

Strategic Management

Unit : II

Company Direction

Company Direction

A **vision statement** should **answer** the basic question, “**What do we want to become?**”

A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organizational identity.

A **strategic vision** is a **roadmap** showing the route a company intends to take in developing and strengthening its business. It paints a picture of a **company's destination** and provides a **rationale for going there**.

*The **vision statement** should be short, preferably one sentence, and as many managers as possible should have input into developing the statement*

Our Business Vision

- **In 10 years our business will be:**
- **We will be recognized by our ability to:**
- **We are pursuing these activities because:**



Our Business Vision

A vision is a mental picture of a preferred future state, a description of:

- what the firm will be some years from now. **It is more than a dream or set of hopes; it is a commitment.**
- The vision provides the context for designing and managing the changes that will be necessary to reach goals.
- It provides **guiding direction** for developing strategy, searching out key opportunities, and making resource allocation decisions.
- Visions are **rooted in reality** but **focused** on the **future.**

Communicating the Strategic Vision

- As a leader, it is the role to map out a vision for others to follow, whether that be for your organization, department or team.

Using visuals: The old saying of "a picture tells a thousand words" is so true. Use the visual to illustrate **where we are now** and **where we need to be** so that our team can build up a clear picture.

Explain the benefits: Why we are following this route of action ?

Have supporting documentation : Either a brochure or document that explains things fully.

Put a support structure in place

Where people can have their questions / concerns answered.

Vision Statements of your dream organization

1. Sayal (Vision Statement: Export based Mushroom industry in 5 years)
Mission Statement:

1. Rachin

Vision: (Reviving at least one industry in 5 years and make it into efficient operations thereby supporting self-sufficient)

Mission:

1. Manish

Vision: (Application of AI in Ag.-Monitoring, climate observation, pesticides use---- in 5 years)

Mission:

Mission

Mission statement

- a declaration of an organization's “**reason for being.**”
- answers the pivotal question “**What is our business?**”
- reveals what an organization **wants to be** and **whom it wants to serve**
- Also called a **creed**, a statement of purpose, a statement of philosophy, a statement of beliefs, and a statement of business principles

Mission Statement Components

1. Customers—Who are the firm's customers?
2. Products or services—What are the firm's major products
3. Markets—Geographically, where does the firm compete?
4. Technology—Is the firm technologically current? Concern for survival, growth, and profitability—Is the firm committed to growth and financial soundness?
5. Philosophy—What are the basic beliefs, values, aspirations, and ethical priorities of the firm?
6. Self-concept—What is the firm's distinctive competence or major competitive advantage?
7. Concern for public image—Is the firm responsive to social, community, and environmental concerns?
8. Concern for employees—Are employees a valuable asset of the firm?

Vision / Mission

- The distinction between a strategic vision and a mission statement is fairly clear-cut.
- A strategic vision portrays a company's future business scope (**“where we are going”**) whereas a company's mission typically describes its present business scope and purpose (**“what we do, why we are here, and where we are now”**).

Setting Performance Objective

- Establishing objectives that are clear, meaningful, and relevant to the employee—and are seen as important to the organization's success—
- It is a central responsibility, as well as a challenge, for today's managers.
- A manager could set objectives at the beginning of the year, manage people to meet those objectives during the year, and then evaluate their progress at the end of the year.
- Employees who are clear about the objectives they are accountable for and who feel their work has purpose and value demonstrate increased commitment and energy, and are motivated to go the extra mile to help the organization succeed.

Strategic Objectives Vs Financial Objectives

Any objective that is market based is strategic objective.

Any objective that can be derived from financial statements is financial objective.

Strategic Objectives Vs Financial Objectives

Strategic ... Are broader objectives intrinsically tied to financial objectives, but to other objectives as well, such as product/service **sales expansion** and **diversification**, **market share attainment** among competitors, regional and demographic placements, and so on. Simply put, financial planning objectives would be part and parcel of Strategic objectives; but not vice verse.

Strategic objectives are objectives that set out what the business are trying to **achieve**. They can be set at:

Corporate/Business level: These objectives are ones that include the business as a whole. For example, 'Our Company's top line goal is to increase our annual income by 15% for every year.'

Functional level: These objectives are set out to **improve** on an area of assigned responsibilities of the chosen division of the business. Additionally the objectives are usually set after the corporate objectives have been set.

Strategic Objectives Vs Financial Objectives

Financial objectives

- are the business' **financial future plans** and needs.
- to set these goals the business will need to do corporate financial planning. This is when the business decides what the company needs to do with their finance under economic circumstances.
- The main financial objective of any company will be to **make an income**, but apart from this the objectives will set out **how much the company will need to earn** and **how much to spend**.

Strategic Objectives

1. Increasing corporate growth by 5% each year.
2. Addition of new SBU (Strategic Business Unit) in each year.
3. One Unit be fully automated in each year.
4. The growth of market share be increased by 5% each year.
5. At least one product will be branded in each year.
6. At least two new products will be launched in each year.
7. Increasing production capacity by 5% each year.
8. Addition of service role "at least in a product " in each year.

Financial Objectives

1. Maintaining Optimal Capital Structure in which WACC would limit to maximum 10% each year.
2. Increasing profit (i.e. profit maximization) by at least 15% each year.
3. Reducing Inventory Turnover by 5% in this year.
4. Reducing DSO (Days Sales Outstanding or ARP) by 30 days in this year.
5. Using Short Term Loan, OD Loan to the limit of Rs. 10 Crore in this year so as to maintain strong liquidity.
6. Fixing EOQ in this year and accordingly, logistics activities be arranged.

How to answer in the exam ...

Strategic Objectives	Financial Objectives
1. Broad in nature	1. Limited to finance
2. Market based	2. Finance based i.e. money related
3. Normally long range based (1 year, 5 years, 10 years and son on)	3. Both short and run... but normally, short ranges are entertained in practice
4. Vision focused	4. Focused to strategic objectives
5. Eg. (Sayal) a. Increase market share by 10% this year b. Increase production capacity by 50% this year c. Marketing through Social media this year d. Use of modern equipment to regulate temperature and humidity in two years e. Diversify the business creating value added products	5. Eg.: (Sayal) a. ROI 40% to 100% in six months b. Increase profit from 20% to 30% each year c. Reduce DSO by 7 days each year d. Use Govt. subsidized loan this year e.

How to answer in the exam ...

Strategic Objectives	Financial Objectives
1. Broad in nature	1. Limited to finance
2. Market based	2. Finance based i.e. money related
3. Normally long range based (1 year, 5 years, 10 years and son on)	3. Both short and run... but normally, short ranges are entertained in practice
4. Vision focused	4. Focused to strategic objectives
5. Eg. (Manisha Dhakal) <ul style="list-style-type: none"> a. Growth of market share be increased by 4% each year. b. At least 3 products be branded in each year c. Production capacity be increased by 10% in first 3 year and then my 5% thereafter d. Eastern, western belt market ... extended e. International market potentiality ... study .. This year. f. European market ... entry strategy... in 5 years 	5. Eg.: (Manisha Dhakal) <ul style="list-style-type: none"> a. Reduce DSO by 15 days this year b. Reducing ITR by 4% this year c. Increase profit by 10% each year. d. Share capital shall be increased by Rs. 10 Lakh this year e. Loan financing shall be entertained to the tune of 30% of share capital this year f. Based on capital budgeting analysis, new project shall be financed by subsidized loan to tune of 70% of the project.

Strategic Intent(intention, target, plan, goal, purpose)

- "Strategic intent is defined as a compelling statement about **where an organization is going** (emotional and intellectual energy for the journey to the future) that succinctly (briefly) conveys a sense of what the organization wants to achieve long-term."

Characteristics:

- Strategic intent captures the essence of winning,
- It is stable over time, and
- It sets a target that deserves personal effort and commitment.
- Strategic intent goes **beyond simply copying what competitors are doing.**

Strategic Intent

SI has 3 components:

- **Sense of Direction.** A particular point of view about the long-term market or competitive position that a firm hopes to build over the coming decade or so.
- **Sense of Discovery.** An SI holds out to employees the promise of exploring new competitive territory.
- **Sense of Destiny.** An SI has an emotional side; it is a goal that employees perceive as inherently valuable.

Short-Term Objectives

- Short-term objectives are measurable outcomes achievable in one year or less
- Short-term objectives assist strategy implementation by identifying measurable outcomes of action plans or functional activities, which can be used to make feedback, correction, and evaluation more relevant and acceptable
- Short-term objectives provide much more specific guidance for what is to be done, a clear delineation of future actions needed, which help translate vision into action.

Short-term objectives help **implement strategy**

Long-Term Objectives

- *Long-term objectives represent the results expected from pursuing certain strategies. Strategies represent the actions to be taken to accomplish long-term objectives.*
- Objectives are commonly stated in terms such as **growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility.**
- Clearly established objectives offer direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion (application), and aid in both the allocation of resources and the design of jobs

Policies

- *Policy refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation.*
- **Policies set boundaries, constraints, and limits** on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization's objectives.
- Policies let both employees and managers know what is expected of them, thereby increasing the likelihood that strategies will be implemented successfully
 - **Wal-Mart has a policy that it calls the “10 Foot” Rule, whereby customers can find assistance within 10 feet of anywhere in the store.**

Strategic Making Pyramid



Strategic Making Pyramid

It follows that a company's overall strategy is really a collection of strategic initiatives and actions devised by managers and key employees up and down of the whole organizational hierarchy.

The larger and more diverse the operation of an enterprise, the more points of strategic initiative it has and the more managers and employees at more levels of management that have a relevant strategy-making role.



Uniting the Strategy-Making Effort

Ideally, the pieces and layers of a company's strategy should fit together like a jigsaw puzzle. Anything less than a unified collection of strategies weakens company performance.

CORE CONCEPT: A company's strategy is at full power when its many pieces are united.

Achieving unity in strategy making is partly a function of communicating the company's basic strategy theme effectively across the whole organization and establishing clear strategic principles and guidelines for lower-level strategy making.

Assignment

1. What does a manager mean by establishing company direction? Why do we need to set performance standard? Explain.
2. Explain the levels of strategy and its uses.
3. Differentiate between strategic and financial objective with examples.