

## **301 –STRATEGIC MANAGEMENT**

### **UNIT I**

Introduction: Concepts in Strategic Management, Strategic Management as a process – Developing a strategic vision, Mission, Objectives, Policies – Factors that shape a company's strategy – Crafting a strategy.

### **UNIT II**

Environmental Scanning: Industry and Competitive Analysis -Evaluating company resources and competitive capabilities – SWOT Analysis – Strategies and competitive advantages in diversified companies and its evaluation. Tools and techniques- Porter's Five Force Model, BCG Matrix, GE Model,

### **UNIT III**

Strategy Formulation : Strategy Framework For Analyzing Competition, Porter's Value Chain Analysis, Competitive Advantage of a Firm, Exit and Entry Barriers - Formulation of strategy at corporate, business and functional levels. Types of Strategies

### **UNIT IV**

Strategy Implementation : Strategy and Structure, Strategy and Leadership, Strategy and culture connection - Operationalising and institutionalizing strategy- Organizational Values and Their Impact on Strategy – Resource Allocation – Planning systems for implementation

### **UNIT V**

Strategy Evaluation and control – Establishing strategic controls - Measuring performance – appropriate measures- Role of the strategist – using qualitative and quantitative benchmarking to evaluate performance - strategic information systems – problems in measuring performance – Strategic surveillance -strategic audit.

# UNIT-1

## DEFINITIONS OF STRATEGY

### 1. General Meaning

The term *strategy* comes from the Greek word *strategos* meaning “generalship.” Originally used in the military context to denote a general’s plan to defeat the enemy, today it refers to long-term plans and actions aimed at achieving goals, especially in business.

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### 2. Classical Definitions

#### 1. Alfred Chandler (1962)

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

#### 2. Kenneth Andrews (1971)

“Corporate strategy is the pattern of major objectives, purposes, or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in.”

#### 3. William Glueck (1980)

“Strategy is a unified, comprehensive, and integrated plan designed to ensure that the basic objectives of the enterprise are achieved.”

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### 3. Modern Definitions

#### 4. Michael Porter (1996)

“Strategy is the creation of a unique and valuable position, involving a different set of activities. It is about choosing to perform activities differently or to perform different activities than rivals.”

#### 5. Fred R. David (2020)

“Strategy is the means by which long-term objectives will be achieved.”

#### 6. Johnson, Scholes & Whittington (2008)

“Strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment, to fulfill stakeholder expectations.”

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### 4. Military Perspective

#### 7. Carl von Clausewitz (1832, Military Theorist)

“Strategy is the use of engagements for the object of the war.”

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## 5. Simplified General Definition

□ Strategy is a **long-term plan of action** designed to achieve a particular goal, by effectively utilizing resources and responding to the external environment.

### □ Summary Table

Author/Thinker	Definition (Simplified)
Chandler (1962)	Long-term goals + resource allocation
Andrews (1971)	Pattern of objectives and policies
Glueck (1980)	Unified, comprehensive plan
Porter (1996)	Unique positioning vs. rivals
Johnson et al. (2008)	Direction and scope of an organization
Fred David (2020)	Means to achieve long-term objectives
Clausewitz (1832)	Use of engagements to win war

## NATURE AND SCOPE OF STRATEGY

### 1. Nature of Strategy

The *nature of strategy* describes the fundamental characteristics that define what strategy is and how it works.

#### 1.1 Long-term Orientation

- Strategy is concerned with the **long-term direction** of the organization.
- It looks beyond immediate problems and focuses on sustainability.
- □ *Example:* Amazon's strategy of building an e-commerce ecosystem (AWS, logistics, Prime) aimed at long-term dominance rather than short-term profits.

#### 1.2 Goal-Oriented

- Strategy is framed to achieve the **mission and vision** of the organization.
- It provides a roadmap for reaching desired objectives.
- □ *Example:* Tesla's mission-driven strategy is focused on accelerating the world's transition to sustainable energy.

#### 1.3 Dynamic and Flexible

- Strategy must adapt to changing environments (economic, social, technological, political).
- It evolves over time; a rigid strategy can cause failure.
- □ *Example:* Nokia's downfall occurred because it failed to adapt its strategy to the smartphone revolution.

#### 1.4 Integrative in Nature

- Strategy integrates **resources, people, processes, and policies** into a unified direction.
- It ensures different functions (marketing, finance, HR) support a common goal.

- ☐ *Example:* Coca-Cola aligns its marketing, distribution, and R&D strategies to maintain global dominance.

### 1.5 Competitive in Spirit

- Strategy seeks to **gain and sustain competitive advantage**.
- It answers: “*What makes us different and better than competitors?*”
- ☐ *Example:* Apple uses innovation and ecosystem integration as sources of competitive advantage.

### 1.6 Decision-Oriented

- Strategy involves **choice among alternatives** under uncertainty.
- It requires trade-offs: choosing what *not* to do.
- ☐ *Example:* Southwest Airlines chose a **low-cost, no-frills** model, sacrificing luxury to focus on affordability.

### 1.7 Top Management Function

- Strategy formulation is primarily the responsibility of **top-level management**, though implementation involves all levels.
- ☐ *Example:* Strategic decisions like mergers (Facebook acquiring Instagram) are made by CEOs/Boards.

### 1.8 Both Science and Art

- **Science:** Involves analytical tools (SWOT, PESTEL, Porter’s 5 Forces).
- **Art:** Requires creativity, intuition, and vision.
- ☐ *Example:* Steve Jobs’s vision for the iPhone combined data (science) and creative foresight (art).

## 2. Scope of Strategy

The *scope of strategy* refers to the areas it covers and the decisions it influences. Strategy is not limited to planning but spans across multiple dimensions of the organization.

### 2.1 Corporate Scope

- Defines the **overall purpose** of the organization.
- Determines *which industries or businesses* the firm should be in.
- ☐ *Example:* Tata Group is involved in steel, IT, automobiles, telecom, and hospitality – a diversified corporate strategy.

### 2.2 Business Scope

- Deals with **how a business competes** within a particular industry.
- Focuses on competitive advantage: cost leadership, differentiation, or focus.
- ☐ *Example:* Domino’s Pizza uses a strategy of “**30 minutes or free delivery**” to compete on service efficiency.

### 2.3 Functional Scope

- Refers to strategies in **functional areas** like marketing, HR, finance, R&D.
- Supports business-level strategies.
- ☐ *Example:* Nike’s marketing strategy emphasizes emotional branding (“Just Do It”).

## 2.4 Global Scope

- For multinational corporations, strategy extends across **countries and regions**.
- Decisions involve market entry modes (exports, JVs, FDI).
- □ *Example:* McDonald's adapts its strategy locally (McAloo Tikki in India, Teriyaki Burger in Japan).

## 2.5 Operational Scope

- Strategy also trickles down to **operational levels**.
- Involves day-to-day tactics, process improvements, and efficiency.
- □ *Example:* Toyota's operational strategy of *lean manufacturing* (Kaizen, JIT) ensures efficiency.

## 2.6 Time Scope

- **Short-term strategies:** Implemented for immediate performance improvements.
- **Long-term strategies:** Designed for growth, innovation, and sustainability.
- □ *Example:*
  - Short-term: Discounts to boost sales in festive seasons.
  - Long-term: Investment in AI-driven automation.

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## 4. Conclusion

The **nature of strategy** emphasizes that it is **long-term, dynamic, integrative, and competitive**, requiring both analytical skills and creativity. The **scope of strategy** highlights its **broad application** – from corporate-level decisions to functional and operational activities.

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# DEFINITIONS OF STRATEGIC MANAGEMENT

## 1. General Meaning

Strategic management refers to the **art and science of formulating, implementing, and evaluating strategies** to achieve organizational goals and maintain a competitive advantage in a dynamic environment.

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## 2. Classical Definitions

### 1. Glueck (1980)

“Strategic management is a stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives.”

### 2. Hofer & Schendel (1978)

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

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### 3. Modern Definitions

#### 3. Fred R. David (2020)

“Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.”

#### 4. Johnson, Scholes & Whittington (2008)

“Strategic management is concerned with the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and fulfill stakeholder expectations.”

#### 5. Pearce & Robinson (2011)

“Strategic management is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives.”

### 4. Simplified Academic Definitions

#### 6. Wheelen & Hunger (2012)

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

#### 7. Ansoff (1965)

“Strategic management is primarily concerned with identifying the firm’s mission, objectives, and policies, and aligning them with its environment.”

## NATURE AND SCOPE OF STRATEGIC MANAGEMENT

### 1. Nature of Strategic Management

The *nature* of strategic management explains its fundamental characteristics. It shows what makes strategic management unique compared to ordinary management.

#### 1.1 Long-term Orientation

- Focuses on future goals and sustainability rather than short-term operations.
- ☐ *Example:* Amazon invested heavily in logistics and cloud services (AWS) for long-term growth instead of quick profits.

#### 1.2 Goal-Oriented

- Strategic management aligns actions with the organization’s mission, vision, and objectives.
- ☐ *Example:* Tesla’s strategy revolves around its mission to accelerate the world’s transition to sustainable energy.

#### 1.3 Dynamic and Continuous

- Strategy is not a one-time activity; it is **ongoing** and adapts to changing environments.
- ☐ *Example:* Netflix shifted from DVD rentals to online streaming, and later to content production.

#### 1.4 Integrative

- It coordinates all functions (marketing, finance, HR, operations) into a unified direction.

- ☐ *Example:* Apple integrates design, R&D, marketing, and retail strategies to maintain its premium brand image.

### 1.5 Competitive Advantage Focused

- The essence of strategy is to gain and sustain **competitive advantage**.
- ☐ *Example:* Walmart achieves cost leadership through supply chain efficiency.

### 1.6 Decision-Oriented

- Strategic management is about making choices under uncertainty and resource constraints.
- ☐ *Example:* Southwest Airlines chose a **low-cost model**, avoiding luxury services to focus on affordability.

### 1.7 Top Management Involvement

- Major strategic decisions (mergers, acquisitions, diversification) are made by top executives and boards.
- ☐ *Example:* Facebook (Meta) acquiring Instagram was a top-level strategic move.

### 1.8 Both Science and Art

- **Science:** Involves systematic analysis (SWOT, PESTEL, Porter's Five Forces).
- **Art:** Requires creativity, leadership, and vision.
- ☐ *Example:* Steve Jobs combined data-driven insights with visionary leadership for Apple's success.

## 2. Scope of Strategic Management

The *scope* of strategic management highlights the different dimensions and areas where it applies.

### 2.1 Corporate Scope

- Determines the **overall direction** of the organization.
- Answers: "*What industries or businesses should we be in?*"
- ☐ *Example:* Reliance Industries operates in energy, telecom, retail, and digital services.

### 2.2 Business Scope

- Focuses on **how to compete** in a given industry.
- Choices include cost leadership, differentiation, or focus strategies.
- ☐ *Example:* Domino's competes on **fast delivery and affordability**.

### 2.3 Functional Scope

- Strategies in **functional areas** (marketing, HR, finance, R&D).
- Supports higher-level strategies.
- ☐ *Example:* Nike's marketing strategy builds emotional branding through "Just Do It."

### 2.4 Global Scope

- Involves strategies for multinational operations, including market entry and localization.
- ☐ *Example:* McDonald's adapts menus to local tastes (McAloo Tikki in India, Teriyaki Burger in Japan).

### 2.5 Operational Scope

- Deals with day-to-day activities that implement strategic goals.

- *Example:* Toyota's operational excellence through *Kaizen* and *Just-In-Time (JIT)*.

## 2.6 Time Scope

- **Short-term strategies:** Immediate actions for quick results.
- **Long-term strategies:** Sustainable growth and competitive edge.
- *Example:*
  - Short-term: Discounts during festive seasons.
  - Long-term: Investment in renewable energy technologies.

## 4. Conclusion

The **nature of strategic management** shows that it is **long-term, goal-oriented, dynamic, integrative, competitive, and top-management-driven**. The **scope of strategic management** is broad, covering decisions at **corporate, business, functional, global, operational, and time-based levels**.

□ In simple terms:

**Nature = What it is.**

**Scope = Where it applies.**

## STRATEGIC MANAGEMENT PROCESS



## Introduction

The **Strategic Management Process** is a structured approach that organizations use to set goals, analyze environments, formulate strategies, implement them, and evaluate results. It ensures that an organization adapts to a changing environment and achieves long-term success.

**Definition (Fred R. David, 2020):**

“Strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.”

## 2. Steps in the Strategic Management Process

### Step 1: Establishing Vision, Mission, and Objectives

- **Vision:** Long-term aspiration of the organization.
  - **Mission:** Defines the purpose and scope of operations.
  - **Objectives:** Specific, measurable goals to be achieved.
    - *Example:*
  - **Vision:** Tesla – “To create the most compelling car company of the 21st century by driving the world’s transition to electric vehicles.”
  - **Mission:** “To accelerate the world’s transition to sustainable energy.”
  - **Objective:** Increase global EV market share by 10% in 5 years.
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### Step 2: Environmental Scanning

- **External Analysis** (Opportunities & Threats)
    - Tools: **PESTEL Analysis** (Political, Economic, Social, Technological, Environmental, Legal), **Porter’s Five Forces**.
    - □ *Example:* Netflix uses external scanning to track changes in technology (AI recommendations), social behavior (binge-watching), and competition (Amazon Prime, Disney+).
  - **Internal Analysis** (Strengths & Weaknesses)
    - Tools: **SWOT**, **VRIO framework**, **Value Chain Analysis**.
    - □ *Example:* Apple’s strengths – strong brand and innovation; weakness – high prices.
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### Step 3: Strategy Formulation

- Based on environmental scanning, managers select the best strategic alternatives.
  - **Types of Strategies:**
    - **Corporate Strategy** – Diversification, mergers, acquisitions.
    - **Business Strategy** – Cost leadership, differentiation, or focus.
    - **Functional Strategy** – Marketing, HR, Finance, R&D.
      - *Example:* Coca-Cola’s strategy of global expansion + localized marketing campaigns.
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### Step 4: Strategy Implementation

- Putting formulated strategies into action through:
    - **Organizational structure** (centralized vs. decentralized).
    - **Leadership and culture** (visionary leadership, adaptability).
    - **Resource allocation** (financial, technological, human).
    - **Policies and procedures** (rules for execution).
      - *Example:* Walmart implements its low-cost strategy by efficient supply chain management and technology-driven logistics.
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## Step 5: Strategy Evaluation and Control

- Monitoring performance and comparing it with set objectives.
  - Involves:
    - **Performance measurement** (KPIs, financial ratios, market share).
    - **Feedback mechanisms** to identify deviations.
    - **Corrective actions** to align with goals.
- *Example:* Samsung reviews product performance and adapts quickly to consumer feedback (foldable smartphones).
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## VISION

A strategic vision is a clear, future-oriented statement outlining an organization's long-term aspirations and desired future state. It serves as a roadmap, guiding strategic planning and decision-making by communicating a compelling and imaginative picture of what the organization aims to become. An effective vision is brief, motivating, realistic, achievable, and aligned with the organization's values and goals, providing a basis for focused effort and progress.

### Key Components of a Strategic Vision

- **Future-Oriented:**  
It looks beyond the present, describing the potential and direction of the organization in the future.
- **Imaginative & Inspiring:**  
It paints a vivid picture of the desired future state to motivate stakeholders and employees.
- **Broad & High-Level:**  
It is less specific than a mission or operational goal, providing a general direction rather than detailed steps.
- **Values-Based:**  
It often incorporates the organization's values, ideals, and the collective aspirations of its people.
- **Contextual:**  
It considers the realistic conditions of the market, competition, and economic environment.

### Why a Strategic Vision Is Important

- **Provides Direction:**  
It establishes a clear roadmap and focus for the organization's long-term success.
- **Guides Decisions:**  
It serves as a framework for evaluating opportunities, making strategic choices, and allocating resources effectively.
- **Aligns Stakeholders:**  
It ensures that everyone, from employees to investors, understands and is working toward a common purpose.

- **Drives Motivation:**

A compelling vision can inspire and energize employees to work towards shared goals.

- **Facilitates Planning:**

It provides a foundation for developing actionable strategies and setting specific, measurable goals.

Creating a Strategic Vision

1. **1. Assess the Current State:**

Understand the organization's current position and the external environment.

2. **2. Define the Mission:**

Establish the organization's core purpose and values, as this often precedes the vision.

3. **3. Articulate the Vision:**

Craft a concise, powerful statement that captures the desired future state and is memorable and motivating.

4. **4. Communicate Effectively:**

Share the vision broadly with all stakeholders to foster understanding and commitment.

5. **5. Monitor and Adapt:**

Regularly review progress and adapt the vision as needed to remain relevant and achievable.

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## MISSION

A mission is an organization's enduring statement of purpose—its fundamental reason for existence—while a strategy is the plan or approach of action to achieve specific goals and realize the organization's vision and mission. In essence, the mission defines what an organization does and why, and the strategy outlines how it will do it, connecting the "what" to the "how" of achieving future aspirations.

Mission:

- **Purpose:** It explains what the organization does and for whom.
- **Focus:** It defines the core activities, products, and markets the organization serves.
- **Values:** It reflects the fundamental values and priorities of the organization's leaders.
- **Examples:** "Be committed in heart and mind," or "Work shouldn't suck".

Strategy:

- **Action Plan:**

It is a detailed plan of action to achieve the mission.

- **Approach:**

It describes the specific approach and methods the organization will use to reach its goals.

- **Scope:**

It covers details like the products and services to offer, the markets and customers to target, and the necessary resources.

- **Examples:**

A strategy for achieving "corporate life more fun" might involve specific initiatives to foster a positive work environment.

How They Connect:

- The mission provides the direction and purpose.
  - The strategy provides the roadmap and the plan for how to get there, translating the purpose into actionable steps.
  - Both are essential for an organization's success and must be aligned to ensure everyone is working in the same direction.
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## **OBJECTIVES**

Strategic objectives are specific, measurable goals an organization sets to achieve its long-term vision and mission over a defined period, often 3-5 years. They act as a strategic roadmap, providing direction, alignment, and a framework for decision-making and resource allocation by linking high-level vision to actionable initiatives. Effective strategic objectives are typically SMART, meaning they are Specific, Measurable, Achievable, Relevant, and Time-bound.

Key Characteristics

- **Specific and Measurable:**

They clearly define what needs to be achieved and how progress will be tracked using quantifiable data.

- **Achievable:**

Objectives should be realistic and attainable within the given timeframe and resources.

- **Relevant:**

They must align with the organization's overall mission and vision, acting as "mini-vision statements".

- **Time-Bound:**

A clear deadline helps create a sense of urgency and allows for progress tracking.

Purpose and Benefits

- **Provides Direction and Clarity:**

They ensure everyone in the organization is working towards the same overarching goals.

- **Facilitates Strategic Planning:**

Objectives serve as a bridge between the long-term vision and the annual plan, guiding the development of strategies, initiatives, and projects.

- **Drives Decision-Making:**

They create a framework for making decisions and allocating resources efficiently.

- **Enables Progress Tracking:**

By being measurable, objectives allow organizations to monitor performance and make necessary adjustments to their plans.

Examples

- **Growth:** Increase market share by 10% in the next three years.
  - **Customer:** Improve customer satisfaction scores by 15% in the next fiscal year.
  - **Innovation:** Launch two new products within the next 18 months.
  - **Operational Efficiency:** Reduce production costs by 5% in the next fiscal year.
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## **POLICY**

In strategic management, policies are the guidelines and principles that define the boundaries for decision-making, ensuring actions remain consistent with the organization's goals and strategy. They act as a framework to direct employees, maintain order, and ensure efficient use of resources to achieve long-term objectives. Policies provide actionable rules for repetitive activities, supporting the broader strategies that outline how to achieve overall success.

Key Aspects of Policies in Strategic Management

- **Purpose:**

Policies are developed to guide decision-making, maintain consistency, and align employees' actions with the company's mission, values, and strategic objectives.

- **Role in Strategy:**

While strategy is the broad plan to reach goals, policies are the established rules and guidelines for making decisions and taking actions within that plan.

- **Nature:**

Policies are often fixed but allow for exceptional situations and provide guidance for repetitive activities.

- **Scope:**

- **Basic/Fundamental Policies:** Developed by top management, these form the foundation for the organization's activities and influence other policies.

- **General Policies:** Developed by middle management, these are specific and apply to large segments of the organization.

- **Specific or Departmental Policies:** These are created by individual departments for managing their daily operations and activities.

- **Benefits:**

- **Improved Decision-Making:** Policies provide a clear framework for management to make effective decisions.

- **Transparency:** They help employees understand their roles and responsibilities within the organization.

- **Resource Efficiency:** Policies ensure that resources are used efficiently to meet strategic goals.

- **Alignment:** They ensure all actions and behaviors are aligned with the overall strategic direction and objectives.

Examples of Policies

- **Customer Service Policies:**

Guidelines on how employees should interact with customers to foster brand loyalty.

- **Human Resource Policies:**

Rules regarding employee treatment, equal opportunity, and benefits to ensure compliance and motivate performance.

- **Quality Control Policies:**

Standards and processes to ensure the quality of products and materials.

- **Expansion Policies:**

Guidelines for entering new markets or investing in research and development (R&D) to support long-term growth.

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## FACTORS THAT SHAPE A COMPANY'S STRATEGY

A company's strategy is not formed in isolation. It is influenced by a combination of **internal** and **external factors** that determine how an organization positions itself in the market, competes with rivals, and achieves long-term objectives.

These factors act as both **drivers and constraints** of strategy.

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### 1. Internal Factors

These are elements **within the organization's control** that shape strategic choices.

#### a) Vision, Mission, and Objectives

- The company's aspirations and goals directly influence strategic direction.
- ☐ *Example:* Tesla's mission ("accelerating the world's transition to sustainable energy") drives its strategy of EVs and renewable energy solutions.

#### b) Organizational Resources and Capabilities

- Financial strength, technology, human capital, brand reputation, and innovation capacity.
- ☐ *Example:* Apple leverages its **R&D capability** and **brand image** to pursue a differentiation strategy.

#### c) Leadership and Management Style

- Strategic choices often reflect the vision and risk appetite of top management.
- ☐ *Example:* Elon Musk's bold, risk-taking leadership style pushes Tesla toward disruptive innovation.

#### d) Organizational Culture and Values

- Shared beliefs, norms, and values influence strategic priorities.
- ☐ *Example:* Google's culture of innovation fosters strategies that emphasize experimentation and creativity.

**e) Internal Processes and Structure**

- How decisions are made, efficiency of operations, and level of decentralization.
  - ☐ *Example:* Walmart's highly efficient supply chain management supports its **low-cost strategy**.
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**2. External Factors**

These are elements **outside the company's control** but which heavily influence strategic choices.

**a) Industry Structure and Competition**

- Level of rivalry, entry barriers, threat of substitutes, bargaining power (Porter's Five Forces).
- ☐ *Example:* In the airline industry, intense price competition shapes strategies toward cost efficiency.

**b) Customer Needs and Preferences**

- Shifts in demand, lifestyle trends, and customer expectations.
- ☐ *Example:* Nike adapts strategies to consumer demand for sustainable and eco-friendly products.

**c) Technological Environment**

- Emerging technologies, automation, AI, digitalization, and product innovation.
- ☐ *Example:* Netflix leveraged streaming technology to disrupt DVD rentals.

**d) Economic Conditions**

- Inflation, interest rates, disposable income, and global trade.
- ☐ *Example:* Luxury carmakers adjust pricing and strategy during economic slowdowns.

**e) Political, Legal, and Regulatory Environment**

- Government policies, taxation, labor laws, and trade regulations.
- ☐ *Example:* Pharmaceutical companies' strategies are shaped by FDA regulations.

**f) Social and Cultural Factors**

- Demographic shifts, cultural values, and lifestyle changes.
- ☐ *Example:* Food companies expand vegetarian/vegan products due to health-conscious consumer trends.

**g) Globalization and International Factors**

- Global supply chains, cross-border trade, and geopolitical issues.
  - ☐ *Example:* Apple adjusts its sourcing and production strategy due to U.S.–China trade tensions.
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**4. Real-World Example – Amazon**

- **Internal Drivers:**
  - Resources: massive logistics and IT infrastructure.
  - Leadership: Jeff Bezos' customer-obsession and innovation drive.
- **External Drivers:**
  - Technology: Cloud computing enabled AWS.
  - Customer Needs: Shift toward online shopping.
  - Competition: Rivals like Walmart and Alibaba push expansion.

Result → Amazon's strategy evolved from online retail → marketplace → cloud computing → AI and digital services.

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## 5. Conclusion

A company's strategy is **shaped by the interaction of internal strengths and weaknesses with external opportunities and threats**. Organizations that carefully analyze these factors can design strategies that build competitive advantage, adapt to change, and ensure long-term sustainability.

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# CRAFTING A STRATEGY

## 1. Meaning

Crafting a strategy means **developing a comprehensive plan of action** to achieve an organization's long-term goals and sustain competitive advantage.

- It is not just analysis and planning — it is also a **creative process** that blends managerial insight, innovation, and market realities.
- Think of it as the **art and science** of aligning resources with opportunities.

□ *Example:* Starbucks crafted a strategy of “premium coffee experience + global expansion” by blending operational efficiency with lifestyle branding.

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## 2. Why Crafting Strategy is Important

- Provides **direction** (where the company is heading).
  - Helps achieve **competitive advantage**.
  - Ensures **resource allocation** is efficient.
  - Enables **adaptation** to external environment.
  - Motivates and aligns employees.
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## 3. Steps in Crafting a Strategy

### Step 1: Develop Vision and Mission

- Vision = *Where we want to be.*
- Mission = *Why we exist / what we do.*
  - *Example:* Tesla's vision → “accelerate the world's transition to sustainable energy.”

### Step 2: Set Objectives

- Translate vision/mission into **measurable goals** (financial & strategic).
  - *Example:* Google sets objectives around AI leadership, user engagement, and revenue growth.

### Step 3: Environmental Analysis (SWOT & PESTEL)

- **Internal:** Strengths & weaknesses (resources, culture, leadership).
- **External:** Opportunities & threats (competition, economy, technology, regulations).
  - *Example:* Netflix saw the threat of DVD decline and opportunity in online streaming.

### Step 4: Identify Strategic Alternatives

- Cost Leadership (Walmart),

- Differentiation (Apple),
- Focus/Niche (Rolex),
- Innovation (Tesla),
- Diversification (Amazon).

#### **Step 5: Choose the Best Strategy**

- Evaluate alternatives against goals, resources, risks, and external conditions.
- May involve **corporate-level strategy** (diversification, growth) or **business-level strategy** (competitive positioning).

#### **Step 6: Craft Functional Strategies**

- Break down into **marketing, finance, HR, operations, and R&D** strategies.
  - Example: Nike aligns marketing (celebrity endorsements) with operations (outsourcing manufacturing).

#### **Step 7: Strategy Implementation**

- Allocate resources, design structure, establish policies, motivate employees.

#### **Step 8: Evaluation & Control**

- Monitor performance, review goals, and adjust if needed.
    - Example: Microsoft shifted from a **Windows-first strategy** to a **cloud-first strategy** after evaluating trends.
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## UNIT- 2

### ENVIRONMENTAL SCANNING

Environmental scanning is the strategic process of continuously monitoring, gathering, and analyzing external and internal data to identify opportunities and threats that could impact an organization. By understanding economic, social, technological, and political trends, as well as internal factors like resources and policies, organizations can anticipate changes, adapt their strategies, and make informed decisions to maintain competitiveness and drive innovation. Common tools for environmental scanning include SWOT Analysis and PEST Analysis.

#### Key Aspects of Environmental Scanning

- **Monitoring:**

Continuously observing market dynamics, competitor actions, and shifts in the broader economic and social landscape.

- **Data Gathering:**

Collecting information from various sources, both within and outside the organization.

- **Analysis:**

Interpreting the gathered information to identify patterns, trends, and their potential consequences.

- **Strategic Application:**

Using the insights gained to inform strategic decision-making, develop new plans, and adapt to changing conditions.

#### Internal Factors

These are factors within the organization's direct control:

- **Resources:** Financial assets, technology, and human capital.
- **Plans and Policies:** The organization's current goals and guiding principles.
- **Internal Relationships:** The dynamics between employees and management.

#### External Factors

These are forces outside the organization that may influence its operations:

- **Economic:** Current economic trends, inflation, and exchange rates.
- **Social:** Cultural shifts, changing demographics, and evolving consumer values.
- **Technological:** Advances in technology, new inventions, and their potential to disrupt or create opportunities.
- **Political & Legal:** Government policies, regulations, and environmental laws.
- **Competitive:** The actions of competitors and the availability of alternative products or services.

#### Methods and Techniques

- **SWOT Analysis:**

A framework that identifies an organization's internal Strengths and Weaknesses, and external Opportunities and Threats.

- **PEST (or PESTEL) Analysis:**

A tool for analyzing external factors in the macro-environment, often including Political, Economic, Social, Technological, Environmental, and Legal elements.

Why It's Important

- **Proactive Adaptation:**

Helps organizations stay ahead of disruptions and market changes rather than reacting to them.

- **Informed Decision-Making:**

Provides the necessary context for management to make effective, data-driven choices.

- **Opportunity Identification:**

Uncovers new markets, customer needs, and potential growth avenues.

- **Risk Mitigation:**

Alerts management to potential threats, allowing for protective actions to be taken before they become crises.

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## **INDUSTRY AND COMPETITIVE ANALYSIS**

Industry and competitive analysis (ICA) is a crucial strategic process for businesses to understand a market's dynamics, structure, and the strategies of rival companies to develop effective strategies and gain a competitive advantage. It involves evaluating the overall industry's attractiveness, market size, and trends, as well as analyzing competitors' strengths, weaknesses, products, pricing, and marketing to identify opportunities and threats. Key tools like Porter's Five Forces and PESTLE analysis provide structured frameworks to assess industry forces and external factors influencing performance.

### **Key Aspects of Industry and Competitive Analysis**

- **Industry Definition:**

Clearly define the industry's scope and boundaries, considering similar products, substitutes, and geographic locations.

- **Industry Assessment:**

Evaluate the industry's size, growth rate, profitability, market trends, and key success factors.

- **External Factors (PESTLE):**

Analyze external influences such as Political, Economic, Social, Technological, Legal, and Environmental factors that impact the industry.

- **Competitor Identification:**

Identify both direct competitors (offering similar products to the same audience) and indirect competitors (offering different products in a similar category).

- **Competitor Evaluation:**

Research competitors' products, pricing, distribution, marketing tactics, customer feedback, and overall business strategies.

- **Frameworks for Analysis:**

- **Porter's Five Forces:** A model that analyzes the bargaining power of buyers and suppliers, the threat of new entrants and substitutes, and the rivalry among existing firms.
- **SWOT Analysis:** A framework that identifies a company's Strengths, Weaknesses, Opportunities, and Threats in the context of its competition.
- **Strategic Outcomes:**  
The analysis helps businesses to:
  - Identify market gaps and untapped opportunities.
  - Differentiate their products and services from competitors.
  - Improve brand positioning.
  - Stay ahead of industry trends and consumer preferences.
  - Benchmark their performance against peers.
  - Make informed, strategic decisions to achieve sustainable growth.



## Industry and Competitive Analysis Steps



## **EVALUATING COMPANY RESOURCES AND COMPETITIVE CAPABILITIES**

Evaluating a company's resources and capabilities involves a strategic analysis of its internal strengths and weaknesses and external opportunities and threats to understand its competitive position and identify areas for improvement. Key steps include assessing current strategy effectiveness, conducting a SWOT analysis to match internal factors with external ones, analyzing the value chain for cost-competitiveness, and assessing competitive strength relative to rivals. The goal is to develop strategies that leverage strengths, address weaknesses, exploit opportunities, and counter threats.

### **Key Steps in the Evaluation Process**

#### **1. 1. Assess Strategy Effectiveness:**

Determine how well the current strategy is working using strategic, financial, and marketing performance indicators.

#### **2. 2. Identify Internal Resources & Capabilities:**

Analyze the company's assets, skills, and knowledge. A capability is the ability to perform an activity proficiently.

#### **3. 3. Conduct a SWOT Analysis:**

- **Strengths:** Identify internal resources and competencies that provide a competitive advantage.
- **Weaknesses:** Recognize resource weaknesses and deficiencies that put the company at a disadvantage.
- **Opportunities:** Identify external factors that can be leveraged for growth.
- **Threats:** Recognize external conditions, like intense competition, that pose a risk to the company's success.

#### **4. 4. Analyze the Value Chain:**

Examine all activities, from raw material purchase to customer delivery, to identify where costs can be reduced and what adds value for customers.

#### **5. 5. Compare Competitive Strength:**

Benchmark the company's capabilities and costs against those of its rivals to understand its relative position in the industry.

#### **6. 6. Identify Core and Distinctive Competencies:**

Pinpoint well-performed activities that are unique and offer a sustained competitive advantage.

### **Types of Company Resources**

Resources are the **inputs** an organization uses to compete. They can be:

#### **A) Tangible Resources**

- Physical & measurable assets.
- Examples:
  - Financial → cash reserves, credit rating.

- Physical → factories, machines, offices.
- Technological → patents, IT systems.

## B) Intangible Resources

- Non-physical, but highly valuable.
- Examples:
  - Brand reputation (Nike, Coca-Cola).
  - Company culture & leadership.
  - Knowledge & intellectual property.
  - Customer loyalty.

## 3. Competitive Capabilities

- **Capabilities** are the company's ability to **deploy resources effectively**.
- They come from **integration, skills, and know-how**.

□ Example:

- Toyota's *lean production* is a capability.
- Amazon's *logistics network* is a capability.

## 4. Tools for Evaluating Resources & Capabilities

### A) VRIO Framework

A popular tool to assess whether resources/capabilities create a **sustained competitive advantage**.

1. **Valuable** → Does it exploit opportunities or neutralize threats?
2. **Rare** → Is it scarce or widely available?
3. **Inimitable** → Is it difficult for rivals to copy?
4. **Organized** → Is the firm structured to capture value?

□ Example:

- Google's AI expertise: Valuable □, Rare □, Inimitable □, Organized □ → *Sustainable competitive advantage*.

### B) SWOT Analysis (Internal Perspective)

- **Strengths** → Core competencies (e.g., brand, tech).
- **Weaknesses** → Internal gaps (e.g., high costs, poor HR).
- **Opportunities & Threats** are external but tied to resources/capabilities.

### C) Core Competency Analysis

- A **core competency** is a unique capability that gives competitive advantage.
- Tests for a core competency:
  1. Provides access to many markets.
  2. Contributes to customer benefits.
  3. Difficult for competitors to imitate.

□ Example: Honda's *engine design* → powers cars, motorcycles, and power equipment.

## D) Benchmarking

- Comparing company capabilities with **best practices** in the industry.
  - Helps identify performance gaps.
  - Example: Airlines benchmark turnaround times against Southwest Airlines.
- 

## SWOT ANALYSIS

A SWOT analysis is a strategic planning method for organizations, projects, or individuals to identify their internal Strengths and Weaknesses, and external Opportunities and Threats. This framework helps to assess a situation, leverage strengths, address weaknesses, capitalize on opportunities, and mitigate threats to inform decision-making and strategic planning. It is typically presented as a 2x2 matrix and is used for various purposes, from business assessment and career planning to launching new initiatives.

### Components of SWOT Analysis

#### A) Internal Factors

1. **Strengths (S):**
  - Unique resources, skills, or advantages that give the company an edge.
  - Examples: strong brand (Apple), cost efficiency (Walmart), innovation (Tesla).
2. **Weaknesses (W):**
  - Limitations, resource gaps, or disadvantages that hinder performance.
  - Examples: limited distribution (start-ups), high costs (luxury brands), weak marketing.

#### B) External Factors

3. **Opportunities (O):**
    - External chances to improve performance and growth.
    - Examples: emerging markets, new technology, changing consumer trends.
  4. **Threats (T):**
    - External challenges that may cause harm.
    - Examples: competition, economic downturns, government regulations.
- 

## How to Perform a SWOT Analysis

### 1. Define the Subject:

Clearly identify what is being analyzed, whether it's a company, project, product, or individual.

### 2. Identify Internal Factors (S & W):

Brainstorm and list the internal strengths and weaknesses of the subject.

### 3. Identify External Factors (O & T):

Brainstorm and list the external opportunities and threats that the subject faces.

### 4. Structure the Matrix:

Organize the identified factors into a 2x2 grid with separate sections for Strengths, Weaknesses, Opportunities, and Threats.

## 5. 5. Develop a Strategy:

Use the insights from the SWOT analysis to develop strategies that leverage strengths, improve weaknesses, seize opportunities, and counteract threats.

### When to Use a SWOT Analysis

- **Comprehensive Business Assessment:** To understand performance and internal capabilities.
- **Strategic Planning:** To align goals, programs, and capacities with the operating environment.
- **Launching New Initiatives:** To plan successful strategies for new products or significant organizational changes.
- **Risk Management:** To identify and prepare for potential risks and problems.
- **Career or Personal Growth:** To identify personal strengths, weaknesses, and areas for improvement.



# Strategies and Competitive Advantages in Diversified Companies and Their Evaluation

## Introduction

Diversified companies operate in **more than one business or industry**. Instead of relying on a single product or market, they spread risks and opportunities across multiple areas. However, diversification requires careful strategy to ensure that businesses **add value to each other** rather than dilute overall performance.

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## 2. Types of Diversification Strategies

Diversification can be classified into **related** and **unrelated** diversification:

### A) Related Diversification

- Involves entering businesses with a **strategic fit** (similar technology, customers, or supply chains).
- Purpose: Share resources, reduce costs, and create synergies.
- Example: Apple expanding from computers → smartphones → wearables (all tech-related).

### B) Unrelated Diversification

- Involves entering businesses with **no obvious connection**.
- Purpose: Spread risk, use financial resources, benefit from investment opportunities.
- Example: Tata Group (IT, automobiles, steel, hotels, telecom).

### C) Vertical Integration (a form of related diversification)

- Backward Integration → owning suppliers.
  - Forward Integration → owning distribution/retail.
  - Example: Tesla making its own batteries (backward).
- 

## 3. Competitive Advantages in Diversified Companies

Diversified companies seek to build **synergies** that create value beyond what individual businesses could achieve alone.

### Sources of Competitive Advantage

1. **Economies of Scope**
  - Sharing resources (brands, R&D, distribution).
  - Example: Disney uses characters across movies, parks, and merchandise.
2. **Market Power**
  - Cross-subsidizing businesses, stronger bargaining power with suppliers/customers.
3. **Financial Strength**
  - Profits from strong units can support weaker units.

- Example: Reliance Industries uses oil & gas revenues to expand into telecom (Jio).
  - 4. **Risk Diversification**
    - Spreads business risks across industries.
  - 5. **Core Competencies**
    - Leveraging knowledge, technology, or skills across businesses.
    - Example: Google uses AI expertise across search, ads, self-driving cars, and healthcare.
- 

#### 4. Evaluating the Strategies of Diversified Companies

The effectiveness of diversification strategies can be evaluated using several frameworks:

##### A) The Three Tests of Diversification (by Michael Porter)

1. **Industry Attractiveness Test** → Is the new industry profitable?
2. **Cost of Entry Test** → Is the cost of entering reasonable?
3. **Better-Off Test** → Will the company create synergy (1+1=3)?

##### B) Portfolio Analysis Tools

1. **BCG Growth-Share Matrix**
  - Classifies business units as **Stars, Cash Cows, Question Marks, Dogs** based on market growth & market share.
  - Helps allocate resources across units.
2. **GE 9-Cell Matrix**
  - Evaluates businesses on **industry attractiveness** and **business strength**.
  - Provides a broader, more sophisticated portfolio analysis.

##### C) Financial & Strategic Metrics

- **Profitability** of each unit.
- **Return on Investment (ROI)** vs. cost of capital.
- **Contribution to synergy** (shared brand, technology, R&D).
- **Sustainability of competitive advantage** in each industry.

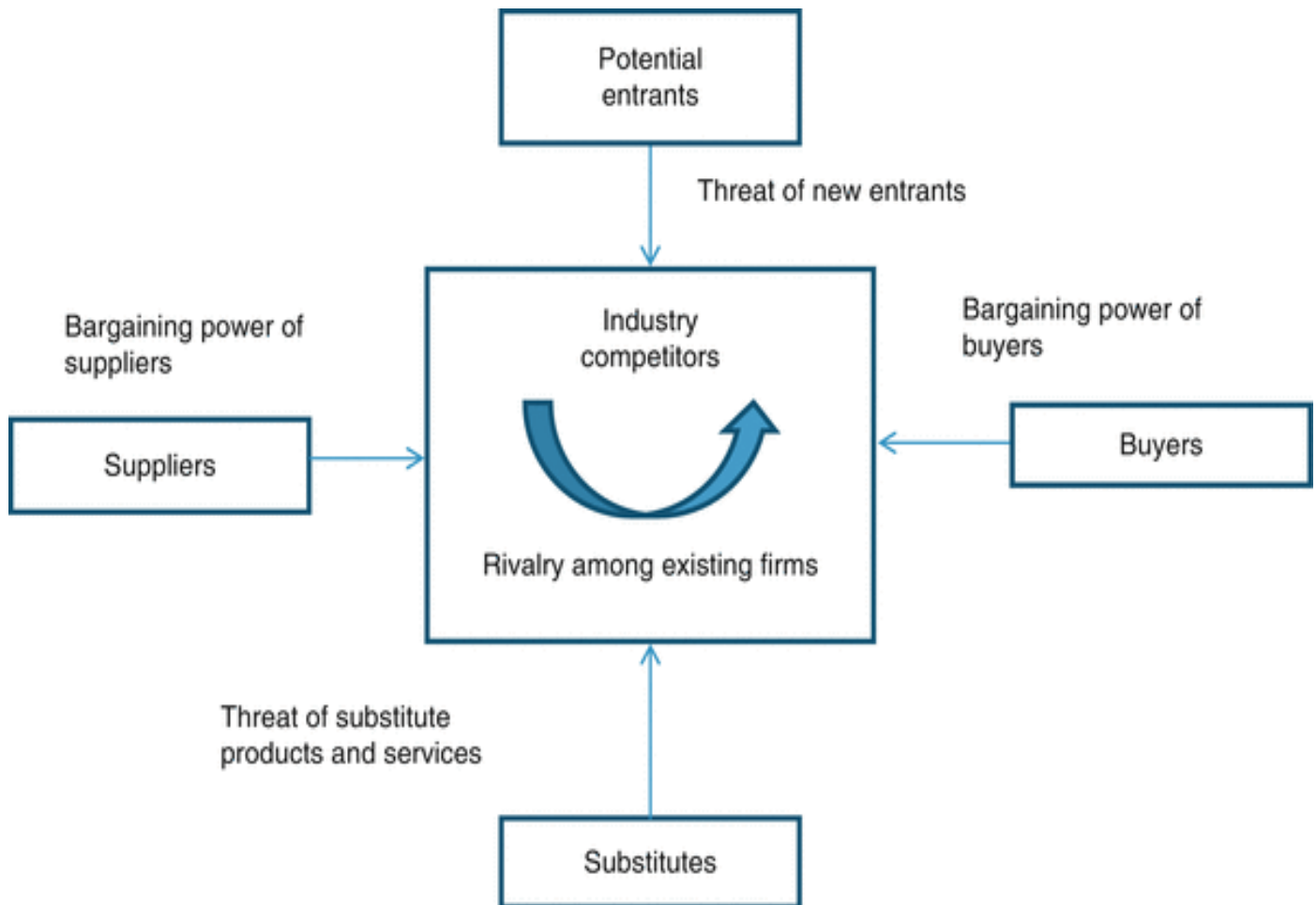
#### 5. Example: Amazon's Diversification

- **Related diversification:** From books → e-commerce → cloud services (AWS) → AI (Alexa).
  - **Competitive Advantage:** Uses same infrastructure, logistics, customer data across businesses.
  - **Evaluation:** High synergy between AWS, Prime, and e-commerce strengthens profitability.
- 

#### Conclusion

- Diversification, if executed well, can **strengthen competitive advantage** through synergy, economies of scope, and risk reduction.
  - However, diversification without strategic fit may spread resources too thin and destroy value.
  - Evaluation through **Porter's tests, portfolio matrices, and financial measures** ensures that diversification contributes positively to long-term success.
-

## PORTER'S FIVE FORCES MODEL



### Introduction

- Developed by **Michael E. Porter (1979)**, this model is one of the most powerful tools for **industry and competitive analysis**.
- It helps managers analyze the **competitive forces shaping an industry**, which determine **profitability and attractiveness** in the long run.
- The model is widely used in **strategic management** to craft effective strategies.

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### The Five Forces Explained

#### 1) Threat of New Entrants

- New competitors entering the market can reduce profitability.
- **Barriers to Entry** (factors that discourage new players):
  - High capital investment
  - Strong brand loyalty
  - Economies of scale
  - Government regulations
- **Example:** Airlines industry has high entry barriers (aircraft cost, licenses, airport slots). On the other hand, food delivery startups (like Zomato/Swiggy) face low barriers to entry.

## 2) Bargaining Power of Suppliers

- Suppliers can demand higher prices or limit supply, affecting costs.
- **High Supplier Power when:**
  - Few suppliers, no substitutes
  - Suppliers are concentrated
  - Switching costs are high for firms
- **Example:** Intel and NVIDIA have high bargaining power in the chip industry, as few alternatives exist.

## 3) Bargaining Power of Buyers (Customers)

- Buyers can influence prices, demand better quality, or services.
- **High Buyer Power when:**
  - Few buyers purchase in large volumes
  - Products are standardized
  - Switching costs are low
- **Example:** In the automotive industry, large fleet buyers (Uber, Ola) negotiate hard with car manufacturers.

## 4) Threat of Substitute Products or Services

- Substitutes limit industry profitability by offering alternatives.
- **High Threat when:**
  - Substitutes offer better price-performance
  - Switching costs are low
- **Example:**
  - Tea vs Coffee (beverage substitutes).
  - Netflix as a substitute for cable TV.
  - Electric vehicles (EVs) as substitutes for petrol cars.

## 5) Rivalry Among Existing Competitors

- Intense competition reduces profitability.
- **Factors influencing rivalry:**
  - Number of competitors
  - Industry growth rate
  - Differentiation vs. commoditization
- **Example:** Smartphone industry (Apple vs Samsung vs Xiaomi) shows very high rivalry.

## How to Use the Model

Businesses use the Five Forces framework to:

- **Assess Industry Attractiveness:** Determine how profitable an industry is likely to be.
- **Develop Strategy:** Formulate strategic plans by understanding the competitive landscape.

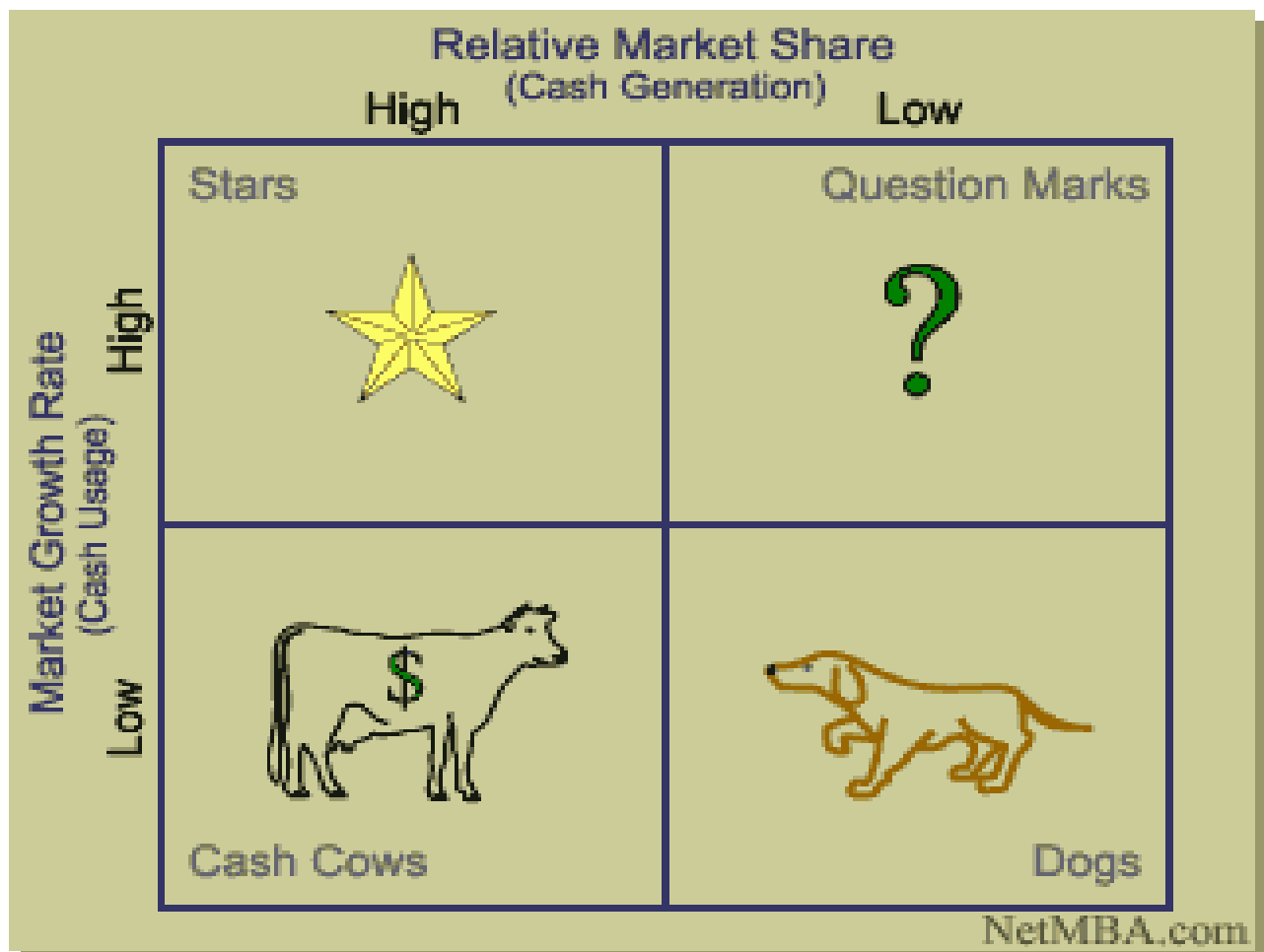
- **Position for Success:** Identify ways to position the company to gain a competitive advantage.

## Conclusion

Porter's Five Forces Model remains a **cornerstone of strategic analysis**. By systematically assessing the **five forces**, companies can anticipate challenges, exploit opportunities, and build sustainable competitive

## BCG MATRIX

The BCG Matrix is a business tool by the Boston Consulting Group that helps companies analyze their product portfolio to make investment decisions. It categorizes products or strategic business units (SBUs) into four types—Stars, Cash Cows, Question Marks, and Dogs—based on their relative market share and market growth rate. By understanding these categories, businesses can decide where to invest resources, develop products further, or even discontinue them.



### 1. Introduction

- Developed by Bruce Henderson (1970) of the Boston Consulting Group.
- It is a strategic tool used by organizations to analyze their business units, products, or services based on market growth rate and relative market share.
- Helps managers decide:
  - Where to invest
  - Where to divest

- Which units to develop or discontinue

□ In simple terms: It shows where the company's money comes from and where it should go.

## 2. Dimensions of BCG Matrix

The matrix is based on two key parameters:

1. Market Growth Rate (y-axis)
  - Indicates attractiveness of the market (high or low).
  - High growth → opportunities, but need heavy investment.
  - Low growth → mature markets.
2. Relative Market Share (x-axis)
  - Shows company's strength compared to competitors.
  - High share → strong position, economies of scale.
  - Low share → weak position, less competitive power.

## 3. The Four Quadrants of BCG Matrix

### A) Stars (High Growth, High Market Share)

- Market leaders in fast-growing industries.
- Require heavy investment but generate large revenues.
- Potential future Cash Cows.
- Example: Tesla EV segment, Apple iPhone.

### B) Cash Cows (Low Growth, High Market Share)

- Established, successful products in mature industries.
- Generate consistent cash flows with little investment.
- Companies use these funds to support Stars or Question Marks.
- Example: Microsoft Windows, Coca-Cola beverages.

### C) Question Marks (High Growth, Low Market Share)

- Operate in attractive markets but with weak competitive position.
- Need heavy investment to increase share, or else risk failure.
- Can become Stars or drain resources.
- Example: Netflix gaming division, Amazon's Alexa devices.

### D) Dogs (Low Growth, Low Market Share)

- Weak units with little potential.
- Neither generate nor consume significant cash.
- Candidates for divestment or discontinuation.
- Example: Yahoo Search, DVD players.

## 5. Strategies for Each Quadrant

- Stars: Invest for growth.

- Cash Cows: Harvest profits and maintain.
- Question Marks: Selectively invest or divest.
- Dogs: Divest, liquidate, or reposition.

#### 6. Example – Apple Inc.

- Stars: iPhone (dominates premium smartphone segment, still growing).
- Cash Cows: MacBook, iPad (mature but steady demand).
- Question Marks: Apple TV+, Vision Pro (huge growth potential but uncertain dominance).
- Dogs: iPod (discontinued).

#### Conclusion

The BCG Matrix is a simple but powerful framework to manage a portfolio of businesses/products. It ensures resources are allocated efficiently:

- Cash Cows fund Stars and Question Marks.
- Dogs are minimized to reduce losses.

### GE MCKINSEY 9-CELL MODEL

The GE McKinsey 9-Cell Model is a strategic portfolio analysis tool that evaluates business units based on two key dimensions: the Industry Attractiveness (high, medium, low) and the Business Unit Strength (strong, average, weak), plotting them on a 3x3 grid to guide investment, growth, or divestment strategies. Developed by McKinsey & Company for General Electric in the 1970s, it overcomes limitations of the BCG Matrix by incorporating multiple factors for a more sophisticated analysis of a company's business portfolio.

Market Attractiveness	Business Unit Strength			
		High	Medium	Low
	High	Grow	Grow	Hold
	Medium	Grow	Hold	Harvest
	Low	Hold	Harvest	Harvest

## Introduction

- Developed in the **1970s** by **McKinsey & Company** for **General Electric (GE)**.
- It is an **advanced portfolio analysis tool**, similar to the BCG Matrix but more detailed.
- Helps managers decide **where to invest, grow, hold, or divest** business units based on two dimensions:
  1. **Industry Attractiveness**
  2. **Business Unit Strength**

□ While the **BCG Matrix** uses only *Market Growth* and *Market Share*, the GE Model considers **multiple factors**, making it more realistic.

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## 2. Dimensions of GE Model

### A) Industry Attractiveness (Y-Axis)

Measures how appealing the industry is for investment.

- Factors include:
  - Market growth rate
  - Industry size & profitability
  - Competitive intensity
  - Technological change
  - Regulatory environment

### B) Business Unit Strength (X-Axis)

Measures company's competitive position within the industry.

- Factors include:
    - Market share
    - Brand image
    - Product quality
    - Distribution network
    - R&D capability
- 

## 4. Strategies Based on Matrix Position

1. **Grow (High Attractiveness + Strong Strength)**
  - Invest heavily to expand and dominate.
  - Example: Apple's iPhone business.
2. **Hold (Medium Attractiveness + Medium Strength)**
  - Selectively invest, protect market share.
  - Example: Microsoft's Surface tablets.
3. **Harvest/Divest (Low Attractiveness + Weak Strength)**
  - Reduce investment, consider selling or shutting down.
  - Example: Kodak's film business.

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## 5. Differences Between BCG Matrix and GE Model

Aspect	BCG Matrix	GE McKinsey Model
Dimensions	Market Growth, Market Share	Industry Attractiveness, Business Unit Strength
Grid Size	2 × 2 (4 cells)	3 × 3 (9 cells)
Simplicity	Simple & easy to use	More detailed & complex
Focus	Limited to growth-share logic	Considers multiple factors (qualitative + quantitative)
Example Use	Coca-Cola product portfolio	GE's diversified businesses

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## 6. Example – Reliance Industries

- **Telecom (Jio):** High attractiveness, strong strength → **Grow**.
  - **Retail (Reliance Retail):** High attractiveness, medium strength → **Grow/Hold**.
  - **Petrochemicals:** Medium attractiveness, strong strength → **Hold**.
  - **Textiles:** Low attractiveness, weak strength → **Divest**.
- 

## Conclusion

The **GE McKinsey 9-Cell Model** is a more **sophisticated tool than BCG Matrix**.

It allows managers to:

- Evaluate multiple factors influencing strategy.
  - Allocate resources more effectively.
  - Manage a **diversified portfolio** with realistic insights.
-

## UNIT-3

### STRATEGY FORMULATION

Strategy formulation is the foundational process of defining an organization's long-term goals and devising the best plan and actions to achieve them. It involves analyzing internal and external environments using tools like SWOT analysis to identify strengths, weaknesses, opportunities, and threats, and then developing strategies, policies, and objectives that align with the organization's vision and competitive conditions. The outcome is a clear, actionable strategic roadmap that guides decision-making and resource allocation to create a competitive advantage.

#### 1. Introduction

- **Strategy Formulation** is the process of **developing a course of action** to achieve organizational objectives.
- It answers:
  - *Where do we want to go?*
  - *How will we get there?*
- It is the **second stage of Strategic Management**, after **environmental scanning** and before **strategy implementation**.

□ In simple terms: **Formulation is thinking; implementation is doing.**

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#### 2. Definition of Strategy Formulation

- According to **Glueck**: “*Strategy formulation is the process of determining appropriate courses of action for achieving organizational objectives and thereby accomplishing organizational purpose.*”
  - According to **Chandler**: “*Strategy is the determination of the long-term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for achieving those goals.*”
- 

#### 3. Steps in Strategy Formulation

##### Step 1: Setting Organizational Vision, Mission, and Objectives

- Define what the company stands for (mission) and where it wants to go (vision).
- Example: Google’s mission is “*to organize the world’s information and make it universally accessible and useful.*”

##### Step 2: Environmental Scanning (SWOT, PESTLE, 5 Forces)

- Analyze external opportunities & threats (market, competition, regulations).
- Analyze internal strengths & weaknesses (resources, skills, capabilities).
- Example: Tesla identifying opportunities in renewable energy and EV markets.

##### Step 3: Identifying Strategic Alternatives

- Possible strategies include:
  - Growth strategies (expansion, diversification)
  - Stability strategies (maintain current position)
  - Retrenchment strategies (divestment, liquidation)

- Example: Amazon expanding from books → retail → cloud computing (AWS).

#### **Step 4: Evaluating Strategic Alternatives**

- Criteria:
  - Suitability (fit with mission and environment)
  - Feasibility (resources available?)
  - Acceptability (stakeholder support?)

#### **Step 5: Choosing the Best Strategy**

- Select the most appropriate option for long-term success.
- Example: Apple focusing on premium differentiation rather than cost leadership.

#### **Step 6: Preparing Strategic Plans**

- Develop detailed action plans, allocate resources, and set timelines.
- 

### **4. Levels of Strategy Formulation**

#### **1. Corporate Level Strategy**

- Overall purpose and scope of the organization.
- Example: Tata Group deciding to diversify into EVs, steel, and IT.

#### **2. Business Level Strategy**

- How a business unit competes in its industry.
- Example: Airtel vs Jio in telecom (pricing, network quality).

#### **3. Functional Level Strategy**

- Departmental plans (marketing, HR, finance, operations).
  - Example: Nike's marketing strategy using celebrity endorsements.
- 

### **Purpose and Importance**

- **Provides Direction:**

Strategy formulation gives a clear direction and focus for the entire organization.

- **Drives Growth and Efficiency:**

It helps align actions with strategic goals, leading to improved growth, efficiency, and resource utilization.

- **Secures Competitive Advantage:**

By understanding the market and organizational capabilities, it helps create a sustainable competitive edge.

- **Informs Decision-Making:**

It provides a structured framework for making high-level decisions and resource allocations.

- **Facilitates Adaptability:**

It helps organizations adapt to changes in the dynamic business environment.

## STRATEGY FRAMEWORKS FOR ANALYZING COMPETITION

A comprehensive strategy for analyzing competition involves a four-step process: identifying competitors, gathering competitor data, analyzing strengths and weaknesses, and finally, developing a competitive advantage. Popular frameworks and tools for this analysis include SWOT analysis, Porter's Five Forces, and Perceptual Mapping, which help in understanding industry dynamics, competitor capabilities, and market positioning to inform strategic decision-making.

Strategic frameworks provide structured methods to understand competition and design winning strategies.

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### 2. Key Frameworks for Analyzing Competition

#### A) Porter's Five Forces Model

- Developed by **Michael Porter (1980)**.
- Explains **industry competitiveness** through five forces:
  1. **Threat of New Entrants** – barriers to entry (e.g., Tesla facing new EV startups).
  2. **Bargaining Power of Suppliers** – influence suppliers hold (e.g., Intel with chip supply).
  3. **Bargaining Power of Buyers** – customers' ability to demand lower prices.
  4. **Threat of Substitutes** – alternate products (e.g., Uber Eats vs dining out).
  5. **Industry Rivalry** – competition among existing players (e.g., Pepsi vs Coke).

□ **Strategy Insight:** Helps decide whether to **enter, invest, or exit** an industry.

#### B) Strategic Group Analysis

- Competitors are grouped based on **similar strategies**.
- Example:
  - **Luxury Car Segment:** BMW, Mercedes, Audi.
  - **Mass Market:** Toyota, Hyundai.
- Identifies **direct rivals** and **mobility barriers**.

□ **Strategy Insight:** Guides firms to reposition or defend within their group.

#### C) Value Chain Analysis (Michael Porter)

- Breaks down activities into **primary** (inbound logistics, operations, marketing, sales, service) and **support activities** (HR, technology, procurement).
- Example: Amazon's strength lies in logistics and IT systems.

□ **Strategy Insight:** Reveals where firms can create **cost advantage or differentiation**.

#### D) Game Theory

- Focuses on **competitive interaction** – predicting rival responses.
- Example: Price wars between airlines → if one cuts fares, others follow.

□ **Strategy Insight:** Helps firms anticipate moves and avoid destructive competition.

#### E) SWOT Analysis (Competitor-Focused)

- Identifies **strengths, weaknesses, opportunities, and threats** of competitors.
- Example: Apple analyzing Samsung's strength in variety and weakness in ecosystem.

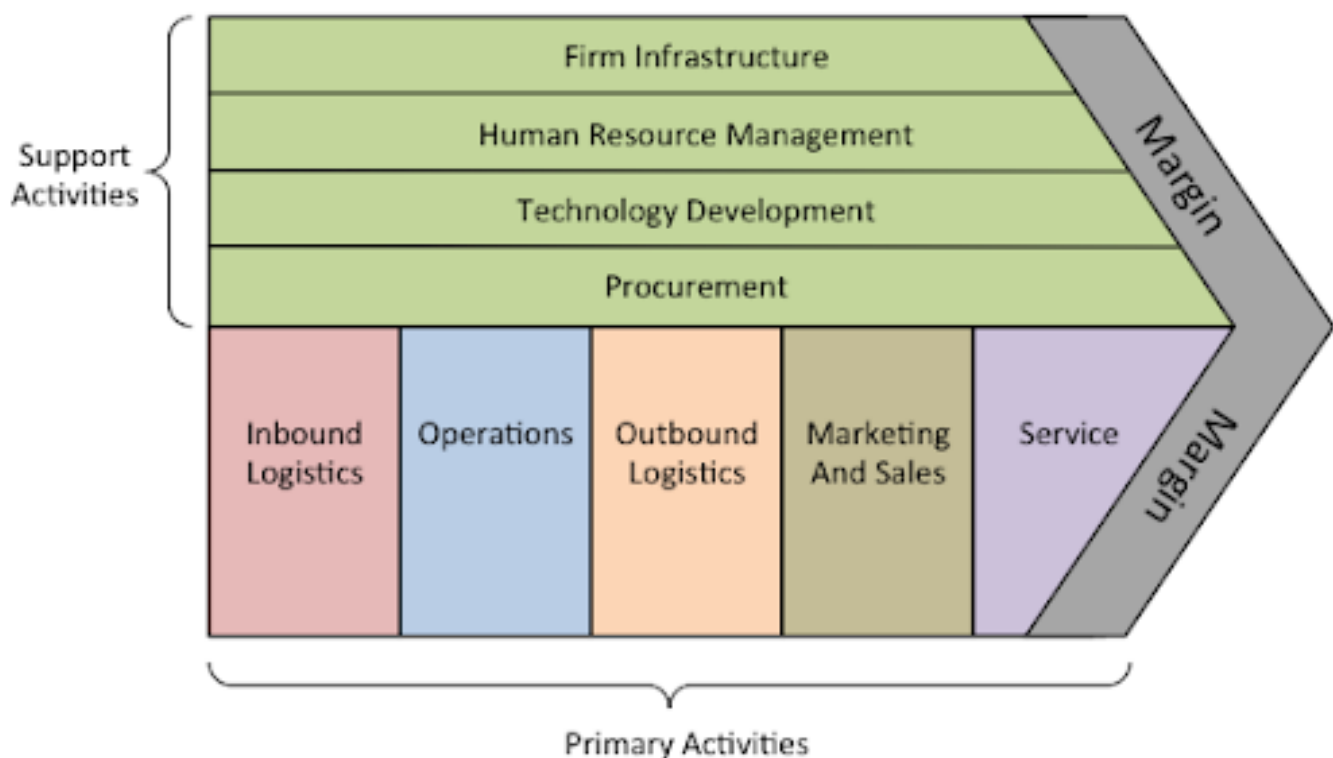
- **Strategy Insight:** Helps build on strengths and attack competitor weaknesses.

## F) Blue Ocean vs Red Ocean Strategy

- **Red Ocean:** Compete in existing market (intense rivalry).
- **Blue Ocean:** Create new demand, uncontested markets.
- Example: Netflix created a blue ocean with streaming while Blockbuster fought in the red ocean of rentals.

- **Strategy Insight:** Encourages innovation beyond rivalry.

## PORTER'S VALUE CHAIN ANALYSIS



### Introduction

- Introduced by **Michael Porter (1985)** in his book *Competitive Advantage*.
- Purpose: To analyze a firm's **internal activities** to identify where **value is created** and where **competitive advantage** can be achieved.
- Idea: Companies don't just produce products—they create value at every stage of operations.

- **Key Point:** Competitive advantage comes from either **cost leadership** (doing activities cheaper) or **differentiation** (doing activities better/unique).

## 2. Structure of the Value Chain

Porter divided business activities into **Primary Activities** and **Support Activities**.

### A) Primary Activities (Directly add value)

1. **Inbound Logistics** – receiving, storing, and distributing raw materials.
  - Example: Toyota's just-in-time inventory system.

2. **Operations** – processes that transform inputs into final products.
    - Example: Dell’s customized PC assembly.
  3. **Outbound Logistics** – distributing finished goods to customers.
    - Example: Amazon’s world-class delivery network.
  4. **Marketing & Sales** – activities to promote and sell products.
    - Example: Apple’s branding and premium pricing strategy.
  5. **Services** – after-sale support and maintenance.
    - Example: Samsung’s warranty and customer service centers.
- 

## B) Support Activities (Enable and enhance primary activities)

1. **Firm Infrastructure** – management, planning, finance, legal.
    - Example: Reliance Industries’ diversified corporate governance structure.
  2. **Human Resource Management (HRM)** – recruitment, training, development.
    - Example: Google’s talent management and perks for innovation.
  3. **Technology Development** – R&D, IT, process automation.
    - Example: Tesla’s AI-driven autopilot development.
  4. **Procurement** – sourcing inputs, vendor management.
    - Example: Walmart’s large-scale supplier contracts for cost efficiency.
- 

## 4. Strategic Insights from Value Chain

- **Cost Advantage:** Find areas to reduce costs (e.g., efficient inbound logistics).
  - **Differentiation Advantage:** Add uniqueness (e.g., Apple’s marketing, Tesla’s tech).
  - **Benchmarking:** Compare each activity with competitors.
  - **Outsourcing Decision:** Identify non-core areas to outsource (e.g., Nike outsources production but retains design & marketing).
- 

## 5. Example – Starbucks Value Chain

- **Inbound Logistics:** Coffee bean sourcing from global farmers.
- **Operations:** Roasting and brewing processes ensuring quality.
- **Outbound Logistics:** Distribution to retail stores worldwide.
- **Marketing & Sales:** Strong global branding, loyalty programs.
- **Services:** Customer experience, ambiance, digital ordering app.

Support:

- **HRM:** Employee (barista) training → “partners.”
- **Technology:** Mobile app payments.
- **Procurement:** Ethical sourcing programs.

□ Result → Starbucks creates a **differentiation advantage** through **premium experience + brand loyalty**.

## Conclusion

- Porter's Value Chain is a **powerful tool** to examine internal activities.
- It highlights **where value is created, where costs can be minimized, and where differentiation can be achieved.**
- Firms can use it to build **sustainable competitive advantage** in cost or uniqueness.

## COMPETITIVE ADVANTAGE OF A FIRM



### 1. Introduction

- The term **competitive advantage** was popularized by **Michael Porter (1985)**.
- It refers to a firm's ability to **outperform competitors** by offering **greater value** to customers or operating at a **lower cost**.
- It is the foundation of **long-term profitability and market leadership**.

□ A firm has competitive advantage **when it creates more economic value than its rivals.**

### 2. Sources of Competitive Advantage

Competitive advantage is generally achieved in two ways:

#### A) Cost Advantage

- Firm produces goods/services at a **lower cost** than competitors.
- Allows **lower prices** or **higher profit margins**.
- Example: **Walmart** – efficiency in supply chain and bulk purchasing.

#### **B) Differentiation Advantage**

- Firm offers **unique features, quality, or services** that customers value.
- Customers are willing to **pay a premium**.
- Example: **Apple** – premium design, ecosystem, and brand loyalty.

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### **3. Porter's Generic Strategies for Competitive Advantage**

Michael Porter identified **three generic strategies** to achieve competitive advantage:

1. **Cost Leadership** → Compete on lowest cost.
  - Example: McDonald's standardized operations.
2. **Differentiation** → Offer uniqueness valued by customers.
  - Example: Nike's innovation and branding.
3. **Focus/Niche Strategy** → Serve a specific market segment better than others.
  - Example: Rolex (luxury watches).

---

### **4. Factors Shaping Competitive Advantage**

1. **Resources and Capabilities** (Resource-Based View – RBV)
  - Tangible: plants, capital, distribution network.
  - Intangible: brand, patents, culture.
  - Example: Google's algorithms and data.
2. **Industry Structure** (Porter's Five Forces)
  - Competitive rivalry, threat of new entrants, substitutes, supplier power, buyer power.
  - Example: Airline industry → tough to sustain advantage due to high rivalry.
3. **Innovation**
  - Disruptive or continuous innovation creates temporary advantage.
  - Example: Tesla's electric vehicle innovation.
4. **Customer Relationships**
  - Loyalty programs, trust, customer experience.
  - Example: Amazon Prime membership.

# ENTRY AND EXIT BARRIERS

## 1. Introduction

- In **industrial organization** and **Porter's Five Forces model**, the concepts of **entry barriers** and **exit barriers** play a major role in shaping competition.
  - They influence:
    - **Ease of entering** a new market (entry barriers).
    - **Ease of leaving** an industry or market (exit barriers).
  - Together, they affect **profitability, strategy formulation, and industry dynamics**.
- 

## 2. Entry Barriers

### Definition

Barriers that make it **difficult for new firms to enter** and compete in an industry. They **protect existing firms** from new competition and help sustain profitability.

### Types of Entry Barriers

1. **Economies of Scale** – Large firms have cost advantages.
    - Example: Automobile industry (Toyota, Ford).
  2. **Capital Requirements** – High initial investment discourages new entrants.
    - Example: Oil & gas, airlines.
  3. **Brand Loyalty** – Strong customer loyalty reduces chances for newcomers.
    - Example: Coca-Cola, Apple.
  4. **Access to Distribution Channels** – Established players dominate supply chains.
    - Example: FMCG (Hindustan Unilever in India).
  5. **Government Regulations** – Licenses, permits, and policies restrict entry.
    - Example: Telecom spectrum auctions.
  6. **Proprietary Technology/Patents** – Unique technology blocks competitors.
    - Example: Pharmaceutical companies with patented drugs.
  7. **Switching Costs** – Customers face costs (financial/psychological) in changing brands.
    - Example: Microsoft Office → shifting to alternatives is costly/time-consuming.
- 

## 3. Exit Barriers

### Definition

Barriers that make it **difficult for firms to leave an industry**, even if it is unprofitable. These barriers often **trap resources** in declining industries.

### Types of Exit Barriers

1. **High Fixed Costs of Exit**
  - Specialized assets with no alternative use.
  - Example: Steel plants, oil refineries.

## 2. Contractual Obligations

- Long-term contracts with suppliers, employees, or customers.
- Example: Airlines with long-term aircraft leasing contracts.

## 3. Emotional/Strategic Reasons

- Family-owned businesses reluctant to shut down.
- Example: Legacy textile mills in India.

## 4. Government/Social Restrictions

- Layoff restrictions, political opposition.
- Example: Coal mining closures in developing countries.

## 5. Interdependence with Other Business Units

- If a unit supports other profitable businesses, firms may continue operations.
- Example: Oil refining linked with petrochemicals.

## 4. Strategic Implications

- **High Entry Barriers + Low Exit Barriers** → Attractive industry (stable profits).
- **Low Entry Barriers + Low Exit Barriers** → Highly competitive, easy entry and exit.
- **High Entry Barriers + High Exit Barriers** → Industry lock-in (e.g., telecom, steel).
- **Low Entry Barriers + High Exit Barriers** → Risky and unstable industry (firms keep competing despite losses).

# FORMULATION OF STRATEGY AT CORPORATE, BUSINESS, AND FUNCTIONAL LEVELS

Strategy formulation involves creating overarching corporate strategies that set an organization's overall direction, specific business strategies that focus on competitive advantage in particular markets, and functional strategies that detail operational actions within departments to support higher-level goals. These levels must align to create a coherent, actionable plan that steers the entire organization toward achieving its mission and long-term success.

## 1. Corporate Level Strategy

- **Focus:**

The entire organization and its overall scope and direction.

- **Key Questions:**

How many businesses should we be in? How should these businesses be linked? How should we manage our portfolio of businesses?

- **Activities:**

Involves decisions about diversification (entering new product lines), vertical integration (controlling more parts of the value chain), mergers and acquisitions, and geographic expansion.

- **Goal:**

To define the company's mission, vision, and overall strategic path, ensuring it creates value for the company as a whole.

## **2. Business Level Strategy**

- **Focus:**

How to compete successfully in a specific market or industry.

- **Key Questions:**

How can we gain a competitive advantage? How should we position ourselves against rivals?

- **Activities:**

Adopting strategies like cost leadership (offering products at the lowest price), differentiation (offering unique, high-quality products), or focus (serving a specific niche market).

- **Goal:**

To develop a strong position and sustainable competitive advantage within a particular business unit or market segment.

## **3. Functional Level Strategy**

- **Focus:**

Specific departments and functional areas (e.g., marketing, finance, operations).

- **Key Questions:**

How can we support the business and corporate strategies from our functional area? What are the best operational plans for our department?

- **Activities:**

Developing detailed, short-term plans for key functions, such as a marketing department's social media campaign or an operations department's efficiency improvements.

- **Goal:**

To ensure that the daily operations and activities within each functional department are aligned and contribute to the success of the business and corporate strategies.

- 3 Levels of Strategy: Corporate, Business, & Functional

## **CONCLUSION**

- **Corporate strategy** sets the direction.
  - **Business strategy** decides how to compete.
  - **Functional strategy** ensures execution.
- Together, they ensure **synergy, competitiveness, and long-term success.**
-

# TYPES OF STRATEGIES AT CORPORATE, BUSINESS, AND FUNCTIONAL LEVELS

## 1. CORPORATE LEVEL STRATEGIES

*(Concerned with the overall direction and scope of the organization across industries/businesses)*

### A. Growth Strategies

1. **Concentration Strategy** – Focusing on a single business line.
  - *Example:* McDonald's focusing primarily on fast food.
2. **Integration Strategies**
  - **Vertical Integration** – Moving up or down the supply chain.
    - *Forward Integration:* Reliance Retail (from refining to retailing petrol/consumer goods).
    - *Backward Integration:* Starbucks acquiring coffee farms.
  - **Horizontal Integration** – Acquiring/merging with competitors.
    - *Example:* Facebook acquiring Instagram.
3. **Diversification Strategies**
  - **Related Diversification** – Entering related industries.
    - *Example:* Apple expanding from computers to phones, tablets, and wearables.
  - **Unrelated Diversification** – Entering unrelated industries.
    - *Example:* Tata Group operating in steel, IT, hospitality, and automobiles.
4. **International/Global Expansion**
  - Entering new international markets.
  - *Example:* Walmart expanding to India.

### B. Stability Strategies

- Focus on maintaining current operations without major growth.
- *Example:* Local utility companies maintaining steady services.

### C. Retrenchment Strategies

1. **Turnaround** – Reviving poor performance. (e.g., IBM restructuring in the 1990s).
2. **Divestment** – Selling off part of the business. (e.g., eBay selling PayPal).
3. **Liquidation** – Closing down. (e.g., Kingfisher Airlines).

### D. Combination Strategies

- A mix of growth, stability, and retrenchment in different business units.
- *Example:* ITC growing in FMCG, stable in paperboards, and divesting some hotels.

## 2. BUSINESS LEVEL STRATEGIES

*(Concerned with how to compete successfully in a specific market or industry)*

### A. Porter's Generic Strategies

#### 1. Cost Leadership

- Aim: Lowest production & delivery cost.
- *Example:* Walmart, IndiGo Airlines.

#### 2. Differentiation

- Aim: Unique features, quality, or brand.
- *Example:* Apple, BMW.

#### 3. Focus (Niche Strategy)

- Aim: Serving a narrow segment.
- **Cost Focus** – IKEA (affordable furniture for budget-conscious customers).
- **Differentiation Focus** – Rolex (luxury watch niche).

### B. Competitive Strategies (beyond Porter)

1. **Innovation Strategy** – Competing through new technology/products. (Tesla).
2. **Operational Effectiveness** – Competing through efficiency. (Toyota Lean Manufacturing).
3. **Customer Intimacy Strategy** – Building strong customer relationships. (Amazon's personalized recommendations).

### C. Cooperative Strategies

- Forming alliances/joint ventures with competitors or partners.
  - *Example:* Sony and Ericsson joint venture in mobile phones.
- 

## 3. FUNCTIONAL LEVEL STRATEGIES

*(Concerned with how individual functions support higher-level strategies)*

### A. Marketing Strategies

- **Product Strategy** – Innovation, design, branding. (Nike launching eco-friendly shoes).
- **Pricing Strategy** – Penetration, skimming, competitive pricing. (Xiaomi's low-price penetration).
- **Promotion Strategy** – Advertising, digital marketing. (Coca-Cola's global campaigns).
- **Distribution Strategy** – Online, retail, franchise channels. (Domino's delivery model).

### B. Financial Strategies

- **Capital Structure** – Debt vs. equity financing. (Infosys maintains low debt).
- **Investment Strategy** – Where to allocate funds (new projects, R&D).
- **Dividend Policy** – Payout to shareholders (ITC stable dividend payouts).

### **C. Production/Operations Strategies**

- **Process Strategy** – Efficiency, cost reduction. (Toyota's JIT system).
- **Capacity Strategy** – Expanding production capacity (Samsung's semiconductor plants).
- **Quality Strategy** – TQM, Six Sigma (GE, Motorola).

### **D. Human Resource Strategies**

- **Recruitment & Retention** – Google's creative work culture.
- **Training & Development** – Infosys Global Education Center (employee training).
- **Performance & Reward Systems** – Adobe's check-in system replacing annual appraisals.

### **E. R&D Strategies**

- **Innovation** – Developing new products. (Pfizer in pharma).
  - **Technology Adoption** – Using AI, robotics, automation.
  - **Patents/Intellectual Property** – Protecting innovations (Microsoft, IBM).
-

## **UNIT-4**

### **STRATEGY IMPLEMENTATION**

#### **Definition of Strategy Implementation**

- **Wheelen & Hunger:** *“Strategy implementation is the process by which strategies and policies are put into action through the development of programs, budgets, and procedures.”*
- **Thompson & Strickland:** *“Strategy implementation involves converting strategic plans into actions and results.”*

Strategy implementation is the vital process of converting a strategic plan into concrete actions and initiatives to achieve an organization's goals. It involves breaking down high-level objectives into operational steps, allocating resources effectively, establishing necessary structures and systems, and ensuring clear communication and accountability across all levels of the organization. Key factors for successful implementation include strong leadership, an aligned organizational culture, effective resource management, and continuous monitoring and adaptation.

#### **Key Components of Strategy Implementation**

- **Translating Strategy into Action:**

High-level strategic goals are broken down into specific, measurable, achievable, relevant, and time-bound (SMART) objectives for various teams and departments.

- **Resource Allocation:**

Ensuring that necessary resources, such as budget, personnel, and technology, are available and distributed effectively to support the strategic initiatives.

- **Organizational Structure and Culture:**

Developing or adapting the organizational structure, control systems, and culture to align with the new strategy.

- **Roles and Responsibilities:**

Clearly assigning tasks and roles to employees to ensure everyone understands their contribution to the overall strategy.

- **Communication and Coordination:**

Fostering clear and consistent communication throughout the organization to ensure everyone is aligned and working toward the same objectives.

- **Monitoring and Control:**

Continuously tracking progress, evaluating performance against goals, and making necessary adjustments to stay on course.

- **Change Management:**

Addressing resistance to change, managing the transition, and supporting employees through the implementation process.

## Why Strategy Implementation is Critical

- **Turning Plans into Reality:**

Even the best strategic plans are useless if they cannot be put into action and executed effectively.

- **Achieving Objectives:**

Successful implementation ensures that the organization's efforts are focused and directed toward achieving its desired outcomes.

- **Enhancing Performance:**

Proper implementation leads to improved efficiency, greater resource utilization, and a stronger competitive advantage.

- **Alignment:**

It ensures that day-to-day activities and departmental goals are aligned with the broader strategic vision, minimizing duplication of effort.

## Steps in Strategy Implementation

### A. Developing Programs

- Convert strategy into specific action plans.
- *Example:* Launching a new digital platform to implement a “digital-first” strategy.

### B. Preparing Budgets

- Allocate financial resources to programs.
- *Example:* Tesla invests heavily in battery R&D as part of its growth strategy.

### C. Designing Structures

- Align organizational structure with strategy.
- *Example:* Unilever created separate business divisions for Foods, Beverages, and Personal Care.

### D. Establishing Policies and Procedures

- Frame guidelines for decision-making and action.
- *Example:* Toyota’s quality-check procedures support its cost leadership strategy.

### E. Managing Change

- Communicate vision, reduce resistance, and build commitment.
- *Example:* Microsoft’s cultural shift under Satya Nadella from “know-it-all” to “learn-it-all.”

### F. Monitoring and Control

- Measure performance, compare with standards, take corrective action.
- *Example:* Balanced Scorecard used by Kaplan & Norton for strategic control.

## Conclusion

Strategy implementation is the **bridge between strategy formulation and performance**. Even the most brilliant strategies fail without proper execution. Success requires:

- Clear communication,
- Effective leadership,
- Adequate resources, and
- Strong monitoring.

As Peter Drucker famously said:

**“Plans are only good intentions unless they immediately degenerate into hard work.”**

## STRATEGY AND STRUCTURE

### Introduction

In management, **strategy** refers to the long-term plan of action designed to achieve organizational goals, while **structure** refers to how tasks, responsibilities, and authority are formally arranged within the organization.

A famous principle in strategic management is:

- **“Structure follows strategy”** – (Alfred Chandler, 1962).

This means that once a company formulates its strategy (e.g., diversification, expansion, cost leadership), it must design an organizational structure that supports execution.

- *Example:* When Apple expanded from computers to smartphones, wearables, and services, it had to restructure into multiple business units to handle diverse product lines effectively.

### 2. Definition

- **Chandler (1962):** *“Structure follows strategy. The structure of an organization is the design of the organization through which the enterprise is administered.”*
- **Pearce & Robinson:** *“Structure is the arrangement of tasks, reporting relationships, and communication linkages to enable strategy execution.”*

### 3. Relationship between Strategy and Structure

1. **Strategy determines structure** – New strategies often demand new organizational forms.
2. **Structure influences strategy** – An outdated structure may limit strategic choices.
3. **Dynamic relationship** – As strategies evolve (growth, diversification, globalization), structures must adapt.

- *Example:* McDonald’s adopted a **global strategy** but adapted its structure to allow regional units to localize menus (e.g., McAloo Tikki in India).

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## 4. Types of Organizational Structures Supporting Strategies

### A. Functional Structure

- Groups activities by functions (marketing, finance, HR, operations).
- Best for companies pursuing **cost leadership** or **focus strategy**.
- *Example:* Walmart – centralized cost control, standardized processes.

### B. Divisional Structure

- Based on products, markets, or geography.
- Suitable for **diversification** or **differentiation strategy**.
- *Example:* Amazon – divisions for AWS, retail, and Prime Video.

### C. Matrix Structure

- Combines functional and divisional approaches.
- Useful for **global or project-based strategies**.
- *Example:* IBM uses matrix to manage both industry verticals and geographical regions.

### D. Network/Flat Structure

- Flexible, decentralized, technology-enabled.
  - Works for **innovation and digital strategies**.
  - *Example:* Startups and IT firms like Spotify use squad/tribe models.
- 

## 5. Strategy–Structure Alignment

Strategy	Appropriate Structure	Example
Cost Leadership	Functional	Walmart
Differentiation	Divisional (product-based)	Apple
Diversification	Strategic Business Units (SBUs)	General Electric (GE)
Globalization	Matrix (geography + product)	Coca-Cola
Innovation/Agility	Network/Flat	Google, Spotify

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### Why Alignment is Key

- **Enhanced Performance:**

When structure and strategy are in sync, the organization can operate more effectively, efficiently, and achieve its objectives more reliably.

- **Improved Flexibility:**

A well-aligned structure allows for greater responsiveness and adaptation to changing market conditions and organizational shifts.

- **Streamlined Execution:**

A structure that supports the strategy ensures that activities are coordinated, information flows correctly, and all parts of the organization work toward common goals.

- **Reduced Costs:**

By implementing a structure that supports the strategy, organizations can avoid duplicated efforts and develop synergy, which can lead to cost savings.

## **strategy and leadership**

### **1. Introduction**

While **strategy** provides the *plan* for achieving organizational objectives, **leadership** provides the *vision, influence, and execution power* to make that plan a reality.

A brilliant strategy without effective leadership often fails, while strong leadership can sometimes compensate for a weak strategy by mobilizing people, adapting to challenges, and seizing opportunities.

□ *Example:* Steve Jobs at Apple – his leadership turned Apple’s innovation strategy into iconic products like the iPhone, which transformed entire industries.

### **2. Definitions**

- **Strategy:** The long-term plan of action to achieve sustainable competitive advantage.
- **Leadership:** The ability to influence, motivate, and guide people toward achieving organizational goals.

□ Together: *Strategic Leadership* = the ability of leaders to anticipate, envision, maintain flexibility, and empower others to create strategic change.

### **3. The Link between Strategy and Leadership**

#### **1. Leadership Shapes Strategy**

- Leaders set the **vision, mission, and goals**.
- They choose which strategic options to pursue (growth, cost leadership, diversification).

#### **2. Leadership Executes Strategy**

- Leaders align people, structure, and culture to strategy.
- They motivate employees, resolve conflicts, and drive implementation.

#### **3. Leadership Adapts Strategy**

- Leaders scan the environment and adapt strategies to changing markets, technology, or competition.

□ *Example:* Satya Nadella’s leadership at Microsoft shifted the strategy from a Windows-centered model to a **cloud-first, mobile-first** approach, reviving the company.

#### 4. Nature of Strategic Leadership

- **Visionary** – Provides a clear sense of future direction.
  - **Inspirational** – Motivates employees to commit to the strategy.
  - **Adaptive** – Responds to changing environments and adjusts strategies.
  - **Ethical & Responsible** – Ensures long-term sustainability.
  - **Decision-Oriented** – Makes tough choices about resource allocation, mergers, and restructuring.
- 

#### 5. Types of Leadership Roles in Strategy

1. **Architect Role** – Designing the strategy itself.
    - Example: Jeff Bezos crafting Amazon’s “customer obsession” and expansion into AWS.
  2. **Mobilizer Role** – Aligning people and resources.
    - Example: Indra Nooyi at PepsiCo mobilized global teams around the strategy of “Performance with Purpose.”
  3. **Change Agent Role** – Leading transformation and innovation.
    - Example: Elon Musk reshaping industries with Tesla and SpaceX.
  4. **Guardian Role** – Safeguarding culture, values, and ethics while pursuing strategy.
    - Example: Ratan Tata maintaining Tata Group’s ethical reputation during global expansions.
- 

#### 6. Strategic Leadership Styles

- **Transformational Leadership** – Inspires innovation and change (e.g., Steve Jobs).
  - **Transactional Leadership** – Focuses on structure, performance, and efficiency (e.g., McDonald’s managers).
  - **Servant Leadership** – Prioritizes people and culture to sustain strategy (e.g., Herb Kelleher at Southwest Airlines).
  - **Adaptive Leadership** – Navigates uncertainty and disruption (e.g., Netflix leadership adapting from DVD rental to streaming).
- 

## STRATEGY AND CULTURE CONNECTION

### 1. Introduction

Every organization functions with two powerful forces:

- **Strategy** → The *plan of action* designed to achieve long-term goals and competitive advantage.
- **Culture** → The *shared values, beliefs, norms, and behaviors* that shape how people in an organization act and interact.

□ While strategy tells an organization **where it wants to go**, culture determines **how it will get there**.

A strong alignment between strategy and culture is essential for sustainable success.

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## 2. The Link Between Strategy and Culture

### 1. Culture Supports Strategy

- A company's culture provides the energy, motivation, and environment for successful strategy execution.
- Example: **Toyota's culture of continuous improvement (Kaizen)** supports its strategy of operational excellence.

### 2. Culture Shapes Strategic Choices

- An organization's deeply rooted values influence which strategies are considered acceptable.
- Example: **Patagonia's sustainability-driven culture** pushes it toward eco-friendly strategies rather than mass-market cost-cutting.

### 3. Culture Can Be a Competitive Advantage

- A unique culture is hard to copy, creating long-term advantage.
- Example: **Google's culture of innovation** helps maintain leadership in technology.

### 4. Culture Can Also Hinder Strategy

- If culture resists change, strategies may fail.
- Example: **Kodak's culture of protecting film business** blocked digital innovation, leading to decline.

## 3. Dimensions of Culture Affecting Strategy

According to Edgar Schein and Hofstede, culture impacts strategy in several dimensions:

- **Risk Tolerance:** Innovative cultures support bold strategies (e.g., Tesla).
- **People Orientation:** Cultures focusing on employees influence HR and retention strategies (e.g., Southwest Airlines).
- **Results Orientation:** Performance-driven cultures align with cost leadership or efficiency strategies (e.g., Walmart).
- **Adaptability:** Flexible cultures enable quick strategy shifts (e.g., Netflix adapting to streaming).

## 4. Strategy–Culture Alignment Framework

A good strategy–culture connection requires alignment across three levels:

Level	Strategy Needs	Culture Role
<b>Corporate Level</b>	Vision, diversification, global expansion	Shared purpose, openness to diversity
<b>Business Level</b>	Cost leadership, differentiation, focus	Work norms that support efficiency, creativity, or specialization
<b>Functional Level</b>	Marketing, HR, Operations strategies	Daily behaviors, values, team collaboration

## 5. Examples of Strategy–Culture Fit

- **Apple:** Strategy of premium differentiation → Culture of secrecy, innovation, and design excellence.
- **Amazon:** Strategy of customer obsession and efficiency → Culture of frugality, metrics, and high performance.
- **Zappos:** Strategy of customer service → Culture of fun, employee happiness, and empowerment.

## 6. Strategy–Culture Misfit

When strategy and culture clash:

- Strategy execution fails.
- Employees resist changes.
- Morale and performance decline.

**Example:** When Daimler-Benz merged with Chrysler, the **German formal culture** clashed with **American risk-taking culture**, leading to failure of integration strategy.

# OPERATIONALISING AND INSTITUTIONALISING STRATEGY

## 1. Introduction

Formulating a strategy is only the **first step**. To achieve results, the strategy must:

1. Be **operationalised** → converted into actionable steps.
2. Be **institutionalised** → embedded into the organization's systems, culture, and practices.

□ Without these, even the best strategy remains a document on paper.

## 2. Operationalising Strategy

### Meaning

Operationalising means **breaking down high-level strategy into concrete, measurable actions** that can be implemented by different functions and employees.

### Steps in Operationalising Strategy

1. **Translate Strategy into Objectives**
  - Convert broad strategic goals into SMART (Specific, Measurable, Achievable, Relevant, Time-bound) objectives.
  - Example: “Become market leader” → “Achieve 20% market share in 3 years.”
2. **Set Key Performance Indicators (KPIs)**
  - Identify metrics to track progress.
  - Example: sales growth, customer retention, cost efficiency.
3. **Develop Action Plans**
  - Assign specific activities to departments/teams.
  - Example: Marketing → new campaigns; Operations → cost-cutting projects.

#### 4. Allocate Resources

- Budget, manpower, technology, and time must be distributed in line with priorities.

#### 5. Establish Accountability

- Assign ownership of objectives.
- Example: “Head of Sales responsible for 15% increase in revenues.”

### 3. Institutionalising Strategy

#### Meaning

Institutionalising means **embedding strategy into the organization’s culture, policies, structures, and routines** so that it becomes part of the organizational DNA.

#### Ways to Institutionalise Strategy

##### 1. Align Structure with Strategy

- Structure should facilitate strategy.
- Example: A firm pursuing global expansion creates regional divisions.

##### 2. Embed in Culture

- Shared values and norms should support the strategy.
- Example: If innovation is strategy → culture must reward creativity and risk-taking.

##### 3. Integrate into HR Systems

- Performance appraisal, rewards, promotions should reinforce strategic goals.
- Example: Bonuses linked to achieving customer satisfaction targets.

##### 4. Policies and Standard Procedures

- Formalize practices consistent with strategy.
- Example: A cost-leadership firm institutionalizes procurement policies for cost efficiency.

##### 5. Communication and Leadership

- Leaders continuously communicate and model the strategy.
- Example: CEO Jeff Bezos institutionalised Amazon’s strategy of “customer obsession” through every meeting, process, and decision.

##### 6. Continuous Learning and Adaptation

- Regular review meetings and feedback loops institutionalize ongoing strategy refinement.

### 4. Difference Between Operationalising and Institutionalising

Aspect	Operationalising	Institutionalising
<b>Focus</b>	Action & execution	Embedding & sustaining
<b>Timeframe</b>	Short to medium-term	Long-term
<b>Level</b>	Functional & tactical	Cultural & structural
<b>Example</b>	Launching new product campaign	Making innovation part of company culture

# ORGANIZATIONAL VALUES AND THEIR IMPACT ON STRATEGY

## 1. Introduction

Organizational values are the deeply held **beliefs, principles, and ethical standards** that guide the behavior of employees and leaders within a company. They act as the **moral compass** of the organization, shaping its culture, decision-making, and long-term direction.

Values are not just slogans on a wall; they influence **how strategies are formulated, implemented, and sustained**. A strategy without alignment to organizational values often fails, because employees will not internalize or support it.

## 2. Meaning of Organizational Values

- **Organizational values** represent the **core ideology** of a company – what it stands for and why it exists beyond profit.
- They define acceptable behaviors, shape organizational culture, and create a sense of identity and purpose.

□ Example:

- **Google** – “Focus on the user and all else will follow.”
- **Infosys** – “Customer delight, fairness, leadership by example, and integrity.”

## 3. Nature of Organizational Values

1. **Enduring** – Values are relatively stable over time, guiding consistent behavior.
2. **Collective** – Shared across employees and leadership.
3. **Embedded in Culture** – Reflected in norms, rituals, and practices.
4. **Influence Decisions** – Affect strategic choices such as market entry, innovation, or partnerships.
5. **Differentiating Factor** – Unique values distinguish one company from another.

## 4. Elements of Organizational Values

1. **Core Values** – Fundamental beliefs that define the essence of the organization (e.g., innovation, trust, integrity).
2. **Aspirational Values** – Values the organization wants to develop for future growth (e.g., sustainability, agility).
3. **Permission-to-Play Values** – Minimum standards of behavior required in an industry (e.g., compliance, safety).
4. **Accidental Values** – Unplanned values that emerge from employee personalities or circumstances (e.g., informal, risk-averse culture).

## 5. Impact of Organizational Values on Strategy

Organizational values influence **every stage of strategic management**:

### A. Strategy Formulation

- Values guide the vision, mission, and objectives of the firm.

- Example: **Patagonia** (environmental sustainability) → strategy emphasizes eco-friendly products and activism.

## B. Strategy Implementation

- Values influence leadership styles, communication, and employee engagement.
- Example: **Southwest Airlines** – values of teamwork and fun → strategy of low-cost, high-service model.

## C. Competitive Advantage

- Strong values differentiate the company and build brand loyalty.
- Example: **Apple** – values of design and innovation → premium positioning in tech industry.

## D. Stakeholder Relationships

- Values determine how the firm interacts with customers, suppliers, regulators, and communities.
- Example: **Tata Group** – values of trust and social responsibility → strong goodwill in India and abroad.

## E. Crisis Management

- During uncertainty, values provide stability and decision-making guidance.
- Example: **Johnson & Johnson** Tylenol crisis – pulled products immediately, guided by values of customer safety.

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## Conclusion

Organizational values are the **soul of strategy**. They determine not only **what strategies are chosen**, but also **how they are executed** and **how stakeholders perceive the firm**. When strategy and values are aligned, organizations build trust, brand reputation, employee commitment, and long-term sustainability.

**In short:** Strategy tells you *where* to go; values tell you *how* to get there.

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# RESOURCE ALLOCATION

## 1. Introduction

Resource allocation is the process of **assigning an organization's limited resources—financial, human, physical, and technological—across competing projects, business units, or functions** to achieve strategic objectives.

Since resources are always scarce, the way an organization distributes them determines the **success or failure of strategy implementation**. Effective allocation ensures that critical areas receive adequate support while avoiding waste and inefficiencies.

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## 2. Meaning of Resource Allocation

- It is the **decision-making process** of distributing resources in alignment with organizational goals.
- Resources include:
  - **Financial capital** (budgets, investments)
  - **Human capital** (talent, skills, leadership)

- **Physical assets** (plants, machinery, infrastructure)
- **Technological resources** (patents, R&D, IT systems)
- **Time and attention of managers**

□ Example: A company entering a new international market may allocate higher budgets to **marketing and distribution** while cutting costs in mature domestic markets.

### 3. Objectives of Resource Allocation

1. **Support Strategy Implementation** – Ensuring resources are aligned with strategic priorities.
2. **Maximize Efficiency** – Avoiding duplication and underutilization.
3. **Balance Short-term vs. Long-term Needs** – Profitability today vs. sustainability tomorrow.
4. **Achieve Competitive Advantage** – Investing in unique capabilities like R&D, brand building, or digital transformation.
5. **Adaptability** – Ensuring flexibility to reallocate when market conditions change.

### 4. Principles of Resource Allocation

1. **Strategic Alignment** – Resources must support vision, mission, and objectives.
2. **Prioritization** – Focus on high-impact projects that drive competitive advantage.
3. **Flexibility** – Allow adjustments in response to market shifts or crises.
4. **Transparency & Fairness** – Clear rationale for allocation to avoid internal conflicts.
5. **Sustainability** – Allocate with long-term growth and environmental/social responsibility in mind.

### 5. Resource Allocation Process

#### Step 1: Identify Available Resources

- Assess financial budgets, workforce, assets, and technology.

#### Step 2: Analyze Strategic Priorities

- Evaluate corporate, business, and functional level goals.

#### Step 3: Evaluate Alternatives

- Compare possible allocations using ROI, risk analysis, and strategic fit.

#### Step 4: Allocate Resources

- Distribute across departments, projects, or SBUs (strategic business units).

#### Step 5: Monitor and Reallocate

- Track performance and adjust allocations as conditions change.

### 6. Types of Resource Allocation

1. **Top-down Allocation** – Corporate headquarters decides distribution across units.
  - Example: **Tata Group** allocating funds across steel, IT, and hospitality.
2. **Bottom-up Allocation** – Business units propose resource needs, and corporate approves.
  - Example: **Procter & Gamble** brand managers request budgets for campaigns.

3. **Hybrid Approach** – Combination of both, balancing central control with local autonomy.
- 

## 7. Challenges in Resource Allocation

1. **Resource Scarcity** – Limited budgets force tough trade-offs.
  2. **Internal Politics** – Power struggles among departments can distort decisions.
  3. **Changing Environments** – Sudden market disruptions demand reallocation.
  4. **Measurement Issues** – Difficulty in assessing which project has the highest long-term payoff.
  5. **Short-term Bias** – Over-prioritizing immediate profits over innovation and sustainability.
- 

## 8. Example Cases

- **Apple Inc.** – Heavy allocation to **R&D and design** → innovation-driven advantage.
  - **Amazon** – Allocates aggressively to **logistics and cloud infrastructure** (AWS) → dominant market position.
  - **Tesla** – Prioritizes **battery technology and EV infrastructure** → leadership in electric vehicles.
- 

## Conclusion

Resource allocation is **the bridge between strategy formulation and execution**. Without proper allocation, even the best strategies remain on paper. Companies that excel at allocating resources proactively (like Google, Amazon, Tata, and Toyota) are better positioned to respond to changes, exploit opportunities, and sustain competitive advantage.

**In short:** Strategy tells *what to do*; resource allocation tells *how much to invest where* to make it happen.

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# PLANNING SYSTEMS FOR IMPLEMENTATION

## 1. Introduction

Formulating a strategy is only the first step. The real challenge lies in **implementing** it effectively. To do so, organizations need **planning systems**—structured mechanisms that translate strategies into actionable programs, budgets, and performance standards.

A planning system ensures that:

- Long-term objectives are broken down into operational plans.
- Resources are allocated in line with priorities.
- Progress is monitored, and corrective actions are taken.

□ Without a robust planning system, strategy remains a “document” rather than a “driver of action.”

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## 2. Meaning of Planning Systems for Implementation

A **planning system** is the set of formal procedures, processes, and tools used to:

1. Set objectives,
2. Translate strategy into short-term and medium-term actions, and
3. Provide control mechanisms to monitor implementation.

It acts as the **bridge between strategy and operations.**

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### 3. Objectives of Planning Systems

1. **Translate strategic intent into action**
    - Breaking down long-term strategies into functional, departmental, and individual targets.
  2. **Provide Direction**
    - Ensuring everyone in the organization works toward common goals.
  3. **Ensure Resource Alignment**
    - Linking budgets, manpower, and assets with priorities.
  4. **Facilitate Coordination**
    - Aligning efforts of multiple departments and SBUs.
  5. **Enable Monitoring and Control**
    - Creating benchmarks to evaluate performance and adapt plans.
- 

### 4. Components of Planning Systems

1. **Strategic Plans** – Long-term vision, mission, and objectives (5–10 years).
  2. **Tactical Plans** – Mid-term action plans (1–3 years) that translate strategy into departmental initiatives.
  3. **Operational Plans** – Day-to-day and weekly/monthly action steps.
  4. **Budgets** – Financial representation of resource allocation.
  5. **Policies & Procedures** – Guidelines to standardize decisions and actions.
  6. **Performance Measurement Systems** – KPIs, Balanced Scorecard, etc.
- 

### 5. Types of Planning Systems

#### 1. Long-Range Planning System

- Focus: Anticipating future opportunities and challenges.
- Example: **Airbus** planning R&D and capacity for new aircraft models 10 years ahead.

#### 2. Strategic Planning System

- Formal process for setting mission, goals, and strategies.
- Example: **Google**'s diversification strategy into AI, Cloud, and hardware.

#### 3. Tactical (Intermediate) Planning System

- Converts strategic intent into departmental plans.
- Example: **Amazon** expanding logistics hubs to support global e-commerce strategy.

#### 4. Operational Planning System

- Day-to-day plans and task assignments.
- Example: **Toyota** applying Lean production schedules daily to achieve efficiency.

#### 5. Contingency Planning System

- Plans for uncertainties, risks, or crises.

- Example: **Microsoft** creating data backup and disaster recovery systems.
- 

## 6. Tools Used in Planning Systems

1. **Balanced Scorecard (BSC)** – Aligns strategy with financial and non-financial performance.
  2. **Management by Objectives (MBO)** – Joint goal setting between managers and employees.
  3. **PERT/CPM Charts** – For scheduling and tracking project milestones.
  4. **Scenario Planning** – Exploring “what-if” situations to prepare for uncertainty.
  5. **Rolling Forecasts** – Continuous updating of financial and operational plans.
- 

## 7. Challenges in Planning Systems

1. **Over-bureaucratization** – Excessive paperwork reduces flexibility.
  2. **Resistance to Change** – Employees may see planning as rigid.
  3. **Environmental Uncertainty** – Rapidly changing markets can make plans obsolete.
  4. **Short-termism** – Over-focus on immediate results at the expense of long-term strategy.
  5. **Coordination Problems** – Misalignment between corporate and functional plans.
- 

## 8. Example Cases

- **Apple Inc.** – Uses integrated planning systems to synchronize product launches, supply chain, and marketing.
  - **Unilever** – Employs rolling forecasts and scenario planning to handle global uncertainties.
  - **Indian Railways** – Relies on long-range five-year planning for infrastructure and modernization.
- 

## Conclusion

A planning system is the **skeleton of strategy implementation**.

It translates vision into measurable objectives, allocates resources, ensures coordination, and provides a feedback loop for continuous improvement.

Organizations that build **flexible yet structured planning systems** (e.g., Amazon, Toyota, Google) manage to stay competitive even in uncertain environments.

**In essence:** *Strategy tells us where to go, but planning systems tell us how to get there.*

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## UNIT-5

### STRATEGY EVALUATION AND CONTROL

#### 1. Introduction

Formulating and implementing a strategy is not the final step in strategic management.

Organizations must **evaluate and control strategies** to ensure they are delivering the intended results and remain relevant in a changing environment.

- **Strategy Evaluation** = Systematic process of assessing the outcomes of a strategy against objectives.
- **Strategy Control** = Corrective actions taken to realign performance with strategic intent.

□ Without evaluation and control, companies risk continuing with ineffective strategies, wasting resources, and losing competitiveness.

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#### 2. Importance of Strategy Evaluation and Control

1. **Ensures Achievement of Objectives** – Confirms whether strategic goals are being met.
2. **Detects Deviations Early** – Identifies gaps between actual and planned performance.
3. **Provides Feedback** – Offers insights for continuous improvement.
4. **Facilitates Adaptability** – Helps firms respond to changes in environment, technology, or competition.
5. **Enhances Accountability** – Managers are responsible for results.

*Example:* Nokia failed to evaluate changing smartphone trends early enough, leading to decline. Apple, by contrast, continually evaluates and adapts strategy.

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#### 3. Strategic Evaluation Process

The process can be summarized in **four key steps**:

##### Step 1: Establishing Strategic Standards

- Setting performance indicators (financial & non-financial).
- Example: Market share, ROI, customer satisfaction, innovation rate.

##### Step 2: Measuring Performance

- Collecting data on actual outcomes.
- Example: Balanced Scorecard, KPIs, dashboards.

##### Step 3: Comparing Performance with Standards

- Identifying gaps between expected and actual results.
- Example: If projected sales growth was 12% but actual is 6%, deviation = 50%.

##### Step 4: Taking Corrective Action

- Modifying strategies, reallocating resources, or adjusting objectives.
- Example: Netflix shifting from DVD rentals to online streaming after evaluation.

## 4. Strategic Control

While evaluation looks at past results, **control is forward-looking**. It ensures strategy stays on track during implementation.

### Types of Strategic Control

#### 1. Premise Control

- Tests whether original assumptions about environment are still valid.
- Example: Oil companies monitor global fuel demand forecasts.

#### 2. Implementation Control

- Monitors milestones and programs during strategy execution.
- Example: Infosys tracks project deliverables in IT outsourcing contracts.

#### 3. Strategic Surveillance

- Broad monitoring of internal and external environment for warning signals.
- Example: Samsung monitors emerging tech trends like foldable displays.

#### 4. Special Alert Control

- Rapid response to unexpected crises.
- Example: Airline industry adapting strategies during COVID-19.

## 5. Techniques of Strategy Evaluation and Control

1. **Balanced Scorecard (BSC)** – Evaluates financial, customer, internal process, and innovation metrics.
2. **Key Performance Indicators (KPIs)** – Quantifiable measures linked to strategic goals.
3. **Benchmarking** – Comparing with best practices in industry.
4. **Gap Analysis** – Measuring difference between desired and actual outcomes.
5. **ROI & Financial Ratios** – Profitability, liquidity, and efficiency indicators.
6. **Strategic Audit** – Comprehensive review of strategy, structure, and performance.

## ESTABLISHING STRATEGIC CONTROLS

### 1. Introduction

When a strategy is formulated and implemented, managers need to ensure it stays on course. This is done through **strategic control**, which focuses on monitoring whether the chosen strategy is appropriate and effective in achieving objectives.

**Establishing strategic controls** means creating systems, standards, and processes to evaluate performance, detect deviations, and initiate corrective action.

Unlike operational controls (day-to-day activities), **strategic controls** are **long-term, future-oriented, and qualitative**.

## 2. Steps in Establishing Strategic Controls

### Step 1: Define Strategic Objectives

- Clear **vision, mission, and goals** must guide control mechanisms.
- Example: Tesla's strategic objective – “accelerate the world's transition to sustainable energy.”

### Step 2: Identify Key Success Factors (KSFs)

- Factors critical for achieving competitive advantage.
- Examples:
  - In airlines → low costs, safety, punctuality.
  - In IT services → innovation, skilled talent, global delivery.

### Step 3: Develop Standards and Benchmarks

- Set measurable **performance indicators** linked to strategy.
- Examples: ROI, market share, customer loyalty, innovation rate.

### Step 4: Measure Actual Performance

- Collect data continuously using tools like **Balanced Scorecard, KPIs, Benchmarking**.
- Example: Amazon tracks delivery times, customer ratings, and operating margins.

### Step 5: Compare Performance with Standards

- Analyze deviations and identify reasons.
- Example: If planned market growth = 12% but achieved = 6%, find causes (competition, pricing, weak marketing).

### Step 6: Take Corrective Action

- Revise assumptions, redesign processes, or modify strategies.
- Example: Netflix shifting from DVD rentals to streaming after evaluating market trends.

## 3. Types of Strategic Controls

When establishing strategic controls, companies typically use **four categories** (as proposed by Schreyogg & Steinmann):

### 1. Premise Control

- Tests the validity of assumptions on which strategy was built.
- Example: Monitoring global EV adoption trends for electric car companies.

### 2. Implementation Control

- Tracks key milestones in execution.
- Example: Checking whether IT rollout projects meet deadlines in Infosys.

### 3. Strategic Surveillance

- Broad, ongoing monitoring of environment.
- Example: Samsung scanning new consumer tech innovations.

### 4. Special Alert Control

- Rapid response to sudden, unexpected events.
- Example: Hospitality industry reacting to COVID-19.

#### 4. Tools for Establishing Strategic Controls

- **Balanced Scorecard (BSC)** – Covers financial, customer, internal process, and learning perspectives.
  - **Key Performance Indicators (KPIs)** – Specific measurable targets.
  - **Benchmarking** – Comparing with industry best practices.
  - **Gap Analysis** – Measuring difference between goals and actual results.
  - **Dashboards & MIS** – Data-driven reporting systems.
- 

## MEASURING PERFORMANCE

### 1. Introduction

In strategic management, **measuring performance** is the process of evaluating how well an organization is achieving its strategic objectives.

It helps managers answer:

- *Are we on track with our strategy?*
- *Are resources being used efficiently?*
- *Do we need corrective action or a strategy change?*

Performance measurement is not limited to financial outcomes; it includes **customer satisfaction, innovation, internal processes, and long-term sustainability**.

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### 2. Objectives of Performance Measurement

- To evaluate progress toward strategic goals.
  - To detect gaps between planned and actual results.
  - To ensure accountability and transparency.
  - To provide feedback for strategic control and improvement.
  - To support decision-making in resource allocation.
- 

### 3. Dimensions of Performance Measurement

Performance can be measured across **multiple perspectives**:

#### 1. Financial Performance

- Profitability (ROI, ROA, ROE, Net Profit Margin)
- Sales Growth & Market Share
- Cost Efficiency
- Example: Coca-Cola measures revenue growth in emerging markets.

#### 2. Customer/Market Performance

- Customer satisfaction & loyalty
- Market share growth
- Brand equity

- Example: Amazon tracks “Prime membership retention rate.”

### 3. Internal Process Performance

- Efficiency of operations
- Quality control & productivity
- Innovation rate (new products launched)
- Example: Toyota measures production cycle time in its lean system.

### 4. Learning & Growth (Employee/Innovation Performance)

- Employee engagement, retention, training
- Knowledge management & R&D output
- Example: Google tracks innovation metrics like patents filed.

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## 4. Methods of Measuring Performance

### A. Financial Metrics

- Return on Investment (ROI)
- Economic Value Added (EVA)
- Profit margins, EPS (Earnings per Share)

### B. Non-Financial Metrics

- Customer feedback surveys
- Market share analysis
- Employee productivity scores

### C. Balanced Scorecard (Kaplan & Norton)

- Integrates **financial and non-financial** indicators across:
  1. Financial perspective
  2. Customer perspective
  3. Internal processes
  4. Learning & growth

### D. Benchmarking

- Comparing performance against industry leaders or competitors.

### E. Key Performance Indicators (KPIs)

- Specific, measurable targets aligned with strategic goals.
  - Example: “Reduce delivery time to <24 hours” for e-commerce firms.

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## 5. Process of Measuring Performance

1. **Set Performance Standards** (based on strategy and goals).
2. **Measure Actual Performance** (collect data from operations).
3. **Compare Results with Standards** (gap analysis).
4. **Identify Deviations** (strengths, weaknesses, opportunities).
5. **Take Corrective Action** (improve operations, revise strategy).

## PROBLEMS IN MEASURING PERFORMANCE

Measuring organizational performance is essential for strategy evaluation and control. However, it is not straightforward. Companies face numerous **challenges and limitations** when trying to accurately measure how well they are performing.

### 1. Defining Performance

- **Ambiguity of goals:** Performance can mean different things (profitability, growth, market share, employee satisfaction, innovation).
- **Subjectivity:** Different stakeholders (owners, managers, employees, customers, government) evaluate performance differently.
- **Short-term vs. long-term:** Profitability in the short run may conflict with long-term sustainability.

### 2. Selection of Performance Indicators

- **Over-reliance on financial measures:** Traditional metrics like ROI, ROA, and profit ignore intangible assets (brand value, customer loyalty, innovation).
- **Difficulty measuring intangibles:** Culture, knowledge, innovation, and goodwill are hard to quantify.
- **Too many KPIs:** Excessive indicators can confuse managers and dilute focus.

### 3. Data-Related Issues

- **Inaccuracy of data:** Poor data collection systems lead to unreliable measures.
- **Timeliness:** Outdated data misrepresents the current situation.
- **Manipulation of data:** Managers may “window-dress” numbers to show better results.

### 4. External Environmental Factors

- **Market volatility:** Changes in economy, regulations, or technology affect performance beyond the firm’s control.
- **Industry differences:** Standards of performance vary widely across industries, making benchmarking difficult.
- **Globalization:** Different accounting standards, cultural norms, and competition levels complicate comparison.

### 5. Human and Behavioral Problems

- **Resistance to evaluation:** Employees and managers may fear negative consequences of being evaluated.
- **Bias and subjectivity:** Personal judgment affects qualitative assessments.
- **Conflict of interest:** Managers may focus on meeting performance targets instead of overall strategic goals.

### 6. Short-Termism

- **Pressure from shareholders:** Focus on quarterly results undermines long-term strategy.
- **Neglect of innovation:** Investment in R&D or employee development may be cut to show immediate profits.

### 7. Integration Issues

- **Misalignment with strategy:** Chosen measures may not reflect strategic objectives.

- **Difficulty in cross-functional measurement:** Performance across departments (marketing, HR, finance) is hard to integrate into a single picture.
- **Lack of balance:** Overemphasis on either financial or non-financial indicators distorts the overall evaluation.

## 8. Benchmarking Limitations

- **Lack of comparable data:** Competitors may not disclose true performance.
- **Context differences:** What works for one company may not work for another.
- **Dynamic nature:** Benchmarks change over time as industries evolve.

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# APPROPRIATE MEASURES

## 1. Financial Measures

Focus on profitability, liquidity, and shareholder value.

- **Revenue Growth** – Is the company expanding sales?
- **Profitability Ratios** – Net profit margin, ROI, ROE.
- **Cash Flow** – Operational cash flow sustainability.
- **Economic Value Added (EVA)** – Profit after deducting cost of capital.
- **Market Value** – Stock price, market capitalization.

☐ Appropriate when: measuring financial health, investor returns, or short-term performance.

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## 2. Customer/Market Measures

Assess satisfaction, loyalty, and market positioning.

- **Customer Satisfaction Index (CSI)** – Surveys/ratings.
- **Customer Retention/Churn Rate** – % of customers leaving.
- **Market Share** – Company's share in total industry sales.
- **Net Promoter Score (NPS)** – Customer willingness to recommend.
- **Brand Equity Measures** – Awareness, preference, perceived quality.

☐ Appropriate when: customer loyalty, service quality, or market growth is strategic focus.

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## 3. Internal Process Measures

Evaluate efficiency, quality, and innovation.

- **Cycle Time** – Speed of production or service delivery.
- **Defect Rates/Quality Scores** – Six Sigma, ISO standards.
- **Innovation Rate** – % of sales from new products.
- **Productivity Metrics** – Output per employee/hour.
- **Cost Efficiency** – Unit cost of production.

☐ Appropriate when: operational excellence or innovation is the key strategy.

#### 4. Learning & Growth (Employee/Innovation) Measures

Focus on long-term capacity for growth.

- **Employee Engagement & Satisfaction** – Survey scores.
- **Employee Turnover Rate** – Retention of talent.
- **Training & Development Hours per Employee.**
- **Knowledge Management Metrics** – Patents filed, R&D spend.
- **Culture Alignment** – Employee adherence to values & vision.

☐ Appropriate when: strategy depends on knowledge, creativity, or people-driven advantage.

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#### 5. Environmental & Social (Sustainability) Measures

Increasingly important for long-term success.

- **ESG Scores (Environmental, Social, Governance).**
- **Carbon Footprint Reduction.**
- **CSR (Corporate Social Responsibility) Initiatives.**
- **Community Impact Metrics.**

☐ Appropriate when: company strategy emphasizes sustainability, reputation, and compliance.

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#### 6. Balanced Scorecard Approach

Instead of relying on a single dimension, companies integrate:

- **Financial**
- **Customer**
- **Internal Processes**
- **Learning & Growth**

☐ Example:

- **Apple** tracks *financials* (profit margins), *customers* (NPS, ecosystem stickiness), *processes* (supply chain efficiency), and *innovation* (R&D outputs).
- 

#### 7. Guidelines for Choosing Appropriate Measures

- **Relevance** – Linked to strategic goals.
  - **Balance** – Mix of financial and non-financial indicators.
  - **Comparability** – Benchmark against competitors/industry.
  - **Actionable** – Measures should guide decisions, not just monitor.
  - **Future-Oriented** – Include predictive indicators, not just historical data.
- 

#### Summary:

The most appropriate measures of performance are those that **directly reflect the organization's strategy**. A cost-leadership strategy may focus on *cost efficiency and productivity*, while a differentiation strategy emphasizes *innovation, customer satisfaction, and brand equity*.

## BALANCED SCORECARD

Introduced in 1992, the Balanced Scoreboard (BSC) is a strategic management framework that **measures a company's performance based on four key perspectives**.



### Introduction

- Developed by **Robert Kaplan and David Norton (1992)**.
- Traditional performance measurement systems focused **only on financial outcomes** (profits, ROI, etc.).
- Kaplan & Norton argued that financial measures are **lagging indicators** – they show the result of past actions but not drivers of future performance.
- The **Balanced Scorecard (BSC)** integrates **financial and non-financial measures** to give a *balanced* view of organizational performance.

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### Definition

Balanced Scorecard is a **strategic performance management tool** that translates an organization's vision and strategy into a set of **integrated performance measures** across four perspectives:

1. Financial

2. Customer
  3. Internal Processes
  4. Learning & Growth
- 

## **Four Perspectives of the Balanced Scorecard**

### **1. Financial Perspective – “How do we look to shareholders?”**

- Measures profitability and shareholder value.
- **Examples:**
  - Revenue growth
  - ROI (Return on Investment)
  - Net profit margin
  - Economic Value Added (EVA)
  - Cost reduction metrics

### **2. Customer Perspective – “How do customers see us?”**

- Measures customer satisfaction, loyalty, and market share.
- **Examples:**
  - Customer Satisfaction Index
  - Retention/Churn rate
  - Market share percentage
  - Net Promoter Score (NPS)
  - On-time delivery rates

### **3. Internal Business Process Perspective – “What must we excel at?”**

- Focuses on operations that create value for customers and shareholders.
- **Examples:**
  - Cycle time reduction
  - Defect rate (Six Sigma, quality measures)
  - Supply chain efficiency
  - Innovation rate (new products launched)
  - Cost per unit

### **4. Learning & Growth Perspective – “Can we continue to improve and innovate?”**

- Focuses on employee development, knowledge, and organizational culture.
- **Examples:**
  - Employee training hours
  - Employee satisfaction/engagement
  - Staff turnover rate
  - Number of patents filed
  - Knowledge management initiatives

## Advantages of Balanced Scorecard

- Provides **holistic performance view** (financial + non-financial).
  - Translates **vision into measurable objectives**.
  - Aligns day-to-day operations with long-term strategy.
  - Encourages **continuous improvement**.
  - Improves **communication and accountability** within the organization.
- 

## ROLE OF THE STRATEGIST

### Who is a Strategist?

A **strategist** is a person or group responsible for **formulating, implementing, and evaluating strategies** to achieve the organization's mission, vision, and objectives.

- At the **corporate level**, strategists are typically the **Board of Directors, CEO, or top management**.
  - At the **business or functional level**, strategists include **business unit heads, departmental managers, and functional leaders**.
- 

### Key Roles of a Strategist

#### 1. Visionary Role

- Defines the **vision and mission** of the organization.
- Anticipates **future opportunities and threats** in the environment.
- Inspires employees by communicating a clear **sense of direction**.

*Example:* Elon Musk (Tesla, SpaceX) setting a vision of sustainable transport and interplanetary colonization.

#### 2. Analytical Role

- Analyzes **internal strengths and weaknesses** and **external opportunities and threats** (SWOT).
- Conducts **industry and competitive analysis** (Porter's Five Forces, PESTEL).
- Evaluates available **resources and capabilities** for strategy crafting.

#### 3. Decision-Making Role

- Chooses **strategic alternatives** such as diversification, cost leadership, differentiation, or focus strategies.
- Makes critical decisions about **investments, divestments, acquisitions, and partnerships**.
- Balances **short-term performance** with **long-term sustainability**.

#### 4. Leadership Role

- Provides **strategic leadership** by motivating and guiding employees.
- Builds a culture that supports **innovation, ethics, and accountability**.
- Develops and mentors the **next generation of leaders**.

## 5. Change Agent Role

- Anticipates and manages **organizational change** in response to shifting markets and technology.
- Reduces employee resistance by creating **ownership of strategy**.
- Drives digital transformation, sustainability, or restructuring efforts.

## 6. Resource Allocator

- Allocates **financial, human, and technological resources** to strategic priorities.
- Ensures resources are directed to activities that create **competitive advantage**.
- Balances efficiency (cost reduction) with innovation (R&D, training).

## 7. Monitor and Evaluator

- Tracks progress using tools like the **Balanced Scorecard, KPIs, benchmarking**.
- Evaluates whether strategies are working or need modification.
- Ensures alignment between **strategy → implementation → results**.

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## Qualities of a Successful Strategist

- **Visionary thinking**
- **Analytical skills**
- **Decisiveness under uncertainty**
- **Leadership and communication skills**
- **Adaptability and resilience**
- **Ethical judgment**

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## Example – Strategists in Action

- **Satya Nadella (Microsoft CEO):** Shifted strategy from “Windows-first” to “cloud-first, mobile-first,” making Microsoft a leader in cloud computing (Azure).
- **Ratan Tata (Tata Group):** Focused on global expansion and acquisitions like Jaguar–Land Rover to diversify and strengthen Tata’s global presence.

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## In summary:

The **role of the strategist** is to act as a **visionary, analyst, decision-maker, leader, change agent, resource allocator, and evaluator**. Strategists ensure the organization not only survives but thrives in a competitive and dynamic environment.

## QUALITATIVE AND QUANTITATIVE BENCHMARKING TO EVALUATE PERFORMANCE

### What is Benchmarking?

Benchmarking is a **systematic process of comparing an organization's performance, practices, and processes against industry leaders or best-in-class organizations** to identify gaps, set improvement targets, and achieve superior performance.

It is used in **strategy evaluation and control** to check whether a company is performing effectively.

### QUANTITATIVE BENCHMARKING TO EVALUATE PERFORMANCE

#### Meaning

Quantitative benchmarking is the process of **measuring an organization's performance using numerical indicators (metrics, ratios, KPIs)** and comparing them with competitors, industry standards, or best-in-class firms.

It focuses on **"hard data"** to evaluate **how well the company is performing** in financial, operational, and market terms.

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#### Key Characteristics

- **Objective:** Relies on measurable, numeric data.
- **Comparable:** Allows direct comparisons with competitors/standards.
- **Standardized:** Uses widely accepted indicators (e.g., ROI, productivity, cost ratios).
- **Performance-focused:** Shows where improvements are needed in concrete terms.

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#### Areas of Quantitative Benchmarking

##### 1. Financial Performance

- **Profitability ratios:** Net profit margin, ROI, ROE.
- **Liquidity ratios:** Current ratio, quick ratio.
- **Efficiency ratios:** Asset turnover, inventory turnover.
- **Valuation ratios:** Earnings per share (EPS), P/E ratio.

*Example:*

Coca-Cola benchmarks its **gross margin** against PepsiCo to maintain profitability standards.

##### 2. Operational Performance

- Productivity per worker / per machine.
- Cycle time per unit.
- Cost per unit.
- Defect/rejection rates.
- Energy utilization.

*Example:*

Toyota benchmarks **production efficiency (units per labor hour)** with global auto leaders.

### 3. Market and Customer Performance

- Market share percentage.
- Customer retention rate.
- Customer acquisition cost.
- Net Promoter Score (NPS).

*Example:*

Amazon tracks **customer retention and order fulfillment time** against e-commerce rivals.

### 4. Human Resource Performance

- Employee productivity (sales per employee).
- Absenteeism rate.
- Employee turnover ratio.

*Example:*

Infosys benchmarks **revenue per employee** against global IT firms like Accenture or TCS.

### Steps in Quantitative Benchmarking

1. **Select performance areas** (finance, operations, HR, customer service).
2. **Identify metrics/KPIs** to measure.
3. **Collect data** (internal & external).
4. **Compare** against industry leaders or standards.
5. **Analyze performance gaps.**
6. **Set targets and implement improvements.**
7. **Monitor progress continuously.**

## QUALITATIVE BENCHMARKING TO EVALUATE PERFORMANCE

### Meaning

Qualitative benchmarking is the process of evaluating a company's performance using **non-numerical, descriptive, and perception-based factors**.

It emphasizes **"how things are done"** rather than just the numbers, focusing on practices, processes, leadership style, culture, innovation, and customer/employee perceptions.

Unlike quantitative benchmarking (which uses ratios and KPIs), qualitative benchmarking **explores the quality and effectiveness of organizational practices**.

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### Key Characteristics

- **Non-numeric, descriptive:** Uses observations, interviews, surveys, case studies.
  - **Focus on processes, not only outcomes.**
  - **Subjective insights** into organizational strengths and weaknesses.
  - Often complements quantitative benchmarking for a holistic view.
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### Areas of Qualitative Benchmarking

#### 1. Leadership and Management Practices

- Vision clarity and communication effectiveness.

- Leadership style (transformational, participative, etc.).
- Decision-making quality and speed.

*Example:* Google benchmarks its **leadership development programs** against best-in-class organizations.

## 2. Organizational Culture

- Employee engagement and motivation.
- Trust, collaboration, and openness.
- Innovation-driven vs. risk-averse culture.

*Example:* Zappos benchmarks its **employee-centric culture** against global best practices in HR.

## 3. Customer Experience and Satisfaction

- Quality of service delivery.
- Responsiveness and empathy.
- Brand reputation and trust.

*Example:* Ritz-Carlton benchmarks **guest service excellence** against luxury hotel competitors.

## 4. Innovation and Learning

- Creativity in problem-solving.
- Knowledge-sharing culture.
- Adaptability to change and disruption.

*Example:* Apple benchmarks **design thinking and innovation culture** against other technology pioneers.

## 5. Stakeholder Relationships

- Employee–management relations.
- CSR and ethical practices.
- Supplier and partner collaboration quality.

*Example:* Unilever benchmarks **sustainability and CSR initiatives** against socially responsible companies.

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## Methods of Qualitative Benchmarking

- **Surveys & Interviews** (employees, customers, suppliers).
- **Focus Groups** for feedback.
- **Case Studies** of best practices.
- **Observation & Audits** of processes.
- **Cultural Assessments**.

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## Steps in Qualitative Benchmarking

1. Identify the **processes or practices** to benchmark (leadership, culture, innovation).
2. Collect **qualitative data** (interviews, surveys, case studies).
3. Compare **current practices** with best-in-class organizations.
4. Identify **gaps in practices, attitudes, and behaviors**.

5. Develop strategies to **improve culture, leadership, or customer service quality**.
  6. Monitor improvements and re-benchmark periodically.
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## **STRATEGIC INFORMATION SYSTEMS (SIS)**

### **Meaning**

A Strategic Information System (SIS) is a computer system that supports or shapes an organization's business strategy to achieve a competitive advantage by analyzing market and competitor information, improving decision-making, and enabling innovation.

Unlike traditional IT systems focused on operational efficiency, SIS are built to align technology with long-term business goals, respond to market changes in real-time, and gain an edge over competitors.

### **Definitions**

- **Wiseman (1985):** A strategic information system is “a system that supports or shapes a business unit’s competitive strategy.”
- **Callon (1996):** “Strategic information systems are those that change the goals, operations, products, services, or environmental relationships of organizations to help them gain a competitive advantage.”

## **KEY CHARACTERISTICS**

- **Competitive Advantage:**

The primary goal of an SIS is to provide a distinct competitive advantage, such as lower costs, product differentiation, or market innovation.

- **Strategic Alignment:**

SIS are developed in response to corporate business initiatives and are tightly integrated with the organization's overall business strategy.

- **External Focus:**

They often have an external focus, analyzing market trends, customer needs, and competitor activities to identify opportunities and threats.

- **Innovation and Transformation:**

SIS can significantly change how a business operates, enabling new products, services, or processes.

- **Data-Driven Insights:**

These systems leverage data analysis to drive strategic decisions, optimize supply chains, and predict future trends.

## Examples

- **SABRE (American Airlines):**

One of the earliest examples, this reservation system provided American Airlines with a competitive advantage by improving booking efficiency and offering superior services.

- **Citibank's ATM Network:**

The development of a comprehensive ATM network gave Citibank a significant advantage in customer convenience and market reach.

## HOW SIS WORKS

1. **1. Analysis:**

The system analyzes market, competitor, and customer data to identify opportunities and potential risks.

2. **2. Strategy Development:**

It supports the development of new strategies and business models, directly impacting the products, processes, and goals of the organization.

3. **3. Implementation:**

New information systems, software, databases, and networks are implemented to support the strategic initiatives.

4. **4. Competitive Advantage:**

By enabling faster responses and innovative approaches, the SIS helps the organization maintain a strong competitive position.

## STRATEGIC SURVEILLANCE

### Meaning

Strategic surveillance is a broad-based, general monitoring system used in **strategy evaluation and control**. Unlike routine control systems that track specific indicators, strategic surveillance casts a **wide net of information gathering** to identify emerging threats, opportunities, or unexpected changes in the environment that could impact the organization's strategy.

It acts like an **early-warning radar system**, ensuring that no critical external or internal development goes unnoticed.

### Definition

- **Glueck & Jauch:** *"Strategic surveillance is a systematic and wide-ranging monitoring of events inside and outside the organization that are likely to affect the course of its strategy."*
- **Wheelen & Hunger:** *"Strategic surveillance involves a general scanning of all kinds of information sources to uncover possible events that might affect the strategy."*

Strategic surveillance is the broad, ongoing, and unfocused monitoring of an organization's internal and external environment to identify potential risks, opportunities, and trends that could impact its strategic goals. It serves as a form of strategic control, providing timely information to inform decision-making, foster adaptation, and maintain a competitive edge by uncovering overlooked factors and unexpected vital information from various sources like trade magazines, conferences, and environmental scanning.

## PURPOSE AND GOALS

- **Identify threats and opportunities:**

To find potential risks that could derail the company's strategy and emerging opportunities for growth.

- **Support decision-making:**

To provide a continuous flow of relevant information that helps leaders make informed strategic choices.

- **Drive adaptation:**

To enable organizations to adapt to changing market conditions and stay relevant.

- **Uncover hidden factors:**

To find factors, both internal and external, that might be missed by more focused strategic tactics.

## KEY CHARACTERISTICS

- **Broad scope:**

It involves monitoring a wide range of events and information sources, not just a narrow set.

- **Unfocused nature:**

Unlike more targeted controls, strategic surveillance is an open and unfocused search for information.

- **Continuous vigilance:**

It's a perpetual process of observation to maintain ongoing awareness of the business landscape.

## METHODS AND SOURCES

- **Internal monitoring:** Observing activities within the organization.

- **External monitoring:** Scanning the competitive landscape, market trends, and economic factors.

- **Information gathering:** Reading business newspapers and magazines, attending conferences, and discussing with others.

- **Technological tools:** Using formal information scanning systems and analyzing data from various sources.

# STRATEGIC AUDIT

## 1. Meaning

A **strategic audit** is a **comprehensive, systematic review and evaluation of an organization's strategies, objectives, policies, and performance.**

- It assesses whether the strategies are **effective, aligned with objectives, and responsive to the environment.**
- It helps management identify **strengths, weaknesses, opportunities, and threats**, ensuring that strategies are properly executed and modified as necessary.

In short, a strategic audit is like a **“health check-up” of a company's strategy.**

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## 2. Definition

- **Glueck & Jauch:** *“A strategic audit is a formal examination of the company's mission, objectives, strategies, and policies to determine the appropriateness and effectiveness of the strategy.”*
  - **David (1989):** *“Strategic audit involves evaluating both external and internal environment and the organization's strategic posture to ensure long-term success.”*
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## 3. Objectives

1. **Evaluate strategic performance:** Assess if goals and objectives are being met.
  2. **Identify strategic gaps:** Determine where strategy is failing or misaligned.
  3. **Review internal capabilities:** Examine resources, competencies, and operational efficiency.
  4. **Analyze external environment:** Study competitors, market trends, and regulatory changes.
  5. **Suggest corrective actions:** Recommend improvements in strategy, structure, or operations.
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## 4. Components of Strategic Audit

A typical strategic audit examines **both internal and external aspects:**

### A. External Environment Audit

- Industry structure and competition (Porter's Five Forces).
- Market trends, opportunities, and threats.
- Technological, political, economic, social, and legal factors (PESTEL analysis).

### B. Internal Environment Audit

- **Resources and capabilities:** Financial, human, technological, and physical resources.
- **Operational efficiency:** Productivity, quality, and process excellence.
- **Organizational culture:** Leadership, values, employee engagement.

### C. Strategic Performance Audit

- **Financial performance:** Profitability, ROI, growth, liquidity.
- **Market performance:** Market share, customer satisfaction, brand strength.
- **Competitive advantage:** Cost leadership, differentiation, innovation.

#### ***D. Strategic Issues Audit***

- Identify **key gaps or misalignments** between strategy and objectives.
  - Highlight **risks and opportunities** requiring management attention.
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#### **5. Steps in Conducting a Strategic Audit**

1. **Review mission, vision, and objectives.**
  2. **Analyze external environment** – opportunities and threats.
  3. **Analyze internal environment** – strengths and weaknesses.
  4. **Evaluate strategic alternatives and their effectiveness.**
  5. **Assess strategic implementation** – structure, policies, resource allocation.
  6. **Review performance metrics** – financial and non-financial.
  7. **Identify gaps and recommend corrective actions.**
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#### **6. Benefits of Strategic Audit**

- Provides **clear insight into strategic effectiveness.**
  - Helps in **decision-making and strategy adjustment.**
  - Aligns **resources, capabilities, and objectives.**
  - Reduces **risks of strategic failure.**
  - Enhances **organizational learning and adaptability.**
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