Strategic Management - A Capsule for Quick Revision

It is been the endeavour of the Board of Studies to provide holistic education to the students of Chartered Accountancy course. The education pedagogy adopted is mix of traditional methods and use of modern technology to make education convenient to the students and they have better assimilation of concepts. Covering vast subjects is a time consuming exercise. Keeping this in mind the Board of Studies is releasing capsules in the Students' Journal that will help the students to quickly revise the subjects. At the same time, it may be kept in mind that these are not replacement of the study material. Reading of Study Material is absolute essential. This capsule on strategic management, first in the series, cover chapters 1, 2 and 3 under the new syllabus of Intermediate Examination. Students of earlier scheme may also refer to the relevant portions in the write-up.

Chapter 1 : Introduction to Strategic Management

Business Policy

- Origin of business policy can be traced back to early twentieth century.
- Harvard Business School introduced an integrative course in management aimed at the creation of general management capability among business executives.
- The study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future. - **Christensen**
- Business Policy presents a framework for understanding strategic decision making. Such a framework enables a person to make preparations for handling general management responsibilities effectively.

What is Management?

Management as key group	Management as set of functions	Management
In-charge of organisational affairs. Making organisation a purposeful and productive entity. Brings together/ integrates the resources.	The functions include Planning, Organising, Directing, Staffing and Control. Determine goals and activities Helps in allocation of tasks and resources	Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner.

Concept of Strategy

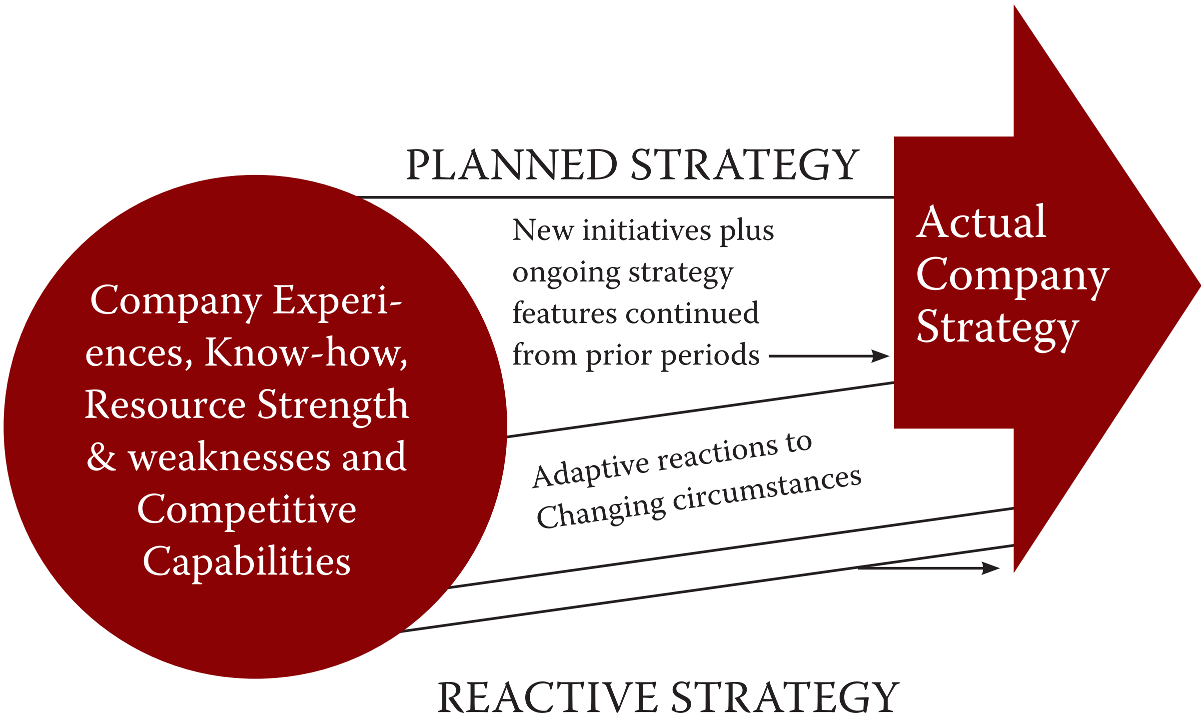
- The common thread among the organization's activities and product-markets that defines the essential nature of business that the organization has or planned to be in future. - Igor H. Ansoff
- A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved. - William F. Glueck

Strategy is consciously considered and flexibly designed scheme of corporate intent and action

- Respond to dynamic and hostile external forces
- Unravel complexity and to reduce uncertainty of the environment
- Exploit opportunities and meet potential threats
- Pursuit of mission, objectives to achieve goals
- Long range blueprint of desired image, direction and destination
- Bring a sense of dynamic direction, focus and cohesiveness

Strategy - Partly proactive and partly reactive

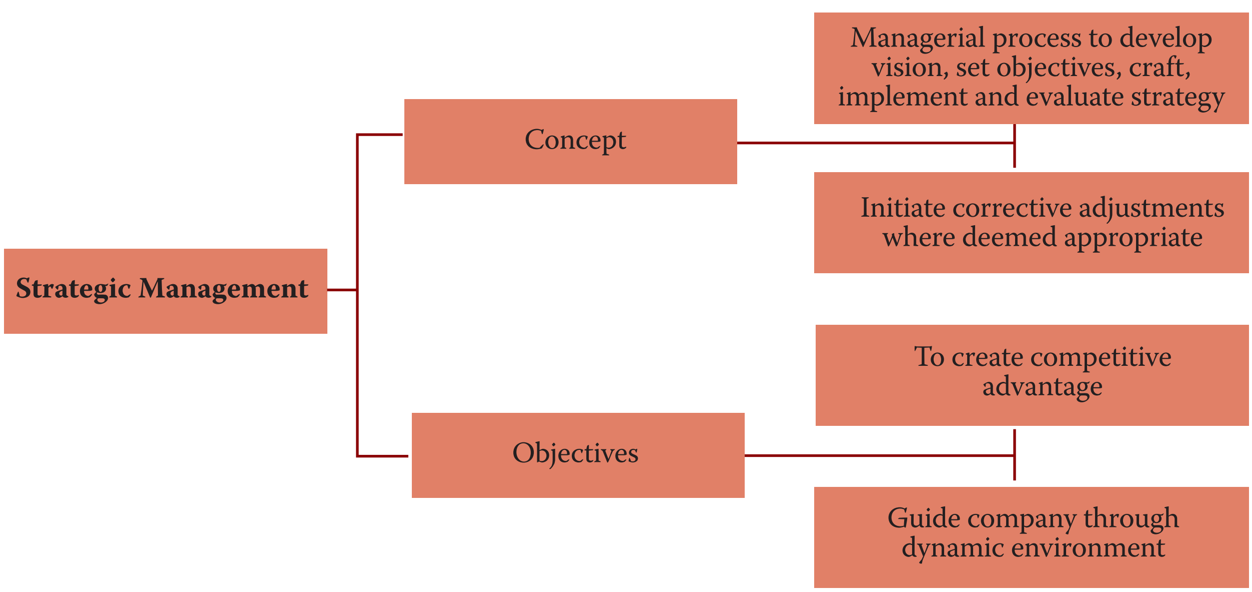
- Proactive actions on the part of managers to improve the company's market position and financial performance
- Reactions to unanticipated developments and fresh market conditions



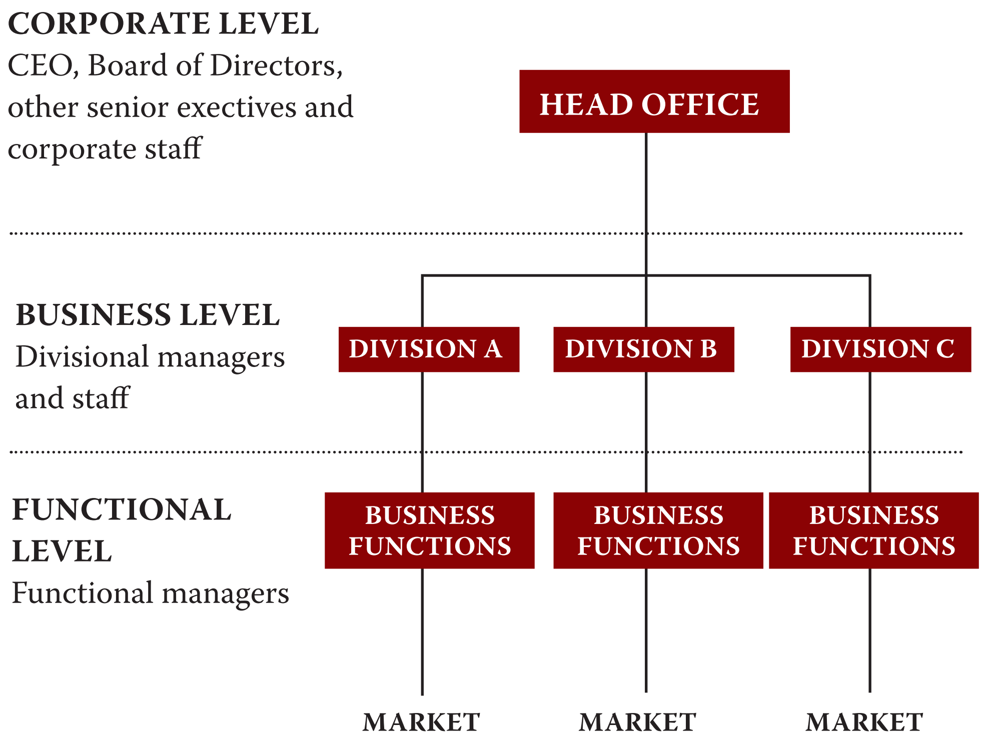
A Company's Actual Strategy Is Partly Planned & Partly Reactive

Strategic Management

Developing the company's vision, environmental scanning (both external and internal), strategy formulation, strategy implementation and evaluation and control.



Strategic Levels in Organisations



Levels of Strategic Management

Strategic Management in Government and Not-for-profit Organisations

- There are many organizations that do not have any commercial objective of making profits.
- They are set up for social, charitable, or educational purposes.
- There are not-for-profit and government organizations that outperform many private firms in managing their affairs.
- Often function as a monopoly, produce a product or service that offers little or no measurability of performance.
- Dependent on outside financing.

Educational Institutions

- Significant change in the competitive climate
- Adopting different strategies for attracting best students
- There are interactions between Academic institutions and industries
- Online education is new phenomena

Medical Organizations

- Advances in the diagnosis and treatment of diseases
- Providing better facilities and services to the patients
- Diversification - hospitals opening pathological labs
- Better collaboration with physicians

Governmental agencies and departments

- Formulating, implementing, and evaluating strategies
- Efficient and effective utilization of resources
- Public funds are used.
- Several government organizations are making significant surpluses
- Little freedom to alter missions or redirect objectives.
- Legislators and politicians can have direct or indirect control.
- Issues get discussed and debated in the media and legislatures.

Chapter 2 : Dynamics of Competitive Strategy

Competitive Strategy

An organization must identify its position relative to the competitors in the market. Competitive strategy generates competitive advantage, increase the loyalty of customers and beat competition. A competitive strategy consists of:

- Attract customers.
- Withstand competitive pressures.
- Strengthen an organization's market position.

Having a competitive advantage is necessary for a firm to compete in the market.

Competitive Landscape

Competitive landscape relates to identifying and understanding competitors

It permits the comprehension of vision, mission, core values, niche market, strengths and weaknesses of competitors.

Competitive intelligence is required to understand competitive landscape.

Identify the competitor	Understand the competitors	Determine the strengths of the competitors	Determine the weak-nesses of the competitors.	Put all the information together.

Steps to understand the Competitive Landscape

Strategic Analysis

Proper diagnosis of the company's situation is necessary for managerial preparation for deciding on a sound long-term direction, setting appropriate objectives, and crafting a winning strategy. The analytical sequence is from strategic appraisal of the external and internal situation, to evaluation of alternatives, to choice of strategy. Two most important situational considerations are:

(1) industry and competitive conditions and

(2) an organisation's own competitive capabilities, resources, internal strengths, weaknesses, and market position.

Strategy evolves over a period of time	Balance of external and internal factors	Risk
Strategy is result of a series of small decisions taken over extended period of time.	Strategic analysis involves a workable balance between diverse and conflicting internal and external considerations.	Identify potential imbalances or risks and assess their consequences.

Issues to consider for Strategic Analysis

Strategic Risks	Time: Short-term	Time: Long-term
External	Errors in interpreting the environment cause strategic failure	Changes in the environment lead to obsolescence of strategy
Internal	Organizational capacity is unable to cope up with strategic demands	Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences

Strategic Analysis

External Analysis

Customer Analysis: Segments, Motivations, unmet needs.

Competitor Analysis: Strategic groups, performance, obectives, strategies, culture, cost structure.

Market Analysis: Size, growth, profitability, entry barriers.

Environmental Analysis: Technological, government, economic, cultural, demographic.

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Opportunities, threats, trends, and strategic, uncertainties

Internal Analysis

Performance Analysis: Profitability, sales, customer satisfaction, product quality, relative cost, new products, human resources.

Determinants Analysis: Past and current strategies, strategic problems, organizational Capabilites and constraints, Financial resources, strengths, and weaknesses.

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Strategic strengths, weaknesses, problems, constraints and uncertainties

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Strategy Identification & Selection

- **Identify strategic alternatives**
- **Select strategy**
- **Implement the operating plan**
- **Review strategies**

Framework of Strategic Analysis

Industry and Competitive Analysis

Industry and competitive analysis provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for organisational funds.

Issues in Industry and Competitve Analysis	Dominant Economic Features of the Industry	Factors to consider include size, of market, its growth rate, position in life cycle, rivals, buyers, profitability, capital requirement, etc.
	Nature and Strength of Competition	Delving into the industry's competitive process to discover what the main sources of competitive pressure are and how strong each competitive force is.
	Triggers of Change	There are driving forces that impact and bring changes in the industry's structure and competitive environment. Analyzing driving forces involves identifying what the driving forces are and assessing their impact.
	Strategic Group Mapping	It is done by comparing the market positions of each competitor separately or for grouping them into like positions in an industry
	Likely Strategic Moves of Rivals	To outmanoeuvre rivals organisations need to monitor actions, strategies, and anticipate likely moves of competitors.
	Key Success Factors	They are strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that affect ability to prosper and lead to competitive success or failure.
	Prospects and Financial Attractiveness of Industry	Strategists assess industry outlook carefully, decide whether industry and competitive conditions present an attractive business opportunity for the organisation or whether its growth and financial prospects are gloomy.

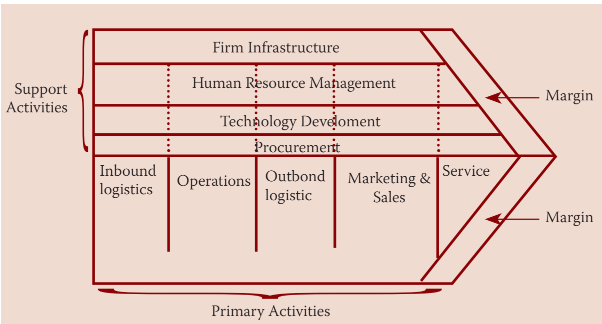
Core Competence

C.K. Prahalad and Gary Hamel *defined core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies.* Capabilities that are ***valuable, rare, costly to imitate, and non-substitutable*** are core competencies.

C.K. Prahalad and Gary Hamel identified major core competencies in three areas **- competitor differentiation, customer value and application.**	**Competitor differentiation**	Competence that is unique and difficult for competitors to imitate.
	Customer value	A fundamental benefit for the end customer that has real impact.
	Application of competencies	Competence must be applicable to whole organization and can open up potential market to be exploited.

Value Chain Analysis

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service. For an organisation it is important to identify those competences which critically underpin the organization's competitive advantage. These are known as the core competences and will differ from one organization to another.

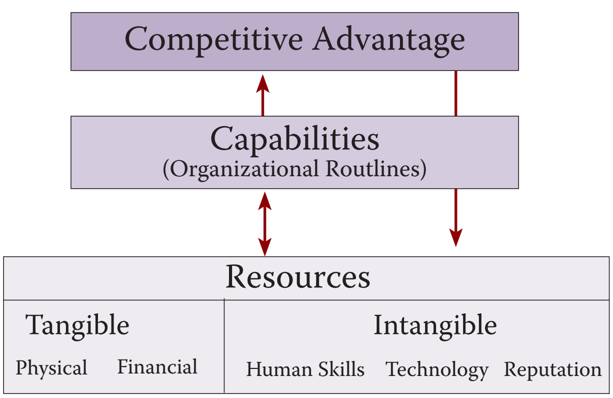


Value Chain (Michael Porter)

Competitive Advantage

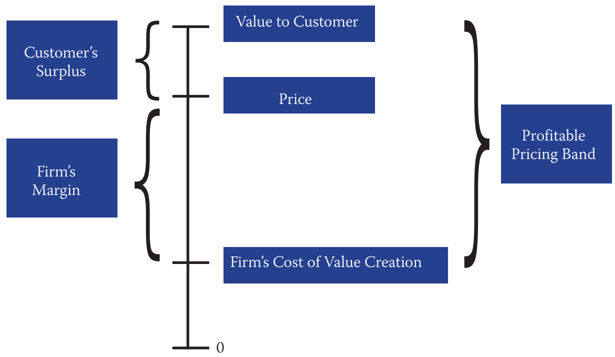
Competitive advantage allows a firm to gain an edge over rivals when competing. 'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.'

Competitive advantages and the differences they create in the firm's performance are often strongly related to the resources firms hold and how they are managed. Resources and capabilities are not inherently valuable, but they create value when the firm can use them to perform certain activities that result in a competitive advantage.



Value Creation

The concept of value creation was introduced primarily for providing products and services to the customers with more worth. Value is measured by a product's features, quality, availability, durability, performance and by its services for which customers are willing to pay.



Thus, we can say that the value creation is an activity or performance by the firm to create value that increases the worth of goods, services, business processes or even the whole business system.

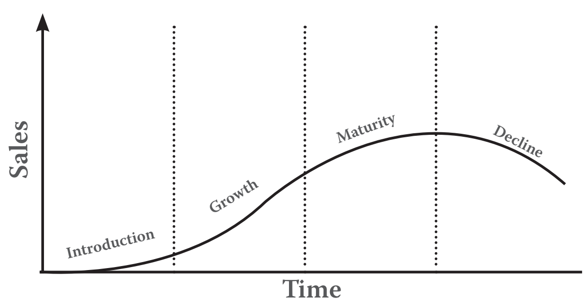
Portfolio Analysis

Experience Curve

Experience curve is akin to a learning curve which explains the efficiency increase gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. The concept of experience curve is relevant for a number of areas in strategic management.

Product Life Cycle

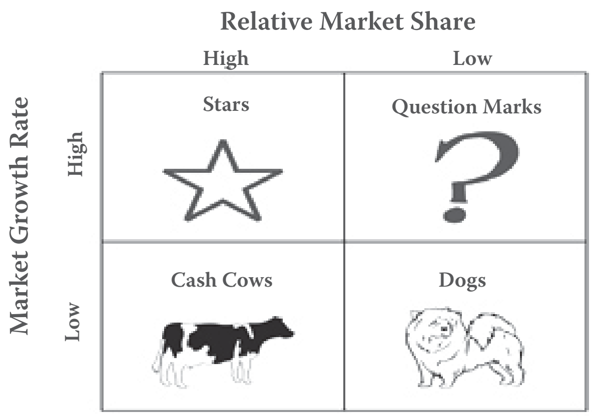
Product life cycle (PLC) an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slowdown in growth rate) and decline (sharp downward drift).



Product Life Cycle

Boston Consulting Group (BCG) Growth-Share Matrix

BCG helps to classify different businesses on a two-dimensional growth-share matrix



BCG Growth-Share Matrix

- **Stars** are products or SBUs that are growing rapidly.
- **Cash Cows** are low-growth, high market share businesses or products.
- **Question Marks** are low market share business in high-growth markets.
- **Dogs** are low-growth, low-share businesses and products.

Ansoff's Product Market Growth Matrix

A useful tool to decide product and market growth strategy.

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Ansoff's Product Market Growth Matrix

- **Market penetration** refers to a growth strategy where the business focuses on selling existing products into existing markets.
- **Market development** refers to a growth strategy where the business seeks to sell its existing products into new markets.
- **Product development** refers to a growth strategy where business aims to introduce new products into existing markets.
- **Diversification** refers to a growth strategy where a business markets new products in new markets.

ADL Matrix

The ADL matrix is a portfolio analysis technique that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment. Stage of industry maturity is an environmental measure that represents a position in industry's life cycle. Competitive position is a measure of business strengths that helps in categorization of products or SBU's into one of five competitive positions: dominant, strong, favourable, tenable and weak.

General Electric Matrix ["Stop-Light" Strategy Model]

The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: **green for go, amber or yellow for caution, and red for stop**. This model uses two factors while taking strategic decisions: **Business Strength and Market Attractiveness.**

Market Attractiveness \ Business Strength	Strong	Average	Weak
High	Invest/ Expand	Invest/Expand	Select/Earn
Medium	Invest/ Expand	Select/Earn	Harvest/Divest
Low	Select/Earn	Harvest/Divest	Harvest/Divest

The GE Portfolio Matrix

SWOT Analysis

To enable management create a firm-specific business model that will best align, fit, or match an organisational resources and capabilities to the demands of the environment		
	Strength	Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
	Weakness	A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
	Opportunity	An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
	Threat	A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

TOWS Matrix

Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. Thus TOWS matrix has a wider scope when compared to SWOT analysis. TOWS analysis is an **action tool** whereas SWOT analysis is a **planning tool**.

External Elements \ Internal Elements	Organizational Strengths	Organizational Weaknesses
Environmental opportunities (and risks)	SO Maxi-Maxi	WO Mini-Maxi
Environmental Threats	ST Maxi-Mini	WT Mini-Mini

SO (Maxi-Maxi)
The strengths can be used to capitalize or build upon existing or emerging opportunities.

ST (Maxi-Mini)
ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

WO (Mini-Maxi)
The firm needs to overcome internal weaknesses and make attempts to exploit opportunities to maximum.

WT (Mini-Mini)
A firm facing external threats and internal weaknesses may have to struggle for its survival.

Globalization

For a company globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) the company's ability to compete in domestic markets with foreign competitors.

- It is a conglomerate of multiple units in different countries but linked by common ownership.
- Multiple units draw on a common pool of resources.
- The units respond to some common strategy.

Chapter 3 : Strategic Management Process

Strategic Planning

Strategic Planning is the process of determining the objectives of the firm, resources require to attain these objectives and formulation of policies to govern the acquisition use and disposition of resources. Strategic uncertainty is a key construct in strategy formulation.

Strategic Decision Making

Decision making is a managerial process of selecting the best course of action out of several alternatives. According to Jauch and Glueck **"Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives."**

The major dimensions of strategic decisions

- Strategic decisions require top-management involvement.
- Strategic decisions involve commitment of organisational resources.
- Strategic decisions necessitate consideration of factors in the firm's external environment.
- Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm.
- Strategic decisions are future oriented.
- Strategic decisions usually have major multifunctional or multi-business consequences.

Strategic Intent

Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives. Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level. It could be expressed as the business definition and business model at the business level of the organisation.

1. **Vision**: Vision implies the blueprint of the company's future position.

2. **Mission**: Mission delineates the firm's business, its goals and ways to reach the goals.

3. **Business Definition**: It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies.

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

5. **Goals and Objectives**: These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals.

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

Elements of Strategic Intent

Vision

A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

Essentials of a strategic vision

- There is challenge in developing a strategic vision that is creative and future directed.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- A well-articulated strategic vision creates enthusiasm in organisation.
- Vision statement illuminates the direction in which organization is headed.

Mission

A company's mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Following points are useful while writing a mission of a company:

- A role of mission statement is to give the organization its own special identity, business emphasis and path for development to make it unique.
- A company's business is defined by what needs it is trying to satisfy, which customer groups it is targeting, the technologies it uses and the activities it performs.
- Good mission statements are unique to the organization for which they are developed.

Purpose

Both mission and purpose go hand in hand, they can be used together while maintaining the basic difference between them. Mission refers to the particular needs of the society. **Purpose relates to what the organization strives to achieve in order to fulfil its mission to the society.**

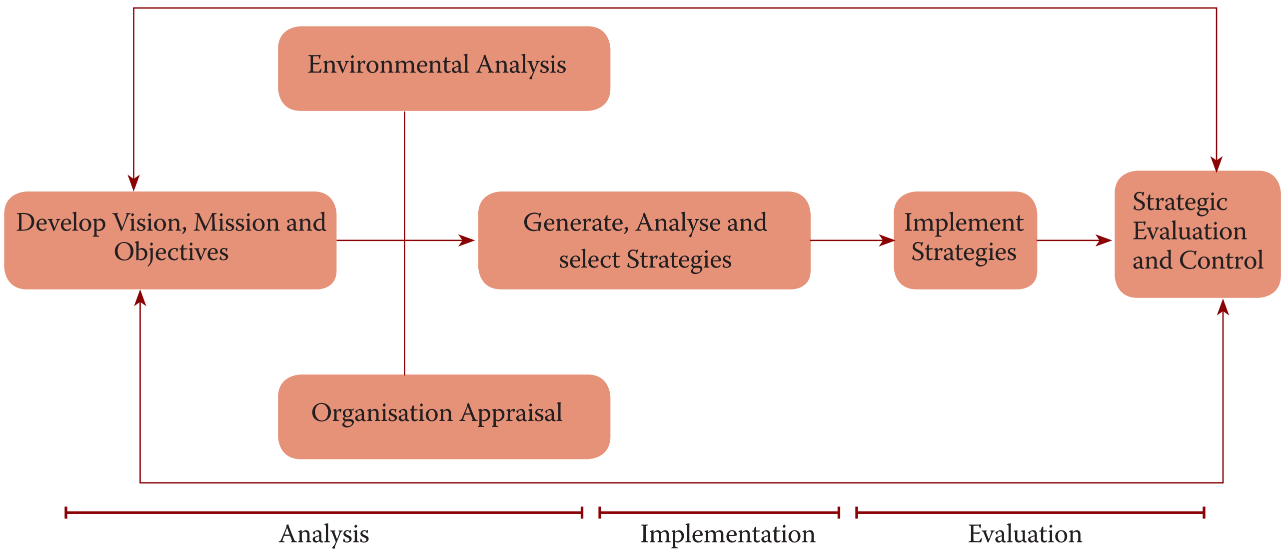
Goals and Objectives

Goals are open-ended attributes that denote the future states or outcomes. Objectives are close-ended attributes which are precise and expressed in specific terms. Thus, the objectives are more specific and translate the goals to both long term and short term perspective.

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Objectives are short-term and long-term. Long term **objectives are subdivided into short term such as monthly, weekly or daily objectives.**

Strategic Management

The strategic management process is dynamic and continuous. It involves strategy formulation, implementation, and evaluation The strategic management process can best be studied and applied using a model.



Strategic Management Model

The strategic management consist of following stages

1. **Strategic vision, mission and objective:** First a company must determine what directional path the company should take and what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position. Corporate goals and objectives flow from the mission.

2. **Environmental and organizational analysis:** The stage would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment. External environment of a firm consists of economic, social, technological, market and other forces which affect its functioning. Organisational analysis involves a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on.

3. **Formulating strategy:** The stage involves identifying strategic alternatives, in depth analysis and choosing the most appropriate alternative which will serve as strategy of the firm.

4. **Implementation of strategy:** Implementation and execution is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. Good strategy execution involves creating strong "fits" between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization's work climate and culture.

5. **Strategic evaluation and control:** Assessing periodically that organisation is moving towards achieving its strategic intent is desirable. The final stage of strategic management process – evaluating the company's progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, and/or strategy-execution methods.