



**SYLLABUS**

**Class: - B.B.A. VI Semester**

**Subject: - Strategic Management**

|                 |  |
|-----------------|--|
| <b>Unit-I</b>   | <b>Strategic Management: An Introduction</b><br>Strategic thinking Vs Strategic management Vs Strategic planning, Meaning of strategic management, concept of strategy, policy and strategy, strategy and tactic, Strategy and strategic plan, Nature of strategic plan, nature of strategic decisions, approaches to strategic decision making, levels of strategies, The strategic management process, strategic management: merits and demerits |
| <b>Unit-II</b>  | <b>Mission, Objectives, Goals and Ethics</b><br>What is mission, concept of goals, Integration of individual and organisation goals: A Challenge, How Objectives are pursued, how are mission and objectives are formulated, why do mission and objective change, vision mission, objectives, goals and Strategy: Mutual relationships, core of strategic management: vision A-must, ethics and strategy   |
| <b>Unit-III</b> | <b>External environment: Analysis and appraisal</b><br>Concept of environment, environmental analysis and appraisal, why environmental scanning and analysis, component of environment, SWOT:A tool of environment analysis, techniques of environmental search and analysis, ETOP: A technique of diagnosis, decision making on environmental information.  |
| <b>Unit-IV</b>  | <b>Organisational change and innovation:-</b><br>Planned and unplanned change, causes or forces of organisational change, managing planned change, choosing a change strategy, creativity and innovation in organisations, organizational creativity and innovation process, learning organisation   |
| <b>Unit-V</b>   | <b>Generic competitive strategy:-</b><br>Generic vs. competitive strategy, the five generic competitive strategy, competitive marketing strategy option, offensive vs. defensive strategy,<br><b>Corporate strategy:-</b> Concept of corporate strategy , offensive strategy, defensive strategy, scope and significance of corporate strategy   |
| <b>Unit-VI</b>  | <b>Strategic evaluation and control:-</b><br>Evaluation of strategy and strategic control, why strategy evaluating, criteria for evaluation and the evaluation process, strategic control process, types of external controls.   |



**UNIT 1**

**Strategic Thinking vs. Strategic Management vs. Strategic Planning**

It is generally assumed that there is no difference among the term 'strategic thinking', strategic management' and 'strategic planning' and all are same in nature and scope. In fact, all these terms are closely inter-related but not have the same meaning and scope. 'Strategic thinking' is pre-requisite for strategic management and strategic planning which involves looking for solutions both inside and outside the organization, and which focuses on intent hand takes a holistic or systems view. It is much more than simply having a new idea and comprises a creative but order sequence of intellectual activities including the generation of completely new ideas, followed by the application of rational thinking to the development of those ideas. 'Strategic Management' is any action taken to realize a strategy, in particular to realize the vision which results from creative strategic thinking. It is action taken within the framework of the strategy. 'Strategic planning assumes a further step in the molding of the future in which strategic management, often fragmentary and inchoate, is translated into highly formal and coherent written plans and actions to realize those plans.

**Strategic management**

'Strategic management is not a box of tricks or a bundle of techniques. It is analytical thinking and commitment of resources to action.'  
- Peter Drucker

The primary task of management is to make decisions and take action upon that decision. This task determines the excellence, survival and existence of an enterprise. Simply this process is known as strategic management. The job of strategic management is to make the best use to a firm's resources in a changing environment. To a large extent, the success, failure or stability of a firm depends in strategic management. Today all types of organizations are running in continuous changing situations on the one hand, while various internal pressure and environmental pressure have made it imperative for a manager to think and act strategically. It is related with making long range decision relating to an organization and its environment. Globalization and privatization have also increased the importance of strategic management which stress managing the organization' relationship with its environment as a means to achieve mission accomplishment. Examples of world famous multinational corporation like IBM, General Motors, Zerox, Mazda are before us who are continue not only in existence but also in a good competitive position for last three decades due to the use of strategic management.

**Meaning of strategic Management**

In simple words, strategic management is a process of relating the organization with environment through strategy formulation and implementation. This emphasis that there is continuous interaction between and its environment and have open system approach. Strategic management is concerned with making decision that relate the organization to its environment, setting long-term goals, and allocating resources to achieve these goals. It is always concerned with the long-term welfare of the organization and what is the organization must adopt for changing needs. Anderson has explained three major components of strategic management. The first component involves analysis of the external environment. Modern managers are highly concerned with rate of change in what is referred to as task environment or that portion of the environment with which the managers should interact on a regular basis. The second component is strategy. Strategy is the statement of objectives and plans for the entire organization. Strategy determines the purpose of the organization and keeps concerned with such issues as organizational strengths and weaknesses, competitors' analysis, value of top managers, and what strategies the organization has applied in the past. Organizational design, the third component of strategic management, matches the strategic goals and purpose of the organization with the people who will do the work and the way they are organized to do it.

Anderson opines that strategic management is usually considered the domain of top management only, but the concept of strategic management are increasingly being applied to lower management levels such as divisions, departments and even small work groups.



In operational management, goals are usually validated through extensive past experience and that are reduced to specific sub-goals for functional units. Issues are abstract and deferrable and may be unfamiliar in strategic management while in operational management, issues are of immediate, concrete and familiar in nature. The following diagram shows the relationship between strategic management and operating and administrative management.



### **The Concept of Strategy**

The concept of strategy is ancient. Originally, the word 'strategy' is derived from the Greek word 'Strategeia' which means 'the art of the general'. It has been associated with first determining the position of a military, business or political organization in relation to its environment and then using the organization's resources to reach its goals. The Greeks knew that strategy was more than fighting battles. Effective generals have to determine the right lines of supply, decide when to fight and when not to fight and manage the army's relationship with citizens, politicians and diplomats. Effective general not only had to plan but had to act as well. These early military roots of strategy have, of course, expanded into political and business arena as increased competition and environmental change have forced organizations to plan more carefully for the future. A key aim of both business and military strategy is to gain competitive advantage. In both, the organizations they try to use their own strengths to exploit competitors' weaknesses. The element of surprise provides great competitive advantages in both military and business strategy. According to David, 'a fundamental difference between military and business strategy is that business strategy is formulated, implemented and evaluated with an assumption of 'competition', whereas military strategy is based on an assumption of 'conflict'.

### **Policy and Strategy**

It seems to be a great confusion about 'policy' and 'strategy' in management literature. Some people are of the opinion that both these words are same and may be used in place of one another, while others feel significant difference between them. Simply, 'policies' may be defined as general guides to action that outline the framework within which objectives are established and strategies are selected and implemented.

Brian Quinn, "policies are rules or guidelines that express the limits within which action should occur."

'Strategy' may be defined in business to describe how an organization intends to achieve its objectives and mission. Most organizations have several options for accomplishing their objectives and mission. Strategy is concerned with deciding which option is going to be used. So far differences between these are concerned, it is clearly known. Strategy is concerned with matching external opportunities with corporate resources at acceptable level of profit and risk. Basically it involves the following three types of actions - (a) determination of long-term goals and objectives, (b) determination of courses of action to achieve those goals, and (c)



**B.B.A. VI Semester**

**Subject: Strategic Management**

allocation of resources for carrying out actions. Policy determines the nature of the firm's involvement with its environment. This is likely to concern functional activities as well as the corporate whole. Thus, we have policies for –

- Positioning
- Operational control
- Geographical coverage
- Store size and location
- Financing
- Growth merchandise
- Pricing
- Advertising and promotion

Another difference between policy and strategy is that, policy is concerned with guidelines to thinking and action of those who make decisions while strategy is concerned with the direction in which human and physical resources are deployed and applied in order to maximize the chances of achieving organizational objectives.

In short, policy and strategy are related terms in a wide sense. Where strategy relate an organization with its environment. Policy determines the nature of the firm's involvement with its environment. Both are important at different levels of an organization so as to achieve its objectives.

**Strategy and Tactics**

Tactics is a means through which pre-decided plans are executed. It is related to efficient utilization of various organizational resources committed through strategy. Tactics is developed at lower levels of management and it follows strategy. Tactics is formulated from a functional point of view. Some people are of the opinion that strategy and tactics have same meaning and can be used in place of each other. But both these terms are quite different. Strategy is a comprehensive of wide term which is directly related with organizational decisions while tactics is only a part of strategy by which pre-determined plans are executed.

Tactics is usually short-term decision that involves a lower commitment of resources than strategic decisions.

**Strategy and Strategic Plan**

Strategic plan is a course of action which is designed to meet long-term objectives of an organization. Strategy deals with the choice and direction that the organization desires to-follow. It is a course of action through which an organization relates itself with environment so as to achieve its objectives. These definitions clearly show that strategic plan is a wider term while strategy is only a part of it. Strategic plan is related with mission and future direction, short and long-term performance targets and strategy of an organization. Strategy, on the other hand, is a set of decision-making rules for the guidance of organizational behavior. A strategic plan consists of an organization's mission and future direction, short-term and long-term performance targets, internal action approach and strategy to be used in achieving the targeted business results. Many large companies, who are committed to review their strategy regularly, usually prepare written document describing industry's economics, key success factors and drivers of change along with the company's strategic plan for dealing their external and internal environment. Such companies circulate the strategic plan to all managers and selected employees, along with some strategic initiatives. Organizational objectives are the part of the strategic plan most often spelled out explicitly and communicated to managers and employees.

**Nature of Strategic Decisions**

Strategic decisions are those which are taken during the current time period but whose primary effect is felt during some future period. Such decisions affected organizational structures, objectives, facilities and finances. These decisions are mostly complex and non-repetitive in nature and have fundamental effects on the organization. So these are taken comparatively at higher level of management after careful analysis and evaluation of various alternatives.



**Strategic decisions have the following characteristics -**

1. They involve significant commitments of the organization's resources.
2. They involve uncertainty. There are always several uncontrollable (environment) factors involved in strategic planning and unlike most other decisions, strategic decisions look further into future.
3. They are made by senior management.
4. They have important implications for the future of the entire organization.
5. Most importantly, strategic decisions fundamentally change the character of business and are 'irreversible'. This means that strategic decisions involve a commitment of resources that cannot be regained, at least in short-term.
6. Strategic decisions are different from operating decisions which relates to day-to-day activities or current operations.

**Approaches to Strategic Decision-Making**

Decision-making is a process of selection and the aim is to select the best alternative. It also involves the evaluation of available alternatives because only through this evaluation can one know the best alternative. It is a mental process because the final selection is made after thoughtful consideration. Therefore, three aspects of human behavior are involved in decision-making -

- a. Cognition, those activities of the mind associated with knowledge
- b. Conation, the action of the mind implied by such words as willing, desire and aversion, and
- c. Affection, the aspects of the mind identified with emotion, feeling, mood and temperament.

William F. Glueck opines that 'a decision is made by a decision-maker in a decision environment. This environment is strongly influenced by the beliefs and values of the decision-maker. Various theories have been suggested about how decisions are made. The main theories are as follows -

1. Rational Theory of Decision-making - This theory assumes that the decision-maker is a unique actor whose behavior is intelligent and rational. Whatever decisions he makes, he makes them with full awareness of all available feasible alternatives.  
One major weakness of this theory is that the decision-maker is affected by the whole environment, so he cannot be a unique actor. Besides, he cannot consider all alternatives or know all the consequences due to various limitations (like incomplete information, cost, time etc.)
2. Behavioral Theory of Decision-making - This theory assumes that various factors like limited knowledge, individual needs and drives, values, pressures etc., are limitations in the choice of a decision-maker. Therefore, he does not seek to maximize outcome, but choose the first satisfactory alternative he finds which fits his values.
3. The Political Theory - This theory assumes that decision-making is a process. A decision-maker can make good decision only when he considers a variety of pressures from other people affected by his decision.

In sum, an organization affects or is affected by the various stakeholders. Decisions are made when the several people, involved in the process, agree that they have found a common solution. The decision-maker has to use his mind, emotion, rationality, intuition, along with mutual adjustment and negotiation, in making decision.

Now the question arises where do strategic decisions take place? As said earlier that strategy is a decision-making rules that guides and relates an organization with its environment. It is a continuous process. A firm operates in a dynamic environment and is bound to make decision or change its strategy regularly according to chat environmental changes and pressures for managerial and business success. In the process of contemplating the need for change, the proposal is likely to be considered in relation to the gap between the



expected outcomes and desired outcomes.

### Levels of Strategy

Management of every organization follows some kind of process and can be viewed in the context of strategic management concept. Different business organizations, having some similar features, may have some differences according to size that relate to their strategic behavior. There are also different levels or units within a business entity, and some of those units can have strategic differences from others.

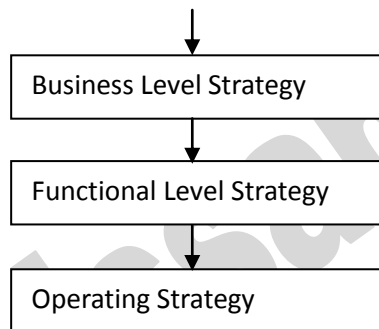
In brief, strategies are operated at different levels in an organization. Corporate level strategy, business level strategy, functional level strategy and operating strategy. A brief discussion of these strategies is as follows –

1. **Corporate level Strategy** – Corporate level strategy is formulated by top management to oversee the interest and operations of organization made up of more than one line of business. It occupies the highest level of strategic decision-making and covers actions dealing with the objectives of firm, acquisition and allocation of resources, and coordination of strategies of various units. The major questions at this level are as follows –
  - i. What kinds of businesses should the company be engaged in?
  - ii. What are the goals and expectations for each business?
  - iii. How should resources be allocated to reach these goals?
2. **Business level strategy** – Business level strategy is concerned with managing the interests and operations of a particular line of business. It refers to the managerial game plan for a single business. It is mirrored in the pattern of approaches and moves crafted by management to produce successful performance in one specific line of business. It deals with such questions as –
  - i. How will the business compete in its markets?
  - ii. What products or services should it offer?
  - iii. Which customer does it seek to serve?
  - iv. How will resources be distributed within the business?Basically, business level strategy attempts to determine what approach to its market and business should take and how it should conduct itself, given its resources and the conditions of the market.
3. **Functional level strategy** – It involves decision-making at the operational level with respect to specific functional areas – production, marketing, personnel, finance etc. In fact, strategy creates a framework for managers in each function to carry out business unit strategies and corporate strategies. Decisions at this level are often described as ‘tactical decisions.’
4. **Operating level strategy** – It is concerned with the regulation of day-to-day activities of departmental and supervisory managers.

The following diagram shows the various hierarchy level of strategy more clearly –



Hierarchy Level of Strategy



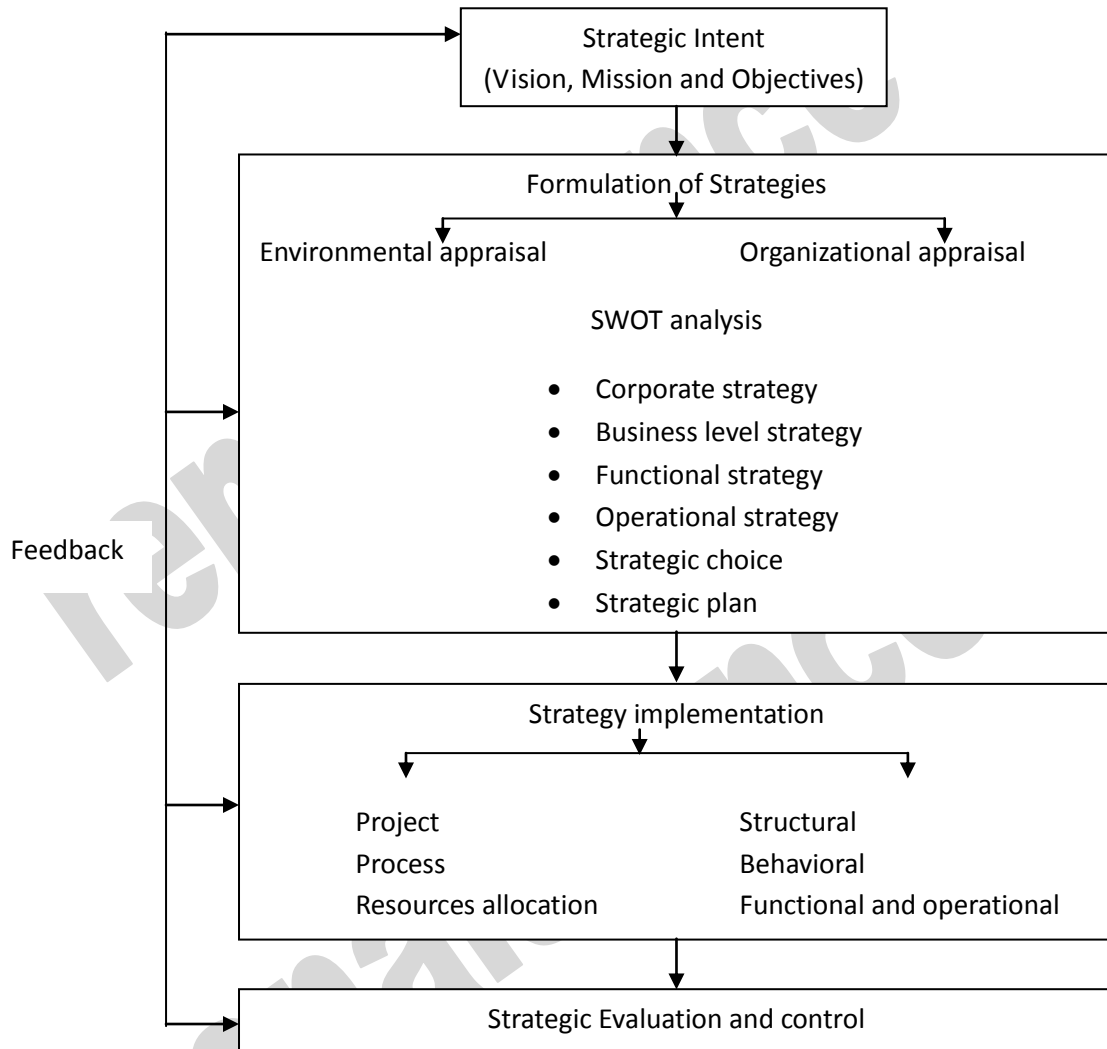
**The Strategic Management Process**

As discussed earlier that strategic management is a process of relating the organizational with its environment by suitable course of action involving strategy formulation and ensuring that the strategy has been implemented effectively.

1. The strategic management process begins with strategic intent (mission and vision) of a corporation. In this step, the vision, mission and objectives are established. Strategic vision defines what business the company is presently in and conveys the essence of 'who we are', 'what we do' and 'where we are now'. Mission is enduring feature of an organization. It states the image which the organization wishes to project and provides guidelines to decision-makers on continuous basis. A strategically mission statement incorporates three elements:
  - a. Customer needs,
  - b. Customer groups
  - c. The company's activities, technologies and competence.

Setting objectives converts the strategic vision into specific performance targets. Objectives represent a managerial commitment to achieve achieving specific outcomes and results. Establishment of strategic intent (vision, mission and objective), makes clear what an organization stands for. It may be defined as a 'big, hairy audacious goal' and takes a long time to achieve.

2. The second step of strategic management process is environment analysis which helps in finding out the opportunities and threats operating in the environment and strengths and weaknesses of an organization. Since an organization is a social system, it operates within the environment which consists of many factors (political, cultural, legal, social etc.) In this interaction process, the organization has to relate itself with the environment. Environmental analysis also includes organizational analysis, which brings strength and weakness of an organization. It also helps in identifying the relevant environmental factors taken for detailed analysis.



3. The third important step in strategic management process is related with strategic decision (choice of a strategy). Since the particular strategy attempts to affect the organizational operation in some pre-determined manner, the choice process systematically considers how each alternative affects the various critical factors of the organization.  
The fourth step of strategic management process is related with implementation of a strategy. Here the strategic plan is out into action through project implementation, process implementation, resources allocation, structural implementation, behavior implementation and functional and operational implementation. In other words, various activities like organization structure, effective leadership, allocation of resources etc., are designed for effective implementation of strategy in this step.
4. Evaluation and control is the last of the strategic management process in which strategy is reviewed and result of strategy implementation are monitored. In fact, it is ongoing process in which implementation of strategy is monitored continuously and necessary action is taken whenever required.





**Strategic Management: Merits and Demerits**

The strategic management has been getting wide acceptance in business world since 1980. In the beginning, it has been accepted by executive of developed nations, but today most of the multinationals and large corporations have adopted it. Now executives and managers assume that strategic management is the only approach on which success or failure of a corporation depends to a large extent. Globalization, liberalization and privatization have made strategic management more popular and important. Some of the important benefits of strategic management are as follows:

1. Strategic management allows a firm/s top executive to anticipate change and provides direction and control for the enterprise.
2. It allows the firm to innovate in time to take advantage of new opportunities in the environment and reduce the risk because the future is anticipated.
3. It helps ensure full exploitation of opportunities.
4. It provides clear objective and direction for employees.
5. This is conducive to greater harmony and goal congruence.
6. It focuses on problems of the whole enterprise, not just functional problems in marketing or finance areas.
7. It enables management to improve the chances of making decisions which will stand the test of time, and revising the strategy on the basis of monitoring the progress of various functions.
8. It also helps in building strategic knowledge of management and develops the attitudes necessary to be a successful generalist.
9. The conditions of most business are changing so fast. Besides, these changes have increased dramatically in last three decades. Strategic management is only the way to anticipate future problems and opportunities. In fact, growth, existence and survival of an organization depend on strategic management to a large extent in fast changing situations. It is only the way by which management may be able to make the best uses of a firm's resources in a changing environment.

Research study also proves that business which perform formal strategic planning and management have a higher probability of success than those which do not because of the following reasons –

1. It is only the way to systematize the most important of business decisions.
2. It helps educate managers to become better decision-makers.
3. It helps in improving corporate communication and conditions of individual projects.
4. It serves as a road map of the corporation.
5. It lays down the growth objectives of the firm and also provides the strategies needed for achieving them.
6. It serves as a hedge against uncertainty arising from environmental turbulence.
7. It ensures that the firm remains a prepared organization
8. It helps the firm understanding trends in advance and provides the benefit of a lead time for taking crucial decisions and actions.
9. It helps avoid haphazard response to environment.
10. It provides the best possible fit between the firm and the external environment.
11. It ensures that the firm's businesses, products and markets are chosen wisely.
12. It ensures best utilization of the firm's resources among the product-market opportunities.
13. It helps in building competitive advantages and core competencies.
14. It draws from both intuition and logic.



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**B.B.A. VI Semester**

**Subject: Strategic Management**

Although strategic management helps managers to anticipated changing conditions and opportunities, it can be a solution to all business and managerial problems because of the following reasons –

1. Environmental conditions are changing so fast, so that mangers cannot do any long range planning.
2. Objectives, set by managers, are usually vague and general.
3. Usually mangers reasons for success of an organization, strategic management may be one of them.



UNIT 2

Mission

- 1) The mission carries the grand design of the firm which communicates what it wants to be. It clarifies the very purposes of the corporation. It also represents the corporation's guiding principles. The company mission is defined as the fundamental, unique purpose that sets a business apart from other firms of its type and identifies the scope of its operations in product and market terms'. The mission is thus the reference point and guiding spirit for the growth plan of a firm. It brings the corporate purpose or the long-term objective of the firm into focus.
- 2) The mission can be seen as a link between performing some social functions and more specific targets of the organization. Once it is defined carefully, it provides a statement of outsiders and insiders to know what the company stands for a legitimating of its goals.
- 3) Following table shows some of the sample examples of mission, developed by world fame multinationals:

| Organization  | Mission  |
|---|--|
| <ul style="list-style-type: none"><li>• AT &amp; T</li></ul>          | <ul style="list-style-type: none"><li>• AT &amp; T is in communications, not telephones. Ours is the business of information handling, not knowledge business.</li></ul>   |
| <ul style="list-style-type: none"><li>• IBM</li></ul>                 | <ul style="list-style-type: none"><li>• We respect the human being and we want to give more good services to the clients than any other firm in the world. Our belief is that an organization should do its work with this belief that it can be achieved in superior fashion.</li></ul> |
| <ul style="list-style-type: none"><li>• MGM</li></ul>                 | <ul style="list-style-type: none"><li>• MGM provides entertainment, not just movie.</li></ul>  |
| <ul style="list-style-type: none"><li>• Techno</li></ul>              | <ul style="list-style-type: none"><li>• Tenneco is in energy, not just oil and gas</li></ul>   |
| <ul style="list-style-type: none"><li>• Johnson and Johnson</li></ul> | <ul style="list-style-type: none"><li>• We believe our first responsibility is to the doctors, nurses and patients, to mothers and all other who use our product and service.</li></ul>  |

The above examples explain that the corporate mission is an expression of the growth ambition of the firm. It is the firm's future visualized which provides a dramatics picture of what the firm wants to become.

- 4) Mainly the following qualities should be included in the mission of an organization –
  - **Feasible** – A mission's aim should always be high but it should not be improper and impractical. It should be proper and practical.
  - **Precise** – A mission statement should be precise. It should not be longer and meaningless.
  - **Clear** – A mission should be clear sufficiently on which action can be taken. It should not be extremely improper only in the view of publicity on advertisement purpose.
  - **Motivating** – Mission word should be motivating for the member of an organization and for society. They should feel proud to see them.
  - **Distinctive** – Organization's mission should be distinctive from other firms and organizations, so the organization can get its distinctive recognition.
  - **Indicate major component of strategy** – A mission word should indicate components of strategy, along with organizational aim.
  - **How objectives are to be accomplished** – With the above points, it should be indicated in the mission details that how objectives are to be accomplished.

Goals

- 1) Once the details of mission are determined at the organization level, then the work of goal's decision also begins in this view.



- 2) Goals are those basic plans that direct final results of projected action of any unit. In other words, goals are that final results for them all actions of unit are done. All of the efforts of an organization become directionless without goals. Integration of individual and Organization Goals – A Challenge

#### Integration of individual and organization goals

Integration of individual and organization goals is an important question. Conflicts can occur between person and organization by following reasons –

- Organization hopes rational behavior with the members. Rational behavior means that members would be able for accomplishment of organization goals.
- Usually organization is based on task specialization for increased personal efficiency. This specialization becomes so boring in his personality development.
- Organization gives stress on chain of command for individual relationship. It keeps a person in the condition of high officers and subordinators keep him in under control.
- Organization gives stress on unity of command which tells that all actions should be managed and controlled by a person only because there is a great difference in goal setting and operation system, so work becomes meaningless.

#### How Objectives are pursued?

- 1) When an organization mission and purpose has defined by the top management, then next step is related to transform them in work procedure. For this, mission is divided in small and working objectives. So simply objectives are that ends for that an organization works.
- 2) Many objectives are followed by an organization, the main are – **Profit, efficiency, employees satisfaction and development, best product and service for consumer, good citizenship, social responsibilities, market leadership, maximum profits for shareholders control on properties, favorableness, flexibility and service to society.**
- 3) **Importance of Organizational Objectives** :Without any aim, an organization and person's condition is like wander in uncertainty. Nobody can get success without any aim, which doesn't know his destination, can't get any result. Peter Drucker writes that-business's main need is to change its mission and meaning objectives, otherwise they remain only insight, good intentions and good statement and by that achievement can never be got.' It is clear that objectives are primary need of an organization. Importance of objective for a business organization can be explained in the following points –

#### How are Mission and objectives Formulated?

Mission and objectives are determined by corporate level strategies. But these executives don't formulate objectives in vacuum. Their selection depends on various elements from which main are following –

1. Realities of external environment,
  2. External power relationship,
  3. Unit resources realities and internal power relations,
  4. Value management and goals of top management,
  5. Past strategies and
  6. Development of enterprise.
- Formulation of mission and objectives are affected by inherent powers or forces in environment. For example, the stakeholders with whom the organization has an exchange relationship may present demands or claims. These can be thought of as constraints or objectives.



- The second factor affecting the formulation of mission and objectives is the realities of the enterprises resources and internal relations. For example, if management has developed the support of employees and key employees group, then it can set higher objectives. Similarly, if there is a different of opinion on which objectives to seek or the trade-off among them. Power relationship may help in settlement of differences.
- Finally, the value system of the top executives also affects the formulation of objectives and mission. For example, some executives may believe that to be successful a firm must attack in the market place, while others may believe in this philosophy that 'goes along to get along.'

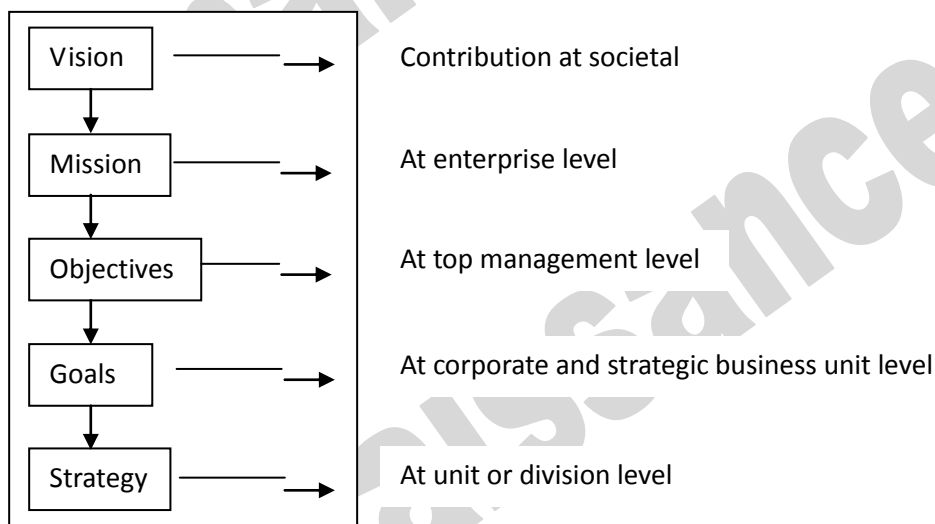
### **Why do Mission and objectives Change**

Some of the important reasons of change in mission and objectives are as follows –

1. The aspiration levels of managers may change or alter orientation. They can think on the basis of their past achievements that they can do more, or they can make decisions to get according which their competitors have got.
2. In the condition of crisis, mission and objective of an organization may be changed. For example, when a firm's market disappears or new opportunities arise, crisis may be created in both the situations to take strategic advantage or to face challenge or threat. In this condition, mission and objectives can be changed on the basis of uncertainty of future conditions.
3. Demands of different coalition group (who make the organization) can compel entrepreneur to change in mission and objectives. Usually, such situation occurs as the leadership or group changes or as internal power group change.
4. Normal life-cycle of business may be changed which suggests the need of change in mission an objectives.

### **Vision, Mission, Objectives, Goals and Strategy: Mutual Relationships**

In the context of strategic management, word like mission, vision, strategy, goal, objective etc. are usually used and they are used for each other place. In fact, these terms are different from each other and they have certain sequence in corporate management as shown in the following diagram:





## B.B.A. VI Semester

## Subject: Strategic Management

- As the diagram shows that vision is defined in the form of contribution of an organization at social level while mission is defined in the form of philosophy of an organization.
- Most of the companies define their mission statement in their annual report which stress 'what the company's present products and services are, what types of customers it serves and what technological and business capabilities it has'. Thus, a strategic vision portrays a company's future business scope whereas a mission statement describes its present business scope.
- Objectives are those ends which the organization seeks to achieve through its existence and operations. They are defined in quantitative and measurable form. Objectives guide the activities of an organization and its members. These are expressed in the context of long-term and are expressed by top management in the strategic sense.
- Strategy is designed or formulated on the basis of goals. Thompson and Strickland are of the view that, 'a company's strategy consists of the competitive efforts and business approaches that managers employ to please customers, compete successfully and achieve organizational objectives'.

### Core of Strategic Management: Vision – A must

- 1) **A clear and entrepreneurially astute strategic vision** is a prerequisite to effective strategic leadership and management. Managers cannot function effectively as either leaders or strategy makers without a future-oriented concept of the business. Globalization of competition, liberalization, mobile technology, internet and mushrooming e-commerce transactions, changes in buyer competition, production innovation, changing buyer preferences for standardized versus differentiated products or services, and benchmarking movement has made it imperative that managers should 'think and act' strategically if they want to survive and exist for a long time.
- 2) **What is strategic vision:** Thompson and Strickland define strategic vision as 'a roadmap of a company's future which provides specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.'

### Ethics and Strategy

- 1) Business ethics can be defined as principles of conduct within organizations that guide decision-making and behavior. Good business ethics is a pre-requisite for good strategic management.
- 2) Harry Downs opines that 'strategy ought to be ethical. It should involve neither rightful actions nor wrongful ones; otherwise it won't pass the test of moral scrutiny.
- 3) Every business firm has an ethical duty to each of five constituencies: owners/ shareholders, employees, customers, suppliers, and the community at large. Each of these constituencies affects the organization and is affected by it.
- 4) Some of the important issues in the context of ethics are as follows –
  - Managers and employees of the firm they should follow a code of conduct and should not engage in wrong doings.
  - **A new wave of ethical issues** related to product safety, employee health, sexual harassment, acid rain, affirmative action, waste disposal, foreign business practices, takeover tactics, conflict of interest, employee privacy, and inappropriate gifts has accentuated the need for strategists to develop a clear code of business ethics.
  - **The explosion of information technology** and internet into the workplace has raised many new ethical questions in organizations today. Now, it is demanding that computers and other company equipment should be used only to provide service to customers and for other business purposes. Internet privacy is an ethical issue of immense proportions.



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**B.B.A. VI Semester**

**Subject: Strategic Management**

- **To create an ethical culture**, a business ethics board game should be developed, which should be played by all employees in the organization. This game may ask players as how do they deal with a customer who offer them bribe or other gifts.
- **Because of higher salaries of strategists** in comparison of the other individuals in the organization, an ethical question naturally arises that they must take the moral risks of the firm, and they should be responsible for developing, communicating and enforcing the code of business ethics for their organization.
- **No business can compete very long or successfully without following ethical practices.** Being unethical is a recipe for headaches, inefficiency and waste.
- Finally if **a firm is committed to responsible ethical action** in symbiosis with its needs, it can preserve and protect the essential claims of insiders-sustained survival, growth and profitability of the firm.



## UNIT - III

### External Environment Analysis and Appraisal

No business can be operated in a vacuum. It is a part of vital social system and exchange continuously information, power and resources with its environment. Business gets necessary resources from its environment and achieves results while interacting with the environment. Environmental analysis provides, on the one hand, the knowledge of threats and challenges and provides opportunities and chances of potential profit to business managers. Environmental analysis is more complicated for large or Multinational Corporation because multinationals must have evaluated several environments simultaneously.' Kenneth R. Andrews opines that 'awareness of the environment is not a special project to be undertaken only when warning of change becomes deafening.' Glueck is of the opinion that, 'the top management and his planning staff keeps an eye on what is going in the market-place and the industry to see what opportunities or threats await them. Managers need to search the environment to (i) determine what factors in the environment present threats to the company's present strategy and objectives accomplishments, and (ii) determine what factors in the environment present opportunities for greater accomplishment of objectives by adjusting the company's strategy.

### Concept of Environment

In simple words, environment can be defined as a 'totality' of all the factors which are external and beyond the capacity of the business undertaking and its management. An organization, being a system, operates in some contexts which lie outside it and is called environment. Thus, environment consists of all the conditions, circumstances, and influences surrounding and affecting an organization in its totality.

Wheeler says that 'business environment is the total of all things external to business firms and industries which affect their organization and operations'.

On the basis of above definition, it may be said that environment is related with totality of all those external factors and events which affect success and efficiency of a business undertaking and are beyond the capacity of its management. Due to this reason, a firm tries to adjust itself according to its environment and change its strategy accordingly to achieve corporate objectives.

### Environmental Analysis and Appraisal

William F. Gluek defines, "Environment appraisal is the process by which strategic planners monitor the economic, government, supplier, technological and market segments to determine opportunities and threats to their enterprise." He has defined environmental analysis in the following words: "Environment analysis consists of decisions made to react to anticipated or ignore environmental cues."

Kotler calls external environment analysis as 'opportunity and threats analysis' and internal environmental analysis as 'strength and weakness analyses. He believes that 'excellent companies take an outside-inside view of their business. They recognize that business environment (external and internal) is constantly spinning out new opportunities and threats. These companies recognize the vital importance of continuously monitoring and adapting to the changing environment'. In fact, large companies often use a systematic process for environmental analysis through which they monitor and comprehend various environmental factors and determine the opportunities and threats that are provided by these factors and change and adjust their strategy accordingly to take strategic advantages.

Since the competitive mode is profit producing and the entrepreneurial profit absorbing, it is to be expected that the firm would gravitate toward the former. So long as the potential of its existing markets is perceived as adequate for satisfying growth and profit objectives.

The above statement shows that a firm should recognize the need for (i) strategic (or entrepreneurial) interaction with the environment, and (ii) the study of changes in the environment, since future strategies





**B.B.A. VI Semester**

**Subject: Strategic Management**

will need to be developed in relation to what the environment will become. In short, environmental analysis provides relevant change and alert managers of the kinds of conditions that are subject to more rapid change and some anticipation of the kinds of changes that may occur.'

According to Thompson and Strickland, "environmental scanning involves studying and interpreting the sweep of social, political, economic, ecological and technological events in an effort to spot binding trends and conditions that could become driving forces. It involves time frames well beyond the next one to three years. The purpose of environmental scanning is to raise the consciousness of managers about potential developments that could have an important impact on industry conditions and pose new opportunities and threats."

On other words, it is essential for an organization to understand the alternatives and risks regarding the future political, social, technical and physical environments for the purpose of developing effective strategies. The process of environmental scanning asks and attempts to answer the following questions –

1. What is the current state of affairs?
2. What are the most important events?
3. What has been the history of macro environmental component being studied?
4. What are apparent trends?
5. What dramatic events can occur?
6. What is the potential for surprises?
7. What are the industry's dominant economic features?
8. What is competition like and how strong are each force?
9. What is causing the industry's competitive structure and business environment to change?
10. What are the key factors for competitive success?
11. Is the industry attractive and what are its prospects for above average profitability?

**Some of the important features of environmental analysis are as follows –**

1. It is a continuous process rather than an intermitting scanning system.
2. It is a holistic exercise which comprises a total view of the environmental rather than viewing trends piecemeal.
3. It is a systematic process which provide knowledge of opportunities and threats exist in the environment or that may emerge.
4. It is a heuristic or exploratory process which is concerned with present as well as future environment of business.
5. Environmental analysis is the basic of strategic management process.

**Why Environmental Scanning and Analysis**

Study and analysis of environment, in which the firm operates, has become a prime need of each business. A firm might be able to prepare its strategic plans and policies after careful analysis and forecast of changing environmental situation. On the basis of environmental scanning and analysis, a firm may make sound strategic decisions. It may also prepares long-term strategies and plans. It is essential for a firm to evaluate the long-term or lasting effect of socio-economic conditions. Environmental analysis allows strategists time to anticipate opportunities and plan to take optional responses to these opportunities. It also helps in developing an early warning system to prevent the threats and to take strategic advantages. The present and future of an organization is closely bound up what is happening in the environment. Environmental analysis helps an organization to keep close and harmonious relations with its environment. The fast changing environmental conditions require a systematic process of scanning and diagnosis to determine what factors I



**B.B.A. VI Semester**

**Subject: Strategic Management**

the environment present threats and opportunities to the company's present strategy and achievement of objectives. Environmental analysis helps an organization in anticipating future event more systematically. On the basis of it, management can take care of the unanticipated events by concentrating on a few issues rather than being required to deal with all opportunities and threats. Environmental analysis provides a broader perspective to corporate planners in formulating appropriate plans and strategies according to time and situations. It helps strategists to narrow the range of available alternatives and eliminate options that are clearly inconsistently with forecasts opportunities or threats. Environment analysis helps decision-making in those areas which can be more rewarding or competitive advantageous. On the basis of it, best strategy may be formulated and executed to achieve corporate goal.

Research studies also prove it that those organization which undertake systematic environmental analysis perform better than those which do not take such an exercise.

On the basis of above discussion, it may be said that external environmental analysis –

- a. Helps in projecting the future position of the firm.
- b. Identifies the favourable and unfavourable factors in the environment from the standpoint of the firm.
- c. Figures out the opportunities and threats hidden in environmental events and trends.
- d. Assesses the scope of various opportunities and shortlist which have the potential of becoming promising businesses.
- e. Draws up the probability-attraction position of these opportunities.
- f. Helps formulation of strategies in line with the opportunities emerging afresh in the environment.

**Components of Environment**

All organization exists within an envelope of factors and forces that affect their operations. This envelop is the source of inputs in the form of resources and information as well as the source of demand for output in the form of consumer wants and needs. Organization interacts with this environment continuously which may be called 'Macro' and 'Micro' environment. The word 'Macro' means large, global and so can be used to describe the aggregate of factors that surround the organization. Among the major components of the macro environment are cultures, political system, economic system, technology, skill mix, and consumer group. Micro environment, on the other hand, is related with internal environment in which an organization operates and which is directly controlled by business firm. Among the major components of the micro environment are goal and working system, organization structure, power and politics, organizational strengths and weaknesses etc. Close relation and coordination with environment (macro and micro) has become a prime need of an organization.

A brief description of the major components of environment is as follows –

**1. Physical Environment**

It is the main or basis of operation of a business. Its sets nature's boundaries. There has been a close relation between business and nature. Ecological and physical factors play a vital role in formation and shaping of a business. The following factors are included in physical environment –

1. **Natural resources** – Land, mineral, water, raw materials, etc.
2. **Climate** – Coolness, humidity, rain etc.
3. **Infrastructure** – Water, electricity, transport, bank, insurance, warehousing etc.
4. **Energy** – Water, electricity, transport, bank, insurance, warehousing etc.
5. **Energy** – Water, Coal, Petrol, atomic energy, gas, solar energy etc.
6. **Topography** – It is concerned with topology and locational aspects of business.
7. **Ecology** – It is related with natural environment which include all beings human and non-human.



All these physical environment factors affect not only the structuring and functioning of business but also set future growth. Physical conditions affect demand structure, product mix, marketing mix, ecological balance, cost structure, pricing, flow of supply etc. of a business to a large extent.

## **2. Economic Environment**

Economic environment can be defined in reference to the national economic environment in which a business firm also cooperates. In other words, every business firm is in itself a part of national economic environment in which it directs its activities. According to Sturdivant, 'Economic environment is generally related to those external powers which have direct economic effect upon business. He is of the opinion that economic factors are the dominant factors which affect business to a large extent. Major factors of the economic environment are – (i) economic conditions, (ii) economic policies, and (iii) economic systems.

Economic conditions of a country directly affect the progress of trade and industry. Information regarding the following aspects provides useful knowledge to strategist in deciding appropriate strategy to take strategic advantages –

- Nature of economy – agriculture – oriented, industry – oriented, service – oriented etc.
- Level of economic development and the existing state of the economy.
- Stage of business cycle.
- Economic resources of a nation-capital formation wealth, rate of saving and investment etc.
- Nature of industries-production costs.
- General Price level in the country.
- Economic concentration, wages and profits, consumption, labour supply, employment, monetary structures.
- Balance of payments and changes in foreign exchange reserves.
- Changes in the distribution of income and wealth.
- Government budgetary allocation.
- Money supply and rate of inflation.
- Competition risks, entrepreneurship, conditions of innovation and creativity.

The effect of changes in these economic factors directly affects the functioning, process and prosperity of business and industry. Organizations exist within some form of economic system that exert a tremendous influence on how they behave. There are, of course, many forms of economic order ranging from the mixed private enterprise system or completely controlled economies. Regardless of their form, however, all economic systems are concerned with resource allocation and distribution of goods and services. Capitalistic economic system is basically one of private enterprise in which decisions about what and how much to produce are left to discretion of owners and managers. In controlled economies, such decisions are the responsibility of some governmental agency. In a mixed economic system, both public and private sector are present and plays a vital role in economic activities. Economic policy of a country also affects the functioning of business and industry. It is a wide policy which is meant for all areas of economic set up. The basic objectives of economic policy in any country are to create economic development with stability, social justice, complete employment and economic parity. Economic policy sets direction and progress of business activities. This policy may directly affect the production and investment activities and change and speed up their direction.



**3. Socio-Cultural Environment**

Business is operated in and with the help of society. Society provides necessary resources to business while business provides good and services to society. They both are affected by each other. A business cannot ignore the values, beliefs and style prevailing in the society. Being a corporate citizen a business has to think on needs, expectations and interests of society. Besides, consumerism and concept of social responsibility have made business more consumers societal oriented. Each society has some specific culture and values. This culture and values sets the life and behavior of human beings.

**4. Political-Legal Environment**

All organizations are affected to one degree or another by the political system in their macro environment. It is an important variable in managerial decision-making and strategy formulating in virtually all aspects of activity. To exist, organization must comply with certain legal procedures to begin operations, they must observe applicable laws in the conduct of everyday affairs, and they must comply with laws when casing operations. Simply, political system includes national, state and local laws and ordinances that affect the business organization, likewise, those goods and services that are available to managers from these governmental agencies are properly included in the political system. Today, as never before, mangers have a need to become familiar with applicable laws because every facet of their operations is affected by legal considerations.

5. Business is affected by technological environment to a large extent because it affects the operational of the company. It also affects the products or services the enterprise offers. Basically, it refers to the sum total of knowledge providing ways to do thongs. Every organization employs technology to some extent. This technology affects an organization in the way it is organized and faces competition. An organization's success is measured by its ability to adjust to and to employ technological innovations. 'Mangers must learn to ride these technological ups and downs, anticipating new developments and making them a part of the company's strategic plans'. Today, is has essential for top managers that they must have close watch on technological changes that may affect their business to a large extent. They should work closely with R & D people to encourage more market-oriented research. They must be alert to undesirable side effects of any innovation that might harm the users and create consumer distrust and opposition.

**6. Global Environment**

Globalization and economic liberalization has made the world a 'global village'. That is why geographical boundaries of a country have become irrelevant and economic relevance has extended beyond these. It is a fact that conducting business on an international scale is very complex. Business interests are vitally affected by geopolitical maneuvering among the great nation state. Global competition pressures may make or break an industry. Varying and sometimes contradictory cultural standards and practices pose serious questions of morality for businesses. Business managers must be alert to global forces and underlying tension they represent. According to Porter, the nature of competitiveness in a given industry can be viewed as a composite of the following five forces –

- a. Rivalry among competing firms
- b. Potential entry of new competitors
- c. Potential development of substitute products
- d. Bargaining power of suppliers
- e. Bargaining power of consumers

**SWOT – A Tool of Environment (External and Internal) Analysis**

As discussed earlier, that business operates in an environment which include external and internal environment. All those factors are included in external environment of business which presents



opportunities and threats to business. Internal environment includes those factors which are related with strengths and weaknesses of an organization from strategic point of view. Thus, environment of a business may be defined in the totality in which business operates and which presents 'opportunities' and 'threats' as well as 'strengths' and 'weaknesses'. A brief discussion of these four environmental impacts is as follows –

1. **Opportunity** – An opportunity may be defined as a favourable condition in the organization's environment which enables it to strengthen its position. It is an area of need in which a company can perform profitably. Opportunities can be listed and classified according to their attractiveness and the successful probability.
2. **Threat** – Some developments in the external environment represent threats. An environment threat may be defined as a challenge posed by an unfavourable trend or development that would lead, in the essence of defensive strategic action, to goal achievement or profit determination.
3. **Strength** – Each business needs to evaluate its strength periodically so that it may be able to gain environment opportunity. Strength may be defined as an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
4. **Weakness** – each business needs to evaluate its weaknesses also so that it may be able to retain its position (like market share, product etc.) in a given environment. A weakness may be defined as an inherent limitation or constraint of the organization which create strategic disadvantage to it.

The SWOT analysis is a tool of environment analysis. It is an acronym of strengths, weaknesses, opportunities and threats. The SWOT analysis forces management to analysis what it is that makes its company successful or unsuccessful. Essentially, it includes reviews both of internally influenced factors, over which the company has control and of opportunities and threats which are external to the company and over which it has no control.

### **Techniques for Environmental Search and Analysis**

The strategist/manager can collect and analyze strategic information from a variety of sources from both published and unpublished sources. Unpublished source includes customer survey, market research, speeches at professional; meetings, television programmes, interviews and conversations. Published source of strategic information includes periodicals, journals, report, government documents, abstracts, books, newspapers and manuals. Computerization and the Internet have made it easier today for firms to gather, assimilate and evaluate information. The strategies can use the following techniques in collecting and analyzing external environment information –

1. Information gathering
2. Spying
3. Forecasting

#### **1. Information gathering**

A strategist can gather environmental information from various sources which involve written and verbal sources. Verbal information may be gathered from such sources as the audio-visual media, conversation among employees, managers, supervisors and subordinates, customers, distributors of the company's products (wholesalers, retailers, dealers etc.), competitors and their employers etc.

#### **2. Spying**

It has been an important technique to collect information in industrial world which is used for collecting information by a firm on its competitors or other sources in industry. In many large companies, experts or spies are appointed by the top management to know the secrets or important matters of its rival or competitors.



**3. Forecasting**

It is an important method of getting information on environmental conditions in which formal forecast are made regarding future events. Usually, this forecasting is done by staff specialists in such department as economic analysis, market research and corporate planning.

**ETOP – A Technique of Diagnosis**

Simply, environment diagnosis is concerned with assessment of environmental factors in terms of these being opportunity or threat and their impact. It is related with identifying opportunities and threats based on environmental monitoring. On the basis of a available data, the strategist decides as to which sets of information is reliable or ignorable and sorts out the more important from the less important information. In fact, fair diagnosis of environment is a difficult job because it is largely affected by the characteristics of strategists, their jobs and nature of the environment. Top management team is primarily concerned with environmental diagnosis and decision-making. This team collects and analyses of environmental factors on the basis of information age, experience, perception, aspiration level and preparedness to accept change and some of the important points of team’s (top management) member on the basis of which they diagnose the environment. Nature of environment may be favourable or unfavourable. Unfavourable environment alerts top management to devote greater attention to the threats and respond quickly to the challenges.

Environmental threats and opportunities profile (ETOP) is an important technique which is widely need in environmental diagnosis. According to Glueck, “the environmental threat and opportunities profile is a systematic evaluation of environmental factors weighted by the significance of each factor for the company”. It is a brief depiction of the environmental factors and their impact on future conditions. It is a convenient means by which attention of top management may be drawn to the most critical factors and their potential impact on the strategy of the firm as whole and key aspects of its operations.

**Environmental threat and Opportunities Profile**

| Environmental factors                | <i>weighting of factors a</i> |                 | Significance<br>(Degree of impact) <sup>b</sup> |
|--------------------------------------|-------------------------------|-----------------|---|
|                                      | <i>Strong + +</i>             | <i>Strong -</i> |   |
| 1. Economic environment              |                               |                 |   |
| • Fiscal and monetary policies       | √                             |                 | 0   |
| • Price level                        |                               | √               | +   |
| • Business cycle                     | √                             |                 | +   |
| • Money supply and rate of inflation |                               | √               | 0   |
| • Saving and investment              | √                             |                 | 0   |
| • competition                        | √                             |                 | ++  |
| 2. Socio-culture environment         |                               |                 |   |
| • Consumption pattern                |                               | √               | +++   |
| • Values and beliefs                 |                               | √               | +   |

**The Competitive Profile Matrix**

| Critical success factors | A Inc. |        | B Inc. |        | C Inc. |        |
|--------------------------|--------|--------|--------|--------|--------|--------|
|                          | Wight  | Rating | Wight  | Rating | Wight  | Rating |
| Advertising              | .....  | .....  | .....  | .....  | .....  | .....  |
| Product quality          | .....  | .....  | .....  | .....  | .....  | .....  |
| Price competitiveness    | .....  | .....  | .....  | .....  | .....  | .....  |
| Management               | .....  | .....  | .....  | .....  | .....  | .....  |



|                                     |       |       |       |
|-------------------------------------|-------|-------|-------|
| Financial position                  | ..... | ..... | ..... |
| Customer loyalty                    | ..... | ..... | ..... |
| Global expansion                    | ..... | ..... | ..... |
| Market share                        | ..... | ..... | ..... |
| <b>Other factors –</b>              |       |       |       |
| Breadth of product line             | ..... | ..... | ..... |
| Effectiveness of sales distribution | ..... | ..... | ..... |
| Patent advantage                    | ..... | ..... | ..... |
| Location of facilities              | ..... | ..... | ..... |
| Experience                          | ..... | ..... | ..... |
| Union relations                     | ..... | ..... | ..... |
| Technological advantage             | ..... | ..... | ..... |
| E-commerce expertise                | ..... | ..... | ..... |
| <b>Total</b>                        | ..... | ..... | ..... |

**Decision-Making on Environmental information**

Guleck defines, ‘a decision is a choice made by a decision-maker in a decision environment’. The environment of the decision affects the decision which involves, (i) the attitudes and experiences of the strategic planners, (ii) the age of the enterprise, (iii) size and power of the enterprise, (iv) technology and volatility of the enterprise’s environment, (v) geographic dimension of the enterprise, and (vi) the business, the firm is in or could be in. he has called these dimensions of environmental analysis.

- 1) The first dimension is managerial attitude towards the environment. The attitudes that the decision-makers have towards the possible impact of the environment are crucial to these decisions.
- 2) Secondly, age of enterprise also affects decision. If the enterprise is new and the executives are inexperienced, they may not really know where to focus. Guleck writes that ‘the older the enterprise and the more experiences the executive, the narrower the focus of the search of the environment’.
- 3) Size and power of an organization plays a vital role in environmental decision-making. If the enterprise is more powerful relative to its competitors, it will less focus on the competitive sector of the environment.
- 4) So far as technology is concerned, it is also important from decision-making point of view. The frequency and degree of change in the technological environment directly affects the decision. In other words, the greater the volatility of the technological environment, the more the managers must focus on the technological sector of the environment.
- 5) The fifth dimension which helps a manager to focus environmental monitoring is geography. If a firm operates in a restricted area, it need not to reach the environment for change. If it is a multi-national firm which operates in many countries, then strategies have to examine and monitor the national and international environment for changes in the environment. The final dimension influencing environment search and analysis is how the company defines its business or market scope. If it is defined narrowly, the executives tend to focus narrowly. If the firm is a conglomerate, its area of search should be much broader.



**UNIT IV**

**Organizational Change and Innovation**

Change is a necessary way of life in most organizations. In fact, change is all around people in the seasons, in their social environment, and in their biological process. Changes are the available resources, the political world, the available technology, consumer purchasing patterns, and the race and sex of available labour pool have reached geometric proportions. Managers mind themselves right in the middle of change in the organizations. It is the managers who must lead the way so that adoptions to changes are made with the proper use and mix of human materials, and natural resources.

**Planned and Unplanned Changes**

Not all changes in the organizations happen at a change agent's direction. Unplanned changes occur spontaneously or at random and without a change agent's attention. They may be disruptive, such as a wildcat strike that results in a plant closure, or beneficial such as an interpersonal conflict that results in a new procedure or rule being established to guide interdepartmental relations. This appropriate goal in managing unplanned change is to act immediately once it is recognized so as to minimize any negative consequences and maximize any possible benefits. Planned change, on the other hand, happens as a result of specific efforts by a change agent. Planned change is a direct response to some ones perception of a performance gap, that is, a discrepancy between the desired and actual state of affairs. Performance gap may represent problems to be resolve or opportunities to be explored. In each case, managers as change agents should spot performance gaps and initiate planned changes to close them.

Organizational change is the planned attempt by management to improve the overall performance of individuals, groups and the organization by altering structure, behaviour and technology. "Organizational change involves some modifications in the various components that constitute the essence of the organization. These targets of change, as shown in the following table, include organizational purpose and objectives, strategy, tasks, technology, people and structure. Most planned organizational change involves more than one of these targets.

**Organizational Targets for change**

| <b>Targets</b> | <b>Possible Methods</b>  |
|----------------|--|
| • Purpose      | Classify overall mission existing objectives; use management by objectives.  |
| • Strategy     | Modify strategic plans; modify operational plans; modify policies and procedures.  |
| • Tasks        | Modify job designs; use enrichment.  |
| • Technology   | Improve equipment and facilities; improve methods and workflows  |
| • People       | Modify selection criteria, modify recruiting practices, use training and development programmes, and clarify roles and expectations. |
| • Structure    | Modify job requirements; modify organizational design; adjust coordination mechanisms; modify distribution of authority              |

**Causes or Forces of Organizational Change**

There are many forces inside and outside the organization which makes changes in the organization. External forces for change are those that come from the environment. In it, industry forces of technology,





suppliers and resources, political and social forces and competition are involved. Value of society, particularly the values of special interest groups, will have an increased impact on the corporation, and responses will be required. All of this means that more attention will have to be given to external forces as a potential source of change. Internal force for change can be acute and they can be chronic. Common internal pressures for change arise from employee and management attitudes, outdated policies, changes in social values that affect current management practices, poor decision-making and communications, high rate of turnover and absenteeism, lowered production and efficiency, increases in professionalism of the workforce, or demands for improvements in the quality of working life.

### **Managing Planned Change**

Change is a complicated phenomenon at the heart of which lie people. People have a tendency to act habitually and in stable ways over time. That is, they may tend not to change even when circumstances warrant. In this context, Kurt Lewin, a noted psychologist, has presented a three phase planned change process which includes: unfreezing, changing and refreezing. 'Unfreezing' is the stage of preparation a situation for change. It involves disconfirming existing attitudes and behaviours to create a felt need for something new. Unfreezing is facilitated by environmental pressures, declining performance, awareness of opportunity of a better way among other things. Conflict is an important unfreezing force in organizations. The stress it involves often helps people break old habits and recognize alternative ways of thinking about or doing things. 'The changing phase' involves the actual modification in organizational targets for change, including purpose, strategy, people, task, structure and technology.

### **Choosing a change strategy**

Anderson opines that 'Change is an acceptance and quality problem; management wants certain high quality changes but also needs acceptance from employees if the changes are to be implemented properly. Participation is therefore, necessary, and most major change efforts use participation a great deal'. Chin and Benne feel that managers use various strategies for getting other people to adopt a desired change. They summarize these as force-coercion, empirical rational and normative reductive change strategies. In the force-coercion strategy, legitimate power, reward and punishments are used as primary inducement to change. Here, the change agent acts unilaterally to 'command' change through the formal authority of his position, include change via an offer of special rewards or bring about change via threats of punishment. Most people comply with this strategy out of fear of punishment or desired for reward. This compliance with the change agent's desires is usually temporary and continues only so long as the opportunity for rewards and punishments remain obvious. In the empirical rational strategy, an attempt is made by the change agent to bring about change through persuasion backed by special knowledge and rational argument. In it, it is assumed that rational people may be guided by reason and self-interest in deciding whether or not to support a change. Expert power is mobilized to convince others that the cost/benefits value of a proposed change is high and that the change may leave people better off than before. Expertise can be brought to bear by the manager's personal credibility as an 'expert' by bringing an 'outside experts' to give testimony or by a demonstration project. The normative reductive strategy establishes values and assumption from which support for a proposed change may naturally emerge. This strategy focuses on the building of essential foundations in personal values, group norms and shared goals to support change in all of its phase. Here, reference power is used by the manager to allow other persons to participate in the decision through which changes are planned and implemented.

### **Creativity and Innovation in Organizations**

Creativity may be defined as the generation of a new idea and innovation as the translation of a new idea into



a new company, a new service or a new method of production. According to Campbell, 'Creativity is the ability to bring something new into existence, while innovation is the process of doing new things.' Creativity is a prerequisite for innovation and it can be developed in any individual especially when there is a concern for excellence. Innovation on the other hand, is the process of doing new things. While creativity relates to the ability to conceive, the innovation is doing new things. Innovation transforms creative ideas into useful application. Hence, creativity is a pre-requisite to innovation. Most managers realize that the pressures for innovation in organizations today are greater than ever before. The introduction of computer technology and automation into virtually every phase of business means that old products, processes and management methods will be outdated on a regular basis. Thus, understanding what it takes for a company to be innovative, to create products or processes in industry, is essential'.

Peter F. Drucker opines that innovative companies focus on the steps it takes to build an idea into a workable product. Innovation in organization does not rest solely with the work of research and development scientists, but also rest with the work of the marketing and production departments, who must turn new ideas into products that sell in the market place. These companies also spend a lot of time in developing people emphasizing interpersonal relations.

### **Organizational Creativity and Innovation Process**

The creative process in organization involves three steps - idea generation, problem solving and implementation. The generation of ideas in an organization depends first and foremost on the flow of people and information between the firm and its environment. For example, if organization managers are unaware that there is potential demand for a new product or that there is dissatisfaction with already existing products; they are not likely to seek innovation. In this context, outside consultants and experts are important sources of information for managers, because they are frequently aware of new products, processes or services development in their fields. In the second step, ideas are developed. Idea development is dependent on the organizational culture and processes within the organization. Organizational characteristics, values and processes can support or inhibit the development and use of creative ideas. The implementation stage of the creative process in organization consists of those steps that bring a solution or invention to the market place.

Major hurdles in creative behaviour are as follows -

- |                       |                     |                         |
|-----------------------|---------------------|-------------------------|
| 1. Prejudice          | 8. Jealousy         | 14. Lack of knowledge   |
| 2. Fear of failure    | 9. Over motivation  | 15. Misdirected tension |
| 3. Fear of ridicule   | 10. Stability       | 16. Negativism          |
| 4. Job insecurity     | 11. Group dominance | 17. Apathy              |
| 5. Lack of motivation | 12. Absence of      | 18. Complacency         |
| 6. Lack of funds      | commitment          | 19. Over dependency     |
| 7. Confusion          | 13. Laziness        |                         |

### **Learning organization**

At this stage, the issue of innovation and creativity is important which stimulate a organization into learning organization. The relevant question is 'how can an organization become more innovative'. The answer of this question lies in creating a learning organization. 'A learning organization is an organization that has developed the continuous capacity to adopt and change. According to Garvin, 'a learning organization is one which is skilled are creating, acquiring and transferring knowledge and modifying its behaviour to reflect new knowledge and insight'.

A learning organization is capable of systematic problem-solving, experimentation, learning from past experiences, learning from others and transforming knowledge quickly by adopting system approach. It is an



**B.B.A. VI Semester**

**Subject: Strategic Management**

organization where people put aside their old ways of thinking, learn to be open with each other, understand how their organization really works, form a plan or vision that everyone can agree on, and then work together to achieve that vision. Kofman and Senge are of the opinion that learning organization are of great importance because they present a remedy of the three fundamental problems inherent in traditional organizations – fragmentation, competition and reactivity. They feel that “fragmentation based on specialization create ‘walls’ and ‘chimneys’ that separate different functions into independent and often warring fiefdoms. Second, an over-emphasis on competition often undermines collaboration. Members of the management team compete with one another to who is right, who knows more or who is more persuasive. Finally, reactivity misdirects management’s attention to problem solving rather than creation. The problem solver tries to make something go away; a creator tries to bring something new into being’. A learning organization solve all these problems, as the following characteristics show –

1. There exists a shared vision that everyone agrees on.
2. People discard their old ways of thinking and the standard routines they use for solving problems or doing their jobs.
3. Members think of all organizational processes, activities, functions and interactions with the environment as part of a system of interrelationships.
4. People openly communicates with each other without fear of criticism or punishment.



UNIT-V

Generic Business Strategy

A strategy begins with a concept of how to use the resources of the firm most effectively in a changing environment so as to achieve its objectives.

There are two different aspects of strategic choice and two different methods of strategy evaluation. The

**First aspect** (generic aspect of strategy) of fit deals with the basic mission or scope of the business. It deals with the creation of social values – with the question of whether the products and services being created are worth more than their cost.

**Analysis-** Normally done by looking at changing economic and social conditions over time.

**Second** (competitive strategy) with relates special competitive position.

**Analysis** -Typically focuses on the differences across firms at a given time.

Competitive strategy, by contrast, deals with the firm’s need to capture some of the social value as profit.

**According to Thompson and Strickland**, “Competitive strategy deals exclusively with management’s action plan for competing successfully and providing superior value to customer. Business strategy concerns not only how to compete but also how management intends to address all of the other strategic issues confronting the business.”

Generic vs Competitive Strategy

|                            | Generic Strategy               | Competitive Strategy                               |
|----------------------------|--------------------------------|--|
| Value issue                | Social Value                   | Corporate value                                    |
| Value constraint           | Customer value > cost          | Price > cost                                       |
| Success indicator          | Sales growth                   | Increase corporate growth                          |
| Basic strategic task       | Adapting to change             | Innovating, impeding invitation, deterring rivals. |
| How strategy is expressed  | Product-market definition      | Advantage position, and policies supporting them.  |
| Basic approach to analysis | Study of an industry over time | Comparison across rivals.                          |

As discussed earlier that industries differ widely in their economic characteristics competitive situations and future profit prospects. Various competitive forces, like industry competitors, potential entrants, substitute etc. exist in the macro environment which affect and determine the intrinsic long run attractiveness of a market segment. **Michael E. Porter** says that the state of competition in an industry is a composite of five forces.

- (a) The rivalry among competing sellers in the industry.
- (b) The potential entry of new competitors.
- (c) The market attempts of companies in other industries to win customers over to their own substitute products.
- (d) The competitive pressures stemming from supplier-seller collaboration and bargaining.
- (e) The competitive pressures stemming from seller-buyer collaboration and bargaining.

On the basis of analysis of the above competitive forces, a suitable competitive strategies is designed in which include the following steps –

1. **Identify competitors** – This is the first important step in designing competitive strategy to identify its competitors, existing as well as potential competitors. Kotler says that the range of a firm’s actual and potential competitors can be much broaden, yet it is more likely to be hurt by emerging competitors or new technologies than by current competitors.



**B.B.A. VI Semester**

**Subject: Strategic Management**

2. **Analyse Competitors** – Once a firm identifies its primary competitors, it has become essential for him to ascertain the strategies, objectives, weaknesses and strengths of its competitor firms. For example, if the competitor is a division of a larger firm, it is important to know whether the parent firm is running it for growth, profits or milking it. Generally, each competitor pursues some mix of objectives-current profitability, market share growth, cash flow or technological leadership, keeping in view the competitor's objectives, the firm should prepare its marketing plan.
3. **Designing Intelligence System** – In this stage, a firm designs a intelligence system to identify the sources of information about competitors. Once the sources are identified, the data are collected on continuous basis.
4. **Designing Competitive Strategies** – Once the firms develop its intelligence systems, it is required to design competitive strategic to gain success and competitive advantage. Porter believes that there are two basic types of competitive advantages a firm possess: low costs or differentiation. When these are combined with the scope of firm's operation (the range of market segments targeted), three generic strategies are produced for achieving above average performance in an industry: cost leadership, differentiation, and focus.
  - a. **Cost leadership** – In this strategy, the firm tries to become low cost manufacturer in the industry. The low cost leader in any market gains competitive advantage by producing at the lowest cost. Here the firm recruits and trained labour to deliver the lowest possible cost of production.
  - b. **Differentiation** – In this strategy, a firm seeks to be unique in its industry by acting to distinguish its products and services from those of its competitors to gain competitive advantage in market place. The firm can differentiate its offering in the following six basic ways –
    - i. Price differentiation.
    - ii. Image differentiation
    - iii. Support differentiation
    - iv. Quality differentiation
    - v. Design
    - vi. Undifferentiating strategy
  - c. **Focus** – The generics strategy of focus rests on the choice of a narrow competitive scope within an industry. Scope is essentially a demand-driven concern taking its lead from the market for what exists out there. Some important scope strategies are as follows –
    - i. Non-Segmentation strategy
    - ii. Segmentation strategy
    - iii. Niche strategy

**The Five Generic Competitive Strategies**

Michael E. Porter has suggested the following five distinct competitive strategy approaches in this context.

1. **Low cost-provider strategy** – This is the most powerful competitive approach in markets with many price sensitive buyers. In it, a firm tries to become the industry's overall low cost provider in comparison to its competitors. The basic aim is to operate the business in a highly cost-effective manner and open up a sustainable cost advantage over competitors.

A firm can get dramatic cost advantages if it finds innovative ways to restructure processes and tasks, cut-out low value activities, eliminate frills and provide the basics more economically. Some of the important ways are as follows –

- (a) To use e-business technologies in major processing activities.
- (b) To use direct to-end use sales and marketing approaches.
- (c) To simply product design.
- (d) To strip away the extras.
- (e) To use simple, less capital intensive, or more streamlined or flexible technological process.



**B.B.A. VI Semester**

**Subject: Strategic Management**

- (f) To bypass the use of high cost raw materials or component parts.
- (g) To relocate facilities.
- (h) To re-engineer core business processes to consolidate work steps and cut out low value added activities.

**2. Differentiation Strategies –**

In this strategy, a firm should be unique in its industry to gain competitive advantage. It works on the principle that a firm can make its offer distinctive from all competing forces and win through the distinctiveness. Differentiation strategy is an attractive competitive approach whenever buyer's needs and preference are too diverse to be fully satisfied by a standardized product or by sellers with identical capabilities.

- 3. Best cost providers strategy –** In this strategy, a firm tries to offer best cost relative to rivals offering products with comparable attributes. The objective is to deliver super value to buyers by satisfying their expectations on key quality-services features in best (lowest) cost. The strategy is highly suitable in the market where buyer diversity makes product differentiation the norm and where many buyers are also sensitive to price and value.
- 4. Focused (market niche) strategy –** The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The aim of a focused strategy is to do a better job of serving buyers in the target market niche than rival competitors. According to Kotler, "a niche is more narrowly defined customer group seeking a distinctive mix of benefits".

A firm can gain competitive advantage through focused strategy but not always. Many risks are involved in it. For example, competitors may find shortly the effective ways to match the focused firm in serving the target niche, or preferences and needs of niche members may shift over time. If a segment (niche) is too attractive, it can invite competitors shortly and can make competition more intensive.

**Competitive Marketing Strategy Options –** Following are the competitive strategies options which can be used by marketing firms.

- 1. Market Leader Strategies –** In many industries one firm enjoys the status of market leader. These market leaders beat other firms in new product introductions, distribution coverage and promotions. **Coca-cola in soft drinks and McDonald in fast food** are examples of market leaders. There are five competitive strategy options for a market leader to consider :
  - a. Market expansion –** In this option the market leader attempts to expand demand for the particular product category. Market leader could attempt to broaden the market by expanding into related products apart from stimulating primary demand for the product.
  - b. Market Share Protection –** In this option the market leader attempts to protect its market share. Dominant firms try to protect their current business. For example, in India Pepsi must always try to protect its market from Coca-cola. For a global firm the market is international but for a small firm the market is local.
    - i. Position Defense –** In this strategy the firm tries to make the brand power superior.
    - ii. Flank Defense –** In this strategy market leaders try to protect its weak products or brands.
    - iii. Pre-emptive Defense –** It is an offensive strategy which anticipates or discourages competitive entry.
    - iv. Counter – offensive Defense –** It is the strategy which is used when faced with competitive attack.
    - v. Mobile Defense –** In mobile defense the market leader moves to new territories.
    - vi. Contraction Defense –** In this strategy the companies give up their weaker territories to reassign their resources to stronger territories.
  - c. Market Share Expansion –** In this strategy the market leader tries to increase its market share. With increase in market share the company can increase its profitability. Followers of this



approach argues that Mercedes earns higher profits because it has high market share in luxury cars. McDonald is also a good example of it.

2. **Market Challenger Strategies** – A market challenger is basically number two or number three in the mainstream market in which it is perceived as an alternative to the leader. In Indian market Bajaj-Kawasaki and Coca-cola are good examples of it. Following options are available to a market challenger.
  - a. **Frontal Attack** – In this strategy the firm matches its product, price and other things as per the competitors. In this strategy the firm needs a lot of resources to concentrate on that particular product.
  - b. **Flank Attack** – In this strategy the resources are concentrated on a weak markets or segments. Flank strategy is attractive to a challenger with comparatively less resources than its competitors.
  - a. **Encirclement Attack** – This involves an aggressive move against the market leader on several fronts. This may involve introducing a product range that surrounds the market leader or switching the customer's attention to benefits or attributes that the leader currently does not offer.
  - b. **Bypass Attack** – In this strategy the competitor is bypassed and attack is concentrated on easier markets. In high-tech industries the challenger develops the next technology and attacks on that front.
  - c. **Guerrilla Warfare** – In this strategy the small attacks are used to demoralize the competitor. This strategy is most suitable for smaller firms which cannot compete with larger firms in terms of resources.
3. **Market Follower Strategies** – Some firms may prefer to follow rather than challenge the market leader. Market followers are smaller and are usually around the midpoint of the market structure. According to Kotler market followers can choose between following strategies –
  - a. **Counterfeiter** – In this strategy the firm duplicates the leader's product and package.
  - b. **Cloner** – In this strategy the firm emulates the leader's products and packaging with minor variations.
  - c. **Imitators** – In this strategy the firm copies the products in some terms but still maintains some differentiation.
  - d. **Adaptor** – In this strategy the follower adopt leader's products and improves them.
4. **Marketing Nicher Strategies** – A marketing nicher specializes in a segment of the market and has a large share of this segment. According to this strategy the firm tries to become leader in a small market rather than to be a follower in a market. Its main strategies objective is to hold market share for its market niche.

### CORPORATE STRATEGY

Corporate strategy is the overall managerial game plan for a diversified company. It extends companywide and shows how a diversified company intends to establish business positions in different industries. It also describes the approaches; it uses to manage the company's group of businesses.

According to **Wheeler, Hunger and Rangarajan**, "Corporate strategy is primarily about the choice of direction for the firm as a whole. It deals with three key issues facing the corporation as a whole.

- (a) The firm over all orientation toward growth, stability, or retrenchment (directional strategy).
- (b) The industries or markets in which the firm competes through its products and business units (portfolio strategy).
- (c) The manner in which management coordinates activities, transfer resources, and cultivates capabilities among product lines and business units (parenting strategy)."

They opine that all corporations, from the smallest company offering one product in only one industries to the largest conglomerate operating in many industries with many products must, at one time or another, consider one or more of these issues.



B.B.A. VI Semester

Subject: Strategic Management

The content of a corporate strategy is as follows –

- i) **The corporate portfolio approach** – In this approach, top management evaluates each of the corporation's various business units with respect to the market place and the corporation's internal make-up.
- ii) **'Five forces' corporate strategy** – This approach has been suggested by Michael E. Porter, in which he opines that an organization's ability to compete in a given market is determined by that organization's technical and economic resources, as well as by 'five environmental forces', each of which threatens the organization's venture into a new market. The porter's 'five forces' are (a) threats of new entrants (b) bargaining power of buyers (c) bargaining power of suppliers (d) threat of substitute products, and (e) rivalry among competitors.
- iii) **Corporate enterprise strategy** – In this approach, efforts are made to get answers of values and principles of managers that explain why an organization does what it does. Freeman and Gilbert have identified the following seven different enterprise strategies:
  - a. **Stockholder E-strategy** – The Corporation should maximize the interests of stockholders.
  - b. **Managerial prerogative E-strategy** – The Corporation should maximize the interests of management.
  - c. **Restricted stakeholder E-strategy** – The Corporation should maximize the interests of a narrow set of stakeholders, such as customers, employees and stockholders.
  - d. **Unrestricted stakeholder E-strategy** – The Corporation showed maximizes the interest of all stakeholders.
  - e. **Social harmony E-strategy** – The Corporation should maximize social harmony.
  - f. **Rawlsian E-strategy** – the corporation should promote inequality among stakeholders only if inequality results in raising the level of the worst-off stakeholder.
  - g. **Personal project E-strategy** – The Corporation should maximize its ability to enable corporate members to carry out their personal projects.

### OFFENSIVE STRATEGY

The purpose of offensive strategy is to yield a cost advantage, a differentiation advantage or a resource advantage. Ideally, an offensive move builds competitive advantage quickly and its size depends on the length of period, i.e. how much time its rivals take to launch counter offensives and begin closing the competitive gap. A lengthy benefit period gives a firm valuable time to earn above-average profits and recoup the investment made in creating the advantage.

Kotler has suggested the following six basic types of strategic offensives –

- 1) **Flank attack** – The basic aim of this strategy is to neutralize or overcome the strengths and capabilities of rival firms.
- 2) **Encirclement attack** – It involves launching a grand offensive on several fronts (price cuts, increased advertising, new product introduction, free samples etc.) Encirclement makes sense when the rivals commands superior resources and believes a swift encirclement will break the opponent's will.
- 3) **Bypass attack** – In this strategy an attempt is made to capture unoccupied or less contested market territory, in lace of attacking on competitor, and change the rules of the competitive game in the aggressor's favour. In other words, enemy is by passed here and attack is made on easier markets to broaden one's resources base.
- 4) **Guerrilla attack** – Normally, this strategy is used by a smaller firm, against a larger one, who has neither resource nor market visibility. The small firm launches a barrage of attack in random corners of the larger opponents market in a manner calculated to weaken the opponent's market power.
- 5) **Pre-emptive attack** – In this strategy an early (first move) attempt is made to secure and advantageous position and to prevent rivals forcefully from duplicating.
- 6) **Frontal attack** – In this strategy, a firm tries to challenge its rivals with an equally good or better product at a lower price, attractive advertising and distribution system.





B.B.A. VI Semester

Subject: Strategic Management

### DEFENSIVE STRATEGY

The purpose of defensive strategy is to lower the risk of being attacked, waken the impact of an attack that occurs, diverts attack to less threatening areas and lesson their intensity. While fortify a firm's competitive position, protect its most valuable resources and sustain can use the following six defense strategies.

- i) **Position defense** - In this strategy, a firm tries to occupy the most desirable market space in the minds of the consumers by making the brand almost impregnable.
- ii) **Flank defense** - In this strategy, a firm tries to make efforts against protecting its weak front or possible serve as an invasion base for counter attack.
- iii) **Pre-emptive defense** - In this strategy, a firm makes early necessary attack in several ways before the enemy starts its offence. For example, a firm can participate in alternative technology to reduce the threat, introduce new features, add new models, broaden its product line, or deepen the firm's base of core competencies.
- iv) **Counter-offensive defense** - In this strategy, a firm tries to avoid head on challenges by aggressive price cutting, escalate advertising or costly efforts to out differentiate rivals. An effective counter attack is to invade the rivals main territory so that they will have to pull back to defend the territory.
- v) **Mobile defense** - In this strategy, a firm changes its efforts quickly to changing industry conditions, present mobile targets for rivals, and tries to be a first mover to block or pre-empt moves by would-be-aggressors.
- vi) **Contraction Defense** - In this strategy, a firm gives up its weaker territories and reassigns resources to strong territories.

### Scope and Significance of Corporate Strategy -

As discussed earlier that corporate strategy is the overall growth design direction and orientation of the firm. It is primarily about that choice of direction for the firm as a whole. It is the first place ensures the growth of the firm and ensures the correct alignment of the firm with this environment. It serves as the design for filling the strategic management gap, and helps in building competitive advantage.

### Corporate strategy deals with three key issues facing the corporation as a whole:

- i) The firm over all orientation toward growth, stability or retrenchment (directional strategy).
  - ii) The industries or markets in which the firm competes through its products and business units (portfolio strategy)
  - iii) The manner in which management coordinates activities, transfer resources, and cultivates capabilities among product lines and business units (parenting strategy)
- 1) **Directional strategy** - A corporation's directional strategy is composed of three general orientations (which is generally known as grand strategies)-
    - a) 'Growth strategies' expand the company activities.
    - b) 'Stability strategies' makes no change to the company's current activities.
    - c) 'Retrenchment strategies' reduce the company level of activities.
    - a) Growth strategies are the most widely pursued directional strategy which a corporation adopt to achieve growth in sales, assets, profits or some combination. Companies that do business in expanding industries must grow to survive.
  - 2) **Portfolio Strategy** - Most of the firms try to know how its product lines and business units can gain competitive advantage in market place by using competitive and cooperative strategies. Companies with multiple product lines or business units must also ask themselves how these various products and business units should be managed to boost overall corporate performance.



- 3) **Parenting Strategy** – This strategy is related with building corporate synergies through resource sharing and development. Corporate parenting views the corporation in terms of resources and capabilities that can be used to build business units as well as generate synergies across business units.

Thompson and Strickland have presented the following analytical approach to evaluate corporate strategy in which involves the following steps –

- i) **Identify the present corporate strategy** – Corporate strategy evaluation begins with an understanding of its present strategy and business make up. In this step, an attempt is made to identify clearly whether the company is pursuing related or unrelated diversification, the nature and purpose of any recent acquisitions and divestitures, and the kind of diversified company that corporate management is trying to create.
- ii) **Applying the industry attractiveness test** – In this step, an attempt is made to evaluate the long-term effectiveness of each industry the company is in and the attractiveness of all the industries as a group. Industry attractiveness is evaluated on the following ground: (a) the attractiveness of each industry represented in the business portfolio (b) each industry's attractiveness relative to the others and (c) the attractiveness of all the industries as a group.
- iii) **Applying the competitive strength test** – In this step, an evaluation is made of the competitive strength of each of the company's business units, i.e. whether each business unit in the corporate portfolio is well positioned in its industry and the extent to which it already is or can become a strong market contender. Following factors may be used to assess the competitive strength of each of the company's business units:
  - a. Relative market share
  - b. Costs relative to competitors
  - c. Ability to match or beat rivals or key product attributes
  - d. Technology and innovation capabilities
  - e. Profitability relative to competitors.
- iv) **Applying the strategic-fit test** – In this step, it is determined whether the competitive advantage potential of cross-business value chain relationship and strategic fits among the company's various units are possible and the extent to which there are competitively valuable match up among the company's existing businesses.
- v) **Applying the resource-fit test** – Here, an attempt is made to determine whether the firm's resource strengths match the resource requirements of its present business line up. Resource-fit exists when (a) businesses add to a company's resource strengths either financially or strategically, (b) a company has the resources to adequately support the resource requirements of its businesses as a group without spreading itself too thin, and (c) there are close matches between a company's resources and industry key success factors.
- vi) **Ranking the businesses** – At this stage, rank is given to different business units, on past performance and future prospects. Normally, strong business units in attractive industries have significantly better performance than weak businesses in unattractive industries.
- vii) **Ranking the business units in terms of priority for resource allocation** – It is decided at this stage whether the strategic position for each business unit should be aggressive expansion fortify and defend and re-position. In doing the ranking special attention should be given to whether and how corporate resource and capabilities can be used to enhance the competitiveness of particular business units.
- viii) **Crafting new strategic move to improve overall corporate performance** – Finally, new strategic moves are crafted to improve overall corporate performance in which the main are as follows –
  - a. Strategic plans for some or all of the businesses in the portfolio may be altered.
  - b. New business units may be added in corporate portfolio.
  - c. Company's resource base may be upgraded.



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**B.B.A. VI Semester**

**Subject: Strategic Management**

- d. Corporate performance objectives may be lowered or set in a newer dimension or vision.
- e. Weak performance business may be diverted, etc.

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UNIT-VI

Strategic Evaluation and Control

Strategic evaluation and control is the last phase in the process of strategic management by which the managers compare the results of the strategy with the level of achievement of the objectives and corrective actions are taken for strategic effectiveness. It is a continuous process through which an organization ensures whether it is achieving its objectives

**Evaluation of Strategy and Strategic Control**

According to Glueck, "Evaluation of strategy is that phase of the strategic planning processes in which the top managers determine whether their strategic choice in its implemented form is meeting the objective of the enterprise". It is a process by which the managers compare the results of the strategy with the level of achievements of the objectives.

**Why Strategy Evaluation- SIGNIFICANCE**

The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments etc, through control of performance.

**Criteria for Evaluation and the Evaluation Process**

Glueck has suggested the following four steps which are required in evaluation process:

- i) The motivation to evaluate.
- ii) A feedback system to provide the data for evaluation.
- iii) Criteria for evaluation.
- iv) Decisions about the outcome of the strategic evaluation.

Evaluation of strategy ultimately depends on individual organizational members, particularly key managers. And motivating and rewarding good performance by individuals and organizational units are key ingredients in effective strategy evaluation. Glueck feels that 'top managers must want to evaluate the performance. This motivation develops if they realize the strategy can fail and if they are reward for their performance relative to objectives'.

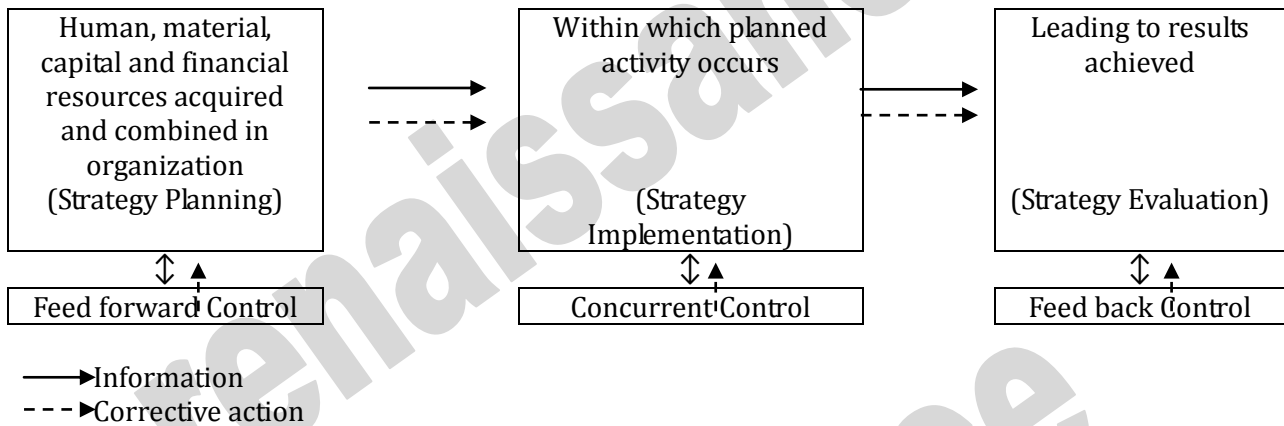
**The process of Strategy Evaluation consists of following steps-**

1. **Fixing benchmark of performance** - While fixing the benchmark, strategists encounter questions such as - what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance.
2. **Measurement of performance** - The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as manager's contribution are difficult to measure. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.
3. **Analyzing Variance** - While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.



- 4. **Taking Corrective Action** - Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance.

**The Strategic Controlling Process**



**Contingency Planning** – As said earlier that strategic management is concerned with how firms plan ways to deal with unfavourable and favourable events before they occur. That is why most of the large firms prepare contingency plans to minimize the impact of potential threats as part of their strategy-evaluation process. According to Davis, "Contingency plans can be defined as alternative plans that can be put into effect if certain key events do not occur as expected."