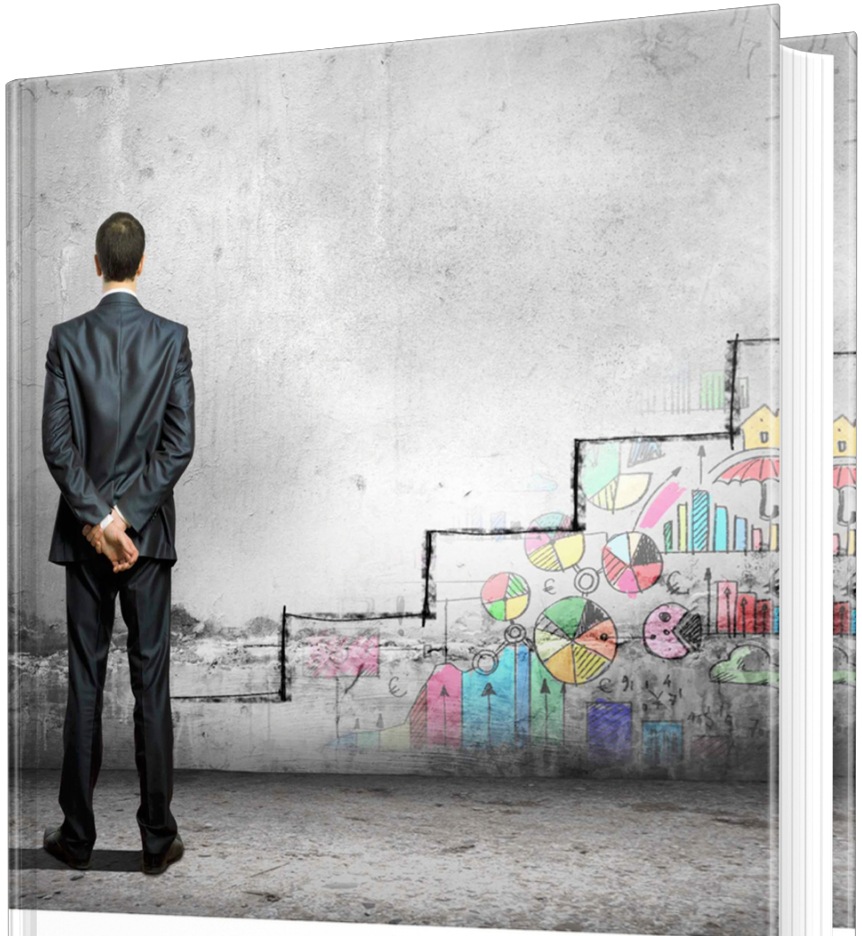

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SECOND EDITION

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INTRODUCTION

In this chapter, you will:

- Understand the importance of Business Strategy

It is easy for you to be successful once, but it is difficult to stay successful perpetually. Corporate history is replete with examples of organizations which were successful at one point of time, but which could not continue to survive in the marketplace. One of the reasons for corporate mortality is excessive focus on the present and ignoring or paying little attention to the future and its challenges. In the intensely competitive global environment of today, your organization/firm should have strategies that provide the framework for long-term success. It is the goal of strategic management to create an enduring organization.

Gary Hamel, a leading authority on strategic management and co-author of the book 'Competing for the Future', estimated that American senior managers generally spend about 3 percent of their time thinking and planning for the future. While 3 percent may be sufficient if you want to achieve short-term objectives in a stable business environment, it is not good enough if the senior management's principal aim is to build an enduring organization.

Gary Hamel
Co-author: *Competing for the Future*

Competing For The Future

The dynamic nature of the environment often renders the strategy being pursued by a firm redundant and there is a need for it to be replaced with new strategies. For example, till the mid-1980s, the Indian passenger car sector had three players, namely, Standard Motors, Premier Automobiles Ltd.

(PAL), and Hindustan Motors Ltd. Maruti Udyog Ltd. entered the industry in the mid-1980s and went on to become the market leader in a short span of time. Its cars outperformed those of the existing players and PAL had to shut shop as it was not able to cope with the competitive pressures.

The early 1990s witnessed the opening up of the Indian car industry; global players like Hyundai, Ford, General Motors, Fiat, Mitsubishi, and Toyota among others entered the Indian car market. Tata Motors and Mahindra & Mahindra too entered the passenger car market. Maruti Udyog Ltd. had to face intense competition from the new players. Its ability to launch new cars and models along with a strong distribution and service network helped it to retain its leadership position. In order to survive, Hindustan Motors tied up with Mitsubishi Motors.

In 2009, Tata Motors launched the world's lowest priced car Nano. This disruptive innovation forced some of its competitors to take a relook at their product portfolio and strategic direction for the future.

Different firms pursue a variety of strategies to stay successful over a period of time as the tenure of success of a particular strategy is dependent on the intensity of competition in the marketplace. In strategic management, you deal with the issues of staying perpetually successful. You deal with how a firm utilizes its resources and capabilities to counter or pre-empt competitive moves and succeed in the dynamic marketplace.

Summary:

1. The goal of strategic management is to create an enduring organization.
2. The dynamic nature of the environment often renders the strategy being pursued by a firm redundant.

Tenure of success of a particular strategy is dependent on the intensity of competition in the marketplace.

THE EVOLUTION OF THE CONCEPT OF STRATEGY

In this chapter, you will:

- Learn Ansoff's Strategic Success Paradigm
- Learn Mintzberg: Strategy as Craft
- Learn Peter Drucker's Contribution to the concept of Strategy
- Learn about Michael Porter: Strategy and Sustainable Competitive Advantage

The word Strategy comes from the Greek word Strategia, which means a General or Military Commander. War and strategy are inseparable. Wherever there has been war, there has been a strategy to wage it. War and strategy are not new concepts; what is new is the increased emphasis on strategy in the business context. Every business strategy that is hammered out in the boardrooms of an American, Asian, or European company can be traced back to a battlefield of a past war as shown below.

Impact of War on Business Strategies

Today's successful business strategies can be traced back to military strategies that have been used effectively from ancient Greece to the 21st century. For example, the following strategic principles continue to be relevant across changes in time and context.

1. **Attack Strength:** Attack the enemy in his stronghold. The Japanese attack on Pearl Harbour is an example of this principle. Similarly, in the 1990s, Lexus (Toyota) successfully fought Cadillac (GM) and Lincoln (Ford) in the US luxury car market.
2. **Attack Weakness:** The American attack against Germany in Morocco during the Second World War is an example of this strategy. The Nazis ignored the impending US attack on Morocco, thinking that Morocco was hardly worth defending. The successful American attack on Morocco opened up the way for the ultimate defeat of Hitler in the Second World War. Sam Walton, the founder of Wal-Mart, executed this strategy in the early 1960s by opening retail stores in small towns ignored by the then giant — Sears.
3. **Concentrate Your Forces:** This strategy is most relevant in today's business scenario. Organizations should coordinate their resources and concentrate on the areas where the competition is most intense. Using this

strategy, in ancient times, generals like Caesar and Genghis Khan overwhelmed rivals with much bigger armies. Companies like Nike and FedEx excel because of their concentration strategy.

4 **Forge a Strategic Alliance:** The alliance among the US, the UK, and the USSR overcame Nazi Germany in the Second World War. Similarly, in today's highly competitive business environment, organizations are increasingly entering into alliances and forming business networks to take advantage of various synergies.

5 **Sometimes, Containments Good Enough:** The Cold War between the US and the erstwhile USSR during the second half of the 20th century is an example of Containment strategy. In business, when there is competition between two organizations of equal size, if one organization tries to eliminate the other, then both firms will end up with shattered profit margins and mountains of debt, and, in the end, bankruptcy. So, containment is often preferred.

Todays Success Strategies

Igor Ansoff pioneered the concept of strategy. Later, Henry Mintzberg, Michael E. Porter, and others enriched the concept of strategic management with their original insights.

Strategic Management Gurus

Ansoff's Strategic Success Paradigm

The systematic study of strategy was pioneered by Igor Ansoff conducted extensive research on acquisitions by American companies between 1948 and 1968. He found that acquisitions based on a rational strategy fared far better than those that were based on opportunistic decisions.

Ansoff's strategic success paradigm identifies the conditions that optimize profitability. The key elements of this paradigm are as follows:

1 There is formula for all firms.
2 The level of turbulence in the environment determines the strategy required for the success of your firm.
3 The aggressiveness of the strategy should be aligned with the turbulence in the environment to optimize your firm's success.
4 The management's capabilities should be aligned with the environment to optimize your firm's success.
5 Internal capability variables, that is, cognitive, psychological, political, anthropological, and sociological variables, all jointly determine your firm's success.

After 11 years of testing his strategic success paradigm empirically, Ansoff translated it into a diagnostic instrument called 'Strategic Readiness Diagnosis'. His book 'Corporate Strategy' (1965) played a key role in the development of the concept of strategic planning. He introduced 'gap analysis' (the gap between where the company is today in terms of growth and aspirations and where it wants to be) and the concept of synergy to a wide audience for the first time. He also proposed the

Ansoff Product/Market Grid, also known as the Ansoff Matrix, to depict four growth strategies — market penetration, market development, product development, and diversification.

Mintzberg: Strategy as Craft

The next great influential thinker in the field of strategic management after Ansoff was Henry Mintzberg. Mintzberg added a new dimension to strategic management by bringing the personal side of the manager into the picture. He proposed an intuitive view of strategic management, and attacked the rationalism of his contemporaries with regard to the subject. In his first book, The Nature of Managerial Work (1973), he advocated a more humane approach to strategy formulation and implementation, and coined the term 'crafting strategy'. He drew a parallel between a craftsman, potter, and a manager who is crafting strategy. He proposed that the manager is aware of the corporate capabilities and the future market opportunities which are taken advantage of by him/her, using his/her knowledge. Accordingly, a manager while crafting strategy may start with a pre-planned deliberate strategy but while implementing it, may use his/her capabilities to sense changes required in the strategy due to the dynamic nature of the environment and may craft a new strategy, different from the one he/she started with.

Mintzberg saw strategy formulation as a deliberate, delicate, and dangerous process, and advocated that strategies are both plans for the future and patterns from the past.

In 2005, Kodak was ranked number 1 in digital camera sales in the United States. Its digital camera sales had touched US$ 5.7 billion. It was product innovation which enabled Kodak to achieve this status. However, by 2007, Antonio M. Perez, Kodak's Chief Executive Officer, was disillusioned with the low profitability of the digital camera business. This was because, though the fast paced growth of camera sales had countered the fast-fading film revenues, it was not in a position to replace the rich profits of its film business. The best mass market cameras yielded slim profit margins. Accordingly, though Kodak's digital camera business was a roaring sales success, it was a major profit disappointment. Perez began crafting yet another strategy for Kodak, its third in less than a decade. Kodak started working on a range of new digital photo services for consumers that were expected to yield higher returns and included everything from online photo sharing to a rapid-fire scanning system, called Scan the World, that converts old pictures into digital images organized by the date originally printed.

Peter Drucker's Contribution

After World War II, the use of formal strategic thinking to guide management decisions was encouraged. Peter F. Drucker argued that "management is not just passive, adaptive behavior; it means taking action to make the desired results come to pass."

Drucker expected managers to influence and control market forces. He said, "It (managing) implies responsibility for attempting to shape the economic environment, for planning, initiating, and carrying through changes in that economic environment, for constantly pushing back the limitations of economic circumstances on the enterprise's freedom of action."

Drucker's biggest contribution to strategic management was the introduction of the concept of management by objectives (MBO). When Drucker introduced the concept in 1954, most managers were concerned with processes rather than goals. With MBO, the focus shifted from processes to goals. According to Drucker, MBO is more than a technique of management; it is a philosophy of managing. MBO transformed the basic assumptions of managing from exercising control to self-control.

Michael Porter: Strategy and Sustainable Competitive Advantage

Michael Porter (Porter) is a leading authority on competitive strategy, and on the competitiveness and economic development of nations, states, and regions. In his book 'Competitive Strategy' (1980), Porter addressed the issue of how your firm analyzes industries and competitors and develops its strategies accordingly. He proposed that competitive strategy is about being different. Being different here refers to the manner in which customers perceive your firm to be distinct from your competitors. Hence, strategy is about positioning your firm in the customer's perspective. In his book 'Competitive Advantage' (1985), he addressed the issue of firms create and sustain superior performance, that is, build a sustainable competitive advantage.

Porter's important contributions to strategic management include the 'Five Forces model', the 'value chain' concept and the concept of 'generic strategies'. According to the 'Five Forces' model', the nature and degree of competition in an industry depends on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products, and the rivalry between existing players. To determine a strategic plan for growth in your business environment, an organization must understand how these forces operate in the industry and affect the company-specific situation. Porter proposed assessing every activity of your company in terms of its overall competitiveness. Further, he proposed the use of value chain analysis of your organization's internal processes, and the interactions between different functions, to determine how and where value could be added for the customer by your company. He also advocated three generic strategies: overall cost leadership, differentiation, and focus, which help your organization to compete effectively in the marketplace. These strategies determine the basis of competition.

Summary:

1 Ansoff found that acquisitions based on a rational strategy fared far better than those that were based on opportunistic decisions.
2 Mintzberg advocated a more humane approach to strategy formulation and implementation, and coined the term 'crafting strategy'.
3 Peter F. Drucker argued that "management is not just passive, adaptive behavior; it means taking action to make the desired results come to pass."

Porter's important contributions to strategic management include the 'Five Forces model', the 'value chain' concept and the concept of 'generic strategies'.

COMPETING ON CAPABILITIES AND THE RESOURCE-BASED VIEW

In this chapter, you will:

- Understand the ability for your firm to be successful

The ability of your firm to succeed today depends on its capability to move quickly in and out of products, markets, and at times from entire business areas. Success depends on anticipation of market trends and responding quickly to the changing customer needs. This is enabled when your firm builds its strategic capabilities around key business processes and not functional areas. For a capability to be considered strategic, it should be focused on the customer.

A firm which strategizes on the basis of the capabilities it possesses will enjoy clear advantages in terms of speed, agility, acuity, consistency, and innovativeness.

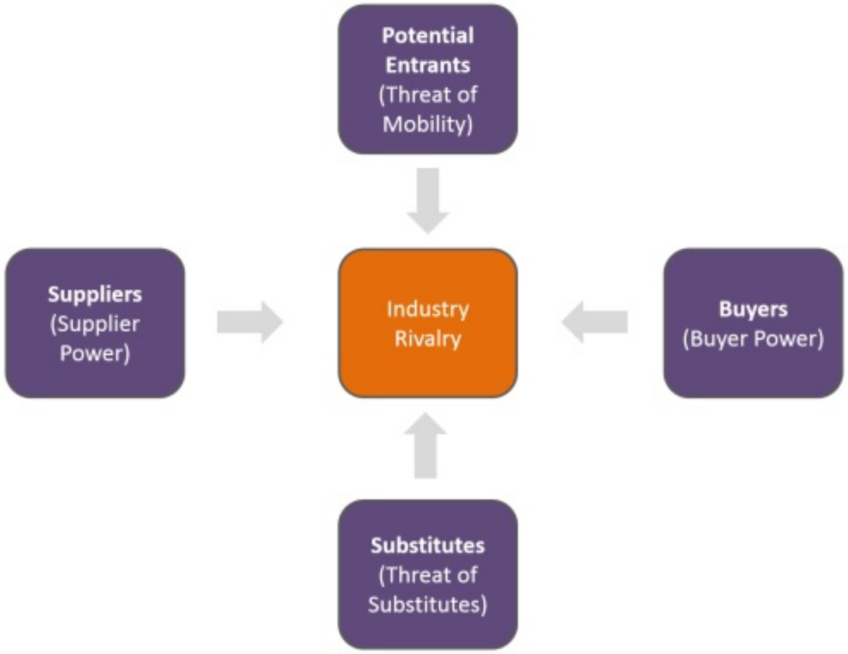
According to George Stalk, Philip Evans, and Lawrence E. Shulman, the four-basic principles of capabilities-based competition are:

"The building blocks of corporate strategy are not products and markets but business processes. Competitive success depends on transforming a company's key processes into strategic capabilities that consistently provide superior value to the customer. Companies create these capabilities by making strategic investments in a support infrastructure that links together and transcends traditional Strategic Business Units (SBUs) and functions. Because capabilities necessarily cross functions, the champion of a capabilities-based strategy is the CEO."

In a capabilities-driven firm, senior management does not tell managers what to do. Rather, they create an environment where they can learn from the market and from each other. An environment is built in which the capabilities are rooted as the primary object of strategy.

One such firm is Dell, which created capabilities (competitive advantages) by utilizing the Internet and breaking the functional barriers. At a time, when personal computers (PC) were being sold by intermediaries, Dell used the internet to enable customers to design their own PC on the internet and place orders online. This eliminated the need for intermediaries like dealers and resulted in cost savings for the firm. It further used electronic links to integrate with its vendors like Sony to dispatch shipments of computer monitors directly to the customers instead of shipping them to a warehouse and re-routing to the customers, which resulted in further cost savings for Dell. These capabilities gave Dell a competitive advantage over its competitors in many countries.

These capabilities, along with valuable assets – tangible and/or intangible – that can provide a competitive advantage, are together referred to as 'resources' in strategy literature. For a resource to be valuable and provide a competitive advantage to the firm, the market demand for the resource should be high, market availability should be low, and your firm should have the bargaining power to capture the value that is created by the resource. Further, such resources should be durable, superior to similar resources possessed by competitors, and difficult to imitate/copy or substitute. Resources form the foundation of the resource-based view (RBV) of your firm which visualizes strategy as a choice that matches what your firm can do (given its resources and capabilities) with the competitive environment (in terms of Porter's Five Forces).



Porter's Five Forces

Summary:

1 Success depends on anticipation of market trends and responding quickly to the changing customer needs.

2 In a capabilities-driven firm, senior management does not tell managers what to do. Rather, they create an environment where

they can learn from the market and from each other.

3 For a resource to be valuable and provide a competitive advantage to the firm, the market demand for the resource should be high, market availability should be low, and your firm should have the bargaining power to capture the value that is created by the resource.

THE CONCEPT OF CORE COMPETENCE

In this chapter, you will:

- Identify the factors of core competence
- Understand the applicability of core competence in Emerging markets

In 1990, C. K. Prahalad and Gary Hamel, in their celebrated article, 'The Core Competence of the Corporation", introduced the concept of core competence. They defined core competencies as the "collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies." Core competence is also about the organization of work and the delivery of value. Miniaturization, one of Sony's core competencies, was brought to its products by ensuring that the company's technologists, engineers, and marketers had a shared understanding of customer needs and technological possibilities.

Prahalad and Hamel studied GTE and NEC to put forward their views on core competence. In the early 1980s, GTE was well placed in the evolving information technology industry. In 1980, GTE's sales were US$ 9.98 billion, much higher than NEC's US$ 3.8 billion. However, in 1988, NEC outperformed GTE. In 1988, NEC's sales were US$ 21.89 billion, much higher than GTE's US$ 16.46 billion. According to Prahalad and Hamel, the difference in the way NEC and GTE conceived of themselves — the former as a portfolio of competencies (especially in semiconductors) and the latter as a portfolio of businesses — could also be observed in many other industries.

Prahalad and Hamel are of the opinion that while in the short run, your company's competitiveness depends on the price/performance attributes of its products, in the long-run, competitiveness depends on the ability to build core competencies faster than competitors and at a lower cost. Your company's competitive advantage depends on the management's ability to consolidate technologies and production skills into competencies. The competencies would empower individual businesses to adapt quickly to opportunities.

Core competence involves communication, involvement, and a deep commitment to working across organizational boundaries. It involves people at all levels and all functions. Unlike physical assets, core competence does not reduce with use. In fact, it grows when applied and shared.

The Process Of Core Competencies

Identifying a core competence

A core competence in a company can be identified by applying three tests. A core competence must:

1. have the potential to provide access to a variety of markets;
2. make a contribution to preconceived consumer benefits of the end product;
3. be difficult for a competitor to copy.

For example, if your company's core competence is said to be the manufacture of display systems, it should be able to participate in diverse businesses such as calculators, miniature TV sets, and monitors for laptop computers. Though a competitor may be able to copy some technologies that comprise a core competence, it should find it difficult to copy the comprehensive pattern of internal learning and coordination.

Developing a core competence

To develop core competence, your company need not spend more on R&D than its competitors. In 1983, when Canon beat Xerox in the copier business, its R&D spend on reprographics was much less than that of Xerox. NEC also spent less on R&D as a percentage of sales than most of its American and European competitors. According to Prahalad and Hamel, core competence also does not mean sharing costs, such as two or more SBUs using a common facility, e.g., plant, service facility, sales force, or common component. Sharing of costs is an effort to rationalize production across existing businesses, and not part of a predetermined effort to build competencies.

When NEC aimed at making semiconductors the most important "core product" of the company, it entered into strategic alliances to build competences at low cost. Most collaborative arrangements aimed at gaining access to the required technology. NEC's managers seemed to understand the rationale for such alliances and the goal of internalizing partner skills.

Redefining core competence

According to a McKinsey Quarterly article, "Is Your Core Competence a Mirage?", while most examples in Prahalad and Hamel's article referred to knowledge of one or more technologies, executives have extended the idea of core competence to include many types of skills and functions like process engineering, production, new product idea generation, and even corporate identity. In the article, the authors defined core competence as "a combination of complementary skills and knowledge bases embedded in a group or team that results in the ability to execute one or more critical processes to world-class standard."

According to the authors of this article, core competences can be grouped into two categories: insight/foresight competences and frontline execution competences. Insight/foresight competences enable your company to learn facts that create first-mover advantages. Insights can be derived from technical or scientific knowledge such as optics knowledge and miniaturization ability, (e.g., Canon), proprietary data, flair for inventing successful products (such as displayed by 3M), and superior analysis and inference which may result in outstanding returns (as in the case of Berkshire Hathaway).

A frontline execution competence refers to the unique ability to deliver products and services whose quality is equal to the best that could have been produced under ideal circumstances. Examples of frontline competences can be seen at Nordstrom, the retailing giant. Its ability to satisfy customers is an example of frontline competence. Nordstrom stores achieve high levels of service because of the actions and decisions of hundreds of members of the sales force.

It is possible for insight/foresight and frontline competences to co-exist in the same company. But each would require its own managerial focus. For example, McDonald's uses its frontline execution competence to improve its food delivery system at individual restaurants and uses its insight/foresight competence to identify sites for its outlets.

Applicability to emerging markets

The application of the concept of core competence to strategy suggests that your company should 'focus' on serving its markets based on a portfolio of core competencies. Tarun Khanna and Krishna Palepu in their article, “Why Focused Strategies May Be Wrong for Emerging Markets”, argued that focus or emphasis on core businesses may not be the right strategy in emerging markets. They argued that focus is good for western countries where there are institutions that support their business activities. But many such institutions are absent in emerging markets. Companies must adapt their strategies to fit a country’s product, capital, labor markets, and regulatory system.

According to Khanna and Palepu, diversified business groups are better suited to developing countries. The chaebols of Korea, the business houses of India, and the grupos of Latin America add value by carrying out the functions of several institutions that are prevalent in developed countries.

In product markets, there is dearth of information due to three reasons: poor communication infrastructure in emerging markets; absence of a mechanism to corroborate the claims made by sellers; and no mechanism for redressal if the product does not deliver on its promise. As there is lack of information in emerging markets, companies incur higher costs for building brands than their counterparts in developed countries. Conglomerates, which are reputed for their products and services, can enter new businesses even if those businesses are not related to their current product lines. Conglomerates have an advantage when they try to build brands because they can spread the cost of maintaining brands across multiple lines of business.

Conglomerates can also provide the flexibility needed for labor markets. In emerging markets, rigid labor laws prevent companies from laying off employees. Labor unions also insist on job security. Conglomerates are in a better position to deal with rigid labor laws and union demands. Khanna and Palepu are of the opinion that conglomerates can develop their own internal labor markets. If one company in the group faces declining prospects, its employees can be transferred to other companies in the group.

Conglomerates can also make better use of talent. They can allocate talent where it is most required and thus get a head start in beginning new activities. For example, in India, the Wipro Group moved beyond computers into financial services by transferring skilled engineers first to computer leasing services to make use of their technical skills and then to a broad array of financial services.

Summary:

1. Core competence involves communication, involvement, and a deep commitment to working across organizational boundaries.
2. Core competence needs to be first identified by your firm.
3. To develop core competence, your company need not spend more on R&D than its competitors.
4. A frontline execution competence refers to the unique ability to deliver products and services whose quality is equal to the best that could have been produced under ideal circumstances.
5. The application of the concept of core competence to strategy suggests that your company should ‘focus’ on serving its markets based on a portfolio of core competencies.
6. Conglomerates have an advantage when they try to build brands because they can spread the cost of maintaining brands across multiple lines of business

THE CONCEPT OF STRATEGIC INTENT

In this chapter, you will:

- Understand the concept of strategic intent
- Understand how corporate strategy can be used as leverage
- Learn the five-ways of realizing resource leverage

The term strategic intent refers to the purpose(s) your organization strives to achieve. Traditionally, a strategy was described in terms of matching the resources your firm had at its disposal and the opportunities being thrown up by the environment. However, Gary Hamel and C K Prahalad brought to light the concept of strategic intent. Strategic intent is defined as the ability of your firm to think beyond its resources at a given point of time and define its purpose in terms such as challenging the market or industry leader. Hamel and Prahalad describe the success stories of Komatsu vis-à-vis Caterpillar, Honda vis-à-vis Chrysler, and Canon vis-à-vis Xerox to explain that the ability of your firm to grow is not dependent on the resources at its disposal at a given point of time; rather, it is the strategic intent which is reflected in terms beyond its resources at a given point of time. They wrote "Komatsu set out to 'Encircle Caterpillar'", "Canon sought to 'Beat Xerox'" and "Honda strove to 'become a second Ford - an automotive pioneer'".

The time horizon of strategic intent is long term. Strategic intent can be understood as your firm's obsession to win, which is sustained over a long period of time, say, 10 to 20 years. However, strategic intent is not a simple ambition: it involves enthusing the human resources, environmental scanning, and appropriate resource allocations guided by the strategic intent.

Strategic intent envisages your company's position in the long term and furthers a unique point of view about the future. Employees will be excited about the feeling of exploring something new. It brings a sense of discovery. Strategic intent also possesses an emotional edge. Employees feel that the pursuit of the company's goals is a worthwhile experience. In this way, it gives rise to a sense of shared destiny.

Competitive Strategy as Leverage

Leveraging comes into the picture only when a resource-scarce firm is facing a wealthy rival. Wealth here refers to market share, financial resources, and revenue. The challenger has a small market share, scarce resources, and little or no revenues. A challenger (a smaller firm) will exploit opportunities to change the rules of the game rather than follow the same rules that others in the game do. It will look for gaps in the bigger firm's defenses rather than fight the competitor in well-guarded market segments. It will focus its investments on relatively fewer competencies where it sees a chance of being a leader. It will also look for ways to reduce its manufacturing costs by following lean manufacturing methods that make it possible to do more with less.

In their book 'Competing for the Future', Hamel and Prahalad proposed that leveraging is based on an understanding of the following premises:

1 Your firm is a portfolio of resources, as well as a portfolio of products or market-focused business units.
2 Resource constraints are not necessarily an important impediment to the achievement of global leadership.
3 Great differences do exist between different firms in the market in terms of the competitive impact they can generate with a given amount of resources.
4 Leverage-based efficiency gains come primarily from raising the numerator in productivity ratios rather than from reducing the denominator.
5 The resource allocation task of management has received too much attention as compared to the task of resource leverage.
6 The capacity for resource leverage is the ultimate selection mechanism, separating the victorious from the victims in prolonged battles for industry leadership.

Case Study: Resource Leverage Example: Resource Leverage in the North Vietnam War

The experience of North Vietnam in its conflict with the US is an example of resource leverage. Necessity leads to invention; similarly, stretch leads to leverage. Facing the military might of the US, the North Vietnamese had no other way except to resort to guerrilla warfare. They hoped to exploit the orthodoxies and complacency of the larger US army. The Vietnamese tried to outmanoeuvre rather than overpower the US army.

For example, the North Vietnamese could move their men and material freely across rivers, despite the attempts of the US military to locate and destroy bridges used for transfer of these resources. The Vietnamese built their bridges just below the water line so that they couldn't be seen by the airborne reconnaissance, and could be used by men and machines. In this case, resource scarcity led to tactical creativity.

Realizing Resource Leverage

Leverage Method: Concentrating resources on key strategic goals

Techniques to be Adopted:

- **Converging:** Your firm can streamline the efforts of individuals, functional departments, and entire businesses by pursuing a single strategic intent over a long period.
- **Focusing:** Focusing protects your firm against the dilution of resources at a particular point in time.
- **Targeting:** Targeting ensures that the focus remains fixed on set priorities.

Leverage Method: Efficiently accumulating resources

Techniques to be Adopted:

- **Mining:** Every firm has access to information that is collected from various sources. But firms differ in their capacity to extract useful information from the available stockpiles of information.
- **Borrowing:** Resource leverage can also be achieved by taking ideas from other firms. For example, Sony commercialised the transistor and the charge-coupled device technologies pioneered by AT&T's Bell Laboratories.

Leverage Method: Complementing resources of one type with those of another to create more value

Techniques to be Adopted:

- **Blending:** Different types of resources can be blended together in different ways to multiply the value of each. Blending needs technology generalization, systems thinking, and the capacity to optimize complex technological trade-offs. For example, Honda was competent as an organization at blending engine-related technologies such as combustion engineering, electronic controls, and lean burn.

- **Balancing:** A balanced firm possesses a strong product-development capability, capacity to produce its products or deliver its services at world-class levels of cost and quality, and a sufficiently widespread distribution, marketing, and service infrastructure.

Leverage Method: Conserving the resources
Techniques to be Adopted:

- **Recycling:** Resources must be as reused as far as possible. The more the resources are reused, the greater the resource leverage. For example, companies such as Unilever and P&G, recycle their product brands by using unknown brands with well-known brands till the new brands become popular.
- **Co-opting:** A potential competitor may be co-opted to fight against a common enemy, to work collectively to establish a new standard or develop a new technology, or to build a lobby to influence a particular legislative issue.
- **Protecting:** Intelligent generals rarely attack well-fortified positions. The objective in a war is to maximize enemy losses without facing much risk. Similarly, a shrewd firm never attacks a competitor in its local market. It does not try to overpower a larger competitor, nor does it accept the market structure as defined by the industry leader.

Leverage Method: Recovering, that is, by minimizing the time between expenditure and payback
Techniques to be Adopted:

- **Expediting success:** The time between expending resources and recovering resources should be minimized. A firm that completes any activity in half the time, with similar resources, holds a two-fold leverage advantage. For example, the Japanese firms that were able to shorten their product-development times gained a competitive advantage over their US and European competitors.

Summary:

1 Strategic intent is defined as the ability of your firm to think beyond its resources at a given point of time and define its purpose in terms such as challenging the market or industry leader.

2 The time horizon of strategic intent is long term.

3. Strategic intent envisages your company's position in the long term and furthers a unique point of view about the future.
4. Leveraging comes into the picture only when a resource-scarce firm is facing a wealthy rival.
5. The five ways of realizing resource leverage are:
    - Concentrating resources on key strategic goals
    - Efficiently accumulating resources
    - Complementing resources of one type with those of another to create more value
    - Conserving the resources
    - Recovering, that is, by minimizing the time between expenditure and payback

INTENDED AND REALIZED STRATEGIES

In this chapter, you will:

- Understand the difference between intended and realized strategies of an organization
- Understand the various schools of thought on Strategy Formation

When we speak of strategy as plans for the future, we refer to an intended strategy. When we speak of strategy as actions taken, we refer to a realized strategy. In both cases, we are considering the efforts directed toward fulfilling your organization's purposes. In fact, strategy comprises the most fundamental ends and means of an organization.

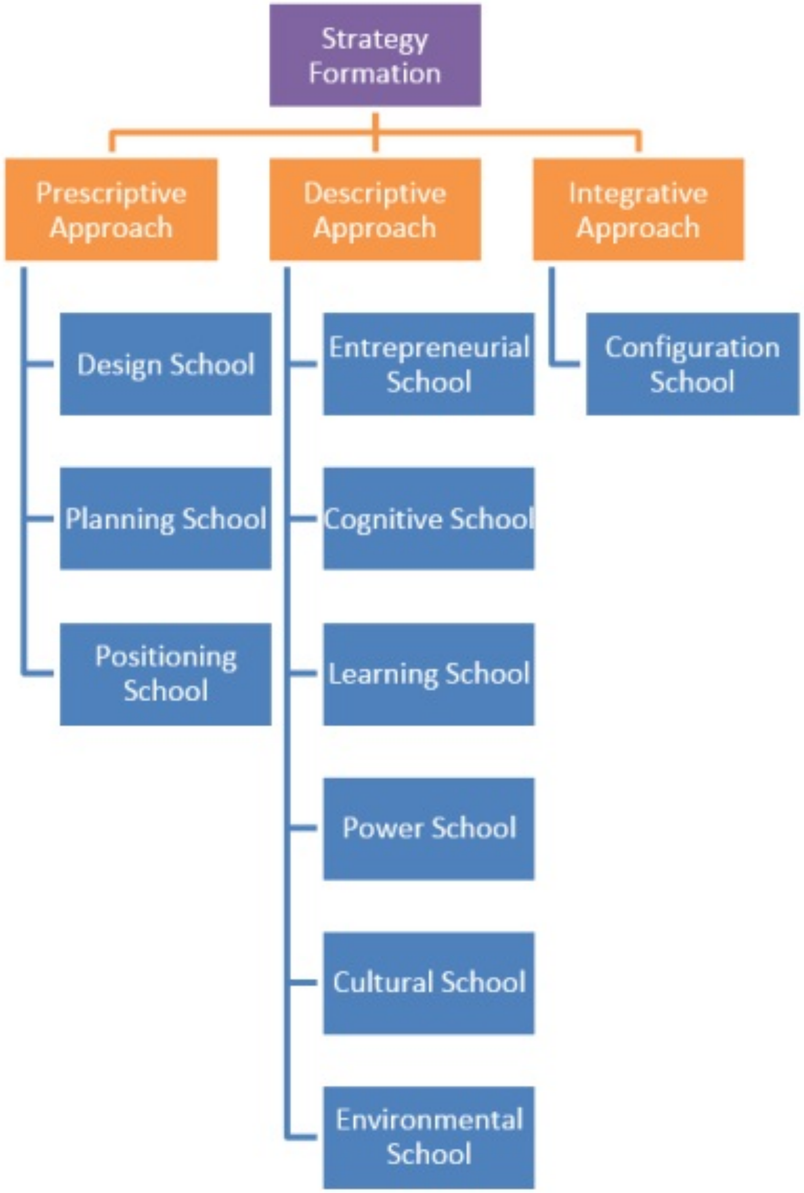
The realized strategy may be very different from the intended strategy, and if so, it is termed as an emergent strategy. The emergent strategy is a product of the interplays between your firm's environment and the intended strategy. When the environment renders the intended strategies redundant, new unplanned strategies emerge to counter the environment and these are known as emergent strategies.

For example, Bill Hewlett and Dave Packard decided to first start a company and then decide what they would make. They had four products, a bowling foul line indicator, automatic urinal flushers, fat reduction shock machines, and audio oscilloscopes. None of these products worked for the company which is today known as Hewlett Packard, one of the world's largest IT companies. The strategic ends pursued by a typical business could be either generic, like the vision and mission of the organization, or more focused, like the goals and objectives of the firm.

Every organization needs to be careful about aligning the broad and narrow scenarios. Otherwise, money may be invested, time spent, energy dissipated, and resources utilized to fulfill a narrow set of objectives that do not move in the direction of the broader vision of your firm. The focus of the set of narrow intentions should be consistent with the broader ones.

Case Study: Schools of Thought on Strategy Formation

The various points of view available in literature on strategy formation can be classified into ten schools. The first three schools 'prescribe' some ideal approaches to how strategies should be actively



formulated; the next six schools 'describe' how strategy is actually formed in practice. The tenth school integrates both perspectives.

Prescriptive approach:
The Design School: Strategy formulation is a process of conception
The Planning School: Strategy formulation is a formal process
The Positioning School: Strategy formulation is an analytical process

Descriptive approach:
The Entrepreneurial School: Strategy formation is a visionary process
The Cognitive School: Strategy formation is a mental process
The Learning School: Strategy formation is an emergent process
The Power School: Strategy formation is a process of negotiation
The Cultural School: Strategy formation is a collective process
The Environmental School: Strategy formation is a reactive process

Integrative approach:

The Configuration School: Strategy formulation/ formation as a process of transformation.

Summary:

1. When we speak of strategy as plans for the future, we refer to an intended strategy.
2. When we speak of strategy as actions taken, we refer to a realized strategy.
3. When the environment renders the intended strategies redundant, new unplanned strategies emerge to counter the environment and these are known as emergent strategies.
4. Strategy can be formed using:
    - Prescriptive approach
    - Descriptive approach
    - Integrative approach

THE THREE LEVELS OF STRATEGY

In this chapter, you will:

- Understand the three levels of strategy for an organization

Strategy can be formulated at three levels, namely, the corporate level, the business level, and the functional level. At the corporate level, strategy is formulated for your organization as a whole. Corporate strategy deals with decisions related to various business areas in which the firm operates and competes. At the business unit level, strategy is formulated to convert the corporate vision into reality. At the functional level, strategy is formulated to realize the business unit level goals and objectives using the strengths and capabilities of your organization. There is a clear hierarchy in levels of strategy, with corporate level strategy at the top, business level strategy being derived from the corporate level, and the functional level strategy being formulated out of the business level strategy.

In a single business scenario, the corporate and business level responsibilities are clubbed together and undertaken by a single group, that is, the top management, whereas in a multi business scenario, there are three fully operative levels.

Levels of Strategy

Corporate Level

Corporate level strategy defines the business areas in which your firm will operate. It deals with aligning the resource deployments across a diverse set of business areas, related or unrelated. Strategy formulation at this level involves integrating and managing the diverse businesses and realizing synergy at the corporate level. The top management team is responsible for formulating the corporate strategy. The corporate strategy reflects the path toward attaining the vision of your organization. For example, your firm may have four distinct lines of business operations, namely, automobiles, steel, tea, and telecom. The corporate level strategy will outline whether the organization should compete in or withdraw from each of these lines of businesses, and in which business unit, investments should be increased, in line with the vision of your firm.

Business Level

Business level strategies are formulated for specific strategic business units and relate to a distinct product-market area. It involves defining the competitive position of a strategic business unit. The business level strategy formulation is based upon the generic strategies of overall cost leadership, differentiation, and focus. For example, your firm may choose overall cost leadership as a strategy to be pursued in its steel business, differentiation in its tea business, and focus in its automobile business. The business level strategies are decided upon by the heads of strategic business units and their teams in light of the specific nature of the industry in which they operate.

Functional Level

Functional level strategies relate to the different functional areas which a strategic business unit has, such as marketing, production and operations, finance, and human resources. These strategies are formulated by the functional heads along with their teams and are aligned with the business level strategies. The strategies at the functional level involve setting up short-term functional objectives, the attainment of which will lead to the realization of the business level strategy.

For example, the marketing strategy for a tea business which is following the differentiation strategy may translate into launching and selling a wide variety of tea variants through company-owned retail outlets. This may result in the distribution objective of opening 25 retail outlets in a city; and producing 15 varieties of tea may be the objective for the production department. The realization of the functional strategies in the form of quantifiable and measurable objectives will result in the achievement of business level strategies as well.

Summary:

1. Corporate Level Strategy:
    - Defines the business areas in which your firm will operate.
    - Involves integrating and managing the diverse businesses and realizing synergy at the corporate level.
    - Top management team is responsible.
2. Business Level Strategy:
    - Involves defining the competitive position of a strategic business unit.
    - Decided upon by the heads of strategic business units and their teams.
3. Functional Level Strategy:
    - Formulated by the functional heads along with their teams.
    - Involve setting up short-term functional objectives.

DEVELOPING A STRATEGIC PERSPECTIVE

In this chapter, you will:

- Understand how to develop a right strategic perspective for your organization

Developing the right strategic perspective contributes to effective implementation of strategy. However, organizations often fail to develop sound strategic management perspectives for a variety of reasons. Some of these reasons are:

1. Lack of awareness within the top management team about your organization's real operating situation. This happens when information systems fail to provide the information the top management needs to determine your organization's position relative to competitors, consumption trends, relative costs, etc.
2. "Kidding themselves" syndrome. This happens when senior managers are collectively deluding themselves about the organization's condition. Usually this occurs when the senior management team acts as a tightly-knit group. As there is no flow of either fresh information or new perspectives, the top managers tend to hold the same stereotyped views of your business environment. They reject or ignore or reinterpret the unpleasant information that does not tally with their own preferred views of the operating environment.
3. Vested interests of the managers also play havoc with strategic planning. Managers prefer to maintain their existing position and power. This personal interest results in continuation of the same strategies even in a changed business environment.
4. Excessive involvement of senior managers in everyday operational problems also leads to inefficient strategic plans. This over-emphasis on regular activities leaves no time to study emerging trends and to think about future plans.
5. The top management in many organizations gets complacent after some initial successes. This blinds the managers to the difficult situations the company faces. This is another reason why managements often continue with tried and trusted strategies that may be inappropriate in the present and future scenarios.
6. A change in direction is often misinterpreted as an admission that what was done in the past was a mistake. This makes managers who were

closely associated with decisions taken in the past, reluctant to see the organization move in a new direction.

7 Inability on the part of the top management to locate its competitive edge may also lead to its ignoring strategy planning altogether.

In general, organizations, like individuals, often abhor change and staunchly resist it. A crisis is necessary to make the top management pay more than lip service to strategic management. Perhaps the biggest hindrance to strategy formulation is the manager's involvement in day-to-day business. Everyday events drive away the best strategic intentions. The solution is to make strategy development process a formal activity.

Strategic management can be defined, as a rational and intuitive process through which your firm streamlines and leverages its resources on a continuous basis to position itself distinctly from its competitors. It involves evaluating and building upon your firm's strengths, and minimizing or eliminating its weakness while taking advantage of the opportunities emerging in the environment and countering the threats effectively. It involves taking decisions about business units, products, location, and the organization's structure which determine the survival of your organization in the short and long term.

Summary:

1 Organizations fail to develop sound strategic perspective because:
   - Lack of awareness about the organization's real operating situation.
   - "Kidding themselves" syndrome.
   - Vested interests of the managers.
   - Excessive involvement of senior managers.
   - Complacency of the top management.
   - Reluctance to see the organization move in a new direction.
   - Inability to locate its competitive edge.

INTRODUCTION TO STRATEGIC MANAGEMENT

In this chapter, you will:

- Understand what is strategic management
- Understand the process of strategic management
- Learn tools that can be used for strategic management process
- Learn Strategy formulation, Strategy execution, evaluation and control

Strategic management involves defining the vision and the mission of your firm which clearly define what the firm aspires to become and the reason for its existence. Once the vision and mission are defined, an internal and external environment analysis is carried out to identify opportunities and threats emerging in your firm's environment and your firm's strengths and weaknesses.

The strengths of your firm are leveraged upon to build competitive advantages and core competencies and capabilities to outperform competition. Strategic management is a continuous process and not a point-in-time exercise. Periodic reviews of strategies and the incorporation of new elements in line with changes in the environment are essential in strategic management.

Strategic management is a comprehensive procedure and starts with a strategic diagnosis. It continues with a series of additional steps, culminating in new products, markets, technologies, and capabilities. The strategic task of the leadership team is to challenge the prevailing set-up with a single question: "Why?", and to ask the same question as many times as necessary to make the future as clear as the present for managers at all levels. For example, the strategist at a leading luggage company in America would be asking questions like why should we not enter the European market in the next financial year? Or why cannot we surpass our competitor's market share in the next two years? The answers to these questions will create avenues for growth which would not have emerged had these questions not been asked.

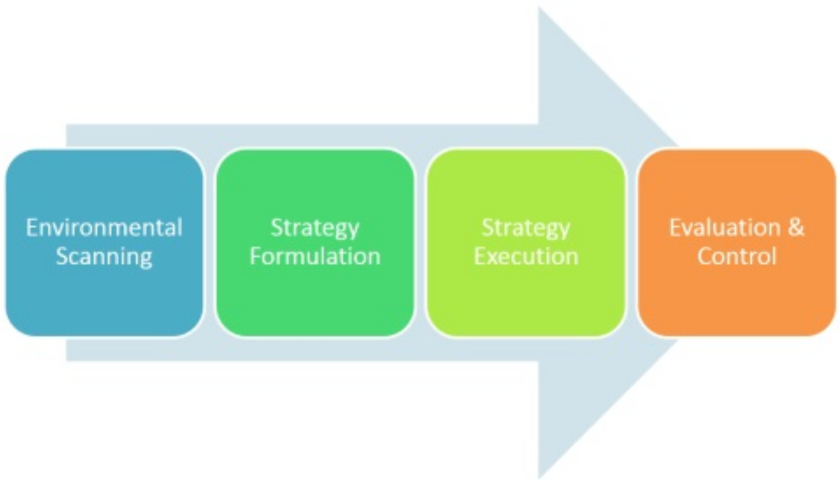
Strategic management enables your firm to survive in the long run. It maps your firm's strengths and weaknesses against the competitor's strengths and weaknesses and enables it to leverage on its resources to achieve its goals. It is through strategic management that the long-term vision for your firm is set which provides your firm with an indication of its growth direction. Strategic thinking involves answering three basic questions:

- Where are we now?
- Where do we want to go in the future?
- How will we get there?

The Process of Strategic Management

There are four basic elements in the process of strategic management:

- Environmental scanning
- Strategy formulation
- Strategy execution (implementation)
- Evaluation and control



The Process of Strategic Management

Environmental Scanning

Environmental scanning involves monitoring the environment, and evaluating and disseminating information obtained from the internal and external environments.

Following table lists out the external and internal sources of information used for environmental scanning. The aim of environmental scanning is to identify the strategic factors that may determine the future of your firm. An organization can derive several benefits from environmental scanning including the development of a common perception, identification of strengths and weaknesses an understanding of trends and conditions, and the optimum utilization of internal and external information. Techniques such as secondary research, surveys, and questionnaires focus groups, and open forums can be employed in environmental scanning.

SWOT analysis is often used along with environmental scanning. SWOT is an acronym for the strengths, weaknesses, opportunities, and threats faced by your firm. Strengths and weaknesses are within the control of the top management in the long run. Opportunities and threats are external factors that are outside the control of the organization.

Following table depicts the SWOT analysis for a hypothetical tire company. In the automotive segment, the company supplies tires to major original equipment manufacturers and has an equally strong position in the replacement market.

External Sources of Information	Internal Sources of Information
• Personal contacts • Journals/magazines, books, newspapers • Annual reports • Prof. conferences and meetings • Radio, television, and the Internet • Prof. Network • Customers • Commercial DBs	• Personal contacts • Internal reports and conference papers • Internal memoranda • Committees / Meetings • Sales staff, employees and managers • Internal databases • Internal audits and the Board • Directors

Strengths	Weaknesses
• Strong market position • Diversified operations • Strong focus on Research & Development	• Deteriorating liquidity • Lower inventory turnover ratios • Low employee productivity
Opportunities	**Threats**
• Expansion of global airline fleet • Opportunities in India and China • Positive outlook for specialty tires	• Increasing raw material costs • Sluggish heavy and medium truck tire sales • Intense competition

A careful analysis of the SWOT here will clearly highlight the areas on which the firm needs to focus. For instance, immediate attention needs to be given to improving employee productivity and improving the inventory turnover ratio.

Case Study: Sears Reinvents Itself

In the 1980s, Sears, which was one of the largest retailers in the United States, entered other businesses such as banking, investment, and real estate services, in addition to selling appliances, hardware, clothes, and other goods. In those days, the 'Big Book' catalog of Sears was considered the primary (and sometimes the only) source for items ranging from wrenches to bathtubs.

When Sears diversified its activities from its main business of retail sales, the company steadily lost ground in retailing, falling from the Number 1 position to Number 3 behind Wal-Mart Stores, Inc. and Kmart Corporation. Sears could not keep up with discounters such as Wal-Mart and Kmart, and with specialty retailers such as Toys R Us, Home Depot, Inc., and Circuit City Stores, Inc. that focused on a wide selection of low-price merchandise in a single category. Neither could Sears compete with trend-setting department stores. In the 1990s, Sears came to a stage where it was neither sure of its customers nor its competitive basis. This was a lacuna in the company's strategy.

Arthur C. Martinez, the then CEO of Sears, went in for a major strategic overhaul. Under the new strategy, the company decided to concentrate on its core businesses. It disposed of its non-retail assets, upgraded the section on women's apparel, renovated some stores, and launched an advertising campaign to effect a turnaround at Sears. Through extensive customer research, Sears found that its hardware lines enjoyed a very high level of brand loyalty. Moreover, research suggested that customers preferred convenience to breadth of category in its hardware stores.

After its hardware store idea was successfully tested, the company drew up a plan to set up 1,000 freestanding, 20,000-square-foot hardware stores by 2006 at a cost of $1.25 million per outlet.

Strategy Formulation

Strategy formulation refers to the development of long-term actionable plans for managing opportunities and threats in the external environment, and for utilizing the strengths and overcoming the weaknesses within your organization. The strategy team takes into consideration components of strategic management such as mission, internal profile, external environment, strategic analysis and choice, long-term objectives, annual objectives, and grand strategy while formulating a strategy. Above case study describes environmental scanning and strategy formulation in a firm.

Strategy formulation helps an organization to:

- Capitalize on available opportunities.
- Address the challenges faced by the organization.
- Provide leadership that understands and masters change.
- Incorporate an in-depth planning model.

Strategy Execution

The process by which strategies are put into action is called strategy execution or strategy implementation. Programs, budgets, and procedures are developed for this purpose. This process may call for changes in overall culture, organizational structure, and/or the management system. Strategy execution is typically handled by middle and lower level managers, except when drastic organization-wide changes are needed. However, the progress of the implementation is reviewed by the top management from time to time.

Your firm's structure plays a vital role in achieving its objectives. A proper structure is essential for strategy to be operational. Structure serves as a vehicle for managers to exploit the skills and capabilities of their subordinates. They can further use the structure in motivating their subordinates through providing incentives to ensure superior efficiency, quality, innovation, or customer responsiveness.

Budgets are used for planning and control. The budget details the investments to be made and the returns expected from the investments. The budget is also a proforma financial statement.

Case Study: Strategic Objective of Ford Motor Company

"To satisfy our customers by providing quality cars and trucks, developing new products, reducing the time it takes to bring new vehicles to market, improving the efficiency of all our plants and processes, and building on our teamwork with employees, unions, dealers, and suppliers."

Case Study: Financial Objective of 3M Corporation

"To achieve annual growth in earnings per share of 10 percent or better, on average; a return on stockholders' equity of 20-25 percent; a return on capital employed of 27 percent or better; and have at least 30 percent of sales come from products introduced in the past four years."

Evaluation and Control

The ultimate test of the strategy is its ability to achieve the ends — in terms of vision, mission, and long-term objectives. The firm is successful only to the extent that the strategy used achieves the ends. Strategy formulation is largely subjective, and the first test of reality for a strategy is in its implementation. When a strategy is implemented, it should be monitored to determine the extent of success, that is, the number of objectives achieved. Strategic managers should employ timely monitoring and control methods, to ensure successful execution of the strategy. Periodic review and evaluation is also helpful for making modifications to the plan.

Evaluation and control refer to the processes in which corporate activities and performance results are compared with the desired performance. This information is used to take corrective action and resolve problems. It also pinpoints the weaknesses of strategic plans implemented earlier. Thus, this exercise provides a valuable opportunity for organizational learning.

For effective evaluation and control, your firm's management must obtain clear, prompt, and unbiased information from the people who actually execute the strategies. Unbiased information is essential as this information is used for corrective action and to minimize the mistakes the organization might commit in the future.

Feedback is a very important part of the evaluation process as it provides an opportunity to revise or correct decisions made in the earlier stages. Poor performance indicates that something has gone wrong with either strategy formulation or implementation. It could also mean that a variable was ignored in the environmental analysis.

The feedback from execution, evaluation, and control will loop back into the early stages of planning. Feedback is defined as the post-implementation results, collected as inputs for future decision-making. Plans for the future should reflect changes brought about by previous strategic actions.

Refer to following Case Study for details of Wal-Mart's failure in strategic management/execution in its German operations.

Case Study: Wal-Mart's Misadventure in Germany

For the world's largest retailing company — Wal-Mart Inc. (Wal-Mart) — the German market was proving to be a tough nut to crack. By 2003, even five years after entering Germany, Wal-Mart was continuing to make losses. Though Wal-Mart did not reveal these figures, analysts estimated its losses at around US$ 200-300 million per annum in Germany, over the five-year period.

According to analysts, the main reason for Wal-Mart's losses was its failure to understand the German culture and the shopping habits of the Germans. Though Wal-Mart was famous the world over for its Every Day Low Pricing (EDLP), which had turned it into the world's number 1 retailer, it failed to make an impact on Europe's most price-sensitive market — Germany. Wal-Mart also ran into a series of problems with German regulatory authorities for its pricing strategies and faced considerable opposition from German suppliers to its centralized distribution system. It had problems with its German workers too.

Wal-Mart expanded its presence into Germany through acquisitions. It acquired the 21-hypermarket stores of Wertkauf in 1997. The Wertkauf stores offered both food and general merchandise to customers. Wal-Mart sources said that Wertkauf stores would provide it with the necessary foothold in the German market. However, as Wertkauf covered only southwestern Germany, it failed to provide the required market penetration to Wal-Mart in Germany. In 1998, Wal-Mart acquired Interspar's 74 hypermarket stores to raise the total number of Wal-Mart stores in Germany to 95.

With the acquisition of Interspar's stores, Wal-Mart became the fourth largest hypermarket retailer in Germany. However, neither the Wertkauf nor the Interspar stores were popular with German consumers. A major challenge for Wal-Mart was to change customer perceptions about the stores. Wal-Mart was criticized for acquiring Interspar's stores as they had made heavy losses and had a poor brand image in the public mind. However, while acquisitions may not have been the ideal route for Wal-Mart to take in Germany, the company, in fact, had little choice. The German government was refusing new licenses for food and grocery retailing, so if it wanted to enter the German market, Wal-Mart had to go in for acquisitions. Soon after acquiring the stores, Wal-Mart hurried through with their renovation and put its brand name on them to make sure its EDLP message went across. But it was unable to cash in on its EDLP selling point, chiefly because of the strong competition from German retailers.

Whenever Wal-Mart lowered its prices on commodities, German retailers such as Aldi, Lidl, Rewe, and Edeka too lowered their prices to retain their customers. Wal-Mart therefore found it difficult to get a foothold.

The lack of strong vendor relations also affected Wal-Mart's operations in Germany. Unlike in the US, where the company and its suppliers were accustomed to centralized distribution, in Germany, suppliers were not comfortable with the system that Wal-Mart adopted.

Another operational problem that Wal-Mart faced was employee unrest. It was accused of paying low wages and of not providing good working conditions. Wal-Mart did not understand the German work culture. It ran into trouble with the German unions when it announced employee lay-offs and store closures in 2002 in order to reduce its personnel costs. In addition, it also refused to accept the centralized wage-bargaining process in the German retail industry. Because of this, the trade unions organized a walk-out from Wal-Mart stores, which led to bad publicity for the company.

Summary:

1. Strategic management involves defining the vision and the mission of a firm which clearly define what the firm aspires to become and the reason for its existence.
2. Strategic management is a comprehensive procedure and starts with a strategic diagnosis.
3. Strategic management enables your firm to survive in the long run.
4. Basic elements of strategic management are:
    - Environmental scanning
    - Strategy formulation
    - Strategy execution (implementation)
    - Evaluation and control

COMPONENTS OF STRATEGY FORMULATION

In this chapter, you will:

Understand the various components required to formulate the strategy of your organization.

- Understand the implications of the strategy on managers.

Strategy formulation involves the interplay of interrelated components which enable your firm to compete effectively and survive in the dynamic business world. The components are: vision and mission, external environment, internal profile, long-term objectives and annual objectives, grand strategy, generic strategy and functional/operational strategies.

Vision and Mission

Your company's vision is a description of what the organization is trying to do and to become. It gives a view of your organization's future direction course of business activity. Above all, the vision is a powerful motivator and keeps your organization moving forward in the intended direction.

The mission identifies the purpose of your company; defines the scope of your company's operations; describes your company's product, market, and technological areas of thrust; and reflects the values and priorities of its strategic decision-makers. It sets apart one company from other companies in the same area of business. The mission of a business looks to an endless future as if your firm were immortal.

External Environment

The external environment of your company comprises forces and conditions over which your firm has little or no control, and they exert an influence on your company's strategic options as well as on its competitive position. The external environment is of two types, the operating environment and the remote environment. The operating environment has a direct bearing on your firm's performance and includes variables like competitors, consumers, and vendors. The remote environment, on the other hand, includes political, social, economic, and demographic variables.

Internal Profile

An internal analysis of your firm's resources helps in determining your company's capabilities and developing an internal profile. The profile reflects the strengths and weaknesses of your firm and also evaluates the past performance of your firm in the context of current capabilities. This is done to identify the capabilities required by your firm in the future.

Long-term Objectives and Annual Objectives

Objectives are outlined in order to translate your organization's vision and mission into clearly defined performance targets. In terms of time horizon, strategic management uses two types of objectives — long-term objectives and annual objectives.

Long-term objectives refer to those results that your organization seeks to achieve over a number of years. Such objectives are typically set in terms of market share, return on assets deployed, profitability, technological leadership, employee relations, social responsibility, and employee development.

Annual objectives are the objectives that your firm seeks to achieve in one year. Annual or short-term objectives flow from the long-term objectives. The short-term objectives are more specific and are to be achieved within a time span of one year. For instance, if your firm's long-term objective is to increase market share from 8% to 16% over the next 4 years, then the annual objective might be to increase the market share by 2 percentage points every year. Achieving the short-term objectives will lead to achievement of the long-term objectives.

Grand, Generic, and Functional/Operational Strategies

A grand strategy is a statement of means that indicates the methods to be used to achieve your firm's objectives. This strategy is a unique package of long-term strategies. The grand strategy provides the framework for the entire business of your firm. Grand strategies include the following strategies: market penetration, market development, product development, horizontal integration, vertical integration, concentric diversification, conglomerate diversification, turnarounds, divestiture, and liquidation.

For competing in each of its businesses, your firm can choose a generic competitive strategy — cost leadership, differentiation, or focus.

The grand strategy is split into strategies for each function. These strategies are referred to as functional strategies. They are specific to the needs of each functional area and prescribe an integrated action plan for every function. Operational strategies provide the means for achieving annual objectives. Your company budget is coordinated with the needs of operating strategies to ensure specificity, practicality, and accountability in the plans.

Strategic analysis is taken up to identify attractive investment opportunities which are compatible with your firm's vision and mission. Such opportunities are called desired opportunities. Strategic choice is made after comparing the desired opportunities. The goal of strategic analysis and choice is to ensure that your firm's grand strategies are aligned with the objectives of your firm in order to optimally achieve the vision and mission of the firm.

Implications for Managers

Looking at strategic management as a process helps to highlight certain aspects of the model:

- Strategic management is done keeping in view the environment and your organization's capabilities. A change in any component of the strategy formulation model will have an influence on several other components. For instance, the mission has an effect on the relevant environmental variables, and vice versa.
- The process of strategic management should be kept flexible. If the strategic plan has to be re-evaluated because of factors like the entry of new competitors or appointment of a new CEO for your firm, then the process should start once again with environmental analysis. However, equal attention need not be given to all the components of the process; instead, attention paid to different components should be based on need. The mission statement may remain the same for a long time, whereas objectives and strategies may have to be updated annually in tune with the achievements of the firm.
- Strategic management would fail if it is based on a wrong set of assumptions or on arbitrary and inflexible goals. It will also fail if a system of controls is not implemented to achieve a balance among culture, rewards, and boundaries.
- Pursuing a uni-dimensional strategy which focuses on a short-term competitive advantage instead of creating a long-term, sustainable competitive advantage is bound to result in the failure of strategic management.

- Strategic management is bound to fail if the communication in your organization is stifled.
- Strategic management is a continuous process and not an event to be executed at a point of time. The dynamic nature of the environment makes it a continuous process. Failure to recognize the environmental flux also results in a failure to achieve coordination and integration of core processes and key functions across organizational boundaries.

Summary:

1 Components of Strategy formulation include:
  - Vision and Mission
  - External Environment
  - Internal Profile
  - Long-term Objectives and Annual Objectives
  - Grand, Generic, and Functional/ Operational Strategies

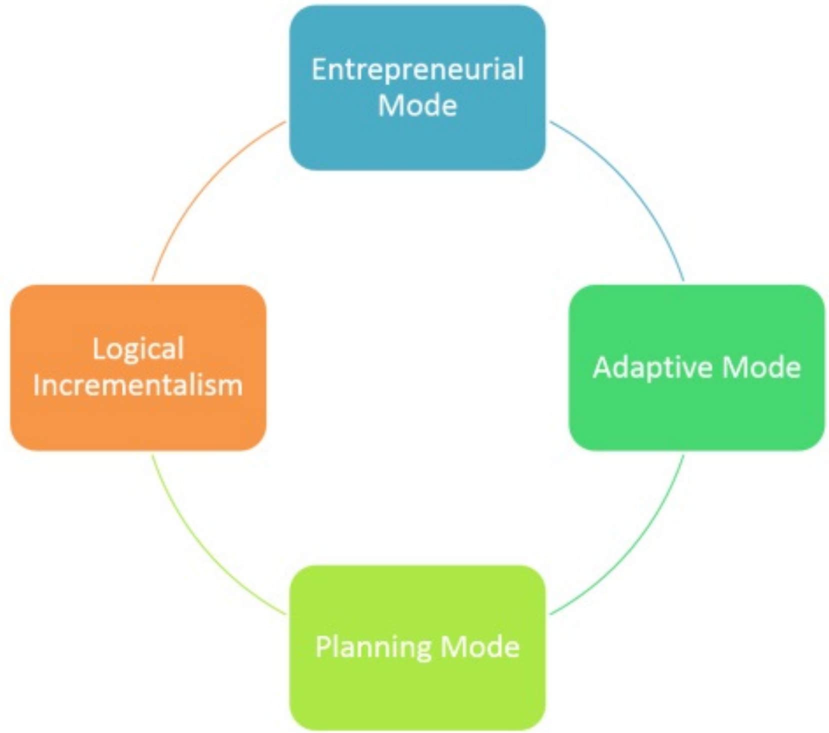
STRATEGIC DECISION-MAKING

In this chapter, you will:

- Understand the process of strategic decision-making.
- Understand the various modes of strategic decision-making.

Strategic management places a heavy emphasis on strategic decision-making. As organizations grow larger and environments become more uncertain, decisions become increasingly more complex and difficult to make. For a decision to be called strategic, it should have the following characteristics:

- It deals with the long-run future of the entire organization.
- It commits substantial resources and demands a great deal of commitment from people at all levels.
- It acts as a directive. It sets a precedent for lower level decisions and future actions, and has implications for the entire organization.



Modes of Strategic Decision Making

Henry Mintzberg has classified strategic decision-making into three different modes:

- Entrepreneurial mode
- Adaptive mode
- Planning mode

There is a fourth approach — logical incrementalism — which has some characteristics of each of these three approaches.

Entrepreneurial mode

In this mode, strategies are framed by one powerful individual. The entrepreneurial mode focuses solely on your organizations opportunities. Problems associated with strategy are given secondary importance. Strategy is formulated based on the founder's own vision of direction and is exemplified by bold decisions. The dominant goal is the growth of the organization. Apple Computer, Inc. (now Apple, Inc.), under the leadership of Steve Jobs, provides an example of this mode of strategic decision-making. The disadvantage of this mode is that it does not consider problems that may arise during strategy implementation. The advantage is the speed with which a strategy can be formulated and implemented.

Adaptive mode

This mode is characterized by reactive solutions to existing problems. This mode of decision making results in a fragmented strategy with incremental improvement.

Planning mode

In this mode, appropriate information for situational analysis is gathered systematically. A few feasible alternative strategies are developed and the most appropriate strategy is selected. The planning mode encompasses both a proactive search for opportunities and a reactive solution to existing problems. The planning mode helps your firm to be better prepared for environmental uncertainties.

Though every mode of strategic decision-making can be used in one situation or the other, the planning mode, which includes the basic elements of the strategic management process, is a more rational and better method of strategic decision- making than the others. It is more appropriate for dealing with complex and changing environments.

Logical incrementalism

There is a fourth approach that might be followed by your firm — logical incrementalism. It is a synthesis of the three approaches just mentioned. When developing strategies, organizations choose an interactive process for probing the future, experimenting, and learning from a series of incremental commitments. This approach is useful when the environment is changing rapidly and it is important to build a consensus before committing the entire company to a specific strategy.

Characteristics of Strategic Decisions

The characteristics of strategic decisions flow from the nature of strategic management. There are several important differences between strategic management and various management functions like operations, human resources, marketing, accounting, finance, and research and development. The distinguishing features of strategic management are listed here.

Strategic management entails multiple time horizons

Strategic management involves strategy formulation at three levels, namely, the corporate level, the business level and the functional level. The three levels have different orientations of time, though they are synchronized in their objectives. The corporate manager deals with the vision of your organization, which has a long-term perspective. The strategic business unit level managers deal with, translating the vision into the mission and objectives for your firm and they have a medium-term perspective. The functional managers tend to have a short-term perspective.

Strategic management is concerned with both efficiency and effectiveness

Strategic management lays emphasis on both efficiency and effectiveness. It deals with the environment over which your firm has little or no control. Accordingly, efficiency, that is, doing things right might lose validity and relevance if the environment conditions undergo a change. It is effectiveness which will align the activities and strategies to the dynamic environment. Effectiveness when coupled with efficiency will enable your firm to achieve its mission and hence strategic management places a balanced importance on both.

Strategic management integrates various functions

Strategic management adopts an integrative perspective of the various functional areas in your organization. This enables organization to build on its strengths and minimize its weaknesses across functional areas and also provides synergistic effects for your organization.

Strategic management considers a broad range of stakeholders

Strategic management deals with both the external environment (operating and remote) and the internal environment effectively, and meets the expectations of the various stakeholders. The hierarchical level of strategy formulation helps in meeting the expectations of a wide variety of stakeholders.

Summary:

1. Modes of Strategic Decision-Making include:
    - Entrepreneurial mode
    - Adaptive mode
    - Planning mode
    - Logical incrementalism

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