# KANNUR UNIVERSITY

## COM2C06 - STRATEGIC MANAGEMENT

**90 Hours** **Credit 04**

**Module I.**

**Concepts of Strategic Management**: Strategy and Strategic Management -Strategic Decisions Approaches to Strategic Decision Making -Hierarchy of Business Objectives -Levels of Strategies – Strategic Intent -Dimensions of Business Definition -Elements of Strategic Management Process- Corporate Governance and Strategic Management (10 Hours)

**Module II.**

**Strategy Formulation** : Environmental Analysis and Diagnosis -Environmental Sectors Environmental Scanning and Appraisal -ETOP -Organizational Appraisal : Methods and Techniques -SWOT Analysis -Corporate Level Strategies : Expansion, Stability, Retrenchment and Combination Strategies -Business Level Strategies. (15 Hours)

**Module III**

**Strategic Analysis and Choice** : Process of Strategic Choice -Strategic Analysis : Tools and Techniques -Corporate Portfolio Analysis -SWOT Analysis -Experience Curve Analysis -Life Cycle Analysis – Industry Analysis -Strategic Group Analysis -Competitor Analysis -Subjective Factors in Strategic Choice -Contingency Strategies -Strategies Plan (20 Hours)

**Module IV.**

**Strategy Implementation** : Activating Strategies -Nature and Barriers of Implementation -Project Implementation -Procedural Implementation -Resource Allocation -Structural Implementation Structures for Business Strategies and Corporate Strategies -Behavioral Implementation Functional and Operational Implementation -Functional Plans and Policies (20 Hours)

**Module V**

**Strategic Evaluation and Control** : Nature, Importance, Requirements and Barriers in Effective Evaluation -Strategic Control -Operational Control -Techniques of Strategic Evaluation and Control -Role of Organizational Systems in Evaluation. (15 Hours)

# Module- 1

# Concept of Strategic Management

## STRATEGY

### 1- Definition & Meaning

- The word 'strategy' derived from military where it was taken to mean the process of planning the movement of troops, so as to outplay the enemy in the battlefield.
- Business is also like a war, as business firm has to face the challenges of competitor's policy, and it has to make plans by considering the plans of competitors.

- Strategy is the *direction* and *scope* of an organisation over the *long term*, which achieves *advantage* in a changing *environment* through its configuration of *resources and competences* with the aim of fulfilling *stakeholder* expectations *(Johnson, et al, 2008)*

- A company's **strategy** is management's game plan for growing the business, staking out a market position, attracting and pleasing customers, competing successfully, conducting operations, and achieving targeted objectives
- Strategy is an action plan that involves deciding the basic goals and objectives of the organisation, the major programmes of action to achieve these goals and activities, and the major patterns of resource allocation to relate the organisation to its environment.
- A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies[1] and gain a competitive advantage.
- Strategy is a kind of management activity, which tells about what an organisation intends to do and includes the patterns of an organisation's responses to its environment.
- Strategy involves crafting moves of a company to strengthen its long-term competitive position and financial performance

### 2- Elements of strategy

1- Goals:- A strategy should indicate a long-term goals such as 'dominate the market'.. Goals or objectives are supposed to be SMART- Specific, Measurable or Meaningful, Achievable, Relevant or Realistic, and Time bond.

2- Scope:- A strategy defines the scope of a firm, such as what it offers, its markets, and broad areas of activities..

[1] Core competencies are the main strengths or strategic advantages of a business, including the combination of pooled knowledge and technical capacities that allow a business to be competitive in the marketplace

3- Competitive Advantage:- A strategy should contain a clear statement about what competitive advantage the firm intends to achieve over a specific time.

Competitive advantage arises when a firm is able to perform an activity that is distinct from that of its rivals. Competitive advantages should be inimitable.

4- Logic:- it is about the 'why' aspect of the strategy. E.g- A firm intends to dominate the market, but its scope is a limited segment of the market, and its competitive advantage is producing low-cost products. It doesn't explain how and why this would work.

**3- Levels of Strategies**

- A company's overall strategy is a collection of strategic initiatives and actions devised by managers and key employees up and down the whole organizational hierarchy
- For many businesses, a single level strategy may not effectively work. There are basically 4 levels of strategies, namely Corporate-Level, Business level, Functional level and Operating level strategies.

***a- Corporate Strategy*** is the companywide game plan for managing a set of businesses..

- It is concerned with the entire organization, such as portfolio management, diversification, and resource allocations across the businesses…
- It consists of the kinds of initiatives the company uses to establish business positions in different industries, and it takes to boost the combined performance of the businesses.

***b- Business level Strategy***- It concerns the initiatives taken for producing successful performance in one specific line of business. The key focus will be to strengthen the market position, build competitive advantage, and develop strong competitive capabilities.

- The development of business-level strategy is the responsibility of the manager in charge of the business.

***c- Functional Level Strategy*- **concerns the initiatives to be employed in managing particular functions or business processes or key activities within a business.

- Strategies pertaining to functional areas of the business such as finance, marketing, HRM, information etc
- Primary aim of functional strategy is to support the overall business strategy of the company.

***d- Operating Level strategy***- concern the relatively narrow strategic initiatives and approaches for managing key operating units such as plants, distribution centers, geographic units etc.. and specific operating activities with strategic significance such as advertising campaigns, the management of specific brands, supply chain–related activities etc..

## STRATEGIC MANAGEMENT

**1- Definition & Meaning**

By Johnson, et al (2008), Strategic management includes understanding *the strategic position* of an organisation, making *strategic choices* for the future and managing *strategy in action*

By Sameul C Certo and Paul Peter, "strategic management is a continuous, interactive, cross functional process aimed at keeping an organisation as a whole appropriately matched to its environment".

By Kenneth Hatten, SM is "the process by which an organisation formulates objectives and manages to achieve them. Strategy is the means to an organisational end, it is the way to achieve organisational objectives".

By Alfred Chandler (1962), "Strategic management is concerned with the determination of the basic long-term goals and the objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals".

by Glueck and Jauch, (1984), "Strategic management is a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives".

**2- Needs and importance of strategic management**

Business environment is increasingly dynamic and uncertain, driven by many factors like globalization, competition, technology, fluctuations in demands and supplies, socio-political and economic factors etc. The dynamism in the business environment makes it very difficult for businesses to operate and achieve their desired organisational goals, while keeping a better position in the market. Due to stringent competition and other factors, businesses have to find solution that can help them sustain a better competitive position. So, it is very important for all business firms to plan and develop some strategies that can help them grow, sustain competitive advantages, and achieve desired goals, without being outplayed by their competitors.

Following are main reasons why strategic management is a necessity:

***1- Due to change***

Business environments continue to change, making it difficult for management to plan and execute it. Strategic management helps top executives to foresee changes and provides direction and control.

***2- To provide guidelines***

Strategic management provides guidelines to the business owners / employer, about their roles, and organization's expectations from them. It leads to minimizing conflicts in the organization.

***3- Better performance***

Business that plans strategically can have higher probability to succeed than those that do not plan strategically

***4- Improves coordination***

Strategic management helps to improve coordination between functional areas of management, and among individual projects because strategic management involves careful coordination between various processes, activities and programs in the organisation.

***5- Optimum utilization of resources***

One of the main advantages of strategic management is optimum utilization of resources, as it involves planning activities and then allocating resources among various activities and processes without wasting resources.

***6- Systematic business decisions***

Strategic management provides useful data and relevant information about several business activities and processes to managers and thereby, it helps them make better decisions.

***7- Improves communication***

It helps to improve the flow of communication between lower, middle and top level management, by ensuring timely and free flow of communication.

**3- Features of Strategic Management**

***1- Organised and systematized method***

Strategic management is not entirely different from 'management', rather, it provides a more systematized and organized structure for managing an organization. It involves basically three steps; understanding the strategic position of the firm, making strategic choices, and then managing strategy in action. Figure- 1 below shows how various elements interplay within each of these three components of the strategic management.


***2- Guides managerial action***

Strategic management guides managerial actions regarding construction of business portfolio, and allocation of resources for the same. Thus, it provides guidelines to the management for prioritized allocation of resources. It helps management understand the priorities of resource allocation, and to recognize how much resources can be allocated to each activity or functional area.

***3- Structure of plans***

Strategic management is based on structure of plans, like strategic plans, functional plans, operating plan, and organisational plans. Strategic plan deals with an organization's overall strategic process, while functional plan deals with plans across various functional areas like production, marketing, finance etc. Operating plans are related to converting strategic plan in to action, and organisational plan is related to implementing corporate plans.

***4- System approach***

Strategic management doesn't deal with each separate element of the organization, rather, it enables the top managers to see things as part of a whole system, in which various activities, processes, programs and functional areas are interconnected, interrelated and integrated.

***5- Futurity of Present decisions***

Strategic management is concerned with the future impacts of present decisions. It doesn't deal with future decisions, instead, it attempts to evaluate the impacts of present decisions on future activities and future outcomes. Future is uncertain, due to that business environment is ever changing. However, with strategic management, future uncertainties can be managed.

***6- Competitive Environment***

An important objective of strategic management is to improve the competitive strength and competitive position of the organisation. Strategic management deals with implementing a strategy that helps an organisation outperform, outstand, and outplay the competitors, and thereby to achieve a better competitive position in the industry.

***7- Time span***

Strategic management is normally carried out for a long-term. It involves planning for a series of activities and changes that may last from 2 years up to 10 or more years.

***8- Continuous process***

Strategic management is a continuous process, as the organisation continues to update and refresh its strategies over time.

***9-Cross functional***

Strategic management is cross functional because, various functional areas of a business like marketing, finance, HRM, operations etc are synthesized, and the strategic management activities are coordinated and integrated among these functional areas.

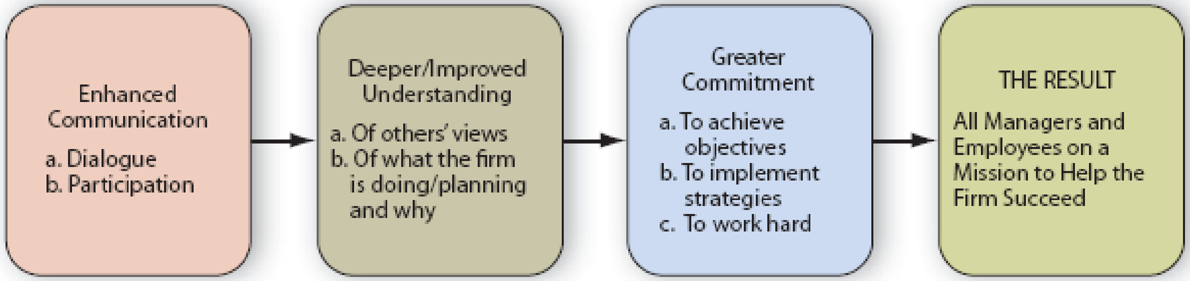
## 4- Benefits of Strategic Management

Today's business organisations need strategic management to reap the benefits of business opportunities, overcome the threats and stay ahead in the contexts of future uncertainties. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; while it also tries to optimize for tomorrow the trends of today.

SM allows an organisation organization to be more proactive than reactive in shaping its own future (A proactive approach focuses on eliminating problems before they have a chance to appear and a reactive approach is based on responding to events after they have happened)..

The principal benefit of SM is to help organizations formulate better strategies through the use of a more systematic, logical, and rational approach to strategic choice.

SM facilitates communication, dialogue and participation, which lead managers and employees to become committed and supporting the organisation.




Firms that follow SM are found to be High-performing, thus leading to financial achievements.

SM helps to enhance the awareness of external threats, an improved understanding of competitors' strategies, increased employee productivity, reduced resistance to change, and a clearer understanding of performance–reward relationships

A structured approach to strategy planning brings several benefits (Smith, 1995; Robbins, 2000)

1. ***It reduces uncertainty:*** Planning forces managers to look ahead, anticipate change and develop appropriate responses. It also encourages managers to consider the risks associated with alternative responses or options.

2. ***It provides a link between long and short terms:*** Planning establishes a means of coordination between strategic objectives and the operational activities that support the objectives.

3. ***It facilitates control:*** By setting out the organisation's overall strategic objectives and ensuring that these are replicated at operational level, planning helps departments to move in the same direction towards the same set of goals.

4. ***It facilitates measurement:*** By setting out objectives and standards, planning provides a basis for measuring actual performance.

According to Gordon Greenley, strategic management offers the following benefits:

1. It allows for identification, prioritization and exploitation of opportunities.
2. It provides objective view of management problems.
3. It provides a framework for improved coordination and control of activities.
4. It minimizes the effects of adverse conditions and changes.
5. It allows decision-making to support established objectives.
6. It allows more effective allocation of time and resources to identified opportunities.

7. It allows fewer resources and less time to be devoted to correcting erroneous and *ad hoc* decisions.
8. It creates a framework for internal communication among personnel.
9. It helps integrate the behaviour of individuals into a total effort.
10. It provides a basis for clarifying individual responsibilities.
11. It encourages forward thinking.
12. It provides a cooperative, integrated enthusiastic approach to tackling problems and opportunities.
13. It encourages a favourable attitude towards change.
14. It gives a degree of discipline and formality to the management of a business

## STRATEGIC DECISION MAKING

Strategic decision making is the process of choosing the best course of strategies in order for the company to achieve competitive advantages, and other organisational goals and objectives. It is primarily concerned with external environment, rather than internal problems, because, with strategic decision making, the focus will be to help the company get uniquely positioned in the industry, and to achieve superior competitive position as well. Strategic decisions should normally encompass business goals and objectives, vision and mission, functions to be performed, products or services to be served and major policies needed for the organization to execute these decisions to achieve objectives.

Strategic decisions are non-routine and involve both the art of leadership and the science of management. Routine decisions of how to efficiently manage resources according to established procedures and clearly understood objectives is the technical work of management. Routine decisions are normally the purview of supervisors and middle level managers that have the requisite authority and responsibility to take action. However, non-routine decisions require "adaptive work" where senior leadership must consider the broader implications of the situation, take an active role in defining the problem, and creatively explore potential solutions, and apply judgments as to what should be done.

### 1. Salient features / characteristics of strategic decisions

- Strategic decisions are taken by top management
- Strategic decisions are related with several areas of operations of the organization and hence it affects the entire organization.

- Strategic decisions require commitment of organizational resources like human, physical, capital etc.
- Strategic decisions have significant impact on the organization's future development and affluence
- Due to future implications of strategic decisions, it has close link with business environment of a firm.
- Strategic decisions will be directional for various functional areas of organization.
- Thus, strategic decisions are highly integrated with organizational levels
- Integrations of strategic decisions are not enough, proper implementation of these decisions will lead an organization to success.
- Strategic decision making deals with harmonizing organizational resource capabilities and giving directions to deal with the threats and opportunities prevailing in market.
- Strategic decisions deal with the range of organizational activities.
- Strategic decisions always involve a change in dealing with resources as an organization operates in dynamic environment.
- Strategic decisions are complex in nature.

## 2. Issues in Strategic Decision making

### *1. Criteria for Strategic Decision Making*

The broad criteria for strategic decision are usually governed by the vision of decision maker. The conceptual clarity of all the variables of business constituents like buyers, competitors, suppliers, intermediaries, legal frameworks etc., is mandatory. In the uncertain business environment, to lay down the criteria for strategic decision making is extremely significant in order to avoid the strategic miss-match between organizational resources and market requirements. Thus, the decision maker must select the criteria which suits to his current requirements. Following are some of the major criteria for strategic decision making

***a- Rationality*: **Rationality in decision making process implies the presence of logical reasoning in selecting the available alternatives. A number of alternatives may be created based on different situational analysis, but, the alternatives are largely determined by the availability of resources and capabilities of a firm. Therefore, the objectives are to maximize the profitability and attainment of desired state. Now-a-days, decision makers are utilizing the technology to rationally analyze the market related information with the help of some statistical and mathematical software.

***b- Creativity:*** Creativity and innovations bring some unusual ideas. There are various ways through which, companies can utilize the creativity of their employees. Some of them are brain storming; attribute listing, Gorden techniques etc to generate alternative strategic options. It is important for managers who are in the field of strategic management to develop creative ways of lateral thinking and looking beyond the obvious to come up with break-through ideas.

***c- Dynamism*:** Human beings are dynamic in nature; therefore, it is natural that two people cannot think in same manner. The two managers involved in strategic decision making will probably arrive at two different conclusions and therefore, difference of opinion exists. These differences may arise due to difference of perception of the problem.

***2. Personality or Individual Factors***

Age, experience, qualification, intellectual capability, logical and rational thinking training, values etc. play a very crucial role in strategic decision making. Difference styles of leadership quality may lead to varying degree of information availability and its assimilation, thus affecting the decision.

***3. Strategic Decision Making under Uncertainty***

Recently, a new approach has been adopted to deal with uncertainty in business Strategic decision making play a crucial role to manage uncertainty of business.



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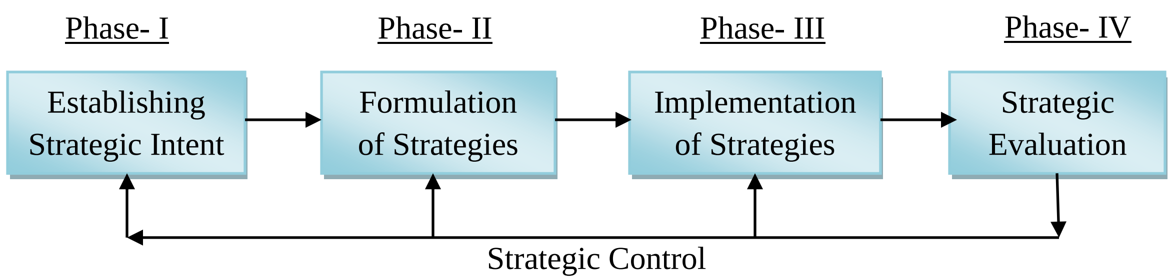
Strategic Management Process- is defined as the dynamic process of formulation, implementation, evaluation and control of strategies to realize the organisation's strategic intent.

SMP involves four phases, as outlined below:

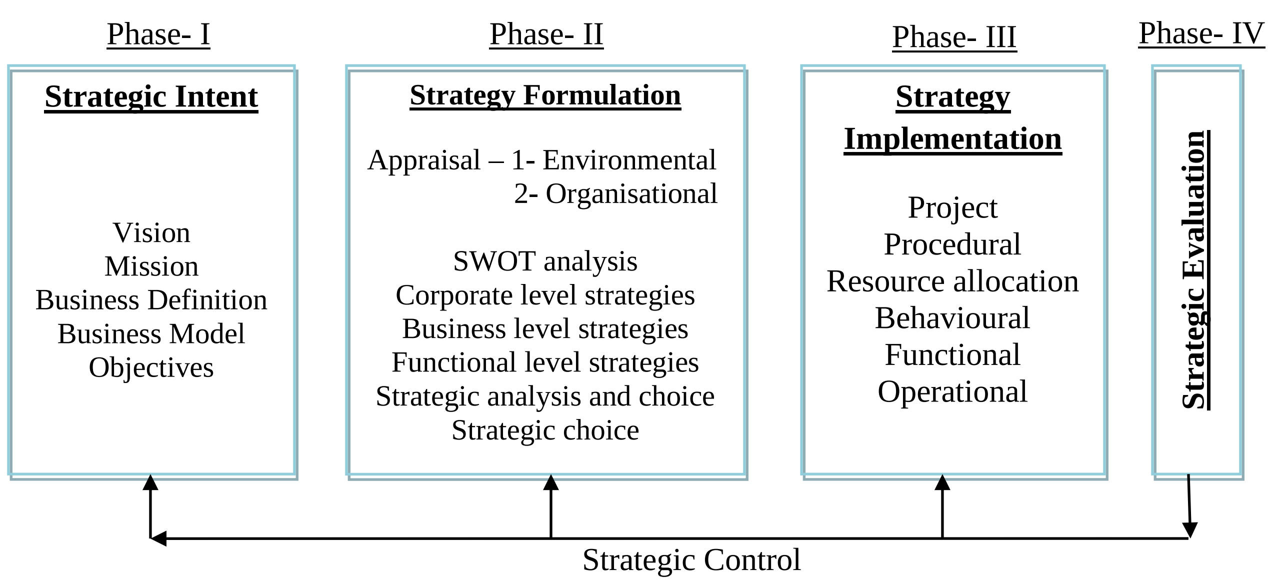



*Phase-I- Establishing Strategic Intent*:- strategic intent in this phase is a hierarchy of objectives that the orgasniations sets for itself.. It involves vision, mission, business definition, and objectives…

*Phase-II- Strategy Formulation*:- in which a strategy or few strategies are devised.. It is strategic planning too… It involves elements like performing environmental appraisal, organisational appraisal, formulating corporate-level, business-level or functional level strategies, undertaking strategic analysis, and exercising strategic choice..

*Phase-III:- Implementation of strategies*:- in which strategies are put in to action.. This phase involves the elements like activating strategies, designing the structure, managing behavioural implementation, managing functional implementation etc..

*Phase- IV:- Evaluation and Control*- in which the strategies are assessed to know how

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effectively they are formulated, how effectively they are implemented…It involves performing strategic evaluation, exercising strategic control, and reformulating strategies..

**Strategic Intent**

- Strategic Intent refers the purposes the orgasniations strives for..
- Very ambitious or aggressive objective often signal strategic intent to stake out a specific business position and to become a winner in the market place.
- For instance, to become industry leader, delivering the best customer service etc..
- E.g: - Nike's strategic intent in 1960s to overtake Adidas, Canon's strategic intent to beat 'Xerox', or Toyota's strategic intent in the form of a global market share objective of 15 percent by 2010..
- Strategic intent could be in the form of a vision and mission statement for the orgasniations as a corporate whole.
- Hamel and Prahalad explained the term 'strategic intent' as an obsession with an organisation- An obsession may be with ambitions that may even be out of proportions to their resources and capabilities…

**Dimensions of Business Definitions:**

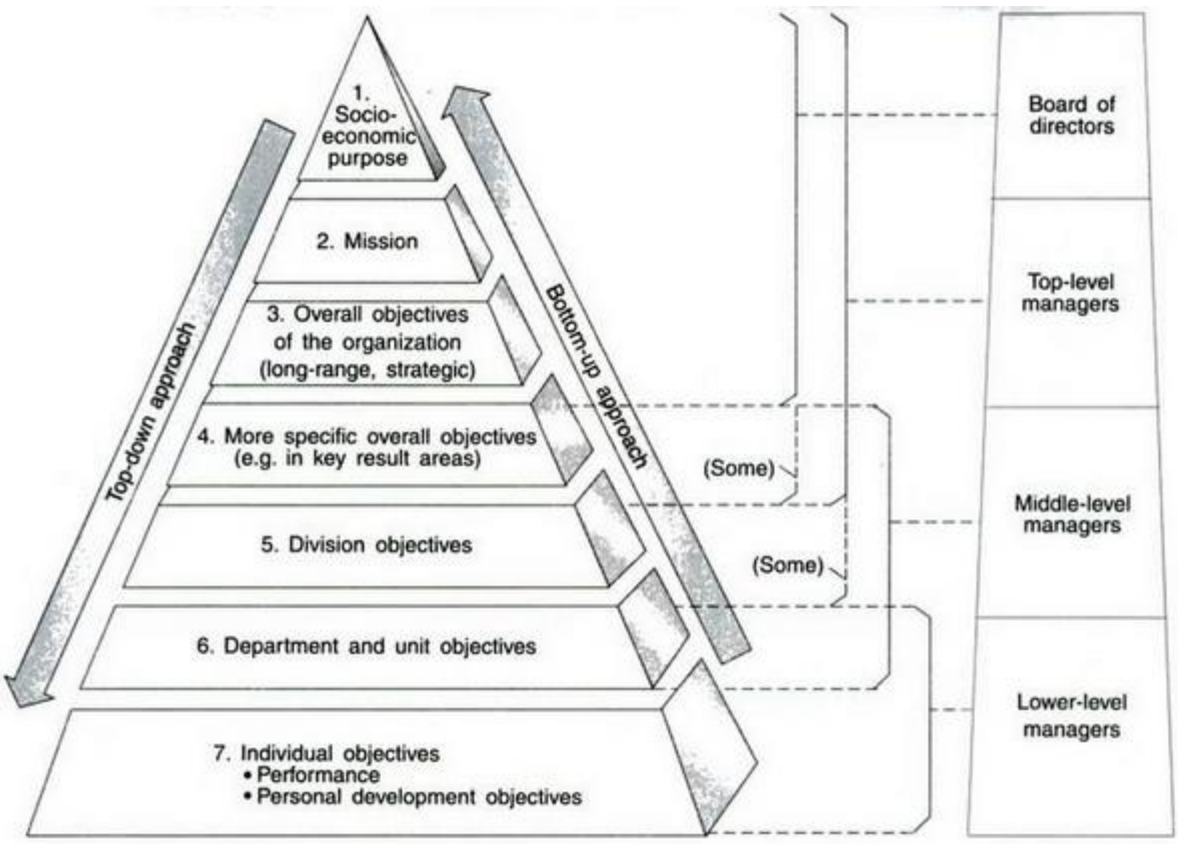
Derek Abell suggested defining business along the three dimensions- they are 1) customer groups, 2) customer function, and 3) alternative technologies.

- Customer groups- relate to 'who' is being satisfied…
- Customer function(needs)- relate to 'what' is being satisfied… and
- Alternative Technologies- relate to 'how' the needs are being satisfied..
- ➢ According to this concept, customer groups must be identified first according to the identity of customers..
- ➢ Customer functions are based on what products or services should be provided to customers,

- Then, alternative technologies should be based on 'how' customer functions can be performed…

## Hierarchy of Business Objectives

- Business objectives form a hierarchy, ranging from the broad aim and vision to specific individual objectives..




- This hierarchy has 2 dimensions- 1- there is the ***purpose*** of society, such as requiring the organisation to contribute to the welfare of the people by providing goods/services at reasonable price, and 2) there is a ***mission*** of the business, such as providing goods/services to its customers…

- So, a business has mission distinct from its purpose..
- These are translated in to general objectives and strategies…
- Example- A business proposes to obtain 10% increase in profit by 2020, and to increase the number of products by 8%... This objective has to be further translated in to division, department, etc..
- The hierarchy includes board of directors, top level managers, middle level and lower level managers.. BOD and TL managers are concerned with determining the purpose, mission and the overall objectives of the firm..ML managers involved in setting of key results area-objectives, division objectives, department objectives etc.. LL managers are concerned with setting objectives of departments and units as well as their subordinates..
- 2 approaches are there.. 1) Top-down, and 2) bottom-up.. In top-down, upper level managers determine the objectives for subordinates.. In bottom-up approach, subordinates initiate the setting of objectives…

**Corporate Governance and Strategic Management**

- Corporate governance refers to the management of relationship between the directors and managers, and other stakeholders in an organisation.
- Definition by NFCG- "Corporate governance involves a set of relationships among the company's management, its board of directors, shareholders and other stakeholders".
- These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.
- It includes:-

  a)- transparency of corporate structures and operations b)- the accountability of managers and the boards to shareholders, and

c)- corporate responsibility towards employees, suppliers and other stakeholders.

- The corporate governance mechanism in India include mandatory and voluntary regulations. major legislations having provisions related to Corp.Gov are The companies act-2013, The securities contract Act 1956, SEBI act 1992, The depositories act 1996 etc..

The relationship between the stakeholders and the managers are explained through 1) agency theory, and 2) Stewardship theory

***Agency Theory***

- When a person delegates decision-making authority to another person, an agency relationship is created. One who delegates is Principal, and the other is agent, so, there is agency relationship.
- Between owners/ shareholders and managers: - Owners/shareholders as Principal, and managers as agents, whereby, owners provide risk capital and delegate the authority to the managers to use that capital to manage the organisation, on their behalf, acting as their agents.
- Agency problem occurs when the agents do not act in the interests of their principal.
- The solution to this agency-problem is to have corporate governance mechanism, designed to exercise control and place constraints on the behaviour of managers.
- Between stakeholders and managers:- Managers are principals, and the others are agents

***Stewardship Theory***

- It is another theory to explain the relationship between owners and managers.
- It takes a positive view of the managers considering them as 'stewards' whose interests are aligned with that of owners.
- These managers identify with their organisation, and derive satisfaction from behaviours that support the organisational interests rather than their own.
- Stewardship theory proposes corporate governance mechanism that supports and empower managers' behaviours rather than monitoring and controlling them.

***Corporate Governance and Strategic Management- How they intenerated?***

1- Corp.Gov and Strategic Intent:- Strategic Intent deals with mission, vision, business definition and objectives. Corp.Gov plays important role in each of these aspects. Mangers. stakeholders etc are influenced by strategic intent.

2- CG and Strategy Formulation- Top management's responsibility to decide which strategy to be formulated. For this, owners' guidance and direction to be followed..

3- CG and Strategy Implementation:- Implementation is fully under the control of managers- they should follow the guidance of owners / board of directors..

4- CG and strategy evaluation- Shareholders and directors have critical role in enabling managers to evaluate..