Unit 1

Module 4

Strategic Management

Strategic management can be described as the identification of the purpose of the organisation and the plans and actions to achieve that purpose. It is that set of managerial decisions and actions that determine the long-term performance of a business enterprise.

It involves formulating and implementing strategies that will help in aligning the organisation and its environment to achieve organisational goals.

It makes fundamental decisions about the future direction of a firm – its purpose, its resources and how it interacts with the environment in which it operates.

Every aspect of the organisation plays a role in strategy – its people, its finances, its production methods, its customers and so on.

Definition

Strategic management is concerned with the determination of the basic long-term goals and the objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals.Alfred Chandler, 1962

Strategic management is the set of decisions and actions resulting in the formulation and implementation of plans designed to achieve a company's objectives. Pearce and Robinson.

Characteristics of Strategic Management

The Characteristics of Strategic Management are as follows:

1. Top management involvement
2. Requirement of large amounts of resources
3. Affect the firms long-term prosperity
4. Future-oriented
5. Multi-functional or multi-business consequences
6. Non-self-generative decisions

1. Top management involvement

Strategic management relates to several areas of a firm's operations. So, it requires top management's involvement.

Generally, only the top management has the perspective needed to understand the broad implications of its decisions and the power to authorise the necessary resource allocations.

2. Requirement of large amounts of resources

Strategic management requires the commitment of the firm to actions over an extended period of time. So, they require substantial resources, such as physical assets, 20 manpower etc.

Example: Decisions to expand geographically would have significant financial implications in terms of the need to build and support a new customer base.

3. Affect the firms long-term prosperity

Once a firm has committed itself to a particular strategy, its image and competitive advantage are tied to that strategy; its prosperity is dependent upon such a strategy for a long time.

4. Future-oriented

Strategic management encompasses forecasts, what is anticipated by the managers. In such decisions, the emphasis is on the development of projections that will enable the firm to select the most promising strategic options.

In the turbulent environment, a firm will succeed only if it takes a proactive stance towards change.

5. Multi-functional or multi-business consequences

Strategic management has complex implications for most areas of the firm. They impact various strategic business units especially in areas relating to customer-mix, competitive focus, organisational structure etc.

All these areas will be affected by allocations or reallocations of responsibilities and resources that result from these decisions.

6. Non-self-generative decisionsti-business consequences

While strategic management may involve making decisions relatively infrequently, the organisation must have the preparedness to make strategic decisions at any point of time. That is why Ansoff calls them “non-self-generative decisions.

Needs of strategic Management

Firms are using strategic management for the following needs:

1. It helps the firm to be more proactive than reactive.

2. It provides the roadmap for the firm.

3. It allows the firm to anticipate change and be prepared to manage it.

4. It helps the firm to respond to environmental changes in a better way.

5. It minimizes the chances of mistakes and unpleasant surprises.

6. It provides clear objectives and direction for employees.

Benefits of strategic management

Strategic management has thus both financial and non-financial benefits:

1. Financial Benefits: Research indicates that organisations that engage in strategic management are more profitable and successful than those that do not.

Businesses that followed strategic management concepts have shown significant improvements in sales, profitability and productivity compared to firms without systematic planning activities.

- Improvement in sales
- Improvement in profitability
- Improvement in productivity
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2. Non-financial benefits: Besides financial benefits, strategic management offers other intangible benefits to a firm.

- Enhanced awareness of external threats
- Improved understanding of competitors' strategies
- Reduced resistance to change
- A clearer understanding of the performance-reward relationship
- Enhanced problem-prevention capabilities of an organisation
- Increased interaction among managers at all divisional and functional levels
- Increased order and discipline

Basic concepts of strategic management

- strategic Intent

Strategic Intent of an organization clarifies the purpose of its existence and why it will continue to exist. It helps paint a picture of what an organization should immediately do to achieve the company’s vision.

- Mission

Mission component of strategy management states the role by which an organization intends to serve its stakeholders. It describes why an organization is operating that helps provide a framework within which the strategies to achieve its goals are formulated.

- Vision

The visual component of strategy management helps identify where the organization intends to be in the future. It describes the stakeholder dreams and aspirations for the organization.

- Goals and Objectives

Goals help specify in particular what must be done in order to attain an organization’s mission or vision. Goals make the mission component of strategy management more prominent

- Strategic Management Process

Setting the Goal – The first and foremost stage in the process of strategic management requires the organization to set the short term and long term goals it wants to achieve.

- Initial Assesment – The second stages says to gathers as much data and information as possible to help state the mission and vision of the organization.

- Situation Analysis – It refers to the process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external environment that is influencing an organization.

- Strategy Formulation – Strategy formulation is the process of deciding the best course of action to be taken in order to achieve the goals and objectives of the organization.

- Strategy Implementation – Executing the formulated strategy in such a way that it successfully creates a competitive advantage for the company. In simple words, putting the chosen plan into action.

- Strategy Monitoring – Strategy Monitoring involves the key evaluation strategies like taking into account the internal and external factors that are the root of the present strategies and measuring the team performance.

- SWOT Analysis – It helps in determining the Strengths, Weaknesses, Opportunities and Threats (SWOT) of an organization and taking remedial/corrective courses of actions to fight these weaknesses and threats.

Approaches to Strategic Decision Making

Entrepreneurial Approach

As the caption suggests this approach is followed in strategic decision-making by the organisations headed by family heads where by the organisation is moulded to face the environmental changes. In the Indian context the business groups such as Reliance, Jyoti Udyog, Nirma, Kothari Products, Mofatlal Group, Dabur Products, T.T.K. Group, Infosys Technologies are examples.

Features of Entrepreneurial Approach

(1) Capitalising on the Opportunities – Entrepreneurial approach warrants constant search for opportunities that changing environment makes available. This searching may be formal or informal. Seeking the possible and viable opportunities and encashing them. That is, it is not a problem solving process.

(2) Centralized Decision-Making Power – The family head is the person who has the exclusive power of making bold and unusual decision. It is founded on rich experience of past and sound judgement that play vital role in making the head as competent authority to make decisions.

(3) Growth and Expansion Orientation – This approach is growth and expansion-oriented. That is, there is an all out attempt increase the wealth, assets, turnover and market share, Growth and expansion

oriented approach keeps the family of entrepreneurs on the toes always alert and agile and keen observaţion of business situations is the key to their success.

(4) Efforts and Rewards are Well Balanced – The entrepreneurial approach believes in making unusual and very bold decision in the environment of uncertainty. They keep the organisation adaptive to the changing needs of business world. Naturally,

unusual and bold decisions based on rich and unique experience and sound judgement are bound to yield rich dividends commensurate with the boldness and environmental interfacing. This means that these bold and unusual decisions are based on hard facts of changing environment.

Adaptive Approach

This adaptive approach is reactive rather than proactive and tries to collect and mix the variant factors influencing the strategic decisions. It touches the very root of changing context of decision-making. This approach is very common in case of public sector enterprises where decision-making power is divided amongst different constituents. It is a matter of governing and managing these enterprises where the objectives are social service orientation hinged by profit making. That is, though the aim is to meet the social needs the government enterprises not barred from making profit.

Features of Adaptive Approach

(1) It is an Exercise of Problem-Solving – Such an approach is to solve the problem encountered which are more of survival and maintenance or continuation of existing situation rather hunting new opportunities and encashing on them.

(2) Dominance of Decision Making Process by Constituents – These constituents we mean here the 'publics' that have stake in business. The decísion-making process is shared by the owners, managers, government agencies, trade unions, financers and the like. The decision reflects the interests of these stake-holders.

(3) Priority Based Decisions – This approach believes in solving one problem at a time. The most urgent problem gets the priority over others. The idea behind this is to attain and maintain highest degree of flexibility to adapt the decision to more pressing needs. Logic behind this is to use all the vigor and strength in solving effectively the most pressing problem so that they need not look back again.

Planning Approach

This approach calls for making decisions in anticipation of the future state of affairs where the organisation is prepared to face it boldly. That is, strategic decisions are based on socio-economic purposes of the organisation, value of top management, external opportunities and problems on one hand and organisations strength and weaknesses on the other. It is widely used by multi-nationals which have formalised and structured strategic decision-making process.

Features of Planning Approach

(1) Analysis of Factors Influencing a Strategy – The process of strategy making is founded on analysis of various factors that influence the strategy. These factors are both external and internal. External factors are economic, technological, socio-cultural, political, ecological and the internal related with firm's strengths and weaknesses.

(2) Systematic and Structured Approach – Płanning approach to strategic decision making involves systematic and structured approach to the solution of problems. It is more a task of assessisng the cost benefit pay-offs of the possible alternatives. It is a systems approach in that the structure of organisation and its parts are geared to make possible the pay off's in terms of costs and benefits.

(3) It is a Comprehensive Process – It is comprehensive process in that it is capable of producing a set of integrated decisions and strategies. That is, all the decisions and strategies that are inter-departmental and inter level of the organisation are supporting one another rather than supplanting. Thus, the goal of profit maximisation or wealth maximisation is having the organisational level support and the interdepartantal and inter sections support where each is limited, balanced and integrated. It is a coordinative approach.

It is evident that above three approaches are having contrasting ways for strategic decision making. It is not mandatory to follow a particular approach. In practice, to its advantage, it may select one of these or combine them to get the best results provided the combination works within the internal constraints on resources and compatibilities and external uncontrollable factors that provide threats and opportunities.

Models of Strategic Management

1. SWOT ANALYSIS MODEL

A basic model of strategic management, SWOT stands for Strengths, Weaknesses, Opportunities and Threats. This technique is instrumental in determining growth strategies. By gauging available opportunities and addressing weaknesses, organizations can leverage strengths and circumvent threats. By utilizing this basic model of strategic management, organizations can gain a competitive advantage over others.

2. PEST MODEL

This type of business model in strategic management is a macro-level plan that helps organizations assess future changes based on four factors—Political, Economic, Social and Technological. It helps you analyze market growth, standing and position with respect to your competitors and customers in addition to assessing growth strategies to expand your business. It helps you strategize based on different geographies, demographics and products/services.

3. PORTER'S FIVE FORCES MODEL

According to Porter's Five Forces Model, there are five forces that can strengthen or weaken your organization's position in the market. These are industry competition, new entrants in the market, supplier power, buyer power and threat of substitutes. This model helps in assessing an organization's competitive environment. You can create, modify and update your business strategy based on these five competitive forces.