Indira Gandhi National Open University
School of Management Studies

MCO-23
Strategic Management

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Indira Gandhi
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School of Management Studies

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Disclaimer: The course MCO-23: Strategic Management which is a part of M.Com 1st year is adapted from Programme MBA (MMPC-012: Strategic Management). The profile of the initial Course writer is mentioned and same is acknowledged. Some relevant portions of the material have been extracted from the old course MS-11: Strategic Management.

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July, 2022

ISBN:

Further information on the Indira Gandhi National Open University courses may be obtained from the University's office at Maidan Garhi, New Delhi-110 068.

Printed and published on behalf of the Indira Gandhi National Open University, New Delhi, by the Registrar, MPDD, IGNOU.

Laser typeset by Tessa Media & Computers, C-206, A.F.E-II, Jamia Nagar, New Delhi

MCO-23: STRATEGIC MANAGEMENT

When we talk about the functions of management, we find that strategy is one of the most significant areas of decision-making in any organization. All the management functions, therefore, depend on strategic management. In short it can be said that strategic management is an art as well as a science of formulating, implementing and evaluating the decisions so as to enable the organization to achieve its goals. Strategic Management comprises of three broad activities, namely: strategic analysis, strategic formulation and strategic implementation. All the three are interrelated. Strategic analysis is the foundation for formulating strategies and basically comprises of the study of business environment as a whole. There are forces of different kinds and complexities, which influence organizations and their business. The basic aim of strategic management is that a manager must adjust strategies to reflect the environment in which the business operates. Once a particular strategy is formulated, the implementation part comes into existence. Implementation includes all those actions which are necessary to put the strategy into practice. This is why implementation is said to be more important than the formulation. After the strategy is brought into practice, it needs to be controlled and evaluated to assess its efficacy for the organization. This course focuses on all these aspects.

The course is divided into four blocks and has 13 units in all. The course outline is given below.

The learning objectives of this course are to understand the:

- Meaning and concept of Strategic Management;
- Strategic Management Process;
- Need for strategy in the global context;
- Internal and external environmental analysis;
- Role of competitive analysis in formulation competitive strategies;
- Various levels of strategies and their importance;
- Implementation, control and evaluation of formulated strategy;
- Concept of corporate governance.

BLOCK 1

INTRODUCTION TO STRATEGIC MANAGEMENT

BLOCK 1 INTRODUCTION TO STRATEGIC MANAGEMENT

This block consists of three units and each unit gives a brief understanding of the concepts of strategic management.

Unit 1: Concept of Strategy gives the meaning, nature and essence of strategy and the relationship of strategy with the policies, programmes and rules of the organization. Further, the different levels of strategy are discussed and the importance of strategy in the corporate world is discussed.

Unit 2: Strategic Framework discusses in detail the different aspects of strategic intent, which includes vision, mission, business, and objectives. In this unit we get an understanding of the core values and core purpose and their importance. As we move further, we find that concepts of strategy formulation, implementation and evaluation are discussed. In all, this unit gives a brief understanding of the process of strategic management.

Unit 3: Strategy in Global context discusses the strategic perspective in the global context. This unit gives a bird's eye view of the concepts related to global Strategic Management.

Overall this block introduces the concept of strategic management and the process of strategic management.

UNIT 1 CONCEPT OF STRATEGY

Objectives

After reading this unit you should be able to:

- Define strategy and understand its meaning;
- Explain the relationship of strategy with that of policy and tactics;
- Differentiate between different levels of strategy;
- Know the importance of strategy.

Structure

1.1 INTRODUCTION

The top management of an organization is concerned with selection of a course of action from among different alternatives to meet the organizational objectives. The process by which objectives are formulated and achieved is known as strategic management and strategy acts as the means to achieve the objectives. Strategy is the grand design or an overall 'plan' which an organization chooses in order to move or react towards the set objectives by using its resources. An organization is considered efficient and operationally effective if it is characterized by coordination between objectives and strategies. Strategy helps the organization to meet its uncertain situations with due diligence and without an effective strategy, the organization is like a ship without a rudder. There are different concepts which actually describe strategy. There is no one definition of strategy as it changes with the needs and requirements of the organization. In this unit we will learn different aspects of strategy.

1.2 MEANING OF STRATEGY

The strategy is defined as a plan deployed at each level of management for the attainment of objective and realization of long-term goals of the organization. It is a set of coherent actions which are performed in order to gain a sustainable competitive advantage. The term strategy was primarily used in military and was later adapted to the field of business and management. It was derived from a Greek word 'Strategos', where 'Stratos' means army and 'agos' implies to lead.

In management, the concept of strategy is taken in broader terms. Strategies are used to acquire a competitive advantage over others in any field. There can be general or specific strategies depending upon the situation. Organization deploys strategies for several purposes such as for satisfying customers, surviving in the market, expanding the business, improving market share, increasing profitability and ultimately to attain objectives of the organization. According to **Glueck, "Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the organization to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through proper implementation process."**

It lays stress on the following:

- Unified comprehensive and integrated plan;
- challenges of environment;
- proper implementation for achieving basic objectives.

Strategies are used as a response to the change in environment. They are adopted in accordance with the strength and weakness of the organization. The main aim of framing strategies is to seek out the opportunities favoured by the external environment and mitigate the threats simultaneously. The organization can adopt strategies to achieve the desired position in the industry. There are number of definitions given by different experts at different point of time. One such definition relates strategy to its environment. It says "Strategy is organization's pattern of response to its environment over a period of time to achieve its goals and mission."

This definition lays stress on the following:

- Organization's pattern of response to its environment;
- Achieving goals and mission.

However, various experts do not agree about the precise scope of strategy. Lack of consensus has led to two broad categories of definitions: strategy as action inclusive of objective setting and strategy as action exclusive of objective setting.

Strategy as Action Inclusive of Objective Setting

In 1960s, Chandler made an attempt to define strategy as "the determination of basic long term goals and objective of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals."

This definition provides for three types of actions involved in strategy:

- Determination of long term goals/objectives;
- Adoption of course of action;
- Allocation of resources.

Strategy as Action Exclusive of Objective Setting

This is another view in which strategy has been defined in a way in which the organization, reacting to its environment, deploys its principal resources and siphons its efforts in pursuit of its purpose. Michael Porter has defined strategy as "Creation of a unique and valued position involving a different set of activities. The organization that is strategically positioned performs different activities from rivals or performs similar activities in different ways."

The people who believe this version of the definition call strategy a unified, comprehensive and integrated plan relating to the strategic advantage of the organization to the challenges of the environment.

After considering both the views, strategy can simply be put as management's plan for achieving its objectives. It basically includes determination and evaluation of alternative paths to an already established mission or objective and eventually, choice of best alternative to be adopted.

1.3 FEATURES OF STRATEGY

As we now know that strategy is an integral part of any managerial activity. At this point of time we need to know the basics of strategy before we move further. To explain strategy we usually say that it is a plan of action. This explanation tries to tell about the future course of action of strategy. This involves different parameters which actually defines the strategy. Mintzberg (2005) has given 5 Ps for strategy which integrates the past, present and the future course of action. These 5Ps are:

1. Pattern
2. Plan
3. Position
4. Perspective
5. Ploy

1. **Pattern**: When we say that strategy is a **pattern**, we meant to say that the organization has been consistent in following a particular course of action e.g. an organization which markets responsive products usually follows a high-end-strategy and this pattern is repetitive in nature. Pattern shows the past behaviours. This becomes the **realized strategy**.

2. **Plan:** When we see strategy as a **plan**, it means preparing for future or looking ahead. This becomes an **intended strategy**. Usually the organizations witness quite a contrast between the intended strategy and the realized strategy.

   Here, if the intended strategy becomes a realized strategy then it becomes a **deliberate strategy** otherwise it is termed as unrealized strategy. In certain cases strategy becomes an emergent strategy where the plans are followed but in steps. For e.g.an organization plans to diversify but it does not take the decision of diversification at one go instead it moves towards diversification in a step-wise manner.

3. **Position:** In certain cases, especially in the niche markets, strategy is a **position**. For e.g. fast food chain wants to locate particular products in specific markets. Michael porter has discussed the concept of positioning there by increasing the value of organization quite categorically.

4. **Perspective:** Strategy is a **perspective** which means that strategy looks at the vision of the organization. In position it looks at the external environment whereas in perspective it looks at the internal environment.

5. **Ploy:** This is another way of looking at strategy. Ploy is the tactic used by the organization to outwit its competitors. These five P's of strategy explain the concept of strategy under different situations. Therefore strategy:

   - Sets direction;
   - focuses effort
   - defines the organization
   - provides consistency.

The different features of strategy are depicted in figure 1.1.

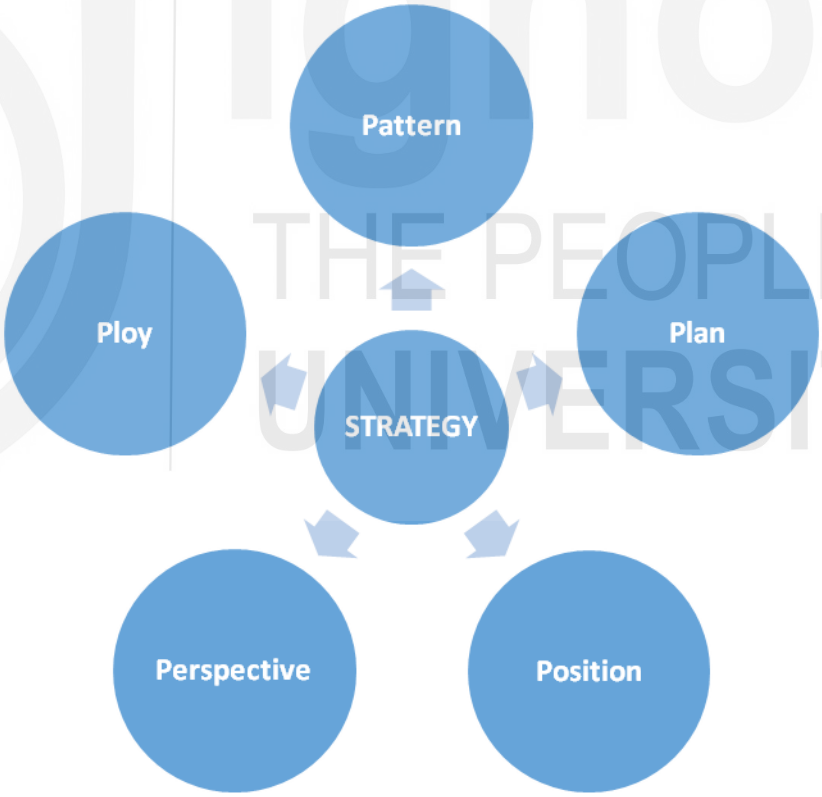

Figure 1.1: Features of Strategy

NATURE OF STRATEGY

We learnt how strategy can be perceived in different ways. The various views summarize the nature of strategy which is as follows:

- Strategy involves both organization and environment and both are inseparable;
- Strategy is like a Mosaic. It cannot be structured, programmed, routine and repetitive.

- Strategy is futuristic in nature.
- Strategy is a combination of content and process both.
- Strategies are formulated at different levels.
- Strategy is an integration of concept with analysis for decision making.

Therefore, we can say that strategy as a whole is the combination of 5 P's which can be customized as per the requirement of the organization. The purpose of strategy is to determine and communicate a picture of enterprise through a system of major objectives and policies. Strategy is concerned with a unified direction and efficient allocation of an organization's resources. A well-made strategy guides managerial action and thought. It provides an integrated approach for the organization and aids in meeting the challenges posed by environment.

1.4 STRATEGIC MANAGEMENT: CONCEPT

We now know that strategy is a series of steps based on an organization's vision, mission, goals and objectives. Strategic Management is concerned with the effective deployment of business strategies for the achievement of the organizational objectives for the purpose of reaching the desired goal. Strategic management involves making strategic decisions at various levels of the organization. However, strategic decisions are taken at the top level of management and then transferred to lower level management. These decisions are related to moving from the present state of an organization to a future state. It basically develops a framework within which an organization functions. In other words, strategic management defines organizational capability, forms of value addition and the purpose of the existence of an organization.

Strategic management:

- is a medium and long-term process;
- begins with the formulation of a desirable future position for the organization, followed by decisions regarding what is at the core of the organization;
- setting up targets for reaching the future state;
- enables an organization to obtain an edge over its competitors in the market by analyzing the resources available with the organization;
- is formulating strategies for effective and efficient utilization of resources;
- matches the organizational capabilities with the environmental opportunities;
- is futuristic and organization wide process.

Therefore, we can say that strategic management is the process of formulation and implementation of strategies lying within the boundaries of the organizational resources in response to the environmental opportunities and threats so as to achieve sustainable competitive advantage over competitors.

Activity 1

Discuss the nature of strategy with respect to 5Ps.

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1.5 STRATEGY VS POLICY

We have understood the concept of strategy. Now we will learn the difference between strategy and policy. In earlier times when strategy was not in organized form, the concept of business policy was more in use. Strategy was often used as a synonym of policy despite the fact that both are not similar in nature. Strategy is a plan of action whereas policy is a set of rules and procedures. Policy is a part of strategy therefore at times it becomes important to differentiate the two.

Table 1.1 gives a birds' eye view of the difference between strategy and policy based on certain parameters.

Table 1.1: Difference between Strategy and Policy

Basis of differentiation	**Strategy**	**Policy**
Concept	Strategy is a plan of action for achieving organizational goals.	Policy is the guidelines for certain actions and decision to be taken part of the organization.
Specification	Plan of action	Principles of action.
Nature	Flexible	Fixed barring exceptions
Application	Related to decision making of the organization for future situations; or situation which may occur in future.	Related to the rules of the organization for the repetitive activities; governs and controls managerial action.
Direction	Action oriented	Decision oriented
Formulation	Top and middle level management	Top level Management
Coverage	External environment	Internal environment
Description	Plan of action use to achieve the goals	Set principles description do's and don'ts. It is considered to be a mini mission statement.

It is very important to understand role that policy has to be interpreted with strategy for effective implementation. Policy can be general or specific, organizational or functional, written or implied depending on the need of the organization .For example, when the performance of two employees is similar, the promotional policy may require the promotion of the senior employee and hence s/he would be eligible for promotion. Strategy has often been used as a synonym of policy. However, both are different and should not be used interchangeably. Policy is the guideline for decisions and actions on the part of subordinates. It is a general statement of understanding made for achievement of objectives.

Strategies and polices both are the means towards the end. In other words, both are directed towards meeting organizational objectives. Strategy is a rule for making decision while policy is contingent decision.

1.6 STRATEGY VS TACTICS

Sun Tzu is his book 'The Art of War' wrote "Strategy without tactics is the slowest route to victory. Tactics without Strategy is the noise before the defeat." This shows the importance of tactics in accomplishing a specific Strategic decision. Strategies is on one end of the organizational decisions spectrum while tactics lie on the other end.

Carl Von Clausewitz, a Prussian army general and military scientist defines military strategy as 'making use of battles in the furtherance of the war and the tactics as "the use of armed forces in battle". A few points of distinction between the two are as follows:

- Strategy determines the major plans to be undertaken while tactics is the means by which previously determined plans are executed.
- The basic goal of strategy according to military science is to break the will of the army, deprive the enemy of the means to fight, occupy territory, destroy or obtain control of resources or make them surrender. The goal of tactics is to achieve success in a given action and this forms one part of a group of related military action.
- Tactics can be delegated to all the levels of an organization while strategic decisions cannot be delegated too low in the organization.
- Strategy is formulated in both a continuous as well as irregular manner. The decisions are taken on the basis of opportunities, new ideas etc. Tactics is determined on a periodic basis by various organizations. A fixed time table may be made for following tactics.
- Strategy has a long term perspective and occasionally it may have short term duration. Thus, the time horizon in terms of strategy is flexible but in case of tactics, it is short run and definite.
- The decisions taken as part of strategy formulation and implementation have a high element of uncertainty and are taken under the conditions of partial ignorance. In contrast tactical decisions are more certain as they work upon the framework set by the strategy. So the evaluation of strategy is difficult than the evaluation of tactics.

- Since an attempt is made in strategy to relate the organization with its environment, the requirement of information is more than that required in tactics. Tactics uses information available internally in an organization.
- The formulation of strategy is affected considerably by the personal values of the person involved in the process but the same is not the case in tactic implementation.
- Strategies are the most important factor of organization because they decide the future course of action for organization as a whole. On the other hand, tactics are of importance only with specific part of the organization.

Table 1. 2 gives the levels of comparison between strategy and tactics.

Table 1.2: Comparison of Strategy and Tactics

Basis of Comparison	**Strategy**	**Tactics**
Goal	Control of resources	Achieve success
Delegation	Top and middle	All levels
Formulation	Flexible and continuous	Fixed and periodic
Perspective/time frame	Long term	Short term
Level of certainly	High	Low
Environment	External	Internal

An effective strategy is based on the strengths of the organization and also creating strengths of the organization. When it comes to creating strengths of the organization, then the tactics comes into play. For e.g. the marketing strategy of an organization is to improve its performance on the social media, Then the tactics of the organization should be using an appropriate social media so as to communicate the message in the most effective way possible. Therefore, it is important that strategy and tactics should align themselves in such a way so as to make the strategy effective.

Activity 2

1. Choose the organization of your choice and list the policies of any organization and also state the strategies it undertook.

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2. Distinguish between strategy and tactics.

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3. Distinguish between strategy and policy.

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1.7 LEVELS OF STRATEGY

It is believed that strategic decision making is the responsibility of top management. However, it is considered useful to distinguish between the levels of operation of the strategy. Strategy operates at different levels. These are:

- Corporate Level
- Business Level
- Functional Level

There are basically two categories of organizations- one, which have different businesses organized at different directions or product groups known as profit centres or strategic business units (SBUs) and other, which consists of organizations which are single product organizations. The example of first category can be that of an organization which is a highly integrated producing textile, yarn, and a variety of petro chemical products and the example of the second category could be an organization which is engaged in the manufacturing and selling of heavy commercial vehicles. The SBU concept was introduced by General Electric Organization (GEC) of USA to manage product business. The fundamental concept in the SBU is the identification of discrete independent product/ market segments served by the organization.

Features of SBU

- Because of the different environments served by each product, a SBU is created for each independent product/ segment.
- Each and every SBU is different from another SBU due to the distinct business areas (DBAs) it is serving.
- Each SBU has a clearly defined product/market segment and strategy. It develops its strategy according to its own capabilities and needs with overall organizations capabilities and needs.
- Each SBU allocates resources according to its individual requirements for the achievement of organizational objectives.
- As against the multi-product organizations, the single product organizations have single Strategic Business Unit. In these organizations, corporate level strategy serves the whole business.

- The strategy is implanted at the next lower level by functional strategies. In multiple product organization, a strategy is formulated for each SBU (known as business level strategy) and such strategies lie between corporate and functional level strategies.

The three levels are explained below.

Corporate level strategy

At the corporate level, strategies are formulated as per the policies of the organization.

Characteristics

- These are value oriented, conceptual and less concrete than decisions at the other two levels.
- These are characterized by greater risk, cost and profit potential as well as flexibility.
- Mostly, corporate level strategies are futuristic, innovative and pervasive in nature.
- They occupy the highest level of strategic decision making and cover the actions dealing with the objectives of the organization. Such decisions are made by top management of the organization. The example of such strategies includes acquisition decisions, diversification, structural redesigning etc.
- The board of Directors and the Chief Executive Officer are the primary groups involved in this level of strategy making.
- In small and family owned businesses, the entrepreneur is both the general manager and chief strategic manager.

Business level strategy

The strategies formulated by each SBU to make best use of its resources given the environment it faces, come under the gamut of business level strategies.

Characteristics

- At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and coordination between them for achievement of corporate level objectives.
- These strategies operate within the overall organizational strategies i.e. within the broad constraints and polices and long term objectives set by the corporate strategy.
- The SBU managers are involved in this level of strategy.
- The strategies are related with a unit within the organization.
- The SBU operates within the defined scope of operations by the corporate level strategy and is limited by the assignment of resources by the corporate level.

- Business strategy relates with the "how" and the corporate strategy relates with the "what".
- Business strategy defines the choice of product or service and market of individual business within the organization. The corporate strategy has impact on business strategy.

Functional level strategy

This strategy relates to a single functional operation and the activities involved therein. This level is at the operating end of the organization.

Characteristics

- The decisions at this level within the organization are described as tactical.
- The strategies are concerned with how different functions of the enterprise like marketing, finance, manufacturing etc. contribute to the strategy of other levels.
- Functional strategy deals with a relatively restricted plan providing objectives for specific function, allocation of resources among different operations within the functional area and coordination between them for achievement of SBU and corporate level objectives.

Sometimes a fourth level of strategy also exists. This level is known as the operating level. It comes below the functional level strategy and involves actions relating to various sub functions of the major function. For example, the functional level strategy of marketing function is divided into operating levels such as marketing research, sales promotion etc.

Three levels of strategies have different characteristics as shown in the table 1.3.

Table 1.3: Strategic Decisions at Different Levels

DIMENSIONS	LEVELS		
	CORPORATE	BUSINESS	FUNCTIONAL
TYPE OF DECISION	CONCEPTUAL	MIXED	OPERATIONAL
Impact	Significant	Major	Insignificant
Risk Involved	High	Medium	Low
Profit Potential	High	Medium	Low
Time Horizon	Long	Medium	Low
Flexibility	High	Medium	Low
Adaptability	Insignificant	Medium	Significant

1.8 IMPORTANCE OF STRATEGY

With the increase in the pressure of external threats, organizations have to make clear strategies and implement them effectively so as to survive. There have been organizations that have completely become extinct and some organizations which were non-existent earlier and now have become the market leaders. The basic factor responsible for differentiation has not been governmental policies, infrastructure or labour relations but the type of strategic thinking that different organizations have shown in conducting the business. This is where the importance of strategy comes into picture.

Strategy provides various benefits to its users. These are:

- Strategy helps an organization to take decisions on long range forecasts.
- It allows the organization to deal with a new trend and meet competition in a effective manner.
- Strategy helps the management to be flexible and meet the uncertain situations.
- Efficient strategy formulation and implementation result into financial benefits to the organization in the form of increased profits.
- Strategy provides focus in terms of organizational objectives and thus provides clarity of direction for achieving the objectives.
- Organizational effectiveness is ensured with effective implementation of the strategy. It gets managers into the habit of thinking and thus makes them, proactive and more conscious of their environment.
- It provides motivation to employees as it paves the way for them to shape their work in the context of shared corporate goals and ultimately they work for the achievement of these goals.
- Strategy formulation & implementation gives an opportunity to the management to involve different levels of management in the process.
- It improves corporate communication, coordination and allocation of resources.

With all the benefits listed above, it is quite clear that strategy forms an integral part of an organization and is the means to achieve the end in an efficient and effective manner.

Activity 3

1. Identify the benefits which an organization may have after implementing strategies.

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2. Distinguish corporate level strategy and business level strategy.

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3. State three benefits of strategy.

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1.9 SUMMARY

In this unit we introduced the concept of strategy. Strategy is the conscious and rational management exercise which involves defining and achieving organizations' objectives and implanting its mission. Strategy is a major course of action and is a blend of internal & external factors and is particular to a specific situation. It is dependent on environmental variables and is futuristic in nature. Strategy is a series of action plans which are adopted by an organization to achieve the ultimate goal of profitability, growth and survival. Strategy is based on 5Ps i.e. pattern, plan, position, perspective and ploy and is operational at three levels -Corporate level, Business level and Functional level. Strategies are lifeblood of business activities.

1.10 KEYWORDS

Effectiveness - The ability to complete a job within the given time-frame while using limited resources.

Efficiency - The ability to use less resources or minimizing the waste of resources while performing any job.

Strategy - A unified, comprehensive and integrated plan that relates the strategic advantage of the organization to the challenges of the environment.

Policy - Guideline for decisions and actions on the part of subordinates and is a general statement of understanding made for the achievement of objectives.

Tactics - It is the means by which previously determined plans are executed.

Rules - A principle to which an action or a procedure conforms or is intended to conform.

1.11 SELF-ASSESSMENT QUESTIONS

1) What do you mean by strategy? Explain the nature of strategy.
2) "Strategy is synonymous with policies" Comment on the statement.
3) What are the various levels at which a strategy may exist?
4) Discuss the importance of strategy?

1.12 REFERENCES AND FURTHER READINGS

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UNIT 2 STRATEGIC FRAMEWORK

Objectives

After reading this unit, you should be able to:

- Understand the process of strategic management;
- Get acquainted with the concept of vision, mission and objectives;
- Acquaint yourself with the process of strategic formulation, implementation and control.

Structure

2.1 INTRODUCTION

Strategic management is the process of developing strategies based on organizational directions. These organizational directions are derived from the strategic intent of an organization. The hierarchy of strategic intent lays the foundation for strategic management process. The process of establishing the hierarchy of strategic intent is very complex. In this hierarchy, the vision, mission, business definition and objectives are established. Strategies are involved in the formulation, implementation and evaluation of process. Formulation of strategies is possible only when strategic intent is clearly set up. This step is mostly philosophical in nature. It will have long term impact on the organization. The vision and mission of an organization lead the path of organizational functions. Strategies are formulated based on the strategic intent. The success of the strategies depends on effective implementation. Strategies so implemented require continuous evaluation and control to make sure that the objectives of the organization are achieved as planned.

In the context of an organization engaged in strategy formulation and implementation, the substantive dimension deals with the determination of strategy or set of strategies and procedural dimension deals with placing a strategy into operation with clarity about the employees responsible for a particular task. The logic of a process is that its particular elements are undertaken in a sequence over a period. The process of strategy includes a number of elements. The process can be defined as a set of management decisions and actions which determines the long run direction and performance of the organization. It is a dynamic and continuous process. However, there are two problems in identifying and sequencing the elements. These are:

i) There is no unanimity among various authors about the elements and their interaction.

ii) The sequence of the elements varies.

Both these problems highlight the complexity of a strategic process. The process includes definition of organizational vision, mission and objectives, environmental analysis, identification and evaluation of strategic alternatives, making a choice, implementing it and evaluating and controlling the strategy.

2.2 STRATEGIC MANAGEMENT PROCESS

Strategic management process involves creating a strategic intent, conducting an environmental analysis, formulating and implementing the strategies. It is the process which helps the managers in strategic decision making in order to achieve the overall organizational goals. Strategic management process involves formulating strategies based on organizational competencies and vision and mission of the organization. It is a continuous process and is related to the following activities:

- Envisioning a desirable future position for the organization;
- Stating the base values of the organization;
- Analysis of external as well as internal environment;
- Linking the organizational strengths with environmental opportunities;
- Taking decisions regarding resource allocation;
- Formulating alternative strategies and selecting the most feasible strategy;
- Implementing the selected strategy;
- Evaluating the implemented strategy and exercising review and control;
- Taking corrective measures, if necessary;

Figure 2.1 shows the strategic management process.

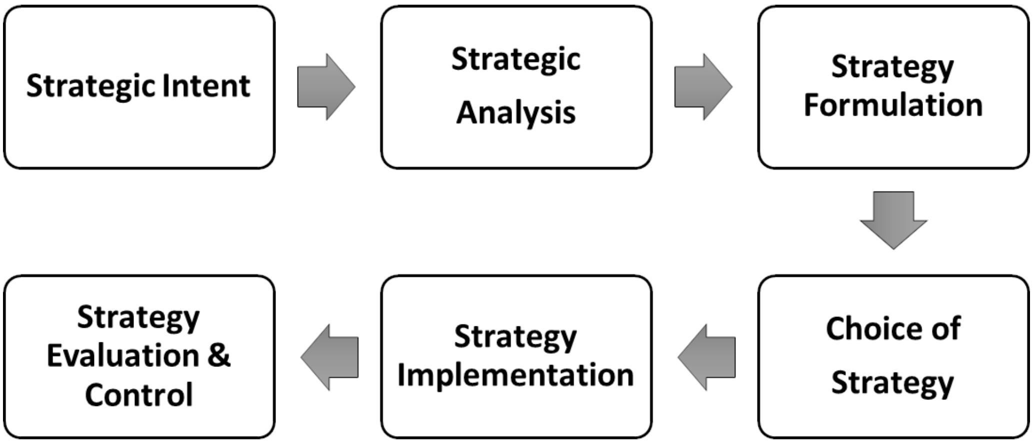

Figure 2.1: Process of Strategic Management

We will discuss each element in subsequent sections.

Activity 1

1. Explain the concept of strategy.

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2. List the different elements in the strategic management process?

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2.3 STRATEGIC INTENT

Strategic intent is the direction which an organization adopts to drive its operations in a particular manner to achieve the expected outcomes. It was a term formulated by Hamel and Prahalad in 1989 and is concerned with the allocation of available resources, organizing the individual efforts of employees, collaborating with the workforce in a team and motivating them towards organizational goals. The strategic intent of an organization consists of vision, mission, objectives and goals. It is the basic strategic input of the strategic management process. It explains the purpose for which an organization exists and what an organization as a whole wants to achieve.

The strategic intent of an organization follows a hierarchy as shown in figure 2.2.

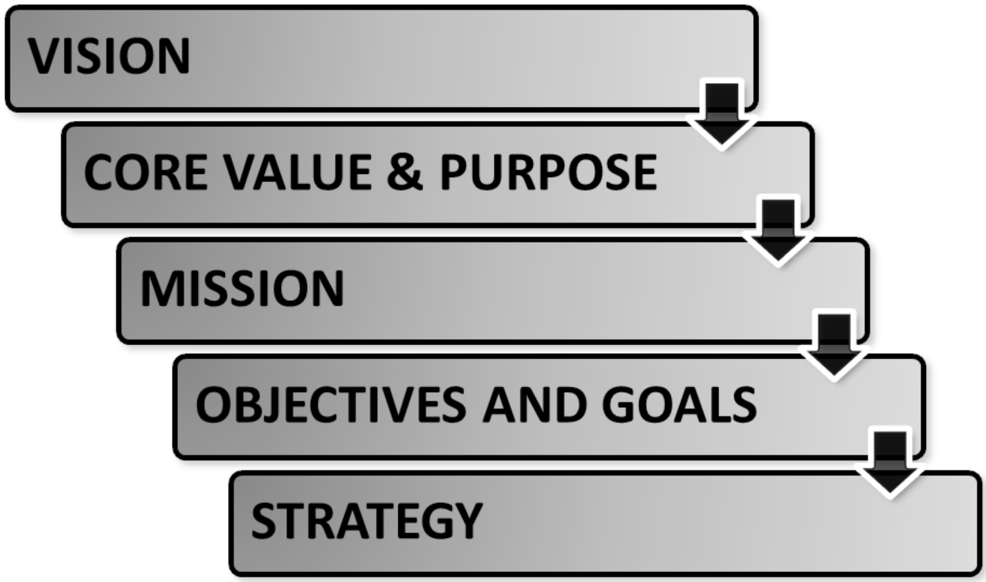

Figure 2.2: Hierarchy of strategic intent

These are explained in detail as follows:

VISION

A vision of an organization is the expectation that the organization wants to fulfill.

Features

- It encompasses a state or position which an organization wants to achieve in future.
- It showcases a futuristic picture of an organization.
- It acts as a guide for an organization. An organization which has a formally written vision is able to concentrate better on its functional abilities.
- An organizational vision depicts the desirable future position that an organization wants to achieve in the coming years.
- It involves movement from the current position to the future position.
- A vision is a long-term concept as it remains the same for several years, for example, 15 years.
- The aim of the vision statement is to provide an answer to the question – '*What an organization wants to become?*'
- In other words, a vision statement defines the 'strategic path' of an organization.
- It provides a structured path to an organization by enabling it to focus on a predetermined future position and reduces the chances of deviations.

The vision statement of an organization should be achievable and measurable. It should be ambitious but not over-ambitious. It should be such that it is attained within the limits of available resources. It should be proposed keeping in mind the current environment as well as possible changes in the future environment. The vision of an organization is represented in the form of a vision statement. A vision statement must incorporate the thoughts of all stakeholders to ensure an effective statement. The vision statement should possess the following traits in order to be effective:

- **Directional** – It should provide the managers and employees with a clear direction as to where the organization will be heading in future so as to facilitate strategy formulation in the same direction.
- **Feasible** – It should be such that it is achievable with relevance to the probable future environment,
- **Flexible** – It should be able to change in response to the changes in external as well as the internal environment of the organization, say technological changes or change in customer preferences.
- **Unique** – A vision statement differs for different organization as it is based on an organization's core value which is unique to an organization. Hence, it should be distinctive for every organization.
- **Inspiring** – It must be able to inspire and motivate the entire workforce of an organization.
- **Core Values** – It should depict the core values of an organization. It must reflect the purpose for which the organization exists.
- **Clear** – It should bring clarity to the minds of managers as how to make decisions and allocate resources for achieving success.

Purpose of vision statement

An effective and clear vision statement provides an organization with a clear strategic direction for future and sustainable advantage in the industry. An effective vision statement, therefore, serves various benefits for an organization in the ways as shown in figure 2.3.

Figure 2.3: Purpose of a vision statement

Envisioning is the process of creating vision. It is a difficult and is a complex task. A well-conceived vision must have:

- Core Ideology
- Envisioned Future

Core Ideology will remain unchanged. It has the enduring character. It consists of core values and core purpose. Core values are essential tenets of an organization. Core purpose is related to the reasoning of the existence of an organization.

Envisioned Future will basically deal with following:

- The long term objectives of the organization.
- Clear description of articulated future.

Advantages of Vision

A few benefits accruing to an organization having a vision are as follows:

- Fosters experimentation;
- Promotes long term thinking;
- Fosters risk taking;
- Can be used for the benefit of people;
- Makes organizations competitive, original and unique;
- Represents integrity;
- They are inspiring and motivating to people working in an organization.

CORE VALUES AND CORE PURPOSES

These concepts are very important in the process of envisioning. Collins and Porras have developed this concept for better philosophical perspective. As has already been discussed, a well-conceived vision consists of core ideology and envisioned future. Core ideology rests on core values and core purpose.

Core Values are the essential and enduring beliefs of an organization. They may be beliefs of top management regarding employee's welfare, customer's interest and shareholder's wealth. The beliefs may have economic orientation or social orientation. Evidences clearly indicate that the core values of A are different from the core values of B or C. The entire organization structure revolves around the philosophy coming out of core values.

Core Purpose is the reason for existence of the organization. Its reasoning needs are to be spelt clearly. The characteristics of core purpose are as follows:

- It is the overall reason for the existence of organization.
- It is 'why' of an organization.
- This mainly addresses to the issue which organization desires to achieve internally.
- It is the broad philosophical long term rationale.
- It is the linkage of organization with its own people.

Activity 2

1. What is core purpose? How is it different from core value?

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2. Give examples of two companies with respect to core purpose and core values.

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MISSION

Thompson states mission as the "essential purpose of the organization, concerning particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy.

The above definition reveals the following:

- It is the essential purpose of organization.
- It answers "why the organization is in existence".
- It is the basis of awareness of a sense of purpose.
- It fits its capabilities and the opportunities which government offers.

The mission of an organization incorporates the activities undertaken by an organization. It highlights the market target by the organization, technologies adopted and product and services offered. A mission segregates the organization from the other organizations in an industry. The aim of the mission statement is to answer the question – 'What an organization does?' In other words, it discusses the extent and spread of an organization's operations.

The mission of an organization should be based on its core values. The core value of an organization is nothing but the fundamental beliefs, philosophy and principles of the organization. These core values and beliefs are the roots of any organization which does not undermine any financial or short-term benefits.

Nature

The nature of mission statement is as follows:

- It gives social reasoning. It specifies the role which the organization plays in society.
- It is philosophical and visionary and relates to top management values and has a long term perspective.

- It legitimizes societal existence.
- It has stylistic objectives and reflects corporate philosophy, identity, character and image of organization.

A mission is based on the aims of the organization and indicates the current position of an organization in the industry. It sets out the preferences for decision making at the strategic level. A mission is represented in a form of the mission statement. A mission statement puts forward the nature of the business, product or service range, ways of doing business, technological processes and the competitive strength of an organization. The mission statement of an organization is the starting point for the formulation of strategies. A mission statement is succeeded by setting up of objectives and goals. In other words, it should include all the aspects of the business in the present environment as shown in figure 2.4 explaining what an organization does.

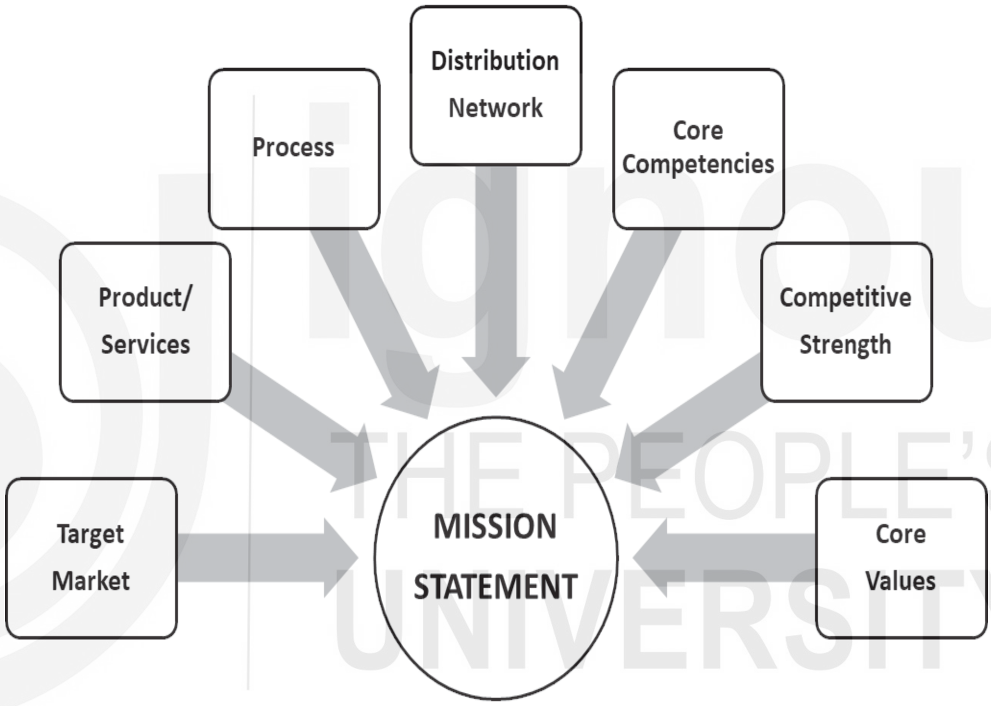

Figure 2.4: Elements of a Mission statement

In order to be effective a mission statement should possess the following features:

- **Achievable** – It should be constructed in a manner that it can be fulfilled with the available resources and organizational strengths and should be realistic in nature.
- **Easy to Understand** – It should not be complex. A mission statement is meant for employees and hence the language should be appropriately framed. It should be brief and positive.
- **Clear and Specific** – It should be precise and not vague. It should clearly indicate the business activities so that employees can remain focused.
- **Aspire** – It should be able to inspire the employees to adapt to the basic values and belief of the organization.
- **Individuality** – It should be able to define the character of an organization.

OBJECTIVES AND GOALS

Mission statements are the qualitative statements which are needed to be converted into more practical terms. Therefore, they are followed by objectives and goals. Objectives and goals are a measurable form of targets which an organization wants to achieve. They break the qualitative mission statements into targets or aims which can be measured. Therefore, objectives and goals are statements which enable the management to measure the outcomes and progress. They are generally in quantitative terms but can be qualitative as well. Goals are the achievable outcomes which are made for long-term and specify what is to be achieved in broad sense. The objectives are the short-term actions which includes specified tasks required to fulfillll long-term goals. The quantified objectives are more preferable as these provide better precision. They are easily understood by the workforce as they can clearly understand as to what is expected of them.

Objectives and goals should be drawn in line with the mission statement. They should express the mission statement of an organization. The objectives contain the period of time and acceptable level of risk involved in accomplishing the mission and vision of the organization. They should be made in such a manner that they are able to fulfill the mission and vision. A good objective is the one which covers the performance, profitability, environment, strength and weakness. The various traits which make objectives effective are shown in figure 2.5.

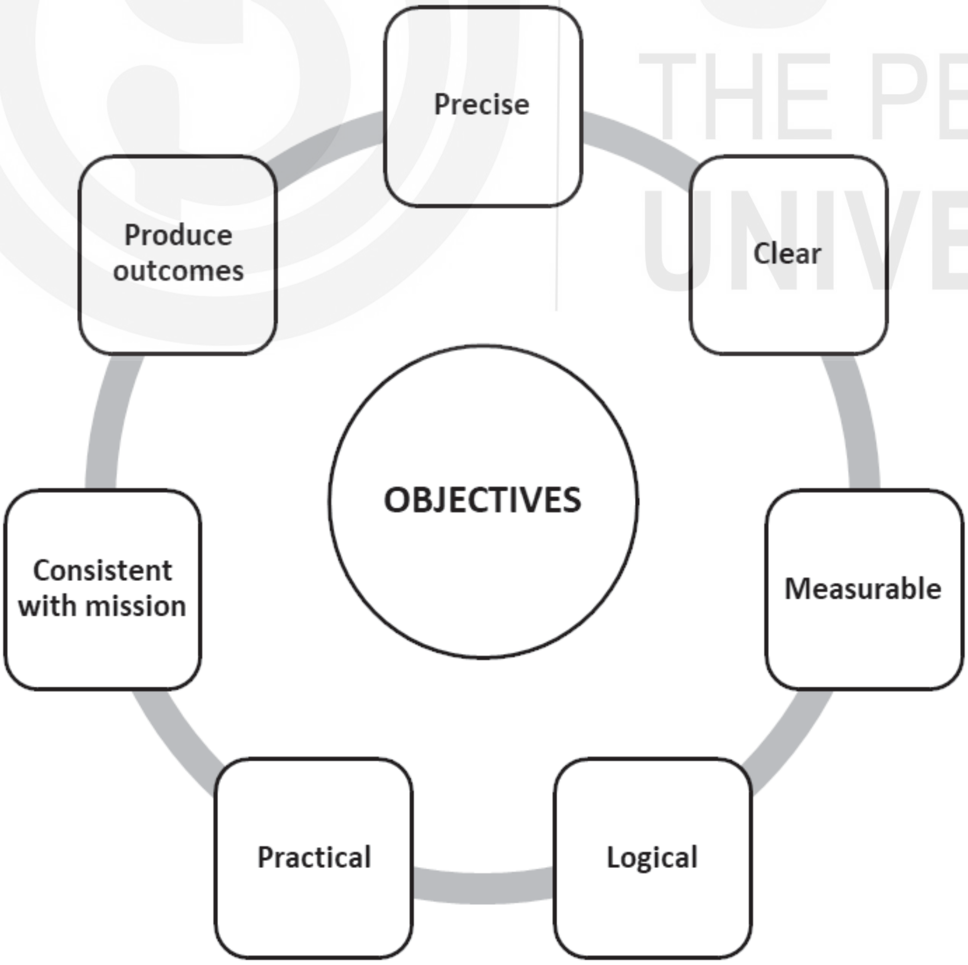

Figure 2.5: Traits of an effective objective

Difference between objectives and goals

Objectives and goals have certain differences. Table 2.1 shows these differences.

Table 2.1: Difference between Objectives and Goals

Parameters	Objectives	Goals
Degree	Specific	Broad
Time frame	Short term	Long term
Impact	Internal environment	External environment
Measurement	Quantitative	Qualitative

Broadly, it is more convenient to use one term rather than both. The difference between the two is simply a matter of degree and it may vary widely.

Need for Establishing Objectives

The following points specifically emphasize the need for establishing objectives:

- Objectives provide yardstick to measure performance of a department or SBU or organization.
- Objectives serve as a motivating force. All people work to achieve the objectives.
- Objectives help the organization to pursue its vision and mission. Long term perspective is translated in short-term goals.
- Objectives define the relationship of organization with internal and external environment.
- Objectives provide a basis for decision-making. All decisions taken at all levels of management are oriented towards accomplishment of objectives.

What Objectives should be set?

According to Peter Drucker, objectives should be set in the area of market standing, innovation productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility. Researchers have identified the following areas for setting objectives:

Profit objective is the most important objective for any business enterprise. In order to earn a profit, an enterprise has to set multiple objectives in key result areas such as market share, new product development, quality of service etc. Ackoff calls them performance objectives.

Marketing objective may be expressed as: “to increase market share to 20 percent within five years” or “to increase total sales by 10 percent annually”. They are related to a functional area.

Productivity objective may be expressed in terms of ratio of input to output. This objective may also be stated in terms of cost per unit of production.

Product objective may be expressed in terms of product development, product diversification, branding etc.

Social objective may be described in terms of social orientation. It may be tree plantation or provision of drinking water or development of parks or setting up of community centers.

Financial objective relates to cash flow, debt equity ratio, working capital, new issues, stock exchange operations, collection periods, debt instruments etc. For example an organization may state to decrease the collection period to 30 days by the end of this year.

Human resource objective may be described in terms of absenteeism, turnover, number of grievances, strikes and lockouts etc. An example may be "to reduce absenteeism to less than 10 percent by the end of six months".

Characteristics of Objectives

The following are the characteristics of corporate objectives:

i) They form a **hierarchy**. It begins with broad statement of vision and mission and ends with key specific goals. These objectives are made achievable at the lower level.

ii) It is impossible to identify even one major objective that could cover all possible relationships and needs. Hence, **multiplicity of objectives** forces the strategists to balance diverse interests.

iii) A **specific time horizon** must be laid for effective objectives. This timeframe helps the strategists to fix targets.

iv) Objectives must be within reach and is also challenging for the employees. **Attainable objectives** act as a motivator in the organization.

v) Objectives should be **understandable**. Clarity and simple language should be the hallmarks. Vague and ambiguous objectives may lead to wrong course of action.

vi) Objectives must be **concrete** therefore they need to be quantified. Measurable objectives help the strategists to monitor the performance in a better way.

vii) There are many constraints internal as well as external which have to be considered in objective setting. As different objectives compete for scarce resources, objectives should be **set within constraints**.

Process of Setting Objectives

Glueck identifies four factors that should be considered for setting the objectives. These factors are:

- The forces in the environment, realities of an enterprise's resources and internal power relations;
- The value system of top executives and awareness by the management of the past objectives which are:

  i) **Environmental forces**, both internal and external environmental forces, may influence the interests of various stake holders. Further, these forces are dynamic in nature, hence objective setting must consider their influence on its process.

ii) As objectives should be realistic, the efforts be made to set the objectives in such a way so that objectives may become attainable. For that, **existing resources of enterprise and internal power structure** be examined carefully.

iii) The **values of the top management** influence the choice of objectives. A philanthropic attitude may lead to setting of socially oriented objectives while economic orientation of top management may force them to go for profitability objective.

iv) Past is important for strategic reasons. Organizations cannot deviate much from the past. Unnecessary deviations will bring problems relating to resistance to change. Management must **understand the past** so that it may integrate its objectives in an effective way.

Activity 3

Select any organization of your choice. Formulate the vision, mission, objectives, and core purpose and core values for the organization.

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2.4 STRATEGIC ANALYSIS

Strategic analysis involves the analysis of the internal and external environment of the organization. It is conducted to ascertain the circumstance under which the organization is operating for the purpose of strategy formulation. The major components of strategic analysis are:

- Conducting the environmental analysis;
- Assessing the existing strategies to check whether they fulfilll the goals;
- Evaluate various strategic alternatives;
- Adopting the most viable strategy.

Environmental analysis involves assessing all the forces and factors which surrounds the organization. They are divided into internal and external environment analysis. The internal environment of an organization comprises of the factors which only affects that particular organization whereas external environment comprises of all the factors which affect the whole industry and all the organizations of that industry. There are various techniques used for analyzing the environment. A SWOT analysis is the most preferred technique for assessing the internal environment of an organization with respect to the external environment. A SWOT analysis is used for evaluating the strengths and weakness of an organization in accordance with the opportunities offered and threats posed by the external environment. It helps in integrating strengths and weaknesses with opportunities and threats for maximum utilization of already available resources. A PESTLE analysis is a technique used for analyzing the external environment. It helps in evaluating Political environment, Economic environment, Socio-cultural environment, Technological Environment, Legal environment and Ecological environment. This analysis of the external environment helps in assessing the opportunities and threats in the external environment. It helps in assessing the conditions prevailing in the industry and hence enables an organization to take necessary actions as a response to those conditions. The other techniques of analysis which can be adopted by the organization are Porter's five force model for industry analysis and Value chain analysis for achieving core competencies.

2.5 STRATEGY FORMULATION

Formulation of strategies involves developing strategies at various levels of business and organization. Strategies are required to be formulated at the global level, corporate level and even at a functional level. Strategy formulation is preceded by strategic directions which are shown by an organization's vision, mission and objectives. Moreover, manager formulates strategies in response to external as well as the internal environment. The different stages involved in strategy formulation are depicted in figure 2.6.

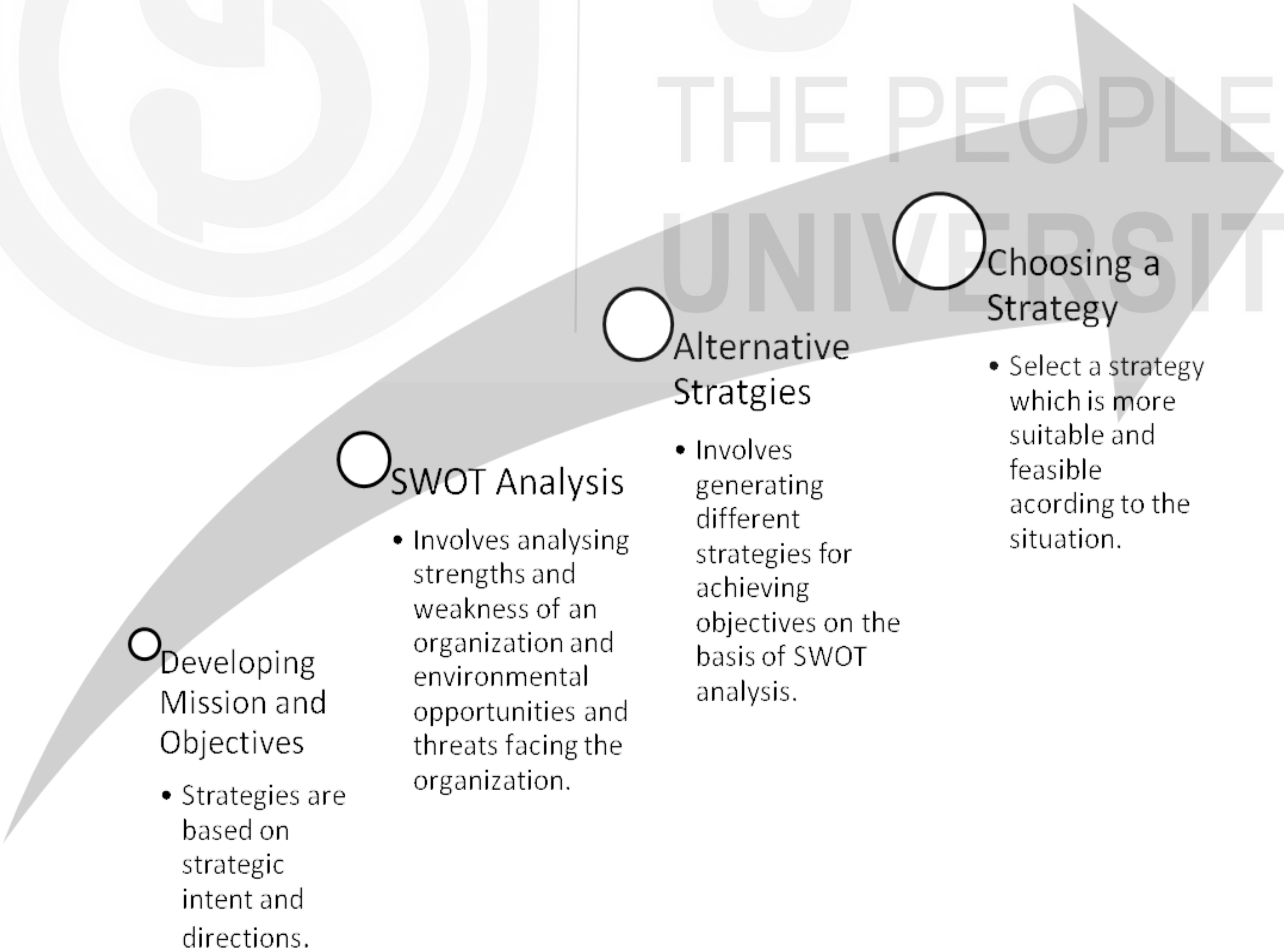

Figure 2.6: Stages of Strategy Formulation

Strategies are formulated at different levels based on the level of operations and management. These levels are – Corporate level, Business level and Functional level. The different levels of the strategy involve different strategic alternatives for different objectives of the organization. They are discussed as follows:

1. **Corporate level strategies**

   Corporate level strategies are the strategies which are formulated by top management. These strategies primarily deal with decoding the mission of an organization into plans. These strategies are meant for a longer durations and are usually less specific than other levels of strategy. These strategies provide the organization with directions regarding the future of the organization as a whole. They are related to decisions regarding the size of the organization, the range of products or services, customer segments and the profitability of the organization. The corporate level strategies are also known as the 'Grand Strategies'. These include stability strategy, growth strategy, retrenchment strategy and combination of all strategies. These are discussed in detail in block 2.

2. **Business level Strategies**

   Organizations operating on a large scale or having geographically distributed operations divide their operations into several divisions or unit. These units are called strategic business units (SBUs). Each of these unit acts as separate businesses under one single parent organization. Generally, the business units operate in different industries and may have different brand names. Strategies adopted by such strategic business units are called business level strategies. These strategies enable the business units to acquire a competitive advantage over other organizations in the industry. In other words, business level strategies help in achieving industry competitive advantage. They help an organization in attaining the desirable market position and maintaining it.

   The business level strategies are referred to as 'Competitive strategies'. This is so because these strategies give a competitive edge to the organization in the industry and are used by the organization to be market leaders. The different types of business level strategies are cost leadership strategy, differentiation strategy and focus strategy. These are discussed in detail in block 2.

3. **Functional level strategies**

   Functional level strategies are strategies relating to the basic functions of management. These strategies involve taking decisions on routine aspects of the business such as finance, human resource, marketing, purchase and operations. They are developed at the functional level of the organization. These are formulated for a shorter period of time. The effective implementation of functional strategies creates a base for strong business and corporate level strategies. Functional level strategies help in attainment of functional expertise and thereby leading to the development of core competencies for the organization. In other words, these strategies provide plans to manage a certain function in a manner that it assists the entire business of the organization.

Therefore, formulation of strategies is a complex task which involves an analysis of the internal as well as the external environment and strategic choices. An organization has to decide upon the strategy which is most suitable in the given set of circumstances.

2.6 CHOICE OF STRATEGY

The next logical step after evaluation of strategic alternatives is choice of the most suitable alternative. For a business group, it may be possible to choose all strategic alternatives but for a single organization it is quite difficult. The strategic alternatives have to be matched with the problem. While making a choice, two types of factors have to be considered. These are:

- Objective factors
- Subjective factors

Objective factors are the ones which can be quantified while subjective factors are the ones which cannot be quantified and are based on experience and opinion of people. Strategic choice is like a decision making process. There are three objective ways to make a choice:

- Corporate Portfolio Analysis
- Competitor Analysis
- Industry Analysis

Corporate Portfolio Analysis

When the organization is in more than one business, it can select more than one strategic alternative depending upon demand of the situation prevailing in the different portfolios. It is necessary to analyze the position of different business of the business house which is done by corporate portfolio analysis. This analysis can be done by using any of the seven technologies given below:

- Experience curve
- PLC concept
- BCG Matrix
- GE nine cell Matrix
- Space Diagram
- Hofer's product market evaluation matrix
- Directional Policy Matrix

Depending upon the stage of the **product life cycle** of the business, one can make a strategic choice for different portfolio.

Competitor Analysis

In this analysis, we try to assess what the competitor has and what s/he does not have. We explore everything with respect to the competitor. In competitor analysis, focus is on external environment as one of the components of external environment is the competitor. The difference between SWOT analysis and competitor analysis is that in competitor analysis we are concerned with only one component of the environment i.e. competitor while in SWOT analysis we take about all the factors of the environment.

Industry Analysis

In industry analysis, all the competitors belonging to the particular industry with which the organization is associated are looked at. All the members of the industry are considered as a whole. In competitive analysis, only the major competitors are assessed while in industry analysis all the competitors belonging to the industry are looked at.

The strategic choice is a decision making process which looks into the following steps:

- Focusing on strategic alternatives
- Evaluating strategic alternatives
- Considering decision factors – objective factors and subjective factors.
- Finally, making the strategic choice.

2.7 STRATEGIC IMPLEMENTATION

Strategic implementation is the stage where the formulated strategies are executed. This is the phase of activating the strategies. Implementation of strategies involves exercising control over strategies while they are being implemented. Strategic implementation is the process of converting strategies into practices. This stage involves the following phases:

i. Setting goals

ii. Develop plans

iii. Structuring the organization

iv. Allocating resources

v. Communicating the plans and goals

vi. Motivating the employees

vii. Establishing leadership

The process of strategic implementation consists of three main elements as shown in figure 2.7.

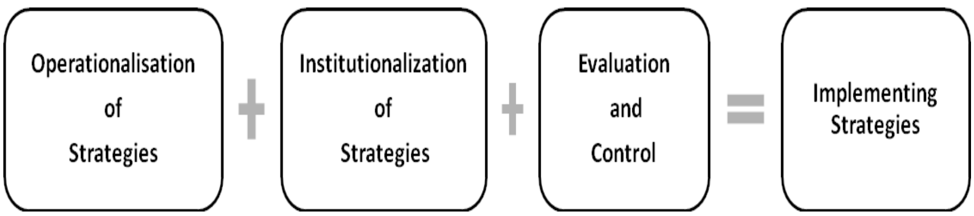

Figure 2.7: Elements in Strategic Implementation

Operationalizing of strategy is concerned with setting up of targets and plans, objectives, allocation of resources and communication of strategies. Establishing the organization structure and leadership leads to the institutionalization of strategies. Success is not only ensured by formulating a good strategy but it also requires effectively implementing the formulated strategies. The key factor to effectively implement a strategy is proper allocation of resources. The institutionalization of strategies requires a complete blend of strategies into the organization. This requires collective efforts at all levels of management and by all the employees of the organization.

2.8 STRATEGIC EVALUATION AND CONTROL

This is the final phase of the strategic management process. This step ensures that the implemented strategies meet their objectives, if not then perform corrective actions. Strategy Evaluation and Control is an ongoing process. It entails a feedback mechanism which provides for continuous monitoring of the process of strategies implemented.

In the era of globalization and rapidly changing environment, the traditional method of control is insufficient. The traditional method of evaluation and controlling involves establishing standards, measurement of actual performance and drawing comparison between the actual performance and standard performance to find deviations. Corrective actions are taken if deviations are found. The modern day approach pushes for a continuous and ongoing evaluation of strategic planning and implementation. The continuous evaluation is required in case of a long period of time, along with the traditional method. It involves exercising and control by the way of monitoring the strategies as they are being executed, finding problems and undertaking corrective measures.

There are two types of organizational controls which are known as strategic control and operational control as shown in figure 2.8.

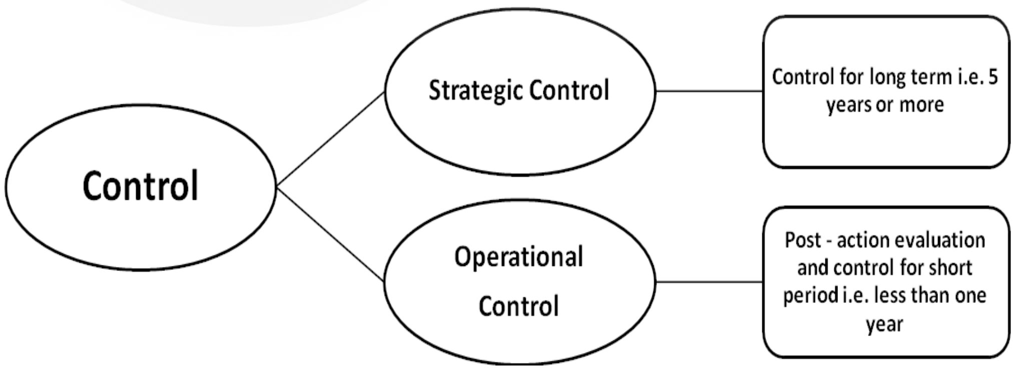

Figure 2.8: Types of Control in an organization

Strategic Control includes the following types of control:

- Premise Control
- Implementation Control
- Special Alert Control
- Strategic Surveillance

Operational Control includes the following categories:

- Budgeting
- Budgeting techniques are of various types which are as follows:
  - Zero-based budgeting
  - Programme budgeting
  - Performance budgeting
- Scheduling
- Management Control System
- Feedback control system
- Division performance measurement

In all the process of strategic management is the most crucial part for any strategy to be effective.

2.9 SUMMARY

Strategic management is the process involving the manner in which a particular strategy is developed. The process of strategic management involves establishing strategic intent. Strategic intent sets out the future path for the organization along with the objectives which an organization wants to achieve. Strategic intent refers to the purpose for which the organization strives for. It is the philosophical framework of strategic management process. The hierarchy of strategic intent covers the vision and mission, business definition and the goals and objectives. Vision constitutes future aspirations. This articulates the position that a organization would like to attain in the distant future. Mission is the social reasoning of organization. It has external orientation. It legitimizes social existence. Objectives are the ends that state specifically how the goals should be achieved. Overall this unit tries to give a view of strategic intent as a whole.

Formulation of a strategy depends upon the desirable future path and analysis of the surrounding environment. Strategies are formulated after assessing the factors prevailing in the internal as well as the external environment of the organization by deploying techniques such as SWOT analysis and PESTLE analysis. Strategies are formulated to achieve the organizational objectives and goals. These objectives and goals can be achieved not just by formulating the strategies but by properly implementing them. The strategic implementation consists of operationalizing and institutionalizing strategies and allocation of resources. Strategic implementation needs to be followed by continuous evaluation and control in order to ensure that the strategies are deployed as planned.

2.10 KEYWORDS

Core Purpose : It is the reason for organization's existence.

Core Values : It is the essential and enduring character of organization.

Goals	:	A broad category of financial and non-financial issues that a organization sets for itself.
Mission	:	It is the social reasoning of an organization and links organization to society.
Objectives	:	These are the manifestation of goals.
Strategic Intent	:	It makes clear what an organization stands for.
Vision	:	It indicates what an organization wishes to achieve in the long run.

2.11 SELF-ASSESSMENT QUESTIONS

1) What is strategic intent?

2) What is mission? How is it different from purpose? Discuss the essentials of a mission statement.

3) Stage five mission statements of big companies in India and review them critically.

4) What are objectives? How are they set? State the characteristics of objectives.

5) How will you set objectives for a large organization? Take a hypothetical example.

6) Explain the following:
   - Core Value
   - Core Purpose
   - Leverage

7) Surf two companies of your choice on internet and collect the details regarding hierarchy of strategic intent.

8) Strategy formulation, implementation, evaluation and control are integrated processes. Give arguments.

9) Strategic analysis is an essential prerequisite for formulating the strategies. Give reasons for it.

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UNIT 3 STRATEGY IN GLOBAL CONTEXT

Objectives

After reading this unit, you should be able to:

- Understand the meaning of global business environment;
- Understand the process of environmental analysis;
- Acquaint yourself with the PESTLE analysis in international business;
- Assess the different alternatives of strategy in global context.

Structure

3.1 INTRODUCTION

Organizations throughout the world do not function in a void. They are surrounded by different forces which collectively create an environment for the businesses and such business environment is highly dynamic in nature. This is due to the reason that the different forces or factors which comprise the business environment are determined by various variables which are not constant and change rapidly based on circumstances. In case of global business, this environment expands to a global level whereby local business environments of various nations adjoin.

Thus, it is necessary for any business, domestic or global, to understand the environment in which it is operating. This requires an in-depth analysis of business environment. Analysis of business environment involves identifying, scanning and monitoring of the environmental factors. Once the analysis is conducted, the next is determining the strategic alternatives based on the result of environmental analysis. This unit provides a deep learning of business environment and its factors followed by the strategic alternatives available to an organization from the point of view of global business.

3.2 NEED FOR INTERNATIONALIZATION

An organization can "go international" by crossing domestic borders as it employs any of the strategies. International expansion involves establishing significant market interests and operations outside an organization's home nation. Foreign markets provide additional sales opportunities for a organization that may be constrained by the relatively small size of its domestic market and also reduces the organization's dependence on a single national market. Organizations expand globally to seek opportunity to earn a return on large investments such as plant and capital equipment or research and development, or enhance market share and achieve scale economies, and also to enjoy advantages of locations. Other motives for international expansion includes extending the product life cycle, securing key resources and using low-cost labour. However, to mold their organizations into truly global organization, managers must develop global mind-sets. Traditional means of operating with little cultural diversity and without global competition are no longer effective.

International expansion is fraught with various risks such as, political risks (e.g. instability of host nations) and economic risks (e.g. fluctuations in the value of the nation's currency). International expansions increases coordination and distribution costs and managing a global enterprise entails problems of overcoming trade barriers, logistics costs, cultural diversity, etc.

3.3 GLOBAL BUSINESS ENVIRONMENT

Environment of any entity, whether living or non-living, is comprised of its surroundings. It includes all the resources and forces around that particular entity. Environment provides the entity with the resources required for its survival and growth. In case of business organizations, the surrounding environment is called as business environment. It comprises of all the internal as well as external factors affecting an organization. These internal and external factors also have an impact on each other. Internal factor of the business environment includes all the forces which can be managed and controlled by the organization. Internal factors are the resources and capital available with the organization. External factors include the forces over which the organization has no control. External factors are responsible for threats and opportunities an organization may encounter whereas internal factors are responsible for strengths and weaknesses of the organization. Environment consists of all the factors which might have an impact on the organization's capabilities

With the businesses going global, the business environment has expanded to the global level. Global business involves operations of business activities in more than one nation. The organizations operating in two or more nations are referred to as multi-national or trans-national organizations. Such organizations have to manage their activities in multiple nations and hence have to deal with national environments of the different nations. Global environment covers all the forces which not only relies in the local and national territory of the organization but also includes all the factors which the organization may have to encounter within the foreign land. It includes interaction between the forces of local, national and international environment.

Internal Environment

Internal environment includes the resources, assets and liabilities of an organization. It includes the strengths and weaknesses of the organization. Technological know-how, machinery, patents, human resource and distinguished products and services are considered as the strengths of an organization. On the contrary, legal charges, debts, liabilities and obsolete technology are some of the weaknesses of an organization. It focuses on achieving success by strengthening the core capabilities of the organization. Internal environment helps in structuring the process of strategy formulation whereas external environment is the base for formulation of organizational strategies. Internal environment sets the boundaries for the formulation of strategy in response to external environment. Success of an organization is dependent upon the resources it possesses. It is important for an organization to have necessary resources to obtain maximum benefits from an opportunity. An organization can gain competitive advantage in international markets on the basis of its unique resources and capabilities.

External environment

Forces outside an organization can change the future course of action and decide the success and failure of the organization. External environment of an organization includes all those forces which cannot be controlled or influenced by a single organization. It includes the threats which an organization may have to face and opportunities which an organization may get while functioning in that environment. These are the factors which are faced by the entire industry. External environment includes factors of industry environment and macro-environment. Industry level factors are related to the buyers, suppliers, shareholders and other intermediaries whereas macro environment includes political, technological, economic, social and cultural factors.

In case of international external environment, these factors expand to a global scale where the organization is impacted by the macro environment factors of other nations. For example, an increase in the living standards of the customers in India led to an increase in demand of mobile phones which paved way for various international mobile phone manufacturing organizations to enter the Indian markets. It is important for any organization to access its external environment, measure its impact, adapt to the changes and consistently monitor the situation to sustain in international markets.

3.4 ENVIRONMENTAL ANALYSIS IN GLOBAL CONTEXT

Global environmental analysis involves scanning the different environments of different nations before preparing a strategy. International business has a necessity to assess the requirement of international markets in order to gain the competitive advantage. Environmental scanning includes scanning the internal as well as external environment. Internal environment can be analyzed by scanning the strengths, weaknesses, threats and opportunities. Once the managers have learnt about the organizational strengths and weaknesses they should scan the external or macro environment for analyzing, developing and implementing the strategic alternatives. For example, the managers should analyze the technological assets of the organization and then analyze the needs of the customers along with the current trends of the industry and activities adopted by the competitors. Global environmental scanning should include critical analysis of global trends and market segmentation for organizations to develop strategies for effectively penetrating the already established international markets or create a new global market for them. There are several ways for scanning the environment. Various methods for analyzing the internal and external environment are BCG consulting, SWOT analysis, Value chain analysis, Porter's five force model, Mckinsey's 7s model and PESTLE analysis.

3.5 ENVIRONMENTAL ANALYSIS PROCESS

The process of analyzing the business environment includes several steps as shown in figure 3.1. These are:

- **Factor Identification:** The first step in the process of analyzing the environment is identifying the factors prevailing in the environment. The environmental factors differ from nation to nation.
- **Factor Selection:** The next step involves selecting the relevant factors and analyzing the related variables to forecast the effect of such factors on the business.
- **Variable analysis**: This is followed by profiling the factors according to the positive and negative aspects it can create for the business.
- **Strategic Positioning:** The last step in the process of environmental analysis is determining a strategic position based after analyzing the environmental threats and opportunities and organizational strengths and weakness.

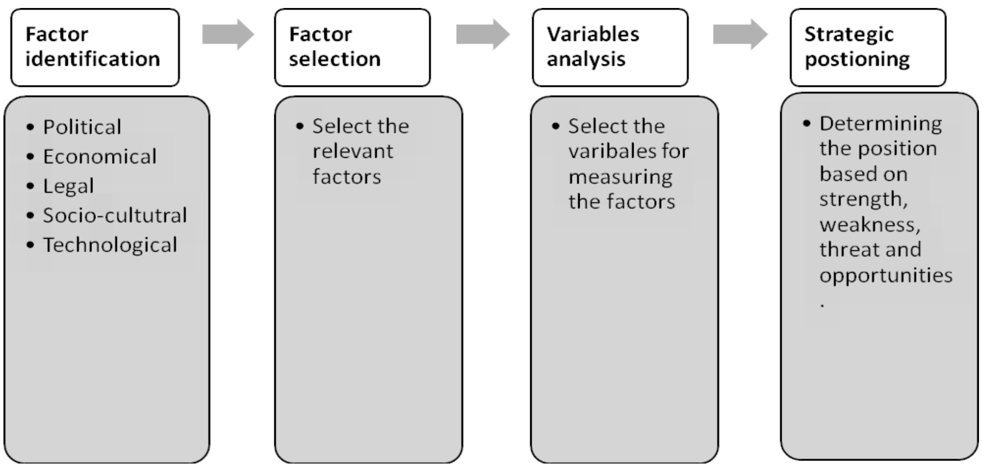

Figure 3.1: Process of Environmental Analysis

Environmental analysis at the global level involves environmental scanning across various international markets which is a continuous task as global business environment can be highly dynamic.

Activity 1

1. Explain the need for scanning the environment.

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2. Is global environmental analysis more complex than the analysis of domestic environment? Justify?

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3.6 PESTLE ANALYSIS

PESTLE analysis is an important tool used for analyzing the external environment, especially in foreign markets. PESTLE stands for political, economic, social, technological, legal and environmental factors which exist in an international business environment. It helps in gaining insights on the external threats and opportunities faced by an organization. It helps an organization in getting insights on organizational vision. PESTLE analysis helps in planning strategic alternatives based on the desired strategic position which an organization wants to attain. A business organization has to function in dynamic environment and therefore, the need to analyze different factors arises which is important to sustain in the market.

PESTLE analysis becomes more essential in case of international business as a manager needs to analyze the different factors prevailing in different nations at a given point of time. For example, the manager needs to plan strategies based on the domestic labour laws, economic conditions and government policies before entering the market of that nation. There are three steps involved in conducting a PESTLE analysis. These are:

- The first step involves considering the factors which are relevant to the organization.
- Next step is concerned with identifying the information which can give a clear picture about the relevant factors.
- The final step involves analyzing the data and drawing conclusions from the selected information. For example, if a manager wants to analyze economic factors, then s/he needs to assess the information related to GDP, and tax policies to develop an effective strategy for entering those

markets. The various factors covered under PESTLE analysis are depicted in figure 3.2.

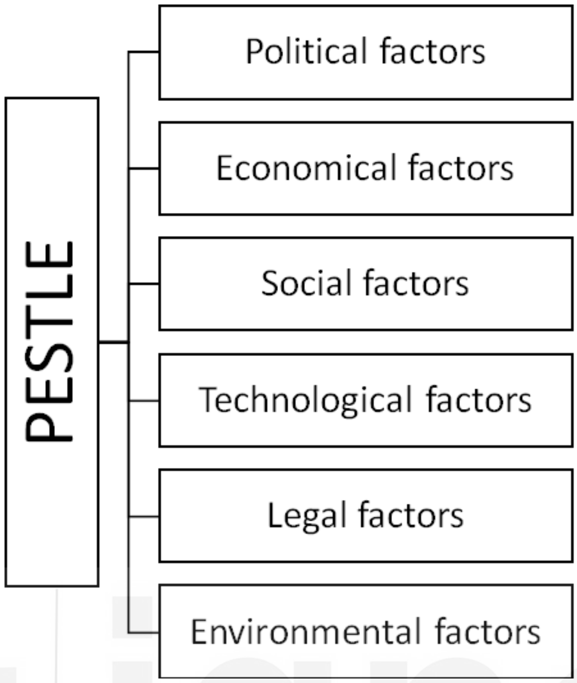

Figure 3.2: Factors analyzed under PESTLE analysis

The different factors under PESTLE analysis are discussed below with respect to the global business environment.

Political factors

Political factors are related to the government regulations, policies and laws with regards to the trade, commerce, economy, human resources and environment of a nation. It includes all the laws the government of a nation passes. It also includes the trade treaties which a nation enters into with the nations across globes such as trade treaties between ASEAN nations. Political factors also include the rules setup by the legislation which binds the working environment in a nation such as working hours and working conditions. In case of international business, the rules and regulations made between two nations or a group of nations play an important role. For instance, FDI policies adopted by a nation will determine the future investments by international organization into that nation.

A few examples for international political factors can be-

- Stability of the political environment
- Foreign trade policies
- Local taxation rules
- Membership of international summits and groups such as ASEAN, BRICS or G20

Economic Factors

Economic factors can affect the way an organization does its business in a market. These factors are responsible for the demand and supply of a commodity in a nation. Economic factors include rate of inflation, interest rate, foreign exchange rate and economic growth pattern. The economic factors of a nation can predict the profitability of a business if the organization enters into that foreign nation. These factors can easily influence the way an organization can function in a foreign nation. For instance, high rate of inflation in any economy can influence the money supply into the economy and adversely affect the purchasing power of customers. This can lead to a decline in demand for consumer goods which can result into losses for business.

A few examples for international economic factors can be-

- Current and future predictions regarding GDP of the nation
- Foreign exchange rates in the international market and their impact on cost of production
- Current and forecast of inflation rates

Social Factors

Social factors are related to the social behaviour and cultural effects prevalent among the people of a nation. It includes local languages, religious beliefs and cultural practices. It also includes the manner in which the population of the nation responds to the laws, rules and regulations. The demand for the product and services of an organization can also be affected by the attitude of the customers towards them. Therefore, organizations should take into consideration the social values of a nation before launching their products into the foreign market. Social factors also include the demographic aspects of the nation. A global business needs to adapt itself to the social and cultural environment of the nation before entering the domestic market of any foreign nation.

A few examples of international social factors can be-

- Purchasing habits and the lifestyle of the customers in a foreign domestic market
- Demographic profiles of target customers
- Religious and cultural beliefs of the customers
- Attitude towards work policies

Technological factors

In the present complex and competitive world, technology is the most important asset for any organization for achieving competitive advantage in a market or industry. The new and advanced technologies enable an organization to develop better products and services for the target markets. It may allow an organization to innovate new products, processes or services which can ultimately lead to creation of new markets for the organization. Technological factors include patents, research and development, technological advancements and automation technology owned by an organization. For instance, the emergence of artificial intelligence in the form of smart devices into everyday life is a form of technological advancement which can give an organization edge over its competitors.

A few examples of technological factors can be-

- Intellectual property rights in the foreign nations
- Availability of resources for development of technology
- Level of technology absorption in the foreign nation
- The current status of technology in the foreign market

Legal Factors

Legal factors are related to the rules, regulation and laws of a nation. These factors can impact the micro and macro environment of an organization. For instance, the labour laws of a nation can influence the human resource policies of an organization in foreign nation. Moreover, an organization needs to obtain various permissions from the regulatory bodies and adhere to the legal requirements. Legal factors include environmental laws, industry regulations, consumer protection laws and other statutory requirements.

A few examples of legal factors can be-

- Laws related to consumer protection
- Laws related to nation's environment
- Laws related to human resources

Environmental factors

Environmental factors include all the factors related to physical environment of the nation and the rules related to the protection of the environment. Environmental factors include climate, weather conditions, environmental laws, geographical location and global environmental conventions. For instance, organization based in tourism sector or agricultural produce are highly influenced by environmental factors.

A few examples of environmental factors can be-

- Environmental protection laws
- Climate conditions of a nation
- Rules related to disposal of waste and energy consumption
- Policies formulated under international environmental conventions

The analysis of global business environment is not confined to PESTLE analysis. The organizations apply their internal assessment mechanisms as well to have the feel of the foreign environment before entering a specific market.

Activity 2

1. State some international policies deployed for improving physical environment across the world.

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2. How will you identify whether the economic and political factors in a nation are favourable or not?

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3.7 GLOBAL STRATEGIC ALTERNATIVES

After performing an environmental analysis, the manager needs to develop strategic alternatives for making a business global. There are several approaches which one can undertake for going global. The organization has to decide as to how they want to internationalize their business. The process of internationalizing a business is based on two decisions regarding the strategies to be adopted for making the process of business international and the extent to which the organization wants to invest in the international market.

There are three major strategy options for going international. These are:

Multi-domestic: The organization decentralizes operational decisions and activities to each nation in which it is operating and customizes its products and services to each market. For example, U.S. auto manufacturers maintained decentralized overseas units that produced cars adapted to different nations and regions.

Global: The organization offers standardized products and uses integrated operations. Example: An automobile company is treating its Contour as a car for all world markets—one that can be produced and sold in any industrialized nation.

Transnational: The organization seeks the best of both the multi-domestic and global strategies by globally integrating operations while tailoring products and services to the local market. In other words an organization 'thinks globally but acts locally'. Many authors refer to this concept as 'Globalization'. Global electronic communications and connectivity can help integrate operations while flexible manufacturing enables organizations to produce multiple versions of products from the same assembly line, tailoring them to different markets. This gives more choice in locating facilities to take advantage of cheaper labour or to get the best of other factors of production

3.8 ENTERING GLOBAL MARKETS

The first step for entering the global markets is to choose the mode of entering. There are several modes of entering into a foreign market. The modes differ on the basis of the level of investment into the market. An organization selects a mode for entering into foreign market depending upon the risk taking capacity and the information available for the prospective market. For instance, an organization having access to required information regarding a prospective foreign market will be able to assume more risk and opt for higher level of investments into the market.

Some of the modes of entry include exporting, licensing, franchising, strategic alliance, acquisition and joint venture. Licensing is the least risk options where organization can offer their technology to other vendors in foreign On the other hand, franchising involves more engagement in the foreign markets through sharing of technology and patents. It involves least monetary investment into a foreign market. Exporting is another low investment entry mode where organization can sell the products they produced for domestic markets into a foreign market. Though, it involves engagement with export agents in the foreign market but the cost involves is still low. These modes of entry have less investment and low risk on investment. On the contrary, joint venture and strategic alliance involve higher risk and investment. These modes involve investing huge sum of money into foreign markets where an organization ties up with a domestic organization of the host nation. An organization needs to select an entry mode depending upon the strategic position they want to assume.

There are several methods for going international. Each method of entering an overseas market has its own advantages and disadvantages that must be carefully assessed. Different international entry modes involve a tradeoff between level of risk and the amount of foreign control the organization's managers are willing to allow. It is common for a organization to begin with exporting, progress to licensing, then to franchising finally leading to direct investment. As the organization achieves success at each stage, it moves to the next. If it experiences problems at any of these stages, it may not progress further. If adverse conditions prevail or if operations do not yield the desired returns in a reasonable time period, the organization may withdraw from the foreign market.

The decision to enter a foreign market can have a significant impact on a organization. Expansion into foreign markets can be achieved through:

- Exporting
- Licensing
- Joint Venture
- Direct Investment

Exporting: Exporting involves marketing of domestically produced goods in a foreign nation and is considered to be a traditional and well-established method of entering foreign markets. It does not entail new investment since exporting does not require separate production facilities in the target nation. Most of the costs incurred for exporting products are marketing expenses.

Licensing: Licensing gives permit to an organization in the target nation to use the property of the licensor. Such property usually is intangible, such as trademarks, patents, and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possible for technical assistance. Licensing has the potential to provide a very large ROI since this mode of foreign entry also requires additional investments. However, since the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost.

Joint Venture: There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing, joint product development, and conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.

Joint ventures are favoured when:

- The partners' strategic goals converge while their competitive goals diverge;
- The partners' size, market power, and resources are small compared to the industry leaders; and
- Partners' are able to learn from one another while limiting access to their own proprietary skills.

The critical issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local organization capabilities and resources, and government intentions. Potential problems include, conflict over asymmetric investments, mistrust over proprietary knowledge, performance ambiguity – how to share the profits and losses, lack of parent organization support, cultural conflicts, and finally, when and how to terminate the relationship.

Joint ventures have conflicting pressures to cooperate and compete:

- Strategic imperative; the partners want to maximize the advantage gained for the joint venture, but they also want to maximize their own competitive position.
- The joint venture attempts to develop shared resources, but each organization wants to develop and protect its own proprietary resources.
- The joint venture is controlled through negotiations and coordination processes, while each organization would like to have hierarchical control.

Direct Investment: Direct investment is the ownership of facilities in the target nation. It involves the transfer of resources including capital, technology, and personnel. Direct investment may be made through the acquisition of an existing entity or the establishment of a new enterprise. Direct ownership provides a high degree of control in the operations and the ability to better know the customers and competitive environment. However, it requires a high degree of commitment and substantial resources. Table 3.1 compares different International Market Entry Modes.

Table 3.1: Comparison of International Market Entry Modes

Mode	*Conditions Favouring this Mode*	*Advantages*	*Disadvantages*
Exporting	• Limited sales potential in target nation; little product adaptation required	• Minimizes risk and investment • Speed of entry	• Trade barriers & tariffs add to costs·

	• High target nation; production costs • Liberal import policies High political risk	• Maximizes scale; uses existing facilities	• Transport costs • Limits access to local market information • Organization viewed as an outsider
Licensing	• Import and investment barriers • Legal protection possible in target environment • Low sales potential in target nation • Large cultural distance • Licensee lacks ability to become a competitor	• Minimizes risk and investment • Speed of entry • Able to circumvent trade barriers • High ROI	• Lack of control over use of assets • Licensee may become competitor • Knowledge leakages • License period is limited
Joint Ventures	• Import barriers • Large cultural distance • Assets cannot be fairly priced • High sales potential • Some political risk • Government restrictions on foreign ownership • Local organization can provide skills, resources, distribution network, brand name etc.	• Overcomes ownership restrictions and cultural distance • Combines resources of the organization • Potential for learning • Viewed as insider • Less investment required	• Difficult to manage • Dilution of control • Greater risk than exporting & licensing • Knowledge spillovers • Partner may become a competitor
Direct Investment	• Import barriers • Small cultural distance • Assets cannot be fairly priced • High sales potential • Low political risk	• Greater knowledge of local market • Can better apply specialized skills • Minimize knowledge spillover • Can be viewed as an insider	• Higher risk than other modes • Requires more resources and commitment • May be difficult to manage the local resources.

3.9 EPRG FRAMEWORK

EPRG framework is concerned with four strategic orientations which an organization can adopt for managing its international business. EPRG stands for Ethnocentric, Polycentric, Regiocentric and Geocentric orientation.

These orientations are based on the strategies which an organization can adopt when going global. These orientations differ from each other on the basis of the variations in business operations in regional or global arena.

Ethnocentric approach

Under this approach, the entire process of managing the global business is based in the domestic nation of the organization. The organization assumes foreign markets as secondary markets. The entire process of strategic decision-making and control is vested in the domestic or local nation where headquarter of the organization is situated. The organization believes that the products manufactured in the domestic nation are suitable for selling in the foreign markets. In other words, the products or services offered in the local markets are to be sold in the global markets without any alterations made to suit the customers of global markets. The whole process of producing the products is based in the domestic nation and the finished goods are exported to the foreign nations for sale. Further, under ethnocentric approach an organization adopts single marketing strategy which implies that same marketing strategy is followed in the international markets which has been deployed in the local markets. The organization following this approach ignores the needs and demands of the global customers. Therefore under ethnocentric approach, the organization develops strategies as per the domestic nation's preferences and applies those strategies throughout the world without making any changes in them.

Polycentric approach

Under this approach, the process of managing the global business is based in the different foreign markets where an organization wants to sell their products or services. This approach is opposite to ethnocentric approach. In this approach, the strategic control is given to the subsidiaries situated in the foreign nations. These subsidiaries are allowed to develop strategies based on the needs and demands of the customers residing in that foreign nation. The production process is also situated in the foreign nation. In other words, the products and services are highly localized to serve the foreign customers. Hence, the products, services and the marketing strategies vary from nation to nation. For example, an organization selling its product in two international markets, say India and Japan will have different range of products for the customers of both the nations based on their needs. Therefore under polycentric approach, organizations develop different strategies in different nations depending upon the preferences of the customers residing in those nations.

Regiocentric approach

Regiocentric approach is based on the division of global markets into particular regions, such as South-Asian region, European region or American region. In other words, the entire world is clubbed into different regions based on certain similarities. Under this approach, an organization formulates different strategies for different regions. This implies that the different nations pertaining to one region will follow same strategy. The markets located in different nations of a region are assumed as one single international market based on common traits. The same range of products and services are offered to the customers of a particular regions. These products and services are developed based on the needs and demands of all the customers belonging to a particular region. Hence the products and services are less localized in comparison to the ones under polycentric approach. The marketing strategies are also common for all foreign markets coming under one region. For example, an organization will plan different international strategies for European markets and South-Asian markets. However, a single strategy will be implemented in different European nations such as Germany, Spain and Italy whereas another single strategy will be implemented in South-Asian nations such as Vietnam, Thailand and Malaysia.

Geocentric Approach

Under this approach, the entire world is depicted as one single market. This implies that there is no difference between domestic nation and foreign nations. An organization following geocentric approach formulates strategy based on the global needs of the consumer. The same products and services offered in all the markets throughout the globe. The production process can be situated anywhere in the world depending upon low-cost of production and availability of raw material. This approach enables effective adaptation to the changing needs across the different nations. Such an approach is suitable for an organization which makes high-end products with unique features such as luxury car-makers.

3.10 GLOBAL SUPPLY CHAINS AND COMPETITIVENESS

Logistics capabilities (the movement of supplies and goods) make or mar global operations. Global operations involve highly coordinated international flow of goods, information, cash, and work processes. Setting up a global supply chain to support producing and selling products in many nations at the right cost and service levels is a very difficult task. However the benefits of managing this difficult task has many benefits, which includes rationalization of global operations by setting up right number of factories and distribution centers and integration of far-flung operations under a unified command to better manage inventory and order filling activities. Optimizing global supply chain operations can cut the delivery times and costs drastically and improve global competitiveness. Smart supply chain planning may result in locating facilities where they make the most logistical sense, while saving on taxes. This is better than simply locating where labor is cheapest, but where taxes and other cost may not be most favourable.

3.11 SUMMARY

Business environment consists of different factors at different levels. There are two environments which surrounds an organization. The first one is internal or micro environment which depicts the strength and weakness of an organization. The second environment is the external or the macro environment which depicts the threats and opportunities to an organization. There are different techniques of analyzing business environment such as SWOT analysis, PESTLE, Porter’s five force model, value chain analysis, Mckinsey’s model and many more. However, PESTLE analysis is widely used for scanning the global business environment as it covers various factors which can affect a business organization. PESTLE scans political, economic, technological, social, legal and environmental factors. Based on the environmental analysis, a manager needs to decide which strategic alternatives the organization should opt for sustaining in international markets. The organization must decide on the level of investment which they can make into a foreign nation based on their risk-taking capacity. There are several modes of entering into a foreign market such as exporting, franchising, and licensing and many more. Apart from deciding upon the mode of entering into the foreign markets, the organization has to decide an approach for formulation and implementation of business strategies in case of international business. There are four approaches named as ethnocentric, poly centric, regiocentric and geocentric approach. Each approach has different scope of planning and implementing global business strategies. In all the strategic perspective to the global market is at a larger level.

3.12 KEYWORDS

Internationalization	:	It is the process under which an organization plans to expand their operations in the international markets
EPRG Framework	:	It provides a framework for adoption of different strategies while going global.
Exporting	:	It involves sale of domestically produced goods in a foreign nation without any modification in them.
Licensing	:	It involves adopting the technical knowledge, tangible and intangible assets for a licensing fee.

3.13 SELF-ASSESSMENT QUESTIONS

1. Distinguish between global environment and domestic environment.
2. Differentiate between external environment and internal environment.
3. Explain external environment analysis with some recent examples.
4. Describe the EPRG framework with respect to global business.

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