Chapter 1

INTRODUCTION TO STRATEGIC MANAGEMENT

Introduction- In this Chapter we will understand the concepts and significance of 'strategic management'. With increased competition, business management has acquired a strategic dimension. All executives and professionals, including Chartered Accountants, working towards growth of businesses, must possess sound knowledge of concepts of strategic management.

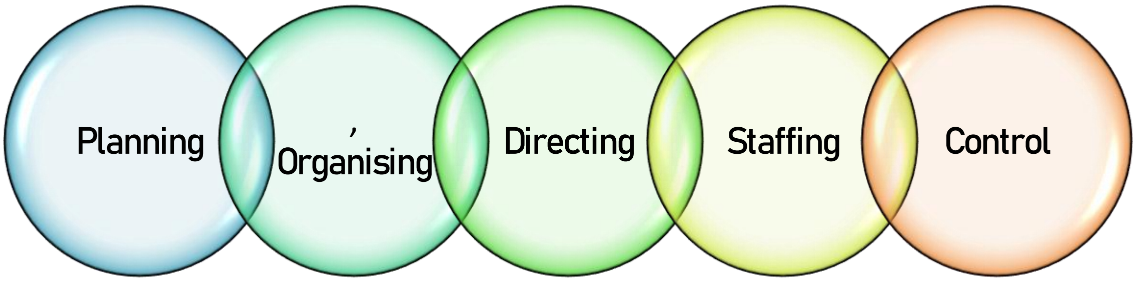
MEANING AND NATURE OF STRATEGIC MANAGEMENT

- It is used with reference to a ***key group in an organisation in-charge of its affairs.*** In relation to an organisation, management is the chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating the disorganised resources of manpower, money, material, and technology, which are then combined into a functioning whole.

  An organisation becomes a unified functioning system when management systematically mobilises and utilises the diverse resources efficiently and effectively. The survival and success of an organisation depends to a large extent on the competence and character of its management.

- The term 'Management' is also used with reference to a set of interrelated functions and processes carried out by the management of an organisation (the key group of individuals mentioned in point (a) to attain its objectives).

The Functios Includes –



Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in aparticular manner. Influence is backed by power, competence, knowledge and resources.

CONCEPT OF STRATEGY.

In the context of business, the application of the term **'Strategy' relates to the ways, the business decides to respond to dynamic** and often hostile external forces while pursuing their vision, mission and ultimate objectives.

The very incorporation of the idea of strategy into business organizations is intended **to unravel complexity and to reduce uncertainty caused by changes in the environment**. Strategy seeks to relate the goals of the organization to the meansof achieving them. Strategy is the game plan that the management of a business uses to take market position, conduct its operations, attract and satisfy customers, compete successfully, and achieve organizational objectives

We may define the term 'strategy' as a long-range blueprint of an organization's desired image, direction and destination, i.e., what it wants to be, what it wants to do, how it wants to do things, and where it wants to go. Following are also important other definitions are to understand the term

Igor H. Ansoff –

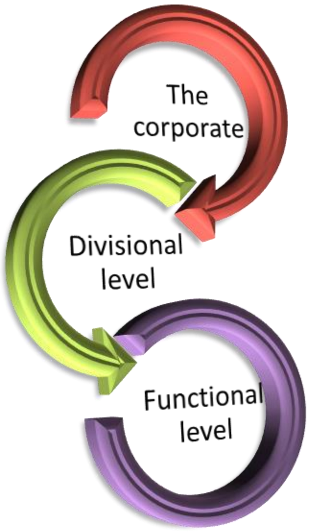
The common thread among the organization's activities and product-markets that defines the essential nature of business that the organization has or planned to be in future.

William F. Glueck

A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved.

Important to note that strategy is no substitute for sound, alert and responsible management. It must be recognised that strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic to take care of sudden emergencies, pressures, and avoid failures and frustrations. In a sound strategy, allowances are made for possible miscalculations and unanticipated events.

In large organisations, strategies are formulated at:



Corporate strategies are formulated by the top managers. **Such strategies include the determination of the plans for expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on**. These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources.

Types of Strategies

Proactive

Proactive actions on the part of managers to improve the company's market position and financial performance.

Reactive

Reactions to unanticipated developments and fresh market conditions in the dynamic business environment

In other words, a company uses both proactive and reactive strategies to cope up the uncertain business environment. Proactive strategy is **planned strategy** whereas reactive strategy is adaptive reaction **to changing circumstances.**

Importance of Strategic Management

- The strategic management gives a direction to the company to move ahead.It helps define the goals and mission. **It helps management to define realistic objectives and goals** which are in line with the vision of the company.

- Strategic management helps organisations to be **proactive instead of reactive** in shaping its future. **Organisations are able to analyse and take actions instead of being mere spectators**. Thereby they are able to control their own destiny in a better manner.

❖ Strategic management provides frameworks for **all major decisions of anenterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure**. It provides better guidance to entire organisation on the crucial point – what it is trying to achieve.

❖ Strategic management seeks **to prepare the organisation to face the future and act as pathfinder** to various business opportunities.

❖ It helps organisations to **avoid costly mistakes** in product market choices or investments.

❖ Strategic management helps to **enhance the longevity of the business.** Withthe state of competition and dynamic environment it may be challenging for organisations to survive in the long run.

❖ Strategic management helps the organisation **to develop certain core competencies and competitive advantages**

Limitations of Strategic Management

❖ Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans

Complex and Turbulent Environment

❖ Strategic management is **a time-consuming process**. Organisations spend alot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.

Time-consuming Process

❖ Strategic management is a **costly process. Strategic management adds a lotof expenses to an organization.** Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement.

Costly Process

❖ In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies. It is quite difficult to gauge the strategic planning of competitorrs because most of these decisions are take within closed doors by the top management.

Difficult to estimate competitor's response

STRATEGIC INTENT (VISION, MISSION,GOALS, OBJECTIVES AND VALUES)

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.

Strategic intent is generally stated in broad terms but when stated in precise terms **it is an expression of aims to be achieved operationally, i.e., goals and objectives**

1. **Vision :** **Vision implies the blueprint of the company's future position. It describes where the organisation wants to land.**

   Very early in the strategy making process, a company's senior managers must consider the issue of 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 future prospects

   HDFC Bank Ltd., one of the largest banks in India has clearly defined its Vision of being a world class Indian bank. This vision helps them keep in mind, "where we want to go", as the central thought of their strategic decisionmaking.

Essentials of a strategic vision

- The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- Forming a strategic vision is an exercise in intelligent entrepreneurship
- A well-articulated strategic vision creates enthusiasm among the members of the organisation
- The best-worded vision statement clearly illuminates the direction in which organisation is headed

2. Mission

A mission is an answer to the basic question '**what business are we in and what we do'.** It has been observed that many firms fail to conceptualise and articulate the mission and business definition with the required clarity.

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 organisations present capability, customer focus, activities, and business makeup.

FOR EXAMPLE

LIC Ltd.'s Mission is - Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development.

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

- One of the roles of a mission statement is to give the organisation its own special identity, business emphasis and path for development – one that typically sets it apart from other similarly positioned companies.
- A company's business is defined by what needs it is trying to satisfy, which customer groups it is targeting and the technologies and

competencies ituses and the activities it performs.

- Good mission statements are – unique to the organisation for which they are developed.

Every business firm must clarify the corporate mission and define accurately the business the firm is engaged in.They also explained that towards facilitating this task, the firm should raise and answer certain basic questions concerning its business, such as:

- What is our mission?
- What is our ultimate purpose?
- What do we want to become?
- What kind of growth do we seek?
- What business are we in?
- Do we understand our business correctly and define it accurately in itsbroadest connotation?

3.Goals and Objectives

Business organisation translates their vision and mission into goals and objectives. As such the term objectives are synonymous with goals, however, some authors make an attempt to distinguish the two. **Goals are open-ended attributes that denote the future states or outcomes. Objectives are close-ended attributes whichare precise and expressed in specific terms.**

Objectives, to be meaningful to serve the intended role, must possess the following characteristics:

- Objectives should define the organisation's relationship with its environment.
- They should be facilitative towards achievement of mission and purpose.
- They should provide the basis for strategic decision-making.
- They should provide standards for performance appraisal.
- They should be concrete and specific.

- They should be related to a time frame.
- They should be measurable and controllable.
- They should be challenging.
- Different objectives should correlate with each other.
- Objectives should be set within the constraints of organisational resourcesand external environment.

A need for both short-term and long-term objectives: As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets. Having quarterly or annual objectives focuses attention on delivering immediate performance improvements

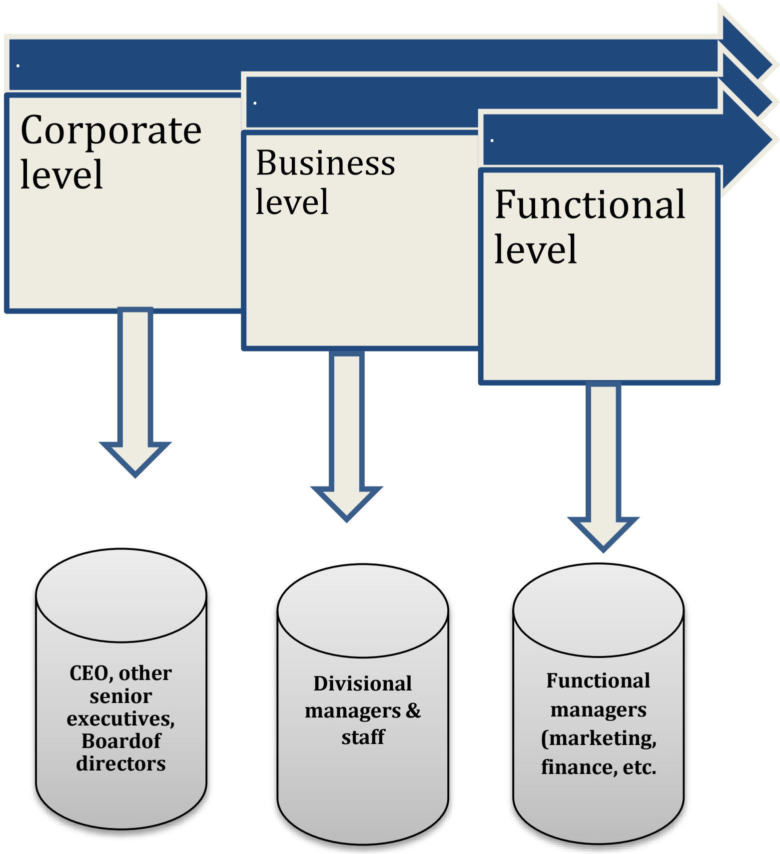
Long-term objectives: To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas:

4. VALUES

A few common examples of values are – Integrity, Trust, Accountability, Humility, Innovation, and Diversity. But why are values so important? A company's value sets the tone for how the people of think and behave, especiallyin situations of dilemma. It creates a sense of shared purpose to build a strong foundation and focus on longevity of the company's success

STRATEGIC LEVELS IN ORGANISATIONS

Generally, there are three main levels of management:



The **corporate level of management** consists of the Chief Executive Officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals participate in strategic decision making within the organization. The role of ***corporate-level managers*** is to oversee the development of strategies for the whole organization.

the corporate portfolio of businesses to maximize corporate profitability. However, it is not their specific responsibility to develop strategies for competing in the individual business areas, such as financial services. The development of such strategies is the responsibility of those in charge of different businesses called ***business level managers***

Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity,

Network of relationship between the three levels

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

Functional and Divisional Relationship: It is an independent relationship, where each function or a division is run independently headed by the function/division head, who is a business level manager, reporting directly to the business head, who is a corporate level manager. Functions maybe like Finance, Human Resources, Marketing, etc.

Horizontal Relationship: All positions, from top management to staff-level employees, are in the same hierarchical position. It is a flat structure where everyone is considered at same level. This leads to openness and transparency in work culture and focused more on idea sharing and innovation. This type of relationship between levels is more suitable for startups where the need to share ideas with speed is more desirable.

Matrix Relationship: It features a grid-like structure of levels in an organisation, with teams formed with people from various departments that are built for temporary task-based projects. This relationship helps manage huge conglomerates with ease where it is nearly impossible to track andmanage every single team independently. In Matrix relationship - there are more than one business level managers for each functional level teams. It is complex for smaller organisations, but extremely useful for large organisations.


Notes