


# *STRATEGIC MANAGEMENT*



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# Strategic Management

(As per the New Syllabus of Mumbai University for S.Y.BMS, Semester – III)

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

# Preface

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We are happy to present the book “Strategic Management” as per the revised syllabus of Mumbai University, to the students of Semester III of S.Y.BMS., to the teachers and the readers. This book is written according to the syllabus prescribed by the University of Mumbai.

## **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

**Authors**

# Acknowledgements

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Adding on to our efforts, this book would not have been in existence without the support put forward by many people. We wish to thank first and foremost our parents and family members for their valuable support, belief, motivation to write this book and cooperating for making this attempt a success. We express our special thanks to Ms Vidhi Joshi, Ms Diya Rajwani and Ms Juhi Rajwani for their valuable support throughout.

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We would like to express our deep gratitude to the Principal of Birla College, Dr. Naresh Chandra and Vice Principal Dr. Avinash Patil for inspiring us.

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Last but not the least, thanking 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 further improvement of the book.

**Authors**

# Syllabus

## STRATEGIC MANAGEMENT

[60 lectures: 3 Credit]

### Objectives:

- The objective of this course is to learn the management policies and strategies at every level to develop conceptual skills in this area as well as their application in the corporate world.
- The focus is to critically examine the management of the entire enterprise from the Top Management viewpoints.
- This course deals with corporate level policy and strategy formulation areas. This course aims to developing conceptual skills in this area as well as their application in the corporate world.

Unit No.	Name of the Topic	No. of Lectures
<b>Unit 1</b>	<b>Introduction to Strategic Management</b> <ol style="list-style-type: none"><li>1. Business Policy – Meaning, Nature, Importance</li><li>2. Strategy – Meaning, Definition</li><li>3. Strategic Management – Meaning, Definition, Importance, Strategic Management</li><li>4. Process and Levels of Strategy and Concept and Importance of Strategic Business Units (SBUs)</li><li>5. Strategic Intent – Mission, Vision, Goals, Objective, Plans</li></ol>	<b>(12)</b>
<b>Unit 2</b>	<b>Strategy Formulation</b> <ol style="list-style-type: none"><li>1. Environment Analysis and Scanning (SWOT)</li><li>2. Corporate Level Strategy (Stability, Growth, Retrenchment, Integration and Internationalization)</li><li>3. Business Level Strategy (Cost Leadership, Differentiation, Focus)</li><li>4. Functional Level Strategy (R&amp;D, HR, Finance, Marketing, Production)</li></ol>	<b>(16)</b>
<b>Unit 3</b>	<b>Strategic Implementation</b> <ol style="list-style-type: none"><li>1. Models of Strategy Making</li><li>2. Strategic Analysis and Choices and Implementation: BCG Matrix, GE 9 Cell, Porter’s 5 Forces, 7S Framework</li><li>3. Implementation: Meaning, Steps and Implementation at Project, Process, Structural, Behavioural, Functional Level</li></ol>	<b>(18)</b>
<b>Unit 4</b>	<b>Strategic Evaluation and Control</b> <ol style="list-style-type: none"><li>1. Meaning, Steps of Evaluation and Techniques of Control</li><li>2. Synergy: Concept, Types, Evaluation of Synergy. Synergy as a Component of Strategy and its Relevance</li><li>3. Change Management Elementary Concept</li></ol>	<b>(14)</b>

# Paper Pattern

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**Maximum Marks: 75**

**Time: 2.5 Hours**

- Note:** 1. All questions are compulsory subject to internal choice.  
2. Figures to right indicate full marks.

Q.1. Attempt any 2 Questions	(15 Marks)
(a)	(7.5 Marks)
(b)	(7.5 Marks)
(c)	(7.5 Marks)
Q.2. Attempt any 2 Questions	(15 Marks)
(a)	(7.5 Marks)
(b)	(7.5 Marks)
(c)	(7.5 Marks)
Q.3. Attempt any 2 Questions	(15 Marks)
(a)	(7.5 Marks)
(b)	(7.5 Marks)
(c)	(7.5 Marks)
Q.4. Attempt any 2 Questions	(15 Marks)
(a)	(7.5 Marks)
(b)	(7.5 Marks)
(c)	(7.5 Marks)
Q.5. Case Study	(15 Marks)



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## Chapter

# 1

# Introduction to Business Policy and Strategic Management

## Structure:

- ❖ Introduction to Business Policy
  - Meaning
  - Definition
  - Nature and Importance
  - Essentials of Business policy
- ❖ Introduction to Strategy
  - Meaning
  - Definition
- ❖ Introduction to Strategic Management
  - Meaning
  - Definitions
  - Features and Importance
  - Process and Components of Strategic Management
    - Difference between Strategic Formulation and Implementation
  - Guidelines for Effective Strategic Management
  - Advantages and Disadvantages of Strategic Management
  - Levels of Strategy/Strategic Management
    - Corporate Level
    - Business Level
    - Functional Level
  - Strategic Business (SBUs)

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## INTRODUCTION TO BUSINESS POLICY

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### Meaning

Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization. It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions. Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved. Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organization in the long run.

Business policy basically deals with decisions regarding the future of an ongoing enterprise. Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in terms of product price, quality, leadership position, resources, etc., in relation to its environment. Once established, the policy decisions shape the future of a company to channel the available resources along desired lines and direct the energies of people working at various levels towards predetermined goals. In a way, business policy implies the choice of purposes, the shaping of organizational identity and character the continuous definition of what is to be achieved and the deployment of resources for achieving corporate goals.

### Definition of Business Policy

*Business Policy is the study of the function and responsibilities of Senior Management, the crucial problems that affect success in the total enterprise, and the decisions that determine the directions of the organisation and shape of its future.* – **Christensen**

#### Some Useful Definitions of Business Policy

- A business policy is an implied overall guide setting up boundaries that supply the general limit and direction in which managerial action will take place.
- A business policy is one, which focuses attention on the strategic allocation of scarce resources. Conceptually speaking, strategy is the direction of such resource allocation while planning the limit of allocation
- A business policy represents the best thinking of the company management as to how the objectives may be achieved in the prevailing economic and social conditions
- A business policy is the study of the nature and process of choice about the future of independent enterprises by those responsible for decisions and their implementation
- The purpose of a business policy is to enable the management to relate properly the organization's work to its environment. Business policies are guides to action or channels to thinking.

### Importance/Features of Business Policy

**1. Effective Utilization of Resources:** The main focus of any organization is to lower down the cost of production. The low cost can be achieved when there is ZERO wastage, in other words optimum utilization of resources. With the help of policies there will be proper defining of

roles, functions, tasks and responsibilities to the employees in the organization.

**2. Proper Coordination and Control:** With the help of Business Policy there will be effective control and coordination, as it provides the direction.

**3. Provides Direction:** It provides a route to the organization to reach the desired destination. In other words, Business Policy directs the organization towards the achievement of organization goals by developing clear objectives.

**4. Helps in Decision Making:** A policy is a plan of action to guide the decisions and actions. It includes the identification of different alternatives, such as programs or sending priorities and choosing the best among them on the basis of the impact they will have. The decisions will be made and, it ensures that the decisions will be consistent and will contribute to achieve the organization's goals.

**5. Helps in Delegating the Authority:** It facilitates the delegation of authority. With the help of this the employees gets motivated to work more efficiently for the organisation.

**6. Focus on Achievement of Objectives:** Policies are framed so as to achieve the objectives. So a consistent check is to be kept on the policies whether or not the policies are focusing on the target.

**7. Business Policies are Dynamic in Nature:** Policies are subject to change with the change in the environment, in other words the policies should never be static but always dynamic.

**8. Provides Stability to the Organization:** Achieving the target once is not the aim of the Business policies, but to provide a stability to the organization by always following the right path and maintaining the same level.

### **Essentials of Business Policy**

An effective business policy must have following essentials

**1. Specific:** Policy should be specific/definite. If it is uncertain, then the implementation will become difficult. The policies should be integrated in such a way that they help in the implementation of overall organization policies.

**2. Clear:** Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.

**3. Reliable/Uniform:** Policy must be uniform enough so that it can be efficiently followed by the subordinates.

**4. Appropriate:** Policy should be appropriate to the present organizational goal.

**5. Simple:** A policy should be simple and easily understandable by the concerned employees of the organization who are going to implement them.

**6. Inclusive/Comprehensive:** In order to have a wide scope, a policy must be comprehensive. In other words the business policy must be comprehensive enough to cover all business aspects.

**7. Flexible:** Policy should be flexible in operation/application. This does not imply that a

policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios. In other words, the policies should permit themselves to be changed to suit changes in business environment.

**8. Stable:** Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look at it for guidance.

**9. Based on the Goals:** An effective business policy must be based on the goals and purpose of the business.

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## INTRODUCTION TO STRATEGY

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### Meaning

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 vacuum 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**

Henry Mintzberg, in his 1994 book, *The Rise and Fall of Strategic Planning* [3], points out that people use "strategy" in several different ways, the most common being these four:

1. Strategy is a plan, a "how," a means of getting from here to there.
2. Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.
3. Strategy is position that is, it reflects decisions to offer particular products or services in particular markets.
4. Strategy is perspective, that is, vision and direction.

*Mintzberg argues that strategy emerges over time as intentions collide with and accommodate a changing reality. Thus, one might start with a perspective and conclude that it calls for a certain position, which is to be achieved by way of a carefully crafted plan, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time. This pattern in decisions and actions defines what Mintzberg called "realized" or emergent strategy.*

**– Henry Mintzberg**

In simple words 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)

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## **INTRODUCTION TO STRATEGIC MANAGEMENT**

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### **Meaning**

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 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 best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn't 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 the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage.

Strategic Management is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about 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 existing and potential competitors; and then re-evaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs 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 co-related 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 co-relate 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 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 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 & Robinson**

## **Features/ Importance/Significance of Strategic Management**

**1. Systematic and Continuous Process:** Strategic Management is a systematic and continuous process. It is 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.

**2. 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.

**3. 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.

**4. 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

**5. 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 management gives more time for planning, and making, implementing, evaluating and controlling the strategic management.

**6. 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 the proper time. It involves multiple decisions like

- Scanning the environment
- Setting objectives
- Implementation of strategies
- Evaluation of strategies
- Formulation of strategies
- Basic management function decision-planning, organizing, leading and controlling

**7. Coordination of activities:** Today's companies are composed of diverse divisions, units, functions, and work activities that must be coordinated with the help of strategic management coordination is ensured.

**8. Ensuring the efficiency:** In strategic management there is development of rational and logical manner which leads to effective strategies, and thereby, ensuring its efficiency and success.

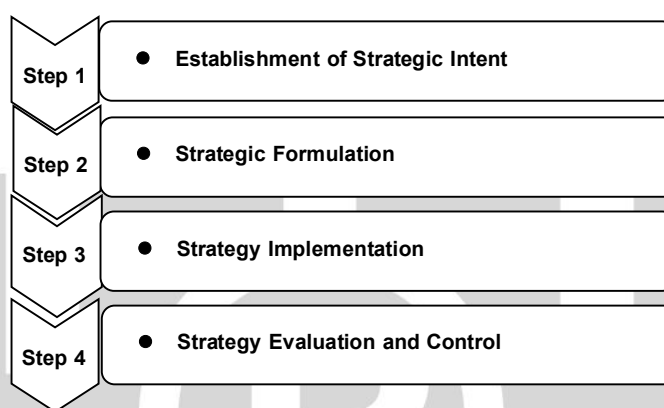
**9. Dealing with the threats:** Strategic management looks at the threats present in the external environment and thus, companies can either work to get rid of them or else neutralizes the threats in such a way that they become an opportunity for their success.



## Components/Process/Elements of Strategic Management

These components are 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 actually three phases, which excludes mission statement at the beginning and the other three steps which are as follows:

### Components of Strategic Management Process



### Step 1: Establishment of Strategic Intent

Strategic Intent is more than unfettered ambition. It encompasses an active management process that focuses the organization on the essence of winning. It is stable over time and lengthens the attention span of the company. Because it involves a broad and long-term target, it should be worthy of the personal attention and commitment of top management. It creates a sense of urgency and improvement drive. A readily grasped declaration of the course that the management of a business plans on taking the company over some future time frame. The strategic intent of a business needs to be easily understood by every member of the firm so that all staff can be working toward a consistent overall goal. Points considered under strategic control are:



- (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) **Vision:** According to Namaki: Vision is “ Mental Perception of the kind of environment

an individual, or an organization, aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception”

**(c) Business Definition:** Under this stage, the business is being defined as to what it is? And what it should be? It indicates the information about three areas of business

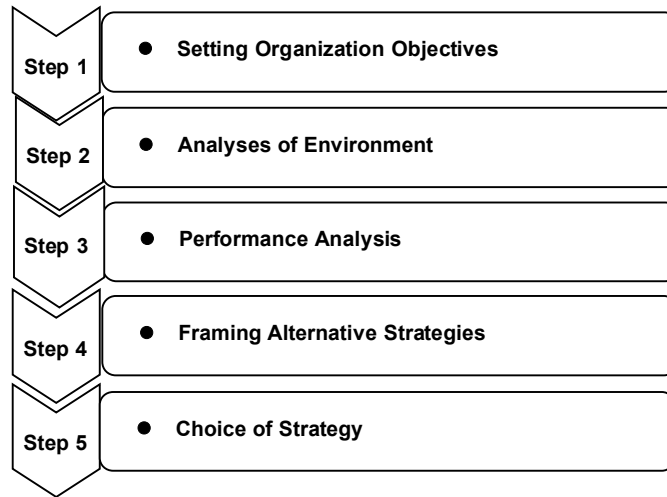
- The present situation of the business or the type of business.
- What are the future needs of the business? In other words, where the management wants the business to be after few years.
- Actually what business should be?

**(d) Business Model:** A Strategic Management Approach draws on the latest research in strategic management to explicitly and fully explore business models. It draws on the latest research on to explore which activities a firm performs, how it performs them, and when it performs them to make a profit. It offers an integrated framework for understanding the relationship between the set of activities that a firm chooses to perform, its revenue model, its cost structure, its resources and capabilities, the competitive forces in the firm's industry, and its ability to sustain a competitive advantage even in the face of change. It provides the link between resources, product-market positions and profits — how resources and product-market positions are translated into profits. (Existing strategy texts demonstrate correlation between resources or product-market positions and profits, not their translation into profits). Additionally, it explores the relationship between business models and corporate social responsibility as well as the international component to business models. It offers a definition of business models that is deeply rooted in the resource-based and product-market theories of strategy.

**(e) Goals:** Goals denotes the overall aim of the organization. In other words, what an organization wants to be in future? For accomplishing the goals, organization prepares objectives.

## **Step 2: Strategic Formulation**

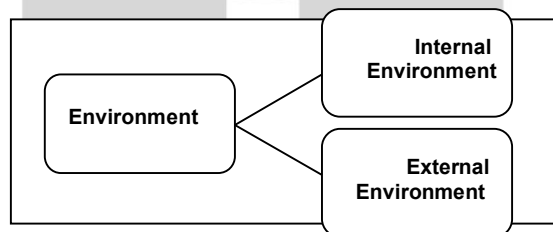
Strategy Formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby, achieving the organizational vision. The process of strategy formulation basically involves five main steps. Though these steps do not follow a rigid chronological order, however, they are very rational and can be easily followed in this order.



**(i) Setting Organization 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) Analyses 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 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 its 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 macroeconomic, 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 organizations 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 trends persist.
- (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, potentials and limitations as well as the external opportunities.

### **Step 3: 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 correlated so as 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 organizational members and groups.

Following are the main steps in implementing a strategy:

1. Developing an organization having potential of carrying out strategy successfully.
2. Disbursement of abundant resources to strategy-essential activities.
3. Creating strategy-encouraging policies.
4. Employing best policies and programs for constant improvement.
5. Linking reward structure to accomplishment of results.
6. 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 confrontational behavior.

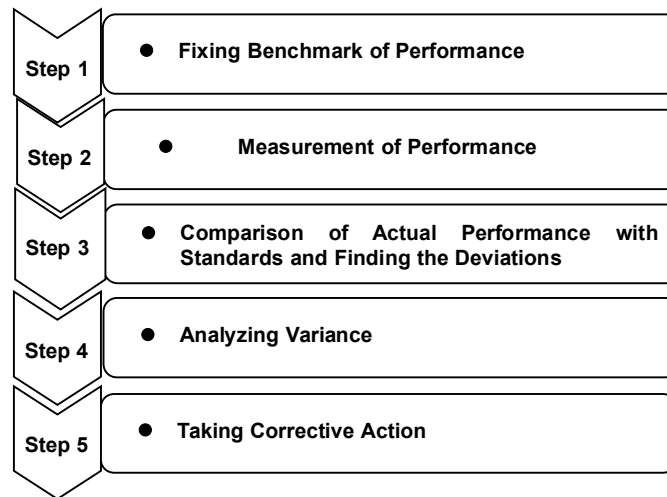
However, there are few differences in strategy formulation and implementation which are mentioned below-

#### **Difference between Strategic Formulation and Implementation**

	<i>Strategy Formulation</i>	<i>Strategy Implementation</i>
1. Meaning	It includes planning and decision making involved in developing organization's strategic goals and plans.	It involves all those means related to executing the strategic plans.
2. Placement of the forces	It is placing the forces before the action.	It is managing forces during the action.
3. Based on	It is an entrepreneurial activity based on strategic decision making.	It is mainly an administrative task based on strategic and operational decisions.
4. Emphasizes on	It emphasizes on effectiveness.	It emphasizes on efficiency.
5. Type of Process	It is a rational process.	It is basically an operational process.
6. Coordination	It requires coordination among few individuals.	It requires coordination among many individuals.
7. Skills required	It requires a great deal of initiative and logical skills.	It requires specific motivational and leadership traits.
8. Position	It precedes Strategy Implementation.	It proceeds Strategy Formulation.

#### **Step 4: 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 identify and express 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 include determination of net profit, ROI, earning per share, cost of production, rate of employee turnover, etc. Among the Qualitative factors, subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility, etc.
- (ii) **Measurement of Performance:** The standard performance is a benchmark with which the actual performance is to be compared. The reporting and communication system 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 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 Variance:** 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 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 consequently, means going to the beginning point of strategic management process.

### **Guidelines for Effective Strategic Management**

Strategic Management has become must for any organisation for their survival and growth in the present business environment. So it is very important to develop the strong base for the development of an organization. The top level management must keep these guidelines for the effective strategic management:

1. **Focus on Objectives:** The strategic management process must focus on the objectives and the achievement of these objectives.
2. **Consistency:** There should be consistency in the process as it will lead to the smooth flow to achieve the goals of the organization.
3. **Flexibility:** The process must be flexible in nature as there can be uncertainty during the entire process, so in order to overcome that, the process must be flexible.
4. The strategic management process should be as simple and non routine as possible.
5. **Strategic Management is Open-mindedness:** A willingness and eagerness to consider new information, new perspectives, new ideas and new opportunities is essential; all organizational members must share a spirit of inquiry and learning.
6. **Optimum Utilization of Resources:** No organization has unlimited resources. No firm can take on unlimited amount of debt or issue unlimited amount of stock to raise capital. Thus, no organization can pursue all the strategies that potentially could benefit the firm. Strategic decisions, thus, always have to be made to eliminate some courses of action and to allocate organizational resources among others.

### **Advantages of Strategic Management**

1. **Discharges 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.

2. **Facilitates Better Delegation:** Strategic management helps in better delegation. Staff working at lower level can formulate their respective functional & operational strategies within the broad framework of organizational strategies.

3. **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.

**4. Provides a Framework for Decision Making:** Strategy provides a framework within which all staff 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.

**5. 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.

**6. 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.

**7. 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 determine 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.

**8. 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 to a single component

### **Disadvantages of Strategic Management**

**1. 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 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.

**2. 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 that 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.

**3. 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.

**4. Over or Underestimation of Targets:** There may be the possibility of overestimation 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 underestimation 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.

**5. 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.

**6. 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, and 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.

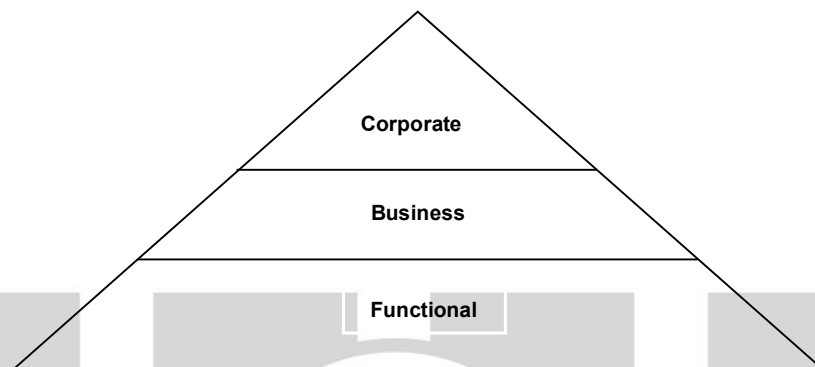
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## LEVELS OF STRATEGY/STRATEGIC MANAGEMENT

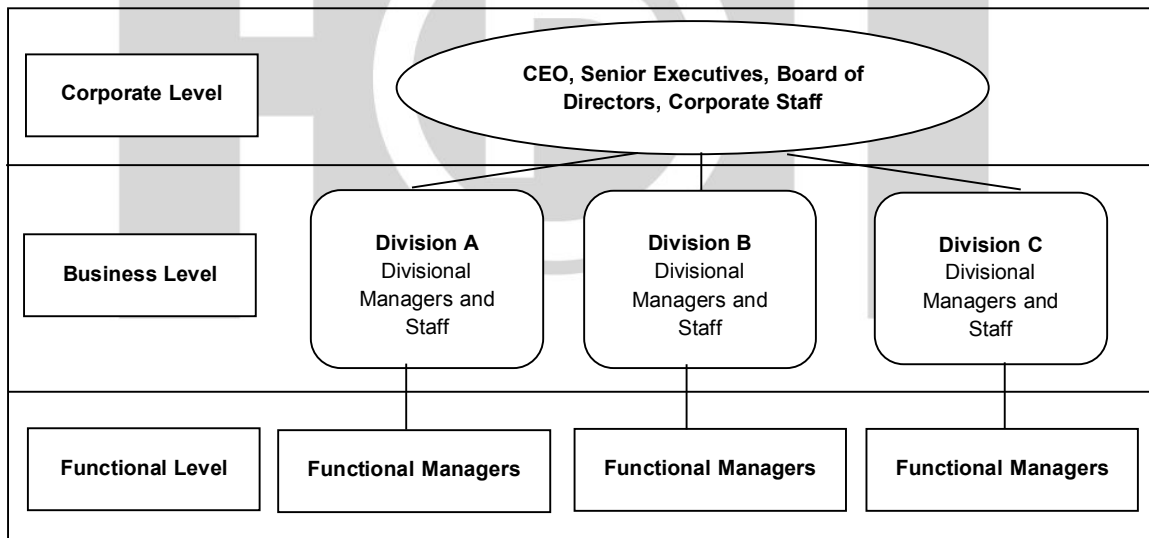
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### Strategy at Different Levels of a Business

A large organisation is a multidivisional organisation, it is divided into several departments and functions that work together to bring a particular product or service to the market. So there are three main levels of management. They are:



The people involved in these levels can be seen in the figure shown below. It also shows the hierarchy.



**1. Corporate Level:** The corporate level of strategic management consists of CEO, Senior Executives Board of Directors and Corporate Staff. This level is considered as the apex of decision making within the organization. The role of these officers is to see the development of the strategies for the organization. It is a very difficult job as it includes many crucial activities like:

- Defining the mission and goals of the organization
- Allocation of resources

- Deciding the nature and type of the business
- Strategic planning
- Strategic implementation
- Proper evaluation and control techniques etc.

The Corporate Level managers especially CEO can be viewed as the custodian of the shareholders welfare. It is their responsibility to pursue such strategies which will maximize the shareholders wealth. Corporate Level managers are concerned with the strategies that span individual businesses. There are different types of corporate strategies

- Growth strategy
- Stability Strategy
- Defensive Strategy
- Combination Strategy (explained in the next unit)

**2. Business Level:** The Business level of strategic management consists of business level managers. This level is considered as the middle level of the organization. The role of these officers is to translate the general statements of direction and intent that come from the corporate level into the concrete strategies for the next level. Business Level managers are concerned with the strategies that are specific to a particular business.

This type of strategies are 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 (explained in the next unit)

**3. Functional Level:** The Functional level of strategic management consists of Functional managers like Human Resource Manager, Purchase Manager, Marketing Manager, Finance Manager, etc.. So we can say that the functional manager's responsibility is confined to one organizational activity. The role of these officers is

- to provide the information
- to generate important ideas for the Corporate Level Managers
- to formulate the realistic and attainable strategies for the organization.

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., banc assurance, loans, deposits, etc., the strategies which are followed are called as functional strategies.

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 re-engineered 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.

In most (large) strategies exist at several levels in any organisation - ranging from the overall business (or group of businesses) through 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.

### **Strategic Business Units (SBUs)**

As corporations become very large they often restructure as a means of revitalizing the organization. Growth of a business often is accompanied by a growth in bureaucracy, as positions are created to facilitate developing needs or opportunities. Continued changes in the organization or in the external business environment may make this bureaucracy a hindrance rather than a help, not simply because of the size or complexity of the organization but also because of a sluggish bureaucratic way of thinking. One approach to encourage new ways of thinking and acting is to reorganize parts of the company into largely autonomous groups. Such units generally are set up like separate companies, with full profit and loss responsibility invested in the top management of the unit—often the president of the unit and/or a senior vice president of the larger corporation. This manager is responsible to the top management of the corporation. This arrangement can be seen as taking any of the aforementioned departmentalization schemes one step further. The SBUs might be based on product lines, geographic markets, or other differentiating factors. Figure 4 depicts SBUs organized by geographic area.

#### **Description**

- Important Market Segments.
- Product or Service Unique to Segment.
- Buyer Strength.
- Customer Knowledge Advantage.

- Rapid Customer Service and Product Cycles.
- Minimum Efficient Scales in Functions or Outsourcing.

#### **Strategic Advantages**

- Provides a strategically relevant way to organize the business-unit portfolio of a broadly diversified company.
- Facilitates the coordination of related activities with a SBU, thus helping to capture the benefits of strategic fits in the SBU.
- Promotes more cohesiveness among the new initiatives of separate but related businesses.
- Allows strategic planning to be done at the most relevant level within the total enterprise.
- Makes the task of strategic review by top executives more objective and more effective.
- Helps allocate corporate resources to areas with greatest growth opportunities.

#### **Strategic Disadvantages**

- It is easy for the definition and grouping of businesses into SBUs to be so arbitrary that the SBU serves no other purpose than administrative convenience. If the criteria for defining SBUs are rationalizations and have little to do with the nitty-gritty of strategy coordination, then the groupings lose real strategic significance.
- The SBUs can still be myopic in charting their future direction.
- Adds another layer to top management.
- The roles and authority of the CEO, the group vice president, and the business-unit manager have to be carefully worked out or the group vice president gets trapped in the middle with ill-defined authority.
- Unless the SBU head is strong willed, very little strategy coordination is likely to occur across business units in the SBU.
- Performance recognition gets blurred, credit for successful business units tends to go to corporate CEO, then to business unit head, last to group vice president.

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### **QUESTIONS**

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1. Define Strategic Management. Illustrate and explain the process of strategic management.
2. What is Strategic Formulation? Illustrate and explain the process of strategic management.
3. What are the various levels of Strategic Management? Illustrate and give examples.
4. Define Strategic Management. Explain the importance of strategic management in organization
5. Define strategic management and explain its advantages
6. Critically evaluate strategic management
7. Define business policy and explain its nature

8. Explain the importance of business policy
9. Explain the essentials required while framing business policy

**Write notes on:**

1. Strategic Implementation
2. Strategic Formulation
3. Strategic Evaluation and Control
4. Features of Strategic management
5. Advantages of Strategic management
6. Disadvantages of Strategic management
7. Organisational Strategists
8. Guidelines for Effective Strategic Management Process
9. Nature of Business Policy
10. Importance of Business Policy
11. Essentials of Business Policy

**Objective Type Questions**

**Q.1. State whether the following sentences are True or false.**

1. Strategic Management is not about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization.
2. Strategic management is nothing but planning for both predictable as well as unfeasible contingencies
3. Strategic management is applicable to both small as well as large organizations as even the smallest organization
4. The role of strategic management is not to keep a continuous eye on the goals and objectives of the organization.
5. External Environment Analysis, three correlated environment should be studied and analyzed Immediate/Industry Environment, National Environment., Broader Socio-Economic Environment/Macro-Environment
6. Strategy Formulation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives.
7. Excellently formulated strategies will fail if they are not properly implemented.
8. Strategy Implementation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results.
9. The standard performance is a benchmark with which the actual performance is to be compared
10. The measurement of performance must be done at right time else evaluation will not

meet its purpose.

11. The business level of strategic management consists of CEO, Senior Executives Board of Directors and corporate staff.
12. Business Level is considered as the last level of the organization.
13. The role of functional officers is to provide the information, to generate important ideas to the Corporate Level Managers to formulate the realistic and attainable strategies for the organization.
14. The strategic management process must focus on the objectives and the achievement of these objectives.
15. The process must be rigid in nature.
16. Strategy provides a framework within which all staff can make day to day operational decisions and understand that those decisions are all moving the organization in a single direction.
17. The followers of these strategies are Top level management
18. Strategic Management helps the organization to be more proactive instead of reactive in shaping its future.
19. Prudent strategies convert these weaknesses into strength by reinforcing appropriate strategies.

**Answers:**

**True:** 2, 3, 5, 7, 9, 10, 13, 14, 16, 18

**False:** 1, 4, 6, 8, 11, 12, 15, 17

**Q.2. Fill in the blanks**

1. Strategic management helps in earlier identification of \_\_\_\_\_ so as to reduce it through proper measures
2. An organization is said to have competitive advantage if its \_\_\_\_\_ is higher than the average profitability for all companies in its industry.
3. Strategic Management is a way in which strategists set the \_\_\_\_\_ and proceed about attaining them.
4. \_\_\_\_\_ Environment includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc
5. Analysis of internal environment helps in identifying strengths and \_\_\_\_\_ of an organization.
6. Excellently formulated strategies will fail if they are not properly \_\_\_\_\_ .
7. The organization can use both \_\_\_\_\_ and \_\_\_\_\_ criteria for comprehensive assessment of performance.
8. Once the deviation in performance is identified, it is essential to plan for a \_\_\_\_\_.

9. The \_\_\_\_\_ Level managers especially CEO can be viewed as the custodian of the shareholders welfare.
10. Business Level is considered as the \_\_\_\_\_ level of the organization.
11. There should be \_\_\_\_\_ in the process as it will lead to the smooth flow to achieve the goals of the organization.
12. The strategists need to frame a \_\_\_\_\_ estimation.
13. The strategies are framed by the \_\_\_\_\_ management
14. Prudent strategies convert these \_\_\_\_\_ into strength by reinforcing appropriate strategies.

**Answers:**

- |                                 |                      |                |
|---------------------------------|----------------------|----------------|
| 1. Weaknesses                   | 2. Profitability     | 3. Objectives  |
| 4. Internal                     | 5. Weaknesses        | 6. Implemented |
| 7. quantitative and qualitative | 8. Corrective action | 9. Corporate   |
| 10. Middle                      | 11. Consistency      | 12. Balanced   |
| 13. Top                         | 14. Weaknesses       |                |

**Q.3. Explain the following Terms**

1. Strategy Formulation
2. Strategy Implementation
3. Objectives
4. Strategy Evaluation
5. Internal Environment
6. External Environment
7. Competitive Advantage
8. Quantitative Criteria
9. Qualitative Criteria
10. Corrective Action
11. Deviation
12. Actual Performance
13. Prudent Strategies

