

STRATEGIC MANAGEMENT PROCESS



LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- ❑ Have a basic knowledge of strategic planning.
- ❑ Learn about the concept of strategic decision making.
- ❑ Understand the concepts of strategic intent and vision.
- ❑ Have knowledge of different stages of strategic management process.

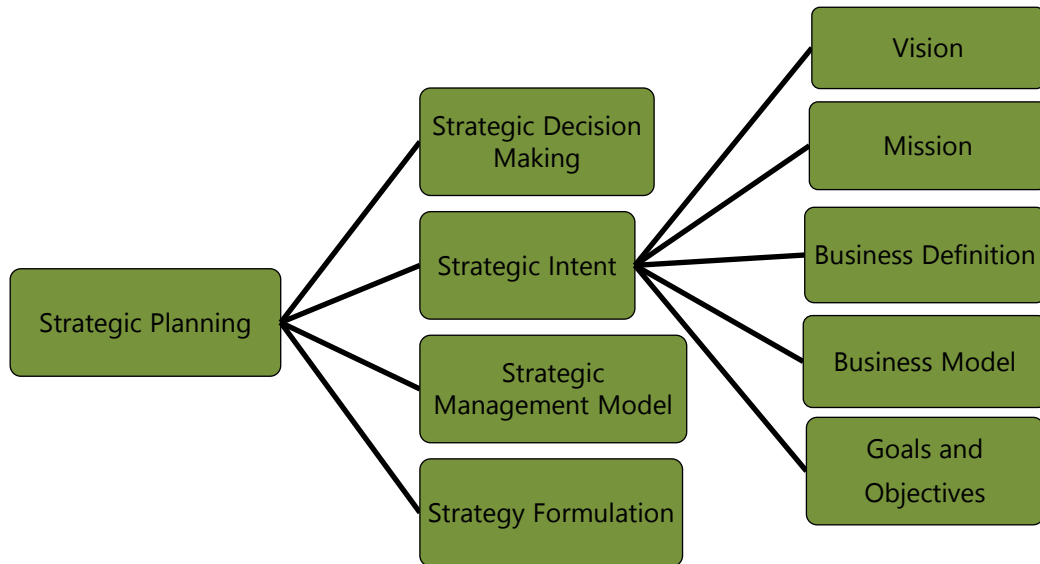
Sound strategy starts with having the right goal.

Michael Porter

“The real challenge in crafting strategy lies in detecting subtle discontinuities that may undermine a business in the future. And for that there is no technique, no program, just a sharp mind in touch with the situation.”

Henry Mintzberg

CHAPTER OVERVIEW



3.1 INTRODUCTION

It is a process of strategic planning that culminates in the formulation of corporate strategy. The strength of the entire process of strategic planning is tested by the efficacy of the strategy finally forged by the firm. The ultimate question is whether the strategy formulated is the appropriate one, i.e. whether it would take the firm to its objectives. Corporate strategy is the game plan that actually steers the firm towards success. The degree of aptness of this game plan decides the extent of the firm's success. That is why formulation of corporate strategy forms the crux of the strategic planning process.

3.2 STRATEGIC PLANNING

Planning means deciding what needs to be done in the future (today, next week, next month, next year, over the next couple of years, etc.) and generating blueprints for action. Good planning is an important constituent of good management. Planning involves determination of the course of action to attain the predetermined objectives. It bridges the gap between where we are to where we want to go. Thus, planning is future oriented in nature. Planning can be strategic or operational. Strategic plans are made by the senior management for the entire organization after taking into account the organization's strengths and weaknesses in the light of

opportunities and threats in the external environment. They involve acquisition and allocation of resources for the attainment of organisational objectives. But operational plans on the other hand are made at the middle and lower level management. They specify details on how the resources are to be utilized efficiently for the attainment of objectives.

Strategic Planning: It is the process of determining the objectives of the firm, resources required to attain these objectives and formulation of policies to govern the acquisition, use and disposition of resources. Strategic planning involves a fact of interactive and overlapping decisions leading to the development of an effective strategy for the firm. Strategic planning determines where an organization is going over the next year or more and the ways for going there. The process is organization-wide, or focused on a major function such as a division or other major function.

Dealing with uncertainty: Strategic uncertainty, which has far reaching implications, is a key construct in strategy formulation. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

Sometimes, strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Information gathering and additional analysis will not be able to reduce the uncertainty. In that case, scenario analysis can be employed. Scenario analysis basically accepts the uncertainty as given and uses it to drive a description of two or more future scenarios. Strategies are then developed for each. One outcome could be a decision to create organizational and strategic flexibility so that as the business context changes the strategy will adapt.

Impact of uncertainty: Each element of strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential businesses. For example, a trend toward natural foods may present opportunities for juices for a firm producing aerated drinks on the basis of a strategic uncertainty. The impact of a strategic uncertainty will depend on the importance of the impacted SBU to a firm. Some SBUs are more important than others. The importance of established SBUs may be indicated by their associated sales, profits, or costs. However, such measures might need to be supplemented for potential growth as present sales, profits, or costs may not reflect the true value.



3.3 STRATEGIC DECISION MAKING

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational, i.e., which relate to general day-to-day operations. They may also be strategic in nature. According to Jauch and Glueck "*Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives.*"

The major dimensions of strategic decisions are as follows:

- ◆ *Strategic decisions require top-management involvement:* Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.
- ◆ *Strategic decisions involve commitment of organisational resources:* For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.
- ◆ *Strategic decisions necessitate consideration of factors in the firm's external environment:* Strategic focus in organization involves orienting its internal environment to the changes of external environment.
- ◆ *Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm:* Generally, the results of strategic implementation are seen on a long-term basis and not immediately.
- ◆ *Strategic decisions are future oriented:* Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- ◆ *Strategic decisions usually have major multifunctional or multi-business consequences:* As they involve organization in totality they affect different sections of the organization with varying degree.



3.4 STRATEGIC INTENT

Strategic Management is defined as a dynamic process of formulation, implementation, evaluation, and control of strategies to realise the organization's strategic intent. Strategic intent refers to purposes of what the organization strives for. Senior managers must define "*what they want to do*" and "*why they want to do*". "*Why they want to do*" represents strategic intent of the firm. Clarity in strategic

intent is extremely important for the future success and growth of the enterprise, irrespective of its nature and size.

Strategic intent can be understood as the philosophical base of strategic management. It implies the purposes, which an organization endeavours to achieving. It is a statement that provides a perspective of the means, which will lead the organization, reach its vision in the long run. Strategic intent gives an idea of what the organization desires to attain in future. It answers the question what the organization strives or stands for? It indicates the long-term market position, which the organization desires to create or occupy and the opportunity for exploring new possibilities.

Strategic intent provides the framework within which the firm would adopt apredetermined direction and would operate to achieve strategic objectives. Strategic intent could be in the form of vision and mission statements for the organisation at the corporate level. It could be expressed as the business definition and business model at the business level of the organisation.

Strategic intent is generally stated in broad terms but when stated in precise terms it is an expression of aims to be achieved operationally, i.e., goals and objectives.



Elements of Strategic Intent

1. **Vision:** Vision implies the blueprint of the company's future position. It describes where the organisation wants to land. It depicts the organisation's aspirations and provides a glimps of what the organization would like to

become in future. Every sub system of the organization is required to follow its vision.

2. **Mission:** Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the firm in the society. It is designed to help potential shareholders and investors understand the purpose of the company. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and role in society.
3. **Business Definition:** It seeks to explain the business undertaken by the firm, with respect to the customer needs, target markets, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices. Organisational restructuring also depends upon the business definition.
4. **Business Model:** Business model, as the name implies is a strategy for the effective operation of the business, ascertaining sources of income, desired customer base, and financial details. Rival firms, operating in the same industry rely on the different business model due to their strategic choice.
5. **Goals and Objectives:** These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time-based measurable targets, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan, over the particular period. However, in *practice, no distinction is made between goals and objectives and both the terms are used interchangeably.*

The vision, mission, business definition, and business model explain the philosophy of the organisation but the goals and objectives represent the results to be achieved in multiple areas of business.

3.5 VISION, MISSION AND OBJECTIVES

3.5.1. Vision

Very early in the strategy making process, a company's senior managers must consider the issue of what directional path the company should take and what changes in the company's product-market-customer-technology focus would improve its current market position and future prospects. Deciding to commit the company to one path versus another pushes managers to draw some carefully

reasoned conclusions about how to try to modify the company's business makeup and the market position it should stake out.

Top management's views about the company's direction and the product-customer-market-technology focus constitute the strategic vision for the company. Strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are to go" and a convincing rationale for why this makes good business sense for the company. Strategic vision thus points out a particular direction, charts a strategic path to be followed in future, and moulding organizational identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction. For instance, Henry Ford's vision of a car in every garage had power because it captured the imagination of others, aided internal efforts to mobilize the Ford Motor Company's resources, and served as a reference point for gauging the merits of the company's strategic actions.

A Strategic vision is a road map of a company's future – providing 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.

The three elements of a strategic vision are:

1. Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "Who we are and where we are now?"
2. Using the mission statement as basis for deciding on a long-term course making choices about "Where we are going?"
3. Communicating the strategic vision in clear, exciting terms that would arouse organization wide commitment.

Some examples of Vision are:

- ◆ ICAI: World's becomes leading accounting body, a regulator and developer of trusted and independent professionals with world class competencies in accounting, assurance, taxation, finance and business advisory services.
- ◆ Reliance Industries: Through sustainable measures, create value for the nation, enhance quality of life across the entire socio-economic spectrum and help spearhead India as a global leader in the domains where we operate.

- ◆ TATA Power: To be the most admired and responsible Integrated Power Company with international footprint, delivering sustainable value to all stakeholder.
- ◆ TATA Motors: To be a world class corporate constantly furthering the interest of all its stakeholders.
- ◆ Hindustan Unilever: Unilever products touch the lives of over 2 billion people every day – whether that's through feeling great because they've got shiny hair and a brilliant smile, keeping their homes fresh and clean, or by enjoying a great cup of tea, satisfying meal or healthy snack.
- ◆ The four pillars of our vision set out the long term direction for the company – where we want to go and how we are going to get there:

We work to create a better future every day.

- ◆ We help people feel good, look good and get more out of life with brands and services that are good for them and good for others.
- ◆ We will inspire people to take small everyday actions that can add up to a big difference for the world.
- ◆ We will develop new ways of doing business with the aim of doubling the size of our company while reducing our environmental impact.
- ◆ We've always believed in the power of our brands to improve the quality of people's lives and in doing the right thing. As our business grows, so do our responsibilities. We recognise that global challenges such as climate change concern us all. Considering the wider impact of our actions is embedded in our values and is a fundamental part of who we are.

Essentials of a strategic vision

- ◆ The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- ◆ Forming a strategic vision is an exercise in intelligent entrepreneurship.
- ◆ A well-articulated strategic vision creates enthusiasm among the members of the organisation.
- ◆ The best-worded vision statement clearly illuminates the direction in which organization is headed.

3.5.2 Mission

A mission is an answer to the basic question 'what business are we in and what we do'. It has been observed that many firms fail to conceptualise and articulate the mission and business definition with the required clarity. Such firms are seen to fumble in the identification of opportunities and fail in formulating strategies to make use of opportunities. Firms working to manage their organisation strategically cannot be lax in the matter of mission and business definition, as the two ideas are absolutely central to strategic planning.

Why an organization should have a mission?

- ◆ To ensure unanimity of purpose within the organization.
- ◆ To develop a basis, or standard, for allocating organizational resources.
- ◆ To provide a basis for motivating the use of the organization's resources.
- ◆ To establish a general tone or organizational climate, for example, to suggest a business like operation.
- ◆ To serve as a focal point for those who can identify with the organization's purpose and direction.
- ◆ To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
- ◆ To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

A company's mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Mission statement should reflect the philosophy of the organizations that is perceived by the senior managers. A good mission statement should be precise, clear, feasible, distinctive and motivating. Following points are useful while writing a mission of a company:

- ◆ One of the roles of a mission statement is to give the organization its own special identity, business emphasis and path for development – one that typically sets it apart from other similarly positioned companies.

- ◆ A company's business is defined by what needs it is trying to satisfy, which customer groups it is targeting and the technologies and competencies it uses and the activities it performs.
- ◆ Good mission statements are – unique to the organization for which they are developed.

Some examples of Mission are:

- ◆ ICAI: ICAI will leverage technology and infrastructure and partner with its stakeholders to
 - Impart world class education, training and professional development opportunities to create global professionals
 - Develop an independent and transparent regulatory mechanism that keeps pace with the changing times
 - Ensure adherence to highest ethical standards.
 - Conduct cutting edge research and development in the areas of accounting, assurance, taxation, finance and business advisory services
 - Establish ICAI members and firms as Indian multi-national service providers.
- ◆ Reliance Industries:
 - Create value for all stakeholders
 - Grow through innovation
 - Lead in good governance practices
 - Use sustainability to drive product development and enhance operational efficiencies
 - Ensure energy security of the nation
 - Foster rural prosperity
- ◆ TATA Power: We will become the most admired and responsible Power Company delivering sustainable value by:
 - Operating our assets at benchmark levels.
 - Executing projects safely, with predictable benchmark quality, cost and time.

- Growing the Tata Power businesses, be it across the value chain or across geographies, and also in allied or new businesses.
 - Driving Organizational Transformation that will make us have the conviction and capabilities to deliver on our strategic intent.
 - Achieving our sustainability intent of 'Leadership with Care', by having leading and best practices on Care for the Environment, Care for the Community, Care for the Customers and Shareholders, and Care for the People.
- ◆ TATA Motors:
- Shareholders: To consistently create shareholder value by generating returns in excess of Weighted
 - Average Cost of Capital (WACC) during the upturn and at least equal to Weighted Average Cost of
 - Capital (WACC) during the downturn of the business cycle.
 - Customers: To strengthen the Tata brand and create lasting relationships with the customers by working closely with business partners to provide superior value for money over the life cycle.
 - Employees: To create a seamless organization that incubates and promotes innovation, excellence and the Tata core values.
 - Vendor and Channel Partners: To foster a long-term relationship so as to introduce a broad range of innovative products and services, that would benefit our customers and other stakeholders.
 - Community: To proactively participate in reshaping the country's economic growth. To take a holistic approach towards environmental protection.

What is our mission? And what business are we in ?

The well-known management experts, Peter Drucker and Theodore Levitt were among the first to agitate this issue through their writings. They emphasised that as the first step in the business planning endeavour, every business firm must clarify the corporate mission and define accurately the business the firm is engaged in. They also explained that towards facilitating this task, the firm should raise and answer certain basic questions concerning its business, such as:

- ◆ What is our mission?
- ◆ What is our ultimate purpose?

- ◆ What do we want to become?
- ◆ What kind of growth do we seek?
- ◆ What business are we in?
- ◆ Do we understand our business correctly and define it accurately in its broadest connotation?
- ◆ Whom do we intend to serve?
- ◆ What human need do we intend to serve through our offer?
- ◆ What brings us to this particular business?
- ◆ What would be the nature of this business in the future?
- ◆ In what business would we like to be in, in the future?

At the time these two experts raised this issue, the business managers of the world did not fully appreciate the importance of these questions; those were the days when business management was still a relatively simple process even in industrially advanced countries like the US. It was only in subsequent years that captains of industry all over the world understood the significance of the seemingly simple questions raised by Drucker and Levitt.

The corporate mission is an expression of the growth ambition of the firm. It is, in fact, the firm's future visualised. It provides a dramatic picture of what the company wants to become. It is the corporation's dream crystallised. It is a colourful sketch of how the firm wants its future to look, irrespective of the current position. In other words, the mission is a grand design of the firm's future.

Mission amplifies what brings the firm to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business firm. In other words, the mission serves as a justification for the firm's very presence and existence; it legitimises the firm's presence.

Mission is also an expression of the vision of the corporation, its founder/ leader. To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

It represents the common purpose, which the entire firm shares and pursues. A mission is not a confidential affair to be confined at the top; it has to be open to the entire company. All people are supposed to draw meaning and direction from it. It adds zeal to the firm and its people. A mission is not a fad-it is a tool to build and sustain commitment of the people to the corporation's policies. A mission is not rhetoric - it is the corporation's guiding principle.

Every organization functions through a network of goals and objectives. Mission statement is the foundation from which the network of goals is built. The mission serves as a proclamation to insiders and outsiders on what the corporation stands for. A mission, however, is not a PR document; while it legitimises the corporation's existence and role in society, its main purpose is to give internal direction for the future of the corporation.

According to Peter Drucker, every organization must ask an important question "What business are we in?" and get the correct and meaningful answer. The answer should have marketing or external perspective and should not be restated to the production or generic activities of business. The table given below will clarify and highlight the importance of external perspective.

What business are we in?

Company	Production-oriented answer	Marketing-oriented answer
Indian Oil	We produce oil and gasoline products.	We provide various types of safe and cost-effective energy.
Indian Railways	We run a railroad.	We offer a transportation and material-handling system.
Revlon	In the factory, we make cosmetics.	In the retail outlet, we sell hope.

Understanding Mission and Purpose: The mission is a statement which defines the role that an organization plays in the society. The organisation also have some purpose that is anything that it strives for. Organizations relate their existence to satisfying a particular need of the society. They do this in terms of their mission and purpose. We can describe mission as "a statement which defines the role that an organization plays in the society", and purpose as "anything which an organization strives for." In business policy, both these terms are either used jointly or singly. Since both mission and purpose go hand in hand, they can be used together while maintaining the basic difference between them. Mission strictly refers to the particular needs of the society, for instance, its information needs. Purpose relates to what the organization strives to achieve in order to fulfil its mission to the society. A book publisher and a magazine editor are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner.

3.5.3 Goals and Objectives

Business organization translates their vision and mission into goals and objectives. As such the term objectives are synonymous with goals, however, some authors make an attempt to distinguish the two. Goals are open-ended attributes that denote the future states or outcomes. Objectives are close-ended attributes which are precise and expressed in specific terms. Thus, the Objectives are more specific and translate the goals to both long term and short term perspective. However, this distinction is not made by several theorists on the subject. Accordingly, we will also use the term interchangeably.

Objectives are organization's performance targets – the results and outcomes it wants to achieve. They function as yardsticks for tracking an organization's performance and progress.

All organizations have objectives. The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavour. Organizational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

Objectives with strategic focus relate to outcomes that strengthen an organization's overall business position and competitive vitality. Objectives, to be meaningful to serve the intended role, must possess the following characteristics:

- ◆ Objectives should define the organization's relationship with its environment.
- ◆ They should be facilitative towards achievement of mission and purpose.
- ◆ They should provide the basis for strategic decision-making.
- ◆ They should provide standards for performance appraisal.
- ◆ They should be concrete and specific.
- ◆ They should be related to a time frame.
- ◆ They should be measurable and controllable.
- ◆ They should be challenging.
- ◆ Different objectives should correlate with each other.
- ◆ Objectives should be set within the constraints of organisational resources and external environment.

A need for both short-term and long-term objectives: As a rule, a company's set of financial and strategic objectives ought to include both short-term and long-term performance targets. Having quarterly or annual objectives focuses attention on delivering immediate performance improvements. Targets to be achieved within three to five years' prompt considerations of what to do now to put the company in position to perform better down the road. A company that has an objective of doubling its sales within five years can't wait until the third or fourth year to begin growing its sales and customer base. By spelling out annual (or perhaps quarterly) performance targets, management indicates the speed at which longer-range targets are to be approached.

Long-term objectives: To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas.

- ◆ Profitability.
- ◆ Productivity.
- ◆ Competitive Position.
- ◆ Employee Development.
- ◆ Employee Relations.
- ◆ Technological Leadership.
- ◆ Public Responsibility.

Long-term objectives represent the results expected from pursuing certain strategies, Strategies represent the actions to be taken to accomplish long-term objectives. The time frame for objectives and strategies should be consistent, usually from two to five years,

Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, obtainable, and congruent among organizational units. Each objective should also be associated with a time line. Objectives are commonly stated in terms such as growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility. Clearly established objectives offer many benefits. They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs,

Short-range objectives can be identical to long-range objectives if an organization is already performing at the targeted long-term level. For instance, if a company

has an ongoing objective of 15 percent profit growth every year and is currently achieving this objective, then the company's long-range and short-range objectives for increasing profits coincide. The most important situation in which short-range objectives differ from long-range objectives occurs when managers are trying to elevate organizational performance and cannot reach the long-range target in just one year. Short-range objectives then serve as steps toward achieving long term objective.

3.6 STRATEGIC MANAGEMENT MODEL

Identifying an organization's vision, mission, goals and objectives, is the starting point for strategic management process. Every organization has a specific vision, mission, goals and objectives, even if these elements are not consciously designed, written, or communicated. The answer to where an organization is going can be determined largely by where the organization has been.

The strategic management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. For instance, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission.

Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually. The strategic management process never really ends.

The strategic management process can best be studied and applied using a model. Every model represents some kind of process. The model illustrated in the Figure: Strategic Management Model is a widely accepted, comprehensive. This model like any other model of management does not guarantee sure-shot success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic management process are shown in the model.

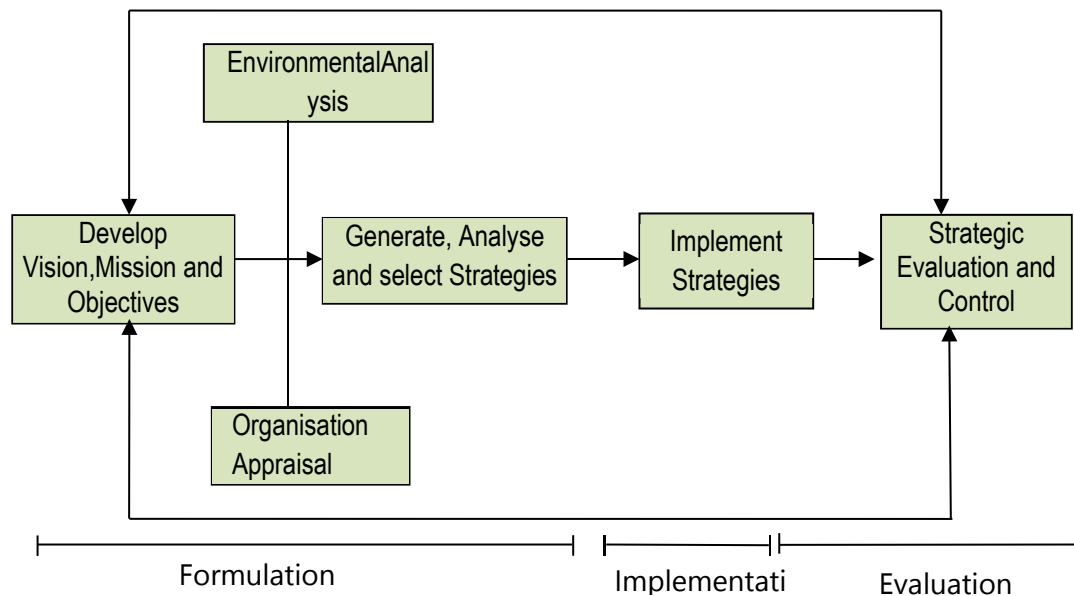


Figure: Strategic Management Model (Fred R David)

The strategic management process is not as cleanly divided and neatly performed in practice as the strategic management model suggests. Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organization. Many organizations conduct formal meetings semi-annually to discuss and update the firm's vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance. Creativity from participants is encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

3.7 STAGES IN STRATEGIC MANAGEMENT

Crafting and executing strategy are the heart and soul of managing a business enterprise. But exactly what is involved in developing a strategy and executing it proficiently? And who besides top management has strategy – formulation – executing responsibility?

Strategic management involves the following stages:

1. Developing a strategic vision and formulation of statement of mission, goals and objectives.
2. Environmental and organizational analysis.
3. Formulation of strategy.

4. Implementation of strategy.
5. Strategic evaluation and control

Stage 1: Strategic Vision, Mission and Objectives

First a company must determine what directional path the company should take and what changes in the company's product – market – customer – technology – focus would improve its current market position and its future prospect. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position it should carve out. Top management's views and conclusions about the company's direction and the product-customer-market-technology focus constitute a strategic vision for the company. A strategic vision delineates management's aspirations for the organisation and highlights a particular direction, or strategic path for it to follow in preparing for the future, and moulds its identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

Mission and Strategic Intent: Managers need to be clear about what they see as the role of their organization, and this is often expressed in terms of a statement of mission. This is important because both external stakeholders and other managers in the organization need to be clear about what the organization is seeking to achieve and, in broad terms, how it expects to do so. At this level, strategy is not concerned with the details of SBU competitive strategy or the directions and methods the businesses might take to achieve competitive advantage. Rather, the concern here is overall strategic direction.

Corporate goals and objectives flow from the mission and growth ambition of the corporation. Basically, they represent the quantum of growth the firm seeks to achieve in the given time frame. They also endow the firm with characteristics that ensure the projected growth. Through the objective setting process, the firm is tackling the environment and deciding the locus it should have in the environment. The objective provides the basis for its major decisions of the firm and also sets the organizational performance to be realised at each level. The managerial purpose of setting objectives is to convert the strategic vision into specific performance targets – results and outcomes the management wants to achieve – and then use these objectives as yardsticks for tracking the company's progress and performance.

Ideally, managers ought to use the objective-setting exercise as a tool for truly stretching an organization to reach its full potential. Challenging company personnel to go all out and deliver big gains in performance pushes an enterprise

to be more inventive, to exhibit some urgency in improving both its financial performance and its business position, and to be more intentional and focused in its actions.

Objectives are needed at all organizational levels. Objective setting should not stop with top management's establishing of companywide performance targets. Company objectives need to be broken down into performance targets for each separate business, product line, functional department, and individual work unit. Company performance can't reach full potential unless each area of the organization does its part and contributes directly to the desired companywide outcomes and results. This means setting performance targets for each organization unit that support-rather than conflict with or negate-the achievement of companywide strategic and financial objectives.

Stage 2: Environmental and Organizational Analysis

This stage is the diagnostic phase of strategic analysis. It entails two types of analysis:

1. Environmental scanning
2. Organisational analysis

External environment of a firm consists of economic, social, technological, market and other forces which affect its functioning. The firm's external environment is dynamic and uncertain. So, the management must systematically be analysed various elements of environment to determine opportunities and threats for the firm in future.

Organisational analysis involved a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on. This would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment. This would provide us a framework for SWOT analysis (Strength, Weakness, opportunity and threat) which could be in the form of a table highlighting various strengths and weaknesses of the firm and opportunities and threats which the environment we create for the firm. The concept of SWOT analysis is already elaborated in chapter 2.

Stage 3: Formulating Strategy

The first step in strategy formulation is developing strategic alternatives in the light of organization strengths and weaknesses and opportunities and threats in the environment. The second step is the deep analysis of various strategic alternatives

for the purpose of choosing the most appropriate alternative which will serve as strategy of the firm.

A company may be confronted with several alternatives such as:

- i. Should the company continue in the same business carrying on the same volume of activities?
- ii. If it should continue in the same business, should it grow by expanding the existing units or by establishing new units or by acquiring other units in the industry.
- iii. If it should diversify, should it diversify into related areas or unrelated areas?
- iv. Should it get out of an existing business fully or partially?

The above strategic alternatives may be designated as stability strategy, growth/expansion strategy and retrenchment strategy. A company may also follow a combination these alternatives called combination strategy. The details of the strategies have been given in chapter 4.

Stage 4: Implementation of Strategy

Implementation and execution is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. It is the most demanding and time-consuming part of the strategy-management process. To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets.

In most situations, strategy-execution process includes the following principal aspects:

- ◆ Developing budgets that steer ample resources into those activities critical to strategic success.
- ◆ Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.
- ◆ Ensuring that policies and operating procedures facilitate rather than impede effective execution.
- ◆ Using the best-known practices to perform core business activities and pushing for continuous improvement.

- ◆ Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
- ◆ Motivating people to pursue the target objectives energetically.
- ◆ Creating a company culture and work climate conducive to successful strategy implementation and execution.
- ◆ Exerting the internal leadership needed to drive implementation forward and keep improving strategy execution. When the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

Good strategy execution involves creating strong “fits” between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal operating systems, and between strategy and the organization’s work climate and culture.

Stage 5 : Strategic Evaluation and Control

The final stage of strategic management process – evaluating the company’s progress, assessing the impact of new external developments, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company’s vision, objectives, strategy, and/or strategy-execution methods. So long as the company’s direction and strategy seem well matched to industry and competitive conditions and performance targets are being met, company executives may decide to stay the course. Simply fine-tuning the strategic plan and continuing with ongoing efforts to improve strategy execution are sufficient.

But whenever a company encounters disruptive changes in its external environment, questions need to be raised about the appropriateness of its direction and strategy. If a company experiences a downturn in its market position or shortfalls in performance, then company managers are obligated to ferret out whether the causes relate to poor strategy, poor execution, or both and then to take timely corrective action. A company’s direction, objectives, and strategy have to be revisited anytime external or internal conditions warrant. It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time.

Proficient strategy execution is always the product of much organizational learning. It is achieved unevenly – coming quickly in some areas and proving nettlesome and problematic in others. Periodically assessing what aspects of strategy execution are working well and what needs improving is normal and desirable. Successful strategy

execution entails vigilantly searching for ways or continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.

SUMMARY

Strategic planning is the making and determination of organizational strategy. It involves taking strategic decisions and allocating resources to pursue the strategy. Strategic intent provides the framework within which the firm would adopt a predetermined direction and would operate to achieve strategic objectives. Elements of strategic intent are vision, mission, business definition, business model and goals and objectives.

This chapter explains the strategic management model. The five stages of strategic management– Developing a strategic vision and formulation of statement of mission, goals and objectives, environmental and organizational analysis, formulation of strategy, implementation of strategy, strategic evaluation and control have been discussed in.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

Question 1

- The first step in strategic planning is generally:
 - Developing a vision statement
 - Establishing goals and objectives
 - Developing a mission statement
 - Determining opportunities and threats
- The strategic-management process:
 - occurs once a year.
 - is a sequential process.
 - is a continuous process.
 - applies mostly to small businesses
- In which phase of strategic management are annual objectives especially important?
 - Formulation

- (b) Control
(c) Evaluation
(d) Implementation
4. Which statement should be created first and foremost?
- (a) Strategic
(b) Vision
(c) Objectives
(d) Mission
5. Specific results an organization seeks to achieve in pursuing its basic mission are:
- (a) Strategies
(b) Rules
(c) Objectives
(d) Policies
6. Which one is not the element of strategic intent?
- (a) Business model
(b) Vision
(c) Business definition
(d) Business standard
7. During what stage of strategic management are a firm's specific internal strengths and weaknesses determined?
- (a) Formulation
(b) Implementation
(c) Evaluation
(d) Feedback
8. Which of these basic questions should a vision statement answer?
- (a) What is business of firm's?
(b) Who are competitors?

- (c) Where we are to go?
 (d) What are organizational capabilities?
9. What are the means by which long term objectives will be achieved?
 (a) Policies
 (b) Opportunities
 (c) Vision
 (d) Strategies
10. What is the first step in the comprehensive strategic-management model?
 (a) Developing vision and mission statements
 (b) Performing external audits
 (c) Measuring and evaluating performance
 (d) Establishing long-term objectives
11. Developing vision and mission, identifying an organization's external opportunities and threats, and determining internal strengths and weaknesses are:
 (a) SBU Planning
 (b) Strategy Formulation
 (c) Strategy Implementation
 (d) Business Process Reengineering
12. Which statement should be created first and foremost?
 (a) Strategy
 (b) Vision
 (c) Objectives
 (d) Mission

Answer

- 1** (a) **2** (c) **3** (d) **4** (b) **5** (c) **6** (d)
7 (a) **8** (c) **9** (d) **10** (a) **11** (b) **12** (b)

Descriptive Questions

Question 2

What is strategic decision making? What tasks are performed by a strategic Manager?

Answer

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational i.e., which relate to general day-to-day operations. They may also be strategic in nature. According to Jauch and Glueck **“Strategic decisions encompass the definition of the business, products to be handled, markets to be served, functions to be performed and major policies needed for the organisation to execute these decisions to achieve the strategic objectives.”**

The primary task of the strategic manager is conceptualizing, designing and executing company strategies. For this purpose, his tasks include:

- ◆ Defining the mission and goals of the organization.
- ◆ Determining what businesses it should be in.
- ◆ Allocating resources among the different businesses.
- ◆ Formulating and implementing strategies that span individual businesses.
- ◆ Providing leadership for the organization.

Question 3

What is a mission statement? State the points that may be considered while writing a mission statement of a company.

Answer

Mission statement is an answer to the question “Who we are and what we do” and hence has to focus on the organisation’s present capabilities, focus activities and business makeup. An organisation’s mission states what customers it serves, what need it satisfies, and what type of product it offers. It is an expression of the growth ambition of the organisation.

A company’s mission statement is typically focused on its present business scope- “who we are and what we do”; mission statements broadly describe an organizations present capabilities, customer focus activities and business makeup.

The following points must be considered while writing a mission statement of a company.

- (i) To establish the special identity of the business - one that typically distinct it from other similarly positioned companies.
- (ii) Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.
- (iii) Good mission statements should be unique to the organisation for which they are developed.
- (iv) The mission of a company should not be to make profit. Surpluses may be required for survival and growth, but cannot be mission of a company.

Question 4

Briefly discuss the difference between vision and mission.

Answer

A Mission statement tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance. On the other hand, a vision statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the major differences between vision and mission:

1. The vision states the future direction while the mission states the ongoing activities of the organisation.
2. The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.
3. A vision statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a mission statement is more specific in terms of both the future state and the time frame. Mission describes what will be achieved if the organization is successful.

Question 5

Briefly explain the major dimensions of strategic decisions.

Answer

The major dimensions of strategic decisions are as follows:

- ◆ Strategic decisions require top-management involvement: Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.
- ◆ Strategic decisions involve commitment of organisational resources: For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.
- ◆ Strategic decisions necessitate consideration of factors in the firm's external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.
- ◆ Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm: Generally, the results of strategic implementation are seen on a long-term basis and not immediately.
- ◆ Strategic decisions are future oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- ◆ Strategic decisions usually have major multifunctional or multi-business consequences: As they involve organization in totality they affect different sections of the organization with varying degree.

Question 6

Explain the principal aspects of strategy-execution process.

Answer

In most situations, strategy-execution process includes the following principal aspects:

- ◆ Developing budgets that steer ample resources into those activities critical to strategic success.
- ◆ Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.

- ◆ Ensuring that policies and operating procedures facilitate rather than impede effective execution.
- ◆ Using the best-known practices to perform core business activities and pushing for continuous improvement.
- ◆ Installing information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
- ◆ Motivating people to pursue the target objectives energetically.
- ◆ Creating a company culture and work climate conducive to successful strategy implementation and execution.
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Scenario Based Questions

Question 7

Shri Alok Kumar is having his own medium size factory in Aligarh manufacturing hardware consisting handles, hinges, tower bolts and so on. He has a staff of more than 220 in his organisation. One of the leading brand of Hardware seller in India is rebranding and selling the material from his factory. Shri Alok Kumar, believes in close supervision and takes all major and minor decisions in the organisation.

Do you think Shri Alok should take all decisions himself? What should be nature of decisions that should be taken by him.

Answer

Decision making is a managerial process of selecting the best course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may be operational, i.e., which relate to general day-to-day operations. They may also be strategic in nature.

As owner manager at the top level in the company, Shri Alok Kumar should concentrate on strategic decisions. These are higher level decisions having

organisation wide implications. The major dimensions of strategic decisions are as follows:

- ◆ Strategic decisions require top-management involvement as they involve thinking in totality of the organization.
- ◆ Strategic decisions involve significant commitment of organisational resources.
- ◆ Strategic decisions necessitate consideration of factors in the firm's external environment.
- ◆ Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm.
- ◆ Strategic decisions are future oriented.
- ◆ Strategic decisions usually have major multifunctional or multi-business consequences.

Question 8

Rohit Seth in an informal discussion with his friend shared that he has to move very cautiously in his organisation as the decisions taken by him have organisation wide impact and involve large commitments of resources. He also said that his decisions decide the future of his organisation.

Where will you place Rohit Seth in organisational hierarchy? What are the dimensions of the decisions being taken by him?

Answer

As the decisions taken by Rohit Seth have organisation wide impact, involves large commitments and have implication on the future, he is at the top level in organisational hierarchy. These characteristics also indicate that he is taking strategic decisions in the organisation. The major dimensions of strategic decisions are as follows:

- ◆ **Strategic decisions require top-management involvement:** Strategic decisions involve thinking in totality of the organization. Hence, problems calling for strategic decisions require to be considered by the top management.
- ◆ **Strategic decisions involve commitment of organisational resources:** For example, Strategic decisions to launch a new project by a firm requires allocation of huge funds and assignment of a large number of employees.
- ◆ **Strategic decisions necessitate consideration of factors in the firm's**

external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.

- ◆ **Strategic decisions are likely to have a significant impact on the long-term prosperity of the firm:** Generally, the results of strategic implementation are seen on a long-term basis and not immediately.
- ◆ **Strategic decisions are future oriented:** Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- ◆ **Strategic decisions usually have major multifunctional or multi-business consequences:** As they involve organization in totality they affect different sections of the organization with varying degree.

