

UNIT-I

STRATEGIC MANAGEMENT

Meaning:

Strategic management is the management of an organization's resources to achieve its goals and objectives. Strategic management involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies, and ensuring that management rolls out the strategies [across the organization](#).

Strategic management includes setting objectives for the company, analyzing the actions of competitors, reviewing the organization's internal structure, evaluating current strategies and confirming that strategies are implemented company-wide.

Strategic management is the sum of strategic planning and strategic thinking. Strategic planning is the identification of achievable goals. Strategic thinking is the ability to identify the needs of the organization to achieve the goals identified through strategic planning.

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance.

STRATEGY - DEFINITION

"Glueck defines strategy as a ""unified, comprehensive and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved"".

Alfred D. Chandler, Jr., author of *Strategy and Structure* (1962), the classic study of the relationship between an organization's structure and its strategy, defined strategy as "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 for carrying out these goals." .

STRATEGIC MANAGEMENT -DEFINITION

Strategic management is the process of managing the pursuit of organizational mission while managing the relationship of the organization to its environment (James M. Higgins).

Strategic management is defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to

achieve the objectives of the organization (John A. Pearce II and Richard B. Robinson, Jr.).

Strategic management is a continuous process that involves attempts to match or fit the organization with its changing environment in the most advantageous way possible (Lester A. Digman).

Example of Strategic Management

For example, a for-profit technical college wishes to increase new student enrollment and enrolled student graduation rates over the next three years. The purpose is to make the college known as the best buy for a student's money among five for-profit technical colleges in the region, with a goal of increasing revenue.

In that case, strategic management means ensuring the school has funds to create high-tech classrooms and hire the most qualified instructors. The college also invests in marketing and recruitment and implements student retention strategies. The college's leadership assesses whether its goals have been achieved on a periodic basis.

STRATEGIC MANAGEMENT PROCESS :

1. **Environmental Scanning**- Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
2. **Strategy Formulation**- Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
3. **Strategy Implementation**- Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources.
4. **Strategy Evaluation**- Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as its implementation meets the

NATURE AND SCOPE:

Strategic management is both an Art and science of formulating, implementing, and evaluating, cross-functional decisions that facilitate an organization to accomplish its objectives. The purpose of strategic management is to use and create new and different opportunities for future. The nature of Strategic Management is dissimilar from other facets of management as it demands awareness to the “**big picture**” and a rational assessment of the future options. It offers a strategic direction endorsed by the team and stakeholders, a clear business strategy and vision for the future, a method for accountability, and a structure for governance at the different levels, a logical framework to handle risk in order to guarantee business continuity, the capability to exploit opportunities and react to external change by taking ongoing strategic decisions.

BENEFITS OF STRATEGIC MANAGEMENT

Financial Benefits:

- 1.Improvement in sales.
- 2.Improvement in profitability.
- 3.Improvement in productivity.

Non-Financial Benefits:

- 1.improved understanding of competitors strategies.
- 2.Enhanced awareness of threats.
- 3.Reduced resistance to change.
- 4.Enhanced problem-prevention capabilities.

15 Key Benefits of a Strategic Management System

Which of these benefits are still missing in your organization? 1. Taking an organization-wide, proactive approach to a changing global world 2. Building an executive team that serves as a model of cross-functional or horizontal teamwork 3. Having an intense executive development and strategic orientation process 4. Defining focused, quantifiable outcomes measures of success 5. Making intelligent budgeting decisions

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STRATEGIC CHANGE

A restructuring of an organization's business or marketing plan that is typically performed in order to achieve an important objective. For example, a strategic change might include shifts in a corporation's policies, target market, mission or organizational structure.

Strategic Change in the Real World

After the discussion on the theorists and their ideas, it is time to consider how strategic change is actualized in the real world. The example of Nokia which was one of the leading makers of the mobile handsets till a few years ago and which now finds itself at the bottom of the heap along with Blackberry reminds us that the **strategic drift** occurs without anyone noticing it and by the time it is

noticed, it is too late. On the other hand, the collapse of once famous companies like Chrysler point to the transformational change that is sudden and radical in nature.

Brand and Differentiation

The changes made by Renault included cutting Nissan's cost structure and improving its Infiniti brand recognition and reputation by a dramatic re-design and introduction of new models in March 2002. Another example of strategic change through branding is Intel's 1991 "Intel Inside" brand campaign to differentiate itself from the other microprocessor manufacturers. Until Intel's campaign, consumers hardly regarded the brand of microprocessor in their computers as important. Intel's strategic change created the image of Intel as the zenith in quality microprocessors. Computer buyers now look for the Intel name when buying a computer.

Location

In 2007, Halliburton moved its headquarters to Dubai from Houston, Texas. "There's not much oil in Texas any more," said Dalton Garis, an American energy economist at the Petroleum Institute in Abu Dhabi. Sixty percent of the world's oil and gas production is in the Middle East, and Halliburton realized it would eventually have to move there to be competitive. Halliburton moving out of one location to another for competitive advantage is not much different from Hewlett Packard moving out of a computer-dominant product line, to adding a new type of computer printer technology. It positions the company to take advantage of new business opportunities.

Technology and First Mover

In 1985, dot-matrix printers were standard equipment for individual computer owners. Hewlett Packard was experiencing a loss of market share to less expensive Japanese products, and its revenues were suffering. HP had invented ink jet technology and set out to create a new market paradigm -- the ink jet printer, which drove the dot-matrix printers out of the market. This change in product strategy made HP the leader in the personal computer printer market for a few years, ahead of any significant competition.

STRATEGIC LEADERSHIP:

Strategic leadership refers to a manager's potential to express a strategic vision for the organization, or a part of the organization, and to motivate and persuade others to acquire that vision.

Strategic leadership can also be defined as utilizing strategy in the management of employees. It is the potential to influence organizational members and to execute organizational change. Strategic leaders create organizational structure, allocate resources and express strategic vision. Strategic leaders work in an ambiguous environment on very difficult issues that influence and are influenced by occasions and organizations external to their own.

The main objective of strategic leadership is strategic productivity. Another aim of strategic leadership is to develop an environment in which employees forecast the organization's needs in context of their own job. Strategic leaders encourage the employees in an organization to follow their own ideas. Strategic leaders make greater use of reward and incentive system for encouraging productive and quality employees to show much better performance for their organization. Functional strategic leadership is about inventiveness, perception, and planning to assist an individual in realizing his objectives and goals.

Strategic leadership requires the potential to foresee and comprehend the work environment. It requires objectivity and potential to look at the broader picture.

Features:.

A few main **traits / characteristics / features / qualities** of effective strategic leaders that do lead to superior performance are as follows:

Loyalty- Powerful and effective leaders demonstrate their loyalty to their vision by their words and actions.

Keeping them updated- Efficient and effective leaders keep themselves updated about what is happening within their organization. They have various formal and informal sources of information in the organization.

Judicious use of power- Strategic leaders makes a very wise use of their power. They must play the power game skillfully and try to develop consent for their ideas rather than forcing their ideas upon others. They must push their ideas gradually.

Have wider perspective/outlook- Strategic leaders just don't have skills in their narrow specialty but they have a little knowledge about a lot of things.

Motivation- Strategic leaders must have a zeal for work that goes beyond money and power and also they should have an inclination to achieve goals with energy and determination.

Compassion- Strategic leaders must understand the views and feelings of their subordinates, and make decisions after considering them.

Self-control- Strategic leaders must have the potential to control distracting/disturbing moods and desires, i.e., they must think before acting.

Social skills- Strategic leaders must be friendly and social.

Self-awareness- Strategic leaders must have the potential to understand their own moods and emotions, as well as their impact on others.

Readiness to delegate and authorize- Effective leaders are proficient at delegation. They are

well aware of the fact that delegation will avoid overloading of responsibilities on the leaders. They also recognize the fact that authorizing the subordinates to make decisions will motivate them a lot.

Articulacy- Strong leaders are articulate enough to communicate the vision(vision of where the organization should head) to the organizational members in terms that boost those members.

Constancy/ Reliability- Strategic leaders constantly convey their vision until it becomes a component of organizational culture.

STRATEGIC DECISION-MAKING:

Strategic decision-making is the process of charting a course based on long-term goals and a longer term vision. By clarifying your company's big picture aims, you'll have the opportunity to align your shorter term plans with this deeper, broader mission – giving your operations clarity and consistency.

Managers of successful businesses do more than simply find a way to make money and sell stuff. Not only do they handle the day-to-day tasks of selling, they also think of the big picture and make decisions that will get the company to where it wants to go. This is called **strategic decision making**, where decisions are made according to a company's goals or mission. This type of decision making guides the choices that are made, aligning them with the company objective. It requires out-of-the-box thinking as managers need to consider future scenarios that may or may not happen. It's these scenarios that will determine in which direction a company will go.

For example, the manager of a dog food company notices that dog owners want more quality and fresh foods rather than kibble that lasts 10 years on the shelf, even if those kibbles provide a similar nutritional value. The company's mission statement is to be the best company that sells the healthiest dog food. To align the company with the changing needs and wants of its customers, the manager decides to shift the company's products to focus more on freshness. Yes, this means a reduced shelf life, but it does mean a higher profit margin because dog owners are more than willing to pay more for fresh quality foods.



Tip

Strategic decision making aligns short-term objectives with long-term goals, and a mission that defines your company's big picture purpose. Shorter term goals are expressed in quantifiable milestones that give you the capacity to measure your success and your adherence to your vision.

Mission and Vision

Strategic decision-making should start with a clear idea of your company's mission and vision – the reasons you exist as a business. Your business may be dedicated to providing environmental solutions, or you may simply want to make as much money as possible. Either way, if you know what you want over the long term, you'll be better positioned to infuse these aims and principles into your daily decisions. Start by writing your mission and your vision.

Long-Term Goals

Long-term goals are the concrete embodiment of your mission and vision. A vision is an idea, and long-term goals are expressions of how these ideas play out – with milestones and real-world objectives. These goals are critical to the strategic decision-making process, because they guide your choices, and provide measurable and quantifiable ways to assess whether you are successfully aligning your company's direction with the values you've articulated to guide your business.

Short-Term Goals

It's easy to lose sight of the strategic decision-making process when you're focusing on short-term goals and decisions that concern day-to-day activities and issues. Short-term goals and decisions usually relate to immediate needs, such as improving cash flow so that you can cover outstanding bills. Despite the immediacy and urgency of these goals, your strategic decision-making process should still enable you to proceed with an eye toward both your vision and your longer term objectives.

STRATEGIC PLANNING MODELS:

1. Balanced Scorecard

The **Balanced Scorecard** is a strategy management framework created by Drs. Robert Kaplan and David Norton. It takes into account your:

A Balanced Scorecard—often abbreviated as “BSC”— is a strategy management framework that includes four perspectives of your strategy: Financial, Customer, Internal Process, and Learning and Growth. We'll dive deeper into examples of each perspective below. [To learn more about what the Balanced Scorecard is and how it can aid your organization, take a look at this thorough definition.](#)

Categories	Objective	Measures	Initiatives
Financial	 Increase Shareholder Value	 Revenue	
		 Net Profit	
		 Expenses	
Customer	 Frequent Reliable Departures	 Average Number of Daily departures per route	
	 Comparable To Other Travel	 Customer Experience Survey	
	 Very Low Ticket Prices	 Ticket price differential	
Internal Processes	 Direct Routes	 % of tickets with direct routes	 Airport Traffic Eastern Division
	 Fast Ground Turnaround	 Time at gate	 Create new Employee Training
			 Airport Traffic Eastern Division
	 Good Locations	 % of population served within 25 miles	
	 Fun Experience	 # customer complaints per 1,000 tickets	
	 No Elites	 % of customer airline travel with us	
	 No Frills	 internal cost per flight**	 Find new food service provider

Understanding Your Scorecard

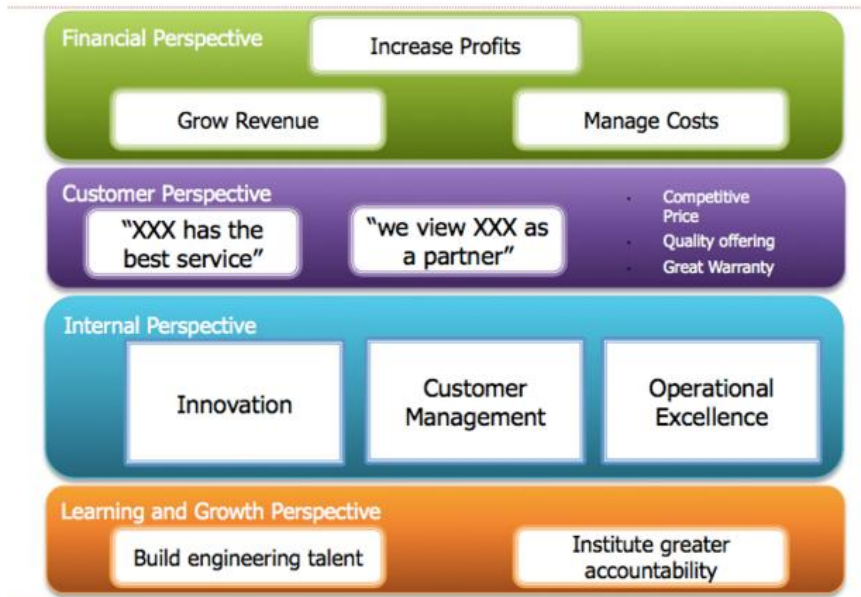
At this point, it's important to note that there are several ways you can put together a BSC; you can use a program like Excel, Google Sheets, or PowerPoint, or you can use reporting software. For the sake of example, we're going to show you a BSC in **ClearPoint's Balanced Scorecard (BSC) software** format.

What you're seeing in the image above is what you'd call a "scorecard view." It is less visual than the strategy map, but provides more detail into the measures and initiatives that are tied to each objective. Notice that in the scorecard view and in the strategy map, there's either a red, yellow, and green indicator next to the objective, measure, or initiative. Green typically indicates that everything is going as planned, while yellow and red indicate that there are various degrees of trouble with whatever is being looked at.

2.. Strategy Map

A **strategy map** is a visual tool designed to clearly communicate a strategic plan and achieve high-level business goals. Strategy mapping is a major part of the Balanced Scorecard (though it isn't exclusive to the BSC) and offers an excellent way to communicate the high-level information across your organization in an easily-digestible format.

Balanced Scorecard Strategy Map



A strategy map offers a host of benefits:

- It provides a simple, clean, visual representation that is easily referred back to.
- It unifies all goals into a single strategy.
- It gives every employee a clear goal to keep in mind while accomplishing tasks and measures.
- It helps identify your key goals.
- It allows you to better understand which elements of your strategy need work.
- It helps you see how your objectives affect the others.

3. SWOT Analysis

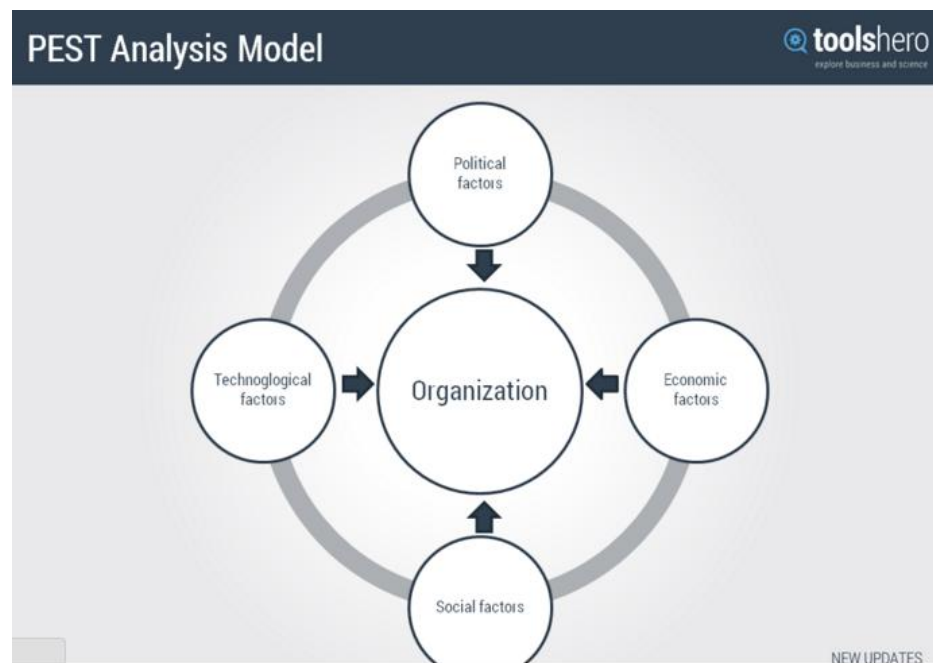
A **SWOT analysis** (or SWOT matrix) is a high-level model used at the beginning of an organization's strategic planning. It is an acronym for "strengths, weaknesses, opportunities, and threats." Strengths and weaknesses are considered *internal factors*, and opportunities and threats are considered *external factors*.

Using a SWOT analysis helps an organization identify where they're doing well and in what areas they can improve. If you're interested in reading more, this [Business News Daily article](#) offers some additional details about each area of the SWOT analysis and what to look for when you create one.

Internal environment	
Strengths (S)	Weaknesses (W)
• Excellent sales staff with strong knowledge of existing products • Good relationship with customers • Good internal communications • High traffic location • Successful marketing strategies • Reputation for innovation	• Currently struggling to meet deadlines - too much work? • High rental costs • Market research data may be out of date • Cash flow problems • Holding too much stock • Poor record keeping
External environment	
Opportunities (O)	Threats (T)
• Similar products on the market are not as reliable or are more expensive • Loyal customers • Product could be on the market for Christmas • Customer demand - have asked sales staff for similar product	• Competitors have a similar product • Competitors have launched a new advertising campaign • Competitor opening shop nearby • Downturn in economy may mean people are spending less

4. PEST Model

Like SWOT, **PEST** is also an acronym—it stands for “political, economic, sociocultural, and technological.” Each of these factors is used to look at an industry or business environment, and determine what could affect an organization’s health. The PEST model is often used in conjunction with the external factors of a SWOT analysis. You may also run into Porter’s Five Forces (see #7 below), which is a similar take on examining your business from various angles.



You’ll occasionally see the PEST model with a few extra letters added on. For example, PESTEL (or PESTLE) indicates an organization is also considering “environmental” and “legal” factors. STEEPLED is another variation, which stands for “sociocultural, technological economic, environmental, political, legal, education, and demographic.”

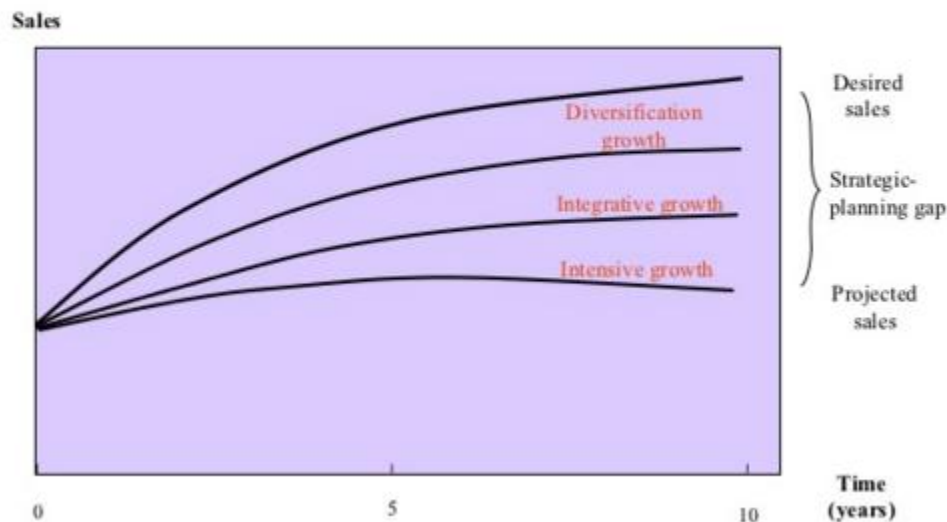
5. Gap Planning

Gap planning is also referred to as a “Need-Gap Analysis,” “Need Assessment,” or “the Strategic-Planning Gap.” It is used to compare where an organization is now, where it wants to be, and how to bridge the gap between. It is primarily used to identify specific internal deficiencies.

In your gap planning research, you may also hear about a “change agenda” or “shift chart.” These are similar to gap planning, as they both take into consideration the difference between where you are now and where you want to be along various axes. From there, your planning process is about how to ‘close the gap.’

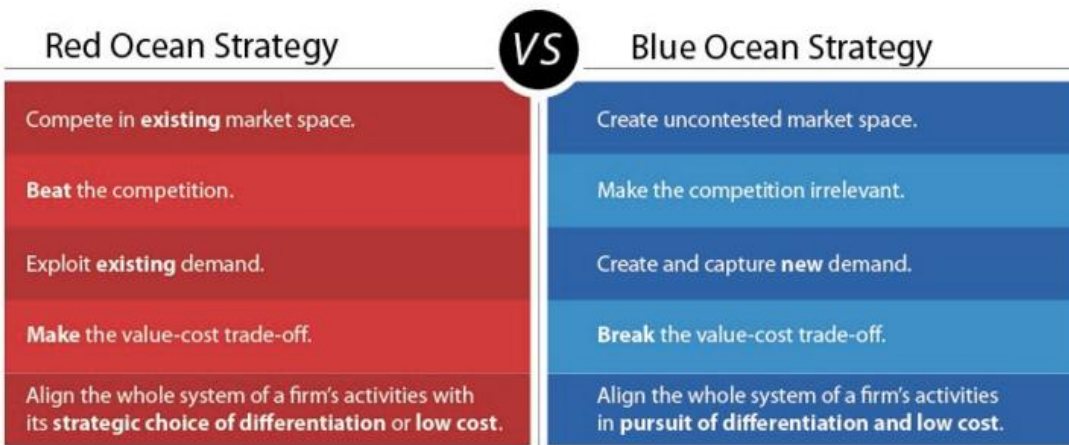
The chart below, for example, demonstrates the difference between the projected and desired sales of a mock company:

The Strategic-Planning Gap



6.. Blue Ocean Strategy

Blue Ocean Strategy is a strategic planning model that emerged in a book by the same name in 2005. The book—titled “Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant”—was written by W. Chan Kim and Renée Mauborgne, professors at the European Institute of Business Administration (INSEAD). The idea behind Blue Ocean Strategy is for organizations to develop in “uncontested market space” (e.g. a blue ocean) instead of a market space that is either developed or saturated (e.g. a red ocean). If your organization is able to create a blue ocean, it can mean a massive value boost for your company, its buyers, and its employees.



For example, Kim and Mauborgne explain via their 2004 Harvard Business Review article how Cirque du Soleil didn't attempt to operate as a normal circus, and instead carved out a niche for itself that no other circus had ever tried.

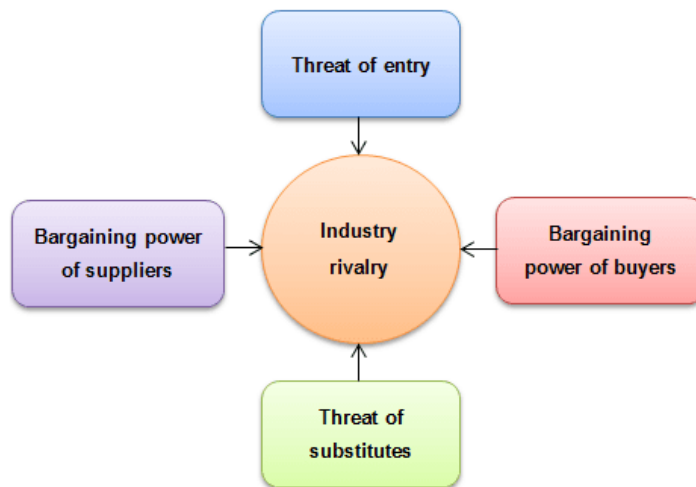
Below is a simple comparison chart from the Blue Ocean Strategy website that will help you understand if you're working in a blue ocean or a red ocean:

7. Porter's Five Forces:

Porter's Five Forces is an older strategy execution framework (created by Michael Porter in 1979) built around the forces that impact the profitability of an industry or a market. The five forces it examines are:

1. **The threat of entry.** Could other companies enter the marketplace easily, or are there numerous entry barriers they would have to overcome?
2. **The threat of substitute products or services.** Can buyers easily replace your product with another?
3. **The bargaining power of customers.** Could individual buyers put pressure on your organization to, say, lower costs?
4. **The bargaining power of suppliers.** Could large retailers put pressure on your organization to drive down the cost?
5. **The competitive rivalry among existing firms.** Are your current competitors poised for major growth? If one launches a new product or files a new patent—could that impact your company?

The amount of pressure on each of these forces can help you determine how future events will impact the future of your company.



8. VRIO Framework

The **VRIO framework** is an acronym for “**v**alue, **r**arity, **i**mitability, **o**rganization.” This strategic planning process relates more to your vision statement than your overall strategy. The ultimate goal in implementing the VRIO model is that it will result in a competitive advantage in the marketplace.

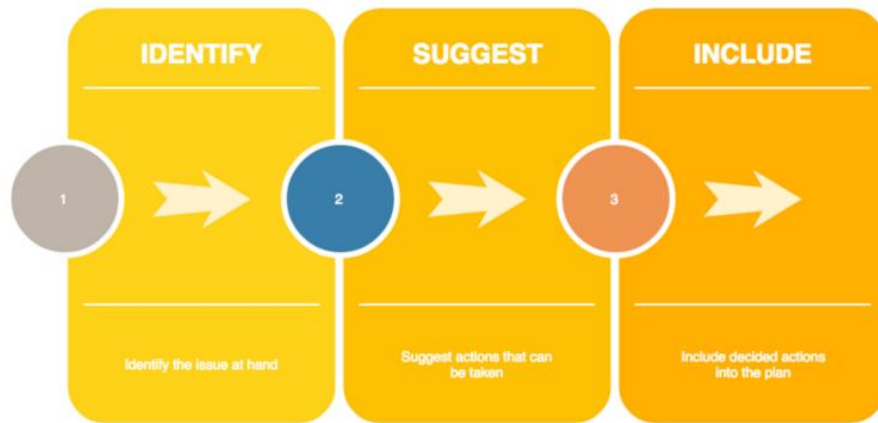
Here’s how to think of each of the four VRIO components:

- **Value:** Are you able to exploit an opportunity or neutralize an outside threat using a particular resource?
- **Rarity:** Is there a great deal of competition in your market, or do only a few companies control the resource referred to above?
- **Imitability:** Is your organization’s product or service easily imitated, or would it be difficult for another organization to do so?
- **Organization:** Is your company organized enough to be able to exploit your product or resource?

Once you answer these four questions, you’ll be able to formulate a more precise vision statement to help carry you through all the additional strategic elements in your plan.

12. Issue-Based Strategic Planning

The issue-based strategic model is oriented in the present and projects into the future. It aims to identify the major challenges your organization faces *now*—in other words, you start with the problems to iron out issues before expanding, shifting your strategy, etc. This is typically a short-term (6-12 months), internally-focused process. Issue-based planning is ideal for young or resource-restricted organizations.



The leadership team or stakeholders identify the major issues and goals as a first step. Next, your organization will create action plans to address the issues, including budget allocation. From there, you will execute and track progress. After an issues-based plan has been implemented and the major issues you identified are resolved, then your organization might consider shifting to a broader, more complex strategic management model.

13. Goal-Based Strategic Planning

Goal-based strategic planning is the reverse of issue-based. This approach works backward from the future to the present. It all starts with your organization's vision.

By nature, **vision statements** are aspirational and forward-thinking, but they need specifics in order to be realized. Goal-based planning tackles that challenge by setting measurable goals that align with your vision and strategic plan. Next, you define time frames for goal achievement. This is a long-term strategic planning tool, so goal time frames are typically about three to five years. From there, stakeholders will create action plans for each goal and begin tracking and measuring progress.

You want your department to be able to see their goals and the steps to achieve them. Use a Department Business Plan Dashboard

14. Alignment Strategic Planning Model

Similar to issue-based planning, the alignment model focuses on first looking internally to develop a strategy. This model is designed to sync the organization's internal operations with its strategic goals.

Your strategic planning will start by identifying a goal and analyzing which operations or resources need to be aligned with that goal. Then you'll identify which parts of operations are working well and which are not, brainstorming ideas from the successful aspects on how to address problems. Finally, you'll create a series of proposed changes to operations or processes to achieve goals that will create the desired strategic alignment. The alignment strategic planning model is particularly useful

when a company needs to refine its objectives or address ongoing challenges or inefficiencies that are blocking progress.

15. Organic Model Of Strategic Planning

The **organic model** takes an unconventional approach because it focuses on the organization's vision and values, versus plans and processes. With this model, a company uses “natural,” self-organizing systems that originate from its values and then leverages its own resources to achieve goals, conserve funds, and operate effectively.

In the simplest form, there are three basic steps to follow when implementing the organic model of strategic planning:

1. **Stakeholders clarify vision and values.** This is a collaborative process that could involve both external and internal stakeholders—who's in the meeting depends entirely on your organization's ultimate purpose for the planning. The goal is to establish common visions and values for all stakeholders.
2. **Stakeholders create personal action plans.** The unconventional aspect of this model comes into play here. Divided into small groups, stakeholders determine the actions and responsibilities for each person to work toward the vision (according to the values).
3. **Stakeholders report results of action plans.** Each person will take ownership of their plan and update the group on their progress. This is a communal approach to accountability and the progress reported can lean toward qualitative, versus quantitative, results.

What type of company would the organic strategic planning model work best for? If your organization has a large, diverse group of stakeholders that need to find common ground, a vision that will take a long time to achieve, and a strong strategic emphasis on vision and values (instead of structure and procedures), this may be the right model for you. It would also be beneficial for younger organizations that need to gain funding without presenting a formal strategic plan.

16. Real-Time Strategic Planning

Similar to the organic model, real-time strategic planning is a fluid, nontraditional system. It's primarily used by organizations that need to be more reactive, and perform strategic planning in “real time.” For these companies, detailed, long-term plans tend to become irrelevant within the typical three- to five-year planning cycle because the environment they operate in rapidly changes. Many nonprofits use this model—for example, a disaster relief agency needs the ability to respond quickly and adapt its strategy to immediately address a crisis.

Real-time strategic planning involves three levels of strategy: organizational, programmatic, and operational. For the first level, you'll define the organization's mission, vision, market position, competitors, trends, etc. Then, the programmatic strategy requires research into the external

environment to identify approaches and offerings that would help the organization achieve its mission. The research should cover opportunities, threats, competitive advantages, and other points to spur strategic brainstorming.

The final operational level analyzes internal processes, systems, and personnel to develop a strategy that addresses “in-house” strengths and weaknesses. Looking at all three levels as a whole, strategy leaders can form criteria for developing, testing, implementing, and adapting strategies on an ongoing basis, allowing for quick and thoughtful responses when needed.



UNIT-II

SITUATION ANALYSIS

Meaning:

Situation analysis is basically the process of critically evaluating the internal and external conditions that affect an organization, which is done prior to a new initiative or project.

It provides the knowledge to identify the current opportunities and challenges to your organization, service or product. This in turn helps with devising a strategy to move forward from your current situation to your desired situation.

Situation analysis is defined as an analysis of the internal and external factors of a business. It clearly identifies a business's capabilities, customers, potential customers and business environment, and their impact on the company. A situation analysis is an [essential part of any business plan](#) and should be reviewed periodically to ensure that it is current.

Importance of situation analysis,

- Helps define the nature and scope of a problem
- Helps identify the current strategies and activities in place to overcome the problem
- Helps understand the opinions and experiences of stakeholders
- Helps give a comprehensive view of the current situation of the organization
- Helps detect the gaps between the current state and desired state
- Provides information necessary to create a plan to get to reach the goals
- Helps identify the best courses of action to take during the project
- Helps make sure that efforts and actions are not repeated and wasted unnecessarily

Factors to Consider in Situation Analysis

When considering performing a situation analysis of your business, it is important to look at several factors:

- *Product situation.* Determine your current product. You may want to view this definition in parts such as the core product and any secondary or supporting services or products that you sell. Viewing your products and services separately helps determine how each relates to your core clients' needs.
- *Competitive situation.* Analyze your main competitors and determine how they compare to your business such as [competitive advantages](#).
- *Distribution situation.* Review your distribution situation in terms of how you get your products to market, such as through distributors or other intermediaries.

- *Environmental factors.* Determine the external and internal environmental factors, which can include economic or sociological factors that impact your business's performance.
- *Opportunity and issue analysis.* Conduct a [SWOT analysis](#) to determine any strengths, weaknesses, opportunities, and threats that may affect your business and its performance.

While this information may be obvious to most business owners, it can be beneficial to review the core fundamentals.

1. SWOT Analysis

A **SWOT analysis** (or SWOT matrix) is a high-level model used at the beginning of an organization's strategic planning. It is an acronym for "strengths, weaknesses, opportunities, and threats." Strengths and weaknesses are considered *internal factors*, and opportunities and threats are considered *external factors*.

Using a SWOT analysis helps an organization identify where they're doing well and in what areas they can improve. If you're interested in reading more, this [Business News Daily article](#) offers some additional details about each area of the SWOT analysis and what to look for when you create one.

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Strengths and weaknesses

Strengths and weaknesses are internal factors that are dependent on the objective, project or initiative being analyzed. Since it's subjective to the chosen objective, what's considered a strength for one objective or project might be a weakness for another.

Strengths are within the organization's control and this category includes everything the business does right when trying to achieve a specific goal, initiative, project or objective. Anything that gives the organization an advantage or that helps processes and projects run smoothly or helps the organization achieve business goals will fall into this category.

Weaknesses are also within the organization's control, but the category includes everything that keeps the business from staying on track to achieving business or project goals and objectives. These are the things that need to be fixed or changed in order to achieve success.

Opportunities and threats

Opportunities and threats are part of the external environment — it includes factors that impact the objective or project from outside the company. This can include economics, technology, regulation and legislation, sociocultural changes and shifts in competition.

Opportunities are factors outside the organization that the business can take advantage of to reach business goals and move the business forward. Threats include anything in the external environment that might cause issues for a project or that pose a future threat to the organization's success.

How to conduct a SWOT analysis

You don't need much to perform a SWOT analysis — the process can be as simple or complex as you make it. It's something that can be done during workshops, meetings, brainstorming sessions or when evaluating products or competition.

A SWOT analysis begins with listing out the objectives, business venture or project and identify any internal or external factors that will help or hurt the path to achieving those objectives. Objectives can include anything from small or major business decisions to new or improved products and services. If an objective is deemed attainable, the process starts over with a different objective.

According to the SWOT Analysis Guide, the three main steps for performing a SWOT analysis are:

1. Collect relevant information and list all current known strengths and weaknesses. This can be achieved through talking to others in the organization or through larger brainstorming sessions. You should come prepared with questions pertaining to the SWOT objective and aim to get thoughtful and insightful responses from your team.
2. Consider all the potential opportunities that exist for the organization, including future trends and technologies.
3. Review the SWOT matrix to build a plan that addresses each area including everything that's working and everything that needs to change.

2.PESTLE Analysis

The PESTLE analysis is another environmental scanning techniques that help provide insight into the external situation of an organization from many different angles. It focuses on political, economic, social, technological, legal and environmental factors.

Political factors – impact of government policies, trading policies or elections

Economic factors – impact of economic trends, taxes, or import/export ratios

Social factors – impact of demographics, lifestyles, or ethnic issues

Technological factors – impact of advancing technology or technology legislations

Legal factors – impact of employment laws or health and safety regulations

Environmental factors – impact of climate change or environmental regulations



3.Porter's Five Forces:

Porter's Five Forces is a simple but powerful tool for understanding the competitiveness of your business environment, and for identifying your strategy's potential profitability.

This is useful, because, when you understand the forces in your environment or industry that can affect your profitability, you'll be able to adjust your strategy accordingly. For example, you could take fair advantage of a strong position or improve a weak one, and avoid taking wrong steps in future.

In this article and video, we explore each of Porter's Five Forces. We look at how they can help you to analyze the strengths and weaknesses of your position, and how they can impact your long-term profitability.

Understanding Porter's Five Forces

The tool was created by Harvard Business School professor Michael Porter, to analyze an industry's attractiveness and likely profitability. Since [its publication](#) in 1979, it has become one of the most popular and highly regarded business strategy tools.

Porter recognized that organizations likely keep a close watch on their rivals, but he encouraged them to look beyond the actions of their competitors and examine what other factors could impact the business environment. He identified five forces that make up the competitive environment, and which can erode your profitability. These are:

1. **Competitive Rivalry.** This looks at the number and strength of your competitors. How many rivals do you have? Who are they, and how does the quality of their products and services compare with yours?

Where rivalry is intense, companies can attract customers with aggressive price cuts and high-impact marketing campaigns. Also, in markets with lots of rivals, your suppliers and buyers can go elsewhere if they feel that they're not getting a good deal from you.

On the other hand, where competitive rivalry is minimal, and no one else is doing what you do, then you'll likely have tremendous strength and healthy profits.

2. **Supplier Power.** This is determined by how easy it is for your suppliers to increase their prices. How many potential suppliers do you have? How unique is the product or service that they provide, and how expensive would it be to switch from one supplier to another?

The more you have to choose from, the easier it will be to switch to a cheaper alternative. But the fewer suppliers there are, and the more you need their help, the stronger their position and their ability to charge you more. That can impact your profit.

3. **Buyer Power.** Here, you ask yourself how easy it is for buyers to drive your prices down. How many buyers are there, and how big are their orders? How much would it cost them to switch from your products and services to those of a rival? Are your buyers strong enough to dictate terms to you?

When you deal with only a few savvy customers, they have more power, but your power increases if you have many customers.

4. **Threat of Substitution.** This refers to the likelihood of your customers finding a different way of doing what you do. For example, if you supply a unique software product that automates an important process, people may substitute it by doing the process manually or by outsourcing it. A substitution that is easy and cheap to make can weaken your position and threaten your profitability.

5. **Threat of New Entry.** Your position can be affected by people's ability to enter your market. So, think about how easily this could be done. How easy is it to get a foothold in your industry or market? How much would it cost, and how tightly is your sector regulated?

If it takes little money and effort to enter your market and compete effectively, or if you have little protection for your key technologies, then rivals can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favorable position and take fair advantage of it.

4-C Analysis

While a situation analysis is often referred to as the "3C analysis", the extension to the 5C analysis has allowed businesses to gain more information on the internal, macro-environmental and micro-environmental factors within the environment. The 5C analysis is considered the most useful and common way to analyze the market environment, because of the extensive information it provides.^[5]

Company

The company analysis involves evaluation of the company's objectives, strategy, and capabilities. These indicate to an organization the strength of the business model, whether there are areas for improvement, and how well an organization fits the external environment.^[6]

- **Goals & Objectives:** An analysis on the mission of the business, the industry of the business and the stated goals required to achieve the mission.
- **Position:** An analysis on the **Marketing strategy** and the **Marketing mix**.
- **Performance:** An analysis on how effective the business is achieving their stated mission and goals.
- **Product line:** An analysis on the products manufactured by the business and how successful it is in the market.^[5]

Competitors

The **competitor analysis** takes into consideration the competitors position within the industry and the potential threat it may pose to other businesses. The main purpose of the competitor analysis is for businesses to analyze a competitor's current and potential nature and capabilities so they can prepare against competition. The competitor analysis looks at the following criteria:

- **Identify competitors:** Businesses must be able to identify competitors within their industry. Identifying whether competitors provide the same services or products to the same customer base is useful in gaining knowledge of direct competitors. Both direct and indirect competitors must be identified, as well as potential future competitors.
- **Assessment of competitors:** The competitor analysis looks at competitor goals, mission, strategies and resources. This supports a thorough comparison of goals and strategies of competitors and the organization.
- **Predict future initiatives of competitors:** An early insight into the potential activity of a competitor helps a company prepare against competition.^[6]

Customers

Customer analysis can be vast and complicated. Some of the important areas that a company analyzes includes:^[5]

- **Demographics**
 - **Advertising** that is most suitable for the demographic

- Market size and potential growth
- Customer wants and needs
- **Motivation** to buy the product
- **Distribution** channels (retail, online, wholesale, etc...)
- Quantity and frequency of purchase
- Income level of customer

Collaborators

Collaborators are useful for businesses as they allow for an increase in the creation of ideas, as well as an increase in the likelihood of gaining more business opportunities.^[7] The following type of collaborators are:

- **Agencies:** Agencies are the middlemen of the business world. When businesses need a specific worker who specializes in the trade, they go to a recruitment agency.^[8]
- **Suppliers:** Suppliers provide raw materials that are required to build products. There are 7 different types of Suppliers: Manufacturers, wholesalers, merchants, franchisors, importers and exporters, independent crafts people and drop shippers. Each category of suppliers can bring a different skill and experience to the company.^[9]
- **Distributors:** Distributors are important as they are the 'holding areas for inventory'. Distributors can help manage manufacturer relationships as well as handle vendor relationships.^[10]
- **Partnerships:** Business partners would share **assets** and **liabilities**, allowing for a new source of capital and skills.^[11]

Businesses must be able to identify whether the collaborator has the capabilities needed to help run the business as well as an analysis on the level of commitment needed for a collaborator-business relationship.^[6]

Climate

To fully understand the business climate and environment, many factors that can affect the business must be researched and understood. An analysis on the climate is also known as the **PEST analysis**. The types of climate/environment firms have to analyse are:

- **Political and regulatory environment:** An Analysis of how active the government regulates the market with their policies and how it would affect the **production**, **distribution** and **sale** of the **goods and services**.
- **Economic Environment:** An Analysis of trends regarding **macroeconomics**, such as **exchange rates** and **inflation rate**, can prove to influence businesses.^[5]

- Social/cultural environment: Interpreting the trends of society,^[5] which includes the study of demographics, education, culture etc...
- Technological analysis: An analysis of technology helps improve on old routines and suggest new methods for being cost efficient. To stay competitive and gain an advantage over competitors, businesses must sufficiently understand technological advances.^[12]

INDUSTRY ANALYSIS:

Industry analysis is a market assessment tool used by businesses and analysts to understand the competitive dynamics of an industry. It helps them get a sense of what is happening in an industry, e.g., demand-supply statistics, degree of competition within the industry, state of competition of the industry with other emerging industries, future prospects of the industry taking into account technological changes, credit system within the industry, and the influence of external factors on the industry.

Industry analysis, for an entrepreneur or a company, is a method that helps to understand a company's position relative to other participants in the industry. It helps them to identify both the opportunities and threats coming their way and gives them a strong idea of the present and future scenario of the industry. The key to surviving in this ever-changing business environment is to understand the differences between yourself and your competitors in the industry and use it to your full advantage.

Industry analysis is a tool that facilitates a company's understanding of its position relative to other companies that produce similar products or services. Understanding the forces at work in the overall industry is an important component of effective strategic planning. Industry analysis enables small business owners to identify the threats and opportunities facing their businesses, and to focus their resources on developing unique capabilities that could lead to a competitive advantage.

"Many small business owners and executives consider themselves at worst victims, and at best observers of what goes on in their industry. They sometimes fail to perceive that understanding your industry directly impacts your ability to succeed. Understanding your industry and anticipating its future trends and directions gives you the knowledge you need to react and control your portion of that industry," Kenneth J. Cook wrote in his book *The AMA Complete Guide to Strategic Planning for Small Business*. "However, your analysis of this is significant only in a relative sense. Since both you and your competitors are in the same industry, the key is in finding the differing abilities between you and the competition in dealing with the industry forces that impact you. If you can identify abilities you have that are superior to competitors, you can use that ability to establish a competitive advantage."

An industry analysis consists of three major elements: the underlying forces at work in the industry; the overall attractiveness of the industry; and the critical factors that determine a company's success within the industry.

One way in which to compare a particular business with the average of all participants in the industry is through the use of ratio analysis and comparisons. Ratios are calculated by dividing one measurable business factor by another, total sales divided by number of employees, for example. Many of these ratios may be calculated for an entire industry with data available from many reports and papers published by the U.S. Departments of Commerce and Labor.

By comparing a particular ratio for one company with that of the industry as a whole, a business owner can learn much about where her business stands in comparison with the industry average. For example, a small nursing home business can compare its "payroll per employee" ratio with the average for all residential care operators in the U.S. in order to determine if it is within a competitive range. If her business's "payroll per employee" figure is higher than the industry average, she may wish to investigate further. Checking the "employees per establishment" ratio would be a logical place to look next. If this ratio is lower than the industry average it may justifying the higher per-employee payroll figure. This sort of comparative analysis is one important way in which to assess how one's business compares with all others involved in the same line of work. There are various sources for the industry average ratios, among them is the industry analysis series published by Thomson Gale as the *USA series*.

Another premier model for analyzing the structure of industries was developed by Michael E. Porter in his classic 1980 book *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. Porter's model shows that rivalry among firms in industry depends upon five forces: 1) the potential for new competitors to enter the market; 2) the bargaining power of buyers; 3) the bargaining power of suppliers; 4) the availability of substitute goods; and 5) the competitors and nature of competition. These factors are outlined below.

INDUSTRY FORCES

The first step in performing an industry analysis is to assess the impact of Porter's five forces. "The collective strength of these forces determines the ultimate profit potential in the industry, where profit potential is measured in terms of long term return on invested capital," Porter stated. "The goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against these competitive forces or can influence them in its favor." Understanding the underlying forces determining the structure of the industry can highlight the strengths and weaknesses of a small business, show where strategic changes can make the greatest difference, and illuminate areas where industry trends may turn into opportunities or threats.

Ease of Entry

Ease of entry refers to how easy or difficult it is for a new firm to begin competing in the industry. The ease of entry into an industry is important because it determines the likelihood that a company will face new competitors. In industries that are easy to enter, sources of competitive advantage tend to wane

quickly. On the other hand, in industries that are difficult to enter, sources of competitive advantage last longer, and firms also tend to benefit from having a constant set of competitors.

The ease of entry into an industry depends upon two factors: the reaction of existing competitors to new entrants; and the barriers to market entry that prevail in the industry. Existing competitors are most likely to react strongly against new entrants when there is a history of such behavior, when the competitors have invested substantial resources in the industry, and when the industry is characterized by slow growth. Some of the major barriers to market entry include economies of scale, high capital requirements, switching costs for the customer, limited access to the channels of distribution, a high degree of product differentiation, and restrictive government policies.

Power of Suppliers

Suppliers can gain bargaining power within an industry through a number of different situations. For example, suppliers gain power when an industry relies on just a few suppliers, when there are no substitutes available for the suppliers' product, when there are switching costs associated with changing suppliers, when each purchaser accounts for just a small portion of the suppliers' business, and when suppliers have the resources to move forward in the chain of distribution and take on the role of their customers. Supplier power can affect the relationship between a small business and its customers by influencing the quality and price of the final product. "All of these factors combined will affect your ability to compete," Cook noted. "They will impact your ability to use your supplier relationship to establish competitive advantages with your customers."

Power of Buyers

The reverse situation occurs when bargaining power rests in the hands of buyers. Powerful buyers can exert pressure on small businesses by demanding lower prices, higher quality, or additional services, or by playing competitors off one another. The power of buyers tends to increase when single customers account for large volumes of the business's product, when a substitutes are available for the product, when the costs associated with switching suppliers are low, and when buyers possess the resources to move backward in the chain of distribution.

Availability of Substitutes

"All firms in an industry are competing, in a broad sense, with industries producing substitute products. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge," Porter explained. Product substitution occurs when a small business's customer comes to believe that a similar product can perform the same function at a better price. Substitution can be subtle—for example, insurance agents have gradually moved into the investment field formerly controlled by financial planners—or sudden—for example, compact disc technology has taken the place of vinyl record albums. The main defense available against substitution is product

differentiation. By forming a deep understanding of the customer, some companies are able to create demand specifically for their products.

Competitors

"The battle you wage against competitors is one of the strongest industry forces with which you contend," according to Cook. Competitive battles can take the form of price wars, advertising campaigns, new product introductions, or expanded service offerings—all of which can reduce the profitability of firms within an industry. The intensity of competition tends to increase when an industry is characterized by a number of well-balanced competitors, a slow rate of industry growth, high fixed costs, or a lack of differentiation between products. Another factor increasing the intensity of competition is high exit barriers—including specialized assets, emotional ties, government or social restrictions, strategic interrelationships with other business units, labor agreements, or other fixed costs—which make competitors stay and fight even when they find the industry unprofitable.

Industry analysis is a market assessment tool used by businesses and analysts to understand the competitive dynamics of an industry. It helps them get a sense of what is happening in an industry, e.g., **demand-supply statistics**, degree of competition within the industry, **state of competition** of the industry with other emerging industries, future prospects of the industry taking into account technological changes, credit system within the industry, and the influence of **external factors** on the industry

Steps in Industry analysis:

1: Identify industry and provide a brief overview. Management team may need to explore industry from a variety of geographical considerations: locally, regionally, provincially, nationally, and globally. It is necessary to define relevant industry codes. Provide statistics and historical data about the nature of the industry and growth potential for business, based on economic factors and conditions.

2: Secondly, evaluators must summarize the nature of the industry. This process include specific information and statistics about growth patterns, fluctuations related to the economy, and income projections made about the industry. It is important to document recent developments, news, and innovations. Evaluators must discuss the marketing strategies, and the operational and management trends that are predominant within the industry.

3: Third step is to provide a forecast for industry. Managers must compile economic data and industry predictions at different time intervals. It is necessary to cite all of sources. Note: the type and size of the industry will determine how much information company will be able to find about a particular industry.

4: Industry analysts needs to identify government regulations that affect the industry. They must include any recent laws pertaining to industry, and any licenses or authorizations company would need to conduct business in target market.

5: Industry analysts have to explain unique position within the industry. After completing competitive Analysis, analysts can list the leading companies in the industry, and compile an overview of data of direct and indirect competition. This will support them communicate unique value plan.

6: Industry analysts must list potential limitations and risks. They should write about factors that might negatively impact their business and they predict in the short-term and long-term future. They must outline what they know about the driving forces such as new regulations, technology, globalization, competitors, changing customer needs.

7: Industry analysts needs to talk to people by visiting to tradeshow and go to business events. Industry analysis allows firms to develop a competitive policy that best protects against the competitive forces or influences them in its favour. The key to developing a competitive strategy is to understand the sources of the competitive forces. By developing an understanding of these competitive forces, firm can:

- . Highlight the company's critical strengths and weaknesses (SWOT analysis)

II. Animate its position in the industry

III. Explain areas where strategic changes will result in the greatest payoffs

IV. Highlight areas where industry trends designate the greatest importance as either opportunities or threats.

The importance of industry analysis:

A broad industry analysis necessitates a small business owner to take an impartial view of the primary forces, attractiveness, and success factors that define the structure of the industry. Firms must comprehend its operating environment to formulate an effective strategy, position the company for success, and make effective use of the limited resources of the small business. According to Porter, "Once the forces affecting competition in an industry and their fundamental causes have been identified, the firm is in a position to recognise its strengths and weaknesses relative to the industry". An effective competitive strategy takes offensive or defensive action in order to produce a secure position against the five competitive forces. Some strategies include positioning the firm to use its unique capabilities as defence, influencing the balance of outside forces in the firm's favour, or anticipating shifts in the underlying industry factors and adapting before competitors do in order to gain a competitive advantage. In nutshell, industry analysis provides a basis upon which analysts evaluate and decide about their corporate goals and it helps them develop insight into developing appropriate strategies.

Types of industry analysis

There are three commonly used and important methods of performing industry analysis. The three methods are:

1. Competitive Forces Model (Porter's 5 Forces)
2. Broad Factors Analysis (PEST Analysis)
3. SWOT Analysis

1 Competitive Forces Model (Porter's 5 Forces)

One of the most famous models ever developed for industry analysis, famously known as **Porter's 5 Forces**, was introduced by Michael Porter in his 1980 book “**Competitive Strategy: Techniques for Analyzing Industries and Competitors.**”

According to Porter, analysis of the five forces gives an accurate impression of the industry and makes analysis easier. In our **Corporate & Business Strategy course**, we cover these five forces and an additional force — power of complementary good/service providers.



1. Intensity of industry rivalry

The number of participants in the industry and their respective market shares are a direct representation of the competitiveness of the industry. These are directly affected by all the factors mentioned above. Lack of differentiation in products tends to add to the intensity of competition. High exit costs such as high fixed assets, government restrictions, labor unions, etc. also make the competitors fight the battle a little harder.

2. Threat of potential entrants

This indicates the ease with which new firms can enter the market of a particular industry. If it is easy to enter an industry, companies face the constant risk of new competitors. If the entry is difficult, whichever company enjoys little **competitive advantage** reaps the benefits for a longer period. Also, under difficult entry circumstances, companies face a constant set of competitors.

3. Bargaining power of suppliers

This refers to the **bargaining power of suppliers**. If the industry relies on a small number of suppliers, they enjoy a considerable amount of bargaining power. This can particularly affect small businesses because it directly influences the quality and the price of the final product.

4. Bargaining power of buyers

The complete opposite happens when the bargaining power lies with the customers. If consumers/buyers enjoy market power, they are in a position to negotiate lower prices, better quality, or additional services and discounts. This is the case in an industry with more competitors but with a single buyer constituting a large share of the industry's sales.

5. Threat of substitute goods/services

The industry is always competing with another industry producing a similar substitute product. Hence, all firms in an industry have potential competitors from other industries. This takes a toll on their profitability because they are unable to charge exorbitant prices. Substitutes can take two forms – products with the same function/quality but lesser price, or products of the same price but of better quality or providing more utility.

2 Broad Factors Analysis (PEST Analysis)

Broad Factors Analysis, also commonly called the PEST Analysis stands for Political, Economic, Social and Technological. PEST analysis is a useful framework for analyzing the external environment.

Environmental Scanning - Internal & External Analysis of Environment

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success. **Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment.** It helps the managers to decide the future path of the organization. Scanning must identify the threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for another.

Internal analysis of the environment is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction

with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc. Also, discussions, interviews, and surveys can be used to assess the internal environment. Analysis of internal environment helps in identifying strengths and weaknesses of an organization.

As business becomes more competitive, and there are rapid changes in the external environment, information from external environment adds crucial elements to the effectiveness of long-term plans. As environment is dynamic, it becomes essential to identify competitors' moves and actions. Organizations have also to update the core competencies and internal environment as per external environment. Environmental factors are infinite, hence, organization should be agile and vigile to accept and adjust to the environmental changes. For instance - Monitoring might indicate that an original forecast of the prices of the raw materials that are involved in the product are no more credible, which could imply the requirement for more focused scanning, forecasting and analysis to create a more trustworthy prediction about the input costs. In a similar manner, there can be changes in factors such as competitor's activities, technology, market tastes and preferences.

While in **external analysis**, three correlated environment should be studied and analyzed —

- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment

Examining the **industry environment** needs an appraisal of the competitive structure of the organization's industry, including the competitive position of a particular organization and its main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry is essential. It also implies evaluating the effect of globalization on competition within the industry. Analyzing the **national environment** needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment. Analysis of **macro-environment** includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment. The analysis of organization's external environment reveals opportunities and threats for an organization.

Strategic managers must not only recognize the present state of the environment and their industry but also be able to predict its future positions.

FORECASTING

To develop strategies for the management of your business, you have to evaluate your present position and forecast how it will change during your planning period. Such forecasts guide you in specifying strategic objectives, and the validity of your strategy depends on the accuracy of your forecasting. Depending on the type of strategy you are developing, you have to choose the forecasting techniques that will best allow you to predict how the business will evolve.

Forecasting tools

Forecasting is an important part of your business strategy – here are some techniques and tools to use.

Whether it's predicting sales, measuring market impact, or understanding if you're going to need to grow your workforce, forecasting helps businesses assess where they are and predict where they might be going in many key areas. This is crucial when it comes to goal setting, budgeting, and campaign planning.

Essentially, forecasting lets a business look at past trends plus their current position and predict a future. You can use business forecast tools to help predict sales, budgets, and more. Having an accurate picture of your business's potential using data and market trends can help you set and meet objectives. Here are some of the fundamental forecasting tools and techniques to help you plan and strategize effectively.

Business Forecasting Techniques:

There are several business forecasting methods that might work for your business that will help you understand past trends and potential demand. The right technique might depend on what industry is using it. Here are some of the general forecasting models often used by businesses.

Qualitative

This method is appropriate where no hard data is available. Startups, for instance, can't project against past data, because there is no past data for their business. They must use a subjective approach then, that looks at the industry, market research, and relies on opinions of industry experts.

Quantitative

Quantitative methods forecast the future through looking at past data. This measurable, method-based, analytical mode is appropriate for several statistical forecasting needs, including short-term goals and planning.

Causal methods

This kind of forecasting is used to try to understand and predict relationships between things. If there has been a downturn in sales, is that because of the economy or bad customer service? Understanding the relationship between data sets can help to create a better plan going forward.

Forecasting Tools

Strategic management of any goals requires accurate data to plan from. To find, gather and analyze the most accurate data – and utilize it in your planning – you need the right tools. Here's a list of current, reliable tools to try when working on forecasting for your business.

Demand Works

Demand Works offers forecasting software for businesses that run 100% in browsers, so you can run the software from servers, the cloud, or your desktop. Their demand planning software is specifically for inventory management, capacity planning, and sales and operation planning.

QuickBooks

QuickBooks is a go-to resource for anyone looking for accounting software. Because of their robust platform, you can generate trend reports and forecasting reports that will help you in planning financial and budgeting objective.

Tableau

Tableau has been touted as a great software solution for forecasting for business intelligence goals. It helps you get an accurate picture of several different areas of business and strategize around the data.

While it's not a crystal ball, forecasting methods can help to assess information for your business's future. Using the right budgeting and forecasting techniques is essential in creating accurate, reliable forecasts for your business. Decide on your goals, which will lead you to the best forecast tools and techniques to help you start planning and building your strategies to accomplish those goals.

Mission statement

It is a description of what an organization actually does – what its business is – and why it does it..

Understanding the tool

Often called the “credo”, “philosophy”, “core values” or “our aspirations”, organization's mission is the statement that defines its core purpose or reason for being. ^[2] It tells who a company is and what it does. According to P. Drucker, often called the father of modern management, a mission is the primary guidance in creating plans, [strategies](#) or making daily decisions. It is an important communication tool that conveys information about organization's products, services, targeted customers, geographic markets, philosophies, values and plans for future growth to all of its stakeholders. In other words, every major reason why company exists must be reflected in its mission, so any employee, supplier, customer or community would understand the driving force behind organization's operations.

There are two types of statements:^[1]

Customer-oriented missions. Customer-oriented missions define organization's purpose in terms of meeting customer needs or providing solutions for them. They provide more flexibility than product-oriented missions and can be easily adapted to changing environment. For example, Nokia's statement “connecting people” is customer-oriented. It does not focus on mobile phones or smartphones only. It provides a solution to customer needs and could easily have worked 50 years ago, and will continue to work in the future. It also gives more strategic flexibility for the company. In Nokia's case, it may start providing VoIP software to allow calls to be made over the internet and its mission would still be valid.

- **Product-oriented missions.** Product-oriented missions focus on what products or services to serve rather than what solutions to provide for customers. These statements provide less flexibility for the company because most products have short life cycle and offer limited market expansion. The company that defines its business as “providing best health insurance products” may struggle to grow to other insurance product categories.

For a mission to be effective it must include the following 9 components:^[2]

1. Customers. Who are your customers? How do you benefit them?
2. Products or services. What are the main products or services that you offer? Their uniqueness?
3. Markets. In which geographical markets do you operate?
4. Technology. What is the firm's basic technology?
5. Concern for survival. Is the firm committed to growth and financial soundness?
6. Philosophy. What are the basic beliefs, values and philosophies that guide an organization?
7. Self-concept. What are the firm's strengths, competencies or [competitive advantages](#)?
8. Concern for public image. Is the firm socially responsible and environmentally friendly?
9. Concern for employees. How does a company treat its employees?

Strategic Objectives:

Strategic objectives deal with the firm's position in the model. You might do this, for example, by positioning the firm relative to the external forces – bargaining power of customers, bargaining power of suppliers, threat of new entrants, threat of substitutes, and competition within the industry – that can impact a business. Strategic objectives might include expanding market share, changing market position or under-cutting a competitor's costs.

Financial Objectives

Managers use financial objectives to measure strategic performance. For example, if the firm's strategic objective is to increase efficiency, the financial objective could be to increase return on assets or return on capital. Financial objectives, derived from management accounting, are more concrete.

Short-run Objectives

Financial and strategic objectives can either be short-run or long-run objectives. Short-run objectives deal with the immediate future. They typically focus on tangible goals that management can realize in a short time. An example of a short-run objective might be to increase monthly sales.

Long-run Objectives

Long-run objectives target the firm's long-term position. While short-run objectives focus on a firm's annual or monthly performance, long-run objectives concern themselves with the firm's development over several years. Examples of long-term objectives might be to become the market leader or to attain sustainable growth.

stakeholders theory:

A stakeholder is anyone who has an interest in a project, business or organization. In project management terms, a stakeholder is an individual or group that will be impacted by the outcome of the project. Stakeholders can be within the organization or outside of it; either way, they are very interested in the project and its proceedings.

In short, stakeholders are important. They sponsor a project or organization and are invested in [its successful completion](#). But that doesn't mean they just sit idly by and watch. They are often active, and they can have a positive or negative influence depending on their actions.

Stakeholders can influence everything and everyone in a project or organization, including senior management, project leaders, team members, customers, users and many others. With so many ways to sway a project, as a manager it's critical to prioritize and focus on only the most important stakeholders, those with power, proximity and urgency.

This is the beginning of stakeholder theory. Stakeholder theory addresses business ethics, morals and values when managing [stakeholders](#) involved with a project or organization. It seeks to optimize relations with stakeholders, thereby improving efficiencies throughout the project or organization.

Evaluating All the Stakeholders

But stakeholder theory notes that there are several interested parties that must be included under the umbrella of stakeholder, such as the company's employees, customers, suppliers, financiers, communities, governmental bodies, political

groups, trade associations, trade unions and even competitors, as they too can impact the company.

The list of who the stakeholders are is not universally agreed upon, and even the definition of a stakeholder remains contested by some. Even the academic literature is in conflict. There are many books and articles on the subject and most cite Freeman as its father.

Evolution of Stakeholder Theory

Freeman says he stood on the shoulders of giants, such as building from research in strategic management, corporate planning, systems theory, organization theory and corporate social responsibility, the latter of which was first discussed by the Italian economist Giancarlo Pallavicini in an article published in 1968.

More recently, in 1995, ethicist Thomas Donaldson has argued that stakeholder theory has descriptive, instrumental and normative aspects that are mutually supportive. Descriptive is used in research to identify and define characteristics and behaviors of companies and how they're managed. Instrumental uses empirical data to find connections between management of stakeholders and reaching corporate goals. Normative is a core theory on the function of the corporation and how it can morally carry out its processes, ensuring that management sticks to positive philosophical guidelines.

Benefits of Stakeholder Theory

Stakeholder theory posits that a company is only successful when it delivers value to its stakeholders, and those values can come in many forms beyond financial benefits.

Impact on Employees and Customers

One of the values produced by stakeholder theory includes greater productivity across the organization. If employees, who are considered stakeholders, feel as if they're being valued, then they're going to work harder and be more productive.

This also means that companies will have greater retention of their employees, but also of customers. If the productivity is up, then the product or service delivered to the customer is improved. With that improvement comes more customer loyalty, especially as they are one of the many stakeholders the company is considering when making decisions. Customers are also more likely to then refer other customers to the company.

Increased Investment

All this is leading to more investment from financiers. They too, of course, are stakeholders. While sometimes they are thought of as the only stakeholders or the most important to a company as they hold their hands on the level of capital, they're really connected to other stakeholders. As other stakeholders are valued, the value of the company grows, and investors are more likely to add money to production to take advantage of this increased market share.

From there, it's not only capital that is infused into the company, but talent. Everyone loves a winner, and as the company grows and dominates because of its care for stakeholders, it will inevitably attract new talent to its doors.

Ethical Benefits

Stakeholder theory drives more than profits and productivity. There are ethical benefits of practicing it as well. Companies find that the mental health of the workforce is greatly improved as their job satisfaction increases. It also will elevate the status of the company's social-economic status in the local community. When one company practices stakeholder theory, it creates healthy competition among other companies, where all can thrive and help benefit their stakeholders.

Behavioural Theory of Cyert and March:

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Behavioural Theory of Cyert and March!

Cyert and March have put forth a systematic behavioural theory of the firm. In a modern large multiproduct firm, ownership is separate from management. Here the firm is not considered as a single entity with a single goal of profit maximisation by a single decision-maker, called the entrepreneur. Instead, Cyert and March regard the modern business firm as a group of individuals who are engaged in the decision-making process relating to its internal structure having multiple goals.

They deal not only with the internal organisation of the firm but also with the problem of uncertainty. They reject the assumption of certainty in the neo-classical theory of the firm. They emphasise that the modern business firm is so complex that individuals within it have limited information and imperfect foresight with respect to both internal and external developments. The following are the key elements of the model.

Organisational Goals:

Cyert and March regard the modern business firm as a complex organisation in which the decision-making process should be analysed in variables that affect organisational goals, expectations, and choices. They look at the firm as an organisational coalition of managers, workers, shareholders, suppliers, customers, and so on.

Looked at from this angle, the firm can be supposed to have five different goals:

Production, inventory, sales, market share and profit goals.

1. Production Goal:

The production goal represents in large part the demand of those coalition members who are connected with production. It reflects pressures towards such things as stable employment, ease of scheduling, development of

acceptable cost performance and growth. This goal is related to output decisions.

2. Inventory Goal:

The inventory goal represents the demands of coalition members who are connected with inventory. It is affected by pressures on the inventory from salesmen and customers. This goal is related to decisions in output and sales areas.

3. Sales Goal:

The sales goal aims at meeting the demand of coalition members connected with sales, who regard sales necessary for the stability of the organisation.

4. Market-Share Goal:

The market-share goal is an alternative to the sales goal. It is related to the demands of sales management of the coalition who are primarily interested in the comparative success of the organisation and its growth. Like the sales goal, the market-share goal is related to sales decisions.

5. Profit Goal:

The profit goal is in terms of an aspiration level with respect to the money amount of profit. It may also be in the form of profit share or return on investment. Thus the profit goal is related to pricing and resource allocation decisions.

Cyert and March limit the number of goals to five because, according to them, to expand the list rapidly meets the point of diminishing returns. According to them, all goals must be satisfied because they are relevant to price, output and sales strategy decisions of the organisation.

“Although all goals must be satisfied in any organisation, there is an implicit order of priority which is reflected in the way search activity takes

place ” If one of the goals is not met and the individual responsible for that is not satisfied, a search will be made for a means to meet that goal. The search will be quite narrow and the organisation will use rules-of-thumb to set the problem right. The rules-of -thumb are based on the past experience of the firm and the people within it.

Conflicting Goals:

The aspiration levels of the individuals within the firm which determine these goals, change over time as a result of organisational learning. Thus these goals are regarded as the product of a bargaining- learning process in the organisational coalition. But it is not essential that the different goals may be resolved amicably. There may be conflicts among these goals. The organisational coalition is thus a coalition of conflicting interests.

The conflicting interests can be reconciled by the distribution of ‘side payments’ to members of the coalition. Side payments may be in cash or kind, the latter being mostly in the form of ‘policy side payments’ i.e., the right to take part in the policy decisions of the organisation. But the actual amount of total side payments is not fixed for the coalition but depends upon the demand of the members and on the form of the coalition.

Demands of coalition members equal actual side payments only in the long run. But the behavioural theory focuses on the short-run relation between side payments and demands and on the imperfections in factor markets.

In the short run, new demands are being constantly made and the goals of the organisation are continually adapted, to a greater or lesser extent, to take account of these demands. The demands of the members of the organisational coalition need not be mutually consistent. But all demands are not made simultaneously, and the organisation can remain viable by attending to demands in sequence. A problem will arise when the organisation is not able to accommodate the demands of its members even sequentially, because it lacks the resources to do so.

Satisficing Behaviour:

Besides side payments, the conflicting goals of the organisation are resolved by subjecting them to a constant review. This is because 'aspiration levels' of coalition members change with experience. In fact, the aspiration levels change with the process of satisficing. Each person in the organisation has a satisficing level for each of his goals.

If these levels are reached, they will not seek for more. But if they are not achieved, the aspiration levels are revised downwards. If they are exceeded, the aspiration levels are raised upwards. In both situations, the satisfactory levels of performance are changed accordingly.

Organisational Slack:

A coalition is sound and workable if payments made to various members of the coalition are adequate. For this, enough resources are needed to meet all demands of members. This is ordinarily not possible because disparity arises between the total resources available to the organisation and the total payments required to maintain the coalition.

This difference between total available resources and total necessary payments is called organisational slack, by Cyert and March. Slack consists in payments to members of the coalition in excess of what is required to maintain the organisation.

Many forms of slack exist when the organisation operates under market imperfections. The shareholders may be paid dividends in excess of what is required to keep them within the organisation. The customers may be charged lower prices so that they may stick to the products of the firm.

The workers may be paid wages in excess of what is needed to keep them in the firm. The executives may be provided with services and personal luxuries more than what is required to keep them. All such excess

payments are slack expenditures for the firm which every member of the coalition obtains from time to time.

Thus “slack is typically not zero”, according to Cyert and March. Rather, it is positive. Some members of the coalition ordinarily obtain a greater share of the slack than do others. In general, those members of the coalition who are full-time, tend to get more slack than the other members.

Organisational slack plays a constructive role. It keeps the coalition in existence. It enables the firm in maintaining itself under ‘crisis’ type situation and to adjust itself to changes in external environment. The organisational slack serves as a cushion to absorb the shocks. Slack payments are increased during periods of flourishing business and decreased during periods of bad business. Thus organisational slack plays both a stabilising and an adaptive role.

Decision-making Process:

The decision-making process in the Cyert-March model rests with the top management and the lower levels of administration. The top management sets the organisational goals and allocates the given resources to the various departments based on their share of the total budget of the firm.

The share of the budget depends on the bargaining power and the skill of each manager. The bargaining power is determined by the past performance of each department. In this process of allocation, the top management retains some funds to be allocated at its discretion at any time to any department.

The decision process at the lower levels provides various degrees of freedom of action to the administration. Once the budget share is allocated to each department, each manager has considerable discretion in spending the funds at his disposal. Decisions taken by managers are implemented by

the lower level staff based on their experiences and the “blue print” rules laid down earlier.

The decision-making process also depends upon information’s and expectations formed within the organisation. Information is required to facilitate the decision-maker. Information is not a costless activity. Search activity is started whenever a problem arises because search helps to locate and collect information.

Information determines the aspirations (i.e., demands) of each department which, in turn, helps the top management in setting goals. Organisational expectations are related to the hopes and wishes of the decision-maker.

Given the information and expectations, the top management examines and decides upon the projects presented by the managers. It evaluates the projects on the basis of two criteria. The first is the budgetary constraint which is the availability of funds for the project. The second is an improvement criterion: Is the project better than the existing one? In making decisions, the top management follows the rule that leads to a better state in the future than it was in the past. The Cyert-March model of behaviourism is thus an adaptive rational system.

Implications of the Cyert-March Model for Price Behaviour:

Cyert and March developed a simplified model to illustrate the key processes at work in an oligopolistic firm when it makes its decisions on price, output, costs, profits, etc. In this model, each firm is assumed to have three sets of goals: for profits, production and sales, and three basic decisions to make on price, output and sales effort in each time period.

It takes into consideration the firm’s environment at the beginning of each period which reflects its past experience. Its aspiration levels are modified in the light of this experience, and organisational slack is permitted. Using

multiple regression analysis, it was found that price was sensitive to factors influencing increases and decreases in the amount of organisational slack, to feasible reductions in expenditure on sales promotion and to changes in profit goals. Each firm was assumed to estimate its demand and production costs and choose its output level.

If this output level does not yield the aspired level of profits, it searches for ways to reduce costs, re-estimate demand and, if required, to lower its profit goal. If the firm is prepared to lower its profit goal, it will readily reduce its price. Thus price was found to be sensitive to factors affecting costs due to the close relationship between prices, costs and profits.

Objectives of a Nonprofit Organization

Nonprofit organizations exist mainly to provide help or resources to a target audience with a specific need. They usually serve a public purpose such as enriching the lives of people in the community, and enjoy special considerations in terms of tax, legal status and accountability. A nonprofit organization is mission-driven, which requires the management and board to set objectives aimed at achieving the organization's stated mission.

Strategic Objectives

A nonprofit organization's strategic objectives focus on the services provided to its target market. This requires identifying the needs of the relevant community and developing programs and projects geared at fulfilling those needs.

For example, a nonprofit whose mission is to build literacy skills among homeless children will have strategic objectives such as the implementation of a program to obtain and manage a supply of books, learning aids, space, and an instructor.

Financial Objectives

Nonprofits are not required to show financial surpluses, but they need to generate enough income to cover their costs and establish reserves for lean financial times.

Financial objectives include raising enough money to fund the activities included in their strategic plan, as well as fixed costs such as premises rental, staff compensation and utility bills.

Nonprofits can generate income through fundraising activities or revenue that results from services they provide.

The primary objectives are to break even and maximize cash flow, while avoiding excessive financial risk.

Operational Objectives

The operational objectives of a nonprofit organization relate to the management of funds and resources to achieve specific tasks.

These objectives commonly show quantitative performance measurements, such as the type and frequency of activities and the number of people served or helped.

The operational objectives include short-term dates for the completion of individual projects and programs, the resources used for each and the degree of success that the organization wants to achieve.

Governance Objectives

Nonprofit organizations are subject to stringent governance requirements, mainly because they usually use donor or grant funding to do their work. This makes them accountable to their donors and the grant programs, as well as to the public whose taxes go toward grant funding.

Governance objectives include the establishment of sound policies for issues such as compensation, purchasing and procurement, human resource and volunteer management and asset and risk management.

Partnership Objectives

Partnerships are vital aspects of nonprofit management, with organizations using in-kind donations of much-needed products and services.

For example, a nonprofit organization typically doesn't have enough money to advertise, so a partnership with a local newspaper could benefit both parties. The nonprofit gets free advertising, and the newspaper gets recognition as a supporter of the organization's work.

Partnership objectives identify the type of external parties with which the organization could partner, and ensure that potential partners' principles and philosophy are in accordance with the organization's work.

Corporate Social Responsibility and Strategic Management

In the long history of business, corporate social responsibility is a relatively new concept. For a long time, companies believed their only responsibilities were to make as much money as possible and maximize value for their shareholders.

Strategic planning and corporate social responsibility is a form of management in which companies take the ethical aspects of their business operations into consideration. They incorporate these social concerns into their business strategies and are more conscious of their roles in society and their communities outside of business.

More than just obeying the law, corporate social responsibility involves a business taking proactive steps to improve the quality of life for its employees and community. Different companies will select a different social responsibility strategy from each other, but they all focus on four ethical aspects of business: economic, ethical, legal and philanthropic.

Economic Social Responsibility

An economic social responsibility strategy begins with making sure a company is sustainable, which in turn means it is profitable. Not only does a company need to make a profit to satisfy its shareholders, it also must make enough money to pay its employees a respectable wage.

It should also be the company's responsibility to make sure it addresses issues such as gender wage discrimination. Outside of its employees, economic social responsibility involves paying appropriate business taxes and meeting other financial commitments.

Likewise, corporate economic responsibility includes businesses finding inefficiencies in their operations that waste capital, and implementing processes that improve efficiencies and reduce this waste.

Ethical Social Responsibility

Values and ethics in strategic management are important. Being ethical means companies must be aware of society's values and standards and operate in a manner that is conducive to those. Inside the workplace, this could include paying a living wage, ensuring safe working conditions, abiding by all labor laws and being willing only to do business with companies with similar ethical principles – not purchasing products from a factory that uses child labor, for example.

Being an ethical business also means taking into consideration a company's environmental impact and doing its job to limit forms of waste. As environmental issues grow on a global scale, it is increasingly essential that companies are aware of how they contribute to these issues.

Companies should analyze the processes they use and proactively do what they can to reduce their environmental impact. This is especially important for companies that dispose of waste, leaving a carbon footprint.

Legal Social Responsibility

The legal segment of corporate social responsibility revolves around making sure that companies are aware of and abide by all local, state and federal laws. Companies must comply with safety and labor laws put in place by regulators. It is the duty of the company to make sure they remain knowledgeable of any changes to the laws.

Being mindful of legal obligations can protect a company's reputation and limit the amount of time and money it has to spend in potential legal fees. Part of these legal responsibilities is always making sure the company meets its tax obligations.

Philanthropic Social Responsibility

Corporate philanthropic responsibility involves using a company's time and resources to make investments in the communities where they operate.

These investments could be in the form of scholarships and other educational assistance, or other notable local causes.

Many businesses choose to solely donate money to particular causes that are aiming to bring about social change, while others will attach their name and brand to causes they strongly believe in as a company. It is common for large corporations to have in-house departments that manage and coordinate the company's philanthropic efforts.

Business Ethics

Definition of Business Ethics

Business Ethics refers to carrying business as per self-acknowledged moral standards. It is actually a structure of moral principles and code of conduct applicable to a business. Business ethics are applicable not only to the manner the business relates to a customer but also to the society at large. It is the worth of right and wrong things from business point of view.

Business ethics not only talk about the code of conduct at workplace but also with the clients and associates. Companies which present factual information, respect everyone and thoroughly adhere to the rules and regulations are renowned for high ethical standards. Business ethics implies conducting business in a manner beneficial to the societal as well as business interests.

Every strategic decision has a moral consequence. The main aim of business ethics is to provide people with the means for dealing with the moral complications. Ethical decisions in a business have implications such as satisfied work force, high sales, low regulation cost, more customers and high goodwill.

Some of ethical issues for business are relation of employees and employers, interaction between organization and customers, interaction between organization and shareholders, work environment, environmental issues, bribes, employees rights protection, product safety etc.

Below is a list of some significant ethical principles to be followed for a successful business-

1. Protect the basic rights of the employees/workers.
2. Follow health, safety and environmental standards.
3. Continuously improvise the products, operations and production facilities to optimize the resource consumption
4. Do not replicate the packaging style so as to mislead the consumers.
5. Indulge in truthful and reliable advertising.
6. Strictly adhere to the product safety standards.
7. Accept new ideas. Encourage feedback from both employees as well as customers.
8. Present factual information. Maintain accurate and true business records.
9. Treat everyone (employees, partners and customers) with respect and integrity.
10. The mission and vision of the company should be very clear to it.
11. Do not get engaged in business relationships that lead to conflicts of interest. Discourage black marketing, corruption and hoarding.
12. Meet all the commitments and obligations timely.
13. Encourage free and open competition. Do not ruin competitors' image by fraudulent practices.
14. The policies and procedures of the Company should be updated regularly.
15. Maintain confidentiality of personal data and proprietary records held by the company.
16. Do not accept child labour, forced labour or any other human right abuses.

UNIT-III

Strategy Formulation

Definition: Strategy Formulation is an **analytical process of selection of the best suitable course of action to meet the organizational objectives and vision**. It is one of the steps of the **strategic management** process. The strategic plan allows an organization

to examine its resources, provides a financial plan and establishes the most appropriate action plan for increasing profits.

It is examined through **SWOT** analysis. SWOT is an acronym for strength, weakness, opportunity and threat. The strategic plan should be informed to all the employees so that they know the company's objectives, mission and vision. It provides direction and focus to the employees.

Steps of Strategy Formulation

The steps of strategy formulation include the following:

1. **Establishing Organizational Objectives:** This involves establishing long-term goals of an [organization](#). Strategic decisions can be taken once the organizational objectives are determined.
2. **Analysis of Organizational Environment:** This involves SWOT analysis, meaning identifying the company's strengths and weaknesses and keeping vigilance over competitors' actions to understand opportunities and threats.

Strengths and weaknesses are internal factors which the company has control over. Opportunities and threats, on the other hand, are external factors over which the company has no control. A successful organization builds on its strengths, overcomes its weakness, identifies new opportunities and protects against external threats.

3. **Forming quantitative goals:** Defining targets so as to meet the company's short-term and long-term objectives. Example, 30% increase in revenue this year of a company.
4. **Objectives in context with divisional plans:** This involves setting up targets for every department so that they work in coherence with the organization as a whole.
5. **Performance Analysis:** This is done to estimate the degree of variation between the actual and the standard performance of an organization.
6. **Selection of Strategy:** This is the final step of strategy formulation. It involves evaluation of the alternatives and selection of the best [strategy](#) amongst them to be the strategy of the organization.

Strategy formulation process is an integral part of strategic management, as it helps in framing effective strategies for the organization, to survive and grow in the dynamic [business environment](#).

Levels of strategy formulation

There are three levels of strategy formulation used in an organization:

Corporate level strategy: This level outlines what you want to achieve: growth,

stability, acquisition or retrenchment. It focuses on what [business](#) you are going to enter the market.

- **Business level strategy:** This level answers the question of how you are going to compete. It plays a role in those organization which have smaller units of business and each is considered as the [strategic business unit \(SBU\)](#).
- **Functional level strategy:** This level concentrates on how an organization is going to grow. It defines daily actions including allocation of resources to deliver corporate and business level strategies.

Hence, all organisations have competitors, and it is the strategy that enables one business to become more successful and established than the other.

What is Corporate Strategy?

Corporate Strategy takes a portfolio approach to strategic decision making by looking across all of a firm's businesses to determine how to create the most value. In order to develop a corporate strategy, firms must look at how the various business they own fit together, how they impact each other, and how the parent company is structured, in order to optimize human capital, processes, and governance. Corporate Strategy builds on top of business strategy, which is concerned with the strategic decision making for an individual business.

What are the Components of Corporate Strategy?

There are several important components of corporate strategy that leaders of organizations focus on. The main tasks of corporate strategy are:

1. Allocation of resources
2. Organizational design
3. Portfolio management
4. Strategic tradeoffs

In the following sections, this guide will break down the four main components outlined above.

#1 Allocation of Resources

The allocation of resources at a firm focuses mostly on two resources: people and capital. In an effort to maximize the value of the entire firm, leaders must determine how to allocate these resources to the various businesses or business units to make the whole greater than the sum of the parts.

Key factors related to the allocation of resources are:

- **People**

- Identifying core competencies and ensuring they are well distributed across the firm
- Moving leaders to the places they are needed most and add the most value (changes over time, based on priorities)
- Ensuring an appropriate supply of talent is available to all businesses

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- **Capital**

- Allocating capital across businesses so it earns the highest risk-adjusted return
- Analyzing external opportunities (mergers and acquisitions) and allocating capital between internal (projects) and external opportunities

#2 Organizational Design

Organizational design involves ensuring the firm has the necessary corporate structure and related systems in place to create the maximum amount of value. Factors that leaders must consider are the role of the corporate head office (centralized vs decentralized approach) and the reporting structure of individuals and business units – vertical hierarchy, matrix reporting, etc.

Key factors related to organizational design are:

- **Head office (centralized vs decentralized)**

- Determining how much autonomy to give business units
- Deciding whether decisions are made top-down or bottom-up
- Influence on the strategy of business units

- **Organizational structure (reporting)**

- Determine how large initiatives and commitments will be divided into smaller projects
- Integrating business units and business functions such that there are no redundancies
- Allowing for the balance between risk and return to exist by separating responsibilities
- Developing centers of excellence
- Determining the appropriate delegation of authority
- Setting governance structures
- Setting reporting structures (military / top-down, matrix reporting)

#3 Portfolio Management

Portfolio management looks at the way business units complement each other, their correlations, and decides where the firm will “play” (i.e. what businesses it will or won’t enter).

Corporate Strategy related to portfolio management includes:

- Deciding what business to be in or to be out of
- Determining the extent of vertical integration the firm should have
- Managing risk through diversification and reducing the correlation of results across businesses
- Creating strategic options by seeding new opportunities that could be heavily invested in if appropriate
- Monitoring the competitive landscape and ensuring the portfolio is well balanced relative to trends in the market

#4 Strategic Tradeoffs

One of the most challenging aspects of corporate strategy is balancing the tradeoffs between risk and return across the firm. It’s important to have a holistic view of all the businesses combined and ensure that the desired levels of risk management and return generation are being pursued.

Below are the main factors to consider for strategic tradeoffs:

- **Managing risk**

- Firm-wide risk is largely depending on the strategies it chooses to pursue
- True product differentiation, for example, is a very high-risk strategy that could result in a market leadership position or total ruin
- Many companies adopt a copycat strategy by looking at what other risk-takers have done and modifying it slightly
- It's important to be fully aware of strategies and associated risks across the firm
- Some areas might require true differentiation (or cost leadership) but other areas might be better suited to copycat strategies that rely on incremental improvements
- The degree of autonomy business units have is important in managing this risk

Business Strategy

Definition: Business strategy can be understood as the course of action or set of decisions which assist the entrepreneurs in achieving specific business objectives.

It is nothing but a **master plan that the management of a company implements to secure a competitive position in the market, carry on its operations, please customers and achieve the desired ends of the business.**

In business, it is the **long-range sketch of the desired image, direction and destination** of the organisation. It is a scheme of corporate intent and action, which is carefully planned and flexibly designed with the purpose of:

- Achieving effectiveness,
- Perceiving and utilising opportunities,
- Mobilising resources,
- Securing an advantageous position,
- Meeting challenges and threats,
- Directing efforts and behaviour and

- Gaining command over the situation.

A business strategy is a **set of competitive moves and actions** that a business uses to attract customers, compete successfully, strengthening performance, and achieve organisational goals. It outlines **how business should be carried out to reach the desired ends**.

Business strategy equips the top management with an integrated framework, to discover, analyse and exploit beneficial opportunities, to sense and meet potential threats, to make optimum use of resources and strengths, to counterbalance weakness.

1. **Corporate level strategy:** Corporate level strategy is a long-range, action-oriented, integrated and comprehensive plan **formulated by the top management**. It is used to ascertain business lines, expansion and growth, takeovers and mergers, diversification, integration, new areas for investment and divestment and so forth.
2. **Business level strategy:** The strategies that relate to a particular business are known as business-level strategies. It is **developed by the general managers**, who convert mission and vision into concrete strategies. It is like a blueprint of the entire business.
3. **Functional level strategy:** **Developed by the first-line managers or supervisors**, functional level strategy involves decision making at the operational level concerning particular functional areas like marketing, production, human resource, research and development, finance and so on.

In business, there is always a need for multiple strategies at various levels as a single strategy is not only inadequate but improper too. Therefore, a typical business structure always possesses three levels.

STRATEGY DIVERSIFICATION

Diversification strategies are used to extend the company's product lines and operate in several different markets. The general strategies include concentric, horizontal and conglomerate diversification.

Each strategy focuses on a specific method of diversification. The concentric strategy is used when a firm wants to increase its products portfolio to include like products produced within the same company, the horizontal strategy is used when the company wants to produce new products in a similar market, and the conglomerate diversification strategy is used when a company starts operating in two or more unrelated industries.

Diversification strategies help to increase flexibility and maintain profit during sluggish economic periods.

Concentric Diversification

A concentric diversification strategy lets a firm to add similar products to an already established business. For example, when a computer company producing personal computers using towers starts to produce laptops, it uses concentric strategies. The technical knowledge for new venture comes from its current field of skilled employees.

Concentric diversification strategies are rampant in the food production industry. For example, a ketchup manufacturer starts producing salsa, using its current production facilities.

Horizontal Diversification

Horizontal diversification allow a firm to start exploring other zones in terms of product manufacturing. Companies depend on current market share of loyal customers in this strategy. When a television manufacturer starts producing refrigerators, freezers and washers or dryers, it uses horizontal diversification.

A downside is the company's dependence on one group of consumers. The company has to leverage on the brand loyalty associated with current products. This is dangerous since new products may not garner the same favor as the company's other products.

Conglomerate Diversification

In conglomerate diversification strategies, companies will look to enter a previously untapped market. This is often done using mergers and acquisitions.

Moving into a new industry is highly dangerous, due to unfamiliarity with the new industry. Brand loyalty may also be reduced when quality is not managed. However, this strategy offers increasing flexibility in reaching new economic markets.

For example, a company into automotive repair parts may enter the toy production industry. Each company allows for a broader base of customers. There is an opportunity of income when one industry's sales falter.

Companies often need to downsize themselves to be lean and compete better against stiff competition. The idea is to make a more productive company incur lesser costs. There are mainly two major ways to downsize, known as Retrenchment and Restructuring.

Retrenchment

In the early 20th century, battles in World War I, occurred in series of parallel trenches. If an attacking army forced the enemy to abandon a trench, the defenders used to move back to the next trench. The handy adjustments were far more preferable to losing the battle completely. Retrenchment, a popular business strategy now, owes its origin to this trench warfare. Firms that follow retrenchment strategy generally shrink one or more business units.

Retrenchment is accompanied often by laying off employees. This reduces the overall cost of management and provides a better way to manage the employees more productively. This type of strategy is best applicable to a saturated and low margin market such as groceries where retailers look to add non-food merchandise to their stocks to improve the bottom line.

Restructuring

Some better and more effective strategies are needed for some firms to survive and become successful in the future. **Divestment** means selling off a portion of the firm's operations. Sometimes, divestment usually reverses a forward vertical integration strategy, such as in the case where Ford sold Hertz. Divestment can also lead to reverse backward vertical integration.

General Motors (GM), once turned their parts supplier, called Delphi Automotive Systems Corporation, from the original GM subsidiary into a newly formed and independent firm. This was done via a spin-off, which includes creating a completely new company the stock of which is owned by investors. This often accompanies stock splits for large companies.

Divestment can also help the company to undo diversification strategies. Firms that have engaged in unrelated diversification find the diversification strategies more useful. Investors, however, often find it complex to understand the process of diversified firms, and this can result in relatively poor performance by the stocks of such firms. This is called **diversification discount**.

Executives sometimes break up diversified companies to derive the stock value. Sometimes, the operations of a firm have no value at all. When sale of a part of business is not possible, the best option may be **liquidation**. In liquidation, the parts that generate no value are simply shut down, often at a tremendous financial loss.

GM has liquidated its Geo, Saturn, Oldsmobile, and Pontiac brands. Such moves are painful as large portions of investments have to be written off, but becoming "leaner and meaner" may at least save the company from becoming obsolete.

Portfolio Analysis in Strategic Management

Portfolio analysis is a systematic way to analyze the products and services that make up an association's business portfolio. All associations (except the simplest and the smallest) are involved in more than one business. Some of these include publishing, meetings and conventions, education and training, government representation, research, standards setting, public relations, etc. Each of these is one of the association's strategic business units (SBUs). Each business consists of a portfolio of products and services.

For example, an association's publishing business might include a professional journal, a lay magazine, specialized newsletters geared to different member segments, CDs, a website, social

networking sites, etc. Portfolio analysis helps you decide which of these products and services should be emphasized and which should be phased out, based on objective criteria. Portfolio analysis consists of subjecting each of the association's products and services through a progression of finer screens. During a time of cutbacks and scarce resources, it is essential to screen out programs and services that are not essential to most members. Those that appeal to a more limited segment can be funded by those desiring the product or service rather than by dues.

Advantages and Disadvantages of Portfolio Analysis

Portfolio analysis offers the following advantages:

1. It encourages management to evaluate each of the organization's businesses individually and to set objectives and allocate resources for each.
2. It stimulates the use of externally oriented data to supplement management's intuitive judgment.
3. It raises the issue of cash flow availability for use in expansion and growth.

Portfolio analysis does, however, have some limitations.

1. It is not easy to define product/market segments.
2. It provides an illusion of scientific rigor when some subjective judgments are involved.

Considering both its advantages and disadvantages, portfolio analysis should be regarded as a disciplined and organized way of thinking about asset allocation. It is only a subjective tool, however, and is not a substitute for the ultimate professional judgment of the responsible decision-makers.

Step 1: Identify Lines of Business

The first step in portfolio analysis is to identify the lines of businesses (SBUs) that make up the association's portfolio. The guideline to keep in mind is this: if we were a corporation instead of a professional society, which groups of programs would be logical candidates to be grouped together as independent businesses?

Step 2: Group Lines of Business

There are three lines of businesses an association typically engages in. The first is core businesses that are of vital importance to your broad membership. These are the businesses that directly support the objectives in the strategic plan and have a priority claim on resources. The second line of business is support functions that make it possible to deliver the core business benefits to members. Examples of support functions are administrative, accounting, legal, governance support, etc. These do not have a priority claim on resources. Rather, the objective is to minimize the cost of these functions and transfer resources to support the core business. The third line of business is money-makers that provide low-priority member benefits but are the source of revenues that support the association's core businesses. Ideally, the association's core businesses should be self-supporting and perhaps even contribute to reserves. Often, this is not the case and

activities must be subsidized with other income. Money-makers provide this income. Examples of money-makers are rental car discounts, affinity cards, insurance programs.

Step 3: Compare Core Businesses with Mission Statement

Once you have separated out your core businesses, compare them with the association's mission statement. To pass this screen, a business must directly support the goals that are defined in the mission statement. Support should be direct and not peripheral. If a line of business does not support the strategic plan, it should be discontinued or phased out and its resources transferred to support the association's other core businesses.

Step 4: Define Products and Services in Each Line of Business

Once lines of business have been tested for relevance to the mission statement, the next step is to subdivide those that are relevant into their component products and services. For example, the publishing business would be subdivided into each of its products. Each product or service would then be compared to the Program Evaluation Matrix.

Step 5: Apply the Program Evaluation Matrix

The Program Evaluation Matrix is a graphic device that simplifies the process of analyzing all the products and services in the association's portfolio of products and services. In running its programs through the Program Evaluation Matrix, the association makes several assumptions.

BCG matrix

(or growth-share matrix) is a corporate planning tool, which is used to portray firm's brand portfolio or SBUs on a quadrant along relative market share axis (horizontal axis) and speed of market growth (vertical axis) axis.

Growth-share matrix

is a business tool, which uses relative market share and industry growth rate factors to evaluate the potential of business brand portfolio and suggest further investment strategies.

BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business brand portfolio and its potential. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and **competitive position** (relative market share). These two dimensions reveal likely profitability of the business portfolio in terms of cash needed to support that unit and cash generated by it. The general purpose of the analysis is to help understand, which brands the firm should invest in and which ones should be divested.

Relative market share. One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate's market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher

profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

Market growth rate. High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth. Therefore, business units that operate in rapid growth industries are cash users and are worth investing in only when they are expected to grow or maintain market share in the future.

There are four quadrants into which firms brands are classified:

Dogs. Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. But this is not always the truth. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defense to counter competitors moves. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested.

Strategic choices: Retrenchment, divestiture, liquidation

Cash cows. Cash cows are the most profitable brands and should be “milked” to provide as much cash as possible. The cash gained from “cows” should be invested into stars to support their further growth. According to growth-share matrix, corporates should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. Again, this is not always the truth. Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations.

Strategic choices: Product development, diversification, divestiture, retrenchment

Stars. Stars operate in high growth industries and maintain high market share. Stars are both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows. Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog.

Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development

Question marks. Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very close consideration to decide if they are

worth investing in or not.

Strategic choices: Market penetration, market development, product development, divestiture

What Is a Strategic Alliance?

A strategic alliance is an arrangement between two companies to undertake a mutually beneficial project while each retains its independence. The agreement is less complex and less binding than a [joint venture](#), in which two businesses pool resources to create a separate business entity.

A company may enter into a strategic alliance to expand into a new market, improve its product line, or develop an edge over a competitor. The arrangement allows two businesses to work toward a common goal that will benefit both.

The relationship may be short- or long-term and the agreement may be formal or informal.

Understanding the Strategic Alliance

While the strategic alliance can be an informal alliance, the responsibilities of each member are clearly defined. The needs and benefits gained by the partnered businesses will dictate how long the coalition is in effect.

- A strategic alliance is an arrangement between two companies that have decided to share resources to undertake a specific, mutually beneficial project.
- A strategic alliance agreement could help a company develop a more effective process.
- Strategic alliances allow two organizations, individuals or other entities to work toward common or correlating goals.

The effects of forming a strategic alliance can include allowing each of the businesses to achieve [organic growth](#) more quickly than if they had acted alone.

The partnership entails sharing complimentary resources from each partner for the overall benefit of the alliance.

Advantages and Disadvantages of a Joint Alliance

Strategic alliances can be flexible and some of the burdens that a joint venture could include. The two firms do not need to merge capital and can remain independent of one another.

A [strategic alliance](#) can, however, bring its own risks. While the agreement is usually clear for both companies, there may be differences in how the firms conduct business. Differences can create conflict. Further, if the alliance requires the parties to share proprietary information, there must be trust between the two allies.

In a long-term strategic alliance, one party may become dependent on the other. Disruption of the alliance can endanger the health of the company.

Example of a Strategic Alliance

The deal between Starbucks and Barnes&Noble is a classic example of a strategic alliance. Starbucks brews the coffee. Barnes&Noble stocks the books. Both companies do what they do best while sharing the costs of space to the benefit of both companies.

Strategic alliances can come in many sizes and forms:

- An oil and natural gas company might form a strategic alliance with a research laboratory to develop more commercially viable recovery processes.
- A clothing retailer might form a strategic alliance with a single manufacturer to ensure consistent quality and sizing.
- A website could form a strategic alliance with an analytics company to improve its marketing efforts.

STRATEGIC CHOICE

Strategic choice refers to the decision which determines the future strategy of a firm. It addresses the question "Where shall we go".

A [SWOT analysis](#) is conducted to examine the strengths and weaknesses of the firm and opportunities that can be exploited are also determined. Based on the analysis the firm selects a path among various other alternatives that will successfully achieve the firm's [objectives](#).

Strategic choice is therefore, the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise objectives. The decision involves the following four steps – focusing on few alternatives, considering the selection factors, [evaluating the alternatives](#) against these criteria and making the actual choice.

Factors affecting strategic choice

- Environmental constraints
- Internal organizations and management power relationships
- Values and preferences
- Management's attitude towards risk
- Impact of past strategy
- Time constraints- time pressure, frame horizon ,timing of decision
- Information constraints
- Competitors reaction

3. Evaluation of strategies – Each factor is evaluated for its capability to help the organization to achieve its objectives. This step involves bringing together analysis carried out on the basis of subjective and objective factors. Successive iterative steps of analyzing different alternatives lie at the heart of [such evaluation](#).

4. Making a strategic choice– A strategic choice must lead to a clear assessment of alternative which is the most suitable alternative under the existing conditions. A blueprint has to be made that will describe the strategies and conditions under which it operates. Contingency strategies must be also devised.

Process of Strategic choice

1. Focusing on alternatives – The aim of this step is to narrow down the choice to a manageable number of feasible strategies. It can be done by visualizing a future state and working backwards from it. Managers generally use **GAP analysis** for this purpose. By reverting to business definition it helps the managers to think in a structured manner along any one or more dimensions of the business.

- At Corporate level strategic alternatives are -Expansion, Stability, Retrenchment, Combination
- At Business level strategic alternatives are – **Cost leadership, Differentiation or Focused business strategy.**

2. Analyzing the strategic alternatives- The alternatives have to be subjected to a thorough analysis which rely on certain factors known as selection factors. These selection factors determine the criteria on the basis of which the evaluation will take place. They are:

Objective factors – These are based on analytical techniques and are hard facts used to facilitate strategic choice.

Subjective factors – These are based on one`s personal judgment, collective or descriptive factors.

UNIT-IV

STRATEGY IMPLEMENTATION

Introduction:

Strategic implementation is a process that puts plans and strategies into action to reach desired goals. The strategic plan itself is a written document that details the steps and processes needed to reach plan goals, and includes feedback and progress reports to ensure that the plan is on track.

Strategic implementation is critical to a company`s success, addressing the who, where, when, and how of reaching the desired goals and objectives. It focuses on the entire organization. Implementation occurs after environmental scans, SWOT analyses, and identifying strategic issues and goals. Implementation involves assigning individuals to tasks and timelines that will help an organization reach its goals.

Definition:

Strategy Implementation refers to the execution of the plans and strategies, so as to accomplish the long-term goals of the organization. It converts the opted strategy into the moves and actions of the organisation to achieve the objectives.

Simply put, strategy implementation is the technique through which the firm develops, utilises and integrates its structure, culture, resources, people and control system to follow the strategies to have the edge over other competitors in the market.

PROCESS OF STRATEGY IMPLEMENTATION

1. Building an organization, that possess the capability to put the strategies into action successfully.
2. Supplying resources, in sufficient quantity, to strategy-essential activities.
3. Developing policies which encourage strategy.
4. Such policies and programs are employed which helps in continuous improvement.
5. Combining the reward structure, for achieving the results.
6. Using strategic leadership.

The process of strategy implementation has an important role to play in the company's success. The process takes place after environmental scanning, SWOT analyses and ascertaining the strategic issues.

ORGANIZING FOR ACTION

Strategy Implementation is the sum total of the activities and choices required for the execution of a strategic plan. It is a process by which objectives, strategies, and policies are put into action through the development of programs, budgets, and procedures. Poor implementation has been blamed for a number of strategic failures. The most mentioned problems reported in post-merger integration were poor communication, unrealistic synergy expectations, structural problems, missing master plan, lack of top management commitment, and unclear strategic fit. To begin the implementation process, strategy managers must consider these questions"

how are the people who will carry out the strategic plan?

what must be done to align the company's operations in the new intended direction?

how is everyone going to work together to do what is needed? Depending on how the corporation is organized, those who implement strategy will probably be

a much more diverse set of people than those who formulate it. In most large, multi-industry corporations, the implementers are everyone in the organization. Vice presidents of functional areas and directors of divisions or strategic business units work with their subordinates to put together large-scale implementation plans. Therefore, every operational manager down to the first-line supervisor and every employee is involved in some way in the implementation of corporate, business, and functional strategies. Many of the people in the organization who are crucial to successful strategy implementation probably had little to do with the development of the corporate and even business strategy. Therefore, they might be entirely ignorant of the vast amount of data and work that went into the formulation process. The managers of divisions and functional areas work with their fellow managers to develop programs, budgets, and procedures for the implementation of strategy. They also work to achieve synergy among the divisions and functional areas in order to establish and maintain a company's distinctive competence. Strategy implementation involves establishing programs to create a series of new organizational activities, budgets to allocate funds to the activities, and procedures to handle the day to day details. The purpose of a program is to make a strategy action oriented. After programs have been developed, the budget process begins. Planning a budget is the last real check a corporation has on the feasibility of its selected strategy. An ideal strategy might be found to be completely impractical only after specific implementation programs are costed in detail. After the programs, divisional, and corporate budgets are approved, procedures must be developed. Often called Standard Operating Procedures - SOPs, they typically detail the various activities that must be carried out to complete a corporation's programs. Also known as organizational routines, procedures must be updated to reflect any changes in technology as well as in strategy.

Synergy is said to exist for a divisional corporation if the return on investment of each division is greater than what they would be if each division were an independent business. According to Gould and Campbell, synergy can take place in one of six forms: "Shared know-how" combined units benefit from sharing knowledge or skills. "Coordinated Strategies" aligning the business strategies of two or more business units may provide a corporation significant advantage by reducing inter-unit competition and developing a coordinated response to common competitors. "Shared tangible resources" combined units can sometimes save money by sharing resources, such as a common manufacturing facility or a lab. "Economies of scale or scope" coordinating the flow of products or services of one unit with that of another unit can reduce inventory, increase capacity utilization, and improve market access. "Pooled negotiating power" combined units can combine their purchasing to gain bargaining power over common suppliers to reduce costs and improve quality. "New business creation" exchanging knowledge and skills can facilitate new products or services by extracting discrete activities from various units and combining them in a new unit or by establishing joint ventures among internal business units. Successful corporations tend to follow a pattern of structural development as they grow and expand. Successful corporations usually get larger and organize along functional lines, with marketing, production, and finance departments. With continuing success, the company adds new product lines in different industries and organizes itself into interconnected divisions.

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Stage one is typified by the entrepreneur, who founds a company to promote an idea -

a product or a service. The entrepreneur tends to make all the important decisions personally and is involved in every detail and phase of the organization. The stage one company has little formal structure, which allows the entrepreneur to directly supervise the activities of every employee.

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Stage two is the point when the entrepreneur is replaced by a team of manager who have functional specializations. The transition to this stage requires a substantial managerial style change for the chief officer of the company, especially if he or she was the

stage one entrepreneur. He or she must learn to delegate; otherwise, having additional staff members yields no benefits to the organization.

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Stage three" is typified by the corporation's managing diverse product line in numerous industries; it decentralizes the decision-making authority. Organizations grow by diversifying their product lines and expanding to cover wider geographical areas. They move to a division or business unit a functionally organized stage two company. Reengineering is the radical redesign of business processes to achieve major gains in cost, service, or time. It is not in itself a type of structure, but it is an effective program to implement a turnaround strategy. Michael Hammer, who popularized the concept of reengineering, suggests the following principles for reengineering"

STRATEGY STAFFING:

Strategic staffing is a human resource strategy designed to ensure an organization has the workforce it needs to meet both current and future business objectives. Essentially, strategic staffing ensures you have the right number of permanent and temporary employees for your business to run efficiently.

Strategic Staffing Steps:

1. Identification.

The first step in strategic staffing is to identify the positions needed to meet current and future business objectives. Considering the company's financial capabilities, decisions should be made on whether a position should be added, removed, or combined with another position.

2. Recruiting.

Once key positions have been identified, the HR team must scout and recruit the right people to fill these positions. If the budget allows, highly qualified candidates can be hired to take on these roles. Where the budget is limited, it may be possible to hire underdeveloped candidates that can be trained on the job.

3. Development and training.

Once an employee is hired, they need to undergo development training. Even highly qualified candidates must undergo some form of training to fully understand the requirements of the position and to align themselves with the vision of the company.

4. Employee retention.

A key part of strategic staffing is taking care of the talent that has been recruited and developed. [Employee retention](#) plays a big role in making a company successful. If there is a high staff turnover, resources are wasted on training and development.

STRATEGIC LEADERSHIP:

Strategic leadership refers to a manager's potential to express a strategic vision for the organization, or a part of the organization, and to motivate and persuade others to acquire that vision. Strategic leadership can also be defined as utilizing strategy in the management of employees. It is the potential to influence organizational members and to execute organizational change. Strategic leaders create organizational structure, allocate resources and express strategic vision. Strategic leaders work in an ambiguous environment on very difficult issues that influence and are influenced by occasions and organizations external to their own.

The main objective of strategic leadership is strategic productivity. Another aim of strategic leadership is to develop an environment in which employees forecast the organization's needs in context of their own job. Strategic leaders encourage the employees in an organization to follow their own ideas. Strategic leaders make greater use of reward and incentive system for encouraging productive and quality employees to show much better performance for their organization. Functional strategic leadership is

about inventiveness, perception, and planning to assist an individual in realizing his objectives and goals.

Strategic leadership requires the potential to foresee and comprehend the work environment. It requires objectivity and potential to look at the broader picture.

A few main **traits / characteristics / features / qualities** of effective strategic leaders that do lead to superior performance are as follows:

Loyalty- Powerful and effective leaders demonstrate their loyalty to their vision by their words and actions.

Keeping them updated- Efficient and effective leaders keep themselves updated about what is happening within their organization. They have various formal and informal sources of information in the organization.

Judicious use of power- Strategic leaders make a very wise use of their power. They must play the power game skillfully and try to develop consent for their ideas rather than forcing their ideas upon others. They must push their ideas gradually.

Have wider perspective/outlook- Strategic leaders just don't have skills in their narrow specialty but they have a little knowledge about a lot of things.

Motivation- Strategic leaders must have a zeal for work that goes beyond money and power and also they should have an inclination to achieve goals with energy and determination.

Compassion- Strategic leaders must understand the views and feelings of their subordinates, and make decisions after considering them.

Self-control- Strategic leaders must have the potential to control distracting/disturbing moods and desires, i.e., they must think before acting.

Social skills- Strategic leaders must be friendly and social.

Self-awareness- Strategic leaders must have the potential to understand their own moods and emotions, as well as their impact on others.

Readiness to delegate and authorize- Effective leaders are proficient at delegation. They are well aware of the fact that delegation will avoid overloading of responsibilities on the leaders. They also recognize the fact that authorizing the subordinates to make decisions will motivate them a lot.

Articulacy- Strong leaders are articulate enough to communicate the vision(vision of where the organization should head) to the organizational members in terms that boost those members.

Constancy/ Reliability- Strategic leaders constantly convey their vision until it becomes a component of organizational culture.

To conclude, Strategic leaders can create vision, express vision, passionately possess vision and persistently drive it to accomplishment.

MANAGEMENT BY OBJECTIVE:

Management by objectives (MBO) is a strategic business model designed to improve the performance of an organization. It is a strategy with clearly defined objectives which is agreed by both the management and the employees.

MBO helps managers to systemically update and delegate tasks to employees with mutual understanding and keeping the goals aligned with the organizational mission. A definite set of task is set for each employee and also their work is monitored. The strategy is quite simple. It to plan, design, and execute objectives with transparency and complete it at a definite time frame.

A critical part of MBO is also to check employee performance through monitoring the performance. It is also widely practiced as an [employee appraisal method](#) for promotion and also giving other monetary and non-monetary bonuses.

The term 'Management By Objectives' was first termed by management guru Peter Drucker in his 1954 book,*The Practice of Management*.

MBO follows the mnemonic S.M.A.R.T while setting objectives. 'SMART' objectives are-

- Specific - Target a specific area for improvement.
- Measurable- Quantify or suggest an indicator of progress.
- Assignable - Specify who will do it.

- Realistic - State what results can realistically be achieved, given available resources.
- Time-bound - Specify when the result(s) can be achieved.

Steps in MBO

Management by objectives (MBO) is a strategic business model designed to improve the performance of an organization. It is a strategy with clearly defined objectives which is agreed by both the management and the employees.

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Related: [Tips For Setting Effective SMART Goals](#)

Steps in MBO (Also called MBO Process Cycle)

1. In the first step, MBO emphasizes on goals that are measurable, tangible and achievable keeping the organizational mission in mind.
2. The second step is to set and align these objectives with the employees.
3. In the third step, the employees are allowed plan their own objectives.
4. In the fourth step, the progress of the employees is monitored.
5. The fifth step is to evaluate and reward employees. Honest feedback is given and also new strategies for goals not achieved are established.

Nature of MBO

It is a functional approach, giving importance to the goal-setting process. It is a systematic approach to set goals and helps every individual department to set their own goals.

But MBO doesn't interfere in the process of implementation of those goals. It gives every member the freedom to complete their tasks on their own. This promotes **creativity** and innovation in the organization and helps them generate ideas, solve problems and contribute to organizational goals with diversified inputs. This helps employees to keep themselves motivated and committed to the process.

MBO is a result-oriented strategy. Therefore, the outcomes are easily monitored and help the organization to understand if their goals are achieved.

Advantages of Management By Objectives

1. Efficient Management

The management is efficient when the team's output is higher than the input and resources they put into it. It is directly related to the **employee productivity** or how much time they take to meet their goals and objectives. Often productivity gets dwindled when there is no proper structure aligned to fulfill organizational goals.

Organizations that follow MBO are more productive at their jobs and their efficiency increases. Employees are more clear about their goals which help them plan and have a very clear structure to follow. One of the clear reasons for this is the systematic plan which is adopted by every member of the organization to complete the assigned tasks.

2. Effective Planning

The purpose of planning is to develop a blueprint for growing a business. The better the planning is, the easier it is for management to take action. Effective planning requires an attitude of never being satisfied with the organization's current performance.

Planning becomes quite easier with MBO. Since employees are clear about the organizational objectives, therefore, they can develop a systematic approach and plan to achieve those. With this business strategy, the planning process becomes relatively easier.

3. Transparency

Communication is the main pillar of any organization to sustain and thrive. The communication process becomes more active between the management and the employees with this management technique. The continuous flow of two-way communication brings more opportunities and clarity in ambiguous roles by defining clear objectives to every team member. With MBO members of the organization become aware of the roles others are playing. It helps subordinates to report to their managers and also understand it better since the work assigned is mutually decided. Also

since all the members work towards the main organization goal, MBO gives an edge to understand it and follow [transparency](#) in the process.

4. Reinforces Commitment

In an organization, we often see employees gradually lose their [job satisfaction](#) and their sense of commitment. The reason behind this though has diverse reasons but one of the major factors is lack of direction, lack of transparency and miscommunication between the superior and subordinates. This strategic model bridges that gap and creates a positive and open work environment. MBO reinforces the involvement of every member by giving them the opportunity in planning and achieving their company goals.

Also, since everyone is assigned goals to reach the target, therefore, it gives employees a sense of commitment. The fact that their work is designed and monitored for the greater purpose reinforces the commitment in them. It also helps in employee motivation as employees are included in the goal-setting process and give them the extra push to complete the tasks.

5. Goal Setting

We are aware of the fact that how important [goal-setting](#) is for any organization. It directs management and gives a road-map to follow. And it is better when everyone in the organization is aware of the process or included to give their perspectives and idea on the same. This also helps the employees to understand their roles and tasks better.

With MBO Strategic Model, goal-setting is done with mutual participation of the management and the organization. Objectives are more likely to be fulfilled by the employees as they actively participate in the goal-setting process and also choose the actions to achieve those. It gives everyone in the team a clear goal and perspective to keep the boat floating.

6. Accountability

MBO gives accountability to everyone in the room by creating a structure that defines goals and boosts performance. Management is a tricky affair and one needs to be accountable to get the work done. Even the best of teams often cannot reach their full potential due to the loopholes in the management or not being able to delegate tasks and monitor effectively. With this management technique, the team members should participatory behavior that encourages team morale and overall productivity of the organization.

7. Efficient Utilization of Human Resources

If you do not know how to utilize your human resources, then you might do more harm to your business than you can imagine. Having the best teams is not enough. The world is growing smarter, the digital transformations are not only bringing us huge opportunities but also competition. So how do you sustain in a hugely competitive market? One sure trick here is to utilize your resources to its fullest potential. And you can also only do that by delegating tasks to individuals who suit best the given role. With MBO, employees and managers collaborate on assigning roles and setting goals. Thoughtful matching of talents to tasks fosters success and utilizes human resources to maximum effect.

8. Minimizes Ambiguity

There is no role ambiguity since everyone is clear about their job roles. Confusion of job roles or managing multiples tasks by specific individuals in the team creates an imbalance in the overall management structure. It also impacts performance and encourages a toxic work culture. Many employees feel discouraged by not being able to understand the workflow or what is expected of them. With MBO, the joint collaboration between the manager and the employees clears the air and leaves room for everyone to thrive and understand their job roles effectively.

TOTAL QUALITY MANAGEMENT

A core definition of **total quality management**(TQM) describes a **management** approach to long-term success through customer satisfaction. In a **TQM** effort, all members of an organization participate in improving processes, products, services, and the culture in which they work.

TQM can be summarized as a management system for a customer-focused organization that involves all employees in continual improvement. It uses strategy, data, and effective communications to integrate the quality discipline into the culture and activities of the organization. Many of these concepts are present in modern [quality management systems](#), the successor to TQM. Here are the 8 principles of total quality management:

1. **Customer-focused:** The customer ultimately determines the level of quality. No matter what an organization does to foster quality improvement—training employees, integrating quality into the design process, or upgrading computers or software—the customer determines whether the efforts were worthwhile.
2. **Total employee involvement:** All employees participate in working toward common goals. Total employee commitment can only be obtained after fear has been driven from the workplace, when [empowerment](#) has occurred, and when management has provided the proper environment. High-performance work systems integrate [continuous improvement](#) efforts with normal business operations. Self-managed work [teams](#) are one form of empowerment.
3. **Process-centered:** A fundamental part of TQM is a focus on process thinking. A process is a series of steps that take inputs from suppliers (internal or external) and transforms them into outputs that are delivered to customers (internal or external). The steps required to carry out the process are defined, and performance measures are continuously monitored in order to detect unexpected variation.
4. **Integrated system:** Although an organization may consist of many different functional specialties often organized into vertically structured departments, it is the horizontal processes interconnecting these functions that are the focus of TQM.
 - Micro-processes add up to larger processes, and all processes aggregate into the business processes required for defining and implementing strategy. Everyone must understand the vision, mission, and guiding principles as well as the quality policies, objectives, and critical processes of the organization. Business performance must be monitored and communicated continuously.
 - An integrated business system may be modeled after the [Baldrige Award](#) criteria and/or incorporate the [ISO 9000 standards](#). Every organization has a unique work

culture, and it is virtually impossible to achieve excellence in its products and services unless a good **quality culture** has been fostered. Thus, an integrated system connects business improvement elements in an attempt to continually improve and exceed the expectations of customers, employees, and other stakeholders.

5. **Strategic and systematic approach:** A critical part of the management of quality is the strategic and systematic approach to achieving an organization's vision, mission, and goals. This process, called strategic planning or strategic management, includes the formulation of a strategic plan that integrates quality as a core component.
6. **Continual improvement:** A large aspect of TQM is **continual process improvement**. Continual improvement drives an organization to be both analytical and creative in finding ways to become more competitive and more effective at meeting **stakeholder** expectations.
7. **Fact-based decision making:** In order to know how well an organization is performing, data on performance measures are necessary. TQM requires that an organization continually collect and analyze data in order to improve decision making accuracy, achieve consensus, and allow prediction based on past history.
8. **Communications:** During times of organizational change, as well as part of day-to-day operation, effective communications plays a large part in maintaining morale and in motivating employees at all levels. Communications involve strategies, method, and timeliness.
- 9.

FUNCTIONAL STRATEGY:

Functional strategies in strategic **management** are usually a part of overall corporate **strategy** prepared for various functional areas of its **organizational structure** (i.e. **production, marketing, sales**). It helps managers in focusing **company's** activities to its major functional areas of activity (so called: **key success factors**). Most common functional strategies used in management are: financial strategy, marketing strategy, production strategy, human resources strategy (**personnel strategy**) and **research and development** strategy.

Management strategy is formed on three levels: entire company (so called corporate strategy), individual **business units** or sector of **industry** and at a functional level. Such a multi-level **strategic management** approach makes the concept of strategic management highly ambiguous. It can be considered from the point of view of the entire company (top executives) and domain-specific subsystems or functional components. The lack of precise definition can cause that the "strategic" role for the companies can be

individual workstations or processes carried out at the lowest levels of the [organization](#). In particular, the discussion concerns the question of the validity of studies highlighting functional strategies.

Functional Level Strategy is concerned with operational level decision making, called **tactical decisions**, for various functional areas such as production, marketing, research and development, finance, personnel and so forth.

As these decisions are taken within the framework of business strategy, strategists provide proper direction and suggestions to the functional level managers relating to the plans and policies to be opted by the business, for successful implementation.

Role of Functional Strategy

- It assists in the overall business strategy, by providing information concerning the management of business activities.
- It explains the way in which functional managers should work, so as to achieve better results.

Functional Strategy states what is to be done, how is to be done and when is to be done are the functional level, which ultimately acts as a guide to the functional staff. And to do so, strategies are to be divided into achievable plans and policies which work in tandem with each other. Hence, the functional managers can implement the strategy.

Growth Strategies:

A growth strategy is one under which management plans to advance further and achieve growth of the enterprise, in fields of manufacturing, marketing, financial resources etc.

As growth entails risk, especially in a dynamic economy, a growth strategy might be described as a safest policy of growth-maximising gains and minimising risk and untoward consequences.

Types of Growth Strategies:

Following is an account of important growth strategies, comprised in both categories as stated above:

(I) Internal Growth Strategies:

Some popular internal growth strategies are described below:

(1) Market Penetration:

Market penetration is a growth strategy, in which a firm tries to seek a higher volume of sales of present products by penetrating (or getting deeper), into existing markets through devices like the following:

1. Aggressive advertising and other sales promotion techniques.
2. Encouraging new uses of the old product e.g. use of coffee during summer season by way of cold coffee or coffee-shake.
3. Coming out with exchange offers e.g. exchange of old scooters or TV for new ones at a discount etc.

(2) Market Development:

This growth strategy, as the name implies, aims at increasing sales of existing products through market development, i.e. exploring new markets for company's products. For example, many companies have achieved remarkable growth by entering into foreign markets; pushing their products by changing size, packaging, and brand name etc.

Market development may be tried by a company within the same country also e.g. sale of electronic goods like transistors etc. in rural areas.

(3) Product Development:

Product development as a growth strategy implies developing new and improved products for sale in existing markets; so that people who have otherwise become indifferent to the old product with passage of time get attracted to the new product because of the charisma associated with the phenomenon of newness.

Examples: introduction of Babool and Promise toothpastes by Balsara Hygiene Products Ltd.; introduction of Colgate Super Shakti by Colgate-Palmolive (India) Ltd. etc.

(4) Diversification:

Diversification is quite an important growth strategy. As growth entails risk, diversification, as a growth strategy, implies developing a wider range of products to diffuse risk or to reduce risk associated with growth. The fundamental philosophy of diversification is presumably contained in an old English proverb which suggests that one should not keep all one's eggs in one basket.

(II) External Growth Strategies:

Some popular external growth strategies are described below:

(1) Joint Ventures:

Joint venture is a growth strategy in which two or more companies, establish a new enterprise (or organisation) by participating in the equity capital of the new organisation and by agreeing to participate in its management in an agreed manner.

A firm or a company may have a joint venture with another company of the same country or a foreign country. Some examples of joint ventures: Tata Iron and Steel Co. joined hands with IPICOL of Orissa to form IPITATA Sponge Iron Ltd; Hindustan Computers Ltd. and Hewlett Packard of USA formed a joint venture named HCL-HP Ltd; Tungabhadra Industries Ltd. of India and Yamaha Motor Company Ltd. of Japan formed a joint-venture Birla Yamaha Ltd. etc.

2) Mergers:

Merger, as a growth strategy, implies combination (or integration) of two or more companies into one. Merger may take place with a co-operative approach or it may take place with a hostile approach. In the latter case, a merger is known as a takeover.

Specially in the Indian conditions, industrialists Vijaya Mallaya, R.P. Goenka and Manu Chabria are described as “take-over kings.”

ACQUISITIONS:

Acquisitions, on the other hand, refer to processes in which one company buys the other company. In such a situation the buying company absorbs the bought company into the existing company. Acquisitions can be carried out either to eliminate competition by absorbing the competing company or to expand the corporate portfolio by retaining the acquired company as an independent entity under the overall corporate management. This latter case is at the heart of many conglomerates. News Corp Inc acquired MySpace, the leading online networking site with an estimated 100 million registered users, not in order to merge it with the other news businesses, but to expand the corporate portfolio. On the other hand Vodafone Group plc, the world's largest mobile communications network company with a market capitalization of GBP 86 billion (US\$169 billion or 1.16 trillion yuan) recently acquired a 67% stake in Essar Hutchison (one of India's leading mobile phone network) for US\$19 billion (130 billion yuan). The purpose of this acquisition was to enter the highly lucrative Indian mobile phone market. By this acquisition, India became Vodafone's second largest market after the US. As is evident from the many examples mentioned before, acquisitions serve three main purposes: viz. can serve as a market entry strategy, as a corporate portfolio expansion tool, and as a competitive defense mechanism.

JOINT VENTURES:

It refers to a legal entity that is formed between two or more parties to undertake an economic activity together. In the Joint Venture, the parties agree to create, for a definite period, a new entity and new assets by contributing equity. They then share in the revenues, expenses, and assets and "control" of the enterprise. Joint Ventures are also driven by business, taxation, and political objectives. Joint Ventures are very feasible in an environment where parent-subsidary relationships are not encouraged because of (a) national objectives (b) parental control of funds and (c) disallow competition.

DIVERSIFICATION STRATEGIES:

Diversification strategies are used to extend the company's product lines and operate in several different markets. The general strategies include concentric, horizontal and conglomerate diversification.

Each strategy focuses on a specific method of diversification. The concentric strategy is used when a firm wants to increase its products portfolio to include like products produced within the same company, the horizontal strategy is used when the company wants to produce new products in a similar market, and the conglomerate diversification strategy is used when a company starts operating in two or more unrelated industries.

Diversification strategies help to increase flexibility and maintain profit during sluggish economic periods.

Warren Buffet on Diversification

“Diversification is protection against ignorance, it makes little sense for those who know what they're doing.”

Concentric Diversification

A concentric diversification strategy lets a firm to add similar products to an already established business. For example, when a computer company producing personal computers using towers starts to produce laptops, it uses concentric strategies. The technical knowledge for new venture comes from its current field of skilled employees.

Concentric diversification strategies are rampant in the food production industry. For example, a ketchup manufacturer starts producing salsa, using its current production facilities.

Horizontal Diversification

Horizontal diversification allow a firm to start exploring other zones in terms of product manufacturing. Companies depend on current market share of loyal customers in this strategy. When a television manufacturer starts producing refrigerators, freezers and washers or dryers, it uses horizontal diversification.

A downside is the company's dependence on one group of consumers. The company has to leverage on the brand loyalty associated with current products. This is dangerous since new products may not garner the same favor as the company's other products.

Conglomerate Diversification

In conglomerate diversification strategies, companies will look to enter a previously untapped market. This is often done using mergers and acquisitions.

Moving into a new industry is highly dangerous, due to unfamiliarity with the new industry. Brand loyalty may also be reduced when quality is not managed. However, this strategy offers increasing flexibility in reaching new economic markets.

For example, a company into automotive repair parts may enter the toy production industry. Each company allows for a broader base of customers. There is an opportunity of income when one industry's sales falter.

RECOVERY STRATEGIES:

Company recovery strategies are the strategies undertaken to preserve a company and prevent its shutdown. The key objective of company recovery strategies is to quickly identify and address the sources of its problems that may lead to its collapse.

The main task involved in company recovery strategies is to diagnose the causes of poor operations. Executives should ask themselves questions, such as:

- Is the situation the result of an unexpected drop in sales due to a worsening economic situation?
- Is there a badly chosen competitive strategy?
- Was there poor implementation of a well-designed strategy?
- Does the company hold too much debt?

The questions above are necessary to determine whether the business can be saved or if the situation cannot be fixed. By identifying the root cause of the problem, one can implement company recovery strategies that may lead to improvement.

RECESSION STRATEGIES:

Consider ways of turning your services into products and your products into services. Increase your range of both products and value added services. Develop both a **strategy** for the next boom economy, and a short term **strategy** to survive the **recession**. Look at every aspect of your **business**.

Like spring, summer, fall and winter, an economic recession is a natural stage of an (economic) life cycle. And much like how any season can produce extreme weather, managing a business in a recession can present unique challenges for business owners and employees.

The United States economy is complex and comprised of many industries. Its growth is measured by a number called gross domestic product (GDP). When all is going well, the overall economy expands, which means businesses are making money, growing larger and hiring people. Those people earn increasingly higher incomes (hopefully) and purchase more products, which further drives economic expansion.

At some point, like a rubber band stretched to its limit, those underlying economic factors begin to slow, reach a peak and then reverse. When they decline for more than a few months consecutively, the economy is in a recession.

There have been more than 40 recorded recessions in the United States, and each is unique. Some last for months; others last years. The Great Depression was the worst in U.S. history. The financial crisis of 2007-2009 was the worst of many of our lifetimes. Each happened for different reasons, and the next recession will have a catalyst of its own.

It's impossible to predict when a recession will happen or what will cause it. But there are some common symptoms of a recessed economy that impact businesses. Once you understand what they are, you can better prepare your business and your workforce for an economic retraction.

Here are five strategies for identifying how a recession might impact your business and how to handle it.

1. Assess your business's health

In the months leading up to a recession, consumer spending and available capital can both decline, which can cause a business to feel a pinch in their budgets.

This means some difficult decisions may have to be made regarding product pricing, marketing initiatives, hiring, benefits and even new launches. While each business will experience a recession in unique ways, the most common challenges faced by companies of all sizes include:

- Temptation to cut product size, quality and benefits – or raise prices. When lagging sales no longer pay for the cost of doing business, businesses may look to products to find wiggle room in the operating budget.
- Not enough capital to pay employees. Companies may feel they can no longer pursue plans to expand operations, pay bonuses or even keep the workers they have.
- Lower employee morale and productivity. Frequent layoffs and employees asked to do more with less can lead to a culture of apprehension. Productivity can suffer when employees feel uncertain and unmotivated by bad news.

Data is the best way to meet these challenges head on. It's vital to understand what the metrics say about your day-to-day operations, even when they show that your company may be suffering.

Try to answer these questions:

- Are there inefficiencies regarding your product or service offerings?
- How much talent can we afford right now? How far can we really stretch people?
- What resources do you need to maintain or exceed current output?

2. Implement change

Now that you've identified the trouble areas of your business, it's time to make changes that will make your business more resilient in this (and every) economic climate.

This could include:

- Realigning your staff or restructuring your organizational chart
- Evaluating products and services to ensure the market demands continue to be met for your clients
- Readjusting benchmarks and projected growth targets

Not every problem can be solved at once. Prioritize issues with the highest potential to damage to your customer satisfaction, business culture and bottom line.

Actions to take:

- Personnel: Can you consolidate redundancies? Can the job of two workers be performed by one? Is job-sharing an appropriate solution? Could the non-essential employee be moved to an area where talent is scarce? While layoffs are never ideal, struggling companies can't afford to pay for repetitive processes.
- Products and services: Consider reducing or eliminating products that don't generate profits or with low profit margins. Look at the labor required for each product. If most of your employees' time is spent on low-margin products, then perhaps their time can be better spent on your profit centers.

These changes may not come easy to your staff. And having difficult conversations with employees is, well, difficult. Approach the conversations around downsizing and other sensitive matters carefully.

Things to consider:

- Tackle the issues head-on: Keeping the news private about layoffs or other changes can do more harm than good. What you fail to tell your workers can end up becoming a PR nightmare. Get ahead of rumors by having an honest dialogue with your team. Be transparent by being honest about hard truths, and your employees will respect you for it.
- Don't let work fall by the wayside: Be conscious of the fact that changes to your workforce may make the business vulnerable to inefficiencies. The impact of the recession should be mitigated so that the customer doesn't feel your internal strife.

3. Maximize your talent

When the recession puts a squeeze on your resources, including your human capital, consider how you can maximize the teams you already have in place.

This could include:

- Providing encouragement and reassurances to your existing leaders and staff
- Identifying undiscovered leaders in your organization and calling on them to step up

Actions to take:

- Rally the troops: Explain that while these may be tough times, the tide will change. If everyone bands together, the company will persevere. Remind them that their hard work is valued and does not go unnoticed or unappreciated.
- Identify leaders: Ask your staff to help identify unrecognized natural leaders. Is there someone that everyone relies on during stressful times? Who is the person who answers questions, provides guidance and acts as a peer mentor without being asked? Once identified, encourage these high producers to take on more responsibility and fill in gaps.
- Track everything: Use metrics to track and recognize core competencies. Understand who is on the bench and whether they can assume extra responsibility. That way you can begin to cross train team members.
- Always listen: Regularly solicit feedback from your leaders, heavy hitters and regular employees. Their intimate knowledge of the company could inspire innovative solutions to problems both small and systemic. Having this type of buy-in can keep morale high and productivity consistent.

4. Meet the needs of your employees

A recession is hard on everyone, and while it can have a damaging impact on morale, you need your employees to be more efficient and productive than ever.

You achieve this by understanding your employee's personal needs.

Listen to your employees. If you experience recession-induced stress in the workplace, it's likely that employees are suffering through financial, emotional or interpersonal strains at home, as well.

This is more important than ever during a recession, especially with employees taking on extra responsibility.

Actions to consider:

- Offer intangible perks: Knowing how to motivate employees outside of monetary compensation is essential. Flexible scheduling — allowing employees to take time off or work remotely — is one popular intangible perk. As you implement these

changes, closely monitor productivity. Don't let relaxed oversight lead to decreased employee output.

- Make every manager an advocate for mental and emotional health: Educate employees on how mental health issues can affect the workplace. Ensure that managers are prepared to offer help, follow wise protocol and avoid developing stigmatizing prejudices.
- Use your employee assistance program: These programs can be a great asset for employees struggling through various issues.

5. Recession proof your business

Business owners who understand that recessions are normal and should be expected can prepare for them. Those who plan for all possible outcomes are best poised to survive.

Actions to take:

- Think long-term: Planning can take much of the unknown out of the equation. Give leaders tools for training, productivity, communication and mitigation long before they need it.
- Conduct regular checkups: Instead of entering crisis mode once a recession hits, use every opportunity to gauge the health of your business. Use data to guide how you build efficient teams, foster new leadership and support your employees' well-being. Those that are proactive, rather than reactive, may get better results.

In summary

Recessions are unavoidable, but if you plan ahead, your business can survive and grow stronger as a result.

1. Regularly assess the health of your business.
2. Readjust your products and services and the resources required as necessary.
3. Build a lean, efficient team and remind them that you appreciate them.
4. Listen to your employees' needs, and they will give discretionary effort for you.
5. Never stop thinking about how you can accomplish numbers 1-4 better and more efficiently.

If you follow these strategies, your business will be better prepared to survive any economic climate.

However, recession isn't the only type of disaster that can impact your business. Any number of outside variables could have adverse effects if you're not prepared. To learn more about how to protect your company from any disaster situation, download our complimentary magazine: [The Insperity guide to crisis management](#).

DIVESTMENT STRATEGY:

Divestment is a form of retrenchment **strategy** used by businesses when they downsize the scope of their business activities. **Divestment** usually involves eliminating a portion of a business. Firms may elect to sell, close, or spin-off a **strategic** business unit, major operating division, or product line.

the consequence of a growth strategy. Much of the corporate downsizing of the 1990s has been the result of acquisitions and takeovers that were the rage in the 1970s and early 80s. Firms often acquired other businesses with operations in areas with which the acquiring firm had little experience. After trying for a number of years to integrate the new activities into the existing organization, many firms have elected to divest themselves of portions of the business in order to concentrate on those activities in which they had a competitive advantage.

REASONS TO DIVESTMENT

In most cases it is not immediately obvious that a unit should be divested. Many times management will attempt to increase investment as a means of giving the unit an opportunity to turn its performance around. Portfolio models such as the Boston Consulting Group (BCG) Model or General Electric's Business Screen can be used to

Divestment is a form of retrenchment strategy used by businesses when they downsize the scope of their business activities. Divestment usually involves eliminating a portion of a business. Firms may elect to sell, close, or spin-off a strategic business unit, major operating division, or product line. This move often is the final decision to eliminate unrelated, unprofitable, or unmanageable operations.

Divestment is commonly identify operations in need of divestment. For example, products or business operations identified as "dogs" in the BCG Model are prime candidates for divestment.

Decisions to divest may be made for a number of reasons:

MARKET SHARE TOO SMALL.

Firms may divest when their market share is too small for them to be competitive or when the market is too small to provide the expected rates of return.

AVAILABILITY OF BETTER ALTERNATIVES.

Firms may also decide to divest because they see better investment opportunities. Organizations have limited resources. They are often able to divert resources from a marginally profitable line of business to one where the same resources can be used to achieve a greater rate of return.

NEED FOR INCREASED INVESTMENT.

Firms sometimes reach a point where continuing to maintain an operation is going to require large investments in equipment, advertising, research and development, and so forth to remain viable. Rather than invest the monetary and management resources, firms may elect to divest that portion of the business.

LACK OF STRATEGIC FIT.

A common reason for divesting is that the acquired business is not consistent with the image and strategies of the firm. This can be the result of acquiring a diversified business. It may also result from decisions to restructure and refocus the existing business.

LEGAL PRESSURES TO DIVEST.

Firms may be forced to divest operations to avoid penalties for restraint of trade. Service Corporation Inc., a large funeral home chain acquired so many of its competitors in some areas that it created a regional monopoly. The Federal Trade Commission required the firm to divest some of its operations to avoid charges of restraint of trade.

IMPLEMENTATION

OF

DIVESTMENT STRATEGIES

Firms may pursue a divestment strategy by spinning off a portion of the business and allowing it to operate as an independent business entity. Firms may also divest by selling a portion of the business to another organization. RJR Nabisco used both of these

forms of divestment. In 1985 Nabisco Brands was bought by R.J. Reynolds, the manufacturer of Winston, Camel, and many other cigarette brands. Fueled in part by fears of legal liability resulting from tobacco law-suits and by complaints from investors that the tobacco side of RJR Nabisco was dragging the food business down, in early 1999 the decision was made to spin-off the domestic tobacco operations into a separate company. Later in 1999 the decision was made to sell the overseas tobacco business to Japan Tobacco.

Another way to implement a divestment decision is to simply close a portion of the firm's operations. Faced with a decline in its market share of almost half in the 14 to 19 male age group and no introduction of a successful new product in years, and rising manufacturing costs, Levi Strauss has found it necessary to divest some of its operations. Since 1997 the company has announced plans to shut twenty-nine factories in North America and Europe and to eliminate 16,310 jobs. Selling many of the plants probably was not feasible as many other clothing manufacturers are also closing plants and moving operations overseas, depressing the price for clothing manufacturing facilities. Besides, the most likely buyers for the Levi's plants would be competitors and Levi Strauss probably would not want them to have the added capacity.

In 2004 Teleflex, a U.S. \$2 billion industrial product manufacturer implemented a divestment and acquisition strategy to remove underperforming units while acquiring companies in markets where it intended to expand its business. Although a business may be identified as a target for divestment, the implementation of divestment is not always easy. First a buyer must be found. This may be difficult for a failing business unit. Once a buyer is found, then price must be negotiated. Many divestments are blocked by management's expectations for the operation. Firms may expect demand for the product to pick up. Management may also see the poor performance as a temporary setback that can be overcome with time and patience. Decisions to divest a business may be seen as an admission of failure on the part of management and may lead to escalating commitment to the struggling business as a way of protecting management's ego and public image. Robert Haas, president and CEO at Levi Strauss & Co., has certainly

received bad publicity and has had his leadership abilities and judgment questioned as a result of his decision to close company plants and eliminate over 16,000 jobs.

Divestment is not usually the first choice of strategy for a business. However, as product demand changes and firms alter their strategies, there will almost always be some portion of the business that is not performing to management's expectations. Such an operation is a prime target for divestment and may well leave the company in a stronger competitive position if it is divested.

MANAGEMENT BURNOUT:

Executive Summary. Stress is a fact of professional life, but extreme and unrelenting pressures can lead to the debilitating state we call **burnout**. Three symptoms characterize **burnout: exhaustion**; cynicism, or distancing oneself from work; and inefficacy, or feelings of incompetence and lack of achievement.

Heavy workloads and deadline pressures are a fact of managerial life. Who doesn't feel overwhelmed or stretched thin sometimes? But when relentless work stress pushes you into the debilitating state we call burnout, it is a serious problem, affecting not just your own performance and well-being, both on the job and off, but also that of your team and your organization.

Hard data on the prevalence of burnout is elusive since it's not yet a clinical term separate from stress. Some researchers say that as few as 7% of professionals have been seriously impacted by burnout. But others have documented rates as high as 50% among medical residents and 85% among financial professionals. A 2013 ComPsych survey of more than 5,100 North American workers found that 62% felt high levels of stress, loss of control, and extreme fatigue. Research has also linked burnout to many negative physical and mental health outcomes, including coronary artery disease, hypertension, sleep disturbances, depression, and anxiety, as well as to increased alcohol and drug use. Moreover, burnout has been shown to produce feelings of futility and alienation, undermine the quality of relationships, and diminish long-term career prospects.

Consider the case of Barbara (last name withheld), the CEO of a PR firm that serves technology industry clients. During the 2001 collapse of the dot-com bubble, the challenge of keeping her business afloat added extra stress to an already intense workload. Focused on this "unrelenting hustle," she neglected her health, lost perspective, and began to doubt her own abilities. Cheryl (not her real name), a partner in the Philadelphia office of a global law firm, hit the same sort of wall after she agreed to take on multiple leadership roles there in addition to managing her full-time legal practice. "I felt like my body was running on adrenaline—trying to do a marathon at a sprint pace—all the time,"

she recalls. And yet she couldn't step back mentally from work. Another executive I know—let's call him Ari—felt trapped in his role as a consultant at a boutique firm. Toxic internal dynamics and client relationship practices that clashed with his values had eroded his sense of self to the point where he didn't know how to go on—or get out.

Over the past 15 years as a coach, researcher, and educator, I've helped thousands of clients, students, and executive-development program participants in similar predicaments learn to manage the stress that can cause burnout and to ultimately achieve more-sustainable career success. The process involves noticing and acknowledging the symptoms, examining the underlying causes, and developing preventive strategies to counteract your particular pattern of burnout.

Three Components

Thanks to the pioneering research of psychologist Christina Maslach and several collaborators, we know that burnout is a three-component syndrome that arises in response to chronic stressors on the job. Let's examine each symptom—exhaustion, cynicism, and inefficacy—in turn.

Exhaustion is the central symptom of burnout. It comprises profound physical, cognitive, and emotional fatigue that undermines people's ability to work effectively and feel positive about what they're doing. This can stem from the demands of an always-on, 24/7 organizational culture, intense time pressure, or simply having too much to do, especially when you lack control over your work, dislike it, or don't have the necessary skills to accomplish it. In a state of exhaustion, you find that you're unable to concentrate or see the big picture; even routine and previously enjoyable tasks seem arduous, and it becomes difficult to drag yourself both into and out of the office. This is how burnout started for Cheryl. Her fuel tank was low, and it wasn't being adequately replenished.

Changes at the job, team, or organizational level are often required.

Cynicism, also called depersonalization, represents an erosion of engagement. It is essentially a way of distancing yourself psychologically from your work. Instead of feeling invested in your assignments, projects, colleagues, customers, and other collaborators, you feel detached, negative, even callous. Cynicism can be the result of work overload, but it is also likely to occur in the presence of high conflict, unfairness, and lack of participation in decision making. For example, after ignoring repeated directives to push solutions that didn't solve clients' problems, Ari realized that the constant battle with his bosses was affecting his own behavior. "I was talking trash and shading the truth more often than I was being respectful and honest," he explains. Persistent cynicism is a signal that you have lost your connection to, enjoyment of, and pride in your work.

Inefficacy refers to feelings of incompetence and a lack of achievement and productivity. People with this symptom of burnout feel their skills slipping and worry that they won't be able to succeed in certain situations or accomplish certain tasks. It often develops in tandem with exhaustion and cynicism because people can't perform at their peak when they're out of fuel and have lost their connection to work. For example, although Barbara was a seasoned PR professional, the stress of the dot-com crisis and her resulting fatigue caused her to question her ability to serve clients and keep the business thriving. But burnout can also start with inefficacy if you lack the resources and support to do your job well, including adequate time, information, clear expectations, autonomy, and good relationships with those whose involvement you need to succeed. The absence of feedback and meaningful recognition, which leaves you wondering about the quality of your work and feeling that it's unappreciated, can also activate this component. This was the situation for Ari, who felt that he was forced to function at a subpar level because his organization didn't care enough to support good performance.

While each component is correlated with the other two and one often leads to another, individuals also have distinct burnout profiles. [Michael Leiter](#), a longtime collaborator with Maslach, is examining this in his current research. He has found, for example, that some people are mainly exhausted but haven't yet developed cynicism or begun to doubt their performance. Others are primarily cynical or suffer most from feelings of reduced efficacy. People can also be high on two components and low on one. Although most of the prevention and recovery strategies we'll discuss are designed to address all three symptoms, it's a good idea to diagnose your specific burnout profile so that you know where you need the most help.

Recovery and Prevention

Situational factors are the biggest contributors to burnout, so changes at the job, team, or organizational level are often required to address all the underlying issues. However, there are steps you can take on your own once you're aware of the symptoms and of what might be causing them. Here are some strategies I have found to be successful with my clients.

Prioritize self-care.

It's essential to replenish your physical and emotional energy, along with your capacity to focus, by prioritizing good sleep habits, nutrition, exercise, social connection, and practices that promote equanimity and well-being, like meditating, journaling, and enjoying nature. If you're having troubling squeezing such activities into your packed schedule, give yourself a week to assess exactly how you're spending your time. (You can do this on paper, in a spreadsheet, or on one of the many relevant apps now available.) For each block of time, record what you're doing, whom you're with, how you feel (for example, on a scale of 1 to 10, where 1 equals angry or drained and 10 is joyful or energized), and how valuable the activity is. This will help you find opportunities to limit your exposure to tasks, people, and situations that aren't essential and put you in a negative mood; increase

your investment in those that boost your energy; and make space for restful, positive time away from work.

Barbara says she bounced back from her bout of burnout by “learning to do things that fill me up.” Nowadays, when she notices that she’s feeling overly tired or starting to doubt herself, she changes her behavior immediately, making use of flexible work options, hosting walking meetings to get out of the office, and setting limits on the amount of time she spends reading e-mails and taking calls from colleagues and clients.

Shift your perspective.

While rest, relaxation, and replenishment can ease exhaustion, curb cynicism, and enhance efficacy, they don’t fully address the root causes of burnout. Back at the office, you may still face the same impossible workload, untenable conflicts, or paltry resources. So now you must take a close look at your mindset and assumptions. What aspects of your situation are truly fixed, and which can you change? Altering your perspective can buffer the negative impact of even the inflexible aspects. If exhaustion is a key problem, ask yourself which tasks—including critical ones—you could delegate to free up meaningful time and energy for other important work. Are there ways to reshape your job in order to gain more control or to focus on the most fulfilling tasks? If cynicism is a major issue, can you shield yourself from the parts of the organization that frustrate you, while reengaging in your specific role and the whole enterprise? Or could you build some positive, supportive relationships to counteract the ones that drain you? And if you’re feeling ineffective, what assistance or development might you seek out? If recognition is lacking, could you engage in some personal branding to showcase your work?

Cheryl worked with an executive coach to evaluate and reset her priorities. “I work in a competitive field and I’m a competitive person, which can skew the way you see reality,” she explains. “In the past I didn’t dare say no to leadership opportunities because I was afraid that if I did, everything might disappear.” She says she’s now replaced that “scarcity” mentality with one that instead presumes abundance. “Now if I feel overextended, I’ll ask myself, Is there a way to inject joy back into this role, or is it time to give it up? And I understand that when I want to take something on, I need to decide what to give up to make space.”

Ari did the same sort of deep thinking. Although he had previously felt tethered to his job—the firm was prestigious, the pay was good—he realized that values and ethics meant more to him than any perk, so he eventually quit and started his own business. “

After I pushed back a couple of times and said that what we were recommending wasn’t right for the clients, my boss cranked up the pressure on me and assigned me to only the most difficult clients. At one point I said to my wife, ‘It might be good if I got hit by a bus. I don’t want to die, but I’d like to be injured enough that I’d have to stop working for a while.’ She said, ‘That’s it; you’re getting out of there.’” He took a few months to line up some independent consulting assignments and then made the move.

Reduce exposure to job stressors.

You'll also need to target high-value activities and relationships that still trigger unhealthy stress. This involves resetting the expectations of colleagues, clients, and even family members for what and how much you're willing to take on, as well as ground rules for working together. You may get pushback. But doubters must know that you're making these changes to improve your long-term productivity and protect your health.

Barbara, for example, is keenly aware of the aspects of PR work that put people in her field at risk of burnout, so now she actively manages them. "There's constant pressure, from both clients and the media," she explains. "But a lot of times, what clients label a crisis is not actually one. Part of the job is helping them put things in perspective. And being a good service professional doesn't mean you have to be a servant. You shouldn't be e-mailing at 11 at night on a regular basis."

Cheryl, too, says she's learned "not to get carried along in the current" of overwhelming demands. She adds, "You have to know when saying no is the right answer. And it takes courage and conviction to stick to your guns and not feel guilty." If you find that there are few or no opportunities to shift things in a more positive direction, you might want to contemplate a bigger change, as Ari did.

Seek out connections.

The best antidote to burnout, particularly when it's driven by cynicism and inefficacy, is seeking out rich interpersonal interactions and continual personal and professional development. Find coaches and mentors who can help you identify and activate positive relationships and learning opportunities. Volunteering to advise others is another particularly effective way of breaking out of a negative cycle.

Given the influence of situational factors on burnout, it's likely that others in your organization are suffering too. If you band together to offer mutual support, identify problems, and brainstorm and advocate for solutions, you will all increase your sense of control and connection. Barbara participates in a CEO mentoring and advisory program called [Vistage](#). "We're a small group of CEOs in noncompetitive businesses, so we can share ideas," she explains. "We spend one day per month together, have great speakers, and serve as advisory boards for each other." Ari, now a successful solo entrepreneur, has built a network of technical partners who share the same vision, collaborate, and funnel work to one another. He says that running a "client centered" business he believes in and working with people he respects have boosted his engagement tremendously.

UNIT-5

Strategic Control – Meaning

Strategic controls are intended to steer the company towards its long-term strategic direction. After a strategy is selected, it is implemented over time so as to guide a firm within a rapidly changing environment. Strategies are forward-looking, and based on management assumptions about numerous events that have not yet occurred.

Traditional approaches to control seek to compare actual results against a standard. The work is done, the manager evaluates the work and uses the evaluation as input to control future efforts. While this approach is not useless, it is inappropriate as a means to control a strategy.

Waiting until a strategy has been fully executed often involves five or more years, during which many changes occur, that have major ramifications for the ultimate success of the strategy. Consequently, traditional control concepts must be replaced in favour of strategic controls that recognise the unique control needs of long-term strategies.

Strategic control is concerned with tracking the strategy as it is being implemented, detecting problems or changes in the premises and making necessary adjustments. In contrast to post- action control, strategic control is concerned with controlling and guiding efforts on behalf of the strategy as action is taking place.

Strategic Control – Definitions Provided by Julian and Scifres

Strategic control is related to that aspect of strategic management through which an organization ensures whether it is achieving its objectives contemplated in the strategic action. If not, what corrective actions are required for strategic effectiveness.

Julian and Scifres have defined strategic control as follows:

“Strategic control involves the monitoring and evaluation of plans, activities, and results with a view towards future action, providing a warning signal through diagnosis of data, and triggering appropriate interventions, be they either tactical adjustment or strategic reorientation.” Thus, there are two aspects in strategic control—evaluation of a strategic action and its results and taking necessary corrective actions in the light of this evaluation. Sometimes, control phase of strategic management is divided into two distinct parts—strategic evaluation and strategic control.

Strategic Control – 4 Major Types: Premise, Implementation, Strategic Surveillance and Special Alert Control

Experts on strategic management process have identified certain types of strategic controls. According to them, there are four types of strategic controls.

Every strategy is founded on certain assumptions relating to environmental and organisational forces. Certainly some of these forces or factors are very sharp and any change in them is sure to affect the strategy to a great extent. Hence, premise control is a must to identify the key postulations and keep track of any change in them in order to assess their impact on strategy and, therefore, its implementation.

For example, these presumption may relate to changing government policies, market competition. Change in composition due to sudden killing virus or widespread war conditions or natural calamities and organisational factors such as improvising production technology, VRS scheme to get high tech employees, market innovation strategies.

Here, premise control serves to test continuously these assumptions to determine whether they are still valid or not. This facilitates the strategists

to take necessary corrective action at the right time than just pulling on with the strategy based on vitiated or invalid postulations.

The responsibility for premise control is generally assigned to the corporate planning department that identifies the key assumptions and keep a regular check on their validity.

Type # 2. Implementation Control:

In order to implement a chosen strategy, there is need for preparing quite good number of plans, programs and projects. Again resources are allocated for implementing these plans, programs and projects. The purpose of implementation control is to evaluate as to whether these plans, programs and projects are actually guiding the organisation towards its pre-determined goals or not.

In case it is felt, at any time, the commitment of resources to a plan, program or project is not yielding the fruits as expected, there is need for matching revision. That is implementation control is nothing but rethinking or strategic rethinking to avoid wastes of all kinds.

One way of using implementation control may to identify and monitor the strategic beat points or throb points such as an assessment of marketing success of a new product after pretesting or checking the feasibility of a diversification programme after preliminary attempts at seeking technological collaboration.

In the first case, the company is to evaluate whether the new product launch will really benefit or it should be forgone in favour of another programme. In second case, implementation control helps to ascertain whether a diversification move is going to succeed or not.

Another tool of implementation control is the milestone reviews through which critical points in strategy implementation are identified in terms of events, major resource allocation, or even time.

This is almost similar to identification of events and activities in programme evaluation review technique (PERT)/critical path method (CPM) networks. Once the milestones are identified, a comprehensive review of implementation is made to reassess its continued relevance to attain the objectives.

Type # 3. Strategic Surveillance:

If premise and implementation strategic controls are more specific by nature, strategic surveillance, is more generalised and overriding control which is designed to monitor a broad range of events both inside and outside the organisation which are likely to threaten the very course of a firm's strategy.

Such strategic surveillance can be done through a broad-based, general monitoring based on selected information sources to uncover events that are likely to affect the strategy of an organisation.

Type # 4. Special Alert Control:

This special alert control is based on a trigger mechanism for a rapid response and immediate reassessment of a given strategy in the light of a sudden and unexpected event. Special alert control can be exercised via the formulation of contingency strategies and assigning the responsibility of handling unforeseen events to crisis management teams.

The instances of such sudden and unexpected events can be say, sudden fall of government at centre or even state, terrorist attacks, industrial disaster or any natural calamity of earthquake, floods, fire and so on.

Strategic Control – 4 Important Steps: Setting Performance Standards, Measuring Actual Performance, Analysing Variance and Taking Corrective Actions

In order to exercise control, managers have to take four steps.

These steps are:

1. Setting performance standards,
2. Measuring actual performance,

3. Analysing variance, and
4. Taking corrective actions.

1. Setting Performance Standards:

Every function in the organizations begins with plans which specify objectives or targets to be achieved. In the light of these, standards are established which are criteria against which actual results are measured. For setting standards for control purposes, it is important to identify clearly and precisely the results which are desired. Precision in the statement of these standards is important.

After setting the standards, it is also important to decide about the level of achievement or performance which will be regarded as good or satisfactory. The desired level of performance should be reasonable and feasible. The level should have some amount of flexibility also, and should be stated in terms of range— maximum and minimum.

2. Measuring Actual Performance:

The second major step in control process is the measurement of performance. The step involves measuring the performance in respect of a work in terms of control standards. The presence of standards implies a corresponding ability to observe and comprehend the nature of existing conditions and to ascertain the degree of control being achieved.

The measurement of performance against standards should be on a continuous basis, so that deviations may be detected in advance of their actual occurrence and avoided by appropriate actions. Appraisal of actual or expected performance becomes an easy task, if standards are properly determined and methods of measuring performance can be expressed explicitly.

3. Analysing Variance:

The third major step in control process is the comparison of actual and standard performance. It involves two steps – (i) finding out the extent of variations, and (ii) identifying the causes of such variations. When

adequate standards are developed and actual performance is measured accurately, any variation will be clearly revealed. When the standards are achieved, no further managerial action is necessary and control process is complete.

However, standards may not be achieved in all cases and the extent of variations may differ from case to case. When the variation between standard and actual performance is beyond the prescribed limit, an analysis is made of the causes of such a variation. For controlling and planning purposes, ascertaining the causes of variations along with computation of variations is important because such analysis helps management in taking up proper corrective actions.

4. Taking Corrective Actions:

This is the last step in the control process which requires that actions should be taken to maintain the desired degree of control in the system or operation. An organization is not a self-regulating system such as thermostat which operates in a state of equilibrium put there by engineering design. In a business organization, this type of automatic control cannot be established because the state of affairs that exists is the result of so many factors in the total environment. Thus, some additional actions are required to maintain the control.

Such actions may be on the following lines:

- a. Improvement in the performance by taking suitable actions if the performance is not up to the mark; or
- b. Resetting the performance standards if these are too high and unrealistic; or
- c. Change the objectives, strategies, and plans if these are not workable