

Study Material

Class - M. Com

Subject Code – MC 4.1

Subject – Strategic Management

Topic – Strategic Management Concept

Prepared by - Dr. G. Vijayalakshmi.

Faculty of Commerce, Karim City College.

Strategic management

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 reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes. The managers and employees must do appropriate things in appropriate manner. They need to be both effective as well as efficient.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

Following are the important **concepts of Strategic Management:**

Strategy - Definition and Features	Strategy Formulation	Strategic Decisions
Components of a Strategy Statement	Strategy Implementation	Business Policy
Strategic Management Process	Strategy Formulation vs Implementation	BCG Matrix
Environmental Scanning	Strategy Evaluation	SWOT Analysis

Competitor Analysis	Strategic Leadership	Business Ethics
Porter's Five Forces Model	Corporate Governance	Core Competencies

Strategic planning process

The process of strategic management lists what steps the managers should take to create a complete strategy and how to implement that strategy successfully in the company. It might comprise from 7 to nearly 30 steps^[4] and tends to be more formal in well-established organizations.

The ways that strategies are created and realized differ. Thus, there are many different models of the process. The models vary between companies depending upon:

- Organization's culture.
- Leadership style.
- The experience the firm has in creating successful strategies.

All the examples of the process in this article represent top-down approach and belong to the 'design school'.

Components of strategic planning process

There are many components of the process which are spread throughout strategic planning stages. Most often, the strategic planning process has 4 common phases: strategic analysis, strategy formulation, implementation and monitoring (David, Johnson, Scholes & Whittington, Rothaermel, Thompson and Martin.) For clearer understanding, this article represents 5 stages of strategic planning process:

- Initial Assessment
- Situation Analysis
- Strategy Formulation
- Strategy Implementation
- Strategy Monitoring

Initial Assessment

Components: Vision statement & Mission statement

Tools used: Creating a Vision and Mission statements.

The starting point of the process is initial assessment of the firm. At this phase managers must clearly identify the company's vision and mission statements.

Business' vision answers the question: What does an organization want to become? Without visualizing the company's future, managers wouldn't know where they want to go and what they have to achieve. Vision is the ultimate goal for the firm and the direction for its employees.

In addition, mission describes company's business. It informs organization's stakeholders about the products, customers, markets, values, concern for public image and employees of the organization (David). Thorough mission statement acts as guidance for managers in making appropriate (Rothaermel,) daily decisions.

Situation Analysis

Components: Internal environment analysis, External environment analysis and Competitor analysis Tools used: PEST, SWOT, Core Competencies, Critical Success Factors, Unique Selling Proposition, Porter's 5 Forces, Competitor Profile Matrix, External Factor Evaluation Matrix, Internal Factor Evaluation Matrix, Benchmarking, Financial Ratios, Scenarios Forecasting, Market Segmentation, Value Chain Analysis, VRIO Framework

When the company identifies its vision and mission it must assess its current situation in the market. This includes evaluating an organization's external and internal environments and analyzing its competitors.

During an external environment analysis managers look into the key external forces: macro & micro environments and competition. PEST or PESTEL frameworks represent all the macro environment factors that influence the organization in the global environment. Micro environment affects the company in its industry. It is analyzed using Porter's 5 Forces Framework.

Competition is another uncontrollable external force that influences the company. A good example of this was when Apple released its iPod and shook the mp3 players industry, including its leading performer Sony. Firms assess their competitors using competitors profile matrix and benchmarking to evaluate their strengths, weaknesses and level of performance.

Internal analysis includes the assessment of the company's resources, core competencies and activities. An organization holds both tangible resources: capital, land, equipment, and intangible resources: culture, brand equity, knowledge, patents, copyrights and trademarks (Rothaermel, . A firm's core competencies may be superior skills in customer relationship or efficient supply chain management. When analyzing the company's activities managers look into the value chain and the whole production process.

As a result, situation analysis identifies strengths, weaknesses, opportunities and threats for the organization and reveals a clear picture of company's situation in the market.

Strategy Formulation

Components: Objectives, Business level, Corporate level and Global Strategy Selection

Tools used: Scenario Planning, SPACE Matrix, Boston Consulting Group Matrix, GE-McKinsey Matrix, Porter's Generic Strategies, Bowman's Strategy Clock, Porter's Diamond, Game Theory, QSP Matrix.

Successful situation analysis is followed by creation of long-term objectives. Long-term objectives indicate goals that could improve the company's competitive position in the long run. They act as directions for specific strategy selection. In an organization, strategies are chosen at 3 different levels:

- Business level strategy. This type of strategy is used when strategic business units (SBU), divisions or small and medium enterprises select strategies for only one product that is sold in only one market. The example of business level strategy is well illustrated by Royal Enfield firms. They sell their Bullet motorcycle (one product) in United Kingdom and India (different markets) but focus on different market segments and sell at very different prices (different strategies). Firms may select between Porter's 3 generic strategies: cost leadership, differentiation and focus strategies. Alternatively strategies from Bowman's strategy clock may be chosen (Johnson, Scholes, & Whittington,).
- Corporate level strategy. At this level, executives at top parent companies choose which products to sell, which market to enter and whether to acquire

a competitor or merge with it. They select between integration, intensive, diversification and defensive strategies.

- Global/International strategy. The main questions to answer: Which new markets to develop and how to enter them? How far to diversify? (Thompson and Martin, Johnson, Scholes, & Whittington,)

Managers may choose between many strategic alternatives. That depends on a company's objectives, results of situation analysis and the level for which the strategy is selected.

Strategy Implementation

Components: Annual Objectives, Policies, Resource Allocation, Change Management, Organizational chart, Linking Performance and Reward
Tools used: Policies, Motivation, Resistance management, Leadership, Stakeholder Impact Analysis, Changing organizational structure, Performance management

Even the best strategic plans must be implemented and only well executed strategies create competitive advantage for a company.

At this stage managerial skills are more important than using analysis. Communication in strategy implementation is essential as new strategies must get support all over organization for effective implementation. The example of the strategy implementation that is used here is taken from David's book, chapter 7 on implementation. It consists of the following 6 steps:

- Setting annual objectives;
- Revising policies to meet the objectives;
- Allocating resources to strategically important areas;
- Changing organizational structure to meet new strategy;
- Managing resistance to change;
- Introducing new reward system for performance results if needed.

The first point in strategy implementation is setting annual objectives for the company's functional areas. These smaller objectives are specifically designed to achieve financial, marketing, operations, human resources and other functional goals. To meet these goals managers revise existing policies and introduce new ones which act as the directions for successful objectives implementation.

The other very important part of strategy implementation is changing an organizational chart. For example, a product diversification strategy may require new SBU to be incorporated into the existing organizational chart. Or market development strategy may require an additional division to be added to the company. Every new strategy changes the organizational structure and requires reallocation of resources. It also redistributes responsibilities and powers between managers. Managers may be moved from one functional area to another or asked to manage a new team. This creates resistance to change, which has to be managed in an appropriate way or it could ruin excellent strategy implementation.
