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Management

NATIONAL TESTING AGENCY (NTA)

PAPER – 2 || VOLUME – 3

SIERRA INNOVATIONS

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#Strategic Management – Meaning and Concept

Strategic Management is a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives. The Strategic Management process is the way in which strategists determine objectives and make strategic decisions. Strategic Management can be found in various types of organizations, business, service, cooperative, government, and the like.

Strategic management is the process of assessing the firm and its environment in order to meet the long-term objectives of the firm. It refers to the series of decisions taken by management to determine the strategies to achieve organisational goals.

Strategic management involves systematic analysis of the internal and external environments, to evaluate a company's current policies, strategy and goals to build new strategic moves and plans.

Thus, strategic management is the process of planning, directing, organising, and controlling a company's strategy-related decisions and actions to achieve competitive advantage and the long-run performance goals of a company.

By 'Strategy', managers mean:

1. Large-scale, future-oriented plans for interacting with the competitive environment.
2. An integrated and coordinated set of commitments and actions designed to exploit core competencies.
3. A company's game and action plan of how, when and where it should compete, against whom it should compete; and for what purposes it should compete.

Strategic Management – Definitions

Learned (1965) – It is the study of the functions and responsibilities of general management and the problems which affect the character and success of the total enterprise.

Schendel and Hofer (1979) – Strategic management is a process that deals with the entrepreneurial work of the organisation, with organisational renewal and growth, and, more particularly, with developing and utilizing the strategy which is to guide the organisation's operations.

Bracker (1980) – Strategic management entails the analysis of internal and external environments of firms to maximize the utilization of resources in relation to objectives.

Jemison (1981) – Strategic management is the process by which general managers of complex organisations develop and use a strategy to co-align their organisation's competence and the opportunities and constraints in the environment.

Van Cauwenbergh and Cool (1982) – Strategic management deals with the formulation aspects (policy) and the implementation aspects (organisation) of calculated behaviour in new situations and is the basis for future administration when repetition of circumstances occurs.

Schendel and Cool (1988) – Strategic management is essentially work associated with the term entrepreneur and his function of starting (and given the infinite life of corporations) renewing organisations.

Strategic Management – Framework: Planning and Analysis, Strategy Formulation, Alternative Selection, Evaluation, Implementation and Control

We will discuss the framework of strategic management in the form of different stages:

1. Stage One – (Planning and Analysis) Where are we Now? (Beginning): This is the starting point of strategic planning. It consists of doing a situational analysis of the firm in the environmental context. At this stage, the firm finds out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities. This is also known as SWOT analysis.
2. Stage Two – (Strategy Formulation) where do we want to be? (Ends): This is a process of goal setting for the organization after it has finalized its vision and mission.
3. Stage Three – (Alternative Selection) How Might we Get There? (Means): Here the organization deals with the various strategic alternatives it has.
4. Stage Four – (Evaluation) Which Way is the Best? Out of all the alternatives generated in the earlier stage, the organization selects the best suitable alternative in line with its SWOT analysis.
5. Stage Five – (Implementation and Control) How Can we Ensure Arrival? This is an implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages as required.

Strategic Management – Levels: Corporate, SBU and Functional Strategies

In a multi-business enterprise, having several SBUs, there would be three levels of strategy, viz., – corporate strategy, SBU strategy and functional strategy. In enterprises which do not have SBUs, there will be only two levels of strategy, i.e., corporate strategy and functional strategies.

1. Corporate Strategy: Corporate strategy is the long-term strategy encompassing the entire organisation. Corporate strategy addresses fundamental questions such as what is the purpose of the enterprise, what business/businesses it wants to be in (portfolio strategy) and how to expand/get into such business/businesses (for example – by establishing greenfield enterprises or by M&As).

   In other words, "corporate-level strategic management is the management of activities which define the overall character and mission of the organisation, the product/service segments it will enter and leave, and the allocation of resources and management of synergy among its SBUs."

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

2. SBU Strategy: SBU-level strategy, sometimes called Business Strategy or Competitive Strategy, is concerned with decisions pertaining to the product mix, market segments and manoeuvring competitive advantages for the SBU.

   While corporate strategy decides the business portfolio (i.e., the types of business), the competitive strategy decides the strategy/strategies to succeed in the chosen business/businesses.

   SBU strategy has to conform, obviously, to the corporate philosophy and strategy.

   In short, "the SBU-level strategic management is the management of an SBU's effort to compete effectively in a particular line of business and to contribute to overall organisational purposes."

   The responsibility for SBU strategy is with the top executives of the SBU who are normally second-tier executives in the corporate hierarchy. In single-SBU organisations, senior executives have both corporate and SBU-level responsibilities.

3. Functional Strategies: Functional-level strategies are strategies for different functional areas like production, finance, personnel, marketing, etc. In other words, "functional-level strategic management is the management of relatively narrow areas of activity, which are of vital, pervasive, or continuing importance to the total organisation."

   Functional-level strategy is the responsibility of functional area heads.

Strategic decisions

Strategic decisions are the decisions that are concerned with whole environment in which the firm operates, the entire resources and the people who form the company and the interface between the two.

Characteristics/Features of Strategic Decisions

a. Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.

b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.
c. Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.
d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.
e. Strategic decisions are complex in nature.
f. Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.
g. Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

The differences between Strategic, Administrative and Operational decisions can be summarized as follows-

Strategic Decisions	Administrative Decisions	Operational Decisions
Strategic decisions are long-term decisions.	Administrative decisions are taken daily.	Operational decisions are not frequently taken.
These are considered where The future planning is concerned.	These are short-term based Decisions.	These are medium-period based decisions.
Strategic decisions are taken in Accordance with organizational mission and vision.	These are taken according to strategic and operational Decisions.	These are taken in accordance with strategic and administrative decision.
These are related to overall Counter planning of all Organization.	These are related to working of employees in an Organization.	These are related to production.
These deal with organizational Growth.	These are in welfare of employees working in an organization.	These are related to production and factory growth.

#Strategic analysis

Strategic analysis is a key step within the strategic planning process:

* Strategic analysis (examination of the current strategic position)
* Strategic choice
* Strategic implementation (or strategy into action).

The strategic position / strategic analysis

Assessing the strategic position consists of analysing:

* The environment (competitors, markets, regulations, discoveries etc). Key factors are often summarised as opportunities and threats.
* The strategic capability of the organisation (resources, competences). Key factors are often summarised as strengths and weaknesses)
* The culture, beliefs and assumptions of the organisation
* The expectation and power of stakeholders (what do the shareholders want? Will employees co-operate?).

The external environment

Since strategy is concerned with the position a business takes in relation to its environment, an understanding of the environment's effects on an organisation is of central importance to strategic analysis. The historical and environmental effects on the business must be considered, as well as the present effects and the expected changes in environmental variables. This is a major task because the range of environmental variables is so great. Many of those variables will give rise to opportunities of some sort, and many will exert threats upon the organisation.

The two main problems that have to be faced are, first, to distil out of this complexity a view of the main or overall environmental impacts for the purpose of strategic choice; and second, the fact that the range of variables is likely to be so great that it may not be possible or realistic to identify and analyse each one.

The resources of the organization

There are internal influences as well as outside influences on the firm and its choice of strategies. One of the ways of thinking about the strategic capability of an organisation is to consider its strengths and weaknesses (what it is good or not so good at doing, or where it is at a competitive advantage or disadvantage, for example). Considering the resource areas of a business such as its physical plant, its management, its financial structure and its products may identify these strengths and weaknesses.

Again, the aim is to form a view of the internal influences and constraints on strategic choice. The expectations of different stakeholders are important because they will affect what will be seen as acceptable in terms of the strategies advanced by management. However, the beliefs and assumptions that make up the culture of an organisation, though less explicit, will also have an important influence.

Expectations and influence of stakeholders

A stakeholder can be defined as someone who has an interest in the well-being of the organisation. A typical list of stakeholders for a large company would include shareholders, employees, managers, customers, locality, suppliers, government and society at large.

Strategic planning and management cannot be achieved without regard to stakeholders.

* In a profit-making organisation, management might have a choice of adopting a high risk/high return strategy or a low risk/low return strategy. It's important to know which the shareholders want.
* In a not-for-profit organisation, such as a hospital, managers need to know what the government and potential patients want. How much resource should go into heart operations, how much into hip replacement, etc.

The beliefs and assumptions within an organisation

Culture affects the interpretation of the environmental and resource influences; so two groups of managers, perhaps working in different divisions of an organisation, may come to different conclusions about strategy, although they are faced with similar environmental and resource implications.

Which influence prevails is likely to depend on which group has the greater power, and understanding this can be of great importance in recognising why an organisation follows, or is likely to follow, the strategy it does.

A consideration of all relevant features

A consideration of the environment, resources, expectations and objectives within the cultural and political framework of the organisation provides the basis for strategic analysis of that organisation.

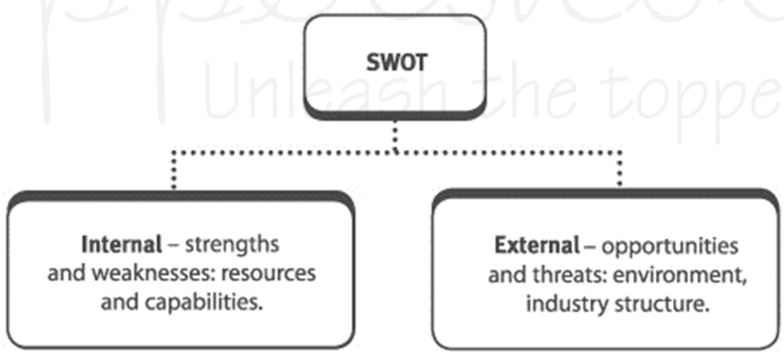
However, to understand its strategic position, it is also necessary to examine the extent to which the direction and implications of the current strategy and objectives that it is following are in line with, and can cope with, the implications of the strategic analysis.

Key strategic models

A number of models have been developed to help with strategic analysis

SWOT analysis

A SWOT analysis can be used as an analysis tool in its own right or can be used as a summary sheet on which other results can be placed.



* Strengths and weaknesses relate to resources and capabilities: what is the organisation good at? What is it poor at? Where resources are in short supply? Where are resources excellent?
* Opportunities and strengths relate to external factors: what will the effect on the organisation be of economic changes? Can the organisation make use of new technologies? Are new entrants likely to enter the market place? Can a powerful customer dictate terms?

External environmental analysis

As well as thinking in terms of opportunities and threats, the following tools can be used to analyse the external environment:

PEST analysis

A PEST analysis looks at the environment under the headings

* Political / legal factors
* Economic factors
* Social / cultural factors
* technological factors

A PEST analysis is particularly useful for identifying the drivers of change to identify growth opportunities and sources of risk.

Porter's five forces model

Just because a market is growing, it does not necessarily mean that a firm can be profitable in that market. Porter identified five forces that, collectively, determine the profit potential in an industry:

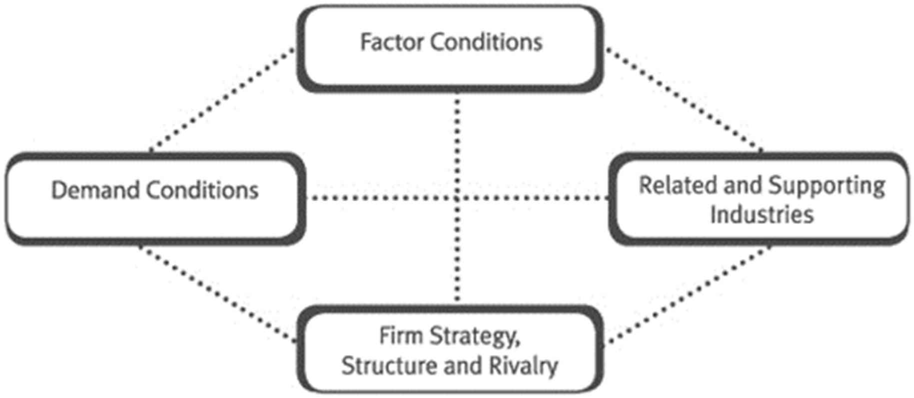
* competitive rivalry
* threat of new entrants
* threat from substitutes
* power of customers
* power of suppliers

Porter's diamond model

Porter tried to answer the following questions:

* Why does a nation become the home base for successful international competitors in an industry?
* Why are firms based in a particular nation able to create and sustain competitive advantage against the world's best competitors in a particular field?
* Why is one country often the home of so many of an industry's world leaders?

Porter called the answers to these questions the determinants of national competitive advantage. He suggested that there are four main factors which determine national competitive advantage and expressed them in the form of a diamond.



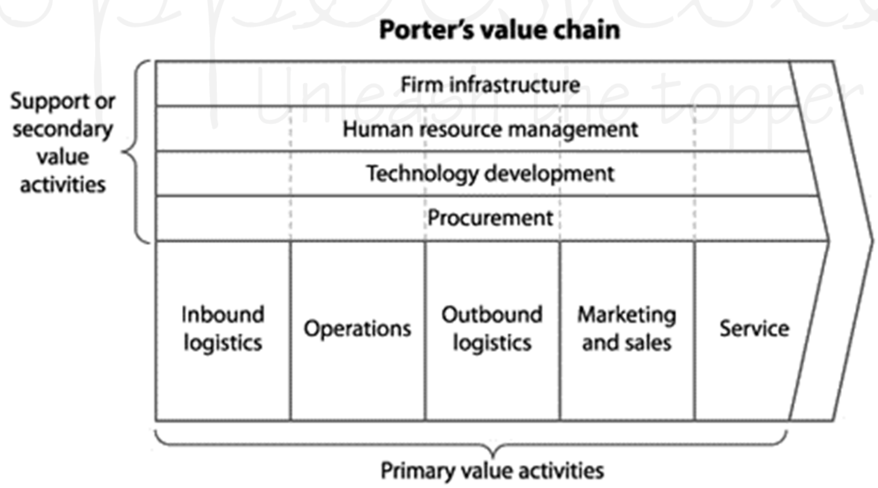
Internal analysis

As well as considering strengths and weaknesses, managers can use the following models to focus their attention.

Porter's value chain

Porter developed the value chain to help identify which activities within the firm were contributing to a competitive advantage and which were not.

The approach involves breaking down the firm into five 'primary' and four 'support' activities, and then looking at each to see if they give a cost advantage or quality advantage.



Critical success factors and core competencies

When considering strengths and weaknesses it is important to match these to the critical success factors (CSFs) in the industry - are our strengths the same as the ones necessary for success? In particular, if a business can obtain unique resources and core competencies that meet the CSFs in a market, then this should lead to its success

Product lifecycle analysis

Managers need to consider the whole product portfolio. For example, if all products are in the decline phase then the company may not have much of a future unless it develops new products quickly.

The Ms Model

As a memory jogger, managers could assess strengths and weaknesses under the following headings:

* money - example cash flow
* Management - example does the board of a small family company have the necessary skills?
* Manpower - example is there a problem retaining good staff?
* Manufacturing - example how does our quality compare to rivals?
* Markets - example do we have new product development in key markets?
* Materials - example are we sourcing quality components at a competitive price?
* Make-up - example do we have excessive costs due to bureaucracy?

#Strategy formulation

* Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision.

Steps in strategy formulation

The process of strategy formulation basically involves six main steps:

1. Setting Organizations' objectives - strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

2. Evaluating the Organizational Environment – The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position.

3. Setting Quantitative Targets- To compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

4. Aiming in context with the divisional plans - In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit.

5. Performance Analysis - Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization.

6. Choice of Strategy -The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

Strategic Tools for Strategic Formulation

* SWOT Analysis or TOWS Matrix
* BCG Matrix
* Porter's Five forces Model
* PESTEL Framework
* Ansoff's product-market matrix
* Porter's diamond model
* Barlett & Ghoshal internationalisation strategies model
* Value chain analysis

Process of strategy formulation

Corporate Level:

The four strategic alternatives are:

* Stability Strategy
* Expansion/Growth strategy
* Retrenchment strategy
* Combination strategy
* Business level
* Functional level

Corporate level strategies

* It describes a company's overall direction in terms of growth and management of its various business and product lines.

* Corporate strategy deals with three key decisions related to:
* Allocating resources among different businesses of a firm.
* Transferring resources from one set of business to other.
* Managing and nurturing a portfolio of businesses.

Directional strategies (Grand Strategies)

(i) Stability strategies:

* No-change strategy
* Profit strategy
* Pause/proceed-with-caution strategy

(ii) Expansion / Growth Strategies:

* Expansion through concentration
* Expansion through integration
* Expansion through diversification
* Expansion through cooperation
* Expansion through internationalization
* Expansion through digitalization

(III) Retrenchment strategies:

* Turnaround strategy
* Divestment strategy
* Bankruptcy/Liquidation strategy

(IV) Combination Strategies:

* Simultaneous combination
* Sequential Combination
* Combination of simultaneous & sequential strategies

Stability Strategies

* A firm pursues stability strategy when:
    - It continues to serve the public in the same product or service, market, and function sectors as defined in its business definition.

- Its main strategic decisions focus on incremental improvement of functional performance.

Why Stability Strategies?

* It is less risky, involves less changes and people feel comfortable with things as they are.
* The environment faced is relatively stable.
* Expansion may be perceived as being threatening.
* Consolidation is sought through stabilizing after a period of rapid expansion.

Types of Stability Strategies

* No change strategies
* Profit strategies
* Pause/proceed with caution strategies

No Change Strategies

* Taking no decision sometimes, is a decision too!
* This strategy is relevant in predictable and certain external environment and stable organizational environment.
* Small and medium sized firms rely on this strategy.

Profit Strategies

* Things do change.
* It is assumed that the problem is short lived.
* Only motive is sustaining profitability for a temporary phase.
* It works only if the problems are really short lived.

Pause/Proceed With Caution Strategies

* It is employed to test the ground before moving ahead with a full-fledged corporate strategy.
* The purpose is to let the system adapt to the new strategies.
* It is deliberate and conscious attempt.

Expansion Strategies

* The corporate strategy of expansion is followed when an organization aims at high growth by substantially broadening the scope of one or more of its business in terms of their respective customer groups, customer functions and alternative technologies singly or jointly-in order to improve its overall performance.
* It may become imperative when the environment demands increase in pace of activity.
* Increasing size may lead to more control over the market vis-à-vis competitors.
* Advantage from the experience curve and scale of operation may accrue.

Expansion through Concentration

* Concentration is a simple, first-level type of expansion strategy. It involves converging resources in one or more of a firm businesses in terms of their respective customer needs, customer functions, or alternative technologies-either singly or jointly- in such a manner that expansion results.
* Strategic Tool: Ansoff's Product-Market matrix

Types of Concentration Strategies

* Market penetration: It involves selling more product to the same market
* Market development: It involves selling the same products to new markets
* Product development: It involves selling new products to the same markets

Expansion through Integration

* Integration (from the Latin 'integer' meaning whole or entire) generally means combining parts so that they work together or form a whole.
* Types:
    * Horizontal Integration
    * Vertical Integration
* Forward Integration
* Backward Integration