

Study Material

Class - M. Com

Subject Code – MC 4.1

Subject – Strategic Management

Topic – Strategic Management (Meaning, Benefits, Levels, Objectives)

Prepared by - Dr. G. Vijayalakshmi.

Faculty of Commerce, Karim City College.

Learning outcome of this study material:

- Meaning and definition of strategic management
- Benefits of strategic management
- Levels of strategic management
- Objectives of strategic management

UNIT-1

INTRODUCTION TO STRATEGY AND STRATEGIC MANAGEMENT

Strategic Management is a field of study that involves the process through which firms define their missions, visions, goals, and objectives, as well as craft and execute strategies at various levels of the firms' hierarchies to create and sustain a competitive advantage.

Strategy is a high level plan to achieve one or more goals under conditions of uncertainty.

Here are some definitions of strategy.

Chandler(1962)Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals;

Mintzberg (1979) Strategy is a mediating force between the organization and its environment: consistent patterns in streams of organizational decisions to deal with the environment.

Prahalad (1993) Strategy is more than just fit and allocation of resources. It is stretch and leveraging of resources

Porter (1996) Strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value

Mintzberg has identified the 5 P's of strategy: Strategy could be a plan, a pattern, a position, a ploy, or a perspective.

1. A plan, a "how do I get there"
2. A pattern, in consistent actions over time
3. A position that is, it reflects the decision of the firm to offer particular products or services in particular markets.
4. A ploy, a schemer intended to outwit a competitor.
5. A perspective that is, a vision and direction, a view of what the company or organization is to become.

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

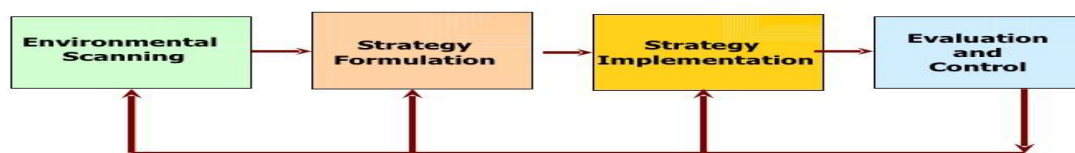
Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn't ignore the threats.

Strategic management is nothing but planning for both predictable as well as unforeseeable contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage.

It is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving.

Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then re-evaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Basic Model of Strategic Management



Strategic Management Is Basically Needed For Every Organization And It Offers Several Benefits:

1. Universal Strategy refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends. Nations have, in the management of their national policies, found it necessary to evolve strategies that adjust and correlate political, economic, technological, and psychological factors, along with military elements. Be it management of national polices, international relations, or even of a game on the playfield, it provides us with the preferred path that we should take for the journey that we actually make.
2. Keeping pace with changing environment the present day environment is so dynamic and fast changing thus making it very difficult for any modern business enterprise to operate. Because of uncertainties, threats and constraints, the business corporation is under great pressure and is trying to find out the ways and means for their healthy survival. Under such circumstances, the only last resort is to make the best use of strategic management which can help the corporate management to explore the possible opportunities and at the same time to achieve an optimum level of efficiency by minimizing the expected threats.

3. Minimizes competitive disadvantage It minimizes competitive disadvantage and adds up to competitive advantage. For example, a company like Hindustan Lever Ltd., realized that merely by merging with companies like Lakme, Milk food, Ponds, Brooke bond, Lipton etc which make fast moving consumer goods alone will not make it market leader but venturing into retailing will help it reap heavy profits. Then emerged its retail giant “Margin Free” which is the market leader in states like Kerala. Similarly, the R.P. Goenka Group and the Muruguppa group realized that mere takeovers do not help and there is a need to reposition their products and reengineer their brands. The strategy worked.
4. Clear sense of strategic vision and sharper focus on goals and objectives Every firm competing in an industry has a strategy, because strategy refers to how a given objective will be achieved. ‘Strategy’ defines what it is we want to achieve and charts our course in the market place; it is the basis for the establishment of a business firm; and it is a basic requirement for a firm to survive and to sustain itself in today’s changing environment by providing vision and encouraging defining mission.
5. Motivating employees one should note that the labor efficiency and loyalty towards management can be expected only in an organization that operates under strategic management. Every guidance as to what to do, when and how to do and by whom etc, is given to every employee. This makes them more confident and free to perform their tasks without any hesitation. Labor efficiency and their loyalty which results into industrial peace and good returns are the results of broad-based policies adopted by the strategic management
6. Strengthening Decision-Making under strategic management, the first step to be taken is to identify the objectives of the business concern. Hence a corporation organized under the basic principles of strategic management will find a smooth sailing due to effective decision-making. This points out the need for strategic management.
7. Efficient and effective way of implementing actions for results Strategy provides a clear understanding of purpose, objectives and standards of performance to employees at all levels and in all functional areas. Thereby it makes implementation very smooth allowing for maximum harmony and synchrony. As a result, the expected results are obtained more efficiently and economically.

8. Improved understanding of internal and external environments of business
Strategy formulation requires continuous observation and understanding of environmental variables and classifying them as opportunities and threats. It also involves knowing whether the threats are serious or casual and opportunities are worthy or marginal. As such strategy provides for a better understanding of environment.



LEVELS OF STRATEGY

A typical business firm should consider three types of strategies, which form a hierarchy as shown in Figure 2.2 Corporate strategy – Which describes a company's overall direction towards growth by managing business and product lines? These include stability, growth and retrenchment. For example, Coca cola, Inc., has followed the growth strategy by acquisition. It has acquired local bottling units to emerge as the market leader

Business strategy - Usually occurs at business unit or product level emphasizing the improvement of competitive position of a firm's products or

services in an industry or market segment served by that business unit. Business strategy falls in the realm of corporate strategy.

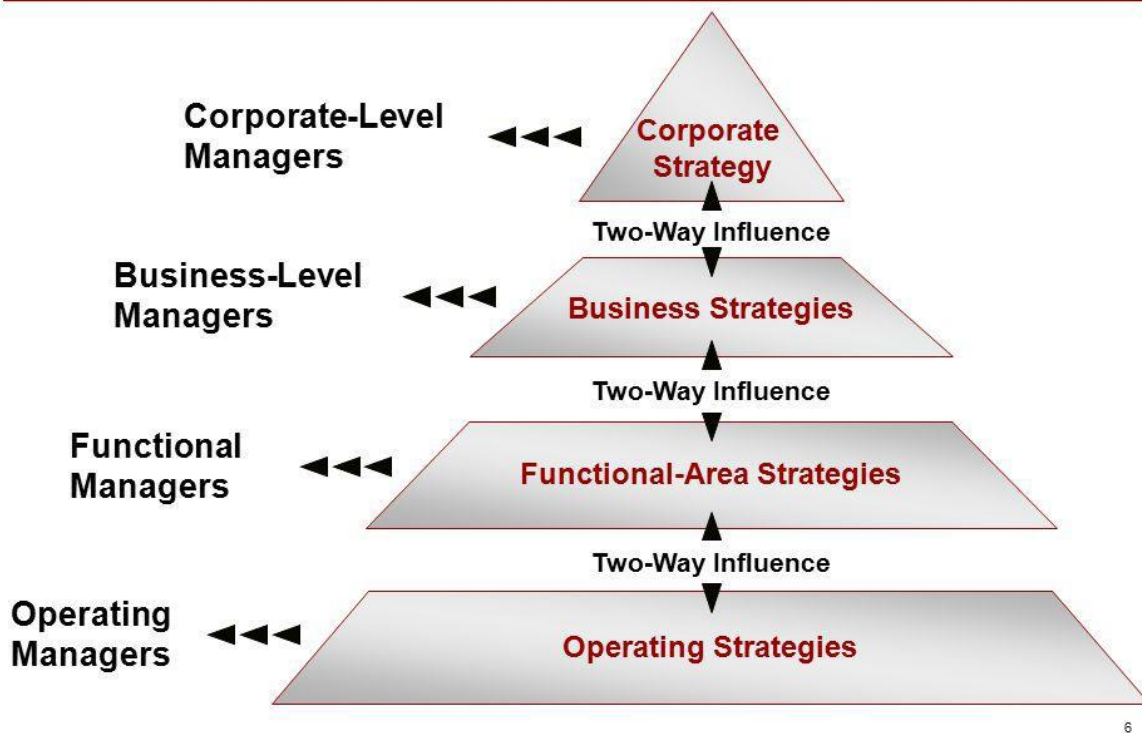
For example, Apple Computers uses a differentiation competitive strategy that emphasizes innovative product with creative design. In contrast, ANZ Grindlays merged with Standard Chartered Bank to emerge competitively.

Functional strategy – It is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide the firm with a competitive advantage. For example, Procter and Gamble spends huge amounts on advertising to create customer demand.

Operating strategy - These are concerned with how the component parts of an organization deliver effectively the corporate, business and functional -level strategies in terms of resources, processes and people. They are at departmental level and set periodic short-term targets for accomplishment.

Participative management style of functioning, it is a group or team exercise involving key personnel and all functional executives in the organization.

Figure 2.2: A Company's Strategy-Making Hierarchy



OBJECTIVES OF STRATEGIC MANAGEMENT

In strategic management, there are strategic objectives and financial objectives. Additionally, all objectives are either short-run or long-run types. When planning a firm's strategy it is important to have objectives in mind and to understand the differences between the types of objectives.

Strategic Objectives

Strategic objectives deal with the firm's position in the model. You might do this, for example, by positioning the firm relative to the external forces – bargaining power of customers, bargaining power of suppliers, threat of new entrants, threat of substitutes, and competition within the industry – that can impact a business. Strategic objectives might include expanding market share, changing market position or under-cutting a competitor's costs.

Financial Objectives

Managers use financial objectives to measure strategic performance. For example, if the firm's strategic objective is to increase efficiency, the financial objective could be to increase return on assets or return on capital. Financial objectives, derived from management accounting, are more concrete.

Short-run Objectives

Financial and strategic objectives can either be short-run or long-run objectives. Short-run objectives deal with the immediate future. They typically focus on tangible goals that management can realize in a short time. An example of a short-run objective might be to increase monthly sales.

Long-run Objectives

Long-run objectives target the firm's long-term position. While short-run objectives focus on a firm's annual or monthly performance, long-run objectives concern themselves with the firm's development over several years. Examples of long-term objectives might be to become the market leader or to attain sustainable growth.
