CHAPTER 1

INTRODUCTION TO STRATEGIC MANAGEMENT

LEARNING OBJECTIVES

- Learn what business policy and strategy is all about.
- Know the framework and importance of strategic management.
- Learn how strategy operates at different levels of the organization.
- Understand the importance of strategic management in Government and Not-for-profit Organizations.

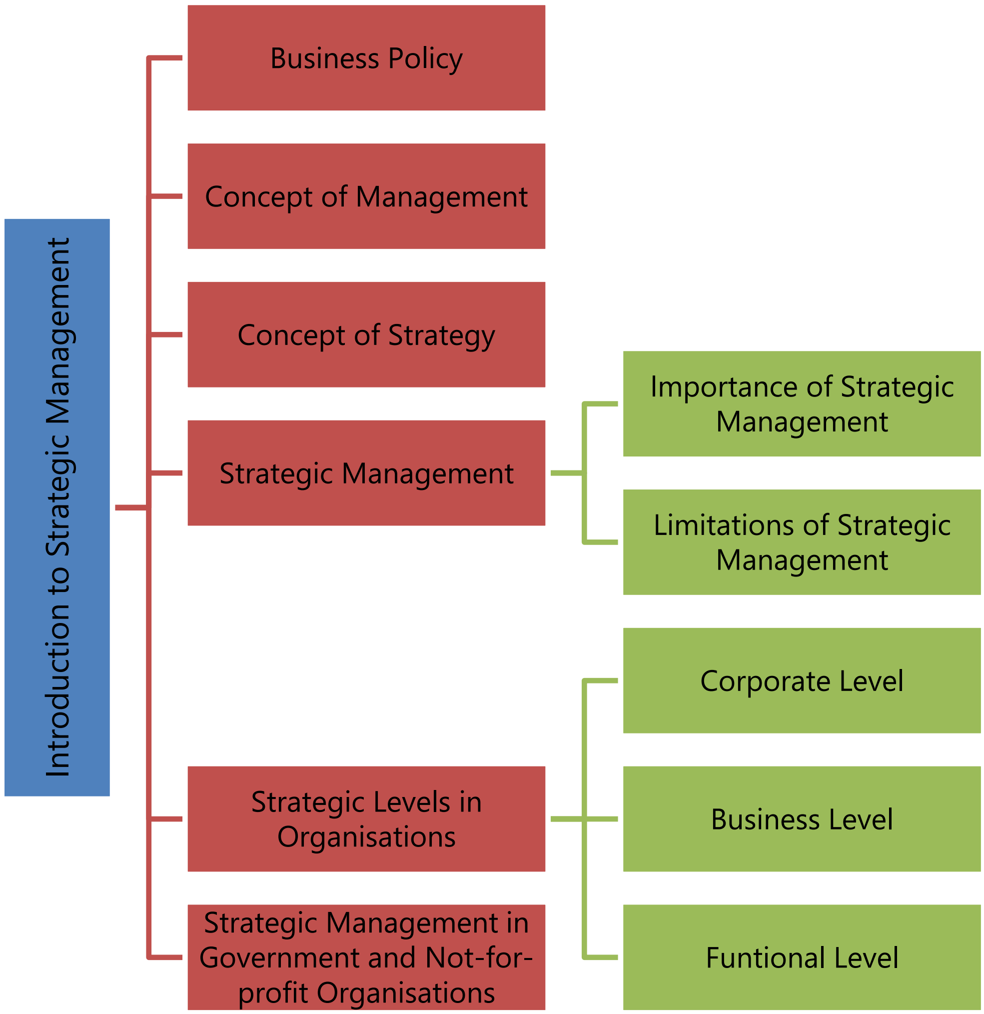
"The company without a strategy is willing to try anything."

Michael Porter

"Strategy is not the consequence of planning, but the opposite : its the starting point."

Henry Mintzberg

CHAPTER OVERVIEW



1.1 INTRODUCTION

This chapter is an attempt to highlight the concepts and significance of 'business policy' and 'strategic management'. With increased competition, business management has acquired a strategic dimension. All executives and professionals, including Chartered Accountants, working towards growth of their businesses, must possess sound knowledge of business policy and strategic management.

1.2 BUSINESS POLICY

The origin of business policy can be traced back to 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability among business executives. This course was based on interactive case studies which had been in use at the school for instructional purposes since 1908. However, the introduction of business policy in the curriculum of business schools / management institutes came much later. In 1969, the American Assembly of Collegiate Schools of Business, a regulatory body for business schools, made the course of business policy, a mandatory requirement for the purpose of recognition of business schools/management institutes.

During the next few decades, business policy as a course spread to different management institutes across different nations and became an integral part of management curriculum.

According to William F Glueck, evolution of business policy arose from the developments in the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management, a term that is currently used to describe the process of strategy formulation, implementation and control.

Business policy, as defined by Christensen and others, is "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.

The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organizational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstance".

Business Policy tends to emphasise on the rational-analytical aspect of strategic management. It presents a framework for understanding strategic decision making in organisations. Such a framework enables a manager to make preparations for handling general management responsibilities effectively.

1.3 CONCEPT OF MANAGEMENT

To understand the concept of strategic management, we need to have a basic understanding of the term management. The term 'management' is used in two senses, such as:

(a) 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, materials, and technology 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. Management has to also facilitate organisational change and adaptation for effective interaction with the environment.

(b) 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.*** These functions include Planning, Organising, Directing, Staffing and Control. The functions or sub-processes of management are wide-ranging but closely interrelated. They range all the way from determination of the goals, design of the organisation, mobilisation and acquisition of resources, allocation of tasks and resources among the personnel and activity units and installation of control system to ensure that what is planned is achieved.

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. Influence is backed by power, competence, knowledge and resources. Managers formulate organisational goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes in the environment.

1.4 CONCEPT OF STRATEGY

A typical dictionary defines the word 'strategy' as something that has to do with war and ways to win over enemy. In the context of business, the application of this term is not much different. Businesses have to respond to dynamic and often hostile external forces while pursuing their mission and objectives.

Policy and Strategy are quite interrelated, but the interesting thing to study is how they differ. Where a policy is a thought process, it talks about what should be done in a particular situation, or what should be the reaction to a given circumstance, the strategy part of it explains the real actions. Strategy talks about how the policy would be followed.

For example, the policy of an organisation could be to not drop their prices to fight competition. The strategy could be to give more quantity for the same price, or give some other product as a freebie to attract customers without dropping their price.

The very injection 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 means of 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.

To the extent, the term strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position, its implications for corporate functioning are obvious.

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 and where it wants to go. Following are also important other definitions re 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.

Strategy is consciously considered and flexibly designed scheme of corporate intent and action to mobilise resources, to direct human effort and behaviour, to handle events and problems, to perceive and utilise opportunities, and to meet challenges and threats for corporate survival and success.

Strategy is meant to fill in the need of organizations for a sense of dynamic direction, focus and cohesiveness. Objectives and goals are essential to give a direction to business, but they do not fill in the need alone. Strategy provides an integrated framework for the top management to search for, evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crisis, to make full use of resources and strengths, and to offset corporate weaknesses.

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:

- *the corporate,*
- *divisional, and*
- *functional levels*

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, personnel development and like. This is discussed in detail in further separate topics.

Strategy is partly proactive and partly reactive: A company's strategy is typically a blend of:

♦ 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 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.

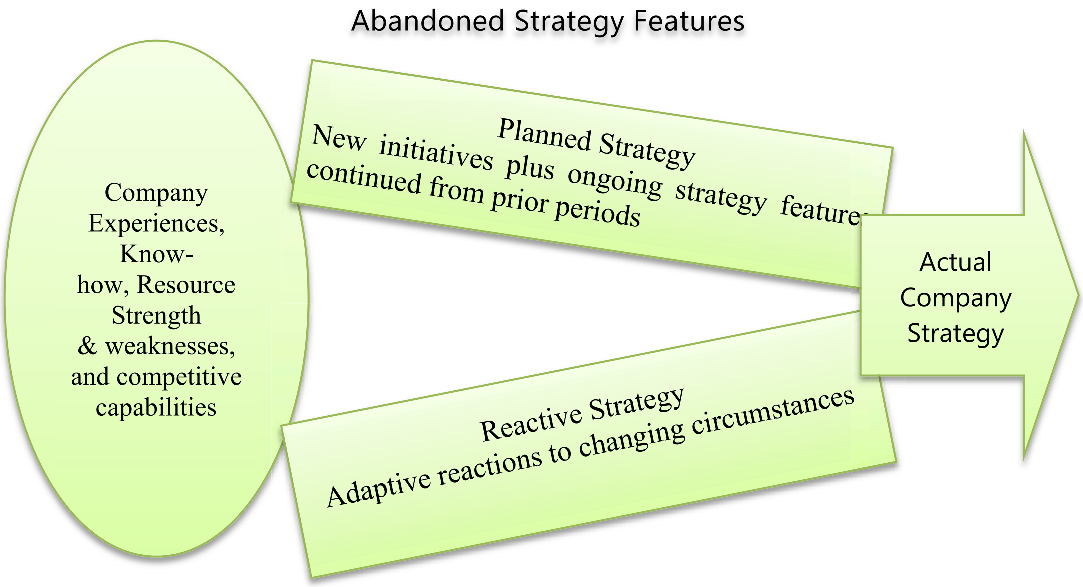


Figure: A company's actual strategy is partly planned & partly reactive

The biggest portion of a company's current strategy flows from previously initiated actions and business approaches that are working well enough to merit continuation, and newly launched managerial initiatives to strengthen the company's overall position and performance. This part of management's game plan is deliberate and proactive, standing as the product of management's analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer's patronage.

But not every strategic move is the result of proactive planning and deliberate management design. Things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required. Hence, a portion of a company's strategy is always developed as a reasoned response to unforeseen developments. But apart from adapting strategy to changes in the market, there is also a need to adapt strategy as new learnings emerge about which pieces of the strategy are working well and which aren't and as management hits upon new ideas for improving the strategy.

Crafting a strategy thus involves stitching together a proactive/intended strategy based on prior successful experience and then adapting pieces of successful reactions as circumstances surrounding the company's situation change or better options emerge - a reactive/adaptive strategy.

1.5 STRATEGIC MANAGEMENT

In a hyper competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So, to meet changing conditions in their industries, companies need to be farsighted and visionary, and must develop long-term strategies. Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth of the company. The overall objectives of strategic management are two fold:

- To create competitive advantage (something unique and valued by the customer), so that the company can outperform the competitors in order to have dominance over the market.
- To guide the company successfully through all changes in the environment. That is to react in the right manner.

The organizational operations are highly influenced by the increasing rate of change in the environment and the ripple effect created on the organization. Changes can be external to the firm or they may be introduced in the firm by the managers. It may manifest in the blurring of industry and firm boundaries, driven by technology, deregulation, or, through globalization. The tasks of crafting, implementing and executing company strategies are the heart and soul of managing a business enterprise.

To put the concept in a few words, t**he term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and finally initiating corrective adjustments where deemed appropriate. The process does not end, it keeps going on in a cyclic manner.**

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

Originally called, business policy, strategic management emphasises the monitoring and evaluation of external opportunities and threats in the light of a company's strengths and weaknesses and designing strategies for the survival and growth of the company.

1.5.1 Importance of Strategic Management

Formulation of strategies and their implementation have become essential for all organizations for their survival and growth in the present turbulent business environment. 'Survival of the fittest 'as propagated by Charles Darwin is the only principle of survival for all organizations, where 'fittest' are not the 'largest' or 'strongest' organizations but those who can change and adapt successfully to the changes in business environment.

Many business giants have followed the path of extinction failing 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.

Businesses follows the war principle of 'win or lose', and only in a small number of cases, win-win situation arises. Hence, each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following the process of strategic management - strategic analysis, formulation and implementation, evaluation and control of strategies.

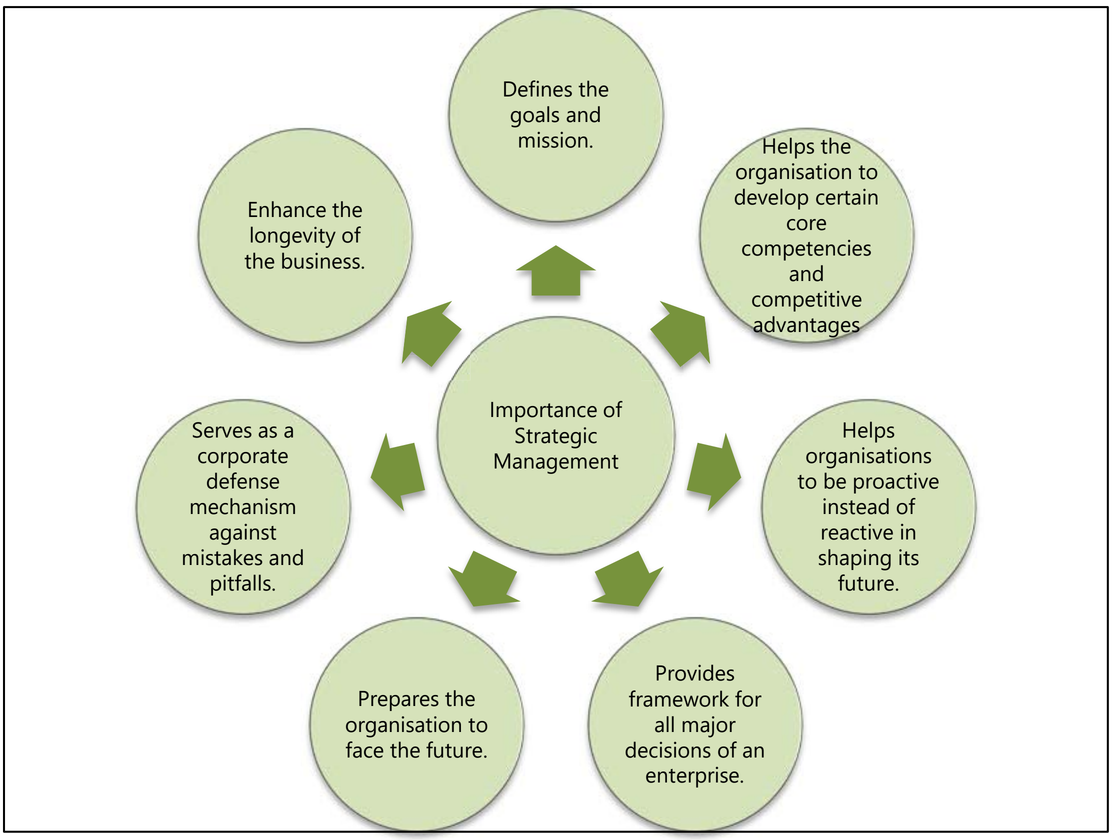
The major benefits of strategic management are:

♦ 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. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

♦ Strategic management provides framework for all major decisions of an enterprise 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. Organisations are able to identify the available opportunities and identify ways and means to reach them.
- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.
- Strategic management helps to enhance the longevity of the business. With the state of competition and dynamic environment it may be challenging for organisations to survive in the long run. It helps the organization to take a clear stand in the related industry and makes sure that it is not just surviving on luck. Actions over expectations is what Strategic Management ensures.
- Strategic management helps the organisation to develop certain core competencies and competitive advantages that would facilitate assist in its fight for survival and growth.



1.5.2 Limitations of Strategic Management

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations too, attached to strategic management. Let us discuss them briefly:

- 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. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors. Thus, relying on a business strategy blindly could go absolutely wrong if the environment is turbulent. **For example**, German Motor company bought a huge international car brand in recently to grow strategically and were quite confident of the synergy benefit they would get from the deal. However, the pandemic shut down almost all automotive businesses around the world. So, strategy cannot overcome a turbulent environment.

- Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business. Planning and strategising are important, but putting them in action is where the actual success lies. Similar to us students, planning and strategising what to study, from where and at what time of the day to study, consumes so much of our actual study time that by the time we have to study, we are almost exhausted. Similarly in business if way too much time is spent on planning and formulating, then it might not be as fruitful.

- Strategic management is a costly process. Strategic management adds a lot of 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. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete. Strategic Management requires experts and these experts are costly resources. Thus, the process as a whole required good amount of funds to be spent.

- 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. **For example**, it is quite difficult to gauge the strategic planning of competitors because most of these decision re taken within closed doors by the top management.

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Strategic management is a costly process. It add lot of expenses to an organization.

Competition is unpredictable. It is difficult to clearly estimate the competitive responses to a firm's strategies.

1.6 STRATEGIC LEVELS IN ORGANISATIONS

A typical large organization is a multi divisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these businesses. **For example**, Patanjali has healthcare, FMCG, Organic Foods, Medicinal Oils and Herbs, and various different businesses. It has separate divisions which work within themselves to sustain each of these businesses.

Generally, there are three main levels of management:

- Corporate level
- Business level
- Functional level

General managers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility.

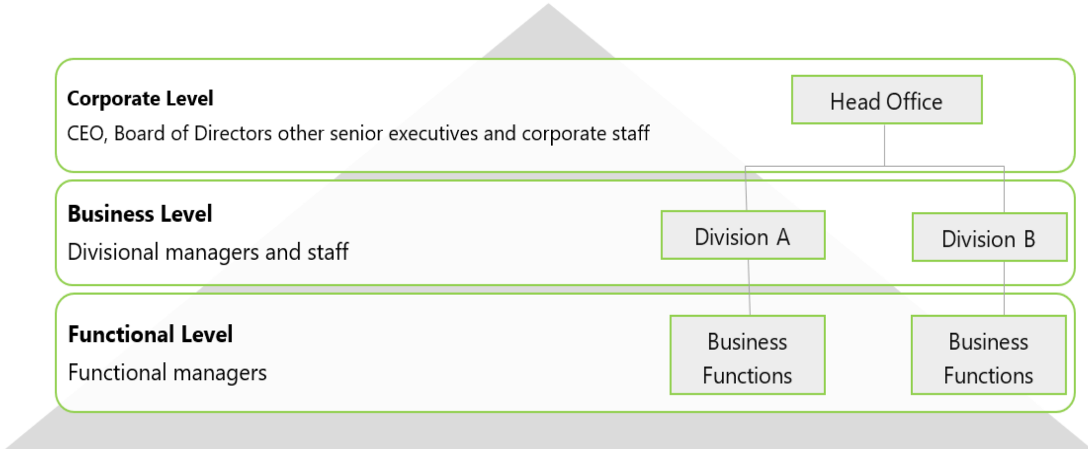


Figure: Levels of Strategic Management

An organization is divided into a number of segments that work together to bring a particular product or service to the market. If a company provides several and/or different kinds of products or services, it often duplicates these functions and creates a series of self-contained divisions (each of which contain its own set of functions) to manage each different product or service. The general managers of these divisions then become responsible for their particular product line. The overriding concern of the divisional managers is healthy growth of their divisions. They are responsible for deciding how to create a competitive advantage and achieve higher profitability with the resources and capital they have at their disposal. Such divisions are called **Strategic Business Units (SBUs)**.

Think#1 	Mr. Laxman is the general manager at one of the biggest FMCG companies which has very famous brands under its umbrella. Mr. Laxman is the general manager of the toothpaste brand, which is the most sold product of the company. He is responsible for the success and profitability of this toothpaste Brand of the company and has a team of 150 people working under him in various departments like Marketing, Engineering, Designing, Finance, Sales, and Scientists. He is managing the entire toothpaste business. Now this Toothpaste Business is a STRATEGIC BUSINESS UNIT (SBU) of the company, and Mr. Laxman with his team is responsible for this business.

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. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization as a whole.

For example, Godrej is active in a wide range of businesses, including soaps, insecticides, edible oil, furniture, Information Technology, and real estate. The main strategic responsibilities of its Group Chairman, Adi Godrej, are setting overall strategic objectives, allocating resources among the different business areas, deciding whether the firm should divest itself of any of its businesses, and determining whether it should acquire any new ones. In other words, it is up to Adi Godrej and other senior executives to develop strategies that span individual businesses and building and managing 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.***

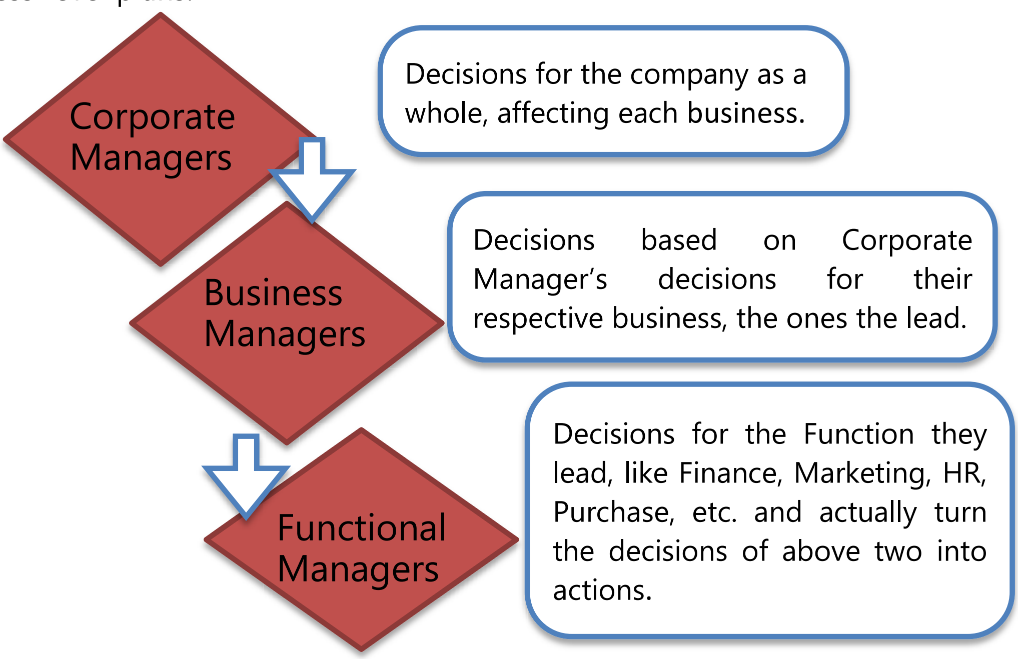
In simple words, corporate level managers provide an organisation level view of strategy and what they want to achieve, but it is on the business level managers to ensure that or their particular business, the one they are responsible for.

Besides overseeing resource allocation and managing the divestment and acquisition processes, corporate-level managers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders). Corporate-level managers, and particularly the CEO, can be viewed as the guardians of shareholders' welfare. It is their responsibility to ensure that the corporate and business strategies of the company are consistent with maximizing shareholders' wealth. If they are not, then ultimately the CEO is likely to be held accountable by the shareholders.

As we now know, a strategic business unit is a self-contained division (with its own functions-**for example**, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market. The principal general manager at the business level, or the business-level manager, is the head of the division. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. 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.

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, whereas general managers oversee the operation of a whole company or division. Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfill the strategic objectives set by business- and corporate-level general managers.

Functional managers provide most of the information that makes it possible for business- and corporate-level general managers to formulate realistic and attainable strategies. Indeed, because they are closer to the customer than the typical general manager is, functional managers themselves may generate important ideas that subsequently may become major strategies for the company. Thus, it is important for general managers to listen closely to the ideas of their functional managers. An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate ¬and business-level plans.



1.7 STRATEGIC MANAGEMENT IN GOVERNMENT AND NOT-FOR-PROFIT ORGANISATIONS

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. Their genesis may be for social, charitable, or educational purposes. Examples of non-commercial organizations can be The Institute of Chartered Accountants of India, municipal corporations, non-governmental organizations such as Help-Age or Child Relief and You. Their main aim is to provide services to members, beneficiaries or public at large. A non-commercial organization comes to existence to meet the needs not met by business enterprises. These organizations may not have owners in true sense.

The strategic management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovation, motivation, productivity, and human relations.

Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. They thus face a challenge in getting the right amount of funds to keep functioning because the profits are not the motive. Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for financial support.

- **Educational institutions:** Educational institutions are using strategic-management techniques and concepts more frequently. Richard Cyert, president of Carnegie-Mellon University, says, "I believe we do a far better job of Strategic management than any company I know ". The significant change in the competitive climate has taken place in the educational environment. Hence, they are adopting different strategies for attracting best students.

  The academic institutions have also joined hands with industries in order to deliver education to make graduates more employable. The educational delivery system has also undergone considerable changes with the introduction of computers and internet technologies. The first all-Internet law school, Concord University School of Law, boasts nearly two hundred students who can access lectures anytime and chat at fixed times with professors. Online college degrees are becoming common and represent a threat to traditional Colleges and universities. Thus, finding the right strategy to sustain the changes is what these educational institutes are working on.

- **Medical organizations:** Modern hospitals are creating new strategies today as advances in the diagnosis and treatment of chronic diseases are undercutting that earlier mission. Hospitals are beginning to bring services to the patient as much as bringing the patient to the hospital. Pathological laboratories have started collecting door-to-door samples. Chronic care will require day-treatment facilities, electronic monitoring at home, user-friendly ambulatory services, decentralized service networks, and laboratory testing.

  A successful hospital strategy for the future will require renewed and deepened collaboration with physicians, who are central to hospitals' well being and a reallocation of resources from acute to chronic care in home and community settings.

  Backward integration strategies that some hospitals are pursuing include acquiring ambulance services, waste disposal services, and diagnostic services. Millions of persons research medical ailments online, which is causing a dramatic shift in the balance of power between doctor, patient, and hospitals.

  The whole strategic landscape of healthcare is changing because of the Internet. For reference on how big an impact of technology on healthcare is, Intel recently began offering a new secure medical service whereby doctors and patients can conduct sensitive business on the Internet, such as sharing results of medical tests and prescribing medicine. The ten most successful hospital strategies today are providing free-standing outpatient surgery centres, outpatient surgery and diagnostic centres, physical rehabilitation centres, home health services, cardiac rehabilitation centres, preferred provider services, industrial medicine services, women's medicine services, skilled nursing units, and psychiatric services.

- **Governmental agencies and departments:** Central, state, municipal agencies, Public Sector Units, departments are responsible for formulating, implementing, and evaluating strategies that use taxpayers' money in the most cost-effective way to provide services and programs. Strategic-management concepts are increasingly being used to enable some organizations to be more effective and efficient.

  But strategists in governmental organizations operate with less strategic autonomy than their counterparts in private firms. Public enterprises generally cannot diversify into unrelated businesses or merge with other firms. Governmental strategists usually enjoy little freedom in altering the organizations' missions or redirecting objectives. Legislators and politicians often have direct or indirect control over major decisions and resources. Strategic issues get discussed and debated in the media and legislatures. Issues become politicized, resulting in fewer strategic choice alternatives.

But in government agencies and departments are finding that their employees get excited about the opportunity to participate in the strategic-management process and thereby have an effect on the organization's mission, objectives, strategies, and policies. In addition, government agencies are using a strategic management approach to develop and substantiate formal requests for additional funding.

SUMMARY

With the increased competition, the management of business organisations has acquired strategic dimensions. This chapter began with the elaboration of the concepts of business policy and business strategy. A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customer, compete successfully and achieve organizational objectives. This chapter elucidated business policy as a discipline and its transformation to strategic management. It presented a framework for understanding strategic decision making.

The three strategic levels in an organization were discussed; Corporate Level, Business Level and Operational/Functional Level. We further discussed how these managers formulate and implement strategies at their respective levels.

Towards the end, strategic management in Government and not-for-profit organizations are also discussed.

TEST YOUR KNOWLEDGE

Scenario Based Questions

Question 1

Health Wellnow is a Delhi based charitable organisation promoting healthy lifestyle amongst the office-goers. It organises free of cost programmes to encourage and guide office-goers on matters related to stress relief, yoga, exercises, healthy diet, weight management, work-life balance and so on. Many business organisations and resident welfare associations are taking services of Health Wellnow in Delhi and adjoining areas and make financial contributions to its cause. The Health Wellnow is able to generate sufficient funds to meet its routine expenses.

How far strategic management is relevant for Health Wellnow? Discuss.

Answer

The concepts of strategic management are relevant for Health Wellnow.

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. Health Wellnow falls in the category of a non-commercial organisation. While non-commercial organisations may have objectives that are different from the commercial organisations, they need to employ the strategic management tools to efficiently use their resources, generate sufficient surpluses to meet daily expenses and achieve their objectives. In fact, many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human relations.

The strategic management in Health Wellnow needs to cover aspects such as:

(i) Generate sufficient funds for meeting its objectives.

(ii) Efficiently reach office-goers and help them to have health in life.

(iii) Promote itself to cover more offices, resident welfare associations.

(iv) Have a deep collaboration with health experts, including dieticians, psychologist, fitness trainers, yoga experts.

Question 2

Do Good Group' is a not-for-profit organization based in northern India working towards childcare. The group educates people towards immunization, sanitation and works in coordination with local hospitals or medical centers. Recently, a new team has taken over the management of its activities. Explain whether tools of strategic Management are relevant for the group.

Answer

The tools of strategic management process are effectively being used by a number of not-for-profit or charitable organizations. While 'Do Good Group' may have social and charitable existence, still it has to generate resources and use them wisely to achieve organisational objectives. Organisation needs to be managed strategically, irrespective whether they have profit motive. The strategic Management at 'Do Good Group' should essentially cover:

- Analyzing and interpreting the strategic intent in terms of vision, mission and objectives.
- Generating required resources in terms of finance and manpower (volunteers, paid employees).
- Undertaking SWOT analysis from time to time.
- Setting goals in the area of childcare. It can be in terms of geographical coverage and number of children.
- Analyzing the desired future position with the past and present situation.

Question 3

Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former.

Discuss the strategic approach of the two companies. Which is superior?

Answer

Yummy foods is proactive in its approach. On the other hand Tasty Food is reactive. Proactive strategy is planned strategy whereas reactive strategy is adaptive reaction to changing circumstances. A company's strategy is typically a blend of proactive actions on the part of managers to improve the company's market position and financial performance and reactions to unanticipated developments and fresh market conditions.

If organisational resources permit, it is better to be proactive rather than reactive. Being proactive in aspects such as introducing new products will give you advantage in the mind of customers.

At the same time, crafting a strategy involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge-a reactive/adaptive strategy. This aspect can be accomplished by Yummy Foods.

Question 4

Helpbuddy is a not-for-profit organisation providing medical facilities to poor and needy at highly affordable costs. The organisation is dependent on Government grants and donations to manage its affairs. Mayank who is running the organisation, believes in taking things as they come and will change the level of activities based on the funds available.

Do you think Mayank is right in taking things as they come? What will you advise him?

Answer

It is not advisable for any organisation to take things as they come. Organisations whether commercial or non-commercial need proper planning. In fact, the strategic management process is being used effectively by countless non-profit governmental organisations. Many non-profit and governmental organisations outperform private firms and corporations on innovativeness, motivation, productivity, and human relations.

Compared to for-profit firms, non-profit and governmental organisations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. Especially for these organisations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

Mayank needs to understand the importance of strategic management in his organisation. His organisation is also depended on funds from government and donations. On one side, he needs to maintain steady inflow of funds and on the other side he needs to ensure proper utilisation of funds.

He can plan to use funds in a manner to maintain similar level of continuous services. With proper planning, resources can be better utilised, more funds can be generated and the quality of services maintained.

Question 5

Ramesh Sharma has fifteen stores selling consumer durables in Delhi Region. Four of these stores were opened in last three years. He believes in managing strategically and enjoyed significant sales of refrigerator, televisions, washing machines, air conditioners and like till four years back. With shift to the purchases to online stores, the sales of his stores came down to about seventy per cent in last four years.

Analyse the position of Ramesh Sharma in light of limitations of strategic management.

Answer

Ramesh Sharma is facing declining sales on account of large scale shift of customers to online stores. While he is using the tools of strategic management, they cannot counter all hindrances and always achieve success. There are limitations attached to strategic management as follows:

- Environment under which strategies are made is highly complex and turbulent. Entry of online stores, a new kind of competitor brought a different dimension to selling consumer durables. Online stores with their size power could control the market and offer stiff competition to traditional stores.
- Another limitation of strategic management is that it is difficult to predict how things will shape-up in future. Ramesh Sharma, although managing strategically failed to see how online stores will impact the sales.
- Although, strategic management is a time-consuming process, he should continue to manage strategically. The challenging times require more efforts on his part.
- Strategic management is costly. Ramesh Sharma may consider engaging experts to find out preferences of the customers and attune his strategies to better serve them in a customized manner. Such customized offerings may be difficult to match by the online stores.
- The stores owned by Ramesh Sharma are much smaller than online stores. It is very difficult for him to visualize how online stores will be moving strategically.

Question 6

Kamal Sweets Corner, a very popular sweets shop in Ranchi, was facing tough competition from branded stores of packaged sweets and imported goods. The owners realised that their business reduced by 50% in the last six months, and this created a stressful business environment for them. To find a solution, they consulted a business consultant in practice to help them develop a strategy to fight competition and sustain their century old family business. The business consultant advised them to innovate a new snack for the public and market it as a traditional snack of the region. The owners liked the idea and developed a new snack called Dahi Samosa, which very quickly became popular amongst the public and it helped regain the lost business of Kamal Sweets Corner.

One of the very crucial importance of strategic management was used by the business consultant to help the owners of Kamal Sweets Corner. Which one could it be? Also, was this strategy Reactive or Proactive? According to you which is more beneficial in general parlance?

Answer

The strategy used here was of developing a competitive advantage via product which helped Kamal Sweets Corner regain their lost business. This is also one the of major importance cum advantage of Strategic Management, that is helps to develop core competencies and competitive advantages to overcome competition.

This strategy was a Reactive Strategy. Wherein, the owners saw their business fall to 50% of revenue and then seeking a strategic advisory. They did not plan proactively as to when the new shops were already opening. They reacted only when the business started to lose up.

Generally, it is always beneficial to develop strategies proactively, so that the dip in businesses is small and manageable, and even if they are huge, the management has ample time to fix it.

Question 7

Dharam Singh, the procurement department head of Cyclix, a mountain biking equipment company, was recently promoted to look after sales department along with procurement department. His seniors at the corporate level have always liked his way of leadership and are assures that he would ensure the implementation of policies and strategies to the best of his capacity, but have never involved him in decision making for the company.

Do you think this is the right approach? Validate your answer with logical reasoning around management levels and decision making.

Answer

Functional managers provide most of the information that makes it possible for business and corporate level managers to formulate realistic and attainable strategies.

This is so because functional managers like Dharam Singh are closer to the customer than the typical general manager is. A functional manager may generate important ideas that subsequently may become major strategies for the company. Thus, it is important for general managers to listen closely to the ideas of their functional managers and invoice them in decision making.

An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business level plans, and if they are involved in formulation, the clarity of thoughts while implementation can benefit too.

Thus, the approach of Cylcix Corporate management is not right. They should involve Dharam Singh, as well as other functional managers too in strategic management.

Descriptive Questions

Question 8

What is Strategic Management? What benefits accrue by following a strategic approach to managing?

Answer

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

The overall objective of strategic management is two fold:

- To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.
- To guide the company successfully through all changes in the environment.

The following are the benefits of strategic approach to managing:

- Strategic management helps organisations to be more 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. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.
- Strategic management provides framework for all the major decisions of an enterprise 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 do.
- Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It help organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

Question 9

Are there any limitations attached to strategic management in organizations? Discuss.

Answer

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines:

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

- Strategic management is a costly process. Strategic management adds a lot of 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. These can be really costly for organisations with limited resources.
- 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.

Question 10

Explain the difference between three levels of strategy formulation.

Answer

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. There are three levels of strategy in management of business - corporate, business, and functional.

The corporate level of management consists of the chief executive officer and other top level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a self-contained division with its own functions - **for example**, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

Question 11

"Strategy is partly proactive and partly reactive." Discuss.

Answer

Strategy is partly proactive and partly reactive. In proactive strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

There can be significant deviations between what was visualized and what actually happens. Strategies need to be attuned or modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

Question 12

How concept of strategic management is useful in Government and medical organizations? Discuss.

Answer

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. Typically, a government or medical organization may function without any commercial objectives. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. Their genesis may be for social, charitable, or educational purposes.

The strategic-management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human resource.

Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

Question 13

The presence of strategic management cannot counter all hindrances and always achieve success for an organisation. What are the limitations attached to strategic management?

Answer

The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

- 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. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.
- Strategic Management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- Strategic Management is a costly process. Strategic management adds a lot of 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. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.
- In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.