

# CHAPTER 1

## INTRODUCTION TO STRATEGIC MANAGEMENT

WE PROVIDE DRONE CHART IN CLASS WHICH CONTAINS BIRD'S EYE VIEW OF ALL TOPICS IN ONE PAGE.

### 1. STRATEGIC MANAGEMENT

Strategy

Management

#### 1.1. STRATEGY

- The word 'strategy' is defined as something that has to do with war and ways to win over enemy.
- It refers to long term blueprint of Organization's
  - desired image i.e., what it wants to be
  - desired direction i.e., what it wants to do
  - desired destination i.e. where it wants to go.
- It is flexibly designed and provides integrated framework for Top Management to
  - search, evaluate and exploit opportunities } External
  - perceive threats and meet it } External
  - make full use of strength/ resources; and } Internal
  - offset corporate weaknesses. } Internal
- It also means to identify existing problems and solving them by executing revolutionary ideas.
 

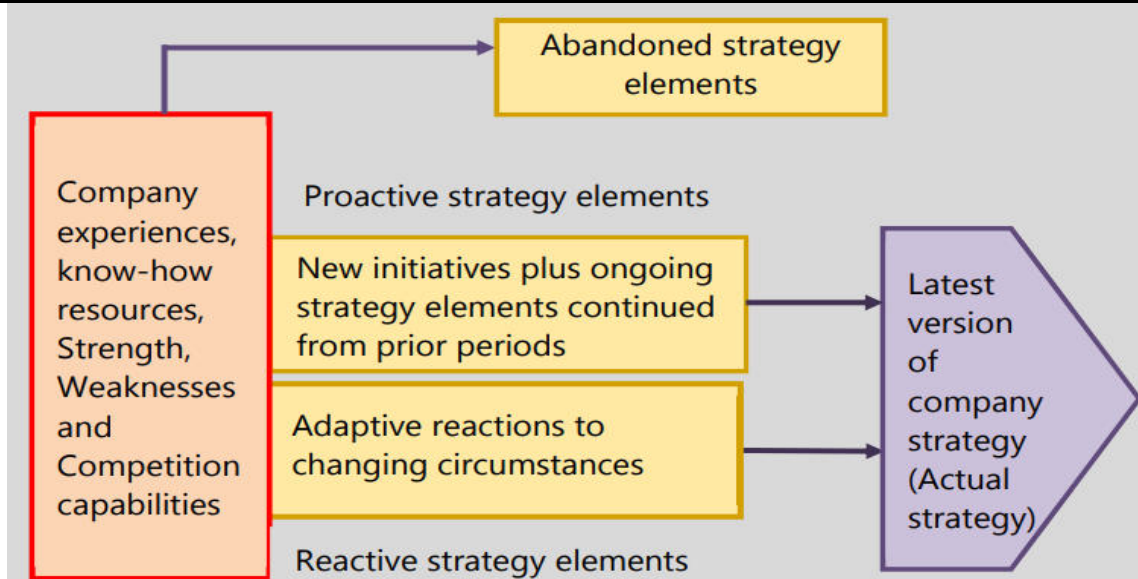
**Example:** UPI (Unified Payments Interface) has changed the entire digital payments landscape in India and has gone global. A true example of Made in India for the world. It was all because of a well-planned identification of existing problem statement, formulating a strategy putting it to perfect execution.
- In large organizations, strategies are formulated at corporate, divisional and functional level (all 3).
- Strategy is a gameplan that the management uses to take market position, conduct its operation, attract and satisfy its customers and achieve organizational goals.

#### Is this a Strategy?

A ketchup brand making a healthier ketchup with less sugar and preservatives to attract more customers by letting parents feel safe about their kid's consuming ketchup. Can this be called a strategy?

Ans:

### 1.1.1. IS STRATEGY PROACTIVE OR REACTIVE?



- A company's strategy is typically a blend of Proactive strategy and Reactive strategy.
- Proactive strategy is Planned strategy. It involves
  - Previously initiated business approach that are working well enough to continue it; and
  - Newly launched business approach to strengthen Co's overall position and performance.
- Reactive strategy is adaptive strategy.  
 Strategy is formulated on based on business environment which is dynamic and uncertain. It can't be predicted with absolute certainty.  
 Hence, when market and competitive conditions take unexpected change or some aspect of Co's strategy hit a stonewall, entity has to take strategic reaction known as reactive strategy.  
 Further there is a need to adapt strategy to new learnings and ideas.
- Thus, strategy is a mix of both proactive strategy and reactive strategy. By combining proactive & reactive strategies, a company can develop a comprehensive approach to addressing its challenges.  
 If organizational resources permit, it is better to be proactive rather than reactive as it provides first mover advantage & competitive advantage. Ideally, strategy should be more proactive and less reactive.

### 1.2. MANAGEMENT

It is an influence process backed by power, knowledge, competence & resources

- to make things happen;
- to gain command over situation/ phenomena; and
- to direct person and events in particular manner.

**Management is used in two senses:**

a) With reference to key group in Organization in-charge of its affairs like BOD, CEO, CFO, etc.

It is the chief organ of an organisation.

Survival & success of an Organization depends on competence and character of its management.

b) With reference to set of inter-related functions and processes carried out by the Management to achieve its objectives.

The functions include Planning, Organizing, Staffing, Directing & Control which are wide ranging but closely interrelated.

**Is strategy substitute for management?**

No, strategy is not substitute for sound and responsible management.

Due to dynamic and changing environment, strategy can never be perfect, flawless and optimal.

Strategy is always flexible and pragmatic to take care of sudden changes in the environment & emergencies.

In sound strategy, allowances are made for possible miscalculations and unexpected events.

**1.3. STRATEGIC MANAGEMENT**

Strategic Management refers to managerial process of

- Developing strategic vision,
- Setting objectives,
- Crafting strategy,
- Implementing and evaluating strategy, and
- Initiating corrective adjustments, where deemed appropriate.

It is a dynamic process of

- formulation, implementation, evaluation, and control of strategies
- to realise the organisation’s strategic intent.

The process does not end, it keeps going on in a cyclic manner.

Originally called business policy, it monitors and evaluates external threats and opportunities in light of Company’s strengths and weaknesses for survival and growth of Company.

**Objectives of strategic Management**

- a) To create competitive advantage so that Company can outperform its competitors & dominate market.
- b) To guide the Company successfully through changes in environment.

**Example:** Unified Payments Interface. UPI has changed the entire digital payments landscape in India and has now even gone global. A true example of Made in India for the world. It was all because of a well-planned identification of existing problem statement, formulating a strategy putting it to perfect execution.

**1.4. IMPORTANCE/ BENEFITS / ADVANTAGES OF STRATEGIC MANAGEMENT**

Darwin propagated “Survival of the fittest”. It is the only principle of survival of organization.

Fittest is not the largest or strongest but one which can change and adapt to changing business conditions.

Many business giants have followed the path of extinction as they failed to manage drastic changes in the business environment.

**For example,** Bajaj Scooters, LML Scooters, Murphy Radio, BPL Television, Nokia, kodak and so on. Thus, it becomes imperative to study Business Strategy.

Business follows the war principle of “Win or lose”. Only in rare cases, win-win situation arises. Hence, each organization needs to build its competitive advantage over the competitors using strategic management.

Business organizations function with dynamic environment, which varies from being conducive to hostile.

Whatever be the conditions, SM is very important for the **survival and growth** of business organizations. Importance of SM lies in delivering superior organizational performance than what would otherwise obtain.

The major benefits of strategic management are:

- |                                |   |
|--------------------------------|---|
| <b>a) Direction to company</b> | It gives direction to Company to move ahead. It defines realistic objectives & goals which are in line with Company’s vision. |
|--------------------------------|---|

<b>b) Proactive instead of reactive</b>	It helps company to adopt proactive strategies instead of reactive strategies. Organizations are able to better analyse and take decisions in advance.
<b>c) Future ready</b>	It prepares organization to face the future, seize business opportunities and deal with threats.
<b>d) Develop core competencies &amp; competitive advantage</b>	It helps Organization to develop certain core competencies and competitive advantages. This facilitates its fight for survival and growth.
<b>e) Corporate Defence mechanism</b>	It acts as corporate defence mechanism against mistakes and pitfalls. It helps organization to avoid costly mistakes.
<b>f) Framework for decision making</b>	It provides framework to management for major decision making related to various aspects of the Enterprise like products and markets.
<b>g) Enhance Longevity of Business</b>	It helps Organisation to face competition and dynamic market. It makes sure that it is not just surviving on luck.

### 1.5. LIMITATIONS OF STRATEGIC MANAGEMENT

SM cannot counter all hindrances/ obstacles/ roadblocks/ bottlenecks/ problems and ensure success. Following are its limitations:

<b>a) Environment is highly complex and turbulent</b>	It is difficult to understand the complex environment. Organization's estimate about future may drastically go wrong & jeopardize/ endanger all strategic plans. Relying on a business strategy blindly could go absolutely wrong if the environment is turbulent. <b>Example:</b> Two-Wheeler Electric Vehicles brands counted on strategic benefits they would have because of the huge push from the government for electric mobility. However, customers are getting reluctant to purchase EVs due to the safety concerns amid the frequent incidents of battery's catching fire.
<b>b) Time consuming process</b>	Organizations spend a lot of time in preparing and communicating strategies that may affect daily routine operations. Further, due to huge time spent in planning, there may not be enough time left for actual implementation of the strategy.
<b>c) Costly process</b>	It adds lot of expenses to Org as expert strategic planners need to be engaged. These Strategic Management experts are costly resources.
<b>d) Difficult to estimate Competitor's response</b>	Competition is unpredictable. Since all Organizations are trying to move strategically, it is difficult to estimate competitive response to Firm's strategy. <b>Example:</b> Apple changed the market dynamics of the speaker industry by choosing to remove 3.5mm audio jack from iPhones. Now, to be relevant in the market, all major speaker brands had to put concentrated efforts to develop their own true wireless speakers (TWS) and compete with new entrants.

**Why do businesses opt for strategic management even with its limitation?**

Because even though it has its limitations, its importance outweighs its shortcomings. A business cannot operate and succeed without proper strategic management.

## 2. STRATEGIC INTENT

- It refers to purpose of what the organization tries to do.
- It is philosophical base of strategic management. Senior manager must define what they want to do and why they want to do.
- “Why they want to do” reflects strategic intent.
- It answers the question “what the organization stands for”.
- Clarity in strategic intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.
- Strategic intent is generally stated in broad terms viz. Vision & Mission but when stated in precise specific terms, it is referred as goals and objectives.

### Elements of Strategic Intent:

a) Vision

b) Mission

c) Goals and Objective

d) Values/ Value System

### 2.1. VISION

- Vision implies blueprint of company’s future. It describes where company wants to land/go.
- It is a road map of company’s future providing specifics about
  - Technology & customer focus,
  - geographic and product markets to be pursued,
  - capabilities it plans to develop and
  - kind of company management wants to create.
- Top management’s views about company’s direction & the product-customer-market-technology focus constitute the strategic vision for the Company.
- A clearly articulated Vision enhances commitment of employees & helps steer energies in a common direction.
- For instance, Henry Ford’s vision of a car in every garage had power because it captured the imagination of others, aided internal efforts to mobilize the Ford Motor Company’s resources, and served as a reference point for gauging the merits of the company’s strategic actions.

#### Essentials of strategic vision

- a) Creative thinking - Developing strategic vision involves thinking creatively about how to prepare a company for future.
- b) Developing strategic vision requires intelligent entrepreneurship.
- c) A well-articulated vision creates enthusiasm among members of Organization.
- d) It shows/ illuminates the direction in which Organization is headed.

Refer class discussion for detailed discussion on Vision of Major Global & Indian conglomerates.

### 2.2. MISSION

- Mission statement defines ‘Who we are’, ‘What business are we in’, ‘What we do’ & ‘Where we are now’.
- It delineates Firm’s present business scope, it’s goal and ways to reach goals.
- It defines present capabilities, customer focus, activities and role in society.
- It is not a PR document. It justifies/ legitimizes the presence and existence of the Firm.

<b>Why a company should have mission?</b>	<ul style="list-style-type: none"> <li>a) To ensure unanimity of purpose within Organization.</li> <li>b) To develop basis for allocation of Organization’s resources.</li> <li>c) To develop basis for utilization of Organization’s resources.</li> <li>d) To translate objectives and goals into work structure.</li> <li>e) To establish general tone of Organization.</li> </ul>
<b>Things to consider while writing Mission of company</b>	<p>A good mission statement should be precise, clear, feasible, distinctive &amp; motivating.</p> <ul style="list-style-type: none"> <li>a) Good mission statements are unique and highly personalized to Organization for which it is developed.</li> <li>b) Mission should give organization its own special identity and business emphasis.</li> <li>c) It should be based on current capabilities of business.</li> <li>d) It should give internal direction to employees for future of Organization.</li> </ul>
Refer class discussion for detailed discussion on Mission of Major Global & Indian conglomerates.	

- The corporate mission is an expression of the growth ambition of the firm.
- The mission is a grand design of the firm’s future.
- According to Peter Drucker, every organisation must ask an important question “What business are we in?” and get the correct and meaningful answer.

Company	Production-oriented answer	Marketing-oriented answer
Indian Oil	We produce oil & gasoline products	We provide various types of safe & cost-effective energy
Indian Railways	We run a railroad.	We offer a transportation & material-handling system.
Revlon	In the factory, we make cosmetics	In the retail outlet, we sell hope.

**DIFFERENCE BETWEEN VISION & MISSION**

Vision	Mission
a) Definition	Definition
b) It states future direction of Organization	It states ongoing activities of Organization
c) It is wider in scope & emphasises on long term concept	It is more specific
d) It remains unchanged for decades if crafted carefully	It changes more frequently

**2.3. GOALS AND OBJECTIVES**

- Business organisation translates their vision and mission into goals and objectives.
  - Objectives are organization’s performance targets – the results and outcomes it wants to achieve.
  - It functions as yardstick for tracking an organization’s performance and progress.
  - It provides benchmark/base for measurement of Company’s performance.
  - An organization can have multiple short term and long term objectives which align with the overall vision and mission of the Bank.
- Goals are open-ended attributes that denote the future states or outcomes. It is end result an Organization wants to achieve.

- Objectives are close-ended attributes which are precise and expressed in specific terms.
- Thus, Objectives are more specific and translate the goals to both long term and short-term perspective.
- Objectives are needed at all levels of organization and should not stop with Top management. Rather, it should be broken down into performance target for each separate business, product line function, etc.
- In practical word, they are used interchangeably.

▪ **Characteristics**

- a) It should facilitate achievement of vision and mission.
- b) It should be based on SWOT.
- c) It should provide basis for strategic decision.
- d) It should be concrete and specific.
- e) It should be measurable and challenging.
- f) They should be related to a time frame.
- g) It should provide basis for performance appraisal.

▪ **Benefits of Objectives**

- |  |  |
|--|--|
| a) provide direction to the company            | b) allow synergy and minimize conflicts        |
| c) aid in allocation of resources & evaluation | d) establish priorities and reduce uncertainty |

**Types (Both are important)**

Short term objectives	Long term objectives
<p>Quarterly or annual objectives.</p> <p>It focuses on achieving short term targets and provide immediate performance improvement.</p> <p>It indicates the speed at which long term targets are to be achieved.</p> <p>E.g. If a company has objective of doubling its sales over next 5 years, it should also set specific annual targets.</p> <p>Short-range objectives can be identical to long-range objectives if an organisation is already performing at the targeted long-term level.</p> <p>Most important situation where short range objective differ from long range objective occurs when managers are trying to elevate Firm's performance and cannot reach the long range target in just one year.</p>	<p>Represents results expected from following any strategy.</p> <p>Time frame for long term objective is set generally 2 to 5 years.</p> <p>To achieve long-term prosperity, strategic planners set Long term objectives in 7 areas as follows:</p> <ul style="list-style-type: none"> <li>➤ Profitability/ Revenue</li> <li>➤ Productivity</li> <li>➤ Competitive position</li> <li>➤ Employee development</li> <li>➤ Employee Relations</li> <li>➤ Tech leadership</li> <li>➤ Public Responsibilities</li> </ul> <p>Each objective should be associated with a time frame.</p>

**DIFFERENCES BETWEEN GOALS & OBJECTIVES**

Goals	Objectives
1. Open ended attributes	Close ended attributes
2. Wider in scope	More specific
3. Long term	Short term
4. E.g.: Maximize profit, sales growth	E.g.: Earn 15% return on investment, 20% increase in sales

**2.4. VALUES**

While Strategic Intent is the purpose that an organisation aims to achieve, Values form the omnipresent foundation of each and every decision that the management takes.

An organisation without values is like an organisation with no real intent.

Values are the deep-rooted principles which guide an organisation’s decisions and actions.

It is inherent and sacrosanct; they can never be compromised, either for convenience or for short-term economic gain.

They are the source of a company’s distinctiveness and must be maintained at all costs.

Values often reflect the values of the company’s founders like Hewlett-Packard’s celebrated “HP Way” .

<b>Examples</b>	a) Integrity	b) Trust	c) Accountability	d) Humility	e) Innovation	f) Diversity
<b>Importance</b>	i) It sets the tone for how people think & behave, especially in situations of dilemma. ii) It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company’s success. iii) Employees prefer to work with employers whose values resonate with them - the ones they can relate to in their daily work and personal life. iv) Majority of consumers also prefer to buy products and services from companies that have a purpose that reflects their own value and belief system. Hence, values have both internal as well as external implications.					

**Intent vs Values - Which is a broader concept?**

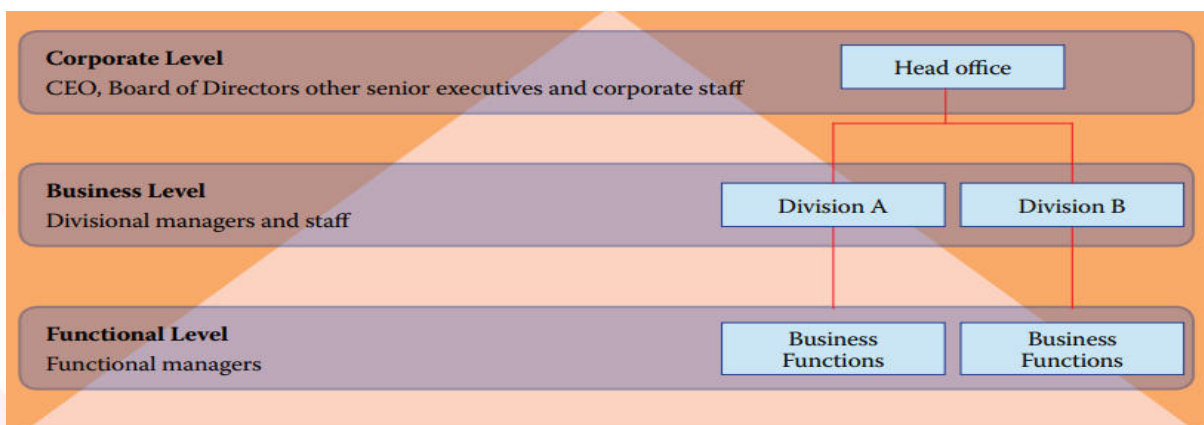
Values & Intent are two different concepts.

Intent is the purpose of doing business.

Values are the principles that guide decision making of business.

They both go hand in hand, while the intent is sometimes driven by values. So values is wider than Intent.

**3. STRATEGIC LEVELS IN AN ORGANIZATION**

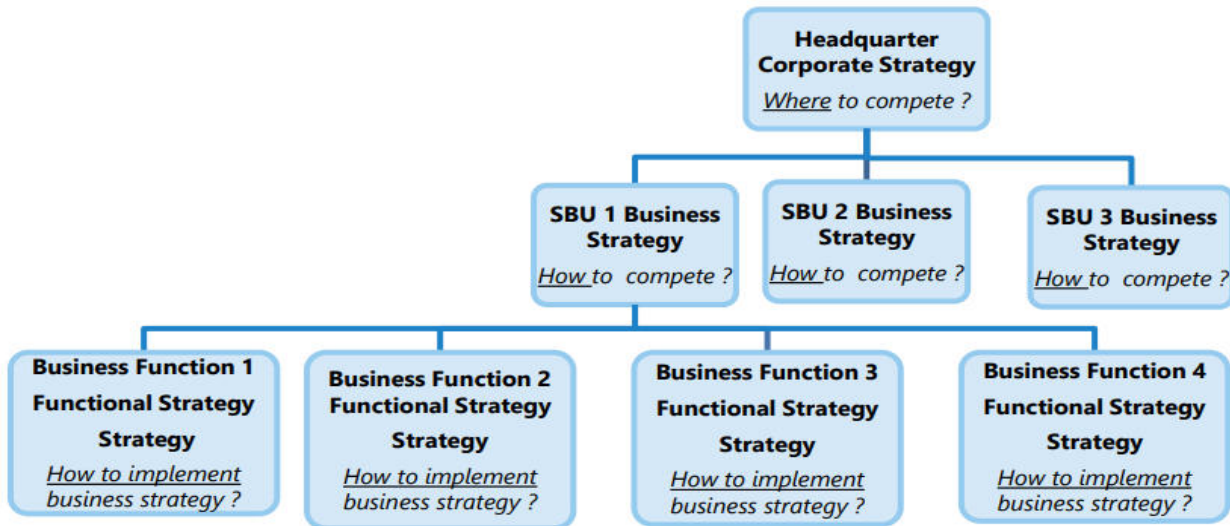


A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these.

For example, Patanjali has healthcare, FMCG, Organic Foods, Medicinal Oils and Herbs, and various different businesses.

In such large organizations, strategies are formulated at three levels - corporate, business, & functional level.

<p><b>1) Corporate Level</b></p>	<p>Corporate Level managers consists of the Chief Executive Officer (CEO), other top level executives, the board of directors and corporate staff.</p> <p>They participate in strategic decision making like Merger/ acquisition, new product launch etc.</p> <p>They oversee development of strategies for whole organization. For this his task includes:</p> <ol style="list-style-type: none"> <li>Defining vision, mission, goals and objectives of Organization</li> <li>Determining what businesses it should be in</li> <li>Allocating resources among different divisions</li> <li>formulating and implementing strategies that span individual businesses</li> <li>Providing leadership for Organization</li> <li>Acts as a linkage between Management and Shareholders i.e., owner of business.</li> </ol> <p>Corporate level managers, especially CEO is viewed as guardian of shareholder welfare and must make strategies to maximize the wealth of shareholders. If not, then ultimately the CEO is likely to be held accountable by the shareholders.</p>
<p><b>2) Business level</b></p>	<p>Strategic Business Units (SBUs) is self-contained Division with its own business functions like Finance, Human Resource, Sale &amp; Marketing, Research &amp; Development etc.</p> <p>A Principle General Manager or Business level manager is head of a division.</p> <p>They are responsible for working of Division and overseeing all functions of the Division.</p> <p>They are responsible to translate general statements of direction of Corporate Level into concrete business plans.</p> <p>Thus, whereas corporate-level managers are concerned with strategies that span individual businesses, business- level managers are concerned with strategies that are specific to a particular business.</p>
<p><b>3) Functional level</b></p>	<p>Functional level managers are responsible for specific business functions in a division or company like marketing, Research &amp; Development, Human Resource, Finance etc.</p> <p>Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity.</p> <p>Functional managers are also responsible for</p> <ol style="list-style-type: none"> <li>developing functional strategies in their area to fulfill strategic objectives set by corporate and business level managers; and</li> <li>implementing/ executing strategies of corporate level and business level managers.</li> </ol> <p>They are closer to customers than the typical general manager and provide most of information that enable corporate level and business level managers to formulate realistic and attainable strategies.</p> <p>Thus, it is important for general managers to listen closely to the ideas of their functional managers and involve them in strategy formulation and decision making.</p>
<p>General Managers are found at first two levels but their strategic roles differ.</p>	
<p><b>Which is better - Top Down Approach or Bottom-Up Approach?</b></p> <p>A top-down approach to decision making is when decisions are made solely by leadership at the top i.e. corporate level of management, while the bottom-up approach gives all teams across the levels a voice in decision making.</p>	



### 3.1. NETWORK OF RELATIONSHIP BETWEEN THE THREE LEVELS

There are multiple ways in which all the 3 levels of management are interlinked, and it depends on the organisation as a whole to decide what kind of network of relationship suits their culture & needs.

There are 3 major types of networks of relationship between the levels and also amongst the same levels of a business;

<p>a) <b>Functional and Divisional Relationship</b></p>	<p>It is an independent relationship, where each function or a division is run</p> <ul style="list-style-type: none"> <li>➤ independently headed by the function/division head, who is a business level manager,</li> <li>➤ reporting directly to the business head, who is a corporate level manager.</li> </ul> <p>Functions may be like Finance, Human Resources, Marketing, etc. while Divisions may depend on the products like for a toys manufacturer - kids toys, teenager toys, etc. could be divisions.</p>
<p>b) <b>Horizontal Relationship</b></p>	<p>All positions, from top management to staff-level employees, are in same hierarchical position.</p> <p>It is a flat structure where everyone is considered at same level.</p> <p>It leads to openness &amp; transparency in work culture and focused more on idea sharing and innovation.</p> <p>More suitable for startups where the need to share ideas with speed is desirable.</p>
<p>c) <b>Matrix Relationship</b></p>	<p>It features a grid-like structure of levels in an organisation,</p> <ul style="list-style-type: none"> <li>➤ with teams formed with people from various departments that are built for temporary task-based projects.</li> </ul> <p>It helps manage huge conglomerates with ease where it is nearly impossible to track &amp; manage every single team independently.</p> <p>In Matrix relationship, there are more than 1 business level managers for each functional level teams.</p> <p>It is complex for smaller organisations, but extremely useful for large organisations.</p>