 1.0, but it helps to diminish estimate errors resulting from subjective ratings. First, list strengths and then weaknesses. It is wise to be as specific and objective as possible.

  Weights...

- Having identified strengths and weaknesses, the core of the IFE matrix, assign a weight that ranges from 0.00 to 1.00 to each factor. The weight assigned to a given factor indicates the relative importance of the factor. Zero means not important. One indicates very important. If you work with more than 10 factors in your IFE matrix, it can be easier to assign weights using the 0 to 100 scale instead of 0.00 to 1.00. Regardless of whether a key factor is an internal strength or weakness, factors with the greatest importance in your organizational performance should be assigned the highest weights. After you assign weight to individual factors, make sure the sum of all weights equals 1.00 (or 100 if using the 0 to 100 scale weights).

How can I create the IFE matrix?

- The weight assigned to a given factor indicates the relative importance of the factor to being successful in the firm's industry. Weights are industry-based.

Rating...

- Assign a 1 to X rating to each factor. Your rating scale can be per your preference. Practitioners usually use rating on the scale from 1 to 4. Rating captures whether the factor represents a major weakness (rating = 1), a minor weakness (rating = 2), a minor strength (rating = 3), or a major strength (rating = 4). If you use the rating scale 1 to 4, then strengths must receive a 4 or 3 rating and weaknesses must receive a 1 or 2 rating.
- Note, the weights determined in the previous step are industry-based. Ratings are company based.

Multiply...

- Now we can get to the IFE matrix math. Multiply each factor's weight by its rating. This will give you a weighted score for each factor.

Sum...

- The last step in constructing the IFE matrix is to sum the weighted scores for each factor. This provides the total weighted score for your business.

IFE Matrix (Internal Factor Evaluation)

IFE MATRIX				
STRENGHTS		Weight	Rating	Weighted Score
1	The possibility to go to our customers. Being able to take the service to them, wherever they want us to deliver the service.	0.17	4	0.68
2	Use natural moisturizer and oils, certified with no contraindications.	0.05	2	0.10
3	Have a wide range of different types of massages	0.11	3	0.33
4	Our employees will have a previous preparation to best satisfy our customers	0.09	3	0.27
5	Our employees must have an educational formation with an emphasis in physiotherapy.	0.07	3	0.21
6	Being able to book any type of massage through the Internet in any smart phone device through our website.	0.06	3	0.18
7	Having promos and special treats every month for our loyal customers.	0.07	2	0.14
WEAKNESSES		Weight	Rating	Weighted Score
1	Not having a recognized image	0.03	2	0.06
2	Lacking of awareness of our business at the moment.	0.02	2	0.04
3	Not recognized by our potential customers as the first option for massages	0.07	3	0.21
4	Prices not very low in comparison with the competitors	0.09	2	0.18
5	We are just starting so we don't have as much experience compared to the other firms in the same market	0.07	2	0.14
6	The space disposal depends on the customer (for now	0.10	4	0.40
TOTAL		1.00		2.94

EFE Matrix (External Factor Evaluation)

- **External Factor Evaluation (EFE) matrix** method is a strategic-management tool often used for assessment of current business conditions. The EFE matrix is a good tool to visualize and prioritize the opportunities and threats that a business is facing.

The *EFE matrix* is very similar to the IFE matrix. The major difference between the EFE matrix and the IFE matrix is the type of factors that are included in the model. While the IFE matrix deals with *internal* factors, the EFE matrix is concerned solely with *external* factors.

How do I create the EFE matrix?

Developing an EFE matrix is an intuitive process which works conceptually very much the same way as creating the IFE matrix. The EFE matrix process uses the same five steps as the IFE matrix.

- **List factors:** The first step is to gather a list of external factors. Divide factors into two groups: opportunities and threats.
- **Assign weights:** Assign a weight to each factor. The value of each weight should be between 0 and 1 (or between 10 and 100 if you use the 10 to 100 scale). Zero means the factor is not important. One or hundred means that the factor is the most influential and critical one. The total value of all weights together should equal 1 or 100.
- **Rate factors:** Assign a rating to each factor. The rating should be between 1 and 4. The rating indicates how effective the firm's current strategies respond to the factor. 1 = the response is poor. 2 = the response is below average. 3 = above average. 4 = superior. Weights are industry-specific. Ratings are company-specific.
- **Multiply weights by ratings:** Multiply each factor weight with its rating. This will calculate the weighted score for each factor.
- **Total all weighted scores:** Add all weighted scores for each factor. This will calculate the **total weighted score** for the company.

EFE Matrix (External Factor Evaluation)

Key External Factor	Weight	Rating	Total Weighted Score
Opportunities			
Growth of low-cost sector	0.10	4	0.40
Increased desire for wireless services	0.25	3	0.75
New agreements on rising markets	0.15	3	0.45
Increase of sales	0.10	1	0.10
Threats			
New taxes related to product	0.05	3	0.15
Rising cost of healthcare	0.05	2	0.10
High number of players in the industry	0.20	1	0.20
New technology developed	0.10	1	0.10
Total	1.00		2.25

Internal Environment

An organization's internal environment is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior.

ELEMENTS OF INTERNAL ENVIRONMENT

1. **Management Philosophy:** The management philosophy greatly influences the working of a business firm. The management may adopt a traditional philosophy or a professional philosophy.
2. **Mission and Objectives:** It is always advisable to frame a mission statement and then to list out the various objectives. An analysis of the internal environment will enable the firm to find out whether the objectives are in line with the mission statement and whether the objectives are accomplished or not.
3. **Human Resources:** The survival and success of the firm largely depend on the quality of human resources. An analysis of the internal environment in respect of human resources would reveal the shortcomings of human resources and as such measures can be taken to correct such weaknesses.

ELEMENTS OF INTERNAL ENVIRONMENT

5. **Financial Resources:** A firm needs adequate working capital as well as fixed capital. There is a need to have proper management of working capital and fixed capital. An analysis of the internal environment will help to make optimum use of available funds as well as to raise additional funds.

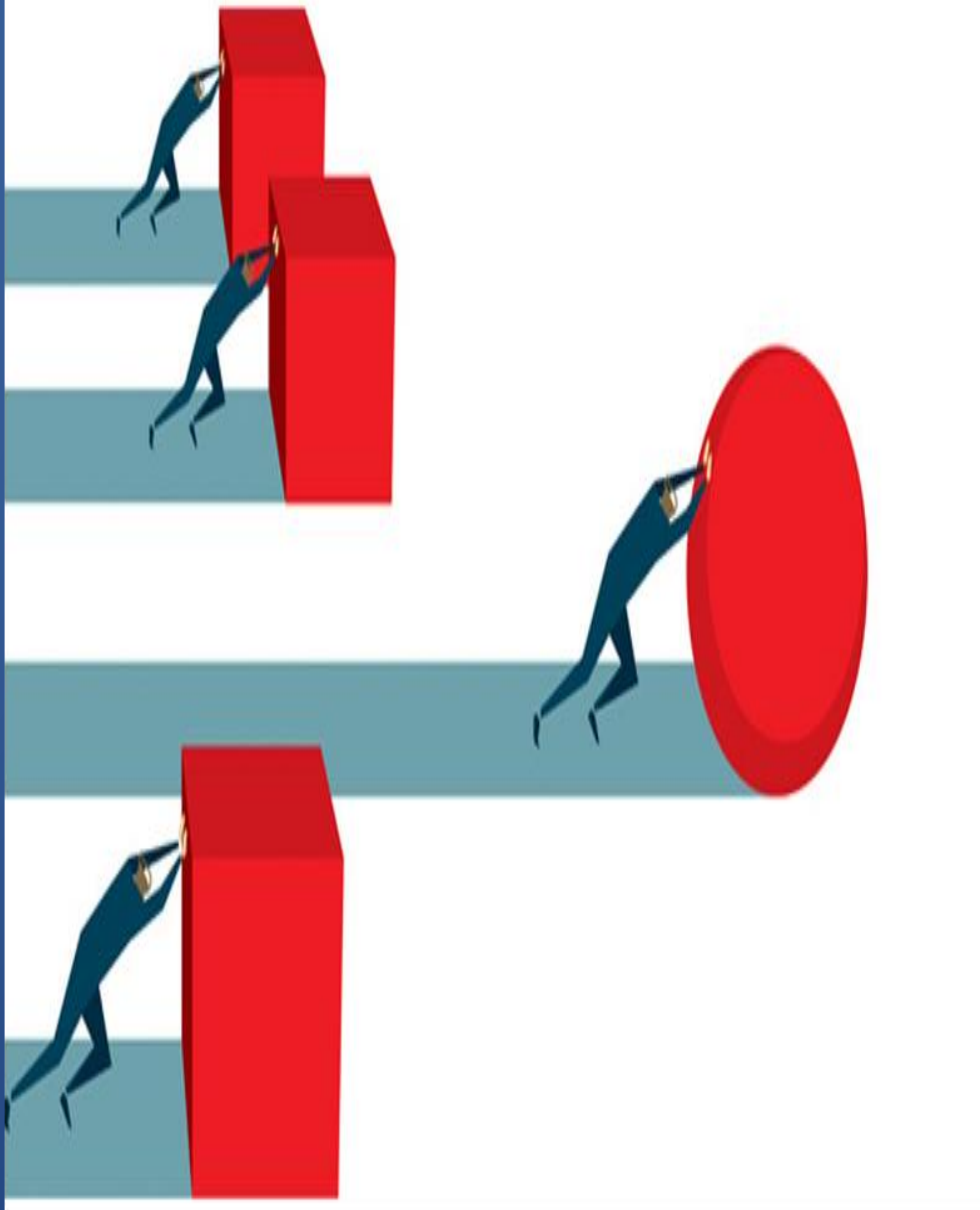
4. **Physical Resources:** Physical resources include machines, equipment, buildings, furniture etc. A firm needs adequate and quality physical resources. An analysis of the internal environment may reveal the weaknesses of the physical resources and the company can take appropriate measures to correct such weaknesses.

6. **Corporate Image:** A firm should develop, maintain and enhance a good image in the minds of the employees, investors, customers and others. Poor corporate image is a weakness. An analysis of the internal environment enables the firm to build a good public image.

ELEMENTS OF INTERNAL ENVIRONMENT

7. **Research and Development facilities:** If the organization has adequate research and development facilities, it is in a position to innovate, and introduce new products and services continuously. This enables the firm to remain ahead of the competition.
8. **Internal Relationship:** There should be a proper flow of vertical and horizontal communication i.e. between superiors and subordinates and between colleagues at the same level. A free flow of ideas enables a healthy relationship between colleagues.

VALUE CHAIN
&
COMPETITIVE ADVANTAGE



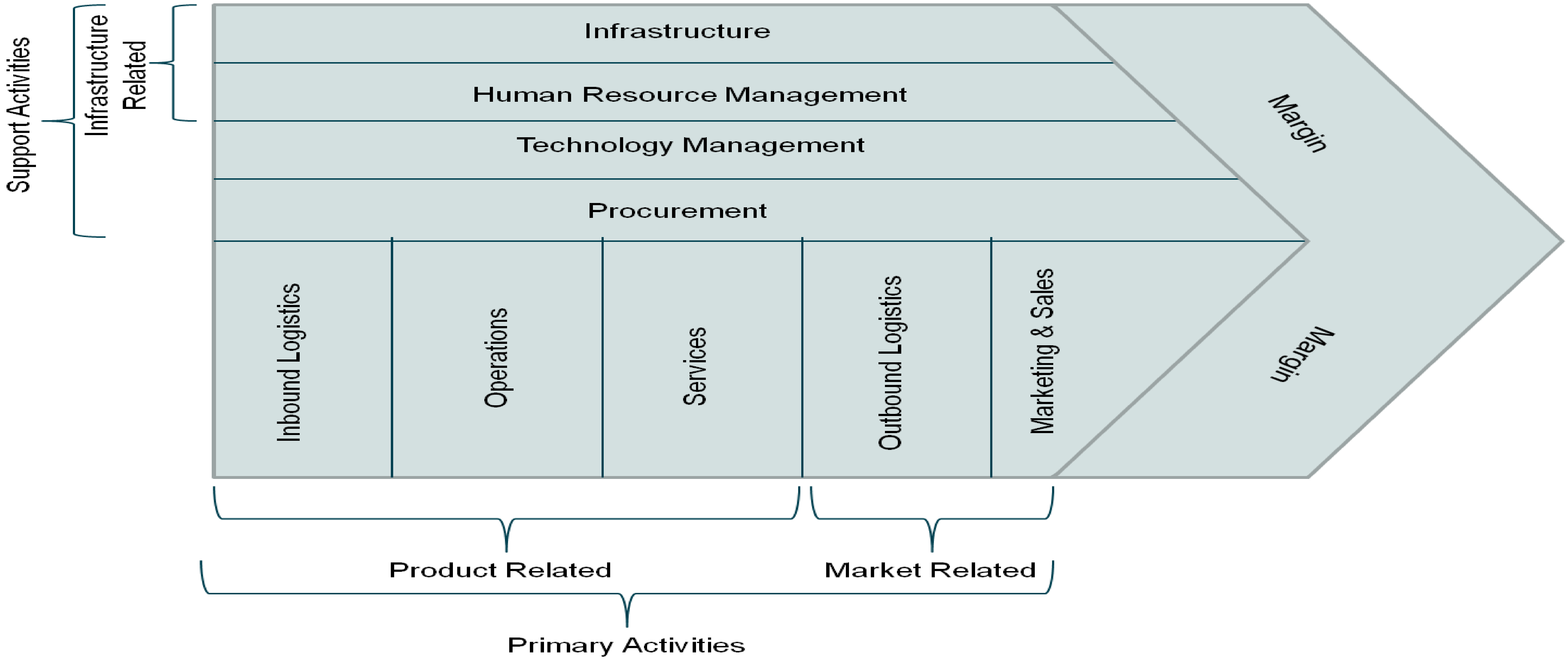
VALUE CHAIN

A value chain is a set of activities undertaken to develop and market a product where value is created at each step of these activities from the procurement and input of raw materials to the finished product, its marketing and after sales service.

A company’s value chain consists of two broad categories of activities

- ➢ Primary Activities
- ➢ Secondary Activities

VALUE CHAIN ANALYSIS



PRIMARY ACTIVITIES:

Inbound logistics

Receiving raw materials, warehousing, material handling, inventory controls, inspection of all inventories etc.

Operations: Processing of raw materials and components into finished goods. production., assembly, packaging, equipment maintenance, inspection, quality control, environmental protection etc.

Outbound logistics: Finished goods, storage, order processing, packaging, delivery, vehicle schedules, shipping processes etc.

Marketing & sales: Advertising, sales promotion, sales force efforts, market research, planning, distribution channels, pricing, dealer support, market segmentation, product positioning, informing & persuading customers etc.

Services: Spare parts delivery, repair & maintenance, technical assistance, buyers enquiries. Complains etc.

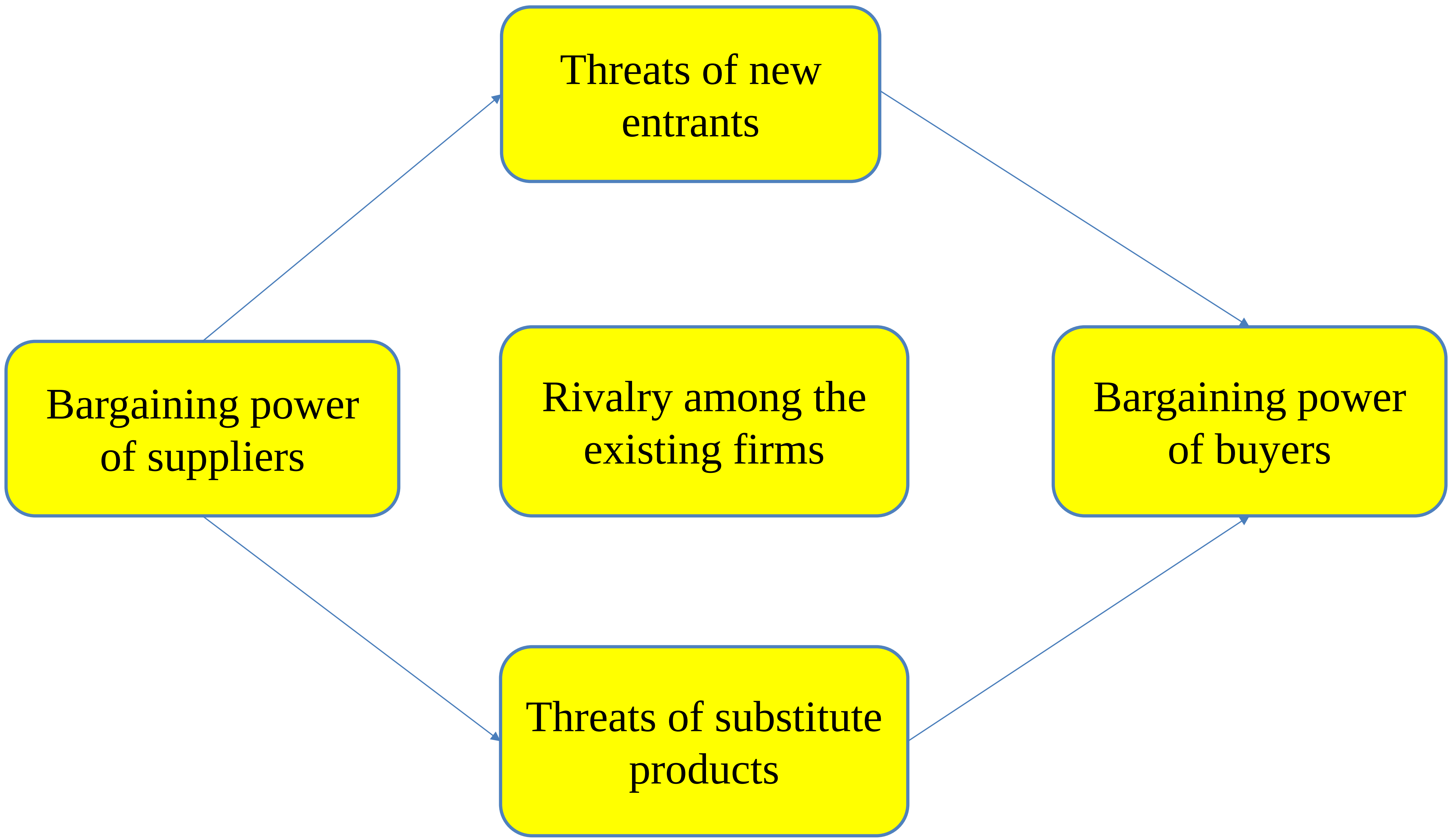
SUPPORTING ACTIVITIES:

- Procurement
- Technology development
- Human resource management
- General administration

HOW TO ANALYZE COMPETITION IN AN INDUSTRY:

Managers in a firm/company can use various models for analyzing the industry environment. However, the most widely used model for industry's competition analysis is Michael Porter's Five Forces Model. This five forces model provides a framework to identify industry-related opportunities and threats.

MICHAEL PORTER'S FIVE FORCES MODEL OF COMPETITION:



MICHAEL PORTER'S FIVE FORCES MODEL OF COMPETITION:

1. **Threats of New Entrants:** Threat of new entrants refers to the risk of new entry by potential competitors. In the marketplace, some competitors are already operating their businesses. They are called existing competitors. Some other upcoming competitors are not now operating business in the industry but they can enter into the industry if they have the capability and desire to enter.

Some examples of barriers are:

- ❖ Economics of scale
- ❖ Product differentiation
- ❖ Capital requirements
- ❖ Switching costs
- ❖ Experience
- ❖ Access to distribution channels etc.

MICHAEL PORTER'S FIVE FORCES MODEL OF COMPETITION:

2. **Bargaining Power of Suppliers:** A company has to procure various types of 'supplies' from the suppliers such as raw materials, components, parts, and other materials necessary for producing a product.

– When dependency of the customer (buyer-firms) is high, the bargaining power of suppliers is enhanced. (raise cost).

– If suppliers are weak, company may be in an advantageous position and can demand high quality at a lower price from the suppliers.

MICHAEL PORTER'S FIVE FORCES MODEL OF COMPETITION:

3. **Bargaining Power of Buyers:** Buyers of products may be ultimate consumers or even intermediaries such as dealers, wholesalers and retailers.

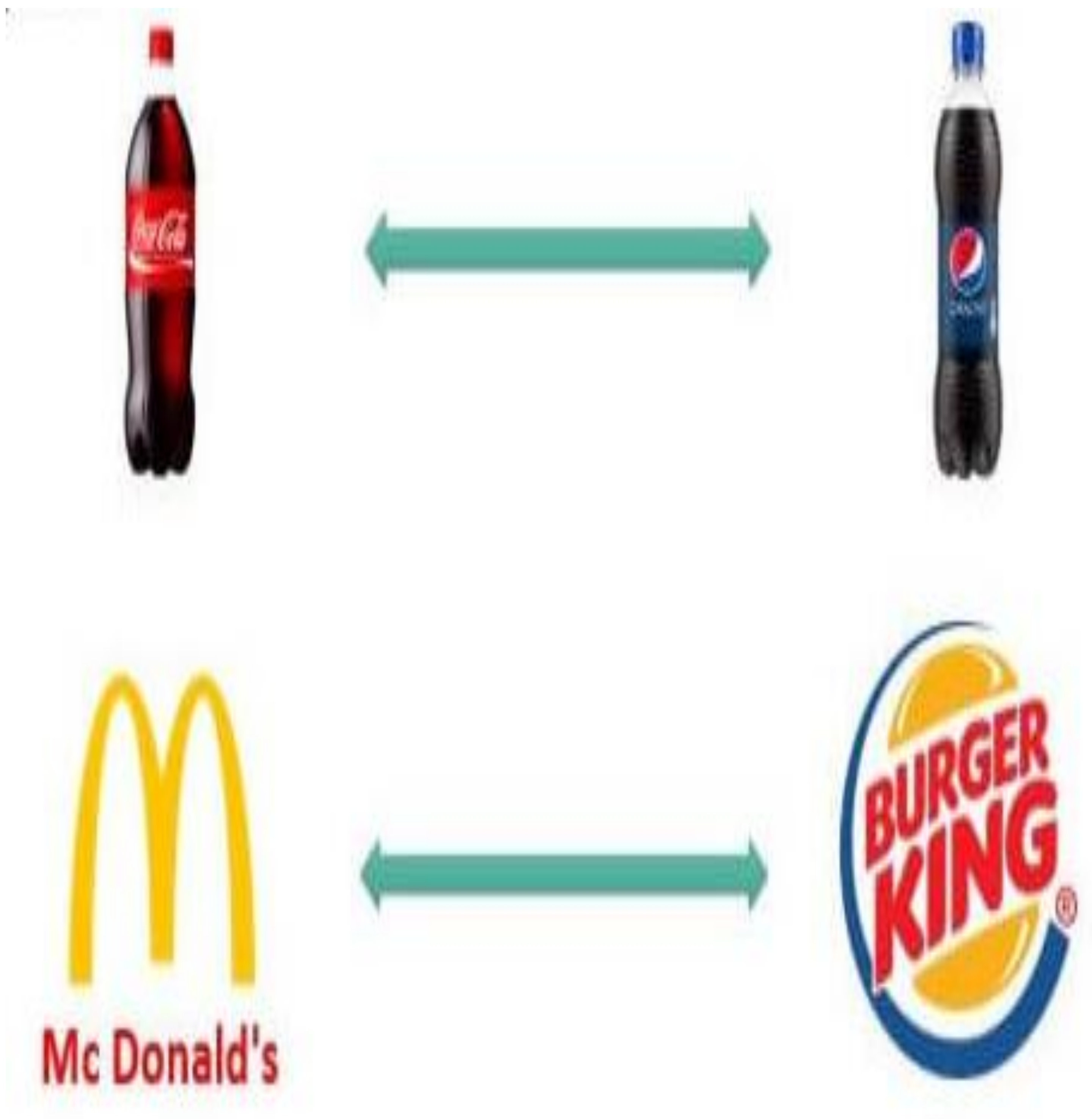
- Buyers bargaining power becomes high when suppliers have to depend on them for some reasons.
- On the other hand, their bargaining power is weak when suppliers/sellers are capable to raise prices. Whether buyer-seller relationships represent a weak or strong competitive force depends on whether buyers have sufficient bargaining power to influence the terms and conditions of sale in their favour

MICHAEL PORTER'S FIVE FORCES MODEL OF COMPETITION:

4. Threat to Substitute Products: A company needs to consider the competitive pressures from substitute products. The substitute products may come from either the same industry or from other industries. For example, cotton producers are in direct competition with the producers of polyester fabrics.

The major factors that determine the strength of the competition from substitutes are:

– Attractiveness of the prices of substitutes
– Buyers' satisfaction with the substitutes in terms of quality and other features, and
– The easiness to switch to substitute.



MICHAEL PORTER'S FIVE FORCES MODEL OF COMPETITION:

5. **Rivalry among the Existing Firms:** A very important force in the Porter's Model is the extent of rivalry among the established firms in the industry.

- –In an environment of weak rivalry (competition), a firm can raise prices and make higher profits.
- –When competition is strong, the industry may face severe price-war in which firms compete against each other on the basis of price cuts.
- –If there is a severe competition among the firms in the industry, profitability decreases substantially.

MICHAEL PORTER'S FIVE FORCES MODEL OF COMPETITION:

Intensive rivalry can be the result of some factors:

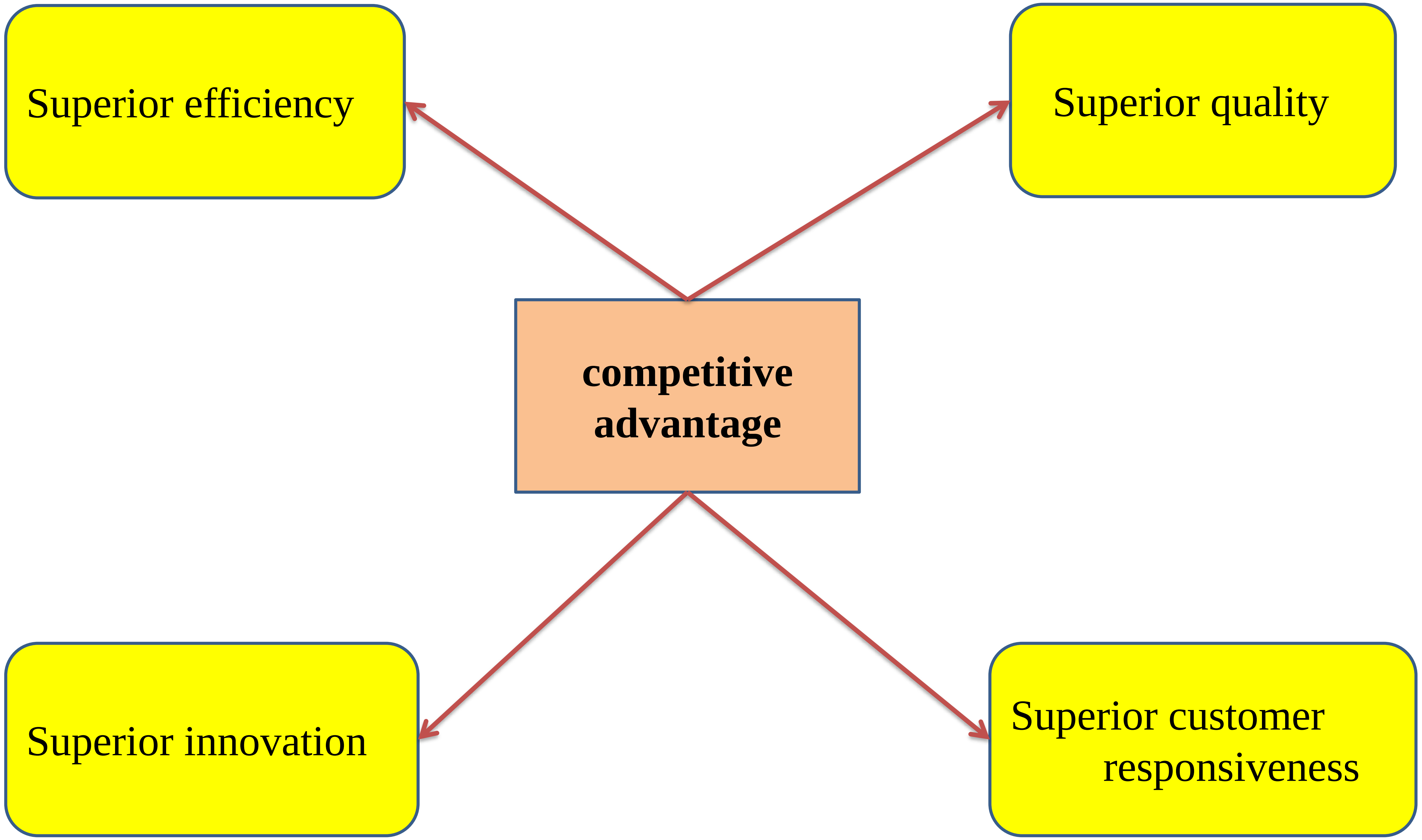
- ❖Industry Structure
- ❖Demand Conditions
- ❖Equally balanced competitors
- ❖Cost structures
- ❖Lack of Differentiation
- ❖High exit Barriers

COMPETITIVE ADVANTAGE:

- Competitive advantage refers to factors that allow a company to produce goods or services better or more cheaply than its rivals. These factors allow the productive entity to generate more sales or superior margins compared to its market rivals.
- Competitive advantages are attributed to a variety of factors including cost structure, branding, the quality of product offerings, the distribution network, intellectual property, and customer service.

- A competitive advantage must be difficult, if not impossible, to duplicate. If it is easily copied or imitated, it is not considered a competitive advantage.

ELEMENTS OF COMPETITIVE ADVANTAGE:



ELEMENTS OF COMPETITIVE ADVANTAGE:

The elements of competitive advantage are key factors that give a company an edge over its competitors in the marketplace. The ones you mentioned are all important:

1. **Superior Efficiency**: Achieving higher efficiency means producing goods or services at a lower cost or with fewer resources, allowing a company to offer competitive pricing or achieve higher profitability. Efficiency often comes from better processes, technologies, or economies of scale.
2. **Superior Quality**: Offering products or services of higher quality than competitors can help a company differentiate itself in the market. Superior quality often leads to customer loyalty, premium pricing, and a strong reputation.
3. **Superior Innovation**: The ability to continuously innovate—whether through new products, services, processes, or business models—can help a company stay ahead of the competition. Innovation allows firms to meet changing customer demands, adapt to market shifts, and create new opportunities.
4. **Superior Customer Responsiveness**: A company's ability to respond quickly and effectively to customer needs, feedback, and changes in the market is a major competitive advantage. Superior customer service, personalization, and quick problem-solving can lead to higher customer satisfaction and retention.

These elements, when executed well, can create a sustainable competitive advantage that positions a company for long-term success.

CRITICAL SUCCESS FACTORS (CSF) OF A COMPANY:

1. Type Of Industry
2. Competitive Position
3. External Environment
4. Organizational Structure

CRITICAL SUCCESS FACTORS (CSF) OF A COMPANY:

Type of Industry: A company's industry defines its Critical Success Factors (CSFs). Industries like technology require a focus on innovation and research, while retail companies prioritize supply chain management, customer service, and product differentiation. Industry characteristics shape which areas are critical for success.

Competitive Position: A company's market position influences its CSFs. Market leaders focus on maintaining dominance through efficiency and innovation, while challengers prioritize aggressive marketing and differentiation. Niche players emphasize customer loyalty and specialized products to stand out.

External Environment: The external environment, including economic conditions, trends, and regulations, impacts a company's success. Adapting to changes such as consumer behavior shifts or technological advancements is crucial for staying competitive and seizing opportunities.

Organizational Structure: A company's structure affects its ability to execute strategy. Centralized structures work for companies needing control, while decentralized structures allow flexibility and quicker decision-making. Clear communication and alignment with strategic goals are key to success.

Why company fail?

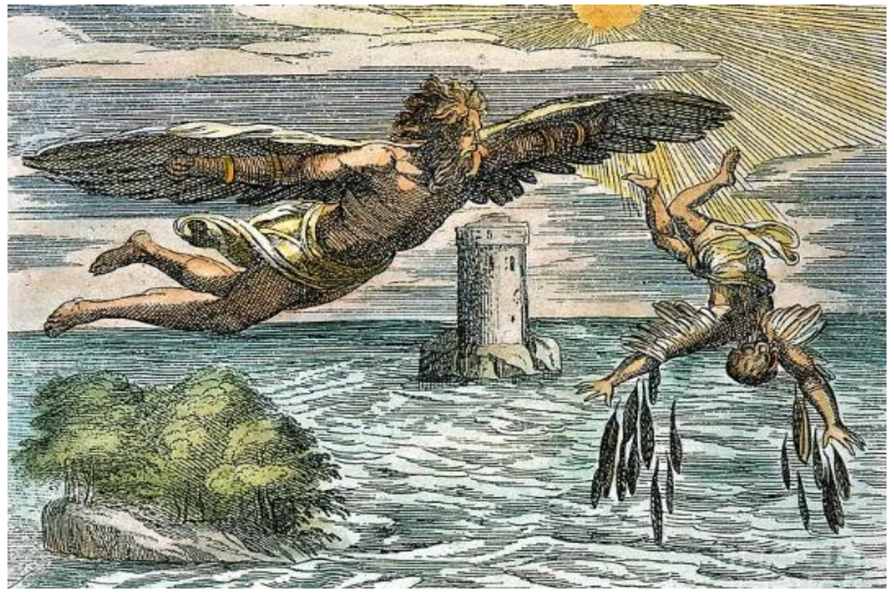
1. Inertia
2. Prior Commitment
3. The Icarus Paradox

Why company fail?

Inertia: Companies fail when they resist change, relying on outdated strategies or products, which makes it difficult to adapt to market shifts or innovation.

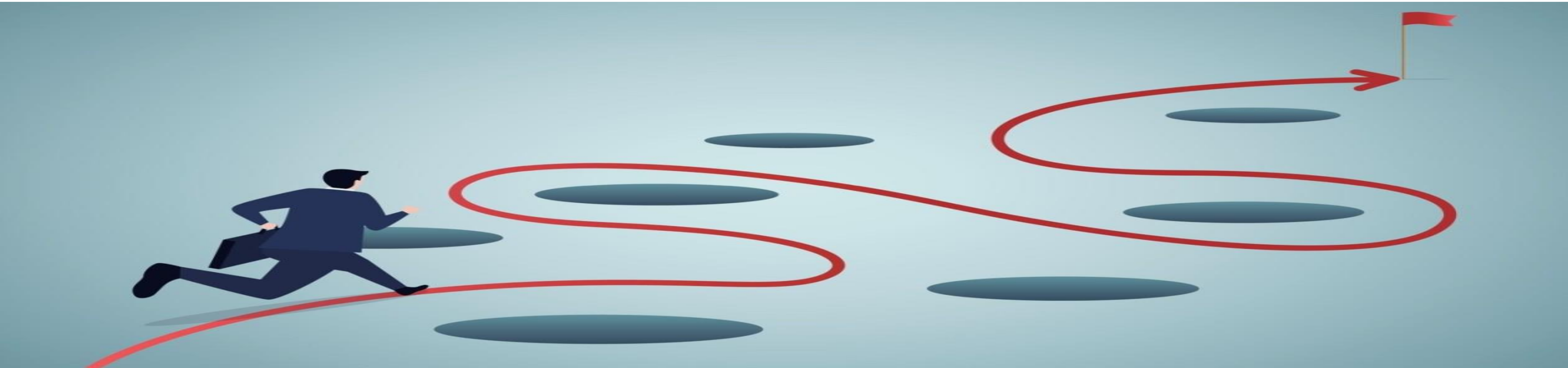
Prior Commitment: Companies may fail by sticking to past decisions or investments that are no longer viable, preventing them from adapting to new opportunities or market needs.

The Icarus Paradox: Overconfidence in strengths can lead to failure, as companies may overreach, neglect risks, or misjudge market conditions, ultimately causing self-destruction.



STEPS TO AVOID FAILURE

1. Focus on competitive advantage
2. Overcome inertia
3. Benchmark
4. Learn from experience
5. The role of luck



STEPS TO AVOID FAILURE

To avoid failure, companies can take several proactive steps:

Focus on Competitive Advantage: Companies should continuously identify and nurture their unique strengths, whether in efficiency, quality, innovation, or customer service, to differentiate themselves from competitors and sustain long-term success.

Overcome Inertia: Embracing change and adaptability is essential. Companies should regularly assess their strategies, processes, and products to ensure they stay relevant in a dynamic market environment, avoiding complacency.

Benchmark: Regularly comparing performance against industry leaders or competitors helps identify areas for improvement. Benchmarking encourages innovation, better practices, and a clearer understanding of market standards.

Learn from Experience: Successful companies learn from both their successes and failures. By analyzing past decisions, understanding what worked or didn't, and adjusting accordingly, businesses can make more informed choices moving forward.

The Role of Luck: While luck can play a part, relying solely on it is risky. However, being prepared for opportunities and having the right strategy in place can help a company capitalize on favorable circumstances when they arise.

CORPORATE LEVEL STRATEGIES

WHAT IS CORPORATE LEVEL STRATEGY?

A business unit has to undertake different types of complex activities. In a problematic situation a single strategy is not sufficient and sometimes does not work at all. Company has to pursue multiple strategies at different levels. Corporate level strategy is an overall plan of action encompassing all the activities and functions performed by the business firms. The plan covers all the objectives of the company allocation of resources and co-ordination among different levels. Business head office is responsible for formulating such strategies to guide the entire enterprise to achieve the overall objectives of the firm.

TYPES CORPORATE LEVEL STRATEGY

Corporate strategies can be classified into two types--

a) Strategy to be adopted and implemented by a firm on its own.

b) Strategies to be adopted and implemented with other firms

TYPES CORPORATE LEVEL STRATEGY

A) Strategies to be adopted and implemented by a firm on its own.

1. Integration
2. Diversification
3. Modernization
4. Turnaround
5. Disinvestment
6. Liquidation

B) Strategies to be adopted and implemented with other firms.

1. Mergers
2. Takeovers
3. Joint Ventures
4. Strategic Alliance

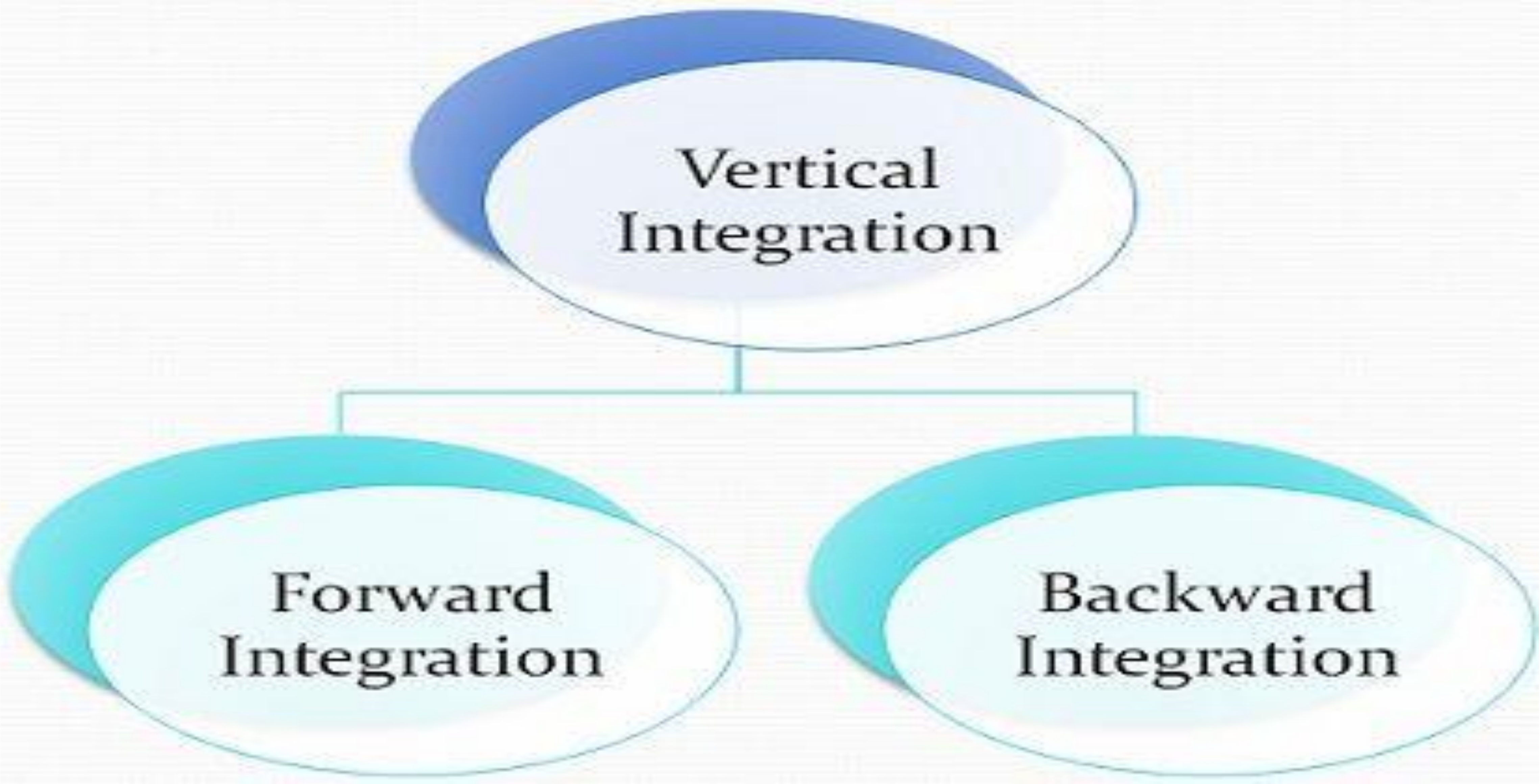
INTEGRATION

Integration strategies are processes that businesses can use to enhance their competitiveness, efficiency or market share by expanding their influence into new areas. These areas can include supply, distribution or competition. Each area requires a different integration strategy, and there are several types that businesses can use.

VERTICAL INTEGRATION

Vertical integration is a strategy that allows a company to streamline its operations by taking direct ownership of various stages of its production process rather than relying on external contractors or suppliers

Generally, in two types:



VERTICAL INTEGRATION

1. **Backward Vertical Integration** means that the company expands its operations by integrating backward into an industry that produces inputs for the company's products

Backward integration strategy is especially effective:

- The company's current suppliers are **unreliable. Too costly** or unable to meet the company's needs promptly
- The number of **suppliers is small** compared to the number of competitive buyers
- The company has the **necessary resources to effectively and economically manage** the new business of supplying its own input
- Present suppliers have **high-profit margin**
- The organization **needs to acquire the input resources quickly**

VERTICAL INTEGRATION

2. forward vertical integration: This means that the company delivers its own products, rather than deal with intermediaries. It involves gaining ownership or increased control over distributors or retailers

Effective When:

1. An organization's present distributors are highly expensive or unreliable
2. The present distributors are unable to meet the organization's distribution needs
3. The availability of quality distributors is limited
4. The organization has both the capital and human resources needed to effectively manage the new business of distributing and selling its products
5. The present distributors and retailers have high-profit margin

DISADVANTAGES OF VERTICAL INTEGRATION:

Disadvantages of vertical integration:

1. It makes the company less flexible
2. Cost disadvantages
3. New skills are required
4. Technological changes
5. Demand unpredictable

HORIZONTAL INTEGRATION:

Horizontal integration means that managers expand their organizations by acquiring one or more of their competitors

Effective When:

1. Merger or acquisitions reduces the completion
2. The organization competes in a growing industry
3. Such acquisitions result in the economics of scale
4. the organization have both human and capital to manage the extended organization successfully
5. The competitors have become complacent or lack the needed resources or required managerial expertise

STRATEGIC ALLIANCES:

A long term agreements based on trust and contracting parties commit themselves to a sustained and mutual rewarding relationship and jointly find ways to reduce cost or improve quality of the products.

Building Strategic Alliances:

1. Hostage taking

2. Credible commitment

WHAT IS DIVERSIFICATION?

Diversification means spreading the investment over several enterprises or products, especially to reduce the risk. Here the manufacturer expands his operations to products and those areas that may or may not have any connection, direct and indirect, to the existing product or products.

Nowadays competition has intensified tremendously, so relying on one product and one brand for survival and growth is very risky. Therefore, companies nowadays prefer to diversify their operations.

For *E.g. HLL has diversified into soaps, cosmetics, washing powder tea, salt, toothpaste etc. It is India's largest FMCG company. It has around 100 toothpaste etc. It has around 100 products out of which 30 are doing exceedingly well. Therefore, the risk gets diversified which facilitates survival.*

WHAT IS DIVERSIFICATION?

Why Diversification:

1. Limited growth opportunities in the current business
2. High level of risk
3. Excess resources
4. Powerful brand
5. Market power

APPROACHES TO DIVERSIFICATION:

Approaches to Diversification:

1. Acquisitions
2. Internal start-up

Three basic types :

a. Product line extension

b. Introducing the new products related to existing resources & competencies

c. Develop new products not related to the company’s core business

WHEN INTERNAL START-UP IS DESIRABLE:

When internal start-up is desirable:

- The company already have adequate resources and skills to compete effectively in the new business
- Its timely and there is enough time to lunch a new business and promote it.
- It has lower costs than entry via acquisition
- The new start-up does not have to compete with major, large and powerful rivals
- The competitors are slow or ineffective in responding to the new venture breaking in the market.

WHEN INTERNAL START-UP IS DESIRABLE:

3. Joint Venture:

Joint ventures are common in international business. In simple words, joint ventures is a temporary partnership between two or more companies to achieve certain objectives. It is an agreement entered into for a specific purpose or period. After the purpose is served, joint venture ceases to exist. It is a legal organization which takes the form of a short-term partnership in which the companies jointly undertake a project or an assignment for mutual benefit.

According to J.G. Thomas “, Joint ventures are a special case of consolidation where two or more companies form a temporary partnership for a special purpose ”.

WHEN INTERNAL START-UP IS DESIRABLE:

Joint Ventures will be effective when:

1. A domestic company is forming a joint venture with a foreign company thus reducing risks
2. The core companies of joint venture organizations complement each other well
3. A potentially profitable project requires overwhelming resources and risks
4. Two or more smaller firms have trouble competing with a large and powerful

STABILITY STRATEGY

Stability strategy implies “to leave the well enough alone” If the environment is stable and the organization is doing well then it may decide to make no change.

Situations when stability strategy may be more advisable:

1. If the external environment is highly dynamic and unpredictable
2. If the strategy manager thinks that the cost of growth may be higher than the potential benefit under given circumstances
3. Excessive expansion may result in violation of antitrust laws
4. It may be appropriate for large firms large investments and the industry is in the maturity stage
5. Many managers use it because of satisfied customer

RETRENCHMENT STRATEGY

Primary means to reduce in productions, services or personnel. This strategy is generally used for facing tough competition, scarcity of resources and declining economy

Fred David gives five guidelines for times when retrenchment may be effective:

1. When the org. have distinctive core competency but it has not been successful
2. When the org. has become complacent, and ineffective with low profit and low employee morale
3. When the managers have failed to conduct an objective SWAT analysis and not full use of it
4. When the org. is not a strong competitor in the industry
5. When the org. has expanded so quickly that a major internal reorganization is necessary.

PORTFOLIO STRATEGIES

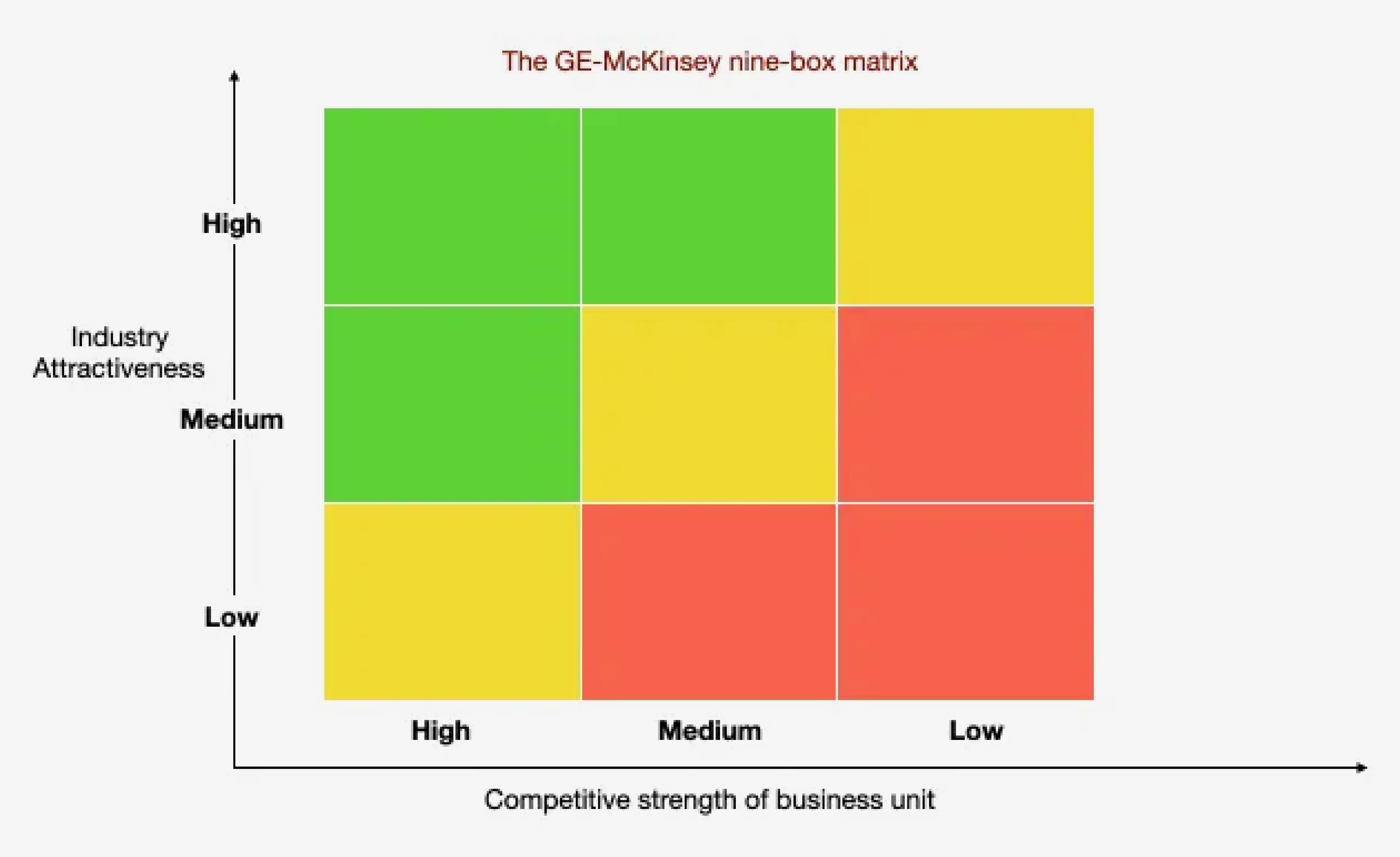
A Portfolio Strategy is **a roadmap by which investors can use their assets to achieve their financial goals**.

- It refers to the design of optimal portfolios and its implication

PORTFOLIO STRATEGIES

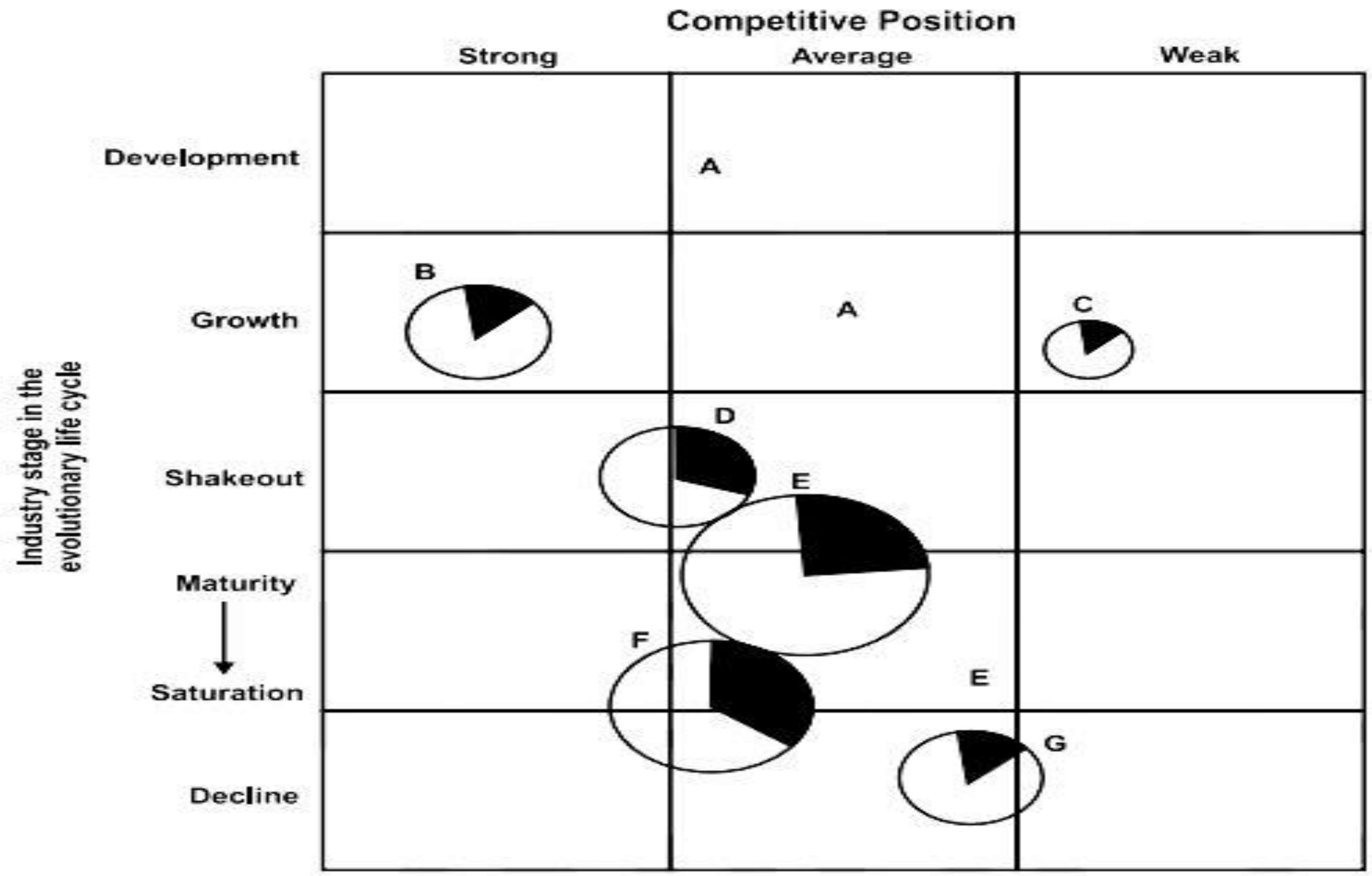
PORTFOLIO STRATEGIES

GE 9 Cell Matrix



PORTFOLIO STRATEGIES

Hofer's Production/ Market Evaluation Mix



PORTFOLIO STRATEGIES

Shell Directional Policy Matrix

Prospects for Sector Profitability

Company's Competitive Capability	Unattractive	Average	Attractive
Weak	Disinvest	Phased Withdrawal Custodial	Double of Quit
Average	Phased Withdrawal	Custodial Growth	Try Harder
Strong	Cash Generation	Growth Leader	Leader

Shell Directional Policy Matrix

What is TURNAROUND ?

Turnaround is a technique applied to loss-making unit with a view to bring it back on a profitable track. Turnaround simply means turning the enterprise from loss-making to profit-making, from the path of decline to the path of progress, from negative to positive action in the different areas like cash flows, marketing, profit-making etc.

Strategies adopted by the management to reverse the deteriorating trends of the performance of a business are termed as “ Turnaround Strategy ”.

It is a type of strategy specifically developed by the management to improve operational efficiency and productivity to increase the overall profitability of the business. Management has to adopt several trial and error techniques to reduce the negative impact of such forces which are considered detrimental to the growth of business. The main objective of turnaround is to improve the performance of the business enterprise.

According to Dictionary of Marketing (edited by P. Collin), “ Turnaround means making the company profitable again.”

APPROACHES OF TURNAROUND

1. **Surgical Approach –** This approach is stricter in its nature. The new chief executive has to issue strict orders of change and keep strict control of all operations of the enterprise. If certain plants are uneconomic and showing constant losses should be closed down mercilessly. If some employees are required to be retrenched the chief executive has to do it without any hesitation. All operations and activities need to be watched till they show sign of improvement i.e. turnaround. The fear is expected of its opposition from some subordinate personnel. However, the chief executive should not yield to this type of pressure and continue with the approach. If the approach is given up in the middle it will bring disastrous results to the business enterprise.

APPROACHES OF TURNAROUND

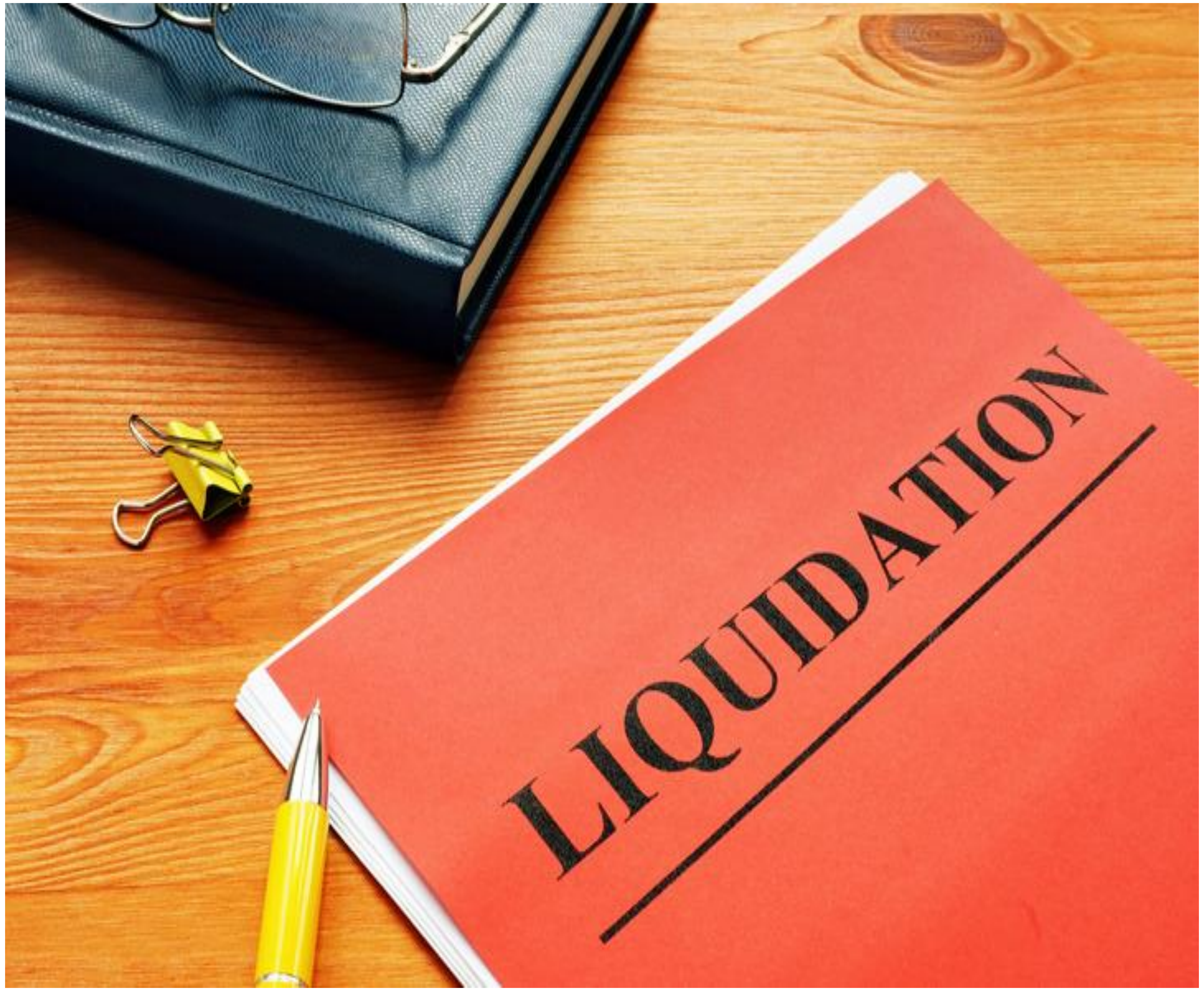
2. **Human Approach –** This method is humanistic in its approach. The chief executive while implementing the turnaround program in the enterprise has to soften and not to be strict unlike in the earlier approach. The chief executive must approach to the problems of the enterprise objectively, inviting opinions of every one working in the enterprise, which will be acceptable to all. This indeed is the democratic approach. The negotiations are made and differences are settled down amicably rather than removing the hard nuts. The idea behind this approach is to bring the enterprise out of difficulties with the help and cooperation of all employees. This approach is beneficial in the long run because when the interest of no one is harmed every one cooperates to improve the situation of the enterprise.

WHAT IS LIQUIDATION ?

Liquidation is the final decision or withdrawal of commercial activities of the firm forever. Liquidation of a company is the irretrievable closing down of the business of a company.

It refers to a proceeding by which a company is permanently dissolved. The assets of the company are then disposed off. The debts are paid off out of realized assets and the surplus if any is then distributed among the members in proportion of their holdings in the company. Selling all of the company's assets, in parts, for their tangible worth is called liquidation.

Liquidation is a recognition of defeat and can be an emotionally difficult strategy. However, it may be better to cease operating than to continue losing large sums of money.



WHEN LIQUIDATION MAY BE AN EFFECTIVE STRATEGY?

1. When an organization has pursued both a retrenchment strategy and a divestiture strategy and neither has been successful.
2. When an organization only alternative is bankruptcy ; liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organization's assets. A company can legally declare bankruptcy first and then liquidate various divisions to raise needed capital.
3. When the stockholders of a firm can maximize their losses by selling the organization's assets.

REASONS FOR LIQUIDATION OF A BUSINESS FIRM

1. **Incompetence of Entrepreneur:** Young entrepreneurs start business with high ambitions and incur high overhead costs. They usually borrow funds at high rate of interest and do not care much for optimizing the cost of production . From the standpoint of business management, the entrepreneur is incapable because he does not posses knowledge necessary to operate his own firm.

2. **Lack of Proper Inventory Control:** An important reason of failure and closure of business is due to lack of understanding or maintaining proper inventory control. Too large an inventory results in such common problem as owner's money being tied up or waste through spoilage or obsolescence.

REASONS FOR LIQUIDATION OF A BUSINESS FIRM

3. **Weak Competitive Position:** Competition is very tough in our economy. Firms that cannot efficiently match competitors in such areas as services offered, process charged or quality of merchandise sold definitely will have difficulty in surviving.
4. **Low Sale Values:** The income of the firm is generated by sales, and without income, the result is obvious- the collapse of the business. Many reasons contribute to a poor sales record. Some of the most commonly identified factors include a poor location, inferior products, ineffective advertising, prices out of line with competitors and poor service. Inadequate sales volume is the apparent cause for sickness.
5. **Disaster:** There are some circumstances over which the owner may have little or no control. Natural disasters, such as riots. earthquake or flood may wipe out small businessmen. Fire, labour problems, burglary and theft of merchandise by employees are further examples of the type of disasters that confront small businessmen.

WHAT IS DIVESTMENT?

It can involve liquidation, sell-off to another party, or spinning off the business to the corporate stockholders as a separate entity with its own stock. This strategy involves dropping some of the products, markets or functions.

The dropping of activities or businesses can be attained under through sale or liquidation. Selling a division or part of an organization is called divestment. It is often used to raise additional capital for further strategic acquisitions or investment.

It can be a part of an overall retrenchment strategy to rid an organization of businesses that are unprofitable, that require too much capital, or that do not fit well with the firm's other activities.

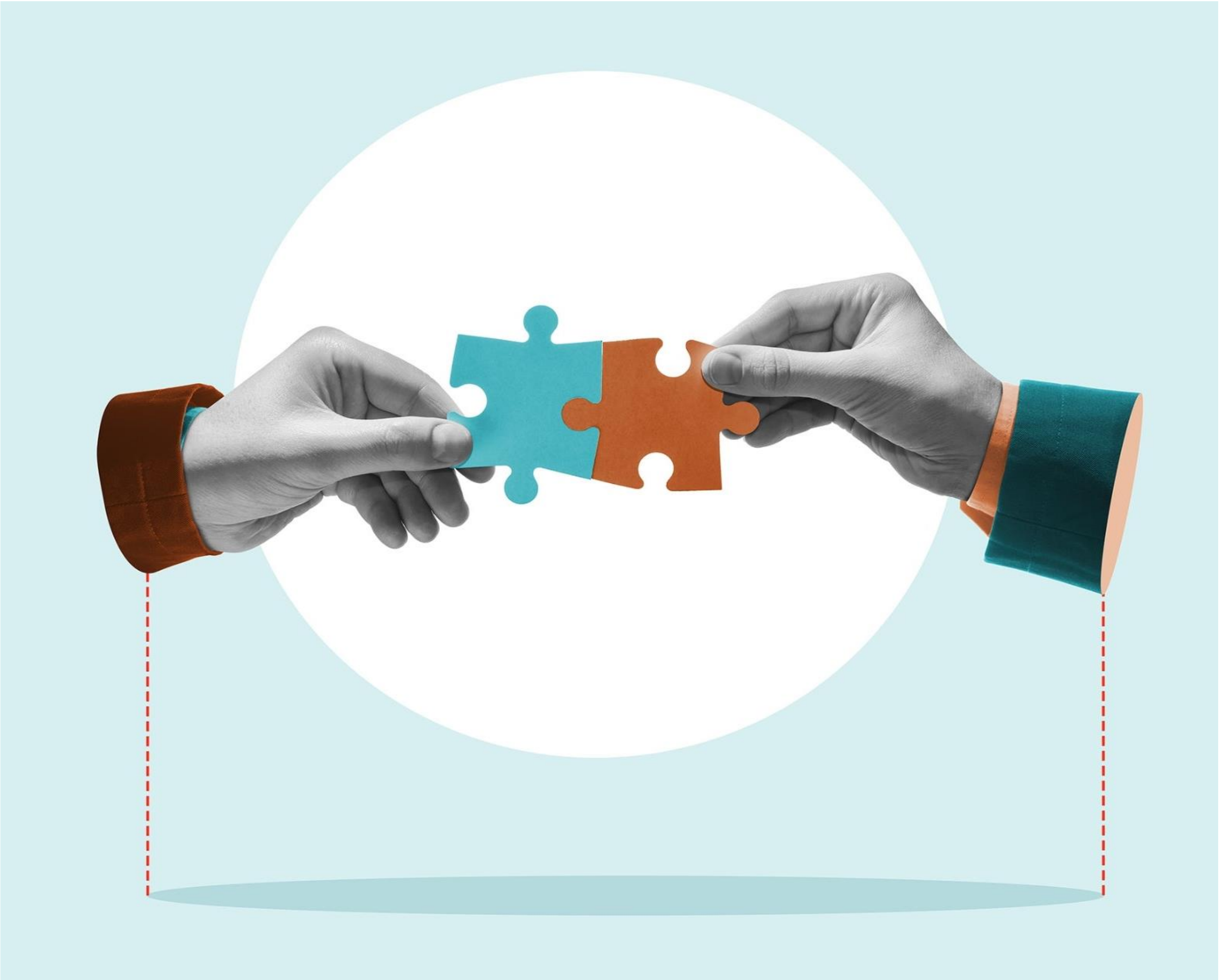
REASONS FOR DIVESTMENT

1. Obsolescence of products, which no longer brings good returns to the firm, and therefore, they can be divested
2. A business that has been acquired by the firm proves to a mismatch and cannot be integrated within the company
3. High competition in the market and the liability of the firm to cope up with the competition pressures.
4. Negative cash flows from a particular business create financial problem for the entire organization, thus creating a need to divest that business.
5. Technological up gradation is required for survival of the business, but the cost of up gradation is quite high, and the firm may not be in a position to invest in such technological up gradation.
6. A firm may find it difficult to manage growing business, and therefore it may divest non-core business to concentrate on core business
7. A firm may find a better alternative to invest, and as such it may divest a part of the business, in order to take advantage of the alternative business area.
8. Growing financial burden such as debt servicing may force the company to divest a part of the business so as to repay loans.

WHAT IS MERGER?

In a merger a firm may acquire another firm or two or more firms may combine together to improve their competitive strength or to gain control over additional facilities. It is a combination of two or more companies into one company, wherein only one company survives and the other company ceases to exist. The merger takes place for a consideration, which the acquiring company pays either in cash or by offering its share.

E.g. the merger of Reliance Petroleum with Reliance Industries.



REASON FOR MERGERS

1. **To undertake diversification:** This follows the need of a narrowly based business to reduce the risks by broadening its activities. To reduce the risks effectively, the acquired firm must not be subject to the same risk promoting factors as a parent firms even though its may operate in different fields.
2. **To secure scarce sources of supply:** Where any of the resources which the business needs are in short supply or subject to other difficulties, one solution for it is to acquire its own sources. By mergering the different resources available with two or more units can be pooled together.
3. **To secure economies of scale:** Increase in volume of often leads to decrease in operating costs, thereby enabling a larger capacity bank to survive. Merger is considered when the bank has low profitability and through merger bank can secure economies of scale.

REASON FOR MERGERS

4. **To have better management:** Where the business suffer from poor management and it does not appear possible to rectify this in the near future, the problem may be resolved by merging with good management team.
5. **To improve the financial standing:** When two firms join together, the strengths of both of them are added together and the market may put a higher valuation on such a combination than on the constituent parts.
6. **To achieve a monopoly position:** The elimination of competition by absorption gives a firm a greater control over a market. The competition in the market can be reduced with the merger of firms engaged in the similar market.
7. **Revival of Sick units:** Merger can bring out a revival of sick units. The sick units can merged with strong companies, and therefore, the problem of industrial sickness can be avoided in case of certain units.

WHAT IS TAKEOVER?

It generally refers to buying another firm, either its assets or as an operating company. In a takeover, one company gets control over the acquired company. The acquired company becomes a part of the acquiring company.

Takeover involves a change in ownership and management of the acquired firm. A takeover involves the acquisition or part of the whole of the equity capital of another firm, which enables the acquirer to exercise effective control over the affairs of the taken-over firm. With the help of take-over, a firm can expand its capacity or competence in the desired area of operations. It does not lead to the dissolution of the firm whose shares have been acquired.

REASONS FOR TAKEOVER

There are several reasons for the takeover. The most obvious reasons for the takeover are :

a. Quick growth

b. Diversification

c. Establishing oneself as an industrialist

d. Reducing competition

e. Increasing the market share or even creating goodwill. Takeover have become commonplace in the Indian corporate world. Many foreign MNCs‟s are taking over existing Indian firms to facilitate easy entry in the Indian market.

What is JOINT VENTURES ?

Joint ventures are common in international business. In simple words, joint ventures is a temporary partnership between two or more companies to achieve certain objectives. It is an agreement entered into for a specific purpose or period. After the purpose is served, joint venture ceases to exist. It is a legal organization which takes the form of a short-term partnership in which the companies jointly undertake a project or an assignment for mutual benefit.

According to J.G. Thomas ", Joint ventures are a special case of consolidation where two or more companies form a temporary partnership for a special purpose ".

What is JOINT VENTURES ?

Following are some of the examples of joint ventures--

- ❑ Joint venture between Suzuki Motors Corporation and Government of India to manufacture a small engine car specially for the Indian market.
- ❑ Biltrite Corporation of USA and Shenzhan Petrochemicals of China established a shoe soling factory as a joint venture in China.
- ❑In 1983, Toyata set up its first manufacturing operations in USA as 50-50 joint ventures with General Motors

MERITS OF JOINT VENTURES

1. **Transfer of capital and technology:** Joint venture agreements are generally entered into between a company from a developed country and a company from a developing country for the inflow of capital and technology. They thus help to reduce technological gaps between these two types of countries.
2. **Faster industrial growth:** The inflow of foreign capital and technology boosts the industrial activities of the developing country. These, in turn, provide job opportunities, increase the income of the people, improve their standard of living and thereby help in the economic development of the country.
3. **Transfer of expertise:** No company possesses expertise in all the areas. Through joint ventures, it is possible to club skills like technical, human skills, marketing skills etc. This benefits all the parties in the joint venture.

MERITS OF JOINT VENTURES

4. **Spreading of risks:** Joint ventures spread risk among the partners. Each partner risks only its contribution. Thus joint venture is advisable when market entry requires a large investment or when there is significant political or social instability in the target market.

5. **Synergy:** Synergy means increased effectiveness or achievement produced by combined action or cooperation. Joint ventures provide synergy due to the combined efforts of varied parties.

6. **International market:** Companies can use joint ventures to penetrate international markets that are otherwise beyond their capacity e.g. some governments require foreign companies to share ownership with local companies. This situation is common among governments of developing countries.

LIMITATIONS OF JOINT VENTURE

1. **Possibility of unfair and unreasonable terms and conditions:** There is every possibility that the terms and conditions laid down in the Joint venture agreement may not be fair and reasonable to both the partners particularly the weaker one.
2. **Complicated and time-consuming procedure:** The procedure to be followed to formulate joint venture agreements is complicated and very time-consuming.
3. **Possibility of conflicts among the partners:** In a Joint venture, conflicts may arise among the partners regarding the implementation of the joint venture projects.
4. **Obstacle of Government Policy:** The Government policy concerning foreign exchange and transfer of technology may become an obstacle to the joint venture agreements.

BUSINESS LEVEL STRATEGY

“WHAT IS BUSINESS LEVEL STRATEGY?”

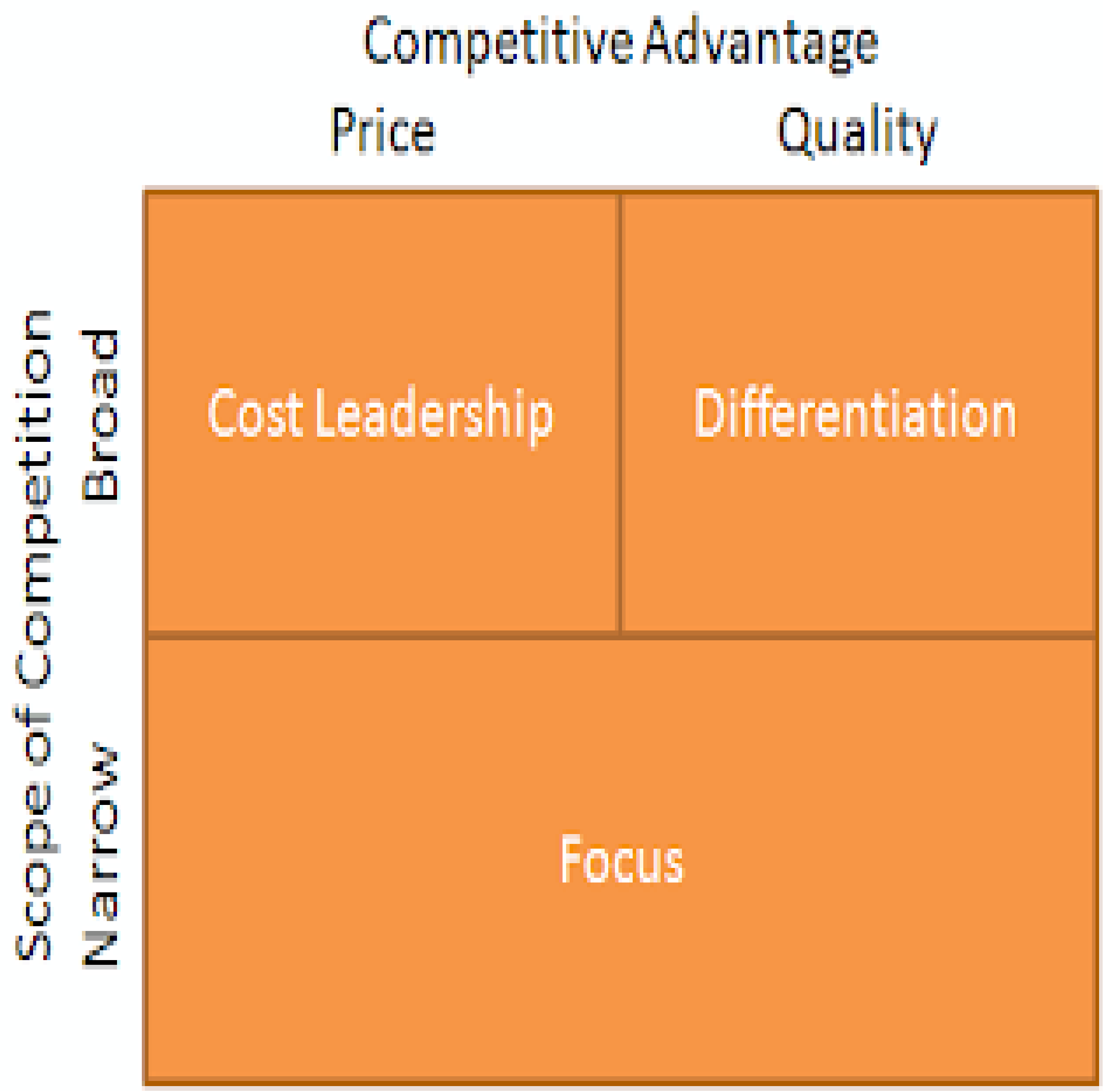
Business-level strategy is an integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets.

There are three central roles of customers In selecting a business-level strategy, the firm determines

1. Who are our customers?
2. What needs do those target customers have
3. how those needs will be satisfied

WHAT IS BUSINESS LEVEL STRATEGY?

- Three generic strategies to achieve competitive advantages
  - **Overall cost leadership**
    - Low-cost-position relative to a firm's peers
    - Manage relationships throughout the entire value chain
  - **Differentiation**
    - Create products and/or services that are unique and valued
    - Non-price attributes for which customers will pay a premium
  - **Focus strategy**
    - Narrow product lines, buyer segments, or targeted geographic markets
    - Attain advantages either through differentiation or cost leadership



OVERALL COST LEADERSHIP

- Integrated tactics for cutting costs at each step to lower the cost per unit, without cutting down on quality.

Dess, Lumpkin and Eisner have listed five inter related tactics that an organization can gain competitive edge--

- –With efficient-scale facilities cost can be reduced by gaining economics of scale
- –Vigorous pursuit of cost reductions from learning and experience
- –Tight cost and overhead control
- –Avoidance of marginal customer accounts (Discourage Employ & Managers discount)
- –Cost minimization in all activities in the firm’s value chain, such as R&D, service, sales force, and advertising

PITFALLS OF OVERALL COST LEADERSHIP STRATEGIES

- Too much focus on one or a few value-chain activities
- All rivals share a common input or raw material from the same suppliers.
- The strategy is initiated too easily
- Erosion of cost advantages when the pricing information available to customers

DIFFERENTIATION STRATEGY

- A differentiation strategy is the approach businesses use to attract and keep customers by giving them a unique product or service.
- The main goal of this strategy is to attain a competitive advantage.
- Businesses do a SWOT (strength, weaknesses, opportunities and threats) analysis and understand their customers' needs to arrive at this differentiation.

DIFFERENTIATION STRATEGY

- Differentiation can take many forms
  - Prestige or brand image
  - Technology
  - Innovation
  - Features
  - Customer service
  - Dealer network

DIFFERENTIATION: IMPROVING COMPETITIVE POSITION VIS-À-VIS THE FIVE FORCES

- Differentiation
  - Creates higher entry barriers due to customer loyalty
  - Provides higher margins that enable the firm to deal with supplier power
  - Reduces buyer power because buyers lack suitable alternative
  - Reduces supplier power due to prestige associated with supplying to highly differentiated products
  - Establishes customer loyalty and hence less threat from substitutes

POTENTIAL PITFALLS OF DIFFERENTIATION STRATEGIES

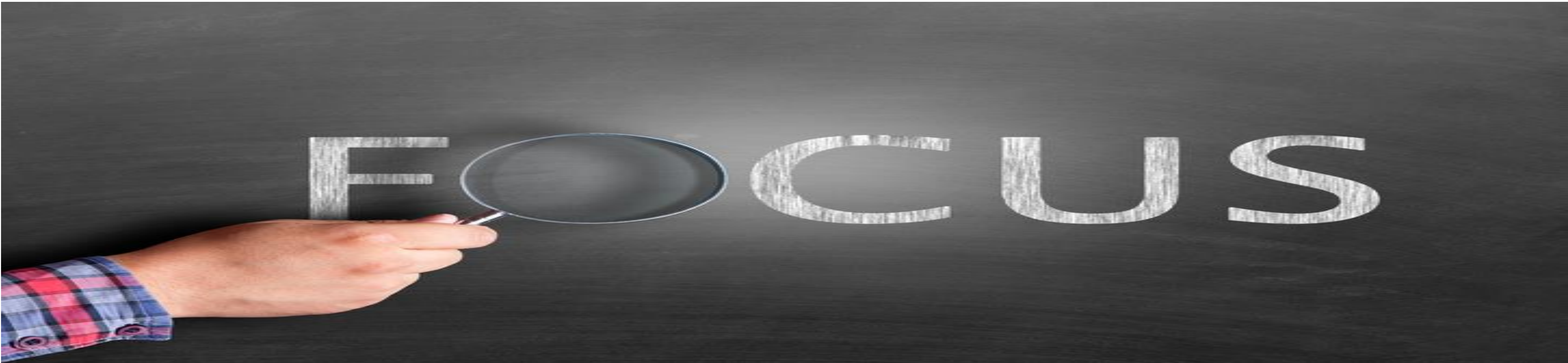
- Uniqueness that is not as valuable by the customers.
- Too much differentiation
- Too high a price premium
- Differentiation that is easily imitated
- Dilution of brand identification through product-line extensions
- Perceptions of differentiation may vary between buyers and sellers

FOCUS STRATEGY

- Focus is based on the choice of a narrow competitive scope within an industry
  - Firm selects a segment or group of segments (niche) and tailors its strategy to serve them
  - Firm achieves competitive advantages by dedicating itself to these segments exclusively
- Three variants
  - Focus Low-Cost Strategy
  - Focus Differentiation Strategy
  - Focus Low-Cost Differentiation Strategy

FOCUS: IMPROVING COMPETITIVE POSITION VIS-À-VIS THE FIVE FORCES

- Focus
  - –Creates barriers of either cost leadership or differentiation, or both
  - –Also focus is used to select niches that are least vulnerable to substitutes or where competitors are weakest



PITFALLS OF FOCUS STRATEGIES

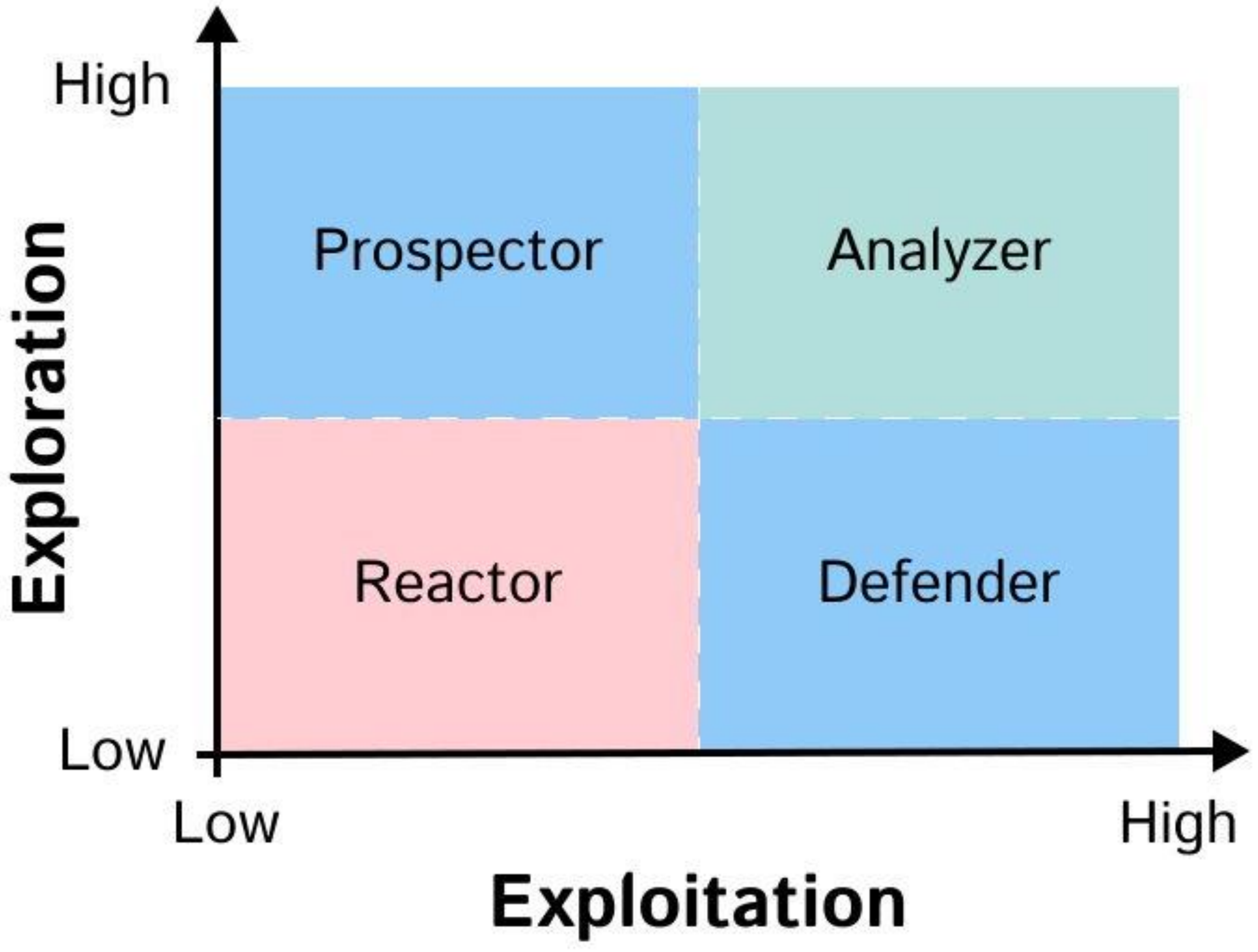
- Erosion of cost advantages within the narrow segment
- Focused products and services still subject to competition from new entrants and from imitation
- Focusers can become too focused to satisfy buyer needs

MILES AND SNOW STRATEGY FRAMEWORK

The major premise of this model is that organizations should relate their business level strategies to their environment and should meet the challenges of uncertainty and change in the external environment through adaptation.

This model considers four types of business-level strategies

1. Prospectors
2. Defenders
3. Analyzers
4. Reactors



INDUSTRY LIFE-CYCLE STATES: STRATEGIC IMPLICATIONS

- Life cycle of an industry
  - Introduction
  - Growth
  - Maturity
  - Decline
- Emphasis on strategies, functional areas, value-creating activities, and overall objectives varies over the course of an industry life cycle

STAGES OF THE INDUSTRY LIFE CYCLE

Stages of the Industry Life Cycle

Factor \ Stage	Introduction	Growth	Maturity	Decline
Generic strategies	Differentiation	Overall cost	Differentiation Overall cost leadership	Differentiation leadership Focus
Market growth rate	Low	Very large	Low to moderate	Negative
Number of segments	Very few	Some	Many	Few
Intensity of competition	Low	Increasing	Very intense	Changing
Emphasis on product design	Very high	High	Low to moderate	Low

Stages of the Industry Life Cycle

Factor / Stage	Introduction	Growth	Maturity	Decline
Emphasis on process design	Low	Low to moderate	High	Low
Major functional area(s) of concern	Research and Development	Sales and marketing	Production and finance	General management
Overall objective	Increase market awareness	Create consumer demand	Defend market share and extend product life cycles	Consolidate, maintain, harvest, or exit

1. STRATEGIES IN THE INTRODUCTION STAGE

- Products are unfamiliar to consumers
- Market segments not well defined
- Product features not clearly specified
- Competition tends to be limited

Strategies

- **Develop product and get users to try it**
- **Generate exposure so product becomes “standard**

2. STRATEGIES IN THE GROWTH STAGE

- Characterized by strong increases in sales
- Attractive to potential competitors
- Primary key to success is to build consumer preferences for specific brands

Strategies

- **Brand recognition**
- **Differentiated products**
- **Financial resources to support value-chain activities**

3. STRATEGIES IN THE MATURITY STAGE

- Aggregate industry demand slows
- Market becomes saturated, few new adopters
- Direct competition becomes biggest
- Marginal competitors begin to exit because of slowing of total industry sales or product class revenue

Strategies

- **Efficient manufacturing operations and process engineering**
- **Low costs (customers become price sensitive)**

4. STRATEGIES IN THE DECLINE STAGE

- Industry sales and profits begin to fall
- Strategic options become dependent on the actions of rivals

Strategies

- Maintaining
- Harvesting
- Exiting the market
- Consolidation

Research Articles:

- Tjahjadi, B., Soewarno, N., Karima, T. E., & Sutarsa, A. A. P. (2022). Business strategy, spiritual capital and environmental sustainability performance: mediating role of environmental management process. Business Process Management Journal, 29(1). https://doi.org/10.1108/bpmj-11-2021-0718

Functional Level Strategies

Functional level strategy

- **Functional level strategy** is a response to operational level strategy. It advocates for the business to see its management decisions as specific to a functional area of the organization, such as marketing, human resources, finance, information management and public relations.
- Functional business strategy is an area of operational management based on a specific department or discipline within an organization

For instance, A company has developed a strategy for selling its goods and services to customers.

Functional-level strategy is part of an organization's wider strategic plan.

Achieving Superior Quality

Enhancing reputation for superior quality, the company benefits in two ways

1. It can charge a premium price for its products and service because of superior quality
2. There are fewer defects , returns, wastage or order cancellations and this lowers the costs of production

In order to achieve superior quality, the whole organizational climate must be conducive to quality improvement in all functional areas. One way to achieve such improvement is adopting the concept TQM

Deming's 14 Key principles – 1 Constancy of Purpose

Create constancy of purpose for continual improvement of products and services to society, allocating resources to provide for long-range needs rather than only short-term profitability, with a plan to become competitive, to stay in business, and to provide jobs.

Developing the organization's goals and philosophy

- Long term view
- Stating the Organization's goals and philosophy
- Self-examination – where are we
- Developing a Mission Statement
- Making the Mission Statement a "Living" document

Deming’s 14 Key principles – 2
Adopt the new philosophy

We are in a new economic age, created in Japan. We can no longer live with commonly accepted levels of delays, mistakes, defective materials, and defective workmanship. Transformation of Western management style is necessary to halt the continued decline of business and industry.

Understanding the Philosophy of Never-ending Improvement

- Customer satisfaction
- Managing for success instead of failure
- Identify and remove barriers to achieving quality
- Get everyone involved in the quality journey

Deming's 14 Key principles – 3
Cease the need for mass inspection

Eliminate the need for mass inspection as the way of life to achieve quality by building quality into the product in the first place. Require statistical evidence of built-in quality in both manufacturing and purchasing functions.

Replacing mass inspection with Never-Ending improvement

– Develop a plan that minimizes the total cost of incoming materials and final product

– promise to examine the process over time

Deming's 14 Key Principles – 4
End the practice of awarding business solely based on price

End the practice of awarding business solely on the basis of price tag. Instead require meaningful measures of quality along with price. Reduce the number of suppliers for the same item by eliminating those that do not qualify with statistical and other evidence of quality. The aim is to

minimize total cost, not merely initial cost, by minimizing variation. This may be achieved by moving toward a single supplier for any one item, on a long-term relationship of loyalty and trust.

Changing the philosophy of purchasing

- Price has no meaning without a measure of quality being purchased – do not make cost the sole decision factor
- Move from multiple to single-source relationships
- Long-term relationship between the vendor and buyer
- The lowest price or bidder means poorer quality

Deming's 14 Key principles – 5
Improve every process

Improve constantly and forever the system of production and service, to improve quality and productivity, and thus constantly decrease costs.

Improving the system

- Management has responsibility for the "system"
- Continual reduction of waste
- Continual improvement in quality in every activity
- Management to define operational definitions/communication
- Use of Control Charts, flow Charts, Check Sheets, Pareto Diagrams, Brainstorming, Fishbone (cause and Effect), Histograms, and Scatter Diagrams for managing quality
- Shewhart Cycle – "Plan/Do/Check/Act"

Deming's 14 Key Principles – 6
Institute training on the job

Institute modern methods of training on the job for all, including management, to make better use of every employee. New skills are required to keep up with changes in materials, methods, product and service design, machinery, techniques, and service.

Instituting Modern Training Methods

- Training in the organizational philosophy
- On-going integrated approach to employee's growth
- Learn how to perform the job
- All employees should learn Dr. Deming's 14 points
- Realize that training is part of everyone's job
- Use statistical methods to determine workers' capability
- Training that offers employees a share in the overall philosophy and goals for the organization

Deming's 14 Key principles – 7 Institute leadership

- The job of management is leadership, not supervision.

  Supervision – simply overseeing and directing work

  Leadership – guiding to help employees do their jobs with less effort

Leadership with Never-Ending improvement

- –Management should remove causes for system variation
- –Create a positive supportive atmosphere
- –Eliminate fear and mistrust
- –Encourage coaching
- –Extract feedback
- –Workers have to give new systems a chance

Deming's 14 Key Principles – 8
Drive out fear

Encourage effective two way communication and other means to drive out fear throughout the organization so that everybody may work effectively and more productively for the company.

Driving out fear:

- – Fear causes stress, emotional problems, and absenteeism
- – Caused by feeling powerless and having no control
- – Do not use as a motivator get people to work in teams
- – Elimination of fear starts at the top
- – Open channels of communication
- – Interaction with the organization - Training in company goals
- – Organize and structure teams
- – What is the job, is acceptable, what is not acceptable
- – Reward teamwork, quality, and creativity

Deming's 14 Key principles – 9
Break down barriers between Depts.

Break down barriers between departments. People in research, design, sales, and production must work as a team, to predict problems of production and in use that may be encountered with the product or service.

Breaking down organizational barriers:

- Employees roles become functional
- Problems in competition, communication and fear arise
- Staff areas have to work as an integrated whole
- Customer and employee surveys should be done
- Improve communication upwards and downwards
- Eliminate performance appraisals
- Training to reduce barriers

Deming's 14 Key principles – 10
Eliminate slogans, exhortations, and targets

Eliminate slogans, exhortations, and targets for the workforce asking for zero defects and new levels of productivity. Such exhortations only create adversarial relationships, as the bulk of the causes of low quality and low productivity belong to the system and thus lie beyond the power of the work force.

Causes of variation stemming from the design of the system are management's problem, not the workers'

Replacing numerical goals, posters and slogans with Never-

Ending improvement

- Change to system to help employees achieve goals
- Identify problems/barriers that are causing goals not to be met and eliminate them – get rid of management by objectives
- Goals must be focused on the company's mission in the future

Deming's 14 Key principles – 11 Eliminate illogical numerical targets & Management by objectives

Eliminate work standards (quotas) on the factory floor. Substitute leadership. Eliminate management by objective. Eliminate management by numbers and numerical goals. Substitute aids and helpful leadership in order to achieve continual improvement of quality and productivity.

Replace management by numbers with Never-Ending Improvement

- Quotas and standards focus on quantity not quality
- Replace with statistical methods, leadership and training
- Identify process improvements
- By focusing on quality through the use of statistical methods, management provides a roadmap for never-ending improvement

Deming's 14 Key principles – 12 Permit pride in workmanship

- Deming believed that one of the biggest barriers to pride in workmanship is performance appraisal

  Performance appraisal destroys teamwork by promoting competition for limited resources, fosters poorness because objectives typically are driven by numbers and what the boss wants rather than by quality, focuses on the short term and discourages risk-taking, and confounds the "people resources" with other resources

Promoting pride of workmanship:

- The responsibility of supervisors must be changed from sheer numbers to quality.
- Meet basic work-related needs of employees
- Supply employees with the proper tools, materials, & methods

Deming’s 14 Key principles -13
Encourage education & Self- improvement

Institute a vigorous program of education and self-improvement. What an organization needs is not just good people; it needs people who are improving with education.

Educating and retraining everyone:

- Should develop employees for changes in their current jobs
- Statistical training
- View training as long-term for the individual
- In fields related to the employee’s current job
- The employee’s personal improvement
- Failure to do this creates a loss of resources in the future

Deming’s 14 Key principles – 14
Top management commitment to action

Put everybody in the company to work to accomplish the transformation. The transformation is everybody’s job.

Clearly define top management's permanent commitment to ever-improving quality and productivity, and their obligation to implement all of these principles. Indeed, it is not enough that top management commit themselves for life to quality and productivity. They must know what it is that they are committed to—that is, what they must do. Create a structure in top management that will push every day on the preceding 13 Points, and take action to accomplish the transformation. *Support is not enough: action is required!*

Implementing TQM

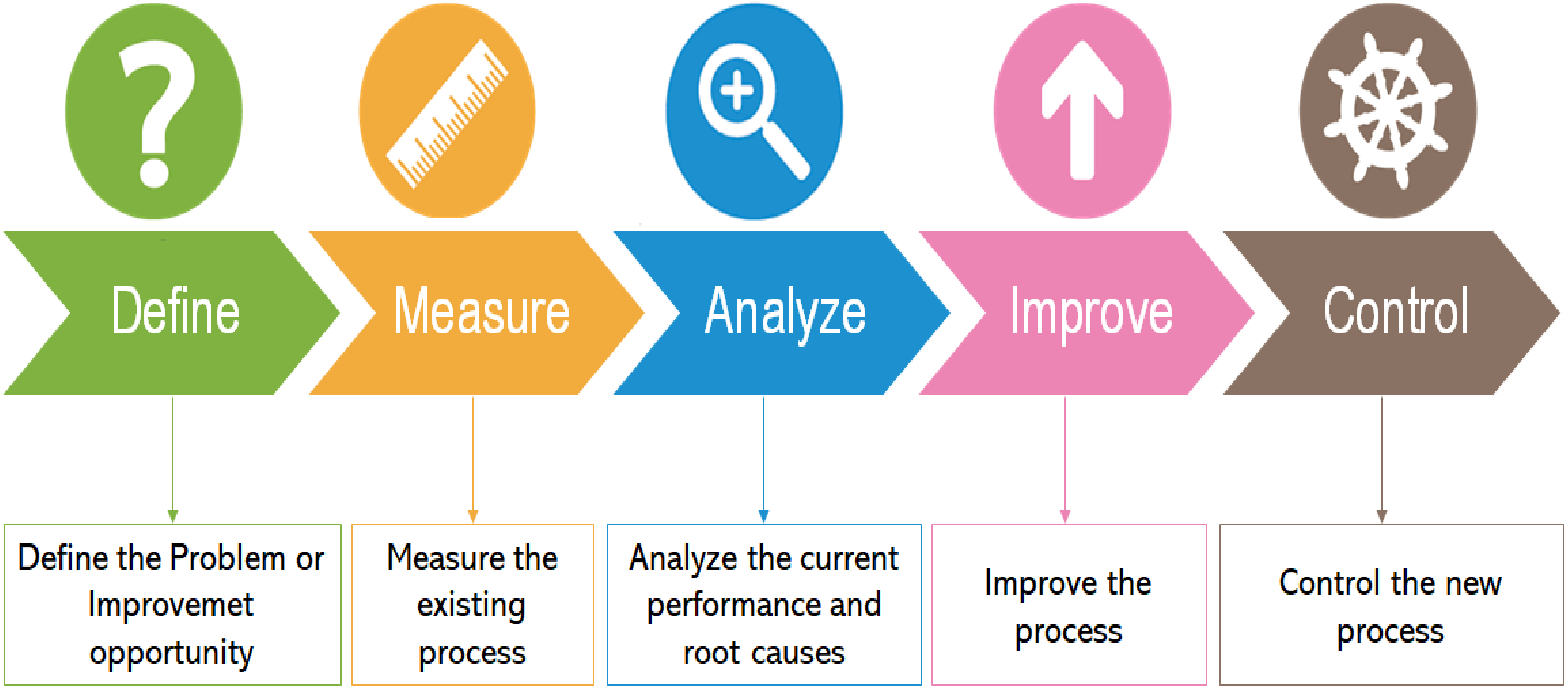
- Build organizational commitment to quality
- Focus on the customer
- Find ways to measure quality
- Set goals and create incentives
- Solicit input from employees
- Identify defects and trace them to source
- Build relationships with suppliers
- Design for ease of manufacture
- Break down barriers among functions

Six Sigma

- Six Sigma is a business improvement philosophy & methodology. Its main objective is to implement a dynamic process to systematically eliminate defects and inefficiency. It was originally developed **by Motorola in the early 1980's** and because of its proficiency has become extremely popular in many corporate and small business environments around the world.
- Six Sigma's main objective is to deliver high performance, value and reliability to the customer. It is regarded and used around the world as one of the major themes for TQM (Total Quality Management).

- **It can lower defects to a level of 3.4 DPMO (defects per million opportunities)**

Six Sigma Model



Six Sigma Model

D - Define the product characteristics that are critical to customer satisfaction then identify the gap in specifications as per customer expectations and process capabilities. These gaps provide opportunities for improvement

M - Measure the current processes. Collect relevant data on the current processes and then use this data as a baseline for future comparisons.

A – Analyze the data and decide whether a major redesign is necessary or whether an incremental process improvement would be desirable and effective.

I - Improve the process. Whether the changes are decided upon, implement them. Modify or redesign existing methods to effectuate such changes

C - Control. Monitor the process to make sure that the desired changes are taking place and also make sure that high-performance levels are maintained.

Marketing strategies:

A marketing strategy refers to a position that a company takes about the 4 P's of the marketing mix namely

- Product
- Price
- Promotion
- Place

Operations Strategy

- Operations strategy aims at designing & managing operations & facilities that produce products and services of superior quality to effectively compete in the marketplace.
- Operations management strategies include aggregate planning, JIT system, purchasing management procedures, inventory management systems, material management planning techniques, project management procedures, advanced manufacturing technology, TQM etc.

Operations Strategy

Three factors are to be considered …..

- Cost Considerations
- Quality Considerations
- Flexibility

Finance Strategies

- Finance strategy deals with areas such as financial resources, analysis of cost structure, estimating profit potential and accounting functions.
- Financial resources may be acquired by floating stock offerings or by loans from banks or other private sources.

Finance Strategies

The finance group decides the appropriate levels of debt, equity, dividends & prepare financial reports & budgets.

Financial strategies involve four broad areas…

1. Evaluating financial performance
2. Financial forecasting
3. Capital structure planning
4. Other financial considerations

Human Resource Strategies

- Human resource planning
- Recruitment policies
- Establish security as a key issue in hiring
- Train and development process
- Performance appraisal
- Compensation system
- Deal with trade union
- Executive development program
- Deal with global business expansion, workforce diversity & sexual harassment

Research & Development Strategies

- R & D plays and important role in product innovation & process improvement

Information Systems Strategies

- Well-designed integrated information systems serve as the foundation for competitive advantage by allowing more aggressive cost management than competitors.
- Computer information systems affect every aspect of business operations and serve a major role in linking various stakeholders LAM, WAN
- Management information systems help for collection of internal as well as external environmental information

Material Management Strategies

- Involves all the activities that are necessary to get inputs of raw materials & components into the production facility, put through the production process into putout of finished goods and on through the distribution system to the end user.
- Just-in-time philosophy, strategy for inventory systems, inventory holding cost, and lunch supply change management.


Always do what is right, don't do what is easy.