**Chapter One**

**Introduction**

* 1. **INTRODUCTION**

Without strategy, an organisation is like a ship without a rudder. It may know whereit wants to go but has no means of getting there. On the other hand, if it does notknow where it wants to go – rudder or no rudder – any route (that is, any strategy)would do: it is pointless worrying over what route to take if you do not know whereyou are going!

**1.2 Defining Strategic Management**

According to Quinn and Rogers, strategy comes from the Greek word, *“strategos”* meaning “generalship”, “stratos” – army “agein” – to lead and which described the role of general in the command of the army/ the art of war, drafting the plan of war .The analogy with business is that business too is on a war footing as competition becomes more and more fierce and survival more problematic.

It is the process of developing and implementing plans to reach goals and objectives. A strategy is an organization’s way of saying how it creates **unique value** and thus attracts the custom that is its lifeblood.

***Strategy is the means by which an organisation can achieve its goals and objectives.***

**Strategy** is the ***direction***and ***scope***of an organisation over the *long term*, which achieves *advantage* in a changing *environment* through its configuration of *resources and competences* with the aim of fulfilling *stakeholder* expectations.

Strategy is management’s**overall plan** and **actions for deploying resources and skills taking into consideration opportunities and threats in the environment**

* + **to achieve its mission, vision and objectives**
  + **to establish a favorable competitive position**.

Strategy is “a **unified** comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise are achieved” – Glueck

Strategy is “a determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” – Alfred Chandler

Strategic management is “a stream of decisions and actions, which leads to the development of an effective strategy to help achieve corporate objectives” – Glueck

*Strategic management* can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.

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

Strategic management is the decision process that aligns the organization’s internal capability with the opportunities and threats it faces in its environment (Rowe et al, 1994).

Strategic Management is a systematic approach to the major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will **assure its continued success** and make it secure from surprises.

*Strategic management is the* process of management needed to **enable an organisation to move from where it is now to where it wants to be in the future.**

Three big questions involved in a strategy

Where are we now?

Where do we want to go?

How will we get there?

How do we know if we got there?

A good strategy is

Clear goals: Helps making to tactical choices made during the lifetime of the strategy.

Supports initiative: Rewarding initiative behavior results in better commitment and motivation.

Concentrated: Resources and energy is concentrated when and where it matters most.

Flexible: Taking advantage of changes.

Well managed: Good leadership is needed.

An effective strategist makes reasoned and reasonable recommendations for how an organization should position itself relative to its peers and for assessing what actions the organization should take to maximize value creation for its various stakeholders.

**1.2 Strategic management techniques**

Strategic management techniques can be viewed in two major ways. The first is the bottom-up or **collaborative** processes. Using this approach, the employees **initiate a proposal** which they subsequently submit to their managers or their superiors, who put the idea further up in the establishment. These proposals may be assessed based on financial criteria and other concrete economic terms such as cost-benefit evaluation and returns on investment. The second is the top-down approach which is **morecommon** than any other method. Here, the chief executive officer and his team decide on the overall direction which the organization should go.

**1.3 Stages of Strategic Management**

The strategic-management process consists of three stages: strategy formulation, strategy implementation, and strategy evaluation.

**Strategy formulation**

Strategy formulation means defining the strategy in a very clear and simple word. Strategy formulation means stating the outline and the features of a strategy. It simply means preparing the action plan.

It includes developing a vision and mission, identifying an organization’s external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue.

Strategy-formulation issues include deciding what new businesses to enter, what businesses to abandon, howtoallocateresources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover.

Because no organization has unlimited resources, strategists must decide which alternative strategies will benefit the firm most. Strategy-formulation decisions **commit an organization to specific products, markets, resources, and technologies over an extended period of time**. Strategies determine long-term competitive advantages. For better or worse, strategic decisions have major multifunctional consequences and enduring effects on an organization. Top managers have the best perspective to understand fully the ramifications of strategy-formulation decisions; they have the authority to commit the resources necessary for implementation.

***Strategy implementation***requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance. Strategy implementation often is called the “action stage” of strategic management.

Implementing strategy means mobilizing employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation hinges upon managers’ ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose.Interpersonal skills are especially critical for successful strategy implementation.Strategy-implementation activities affect all employees and managers in an organization.

Every division and department must decide on answers to questions, such as “What must we do to implement our part of the organization’s strategy?” and “How best can we get the job done?” The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives.**Strategy making requires person with *vision* while strategy implementation requires a person with *administrative ability*.**

***Strategy evaluation***is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modification because external and internal factors are constantly changing. Three fundamental strategy-evaluation activities are (1) reviewing external and internal factors that are the bases for current strategies, (2) measuring performance, and (3) taking corrective actions. Strategy evaluation is needed because success today is no guarantee of success tomorrow! Success always creates new and different problems; complacent organizations experience demise.

**1.4 Key Terms in Strategic Management**

Before we further discuss strategic management, we should define nine key terms: competitive advantage, strategists, vision and mission statements, external opportunities and threats, internal strengths and weaknesses, long-term objectives, strategies, annual objectives, and policies.

1. **Competitive Advantage**

Strategic management is all about **gaining** and **maintaining***competitive advantage.* This term can be defined as “anything that a firm does especially well compared to rival firms.”

When a firm can do something that rival firms cannot do, or owns something that rival firm’s desire, that can represent a competitive advantage. E.g. Coca Cola Company

Normally, a firm can sustain a competitive advantage for only a certain period due to rival firms imitating and undermining that advantage. Thus it is not adequate to simply obtain competitive advantage. A firm must strive to achieve *sustained competitive advantage* by (1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and by (2) effectively formulating, implementing, and evaluating strategies that capitalize upon those factors.

1. **Strategists**

*Strategists* are the individuals who are most responsible for the success or failure of an organization.

Strategists have various job titles, such as chief executive officer, president, owner, chair of the board, executive director, chancellor, dean, or entrepreneur. Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist).

1. **Vision and Mission Statements**

Many organizations today develop a *vision statement* that answers the question “What do we want to become?” Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence. For example, the vision statement of Stokes Eye Clinic in

Florence, South Carolina, is “Our vision is to take care of your vision.” *Mission statements* are “enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm’s operations in product and market terms.” It addresses the basic question that faces all strategists:

“What is our business?” A clear mission statement **describes the values and priorities** of an organization. Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities.

A mission statement is a constant reminder to its employees of why the organization exists and what the founders envisioned when they put their fame and fortune at risk to breathe life into their dreams.

1. **External Opportunities and Threats**

*External opportunities* and *external threats* refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future.

Opportunities and threats are largely beyond the control of a single organization—thus the word *external*. E.g.Global economic recession

A basic tenet of strategic management is that firms need to formulate strategies to take advantage of external opportunities and to avoid or reduce the impact of external threats. For this reason, identifying, monitoring, and evaluating external opportunities and threats are essential for success. This process of conducting research and gathering and assimilating external information is sometimes called ***environmental scanning***or **industry analysis**.

1. **Internal Strengths and Weaknesses**

*Internal strengths* and *internal weaknesses* are an organization’s controllable activities that are **performed especially well or poorly**. They arise in the management, marketing, finance/accounting, production/operations, research and development, and management information systems activities of a business. Identifying and evaluating organizational strengths and weaknesses in the functional areas of a business is an essential strategic management activity. Organizations strive to **pursue strategies that capitalize on internal strengths and eliminate internal weaknesses.**

Strengths and weaknesses are determined relative to competitors. *Relative* deficiency or superiority is important information. Also, strengths and weaknesses can be determined by elements of being rather than performance. For example, strength may involve ownership of natural resources or a historic reputation for quality. Strengths and weaknesses may be determined relative to a firm’s own objectives. For example, high levels of inventory turnover may not be strength to a firm that seeks never to stock-out.

Internal factors can be determined in a number of ways, including **computing ratios**, **measuring performance,** and **comparing to past periods** and **industry averages**. Various types of surveys also can be developed and administered to examine internal factors such as **employee morale**, **production efficiency**, **advertising effectiveness**, and **customer loyalty**.

1. **Long-Term Objectives**

*Objectives* can be defined as specific results that an organization seeks to achieve in pursuing its basic mission. *Long-term* means more than one year. Objectives are essential for organizational success because they **state direction**; **aid in evaluation**; **create synergy**; **reveal priorities**; **focus coordination**; and provide a basis for **effective planning, organizing, motivating**, and **controlling** activities. Objectives should be **challenging, measurable, consistent, reasonable**, and **clear**. In a multidimensional firm, objectives should be established for the overall company and for each division.

1. **Strategies**

*Strategies* are the means by which long-term objectives will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures.

Strategies are potential actions that require top management decisions and large amounts of the firm’s resources. In addition, strategies affect an organization’s long-term prosperity, typically for at least five years, and thus are **future-oriented**. Strategies have **multifunctional** or multidivisional **consequences** and require c**onsideration** of both the external and internal factors facing the firm.

1. **Annual Objectives**

*Annual objectives* are **short-term milestones** that organizations must achieve to reach long-term objectives. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized. They should be established at the corporate, divisional, and functional levels in a large organization. Annual objectives should be stated in terms of management, marketing, finance/accounting, production/operations, research and development, and management information systems (MIS) accomplishments.

A set of annual objectives is needed for each long-term objective. Annual objectives are especially important in strategy implementation, whereas long-term objectives are particularly important in strategy formulation. Annual objectives represent the basis for allocating resources.

1. **Policies**

*Policies* are the **means** by which annual objectives will be achieved. Policies include **guidelines, rules**, and **procedures** established to support efforts to achieve stated objectives.

Policies are guides to decision making and address repetitive or recurring situations.

Policies are most often stated in terms of management, marketing, finance/accounting, production/operations, research and development, and management information systems activities. Policies can be established at the corporate level and apply to an entire organization at the divisional level and apply to a single division or at the functional level and apply to particular operational activities or departments. Policies, like annual objectives, are especially important in strategy implementation because they outline an organization’s expectations of its employees and managers. Policies allow **consistency** and coordination within and between organizational departments.

**1.5 Benefits of Strategic Management**

Financial Benefits

Organizations using strategic-management concepts are more profitable and successful than those that do not.

Businesses using strategic-management concepts show significant improvement in sales, profitability, and productivity compared to firms without systematic planning activities.

Strategic-management theory generally exhibit superior long-term financial performance relative to their industry.

Non-financial Benefits

* It allows for identification, prioritization, and exploitation of opportunities.
* It provides an objective view of management problems.
* It represents a framework for improved coordination and control of activities.
* It minimizes the effects of adverse conditions and changes.
* It allows major decisions to better support established objectives.
* It allows more effective allocation of time and resources to identified opportunities.
* It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.
* It creates a framework for internal communication among personnel.
* It helps integrate the behavior of individuals into a total effort.
* It provides a basis for clarifying individual responsibilities leads to increased employee productivity.
* It encourages forward thinking.
* It provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities.
* It encourages a favorable attitude toward change.
* It gives a degree of discipline and formality to the management of a business
  1. **Over view of types of strategy**

**Integration Strategies**

* Forward Integration- Gaining ownership or increased control over distributors or retailers
* Backward Integration- Seeking ownership or increased control of a firm’s suppliers
* Horizontal Integration -Seeking ownership or increased control over competitors

**Intensive Strategies**

* Market penetration, market development, and product development are sometimes referred to as *intensive strategies* because they require intensive efforts if a firm’s competitive position with existing products is to improve.
* Market Penetration -Seeking increased market share for present products or services in present markets through greater marketing efforts
* Market Development -Introducing present products or services into new geographic area
* Product Development-Seeking increased sales by improving present products or services or developing new ones

**Diversification Strategies**

* Related/***Concentric*** Diversification-Adding new but related products or services
* Unrelated/***Conglomerate*** Diversification-Adding new, unrelated products or services

**Defensive strategies**

* Retrenchment- Regrouping through cost and asset reduction to reverse declining sales and profit
* Divestiture-Selling a division or part of an organization
* Liquidation Selling all of a company’s assets, in parts, for their tangible worth

**Combination Strategies**

The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations.

**1.**7 **The strategic management approach**

* Recourse based view
* Industrial organization view

Resource-based model

A firm’s unique resources and capabilities are the critical determinants of strategic competitiveness. This Model focuses on the firm’s internal environment of the organization.

Assumes each firm is a collection of unique resources and capabilities

The *uniqueness* of the resources/capabilities is the basis for a firm’s strategy and ability to earn above-average returns.

According to the resource-based model a firm may earn above-average returns when it chooses to enter an industry in which it has competitive advantages based on its resources/capabilities.

To become a competitive advantage, a resource or capability must be

* Valuable
* Rare
* Costly to imitate
* Not substitutable

Resource-based model: Patents and Inventions

The resource-based view (RBV) of the firm is hedged on two axiomatic assumptions. First, resources are distributed heterogeneously across firms, and second, these resources cannot be transferred between firms without cost. These axioms lend themselves to two additional tenets (cf., Barney, 1991): (a) Resources that simultaneously enhance a firm’s market effectiveness (valuable) and are not widely dispersed (rare) can produce competitive advantage; and (b) when such resources are concurrently expensive to imitate (inimitable) and costly to substitute (non- substitutable), the competitive advantage is sustainable.

Thus, value and rarity are each necessary before inimitability and non-substitutability might yield a sustainable competitive advantage (Priem& Butler, 2001).

**Industrial organization (I/O) view**

External environment is primary determinant of a firm’s strategic actions. This view focuses on the firm’s external environment.

This view says the industry in which a firm chooses to compete has a stronger influence on firm performance than do the choices managers make inside their organizations.

Strategy dictated by the external environment of the firm (what opportunities exist in these environments?). I/O theorists contend that external factors in general and the industry in which a firm chooses to compete has a stronger influence on the firm’s performance than do the internal functional decisions managers make in marketing, finance, and the like. Firm performance, they contend, is primarily based more on industry properties, such as economies of scale, barriers to market entry, product differentiation, the economy, and level of competitiveness than on internal resources, capabilities, structure, and operations. The global economic recession’s impact on both strong and weak firms has added credence of late to the notion that external forces are more important than internal. Many thousands of internally strong firms in 2006–2007 disappeared in 2008–2009.

**1.7 Why Some Firms Do No Strategic Planning**

Some reasons for poor or no strategic planning are as follows:

* *Lack of knowledge or experience in strategic planning*—No training in strategic planning.
* *Poor reward structures*—when an organization assumes success, it often fails to reward success. When failure occurs, then the firm may punish.
* *Firefighting*—an organization can be so deeply embroiled in resolving crises and firefighting that it reserves no time for planning.
* *Waste of time*—some firms see planning as a waste of time because no marketable product is produced. Time spent on planning is an investment.
* *Too expensive*—some organizations see planning as too expensive in time and money.
* *Laziness*—People may not want to put forth the effort needed to formulate a plan.
* *Content with success*—particularly if a firm is successful, individuals may feel there is no need to plan because things are fine as they stand. But success today does not guarantee success tomorrow.
* *Fear of failure*—by not taking action, there is little risk of failure unless a problem is urgent and pressing. Whenever something worthwhile is attempted, there is some risk of failure.
* *Overconfidence*—as managers amass experience, they may rely less on formalized planning. Rarely, however, is this appropriate. Being overconfident or overestimating experience can bring demise. Forethought is rarely wasted and is often the mark of professionalism.
* *Prior bad experience*—People may have had a previous bad experience with planning, that is, cases in which plans have been long, cumbersome, impractical, or inflexible.

Planning, like anything else, can be done badly.

**1.8 Guidelines for Effective Strategic Management**

Failing to follow certain guidelines in conducting strategic management can foster criticisms of the process and create problems for the organization

R. T. Lenz offered some important guidelines for effective strategic management:

**Seventeen Guidelines for the Strategic-Planning Process to Be Effective**

1. It should be a people process more than a paper process.
2. It should be a learning process for all managers and employees.
3. It should be words supported by numbers rather than numbers supported by words.
4. It should be simple and no routine.
5. It should vary assignments, team memberships, meeting formats, and even the planning calendar.
6. It should challenge the assumptions underlying the current corporate strategy.
7. It should welcome bad news.
8. It should welcome open-mindness and a spirit of inquiry and learning.
9. It should not be a bureaucratic mechanism.
10. It should not become ritualistic, stilted, or orchestrated.
11. It should not be too formal, predictable, or rigid.
12. It should not contain jargon or arcane planning language.
13. It should not be a formal system for control.
14. It should not disregard qualitative information.
15. It should not be controlled by “technicians.”
16. Do not pursue too many strategies at once.
17. Continually strengthen the “good ethics is good business” policy.

**1.9 Business ethics and strategic management**

Business ethics is Principles of conduct within organizations that guide decision making and behavior. Good business ethics –prerequisite for good strategic management; good ethics is just good business! Bad ethics can derail/spoil even the best strategic plans.

Code of business ethics

A *code of business ethics* is a document that provides behavioral guidelines that cover daily activities and decisions within an organization. A new wave of ethics issues related to product safety, employee health, sexual harassment, AIDS in the workplace, smoking, acid rain, affirmative action, waste disposal, foreign business practices, cover-ups, takeover tactics, conflicts of interest, employee privacy, inappropriate gifts, and security of company records has accentuated/highlighted the need for strategists to develop a clear code of business ethics. Merely having a code of ethics, however, is not sufficient to ensure ethical business behavior. A code of ethics can be viewed as a public relations gimmick, a set of platitudes, or window dressing. To ensure that the code is read, understood, believed, and remembered, periodic ethics workshops are needed to sensitize people to workplace circumstances in which ethics issues may arise. If employees see examples of punishment for violating the code as well as rewards for upholding the code, this reinforces the importance of a firm’s code of ethics.

Business practices always considered unethical –

* Misleading advertising
* Misleading labeling
* Harm to the environment
* Dumping flawed products on foreign markets
* Poor product or service safety
* not providing equal opportunities for women and minorities,
* overpricing,
* moving jobs overseas and sexual harassment.

All strategy formulation, implementation, and evaluation decisions have ethical ramifications.

*Social responsibility* refers to actions an organization takes beyond what is legally required to protect or enhance the well-being of living things. *Sustainability* refers to the extent that an organization’s operations and actions protect, mend, and preserve rather than harm or destroy the **naturalenvironment**. Polluting the environment, for example, is unethical, irresponsible, and in many cases illegal. Business ethics, social responsibility, and sustainability issues therefore are interrelated and impact all areas of the comprehensive strategic management.