

UNDERSTANDING

Strategic Management

A Self-study Module

(For CA-IPCC, MBA and other Professional Courses)

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Understanding Strategic Management: A Self-study Module

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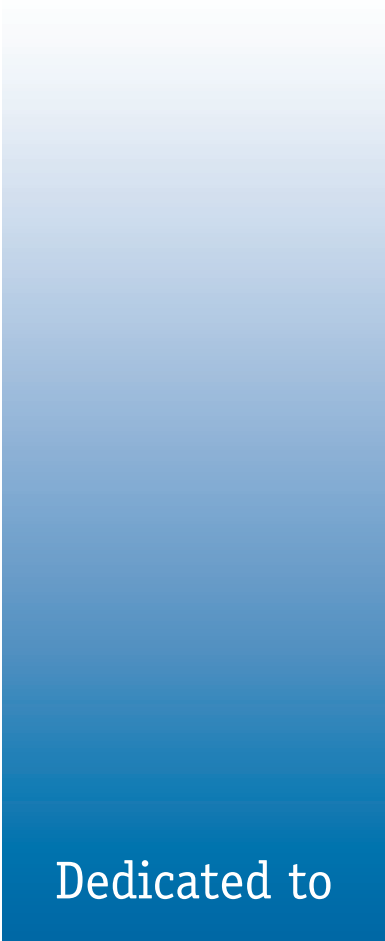
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Dedicated to

My Father
Dr. Deep Narayan Tiwary

My Grandfather
Late Shree Ram Pyar Tiwary

Preface

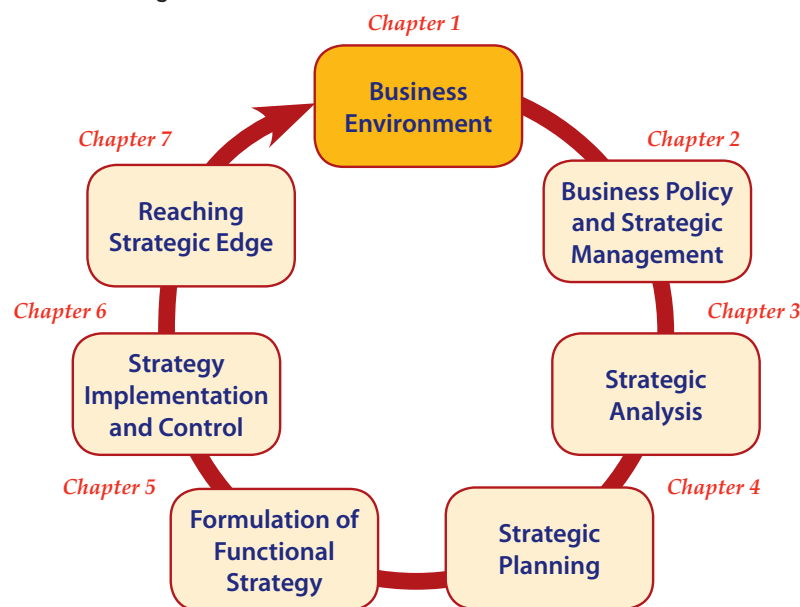
Welcome to this edition of '*Understanding Strategic Management: A Self-study Module*'! As an author, I am sensitive to your learning needs. I believe that presentation is an effective tool that determines the success of an author. For this very reason, I have taken your point of view into consideration. In writing each chapter, I have taken every care to make the content informative as well as easy and interesting to read.

This course can have a major impact on your career direction and future success. It provides the comprehensive knowledge of strategic management that would help you to utilize your talent in the dynamic 21st century business world.

The aim of '*Understanding Strategic Management: A Self-study Module*' is to help CA-IPCC students by clearly explaining, analyzing, and evaluating important strategy concepts. My approach in writing this book was essentially twofold: to write an accessible textbook that students feel comfortable with but without compromising on the academic rigour.

The case-studies, herein, have been taken from contemporary world and leading brands around us. These help to bridge the gap between theory to practice; aiming not only at a comprehensive learning experience but also offering an interesting reading. To supplement this, I have tried to adopt a user-friendly writing style that gives clear and concise explanations to help students engage readily with the content and grasp complex strategic concepts easily.

The book '*Understanding Strategic Management: A Self-study Module*' has been divided into seven chapters. The chapter organization provides a student-friendly approach to the study of strategic management. Structure of this book has been shown in this diagram.



I would be happy to get your feedback, comments and queries. You can get in touch with me at carvinowledge@gmail.com, om.trivedi@carvinowledge.in, www.facebook.com/strategyclasses or call me at 9953922272.

Good luck for a challenging and successful learning experience!

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The need to understand strategy as a subject

The world keeps changing. It always has and always will. This is the fundamental value of strategic management, for the use of strategic planning is to make *decisions now* so as to guide an organization's *future directions*.

The basic challenge for any company (or, for that matter, for any living thing) is survival. And to survive over the long term, a company must have two strategic capabilities:

- the ability to *prosper* and
- the ability to *change*

What is most surprising is the amount of change going on around us! And we notice, at the same time, how some organisations change very little.

Darwinism says:

"Struggle for existence, survival of the fittest and origin of new species".

"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change."
– Charles Darwin

Over any time period, say one, five, ten years, in any geographic region thousands upon thousands of new organisations are set up, and within the same time frame many thousands are dissolved, mostly small ones but sometimes very large ones too. Some organisations go on for a very long time. For instance, the *Tata Group* established by *Dorabji Tata* has been flourishing since 1907 whereas few commercial organisations have survived for more than a century. On an average, however, the lifespan of commercial organisations in our country is about 50 years.

Over the years, surviving organisations change their structures as well as the composition of their activities. As they do so they either threaten or create opportunities for others. Whole new industries appear as new technologies are developed, creating niches of new activities for both new and old organisations, while other industries disappear. Many organisations reduce their workforce in downsizing, delaying activities. Many relocate their activities from one country to another. Some focus on one locality while others operate globally. From time to time, there are major changes in how organisations are governed. There are private and public, commercial and charitable, governmental and industrial organisations all interacting with each other in many different ways.

Strategic Management is all about identification and description of the strategies that managers can implement so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

The manager must have a thorough knowledge and he must analyze the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of opportunities arising from the business environment and shouldn't ignore the threats.

No situation can be difficult of itself; it is the lack of insight into its intricacies, and the want of wisdom in dealing with it, which give rise to the difficulty. Immeasurable, therefore, is the gain of a difficulty transcended.
– James Allen

Visual Walkthrough

Chapter Outline

Every chapter contains a chapter outline that provides an overview of the chapter with important topics covered.

SYLLABI MAPPING

Strategic Management (50 marks)

Objectives:

- To develop an understanding of the general and competitive business environment;
- To develop an understanding of strategic management concepts and techniques;
- To be able to solve simple cases.

Contents:

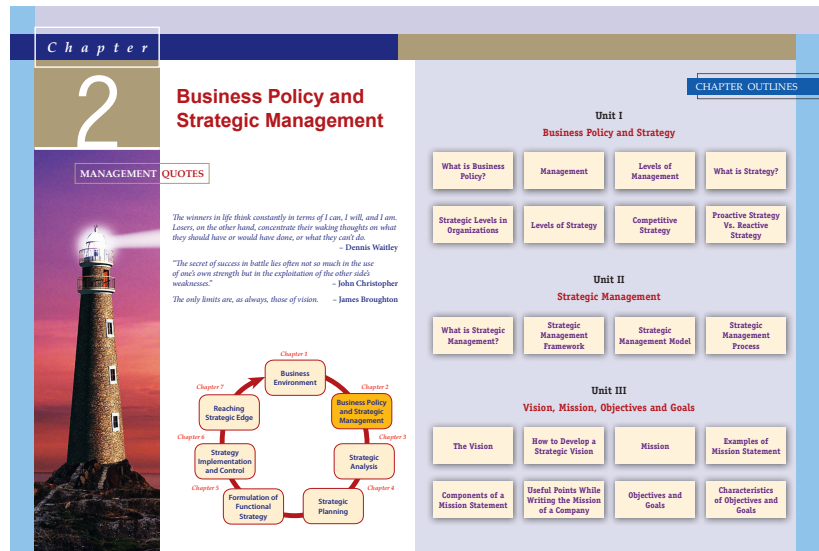
1. Business Environment General environment - demographic, socio-cultural, macro-economic, legal/political, technological, and global; competitive environment.	Chapter 1
2. Business Policy and Strategic Management Meaning and nature; strategic management imperative; vision, mission and objectives; strategic levels in organizations.	Chapter 2
3. Strategic Analyses Situational analysis – SWOT analysis, TOWS matrix, portfolio analysis - BCG matrix.	Chapter 3
4. Strategic Planning Meaning, stages, alternatives, strategy formulation.	Chapter 4
5. Formulation of Functional Strategy Marketing strategy, financial strategy, production strategy, logistics strategy, human resource strategy.	Chapter 5
6. Strategy Implementation and Control Organizational structures; establishing strategic business units; establishing profit centers by business, product or service, market segment or customer; leadership and behavioural challenges.	Chapter 6
7. Reaching Strategic Edge Business process re-engineering, benchmarking, total quality management, six sigma, and contemporary strategic issues.	Chapter 7

Syllabi Mapping

The text has been mapped with the latest CA-IPCC syllabus issued by the ICAI.

Annotation

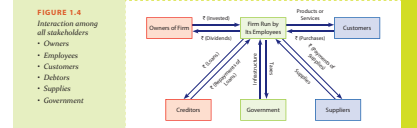
These are the shortest way to explain the meaning of particular concept. Margin notes, along with the text provide material that is complementary to the matter contained in the text.



Flow Diagrams

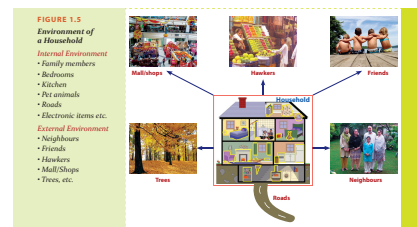
Flow diagrams have been used at relevant places to depict the concept in simulated manner. The purpose is to provide visualization of the theoretical concept or some phenomenon.

6 Strategic Management: Concepts and Practices



What is Environment?

Our environment is our surroundings. This includes living and non-living things around us. The non-living components of environment are land, water and air. The living components are germs, plants, animals and people. It is also defined as the culture that an individual lives in, and the people and institutions with whom they interact.



22 Strategic Management: Concepts and Practices

Socio-Cultural Environment

Social Environment
Social environment of business includes the social forces like customs and traditions, values, social trends, society's expectations from business, etc.

- **Socio-cultural factors** are those areas that involve the shared beliefs and attitudes of the population.
- People learn to behave in particular ways as a result of the feedback from the rest of the society.
- Behaviour and attitudes that are regarded as inappropriate or rude are quickly modified, and also people develop expectations about how other people should behave.

Example:
During festive seasons there is an increase in the demand for new clothes, sweets, fruits, flowers, etc.

Culture
Culture incorporates the set of values, ideas, and attitudes that are learnt and shared among the members of a group. Cultural changes over the same period include a major change in eating habits due to an increase in tourism and world travel, and greater globalization of food markets. Very few cultural changes come about as the result of marketing activities.

Example:
In the UK, there has been the gradual replacement of Guy Fawkes night (at least as a family occasion) with Halloween, an American import which has children dressing up in costumes and going from house to house 'trick or treating'. Part of the threat for this change has come about because Guy Fawkes celebrations involve lighting off fireworks, which is a dangerous activity for children, but much of the change has been driven by a desire by marketers to sell costumes, and by the influx of US-made films and TV programmes which show Halloween celebrations.

Examples

Each chapter includes examples illustrating the concepts you need to know and the techniques you need to learn.



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Syllabi Mapping

Paper 7B—Strategic Management (50 marks)

Objectives:

- (a) To develop an understanding of the general and competitive business environment;
- (b) To develop an understanding of strategic management concepts and techniques;
- (c) To be able to solve simple cases.

Contents:

1. Business Environment General environment - demographic, socio-cultural, macro-economic, legal/political, technological, and global; competitive environment.	Chapter 1
2. Business Policy and Strategic Management Meaning and nature; strategic management imperative; vision, mission and objectives; strategic levels in organizations.	Chapter 2
3. Strategic Analyses Situational analysis – SWOT analysis, TOWS matrix, portfolio analysis - BCG matrix.	Chapter 3
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5. Formulation of Functional Strategy Marketing strategy, financial strategy, production strategy, logistics strategy, human resource strategy.	Chapter 5
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7. Reaching Strategic Edge Business process re-engineering, benchmarking, total quality management, six sigma, and contemporary strategic issues.	Chapter 7

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Valuable suggestions and constructive feedback from learners is welcome and would be acknowledged. I can be reached at omtrivedi@gmail.com, www.facebook.com/StrategyClasses.

Om S Trivedi

Strategic Snapshots

(Summary for Quick Revision)

Chapter 1 — Business Environment

Business: The term business refers to all economic activities pursued mainly to satisfy the material needs of the society, with the purpose of earning profits.

Objectives of Business: Survival, Stability, Efficiency, Growth and Profitability.

Environment: Our Environment is our surroundings. This includes living and non-living things around us.

Business Environment: A business environment represents all external forces, factors or conditions that exert some degree of impact on the business decisions, strategies and actions taken by the firm.

Characteristics of Business Environment

- i. Environment is complex
- ii. Environment is dynamic
- iii. Environment is multi-faceted
- iv. Environment has far reaching impact

Environmental Analysis: Environmental analysis is a systematic process that begins with the identification of environmental factors, assessing their nature and impact, auditing them to find their impact on the business, and making various profiles for positioning.

Steps in Environmental Analysis

- Step 1: Monitoring or identifying environmental factors.
- Step 2: Scanning and selecting the relevant factors and grouping them.
- Step 3: Defining variables for analysis.
- Step 4: Using different methods, tools, and techniques for analysis.
- Step 5: Analyzing environmental factors and forecasting.
- Step 6: Designing profiles.
- Step 7: Strategic positioning and writing a report.

Environmental Scanning: Environmental scanning is the process of continually acquiring information on events occurring outside the organization to identify and interpret potential trends.

Environmental Influence on Business

Figure 1.9—refer to page 10

Step I: It is useful to take an initial view of the nature of the organization's environment in terms of **how uncertain it is**.

Step II: The **auditing of environmental influences** is done to identify which of the many different environmental influences are likely to affect the organization's development or performance. This is done by considering the way in which political, economic, social and technological influences have a bearing on organizations.

Step III: The organisation focuses more on an explicit consideration of its immediate environment - for example, the competitive arena in which the organization operates.

Relationship between Organization and Its Environment

- i. Exchange of Information
- ii. Exchange of resources
- iii. Exchange of influence and power

Organization's Response to Its Environment

- i. Administrative Response
- ii. Competitive Response
- iii. Collective Response

Organization's Strategic Response to Its Environment

- i. Conservative Approach - Least resistance approach
- ii. Cautious Approach - Proceed with caution approach
- iii. Dynamic Response - Confidant approach

Components of Business Environment

Figure 1.11—refer to page 14

Internal Environment: Internal environment is the conditions, people, events and factors within an organization that influence its activities and choices.

External Environment: The external environment comprises of all the entities that exist outside the boundaries of a business, but have significant influence on its growth and survival.

Micro Environment: Micro-Environment is the immediate environment which has a direct impact on the business operations and their success.

Macro Environment: Macro environment is the major external and uncontrollable factors that influence an organization's decision making, and affect its performance and strategies.

Demographics: Demographics describe a population according to selected characteristics such as age, gender, ethnicity, income, and occupation.

Demographic factors of interest to a business

- i. Population Size
- ii. Geographic Distribution
- iii. Ethnic Mix
- iv. Income Distribution

Economic environment: Economic environment refers to the nature and direction of the economy in which a company competes or may compete. The economic environment includes general economic situation in the region and the nation, conditions in resource markets.

Political Environment: Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.

Legal Environment: Legal environment includes various legislations passed by the Government administrative orders issued by government authorities, court judgments as well as the decisions rendered by various commissions and agencies at every level of the government— centre, state or local.

Social Environment: Social environment of business includes the social forces like customs and traditions, values, social trends, society's expectations from business, etc.

Factors and influences operating in socio-cultural environment

- Social concerns
- Social attitudes and values
- Family structure
- Role of women in society
- Educational levels

Technological environment: It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

Global Environment: Global environment represents the process of liberalisation.

Globalization: Globalization refers to the linkage between markets that exist across national borders. These linkages may be economic, financial, social or political.

The reasons why companies go global:

- i. Domestic markets are no longer enough to absorb whatever is produced.
- ii. Foreign markets have grown enough to justify foreign investment.
- iii. Availability of cheaper and reliable resources in other countries.
- iv. Reduction in transportation cost for export to remote countries.
- v. Rapid shrinking of time and distance across the globe due to faster communication, quicker transportation, growing financial flows and rapid technological changes.

Factors that influence globalization

- Sports Meets
- Natural Disasters
- The culture and attributes towards change
- Terrorist Attacks
- Emerging new market

Importance of Globalization

- a. Proper use of Resources
- b. Multiple choices
- c. Foreign Exchange
- d. Creates Employment
- e. Government incentives
- f. Technology
- g. Spreading of Risk of Loss

Competitive environment: The immediate economic factors—customers, competitors, suppliers, buyers, and potential substitutes—of direct relevance to a firm in a given industry (also known as industry environment).

How to Deal with Competition?

- i. Who are the competitors?
- ii. What are their product and services?
- iii. What are their market shares?
- iv. What are their financial positions?
- v. What gives them cost and price advantage?
- vi. What are they likely to do next?
- vii. How strong is their distribution network?
- viii. What are their manpower strengths?

Cooperation in a Competitive Environment

Collusion: Collusion is an agreement between two or more persons to limit open competition by deceiving, misleading, or defrauding others of their legal rights, or to obtain an objective forbidden by law typically by defrauding or gaining an unfair advantage.

Cartel: A cartel is a formal agreement among competing firms. The aim of such collusion (also called the cartel agreement) is to increase individual members' profits by reducing competition.

Keiretsu: It is a complex arrangement in which firms take equity stakes in one another as a long standing strategic alliance.

Conglomerate: It is a strategy that expands the firm's operations into industries and markets that are not similar or related to firm's initial base.

Consortium: A consortium is an association of two or more individuals, companies, organizations or governments (or any combination of these entities) with the objective of participating in a common activity or pooling their resources for achieving a common goal.

Porter's Five Forces Model of Industry Attractiveness

- i. Threat of new entrants
- ii. Bargaining power of customers
- iii. Bargaining power of suppliers
- iv. Rivalry among current players
- v. Threat from substitutes

Chapter 2 — Business Policy and Strategic Management

Business Policy: Business Policy tends to emphasise on the rational-analytical aspect of strategic management. It presents a framework for understanding strategic decision making. Such a framework enables a person to make preparations for handling general management responsibilities.

Strategy: Strategy is the overall plan of a firm deploying its resources to establish a favourable position and compete successfully against its rivals. Strategy describes a framework for charting a course of action.

Strategic Levels in Organisations

- Corporate Level
- Functional Level
- Business Level

Levels of Strategy

- Corporate Level Strategy
- Functional Level Strategy
- Business Level Strategy

Corporate Strategy: Corporate strategy is the growth design of the firm as it spells out the growth objective – the direction, extent, pace and timing of the firm's growth.

Business Strategy: Plans and actions that firms devise to compete in a given product/market scope or setting; addresses the question—"How do we compete within an industry?"

Functional Strategy: Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination among them for optimal contribution to the achievement of the SBU and corporate-level objectives.

Competitive Strategy: The competitive strategy evolves out of consideration of several factors that are external to the firm. The external environment affects the internal environment of the firm. The economic and technical components of the external environment are considered as major factors leading to new opportunities for the organization and also as closing threats.

Strategy is partly proactive and partly reactive

Proactive Strategy

- It is an approach where organization takes the initiative or acts as first mover.
- It is an approach to a business situation that involves anticipating market and competition changes in advance of their actual occurrence and making appropriate organizational shifts in response.
- Many high technology business operators need to take a more proactive strategy to deal with the rapidly changing marketplace for their company's products.

Example: Steve Job's initiative to develop smart phones in Apple.

Reactive Strategy

- It is an approach where organizations react to their competitor's actions.

- It is a slow response to changes in a firm's environment and undertaken only when a management is forced to take rear guard action.

Example: Samsung/Sony/Nokia's smart phones developed in reaction to Steve Job's initiative to develop smart phones in Apple.

Strategic Management: Strategic management is a process to determine mission, vision, values, goals, objectives, roles and responsibilities, timelines, etc.

Objectives of strategic management

- To create competitive advantage.
- To guide the company successfully through all changes in the environment.

Strategic Management Framework

Stage One – (Planning and Analysis) Where are we Now?

Stage Two – (Strategy Formulation) Where do we Want to Be?

Stage Three – (Alternative Selection) How Might we Get There?

Stage Four – (Evaluation) Which Way is the Best?

Stage Five – (Implementation and Control) How Can we Ensure Arrival?

Strategic Decision Making

Strategic decision making, or strategic planning, describes the process of creating a company's mission and objectives and choosing the course of action a company should pursue to achieve those goals.

Strategic Management Model

Strategic planning is part of the strategic management process. Strategic management entails both strategic planning and implementation, and is the process of identifying and executing the organization's strategic plan, by matching the company's capabilities with the demands of its environment.

Figure 2.11—refer to page 58

Strategic Management Process: The strategic management process begins with careful analysis of a firm's internal strengths and weakness and external opportunities and threats.

- | | |
|------------------|---------------|
| ■ Analysis | ■ Formulation |
| ■ Implementation | ■ Evaluation |

Vision, Mission, Objectives and Goals

Strategic Vision: Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

How to develop a strategic vision

- i. To think creatively about how to prepare a company for the future.
- ii. Forming a strategic vision is an exercise in intelligent entrepreneurship.
- iii. Organizations need to change direction not in order to survive but in order to maintain their success.
- iv. Creates enthusiasm for the course that the management has charted and engages members of the organization.
- v. The best-worded vision statement clearly and crisply illuminates the direction in which organization is headed.

Mission Statement: A company's Mission statement is typically focused on its present business scope – “who we are and what we do”; mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Components of a mission statement

- | | |
|---|---------------------------|
| i. Customers | ii. Products or Services |
| iii. Markets | iv. Technology |
| v. Concern for survival, growth and profitability | |
| vi. Philosophy | vii. Self-concept |
| viii. Concern for public image | ix. Concern for employees |

Objectives: Objectives are organizations' performance targets – the results and outcomes it wants to achieve. They function as a yardstick for tracking an organization's performance and progress.

Chapter 3 — Strategic Analysis

Strategic Analysis: Strategic analysis seeks to determine alternative course of action that could best enable the firm to achieve its mission and objectives.

Strategic analysis tries to find out the answers to three basic questions:

- a. How effective has the present strategy been?
- b. How effective will that strategy be in the future?
- c. How effective will the selected alternative strategy be in the future?

Issues to be Considered for Strategic Analysis

- Strategy evolves over a period of time
- Balance between the internal and external factors
- Analyzing risk involved and consequences thereon

Classification of Strategic Risks

Figure 3.2—refer to page 71

Situational Analysis: This is an extremely complex process, which demands a systematic approach for identifying and analyzing macro-environmental factors external to the organization and matching them with the firm's capabilities

Important factors to be taken into account while doing a situation analysis:

- | | |
|-----------------------------------|---------------------------|
| i. Product situation | ii. Competitive situation |
| iii. Distribution situation | iv. Environmental factors |
| v. Opportunity and issue analysis | |

Strategic Analysis Framework

Figure 3.4—refer to page 73

The Methods of Industry and Competitive Analysis

Figure 3.5—refer to page 74

SWOT Analysis

Shorthand for strengths, weaknesses, opportunities, and threats; a fundamental step in assessing the firm's external environment; required as a first step of strategy formulation and typically carried out at the business level of the firm.

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.

Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

Opportunity: An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.

Threat: A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

Significance of SWOT Analysis

- i. It provides a Logical Framework
- ii. It presents a Comparative Analysis
- iii. It guides the strategist in Strategy Identification

TOWS Matrix

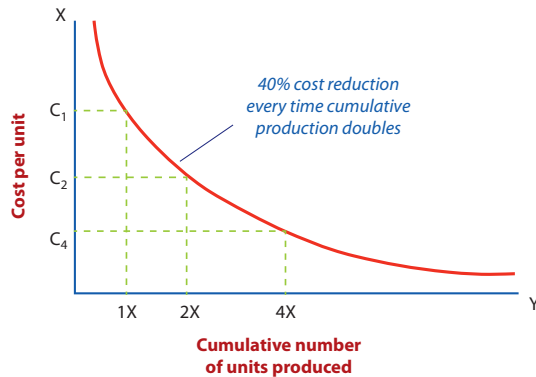
Figure 3.9—refer to page 81

Business Portfolio: A business portfolio is a collection of businesses and products that make up the company.

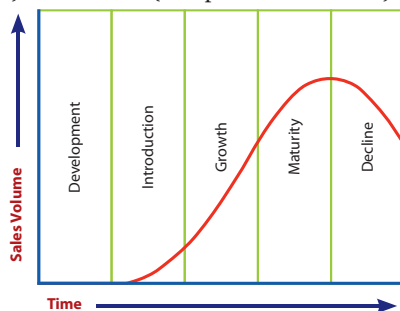
Portfolio Analysis: A set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio.

Strategic Business Unit (SBU): A Strategic Business Unit (SBU) is a profit center which focuses on product offering and market segment. An SBU may be a business unit within a larger corporation, or it may be a business unto itself.

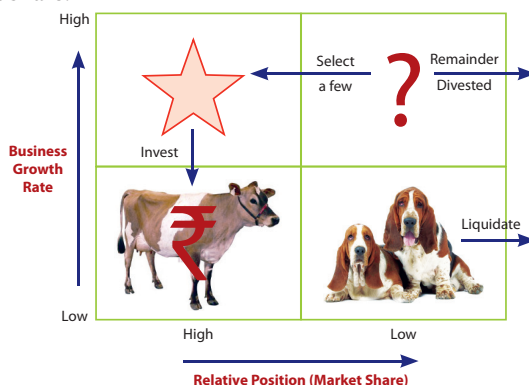
Experience curve: Experience curve shows the relationship between production cost and cumulative production quantity.



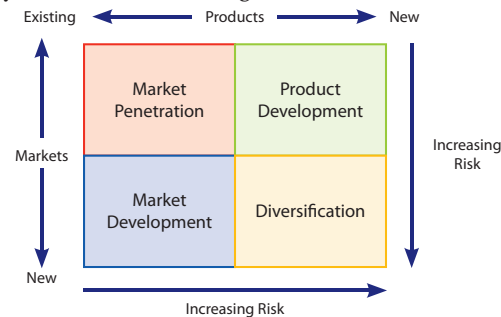
Product Life Cycle: PLC is an S-shaped curve which shows the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slow-down in growth rate) and decline (sharp downward drift).



Boston Consulting Group (BCG) Matrix: This is the simplest way to portray a corporation's portfolio of investments in the form of different types of products classified as stars, wildcats, cows and dogs on the basis of their market growth rate and relative market share.



Ansoff's Product Market Growth Matrix: It is a portfolio analysis technique representing several strategies available to firms in the form of 2*2 matrix with products shown horizontally and markets vertically both scaled as existing and new.



ADL Matrix: The ADL Matrix is a two dimensional 4*5 matrix stating several strategies for a firm, based on stage of industry maturity and firm's competitive position.

GE Matrix: GE Matrix is a two dimensional matrix stating several strategies like invest, protect, harvest and divest to choose from on the basis of firm's business position and market attractiveness.

		Business Position		
		High	Medium	Low
Market Attractiveness	High	Invest	Invest	Protect
	Medium	Invest	Protect	Harvest
	Low	Protect	Harvest	Divest

The criteria used to rate market attractiveness and business position are assigned in different ways because some criteria are more important than others. Then each SBU is rated with respect to all criteria. Finally, overall rating for both factors is calculated for each SBU. Based on these ratings, each SBU is labelled as high, medium or low with respect to (a) market attractiveness, and (b) business position.

Chapter 4 — Strategic Planning

Planning: it is a systematic activity which determines when, how and who is going to perform a specific job.

Strategic Planning: Strategic planning is a disciplined process of making key decisions and agreeing on actions that will shape and guide what an organisation is, what it does, and why it does it.

Approaches for Strategic Planning

- Top down
- Bottom up

Strategic Uncertainty: The strategic uncertainty is represented by a future trend or event that has inherent unpredictability.

The Stages of Corporate Strategy Formulation Implementation Process

Stage I: Developing a strategic vision

Stage II: Setting objectives

Stage III: Crafting a strategy to achieve the objectives and vision

Stage IV: Implementing and executing the strategy

Stage V: Monitoring developments, evaluating performance and making corrective adjustments

Glueck and Jauch Generic Strategic Alternative

- Stability Strategies
- Expansion Strategies
- Retrenchment and Strategies
- Combinations Strategies

Michael Porter's Generic Strategies

Generic Business Strategy: A generic business strategy is one that can be adopted by any firm, regardless of the product or industry involved, to achieve a competitive advantage.

Porter's Strategy: According to Porter, strategies allow organizations to gain competitive advantage from three different bases:

- Cost leadership, ■ Differentiation, and
- Focus.

Cost Leadership Strategy: It is a strategy which emphasises on being a cost leader by producing standardised products at a very low per-unit cost for the consumers who are price sensitive.

Differentiation Strategies: A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers to be better than or different from the products of the competition.

Focus Strategies: Competitive strategies based on targeting a specific niche within an industry. Focus strategies can occur in two forms: cost-based focus and differentiation-based focus.

Best-Cost Provider Strategy

It offers more value for the money to the customer by either lower prices than rival brands with comparable features or matches the price of rivals and provides better features.

Figure 4.3—refer to page 104

In this framework the **columns** and **rows** identify the four fundamental alternatives firms can use in seeking competitive advantage:

- | | |
|------------------------|------------------------------|
| i. Low cost provider | ii. Broad Differentiation |
| iii. Focussed low cost | iv. Focussed Differentiation |

Grand Strategies/Directional Strategies

Stability Strategy

In stability strategy, the firm -

- Stays with its current businesses and product-market, postures and functions
- Maintains the existing level of effort, and
- Remains satisfied with incremental growth.

Expansion Strategy: It is one in which we are growing significantly faster than the market or market segment is growing overall. It implies that the company is willing to take on competitors in order to take market share from them, in addition to absorbing the growth in the market place itself.

Expansion through Intensification

- | | |
|------------------------|-----------------------|
| a. Market Penetration | b. Market Development |
| c. Product Development | |

Expansion through Diversification

- | | |
|---------------|--------------------------|
| i. Innovation | ii. Capacity Utilisation |
| iii. Synergy | |

Related and Unrelated Diversification

Types of Related Diversification

- a. **Vertical Integration Diversification:** The expansion of the firm's value chain to include activities performed by suppliers and buyers; the degree of control that a firm exerts over the supply of its inputs and the purchase of its outputs. Vertical integration strategies and decisions enlarge the scope of the firm's activities in one industry.

Forward Integration: It is a strategy that moves the firm down-stream into an activity currently performed by a buyer.

Backward Integration: It is a strategy that moves the firm up-stream into an activity currently conducted by a supplier.

- b. **Horizontal Integration Diversification:** This involves addition or acquisition of one or more similar businesses at the same stage of the production marketing chain.
- c. **Concentric Diversification:** It is a strategy that expands the firm's operation into similar industries and markets; extends the firm's distinctive competence to the other lines of business that are similar to the firm's initial base.
- d. **Conglomerate Diversification:** It is a strategy that expands the firm's operation into industries and markets that are not similar or related to the firm's initial base; does not involve sharing the firm's distinctive competence across different lines of business.

Expansion through Mergers and Acquisitions: Expansion through Mergers and Acquisitions (i.e. takeover/absorption/amalgamation) is an attractive method of Diversification.

Retrenchment Strategy: A strategy used by corporations to reduce the diversity or the overall size of the operations of the company. This strategy is often used in order to cut expenses with the goal of becoming a more financial stable business. Typically the strategy involves withdrawing from certain markets or the discontinuation of selling certain products or service in order to make a beneficial turnaround.

Turnaround Strategy: The financial recovery of a company that has been performing poorly for an extended time. It is a rapid change of corporate strategy that is needed to deal with issues such as falling profitability, lower return on investment or loss of market share.

Divestment Strategy: Divestment Strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU.

Liquidation Strategy: A liquidation strategy involves closing down a firm and selling off all its assets and paying off its liabilities.

Combination Strategy: Here, we adopt different strategies for different units or products of an organization.

$$\text{Combination} = \text{Stability} + \text{Expansion} + \text{Retrenchment}$$

Chapter 5 — Formulation of Functional Strategy

Functional Strategy: It relates to a single functional operation and the activities related therein. In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies.

Roles of Functional Strategy

- i. They provide support to the overall business strategy.
- ii. They spell out how functional managers will work so as to ensure better performance in their respective functional areas.

Marketing: Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.

Marketing Strategy: Marketing strategy refers to actions for developing, pricing, distributing, and promoting products that meet the needs of specific customer groups.

Marketing Strategy Issues

- | | |
|--------------------------------|----------------|
| a. Distribution network | b. Advertising |
| c. Customers | d. Pricing |
| e. Warranty | |
| f. Remuneration and incentives | |

Delivering Value to Customers: Understanding your customers' values will lead you to develop products and services that can provide high profit-potential for your business.

Value delivery network

Figure 5.3—refer to page 123

The Marketing Process

Market Segmentation, Market Targeting & Market Positioning

Marketing Mix: A mixture of several ideas and plans followed by a marketing representative to promote a particular product or brand is called marketing mix. It is also known as the 4 P's of Marketing, is the combination of product, price, place (distribution), and promotion.

Figure 5.5—refer to page 124

Expanded Marketing Mix

- People
- Process
- Physical evidence

Marketing Analysis

- Marketing Planning
- Marketing Control
- Implementation

Marketing Planning: Marketing planning involves decisions on marketing strategies that will help the company attain its overall strategic objectives.

Marketing Plan: A marketing plan is a roadmap for how to promote a business. It can increase brand awareness, generate revenue, build lead generation or retain customers.

Components of a Marketing Plan

- Executive Summary and Table of Contents
- Mission Statement
- Summary of Performance till Date
- Summary of Financial Projections
- Market Overview
- SWOT Analysis for Major SBUs
- Portfolio Summary of all the SBUs
- Market Assumptions
- Marketing Objectives and Goals
- Financial Projections for at least Three Years
- Marketing Strategy

Marketing Strategy Techniques

- Social Marketing Augmented Marketing
- Direct Marketing Relationship Marketing
- Services Marketing
- Person Marketing
- Organisation Marketing
- Place Marketing: Differential Marketing
- Synchro Marketing
- Concentrated Marketing
- De-marketing

Financial Strategy: The strategies related to several financial aspects of a business like acquiring capital, sources of fund, developing projected financial statements/budgets, management and usage of funds and evaluating the worth of a business etc. are called financial strategies.

Evaluating the Worth of a Business

- a. Net Worth Method
- b. Capitalisation of Earnings
- c. Market Price Method

Production Strategy Formulation: The strategies related to various aspects of production system, operational planning and control are called Production strategy.

Logistics Strategy: Logistics is a process which integrates the flow of supplies into, through and out of an organisation to achieve a level of service which ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost.

Research and Development Strategy: Research and development (R&D) strategies are the strategies related to development of new products and processes and improvement the old ones. R&D people perform tasks like simplifying technology, changing processes and raw materials, adapting products/processes to local markets, and altering products to particular tastes and specifications.

Three Major R&D Approaches

- a. Market New Technological Products
- b. Imitate others
- c. Cost Leadership

Human Resource Strategy Formulation: Human Resource Strategies are related to areas like assessing the staffing needs, their recruitment, selection, training, development, compensation, motivation, employees' healthcare etc.

Prominent Areas where the Human Resource Manager can play Strategic Role in Managing Human Resources

- Providing purposeful direction
- Creating competitive atmosphere
- Facilitation of change
- Diversity of workforce
- Empowerment of human resources
- Building core competency
- Development of work ethics and culture

Chapter 6 — Strategy Implementation and Control

Strategic management entails both strategic planning and implementation, and is "the process of identifying and executing the organization's strategic plan, by matching the company's capabilities with the demands of its environment."

The basic elements of strategic management

Figure 6.2—refer to page 141

- Strategic Analysis
- Strategic Choice
- Strategic Evaluation
- Strategic Formulation
- Strategic Implementation

Strategy Formulation and Implementation Matrix

Figure 6.3—refer to page 142

Principal Combinations of Efficiency (Operational Management) and Effectiveness (Strategic Management)

Figure 6.4—refer to page 143

Steps in the process of Strategy Implementation

- i. Formulation of plans, programmes and projects.
- ii. Design of appropriate organisational structure.
- iii. Installation of suitable systems.
- iv. Determination of functional policies.
- v. Decision making on resource allocation.
- vi. Providing various behavioural inputs, so that the plans work.

Issues in Strategy Implementation

- i. Project implementation
- ii. Procedural implementation
- iii. Resource allocation
- iv. Structural implementation
- v. Functional implementation
- vi. Behavioural implementation

Organization Structure

Organisational Structure: Organisational structure is typically hierarchical arrangement of lines of authority, communications, rights and duties of an organization.

Types of Organizational Structure

Figure 6.6—refer to page 147

Functional Structure: The organization is divided into various specific departments; e.g. human resource, marketing, finance and operations etc.

Divisional Structure: It is composed of divisions. Each one represents a separate business to which the top corporate office delegates responsibilities for performance and day-to-day operations to division managers. By such delegating the corporate office is responsible for formulating and implementing strategies for division and their control.

A divisional structure may consist of the following divisions:

- i. Divisional by geographic area ii. Divisional by product
- iii. Divisional by customer iv. Divisional by process

Strategic Business Unit (SBU): SBU Structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a head senior executive, who reports directly to the top management/CEO.

Matrix Structure: This is another type of structure which aims at combining the advantages of vertical and horizontal flows of authority and communication.

The Value Chain Framework of Porter (1990)



Core Competencies: Core Competencies are created by superior integration of technological, physical and human resources. They represent distinctive skills as well as intangible, invisible, intellectual assets and cultural capabilities. It also refers to the strengths of an organization that provide competitive advantage and value to it.

Identification Test

Leverage Test, Value Enhancement Test, Imitability Test

Value Chain Analysis (VCA) and Core Competencies

- a. Validate core competencies in current businesses
- b. Export or leverage core competencies to the Value Chains of other existing businesses
- c. Use Core Competencies to reconfigure the Value Chains of existing businesses
- d. Use core competencies to create new Value Chains

Strategic leaders: Strategic leaders are those at the top of the company (in particular, the CEO), but other commonly recognized strategic leaders include members of the board of directors, the top management team, and division general managers.

Responsibilities of Strategic Leader

- a. Managing human capital (perhaps the most critical of the strategic leader's skills), effectively managing the company's operations.

- b. Sustaining high performance over time.
- c. Being willing to make candid, courageous, yet pragmatic, decisions.
- d. Seeking feedback through face-to-face communications.
- e. Having decision-making responsibilities that cannot be delegated.

Leadership Roles to be Played by Managers

- a. Staying on top of what is happening, closely monitoring progress, ferreting out issues, and learning what obstacles lie in the path of good execution.
- b. Promoting a culture and esprit de corps that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.
- c. Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.
- d. Exercising ethics leadership and insisting that the company conduct its affairs like a model corporate citizen.
- e. Pushing corrective actions to improve strategy execution and overall strategic performance.

Leadership Style

- Transformational Leadership Style
- Transactional Leadership Style

Strategic change: Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Steps to Initiate Strategic Change

Step-I: Recognize the need for change:

Step-II: Create a shared vision to manage change

Step-III: Institutionalize the change

Strategic Control

The control function involves monitoring the activity and measuring results against pre-established standards, analysing and correcting deviations as necessary and maintaining/adapting the system.

Strategic Control

"Strategic control focuses on the dual questions of whether:

- i. the strategy is being implemented as planned; and
- ii. the results produced by the strategy are those intended."

Types of Strategic Control

- Premise control
- Strategic surveillance
- Special alert control
- Implementation control

Corporate Culture: Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment.

How Culture can promote better strategy execution of culture?

- i. Identify the supportive and non-supportive elements of the culture.
- ii. Hold candid discussions with all concerned about those aspects of the culture that have to be changed.
- iii. Communicate to employees the basis for cultural change and its benefits to all concerned.
- iv. Altering incentive compensation (to reward the desired cultural behaviour), visibly praising and recognizing people who display the new cultural traits.
- v. Recruiting and hiring new managers and employees who have the desired cultural values.

Chapter 7 — Reaching Strategic Edge

Business Process Reengineering

Business Process: Business process is a set of steps of the process or activities that you and the personnel providing services perform to complete the transaction.

Reengineering: The complete rethinking, reinventing and redesigning of how a business or set of activities operate.

BPR: Business Process Reengineering (BPR) involves fundamental rethinking and radical redesigning of a business process so that a company can create best value for the customer by eliminating barriers that create distance between employees and customers.

Business processes of a firm that need redesigning

- i. Processes pertaining to development and delivery of product(s) and/or services
- ii. Process involving interface(s) with customers
- iii. Process comprising management activities

Steps Involved in Implementing Business Process Reengineering (BPR)

Step 1: Determining objectives and framework of the organization.

Step 2: Identify customers- their profile, their steps in acquiring, using and disposing a product and determine their needs.

Step 3: Develop a flowchart of the existing total business processes.

Step 4: Try to simplify the process by eliminating tasks and steps where possible.

Step 5: Determine which parts of the process can be automated through introduction of advanced technologies.

Step 6: Evaluate each activity in the process to determine whether it is strategically critical or not.

Step 7: Design a new structure for performing the activities and reorganize the personnel who perform these activities into the new structure.

Step 8: Implement the redesign.

The Role of Information Technology in BPR

The impact of IT -systems on BPR can be identified with respect to following:

- a. Operational speed, drastic reduction in time,
- b. Global village, i.e. overcoming restrictions of geography and/or distance,
- c. Restructuring of relationships,
- d. Information systems that provide timely, reliable and accurate information, and
- e. Business Values - IT-initiatives, thus, provide business values in three distinct areas:
 - ◆ *Efficiency* – by way of increased productivity,
 - ◆ *Effectiveness* – by way of better management,
 - ◆ *Innovation* – by way of improved products and services.

Benchmark: A “benchmark” is a reference or measurement standard used for comparison. Dictionary defines a benchmark as a standard or a point of reference against which things may be compared and by which something can be measured and judged.

Benchmarking: In simple words, benchmarking is an approach of setting goals and measuring productivity based on best industry practices.

The Benchmarking Process

- i. Identifying the need for benchmarking and planning
- ii. Understanding existing business processes

- iii. Identifying best processes
- iv. Comparing own processes and performance with that of others
- v. Preparing a report and Implementing the steps necessary to close the performance gap
- vi. Evaluation

What is TQM?

Total Quality Management (TQM) is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost.

Principles Guiding TQM

- a. Commitment
- b. Culture
- c. Continuous Improvement
- d. Co-operation
 - i. *Employee Involvement*
 - ii. *Employee Empowerment*
- e. Customer focus
- f. Control
- g. Cross-functional
- h. Cause Analysis
- i. Change
- j. Concept of Teams

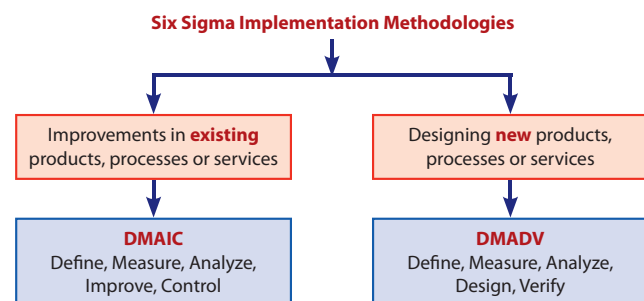
Operational Principles of TQM

- | | |
|-------------------------------------|------------------------|
| a. Universal Quality Responsibility | b. Quality Measurement |
| c. Inventory Reduction | d. Value Improvement |
| e. Supplier Teaming | f. Training |

What is Six Sigma?

Six Sigma is a business strategy developed by Motorola in 1986 to achieve process improvement. Six Sigma is a highly disciplined process that helps us focus on developing and delivering near-perfect products and services.

Six Sigma Methodology



What's Makes Six Sigma Different?

- i. Six Sigma is customer focused
- ii. Six Sigma projects produce major returns on investments
- iii. Six Sigma changes how management operates

Six Themes of Six Sigma

Theme I: Genuine Focus on the Customer

Theme II: Data and Fact Driven Management

Theme III: Process Focus, Management, and Improvement

Theme IV: Proactive Management

Theme V: Boundary-less Collaboration

Theme VI: Drive for Perfection; Tolerance for Failure

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Glossary



OPENING STORY

I am so tired of someone telling me what to do all the time,” Dolly said to her friend Gauri.

“I know what you mean,” Gauri answered. “I get the same thing.”

“It seems like there should be somewhere we could be in charge,” Dolly said.

“There is got to be a better way.”

“I have got an idea,” Gauri said, “let us be entrepreneurs.”

“Entrepre ... what?” questioned Dolly.

“Entrepreneurs,” Gauri answered.

“Mr. Ravi Trivedi talked about them in my business class last week. They are people who start and run their own businesses. We could do that!”

“What would we have to do?”

Would we make a lot of money? Would it be fun? Would we get to do whatever we wanted?” Dolly’s mind was overflowing with questions.

Gauri was getting very excited as she replied, “We could be our own boss! If we were the owners, we would be in charge! We would get to make all the decisions!”

“This is starting to sound pretty good,” Dolly replied as she began to share Gauri’s excitement. “We could decide when we work, what we do, how we do it, and make lots of money! I can not wait. When do we start?”

Gauri thought for a second before answering, “Well, Dolly, it’s not really that easy. When we talked about this in class, Mr. Ravi said that there are a lot of things to consider before starting a business. First, we need to decide what we like to do and what we are good at. Then we need to know about the business environmental factors. Then we have to do a lot of research and planning if we want to be successful. Finally, we need a good strategy to mark an entry and establish the business.”

Thinking about what Mr. Ravi Trivedi told her in class, Dolly sighed, “This business thing sounds like a lot of work. What do you think we should do?”

Gauri could understand Dolly’s dilemma. There are many advantages of owning your own business, but there are also many responsibilities and challenges that a business owner has to face. Gauri knew that she and Dolly had their work cut out for them, but she knew they could do it if they put their minds to it.

“Dolly, I think we need to get to the library as soon as possible. We’ve got a lot of work to do before we attend Mr. Ravi’s next class on strategy!”