STRATEGIC MANAGEMENT

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CHAPTER 1

BUSINESS ENVIRONMENT

I) RELATIONSHIP BETWEEN ORGANISATION AND ITS ENVIRONMENT :

The various interactions between organisation and environment can be analysed as under:

A. EXCHANGE OF INFORMATION :

Inflow:

a) Organisation analyses the external environment variables, generates important information, and uses it for its planning, decision-making and control purposes.

And to get over the problems of uncertainty and complexity..

b) Information is to be generated on economic activity and market conditions, technological developments, social and demographic factors, etc.

Outflow:

The organisation transmits information to several external agencies:

a) Voluntarily: Product Advertisement, Road Shows, etc.

b) Inadvertently: It is possible to obtain information from the behaviour of the organisation itself. E.g. VRS Plan Announcement

c) Legally: Reports/Returns to Governmental Agencies, investors, employees, etc.

B. EXCHANGE OF RESOURCES :

Inflow:

a) Organisation receives inputs- human, physical, finance and technology from the external environment through contractual and other arrangements.

b) A business enterprise competes and collaborates with other organisations for consistent supply of inputs.

Outflow:

a) Organisation is dependant on external environment for disposal of output of products and services to wide clientele.

b) This is an interaction process – perceiving needs of external environment and catering to the needs of customers, employees, shareholders, creditors, etc.

C. EXCHANGE OF INFLUENCE AND POWER :

Inflow:

a) The external environment holds considerable power over the organisation by virtue of its command over resources, information and other inputs.

b) It offers a range of opportunities, rewards on one hand, and set of constraints, threats on the other.

Outflow:

a) External environment is subject to the influence and power of the Firm in some respects.

b) Organisation can dictate terms to external forces. E.g., Resources which are consumed by and organisation should be utilized gainfully.

Direct competition is between organizations, which are in same business activity. At the same time, competition can also be indirect. For example, competition between a holiday resort and car manufacturing. Company for available discretionary income of affluent customers is **indirect competition**.

II) SUPERNATIONAL ENTERPRISE:

It is a worldwide enterprise chartered by a substantially non-political international body such as IMF or World Bank. Its functions are:

a) ***International business service and it performs service in nations which permit its entry***.

b) It should be able to ***draw the economic world closer*** together.

c) It could ***serve all nations without being especially attached to anyone of them***.

III) COOPERATION IN A COMPETITIVE ENVIRONMENT:

In competitive environment, cooperation between different member firms can be compared to oligopoly. In oligopoly, a small number of only manufactures/sellers of a product may join together to have monopolistic behaviour. An example of oligopoly can be Organization of the Oil Exporting Countries (OPEC).

Cooperation can take the following forms –

- Cooperation in organisations forming cartels (a term used to define the groups in oligopoly) may be in form of deciding market shares, prices and profits.
- Business arrangement with enterprises in related activities. E.g. Co-branding, tie-up, etc
- Kieretsus.

IV) KIERETSUS :

The benefits of cooperation are seen in Japan, where ***large cooperative networks of businesses*** are known as *kieretsus*.

These are formed in order to ***enhance the abilities of individual member businesses*** to compete in their respective industries.

In *Kieretsu* members ***remain independent companies*** in their own right: the only strategy they have in common is to prefer to do business with other *kieretsu* members, both when buying and when selling.

Kieretsu members are peers and may own ***significant amounts of each other's stock*** and have many board members in common.

They are ***different from conglomerates (***Common in western countries and also found in India) wherein all members are lineated through ownership pattern.

A *kieretsu* also ***differs from a consortium or an association***, as the primary purpose of a *kieretsu* is to share purchasing, distribution or any other functions.

CHAPTER 2

BUSINESS POLICY & STRATEGIC MANAGEMENT

Strategy can never be perfect, flawless and optimal: It is in the very nature of strategy that it is flexible and pragmatic; it includes allowance for second-best choices, trade-offs sudden emergencies, failures and frustrations.

I) GENERIC STRATEGIC ALTERNATIVES / GRAND OR MASTER STRATEGIES :

According to William Glueck and Lawrence Jauch, strategic alternatives can be considered in four generic ways. These are :

1.STABILITY STRATEGY: One of the important goals of a business enterprise is stability − to safeguard its existing interests and strengths, to pursue well established objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

2. EXPANSION STRATEGY:

Expansion is a promising and popular strategy that tends to be equated with dynamism, vigour, promise and success. It is often characterised by significant reformulation of goals, major initiatives and moves involving investments, exploration into new products, new technology and new markets, action programmes and so on. Expansion also includes diversifying, acquiring and merging businesses.

A. ***Expansion through diversification*:** Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.

Reasons:

- **Growth :** Diversification offers greater prospects of growth and profitability.

- **Innovation:** Innovative and creative Firms look for opportunities and challenges to venture into new activities.
- **Capacity Utilisation:** They may have excess capacity in manufacturing facilities, investible funds, marketing channels, managerial and other manpower, research and development, and so forth.
- **Synergy:** Another reason for diversification lies in its synergistic advantage. It may be possible to improve the sales and profits of existing products by adding suitably related or new products, because of linkages in technology and/or in markets.

B. **Expansion through acquisitions and mergers:** Acquisition or merger with an existing concern is an instant means of achieving the expansion. It circumvents the time, risks and skills involved in internal growth opportunities and building up necessary resource base required to materialize growth.

Reasons:

a) **Growth:** To meet the business urge to grow.

b) **Synergy :** To achieve a measure of synergy between the parent and the acquired enterprises which results from such factors as physical facilities, technical and managerial skills, distribution channels, general administration, R&D and so on.

3. *RETRENCHMENT STRATEGY*: A business organization can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary for coping with particularly hostile situations in the environment. Retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse effects of advancing forces, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

4 *COMBINATION STRATEGIES*: The above strategies are not mutually exclusive. It is possible mix the above strategies based on situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of.

II) STRATEGIC MANAGEMENT :

The ***overall objective*** of strategic management is two fold:

♦ To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.

♦ To guide the company successfully through all changes in the environment.

III) THE TASK OF STRATEGIC MANAGEMENT

The strategy-making/strategy-implementing process consists of five interrelated managerial tasks. These are:

♦ ***Setting vision and mission****:* Forming a strategic vision of where the organization is headed, so as to provide long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organization with a sense of purposeful action.

♦ ***Setting objectives:*** Converting the strategic vision into specific performance outcomes for the company to achieve.

♦ ***Designing a strategy*** to achieve the desired outcomes.

♦ ***Implementing and executing the chosen strategy*** efficiently and effectively.

♦ ***Evaluating performance and initiating corrective adjustments*** in vision, long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities.

III) STRATEGIC MANAGEMENT MODEL :

The strategic management process can best be understood by using a model. This model is not a sure-shot success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic management process are shown in the model.

Identifying an organization's existing vision, mission, objectives, and strategies is the starting point for any strategic management process because an organization present situation and condition may preclude certain strategies and may even dictate a particular course of action. Every organization has a vision, mission, objectives, and strategy, even if they are not consciously designed, written, or communicated.

The strategic management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis.

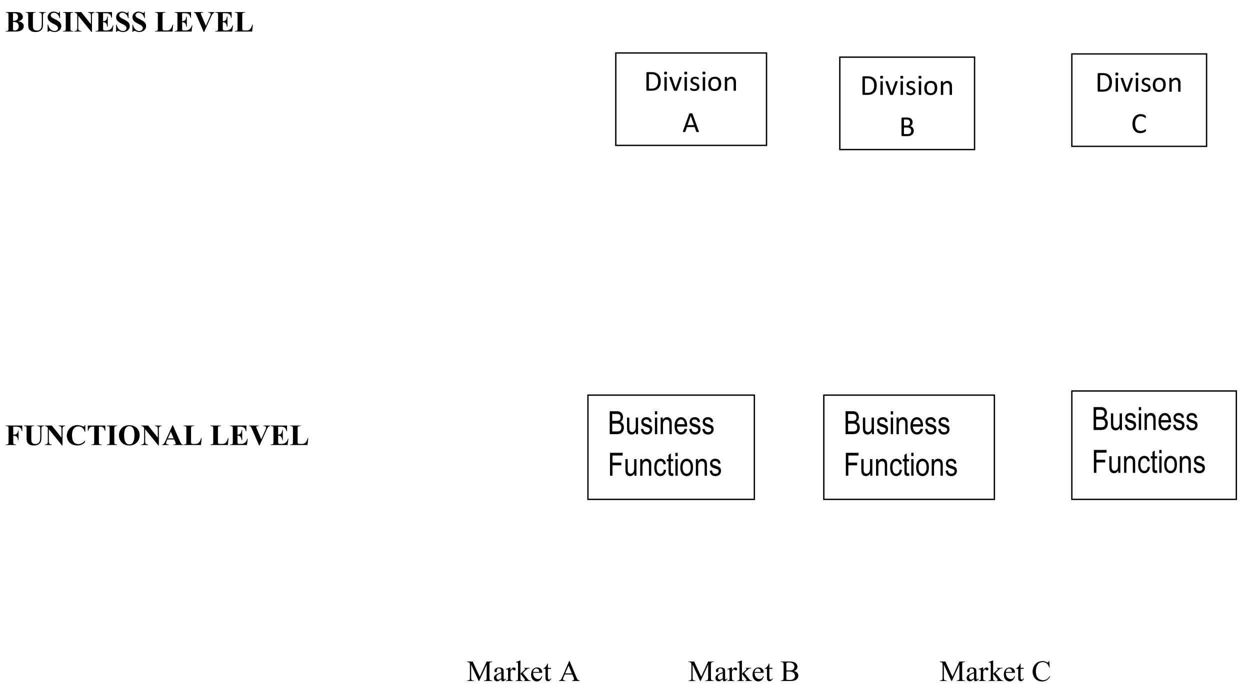
Application of the strategic management process is typically more formal in larger and well-established organizations. **Formality** refers to the extent that participants, responsibilities, authority, duties, and approach are specified. Firms that have many divisions, products, markets, and technologies also tend to be more formal in applying strategic-management concepts.

Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organization.

IV) STRATEGIC LEVELS IN ORGANISATIONS :

CORPORATE LEVEL

Head Office



CORPORATE LEVEL:

1. **Consists of** Chief Executive Officer (CEO), other Senior Executives, Board of Directors, and Corporate Staff.
2. They occupy the **apex of decision** making within the organisation.
3. Their role is to **develop corporate strategies** along with other senior executives.
4. **Responsibilities :**

    - Setting overall strategic objectives,
    - Allocating resources among the different business areas,
    - Deciding whether the Firm should divest itself/ acquire any of its businesses,
    - Ensuring Shareholder Welfare.

BUSINESS LEVEL:

1. The principal General Manager at the Business Level, or the Business Manager, is the head of the concerned division.

2. The strategic role of these managers is to translate the general statement of direction and intent that come from the corporate level, into concrete strategies for individual businesses.
3. To develop strategies for competing in individual business areas, such as financial services.

Thus, corporate level general managers are concerned with strategies that span individual businesses; business level general managers are concerned with strategies that are specific to a particular business.

FUNCTIONAL LEVEL:

1. Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions.
2. Functional level managers develop functional strategies in their area that help fulfil the strategic objectives set by business and corporate level managers.
3. Functional managers provide most of the information that makes it possible for business and corporate managers to, formulate realistic and attainable strategies because they are closer to the customer.

CHAPTER 5

FORMULATION OF FUNCTIONAL STRATEGY

FUNCTIONAL AREA STRATEGY:

(Marketing, financial, production and Human Resource), is based on the functional capability factors. For each functional area, first the major sub areas are identified and then follow a discussion of each of these sub functional areas regarding the content of functional strategies, important factors, and their importance in the process of strategy implementation.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies, there might be several sub-functional areas. Functional strategies are made within the guidelines set at higher levels. Functional managers need guidance from the business strategy.

THE REASONS WHY FUNCTIONAL STRATEGIES ARE NEEDED:

♦ ***Implementation:*** The strategic decisions are implemented by all the parts of an organization.

♦ ***Control:*** There is a basis available for controlling activities in the different functional areas of business.

♦ ***Managerial Efficiency:*** The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.

♦ ***Consistency*** **:** Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

♦ ***Coordination:*** Coordination across the different functions takes place where necessary.

♦ ***Feasibility:*** The development of functional strategies is aimed at making the strategies formulated at the top management level practically feasible at the functional level.

The factors that affect Functional Strategy are:

a. Corporate Strategies.
b. Environmental Factors relevant to each functional area
c. Resource Allocation decisions
d. Other objective and subjective factors, e.g. measurability, need for harmonising different work areas, availability of choice/options etc.

1. MARKETING STRATEGY FORMULATION

Figure: Value Delivery Network

2.1 Marketing Issues: Countless marketing variables affect the success or failure of strategy implementation. Some examples of marketing decisions that may require policies are as follows:

1. To use exclusive dealerships or multiple channels of distribution.
2. To use heavy, light, or no TV advertising.
3. To limit (or not) the share of business done with a single customer.
4. To be a price leader or a price follower.
5. To offer a complete or limited warranty.
6. To reward salespeople based on straight salary, straight commission, or a combination salary/commission.
7. To advertise online or not.

The Marketing Process:

♦ Once the strategic plan has defined the company's overall mission and objectives', marketing plays a role in carrying out these objectives.

♦ The marketing process is the process of analyzing market opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort.

♦ Target customers stand at the centre of the marketing process.

Connecting with consumers

To succeed in today's competitive marketplace, companies must be customer centred. They must win customers from competitors and keep them by delivering greater value. Since companies cannot satisfy all consumers in a given market, they must divide the total market (***market segmentation***), choose the best segments ***(market targeting),*** and design strategies for profitably serving chosen segments better than the competition ***(market positioning***).

Developing the marketing mix

Once the company has decided on its overall competitive marketing strategy, it is ready to begin planning the details of the marketing mix. The **marketing mix** is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as ***the "four Ps."***

- ***Product***
- ***Price***
- ***Place***
- ***Promotion***

<u>Expanded Marketing Mix :</u> *In addition to the traditional four Ps the new marketing mix (particularly for services) includes people, physical evidences and process.*

- ***People :*** all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.
- ***Physical evidence****:* the environment in which the market offering is delivered and where the firm and customer interact.

- ***Process****:* the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

MARKET ANALYSIS:

Market Analysis is performed by:

- Identifying environmental opportunities and threats,
- Analysing strengths and weaknesses to determine which opportunities the Company can best pursue.
- Feeding information and other inputs to each other marketing management functions.

Areas to be analysed include:

1. ***Task Environment:*** i.e. forces close to the Company, e.g. (a) ability to serve the customers (b) other Company Departments (c) Distribution Channel members (d) Suppliers (e) Competitors (f) Customers.
2. ***General Environment :*** i.e. Broader forces like – (a) demographic and economic (b) political and legal forces (c) technological and ecological factors (d) social and cultural factors.

CHAPTER 7

REACHING STRATEGIC EDGE

I) IMPORTANCE OF / STEPS IN BUSINESS PROCESSES:

1. ***Analysis:*** The structural elements that constitute a process provide the basis for its analysis, appraisal, and re-design for achieving higher levels of efficiency and effectiveness, quality and output.
2. ***Linkages:*** A set of inter-connected processes comprise a Business System. The performance of the Business Firm is thus the outcome of the inter-related operations.
3. ***Competitive Advantage:*** Core Business Processes are critical in a Company's evaluation by its customers. Such processes are crucial for generating competitive advantage for the Firm.

II) CORE OR GENERIC BUSINESS PROCESS :

Meaning : A core business process creates value by the capabilities it provides to the competitiveness. Core business processes are critical in a company's evaluation by its customers. They are vital for success in the industry sector within which the company is positioned. They are crucial for generating competitive advantages for a firm in the marketplace.

Examples:

♦ In the insurance industry, the actual work that leads to a balance of competitive premium for customers, and profit after claims for the company, is a core business process.

♦ In the banking industry, the activities that help mobilise deposits and generate funds for advances to customers, is a core business process.

Change : The core processes of a company may change over a period of time according to the shifting requirements of its competitiveness.

Types : "The generic business processes of a firm needing redesign may be classified into three broad categories as follows:

♦ Processes pertaining to *development and delivery of product(s) and/or services*. These may include research, design, engineering, manufacturing, and logistics, besides purchasing / procurement and materials management.

♦ Process *involving interface(s) with customers*. These usually include marketing, advertising, order fulfilment, and service.

♦ Process comprising *management activities:* These include strategy formulation, planning and budgeting, performance measurement and reporting, human resource management, and building infrastructure.

BUSINESS PROCESS RE-ENGINEERING (BPR) :

BPR stands for Business Process Re-Engineering . It refers to the analysis and redesign of workflows and processes within and between the organisations and external entities. Its objective is to improve performance in terms of time, cost, quality and responsiveness to customers. It implies giving up old practices and adopting the improved ones. Its an effective tool of realising new strategies.

UNDERLYING PREMISES FOR BPR :

Issues that emerge from the foregoing discussions on the need for change form the underlying premises of Business Process Reengineering (BPR). They may be briefly outlined as follows:

♦ ***The operational excellence*** of a company is a major basis for its competitiveness.

♦ ***Process Orientation :*** The business strategy of a company should be oriented towards leveraging its operational excellence into the marketplace.

♦ ***No Old Ideas :*** For considering totally new ways of redesigning processes, each and every concept, assumption, purpose, and principle, needs to abandoned temporarily.

♦ ***Dramatic Improvement :*** Dramatic improvement in performance is the prerequisite for overcoming competition. Continuous improvement is a deficient approach when a company is far behind the industry standards, and needs rapid quantum leaps in performance.

♦ ***Competitive Advantage :*** How to compete is more important than deciding about where to compete.

♦ ***Top Management Support :*** BPR drive is supported by the vision and commitment of the Firm's top leadership, to ensure its effective completion and implementation.

Rationale of BPR :

Improving business processes is paramount for businesses to stay competitive in today's marketplace.

Over the last decade several factors have accelerated the need to improve business processes. The most obvious is technology. New technologies (like Information Technology) are rapidly bringing new capabilities to businesses, thereby raising the strategical options and the need to improve business processes dramatically.

After opening up of Indian economy companies have been forced to improve their business processes because of increased competition. More companies have entered the market place, and competition has become harder and harder. In today's market place, major changes are required to just stay even. It has become a matter of survival for most companies.

Customers are also demanding better products and services. If they do not receive what they want from one supplier, they have many others to choose from. They are ready to try new brands.

THE BASIC PRINCIPLES THAT DIFFERENTIATE REENGINEERING FROM ANY OTHER DRIVE ON IMPROVING ORGANIZATIONAL EFFICIENCY :

	Business Process Re-engineering	**Conventional Methods of improving operational efficiency**
1	***Total*** re-designing of business processes.	***Partial*** modification of processes
2	***Dramatic*** improvements in performance.	***Marginal*** improvements in performance.
3	Re-engineering leads ***to re-structuring*** of the organisation.	Its ***not*** necessary.

4	Altogether ***new*** processes are identified.	May ***not*** be identified.
5	***Fundamentally re-thinking*** is involved.	***Need not be*** fundamentally modified.
6	Leads to ***massive*** organisational change.	***May not*** involve a substantial change, as seen in BPR

OBJECTIVES OF BUSINESS PROCESS RE-ENGINEERING :

1. To ***obtain quantum gains*** in the performance of the process in terms of time, cost, output, quality, and responsiveness to customers.
2. To simplify and ***streamline the process***by – a) Eliminating all redundant steps, activities. b) Reducing drastically the no. of stages. c) Speeding up the work-flow through the use of info-tech systems.
3. To obtain ***dramatic improvement*** in operational effectiveness, by re-designing core business processes and supporting business systems.

TOTAL QUALITY MANAGEMENT : "is mgmt philosophy , an abstract entity"

Total Quality Management (TQM) : is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organisation and the supply chain is responsible for preventing rather than detecting defects.

TQM is a total system approach (not a separate area or program) and an integral part of high-level strategy; it works horizontally across functions and departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain. TQM stresses learning and adaptation to continual change as keys to organizational success.

"Continuous improvement" refers to both incremental and "breakthrough" improvement. Improvements may be of several types:

- Enhancing value to the customer through new and improved products and services;
- Developing new business opportunities;
- Reducing errors, defects, and waste;

- Improving responsiveness and cycle time performance; and
- Improving productivity and effectiveness in the use of all resources.

4. **SIX SIGMA:**

Primarily Six Sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost. It also means taking systematic and integrated efforts toward improving quality and reducing cost.

Features :

a) Highly disciplined process that helps in developing and delivering near-perfect products and services.

b) It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on.

c) Six Sigma has its base in the concept of probability and normal distribution in statistics.

d) Six Sigma strives that 99.99966% of products manufactured are defect free. Six Sigma is a smarter way to manage a business or a department.

e) Six Sigma puts the customer first and uses facts and data to drive better solutions.

f) Full or Total Business Initiative, not merely a quality initiative.

g) Seeks to achieve breakthroughs in every area of operation, not merely small marginal improvement.

6. CONTEMPORARY STRATEGIC ISSUES

Medical organizations:

- A successful hospital strategy for the future will require renewed and deepened collaboration with physicians.
- Backward integration strategies include acquiring ambulance services, waste disposal services, and diagnostic services.

- Many people research medical ailments online, which is causing a dramatic shift in the balance of power between doctor, patient, and hospitals.
- Intel recently began offering a new secure medical service whereby doctors and patients can conduct sensitive business on the Internet, such as sharing results of medical tests and prescribing medicine.
- The most successful hospital strategies today are providing physical rehabilitation centres, cardiac rehabilitation centres, women’s medicine services, and psychiatric services, etc.