

Nahidha's

Strategic Management

For M.B.A., Regular and
Correspondence Course

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NATURE OF STRATEGIC MANAGEMENT

MEANING OF STRATEGY

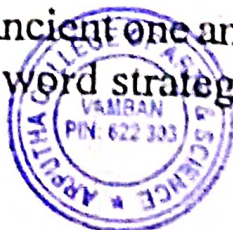
Q. Define Strategy. Trace the origin of the term 'Strategy'.

A strategy is a technique of maneuvering the opponent. Strategy may be defined as "the pattern of an organisation response to its environment overtime." It implies that strategy may or may not involve explicit formulation of what the organisation intends to do. In other words whether or not an organisation formulates a strategy it is presumed to have established a relationship with its environment and there is a strategy which can be exercised and described.

Strategy is a conscious and rational management exercise which involves defining and achieving an organisation's objectives and implementing its missions. In the words of koontz and O'Donnell, "Strategies denote a general programme of action and a deployment of emphasis and resources towards the attainment of comprehensive objectives". Mc. Farland defines a strategy as "an executive behaviour whose purpose is to achieve success for the company or personal goals in a competitive environment based on the actual or probable actions of others. Thus strategy becomes the process of taking decisions relating to the future of the organisation. This involves consideration of basic objectives major policies and the means to achieve its objectives.

The Military Origin of the Strategy

The concept of strategy is an ancient one and originated in the study of success in war. The word strategy comes from the



Greek 'stratos' (army) and 'agein' (to lead). At about the same time, and quite independently, the Chinese general, Sun Tzu wrote about strategy. Sun Tzu saw the aim of strategy as defeating the enemy by fighting as few battles as possible. In his view, strategy is as much about avoiding battles as it is about fighting them.

Perhaps the best-known military strategist of more recent history is Carl Von Clausewitz. Von Clausewitz saw good strategies as difficult to conceive and even more difficult to implement so that only very few people ever succeed as strategists. Military thinking certainly has some relevance to business strategy. If we accept the analogy that business is a war then the military model of strategy can be an important starting point for an exploration of business strategy. Strategy also has a political role.

The political role of strategy

Niccolo Machiavelli added a political dimension to the study of strategy. Machiavelli was, of course, writing about a prince taking control of a country. His advice was that it was necessary either to treat the powerful citizens well or to crush them completely so that they could not retaliate.

The Academic Contribution to Strategy

Another major source of knowledge about strategy is provided by academics. Modern thinking on business strategy first evolved into a recognisable form in the 1960s in the USA. Writers such as Drucker, Chandler, Ansoff, and Andrews studied the development of large successful American corporations before and during the Second World War. Their work set the scene for what is now usually referred to as the



'Classical school' of business strategy. Chandler defined strategy as "The determination of the basic long term and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals". Igor Ansoff is a well-known authority in the field of strategic management, he explained the concept of strategy as, "The common thread among the organisation's activities and product-markets... that defines the essential nature of business that the organisation was or planned to be in future. William F. Glueck defined strategy precisely as: "A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved." Henry Mintzberg defines strategy as: "a pattern in a stream of decisions and actions"

The Contribution of Practitioners

Managers have to face strategic issues and take action to resolve them. Some have written convincingly about their experiences. Alfred P. Sloan was president and then Chairman of General Motors between 1923 and 1946. The strategic issues facing Sloan were how to handle the vast enterprise that General Motors had become and how to catch Ford and had taken a lead in mass production techniques. Sloan pioneered the divisionalised Corporation that became a model for many large companies.

John Harvey-Jones wrote his book Making it Happen just after he retired as Chairman of ICI. One of his principal dilemmas was how to make the board of ICI work better. As a result, his particular contributions to the concept of strategy include his insights into how boards should operate and on the mix of people necessary to devise strategy for a large organization at the highest level.



Many of the concepts and techniques dealing with strategic management have been developed and used successfully by business corporations such as General Electric and the Boston Consulting Group. Over time, business practitioners and academic researchers have expanded and refined these concepts. Initially strategic management was of most use to large corporations operating in multiple industries. Increasing risks of error, costly mistakes, and even economic ruin are causing today's professional managers in all organizations to take strategic management seriously in order to keep their company competitive in an increasingly volatile environment.

Q. What are Strategies? What are the criteria for evaluate the strategies? How do you assess the economic Contribution of Strategy? Explain (April 2003, 2007)

A strategy may be defined as a special type of plan prepared for meeting. The challenge posed by the activities of competitors and other environmental forces. "Strategy is the complex plan for bringing the organization from a given posture to a desired position in a future period of time" It is essentially a response to external environmental forces. A strategy is a broad plan of action for the development of sources in pursuit of defined objectives. It is an 'interpretative plan' formulated by top management to give meaning and shape to other plans. It reflects the way in which an enterprise will react to its environment. The long-term success of an enterprise depends largely on how it responds to changes in its environment.

A strategy is different from tactics which are specific ways executing a strategy. Tactics have short-term orientation while strategies have a long-term perspective. The following criteria may be used to evaluate a strategy:



Criteria for Evaluation of Strategy:

1. **Internal Consistency:** A business strategy must be consistent with the goals and Policies of the organization. There should be perfect coordinations between objectives and strategies. Strategies in different areas of business should be integrated into a strategic framework. Lack of consistency will make implementation of strategies difficult.
2. **Consistency with environment:** A strategy is basically a response to cope with changes in the external environment. Therefore, it should be designed to fit the opportunities and threats into a strategic framework. Lack of consistency will make implementation of strategies difficult.
3. **Appropriate time horizon:** Time is a crucial element of a strategy. A longer-time span improves flexibility and reduces accuracy of forecasting. Environmental conditions, objectives to be achieved and judgment of management should be considered in deciding the optimal-time span. Timing of the action must be appropriate.
4. **Realistic:** A strategy should reflect the strengths and weaknesses of the enterprise. It should be appropriate in the light of available resources.
5. **Acceptable degree of risk:** Every strategy contains an element of risk and uncertainty. But the degree of risk inherent in a strategy should be such that the enterprise can bear it. Resources should not be committed irrevocably nor they should be concentrated on a single activity. A proper match should be created between risk and return.



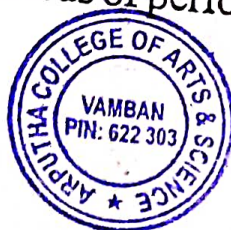
6. Feasibility: A strategy should be workable and capable of producing results within the constraints and parameters known to management.

7. Social sanction: Strategy must fulfill ethical and social responsibilities.

Economic Contribution of Strategy

A strategy contributes to the success of an organization in the following ways:

- 1. Helps in facing environmental challenges:** The long-term success of a business enterprise depends, to a great extent, upon how it responds to the dynamic environment. Strategies, are helpful in facing environmental challenges..
- 2. Provides Direction:** Corporate strategy serves as the long-term guide towards the achievement of objectives. It provided answers to some vital and crucial questions.
- 3. Optimum utilization of resources:** Corporate strategy indicates how the resources of the organization should be marshalled and deployed for best results. It ensures more efficient and effective utilization of organizational resources, et, time, money, talents, etc.,
- 4. Facilities coordination and control:** Master strategy interrelates the different departments and groups of the organization. It provides a unifying force by focusing attention on common objectivities.. Strategy also simplifies control by prescribing board standards of performance.



5. Competitive strength: Strategies are specially designed to counter the actions of competitors. A competitive strategy is formulated keeping in view the likely moves of competitors. It helps in maintaining or increasing the firm's market share in the face of competition.

LEVELS OF STRATEGY

Q. Explain the three levels of Strategic Management and illustrate with the use of an Organisation Chart. (April 2009) (Or) Differentiate between Corporate Strategy and Competitive strategy. (Nov 2003)

Levels of Strategy

In a multi-business enterprise, having several SBUs, (Strategic Business Units) there would be three levels of strategy, viz corporate strategy, SBU strategy and functional strategy. In enterprises which do not have SBUs, there will be only two levels of strategy, i.e., corporate strategy and functional strategies.

Societal Strategy:

Societal strategy consists of goals and action plans of which the overall purpose is to guide the ways in which management intends the organisation to respond to the major social demands placed on it. It is an explicit definition of the organisation's social responsibilities: how it is expected to react to the demands of particular work groups of external constituents.

Corporate Strategy

Corporate strategy is the long-term strategy encompassing the entire organisation. Corporate strategy addresses



fundamental questions such as what is the purpose of the enterprise, what business/businesses it wants to be in (portfolio strategy) and how to expand/get into such business/businesses (for example, by establishing green-field enterprises or by Mergers and Acquisitions). In other words, "corporate-level strategic management is the management of activities which define the overall character and mission of the organisation, the product/service segments it will enter and leave, and the allocation of resources and management of synergy among its SBUs.

Corporate strategy is formulated by the top level corporate management (board of directors, CEO, and chiefs of functional areas)

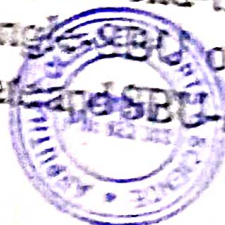
SBU Strategy/Business strategy

SBU-level strategy, sometimes called Business Strategy or Competitive Strategy, is concerned with decisions pertaining to the product mix, market segments and maneuvering competitive advantages for the SBU.

While corporate strategy decides the business portfolio (i.e. the types of business), the competitive strategy decides the strategy/strategies to succeed in the chosen business/businesses.

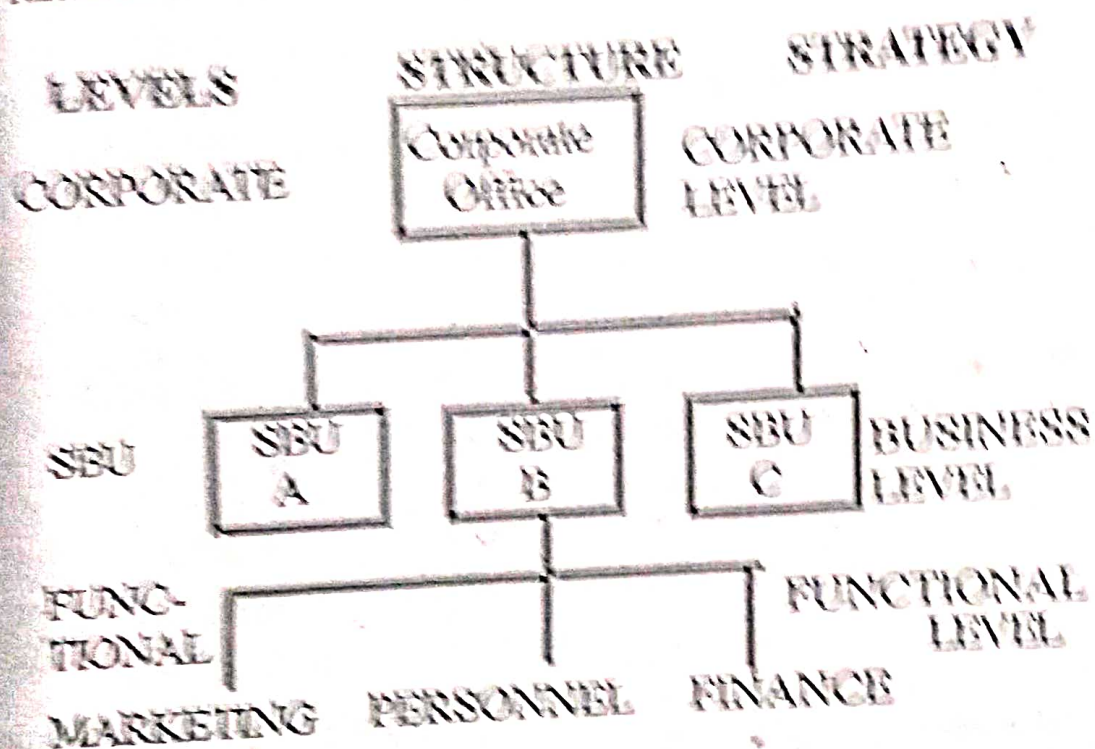
SBU strategy has to conform, obviously, to the corporate philosophy and strategy. In short, "the SBU-level strategic management is the management of an SBU's effort to compete effectively in a particular line of business and to contribute to overall organisational purposes."

The responsibility for SBU strategy is with the top executives of the SBU who are normally second-tier executives in the corporate hierarchy. In single-SBU organisations senior executives have both corporate and SBU-level responsibilities.



Functional Strategy

Functional level strategies are strategies for different functional areas like production, finance, personnel, marketing etc. In other words, "Functional level strategy management is the management of relatively narrow areas of activity, which are of vital, pervasive, or continuing importance to the total organisation. Functional level strategy is the responsibility of functional area heads.



Q. What is business strategy? What are contents of strategy document? Distinguish between Business Strategy and Corporate Strategy. (Nov 2003, April 2005)

A business strategy describes how a particular business intends to succeed in its chosen market place against its competitors. It therefore represents the best attempt that the management can make at defining and securing the future of the business.



Content of a Business Strategy Document

1. **Statement of strategic intent for the business:** This should describe in general terms the business as it expects to become in the future. It should outline in practical and tangible terms how this future different from the present. Clearly, the strategic intent for the business has to relate to the strategic intent for the enterprise as a whole and be coherent with any other corporate strategies.
2. **Principal findings of strategic assessment:** Typically, the strategic assessment will have involved details analysis of both the external business environment and the capabilities of the enterprise. Only the most important or most surprising results need to be recorded. However, this section should provide a reasonable assessment of current status and future prospects of the business, if present strategies were to be continued. This then makes the case for change in business terms.
3. **Strategic choices which have been made and supporting rationale:** This section has to summarize the options that have been identified and the choices made. The reason for preferring one direction to another have to be spelt out and must be persuasive. The rationale for strategic choice should be based on a rigorous analysis of the basis of competitive advantage and how that will relate to the demonstrable capabilities of the enterprise. It is also desirable to show how the choice matches the strategic intent of the enterprise as a whole.
4. **Statement of goals and objectives:** The overall goal is to realize the strategic intent of the business. More measurable supporting goals are also very valuable. Objectives should not all be financial. It is important that some objectives set

