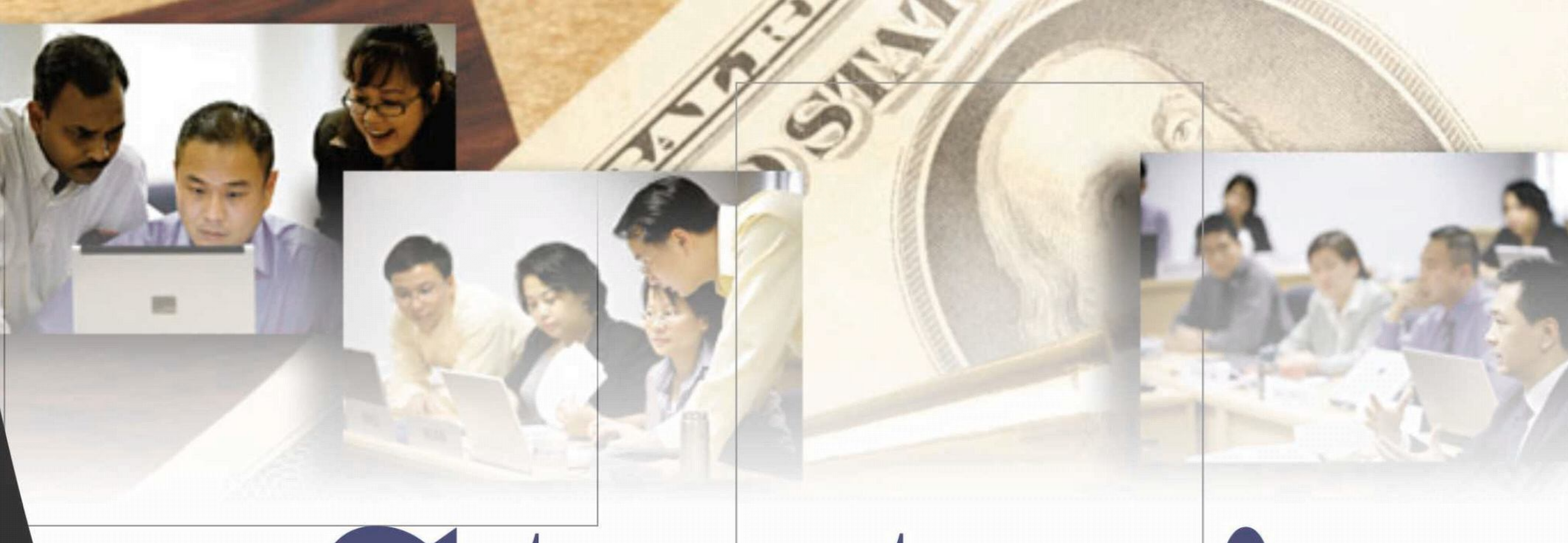

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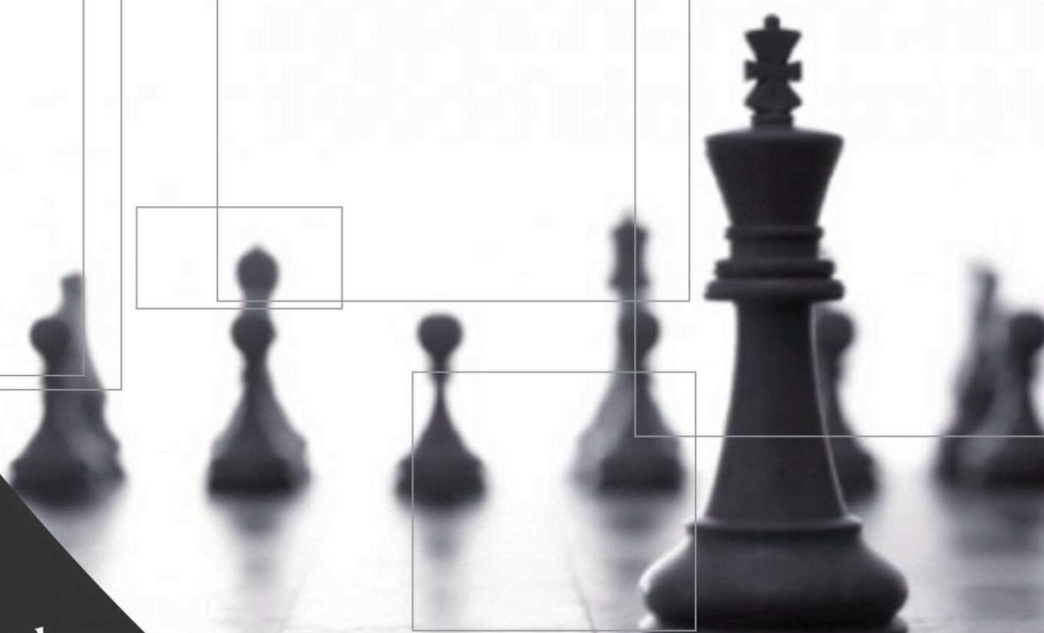

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Strategic Management

(As Per the New Syllabus for M.Com. Students of Mumbai University)

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This book is dedicated to God, Our Parents, Our Gurus & Our Relatives

FOREWORD

When the authors asked me for a foreword for their book Strategic Management, I was hesitant to comply with their request because we see a bumper crop of textbooks at the beginning of every academic year written by same authors on variety of topics as diverse almost as mathematics and marine biology! I took this up as I found that the authors (Prof. N.K. Shree Varahan and Prof. Rinky Rajwani) are writing in the area of their specialization.

A textbook of good quality is a deeply felt need of teaching and learning communities around us. A good textbook written by Indian authors in English language on management is a priority requirement. Reference books in English are not easy to digest as the environment in which the books are written is completely alien! Our students and also teachers have to struggle with not only a foreign language but also with an alien paradigm. There is huge amount of creativity in our teachers and professionals which remains untapped for the benefit of aspiring managers. The grass root level experience of our management professionals is hardly available as there is no channel through which it can reach the learners. Today, the student is caught between alien tomes which are difficult to understand and superficial attempts at book writing which can hardly deliver the desired stuff! The attitude we generally see is that book writing is merely making money, value creation if any is only by chance! In such troubled times, this attempt by the authors is laudable as it is in the interest of hapless students of our times. Between the two authors, there is years and years of teaching and professional experience which is accessible to the learners through this book.

I hope the authors review their book periodically to enrich it using the feedback from users and contribute to the process of learning. My best wishes to the authors as they have undertaken an onerous task.

— Prof. S.G. Bhide

PREFACE

We are happy to present the book ***"Strategic Management"*** to the students of M.Com., Part I to the teachers and the readers. This book is written according to the syllabus prescribed by the University of Mumbai. This book is also suitable for the students of Semester V of T.Y.B.Com. (Banking and Insurance), Semester III of B.M.S. and M.Com. (E-Commerce).

Outstanding Features

1. As per the guidelines of University of Mumbai
2. Simple and lucid language
3. Bird's eye view boxes given in the text provides a snapshot of the subject matter covered
4. Diagrammatic representation
5. Case studies with solutions
6. Case studies for Self-study
7. Sufficient examples
8. Paper Pattern

Authors

ACKNOWLEDGEMENTS

Adding on to our efforts, this book would not have been in existence without the support put forward by many people. We would like to thank in particular to our family members for motivating us to write this book and cooperating for making this attempt a success. We express our special thanks to Ms. Nimita Nanvani, Ms. Vidhi Joshi, Ms. Diya Rajwani and Ms. Juhi Rajwani for their valuable support throughout.

We are thankful to the staff members of Himalaya Publishing House Pvt. Ltd. especially Mr. S.K. Srivastava and Ms. Archana for their continuous support and belief in us.

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We are thankful to Mrs. Lakshita Soni, Mr. Shrichand Hinduja, Dr. Himanshi Mansukhani, Mrs. Chandra Iyer, Dr. Sonia Lal, Mr. Manoj Bhatia and Dr. Alka Choubey for continuous motivation and inspiration.

Last but not the least, thanking to all those who have helped directly or indirectly in making this book a success.

Please feel free to provide us with your valuable suggestions for the further improvement of the book at jeet1908@live.com.

Authors

SYLLABUS

SEMESTER – I

Module I – Introduction to Strategic Management **(10 Lectures)**

1. Define Strategy, Strategic Management Process
2. Levels of Strategies – Corporate, Business and Operational level, Types of Strategies – Functional Strategies, HR Strategy, Marketing Strategy, Financial Strategy, Operational Strategy
3. Benefits and Risks of Strategic Management
4. Formulation of Strategy and Strategic Implementation
5. Business Environment, Components of Environment, Environmental Scanning, Analysis of Strategies and Choice of Strategy

Module II – Business, Corporate and Global Strategies: Practices and Issues **(15 Lectures)**

1. Introduction to Corporate Restructuring, Need for Corporate Restructuring and Forms of Corporate Restructuring
2. Evaluation of Strategic Alternatives, Types of Strategic Alternatives like Portfolio Analysis and its Techniques, SWOT Analysis, Profit Impact of Market Strategy (PIMS)
3. Strategic Change, Corporate Renewal, Internal and External Causes of Organizational Failures
4. Culture of Organization, Management of Strategies and Cultures
5. Strategies for Foreign Direct Investment and International Trade in India

Module III – New Emerging Strategies in Information Communication Technology (ICT) **(15 Lectures)**

1. Concept of Outsourcing, Strategic Reasons of Growing Outsourcing in India
2. Meaning of Management Information System (MIS), Strategic MIS, Characteristics of Strategic MIS System and Barriers to Successful Development of Strategic MIS System
3. Business Firms using Information Technology for Creating Strategic Advantages, Reengineering Business Processes, Virtual Company Strategies, Knowledge Creating Company
4. Emerging Strategies in Telecommunication Sector

M.Com. (SEM- II) Compulsory Course II

Strategic Management - II

SEMESTER – II

Module I - Disaster Management: The Development Perspective, Concerns and Strategies (15 Lectures)

1. Disaster Management Strategies in Global Context
2. Strategic Ways of Managing Disasters at the National, State, District Levels in India
3. Challenges of Disaster Management and Governance in India
4. Economic Losses Due to Disasters – Issues and Strategies
5. Strategies for Preventing Disasters and Preparedness Measures
6. Strategies to Cope with Disasters

Module II – Strategic Alliances, Corporate Strategy and Corporate Governance (15 Lectures)

1. Meaning of Strategic Alliances, Types and Structure
2. Problems in Indian Strategic Alliances
3. Meaning of Corporate Strategy, Corporate Level Strategies – Mergers and Acquisitions, Takeovers, Joint Ventures, Diversification, Turnaround, Liquidation
4. Relationship between International Strategy and Corporate strategies
5. Corporate Governance Principles and Practices in India
6. Corporate Governance Practices around the World

Module III - Emerging Trends in Global Business Environment (10 Lectures)

1. Strategies for Growing Green Economies
2. Strategies for Governing Public Private Participation of Business Sector in India
3. Meaning of Corporate Social Responsibility (CSR), Strategies of Linking CSR with Profit and Sustainability for Obtaining Business Benefits
4. Strategies for Environmental Accounting and Auditing

Case Preparation and Analysis

Applying the Semester II Modules I, II and III of Strategic management techniques and applications, cases can be illustrated and more detailed comprehension and analysis of the cases can be done by the students with the guidance of the subject teacher. The cases can be further represented by recommendations and suggestions by the students so that the students are exposed to creative analysis, critical thinking, accurate observations and developing learning skills.

Question Paper Pattern

Semester – I End Examination

Marks: 60 **Duration: 2 Hours**

Note: 1. All questions are compulsory

2. Figures to the right indicate marks

Q.1	Compulsory Question (No Internal Option) Including Module I, II and III	(20 marks)
Q.2	Answer Any Two from the Following (Out of Three Modules)	(20 marks)
Q.3	Answer Any Two from the Following (Out of Three Modules)	(20 marks)

Semester – II End Examination

Marks: 60 **Duration: 2 Hours**

Note: 1. All questions are compulsory

2. Figures to the right indicate marks

Q.1	Compulsory Question (No Internal Option) Including Module I, II and III	(20 marks)
Q.2	Answer Any Two from the Following (Out of Three Questions)	(20 marks)
Q.3	Answer Any Two from the Following (Out of Three Questions)	(20 marks)

Note: Question No. 3 in Semester II Exam will include sub question on case study as optional

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Module II

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SEMESTER I

Module I

Chapter 1

Strategies and Strategic Management

- Introduction to Strategy
- Definitions of Strategy
- Features of Strategy
- Strategy at Different Levels of a Business
- Types of Strategies
  - Functional Strategies
    - Marketing Strategies
    - Finance Strategies
    - Production/Operational Strategies
    - Personnel or HR Strategies
- Introduction to Strategic Management
- Definitions of Strategic Management
- Features of Strategic Management
- Components/ Process/ Elements of Strategic Management
- Advantages of Strategic Management
- Disadvantages of Strategic Management
- Tactics vs. Strategy
- Strategic Business Unit

INTRODUCTION

The word "strategy" is derived from the Greek word "strategos"; stratus (meaning army) and "ago" (meaning leading/moving).

Strategy is an action that managers take to attain one or more of the organization's goals.

Strategy can also be defined as "A general direction, set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process".

A strategy is all about integrating organizational activities, and utilizing and allocating the scarce resources within the organizational environment, so as to meet the present objectives. While planning a strategy,it is essential to consider that decisions are not taken in a vaccum, and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

Strategy is a well defined roadmap of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors.

Strategy, in short, bridges the gap between "where we are" and "where we want to be".

DEFINITIONS OF STRATEGY

"Strategy is a plan of action or policy designed to achieve a major or overall aim."

– Oxford Dictionary

"Strategy is the direction and scope of an organisation over the long-term;which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations."

– Johnson and Scholes

In simple word, it can be defined as:

Strategy is a broad long term plan designed to achieve the overall objectives of the firm.

In other words, strategy is about:

- Where is the business trying to get to in the long-term? (Direction)
- Which markets should a business compete in and what kinds of activities are involved in such markets? (Markets; Scope)
- How can the business perform better than the competition in those markets? (Advantage)
- What resources (skills, assets, finance, relationships, technical competence and facilities) are required in order to be able to compete? (Resources)
- What external, environmental factors affect the businesses' ability to compete? (Environment)
- What are the values and expectations of those who have power in and around the business? (Stakeholders)

FEATURES OF STRATEGY

(a) Future Oriented

Strategy is significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.

(b) Deals with Long Term Developments

Strategy deals with long term developments rather than routine operations, i.e., it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.

(c) Analysis of the Behaviour

Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.

(d) Strategy Alternatives

It is not sufficient for the organisation to frame only a single strategy, to achieve its objectives. Some organizations may survive with one or two strategies due to the fewer complexities in their business. Large organisations need to frame alternative strategies in respect of growth and survival of the organisation.

(e) Deals with The Environment

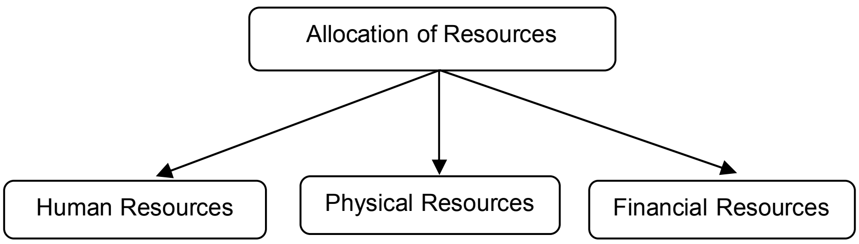
In order to frame the strategies for an organisation, it is important to analyse the internal and external environment, that affects the functioning of the organisation.

➢ **Internal Environment relates to the**
- Mission and Objectives
- Labour Management Relationship
- Technology
- Physical, Financial and Human Resources.

➢ **External Environment relates to the**
- Competition
- Customers
- Channel Intermediaries
- Government Policies
- Social
- Economic, Political, etc.

(f) Allocation of Resources

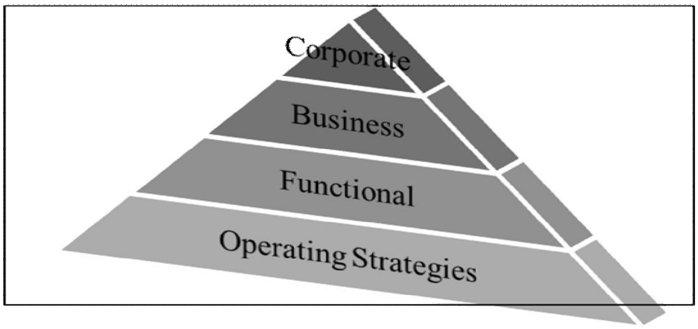
There are three types of resources which are supposed to be allocated. They are:



Strategic implementation will be effective only, when the resources are properly allocated for the achievement of the objectives. For this purpose, the organization should carry out a proper resource audit, so as to find out the strengths or weaknesses, so as to judge the quality and quantity of the resources available for the implementation.

STRATEGY AT DIFFERENT LEVELS OF A BUSINESS

Strategies exist at several levels in any organisation – ranging from the overall business (or group of businesses) to individuals working in it. Strategic management is the highest of these levels in the sense that it is the broadest – applying to all parts of the firm – while also incorporating the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy, there are typically business-level competitive strategies and functional unit strategies.



1. **Corporate Strategy**

   It is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level, since it is heavily influenced by investors in the business and acts to guide strategic decision-making throughout the business. Corporate strategy is often stated explicitly in a "mission statement".

   Corporate strategy refers to the overarching strategy of the diversified firm. Such a corporate strategy answers the questions of "in which businesses should we be in?" and "how does being in these businesses create synergy and/or add to the competitive advantage of the corporation as a whole?"

   There are different types of Corporate strategies:

   - Growth Strategy
   - Stability Strategy
   - Defensive Strategy
   - Combination Strategy

2. **Business Unit Strategy**

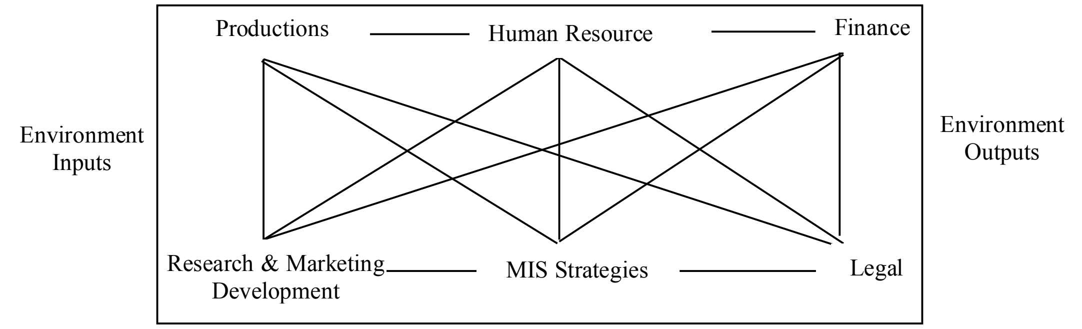
   This type of strategy is concerned more with how a business competes successfully in a particular market. It concerns strategic decisions, about choice of products, meeting needs of customers, gaining advantage over competitors, exploiting or creating new opportunities, etc. It refers to the aggregated strategies of single business firm or a strategic business unit (SBU) in a diversified corporation. According to Michael Porter, a firm must formulate a business strategy, that incorporates either cost leadership, differentiation or focus, in order to achieve a sustainable competitive advantage and long-term success in its chosen arenas or industries.

   There are different types of Business Unit strategies:

   - Cost Leadership Strategy
   - Differentiation Strategy
   - Focus Strategy

3. **Functional Strategy**

It is concerned with how each part of the business is organised to deliver the corporate and business-unit level strategic direction. Functional strategy therefore focuses on issues of resources, processes, people, etc. like different functions of banks, i.e., bank assurance, loans, deposits, etc., the strategies which are followed here are called as functional strategies.



Interrelationship among the Functional areas

Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies.

Many companies feel that a functional organizational structure is not an efficient way to organize activities, so they have reengineered according to processes or SBUs. A strategic business unit is a semi-autonomous unit that is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters.

An additional level of strategy called operational strategy was encouraged by Peter Drucker in his theory of management by objectives (MBO). It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. It must operate within a budget but is not at liberty to adjust or create that budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies.

Since the turn of the millennium, some firms have reverted to a simpler strategic structure driven by advances in information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process.

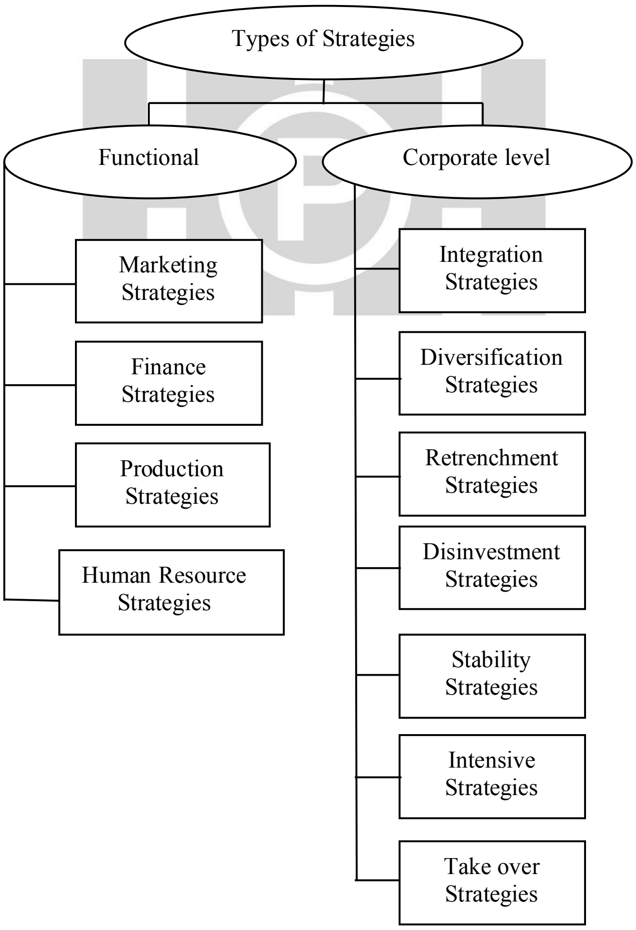
4. **Operating Strategy**

The strategies which represent still narrow initiatives and approaches than functional strategies. It is concerned how to manage key organizational units within a business and how to perform significant operating tasks.

Characteristics of Levels of strategies

Particulars	Corporate	Business	Functional	Operating
Term	Long (3 years)	Medium to long (1- 3 years)	Short to long (Below 1year)	Short to Medium (Monthly or Daily)
Scope	Entire Organisation	Single Business	Functional level	Operating unit level
Reporting	Top Level Managers	Top level Single Business Managers	Functional Level Managers	Operating level Managers
Purpose	Implement Mission	Achieve organisation strategies	Support Business Unit	Support Functional Unit
Performance Measures	Flexible	Measurable	Specific	Detailed and specific

TYPES OF STRATEGIES



1. MARKETING STRATEGIES

Marketing strategies may differ depending on the unique situation of the individual business. However there are a number of ways of categorizing some generic strategies. A brief description of the most common categorizing schemes is presented below:

- **Strategies based on market dominance –** In this scheme, firms are classified based on their market share or dominance of an industry. Typically, there are four types of market dominance strategies:

  (A) Leader – The firms, which have the major control and dominance in the market share, are called as the leader. Example: Johnson and Johnson is the leader of baby products in the market and has dominance of industry.

  (B) Challenger – The firms which are new in the market and are posing a challenge to the existing firms are called as the challenger. These firms believe in risk taking and generating new strategies.

  (C) Follower – The firms which don't take the initiative and just follow the policies and practices framed by the leaders are called as the followers.

  (D) Nicher – The firms which follow the strategies for the small group of the market are Nicher. The firm is able to satisfy the customers and generally do not intimate the leaders or the competitors.

2. FINANCE STRATEGY

Financial Strategy means utilization of capital, sources of funds and distribution to shareholders having significant impact on value creation. Normally, organization gives more emphasis on operational strategy to improve operational efficiencies and altogether ignores systematic approach towards Financial Strategy. In order to fulfill shareholders expectation and value creation, organization needs to properly align Operational and Financial Strategy.

The aim of the finance strategy is to ensure the company's profitability, stability and liquidity as well as its financial flexibility. A sound financial profile is essential for the strategic and operational development of the Group in the years ahead.

The core aspects of financial strategy are:

- Safeguard an investment-grade rating
- Stable capital structure
- Ensure adequate liquidity
- Maintain financial and operational flexibility
- Pursue a continuous dividend policy
- Hedging of external financial risks

In order to develop optimal Financial Strategy, an organization needs to develop Financial Strategy framework for sources & uses of fund.

There are three steps that need to be followed to develop optimal Financial Strategy:

- Establish an appropriate Capital Structure
- Understand whether the organization is undervalued or overvalued in the market
- Develop a Financial Strategy

Establish an Appropriate Capital Structure

Capital structure is often viewed as a minefield of finance theory. Because of this, many executives default to the status quo that, given changing circumstances over time, rarely results in full value creation. An important key to solving the capital structure puzzle is remembering that equity funds (even for private companies) are not free – in fact, they are very expensive. While there is not a contractual obligation to pay shareholders in the same manner as there is for debt holders, there is a very real opportunity cost inherent in equity funds.

Develop Financial Strategy

Scenario developed from capital structure serves as a basis for quantifying the amount of excess cash expected to generate from the business.

Definition of Excess Cash

Net Income

+ Depreciation and Amortization

+ Difference between Book Tax and Cash Tax

– Incremental Working Capital

– Capital Expenditures

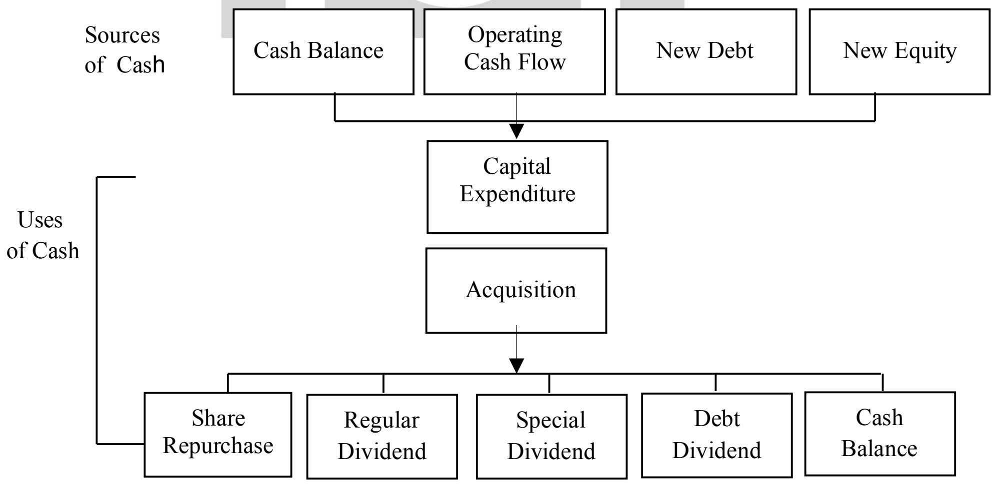
– Acquisitions

– Dividends

+ Proceeds from Exercise of Options

= Excess Cash

Finance Strategy Framework



Financial metrics have long been the standard for assessing a firm's performance. The role of finance is establishing and monitoring specific and measurable financial strategic goals on a coordinated, integrated basis, thus enabling the firm to operate efficiently and effectively. Financial goals and metrics are established based on benchmarking the "best-in-industry" and include:

1. **Free Cash Flow**

   This is a measure of the firm's financial soundness, and shows how efficiently its financial resources are being utilized to generate additional cash for future investments. It represents the net cash available, after deducting the investments and working capital increases, from the firm's operating cash flow. Companies should utilize this metric, when they anticipate substantial capital expenditures in the near future or follow-through for implemented projects.

2. **Economic Value-Added**

   This is the bottom-line contribution on a risk-adjusted basis and helps management to make effective, timely decisions to expand businesses, that increase the firm's economic value and to implement corrective actions in those that are destroying its value. It is determined by deducting the operating capital cost from the net income. Companies set economic value-added goals to effectively assess their businesses' value contributions and improve the resource allocation process.

3. **Asset Management**

   This calls for the efficient management of current assets (cash, receivables, inventory) and current liabilities (payables, accruals) turnovers and the enhanced management of its working capital and cash conversion cycle. Companies must utilize this practice, when their operating performance falls behind industry benchmarks or benchmarked companies.

4. **Financing Decisions and Capital Structure**

   Here, financing is limited to the optimal capital structure (debt ratio or leverage), which is the level that minimizes the firm's cost of capital. This optimal capital structure determines the firm's reserve borrowing capacity (short and long-term) and the risk of potential financial distress. Companies establish this structure, when their cost of capital rises above that of direct competitors and there is a lack of new investments.

5. **Profitability Ratios**

   This is a measure of the operational efficiency of a firm. Profitability ratios also indicate inefficient areas, that require corrective actions by management; they measure profit relationships with sales, total assets, and net worth. Companies must set profitability ratio goals when they need to operate more effectively, and pursue improvements in their value-chain activities.

6. **Growth Indices**

   Growth indices evaluate sales and market share growth and determine the acceptable trade-off of growth, with respect to reductions in cash flows, profit margins, and returns on investment. Growth usually drains cash and reserve borrowing funds, and sometimes, aggressive asset management is required to ensure sufficient cash and limited borrowing. Companies must set growth index goals when growth rates have lagged behind the industry norms or when they have high operating leverage.

7. **Risk Assessment and Management**

   A firm must address its key uncertainties by identifying, measuring, and controlling its existing risks in corporate governance and regulatory compliance, the likelihood of their occurrence, and their economic impact. Then, a process must be implemented to mitigate the causes and effects of those risks. Companies must make these assessments when they anticipate greater uncertainty in their business, or when there is a need to enhance their risk culture.

8. Tax Optimization

Many functional areas and business units need to manage the level of tax liability undertaken in conducting business, and to understand that, mitigating risk also reduces expected taxes. Moreover, new initiatives, acquisitions, and product development projects must be weighed against their tax implications and net after-tax contribution to the firm's value. In general, performance must, whenever possible, be measured on an after-tax basis. Global companies must adopt this measure, when operating in different tax environments, where they are able to take advantage of inconsistencies in tax regulations.

A large part of the business plan for any small business is the financial section of the plan. The financial section includes the income statement, cash flow statement and balance sheet. For new businesses, these financial statements will be projections, whereas for an existing business the section will contain several years of history as well as projections. In addition to statements, the plan should include the financial strategies of the business in, how finances will be handled.

(A) Cash Flow Management

The income statement and balance sheet of a business may look great on paper, but if the cash is not properly managed, the small business can quickly go under. Part of the financial strategy of the business plan will detail, how cash will be used in the business. This includes, identifying an amount that will always be in reserves, as well as how major expenses will be paid. By laying out the financial cash strategy ahead of time, it will make financial decisions easier about, when to write a check and when to access a line of credit during normal business practice.

(B) Purchases

Any purchases made through the business, particularly large purchases, should have detailed guidelines in the business plan. This will determine which purchases will be made with cash, a line of credit and with a credit card. This strategy will also outline taking advantage of the terms of suppliers. For instance, if a supplier offers 45-day terms, the business will wait until the end of the term to make a payment. In addition, the purchasing strategy should specify, if approval is needed by a manager or board for purchases over a certain amount.

(C) Collections

If the business is not properly managing its own receivables, it can be devastating to the financial health of the business. The financial strategy should detail the collections plan. This may include dedicating in-house staff to following up with overdue customers, or turning them over to an outside agency. It will also specify late fees. and if deposits are due before products and services are delivered for new customers.

(D) Investments

Although a specific investment strategy may not be able to be detailed in a written plan, general guidance should be given to the management. This includes a percentage of money invested in high-risk portfolios vs. lower-risk portfolios. The investment section of the plan will also include guidelines of, when approval is needed to make changes to current investments or to liquidate investments to cover business necessities.

3. PRODUCTION STRATEGIES

Production strategies are broad long-term action plans. They are made for achieving the main objectives of an organisation. Production strategies tell us what the production department must do to achieve the top aims of the organisation. It provides a road map for the production department. So, production strategies are long-term action plans of the organisation, for the production of goods and services. Production strategies decide about the investment to be made for production, the technology to be used for production, the training to be given to the production staff, the production schedule to be followed, etc. It also decides about the goods and services to be produced and when to introduce them in the market.

Production strategy can be focused on the following objectives:

1. **Quality**

   A company with a quality focus should provide goods or services, that are fit for their purpose and meet customer requirements. Quality can be achieved through a skilled workforce, adequate technology and effective utilization of quality standards.

2. **Speed**

   This strategy entails delivering goods and services as fast as customers want. Speed can be achieved by provisions such as spare capacity, rapid supplies and effective control of work flow.

3. **Dependability**

   This means doing things on time, or keeping the delivery schedule as promised to the customer. It is attained by effective scheduling, reliable equipment and commitment of the employees.

4. **Flexibility**

   This involves being able to respond to changes in the product design, production volume and variety and delivery time required by the customer.

5. **Cost**

   Cost-efficiency is achieved by better capacity utilization, reduced overheads, multipurpose equipment and higher productivity.

Formulation Process

A popular approach to formulating production strategy is a sequential process of five steps.

1. **Understand corporate objectives**

   Operations strategy is meant to contribute to corporate objectives. Common corporate objectives are growth, profitability and return on investment (ROI).

2. **Study the marketing strategy**

   This helps understand the markets, that the operations strategy should satisfy. Product characteristics such as degree of customization, and production quantity can come out of this phase.

3. **Fit the marketing strategy into types of production strategy**

   The strategies of quality, speed, dependability, flexibility and cost are divided into order winners and order qualifiers. Order winners are those product characteristics, that compel the customer to make a purchase; order qualifiers are those characteristics, that the customer expects the product to have, but do not differentiate your product from competitors. For example, in a certain market, product customization may be the deciding factor for the customer to make a purchase but, at the same time, the customer also expects certain level of quality and delivery time.

4. **Process choice**

   In this step, a set of operations characteristics is developed to meet the operations strategy requirements. This step involves decisions on process technology, capacity, size and location of the facilities.

5. **Infrastructure requirements**

   This step resembles step four, but concerns non-process issues such as operations planning and control systems and organizational structure.

4. PERSONNEL OR HR STRATEGIES

These are considered to be the crucial, and very important strategy for any organization as the human resource always works for the achievement of the resources. The organization must adopt Human friendly strategies for its employees, so that they can work more efficiently.

Following are some of the HR Strategies:

(i) Motivation

Motivation is an act,whereby the managers create a positive or negative impact in the minds of employees to work faster.

Motivation can be classified in various ways like:

(a) Negative Motivation
(b) Positive Motivation
(c) Intrinsic Motivation
(d) Extrinsic Motivation
(e) Monetary Motivation
(f) Non Monetary Motivation
(g) Providing a senior employee with a higher level position
(h) Performance Appraisal
(i) Transferring Strategy

The manager must be very careful to adopt the right type of strategy of motivation at a right time.

(ii) Training

New Appointees and the senior employees always need training to grow their level and to work in a better way with fewer hassles. So managers must provide the Training Facilities to their employees. Training can be of various types like:

(a) On the Job Training
(b) Off The Job Training.

A careful planning is required for the purpose of providing proper training to the employees.

(iii) Better Environment

Environment in which an employee works is very conducive for the working of employee and the organization, as if the employee is able to work without tensions and pressure, they will achieve the targets quickly and with less or minimal error. So the organization must provide good and healthy environment.

(iv) Recreational Facilities

Recreational Facilities like games, canteen, pool, etc., should be in the office premises, as they are highly responsible for the stress relieving of the employees.

(v) Recruitment and Selection Strategies

New people, who are to be appointed in the organization must be properly recruited and selected by the organization. Recruitment can be of two types like:

(a) Internal Recruitment

(b) External Recruitment

Proper selection procedure must be adopted so that the best candidate is appointed. The selection committee must have an experienced team and must not be biased.

STRATEGIC MANAGEMENT – AN INTRODUCTION

Strategic Management is all about identification and description of the strategies that managers can carry, so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage, if its profitability is higher than the average profitability for all the companies in its industry.

Strategic management can also be defined as a bundle of decisions and acts, which a manager undertakes and which decides the result of the firm's performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment, so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make the best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and should not ignore the threats. Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations, as even a smallest organization faces competition and, by formulating and implementing appropriate strategies, they can attain sustainability.

Strategic Management is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about the future direction of an organization. It helps us to identify the direction in which an organization is moving.

Strategic management is a continuous process, that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all the existing and potential competitors; and then reevaluates strategies on a regular basis to determine how it has been implemented, and whether it was successful or does it need replacement.

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is correlated to other organizational members. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can correlate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization, with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes.

The managers and employees must do appropriate things in appropriate manner. They need to be both effective as well as efficient.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure that these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

DEFINITIONS

Strategic Management is that act of decisions and actions which leads to development of an effective strategy or strategies to help achieve corporate objectives.

– Glueck

Strategic Management is the formulation and implementation of plan and carrying out of activities relating to the matter which are of vital, pervasive, or continuing importance to the total organization.

– A. Sharplin

Strategic Management is defined as the set of decisions and actions in formulation and implementation of strategies designed to achieve the objectives of an organization.

– Pearce & Robbinson

FEATURES OF STRATEGIC MANAGEMENT

(a) Systematic and Continuous Process

Strategic Management is a systematic and continuous process. It is a process for achieving certain objectives of the organization. It is basically concerned with making, implementing and evaluating the decisions of the organization. This process will go on till the organization lasts.

(b) Future Oriented

It is oriented to the future. It is a long range orientation, one that tries to anticipate the events, rather than simply react as they occur.

(c) Focus on Objectives

The strategic management cannot work without objectives, because the focus of strategic management is on the achievement of the objectives. Through proper strategy planning, making, implementing and evaluating, the organization can achieve its objectives.

(d) Relates to the Environment

Strategic management relates to the internal and external environment not only for the framing of the strategies but also for decision making, implementing and formulating. The internal environment relates to man, materials, machines, mission, objectives, plans, policies, and other resources, i.e., with the strengths and weaknesses of the organization. The external environment deals with the opportunities and threats which are external to the organization. Strategic management emphasizes to monitor and evaluate the external opportunities and threats.

(e) Top Management Function

Strategic management is the top management function. The top management devotes a lot of time and effort in respect of strategic matters, rather than the routine matters, The environment is dynamic in nature, so the management gives more time to planning, making, implementing, evaluating and controlling the Strategic Management.

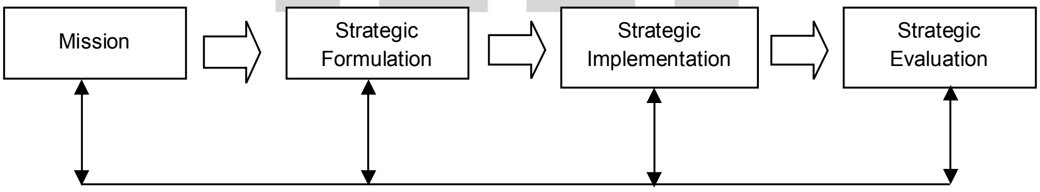
(f) Involves Multiple Decisions

Strategic management is totally based on the decisions. At every step various decisions are to be made by the top management, so strategic management helps in taking correct decisions at proper time. It involves multiple decisions like:

- Scanning the environment
- Setting objectives
- Implementation of strategies
- Evaluation of strategies
- Formulation of strategies

COMPONENTS/PROCESS/ELEMENTS OF STRATEGIC MANAGEMENT

These components are the steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses, that have already created a strategic management plan will revert to these steps, as per the situation's requirement, so as to make essential changes. Strategic Management is an ongoing process. Therefore, it must be realized that each component interacts with the other components, and that this interaction often happens in chorus. There are three phases, which are as follows:



Components of Strategic Management Process

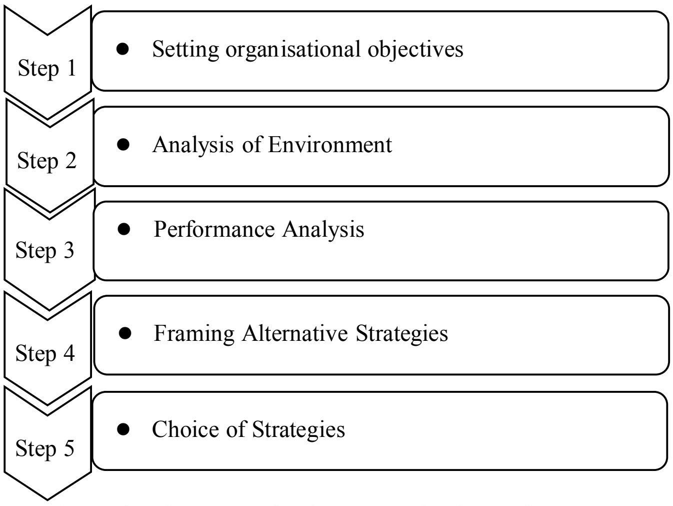
(a) Mission Statement

Every good strategic management plan begins with a concise mission statement. The strategic management process revolves around aligning the day-to-day work activities with this mission statement to achieve long-term success. The mission statement is a statement of the organization's purpose and reason for existence. The mission statement should also state what it is about this specific organization that sets it apart from others within the same industry. This specific aspect is vital to creating and maintaining a sustainable competitive advantage.

(b) Strategic Formulation

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. The process of strategy formulation basically involves five main steps.

Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.



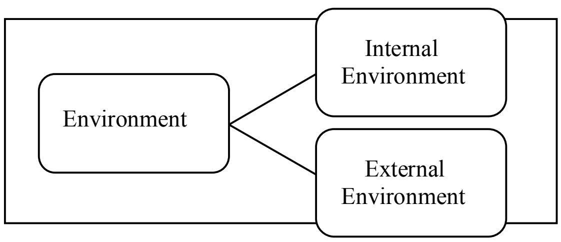
(i) Setting Organizational Objectives

The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there, whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

(ii) Analysis of Environment

There are two types of Environment which are supposed to be analyzed, which are:



Internal Analysis of the Environment is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes, employee interaction with other employees, employee interaction with the management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc .

Also, discussions, interviews, and surveys can be used to assess the internal environment. Analysis of internal environment helps in identifying **strengths and weaknesses** of an organization.

While in **External Analysis**, three correlated environment should be studied and analyzed–

- Immediate/Industry Environment.
- National Environment.
- Broader Socio-Economic Environment/Macro-Environment

Examining the **Industry environment** needs an appraisal of the competitive structure of the organization's industry, including the competitive position of a particular organization and it's main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry is essential. It also implies evaluating the effect of globalization on competition, within the industry. Analyzing the **National environment** needs an appraisal of whether the national framework helps in **achieving competitive** advantage in the globalized environment. Analysis of **Macro-environment** includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment. The analysis of organization's external environment reveals opportunities and threats for an organization.

(iii) Performance Analysis – Performance analysis includes, discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organization's past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap, that persists between the actual reality, and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition, if the current trend persists.

(iv) Framing Alternative Strategies – After the SWOT and Performance Analysis, the management needs to frame the alternative strategies to accomplish its objectives, as some strategies may be put on hold and other strategies may be implemented.

(v) Choice of Strategy – This is the ultimate step in Strategy Formulation. The best course of action or the strategy is actually chosen after considering organizational goals, organizational strengths, potential and limitations, as well as the external opportunities.

(c) Strategy Implementation

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be corelated so as to maximize efficiency, quality, and customer satisfaction – the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by the organizational members and groups.

Following are the main steps in implementing a strategy:

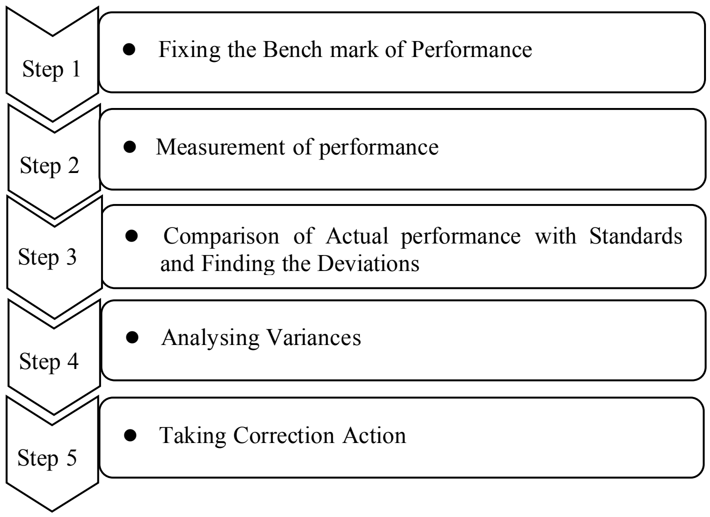
- Developing an organization having potential of carrying out strategy successfully.
- Disbursement of abundant resources to strategy-essential activities.
- Creating strategy-encouraging policies.
- Employing best policies and programs for constant improvement.
- Linking reward structure to accomplishment of results.
- Making use of strategic leadership.

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible, unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc.

Strategy implementation poses a threat to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behavior.

(d) Strategy Evaluation and Control

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management. The process of Strategy Evaluation consists of following steps –



(i) **Fixing Benchmark of Performance –** While fixing the benchmark, strategists encounter questions such as – what benchmarks to set, how to set them, and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identifies and expresses the special requirements, might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover, etc. Among the Qualitative factors are subjective evaluation of factors such as – skills and competencies, risk taking potential, flexibility, etc.

(ii) **Measurement of Performance –** The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication systems help in measuring the performance. If appropriate means are available for measuring the performance, and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors, such as, managers contribution are difficult to measure. Similarly divisional performance is sometimes difficult to measure, as compared to individual performance. Thus, variable objectives must be created against which, measurement of performance can be done. The measurement must be done at the right time, else evaluation will not meet its purpose. For measuring the performance, financial statements like – balance sheet, profit and loss account must be prepared on an annual basis.

(iii) **Comparison Of Actual Performance with Standards and Finding the Deviations –** The actual performance needs to be compared with the standards. There must be objective comparison of actual performance against the determined targets or standards. It is used to find deviations, if any.

(iv) **Analyzing Variances –** While measuring the actual performance and comparing it with standard performance, there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which, the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance, but it is quite unusual, exceeding the target always. The negative deviation is an issue of concern, because it indicates a shortfall in the performance. Thus in this case, the strategists must discover the causes of deviation and must take corrective action to overcome it.

(v) **Taking Corrective Action –** Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors, responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is, reformulating the strategy which requires, going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

ADVANTAGES OF STRATEGIC MANAGEMENT

(a) Discharges the Board Responsibility

The first reason that most organizations state for having a strategic management process is that, it discharges the responsibility of the Board of Directors.

(b) Facilitates Better Delegation

Strategic management helps in better delegation. The staff working at lower level can formulate their respective functional and operational strategies, within the broad framework of organizational strategies.

(c) Forces an Objective Assessment

Strategic management provides a discipline that enables the board and senior management to actually take a step back from the day-to-day business, to think about the future of the organization. Without this discipline, the organization can become solely consumed with working through the next issue or problem, without consideration of the larger picture.

(d) Provides a Framework for Decision-Making

Strategy provides a framework within which, all the staff members can make day-to-day operational decisions, and understand that those decisions are all moving the organization in a single direction. It is not possible (nor realistic or appropriate) for the board to know all the decisions, the executive director will have to make, nor is it possible (nor realistic or practical) for the executive director to know all the decisions, the staff will make.

Strategy provides a vision of the future, confirms the purpose and values of an organization, sets objectives, clarifies threats and opportunities, determines methods to leverage strengths, and mitigate weaknesses (at a minimum). As such, it sets a framework and clear boundaries within which, decisions can be made. The cumulative effect of these decisions (which can add up to thousands over the year) can have a significant impact on the success of the organization. Providing a framework within which, the executive director and staff can make these decisions, helps them better focus their efforts on those things that will best support the organization's success.

(e) Promotes Staff Participation

Allowing the board and staff participation in the strategic discussion enables them to better understand the direction, why that direction was chosen, and the associated benefits. For some people, simply knowing is enough; for many people, to gain their full support requires them to understand.

(f) Minimize Weaknesses

Strategic management helps in earlier identification of weaknesses so as to reduce it through proper measures. Prudent strategies convert these weaknesses into strength by reinforcing appropriate strategies.

(g) Enables Measurement of Progress

A strategic management process forces an organization to set objectives and measures of success. The setting of measures of success requires that the organization first determines what is critical to its ongoing success and then forces the establishment of objectives, and keeps these critical measures in front of the board and senior management.

(h) Provides an Organizational Perspective

Addressing operational issues rarely looks at the whole organization and the interrelatedness of its varying components. Strategic management takes an organizational perspective and looks at all the components and the interrelationship between those components, in order to develop a strategy that is optimal for the whole organization and not a single component.

DISADVANTAGES OF STRATEGIC MANAGEMENT

(a) The Future doesn't Unfold as Anticipated

One of the major criticisms of strategic management is that, it requires the organization to anticipate the future environment, in order to develop plans, and as we all know, predicting the future is not an easy undertaking. The belief being that, if the future does not unfold as anticipated, then it may invalidate the strategy taken. Recent research conducted in the private sector has demonstrated that the organizations that use planning process achieve better performance than those organizations who don't plan – regardless of whether they actually achieved their intended objective. In addition, there are a variety of approaches to strategic planning that are not as dependent upon the prediction of the future.

(b) Expensive

There is no doubt that in the not-for-profit sector there are many organizations that cannot afford to hire an external consultant to help them develop their strategy. Today, there are many volunteers, who can help smaller organizations and also funding agencies that will support the cost of hiring external consultants in developing a strategy. Regardless, it is important to ensure that, the implementation of a strategic management process is consistent with the needs of the organization, and that appropriate controls are implemented to allow the cost/benefit discussion to be undertaken, prior to the implementation of a strategic management process.

(c) Problems in Analyzing the External Environment

Strategic Management involves the study of external environment, so as to understand the opportunities and threats; however external environment cannot be analysed with accuracy. So it affects the organization.

(d) Over or Under Estimation of Targets

There may be the possibility of over estimation in fixing of the targets by the strategists. It may result in frustration or demotivation on their part. On the other hand, if there is under estimation in fixing of the targets, then there will be problem in achieving the mission at a prior time. So the strategists need to frame a balanced estimation.

(e) Lack of Acceptance by The Lower Level Management

The strategies are framed by the top management and they may not consider the lower level management. But the followers of these strategies are lower level management, they may show their unwillingness or resistance in implementing such strategies, due to which it becomes difficult to achieve the set targets at a proper time.

(f) Impedes Flexibility

When you undertake a strategic management process, it will result in the organization saying "no" to some of the opportunities that may be available. This inability to choose all of the opportunities presented to an organization is sometimes frustrating. In addition, some organizations develop a strategic management process that become excessively formal. Processes that become this "established" lack innovation and creativity, and can stifle the ability of the organization to develop creative strategies. In this scenario, the strategic management process has become the very tool, that now inhibits the organization's ability to change and adapt.

A third way, that flexibility can be impeded is through a well-executed alignment and integration of the strategy, within the organization. An organization that is well aligned with its strategy, has addressed its structure, board, staffing, performance, and reward systems. This alignment ensures that, the whole organization is pulling in the right direction, but can inhibit the organization's adaptability. Again, there are a variety of newer approaches to strategy development used in the private sector (they haven't been widely accepted in the not-for-profit sector yet), that build strategy and address the issues of organizational adaptability.

DIFFERENCE BETWEEN STRATEGY AND TACTICS

		Strategy	Tactics
1	Purpose	To identify clear, broader goals which advances the overall organization and organize resources.	To utilize specific resources to achieve sub-goals which support the defined mission.
2	Roles	Individuals who influence resources in the organization. They understand how a set of tactics work together to achieve goals.	Specific domain experts that manoeuvre limited resources into actions to achieve a set of goals.
3	Account-ability	Held accountable to overall health of organization.	Held accountable to specific resources assigned.
4	Scope	All the resources within the organizations, as well as broader market conditions including competitors, customers, and economy. "Strategy is often what you don't do".	A subset of resources used in a plan or process. Tactics are often specific tactics with limited resources to achieve broader goals.
5	Duration	Long Term, changes infrequently.	Shorter Term, flexible to specific market conditions.
6	Methods	Uses experience, research, analysis, thinking, and communication.	Uses experience, best practices, plans, processes, and teams.
7	Outputs	Produces clear organizational goals, plans, maps, guideposts, and key performance measurements.	Produces clear deliverables and outputs using people, tools, time.

STRATEGIC BUSINESS UNITS

In business, a strategic business unit (SBU) is a profit center, which focuses on product offering and market segment. SBUs typically have a discrete marketing plan, analysis of competition, and marketing campaign, even though they may be part of a larger business entity.

An SBU may be a business unit within a larger corporation, or it may be a business unto itself. Corporations may be composed of multiple SBUs, each of which is responsible for its own profitability. General Electric is an example of a company with this sort of business organization. SBUs are able to affect most factors, which influence their performance. Managed as separate businesses, they are responsible to a parent corporation. General Electric has 49 SBUs. Companies today often use the word segmentation or division, when referring to SBUs or an aggregation of SBUs that share such commonalities.

Strategic business units can be best explained with an example.

Example of Strategic business units – The best example of strategic business unit would be to take organizations like HUL, P&G or LG in focus. These organizations are characterized by multiple categories and multiple product lines. For example, HUL may have a line of products in the shampoo category. Similarly LG might have a line of products in the television category. Thus to track the investments against returns, they may classify the category as a different SBU itself.

There are several reasons SBUs are used in an organization, and they are mentioned in my post on the importance for using SBUs in a multi product organization. However, along with the reasons for using SBUs there are also some powers, which need to be inferred on an SBU. Planning independence, empowerment and others are such powers which influence a SBU. Three of such features are discussed below.

1. **Empowerment of the SBU Manager**

   Several times, the empowerment of SBU managers is crucial for the success of the SBU/ products. This is mainly because this manager is the one, who is actually in touch with the market and knows the best strategies which can be used for optimum returns. Thus, on several times, the SBU manager might need a higher investment for his products. At such times, the manager should be supported by the organization. Only this confidence will help the manager in the progress of the SBU.

2. **Degree of Sharing of one SBU with Another**

   This point is directly connected to the first one. What if one SBU needs some budget, but the same is not offered, because the budget is being shared by two other SBUs and as it is, the budget is short. Thus, the first SBU does not get the independence to implement some important strategies. Similarly, there might be other restrictions applied to one SBU as it is using some resources which are shared by another SBU. This might not always be negative. If one SBU gains more profit than usual, this revenue might also become useful for the other SBU, thereby promoting growth of both of them. This is where sharing actually plays a positive role.

3. **Changes in the Market**

   An SBU absolutely needs to be flexible because it needs to adapt to any major changes in the market. For example – if an LCD manager knows that LEDs are more in demand now, he needs to communicate to the top management that he would also like a range of LED products to make the SBU even more profitable. Thus by adding LED to its portfolio, the SBU can immediately become double profitable. Thus by adjusting to change on SBU levels, the organization as a whole can become profitable.The key to Strategic business management is to have a strict watch on the investment and returns from each SBU. The SBU manager too plays a crucial role in this and hence he is recruited from the industry with extensive experience of that particular industry. Portfolio/Multi SBU management is done at the absolute top level of the management. Each and every change in the market, and its affect on SBUs is anticipated, which is then taken into consideration. Hence, for a multi product organization, business management may actually mean product portfolio management or SBU management.

Questions:

1. Explain briefly the various types of Integration strategies. Give examples.
2. What is Downsizing? Explain the impact of Downsizing in an organization.
3. Explain the different types of Diversification Strategies. Illustrate with suitable examples.
4. Explain Porter's Generic Competitive Strategies. Give examples.
5. Explain Strategy at Different Levels of a Business.
6. Define Strategic management. Illustrate and explain the process of strategic management.
7. What is Strategic Formulation? Illustrate and explain the process of Strategic Management.
8. What are the various levels of Strategic Management? Illustrate and give examples.
9. Define Strategic management. Explain the importance of Strategic management in an organization.
10. Define Strategic management and explain its advantages.
11. Critically evaluate strategic management.

Write short notes on:

1. Diversification
2. Marketing strategies
3. Integration Strategy
4. Disinvestment Strategies
5. Porter's Generic Competitive Strategies
6. Intensive Strategies
7. Defensive Strategies
8. HRM Strategies
9. Strategic Implementation
10. Strategic Formulation
11. Strategic Evaluation and Control

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