Rohini Engineering College and Technology, Palkulam,

Unit 1- STRATEGY AND PROCESS

- Conceptual framework for strategic management
- the Concept of Strategy
- the Strategy Formation Process
- Stakeholders in business
- Vision
- Mission
- Purpose
- Business definition
- Objectives
- Goals
- Corporate Governance
- Social responsibility

Strategy:

It is an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process‖. An equivalent definition given in the class is selection of actions that will make an organization to have superior performance compared to industry. An action means allocating resources.

Features of Strategy

Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.

Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.

Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.

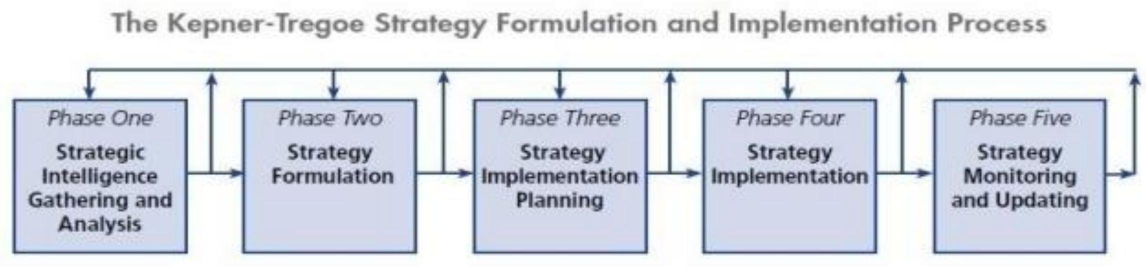
Strategy is a well defined roadmap or a goal post to be achieved of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization‘s strengths and to minimize the strengths of the competitors.Strategy, in short, bridges the gap between ―where we are‖ and ―where we want to be‖.

Strategic Management

Strategic management has now evolved to the point that it is primary value is to help the organization operate successfully in dynamic, complex global environment. Corporations have to become less bureaucratic and more flexible. In stable environments such as those that have existed in the past, a competitive strategy simply involved defining a competitive position and then defending it. Because it takes less and less time for one product or technology to replace another, companies are finding that there are no such thing as enduring competitive advantage and there is need to develop such advantage is more than necessary.

Corporations must develop strategic flexibility: the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization: an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights. Learning organizations avoid stability through continuous self-examinations and experimentations.

Strategic Formation Process:



Setting Organizations' objectives - The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

Evaluating the Organizational Environment - The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.

After identifying its strengths and weaknesses, an organization must keep a track of competitors‘ moves and actions so as to discover probable opportunities of threats to its market or supply sources.

Setting Quantitative Targets - In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

Performance Analysis - Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.

Choice of Strategy - This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities

Mission Statement

Mission statement is the statement of the role by which an organization intends to serve it‘s stakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated. It describes what the organization does (i.e., present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence). A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization‘s present (i.e., ―about where we are‖).For instance,

Ex: Microsoft‘s mission is to help people and businesses throughout the world to realize their full potential. Wal-Mart‘s mission is ―To give ordinary folk the chance to buy the same thing as rich people.‖ Mission statements always exist at top level of an organization, but may also be made for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in long run, but it may become ambiguous with organizational growth and innovations. In today‘s dynamic and competitive environment, mission may need to be redefined. However, care must be taken that the redefined mission statement should have original undamentals/components. Mission statement has three main components-a statement of mission or vision of the company, a statement of the core values that shape the acts and behavior of the employees, and a

Features of a Mission

a. Mission must be feasible and attainable. It should be possible to achieve it.

b. Mission should be clear enough so that any action can be taken.

c. It should be inspiring for the management, staff and society at large.

d. It should be precise enough, i.e., it should be neither too broad nor too narrow.

e. It should be unique and distinctive to leave an impact in everyone‘s mind.

. It should be analytical, i.e., it should analyze the key components of the strategy.

g. It should be credible, i.e., all stakeholders should be able to believe it.

Vision

A vision statement identifies where the organization wants or intends to be in future or where it should be to best meet the needs of the stakeholders. It describes dreams and aspirations for future. For instance, Microsoft's vision is ―to empower people through great software, any time, any place, or any device.‖ Wal-Mart's vision is to become worldwide leader in retailing.

A vision is the potential to view things ahead of themselves. It answers the question ―where we want to be‖. It gives us a reminder about what we attempt to develop. A vision statement is for the organization and it's members, unlike the mission statement which is for the customers/clients. It contributes in effective decision making as well as effective business planning. It incorporates a shared understanding about the nature and aim of the organization and utilizes this understanding to direct and guide the organization towards a better purpose. It describes that on achieving the mission, how the organizational future would appear to be.

An effective vision statement must have following features-

a. It must be unambiguous.

b. It must be clear.

It must harmonize with organization's culture and values.

d. The dreams and aspirations must be rational/realistic.

e. Vision statements should be shorter so that they are easier to memorize.

Goals and objectives

A goal is a desired future state or objective that an organization tries to achieve. Goals specify in particular what must be done if an organization is to attain mission or vision. Goals make mission more prominent and concrete. They co-ordinate and integrate various functional and departmental areas in an organization. Well made goals have following features-

1. These are precise and measurable.
2. These look after critical and significant issues.
3. These are realistic and challenging.
4. These must be achieved within a specific time frame.
5. These include both financial as well as non-financial components.

Objectives are defined as goals that organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives. Formulation of objectives is the task of top level management. Effective objectives have following features-

1. These are not single for an organization, but multiple.
2. Objectives should be both short-term as well as long-term.
3. Objectives must respond and react to changes in environment, i.e., they must be flexible.
4. These must be feasible, realistic and operational.

Tactics

Tactics are concerned with the short to medium term co-ordination of activities and the deployment of resources needed to reach a particular strategic goal. Some typical questions one might ask at this level are: "What do we need to do to reach our growth / size / profitability goals?" "What are our competitors doing?" "What machines should we use?" The decisions are taken more at the lower levels to implement the strategies based on ground realities.

How strategy is initiated?

A triggering event is something that stimulates a change in strategy .Some of the possible triggering events is:

New CEO: By asking a series of embarrassing questions, the new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation‘s existence

Intervention by an external institution: The firm‘s bank suddenly refuses to agree to a new loan or suddenly calls for payment in full on an old one.

Threat of a change in ownership: Another firm may initiate a takeover by buying

the company‘s common stock.

Management's recognition of a performance gap: A performance gap exists when performance does not meet expectations. Sales and profits either are no longer increasing or may even be falling.

Innovation of a new product that threatens the existence of the present status quo.

Basic model of strategic management

Strategic management consists of four basic elements

1. Environmental scanning
2. Strategy Formulation
3. Strategy Implementation and
4. Evaluation and control

Management scans both the external environment for opportunities and threats and the internal environmental for strengths and weakness. The following factors that are most important to the corporation‘s future are called strategic factors: strengths, weakness, opportunities and threats (SWOT)

Strategy Formulation

Strategy formulation is the development of long-range plans for they effective management of environmental opportunities and threats, taking into consideration corporate strengths and weakness. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines.

Mission

An organization‘s mission is its purpose, or the reason for its existence. It states what it is providing to society .A well conceived mission statement defines the fundamental , unique purpose that sets a company apart from other firms of its types and identifies the scope of the company _s operation in terms of products offered and markets served

Objective

Objectives are the end results of planned activity; they state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in fulfillment of the corporation‘s mission.

Strategies

A strategy of a corporation is a comprehensive master plan stating how corporation will achieve its mission and its objectives. It maximizes competitive advantage and minimizes competitive disadvantage. The typical business firm usually considers three types of strategy: corporate, business and functional.

Policies

A policy is a broad guideline for decision making that links the formulation of strategy with its implementation. Companies use policies to make sure that the employees throughout the firm make decisions and take actions that support the corporation‘s mission, its objectives and its strategies.

Strategic decision making

Strategic deals with the long-run future of the entire organization and have three characteristic

1.Rare- Strategic decisions are unusual and typically have no precedent to follow.

2. Consequential-Strategic decisions commit substantial resources and demand a great deal of commitment

3. Directive- strategic decisions set precedents for lesser decisions and future actions throughout the organization.

Mintzberg's mode s of strategic decision making

According to Henry Mintzberg, the most typical approaches or modes of strategic decision making are entrepreneurial, adaptive and planning.

Stake holders in Business:

Stake holders are the individuals and groups who can affect by the strategic outcomes achieved and who have enforceable claims on a firm's performance. Stake holders can support the effective strategic management of an organization.

Stake holder's relationship management

Stake holders can be divided into:

1. Internal Stakeholders

- Shareholders

- Employees

- Managers

- Directors

2. External Stakeholders

- Customers
- Suppliers
- Government
- Banks/creditors
- Trade unions
- Mass Media

Stake holder‘s Analysis:

- Identify the stake holders.
- Identify the stake holders expectations interests and concerns
- Identify the claims stakeholders are likely to make on the organization
- Identify the stakeholders who are most important from the organizations perspective.
- Identify the strategic challenges involved in managing the stakeholder relationship.

Making better strategic decisions

He gives seven steps for strategic decisions

1. Evaluate current performance results
2. Review corporate governance
3. Scan the external environment
4. Analyze strategic factors (SWOT)
5. Generate, evaluate and select the best alternative strategy
6. Implement selected strategies
7. Evaluate implemented strategies

SBU or Strategic Business Unit

An autonomous division or organizational unit, small enough to be flexible and large

have independent missions and objectives), they allow the owning conglomerate to

respond quickly to changing economic or market situations.