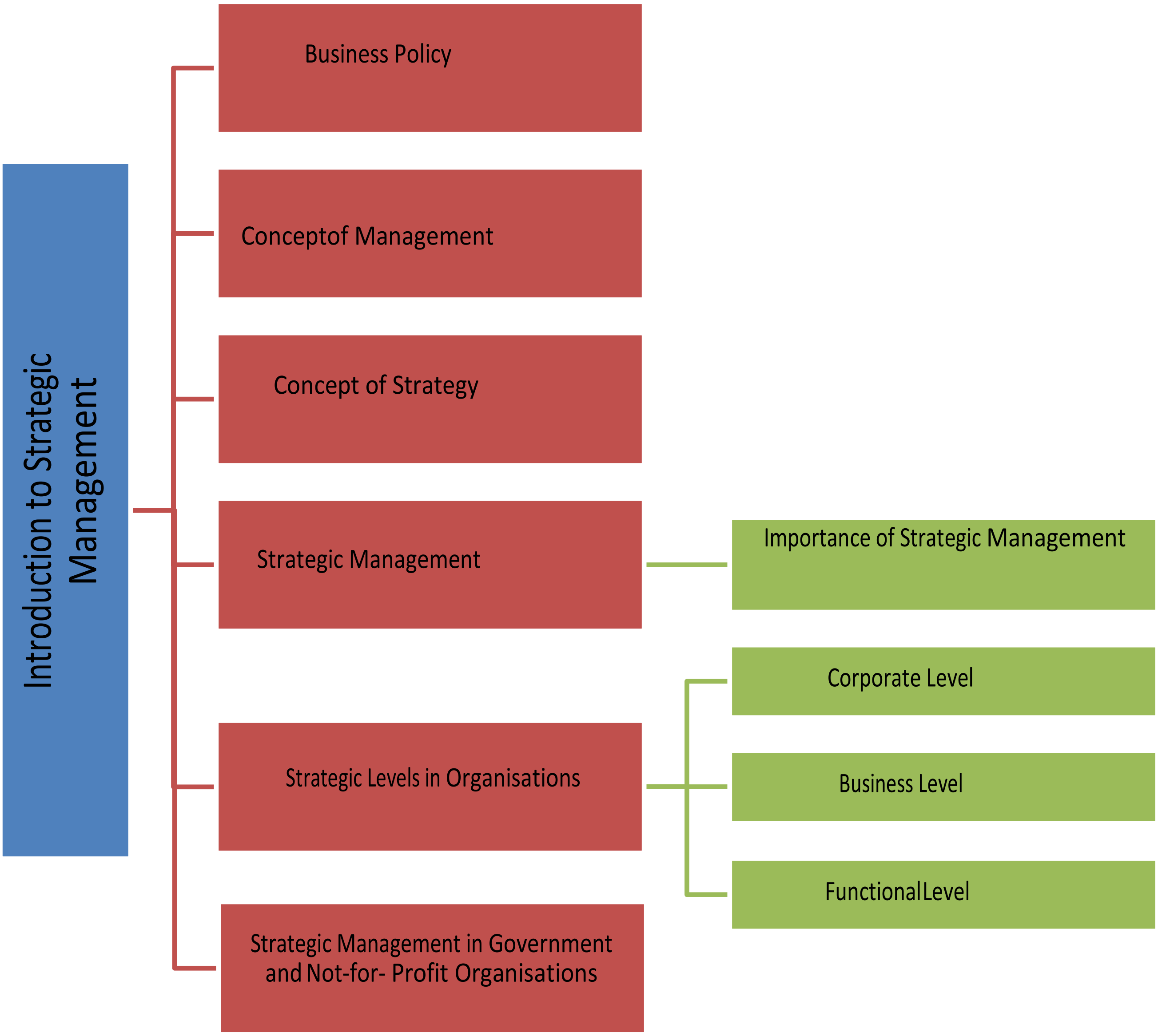
CHAPTER 1

INTRODUCTION TO STRATEGIC MANAGEMENT



1.2 BUSINESS POLICY

- According to **William F Glueck**, evolution of business policy arose from the developments in the use of planning techniques by managers.
- Starting from day- to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives.
- With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used.
- Business policy, as defined by Christensen and others, is “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 in organisations. Such a framework enables a manager to make preparations for handling general management responsibilities effectively.

1.3 CONCEPT OF MANAGEMENT

The term ‘management’ is used in two senses such as:

a)

- It is used with reference to a key group in an organisation in-charge of its affairs.
- In relation to an organisation, management is the chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating the disorganised resources of manpower, money, materials, and technology into a functioning whole.
- An organisation becomes a unified functioning system when management systematically mobilises and utilises the diverse resources efficiently and effectively.

- The survival and success of an organisation depend to a large extent on the competence and character of its management.
- Management has to also facilitate organisational change and adaptation for effective interaction with the environment.

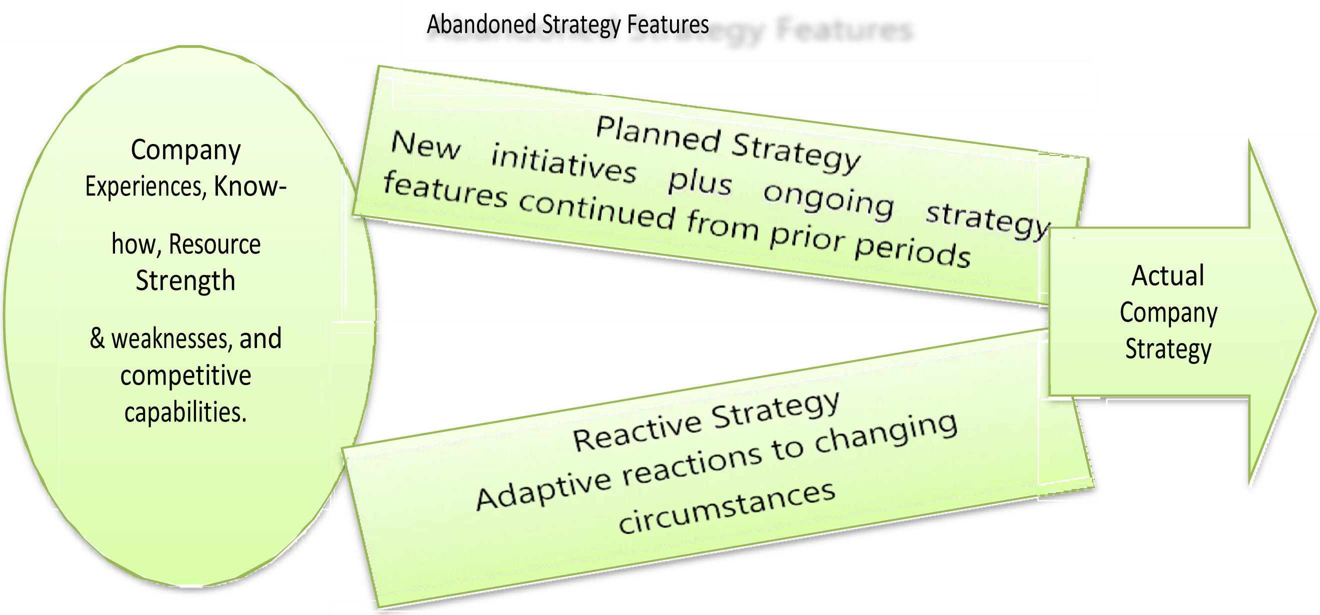
b)

- The term 'Management' is also used with reference to a set of interrelated functions and processes carried out by the management of an organisation to attain its objectives.
- These functions include Planning, Organising, Directing, Staffing and Control.
- The functions or sub-processes of management are wide-ranging but closely interrelated.
- They range all the way from determination of the goals, design of the organisation, mobilisation and acquisition of resources, allocation of tasks and resources among the personnel and activity units and installation of control system to ensure that what is planned is achieved.
- 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 organisational goals, values and strategies, to cope with, to adapt and to adjust themselves with the behavior and changes in the environment.

1.4 CONCEPT OF STRATEGY

- strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position, its implications for corporate functioning are obvious.
- Igor H. Ansoff: The common thread among the organization's activities and product-markets that defines the essential nature of business that the organization has or planned to be in future.

- William F. Glueck: 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 mobilise resources, to direct human effort and behavior, to handle events and problems, to perceive and utilise opportunities, and to meet challenges and threats for corporate survival and success.
- Strategy is meant to fill in the need of organizations for a sense of dynamic direction, focus and cohesiveness.
- Objectives and goals alone do not fill in the need. 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.
- However, strategy is no substitute for sound, alert and responsible management.
- It may be noted that strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic to take care of sudden emergencies, pressures, and avoid failures and frustrations.
- 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.
- Strategy is partly proactive and partly reactive: A company's strategy is typically a blend of:
    - Proactive actions on the part of managers to improve the company's market position and financial performance.
    - Reactions to unanticipated developments and fresh market conditions.



1.5 STRATEGIC MANAGEMENT

- In a hyper competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment.

- Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth of the company.

- The overall objectives of strategic management are 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.

- The organizational operations are highly influenced by the increasing rate of change in the environment and the ripple effect created on the organization.

- The tasks of crafting, implementing and executing company strategies are the heart and soul of managing a business enterprise.

- The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

- Strategic management involves developing the company's vision, environmental scanning (both external and internal), strategy formulation, strategy implementation and evaluation and control.

1.5.1 Importance of Strategic Management

- Formulation of strategies and their implementation have become essential for all organizations for their survival and growth in the present turbulent business environment.
- Many business giants have followed the path of extinction failing to manage drastic changes in the business environment. For example, Bajaj Scooters, LML Scooters, Murphy Radio, BPL Television, Nokia, kodak and so on.
- Hence, each organization has to build its competitive advantage over the competitors in the business warfare in order to win.
- The major benefits of strategic management are:
    - The strategic management gives a direction to the company to move ahead. It defines the goals and mission. It helps management to define realistic objectives and goals which are in line with the vision of the company.

    - Strategic management helps organisations to be proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators.

- Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

- Strategic management provides framework for all major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.

- Strategic management seeks to prepare the organisation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.

- Strategic management helps to enhance the longevity of the business. with the state of competition and dynamic environment it may not be possible for organisations to survive in long run.

- Strategic management helps the organisation to develop certain core competencies and competitive advantages that would facilitate assist in its fight for survival and growth.

1.5.2 Limitations of Strategic Management

- The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management.

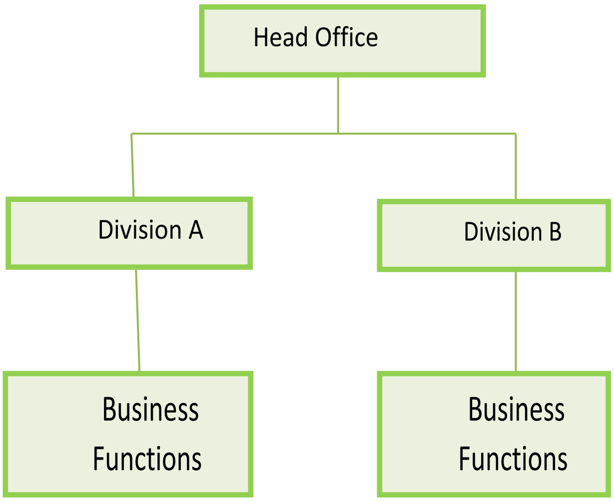
  - **Environment is highly complex and turbulent**. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.
  - **Strategic management is a time-consuming process.** Organisations spend a lot of time in preparing, communicating the strategies that may

impede daily operations and negatively impact the routine business.

- **Strategic management is a costly process**. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement.
- These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.
- In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies.

1.6 STRATEGIC LEVELS IN ORGANISATIONS

- A typical large organization is a multi-divisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these.
- There are three main levels of management:
    - Corporate level
    - Business level
    - Functional level



- An organization is divided into a number of segments that work together to bring a particular product or service to the market.
- If a company provides several and/or different kinds of products or services, it often duplicates these functions and creates a series of self-contained divisions (each of which contain its own set of functions) to manage each different product or service.
- The general managers of these divisions then become responsible for their particular product line. The overriding concern of the divisional managers is healthy growth of their divisions.

- They are responsible for deciding how to create a competitive advantage and achieve higher profitability with the resources and capital they have at their disposal. Such divisions are called Strategic Business Units (SBUs).

- The corporate level of management consists of the Chief Executive Officer (CEO), other senior executives, the board of directors, and corporate staff.

- The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

- Besides overseeing resource allocation and managing the divestment and acquisition processes, corporate-level managers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders).

- Corporate-level managers, and particularly the CEO, can be viewed as the guardians of shareholder welfare. It is their responsibility to ensure that the corporate and business strategies that the company pursues are consistent with maximizing shareholder wealth.

- A strategic business unit is a self-contained division (with its own functions-for example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market.

- The principal general manager at the business level, or the business-level manager, is the head of the division.

- The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

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

- 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.

- Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

- Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfil the strategic objectives set by business- and corporate-level general managers.

- Functional managers provide most of the information that makes it possible for business- and corporate-level general managers to formulate realistic and attainable strategies.

- Indeed, because they are closer to the customer than the typical general manager is, functional managers themselves may generate important ideas that subsequently may become major strategies for the company.

- An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business-level plans.

1.7 STRATEGIC MANAGEMENT IN GOVERNMENT AND NOT-FOR-PROFIT ORGANISATIONS

- Organizations can be classified as commercial and non-commercial on the basis of the interest they have.

- A commercial organization has profit as its main aim.

- We can find many organizations around us, which do not have any commercial objective of making profits.

- Their genesis may be for social, charitable, or educational purposes. Examples of non-commercial organizations can be The Institute of Chartered Accountants of India, municipal corporations, non- governmental organizations such as Help-Age or Child Relief and You.

- Their main aim is to provide services to members, beneficiaries or public at large.

- A non- commercial organization comes to existence to meet the needs not met by business enterprises. These organizations may not have owners in true sense.

- The strategic management process is being used effectively by countless non-profit governmental organizations.

- Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human relations.

- Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing.

- Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

- **Educational institutions:**

  - ✓ Educational institutions are using strategic- management techniques and concepts more frequently.
  - ✓ Richard Cyert, president of Carnegie-Mellon University, says, “I believe we do a far better job of Strategic management than any company I know ”.
  - ✓ Hence, they are adopting different strategies for attracting best students.

- **Medical organizations:**

  - ✓ Modern hospitals are creating new strategies today as advances in the diagnosis and treatment of chronic diseases are undercutting that earlier mission.
  - ✓ Hospitals are beginning to bring services to the patient as much as bringing the patient to the hospital. Pathological laboratories have started collecting door-to-door samples.
  - ✓ Chronic care will require day-treatment facilities, electronic monitoring at home, user-friendly ambulatory services, decentralized service networks, and laboratory testing.
  - ✓ A successful hospital strategy for the future will require renewed and deepened collaboration with physicians, who are central to hospitals’ well-being and a reallocation of resources from acute to chronic care in home and community settings.
  - ✓ Backward integration strategies that some hospitals are pursuing include acquiring ambulance services, waste disposal services, and diagnostic services.
  - ✓ The whole strategic landscape of healthcare is changing because of the Internet. 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.

- **Governmental agencies and departments:**

  - ✓ Central, state, municipal agencies, Public Sector Units, departments are responsible for formulating, implementing, and evaluating strategies that use taxpayers' money in the most cost-effective way to provide services and programs.
  - ✓ Strategic-management concepts increasingly are being used to enable some organizations to be more effective and efficient.
  - ✓ But strategists in governmental organizations operate with less strategic autonomy than their counterparts in private firms.
  - ✓ Public enterprises generally cannot diversify into unrelated businesses or merge with other firms. Governmental strategists usually enjoy little freedom in altering the organizations' missions or redirecting objectives.
  - ✓ Strategic issues get discussed and debated in the media and legislatures. Issues become politicized, resulting in fewer strategic choice alternatives.
  - ✓ But in government agencies and departments are finding that their employees get excited about the opportunity to participate in the strategic-management process and thereby have an effect on the organization's mission, objectives, strategies, and policies.

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