UNIT 3 STRATEGIC MANAGEMENT

Definition of strategic management:

"Strategic management is concerned with the determination of the basic long-term goals and the objectives of an enterprise, and the adoptionof courses of action and allocation of resources necessary for carrying out these goals".

This definition consists of three basic elements:

l. Determination of long-term goals

2. Adoption of courses of action

3. Allocation of resources to achieve those goals

Though this definition is simple, it does not consist of all the elements and does not capture the essence of strategic management. The definitionsof Fred R. David, Pearce and Robinson, Johnson and Sholes and Dell, Lumpkinand Taylor are some of the definitions of recent origin. Taken together, these definitions capture three main elements that go to the heart of strategic management. The three on-going processes are strategic analysis, strategic formulation and strategic implementation. These three components parallel the processes of analysis, decisions and actions.

Nature of Strategic Management

Strategic Management can be defined as the art & science of formulating, implementing, and evaluating, cross-functional decisionsthat enable an organisation to achieve its objectives.

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

Dimensions of Strategic Management

The characteristics of strategic management are as follows:

1. ***Top management involvement:*** Strategic management relates to several areas of a firm's operations. So, it requires top management's involvement. Generally, only the top management has the perspective needed to understand the broad implications of its decisions and the power to authorize the necessary resource allocations.

2. ***Requirement of large amounts of resources:*** Strategic management requires commitment of the firm to actions over an extended period of time. So they require substantial resources, such as, physical assets, money, manpower etc.

3. ***Affect the firm's long-term prosperity:*** Once a firm has committed itself to a particular strategy, its image and competitive advantage are tied to that strategy; its prosperity is dependent upon such a strategy for a long time.

4. ***Future-oriented:*** Strategic management encompasses forecasts, what is anticipated by the managers. In such decisions, emphasis is placed on the development of projections that will enable the firm to select the most promising strategic options. In the turbulent environment, a firm will succeed only if it takes a proactive stance towards change.

5. ***Multi-functional or multi-business consequences:*** Strategic management has complex implications for most areas of the firm. They impact various strategic business units especially in areas relating to customer-mix, competitive focus, organisational structure etc. All these areas will be affected by allocations or reallocations of responsibilities and resources that result from these decisions.

6. ***Non-self-generative decisions:*** While strategic management may involve making decisions relatively infrequently, the organisation must have the preparedness to make strategic decisions at any point of time. That is why Ansoff calls them "non-self-generative decisions."

Benefits of Strategic Management

1. ***It reduces uncertainty:*** Planning forces managers to look ahead, anticipate change anddevelop appropriate responses. It also encourages managers to consider the risks associated withalternative responses or options.

2. ***It provides a link between long and short terms:*** Planning establishes a means of coordination between strategic objectives and the operational activities that support the objectives.

3. ***It facilitates control:*** By setting out the organisation's overall strategic objectives and ensuring that these are replicated at operational level, planning helps departments to move in the samedirection towards the same set of goals.

4. **It facilitates measurement**: By setting out objectives and standards, planning provides a basis for measuring actual performance.

Strategic management has thus both financial and non-financial benefits:

1. Financial Benefits:

Research indicates that organizations that engage in strategic management are more profitable and successful than those that do not. Businesses that followed strategic management concepts have shown significant improvements in sales, profitability and productivity compared to firms without systematic planning activities.

2. Non-financial benefits: Besides financial benefits, strategic management offers other intangible benefits to a firm. They are;

(a)Enhanced awareness of external threats
(b)Improved understanding of competitors' strategies
(c)Reduced resistance to change
(d) Clearer understanding of performance-reward relationship
(e)Enhanced problem-prevention capabilities of organisation
(f)Increased interaction among managers at all divisional andfunctional levels
(g) Increased order and discipline.

Strategic Management Process

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

1. ***Strategic Analysis:***

   The foundation of strategy is a definition of organizational purpose. This defines the business of an organization and what type of organization it wants to be. Many organizations develop broad statements of purpose, in the form of vision and mission statements. These form the spring – boards for the development of more specific objectives and the choice of strategies to achieve them.

2. ***Strategic Choice:*** The analysis stage provides the basis for strategic choice. It allows managers to consider what the organization could do given the mission, environment and capabilities – a choice which also reflects the values of managers and other stakeholders.

3. ***Strategy Implementation:*** Implementation depends on ensuring that the organization has a suitable structure, the right resources and competencies (skills, finance, technology etc.), right leadership and culture. Strategy implementation depends on operational factors being put into place.

4. ***Strategy Evaluation and Control:*** Organizations set up appropriate monitoring and control systems, develop standards and targets to judge performance.

Strategy Formulation and Defining Vision

Strategy formulation is the process of determining appropriate courses of action for achieving organizational objectives and thereby accomplishing organizational purpose.

There are four primary steps in this phase:

1. Reviewing the current key objectives and strategies of the organization, which usually would have been identified andevaluated as part of the diagnosis
2. Identifying a rich range of strategic alternatives to address the three levels of strategy formulation outlined below, including butnot limited to dealing with the critical issues.
3. Doing a balanced evaluation of advantages and disadvantages of the alternatives relative to their feasibility plus expected effectson the issues and contributions to the success of the organization.
4. Deciding on the alternatives that should be implemented or recommended. In organisations, and in the practice of strategic management, strategies must be implemented to achieve the intended results. Here it has to be remembered that the most wonderful strategy in the history of the world is useless if not implemented successfully.

Strategic Vision:

The first task in the process of strategic management is to formulatethe organisation's vision and mission statements. These statements define the organisational purpose of a firm. Together with objectives, they forma "hierarchy of goals."

- Plans
- Objectives
- Goals
- Mission

- Vision

3 A clear vision helps in developing a mission statement, which in turn facilitates setting of objectives of the firm after analyzing external and internal environment. Though vision, mission and objectives together reflect the "strategic intent" of the firm, they have their distinctive characteristics and play important roles in strategic management.

4 Vision can be defined as "a mental image of a possible and desirable future state of the organisation" (Bennis and Nanus). It is "avividly descriptive image of what a company wants to become in future". Vision represents top management's aspirations about the company'sdirection and focus. Every organisation needs to develop avision of the future. A clearlyarticulated vision moulds organisational identity, stimulates managers in a positive way and prepares the companyfor the future.

According to Collins and Porras, a well-conceived vision consists oftwo major components:

1. Core ideology
2. Envisioned future

Core ideology is based on the enduring values of the organization ("what we stand for and why we exist"), which remain unaffected by environmental changes. Envisioned future consists of along-term goal (what we aspire to become, to achieve, to create") which demands significant change and progress.

Definig Vision:

Vision has been defined in several different ways. Richard Lynch defines vision as " a challenging and imaginative picture of the future role and objectives of an organisation, significantly going beyond its current environment and competitive position." E1-Namaki defines it as "a mental perception of the kind of environment that an organisation aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception”. Kotter defines it as “a descriptionof something (an organisation, corporate culture, a business, a technology,an activity) in the future.”

Characteristics of Vision Statements

As may be seen from the above definitions, many of the characteristics of vision given by these authors are common such as being clear, desirable, challenging, feasible and easy to communicate. Nutt and Back off have identified four generic features of visions that are likely to enhance organizational performance:

1. ***Possibility*** means the vision should entail innovative possibilities for dramatic organisational improvements.

2. ***Desirability*** means the extent to which it draws upon shared organizational norms and values about the way things should be done.

3. ***Action ability*** means the ability of people to see in the vision, actions that they can take that are relevant to them.

4. ***Articulation*** means that the vision has imagery that is powerful enough to communicate clearly a picture of where the organisation is headed.

Defining Mission:

Defines mission as

"The essential purpose of the organization, concerning particularly why it is in existence, the nature ofthe business it is in, and the customers it seeks to serve and satisfy".

Importance of Mission Statement

The purpose of the mission statement is to communicate to all thestakeholders inside and outside the organization what the company stands for and where it is headed. It is important to develop a mission statementfor the following reasons:

1. It helps to ensure unanimity of purpose within the organisation.
2. It provides a basis or standard for allocating organisational resources.
3. It establishes a general tone or organisational climate.
4. It serves as a focal point for individuals to identify with the organisation's purpose and direction.
5. It facilitates the translation of objectives into tasks assigned to responsible people within the organisation.
6. It specifies organisational purpose and then helps to translate this purpose into objectives in such a way that cost, time and performance parameters can be assessed and controlled.

Characteristics of a Mission Statement

A good mission statement should be short, clear and easy to understand. It should therefore possess the following characteristics:

1. **Not lengthy:** A mission statement should be brief.

2. **Clearly articulated:** It should be easy to understand so that the values, purposes, and goals of the organisation are clear to everybody in the organisation and will be a guide to them.

3. **Broad, but not too general:** A mission statement should achieve a fine balance between specificity and generality.

4. **Inspiring:** A mission statement should motivate readers to action. Employees should find it worthwhile working for such an organisation.

5. ***It should arouse positive feelings and emotions*** of both employees and outsiders about the organisation.
6. ***Reflect the firm's worth:*** A mission statement should generate the impression that the firm is successful, has direction and isworthy of support and investment.

Components of a Mission Statement

Mission statements may vary in length, content, format and specificity. But most agree that an effective mission statement must becomprehensive enough to include all the key components. Because a mission statement is often the most visible and public part of the strategic management process, it is important that it includes all the following essential components:

1.Basic product or service: What are the firm's major products orservices?

2.Primary markets: Where does the firm compete?

3.Principal technology: Is the firm technologically current?

4.Customers: Who are the firm's customers?

5.Concern for survival, growth and profitability: Is the firmcommitted to growth and financial soundness?

6.Company philosophy: What are the basic beliefs, values,aspirations and ethical priorities of the firm?

7.Company self-concept: What is the firm's distinctive competenceor major competitive advantage?

8.Concern for public image: Is the firm responsive to social,community and environmental concerns?

9.Concern for employees: Are employers considered a valuableasset of the firm?

10.Concern for quality: Is the firm committed to highest quality?

Concept of Goals and Objectives

The terms "goals and objectives" are used in a variety of ways, sometimes in a conflicting sense. The term "*goal"* is often used interchangeably with the term "*Objective*". But some authors prefer to differentiate the two terms. A *goal* is considered to be an open-ended statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for its completion. For example, a simple statement of "increased profitability" is thus a goal, not an objective, because it does not state how much profit the firm wants to make. Objectives are the end results of planned activity.

Stated vs. Operational Goals

Operational goals are the real goals of an organisation. Stated goals are the official goals of an organisation. Operational goals tell us what the organisation is trying to do, irrespective of what the official goals say the aims are. Official goals generally reflect the basic philosophyof the company and are expressed in abstract terminology, for example, ‘sufficient profit’, ‘market leadership’ etc. According to Charles Perrow, the following are the important operational goals:

1. ***Environmental Goals:*** An organisation should be responsive to the broader concerns of the communities in which it operates, and should have goals that satisfy people in the external environment. For example, goals like customer satisfaction and social responsibility may be important environmental goals.
2. ***Output Goals:*** Output goals are related to the identification of customer needs. Issues like what markets should we serve, which product lines should be followed, etc. are examples of output goals.
3. ***System Goals:*** These goals relate to the maintenance of the organisation itself. Goals like growth, profitability, stability etc.are examples.
4. ***Product Goals:*** These goals relate to the nature of products delivered to customers. They define quantity, quality, variety, innovativeness of products.

5.Derived Goals: These goals relate to derived or secondary areas like contribution to political activities, promoting social service institutions etc.

Objectives:

Objectives are the results or outcomes an organisation wants to achieve in pursuing its basic mission. The basic purpose of setting objectives is to convert the strategic vision and mission into specific performance targets. Objectives function as yardsticks for tracking an organisation’s performance and progress.

Characteristics of Objectives

Well – stated objectives should be:

1. Specific
2. Quantifiable

3. Measurable
4. Clear
5. Consistent
6. Reasonable
7. Challenging
8. Contain a deadline for achievement
9. Communicated through out the organisation

Role of Objectives

Objectives play an important role in strategic management. Theyare essential for strategy formulation and implementation because:

1. They provide legitimacy
2. They state direction
3. They aid in evaluation
4. They create synergy
5. They reveal priorities
6. They focus coordination
7. They provide basis for resource allocation
8. They act as benchmarks for monitoring progress
9. They provide motivation

Environmental Scanning

Environmental analysis or scanning is the process of monitoring the events and evaluating trends in the external environment, to identify both present and future opportunities and threats that may influence the firm's ability to reach its goals. Strategists need to analyse a variety ofdifferent components of the external environment, identify "*Key Players*"within those domains, and be very cognizant of both threats and opportunities within the environment. It is from such an analysis that managers can make decisions on whether to react to, ignore, or try to influence or anticipate future opportunities and threats discovered.

Features of Environmental Analysis

In the context of a changing environment, the process of environmental analysis is very well comparable to the functions of radar. From this analogy, it is possible to derive three important features ofthe process of environmental analysis (Ian Wilson).

Holistic Exercise

Environmental analysis is a holistic exercise in the sense that it must comprise a total view of the environment rather than a piecemeal viewof trends. It is a process of looking at the forest, rather than the trees.

Continuous Activity

The analysis of environment must be a continuous process rather than a one – shot deal. Strategists must keep on tracking shifts in the overall pattern of trends and carry out detailed studies to keep a closewatch on major trends.

Exploratory Process

Environmental analysis is an exploratory process. A large part of the process seeks to explore the unknown terrain and the dimensions of possible future. The emphasis must be on speculating systematically about alternative outcomes, assessing probabilities, questioning assumptions and drawing rational conclusions.

the following sources for environmental analysis:

1. ***Verbal and written information :*** Verbal information is generally obtained by direct talk with people, by attending meetings, seminars etc, or through media. Written or documentary information includes both published and unpublished material.
2. ***Search and scanning :*** This involves research for obtainingthe required information.
3. ***Spying :*** Although it may not be considered ethical, spyingto get information about competitor's business is not uncommon.

4. Forecasting : This involves estimating the future trends and changes in the environment. There are many techniques of forecasting. It can be done by the corporate planners or consultants. For the above purpose, firms use a number of tools and techniques depending on their specific requirements in terms of quality, relevance, cost etc.

Some of the techniques which are generally used for carryingout environmental analysis are:

1. PESTEL analysis
2. SWOT analysis
3. ETOP
4. QUEST
5. EFE Matrix
6. CPM
7. Forecasting techniques
   (a) Time series analysis
   (b) Judgmental forecasting
   (c) Expert opinion

Delphi's technique

(a) Multiple scenario
(b) Statistical modelling
(c) Cross-impact analysis
(d) Brainstorming
(e) Demand/hazard forecasting

Importance of Internal Analysis

Strategic management is ultimately a "matching game" between environmental opportunities and organisational strengths. But, before a firm actually starts tapping the opportunities, it is important to know itsown strengths and weaknesses. Without this knowledge, it cannot decide which opportunities to choose and which ones to reject. One of the ingredients critical to the success of a strategy is that the strategy must place "realistic" requirements on the firm's resources. The firm therefore cannot afford to go by some untested assumptions or gut feelings. Onlysystematic analysis of its strengths and weaknesses can be of help.

This is accomplished in internal analysis by using analytical techniques like RBV, SWOT analysis, Value chain analysis, Benchmarking, IFE Matrix etc. Thus, systematic internal analysis helps the firm:

1. To find where it stands in terms of its strengths and weaknesses
2. To exploit the opportunities that are in line with its capabilities
3. To correct important weaknesses
4. To defend against threats
5. To assess capability gaps and take steps to enhance its capabilities.

SWOTAnalysis

SWOT stands for strengths, weaknesses, opportunities and threats. SWOT analysis is a widely used framework to summaries a company's situation or current position. Any company undertaking strategic planning will have to carry out SWOT analysis: establishing its current position in the light of its strengths, weaknesses, opportunities and threats. Environmental and industry analyses provide information needed to identify opportunities and threats, while internal analysis provides information needed to identify strengths and weaknesses. These are the fundamental areas of focus in SWOT analysis. SWOT analysis stands at the core of strategic management.
Purposes of SWOT analysis.

1. ***Opportunities:*** An opportunity is a major favourable situation in afirm's environment. Examples include market growth, favourable. changes in competitive or regulatory framework, technological developments or demographic changes, increase in demand, opportunity to introduce products in new markets, turning R&D into cash by licensing or selling patents etc. The level of detail and perceived degree of realism determine the extent of opportunity analysis.

2. ***Threats:*** A threat is a major unfavourable situation in a firm's environment. Examples include increase in competition; slow market growth, increased power of buyers or suppliers, changes in regulations etc. These forces pose serious threats to a company

because they may cause lower sales, higher cost of operations, higher cost of capital, inability to make break-even, shrinking margins or profitability etc. Your competitor's opportunity may well be a threatto you.

3. ***Strengths:*** Strength is something a company possesses or is goodat doing. Examples include a skill, valuable assets, alliances or cooperative ventures, experienced sales force, easy access to raw materials, brand reputation etc. Strengths are not a growing market,new products, etc.

4. ***Weaknesses:*** A weakness is something a company lacks or does poorly. Examples include lack of skills or expertise, deficiencies in assets, inferior capabilities in functional areas etc. Though weaknesses are often seen as the logical 'inverse' of the company's threats, the company's lack of strength in a particular area or market is not necessarily a relative weakness because competitors may also lack this particular strength.

Advantages and Limitations of SWOT analysis

Advantages

1. It is simple.

2. It portrays the essence of strategy formulation: matching a firm's internal strengths and weaknesses with its external opportunities and threats.

3.Together with other techniques like Value Chain Analysis and **Resource Based View** and Strengths Weaknesses and opportunities and Threats (RBV, SWOT) analysis improves the quality of internal analysis.

Limitations

1. It gives a static perspective, and does not reveal the dynamics of competitive environment.

2. SWOT emphasizes a single dimension of strategy (i.e. strength or weakness) and ignores other factors needed for competitive success.
3. A firm's strengths do not necessarily help the firm create value or competitive advantage.
4. SWOT's focus on the external environment is too narrow.

Porter's Five Force Analysis

In 1979, the Harvard Business Review published the article "How Competitive Forces Shape Strategy" by the Harvard Professor Michael Porter. It started a revolution in the strategy field. In subsequent decades, "Porter's five forces" have shaped a generation of academic research and business practice. This unit explores how competitive analysis can be doneusing Porter's five forces model.

The Five Forces

In essence, the job of the strategist is to understand and cope with competition. However, managers define competition too narrowly, as if it occurs only among today's direct competitors.Yet competition for profits goes beyond established industry rivals. It includes four other competitiveforces as well: customers, suppliers, potential entrants and substitutes.

The Five Forces model developed by Michnal E. Porter has beenthe most commonly used analytical tool for examining competitive environment. According to this model, the intensity of competition inan industry depends on five basic forces. These five forces are:

1. Threat of new entrants
2. Intensity of rivalry among industry competitors
3. Bargaining power of buyers
4. Bargaining power of suppliers
5. Threat of substitute products and services.

Each of these forces affects a firm's ability to compete in a given market.Together, they determine the profit potential for a particular industry

Industry Analysis

1. ***Industry Features :*** Industries differ significantly. So, analyzing a company's industry begins with identifying the industry's dominant economic features and forming a picture of the industrylandscape. An industry's dominant economic features include suchfactors as:
   (a) Overall size
   (b) Market growth rate
   (c) Geographic boundaries of the market
   (d) Number and sizes of competitors
   (e) Pace of technological change
   (f) Product innovations etc.
2. ***Industry Boundaries :*** All the firms in the industry are not similarto one another. Firms within the same industry could differ acrossvarious parameters, such as:
   (a) Breadth of market
   (b) Product/service quality
   (c) Geographic distribution
   (d) Level of vertical integration
   (e) Profit motives
3. ***Industry Environment :*** Based on their environment, industriesare basically of two types:

   (a) ***Fragmented Industries :*** A fragmented industry consists ofa large number of small or medium-sized companies, none of which is in a position to determine industry price. Many fragmented industries are characterized by low entry barriersand commodity type products that are hard to differentiate.

   According to Michael Porter, industries can be categorized into:

   - **Emerging industries :** Are those in the introductory and growth phases of their life cycle.

- **Mature industries :** Are those who reached the maturitystage of their life cycle.
- **Declining industries :** Are those in the transition stagefrom maturity to decline.
- **Global industries :** Are those with manufacturing bases and marketing operations in several countries. Competition varies during each stage of industry life cycle.