CHAPTER 3

STRATEGIC MANAGEMENT PROCESS

1. INTRODUCTION

- It is a process of strategic planning that culminates in the formulation of corporate strategy.

- The strength of the entire process of strategic planning is tested by the efficacy of the strategy finally forged by the firm.

- The ultimate question is whether the strategy formulated is the appropriate one, i.e. whether it would take the firm to its objectives.

- Corporate strategy is the game plan that actually steers the firm towards success. The degree of aptness of this game plan decides the extent of the firm's success.

- That is why formulation of corporate strategy forms the crux of the strategic planning process.

2. STRATEGIC PLANNING

- Planning means deciding what needs to done in the future (today, next week, next month, next year, over the next couple of years, etc.) and generating blueprints for action.

- Good planning is an important constituent of good management. Planning involves determination of the course of action to attain the predetermined objectives.

- It bridges the gap between where we are to where we want to go. Thus, planning is future oriented in nature. Planning can be strategic or operational.

- Strategic plans are made by the senior management for the entire organization after taking into account the organization's strength and weaknesses in the light of opportunities and threats in the external environment.

- They involve acquisition and allocation of resources for the attainment of organisational objectives.

- **Strategic Planning:**
  - It is the process of determining the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use and disposition of resources.

  - Strategic planning involves a fact of interactive and overlapping decisions leading to the development of an effective strategy for the firm.

  - Strategic planning determines where an organization is going over the next year or more and the ways for going there. The process is organization-wide, or focused on a major function such as a division or other major function.

- **Dealing with uncertainty:**
  - Strategic uncertainty, which has far reaching implications, is a key construct in strategy formulation.

  - A typical external analysis will emerge with dozens of strategic uncertainties.

  - To be manageable, they need to be grouped into logical clusters or themes.

  - It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

- Sometimes, strategic uncertainty is represented by a future trend or event that has inherent unpredictability.

- Information gathering and additional analysis will not be able to reduce the uncertainty.

- In that case, scenario analysis can be employed. Scenario analysis basically accepts the uncertainty as given and uses it to drive a description of two or more future scenarios.

- **Impact of uncertainty:**
  - Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential businesses.

  - For example, a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty.

  - The impact of a strategic uncertainty will depend on the importance of the impacted SBU to a firm. Some SBUs are more important than others.

  - The importance of established SBUs may be indicated by their associated sales, profits, or costs.

- However, such measures might need to be supplemented for potential growth as present sales, profits, or costs may not reflect the true value.

3. STRATEGIC DECISION MAKING

- Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals.

- Decisions may be operational, i.e., which relate to general day-to-day operations.

- According to Jauch and Glueck "Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives."

- The major dimensions of strategic decisions are as follows:

- Strategic decisions require top-management involvement: Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.

- Strategic decisions involve commitment of organisational resources: For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.

- Strategic decisions 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 decisions 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 decisions are future oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.

- Strategic decisions usually have major multifunctional or multi-business consequences: As they involve organization in totality, they affect different sections of the organization with varying degree.

4. STRATEGIC INTENT

- Strategic Management is defined as a dynamic process of formulation, implementation, evaluation, and control of strategies to realise the organization's strategic intent.

- Strategic intent refers to purposes of what the organization strives for. Senior managers must define "what they want to do" and "why they want to do". "Why they want to do" represents strategic intent of the firm.

- Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.

- Strategic intent can be understood as the philosophical base of strategic management.
- It implies the purposes, which an organization endeavors to achieving. It is a statement that provides a perspective of the means, which will lead the organization, reach its vision in the long run.

- Strategic intent gives an idea of what the organization desires to attain in future.

- It answers the question what the organization strives or stands for? It indicates the long-term market position, which the organization desires to create or occupy and the opportunity for exploring new possibilities.

- Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives.

- Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level. It could be expressed as the business definition and business model at the business level of the organisation.

- Strategic intent is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally, i.e., goals and objectives.

- Elements of Strategic Intent:

  - **Vision:**

    - Vision implies the blueprint of the company's future position.

    - It describes where the organisation wants to land. It depicts the organization's aspirations and provides a glimpse of what the organization would like to become in future.

    - Every sub system of the organization is required to follow its vision.

  - **Mission:**

    - Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society.

    - It is designed to help potential shareholders and investors understand the purpose of the company.

- A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.

❖ Business Definition:

- It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies.

- With the help of business definition, one can ascertain the strategic business choices. Organisational restructuring also depends upon the business definition.

❖ Business Model:

- Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details.

- Rival firms, operating in the same industry rely on the different business model due to their strategic choice.

❖ Goals and Objectives:

- These are the base of measurement. Goals are the end results, that the organization attempts to achieve.

- On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals.

- These are the end results which are to be attained with the help of an overall plan, over the particular period.

- However, in practice, no distinction is made between goals and objectives and both the terms are used interchangeably.

- The vision, mission, business definition, and business model explain the philosophy of the organisation but the goals and objectives represent the results to be achieved in multiple areas of business.

5. VISION, MISSION AND OBJECTIVES

Vision

- Very early in the strategy making process, a company's senior managers must consider the issue of what directional path the company should take and what changes in the company's product-market-customer-technology focus would improve its current market position and future prospects.

- Deciding to commit the company to one path versus other pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position it should stake out.

- Top management's views about the company's direction and the product- customer-market-technology focus constitute the strategic vision for the company.

- Strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are to go" and a convincing rationale for why this makes good business sense for the company.

- Strategic vision thus points out a particular direction, charts a strategic path to be followed in future, and molding 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.

- ***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.***

- The three elements of a strategic vision are:
  - 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?"
  - Using the mission statement as basis for deciding on a long-term course making choices about "Where we are going?"
  - Communicating the strategic vision in clear, exciting terms that would arouse organization wide commitment.
- Essentials of a 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.
  - A well-articulated strategic vision creates enthusiasm among the members of the organisation.

The best-worded vision statement clearly illuminates the direction in which organization is headed.

- Mission:

- A mission is an answer to the basic question 'what business are we in and what we do'.

- It has been observed that many firms fail to conceptualize and articulate the mission and business definition with the required clarity.

- Such firms are seen to fumble in the identification of opportunities and fail in formulating strategies to make use of opportunities.

- Firms working to manage their organisation strategically cannot be lax in the matter of mission and business definition, as the two ideas are absolutely central to strategic planning.

- ***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 organization present capability, customer focus, activities, and business makeup.***

- Why an organization should have a mission?
    - To ensure unanimity of purpose within the organization.
    - To develop a basis, or standard, for allocating organizational resources.

- ❖ To provide a basis for motivating the use of the organization's 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.
- ❖ 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.

➢ Mission statement should reflect the philosophy of the organizations that is perceived by the senior managers. A good mission statement should be precise, clear, feasible, distinctive and motivating. Following points are useful while writing a 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 positioned companies.
- ❖ A company's business is defined by what needs it is trying to satisfy,

which customer groups it is targeting and the technologies and competencies it uses and the activities it performs.

- Good mission statements are – unique to the organization for which they are developed.

- **What is our mission? And what business are we in?**
  - The well-known management experts, Peter Drucker and Theodore Levitt were among the first to agitate this issue through their writings.

  - They emphasized that as the first step in the business planning endeavor, every business firm must clarify the corporate mission and define accurately the business the firm is engaged in.

  - They also 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?
    - 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?

- At the time these two experts raised this issue, the business managers of the world did not fully appreciate the importance of these questions; those were the days when business management was still a relatively simple process even in industrially advanced countries like the US.

- It was only in subsequent years that captains of industry all over the world understood the significance of the seemingly simple questions raised by Drucker and Levitt.

- The corporate mission is an expression of the growth ambition of the firm.

- It is, in fact, the firm's future visualized.

- It provides a dramatic picture of what the company wants to become.

- It is the corporation's dream crystallized.

- It is a colorful sketch of how the firm wants its future to look, irrespective of the current position. In other words, the mission is a grand design of the firm's future.

- Mission amplifies what brings the firm to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business firm.

- In other words, the mission serves as a justification for the firm's very presence and existence; it legitimizes the firm's presence.

- Mission is also an expression of the vision of the corporation, its founder/ leader.

- To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

- According to Peter Drucker, every organization must ask an important question "What business are we in?" and get the correct and meaningful answer. The answer should have marketing or external perspective and should not be restated to the production or generic activities of business. The table given below will clarify and highlight the importance of external perspective.

6. Goals and Objectives

- Business organization translates their vision and mission into goals and objectives.

- As such the term objectives are synonymous with goals, however, some authors make an attempt to distinguish the two.

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

- Thus, the Objectives are more specific and translate the goals to both long term and short-term perspective.

- However, this distinction is not made by several theorists on the subject.

- Accordingly, we will also use the term interchangeably.

- ***Objectives are organization's performance targets – the results and outcomes it wants to achieve. They function as yardsticks for tracking an organization's performance and progress.***

- They provide meaning and sense of direction to organizational endeavor.

- Organizational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement.

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

- **Characteristics of Objects:**

  - 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.
  - They should be concrete and specific.
  - They should be related to a time frame.
  - They should be measurable and controllable.
  - They should be challenging.
  - Different objectives should correlate with each other.
  - Objectives should be set within the constraints of organisational resources and external environment.

- **Long-term objectives:**

  - To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas.

- Profitability.
- Productivity.
- Competitive Position.
- Employee Development.
- Employee Relations.
- Technological Leadership.
- Public Responsibility.

- Long-term objectives represent the results expected from pursuing certain strategies, Strategies represent the actions to be taken to accomplish long-term objectives.

- The time frame for objectives and strategies should be consistent, usually from two to five years.

- Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units.

- Each objective should also be associated with a time line. Objectives are commonly stated in terms such as growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility.

- Clearly established objectives offer many benefits.

- They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs.

- **Short-term objectives:**

  - objectives can be identical to long-range objectives if an organization is already performing at the targeted long-term level.

  - For instance, if a company has an ongoing objective of 15 percent profit growth every year and is currently achieving this objective, then the company's long-range and short-range objectives for increasing profits coincide.

  - The most important situation in which short-range objectives differ from long-range objectives occurs when managers are trying to elevate organizational performance and cannot reach the long-range target in just one year.

  - Short-range objectives then serve as steps toward achieving long term objective.

7. STRATEGIC MANAGEMENT MODEL

- Identifying an organization's vision, mission, goals and objectives, is the starting point for strategic management process.

- Every organization has a specific vision, mission, goals and objectives, even if these elements are not consciously designed, written, or communicated.

- The answer to where an organization is going can be determined largely by where the organization has been.

- 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.

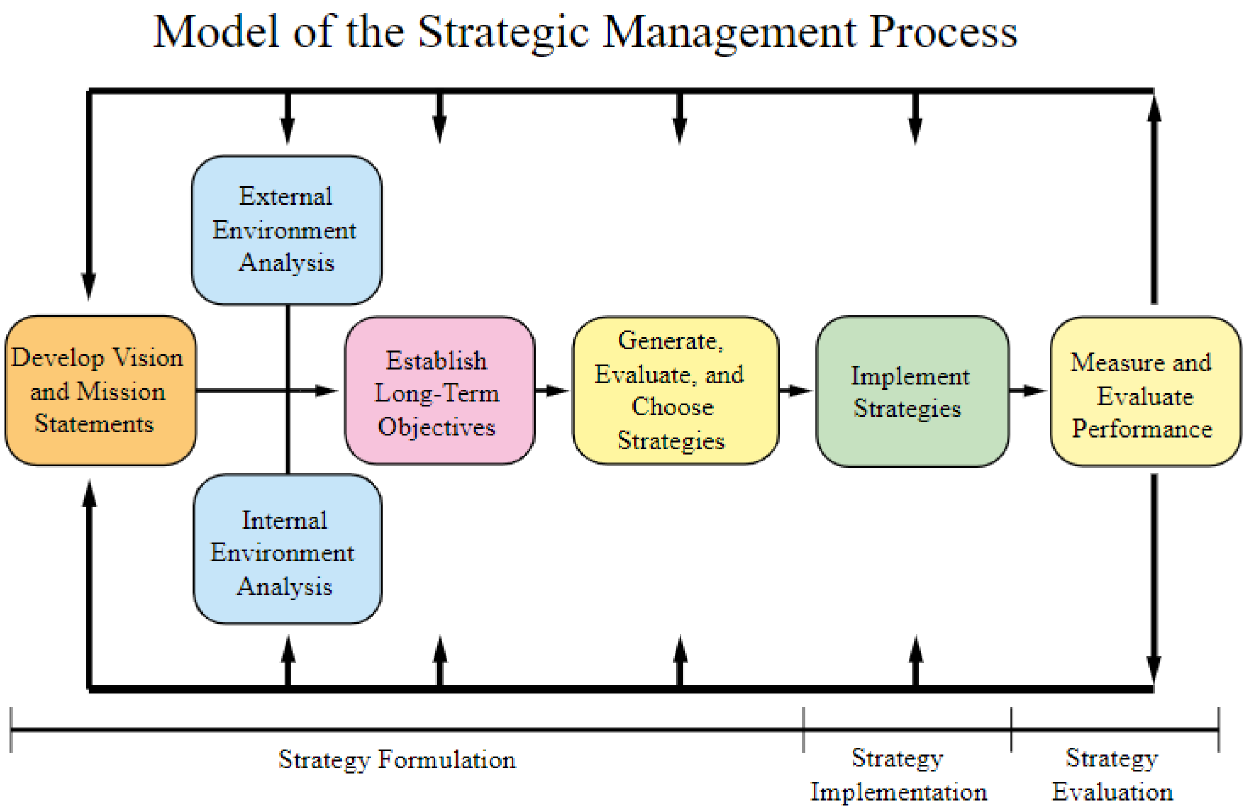
- For instance, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission.

- Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually.

- The strategic management process never really ends.

- The strategic management process can best be studied and applied using a model.

- Every model represents some kind of process.



- The strategic management process is not as cleanly divided and neatly performed in practice as the strategic management model suggests.

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

- Many organizations conduct formal meetings semi-annually to discuss and update the firm's vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance.

- Creativity from participants is encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

8. STAGES IN STRATEGIC MANAGEMENT

- Crafting and executing strategy are the heart and soul of managing a business enterprise.

- But exactly what is involved in developing a strategy and executing it proficiently? And who besides top management has strategy – formulation – executing responsibility?

- Strategic management involves the following stages:

  Stage-1: Developing a strategic vision and formulation of statement of mission, goals and objectives.

  Stage-2: Environmental and organizational analysis.

  Stage-3: Formulation of strategy.

  Stage-4: Implementation of strategy.

  Stage-5: Strategic evaluation and control

- **Stage-1:** Strategic Vision, Mission and Objectives:

  - Top management's views and conclusions about the company's direction and the product-customer-market- technology focus constitute a strategic vision for the company.

  - A strategic vision delineates management's aspirations for the organisation and highlights a particular direction, or strategic path for it to follow in preparing for the future, and molds its identity.

  - A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

  - **Mission and Strategic Intent:**

    - Managers need to be clear about what they see as the role of their organization, and this is often expressed in terms of a statement of mission.

    - This is important because both external stakeholders and other managers in the organization need to be clear about what the organization is seeking to achieve and, in broad terms, how it expects to do so.

- At this level, strategy is not concerned with the details of SBU competitive strategy or the directions and methods the businesses might take to achieve competitive advantage Rather, the concern here is overall strategic direction.

- Corporate goals and objectives flow from the mission and growth ambition of the corporation.

- Basically, they represent the quantum of growth the firm seeks to achieve in the given time frame.

- They also endow the firm with characteristics that ensure the projected growth.

- Through the objective setting process, the firm is tackling the environment and deciding the locus it should have in the environment.

- The objective provides the basis for it major decisions of the firm and also said the organizational performance to be realized at each level.

- The managerial purpose of setting objectives is to convert the strategic vision into specific performance targets– results and outcomes the management wants the achieve - and then use these objectives as yardsticks for tracking the company’s progress and performance.

- Ideally, managers ought to use the objective-setting exercise as a tool for truly stretching an organization to reach its full potential.

- Challenging company personnel to go all out and deliver big gains in performance pushes an enterprise to be more inventive, to exhibit some urgency in improving both its financial performance and its business position, and to be more intentional and focused in its actions.
- Objectives are needed at all organizational levels.

- Objective setting should not stop with top management's establishing of companywide performance targets.

- Company objectives need to be broken down into performance targets for each separate business, product line, functional department, and individual work unit.

- Company performance can't reach full potential unless each area of the organization does its part and contributes directly to the desired companywide outcomes and results.

- This means setting performance targets for each organization unit that support-rather than conflict with or negate-the achievement of companywide strategic and financial objectives.

- **Stage-2:** Environmental and Organizational Analysis:

  - This stage is the diagnostic phase of strategic analysis. It entails two types of analysis:
    1. Environmental scanning
    2. Organisational analysis
  - **External environment** of a firm consists of economic, social, technological, market and other forces which affect its functioning.
  - The firm's external environment is dynamic and uncertain.
  - So, the management must systematically be analyzed various elements of environment to determine opportunities and threats for the firm in future.
  - **Organisational analysis** involved a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on.
  - This would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment.

- This would provide us a framework for SWOT analysis (Strength, Weakness, opportunity and threat) which could be in the form of a table highlighting various strengths and weaknesses of the firm and opportunities and threats which the environment we create for the firm.

❖ **Stage-3:** Formulating Strategy:

- The first step in strategy formulation is developing strategic alternatives in the light of organization strengths and weaknesses and opportunities and threats in the environment.

- The second step is the deep analysis of various strategic alternatives for the purpose of choosing the most appropriate alternative which will serve as strategy of the firm.

- A company may be confronted with several alternatives such as:
  a) Should the company continue in the same business carrying on the same volume of activities?

  b) If it should continue in the same business, should it grow by expanding the existing units or by establishing new units or by acquiring other units in the industry.

c) If it should diversify, should it diversify into related areas or unrelated areas?

d) Should it get out of an existing business fully or partially?

- **Stage-4:** Implementation of Strategy:
  - Implementation and execution are an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner.
  - It is the most demanding and time-consuming part of the strategy-management process.
  - To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets.
  - In most situations, strategy-execution process includes the following principal aspects:
    - Developing budgets that steer ample resources into those activities critical to strategic success.

- Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.

- Ensuring that policies and operating procedures facilitate rather than impede effective execution.

- Using the best-known practices to perform core business activities and pushing for continuous improvement.

- Creating a company culture and work climate conducive to successful strategy implementation and execution.

- Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

❖ **Stage-5:** Strategic Evaluation and Control:

- The final stage of strategic management process – evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/or strategy-execution methods.

- So long as the company's direction and strategy seem well matched to industry and competitive conditions and performance targets are being met, company executives may decide to stay the course.

- Simply fine-tuning the strategic plan and continuing with ongoing efforts to improve strategy execution are sufficient.

- But whenever a company encounters disruptive changes in its external environment, questions need to be raised about the appropriateness of its direction and strategy.

- If a company experiences a downturn in its market position or shortfalls in performance, then company managers are obligated to ferret out whether the causes relate to poor strategy, poor execution, or both and then to take timely corrective action.

- A company's direction, objectives, and strategy have to be revisited anytime external or internal conditions warrant.

- It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time.

- Proficient strategy execution is always the product of much organizational learning. It is achieved unevenly – coming quickly in some areas and proving nettlesome and problematic in others.

- Periodically assessing what aspects of strategy execution are working well and what needs improving is normal and desirable.

- Successful strategy execution entails vigilantly searching for ways or continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.

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