SUBJECT NAME : STRATEGIC MANAGEMENT

SUBJECT CODE: 18KP1CO03

STAFF NAMES

1.Dr. D. PREMA, Assistant Professor,
2.Dr.P.AKILA, Assistant Professor,
KNGAC,
THANJAVUR-613007.

UNIT - 1

STRATEGIC MANAGEMENT

Strategic management is a process. A process denotes that it has various activities and these must be performed in a systematic manner. From this point of view, a process appears to be a very simple phenomenon.

Definition

Pearce and Robinson have defined strategic management as follows:

“strategic management is defined as the set of decisions and actions in formulation and implementation of strategies designed to achieve the objectives of an organization.

Evolution of strategic management:

Strategic management is the process of relating an organization with its environment by suitable courses of action involving strategy formulation and its implementation.

Evolution based on practices:

Essentially, the evolution and development of strategic management in practice have followed the pattern of development of management in general.

1. First phase till mid-1930s (Paradigm of ad hoc policy)
2. Second phase 1930-1940s (paradigm of planned policy)
3. Third phase 1960s (strategy paradigm)
4. Fourth phase 1980s (paradigm of strategic management)

In each of these phases, nature of environment was different and, therefore, managerial actions required to face environment challenges were different. Let us have a brief look at these phases.

Paradigm of ad hoc policy:

At the initial stage of management development, planning function was undertaken, however, it was basically confined to short-term and day to day operations. Around 1930s attempts were made to forecast comparatively longer future period and to prepare the organizations for that.

Paradigm of planned policy:

Between 1930s and 1940s, because of increasing environmental complexity in the form of increased technological innovation and competitive pressure, the need was felt to have integrated polices replacing the adhocism in policy formulation. This phase has been called as first generation planning.

Strategy paradigm:

with the development of systems and contingency approach in management and game theory for decision making game theorists introduced the concept of strategy in management the term till then was confined to Military science. The environmental analysis focused more on competitive environment and other variables played only secondary role.

Paradigm of strategic management :

From 1980s onward, the business scenario started changing with globalization of economy which changed the complexion of competition.

Strategic management emphasised two aspects: direct involvement of top management in strategy formulation and resolving strategic issues and comprehensive environmental analysis to develop likely future business scenarios. Emphasis was put on developing contingency strategies to be implemented in relevant scenarios.

Objectives of strategic management course:

Three basic objectives of strategic management course may be **knowledge, attitude**, and **skills.**

Knowledge:

The basic objective of any discipline is to impart knowledge. Knowledge comes through the study of existing literature which provides base for further research.

a) The basic objective is to gain knowledge and understand the central significance of policy and strategy to top management and its organization.

b) The study of strategic management course enables students to understand how various steps of strategic management process can be carried on how the strategies can be formulated and implemented and how the organization can overcome its weaknesses and emphasize it strengths.

c) It emphasis understanding of interrelationships among subsystems in the organization and problems top managers face in avoiding sub optimization of parts.

d) The strategic management study emphasizes the limitations of specialized knowledge in solving complex business problems. The strategic management study may provide him an understanding of how his knowledge can be integrated with others so that suitable decisions are made.

e) Strategic management course provides understanding of uniqueness and setting of

Operations in different industries.

f) It helps in learning, understanding, and appreciating the knowledge and research in their areas by integrating these together.

Attitudes:

Top managers of the organization have attitudes, values and ways of thinking that are unique to them and which also have distinctive impact on decision-making process. Knowledge of strategic management inculcates these attitudes in the students. There are several implication of developing attitudes appropriate for top management functions.

1. A manager at the top makes decisions on the basis of totality of factors involved in them because he takes a generalist’s position. As compared to a generalist, a specialist tends to look not beyond his area of specialization leaving many more things to be desired.
2. A general develops the attitudes of making decisions under the condition of partial ignorance which is the reality of business system in any country. Thus he works on satisfying decisions rather than maximizing decisions.
3. Strategic management course tries to develop professional orientation among managers. Which is distinct from self-seeking countries. The introduction of social responsibility and ethical consideration in policy formulation and implementation has put emphasis on looking organizational objective in large social perspective.
4. Strategic management course also puts emphasis on innovation in management practices through creativity.

skills

Perhaps the major contribution of the strategic management course lies in developing appropriate skills necessary for viewing the total organization. Effective managers need different skills

And the relative importance of these skills may vary with the level in the organization.

Katz had identified three kinds of skills necessary for managers. These are technical skills, human or administrative skills, and conceptual skills.

1. Technical skills:

Technical skills are concerned with what is done. These pertain to knowledge and proficiency in activities involving methods, processes, and procedures. These involve working with tools and specific techniques.

2. Human skills:

Human or administrative skills are concerned with how it is done. These skills are the ability to work with people effectively thereby getting their full support for achieving organizational effectiveness.

3. Conceptual skills:

Conceptual skills or general management skills are concerned with why it is done. These skills refer to the ability to see the whole picture. To recognize significant elements in a situation and to understand the relationship among these elements.

Significance of strategic management course:

Strategic management course has three major objectives: development of relevant knowledge, inculcation of appropriate attitudes, and development of conceptual skills. These three aspects have significant impact on the managerial behavior relevant to effectiveness. Two categories of managers participate in strategic management process- top level mangers and middle-level managers. Thus the significance of strategic management course can be indentified for

1. Top management
2. Middle management
3. Society.

Top management:

Top management is responsible for the overall management of the organization which includes formulation of corporate-level strategies, integration of business-level and functional –level strategies, resource mobilization and allocation , and evaluation and control of overall organizational performance. At this level, the contribution of strategic management course is maximum because it can be equated with top management functions. Strategic management course contribution to top management in the following ways.

1. Strategic management course inculcates right type of approach through enhancement of knowledge, attitudes, and skills in top management so as to size up quickly and accurately the situation presented in terms of identifying the core issues involved in a problem.
2. Knowledge of strategic management helps to-level managers in relating the organization with its environment .
3. Strategic management course helps to management to learn the skills of integrating various subsystems of the organization. This integration is necessary for organizational effectiveness.
4. Top management can learn the criteria on the basis of which effectiveness of its actions-strategy formulation and implementation-can be measured.

Middle management:

In middle management, there may be managers at different levels placed between top management and supervisors.

1.Strategic management course enables middle management to take total view of the organization and its relevant environment in which context, these mangers have to function.

2.Strategic management course enables middle management to adopt integrative and coordinate approach .

3.Strategic management helps middle-level managers to make the recommendations or proposals upward that make sense to top management and are related to their conception of the organizational objectives.

4. At the middle level, they are busy in managing existing resources with the aim of achieving efficiency.

Society:

1. By applying the concepts of strategic management , managers who are the vital organs of the society in the present context, make effective utilization or resources of the society.

2. Strategic management course helps in integrating various social interest groups. These interest groups may be shareholders, employees, financiers, creditors, customers, government –all of them being part of the society.

3.Strategic management course helps in providing stability and continuity in society/. This is done through the process of evolutionary change by changing and modifying social resources both human and non-human, according to social needs.

Conceptual frame work of strategic management:

Presenting conceptual framework of strategic management is quite tedious because of lack of precise definitions of different terms used in it. As mentioned earlier in this chapter, strategic management literature started with definition of strategy and different writers have defined various terms like policy, strategy and tactics which are part of strategic management quite differently.

Policy:

The term policy is derived from the Greek work ‘politeia’ relating to polity, that is, citizen and the Latin word ‘polotis’ meaning polished.

Kotler has defined policies as follows:

‘policies define how the company will deal with stakeholders, employees , customers, suppliers, distributors, and other important groups. Polices narrow the range of individual discretion so that employees act consistently on important issues”

A policy is the statement or general understanding which provides guidance in decision making to members to members of an organization in respect to any course of action.

Strategy:

The term strategy has been derived from Greek ‘strategos’ which means generalship, that is the art of the general.

“strategy is the determination of the basic long-term goals and objectives of an enterprise and

The adoption of the course of action and the allocation of resources necessary for carrying out these goals.

“ A strategy is a unified, comprehensive, and integrated plan relating the strategic advantages of the firm to challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieve”.

Strategy is a long-term course of action through which an organizaiton relates itself with the environment so as to achieve its objectives.

Difference between strategy and tactics:

1.Level of conduct:

As discussed earlier, strategy is developed at the highest level of management either at the headquarters or at major divisional offices and related exclusively to decisions in the province of these levels.

2. Periodicity

The formulation of strategy is both continuous and irregular.

Tactics is determined on a periodic basis by various organizations (ex). Preparation of budgets at regular intervals.

3. **Time horizon:**

Strategy has long term perspective, specially the successful strategies are followed for quite long periods. In occasional cases. It may have short-term duration.

Time horizon of tactics is short-run and definite. The duration is uniform. (ex) budget preparation.

4. Uncertainty:

Element of uncertainty is higher in the case of strategy formulation and its implementation

Tactical decision are more certain as these are taken within the framework set by the strategy.

5. **Information needs.**

The total possible range of alternative from which a manager can choose his strategic action is greater than tactics.

Tactical information is generated within the organization particularly from accounting procedures and statistical sources.

6. **Type of personnel involved in formulation:**

Generally separate groups of managerial personnel are involved in strategy and tactics formulation and their implementation . As discussed earlier, strategic decisions are never delegated below a certain levels than those possess the perspective required for most effective strategic decisions.

Tactical decision can be taken by personnel at lower levels because these involve minute implementation of strategic decisions.

7. **Subject value:**

The formulation of strategy is affected considerably by the personal values of the person involved in the process.

Tactics is normally free from such values because this is to be taken within the context of strategic decisions.

8. **Importance:**

Strategies are most important factor of organization because they decide the future course of action for the organization as a whole.

Tactics are of less importance because they are concerned with specific part of the organization.

Levels of management:

Strategy operates at different levels: corporate level, business level and functional level.

Corporate level:

Corporate-level strategy (simply known as corporate strategy) occupies the highest level of strategic decision making and covers actions dealing with the objectives of the firm., acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Such decisions are made by top management of the organization.

Business level strategy:

Business level strategy (simply known as business strategy) operates at business-level and each SBU sets its own strategy to make the best use of its resources in the environment it faces. At such a level, strategy is a comprehensive plan providing objectives for SBUs allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of corporate-level objectives.

Functional-level strategy:

Functional level strategy (simply known as functional strategy) relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate level objectives.

Benefits of strategic management:

The benefits of strategic management can be identified in the following contexts:

1. **Financial benefits:**

Effective strategic management results in financial benefits to the organizations in the form of increased profits. Many research studies particularly in the USA. Have confirmed this proposition.

2**. Offsetting uncertainty.**

Strategic management tries to offset environmental uncertainty by prescribing the future course of action in the light of various forecasts made by the organization. Forecasting and strategic planning are the basic core of strategic management and these provide a clue about what is likely to happen in future.

3. Clarity in objectives and direction:

Strategic management focuses on organizational objectives and direction of action for achieving these objectives. Sometimes people in the organization may not be specific about its objectives because of lack of clarity and precise definitions.

4. Personnel satisfaction:

Strategic management contributes towards organizational effectiveness by providing satisfaction to the personnel of the organization. In an organization where formal strategic management process is followed, people are more satisfied by definite prescription of their roles thereby reducing role conflict and role ambiguity.

5. Increased organizational effectiveness:

Strategic management ensures organizational effectiveness in several ways. The concept of effectiveness is that the organization is able to achieve its objectives within the given resources.

Limitations of strategic management:

Strategic management as a fundamental aspect of top management is essential but there are certain practical limitations to use it. The reason why management fails in strategic management emphasises the practical difficulties encountered.

1. Complex and dynamic Environment:

Strategic management is essential to overcome the problems posed by complex and dynamic environment. However, this becomes a serious limitation on effective strategic management. For strategic management we require knowledge of the trend in the environment. Thus, the practical problem in the way of strategic management does not reduce its importance.

2. **Rigidity:**

Strategic management brings rigidity in the organization through strategic planning, it is claimed. To some extent, this can be valid and more serious limitation of strategic management. Strategies are selected and implemented in a given set of environment, both external and internal.

Ex. Designing of organization structure, prescribing rules and procedures, allocating resources etc.

3. **Inadequate appreciation of strategic management:**

Problems in strategic management come because the managers are inadequately aware about its contribution to the success of the organization and the way in which strategic management can be undertaken.

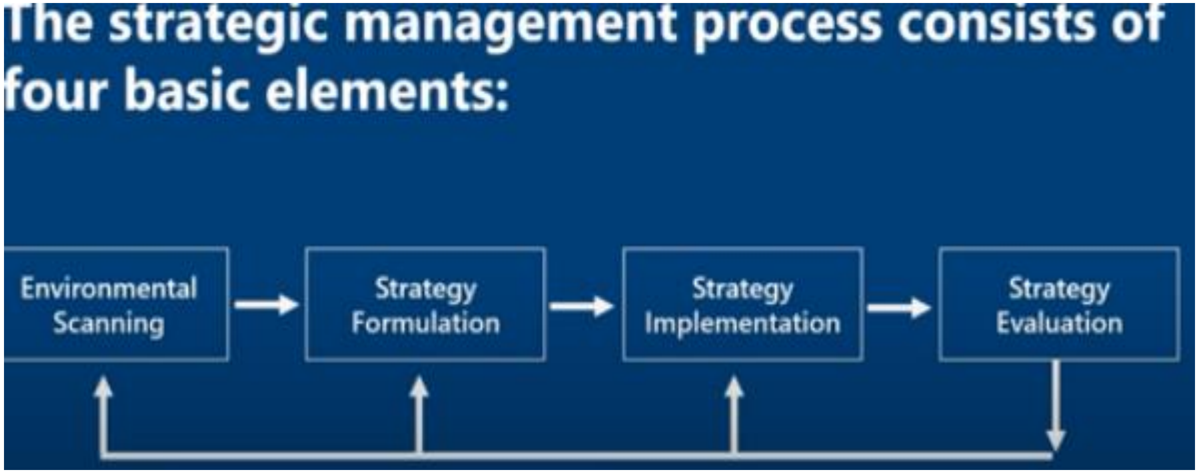
Ex: managers often fail to isolate strategic work, and they use short term outdated evaluation techniques.

4. **Limitations and implementation:**

There are various problems in implementing a strategy. Though this aspect will be discussed at a later stage at a greater length, here it is sufficient to say that many organizational problems cannot be solved by strategic management alone but require the use of other aspects of management. Seldom corporate strategy is as clear to organizational members as is thought by its framers.

Strategic management process:

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



The strategic management process consists of four basic elements:

Environmental Scanning

Strategy Formulation

Strategy Implementation

Strategy Evaluation

Environment scanning:

Environment scanning refers to a process of collecting, scrutinizing and providing information for strategic purpose. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

Strategy formulation:

Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environmental scanning, managers, formulate corporate, business and functional level strategies.

Strategy implementation:

Strategy implementation implies making strategy work as intended or putting the organization’s chosen strategy into action. Strategy implementation includes designing the organization’s structure, distributing resources, developing decision-making process, and managing resources.

Strategy evaluation:

Strategy evaluation is the final step of strategic management process. The key strategy evaluation activities are:

- Appraising internal and external factors that are the root of present strategies.
- Measuring performance and
- Taking corrective actions

Evaluating makes sure that the organizational strategy as well as it’s implementation meets the organizational objectives.

the previous chapter. Such firms adopt the model of strategic management process as shown in Figure 2.3.

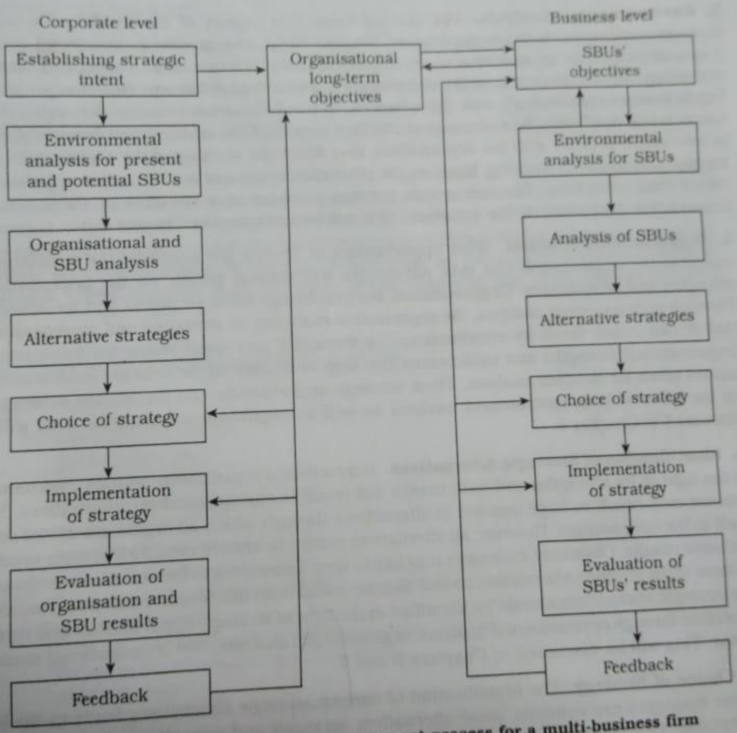

Corporate level
Business level
Establishing strategic intent
Organisational long-term objectives
SBUs' objectives
Environmental analysis for present and potential SBUs
Environmental analysis for SBUs
Organisational and SBU analysis
Analysis of SBUs
Alternative strategies
Alternative strategies
Choice of strategy
Choice of strategy
Implementation of strategy
Implementation of strategy
Evaluation of organisation and SBU results
Evaluation of SBUs' results
Feedback
Feedback

FIGURE 2.3: Model of strategic management process for a multi-business firm

Thus, the model of strategic management process contains the followin elements: establishing strategic intent, environmental analysis, identification of stra alternatives, choice of strategy, implementation of strategy, and strategic control. discussion of these elements is presented here while their details will be presented i chapters.

Strategic Intent. Since organisations are deliberate cr in future and why

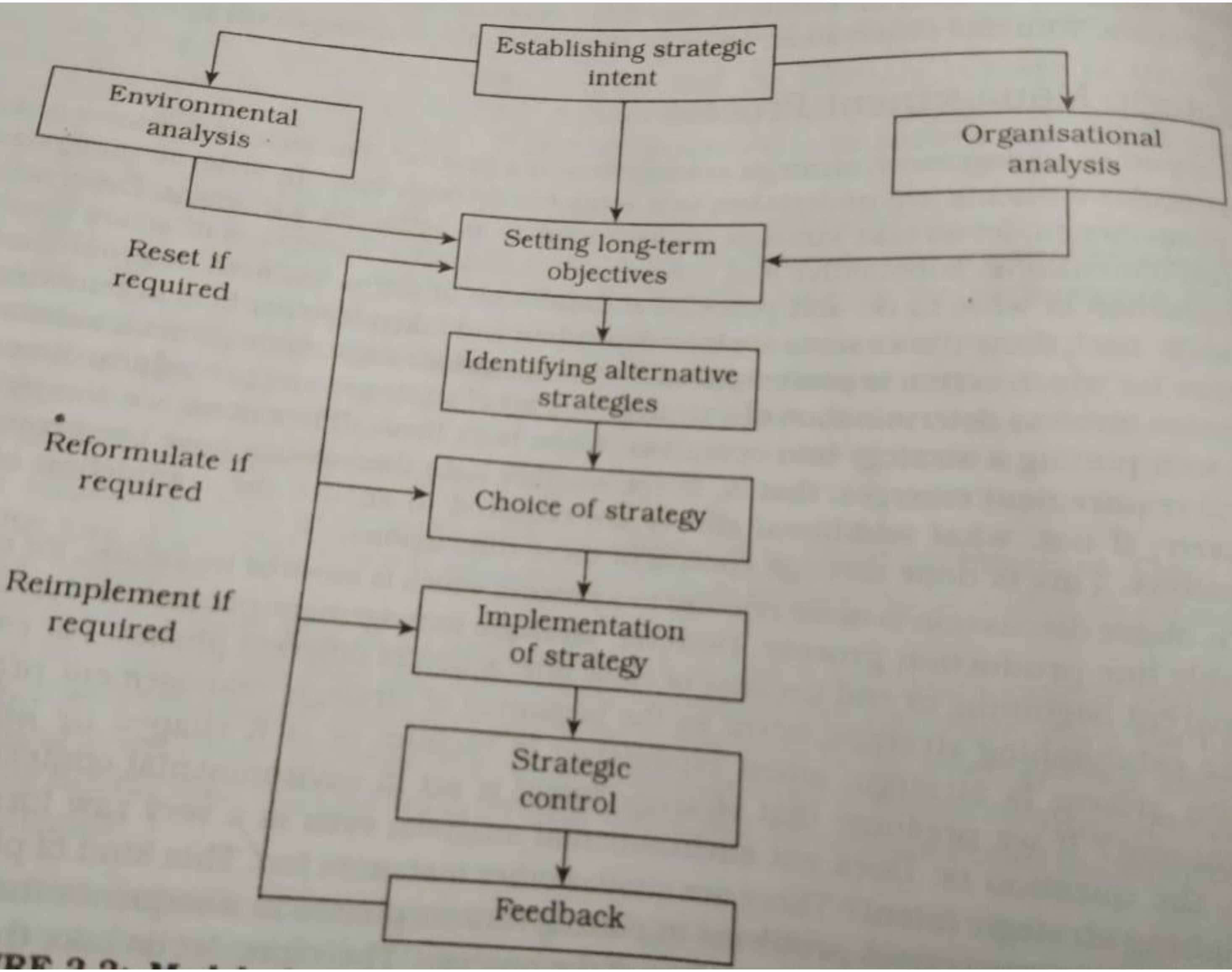

Establishing strategic intent
Environmental analysis
Organisational analysis
Setting long-term objectives
Reset if required
Identifying alternative strategies
Reformulate if required
Choice of strategy
Reimplement if required
Implementation of strategy
Strategic control
Feedback

FIGURE 2.2: M

Model strategic management process contains the following elements:

1.Establishing strategic Intent:

Since the organizations are deliberate creations, they have some specific Intent, that is, what they will achieve in future and why they will achieve it. In strategic management, this is known as strategic Intent and consists of three major elements- vision, mission and objectives arranged in a hierarchy in that order.

Vision represents what an organization would be in future.

Mission of an organization is the fundamental unique purpose that sets it apart from other organizations and identifies the scope of its operations in product and market items.

Objectives are the end results which an organization strives to achieve in future.

2. **Environmental analysis:**

The second important aspects of the model of strategic management process is the environmental analysis. Since an organization is a social system. It operates within the environment which consists of many factors such as society, competitors, technology, legal framework, political framework, and cultural frame work.

3. Organizational analysis:

What opportunities or threats are posed by the environment and how the organization can take advantages will depend greatly on the organizations strengths and weakness. Organizational analysis brings these strengths and weakness.

4. Identification of strategic alternatives:

Interaction of organization with its environment in the light of its strengths and weaknesses will result in various strategic alternatives. This process may result in large number of alternatives through which an organization can relate itself to the environment.

5. Choice of strategy:

The identification of various strategic alternatives leads to the level where managers can consider some alternatives seriously and may choose one of the most acceptable. This is the stage of strategic decision process and all factors relevant for decision making are relevant here.

6. Implementation of strategy:

Once the creative and analytical aspect of strategy formulation has been settled, the organization tries to convert the strategy into something operationally effective. To bring the result, the strategy should be put to action because mere choice of even the soundest strategy will not affect organizational activities and achievement of its objectives.

7. Strategic control:

Strategic control may be treated as the last stage of strategic management process. However, this is an ongoing process and strategic control should be taken as the process for future course of action. For effective implementation and consequently achievement of organizational objectives.

VISION:

Vision is the starting point of expressing an organization's strategic intent. Nations have vision, organization have vision, and individual have vision. They have vision either explicitly or implicitly.

Burt Nanus, a well-known expert of organizational vision, has defined vision as "a realistic, credible, and attractive future for an organization.

It contains four elements:

1.Realistic:

A vision must be based on reality to be meaningful for an organization. It should not be merely day dreaming but a dream to be converted into reality.

2. credible:

A vision must be believable to be relevant to members of the organization concerned. If the members of the organization do not find the vision credible. It will not be meaningful or serve a useful purpose. One of the purpose of a vision is to aspire those in the organization to achieve a level of excellence, and to provide direction for their actions.

3. Attractive:

A vision must be attractive so as to inspire and motivate organizational members. People must want to be part of the future that is envisioned for the organizaiton.

4. **Future:**

A vision is not for the present: it is for the future. Simply a vision is not where an organization is now but where it will be in future.

Features of good vision:

1. A good vision is idealistic. Though this feature of vision is contrasting with the statement that vision should be realistic, however, both features can be reconciled.
2. A good vision clarifies direction for the organization concerned. It should provide answer to the question. ‘where will the organization go in future.

3. A good vision inspires organizational members and encourages commitment from them. The inspiration and commitment is the key to achieving what the vision envisages.
4. A good vision reflects the uniqueness of the organization. Its distinctive competence. What it stands for, and what it is able to achieve.
5. A good vision is appropriate for the organization and for the times. It implies that the vision should be consistent with organization's value and culture and its place in its environment.
6. A good vision is well articulated and easily understood by those who are responsible to convert it into reality.

Role of vision in strategy formulation:

Vision occupies the top position in this hierarchy. Therefore all strategic action should focus on the vision to convert it into reality.

1. Vision provides clue about where the organization is heading for in future. Since various strategies try to ensure that the organization reaches its destination, these should be in accordance with the vision.
2. Vision of an organization tries to place it in a unique position which requires unique actions. These actions are defined by various strategies.
3. Since vision is a source of inspiration to organizational members and encourages them for commitment, they tend to give their full contributions in strategy formulating and implementation.

Developing a vision:

Developing a vision is like having a dream to be covered into reality in future.

1. **Conducting a vision audit:**

First step in developing a vision is to assess the current direction and momentum of the organization. At this stage, key questions that should be answered are: does the organization have a clearly stated vision? What is the organization's current direction? Do the key organization is headed and degree of the direction?

2. **Targeting the vision:**

This step involves starting to narrowing on a vision. At this step key questions are: what are the boundaries and constraints to the vision? What must the vision accomplish? What critical issues must be addressed in the vision?

3. **Setting the vision context:**

Since vision is the desirable future for the organization, there is need for identifying what the organization's future environment might look like.

4. **Developing the future scenarios.**

Developing the future scenarios follows directly from setting the vision context. Scenarios are the likely future behaviors of the environment.

5. Generating the alternative visions:

At this stage, possible visions are developed for possible environments. The purpose of this step is to generate visions reflecting different directions in which organization may go.

Mission:

Mission is at the second level of hierarchy of strategic intent and broadly defines why an organization exists. According to dictionary meaning, mission defined in a broad way, refers to that aspect for which an individual has been or seems to have been sent into this world.

Most of the operational definitions of mission put emphasis on this basic theme with addition of some more relevant aspects. For example, Thompson has defined mission as follows:

“mission is the essential purpose of the organization, concerning particularly why it is in existence, the nature of the business(es) it is in and the customers it seeks to serve and satisfy.

Difference between vision and mission:

1. The essence of vision is a forward looking view of what an organization is to become in future.
2. While vision place emphasis on visionary long term concept of the organization with very high level of achievement mission deals mostly with how the organization will interact with various stakeholders, products/services it offers, and the why these are offered.

Role of mission in strategy formulation:

1. It helps in deciding the direction in which the organization proceeds. Therefore, strategic action can easily be geared in that direction.
2. It helps the organization to clarify its aspirations and those of various stakeholders. The strategic action can be aligned to the aspirations.
3. It serves as a reference point in dealing with various stakeholders with in and outside the organization.

4. It helps in integrating the organization with its relevant environment by taking suitable actions the way these have been specified in the mission.

5. It helps in integrating the various subsystems of the organization as these subsystems look at their objectives and operations in the light of organizational mission.

Contents of mission:

The first basic factor in mission formulation is the determination of its contents.

1. entrepreneur's self concept of the business can be communicated and adopted by employees and stakeholders.
2. The organization will be able to satisfy the entrepreneur's needs and aspirations which he seeks to satisfy through the organization.
3. The organization will create favorable public image which will result in contributions from environment.
4. The organization can grow and be profitable than just survive in the long run with the support of various constituents.
5. The product or service offered by the organizations can provide benefits at least equal to its price.
6. The product or service can satisfy the needs of the customers not adequately served by others presently.
7. Technology used in producing product or service will be cost and quality competitive.

Mission statement:

Mission statement is the description of organizational mission. Explicit mission statement is desirable as its serves the purpose of communicating to the organizations members about the corporate philosophy, character, and image of the organization which govern their behavior in the organization.

1. Mission should be clear, both in terms of intentions and words used.
2. It should be feasible, neither too high to be unachievable nor too low to demotivated the people for work.
3. It should be precise but explanatory neither too narrow so as to restrict the organization’s activities, nor too broad to make itself meaningless.
4. It should be distinctive, both in terms of the organization’s contributions to the society and how these contributions can be made.

UNIT –II
Environmental Analysis

Environmental Analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance.

Types of Environmental Analysis

These include:

SWOT (**strengths**, **weaknesses**, **opportunities**, **threats**) analysis. PESTLE (political, economic, social, technological, legal and environmental) analysis. scenario planning.

Importance of Environmental Analysis

An **environmental analysis** is an extremely **important** tool in understanding and decision making in all situation of the business. Success of the firm depends upon the precise decision making ability. Study of **environmental** analyses enables the firm to select the best option for the success and growth of the firm.

Needs of Environmental Scanning

1. Identification of strength:

- Strength of the business firm means capacity of the firm to gain advantage over its competitors. Analysis of internal business environment helps to identify strength of the firm. After identifying the strength, the firm must try to consolidate or maximise its strength by further improvement in its existing plans, policies and resources.

2. Identification of weakness:

- Weakness of the firm means limitations of the firm. Monitoring internal environment helps to identify not only the strength but also the weakness of the firm. A firm may be strong in certain areas but may be weak in some other areas.

3. Identification of opportunities:

- Environmental analyses helps to identify the opportunities in the market. The firm should make every possible effort to grab the opportunities as and when they come.

4. Identification of threat:

- Business is subject to threat from competitors and various factors. Environmental analyses help them to identify threat from the external environment.

5. Optimum use of resources:

- Proper environmental assessment helps to make optimum utilisation of scare human, natural and capital resources. Systematic analyses of business environment helps the firm to **reduce wastage and make optimum use of available resources,** without understanding the internal and external environment resources cannot be used in an effective manner.

6. Survival and growth:

- Systematic analyses of business environment help the firm to maximise their strength, minimise the weakness, grab the opportunities and diffuse threats.

7. To plan long-term business strategy:

- A business organisation has short term and long-term objectives. Proper analyses of environmental factors help the business firm to frame plans and policies that could help in easy accomplishment of those organisational objectives.

8. Environmental scanning aids decision-making:

- Decision-making is a process of selecting the best alternative from among various available alternatives. An environmental analysis is an extremely important tool in understanding and decision- making in all situation of the business

Steps Involved in Environmental Analysis

- **Identifying**:

  First of all, the factors which influence the business entity are to be identified, to improve its position in the market. The identification is performed at various levels, i.e. company level, market level, national level and global level.

- **Scanning**

  Scanning implies the process of critically examining the factors that highly influence the business, as all the factors identified in the previous step effects the entity with the same intensity. Once the important factors are identified, strategies can be made for its improvement.

- **Analysing**: In this step, a careful analysis of all the environmental factors is made to determine their effect on different business levels and on the business as a whole. Different tools available for the analysis include benchmarking, Delphi technique and scenario building.
- **Forecasting**: After identification, examination and analysis, lastly the impact of the variables is to be forecasted.

Environment Analysis Objectives

1. Help understanding Existing Environment

- It is important that one must be aware of the existing environment. Business Environment analysis should provide an understanding of current and potential changes taking place in the micro environment

2. Provision of Data for Strategic Decision-making

- Business Environment analysis should provide necessary data for strategic decision- making. Mere collection of data is not adequate. The data so collected must be used for strategic decision-making.

3. Facilitating Strategic Linking in Organizations

- Business Environment analysis should facilitate and foster strategic linking in organizations.

Process of Business Environment Analysis

- The process of Business environment analysis involves many steps, which are as follows:
- Collection of necessary information.
- Scanning and searching of information.
- Getting information by spying.
- Forecasting the conditions.
- Observing the environment.
- Assessing.

1. Collection of necessary Information

- Collection of necessary information is the first stage in the process of business environment analysis. It involves the observation of various factors prevailing in a particular area also.

2. Scanning and Searching of Information

- Scanning and searching is an important technique of business environment analysis. Once the necessary information has been collected, it should be put to scanning.

3. Getting Information by Spying

- Spying is also one of the techniques of business environment analysis. When the activities of a particular business are to be analyzed and such information cannot be collected by traditional methods, the technique of spying is resorted to.

4. Forecasting the Conditions

- Scanning provides a picture about the past and the present. However, strategic decision-making requires a future orientation. Forecasting is the scientific guesswork based upon some serious study.

5. Observing the Environment

- One can analyze a business environment by merely observing it. The observation reveals various conditions prevailing at a particular point of time.

6. Assessing

- Assessment is made to determine implications for the organization’s current and potential strategies. Assessment involves identifying and evaluating how and why current and projected environmental changes affect or will affect strategic management of the organization.

SWOT Analysis

- **SWOT analysis** (or **SWOT** matrix) is a strategic planning technique used to help a person or organization identify strengths, weaknesses, opportunities, and threats related to business competition or project planning.
- **Strengths** describe what an organization excels at and what separates it from it from the competition : a strong brand, loyal customer base, a strong balance sheet, unique technology, and so on.
- **Weaknesses** stop an organization from performing at its optimum level. They are areas where the business needs to improve to remain competitive: a weak brand, higher-than-average turnover, high levels of debt, an inadequate supply chain, or lack of capital.

- **Opportunities** refer to favorable external factors that could give an organization a competitive advantage. For example, if a country cuts tariffs, a car manufacturer can export its cars into a new market, increasing sales and market share.
- **Threats** refer to factors that have the potential to harm an organization. For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield.

Environmental Scanning

- **Environmental Scanning** is a **process** that systematically surveys and interprets relevant data to **identify external opportunities and threats** that could influence future decisions. It is closely related to a S.W.O.T. **analysis** and should be used as part of the strategic planning **process**.

Important Factors for Environmental Scanning

- **Events** – These are specific occurrences which take place in different environmental sectors of a business. These are important for the functioning and/or success of the business. Events can occur either in the internal or the external environment.

- **Trends** – As the name suggests, trends are general courses of action or tendencies along which the events occur. They are groups of similar or related events which tend to move in a specific direction. Further, trends can be positive or negative.
- **Issues** – In wake of the events and trends, some concerns can arise. These are Issues. Organizations try to identify emerging issues so that they can take **corrective measures to nip them in the bud.** However, identifying emerging issues is a difficult task.
- **Expectations** – Some interested groups have demands based on their concern for issues. These demands are Expectations.

Internal & External Analysis of Environment

- **Internal analysis of the environment** is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc.
- **External analysis**, three correlated environment should be studied and analyzed
- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment
- Examining the **industry environment** needs an appraisal of the competitive structure of the organization’s industry, including the competitive position of a particular organization and it’s main rivals.

- Analyzing the **national environment** needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment.
- Analysis of **macro-environment** includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment.

Industry Analysis

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

What are the five forces of industry analysis?

- Porter's Five Forces is a framework for analyzing a company's competitive environment. The number and power of a company's competitive rivals, potential new market entrants, suppliers, customers, and substitute products influence a company's profitability.

Types of Industry Analysis

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

- **Competitive Forces Model (Porter’s 5 Forces)**
- **Broad Factors Analysis (PEST Analysis)**
- **SWOT Analysis**

1. Competitive Forces Model (Porter’s 5 Forces)

- One of the most famous models ever developed for industry analysis, famously known as Porter’s 5 Forces , was introduced by **Michael Porter in his 1980 book “ Competitive Strategy: Techniques for Analysing Industries and Competitors**.
- According to Porter, analysis of the five forces gives an accurate impression of the industry and makes analysis easier. In our Corporate and Business Strategy course, we cover these five forces and an additional force — **power of complementary goods/service providers.**

2 . Broad Factors Analysis (PEST Analysis)

- Broad Factors Analysis also commonly called the PEST Analysis stands for **Political, Economic, Social and Technological.** PEST analysis is a useful framework for analyzing the external environment.
- To use PEST as a form of industry analysis, an analyst will analyze each of the 4 components of the model. These components include:

1. Political

- Political factors that impact an industry include **specific policies and regulations related to things like taxes, environmental regulation, tariffs, trade policies, labor laws, ease of doing business, and overall political stability.**

2. Economic

- The economic forces that have an impact include **inflation, exchange rates (FX), interest rates, GDP growth rates, conditions in the capital markets (ability to access capital), etc.**

3. Social

- The social impact on an industry refers to trends among people and includes things such as **population growth, demographics (age, gender, etc.), and trends in behavior such as health, fashion, and social movements.**

4. Technological

- The technological aspect of PEST analysis incorporates factors such as advancements and developments that change the way a business operates and the ways in which people live their lives (e.g., the advent of the internet).

3. SWOT Analysis

- SWOT Analysis stands for Strengths, Weaknesses, Opportunities, and Threats. It can be a great way of summarizing various industry forces and determining their implications for the business in question.

1. Internal

- Internal factors that already exist and have contributed to the current position and may continue to exist.

2. External

- External factors are usually contingent events. Assess their importance based on the likelihood of them happening and their potential impact on the company. Also, consider whether management has the intention and ability to take **advantage of the opportunity/avoid the threat.**

- **Internal Scanning**

  Internal Scanning involves looking **inside the farm business** and identifying strengths and weaknesses and assessing the businesses' resources and management's skills.
- **External Scanning**
- An **external** vulnerability **scan** looks for holes in your network firewall(s), where malicious **outsiders can break in and attack your network.**
- **Competitor Analysis**
- A **competitive analysis** is the **process of identifying your competitors and evaluating their strategies to determine their strengths and weaknesses** relative to your own business, product, and service.

Objectives of Competitor Analysis

- To study the market;
- To predict and forecast organization’s demand and supply;
- To formulate strategy;
- To increase the market share;
- To study the market trend and pattern;
- To develop strategy for organizational growth;
- When the organization is planning for the diversification and expansion plan;
- To study forthcoming trends in the industry;
- Understanding the current strategy strengths and weaknesses of a competitor can suggest opportunities and threats that will merit a response;

How to do a Competitive Analysis

- Determine who your competitors are.
- Determine what products your competitors offer.
- Research your competitors sales tactics and results.
- Analyze how your competitors market their products.
- Take note of your competition's content strategy.
- Analyze the level of engagement on your competitor's content.
- Observe how they promote marketing content.
- Look at their social media presence, strategies, and go-to platforms
- Perform a SWOT Analysis to learn their strengths, weaknesses, opportunities, and threats.

1. Determine who your competitors are.

- First, you'll need to figure out who you're really competing with so you can compare the data accurately. What works in a business similar to yours may not work for your brand.

2. Determine what products your competitors offer.

- At the heart of any business is its product or service, which is what makes this a good place to start.

3. Research your competitors sales tactics and results.

- Running a sales analysis of your competitors can be a bit tricky.
- You'll want to track down the answers to questions such as:
- You'll want to analyze your competitor's complete product line and the quality of the products or services they're offering.
- Do they have multiple locations and how does this give them an advantage?
- Are they expanding? Scaling down?
- Do they have partner reselling programs?
- What does the sales process look like?
- What channels are they selling through?

4. Analyze how your competitors market their products.

- Analyzing your competitor's website is the fastest way to gauge their marketing efforts. Take note of any of the following items and copy down the specific URL for future reference:
- Do they have a blog?
- Are they creating whitepapers or e-books?
- Do they post videos or webinars?
- Do they have a podcast?
- Are they using static visual content such as infographics and cartoons?
- What about slide decks?
- Do they have a FAQs section?
- Are there featured articles?

5. Take note of your competition's content strategy.

- Then, take a look at the quantity of these items. Do they have several hundred blog posts or a small handful? Are there five white papers and just one e-book?

Next, determine the frequency of these content assets. Are they publishing something new each week or once a month? How often does a new e-book or case study come out?

6. **Analyze the level of engagement on your competitor's content.**

- To gauge how engaging your competitor's content is to their readers, you'll need to see how their target audience responds to what they're posting.
- Check the average number of comments, shares, and likes on your competitor's content and find out if:

Certain topics resonate better than others

- The comments are negative, positive, or a mix
- People are tweeting about specific topics more than others
- Readers respond better to Facebook updates about certain content

7. Observe how they promote their marketing content.

- From engagement, you'll move right along to your competitor's content promotion strategy.
- Keyword density in the copy itself
- Image ALT text tags
- Use of internal linking

8. Look at their social media presence, strategies, and go-to platforms

- The last area you'll want to evaluate when it comes to marketing is your competitor's social media presence and engagement rates.

9. Perform a SWOT Analysis to learn their strengths, weaknesses, opportunities, and threats

- As you evaluate each component in your competitor analysis (business, sales, and marketing), get into the habit of performing a simplified SWOT analysis at the same time.

The Sources of Information for Competitor Analysis

- **Recorded data:** It includes data which is published externally such as annual report, brochures, newspaper articles and press releases.
- **Observable data:** It is collected from several sources such as pricing, promotions and patent applications.
- **Opportunistic data:** This kind of data involves exclusive planning. It is basically derived from customers, suppliers, seminars and conferences.
- **What Does Competitor Analysis Helps Us to Understand?**
- **Advantages & Disadvantages:** One of the major reason for competitive analysis is to comprehend the strengths and weaknesses of your competition.

- **Past, Present & Future Strategies:** Analyzing your competitors helps you formulate effective strategies for your company. Knowing where you stand in the market provides you early warning to take immediate steps in order to streamline your internal and external communication
- **Objective & Profile of Competitors:** Effective competitor analysis reveal the objective of your competitors, thereby helping you learn the best practices from diversified segment.
- **Forecast of the Returns:** You learn from the success and failure of other brands. This analysis establishes the reasons behind failure of unsuccessful companies, thus helping you to forecast key assets and skills needed to beat your competition.

Benefits of Conducting a Competitive Analysis

- Fine-tune and Develop your Unique Selling Proposition (USP) Why your brand? ...
- Improve Owned Products and Services. As your brand expands so will your customers' needs and expectations. ...
- Establish a Brand Benchmark. ...
- Identify Gaps in R&D and Hiring. ...
- Discover Potential Threats.

Organizational Analysis

- Organizational analysis is the process of appraising the **growth, personnel, operations, and work environment of an entity.** Undertaking an organizational analysis is beneficial, as it **enables management to identify areas of weakness and then find approaches for eliminating the problems.**

Characteristics of Organizational Analysis

1. Strengths

- The competitive edge that an organization enjoys over its competitors is an advantage that defines its success. Assessing the strengths of an organization involves evaluating management, workforce, resources, as well as current marketing goals. In general, an internal analysis looks at an entity’s core competencies and resources.

2. Weaknesses

- Weaknesses are obviously an aspect of an organization that can affect its performance. Recognizing weaknesses is important, as it enables the organization to **locate problems and implement beneficial changes**. In addition, the organization is able to develop appropriate choices in its **strategic planning process,** especially when results are not satisfactory.

3. Opportunities

- Generally, an **external analysis** weighs the **threats and opportunities** that are **present outside of an organization.** An external assessment includes sizing up the competition, analyzing market trends, and evaluating the impact of technology on the performance of an organization.

4. Threats

- Not all threats are detrimental to the success of a business. For instance, labor can be a threat or an opportunity, depending on the prevailing economic conditions. Legislation and regulations set by the government also exert an effect on how well an organization performs in its industry.

Models of Organizational Analysis

- The first model is the **rational model.** Its philosophy is that there is **only one logical way to perform tasks.**
- An alternative model is the **natural model**, which believes that a business not only wants to achieve **its own goals, but also positively influence its external environment.**

UNIT – 3

CORPORATE STRATEGY

Corporate Strategy takes a portfolio approach to strategic decision making by looking across all of a firm's businesses to determine how to create the most value. Corporate Strategy builds on top of business strategy, which is concerned with the strategic decision making for an individual business.

What are the Components of Corporate Strategy?

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

1.Allocation of resources

2.Organizational design

3.Portfolio management

4.Strategic tradeoffs

1 Allocation of Resources

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

Key factors related to the allocation of resources are:

People

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

Capital

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

2 Organizational Design

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

3. Portfolio Management

- Portfolio management looks at the way business units complement each other, their correlations, and decides where the firm will “play” (i.e. what businesses it will or won’t enter).
- Corporate Strategy related to portfolio management includes:
- Deciding what business to be in or to be out of
- Determining the extent of vertical integration the firm should have
- Managing risk through diversification and reducing the correlation of results across businesses.
- Creating strategic options by seeding new opportunities that could be heavily invested in if appropriate.
- Monitoring the competitive landscape and ensuring the portfolio is well balanced relative to trends in the market

4. Strategic Tradeoffs

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

Managing risk

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

Generating returns

- ❑ Higher risk strategies create the possibility of higher rates of return. The examples above of true product differentiation or cost leadership could provide the most return in the long run if they are well executed.
- ❑ Swinging for the fences will lead to more home runs and more strikeouts, so it’s important to have the appropriate number of options in the portfolio. These options can later turn into big bets as the strategy develops.

Incentives

Incentive structures will play a big role in how much risk and how much return managers seek.

It may be necessary to separate the responsibilities of risk management and return generation so that each can be pursued to the desired level.

It may further help to manage multiple overlapping timelines, ranging from short-term risk/return to long-term risk/return and ensuring there is appropriate dispersion.

Different types of corporate strategy

Though no two strategies are ever the same, corporate strategy can be classified into four different groups:

- Growth strategy
- Stability strategy
- Retrenchment strategy, and
- Re-invention strategy

Types of Corporate Level Strategies

- Stability Strategy
- Expansion Strategy
- Retrenchment Strategy
- Combination Strategy
- Merger Strategy
- Restructure Strategy
- Diversification Strategy
- Defensive Strategy
- Stability Strategy.

STABILITY STRATEGY.

Definition:

The Stability Strategy is adopted when the organization attempts to maintain its current position and focuses only on the incremental improvement by merely changing one or more of its business operations in the perspective of customer groups, customer functions and technology alternatives, either individually or collectively.

Reasons for Adopting Stability Strategy:

1. The company is doing fairly well or perceives itself as successful and expects the same in the future.
2. The stability strategy is less risky. Frequent changes involving new products or new ways of doing things may lead to failure of the firm. The larger the firm and the more successful it has been, the greater is the resistance to the risk.
3. The stability strategy can evolve because the managers prefer action to thought and do not tend to consider any other alternatives. Many of the firms that follow stability strategy do this unconsciously. Such companies react to the changes in the forces in the environment.
4. To follow a stability strategy, it is easier and more comfortable for all concerned as activities take place in routines.
5. The management pursuing stability strategy does not have the mind-set of a strategist to appraise the environmental opportunities and threats and take advantage of the opportunities.

2. **Profit Strategy:**

This strategy is followed when the objective of the firm is to generate cash immediately for itself or for the stock.

3.Pause Strategy:

If any enterprise feels that higher growth becomes both inefficient and unmanageable, or when a firm requires breathing spell to stabilize itself before taking up a new mission, it may restrict its growth at a certain balanced level. In doing so, it may concentrate on sources utility, better operations etc. to attain a higher level of efficiency.

4.Growth Strategies:

Most of the directional strategies of an organization are aimed to achieve growth. Usually the growth may be measured in terms sales, profits, product mix, services mix, market coverage, market share, and other accounting and market based variables. Reducing cost of products sold is also a growth variable, because it increases sales and profits. Liberalization, globalization and privatization (LPG), forced companies to reduce manufacturing cost and produce quality products.

5.Expansion Strategies:

Expansion strategies are the most popular corporate strategies. Almost all organizations plan to expand.

A company can adopt expansion strategy in the following five ways:

1. Concentration
2. Integration
3. Diversification
4. Cooperation
5. Internationalization

1. Concentration:

Concentration involves converging resources in one or more of a firm’s businesses in terms of products, markets or functions in such a manner that it results in expansion. Concentration strategies are variously known as intensification, focus or specialization. Concentration strategies involve investment of resources in a product line for an identified market with the help of proven technology.

This may be done following through the below strategies:

(i) Market penetration

(ii) Market development

(iii) Product development

Issues in concentric expansion:

1. **Determining organization's options for expansion:**

The first step is to determine the realistic options available to the organizations in adding capacity. Usually the size of the additions can vary and the degree of vertical integration of new capacity may be a variable as well.

2. **Assessing probable future demand and costs of inputs:**

Having developed the options the organization should make prediction about future demand of the product and input costs. If the organization is in a business which grows faster than the normal rate of economic growth.

3. **Assessing technological changes:**

Like demand and input cost assessment, the organization should assess the future technological changes. It is necessary to forecast when the present capacity addition will become obsolete or how design changes will allow effective increase in capacity from in place facilities.

4. **Predicting capacity expansion by competitors:**

The organization must forecast how and when each competitor will add capacity.

5. Assessing demand supply balance:

After assessing the behavior of competitors , the organization should assess the aggregate industry demand and individual market demand.

6**. Testing the analysis for consistency:**

The various steps given above should give an idea of capacity addition by the organization. However to be sure, the organization should scrutinize the whole process for inconsistency.

2. **Integration:**

Integration refers to combining activities related to the present activities of a firm, on the basis of the value chain. Recall that a value chain is a set of interrelated activities an organization performs right from the procurement of basic raw materials to the marketing of finished products to the ultimate consumers.

Benefits of Integration:

1. Economics of integration
2. Assured supply and /or demand
3. Off setting bargaining power
4. Enhanced ability to differentiate.
5. Elevates entry and mobility barriers.

Costs of vertical integration:

- Increased operating leverage
- Reduced flexibility
- High capital investment requirements
- Problem in maintaining balance
- Dulled incentives
- Differing managerial requirements

Issues in vertical integration:

- ❖ Extent of benefits and costs
- ❖ Investments requirements
- ❖ Alternative to vertical integration

3. Diversification:

Diversification is a much-used and talked about strategy. Diversification means identifying directions of development that take the organization away from both its current products and markets at the same time.

Issues in diversification:

- ❑ Objectives of diversification
- ❑ Criteria for diversification
- ❑ Identifying opportunities for diversification

4**. Cooperative Expansion:**

Corporate strategies could consider the possibility of competition co-existing with cooperation. The term ‘co-opetition’ explains the idea of simultaneous competition with cooperation among rival firms for mutual benefit.

5. **Internationalization:**

International strategies are a kind of expansion strategies that need firms to market their products or services beyond the domestic market. For this purpose, a firm would have to assess the international environment, evaluate its own capabilities, and devise strategies to enter foreign markets.

BUSINESS STRATEGY

What Is Business Strategy?

A business strategy can be defined as the combination of all the decisions taken and actions performed by the business to accomplish business goals and to secure a competitive position in the market.

Definition:

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

Types of business strategy:

1. Cost leadership (lower cost in broad target)

Cost leadership strategy is based on a firm having a cost structure that allows it to offer a product at a lower per unit price as compared to its rivals in a broad target market. However product quality should be of the same level that rivals offer cost factor resulting in lower price is the only differentiator.

Benefits of cost leadership strategy:

1. It helps in developing competitive advantage in the form of offering products to customers at lower prices which helps in achieving large market share.
2. The firm is comparatively more protected from the impact of downward trend in the industry.
3. The firm can bear the pressures put by suppliers in the form of increasing prices of their supplies as well as customers in the form of bargaining for lower product price.
4. Cost advantages acts as an entry barrier to those likely entrants who are not in a position to offer their products at the leader’s price.

2. Differentiation (differentiation in broad target)

Kotler has defined differentiation as “the act of designing a set of meaningful differences to distinguish the company’s offerings from competitors’ offerings.

Benefits of differentiation strategy :

- If differentiators used by a firm are quite strong, it can create a captive market for it thereby reducing the impact of competitive rivalry.
- High brand loyalty created by the differentiators can refrain new entrants in the market as they would find it difficult to compete against such a brand loyalty.

3. Focus (lower cost or differentiation in narrow target)

In focus strategy either based on cost leadership or differentiation, firms focus on meeting the needs of a unique market segment in the best possible way. In terms of the market, therefore, a focus strategy is a niche strategy . For focus strategy the more commonly used bases of customer groups are demographic characteristics (age, gender, income , occupation etc.)

Importance Of Business Strategy:

A business objective without a strategy is just a dream. It is no less than a gamble if you enter into the market without a well-planned strategy.

Planning:

Business strategy is a part of a business plan. While the business plan sets the goals and objectives, the strategy gives you a way to fulfill those goals.

Strengths & Weaknesses:

Most of the times, you get to know about your real strengths and weaknesses while formulating a strategy.

Efficiency & Effectiveness:

When every step is planned, every resource is allocated, and everyone knows what is to be done, business activities become more efficient and effective automatically.

Competitive Advantage:

A business strategy focuses on capitalizing on the strengths of the business and using it as a competitive advantage to position the brand in a unique way.

Control

It also decides the path to be followed and interim goals to be achieved. This makes it easy to control the activities and see if they are going as planned.

LEVELS OF BUSINESS STRATEGY:

Corporate level strategy:

Corporate level strategy is a long-range, action-oriented, integrated and comprehensive plan **formulated by the top management**.

Business level strategy:

The strategies that relate to a particular business are known as business-level strategies. It is **developed by the general managers**,

Functional level strategy:

Developed by the first-line managers or supervisors, functional level strategy involves decision making at the operational level concerning particular functional areas like marketing, production, human resource, research and development, finance and so on.

BOSTON CONSULTING GROUP (BCG)

Matrix is developed by Bruce Henderson of the Boston Consulting Group in the early 1970’s.

According to this technique , business or products are classified as low or high performance depending upon their market growth rate and relative market share.

Definition

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

Relative market share and market growth:

- ❖ To understand the Boston matrix you need to understand how market share and market growth interrelated .
- ❖ Market share is the percentage of the total market that is being serviced by your company measured either in the revenue terms or unit volume terms.
- ❖ Growth-share matrix is a business tool, which uses relative market share and industry growth rate factors to evaluate the potential of business brand portfolio and suggest further investment strategies.

Relative market share.

One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

$$\textbf{RMS: - =} \frac{\textbf{Business unit sales this year}}{\textbf{Leading rival sales this year}}$$

The higher your market share, the higher proportion of the market you control.

Market growth rate.

High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth.(market growth is used as a measure of a market's attractiveness).

There are four quadrants into which firms brands are classified:

Dogs. (cash traps –low growth- low market share)

Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested. **Strategic choices:** Retrenchment, divestiture, liquidation

Cash cows: (low growth –high market share)

Cash cows are the most profitable brands and should be "milked" to provide as much cash as possible. The cash gained from "cows" should be invested into stars to support their further growth. According to growth-share matrix, corporate should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. If there would be no support for cash cows, they would not be capable of such innovations. **Strategic choices:** Product development, diversification, divestiture, retrenchment

Stars: (High growth –high market share)

Stars operate in high growth industries and maintain high market share. Stars are both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows.

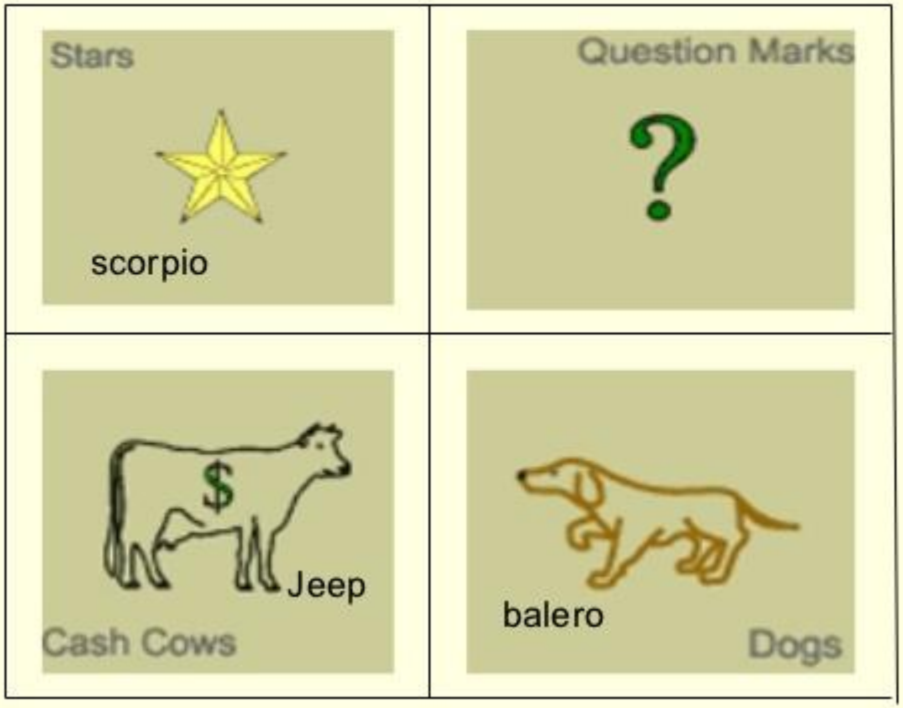
Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development.

Question marks: (high growth –low market)

Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow.

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

BCG MATRIX



Stars

scorpio

Question Marks

Jeep

Cash Cows

balero

Dogs

LIMITATIONS:

- BCG MATRIX uses only two dimensions. Relative market share and market growth rate.
- Problems of getting data on market share and market growth .
- High market share does not mean profits all the time.
- Business with low market share can be profitable too.
- BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
- Market is not clearly defined in this model.
- High market share does not always leads to high profits. There are high costs also involved with high market share.
- Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
- At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
- This four-celled approach is considered as to be too simplistic.

BENEFITS:

- BCG MATRIX is simple and easy to understand.
- It helps you to quickly and simply screen the opportunities open to you, and helps you think about how you can make the most of them.
- It is used to identify how corporate cash resources can best be used to maximize a company’s future growth and profitability.

CHOICE OF STRATEGY

- **Strategic choice** refers to the decision which determines the future **strategy** of a firm. ... The decision involves the following four steps – focusing on few alternatives, considering the **selection** factors, evaluating the alternatives against these criteria and making the actual **choice**

- **Strategic Analysis and Choice – Techniques**
- **Technique # 1. BCG Matrix:**

- The BCG matrix is a tool that can be used to determine what priorities should be given in the product portfolio of a business unit. It has 2 dimensions; market share and market growth. The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows the better it is for the company. Placing products in the BCG matrix results in 4 categories in a portfolio of a company.

Boston Consulting Group's growth/share matrix has become one of the most widely used approaches that facilitate corporate strategic analysis of likely "generators" and optimum "users" of corporate resources. Each of the company's businesses is positioned in the matrix in accordance with its market growth rate and relative competitive position.

- **Stars:**

  Stars are businesses that have **high market share in a high growth environment.** They are growing rapidly and are the best long-run opportunities in terms of growth and profitability in the firm’s portfolio.

  They are leaders in their business and generate large amount of cash. They require substantial investment to maintain and expand their dominant position in a growing market.
- **Cash Cows:**
- Cash cows are **low-growth, high market-share products or divisions.** Because of their high market share, they have low costs and generate cash. Since growth is slow, reinvestment costs are low. Cash cows provide funds for overhead, dividends, and investment for the rest of the firm and are in excess of their needs.
- Cash Cows (=low growth, high market share)
- i. profits and cash generation should be high , and because of the low growth, investments needed should be low. Keep profits high
- ii. Foundation of a company

- **Question Marks** (**high growth, low market share**)
- a. Have the worst cash characteristics of all, because high demands and low returns due to low market share.
- b. If nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, a dog.
- c. Either invest heavily or sell off or invest nothing and generate whatever cash it can. Increase market share or deliver cash.
- **Dogs:**
- Such businesses are defined as those in which the **growth rate is slow and the relative market share is low** compared to the leading competitors. Because of their low market share these businesses are often expected to have a higher cost structure than industry leaders.
- Dogs (low growth, low market share)
- i. Avoid and minimize the number of dogs in a company.
- ii. Beware of expensive ‘turn around plans’.
- iii. Deliver cash, otherwise liquidate

- **Technique # 2. Strengths -Weaknesses -Opportunities-Threats- (SWOT) Matrix:**
- **The TOWS matrix is an important tool that helps managers develop four types of strategies:**

  (a) SO Strategies

  (b) WO Strategies

  (c) ST Strategies

  (d) WT Strategies
- Matching key external and internal factors is the most tedious part of developing a **SWOT** Matrix. It requires good judgment. However, there is no one best set of matches.

(a) SO Strategies:

- SO strategies use a firm's internal strengths to take advantage of external opportunities. All managers would like their organization to be in a position in which internal strengths can be used to take advantage of external trends and events. Organizations generally will pursue WO, ST, or WT strategies in order to get into a situation in which they can apply SO Strategies.

(b) WO Strategies:

- WO strategies focus at improving internal weaknesses by taking advantage of external opportunities. Sometimes a firm may have key external opportunities but it may have internal weaknesses that can prevent it from exploiting them.

(c) ST Strategies:

- ST strategies make use of firm’s strengths to minimize the impact of external threats.

(d) WT Strategies:

- WT strategies are defensive tactics directed at reducing internal weakness and avoiding external threats. An organization faced with numerous external threats and internal weaknesses may indeed be in a precarious position. In fact, such a firm may have to battle for its survival, merge, retrench, declare bankruptcy, or choose liquidation.
- **Technique # 3. GE Nine-Cell Planning Grid:**
- **GE nine cell planning grid, tries to overcome some of the limitations of BCG matrix in two ways:**

  1. It uses multiple factors to assess industry attractiveness and business strength in place of the single measure employed in the BCG matrix.

  2. It expanded the matrix from four cells to nine cells. It replaced the high/low axes with high/medium/low making a finer distinction between business portfolio positions.

  The grid then does rating of each of the company’s business units on multiple sets of strategic factor within each axis of the grid.

- **Technique # 4. Hofer's Matrix:**
- Hofer criticizes the BCG matrix because it inadequately represents new businesses in new industries that are just starting to grow. Hofer offers an extension of BCG analysis that remedies that inadequacy. Hofer analyzed businesses in terms of their competitive position and stage of product-market evolution.

- **Technique # 5. Shell Directional Policy Matrix:**
- The **Shell Oil Company developed** the Directional Policy Matrix in the nineteen seventies following the widespread implementation of the Boston Matrix. General Electric and the McKinsey Company also contributed to the development of this technique, which resulted in what is now known as the GE-McKinsey, or Directional Policy Matrix.

- **Technique # 6. Strategic Position and Action Evaluation (SPACE) Matrix:**
- The Strategic Position and Action Evaluation (SPACE) matrix is another important matching tool. Its four-quadrant framework indicates whether aggressive, conservative, defensive, or competitive strategies are most appropriate for a given organization.

Selection Factors Influencing Strategic Choices

- **Factor # 1. Perception of External Dependence:**
- Business firms depend on other units that include the owners, competitors, customers, government, and community for their survival and prosperity. The more dependent a firm on these units is, the less flexible its strategic choice can be.
- **Factor # 2. Managerial Attitudes toward Risk:**
- Another factor influencing strategic choice is how much risk the firm, its stockholders, and management can tolerate. Managerial attitudes toward risk ranges from comfort to strong risk aversion. The risk averters probably view the firm as very weak and will accept only defensive strategies with very low risks.

- **Factor # 3. Managerial Awareness of Past Strategies:**
- Past strategies are the beginning point of strategic choice and may eliminate some strategic choices as a result. The beginning point of the process is the present position of the firm. From there, the initial question is, Will the continuation of our strategy lead to the expected attainment of desired objectives? To the extent that the gap is small, past strategy will be continued.
- **Factor # 4. Managerial Power Relationships:**
- People know that power relationships are a key reality in organizational life. In many enterprises, if the top manager begins to advocate one alternative, the decision to choose it is soon unanimous.

- **Factor # 5. Time Dimension and Strategic Choice:**
- The timing of decisions and time pressures affect the strategic decision process and the quality of the decision. The deadlines for making a strategic choice is often set not by the manager but by others. Sometimes, the strategist must make decisions in time frames set by other.

STRATEGY FORMULATION

- **Strategy formulation** is the process by which an organization chooses the most. appropriate courses of action to achieve its defined goals. This process is. essential to an organization's success, because it provides a framework for the. actions that will lead to the anticipated results.
-
- **Definition**: Strategy Formulation is an **analytical process of selection of the best suitable course of action to meet the organizational objectives and vision**. It is one of the steps of the strategic management process. The strategic plan allows an organization to examine its resources, provides a financial plan and establishes the most appropriate action plan for increasing profits.

- **The steps of strategy formulation:**
- Aspects of Strategy Formulation.
- Define the **organization** and its environment.
- Define the strategic **mission**.
- Define and set the strategic **objectives**.
- Define the competitive strategy.
- Implementation of strategies.
- Evaluate progress and effectiveness.

- **Levels of Strategy Formulation**
- **Corporate level strategy**: This level outlines what you want to achieve: growth, stability, acquisition or retrenchment. It focuses on what business you are going to enter the market.
- **Business level strategy**: This level answers the question of how you are going to compete. It plays a role in those organization which have smaller units of business and each is considered as the strategic business unit (SBU).
- **Functional level strategy**: This level concentrates on how an organization is going to grow. It defines daily actions including allocation of resources to deliver corporate and business level strategies.

MODES OF STRATEGTY FORMULATION

- **1. Entrepreneurial Mode:**
- Strategy is formulated by one powerful individual. The focus is on opportunities rather than on problems. Strategy is guided by the founder’s own visions of direction.
- **2. Adaptive Mode:**
- This strategy formulation mode is characterised by reactive solutions to existing problems rather than a proactive search for new opportunities.
- **3. Planning Mode:**
- Analysts assume main responsibility for strategy formulation. Strategic planning includes both the proactive search for new opportunities and the reactive solution of existing problems.

Strategy Formulation Steps

- **Step # 1. Developing Strategic Vision:**
- i. Vision specifies what direction or path to follow.
- ii. Specify what products, markets, technologies and customer policies to follows
- iii. Vision communicate management aspirations to stack holders of company.
- iv. Helps to boost morale of organization and engages them for a common direction.
- **Step # 2. Setting Objectives:**
- Corporate objectives are outcome of “Mission and Vision” of organization. Objectives define specific performance targets, results and growth that organization wants to achieve.
- To determine the objectives an approach known as Balance Score Card is used.

- **Step # 3. Crafting a Strategy to Achieve the Objectives and Vision:**
- A company can achieve its mission and objectives when all the components of a company work together. A company’s strategy is at full power only when its many pieces are united. Achieving unity in strategy planning and formulation is partly a function of communicating the company’s basic strategy themes effectively across the whole organization.
- **Step # 4. Implementing & Executing the Strategy:**
- Strategy implementation and execution is an operations-oriented activity. This stage is the most demanding and time-consuming part of the strategy-management process.
- **Step # 5. Monitoring Implemented Strategy and Making Corrective Adjustments:**
- A company’s vision, objectives, crafting strategy, and implementing and execution of strategy are not final thing in strategic management – managing strategy is an ongoing process.

Tools

- **Critical Question Analysis**
- **SWOT Analysis**
- **Business Portfolio Analysis**
- **Porter’s model for Industry Analysis.**

- **Critical Question Analysis**:
- The 4 critical questions to be answered here are:
- What are the purposes and objectives of the Organization?
- Where is the Organization presently going?
- In what kind of environment does the organization now exist?
- What can be done to better achieve organizational objectives in the future?
- **SWOT Analysis**:
- SWOT Analysis is a strategic development tool that matches internal organizational strengths and weaknesses with external opportunities and threats.

- **Business Portfolio Analysis**:
- Business Portfolio Analysis is an organizational strategy formulation technique that is based on the philosophy that Organizations should develop strategy much as they handle investment portfolios.
- **Porters model for Industry Analysis**:
- Perhaps the best known tool for formulating strategy is the model developed by Michael E. Porter, an internationally acclaimed strategic management expert.

UNIT-IV
Strategy Implementation

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

Process of Strategy Implementation

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

Prerequisites of Strategy Implementation

- **Institutionalization of Strategy**: First of all the strategy is to be institutionalized, in the sense that the one who framed it should promote or defend it in front of the members, because it may be undermined.
- **Developing proper organizational climate**: Organizational climate implies the components of the internal environment, that includes the cooperation, development of personnel, the degree of commitment and determination, efficiency, etc., which converts the purpose into results.

- **Formulation of operating plans**: Operating plans refers to the action plans, decisions and the programs, that take place regularly, in different parts of the company.
- **Developing proper organisational structure**: Organization structure implies the way in which different parts of the organisation are linked together. It highlights the relationships between various designations, positions and roles.

- **Periodic Review of Strategy**: Review of the strategy is to be taken at regular intervals so as to identify whether the strategy so implemented is **relevant to the purpose** of the organisation.

Aspects of Strategy Implementation

- **Creating budgets** which provide sufficient resources to those activities which are relevant to the strategic success of the business.
- Supplying the organization with **skilled and experienced staff**.
- Conforming that the policies and procedures of the organisation assist in the successful execution of the strategies.

- Leading practices are to be employed for carrying out key business functions.
- Setting up an information and communication system, that facilitate the **workforce of the organisation**, to perform their roles effectively.
- Developing a favourable work climate and culture, for proper implementation of the strategy.

STEPS IN STRATEGY IMPLEMENTATION

- Step 1: **Evaluation** and **communication** of the Strategic **Plan**.
- Step 2: Development of an implementation structure.
- Step 3: Development of implementation-support policies and programs.
- Step 4: Budgeting and allocation of **resources**.
- Step 5: Discharge of functions and activities.

• Issues in Strategy Implementation

- Sequence in which strategy implementation issues are to be considered:
- Project Implementation
- Procedural Implementation
- Resource Allocation

- Structural Implementation
- Functional Implementation
- Behavioral Implementation
- These activities are not performed in the same order (can be performed simultaneously, can be repeated etc.).

DIFFERENCE BETWEEN STRATEGY FORMULATION AND STRATEGY IMPLEMENTATION

- **STRATEGY FORMULATION**
- It is positioning forces before action.
- It focuses on effectiveness.
- It is an intellectual process
- It requires good intuitive and analytical skills.
- It requires coordination among few individuals.
- Concepts and tools do not differ greatly for small, large, profit or nonprofit organization.

STRATEGY IMPLEMENTATION

- It is managing forces during action.
- It focuses on efficiency.
- It is primarily and operational process.
- It requires special motivational and leadership skills.
- It requires combination of many individuals.
- Concepts and tools varies substantially among small, large, profit or non profit organization.

Structural Implementation

- **STRUCTURE** Arrangement of tasks and sub tasks required to **implement** a strategy. ... Diagrammatic representation could be organizational chart but administrative mechanism provides 'Flesh and Blood' to an organization.

- **KINDS OF STRUCTURE** :Vertical Structure Horizontal Structure
- **1.Vertical structure:** Process of Differentiation Involves Division of Labor and Specialization. Dominates: 1. Specialised tasks 2. Hierachy of authority 3. Rules and regulation 4. Vertical communication 5. Centralised decision making 6. Emphasis on efficiency
- 2.C**ontinue Also called as Tall structure:** Best suited for standardized products and services in large volumes. Established technologies, wide market, seeking customer on undifferentiated items.
- **3.Horizontal structure:** Process of Integration among members in an organization, cross functional systems and teamwork. Dominates: 1. Shared tasks. 2. Flexible rules and regulation. 3. Horizontial communication. 4. Decentrailisation decision making. 5. Emphasis on learning.

Behavioural Implementation

- **Behavioural implementation** deals with those aspects of strategy **implementation** that have **impact on behavior of people in the organization**. Since human resources form an integral part of the organization, their activities and behavior need to be directed in a certain way.

- The **five major issues involved in Behaviour** implementation.

- Leadership.

- Corporate Culture.

- Corporate policies & use of power.

- Personal Values & Ethics.

- Social Responsibility

Functional Implementation

- Marketing Plans and Policies
- Financial Plans and Policies
- Operations Mgt Plans and Policies
- HRM Plans and Policies
- Information mgt. plans and policies

UNIT – 5

STRATEGIC CONTROL

Strategic control is related to that aspect of strategic management through which an organization ensures whether it is achieving its objectives contemplated in the strategic action.

Julian and Scifres have defined strategic control as follows:

“strategic control involves the monitoring and evaluation of plans, activities and results with a view towards future action, providing a warning signal through diagnosis of data and triggering appropriate interventions, by they either tactical adjustment or strategic reorientation”.

Barriers in control:

Strategy evaluation and control being an appraisal process for the entire organization and people who are involved in strategic management process, is not free from barriers and problems . These barriers and problems may revolve around **psychological factor, motivational factors, and operational factors.**

1. **Limits of control:**

Control as a mechanism is beset with several problems. Too much control will be generally resented by the managers, and this may impair the willingness and efficiency of the staff. Too little control will lead to inefficiency, and the evaluation process may become ineffective.

2. **Difficulties in measurement:**

There may be several difficulties in measurement during the course of evaluation. Lack of quantifiable objectives, reliability and validity of the measurement techniques used for evaluation.

3. **Resistance to evaluation:**

Managers are seldom motivated to evaluate their strategies, because of the psychological barriers of accepting their mistakes. Hence, the process may be resisted by the managers.

4. **Tendency to rely on short-term assessment:**

Generally, there will be a tendency on the part of mangers to assess short-term implications of the activities, as this would be very easy, and ignore long-term implications of the activities.

5**. Efficiency versus effectiveness:**

Efficiency means, ‘doing the things rightly’and effectiveness means ‘doing the right things’. There is often a genuine confusion among managers as to what constitute effective performance.

What Are the Four Types of Strategic Control?

The four types of strategic control are premise control, implementation control, special alert control and strategic surveillance.

1.PREMISE CONTROL:

Premise controls allow you to examine whether this assumption still holds true once you actually put your ideas into action. Premises may be affected by environmental factors such as inflation, interest rates and social changes or by industry factors such as competitors, suppliers and barriers to entry. These controls will help you recognize changes in the premise so you can adapt your strategy accordingly.

2. **IMPLEMENTATION CONTROL:**

Implementation control aims at monitoring the process of various activities undertaken to implement a strategy. These activities may be in the form of projects, programmes and plans. Resources have to be allocated to these activities and timeframe fixed for completion.

Ex; the phased launch of pagers in India enabled Motorola to redefine its target consumers and modify its promotion strategy, as it expanded the market coverage.

3.STRATEGIC SURVEILLANCE :

The first two types of controls above stated (premise control and implementation control) are specific in nature. On the other hand, strategic surveillance is aimed at a more generalized surveillance “designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of a firm’s strategy”. The strategy of a company could be defeated by some activities or events inside or outside the organization.

4. SPECIAL ALERT CONTROL:

This type of control is more or less for ‘emergency situations’ where unforeseen events may take place in the environment, economy or in the government, by which the strategy of the company may get suddenly jeopardised. This alert control system aims at pre-emptive actions with a contingency strategy to meet the unforeseen situations like industrial disaster, fall of government, sudden entry of powerful competitor and so on.

Role of organizational system in strategic control:

Strategic control operates in the context of various organizational systems. All these systems play their role in strategic control.

1. **Information system:**

Control action is guided by adequate information from the beginning to the end. Management information and management control systems are closely interrelated, the information system is designed on the basis of control system. There must be a system of information tailored to the specific management needs at every level, both in terms of adequacy and timeliness.

2. Planning system:

Planning is the basis for control in the sense that it provides the entire spectrum on which control function is based. In fact, these two terms are often used together in the designation of the department which carries production planning, scheduling, and routing. It emphasizes that there is a plan which directs the behavior and activities in the organization.

Planning and control systems are closely interlinked, there should be proper integration of the two. This integration can be achieved by developing consistency of strategic objectives and performance measures.

3. Development system:

Development system is concerned with developing personnel to perform better in their present positions and likely future positions that they are expected to occupy. Thus, development system aims at increasing organizational capability through people to achieve better results.

4. Appraisal system:

Appraisal or performance appraisal system involves systematic evaluation of the individual with regard to his performance on the job and his potential for development. While evaluating an individual, not only his performance is taken into consideration but also his abilities and potential for better performance. Thus, appraisal system provides feedback, for control system about how individuals are performing.

5. Motivation system:

Motivation system is not only related to control system but to the entire organizational processes. As we have seen earlier in this chapter, lack of motivational on the part of managers is a significant barrier in the process of control. Since the basic objectives of control is to ensure that organizational objectives are achieved, motivation plays a central role in this process.

STRATEGIC CONTROL PROCESS:

In order to exercise control, mangers have to take four steps. These steps are setting performance standards, measuring actual performance, analyzing variance and taking corrective actions.

1. Setting performance standards:

Every function in the organizations begins with plans which specify objectives or targets to be achieved. In the light of these, standards are established which are criteria against which actual results are measured. After setting the standards, it is also important to decide about the level of achievement or performance which will be regarded as good or satisfactory.

2. Measuring actual performance:

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

3. Analyzing variance:

The third major step in control process is the comparison of actual and standard performance. It involves two steps:

(1) finding out the extent of variations,

(2) Identifying the causes of such variations.

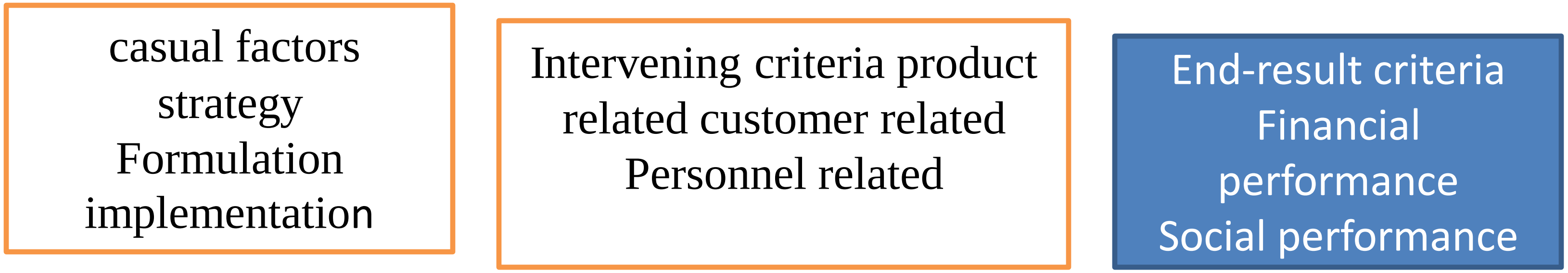
When adequate standards are developed and actual performance is measured accurately, any variation will be clearly revealed. When the standards are achieved , no further managerial action is necessary and control process is complete.

4. Taking corrective actions:

This is the last step in the control process. An organization is not a self regulating system such as thermostat which operates in a state of equilibrium put there by engineering design. In a business organization this type of automatic control cannot be established because the state of affairs that exists is the result of so many factors in the total environment.

CONTROL CRITERIA

In putting the control process in operation, two basis issues are involved, what to control and how to control. The first issue is related to the identification of those factors on the basis of which degree of business success is determined. The second issue involves the use of various control techniques.



casual factors strategy Formulation implementation

Intervening criteria product related customer related Personnel related

End-result criteria Financial performance Social performance

1. Casual factors:

Casual factor are those that influence the course of development in an organization. These are independent variables and affect intervening criteria and through these, end-result criteria.

Ex. Strategy formulation and its implementation affects various product, customer, and personnel related criteria.

2. Intervening criteria;

Intervening criteria are those factors which are reflected as the internal state of the organization. These are caused by casual factors and, therefore, cannot be changed independently except by changing causal factors: in this case type of strategy and its implementation.

For ex: personnel attitudes and morale, an intervening criterion, cannot be changed unless there is a suitable change in organizational design, systems and leadership all being elements of strategy implementation.

Product-related criteria:

1. Product quality and performance
2. Product cost and price
3. New products introduced.

Customer –related criteria.

1. Customer service
2. Customer satisfaction
3. Customer loyalty

Personnel-relate criteria

1. Attracting and retaining human talent
2. Personnel ability and skills
3. Personnel motivation and attitudes to work.

End result criteria:

End-result criteria are those factors which are caused by casual and intervening factors and are often in terms of the criteria in which organizational success is measured. These factors are highly dependent and therefore, cannot be changed except by changing the factor responsible for these.

Financial performance

1.Rate of growth

sales growth

asset growth

market growth

2.Profitability

profit-sales relationship

return on investment

3. Shareholder value

Social performance:

Degree of satisfaction of various stakeholders.

STRATEGIC EVALUATION:

What is the nature of strategic management?

Strategic management is both the process and beliefs to determine and control the organizational affiliation in its vibrant environment. It is a process to describe approaches and procedures to help management become accustomed to the current business environment through the use of objectives and strategies.

Strategic Evaluation meaning:

Strategic evaluation is the **assessment** process that provide executives and managers performance information about program, projects, activities designed to meet business goals and objectives.

Participants in strategic evaluation:

- Shareholders
- Board of directors
- Chief executives
- Profit-centre heads
- Financial controllers
- Company secretaries
- External and internal auditors
- Audit and executive committees
- Corporate planning staff or department
- Middle-level managers.

Techniques of strategic evaluation and control:

Whether your organization is using one or all four of the previous techniques of strategic evaluation and control, each involves four steps:

1. **GAP ANALYSIS:**

- ➢ The gap analysis is one strategic evaluation technique used to measure the gap between the organization’s current position and its desired position.
- ➢ The gap analysis is used to evaluate a variety of aspects of business from profit and production to marketing, research and development and management information systems.
- ➢ Typically, a variety of financial data is analyzed and compared to other businesses within the same industry to evaluate the gap between the organization and its strongest competitors.

2. **SWOT ANALYSIS:**

- ✓ The SWOT analysis is another common strategic evaluation technique used as a part of the strategic management process. The SWOT analysis evaluates the organization’s strengths, weaknesses, opportunities and threats.
- ✓ Strengths and weaknesses are internal factors, while opportunities sand threats are external factors.
- ✓ This identification is essential in determining how best to focus resources to take advantage of strengths and opportunities and combat weaknesses and threats.

3.PEST ANALYSIS:

- ❖ Another common strategic evaluation technique is the PEST analysis, which identifies the political, economic, social and technological factors that may impact the organization’s ability to achieve its objectives.
- ❖ Political factors might include such aspects as impending legislation regarding wages and benefits, financial regulations, etc.
- ❖ Economic factors include all shifts in the economy, while social factors may include demographics and changing attitudes. Technological pressures are also inevitable as technology becomes more advanced each day.
- ❖ These are all external factors, which are outside of the organization’s control but which must be considered throughout the decision making process.

4. **BENCH MARKING:**

- Benchmarking is a strategic evaluation technique that’s often used to evaluate how close the organization has come to its final objectives, as well as how far it has left to go.
- Organization may benchmark themselves against other organizations within the same industry, or they may benchmark themselves against their own prior situation.
- A variety of performance measures, as well as policies and procedures, may be evaluated regularly to identify where adjustments are necessary to maintain the sustainable competitive advantage.

Requirements for effective evaluation:

Effective control must be:

- Control should involve only the minimum amount of information as too much information tends to clutter up the control system and creates confusion.
- Control should monitor only managerial activities and results even if the evaluation is difficult to perform.
- Controls should be timely so that corrective action can be taken quickly.
- Long-term and short-term controls should be used so that a balance approach to evaluation can be adopted.
- Controls should aim at pinpointing expectation as nitpicking does not result in effective evaluation.

Book Reference:

1. Strategic management, L.M.PRASAD, SULTAN CHAND & SONS.
2. Strategic Management, DR. S. SANKARAN , MARGHAM PUBLICATIONS
3. Strategic Management, DR.C.RAJENDRA KUMAR , APH PUBLISHING CORPORATION.
4. Strategic Management-SULTAN CHAND & SONS- P.K.GHOSH.
5. Strategic Management-SULTAN CHAND & SONS – C.B.GUPTA.

- https://www.extension.iastate.edu/agdm/wholefarm/html/c6-45.html
- https://smallbusiness.chron.com/definition-industry-analysis-830.html
- https://www.mykpono.com/how-to-conduct-competitive-analysis/
- https://corporatefinanceinstitute.com/resources/knowledge/strategy/organizational-analysis/
- https://pestleanalysis.com/what-is-environmental-analysis/

SUBJECT NAME : STRATEGIC MANAGEMENT
SUBJECT CODE: 18KP1CO03

STAFF NAMES

1.Dr. D. PREMA, Assistant Professor,
2.Dr.P.AKILA, Assistant Professor,
KNGAC,
THANJAVUR-613007.

UNIT - 1

STRATEGIC MANAGEMENT

Strategic management is a process. A process denotes that it has various activities and these must be performed in a systematic manner. From this point of view, a process appears to be a very simple phenomenon.

Definition

Pearce and Robinson have defined strategic management as follows:

“strategic management is defined as the set of decisions and actions in formulation and implementation of strategies designed to achieve the objectives of an organization.

Evolution of strategic management:

Strategic management is the process of relating an organization with its environment by suitable courses of action involving strategy formulation and its implementation.

Evolution based on practices:

Essentially, the evolution and development of strategic management in practice have followed the pattern of development of management in general.

1. First phase till mid-1930s (Paradigm of ad hoc policy)
2. Second phase 1930-1940s (paradigm of planned policy)
3. Third phase 1960s (strategy paradigm)
4. Fourth phase 1980s (paradigm of strategic management)

In each of these phases, nature of environment was different and, therefore, managerial actions required to face environment challenges were different. Let us have a brief look at these phases.

Paradigm of ad hoc policy:

At the initial stage of management development, planning function was undertaken, however, it was basically confined to short-term and day to day operations. Around 1930s attempts were made to forecast comparatively longer future period and to prepare the organizations for that.

Paradigm of planned policy:

Between 1930s and 1940s, because of increasing environmental complexity in the form of increased technological innovation and competitive pressure, the need was felt to have integrated polices replacing the adhocism in policy formulation. This phase has been called as first generation planning.

Strategy paradigm:

with the development of systems and contingency approach in management and game theory for decision making game theorists introduced the concept of strategy in management the term till then was confined to Military science. The environmental analysis focused more on competitive environment and other variables played only secondary role.

Paradigm of strategic management :

From 1980s onward, the business scenario started changing with globalization of economy which changed the complexion of competition.

Strategic management emphasised two aspects: direct involvement of top management in strategy formulation and resolving strategic issues and comprehensive environmental analysis to develop likely future business scenarios. Emphasis was put on developing contingency strategies to be implemented in relevant scenarios.

Objectives of strategic management course:

Three basic objectives of strategic management course may be **knowledge, attitude**, and **skills.**

Knowledge:

The basic objective of any discipline is to impart knowledge. Knowledge comes through the study of existing literature which provides base for further research.

a) The basic objective is to gain knowledge and understand the central significance of policy and strategy to top management and its organization.

b) The study of strategic management course enables students to understand how various steps of strategic management process can be carried on how the strategies can be formulated and implemented and how the organization can overcome its weaknesses and emphasize it strengths.

c) It emphasis understanding of interrelationships among subsystems in the organization and problems top managers face in avoiding sub optimization of parts.

d) The strategic management study emphasizes the limitations of specialized knowledge in solving complex business problems. The strategic management study may provide him an understanding of how his knowledge can be integrated with others so that suitable decisions are made.

e) Strategic management course provides understanding of uniqueness and setting of

Operations in different industries.

f) It helps in learning, understanding, and appreciating the knowledge and research in their areas by integrating these together.

Attitudes:

Top managers of the organization have attitudes, values and ways of thinking that are unique to them and which also have distinctive impact on decision-making process. Knowledge of strategic management inculcates these attitudes in the students. There are several implication of developing attitudes appropriate for top management functions.

1. A manager at the top makes decisions on the basis of totality of factors involved in them because he takes a generalist's position. As compared to a generalist, a specialist tends to look not beyond his area of specialization leaving many more things to be desired.
2. A general develops the attitudes of making decisions under the condition of partial ignorance which is the reality of business system in any country. Thus he works on satisfying decisions rather than maximizing decisions.
3. Strategic management course tries to develop professional orientation among managers. Which is distinct from self-seeking countries. The introduction of social responsibility and ethical consideration in policy formulation and implementation has put emphasis on looking organizational objective in large social perspective.
4. Strategic management course also puts emphasis on innovation in management practices through creativity.

skills

Perhaps the major contribution of the strategic management course lies in developing appropriate skills necessary for viewing the total organization. Effective managers need different skills

And the relative importance of these skills may vary with the level in the organization.

Katz had identified three kinds of skills necessary for managers. These are technical skills, human or administrative skills, and conceptual skills.

1. Technical skills:

Technical skills are concerned with what is done. These pertain to knowledge and proficiency in activities involving methods, processes, and procedures. These involve working with tools and specific techniques.

2. Human skills:

Human or administrative skills are concerned with how it is done. These skills are the ability to work with people effectively thereby getting their full support for achieving organizational effectiveness.

3. Conceptual skills:

Conceptual skills or general management skills are concerned with why it is done. These skills refer to the ability to see the whole picture. To recognize significant elements in a situation and to understand the relationship among these elements.

Significance of strategic management course:

Strategic management course has three major objectives: development of relevant knowledge, inculcation of appropriate attitudes, and development of conceptual skills. These three aspects have significant impact on the managerial behavior relevant to effectiveness. Two categories of managers participate in strategic management process- top level mangers and middle-level managers. Thus the significance of strategic management course can be indentified for

1. Top management
2. Middle management
3. Society.

Top management:

Top management is responsible for the overall management of the organization which includes formulation of corporate-level strategies, integration of business-level and functional –level strategies, resource mobilization and allocation , and evaluation and control of overall organizational performance. At this level, the contribution of strategic management course is maximum because it can be equated with top management functions. Strategic management course contribution to top management in the following ways.

1. Strategic management course inculcates right type of approach through enhancement of knowledge, attitudes, and skills in top management so as to size up quickly and accurately the situation presented in terms of identifying the core issues involved in a problem.
2. Knowledge of strategic management helps to-level managers in relating the organization with its environment .
3. Strategic management course helps to management to learn the skills of integrating various subsystems of the organization. This integration is necessary for organizational effectiveness.
4. Top management can learn the criteria on the basis of which effectiveness of its actions-strategy formulation and implementation-can be measured.

Middle management:

In middle management, there may be managers at different levels placed between top management and supervisors.

1.Strategic management course enables middle management to take total view of the organization and its relevant environment in which context, these mangers have to function.

2.Strategic management course enables middle management to adopt integrative and coordinate approach .

3.Strategic management helps middle-level managers to make the recommendations or proposals upward that make sense to top management and are related to their conception of the organizational objectives.

4. At the middle level, they are busy in managing existing resources with the aim of achieving efficiency.

Society:

1. By applying the concepts of strategic management , managers who are the vital organs of the society in the present context, make effective utilization or resources of the society.

2. Strategic management course helps in integrating various social interest groups. These interest groups may be shareholders, employees, financiers, creditors, customers, government –all of them being part of the society.

3.Strategic management course helps in providing stability and continuity in society/. This is done through the process of evolutionary change by changing and modifying social resources both human and non-human, according to social needs.

Conceptual frame work of strategic management:

Presenting conceptual framework of strategic management is quite tedious because of lack of precise definitions of different terms used in it. As mentioned earlier in this chapter, strategic management literature started with definition of strategy and different writers have defined various terms like policy, strategy and tactics which are part of strategic management quite differently.

Policy:

The term policy is derived from the Greek work ‘politeia’ relating to polity, that is, citizen and the Latin word ‘polotis’ meaning polished.

Kotler has defined policies as follows:

‘policies define how the company will deal with stakeholders, employees , customers, suppliers, distributors, and other important groups. Polices narrow the range of individual discretion so that employees act consistently on important issues”

A policy is the statement or general understanding which provides guidance in decision making to members to members of an organization in respect to any course of action.

Strategy:

The term strategy has been derived from Greek ‘strategos’ which means generalship, that is the art of the general.

“strategy is the determination of the basic long-term goals and objectives of an enterprise and

The adoption of the course of action and the allocation of resources necessary for carrying out these goals.

“ A strategy is a unified, comprehensive, and integrated plan relating the strategic advantages of the firm to challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieve”.

Strategy is a long-term course of action through which an organizaiton relates itself with the environment so as to achieve its objectives.

Difference between strategy and tactics:

1.Level of conduct:

As discussed earlier, strategy is developed at the highest level of management either at the headquarters or at major divisional offices and related exclusively to decisions in the province of these levels.

2. Periodicity

The formulation of strategy is both continuous and irregular.

Tactics is determined on a periodic basis by various organizations (ex). Preparation of budgets at regular intervals.

3. **Time horizon:**

Strategy has long term perspective, specially the successful strategies are followed for quite long periods. In occasional cases. It may have short-term duration.

Time horizon of tactics is short-run and definite. The duration is uniform. (ex) budget preparation.

4. Uncertainty:

Element of uncertainty is higher in the case of strategy formulation and its implementation

Tactical decision are more certain as these are taken within the framework set by the strategy.

5. **Information needs.**

The total possible range of alternative from which a manager can choose his strategic action is greater than tactics.

Tactical information is generated within the organization particularly from accounting procedures and statistical sources.

6. **Type of personnel involved in formulation:**

Generally separate groups of managerial personnel are involved in strategy and tactics formulation and their implementation . As discussed earlier, strategic decisions are never delegated below a certain levels than those possess the perspective required for most effective strategic decisions.

Tactical decision can be taken by personnel at lower levels because these involve minute implementation of strategic decisions.

7. **Subject value:**

The formulation of strategy is affected considerably by the personal values of the person involved in the process.

Tactics is normally free from such values because this is to be taken within the context of strategic decisions.

8. **Importance:**

Strategies are most important factor of organization because they decide the future course of action for the organization as a whole.

Tactics are of less importance because they are concerned with specific part of the organization.

Levels of management:

Strategy operates at different levels: corporate level, business level and functional level.

Corporate level:

Corporate-level strategy (simply known as corporate strategy) occupies the highest level of strategic decision making and covers actions dealing with the objectives of the firm., acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Such decisions are made by top management of the organization.

Business level strategy:

Business level strategy (simply known as business strategy) operates at business-level and each SBU sets its own strategy to make the best use of its resources in the environment it faces. At such a level, strategy is a comprehensive plan providing objectives for SBUs allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of corporate-level objectives.

Functional-level strategy:

Functional level strategy (simply known as functional strategy) relates to a single functional operation and the activities involved therein. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate level objectives.

Benefits of strategic management:

The benefits of strategic management can be identified in the following contexts:

1. Financial benefits:

Effective strategic management results in financial benefits to the organizations in the form of increased profits. Many research studies particularly in the USA. Have confirmed this proposition.

2**. Offsetting uncertainty.**

Strategic management tries to offset environmental uncertainty by prescribing the future course of action in the light of various forecasts made by the organization. Forecasting and strategic planning are the basic core of strategic management and these provide a clue about what is likely to happen in future.

3. Clarity in objectives and direction:

Strategic management focuses on organizational objectives and direction of action for achieving these objectives. Sometimes people in the organization may not be specific about its objectives because of lack of clarity and precise definitions.

4. Personnel satisfaction:

Strategic management contributes towards organizational effectiveness by providing satisfaction to the personnel of the organization. In an organization where formal strategic management process is followed, people are more satisfied by definite prescription of their roles thereby reducing role conflict and role ambiguity.

5. Increased organizational effectiveness:

Strategic management ensures organizational effectiveness in several ways. The concept of effectiveness is that the organization is able to achieve its objectives within the given resources.

Limitations of strategic management:

Strategic management as a fundamental aspect of top management is essential but there are certain practical limitations to use it. The reason why management fails in strategic management emphasises the practical difficulties encountered.

1. **Complex and dynamic Environment:**

Strategic management is essential to overcome the problems posed by complex and dynamic environment. However, this becomes a serious limitation on effective strategic management. For strategic management we require knowledge of the trend in the environment. Thus, the practical problem in the way of strategic management does not reduce its importance.

2. **Rigidity:**

Strategic management brings rigidity in the organization through strategic planning, it is claimed. To some extent, this can be valid and more serious limitation of strategic management. Strategies are selected and implemented in a given set of environment, both external and internal.

Ex. Designing of organization structure, prescribing rules and procedures, allocating resources etc.

3. **Inadequate appreciation of strategic management:**

Problems in strategic management come because the managers are inadequately aware about its contribution to the success of the organization and the way in which strategic management can be undertaken.

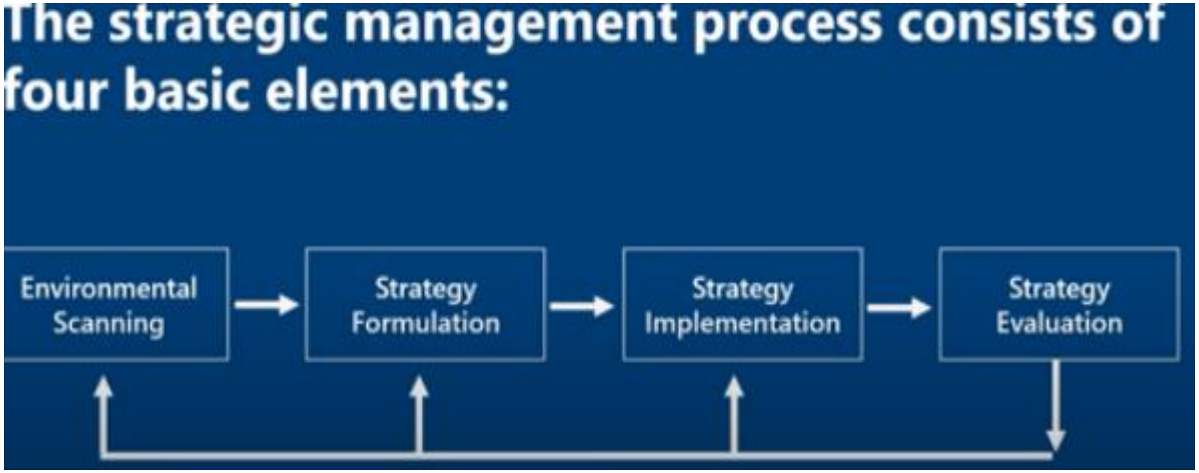
Ex: managers often fail to isolate strategic work, and they use short term outdated evaluation techniques.

4. **Limitations and implementation:**

There are various problems in implementing a strategy. Though this aspect will be discussed at a later stage at a greater length, here it is sufficient to say that many organizational problems cannot be solved by strategic management alone but require the use of other aspects of management. Seldom corporate strategy is as clear to organizational members as is thought by its framers.

Strategic management process:

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



The strategic management process consists of four basic elements:

Environmental Scanning → Strategy Formulation → Strategy Implementation → Strategy Evaluation

Environment scanning:

Environment scanning refers to a process of collecting, scrutinizing and providing information for strategic purpose. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

Strategy formulation:

Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environmental scanning, managers, formulate corporate, business and functional level strategies.

Strategy implementation:

Strategy implementation implies making strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision-making process, and managing resources.

Strategy evaluation:

Strategy evaluation is the final step of strategic management process. The key strategy evaluation activities are:

- Appraising internal and external factors that are the root of present strategies.
- Measuring performance and
- Taking corrective actions

Evaluating makes sure that the organizational strategy as well as it's implementation meets the organizational objectives.

the previous chapter. Such firms adopt the model of strategic management process as shown in Figure 2.3.

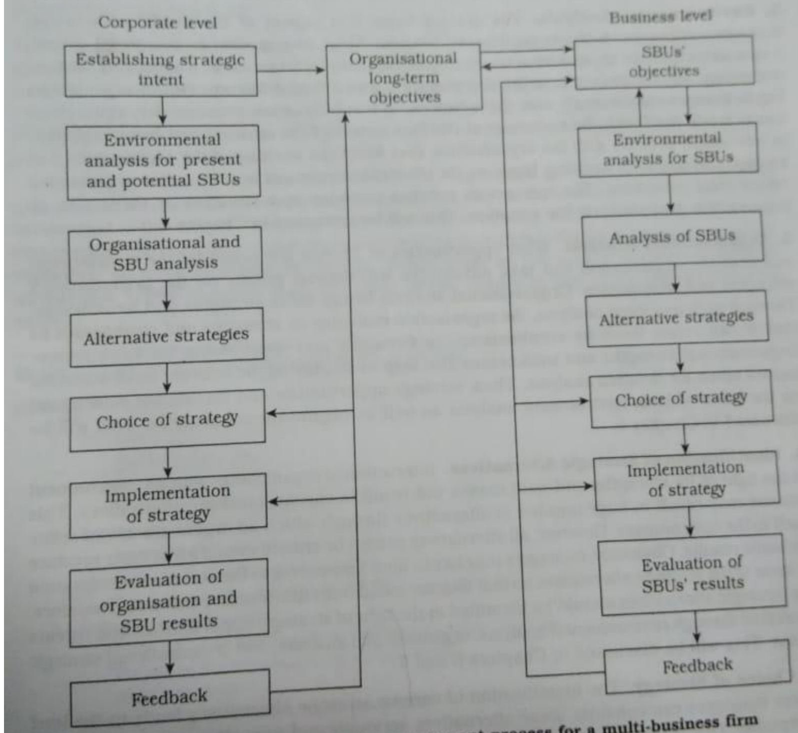

Corporate level
Business level
Establishing strategic intent
Organisational long-term objectives
SBUs' objectives
Environmental analysis for present and potential SBUs
Environmental analysis for SBUs
Organisational and SBU analysis
Analysis of SBUs
Alternative strategies
Alternative strategies
Choice of strategy
Choice of strategy
Implementation of strategy
Implementation of strategy
Evaluation of organisation and SBU results
Evaluation of SBUs' results
Feedback
Feedback

FIGURE 2.3: Model of strategic management process for a multi-business firm

Thus, the model of strategic management process contains the followin elements: establishing strategic intent, environmental analysis, identification of stra alternatives, choice of strategy, implementation of strategy, and strategic control. discussion of these elements is presented here while their details will be presented i chapters.

Strategic Intent. Since organisations are deliberate c in future and why

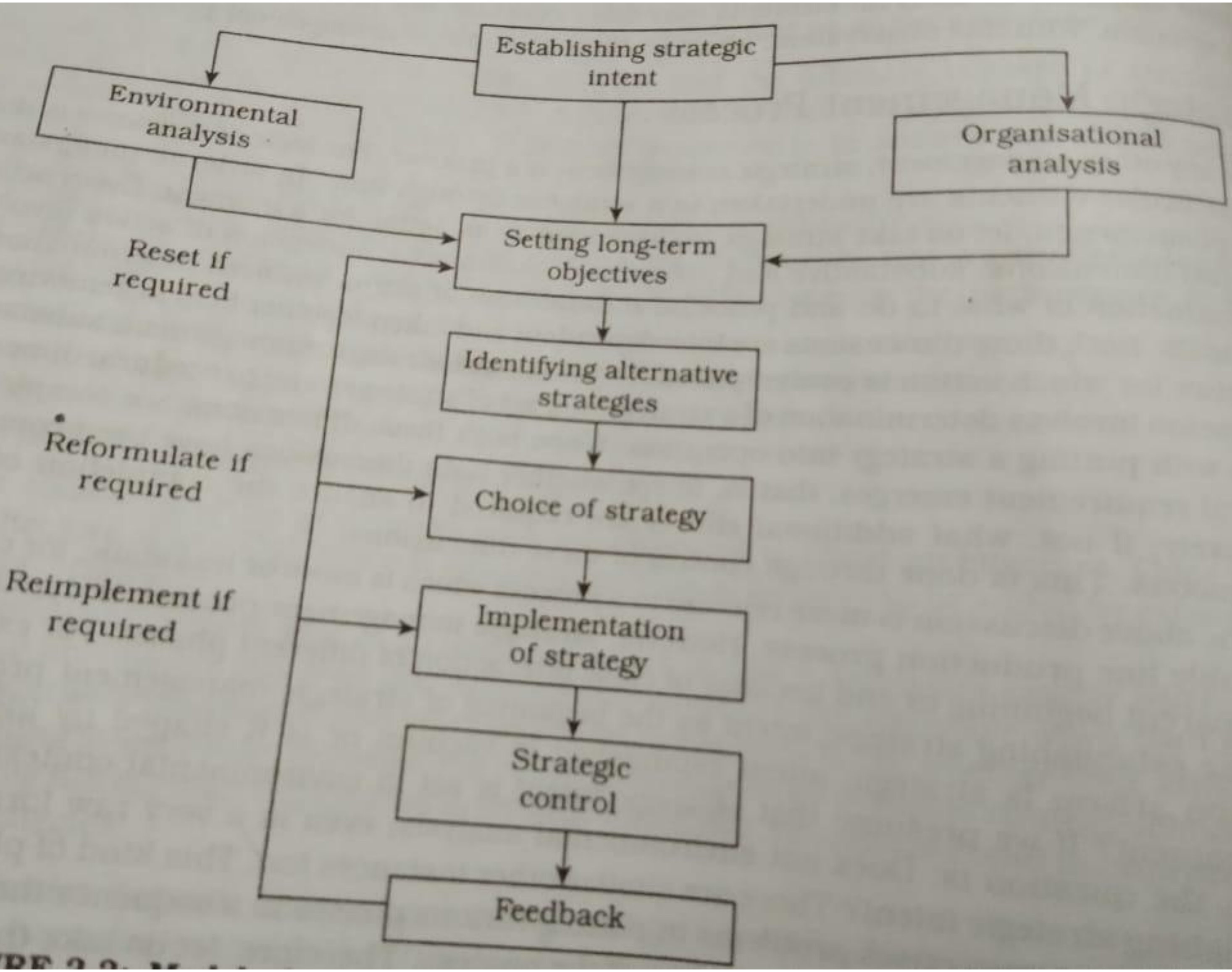

Establishing strategic intent
Environmental analysis
Organisational analysis
Setting long-term objectives
Reset if required
Identifying alternative strategies
Reformulate if required
Choice of strategy
Reimplement if required
Implementation of strategy
Strategic control
Feedback

FIGURE 2.2: M

Model strategic management process contains the following elements:

1.Establishing strategic Intent:

Since the organizations are deliberate creations, they have some specific Intent, that is, what they will achieve in future and why they will achieve it. In strategic management, this is known as strategic Intent and consists of three major elements- vision, mission and objectives arranged in a hierarchy in that order.

Vision represents what an organization would be in future.

Mission of an organization is the fundamental unique purpose that sets it apart from other organizations and identifies the scope of its operations in product and market items.

Objectives are the end results which an organization strives to achieve in future.

2. **Environmental analysis:**

The second important aspects of the model of strategic management process is the environmental analysis. Since an organization is a social system. It operates within the environment which consists of many factors such as society, competitors, technology, legal framework, political framework, and cultural frame work.

3. Organizational analysis:

What opportunities or threats are posed by the environment and how the organization can take advantages will depend greatly on the organizations strengths and weakness. Organizational analysis brings these strengths and weakness.

4. Identification of strategic alternatives:

Interaction of organization with its environment in the light of its strengths and weaknesses will result in various strategic alternatives. This process may result in large number of alternatives through which an organization can relate itself to the environment.

5. Choice of strategy:

The identification of various strategic alternatives leads to the level where managers can consider some alternatives seriously and may choose one of the most acceptable. This is the stage of strategic decision process and all factors relevant for decision making are relevant here.

6. Implementation of strategy:

Once the creative and analytical aspect of strategy formulation has been settled, the organization tries to convert the strategy into something operationally effective. To bring the result, the strategy should be put to action because mere choice of even the soundest strategy will not affect organizational activities and achievement of its objectives.

7. Strategic control:

Strategic control may be treated as the last stage of strategic management process. However, this is an ongoing process and strategic control should be taken as the process for future course of action. For effective implementation and consequently achievement of organizational objectives.

VISION:

Vision is the starting point of expressing an organization’s strategic intent. Nations have vision, organization have vision, and individual have vision. They have vision either explicitly or implicitly.

Burt Nanus, a well-known expert of organizational vision, has defined vision as “a realistic, credible, and attractive future for an organization.

It contains four elements:

1.Realistic:

A vision must be based on reality to be meaningful for an organization. It should not be merely day dreaming but a dream to be converted into reality.

2. credible:

A vision must be believable to be relevant to members of the organization concerned. If the members of the organization do not find the vision credible. It will not be meaningful or serve a useful purpose. One of the purpose of a vision is to aspire those in the organization to achieve a level of excellence, and to provide direction for their actions.

3. Attractive:

A vision must be attractive so as to inspire and motivate organizational members. People must want to be part of the future that is envisioned for the organizaiton.

4. **Future:**

A vision is not for the present: it is for the future. Simply a vision is not where an organization is now but where it will be in future.

Features of good vision:

1. A good vision is idealistic. Though this feature of vision is contrasting with the statement that vision should be realistic, however, both features can be reconciled.
2. A good vision clarifies direction for the organization concerned.   It should provide answer to the question. ‘where will the organization go in future.

3. A good vision inspires organizational members and encourages commitment from them. The inspiration and commitment is the key to achieving what the vision envisages.
4. A good vision reflects the uniqueness of the organization. Its distinctive competence. What it stands for, and what it is able to achieve.
5. A good vision is appropriate for the organization and for the times. It implies that the vision should be consistent with organization's value and culture and its place in its environment.
6. A good vision is well articulated and easily understood by those who are responsible to convert it into reality.

Role of vision in strategy formulation:

Vision occupies the top position in this hierarchy. Therefore all strategic action should focus on the vision to convert it into reality.

1. Vision provides clue about where the organization is heading for in future. Since various strategies try to ensure that the organization reaches its destination, these should be in accordance with the vision.
2. Vision of an organization tries to place it in a unique position which requires unique actions. These actions are defined by various strategies.
3. Since vision is a source of inspiration to organizational members and encourages them for commitment, they tend to give their full contributions in strategy formulating and implementation.

Developing a vision:

Developing a vision is like having a dream to be covered into reality in future.

1. **Conducting a vision audit:**

First step in developing a vision is to assess the current direction and momentum of the organization. At this stage, key questions that should be answered are: does the organization have a clearly stated vision? What is the organization's current direction? Do the key organization is headed and degree of the direction?

2. **Targeting the vision:**

This step involves starting to narrowing on a vision. At this step key questions are: what are the boundaries and constraints to the vision? What must the vision accomplish? What critical issues must be addressed in the vision?

3. **Setting the vision context:**

Since vision is the desirable future for the organization, there is need for identifying what the organization's future environment might look like.

4. **Developing the future scenarios.**

Developing the future scenarios follows directly from setting the vision context. Scenarios are the likely future behaviors of the environment.

5. Generating the alternative visions:

At this stage, possible visions are developed for possible environments. The purpose of this step is to generate visions reflecting different directions in which organization may go.

Mission:

Mission is at the second level of hierarchy of strategic intent and broadly defines why an organization exists. According to dictionary meaning, mission defined in a broad way, refers to that aspect for which an individual has been or seems to have been sent into this world.

Most of the operational definitions of mission put emphasis on this basic theme with addition of some more relevant aspects. For example, Thompson has defined mission as follows:

“mission is the essential purpose of the organization, concerning particularly why it is in existence, the nature of the business(es) it is in and the customers it seeks to serve and satisfy.

Difference between vision and mission:

1. The essence of vision is a forward looking view of what an organization is to become in future.
2. While vision place emphasis on visionary long term concept of the organization with very high level of achievement mission deals mostly with how the organization will interact with various stakeholders, products/services it offers, and the why these are offered.

Role of mission in strategy formulation:

1. It helps in deciding the direction in which the organization proceeds. Therefore, strategic action can easily be geared in that direction.
2. It helps the organization to clarify its aspirations and those of various stakeholders. The strategic action can be aligned to the aspirations.
3. It serves as a reference point in dealing with various stakeholders with in and outside the organization.

4. It helps in integrating the organization with its relevant environment by taking suitable actions the way these have been specified in the mission.

5. It helps in integrating the various subsystems of the organization as these subsystems look at their objectives and operations in the light of organizational mission.

Contents of mission:

The first basic factor in mission formulation is the determination of its contents.

1. entrepreneur's self concept of the business can be communicated and adopted by employees and stakeholders.
2. The organization will be able to satisfy the entrepreneur's needs and aspirations which he seeks to satisfy through the organization.
3. The organization will create favorable public image which will result in contributions from environment.
4. The organization can grow and be profitable than just survive in the long run with the support of various constituents.
5. The product or service offered by the organizations can provide benefits at least equal to its price.
6. The product or service can satisfy the needs of the customers not adequately served by others presently.
7. Technology used in producing product or service will be cost and quality competitive.

Mission statement:

Mission statement is the description of organizational mission. Explicit mission statement is desirable as its serves the purpose of communicating to the organizations members about the corporate philosophy, character, and image of the organization which govern their behavior in the organization.

1. Mission should be clear, both in terms of intentions and words used.
2. It should be feasible, neither too high to be unachievable nor too low to demotivated the people for work.
3. It should be precise but explanatory neither too narrow so as to restrict the organization’s activities, nor too broad to make itself meaningless.
4. It should be distinctive, both in terms of the organization’s contributions to the society and how these contributions can be made.

UNIT –II
Environmental Analysis

Environmental Analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance.

Types of Environmental Analysis

These include:

SWOT (**strengths**, **weaknesses**, **opportunities**, **threats**) analysis. PESTLE (political, economic, social, technological, legal and environmental) analysis. scenario planning.

Importance of Environmental Analysis

An **environmental analysis** is an extremely **important** tool in understanding and decision making in all situation of the business. Success of the firm depends upon the precise decision making ability. Study of **environmental** analyses enables the firm to select the best option for the success and growth of the firm.

Needs of Environmental Scanning

1. Identification of strength:

- Strength of the business firm means capacity of the firm to gain advantage over its competitors. Analysis of internal business environment helps to identify strength of the firm. After identifying the strength, the firm must try to consolidate or maximise its strength by further improvement in its existing plans, policies and resources.

2. Identification of weakness:

- Weakness of the firm means limitations of the firm. Monitoring internal environment helps to identify not only the strength but also the weakness of the firm. A firm may be strong in certain areas but may be weak in some other areas.

3. Identification of opportunities:

- Environmental analyses helps to identify the opportunities in the market. The firm should make every possible effort to grab the opportunities as and when they come.

4. Identification of threat:

- Business is subject to threat from competitors and various factors. Environmental analyses help them to identify threat from the external environment.

5. Optimum use of resources:

- Proper environmental assessment helps to make optimum utilisation of scare human, natural and capital resources. Systematic analyses of business environment helps the firm to **reduce wastage and make optimum use of available resources,** without understanding the internal and external environment resources cannot be used in an effective manner.

6. Survival and growth:

- Systematic analyses of business environment help the firm to maximise their strength, minimise the weakness, grab the opportunities and diffuse threats.

7. To plan long-term business strategy:

- A business organisation has short term and long-term objectives. Proper analyses of environmental factors help the business firm to frame plans and policies that could help in easy accomplishment of those organisational objectives.

8. Environmental scanning aids decision-making:

- Decision-making is a process of selecting the best alternative from among various available alternatives. An environmental analysis is an extremely important tool in understanding and decision- making in all situation of the business

Steps Involved in Environmental Analysis

- **Identifying**:

  First of all, the factors which influence the business entity are to be identified, to improve its position in the market. The identification is performed at various levels, i.e. company level, market level, national level and global level.

- **Scanning**

  Scanning implies the process of critically examining the factors that highly influence the business, as all the factors identified in the previous step effects the entity with the same intensity. Once the important factors are identified, strategies can be made for its improvement.

- **Analysing**: In this step, a careful analysis of all the environmental factors is made to determine their effect on different business levels and on the business as a whole. Different tools available for the analysis include benchmarking, Delphi technique and scenario building.
- **Forecasting**: After identification, examination and analysis, lastly the impact of the variables is to be forecasted.

Environment Analysis Objectives

1. Help understanding Existing Environment

- It is important that one must be aware of the existing environment. Business Environment analysis should provide an understanding of current and potential changes taking place in the micro environment

2. Provision of Data for Strategic Decision-making

- Business Environment analysis should provide necessary data for strategic decision- making. Mere collection of data is not adequate. The data so collected must be used for strategic decision-making.

3. Facilitating Strategic Linking in Organizations

- Business Environment analysis should facilitate and foster strategic linking in organizations.

Process of Business Environment Analysis

- The process of Business environment analysis involves many steps, which are as follows:
- Collection of necessary information.
- Scanning and searching of information.
- Getting information by spying.
- Forecasting the conditions.
- Observing the environment.
- Assessing.

1. Collection of necessary Information

- Collection of necessary information is the first stage in the process of business environment analysis. It involves the observation of various factors prevailing in a particular area also.

2. Scanning and Searching of Information

- Scanning and searching is an important technique of business environment analysis. Once the necessary information has been collected, it should be put to scanning.

3. Getting Information by Spying

- Spying is also one of the techniques of business environment analysis. When the activities of a particular business are to be analyzed and such information cannot be collected by traditional methods, the technique of spying is resorted to.

4. Forecasting the Conditions

- Scanning provides a picture about the past and the present. However, strategic decision-making requires a future orientation. Forecasting is the scientific guesswork based upon some serious study.

5. Observing the Environment

- One can analyze a business environment by merely observing it. The observation reveals various conditions prevailing at a particular point of time.

6. Assessing

- Assessment is made to determine implications for the organization’s current and potential strategies. Assessment involves identifying and evaluating how and why current and projected environmental changes affect or will affect strategic management of the organization.

SWOT Analysis

- **SWOT analysis** (or **SWOT** matrix) is a strategic planning technique used to help a person or organization identify strengths, weaknesses, opportunities, and threats related to business competition or project planning.
- **Strengths** describe what an organization excels at and what separates it from it from the competition : a strong brand, loyal customer base, a strong balance sheet, unique technology, and so on.
- **Weaknesses** stop an organization from performing at its optimum level. They are areas where the business needs to improve to remain competitive: a weak brand, higher-than-average turnover, high levels of debt, an inadequate supply chain, or lack of capital.

- **Opportunities** refer to favorable external factors that could give an organization a competitive advantage. For example, if a country cuts tariffs, a car manufacturer can export its cars into a new market, increasing sales and market share.
- **Threats** refer to factors that have the potential to harm an organization. For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield.

Environmental Scanning

- **Environmental Scanning** is a **process** that systematically surveys and interprets relevant data to **identify external opportunities and threats** that could influence future decisions. It is closely related to a S.W.O.T. **analysis** and should be used as part of the strategic planning **process**.

Important Factors for Environmental Scanning

- **Events** – These are specific occurrences which take place in different environmental sectors of a business. These are important for the functioning and/or success of the business. Events can occur either in the internal or the external environment.

- **Trends** – As the name suggests, trends are general courses of action or tendencies along which the events occur. They are groups of similar or related events which tend to move in a specific direction. Further, trends can be positive or negative.
- **Issues** – In wake of the events and trends, some concerns can arise. These are Issues. Organizations try to identify emerging issues so that they can take **corrective measures to nip them in the bud.** However, identifying emerging issues is a difficult task.
- **Expectations** – Some interested groups have demands based on their concern for issues. These demands are Expectations.

Internal & External Analysis of Environment

- **Internal analysis of the environment** is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc.
- **External analysis**, three correlated environment should be studied and analyzed
- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment
- Examining the **industry environment** needs an appraisal of the competitive structure of the organization’s industry, including the competitive position of a particular organization and it’s main rivals.

- Analyzing the **national environment** needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment.
- Analysis of **macro-environment** includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment.

Industry Analysis

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

What are the five forces of industry analysis?

- Porter's Five Forces is a framework for analyzing a company's competitive environment. The number and power of a company's competitive rivals, potential new market entrants, suppliers, customers, and substitute products influence a company's profitability.

Types of Industry Analysis

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

- **Competitive Forces Model (Porter’s 5 Forces)**
- **Broad Factors Analysis (PEST Analysis)**
- **SWOT Analysis**

1. Competitive Forces Model (Porter’s 5 Forces)

- One of the most famous models ever developed for industry analysis, famously known as Porter’s 5 Forces , was introduced by **Michael Porter in his 1980 book “ Competitive Strategy: Techniques for Analysing Industries and Competitors**.
- According to Porter, analysis of the five forces gives an accurate impression of the industry and makes analysis easier. In our Corporate and Business Strategy course, we cover these five forces and an additional force — **power of complementary goods/service providers.**

2 . Broad Factors Analysis (PEST Analysis)

- Broad Factors Analysis also commonly called the PEST Analysis stands for **Political, Economic, Social and Technological.** PEST analysis is a useful framework for analyzing the external environment.
- To use PEST as a form of industry analysis, an analyst will analyze each of the 4 components of the model. These components include:

1. Political

- Political factors that impact an industry include **specific policies and regulations related to things like taxes, environmental regulation, tariffs, trade policies, labor laws, ease of doing business, and overall political stability.**

2. Economic

- The economic forces that have an impact include **inflation, exchange rates (FX), interest rates, GDP growth rates, conditions in the capital markets (ability to access capital), etc.**

3. Social

- The social impact on an industry refers to trends among people and includes things such as **population growth, demographics (age, gender, etc.), and trends in behavior such as health, fashion, and social movements.**

4. Technological

- The technological aspect of PEST analysis incorporates factors such as advancements and developments that change the way a business operates and the ways in which people live their lives (e.g., the advent of the internet).

3. SWOT Analysis

- SWOT Analysis stands for Strengths, Weaknesses, Opportunities, and Threats. It can be a great way of summarizing various industry forces and determining their implications for the business in question.

1. Internal

- Internal factors that already exist and have contributed to the current position and may continue to exist.

2. External

- External factors are usually contingent events. Assess their importance based on the likelihood of them happening and their potential impact on the company. Also, consider whether management has the intention and ability to take **advantage of the opportunity/avoid the threat.**

- **Internal Scanning**

  Internal Scanning involves looking **inside the farm business** and identifying strengths and weaknesses and assessing the businesses' resources and management's skills.
- **External Scanning**
- An **external** vulnerability **scan** looks for holes in your network firewall(s), where malicious **outsiders can break in and attack your network.**
- **Competitor Analysis**
- A **competitive analysis** is the **process of identifying your competitors and evaluating their strategies to determine their strengths and weaknesses** relative to your own business, product, and service.

Objectives of Competitor Analysis

- To study the market;
- To predict and forecast organization’s demand and supply;
- To formulate strategy;
- To increase the market share;
- To study the market trend and pattern;
- To develop strategy for organizational growth;
- When the organization is planning for the diversification and expansion plan;
- To study forthcoming trends in the industry;
- Understanding the current strategy strengths and weaknesses of a competitor can suggest opportunities and threats that will merit a response;

How to do a Competitive Analysis

- Determine who your competitors are.
- Determine what products your competitors offer.
- Research your competitors sales tactics and results.
- Analyze how your competitors market their products.
- Take note of your competition's content strategy.
- Analyze the level of engagement on your competitor's content.
- Observe how they promote marketing content.
- Look at their social media presence, strategies, and go-to platforms
- Perform a SWOT Analysis to learn their strengths, weaknesses, opportunities, and threats.

1. Determine who your competitors are.

- First, you'll need to figure out who you're really competing with so you can compare the data accurately. What works in a business similar to yours may not work for your brand.

2. Determine what products your competitors offer.

- At the heart of any business is its product or service, which is what makes this a good place to start.

3. Research your competitors sales tactics and results.

- Running a sales analysis of your competitors can be a bit tricky.
- You'll want to track down the answers to questions such as:
- You'll want to analyze your competitor's complete product line and the quality of the products or services they're offering.
- Do they have multiple locations and how does this give them an advantage?
- Are they expanding? Scaling down?
- Do they have partner reselling programs?
- What does the sales process look like?
- What channels are they selling through?

4. Analyze how your competitors market their products.

- Analyzing your competitor's website is the fastest way to gauge their marketing efforts. Take note of any of the following items and copy down the specific URL for future reference:
- Do they have a blog?
- Are they creating whitepapers or e-books?
- Do they post videos or webinars?
- Do they have a podcast?
- Are they using static visual content such as infographics and cartoons?
- What about slide decks?
- Do they have a FAQs section?
- Are there featured articles?

5. Take note of your competition's content strategy.

- Then, take a look at the quantity of these items. Do they have several hundred blog posts or a small handful? Are there five white papers and just one e-book?

Next, determine the frequency of these content assets. Are they publishing something new each week or once a month? How often does a new e-book or case study come out?

6. Analyze the level of engagement on your competitor's content.

- To gauge how engaging your competitor's content is to their readers, you'll need to see how their target audience responds to what they're posting.
- Check the average number of comments, shares, and likes on your competitor's content and find out if:

Certain topics resonate better than others

- The comments are negative, positive, or a mix
- People are tweeting about specific topics more than others
- Readers respond better to Facebook updates about certain content

7. Observe how they promote their marketing content.

- From engagement, you'll move right along to your competitor's content promotion strategy.
- Keyword density in the copy itself
- Image ALT text tags
- Use of internal linking

8. Look at their social media presence, strategies, and go-to platforms

- The last area you'll want to evaluate when it comes to marketing is your competitor's social media presence and engagement rates.

9. Perform a SWOT Analysis to learn their strengths, weaknesses, opportunities, and threats

- As you evaluate each component in your competitor analysis (business, sales, and marketing), get into the habit of performing a simplified SWOT analysis at the same time.

The Sources of Information for Competitor Analysis

- **Recorded data:** It includes data which is published externally such as annual report, brochures, newspaper articles and press releases.
- **Observable data:** It is collected from several sources such as pricing, promotions and patent applications.
- **Opportunistic data:** This kind of data involves exclusive planning. It is basically derived from customers, suppliers, seminars and conferences.
- **What Does Competitor Analysis Helps Us to Understand?**
- **Advantages & Disadvantages:** One of the major reason for competitive analysis is to comprehend the strengths and weaknesses of your competition.

- **Past, Present & Future Strategies:** Analyzing your competitors helps you formulate effective strategies for your company. Knowing where you stand in the market provides you early warning to take immediate steps in order to streamline your internal and external communication
- **Objective & Profile of Competitors:** Effective competitor analysis reveal the objective of your competitors, thereby helping you learn the best practices from diversified segment.
- **Forecast of the Returns:** You learn from the success and failure of other brands. This analysis establishes the reasons behind failure of unsuccessful companies, thus helping you to forecast key assets and skills needed to beat your competition.

Benefits of Conducting a Competitive Analysis

- Fine-tune and Develop your Unique Selling Proposition (USP) Why your brand? ...
- Improve Owned Products and Services. As your brand expands so will your customers' needs and expectations. ...
- Establish a Brand Benchmark. ...
- Identify Gaps in R&D and Hiring. ...
- Discover Potential Threats.

Organizational Analysis

- Organizational analysis is the process of appraising the **growth, personnel, operations, and work environment of an entity.** Undertaking an organizational analysis is beneficial, as it **enables management to identify areas of weakness and then find approaches for eliminating the problems.**

Characteristics of Organizational Analysis

1. Strengths

- The competitive edge that an organization enjoys over its competitors is an advantage that defines its success. Assessing the strengths of an organization involves evaluating management, workforce, resources, as well as current marketing goals. In general, an internal analysis looks at an entity’s core competencies and resources.

2. Weaknesses

- Weaknesses are obviously an aspect of an organization that can affect its performance. Recognizing weaknesses is important, as it enables the organization to **locate problems and implement beneficial changes**. In addition, the organization is able to develop appropriate choices in its **strategic planning process,** especially when results are not satisfactory.

3. Opportunities

- Generally, an **external analysis** weighs the **threats and opportunities** that are **present outside of an organization.** An external assessment includes sizing up the competition, analyzing market trends, and evaluating the impact of technology on the performance of an organization.

4. Threats

- Not all threats are detrimental to the success of a business. For instance, labor can be a threat or an opportunity, depending on the prevailing economic conditions. Legislation and regulations set by the government also exert an effect on how well an organization performs in its industry.

Models of Organizational Analysis

- The first model is the **rational model.** Its philosophy is that there is **only one logical way to perform tasks.**
- An alternative model is the **natural model**, which believes that a business not only wants to achieve **its own goals, but also positively influence its external environment.**

UNIT – 3

CORPORATE STRATEGY

Corporate Strategy takes a portfolio approach to strategic decision making by looking across all of a firm’s businesses to determine how to create the most value. Corporate Strategy builds on top of business strategy, which is concerned with the strategic decision making for an individual business.

What are the Components of Corporate Strategy?

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

1.Allocation of resources

2.Organizational design

3.Portfolio management

4.Strategic tradeoffs

1 Allocation of Resources

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

Key factors related to the allocation of resources are:

People

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

Capital

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

2 Organizational Design

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

3. Portfolio Management

- Portfolio management looks at the way business units complement each other, their correlations, and decides where the firm will "play" (i.e. what businesses it will or won't enter).
- Corporate Strategy related to portfolio management includes:
- Deciding what business to be in or to be out of
- Determining the extent of vertical integration the firm should have
- Managing risk through diversification and reducing the correlation of results across businesses.
- Creating strategic options by seeding new opportunities that could be heavily invested in if appropriate.
- Monitoring the competitive landscape and ensuring the portfolio is well balanced relative to trends in the market

4. Strategic Tradeoffs

- One of the most challenging aspects of corporate strategy is balancing the tradeoffs between risk and return across the firm. It's important to have a holistic view of all the businesses combined and ensure that the desired levels of risk management and return generation are being pursued.
- Below are the main factors to consider for strategic tradeoffs:

Managing risk

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

Generating returns

- ❑ Higher risk strategies create the possibility of higher rates of return. The examples above of true product differentiation or cost leadership could provide the most return in the long run if they are well executed.
- ❑ Swinging for the fences will lead to more home runs and more strikeouts, so it’s important to have the appropriate number of options in the portfolio. These options can later turn into big bets as the strategy develops.

Incentives

Incentive structures will play a big role in how much risk and how much return managers seek.

It may be necessary to separate the responsibilities of risk management and return generation so that each can be pursued to the desired level.

It may further help to manage multiple overlapping timelines, ranging from short-term risk/return to long-term risk/return and ensuring there is appropriate dispersion.

Different types of corporate strategy

Though no two strategies are ever the same, corporate strategy can be classified into four different groups:

- Growth strategy
- Stability strategy
- Retrenchment strategy, and
- Re-invention strategy

Types of Corporate Level Strategies

- Stability Strategy
- Expansion Strategy
- Retrenchment Strategy
- Combination Strategy
- Merger Strategy
- Restructure Strategy
- Diversification Strategy
- Defensive Strategy
- Stability Strategy.

STABILITY STRATEGY.

Definition:

The Stability Strategy is adopted when the organization attempts to maintain its current position and focuses only on the incremental improvement by merely changing one or more of its business operations in the perspective of customer groups, customer functions and technology alternatives, either individually or collectively.

Reasons for Adopting Stability Strategy:

1. The company is doing fairly well or perceives itself as successful and expects the same in the future.
2. The stability strategy is less risky. Frequent changes involving new products or new ways of doing things may lead to failure of the firm. The larger the firm and the more successful it has been, the greater is the resistance to the risk.
3. The stability strategy can evolve because the managers prefer action to thought and do not tend to consider any other alternatives. Many of the firms that follow stability strategy do this unconsciously. Such companies react to the changes in the forces in the environment.
4. To follow a stability strategy, it is easier and more comfortable for all concerned as activities take place in routines.
5. The management pursuing stability strategy does not have the mind-set of a strategist to appraise the environmental opportunities and threats and take advantage of the opportunities.

2. **Profit Strategy:**

This strategy is followed when the objective of the firm is to generate cash immediately for itself or for the stock.

3.Pause Strategy:

If any enterprise feels that higher growth becomes both inefficient and unmanageable, or when a firm requires breathing spell to stabilize itself before taking up a new mission, it may restrict its growth at a certain balanced level. In doing so, it may concentrate on sources utility, better operations etc. to attain a higher level of efficiency.

4.Growth Strategies:

Most of the directional strategies of an organization are aimed to achieve growth. Usually the growth may be measured in terms sales, profits, product mix, services mix, market coverage, market share, and other accounting and market based variables. Reducing cost of products sold is also a growth variable, because it increases sales and profits. Liberalization, globalization and privatization (LPG), forced companies to reduce manufacturing cost and produce quality products.

5.Expansion Strategies:

Expansion strategies are the most popular corporate strategies. Almost all organizations plan to expand.

A company can adopt expansion strategy in the following five ways:

1. Concentration
2. Integration
3. Diversification
4. Cooperation
5. Internationalization

1. Concentration:

Concentration involves converging resources in one or more of a firm's businesses in terms of products, markets or functions in such a manner that it results in expansion. Concentration strategies are variously known as intensification, focus or specialization. Concentration strategies involve investment of resources in a product line for an identified market with the help of proven technology.

This may be done following through the below strategies:

(i) Market penetration

(ii) Market development

(iii) Product development

Issues in concentric expansion:

1. **Determining organization’s options for expansion:**

The first step is to determine the realistic options available to the organizations in adding capacity. Usually the size of the additions can vary and the degree of vertical integration of new capacity may be a variable as well.

2. **Assessing probable future demand and costs of inputs:**

Having developed the options the organization should make prediction about future demand of the product and input costs. If the organization is in a business which grows faster than the normal rate of economic growth.

3. **Assessing technological changes:**

Like demand and input cost assessment, the organization should assess the future technological changes. It is necessary to forecast when the present capacity addition will become obsolete or how design changes will allow effective increase in capacity from in place facilities.

4. **Predicting capacity expansion by competitors:**

The organization must forecast how and when each competitor will add capacity.

5. Assessing demand supply balance:

After assessing the behavior of competitors , the organization should assess the aggregate industry demand and individual market demand.

6**. Testing the analysis for consistency:**

The various steps given above should give an idea of capacity addition by the organization. However to be sure, the organization should scrutinize the whole process for inconsistency.

2. **Integration:**

Integration refers to combining activities related to the present activities of a firm, on the basis of the value chain. Recall that a value chain is a set of interrelated activities an organization performs right from the procurement of basic raw materials to the marketing of finished products to the ultimate consumers.

Benefits of Integration:

1. Economics of integration
2. Assured supply and /or demand
3. Off setting bargaining power
4. Enhanced ability to differentiate.
5. Elevates entry and mobility barriers.

Costs of vertical integration:

- Increased operating leverage
- Reduced flexibility
- High capital investment requirements
- Problem in maintaining balance
- Dulled incentives
- Differing managerial requirements

Issues in vertical integration:

- ❖ Extent of benefits and costs
- ❖ Investments requirements
- ❖ Alternative to vertical integration

3. Diversification:

Diversification is a much-used and talked about strategy. Diversification means identifying directions of development that take the organization away from both its current products and markets at the same time.

Issues in diversification:

- Objectives of diversification
- Criteria for diversification
- Identifying opportunities for diversification

4. Cooperative Expansion:

Corporate strategies could consider the possibility of competition co-existing with cooperation. The term ‘co-opetition’ explains the idea of simultaneous competition with cooperation among rival firms for mutual benefit.

5. Internationalization:

International strategies are a kind of expansion strategies that need firms to market their products or services beyond the domestic market. For this purpose, a firm would have to assess the international environment, evaluate its own capabilities, and devise strategies to enter foreign markets.

BUSINESS STRATEGY

What Is Business Strategy?

A business strategy can be defined as the combination of all the decisions taken and actions performed by the business to accomplish business goals and to secure a competitive position in the market.

Definition:

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

Types of business strategy:

1. Cost leadership (lower cost in broad target)

Cost leadership strategy is based on a firm having a cost structure that allows it to offer a product at a lower per unit price as compared to its rivals in a broad target market. However product quality should be of the same level that rivals offer cost factor resulting in lower price is the only differentiator.

Benefits of cost leadership strategy:

1. It helps in developing competitive advantage in the form of offering products to customers at lower prices which helps in achieving large market share.
2. The firm is comparatively more protected from the impact of downward trend in the industry.
3. The firm can bear the pressures put by suppliers in the form of increasing prices of their supplies as well as customers in the form of bargaining for lower product price.
4. Cost advantages acts as an entry barrier to those likely entrants who are not in a position to offer their products at the leader’s price.

2. Differentiation (differentiation in broad target)

Kotler has defined differentiation as “the act of designing a set of meaningful differences to distinguish the company’s offerings from competitors’ offerings.

Benefits of differentiation strategy :

- If differentiators used by a firm are quite strong, it can create a captive market for it thereby reducing the impact of competitive rivalry.
- High brand loyalty created by the differentiators can refrain new entrants in the market as they would find it difficult to compete against such a brand loyalty.

3. Focus (lower cost or differentiation in narrow target)

In focus strategy either based on cost leadership or differentiation, firms focus on meeting the needs of a unique market segment in the best possible way. In terms of the market, therefore, a focus strategy is a niche strategy . For focus strategy the more commonly used bases of customer groups are demographic characteristics (age, gender, income , occupation etc.)

Importance Of Business Strategy:

A business objective without a strategy is just a dream. It is no less than a gamble if you enter into the market without a well-planned strategy.

Planning:

Business strategy is a part of a business plan. While the business plan sets the goals and objectives, the strategy gives you a way to fulfill those goals.

Strengths & Weaknesses:

Most of the times, you get to know about your real strengths and weaknesses while formulating a strategy.

Efficiency & Effectiveness:

When every step is planned, every resource is allocated, and everyone knows what is to be done, business activities become more efficient and effective automatically.

Competitive Advantage:

A business strategy focuses on capitalizing on the strengths of the business and using it as a competitive advantage to position the brand in a unique way.

Control

It also decides the path to be followed and interim goals to be achieved. This makes it easy to control the activities and see if they are going as planned.

LEVELS OF BUSINESS STRATEGY:

Corporate level strategy:

Corporate level strategy is a long-range, action-oriented, integrated and comprehensive plan **formulated by the top management**.

Business level strategy:

The strategies that relate to a particular business are known as business-level strategies. It is **developed by the general managers**,

Functional level strategy:

Developed by the first-line managers or supervisors, functional level strategy involves decision making at the operational level concerning particular functional areas like marketing, production, human resource, research and development, finance and so on.

BOSTON CONSULTING GROUP (BCG)

Matrix is developed by Bruce Henderson of the Boston Consulting Group in the early 1970’s.

According to this technique , business or products are classified as low or high performance depending upon their market growth rate and relative market share.

Definition

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

Relative market share and market growth:

- ❖ To understand the Boston matrix you need to understand how market share and market growth interrelated .
- ❖ Market share is the percentage of the total market that is being serviced by your company measured either in the revenue terms or unit volume terms.
- ❖ Growth-share matrix is a business tool, which uses relative market share and industry growth rate factors to evaluate the potential of business brand portfolio and suggest further investment strategies.

Relative market share.

One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

Business unit sales this year

RMS: - = ------------------------------------

Leading rival sales this year

The higher your market share, the higher proportion of the market you control.

Market growth rate.

High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth.(market growth is used as a measure of a market's attractiveness).

There are four quadrants into which firms brands are classified:

Dogs. (cash traps –low growth- low market share)

Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested. **Strategic choices:** Retrenchment, divestiture, liquidation

Cash cows: **(low growth –high market share)**

Cash cows are the most profitable brands and should be “milked” to provide as much cash as possible. The cash gained from “cows” should be invested into stars to support their further growth. According to growth-share matrix, corporate should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. If there would be no support for cash cows, they would not be capable of such innovations. **Strategic choices:** Product development, diversification, divestiture, retrenchment

Stars: **(High growth –high market share)**

Stars operate in high growth industries and maintain high market share. Stars are both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows.

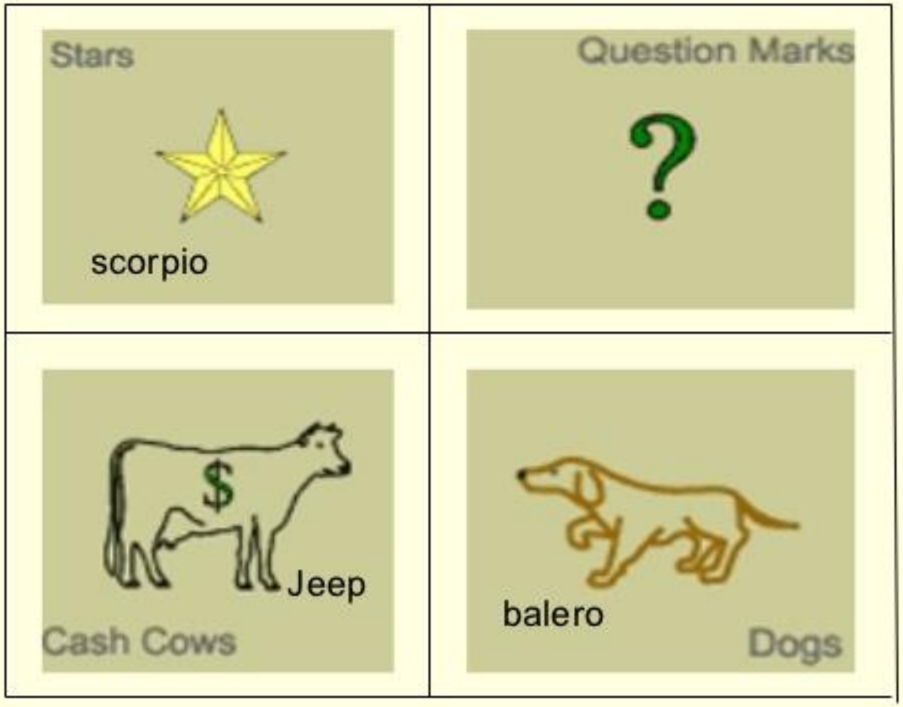
Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development.

Question marks: **(high growth –low market)**

Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow.

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

BCG MATRIX



Stars

scorpio

Question Marks

Jeep

Cash Cows

balero

Dogs

LIMITATIONS:

- BCG MATRIX uses only two dimensions. Relative market share and market growth rate.
- Problems of getting data on market share and market growth .
- High market share does not mean profits all the time.
- Business with low market share can be profitable too.
- BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
- Market is not clearly defined in this model.
- High market share does not always leads to high profits. There are high costs also involved with high market share.
- Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
- At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
- This four-celled approach is considered as to be too simplistic.

BENEFITS:

- BCG MATRIX is simple and easy to understand.
- It helps you to quickly and simply screen the opportunities open to you, and helps you think about how you can make the most of them.
- It is used to identify how corporate cash resources can best be used to maximize a company’s future growth and profitability.

CHOICE OF STRATEGY

- **Strategic choice** refers to the decision which determines the future **strategy** of a firm. ... The decision involves the following four steps – focusing on few alternatives, considering the **selection** factors, evaluating the alternatives against these criteria and making the actual **choice**

- **Strategic Analysis and Choice – Techniques**
- **Technique # 1. BCG Matrix:**

- The BCG matrix is a tool that can be used to determine what priorities should be given in the product portfolio of a business unit. It has 2 dimensions; market share and market growth. The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows the better it is for the company. Placing products in the BCG matrix results in 4 categories in a portfolio of a company.

Boston Consulting Group's growth/share matrix has become one of the most widely used approaches that facilitate corporate strategic analysis of likely "generators" and optimum "users" of corporate resources. Each of the company's businesses is positioned in the matrix in accordance with its market growth rate and relative competitive position.

- **Stars:**

  Stars are businesses that have **high market share in a high growth environment.** They are growing rapidly and are the best long-run opportunities in terms of growth and profitability in the firm’s portfolio.

  They are leaders in their business and generate large amount of cash. They require substantial investment to maintain and expand their dominant position in a growing market.
- **Cash Cows:**
- Cash cows are **low-growth, high market-share products or divisions.** Because of their high market share, they have low costs and generate cash. Since growth is slow, reinvestment costs are low. Cash cows provide funds for overhead, dividends, and investment for the rest of the firm and are in excess of their needs.
- Cash Cows (=low growth, high market share)
- i. profits and cash generation should be high , and because of the low growth, investments needed should be low. Keep profits high
- ii. Foundation of a company

- **Question Marks** (**high growth, low market share**)
- a. Have the worst cash characteristics of all, because high demands and low returns due to low market share.
- b. If nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, a dog.
- c. Either invest heavily or sell off or invest nothing and generate whatever cash it can. Increase market share or deliver cash.
- **Dogs:**
- Such businesses are defined as those in which the **growth rate is slow and the relative market share is low** compared to the leading competitors. Because of their low market share these businesses are often expected to have a higher cost structure than industry leaders.
- Dogs (low growth, low market share)
- i. Avoid and minimize the number of dogs in a company.
- ii. Beware of expensive ‘turn around plans’.
- iii. Deliver cash, otherwise liquidate

- **Technique # 2. Strengths -Weaknesses -Opportunities-Threats- (SWOT) Matrix:**
- **The TOWS matrix is an important tool that helps managers develop four types of strategies:**

  (a) SO Strategies

  (b) WO Strategies

  (c) ST Strategies

  (d) WT Strategies
- Matching key external and internal factors is the most tedious part of developing a **SWOT** Matrix. It requires good judgment. However, there is no one best set of matches.

(a) SO Strategies:

- SO strategies use a firm’s internal strengths to take advantage of external opportunities. All managers would like their organization to be in a position in which internal strengths can be used to take advantage of external trends and events. Organizations generally will pursue WO, ST, or WT strategies in order to get into a situation in which they can apply SO Strategies.

(b) WO Strategies:

- WO strategies focus at improving internal weaknesses by taking advantage of external opportunities. Sometimes a firm may have key external opportunities but it may have internal weaknesses that can prevent it from exploiting them.

(c) ST Strategies:

- ST strategies make use of firm’s strengths to minimize the impact of external threats.

(d) WT Strategies:

- WT strategies are defensive tactics directed at reducing internal weakness and avoiding external threats. An organization faced with numerous external threats and internal weaknesses may indeed be in a precarious position. In fact, such a firm may have to battle for its survival, merge, retrench, declare bankruptcy, or choose liquidation.
- **Technique # 3. GE Nine-Cell Planning Grid:**
- **GE nine cell planning grid, tries to overcome some of the limitations of BCG matrix in two ways:**

  1. It uses multiple factors to assess industry attractiveness and business strength in place of the single measure employed in the BCG matrix.

  2. It expanded the matrix from four cells to nine cells. It replaced the high/low axes with high/medium/low making a finer distinction between business portfolio positions.

  The grid then does rating of each of the company’s business units on multiple sets of strategic factor within each axis of the grid.

- **Technique # 4. Hofer's Matrix:**
- Hofer criticizes the BCG matrix because it inadequately represents new businesses in new industries that are just starting to grow. Hofer offers an extension of BCG analysis that remedies that inadequacy. Hofer analyzed businesses in terms of their competitive position and stage of product-market evolution.

- **Technique # 5. Shell Directional Policy Matrix:**
- The **Shell Oil Company developed** the Directional Policy Matrix in the nineteen seventies following the widespread implementation of the Boston Matrix. General Electric and the McKinsey Company also contributed to the development of this technique, which resulted in what is now known as the GE-McKinsey, or Directional Policy Matrix.

- **Technique # 6. Strategic Position and Action Evaluation (SPACE) Matrix:**
- The Strategic Position and Action Evaluation (SPACE) matrix is another important matching tool. Its four-quadrant framework indicates whether aggressive, conservative, defensive, or competitive strategies are most appropriate for a given organization.

Selection Factors Influencing Strategic Choices

- **Factor # 1. Perception of External Dependence:**
- Business firms depend on other units that include the owners, competitors, customers, government, and community for their survival and prosperity. The more dependent a firm on these units is, the less flexible its strategic choice can be.
- **Factor # 2. Managerial Attitudes toward Risk:**
- Another factor influencing strategic choice is how much risk the firm, its stockholders, and management can tolerate. Managerial attitudes toward risk ranges from comfort to strong risk aversion. The risk averters probably view the firm as very weak and will accept only defensive strategies with very low risks.

- **Factor # 3. Managerial Awareness of Past Strategies:**
- Past strategies are the beginning point of strategic choice and may eliminate some strategic choices as a result. The beginning point of the process is the present position of the firm. From there, the initial question is, Will the continuation of our strategy lead to the expected attainment of desired objectives? To the extent that the gap is small, past strategy will be continued.
- **Factor # 4. Managerial Power Relationships:**
- People know that power relationships are a key reality in organizational life. In many enterprises, if the top manager begins to advocate one alternative, the decision to choose it is soon unanimous.

- **Factor # 5. Time Dimension and Strategic Choice:**
- The timing of decisions and time pressures affect the strategic decision process and the quality of the decision. The deadlines for making a strategic choice is often set not by the manager but by others. Sometimes, the strategist must make decisions in time frames set by other.

STRATEGY FORMULATION

- **Strategy formulation** is the process by which an organization chooses the most. appropriate courses of action to achieve its defined goals. This process is. essential to an organization's success, because it provides a framework for the. actions that will lead to the anticipated results.
-
- **Definition**: Strategy Formulation is an **analytical process of selection of the best suitable course of action to meet the organizational objectives and vision**. It is one of the steps of the strategic management process. The strategic plan allows an organization to examine its resources, provides a financial plan and establishes the most appropriate action plan for increasing profits.

- **The steps of strategy formulation:**
- Aspects of Strategy Formulation.
- Define the **organization** and its environment.
- Define the strategic **mission**.
- Define and set the strategic **objectives**.
- Define the competitive strategy.
- Implementation of strategies.
- Evaluate progress and effectiveness.

- **Levels of Strategy Formulation**
- **Corporate level strategy**: This level outlines what you want to achieve: growth, stability, acquisition or retrenchment. It focuses on what business you are going to enter the market.
- **Business level strategy**: This level answers the question of how you are going to compete. It plays a role in those organization which have smaller units of business and each is considered as the strategic business unit (SBU).
- **Functional level strategy**: This level concentrates on how an organization is going to grow. It defines daily actions including allocation of resources to deliver corporate and business level strategies.

MODES OF STRATEGTY FORMULATION

- **1. Entrepreneurial Mode:**
- Strategy is formulated by one powerful individual. The focus is on opportunities rather than on problems. Strategy is guided by the founder’s own visions of direction.
- **2. Adaptive Mode:**
- This strategy formulation mode is characterised by reactive solutions to existing problems rather than a proactive search for new opportunities.
- **3. Planning Mode:**
- Analysts assume main responsibility for strategy formulation. Strategic planning includes both the proactive search for new opportunities and the reactive solution of existing problems.

Strategy Formulation Steps

- **Step # 1. Developing Strategic Vision:**
- i. Vision specifies what direction or path to follow.
- ii. Specify what products, markets, technologies and customer policies to follows
- iii. Vision communicate management aspirations to stack holders of company.
- iv. Helps to boost morale of organization and engages them for a common direction.
- **Step # 2. Setting Objectives:**
- Corporate objectives are outcome of “Mission and Vision” of organization. Objectives define specific performance targets, results and growth that organization wants to achieve.
- To determine the objectives an approach known as Balance Score Card is used.

- **Step # 3. Crafting a Strategy to Achieve the Objectives and Vision:**
- A company can achieve its mission and objectives when all the components of a company work together. A company's strategy is at full power only when its many pieces are united. Achieving unity in strategy planning and formulation is partly a function of communicating the company's basic strategy themes effectively across the whole organization.
- **Step # 4. Implementing & Executing the Strategy:**
- Strategy implementation and execution is an operations-oriented activity. This stage is the most demanding and time-consuming part of the strategy-management process.
- **Step # 5. Monitoring Implemented Strategy and Making Corrective Adjustments:**
- A company's vision, objectives, crafting strategy, and implementing and execution of strategy are not final thing in strategic management – managing strategy is an ongoing process.

Tools

- **Critical Question Analysis**
- **SWOT Analysis**
- **Business Portfolio Analysis**
- **Porter’s model for Industry Analysis.**

- **Critical Question Analysis**:
- The 4 critical questions to be answered here are:
- What are the purposes and objectives of the Organization?
- Where is the Organization presently going?
- In what kind of environment does the organization now exist?
- What can be done to better achieve organizational objectives in the future?
- **SWOT Analysis**:
- SWOT Analysis is a strategic development tool that matches internal organizational strengths and weaknesses with external opportunities and threats.

- **Business Portfolio Analysis**:
- Business Portfolio Analysis is an organizational strategy formulation technique that is based on the philosophy that Organizations should develop strategy much as they handle investment portfolios.
- **Porters model for Industry Analysis**:
- Perhaps the best known tool for formulating strategy is the model developed by Michael E. Porter, an internationally acclaimed strategic management expert.

UNIT-IV
Strategy Implementation

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

Process of Strategy Implementation

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

Prerequisites of Strategy Implementation

- **Institutionalization of Strategy**: First of all the strategy is to be institutionalized, in the sense that the one who framed it should promote or defend it in front of the members, because it may be undermined.
- **Developing proper organizational climate**: Organizational climate implies the components of the internal environment, that includes the cooperation, development of personnel, the degree of commitment and determination, efficiency, etc., which converts the purpose into results.

- **Formulation of operating plans**: Operating plans refers to the action plans, decisions and the programs, that take place regularly, in different parts of the company.
- **Developing proper organisational structure**: Organization structure implies the way in which different parts of the organisation are linked together. It highlights the relationships between various designations, positions and roles.

- **Periodic Review of Strategy**: Review of the strategy is to be taken at regular intervals so as to identify whether the strategy so implemented is **relevant to the purpose** of the organisation.

Aspects of Strategy Implementation

- **Creating budgets** which provide sufficient resources to those activities which are relevant to the strategic success of the business.
- Supplying the organization with **skilled and experienced staff**.
- Conforming that the policies and procedures of the organisation assist in the successful execution of the strategies.

- Leading practices are to be employed for carrying out key business functions.
- Setting up an information and communication system, that facilitate the **workforce of the organisation**, to perform their roles effectively.
- Developing a favourable work climate and culture, for proper implementation of the strategy.

STEPS IN STRATEGY IMPLEMENTATION

- Step 1: **Evaluation** and **communication** of the Strategic **Plan**.
- Step 2: Development of an implementation structure.
- Step 3: Development of implementation-support policies and programs.
- Step 4: Budgeting and allocation of **resources**.
- Step 5: Discharge of functions and activities.

- **Issues in Strategy Implementation**

- Sequence in which strategy implementation issues are to be considered:
- Project Implementation
- Procedural Implementation
- Resource Allocation

- Structural Implementation
- Functional Implementation
- Behavioral Implementation
- These activities are not performed in the same order (can be performed simultaneously, can be repeated etc.).

DIFFERENCE BETWEEN STRATEGY FORMULATION AND STRATEGY IMPLEMENTATION

- **STRATEGY FORMULATION**
- It is positioning forces before action.
- It focuses on effectiveness.
- It is an intellectual process
- It requires good intuitive and analytical skills.
- It requires coordination among few individuals.
- Concepts and tools do not differ greatly for small, large, profit or nonprofit organization.

STRATEGY IMPLEMENTATION

- It is managing forces during action.
- It focuses on efficiency.
- It is primarily and operational process.
- It requires special motivational and leadership skills.
- It requires combination of many individuals.
- Concepts and tools varies substantially among small, large, profit or non profit organization.

Structural Implementation

- **STRUCTURE** Arrangement of tasks and sub tasks required to **implement** a strategy. ... Diagrammatic representation could be organizational chart but administrative mechanism provides 'Flesh and Blood' to an organization.

- **KINDS OF STRUCTURE** :Vertical Structure Horizontal Structure
- **1.Vertical structure:** Process of Differentiation Involves Division of Labor and Specialization. Dominates: 1. Specialised tasks 2. Hierachy of authority 3. Rules and regulation 4. Vertical communication 5. Centralised decision making 6. Emphasis on efficiency
- 2.C**ontinue Also called as Tall structure:** Best suited for standardized products and services in large volumes. Established technologies, wide market, seeking customer on undifferentiated items.
- **3.Horizontal structure:** Process of Integration among members in an organization, cross functional systems and teamwork. Dominates: 1. Shared tasks. 2. Flexible rules and regulation. 3. Horizontial communication. 4. Decentrailisation decision making. 5. Emphasis on learning.

Behavioural Implementation

- **Behavioural implementation** deals with those aspects of strategy **implementation** that have **impact on behavior of people in the organization**. Since human resources form an integral part of the organization, their activities and behavior need to be directed in a certain way.

- The **five major issues involved in Behaviour** implementation.
- Leadership.
- Corporate Culture.
- Corporate policies & use of power.
- Personal Values & Ethics.
- Social Responsibility

Functional Implementation

- Marketing Plans and Policies
- Financial Plans and Policies
- Operations Mgt Plans and Policies
- HRM Plans and Policies
- Information mgt. plans and policies

UNIT – 5

STRATEGIC CONTROL

Strategic control is related to that aspect of strategic management through which an organization ensures whether it is achieving its objectives contemplated in the strategic action.

Julian and Scifres have defined strategic control as follows:

“strategic control involves the monitoring and evaluation of plans, activities and results with a view towards future action, providing a warning signal through diagnosis of data and triggering appropriate interventions, by they either tactical adjustment or strategic reorientation”.

Barriers in control:

Strategy evaluation and control being an appraisal process for the entire organization and people who are involved in strategic management process, is not free from barriers and problems . These barriers and problems may revolve around **psychological factor, motivational factors, and operational factors.**

1. **Limits of control:**

Control as a mechanism is beset with several problems. Too much control will be generally resented by the managers, and this may impair the willingness and efficiency of the staff. Too little control will lead to inefficiency, and the evaluation process may become ineffective.

2. **Difficulties in measurement:**

There may be several difficulties in measurement during the course of evaluation. Lack of quantifiable objectives, reliability and validity of the measurement techniques used for evaluation.

3. **Resistance to evaluation:**

Managers are seldom motivated to evaluate their strategies, because of the psychological barriers of accepting their mistakes. Hence, the process may be resisted by the managers.

4. **Tendency to rely on short-term assessment:**

Generally, there will be a tendency on the part of mangers to assess short-term implications of the activities, as this would be very easy, and ignore long-term implications of the activities.

5**. Efficiency versus effectiveness:**

Efficiency means, ‘doing the things rightly’and effectiveness means ‘doing the right things’. There is often a genuine confusion among managers as to what constitute effective performance.

What Are the Four Types of Strategic Control?

The four types of strategic control are premise control, implementation control, special alert control and strategic surveillance.

1.PREMISE CONTROL:

Premise controls allow you to examine whether this assumption still holds true once you actually put your ideas into action. Premises may be affected by environmental factors such as inflation, interest rates and social changes or by industry factors such as competitors, suppliers and barriers to entry. These controls will help you recognize changes in the premise so you can adapt your strategy accordingly.

2. **IMPLEMENTATION CONTROL:**

Implementation control aims at monitoring the process of various activities undertaken to implement a strategy. These activities may be in the form of projects, programmes and plans. Resources have to be allocated to these activities and timeframe fixed for completion.

Ex; the phased launch of pagers in India enabled Motorola to redefine its target consumers and modify its promotion strategy, as it expanded the market coverage.

3.STRATEGIC SURVEILLANCE :

The first two types of controls above stated (premise control and implementation control) are specific in nature. On the other hand, strategic surveillance is aimed at a more generalized surveillance "designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of a firm's strategy". The strategy of a company could be defeated by some activities or events inside or outside the organization.

4. SPECIAL ALERT CONTROL:

This type of control is more or less for 'emergency situations' where unforeseen events may take place in the environment, economy or in the government, by which the strategy of the company may get suddenly jeopardised. This alert control system aims at pre-emptive actions with a contingency strategy to meet the unforeseen situations like industrial disaster, fall of government, sudden entry of powerful competitor and so on.

Role of organizational system in strategic control:

Strategic control operates in the context of various organizational systems. All these systems play their role in strategic control.

1. **Information system:**

Control action is guided by adequate information from the beginning to the end. Management information and management control systems are closely interrelated, the information system is designed on the basis of control system. There must be a system of information tailored to the specific management needs at every level, both in terms of adequacy and timeliness.

2. Planning system:

Planning is the basis for control in the sense that it provides the entire spectrum on which control function is based. In fact, these two terms are often used together in the designation of the department which carries production planning, scheduling, and routing. It emphasizes that there is a plan which directs the behavior and activities in the organization.

Planning and control systems are closely interlinked, there should be proper integration of the two. This integration can be achieved by developing consistency of strategic objectives and performance measures.

3. Development system:

Development system is concerned with developing personnel to perform better in their present positions and likely future positions that they are expected to occupy. Thus, development system aims at increasing organizational capability through people to achieve better results.

4. Appraisal system:

Appraisal or performance appraisal system involves systematic evaluation of the individual with regard to his performance on the job and his potential for development. While evaluating an individual, not only his performance is taken into consideration but also his abilities and potential for better performance. Thus, appraisal system provides feedback, for control system about how individuals are performing.

5. Motivation system:

Motivation system is not only related to control system but to the entire organizational processes. As we have seen earlier in this chapter, lack of motivational on the part of managers is a significant barrier in the process of control. Since the basic objectives of control is to ensure that organizational objectives are achieved, motivation plays a central role in this process.

STRATEGIC CONTROL PROCESS:

In order to exercise control, mangers have to take four steps. These steps are setting performance standards, measuring actual performance, analyzing variance and taking corrective actions.

1. Setting performance standards:

Every function in the organizations begins with plans which specify objectives or targets to be achieved. In the light of these, standards are established which are criteria against which actual results are measured. After setting the standards, it is also important to decide about the level of achievement or performance which will be regarded as good or satisfactory.

2. Measuring actual performance:

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

3. Analyzing variance:

The third major step in control process is the comparison of actual and standard performance. It involves two steps:

(1) finding out the extent of variations,

(2) Identifying the causes of such variations.

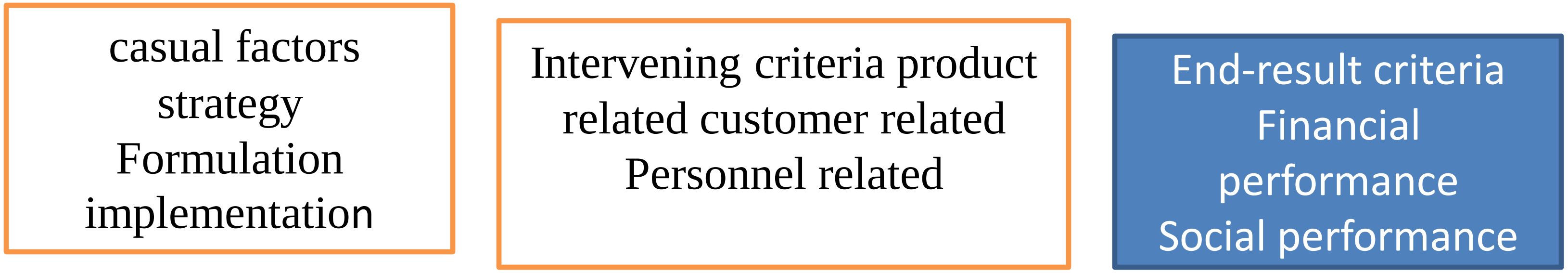
When adequate standards are developed and actual performance is measured accurately, any variation will be clearly revealed. When the standards are achieved , no further managerial action is necessary and control process is complete.

4. Taking corrective actions:

This is the last step in the control process. An organization is not a self regulating system such as thermostat which operates in a state of equilibrium put there by engineering design. In a business organization this type of automatic control cannot be established because the state of affairs that exists is the result of so many factors in the total environment.

CONTROL CRITERIA

In putting the control process in operation, two basis issues are involved, what to control and how to control. The first issue is related to the identification of those factors on the basis of which degree of business success is determined. The second issue involves the use of various control techniques.



casual factors strategy Formulation implementation

Intervening criteria product related customer related Personnel related

End-result criteria Financial performance Social performance

1. **Casual factors:**

Casual factor are those that influence the course of development in an organization. These are independent variables and affect intervening criteria and through these, end-result criteria.

Ex. Strategy formulation and its implementation affects various product, customer, and personnel related criteria.

2. Intervening criteria;

Intervening criteria are those factors which are reflected as the internal state of the organization. These are caused by casual factors and, therefore, cannot be changed independently except by changing causal factors: in this case type of strategy and its implementation.

For ex: personnel attitudes and morale, an intervening criterion, cannot be changed unless there is a suitable change in organizational design, systems and leadership all being elements of strategy implementation.

Product-related criteria:

1. Product quality and performance
2. Product cost and price
3. New products introduced.

Customer –related criteria.

1. Customer service
2. Customer satisfaction
3. Customer loyalty

Personnel-relate criteria

1. Attracting and retaining human talent
2. Personnel ability and skills
3. Personnel motivation and attitudes to work.

End result criteria:

End-result criteria are those factors which are caused by casual and intervening factors and are often in terms of the criteria in which organizational success is measured. These factors are highly dependent and therefore, cannot be changed except by changing the factor responsible for these.

Financial performance

1.Rate of growth

sales growth

asset growth

market growth

2.Profitability

profit-sales relationship

return on investment

3. Shareholder value

Social performance:

Degree of satisfaction of various stakeholders.

STRATEGIC EVALUATION:

What is the nature of strategic management?

Strategic management is both the process and beliefs to determine and control the organizational affiliation in its vibrant environment. It is a process to describe approaches and procedures to help management become accustomed to the current business environment through the use of objectives and strategies.

Strategic Evaluation meaning:

Strategic evaluation is the **assessment** process that provide executives and managers performance information about program, projects, activities designed to meet business goals and objectives.

Participants in strategic evaluation:

- Shareholders
- Board of directors
- Chief executives
- Profit-centre heads
- Financial controllers
- Company secretaries
- External and internal auditors
- Audit and executive committees
- Corporate planning staff or department
- Middle-level managers.

Techniques of strategic evaluation and control:

Whether your organization is using one or all four of the previous techniques of strategic evaluation and control, each involves four steps:

1. **GAP ANALYSIS:**

- ➢ The gap analysis is one strategic evaluation technique used to measure the gap between the organization’s current position and its desired position.
- ➢ The gap analysis is used to evaluate a variety of aspects of business from profit and production to marketing, research and development and management information systems.
- ➢ Typically, a variety of financial data is analyzed and compared to other businesses within the same industry to evaluate the gap between the organization and its strongest competitors.

2. **SWOT ANALYSIS:**

- ✓ The SWOT analysis is another common strategic evaluation technique used as a part of the strategic management process. The SWOT analysis evaluates the organization’s strengths, weaknesses, opportunities and threats.
- ✓ Strengths and weaknesses are internal factors, while opportunities sand threats are external factors.
- ✓ This identification is essential in determining how best to focus resources to take advantage of strengths and opportunities and combat weaknesses and threats.

3.PEST ANALYSIS:

- ❖ Another common strategic evaluation technique is the PEST analysis, which identifies the political, economic, social and technological factors that may impact the organization’s ability to achieve its objectives.
- ❖ Political factors might include such aspects as impending legislation regarding wages and benefits, financial regulations, etc.
- ❖ Economic factors include all shifts in the economy, while social factors may include demographics and changing attitudes. Technological pressures are also inevitable as technology becomes more advanced each day.
- ❖ These are all external factors, which are outside of the organization’s control but which must be considered throughout the decision making process.

4. **BENCH MARKING:**

- ○ Benchmarking is a strategic evaluation technique that's often used to evaluate how close the organization has come to its final objectives, as well as how far it has left to go.
- ○ Organization may benchmark themselves against other organizations within the same industry, or they may benchmark themselves against their own prior situation.
- ○ A variety of performance measures, as well as policies and procedures, may be evaluated regularly to identify where adjustments are necessary to maintain the sustainable competitive advantage.

Requirements for effective evaluation:

Effective control must be:

- ❑ Control should involve only the minimum amount of information as too much information tends to clutter up the control system and creates confusion.
- ❑ Control should monitor only managerial activities and results even if the evaluation is difficult to perform.
- ❑ Controls should be timely so that corrective action can be taken quickly.
- ❑ Long-term and short-term controls should be used so that a balance approach to evaluation can be adopted.
- ❑ Controls should aim at pinpointing expectation as nitpicking does not result in effective evaluation.

Book Reference:

1. Strategic management, L.M.PRASAD, SULTAN CHAND & SONS.
2. Strategic Management, DR. S. SANKARAN , MARGHAM PUBLICATIONS
3. Strategic Management, DR.C.RAJENDRA KUMAR , APH PUBLISHING CORPORATION.
4. Strategic Management-SULTAN CHAND & SONS- P.K.GHOSH.
5. Strategic Management-SULTAN CHAND & SONS – C.B.GUPTA.

- https://www.extension.iastate.edu/agdm/wholefarm/html/c6-45.html
- https://smallbusiness.chron.com/definition-industry-analysis-830.html
- https://www.mykpono.com/how-to-conduct-competitive-analysis/
- https://corporatefinanceinstitute.com/resources/knowledge/strategy/organizational-analysis/
- https://pestleanalysis.com/what-is-environmental-analysis/