Unit 8 Strategic Management

What is strategy?

The term strategy is derived from a Greek word 'Strategos' which means general ship – the actual direction of force, as distinct from the policy governing its deployment. Strategy is a broad game plan to achieve objectives. It provides direction and scope to the organization over the long term. Literally the word strategy means the art of the general. Strategy can be defined as the management action plan for achieving the chosen objectives. It commits the organization to specific products, market, resources and technology. It specifies how the organization will be operated, run & what entrepreneur, competitive & functional area approach & action will be taken to put the organization into the desired position. Strategy considers both means & ends. The goals & decisions making up an organization's strategy may be planned ahead of time or may just evolve as a pattern in the stream of significant decisions. It determines the basic long term goals & objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.

According to Chandler, Strategy in the area of business is defined as 'the determination of the basic, long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for those goals"
Thus, Strategy is a process of translating perceived opportunity into successful outcomes, by means of purposive action sustained over a significant period of time.

Characteristics of strategy:

a. Long term focus
b. Comprehensive action plan
c. Competitive advantage
d. Stakeholder expectation
e. Strategic fit
f. Based on strategic decisions: unique, consequential, contradictory action and directive

Levels of Strategy

All the organizations should carry out some forms of strategic management. As the organization becomes larger and more complex, there is greater need for involvement in the strategic process at all levels of organization. Therefore, more strategic activities will occur in a decentralized way, as each department or business unit attempts to carry out their own part of the strategy.

Organizational strategies include strategies at the corporate level, business level, and functional level. Managers at the top level of the organization typically are responsible for corporate level strategies. Managers at the middle level typically are responsible level strategies. And managers at the lower levels of the organization typically are responsible for the functional level strategies. Jonson and Schools have identified three levels of strategic activities.

1. **Corporate level strategy:** It is the overall strategy for the organization. It provides long term direction & scope to the organization as a whole. It seeks to determine what business the organization should be in. It involves strategic decisions. It allows from mission & objectives. It is mainly concerned with the overall purpose & scope of an organization & how value will be added to the different parts of the organization. It reflects the direction in which the organization is going and the roles that each business unit in the organization will play in pursuing that direction. Corporate strategy consists of strategic

planning at corporate level and do not limited to one particular area such as marketing, production financial etc. it is the sense of direction for the entire corporate group.

Corporate level strategy should include:

- Concentration: In single business for e.g. fast food.
- Geographic expansion: New segments to be served in new areas.
- Diversification: Of products, services, business units from current markets.
- Growth & Stability: Through merger, acquisition, reengineering, downsizing, rightsizing, strategic alliances.
- Resource allocation: Among various business units.

Major corporate strategies are:

i. Growth strategy: it is a corporate level strategy that seeks to increase the organization's business by expanding the number of products offered or markets served.
ii. Product development: Substantial modification of existing products in the existing market.
iii. Market development: Choice of product in new market segments.
iv. Innovation: Totally new product development with new life cycle for the existing market.
v. Stability strategy: it is a corporate level strategy characterized by an absence of significant change. Example of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's return-on-investment results.
vi. Renewal strategy: it is a corporate strategy designed to address organizational weaknesses that are leading to performance decline. In this stage, management cuts costs and restructures organizational operations.

Thus, we can say that corporate strategy is concerned with the scope of an organization's activities and the matching of these to the organization's environment, its resource capabilities and the value and expectations of its various stakeholders.

2. **Business Level Strategy**: It is an organizational strategy that seeks to determine how an organization should compete in each of its business. It allows from corporate level strategy. It is concerned with strategic business unit. Large organizations operate several businesses. It defines their business portfolio. It classifies their business into strategic business unit (SBU). Such classification is generally based on product category. BLS seeks the answer the question, how should we complete in each of our businesses? For a small organization or the large organization that has not diversified into different products or markets, the business level strategy overlaps with the organization's corporate strategy. In

multiple or diversified business organizations, each division will have its own strategy that defines the products or services it will offer, the customers it wants to reach, and the like. Therefore, this strategy usually occurs at the business unit or product level, and it emphasize improvement of the competitive position of a company's products or services in the industry or market segment served by that business unit.

Business level strategy should include:

- Positioning: It is the positioning among competitors in a given business to gain competitive advantages.
- Low cost leader: minimizing the cost than competitors by perfecting the value-chain activities
- Differentiation: reconfiguring the resources in some unique way to achieve differentiation.
- Speed based strategy: build around functional capabilities and activities that allow the company to meet customer needs directly or indirectly more rapidly than its main competitors.
- Market focus: market niche by minimizing cost or differentiation or both.

3. **Functional Level Strategy:** It follows from business level strategy. It is concerned with how the component parts of an organization deliver effectively the corporate & business level strategies in terms of resources, processes & people. It spells out specific tasks. It is concerned with strategy for each function, such as production, marketing, finance, human resource, resource
4. e & development. It deals with operations of the organization. It supports the business level strategy. It involves tactical decision to achieve strategic advantages. The functional level strategies also value to a product. Value can be added by lowering cost or differentiating products. They serve as the key to the success of business level & corporate level strategies. They aim to attain superior efficiency, quality, innovation & responsiveness to customer needs. It is concerned with developing and looking after competence to provide a company or business unit with a competitive advantage.

Functional level strategy should include:

- Objectives: For a specific function, such as marketing.
- Resource allocation: For sub-function of a function, such as product, price, place, promotion of marketing function.

Types of Functional level Strategy:

i. Production Strategies: They focus on improving efficiency & controlling costs. They deal with plant technology, plant capacity, plant layout & location, production system & processes, maintenance, inventory & quality.

ii. Marketing Strategies: They focus on customer need satisfaction. They deal with target, market mix, product positioning & management of product life cycle.
iii. Finance Strategies: They focus on increasing shareholder's wealth. They deal with financial planning, sources of finance, investment decisions, dividend decisions, & financial control. Profit potential of various strategic alternatives is assessed.
iv. Human Resource Strategies: They focus on quality, competence, productivity & welfare of employees. They deal with acquisition, development, utilization & maintenance of employees.
v. Research & development Strategies: They focus on the product development. They deal with product innovation, modifications & imitations

Characteristics of Strategic Management Decisions

The characteristics of strategic management decisions vary with the level of strategic activity considered. Corporate level decisions are often characterized by greater risk, cost, and profit potential, greater need for flexibility and longer time horizons. Such decisions include the choice of the business, dividend policies, sources of long-term financing and priorities for growth.

Whereas, Functional level decisions implement the overall strategy formulated at the corporate and business levels. They involve action –oriented operational issues and are relatively short range and low risk. Functional level decisions incur only modest costs, because they depend on available resources. They usually are adaptable to ongoing activities and therefore can be implemented with minimal cooperation.

And, Business-level decisions help bridge decisions at the corporate and functional levels. Such decisions are less costly, risky and potentially profitable than corporate level decision, but they are more costly, risky and potentially profitable than functional level decisions. Common business level decisions include decisions on plant location, marketing segmentation and geographic coverage, and distribution channels. *(John A Pearce II & Richard B. Robinson)*

Some important characteristics of Strategic decision are:-

i. Non- programmed: - strategic decisions are unique and rare. They deal with uncertain and non- routine problem situations as they are complex in nature.
ii. Future oriented: - Strategic decisions are future oriented. They are made on the basis of predictions and projections. They are concerned with long term direction and scope of the organization.
iii. Dynamic: - They are dynamic in nature. They take place within a changing environment. Changing political, economic, socio- cultural, legal and technological forces increase complexity in strategic decisions.

iv. Top management oriented: - Strategic management decisions are made by top management of the firm. The values, philosophy and expectations of top management greatly affect strategic decisions. So, the strategic decisions are top management oriented.
v. Competitive Advantage: - Strategic decisions help in gaining competitive advantages in the market through searching for unique resources and care competencies.
vi. Strategic fit: - Strategic decision match activities and resources of the organization with the opportunities in the environment.
vii. Commitment: - strategic decisions are long term objectives of the firm and involve long term commitment of large amount of resources.
viii. Choice: - Strategic decision is about making choice from among the strategic alternatives. It is a choice among course of action for the long term future.

Importance of Strategic Management

i. Enhance organizational performance.
ii. Effective utilization of resources.
iii. Reduce uncertainty.
iv. Change management.
v. Participative management.
vi. Meet competition.

Process of Strategic Management

The strategic management process is a six-step process that encompasses (covers) strategic planning, implementation and evaluation. Although the first four steps describe the planning that must take place, implementation and evaluation are just as important. Even the best strategies can fail if management doesn't implement or evaluate them properly. The following are the steps of strategic management process.

1. **Identifying organization's mission, objectives, and strategies:** it is the initial step of strategic management process. It is the reason for the existence of an organization. It states that who we are and what we would like to become. It is developed by top-level management. Mission defines the fundamental unique purpose that is different from the other organization of similar type. This mission of eBay is "to build an online marketplace that enables practically anyone to trade practically anything almost anywhere in

the world." This statement provides clue to what this organization sees as its reason for being in business. Strategy is a comprehensive master plan that explains how the organization will achieve its mission and goals. It adopts a course of action and allocation of resources necessary to achieve the goals.

2. **Analyzing external environment:** analyzing the environment is a critical step in the strategy process. External environment refers to the forces and institutions outside the organization that affect the organization's performance. The external environment consists of specific or tasks and general environment. In analyzing the external environment, managers should examine both the specific and general environments to see what trends and changes are occurring. The task environment consists of customers, suppliers, competitors, government, pressure groups etc and general environment consists of politics, economy, society, culture, technology etc. such external environmental forces must be carefully analyzed for strategic management process. After analyzing the external environment managers need to identify opportunities that can be capitalized; and threats that an organization may face. Opportunities are the positive trends and scope for organization to grow and threats are the negative trends and challenges to the organization.
3. **Analyzing internal environment:** internal environment consists of all forces and conditions within the organization that affect business operation. Managers need to analyze the internal environment to understand about the position of organizational resources such as financial capital technical experience, skilled employees, experienced managers and so forth and capabilities in performing the different functional activities such as marketing, manufacturing, information systems, human resource management and so forth. Analysis of internal environment helps in identifying strengths and weaknesses of an organization. Strength is a position of organization with unique resources and efficiency in activities. Weakness is the activities that the organization does not do well and organization is lacking with valuable resources. The management must identify the strength to capitalize and weakness to overcome the organization's limitations.
4. **Formulating strategies:** are developed on the basis identification of mission and environmental analysis. Environmental analysis is also called SWOT analysis. Once SWOT analysis is complete, managers need to develop and evaluate strategic alternatives and then select strategies that capitalize on the organization's strengths and exploit environmental opportunities or that correct the organization's weaknesses and safeguard

against threats. Strategies must focus to corporate and functional levels. Managers need to develop and evaluate strategic alternatives and then choose a strategy that gives the organization competitive advantages

5. **Implementing strategies:** After strategies are formulated, they must be implemented. No matter how effectively an organization has planned its strategies, it can't succeed if the strategies aren't implemented properly. Select strategies are put into action through plans, policies, tactics, programs and procedures. Translating strategy into action phase is the strategy implementation phase. Team building and managing effective teams is an important part of implementing strategy. Top management leadership is a necessary ingredient in a successful strategy. Moreover, motivated group of middle and lower level managers are needed to carry out the organization's specific strategies.
6. **Evaluating results:** The final step in the strategic management process is evaluating results. How effective have the strategies been? What adjustments, if any, are necessary? Such adjustments improve company's competitiveness. This step helps to assess the results of previous strategies and determines that changes are required. Thus evaluation and control is the process by which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Although the evaluation is the final step of strategic management process, it also can pinpoint weaknesses in previously implement strategic plans and thus stimulate the entire process to begin again.

Strategic Planning

Strategic plan: Strategic plan is a road map for the future direction of the organization. Strategic plan establishes mission, objectives & strategies for an organization. It makes strategic choice about future courses of action from among the strategic options.

Strategic planning is the process of identifying the best strategic fit, which determines better competitive position in the market. In other words, Strategic planning is the formalized, long range planning process used to define & achieve organizational goals.

Process of Strategic planning:

a. Defining vision and mission
b. Environmental analysis
c. Determination of long term goals and objectives.
d. Strategy formulation

Role of CEO in Strategic Management

The chief executive is the executive head of the organization. S/he represents the top management. His/her main duty is to define long term direction and scope of the organization. He has ultimate responsibility for its success. S/he leads the formulation and implementation of the strategy. S/he is guided by the board of directors. Since strategic management involves teamwork of multiple participants, the CEO plays the key roles in:

1. **Formulation of strategy:** Strategy Provides future direction and scope to the organization for gaining competitive advantage. The roles of CEO in strategy formulation are:
    i. **Key Strategist Role:** The CEO plays the role of chief architect in defining vision, mission and objective of the organization. He conceptualizes and crafts strategies to achieve objectives.
    ii. **Decision making role:** The CEO makes strategic decisions related to strategy formulation. CEO makes strategic choice from among strategic option for achieving objectives. This role involves risk-taking.
    iii. **Resource planning role:** This role of CEO involves coordinated allocation of significant resources to plans. Such plans can be organization-wide or related to strategic business unit for function. Resources can be people, money, technology, time and information.
    iv. **Negotiator role:** Strategy must fulfill the expectations of various stakeholders of the organization. The CEO balance conflicting interests of stakeholder by negotiating disputes. The stakeholders can be owners, customers, employees, suppliers, government, labour unions, and financial institutions. CEO ensures the acceptability to strategy by stakeholders.
2. **Implementation of Strategy**: Implementation is putting strategy into action. The chief executive ensures that strategies are operationalized in practice. His/her roles in strategy implementation are as Follows:
    i. **Information Role:** The CEO disseminates information about strategy to the implementers within the organization. S/he serves as a spokesperson for strategy implementation. Effective communication serves as the key to effective implementation of strategy.
    ii. **Leadership Role:** The CEO assumes overall leadership for the implementation of strategy. He/she inspire trust and self confidence among implementers of strategy. CEO ensures participation of those who involve in implementation. CEO motivates them for higher productivity and also provides direction for implementation.

iii. **Organizer Role:** The CEO is an organization builder. S/he determines the structure for strategy implementation. S/he establishes reporting relationship and span of control and assigns authority and responsibility for positions and people in the organization for key result areas.

iv. **Resource manager Role:** The CEO ensures efficient and effective mobilization, allocation and utilization of resources for implementation of strategies. Budgets are prepared for management of resources.

v. **Monitoring role:** The CEO monitors and evaluates the performance results of strategy implementation. S/he takes corrective action to resolve performance