

Chapter 1

Fundamentals of Strategic Management

Learning Objective

- ✓ To understand what is Strategic Management
- ✓ To evaluate the importance and relevance of strategic management
- ✓ To understand strategic planning and strategic decisions
- ✓ To learn different levels of strategy
- ✓ To understand the strategic management process
- ✓ To understand role of different stakeholders in the strategic management process

Introduction to Fundamentals of Strategic Management

- Purpose of strategic management is to align the organisation's vision with the external world and create long term value for the shareholders by
 - Unlocking the organisation's potential
 - Unlocking resources
 - Giving impetus to people's wisdom and compassion
- Strategic management process brings about a balances execution between the internal and external environment

Introduction to Fundamentals of Strategic Management

- Strategic Management is critical business process for any organisation which has a long term vision to be a leader in its business
- As environment changes the organisation may change their vision and objectives to address the changing market requirements
- Organisation constantly refines its strategies, structure, products and services, markets and competitive advantage

Components of successful Strategic Management

- Fundamentals of strategy and strategic management
- Industry and competition analysis
- Internal and external environment analysis
- Different levels of strategy
- Strategy formulation
- Strategy implementation
- Review and Control
- Leadership
- Corporate Governance

Global Economic Scenario

- Filled with uncertainties and challenges
- Corporate facing challenges in terms of predictability of their business
- World is now filled with new socio-economic challenges
- Companies, being leaders, also striving to come out with new ideas to introduce new products and services

Global Economic Scenario

- To meet the global economic challenges, it is important for organisations to demonstrate high discipline in formulating and implementing the strategy
- Companies need to stay focussed on their mission
- Leaders need to respond to strategic problems quickly and effectively

Defining Strategic Management

- Strategic management is based on the following basic theory
 - Industry organisation theory
 - Resource based theory
 - Contingency theory
- Strategic management today has evolved into a dynamic tool drawing upon variety of above frameworks

Defining Strategic Management

- Organisations often deploy balanced scorecard approach to evaluate the overall performance of the business by creating set of leading indicators
- Strategic planning happens at organisations as an annual exercise with horizon of three year period with the individual business units and functional units

Concepts and Approaches to Strategic Management

- Large enterprise employ more structured strategic management model considering
 - Size of operations
 - Scope of operations
 - Encompass multiple stakeholder views and requirements
- Small and Medium Enterprises (SMEs) employ entrepreneurial approach on account of smaller scale and size of operations

Concepts and Approaches to Strategic Management

- Four distinct approaches to strategic management involve
 - Classical
 - Processual
 - Evolutionary and
 - Systemic
- Prescriptive Approach – Focus on what should be
- Descriptive Approach – Describes how strategy will be implemented in specific and customised contexts

Importance and Relevance of Strategic Management

- Performance of a company will be best managed if its strategic management process is in place
- Execution of strategy is the most important aspect for remaining successful in business
- Strategic management is of foremost importance to the success of any organisation which aspires to become a leader in its space

Benefits of Strategic Management

- Helps an organisation to build vision for its future
- Helps people to understand the vision and what the organisation stands for
- Educates the people to understand the structure of the organisation they are working for and what are the different levels of strategies at various levels
- Better delegation , coordination, monitoring, performance evaluation and overall control

Benefits of Strategic Management

- Identification of strengths and weakness helps organisation to take measures to leverage the strengths and overcome weakness
- Brings in SWOT analysis that helps companies
 - To adopt suitable strategies to address market opportunities
 - Ward off threats posed by external environment
- Helps to make strategies more realistic by constantly evaluating internal and external environment

Benefits of Strategic Management

- Empowers organisation to handle competition more effectively
- Makes the leadership team more dynamic and defines strategies relevant to the market place
- Mark-to-market strategies help the company to meet the customer expectations and stay ahead, and not fall behind the curve

Limitations of Strategic Management

- Organisations sometime fail to make strategic management as integral part of the strategy making process
- Organisations tend to be over ambitious and draw unrealistic strategies
- The process does not ensure unconditional success
- Analysis if made without proper due diligence may lead to wrong strategy

Limitations of Strategic Management

- If all options are not evaluated before the finalisation of strategy, there could be significant risks
- Ignored feedback and inputs from different levels of people within organisation may create future problems at implementation state
- Inadequate management's commitment and lack of willingness to allocate resource may lead to failure of strategy

Limitations of Strategic Management

- Conflict management, change management in the planning process exert resistance or indifference to the progress of strategic management
- No strategy can be stretched beyond boundaries of a particular business
- Universal strategy adoption may lead to company in a trap

Key underlying principles of Strategy

- Creation of unique and valuable position for the organisation, involving different set of activities
- Requires organisations to make trade-off
- Involves creating fit among an organisation's activities

Strategy explained..

- Is a long term plan an organisation is willing to pursue in order to get its mission and purpose filled
- Depends on nature / type of the company
 - Old economy – E.g. Basic metals, steel, power, other core industries
 - Traditional companies – Automobiles, consumer electronics, consumer durables, entertainment
 - New world economy – IT Services, BPO ITES, Social media

Offering Anything as a service

- Next big thing in the strategy is development of offering anything to customer as a service and no longer only a product
- Customer can pay as per the usage
- Address opportunities in the areas of innovative solutions and services can be offered to B2C and B2B customers

Strategic positioning

- Effort of an organisation to achieve sustainable competitive advantage by continually preserving what is distinctive about the company
- The key to success is to not get distracted by the short term opportunistic goals that would hamper company's objectives to achieve its purpose

Strategic positioning

- Strategic management process brings out facts analysing the following to ensure strategic positioning-
 - Underlying economic structure of the external environment
 - Choosing a strategic position of low cost focus or value differentiation focus
 - Benchmarking the competition vis-à-vis the resources the company is able to create
- Makes companies process difficult to imitate for competitions

Key Characteristics of Strategic Decisions

- Should be long term and future oriented, leveraging company's wisdom and compassion
- Should consider factors both internal and external influencing the organisation
- Should evaluate choices that could make winning proposition for the organisation
- Should be resilient enough to take advantages of favourable situations by being discretely opportunistic

Key Characteristics of Strategic Decisions

- Decisions could vary from –
 - Choosing the right market segment,
 - developing the right products and service
 - Building high level skills to differentiate the offerings
 - Generating cost effective financial resources
 - Capex investments
 - Creating partner ecosystem
- Decision makers take decisions that could impact company's profitability in short term but bring significant revenue and profit in long term

Key Characteristics of Strategic Decisions

- The quality of strategic inputs and the degree of involvement of top and middle management leaders depend on the size of the organisation
- Corporate level leaders also engage outside consultants to help the top management in the strategic management process
- Top management seeks inputs from the senior leadership and middle level leadership team members directly and from key employees indirectly

Key Characteristics of Strategic Decisions

- Socio-economic concerns also play a critical role in the decision making process
- Evaluation of risks and rewards form key component of the strategic decision making process

Levels of Strategy

- Three basic levels of strategy in an organisation
 - Corporate strategy – Explains what business the organisations is into
 - SBU Strategy – Clarifies how does an organisation compete
 - Functional Strategy-Explains how does the organisation support business level strategy

Corporate Strategy

- Addresses the fundamental question such as what is the
 - Purpose of the enterprise
 - The vision
 - Businesses the enterprise wants to pursue
 - Expansion and diversification strategy each business
 - Mergers and acquisitions
 - Defining business guidelines
 - Corporate governance

Strategic Business Unit (SBU) Strategy

- SBU level strategy decides the competitive advantage that enterprise needs to success in the chosen business line
- Has to conform to guidelines, governance mechanism, corporate philosophy and strategy
- SBUs business segments work in tandem with the Corporate to contribute to overall organisation success

Functional Strategy

- Strategies work in synchronisation with corporate strategy and SBU strategy
- Meant to create expertise, competence, competitive advantage, efficiency and productivity which are vital to the achievement of the business goals

Principles of Good Strategy

- Essence of strategy lies in creating tomorrow's competitive advantage faster than competitors
- Works on assumption that no one size fits all
- Creates competitive products to beat the hyper competition
- Evolve strategy that goes beyond the competitive advantage but also create socio-economic impact

Structure and Role of Stakeholders

- The key stakeholders of an organisation include
 - Board of Directors
 - Top management consisting of CEO, SBU Heads and Functional Heads
 - Operations team comprising of general managers and the employees involved in the execution of the strategy

Role of Board of Directors

- Key components of the role of board of directors is
 - Governance
 - Compliance
 - Risk Management
- BOD have authority and responsibility to establish basic corporate policies and guidelines, oversee governance, setting vision and direction of the company in the long run

Role of Board of Directors

- Board also plays key role in planning evaluation, validation, review of the strategic management process and its implementation at periodic levels
- Board has power to appoint or remove CEO
- Board supervises the governance, risk and compliance aspect of the organisation

Corporate Governance

- Corporate Governance is the relationship between three stakeholders in a corporate –
 - Shareholders
 - Board of Directors and
 - Top Management
- Some of the corporate governance challenges include conflict of interest, independence and knowledge of the directors, performance evaluation of the Board inter alia

Primarily responsibilities of Board of Directors

- Setting the corporate strategy, overall direction, vision or mission
- Hiring, firing of the CEO and top management
- Succession planning and ensuring business continuity
- Evaluation, controlling, monitoring, supervising of the top management
- Reviewing and approving the use of resources and protecting them as well

Primarily responsibilities of Board of Directors

- Involvement in major financial decisions and prudent actions regarding corporate objectives
- Caring for shareholder interest and ensure the company is managed in accordance with laws and regulatory policies
- Foster a culture of corporate social responsibility in the organisation, beyond profitability as the only objective

Role of Board in strategic management

- Monitor – Acting through committees, board can keep abreast of the development
- Evaluate and influence – Examine management's proposals, decisions and actions
- Initiate and determine – delineate a corporation's mission and specify strategic options to its management to ensure effective execution of the strategy

Role of Top Management in strategic management

Specific top management tasks vary from organisation to organisation, following are some of the specific areas

- Provide executive leadership to the organisation
- Translate the vision into mission, objectives and strategy
- Manage the strategic planning process
- Evaluate and control the implementation process

The top management should empower authority and accountability to leaders at all levels to participate in the strategic leadership to make an inclusive company

Characteristics a CEO brings to the organisation

- CEO articulates a strategic visions and mission for organisation
- CEO's leadership and vision puts activities on higher momentum and resolves conflicts of different perspectives to find resolution
- CEO presents a role for others to identify with and to follow
- CEO sets example in terms of organisation behaviour

Characteristics a CEO brings to the organisation

- CEO communicates and demonstrates high performance standards and also show confidence in people's abilities
- CEO must willing to follow through by coaching people

Corporate Planning and Strategic Planning Process

Key functions and responsibilities of the corporate planning divisions –

- Keep track of the latest developments in the strategic management process
- Disseminating the information to important stakeholders and strategists
- Supply data points and analytical support needed for strategic management process
- Analysis of internal and external environment

Corporate Planning and Strategic Planning Process

Key functions and responsibilities of the corporate planning divisions –

- Identifying new business opportunities
- Helping to establish a planning systems
- Formulating guidelines for preparing the plans
- Coordinating divisional plans
- Assisting to evaluate and control strategies

Strategic Management Consultants

Organisation avail services of strategic management consultants for—

- Make up for the inadequacy of the corporate or group planning cell
- Make use of the specialised services
- Bring in independent perspective in the strategic management process

Four key components of Strategic Management Process

- Environmental Analysis
- Strategy Formulation
- Implementation
- Review and Control

Main elements of the Strategic Management Theory

- Involves adapting the organisation to its business environment
- Fluid and complex in nature
- Create novel combination of circumstances requiring unstructured non-repetitive responses
- Affects the entire organisation by providing direction

Main elements of the Strategic Management Theory

- Involves both strategy formulation and also strategy implementation
- Partially planned and partially unplanned
- Done at several levels, overall corporate strategy and individual business strategies
- Involves both conceptual and analytical thought processes

Environment Analysis

- Business environmental factors have impact on the success of the company
- Factors could be internal or external to the organisation
- Industry and competition are two major external factors
- Organisation gets affected by complex network of political regulatory, economic, social and technological forces

Strategy Formulation- Key steps

- Determination of mission and objectives
- SWOT Analysis
- Consideration of strategic options and alternatives
- Evaluation and choice of appropriate strategy

Determination of Mission and Objectives

- Vision of organisation define the socio-economic purpose and reason for its existence
- Mission deals with the objectives and scope of the organisation's primary objectives
- Mission is a detailed description of the actionable components of vision
- Mission can be financial performance, customer experience, process and operational excellence, people and culture

SWOT Analysis

- Analysis of company's strengths, weaknesses and opportunities and threats
- Review of operating environmental challenges
- Identification of weakness and assessment as to how the organisation can build higher capabilities
- Understanding competition and building roadmap for innovative products and services

Strategic options and alternatives

- After SWOT analysis, strategic managers move to identifying the strategic options to finalise the overall strategy
- Alternative strategies could include marketing, customer acquisition, cost optimisation
- Competitive strategic alternatives a company can think of as well

Evaluation and Choice

- Purpose of considering different strategic alternatives is to adopt most appropriate strategy that will enable the organisation to achieve its objectives and the mission
- General framework for evaluation and choice is –
 - Suitability
 - Feasibility
 - Acceptability

Implementation of Strategy

- Top management should ensure that the strategy is internalised at different levels of the organisation
- Needs clear communication, formulation and assigning of KPIs
- Needs employee empowerment and mobilisation of resources
- Cross Functional Team (CFTs) facilitate conflict resolution and information flow between functions

Review and Control

- Top management examines and reviews whether the strategy is implemented in meeting the mission of the company
- Assesses need for any corrective measures
- Management council facilitates periodic reviews of the strategic management process
- Continuous monitoring of internal and external environment is part of the review and control process

Strategic Management in Indian Context

- Political, regulatory, social, economic and technological landscapes have changed
- Indian companies have evolved in its maturity to take on global challenges
- Indian corporate have set ambitious goals
- Expanding opportunities and growing competition in the country is instrumental for building up competitive strategies

Summary

- Strategic Management a critical success factors in any organisation that aspires to be long term player
- Its is crucial to understand the fundamentals of the strategic management process
- Strategic management process has its own distinct features and limitations
- Four key components of strategic management process- Environmental Analysis, Strategy Formulation, Implementation and Review & Control