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Dr. N. M. VECHLEKAR



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Understanding Strategy

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Learning Objectives ...

- To have a better understanding of the meaning, features and levels of Strategy: Concept of strategy, corporate, business and functional levels of strategy.
- To study the meaning, characteristics and process of Strategic Management.
- Differentiate between strategic management and operational management.
- To study the roles of Stakeholders in strategic management.
- To understand the hierarchy of strategic intent and its attributes of strategic intent.
- To learn the analysis of industry environment involving Porter's five forces model of competition.

1.1 Strategy

1.1.1 Introduction

The modern age is extremely competitive and a business organisation has to strive hard for the survival and growth in this environment. A business organisation requires a direction and well defined aims and objectives in order to ensure that the efforts are well directed and fruitful. The environment in which a business firm operates is ever changing. On the other hand, due to the technological advancement the life cycles of products are becoming shorter than they used to be before. All these factors are bound to affect a business firm.

In order to face the various problems and come out successful, there is a need for well defined strategies that will give the much needed direction to the firm. Similarly, there is an equally important need of effective implementation of strategies and also to review the strategies for making suitable changes in them. All these functions relate to strategic management. Before the concept of strategic management is discussed, the concept of 'strategy' has to be talked about.

1.1.2 Concept and Definitions of Strategy

The word 'strategy' has an origin on the battlefield. In fact, the word 'strategy' is derived from the Greek word '*strategos*' which implies the direction of military forces in actual war. In a war, military is deployed with the intention of winning the war. However, '*strategos*' does not mean the deployment of the military, rather it means that the direction provided to the military to ensure that the war is won. If we compare this situation to a business organisation, survival and growth are the twin objectives of any business organisation. For achieving these objectives, it is necessary to provide direction to the organisation and through well defined strategies, it becomes possible to do so. Strategy is thus a means to achieve the objectives of an organisation. There are various definitions of strategy given by various experts. Some of the important definitions are given below.

- (i) **Alfred D. Chandler:** '*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*'.
- (ii) **Henry Mintzberg,** in his 1994 book, *The Rise and Fall of Strategic Planning*, points out that people use "strategy" in several different ways, the most common being these four:
 1. Strategy is a plan, a "how", a means of getting from here to there.
 2. Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.
 3. Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets.
 4. Strategy is perspective, that is, vision and direction.

Mintzberg argues that strategy emerges over time as intentions collide with and accommodate a changing reality. Thus, one might start with a perspective and conclude that it calls for a certain position, which is to be achieved by way of a carefully crafted plan, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time. This pattern in decisions and actions defines what Mintzberg called "realised" or emergent strategy.

(iii) Strategy According to Kenneth Andrews: Kenneth Andrews presents this lengthy definition of strategy in his book, *The Concept of Corporate Strategy*:

"Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organisation it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities."

Andrew's definition obviously anticipates Mintzberg's attention to pattern, plan, and perspective. Andrews also draws a distinction between "corporate strategy," which determines the businesses in which a company will compete, and "business strategy," which defines the basis of competition for a given business. Thus, he also anticipated "position" as a form of strategy. Strategy as the basis for competition brings us to another Harvard Business School professor, Michael Porter, the undisputed guru of competitive strategy.

(iv) Strategy According to Michael Porter: In a 1996 *Harvard Business Review* article and in an earlier book Porter argues that competitive strategy is "about being different." He adds, "It means deliberately choosing a different set of activities to deliver a **unique mix of value**." In short, Porter argues that strategy is about competitive position, about differentiating yourself in the eyes of the customer, about adding value through a mix of activities different from those used by competitors. In his earlier book, Porter defines competitive strategy as "a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there." Thus, Porter seems to embrace strategy as both plan and position. (It should be noted that Porter writes about competitive strategy, not about strategy in general.)

(v) Johnson and Scholes (*Exploring Corporate Strategy*) define strategy as follows: "Strategy is the **direction** and **scope** of an organisation over the **long-term**: which achieves **advantage** for the organisation through its configuration of **resources** within a challenging **environment**, to meet the needs of **markets** and to fulfill **stakeholder** expectations.

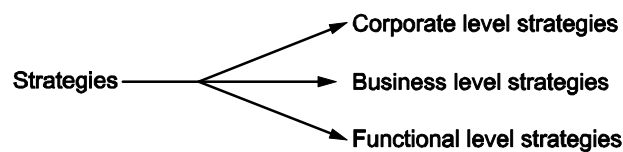
If the above mentioned definitions are analysed, the following features of 'strategy' emerge.

- (i) Strategy provides direction to the organisation.
- (ii) It is a course of action for securing sustainable competitive advantage.
- (iii) It is the determination of basic long-term goals and objectives of the organisation.

- (iv) Strategy determines the necessary resources required for achieving goals and objectives.
- (v) The analysis of environmental factors, both internal and external is a part of strategy.
- (vi) Strategy develops a company from its present position to the desired future position.

1.1.3 Levels of Strategies

There are various levels of management in a business firm. Accordingly strategies are also formulated at various levels. Thus strategies can be divided into three categories as shown in the following chart.



These strategies are discussed below.

1.1.3.1 Corporate Level Strategies

These strategies are formulated at the highest level of the management of a business organisation. Sometimes, the same top management is handling various companies in the same group. For example, in Tata and Birla group, there are several group companies. In such cases, the top management may decide overall strategies which may affect all the companies working in the same group. These strategies are known as corporate level strategies. Corporate level strategies include strategies such as mergers or takeovers, allocation of resources, setting of objectives of various group companies as well as strategies regarding the co-ordination of the various business units within the group.

1.1.3.2 Business Level Strategy

As the name suggests, this strategy is formulated at the business level. In case of a diversified business, there are different strategies for each of the business line run by the business organisation. For example, if a company has diversified into several business lines such as cement, chemicals, consumer electronics and pharmaceuticals, separate strategies for each business are formulated. These strategies include strategies about allocation of resources within the business unit as well as for deciding the long range aims of objectives of the unit as well as the co-ordination amongst the various departments of the business unit

1.1.3.3 Functional Level Strategy

Every business organisation has to perform various functions such as marketing, finance, operations, human resources development, research and development etc. There should be a strategy for each of the functions of the organisation. For example, there may be a strategy for marketing regarding the price fixation or new product launch or regarding market

research. Similarly there might be strategies for finance department regarding the objectives of the finance function. Human resources development may have strategies for training and recruitment of the personnel.

1.2 Strategic Management

1.2.1 Introduction

Strategy is different from strategic management. While strategy is a particular course of action to be followed to obtain sustainable competitive advantage, strategic management is a much more broad term and includes various activities. The meaning of strategic management and various activities performed in the strategic management are discussed below.

Strategic management is obviously different from strategy. Strategic management is a process through which decision making is done. Strategic management is the continuous planning, monitoring, analysis and assessment of all that is necessary for an organisation to meet its goals and objectives. The strategic management process involves analysing cross-functional business decisions prior to implementing them. Strategic management typically involves:

- Analysing internal and external strengths and weaknesses.
- Formulating action plans.
- Executing action plans.
- Evaluating to what degree action plans have been successful and making changes when desired results are not being produced.

Thus, strategic management necessitates a commitment to strategic planning which represents an organisation's ability to set goals to determine the decisions and actions that need to be taken to produce those results. Some more definitions of strategic management are given below.

1.2.2 Definitions of Strategic Management

- According to **Samuel C Certo and J. Paul Peter**, '*Strategic management is a continuous, iterative, cross-functional process aimed at keeping an organisation as a whole appropriately matched to its environment.*'
- **Schellenberger** and **Bosenan** define strategic management as, '*the continuous process of effectively relating the organisation's objectives and resources to the opportunities in the environment.*'
- According to **John A Pearce II and Richard B. Robinson, Jr.**, Strategic management is the set of decisions and actions resulting in the formulation and implementation of

strategies designed to achieve the objectives of an organisation. It involves attention to no less than nine critical areas. These critical areas are as follows.

- (i) Determining the mission of the company, including broad statements about its purpose, philosophy and goals.
- (ii) Developing company profile that reflects the internal conditions and capabilities.
- (iii) Assessment of the company's external environment, in terms of both competitive and general contextual factors.
- (iv) Analysis of possible options uncovered in the matching of the company profile with the external environment.
- (v) Identifying the desired options uncovered when possibilities are considered in light of the company mission.
- (vi) Strategic choice of a particular set of long-term objectives and grand strategies needed to achieve the desired objectives.
- (vii) Development of annual objectives and short-term objectives and grand strategies needed to achieve the desired options.
- (viii) Implementing strategic choice decisions based on budgeted resource allocations and emphasising the matching of tasks, people, structure, technologies and reward systems.
- (ix) Review and evaluation of the success of the strategic process to serve as a basis for control and as an input for future decision making.

[Source: Strategic Management by John A Pearce II and Richard B. Robinson, Jr]

From the various definitions of strategic management given above, the following features of strategic management emerge.

1.2.3 Characteristics of Strategic Management

The characteristics of strategic management are as follows:

- 1. Provides Direction:** Strategic management provides the much needed direction to a business firm. This direction is given in the form of preparing vision, mission, goals and objectives of the business firm. Due to this, the efforts of the firm become well directed and it is able to achieve its specific objectives.
- 2. Continuous Process:** Strategic management is a continuous process. This means that due to the ever changing environmental factors, strategy formulation is to be done on a continuous basis. There is no end to strategy formulation.
- 3. Constantly Changing:** The environment around a business firm is changing constantly. There are several external environmental factors such as economic, legal, social, cultural, political, technological, demographic etc. Similarly there are internal environmental factors that include the manpower available with the firm, infrastructure, use of technology etc. Strategic management process helps to identify these factors and formulate strategies to counter these factors.

4. **Obtains Inputs from all Departments:** Strategic management obtains inputs from all departments including human resources development, finance, marketing, productions, materials, research and development, stores etc. In fact strategic management is an integrated process of formulating strategies, implementing them and reviewing them for further modifications.
5. **Proactive:** Strategic management helps management to be pro active rather than reactive.
6. **Analysis of SWOT:** Analysing strengths, weaknesses, opportunities and threats is possible through strategic management. Additionally, once strengths are analysed, opportunities can be explored. Similarly, when weaknesses are identified, efforts can be made to overcome them.

1.2.4 Strategic Management Vs Operational Management

Strategic management is the process of understanding the business environment, developing the desired state of performance and implementing strategies to achieve it. Operations management involves executing the strategy on the day to day basis to achieve the desired performance in the long run.

The difference between strategic management and operations management can be described as follows:

Strategic Management	Operational Management
Strategic management is an organisational wide activity where the operations, sales and finance are concerned from the top level to the bottom level of the organisation. In other words strategic management is concerned about all the activities in the organisation as a whole.	The operations management is concerned of operations as in production function of the organisation at the operations/ manufacturing floor level of the organisation.
Strategic management is a long term process where it identifies the long term desired level of performance and tries to achieve it.	Operations management is short term, focused and handles day to day operations of an entity.
The strategic management process involves non routinised tasks which is very ambiguous and dynamic in nature.	The operations management involves day to day activities of a business organisation at the operations level which is very routinised and mechanical. It does not involve any ambiguity.

contd. ...

Strategic management is a complex process which requires heavy management skills to handle.	Operations management is a fairly simple process and a manager with average skills can handle the daily operations of the organisation.
Survival of an organisation is directly linked to strategic management process as it manages critical success factors of an organisation. It identifies the factors that has a direct link to the survival of an organisation and manages them to optimise performance.	Operation management is not directly related to the survival of the organisation rather it indirectly influences the survival through the cumulative performance on a day to day basis.

1.3 Strategic Management Process

Strategic management is obviously different from strategy. Strategic management is a process through which decision making is done. Thus strategic management includes the following stages:

- (i) **Strategic Intent:** The first stage is to chalk out the strategic intent. Strategic intent of a business organisation is the intention of the organisation in moving in a particular direction. A business organisation has to decide the direction in which it wants to go. Strategic intent, thus defines the intention of an organisation. It includes the process including drafting the vision and mission statements, deciding the goals and objectives of the organisation and fixation of the short-term and long-term objectives of the organisation. Thus strategic intent is an important aspect of the strategic management and considerable time and thought is devoted to fix the strategic intent. Strategic intent provides direction to the organisation.
- (ii) **Strategy Formulation:** The next stage in strategic management is to formulate strategies. Formulation of strategies is equally a difficult task. For the formulation of strategies, it is necessary to study the following important aspects.
 - (a) **External Environmental Factors:** These factors include various factors such as the legal, political, social, cultural, demographic environmental factors prevailing around the business organisation. These factors also include the competition around the organisation. The external environmental factors affect the organisation's strategies and hence they should be studied thoroughly before formulating strategies. At the same time it should be remembered that the external environmental factors are out of control of the organisation and hence a business firm cannot influence or change them. All that a firm can do is to adopt them or to chalk out strategies to counter them.

- (b) Internal Environmental Factors:** These factors include the internal environmental factors within an organisation. Internal environment includes various factors such as the availability of infrastructure, manpower, strengths and weaknesses of the organisation etc. Internal environmental factors can be controlled by a business firm up to a certain extent as they are not as uncontrollable as the external environmental factors.
- (c) SWOT Analysis:** A business firm has to carry on the SWOT analysis, i.e. strengths, weaknesses, opportunities and threats of not only its own but also of its competitors. This analysis gives the firm an idea about the strengths and weaknesses of the firm as well as those of the competitors. The SWOT analysis helps an organisation to identify the potential threats to its existence and also locate the opportunities available which can be used to achieve the desired growth rate.
- (iii) **Implementation of Strategies:** After deciding the strategic intent and formulating strategies, the next stage is to ensure that the strategies formulated are actually implemented effectively. For this various actions are required. A business firm has to allocate resources such as manpower, money, and machines etc. for strategy implementation. For example, when a firm embarks on diversification strategy, it has to provide necessary infrastructure, manpower, monetary provisions and other facilities such as research and development in order to implement the strategy of diversification. Similarly there has to be a proper design of the organisation to ensure smooth implementation. A firm has also to sort out behavioural and structural problems if any, arising during the implementation of strategies. In short, a business firm has to be fully ready to implement the strategies.
- (iv) **Evaluation of Strategies:** The implementation and evaluation of strategies is to be concurrent. It means that the evaluation of strategies should be done simultaneously with the implementation. The basic objective of evaluation is to see that the implementation is as per the plan and if any strategy has proved to be ineffective, it can be modified or changed suitably. Sometimes, a strategy may not work and give desired results; in this situation it is worth to change it so that an alternative strategy can be planned. From the evaluation, it is possible to note this situation and an action can be taken accordingly.

Thus from the above discussion, it can be understood that strategic management is a very comprehensive term and includes various aspects right from defining the strategic intent to the evaluation of strategies.

The various stages of strategic management can be shown in the following chart:

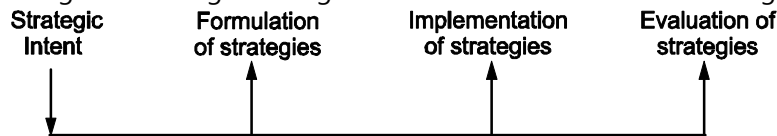


Fig. 1.1: Various Stages of Strategic Management

1.4 Stakeholders in Business

1.4.1 Introduction

In a business organisation there are various stakeholders such as the top management, employees, customers, suppliers, society and Government. In formulation of the strategies there should be participation of all the stakeholders as the organisation has to protect the interests of all the stakeholders. Stakeholders are different groups of people that have an interest in the operations of a business. Shareholders are a prominent stakeholder group for a publicly-owned company. However, customers, communities, employees and business partners are stakeholder groups that have taken on more significance in the early 21st century business environment in which social responsibility is more expected of businesses.

1.4.2 Types of Stakeholders and their Role in Strategic Management

The word "stakeholder" means any person with an interest in the business -- someone who can contribute to the company's growth and success or who benefits from its success. The various stakeholders in a business have differing roles and their level of involvement in the enterprise varies from full-time to barely involve at all. The company's CEO seeks to utilise the skills, experience and knowledge of each stakeholder group to further the organisation's long-term goals. The types of stakeholders are:

1. **Employees:** Top management may set the overall strategic direction for the company, but the employees are responsible for carrying out the tasks specified in the company's strategic plan in an efficient manner. Employees are the closest to the action. They interact with customers on a daily basis. In a manufacturing environment, they work directly on the company's products. The company's success depends largely on the skill and dedication of its employees. Without the employees performing their roles proficiently, the company will not reach its revenue and profit potential.
2. **Stockholders:** Stockholders' initial role is to provide the capital, a company needs to grow and expand, or in the case of a startup venture, the capital it needs to launch its products or services into the marketplace. In private companies, stockholders may take an active role in setting the strategic direction for the venture. They sometimes

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