

Strategic

process strategy related enable

political industries goals cross-functional resources conduct evaluate determine potential combination succeeded strategies evaluating policies administration consistent ongoing balanced used vision

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CHAPTER 1 BUSINESS ENVIRONMENT

BUSINESS

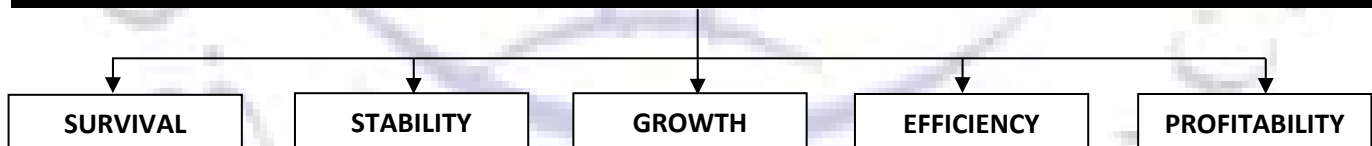
The term business refers to the state of being busy for an individual, group, organization or society. The term is also interpreted as one's regular occupation or profession. In another sense, the term refers to a particular entity, company or corporation.

A business for our purposes can be any activity consisting of purchase, sale, manufacture, processing, and/or marketing of products and/or services. People invest in business for getting a return. It is a reward for risk taking, so far as the owners are concerned. As a motive, profit serves as a stimulant for business effort.

Peter F Drucker has drawn two important conclusions about what is a business that are useful for an understanding of the term business.

- ❖ The first thing about a business is that it is **CREATED AND MANAGED BY PEOPLE**. There will be a group of people who will take decisions that will determine whether an organization is going to prosper or decline, whether it will survive or will eventually perish. This is true of every business.
- ❖ The second conclusion drawn is that the business cannot be explained in **TERMS OF PROFIT**. The economic criterion of maximising profits for a firm has little relevance in the present times. Profit maximization has been qualified with the long-term perspective and has been modified to include development of wealth, to include several non-financial factors such as goodwill, societal factors, relations and so on.

OBJECTIVES OF A BUSINESS



A business has some purpose. A valid purpose of business is to create customers. It is for the businesses to create a customer or market. A purpose of business is that business exists to create customers. It is the customer who determines what a business is.

We may now elaborate some of the important objectives of a business are:

1. **SURVIVAL:** Survival is the will and anxiety to perpetuate into the future as long as possible. The ability to survive is a function of the nature of ownership, nature of business competence of management, general and industry conditions, financial strength of the enterprise and so on.
2. **STABILITY:** One of the most important of objectives of business enterprises is stability. In a sense, stability is a least expensive and risky objective in terms of managerial time and talent and other resources. A stable and steady enterprise minimises managerial tensions and demands less dynamism from managers. It is a strategy of least resistance in a hostile external environment.

3. **GROWTH:** Growth may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls. Enterprise growth may take one or more of the forms like increase in assets, manufacturing facilities, increase in sales volume in existing products or through new products, improvement in profits and market share, increase in manpower employment, acquisition of other enterprises and so on.
4. **EFFICIENCY:** In a sense, efficiency is an economic version of the technical objective of productivity – designing and achieving suitable input output ratios of funds, resources, facilities and efforts. Efficiency is a very useful operational objective.
5. **PROFITABILITY:** Profit is the overall measure of performance. This is the main objective of business. Profit maximization has a long-term perspective and includes development of wealth, increased goodwill, and benefits to all shareholders.

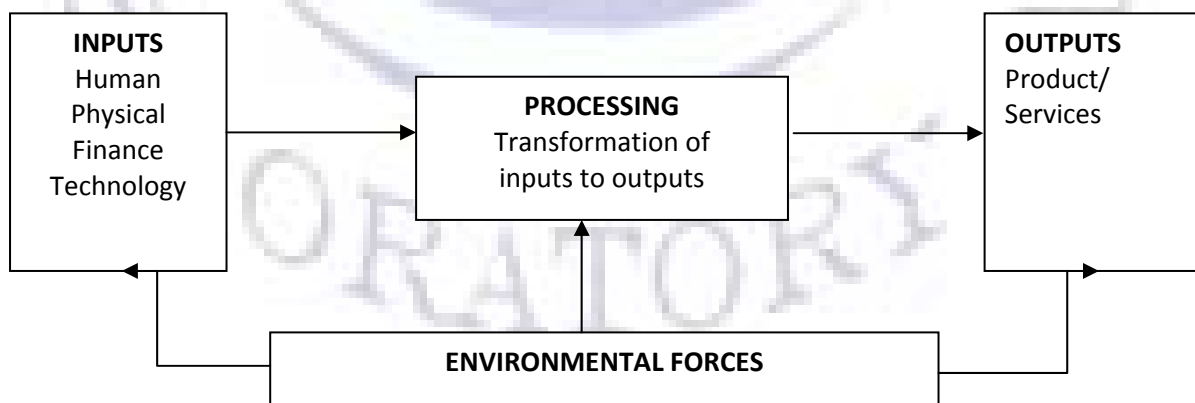
ENVIRONMENTAL INFLUENCES ON BUSINESS

Businesses function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment.

A business which continually remains passive to the relevant changes in the environment is destined to gradually fade-away in oblivion. To be successful business has to not only recognise different elements of the environment but also respect, adapt to or have to manage and influence them

Environment is sum of several external and internal forces that affect the functioning of business. According to Glueck and Jauch "The environment includes **factors outside the firm** which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government. "

Organizations depend on the external environment for the inputs required by them and for disposing of their outputs in a mutually beneficial manner. The input-output exchange activity is a continuous process and calls for an active interaction with the external environment.



PROBLEMS in understanding the environmental influences:

1. The environment encapsulates many **DIFFERENT INFLUENCES**; the difficulty is in making sense of this diversity in a way which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be of much use because no overall picture emerges of really important influences on the organization.
2. **UNCERTAINTY**. Managers typically claim that the pace of technological change and the speed of global communications mean more and faster change now than ever before. While it is important to try to understand future external influences on an organization, it is very difficult to do so.
3. Complexity. Managers tend to simplify complexity by focusing on aspects of the environment, which, perhaps, have been historically important, or confirm prior views. But it is not an appropriate base to understand the external influences.

WHY ENVIRONMENTAL ANALYSIS?

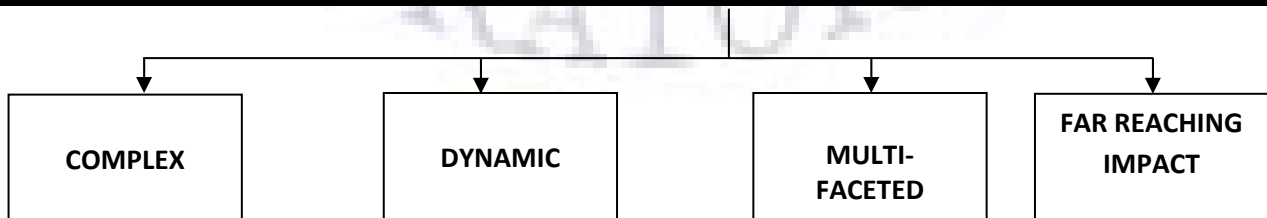
Environmental analysis helps strategists to anticipate opportunities and to plan to take optional responses to these opportunities. It also helps strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm's advantage.

Some or most of the future events are anticipated by this analysis and diagnosed, through which managerial decisions are likely to be better.

Environmental analysis has three **BASIC GOALS** as follows:

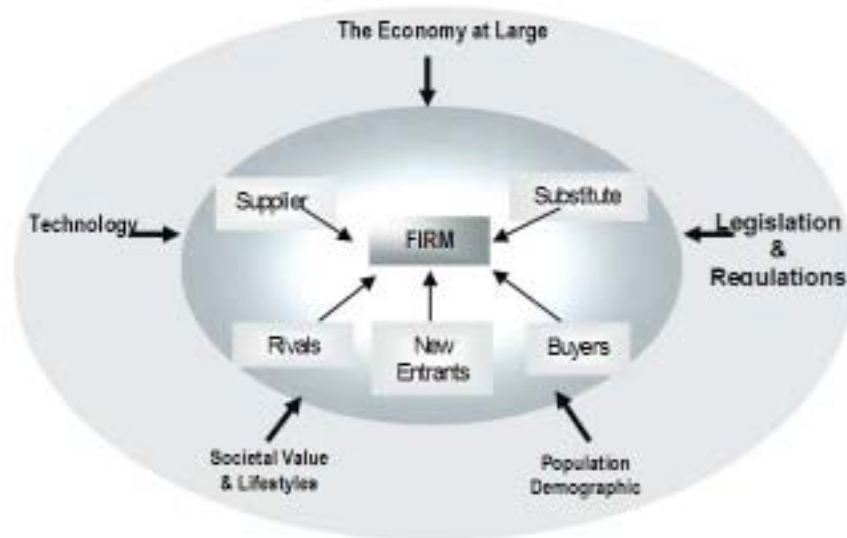
- ❖ First, the analysis should provide an **UNDERSTANDING of** current and potential **CHANGES** taking place in the environment. It is important that one must be aware of the existing environment. At the same time one must have a long term perspective about the future too.
- ❖ Second, environmental analysis should **PROVIDE INPUTS FOR STRATEGIC DECISION MAKING**. Mere collection of data is not enough. The information collected must be useful for and used in strategic decision making.
- ❖ Third, environment analysis should **FACILITATE AND FOSTER STRATEGIC THINKING** in organizations- typically a rich source of ideas and understanding of the context within which a firm operates. It should challenge the current wisdom by bringing fresh viewpoints into the organization.

CHARACTERISTICS OF BUSINESS ENVIRONMENT



1. **COMPLEX:** The environment consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once the factors constituting a given environment. All in all, environment is a complex that is somewhat easier to understand in parts but difficult to grasp in totality.
2. **DYNAMIC:** Due to the many and varied influences operating, there is dynamism in the environment causing it to continuously change its shape and character.
3. **MULTI – FACETED:** A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.
4. **FAR REACHING IMPACT:** The growth and profitability of an organization depends critically on the environment in which it exists. Any environment change has an impact on the organization in several different ways.

COMPONENTS OF BUSINESS ENVIRONMENT



The environment in which an organization exists could be broadly divided into two parts the external and the internal environment. Since the environment is complex, dynamic, multi-faceted and has a far reaching impact, dividing it into external and internal components enables us to understand it better.

The external environment includes all the factors outside the organization which provide opportunity or pose threats to the organization. The internal environment refers to all the factors within an organization which impart strengths or cause weaknesses of a strategic nature.

The environment in which an organization exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment.

The four environmental influences could be described as follows:

- ❖ **OPPORTUNITY:** is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides.
- ❖ **THREAT:** is an un-favourable condition in the organization's environment which creates a risk for, or causes damage to, the organization. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.
- ❖ **STRENGTH:** is an inherent capacity which an organization can use to gain strategic advantage over its competitors. An example of strength is superior research and development skills which can be used for new product development so that the company gains competitive advantage.
- ❖ **WEAKNESS:** is an inherent limitation or constraint which creates a strategic disadvantage. An example of a weakness is over dependence on a single product line, which is potentially risky for a company in times of crisis.

RELATIONSHIP BETWEEN ORGANISATION AND ITS ENVIRONMENT

The relationship between the organization and its environment may be discussed in terms of interactions between them in several major areas which are outlined below:

- ❖ **EXCHANGE OF INFORMATION:** An organization analyses the external environment and uses it for planning, decision making, control, purposes, etc. an organization also supplies information either legally or otherwise to govt. agencies, investors, employees, etc.
- ❖ **EXCHANGE OF RESOURCES:** An organization receives inputs—finance, materials, manpower, equipment etc., from the external environment through contractual and other arrangements. The organization disposes its output of products and services in the external environment and satisfying the expectations and demands of the customers, employees, shareholders, creditors, suppliers, etc.
- ❖ **EXCHANGE OF INFLUENCE AND POWER:** The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources, information and other inputs. In turn, the organization itself is sometimes in a position to wield considerable power and influence over some of the elements of the external environment by virtue of its command over resources and information.

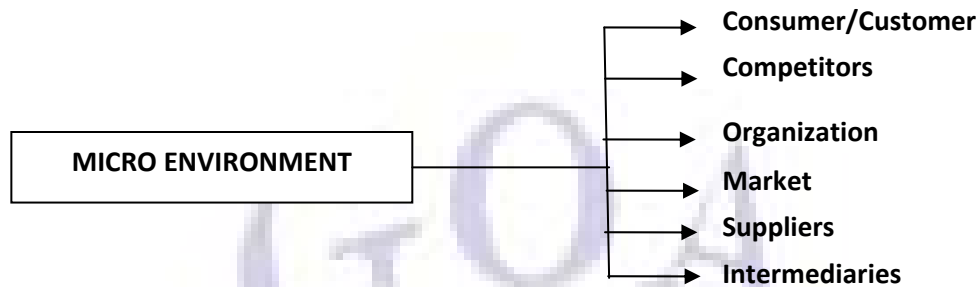
ENVIRONMENTAL SCANNING

Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success.

Environmental scanning can be defined as the process by which **organizations monitor** their relevant **environment** to **identify opportunities and threats** affecting their business for the purpose of **taking strategic decisions**. It is the process of **gathering information** regarding company's environment, **analysing** it and **forecasting** the impact of all predictable environmental changes.

ELEMENTS OF MICRO ENVIRONMENT

(strengths & weaknesses)

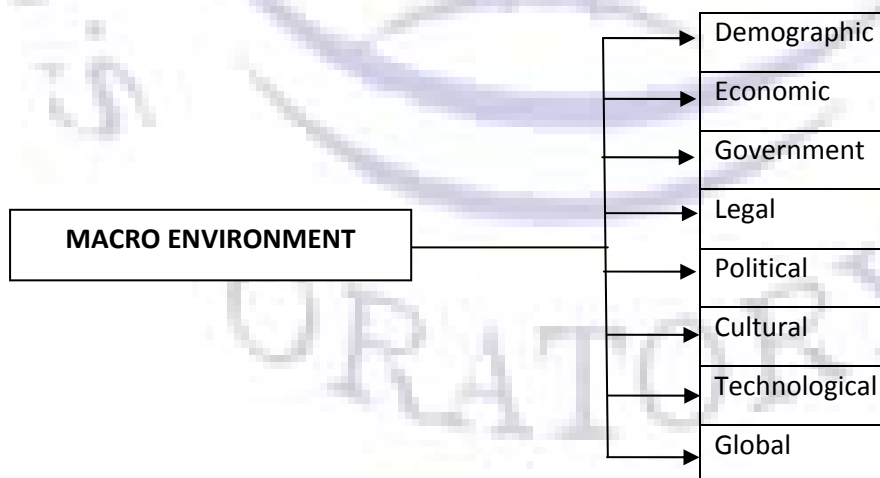


Micro-environment is related to small area or immediate periphery of an organization. Micro-environment influences an organization regularly and directly. Within the micro or the immediate environment in which a firm operates we need to address the following issues:

- The employees of the firm, their characteristics and how they are organised.
- The customer base on which the firm relies for business.
- The ways in which the firm can raise its finance.
- Who are the firm suppliers and how are the links between the two being developed?
- The local community within which the firm operates.
- The direct competition and how they perform.

ELEMENTS OF MACRO ENVIRONMENT

(opportunities & threats)



It consists of demographics and economic conditions, socio-cultural factors, political and legal systems, technological developments, etc. These constitute the general environment, which affects the working of all the firms.

PESTLE ANALYSIS

The term PESTLE is used to describe a framework for analysis of macro environmental factors. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

THE PESTLE MATRIX

POLITICAL Political stability Political principles and ideologies Current and future taxation policy Regulatory bodies and processes Government policies Government term and change Thrust areas of political leaders.	ECONOMIC Economy situation & trends Market and trade cycles Specific industry factors Customer/end-user drivers Interest and exchange rates Inflation and unemployment Strength of consumer spending
SOCIAL Lifestyle trends Demographics Consumer attitudes and opinions Brand, company, technology image Consumer buying patterns Ethnic/religious factors Media views and perception	TECHNOLOGICAL Replacement technology/solutions Maturity of technology Manufacturing maturity and capacity Innovation potential Technology access, licensing, patents Intellectual property rights and copyrights
LEGAL Business and Corporate Laws Employment Law Competition Law Health & Safety Law International Treaty and Law Regional Legislation	ENVIRONMENTAL Ecological/environmental issues Environmental hazards Environmental legislation Energy consumption Waste disposal

STRATEGIC RESPONSES TO THE ENVIRONMENT

It is difficult to determine exactly where the organization ends and where its environment begins. It is also difficult to determine exactly what business should do in response to a particular situation in the environment. Strategically, the businesses should make efforts to exploit the opportunity and nullify the impact of threats. Organizations may follow different approaches as follows:

1. **LEAST RESISTANCE:** Some businesses just manage to survive by way of coping with their changing external environments. They are simple goal-maintaining units.
2. **PROCEED WITH CAUTION:** At the next level, are the businesses that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in that environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength.
3. **DYNAMIC RESPONSE:** At a still higher sophisticated level, are those businesses that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful.

COMPETITIVE ENVIRONMENT

A better understanding of the nature and extent of competition may be reached by answering the following questions:

- (i) Who are the competitors?
- (ii) What are their product and services?
- (iii) What are their market shares?
- (iv) What are their financial positions?
- (v) What gives them cost and price advantage?
- (vi) What are they likely to do next?
- (vii) Who are the potential competitors?

PORTER'S FIVE FORCES MODEL – COMPETITIVE ANALYSIS

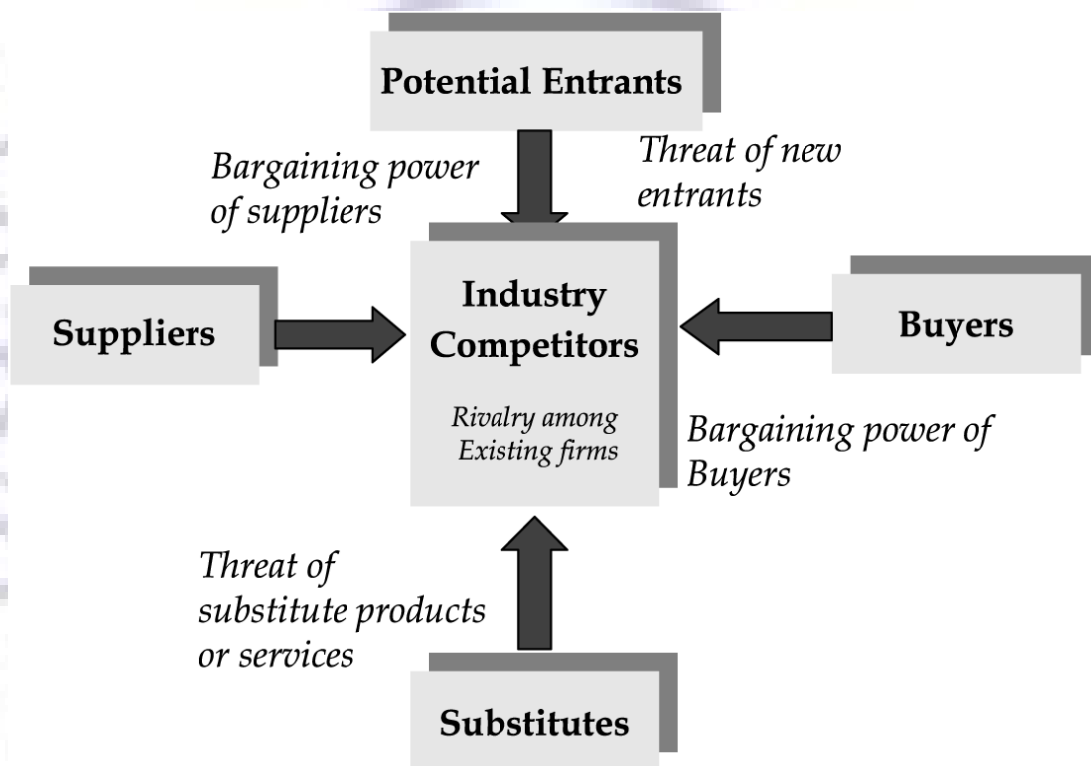
A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- ❖ Competitive pressures associated with the market maneuvering and jockeying for buyer patronage that goes on among **RIVAL SELLERS** in the industry.
- ❖ Competitive pressures associated with the threat of **NEW ENTRANTS** into the market.

- ❖ Competitive pressures coming from the attempts of companies in other industries to win buyers over to their **OWN SUBSTITUTE** products.
- ❖ Competitive pressures stemming from **SUPPLIER** bargaining power and supplier-seller collaboration.
- ❖ Competitive pressures stemming from **BUYER** bargaining power and seller-buyer Collaboration.

The way one uses the five-forces model to determine what competition is like in a given industry is to build the picture of competition in three steps:

- ❖ **STEP 1:** Identify the specific competitive pressures associated with each of the five forces.
- ❖ **STEP 2:** Evaluate how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).
- ❖ **STEP 3:** Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits.



THREAT OF NEW ENTRANTS: New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure, and the bigger the new entrant, the more severe the competitive effect.

BARGAINING POWER OF CUSTOMERS: This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products.

BARGAINING POWER OF SUPPLIERS: The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

RIVALRY AMONG CURRENT PLAYERS: It is obvious that for any player, the competitors influence prices as well as the costs of competing in the industry, in production facilities product development, advertising, sales force, etc.

THREATS FROM SUBSTITUTES: Substitute products are a latent source of competition in an industry. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability. collective strength of these five competitive forces determines the scope to earn attractive profits. The strength of the forces may vary from industry to industry.



CHAPTER 2 BUSINESS POLICY & STRATEGIC MANAGEMENT

BUSINESS POLICY

According to William F Glueck, development in business policy arose from the developments in the use of planning techniques by managers.

Christensen and others defined business policy as, "the study of

- The functions and responsibilities of senior management,
- The crucial problems that affect success in the total enterprise, and
- The decisions that determine the direction of the organization and shape its future.

Business Policy tends to emphasise on the rational-analytical aspect of strategic management. It presents a framework for understanding strategic decision making. Such a framework enables a person to make preparations for handling general management responsibilities.

MEANING AND THE NATURE OF MANAGEMENT

The term 'management' can be used in two major contexts.

1. It is used with reference to a key group in an organisation in-charge of its affairs. An organisation becomes a unified functioning system when management systematically mobilises and utilises the diverse resources. Management has to also facilitate organisational change and adaptation.
2. The term is also used with reference to a set of interrelated functions and processes, to a field of study or discipline in social sciences and to a vocation or profession.

PETER DRUCKER: Management is a function, a discipline, a task to be done, and managers practise this discipline, carry out the functions and discharge these tasks.

DALTON MCFARLAND: Management is the process by which managers create, direct, maintain and operate purposive organisations through systematic, co-ordinated and co-operative human effort.

Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner. Influence is backed by power, competence, knowledge and resources. Managers formulate their goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes of the environment.

STRATEGY

The word strategy means "something that has to do with war and ways to win over enemy". Strategy seeks to relate the goals of the organization to the means of achieving them. Strategy is the game plan management is using to take market position, conduct its operations, attract and satisfy customers, compete successfully, and achieve organizational objectives.

We may define the term 'strategy' as a **Long Range Blueprint** of an organization's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go.

Igor H. Ansoff defines strategy as "The common thread among the organization's activities and product-markets that defines the essential nature of business that the organization was or planned to be in future.

As per **William F. Glueck**, strategy is "A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved"

Strategy is consciously considered and flexibly designed scheme of corporate intent and action to achieve **Effectiveness**, to **Mobilise Resources**, to direct effort and **Behaviour**, to handle **Events And Problems**, to perceive and utilise **Opportunities**, and to meet **Challenges And Threats** to corporate survival and success.

Strategy provides an integrated framework for the **Top Management** to search for, evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crises, to make full use of resources and strengths, to offset corporate weaknesses and to make major decisions in general.

Strategies are formulated at the **Corporate, Divisional And Functional Level**. Corporate strategies are formulated by the top managers. They include the determination of the business lines, expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on. These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like.

However, strategy is **no substitute for sound, alert and responsible management**. Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations.

STRATEGY IS PARTLY PROACTIVE AND PARTLY REACTIVE: A company's strategy is typically a blend of

1. proactive actions on the part of managers to improve the company's market position and financial performance and
2. as needed reactions to unanticipated developments and fresh market conditions.

CORPORATE STRATEGY

Corporate strategy is basically the **GROWTH DESIGN** of the firm; it spells out the growth objective - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth.

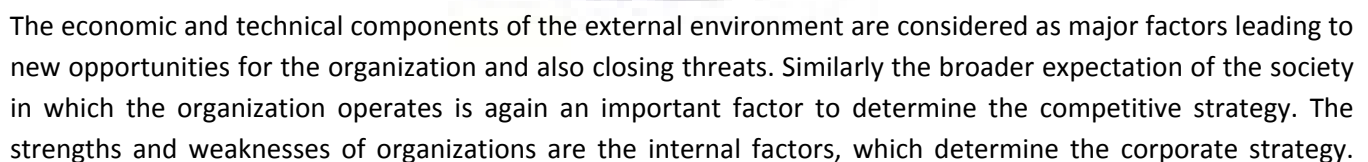
In corporate strategy, the set of goals has a system of priorities; the combination, the sequence and the timing of the moves, means and approaches are determined in advance, the initiative and responses have a cogent rationale behind them, are highly integrated and pragmatic; the implications of decisions and action programmes are corporate wide, flexible and contingent.

CHARACTERISTICS OF CORPORATE STRATEGY

- ❖ It is generally long-range in nature, though it is valid for short-range situations also and has short-range implications.

- ## DYNAMICS OF COMPETITIVE STRATEGY

- ❖ Personal values of the key implementers
- ❖ Strengths and weakness
- ❖ Opportunities and threats
- ❖ Broader societal expectation



Strength is to be considered in the context of the opportunities arising in the external environment. The personal values of the key implementers also play major roles in formulating the competitive strategy.

STRATEGIC MANAGEMENT

Strategic management is the comprehensive Collection Of Ongoing Activities And Processes that organizations use to Systematically Coordinate And Align resources and actions with Mission, Vision and Strategy throughout an organization.

Strategic management activities transform the static plan into a system that provides strategic performance feedback to decision making and enables the plan to evolve and grow as requirements and other circumstances change.

The overall objective of strategic management is twofold:

- ❖ 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.

Strategic management starts with developing a company mission (to give it direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilize all facets of the organization), and functional plans (plans to carry out daily operations from the different functional disciplines).

FRAMEWORK OF STRATEGIC MANAGEMENT

The basic framework of strategic process can be described in a sequence of five stages as follows:

STAGE 1: WHERE ARE WE NOW? (Beginning): This is the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context. The firm must focus on the following:

- ❖ Relative Market Position,
- ❖ Corporate Image,
- ❖ Its Strength and Weakness and
- ❖ Environmental Threats and Opportunities.

STAGE 2: WHERE ARE WE WANT TO BE? (Ends): This is a process of goal setting for the organization after it has finalised its vision and mission. A strategic vision is a roadmap of the company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

STAGE3: HOW MIGHT WE GET THERE? (Means): Here the organization deals with the various strategic alternatives it has.

STAGE 4: WHICH WAY IS BEST? (Evaluation): Out of all the alternatives generated in the earlier stage the organization selects the best suitable alternative in line with its SWOT analysis.

STAGE 5: HOW CAN WE ENSURE ARRIVAL? (Control): This is an implementation and control stage of a suitable strategy. Here again the organization continuously does situational analysis and repeats the stages again

IMPORTANCE OF STRATEGIC MANAGEMENT

Survival of fittest 'as propagated by Darwin is the only principle of survival for organization, where 'fittest' are not the 'largest' or 'strongest' organization but those who can change and adapt successfully to the changes in business environment.

The major benefits of strategic management are:

1. **Clarity in objective & direction:** Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators.
2. **Decision Making:** Strategic management provides framework for all the major business decisions of an enterprise. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
3. **Offsetting Uncertainty:** Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities.
4. **Path finder:** Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.
5. **Increased Organisational Effectiveness:** Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

STRATEGIC DECISION MAKING

Decision making is a managerial process and function of **choosing** a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals.

Decisions may relate to general day to day operations. They may be major or minor. They may also be strategic in nature. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations.

- ❖ **Strategic issues require top-management decisions:** Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved. Hence, problems calling for strategic decisions require to be considered by top management.
- ❖ **Strategic issues involve the allocation of large amounts of company resources:** It may require huge financial investment to venture into a new area of business or the organization may require huge number of manpower with new set of skills in them.
- ❖ **Strategic issues are likely to have a significant impact on the long term prosperity of the firm:** Generally the results of strategic implementation are seen on a long term basis and not immediately.
- ❖ **Strategic issues are future oriented:** Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.

- ❖ **Strategic issues usually have major multifunctional or multi-business consequences:** As they involve organization in totality they affect different sections of the organization with varying degree.
- ❖ **Strategic issues necessitate consideration of factors in the firm's external environment:** Strategic focus in organization involves orienting its internal environment to the changes of external environment.

STRATEGIC MANAGEMENT MODEL



VISION

A Strategic vision is a **Road Map of a Company's Future** – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

Strategic vision delineates management's aspirations for the business, providing a panoramic view of the ***"where we are going"*** and a convincing rationale for why this makes good business sense for the company. A strategic vision thus points an ***organization in a particular direction***, charts a ***strategic path*** for it to follow in preparing for the future, and molds ***organizational identity***. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

The three elements of a strategic vision:

1. Coming up with a mission statement that defines what business the company is presently in and conveys the essence of **"Who we are and where we are now?"**
2. Using the mission statement as basis for deciding on a long-term course making choices about **"Where we are going?"**
3. Communicating the strategic vision in clear, exciting terms that arouse organization wide commitment.

Purpose of Developing strategic vision:

- ❖ The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- ❖ Forming a strategic vision is an exercise in intelligent entrepreneurship.
- ❖ Many successful organizations need to change direction not in order to survive but in order to maintain their success.
- ❖ A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organization.
- ❖ The best-worded vision statement clearly and crisply illuminates the direction in which organization is headed.

MISSION

Mission defines the fundamental purpose of an organization or an enterprise, succinctly describing why it exists and what it does to achieve its vision. A company's Mission statement is typically focused on its present business scope – “who we are and what we do”. Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Peter Drucker says that asking the question, “What is our business?” is synonymous with asking the question, “What is our mission?”

A mission is an enduring statement of purpose that distinguishes one organization from other similar enterprises. The mission statement is a declaration of an organization's “reason for being.”

Sometimes called a creed statement, a statement of purpose, a statement of philosophy, a statement of beliefs, a statement of business principles, or a statement “defining our business,” a mission statement reveals what an organization wants to be and whom it wants to serve.

WHY ORGANIZATION SHOULD HAVE MISSION?

- ❖ To ensure unanimity of purpose within the organization.
- ❖ Provide a basis for motivating the use of the organization's resources.
- ❖ To develop a basis, or standard, for allocating organizational resources.
- ❖ To establish a general tone or organizational climate, for example, to suggest a business like operation.
- ❖ To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot form participating further in the organization's activities.
- ❖ To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
- ❖ To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

A **Good Mission Statement** should be of *precise, clear, feasible, distinctive* and *motivating*. It should indicate major components of strategy. Following points are useful while writing mission of a company:

- ❖ One of the roles of a mission statement is to give the organization its own **Special Identity**, business emphasis and path for development – one that typically sets it apart from other similarly situated companies.
- ❖ A company's business is defined by what ***needs*** it trying to satisfy, by which ***customer groups*** it is targeting and by the ***technologies*** and ***competencies*** it uses and the activities it performs.
- ❖ Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- ❖ Good mission statements are **highly personalized** – unique to the organization for which they are developed.

PETER DRUCKER explained that towards facilitating this task, the firm should raise and answer certain basic **Questions** concerning its business, such as:

- ❖ What is our mission?
- ❖ What is our ultimate purpose?
- ❖ What do we want to become?
- ❖ What kind of growth do we seek?
- ❖ What business are we in?
- ❖ Do we understand our business correctly and define it accurately in its broadest connotation?
- ❖ Do we know our customer?
- ❖ Whom do we intend to serve?
- ❖ What human need do we intend to serve through our offer?
- ❖ What brings us to this particular business?
- ❖ What would be the nature of this business in the future?
- ❖ In what business would we like to be in, in the future?

MISSION	PURPOSE
It refers to a statement which defines the role that organization plays in the society.	It refers to anything an organization strives for.
It strictly refers to the particular needs of the society, e.g. Quality product/ services.	It relates to what the organization strives to achieve in order to fulfill its mission to the society.

OBJECTIVES AND GOALS

Objectives are organizations performance targets – the results and outcomes it wants to achieve. They function as yardstick for tracking an organizations performance and progress.

Objectives are **open-ended** attributes that denote the future states or outcomes. **Goals** are **close-ended** attributes which are precise and expressed in specific terms.

The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavour.

Objectives also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

Objective to be meaningful to serve the intended role must possess following **CHARACTERISTICS**:

- ❖ Objectives should define the organization's relationship with its environment.
- ❖ They should be facilitative towards achievement of mission and purpose.
- ❖ They should provide the basis for strategic decision-making.
- ❖ They should provide standards for performance appraisal.
- ❖ Objectives should be understandable.
- ❖ Objectives should be concrete and specific
- ❖ Objectives should be related to a time frame
- ❖ Objectives should be measurable and controllable
- ❖ Objectives should be challenging
- ❖ Different objectives should correlate with each other
- ❖ Objectives should be set within constraints

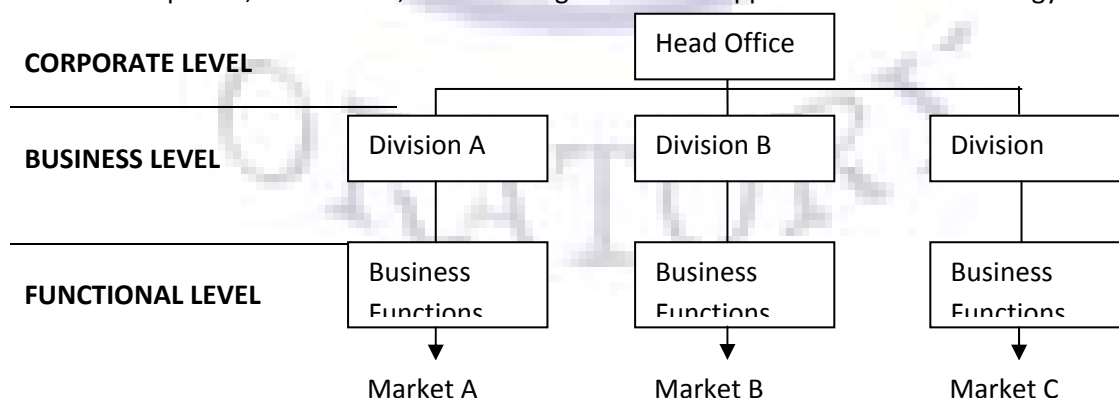
STRATEGIC LEVELS IN ORGANISATIONS

Corporate Level Strategy—this strategy seeks to determine what businesses a company should be in or wants to be in. Corporate strategy determines the direction that the organization is going and the roles that each business unit in the organization will plan in pursuing that direction.

Corporate level strategy is concerned with: **Reach** - defining the issues that are corporate responsibilities; **Competitive Contact** - defining where in the corporation competition is to be localized; **Managing Activities and Business Inter-relationships**; **Management Practices** - Corporations decide how business units are to be governed

Business Level Strategy— An organization's core competencies should be focused on satisfying customer needs or preferences in order to achieve above average returns. This is done through Business-level strategies. Business level strategies detail actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets. Business-level strategy is concerned with a firm's position in an industry, relative to competitors and to the five forces of competition.

Functional Level Strategy—this strategy seeks to determine how to support the business strategy. For organizations that have traditional functional departments such as manufacturing, marketing, human resources, research and development, and finance, these strategies need to support the business strategy.



CHAPTER 3 STRATEGIC ANALYSIS

STRATEGIC ANALYSIS

It refers to scanning of business environment in which vision, mission, objective and goal of organization are set.

Analysis is the critical starting point of strategic thinking. The environmental scanning covers both scanning of **external environment and internal environment**. The scanning of environment lead to the study of strengths and weaknesses which will decide as to what extent each company is going to capitalize the opportunity and threats thrown open.

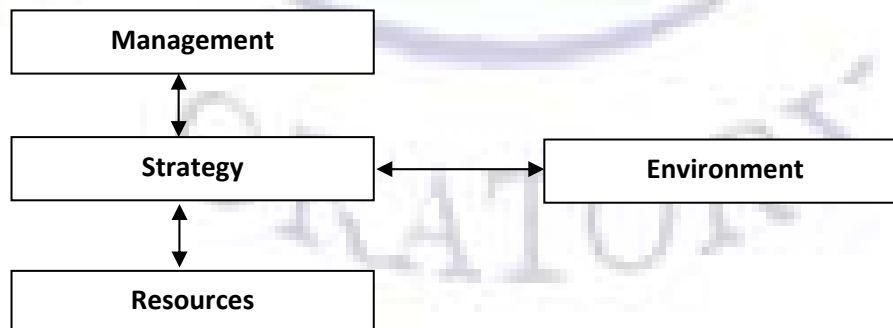
The two most important situational considerations are:

1. Industry and competitive condition of industry;
2. Company's own competitive capabilities, own resources, own internal strength and own weakness and market position.

Accurate diagnosis of the company's situation is necessary managerial preparation for deciding on a sound long term direction, setting appropriate objectives, and crafting a winning strategy. Without perceptive understanding of the strategic aspects of a company's external and internal environments, the chances are greatly increased that managers will conduct a strategic game plan that doesn't fit the situation well, that holds little prospect for building competitive advantage, and that is unlikely to boost company performance.

Issues to consider for strategic analysis

Balance between management, strategy, resources and environment. The process of strategy formulation is often described as one of the matching the internal potential of the organization with the environmental opportunities.



This is about perfect match between internal desire and external shape, which generally does not match. In reality, as perfect match between the two may not be feasible, strategic analysis involves a workable balance

between diverse and conflicting considerations. A manager working on a strategic decision has to make a balance between diverse conflict considerations. He has to balance **opportunities, influences and constraints**.

There are pressures that are driving towards a particular choice, however, we know that some of them are beyond the control of a manager.

Risk analysis both internal and external:

Complexity and intermingling of variables in the environment reduces the strategic balance in the organization. Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships all affect businesses and pose risk at varying degrees.

		TIME	
		SHORT TERM	LONG TERM
STRATEGIC RISKS	EXTERNAL RISK	Errors in interpreting the environment cause strategic failure.	Changes in the environment lead to obsolescence of strategy
	INTERNAL RISK	Organizational capacity is unable to cope up with strategic demands	Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences

External risk is on account of inconsistencies between strategies and the forces in the environment.

Internal risk occurs on account of forces that are either within the organization or are directly interacting with the organization on a routine basis.

SITUATIONAL ANALYSIS

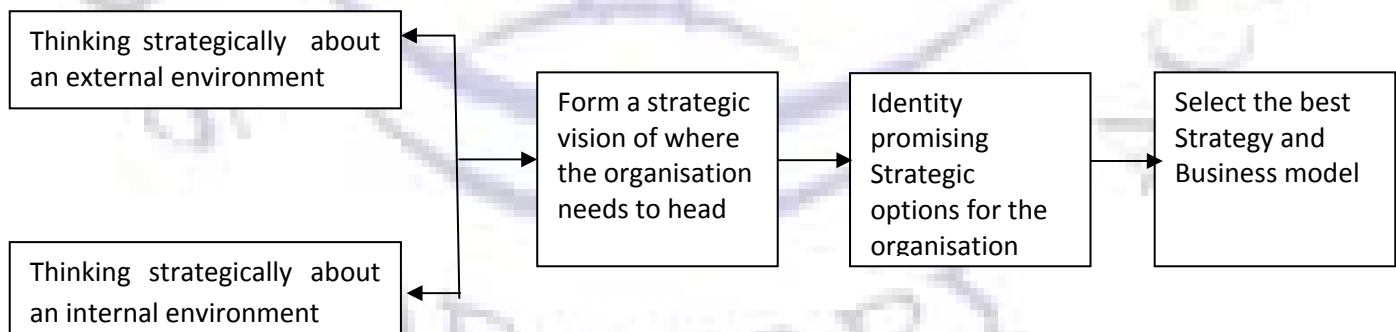


Figure: From Thinking Strategically about the Situation to Choosing a Strategy

Situation analysis means environment analysis. All companies operate in macro environment shaped by influences emanating from the economy at large, population demographics, societal values and lifestyles, govt. legislations and regulations, technological factors. These factors are important enough for making an impact on

decision of companies. These factors focus on direction, objective, strategy, business model and destination of company. Managers scan external environment for deciding company direction and strategy.

Following are the different elements, company must consider before analysis of situation:

- ➡ **Product situation:** What is my current product? You may want to break this definition up into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs.
- ➡ **Competitive situation:** Analyze your main competitors - who are they what are they up to - how do they compare. What are their competitive advantages?
- ➡ **Distribution situation:** Review your distribution Situation - how are you getting your product to market? Do you need to go through distributors or other intermediaries?
- ➡ **Environmental factors:** What external and internal environmental factors are there that need to be taken into account. This can include economic or sociological factors that impact on your performance.
- ➡ **Opportunity and issue analysis:** Things to write down here are what current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance

FRAMEWORK OF STRATEGIC ANALYSIS



- ➡ Identify strategic alternatives
 - Product-maker investment strategies
 - Functional area strategies
 - Assets, competencies, and synergies
- ➡ Select strategy

- ➡ Implement the operating plan
- ➡ Review strategies

THE METHODS OF INDUSTRY AND COMPETITIVE ANALYSIS

Industry and competitive analysis is done to get a clear picture on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, competitive success, and profit prospects. The issues are given below:

1. Dominant economic features of the industry
2. Nature and strength of competition
3. Triggers of change
4. Identifying the companies that are in strongest/ weakest position
5. Likely strategic moves of rivals
6. Key factors for competitive success
7. Prospects and financial attractiveness of industry

SWOT ANALYSIS

The comparison of strengths, weaknesses, opportunities and threats is normally referred to as a WSOT analysis.

- **Strengths:** is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
- **Weaknesses:** is an inherent limitation or constraint of the organization which creates strategic disadvantages to it.
- **Opportunity:** is a favourable condition in the organizations environment which enables it to strengthen its position.
- **Threat:** is an unfavourable condition in the organizations environment which causes a risk for or damage to the organizations position.

Thinking strategically requires ,managers to identify the set of strategies that will create and sustain competitive advantages:

- **Functional level strategy**, directed at improving the effectiveness of operations within a company.\
- **Business level strategy**, which encompasses the business's overall competitive theme, the way it position itself in the marketplace to gain a competitive advantage, and the different positioning strategies that can be used in different industry settings.
- **Global strategy**, addressing how to expand operations outside the home country to grow and prosper in a world where competitive advantage is determined at a global level.
- **Corporate level strategy**, which answers the primary questions.

SIGNIFICANCE OF SWOT

- It provides a **logical framework** for systematic and sound thrashing of issues having bearing on the business situation, generation of alternative strategies and a choice of strategy.
- It presents a **comparative account**: it provides information about both internal and external environment in a structured form where it is possible to compare external opportunities and threats with internal weaknesses and strengths.
- It **guides the strategists in strategy identification**: it helps the strategists to think of overall position of the company that helps to identify the major purpose of strategy under focus.

APPLE SWOT ANALYSIS 2013

Strengths	Weaknesses
1. Customer loyalty combined with expanding closed ecosystem 2. Apple is a leading innovator in mobile device technology 3. Strong financial performance (\$10,000,000,000 cash, gross profit margin 43.9% and no debt) 4. Brand reputation 5. Retail stores 6. Strong marketing and advertising teams	1. High price 2. Incompatibility with different OS 3. Decreasing market share 4. Patent infringements 5. Further changes in management 6. Defects of new products 7. Long-term gross margin decline
Opportunities	Threats
1. High demand of iPad mini and iPhone 5 2. iTV launch 3. Emergence of the new provider of application processors 4. Growth of tablet and smartphone markets 5. Obtaining patents through acquisitions 6. Damages from patent infringements 7. Strong growth of mobile advertising market 8. Increasing demand for cloud based services	1. Rapid technological change 2. 2013 tax increases 3. Rising pay levels for Foxconn workers 4. Breached IP rights 5. Price pressure from Samsung over key components 6. Strong dollar 7. Android OS growth 8. Competitors moves in online music market

TOWS

TOWS analysis is a method of strategic analysis used to study the environment of the organization and its interior. TOWS concept is synonymous with the term SWOT acronym. By according to H.Weirich Threats (in the environment), Opportunities (in the environment), Weaknesses (of the organization), Strengths (of the organization) should be placed in this order to make the emphasis on problem-solving sequence in the process of strategy formulation.

TOWS analysis is an algorithm of the strategic analysis process, involving systematic and comprehensive assessment of external and internal factors that determine current condition and growth potential of the company.

It is based on a simple classification scheme: all of the factors influencing the current and future position of the organization is divided into:

- External and internal to the organization,
- Having negative and positive impact on the organization.

The intersection of above distinctions gives four categories of factors:

- External and positive (opportunities)
- External and negative (threats)
- Internal and positive (strengths)
- Internal and negative (weaknesses)

Internal factors			
External factors		Strengths (S)	Weaknesses (W)
	Opportunities (O)	Examine strategies that use strengths to make use of opportunities (SO).	Examine strategies that take advantage of opportunities by overcoming or avoiding weaknesses (WO).
	Threats (T)	Examine strategies that use strengths to overcome or avoid threats (ST).	Examine strategies that minimise the effect of weaknesses and avoid or overcome threats (WT).

PORTFOLIO ANALYSIS

Once an association has adopted a strategic plan, the next step is to convert the goals and objectives in that plan to a work plan and budget. Portfolio analysis has been devised to help associations bridge the gap between strategy formulation and strategy implementation.

When the company is in more than one business, it can select more than one strategic alternative depending upon demand of the situation prevailing in the different portfolios. It is necessary to analyze the position of different business of the business house which is done by corporate portfolio analysis. Portfolio analysis is an analytical tool which views a corporation as a basket or portfolio of products or business units to be managed for the best possible returns. Portfolio analysis is *a systematic way to analyze the products and services* that make up an association's business portfolio. Each business consists of a *portfolio of products and services*. Portfolio analysis helps you decide which of these products and services should be emphasized and which should be phased out, based on objective criteria. Portfolio analysis consists of subjecting each of the association's products and services through a progression of finer screens.

There are three concepts, the knowledge of which is a prerequisite to understand different models of portfolio analysis:

STRATEGIC BUSINESS UNIT:

SBU is a unit of the company that has a separate mission and objectives and which can be planned independently from other company businesses. The SBU can be a company division, a product line within a division, or even a single product or brand.

SBU's must have following Characteristics

1. Single business or collection of related **businesses** that can be planned for separately.
2. Has its own set of **competitors**.
3. Has a **manager** who is responsible for strategic planning and profit.

After identifying SBU's the business have to assess their respective attractiveness and decide how much support each deserves.

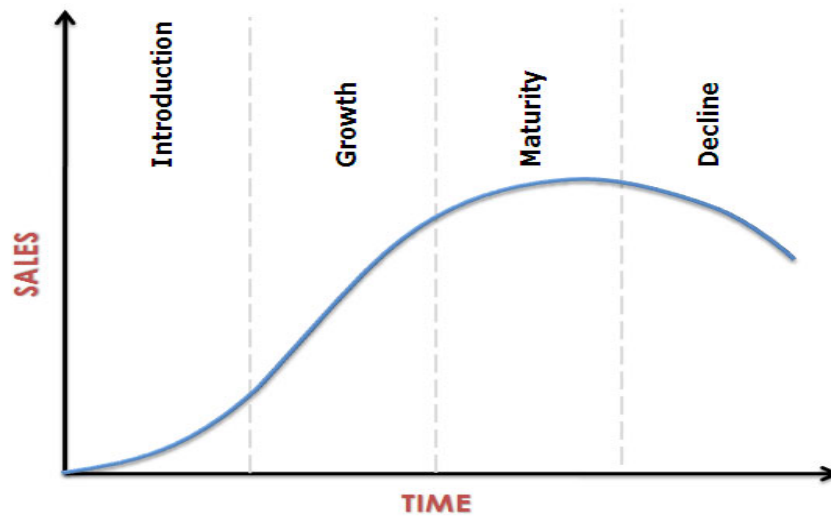
EXPERIENCE CURVE:

Experience curve is based on the commonly observed phenomenon that units costs decline as a firm accumulates experience in terms of a cumulative volume of production.

PRODUCT LIFE CYCLE:

It is a useful choice for guiding strategic choice. PLC is an - **S-shaped curve** which exhibits the **relationship of sales** with respect to **time** for a product that passes through the four successive stages of

- ❖ introduction (slow sales growth),
- ❖ growth (rapid market acceptance)
- ❖ maturity (slow down in growth rate) and
- ❖ Decline (sharp downward drift).



The **first stage** of PLC i.e. **INTRODUCTION STAGE** is characterized by low growth rate of sales as the product is newly launched in the market. Firms usually incur losses rather than profit turning this stage. If the product is in the new product class, the users may not be aware of its true potential. The stage has the following characteristics: 1. Low competition 2. Firm mostly incurs losses and not profit.

The **second stage** is **GROWTH STAGE**. Growth comes with the acceptance of the innovation in the market and profit starts to flow. In this the demands expands rapidly, price fall, competition increases and market expands.

The **third stage** is **MATURITY STAGE**, the end of stage of the growth rate and sales slowdown as the product has already achieved acceptance in the market. Profits come down because of stiff competition. The organizations may work for stability.

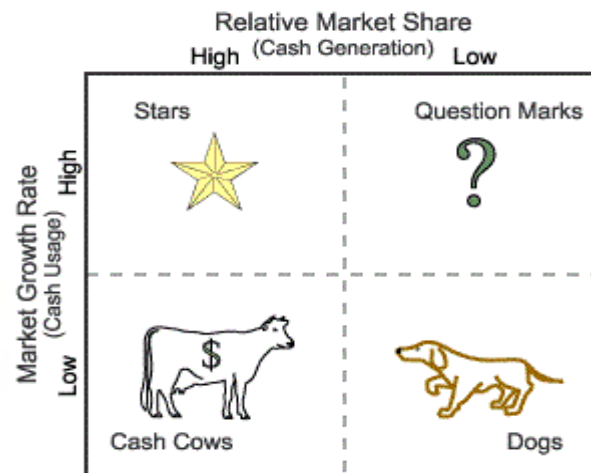
The **last stage** is the **DECLINING STAGE**; the decline stage is where most of the product class usually dies due to low growth rate in sales. A number of companies share the same market, making it difficult for all entrants to maintain sustainable sales levels. Not only is the efficiency of the company an important factor in the decline, but also the product category itself becomes a factor, as the market may perceive the product as "old" and may not be in demand.

BCG MATRIX

The Boston Consulting Group (BCG) Matrix is a simple tool to assess a company's position in terms of its product range. It helps a company think about its products and services and make decisions about which it should keep, which it should let go and which it should invest in further.

STARS

Stars generate large sums of cash because of their strong relative market share, but also consume large amounts of cash because of their high growth rate. So the cash being spent and brought in approximately nets out. If a star can maintain its large market share it will become a cash cow when the market growth rate declines.



CASH COWS

As leaders in a mature market, cash cows exhibit a return on assets that is greater than the market growth rate – so they generate more cash than they consume. These units should be ‘milked’ extracting the profits and investing as little as possible. They provide the cash required to turn question marks into market leaders.

QUESTION MARKS

Question marks are products that grow rapidly and as a result consume large amounts of cash, but because they have low market shares they don’t generate much cash. The result is large net cash consumption. A question mark has the potential to gain market share and become a star, and eventually a cash cow when the market growth slows. If it doesn’t become a market leader it will become a dog when market growth declines. Question marks need to be analysed carefully to determine if they are worth the investment required to grow market share.

DOGS

Dogs have a low market share and a low growth rate and neither generate nor consume a large amount of cash. However, dogs are cash traps because of the money tied up in a business that has little potential. Such businesses are candidates for divestiture.

Once the company has identified the stage the company has to decide the role to be played. These roles are following:

1. **BUILD-** to increase market share, even by forging short term earning in favour of building strong future with large market share.
2. **HOLD-** to preserve market share.
3. **HARVEST-** to increase short term cash flow regardless long term effect.
4. **DIVEST-** to sell or liquidate the business.

Limitations:

BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly.

ANSOFF'S PRODUCT MARKET GROWTH MATRIX

		Products	
		Present	New
Markets	Present	Market Penetration	Product Development
	New	Market Development	Diversification

The **purpose** of this matrix is to help managers consider how to **grow their business through existing or new products or in existing or new markets**. In this way he was helping managers to assess the differing degrees of risk associated with moving their organisation forward.

With the use of this matrix a business can get a fair idea about how its growth depends upon it markets in new or existing products in both new and existing markets. Companies should always be looking to the future. One useful device for identifying growth opportunities for the future is the product/market expansion grid. The product/market growth matrix is a portfolio-planning tool for identifying company growth opportunities.

Ansoff's matrix suggests four alternative marketing strategies which hinge on whether products are new or existing. They also focus on whether a market is new or existing. Within each strategy there is a differing level of risk. The four strategies are:

1. **MARKET PENETRATION** – This involves increasing market share within existing market segments. This can be achieved by selling more products/services to established customers or by finding new customers within existing markets.
2. **PRODUCT DEVELOPMENT** – This involves developing new products for existing markets. Product development involves thinking about how new products can meet customer needs more closely and outperform the products of competitors.
3. **MARKET DEVELOPMENT** – This strategy entails finding new markets for existing products. Market research and further segmentation of markets helps to identify new groups of customers.
4. **DIVERSIFICATION** – This involves moving new products into new markets at the same time. It is the most risky strategy. The more an organisation moves away from what it has done in the past the more uncertainties are created. However, if existing activities are threatened, diversification helps to spread risk.

ADL MATRIX

The ADL matrix from **Arthur D. Little** is a portfolio management method that is based on product life cycle thinking. It uses the dimensions of environmental assessment and business strength assessment.

Stage of industry maturity is an environmental measure that represents a position in industry's life cycle. Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favourable, tenable and weak.

The competitive position of a firm is based on an assessment of the following criteria:

1. **DOMINANT:** This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
2. **STRONG:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitors.
3. **FAVOURABLE:** This position, which generally comes about when the industry is fragmented and no one competitor stand out clearly, results in the market leaders a reasonable degree of freedom.
4. **TENABLE:** Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
5. **WEAK:** The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

STAGE OF INDUSTRY MATURITY				
Competitive position	Embryonic	Growth	Mature	Ageing
Dominant	Fast grow Build barriers Act offensively	Fast grow Attend cost leadership Renew Defend position Act offensively	Defend position Attend cost leadership Renew Fast grow Act offensively	Defend position Renew Focus Consider withdrawal
Strong	Differentiate Fast grow	Differentiate Lower cost Attack small firms	Lower cost Focus Differentiate Grow with industry	Find niche Hold niche Harvest
Favourable	Differentiate Focus Fast grow	Focus Differentiate Defend	Focus Differentiate Harvest Find niche Hold niche Turnaround Grow with industry Hit smaller firms	Harvest Turnaround

Tenable	Grow with industry Focus	Hold niche Turnaround Focus Grow with industry Withdraw	Turnaround Hold niche Retrench	Divest Retrench
Weak	Find niche Catch-up Grow with industry	Turnaround Retrench Niche or withdraw	Withdraw Divest	Withdraw

GE MATRIX

In consulting engagements with General Electric in the 1970's, McKinsey & Company developed a nine-cell portfolio matrix as a tool for screening GE's large portfolio of strategic business units (SBU). This business screen became known as the **GE/McKinsey Matrix**.

The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop.

This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness. The vertical axis indicates market attractiveness and the horizontal axis shows the business strength in the industry.

MARKET ATTRACTIVENESS	BUSINESS STRENGTH		
	Strong	Average	Weak
	High		
	Medium		
	Low		

ZONE		STRATEGIC SIGNALS
Green		Invest/Expand
Yellow		Select/Earn
Red		Harvest/Divest

The position and attractiveness can be understood by better way with the following table:

Evaluating the ability to compete: Business Strengths	Evaluating the market Attractiveness
Market share	Size of the market
Market share growth rate	Market growth rate
Profit margin	Industry profitability
Distribution efficiency	Competitive intensity
Brand image	Availability of Technology
Ability to compete on price and quality	Pricing trends
Customer loyalty	Overall risk of returns in the industry
Production capacity	Opportunity for differentiation of products and services
Technological capability	Demand variability
Relative cost position	Segmentation
Management caliber, etc	Distribution structure (e.g. retail, direct, wholesale) etc

- If a product falls in the **Green section**, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow.
- If a product is in the **Amber or yellow zone**, it needs caution and managerial discretion is called for making the strategic choices.
- If a product is in the **Red zone**, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.