



INTRODUCTION TO STRATEGIC MANAGEMENT



LEARNING OBJECTIVES

- Learn what business policy and strategy is all about.
- Know the framework and importance of strategic management.
- Learn how strategy operates at different levels of the organization.
- Understand the importance of strategic management in Government and Not-for-profit Organizations.

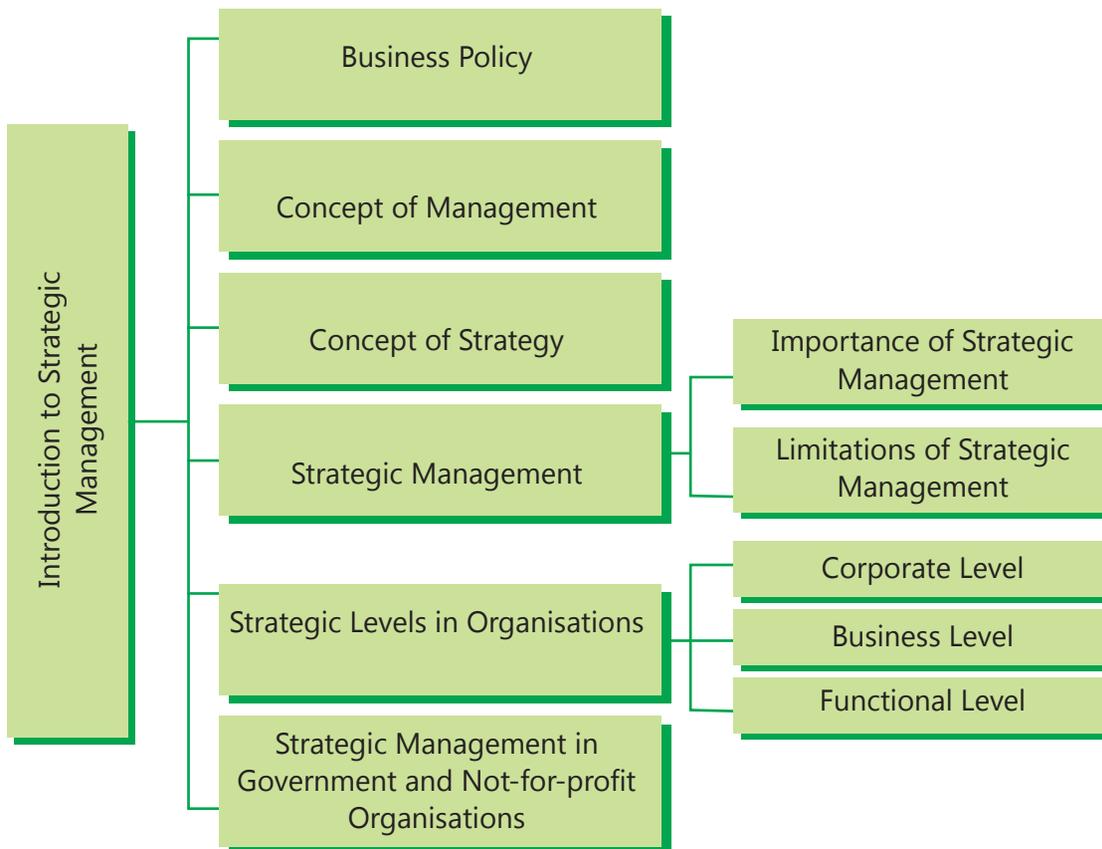
"The company without a strategy is willing to try anything."

Michael Porter

"Strategy is not the consequence of planning, but the opposite : its starting point."

Henry Mintzberg

CHAPTER OVERVIEW



1.1 INTRODUCTION

This chapter is an attempt to highlight the concepts and significance of 'business policy' and 'strategic management'. With the increased competition, the management of business has acquired strategic dimension. All executives and professionals, including the Chartered Accountants, working towards growth of their businesses must possess sound knowledge of business policy and strategic management.



1.2. BUSINESS POLICY

The origin of business policy can be traced back to 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability among business executives. This course was based on interactive case studies which had been in use at the school for instructional purposes

since 1908. However, the introduction of business policy in the curriculum of business schools / management institutes came much later. In 1969, the American Assembly of Collegiate Schools of Business, a regulatory body for business schools, made the course of business policy, a mandatory requirement for the purpose of recognition of business schools/management institutes. During the next few decades, business policy as a course spread to different management institutes across different nations and became an integral part of management curriculum. Basically, business policy is considered as a higher level integrative course offered to students who have previously been through a set of courses in core functional areas. The term 'Business Policy' has been traditionally used though new titles for the course sprang up later.

According to William F Glueck, evolution of business policy arose from the developments in the use of planning techniques by managers. Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management, a term that is currently used to describe the process of strategy formulation, implementation and control.

Business policy, as defined by Christensen and others, is *"the study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future.* The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organizational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstance".

Business Policy tends to emphasise on the rational-analytical aspect of strategic management. It presents a framework for understanding strategic decision making in organisations. Such a framework enables a manager to make preparations for handling general management responsibilities effectively.



1.3. CONCEPT OF MANAGEMENT

To understand the concept of strategic management, we need to have a basic understanding of the term management. The term 'management' is used in two senses such as:

- (a) It is used with reference to a key group in an organisation in-charge of its affairs. In relation to an organisation, management is the chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating the disorganised resources of manpower, money, materials, and technology into a functioning whole.

An organisation becomes a unified functioning system when management systematically mobilises and utilises the diverse resources efficiently and effectively. The survival and success of an organisation depend to a large extent on the competence and character of its management. Management has to also facilitate organisational change and adaptation for effective interaction with the environment.

- (b) The term 'Management' is also used with reference to a set of interrelated functions and processes carried out by the management of an organisation to attain its objectives. These functions include Planning, Organising, Directing, Staffing and Control. The functions or sub-processes of management are wide-ranging but closely interrelated. They range all the way from determination of the goals, design of the organisation, mobilisation and acquisition of resources, allocation of tasks and resources among the personnel and activity units and installation of control system to ensure that what is planned is achieved.

Conclusion: Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner. Influence is backed by power, competence, knowledge and resources. Managers formulate organisational goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes in the environment.



1.4. CONCEPT OF STRATEGY

A typical dictionary defines the word 'strategy' as something that has to do with war and ways to win over enemy. In the context of business, the application of this term is not much different. Businesses have to respond to dynamic and often hostile external forces while pursuing their mission and objectives.

The very injection of the idea of strategy into business organizations is intended to unravel complexity and to reduce uncertainty caused by changes in the environment. Strategy seeks to relate the goals of the organization to the means of achieving them. Strategy is the game plan that the management of a business uses to take market position, conduct its operations, attract and satisfy customers, compete successfully, and achieve organizational objectives.

To the extent the term strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position, its implications for corporate functioning are obvious.

We may define the term 'strategy' as a long range blueprint of an organization's desired image, direction and destination, i.e., what it wants to be, what it wants to do and where it wants to go. Following are also important other definitions re to understand the term:

- Igor H. Ansoff : The common thread among the organization's activities and product-markets that defines the essential nature of business that the organization has or planned to be in future.
- William F. Glueck : A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved.

Strategy is consciously considered and flexibly designed scheme of corporate intent and action to mobilise resources, to direct human effort and behaviour, to handle events and problems, to perceive and utilise opportunities, and to meet challenges and threats for corporate survival and success.

Strategy is meant to fill in the need of organizations for a sense of dynamic direction, focus and cohesiveness. Objectives and goals alone do not fill in the need. Strategy provides an integrated framework for the top management to search for, evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crises, to make full use of resources and strengths, to offset corporate weaknesses.

However, strategy is no substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. That is why in a sound strategy, allowances are made for possible miscalculations and unanticipated events.

In large organisations, strategies are formulated at the corporate, divisional and functional levels. Corporate strategies are formulated by the top managers. Such strategies include the determination of the plans for expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on. These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like.

Strategy is partly proactive and partly reactive: A company's strategy is typically a blend of (1) proactive actions on the part of managers to improve the company's market position and financial performance and (2) reactions to unanticipated developments and fresh market conditions. In other words, a company uses both proactive and reactive strategies to cope up the uncertain business environment. Proactive strategy is planned strategy whereas reactive strategy is adaptive reaction to changing circumstances.

The biggest portion of a company's current strategy flows from previously initiated actions and business approaches that are working well enough to merit continuation and newly launched managerial initiatives to strengthen the company's overall position

and performance. This part of management's game plan is deliberate and proactive, standing as the product of management's analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer's patronage.

But not every strategic move is the result of proactive planning and deliberate management design. Things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required. Hence, a portion of a company's strategy is always developed as a reasoned response to unforeseen developments. But apart from adapting strategy to changes in the market, there is also a need to adapt strategy as new learning emerges about which pieces of the strategy are working well and which aren't and as management hits upon new ideas for improving the strategy. Crafting a strategy thus involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge—a reactive/adaptive strategy.

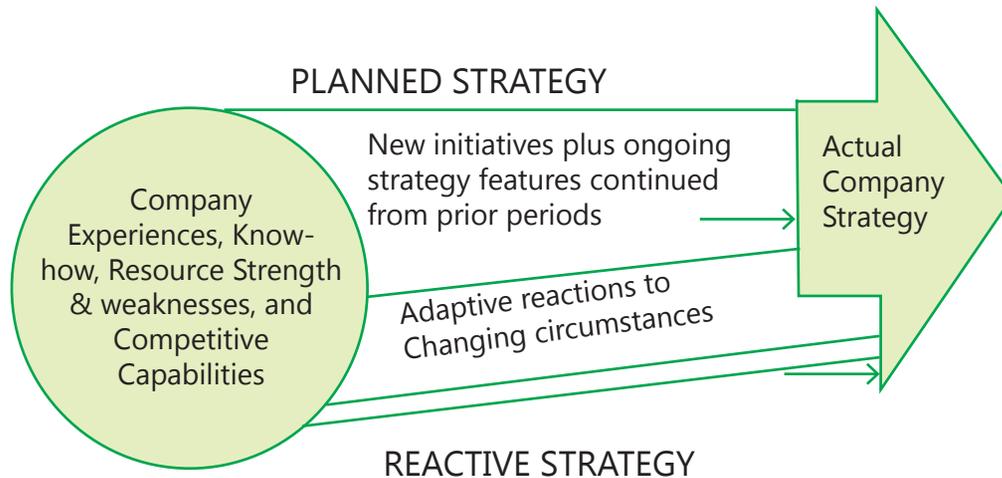


Figure: A Company's Actual Strategy Is Partly Planned & Partly Reactive



1.5. STRATEGIC MANAGEMENT

In a hyper competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must develop long-term strategies. Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth of the company. The overall objectives of strategic management are two fold:

- ♦ To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.
- ♦ To guide the company successfully through all changes in the environment.

The organizational operations are highly influenced by the increasing rate of change in the environment and the ripple effect created on the organization. Changes can be external to the firm or they may be introduced in the firm by the managers. It may manifest in the blurring of industry and firm boundaries, driven by technology, deregulation, or, through globalization. The tasks of crafting, implementing and executing company strategies are the heart and soul of managing a business enterprise.

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

Strategic management involves developing the company's vision, environmental scanning (both external and internal), strategy formulation, strategy implementation and evaluation and control. Originally called, business policy, strategic management emphasises the monitoring and evaluation of external opportunities and threats in the light of a company's strengths and weaknesses and designing strategies for the survival and growth of the company.

1.5.1 Importance of Strategic Management

Formulation of strategies and their implementation have become essential for all organizations for their survival and growth in the present turbulent business environment. 'Survival of fittest' as propagated by Darwin is the only principle of survival for organization, where 'fittest' are not the 'largest' or 'strongest' organizations but those who can change and adapt successfully to the changes in business environment. Many business giants have followed the path of extinction failing to manage drastic changes in the business environment. Also business follows the war principle of 'win or lose', and only in a small number of cases, win-win situation arises. Hence, each organization has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following process of strategic management - strategic analysis, formulation and implementation, evaluation and control of strategies. The major benefits of strategic management are:

- ♦ The strategic management gives a direction to the company to move ahead. It defines the goals and mission. It helps management to define realistic objectives and goals which are in line with the vision of the company.
- ♦ Strategic management helps organisations to be proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in

a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.

- ♦ Strategic management provides framework for all major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- ♦ Strategic management seeks to prepare the organisation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- ♦ Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.
- ♦ Strategic management helps to enhance the longevity of the business. with the state of competition and dynamic environment it may not be possible for organisations to survive in long run. It helps the organization to take a clear stand in the related industry and makes sure that it is not just surviving on luck.
- ♦ Strategic management helps the organisation to develop certain core competencies and competitive advantages that would facilitate assist in its fight for survival and growth.

1.5.2 Limitations of Strategic Management

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations attached to strategic management. These can be explained in the following lines:

- ♦ Environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.
- ♦ Strategic management is a time-consuming process. Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
- ♦ Strategic management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.

- ◆ In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies.

1.6. STRATEGIC LEVELS IN ORGANISATIONS

A typical large organization is a multi divisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three main levels of management: corporate, business, and functional. General managers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility.

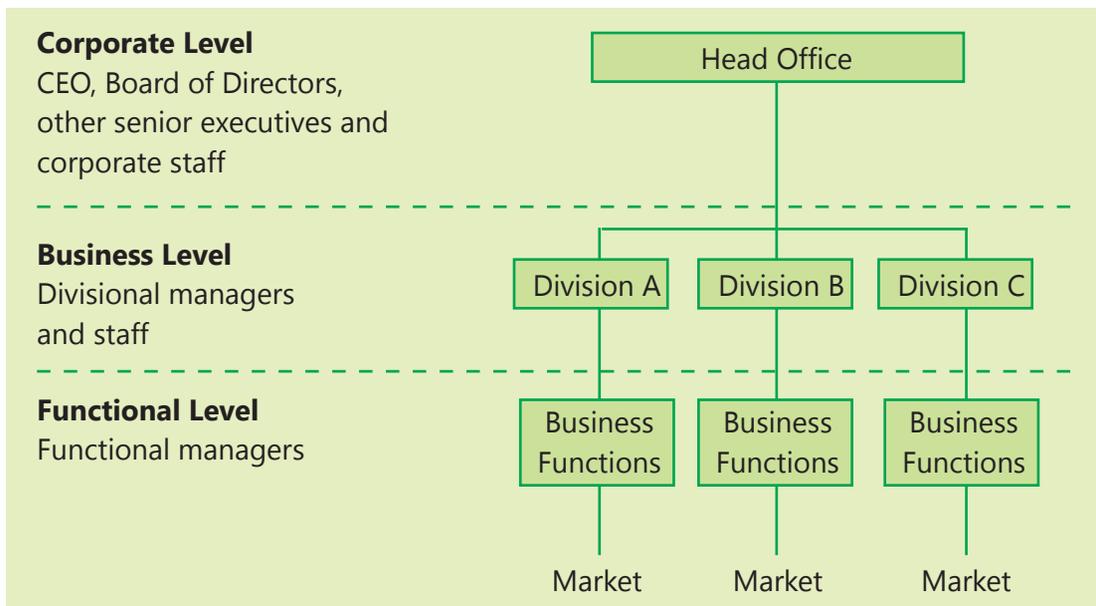


Figure: Levels of Strategic Management

An organization is divided into a number of segments that work together to bring a particular product or service to the market. If a company provides several and/or different kinds of products or services, it often duplicates these functions and creates a series of self-contained divisions (each of which contain its own set of functions) to manage each different product or service. The general managers of these divisions then become responsible for their particular product line. The overriding concern of the divisional managers is healthy growth of their divisions. They are responsible for deciding how to create a competitive advantage and achieve higher profitability with the resources and capital they have at their disposal. Such divisions are called **Strategic Business Units (SBUs)**.

The corporate level of management consists of the Chief Executive Officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals

participate in strategic decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes 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, and providing leadership for the organization.

For example, Godrej is active in a wide range of businesses, including soaps, insecticides, edible oil, furniture, Information Technology, and real estate. The main strategic responsibilities of its Group Chairman, Adi Godrej, are setting overall strategic objectives, allocating resources among the different business areas, deciding whether the firm should divest itself of any of its businesses, and determining whether it should acquire any new ones. In other words, it is up to Adi Godrej and other senior executives to develop strategies that span individual businesses and building and managing the corporate portfolio of businesses to maximize corporate profitability. However, it is not their specific responsibility to develop strategies for competing in the individual business areas, such as financial services. The development of such strategies is the responsibility of those in charge of different businesses called **business level managers**.

Besides overseeing resource allocation and managing the divestment and acquisition processes, corporate-level managers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders). Corporate-level managers, and particularly the CEO, can be viewed as the guardians of shareholder welfare. It is their responsibility to ensure that the corporate and business strategies that the company pursues are consistent with maximizing shareholder wealth. If they are not, then ultimately the CEO is likely to be called to account by the shareholders.

A strategic business unit is a self-contained division (with its own functions—for example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market. The principal general manager at the business level, or the business-level manager, is the head of the division. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. Thus, whereas corporate-level managers are concerned with strategies that span individual businesses, business-level managers are concerned with strategies that are specific to a particular business.

Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division. Although they are not responsible for the overall performance of the organization, functional

managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfil the strategic objectives set by business- and corporate-level general managers.

Functional managers provide most of the information that makes it possible for business- and corporate-level general managers to formulate realistic and attainable strategies. Indeed, because they are closer to the customer than the typical general manager is, functional managers themselves may generate important ideas that subsequently may become major strategies for the company. Thus, it is important for general managers to listen closely to the ideas of their functional managers. An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate –and business-level plans.

1.7. STRATEGIC MANAGEMENT IN GOVERNMENT AND NOT-FOR-PROFIT ORGANISATIONS

Organizations can be classified as commercial and non-commercial on the basis of the interest they have. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. Their genesis may be for social, charitable, or educational purposes. Examples of non-commercial organizations can be The Institute of Chartered Accountants of India, municipal corporations, non-governmental organizations such as Help-Age or Child Relief and You. Their main aim is to provide services to members, beneficiaries or public at large. A non-commercial organization comes to existence to meet the needs not met by business enterprises. These organizations may not have owners in true sense.

The strategic management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human relations.

Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

- ♦ **Educational institutions:** Educational institutions are using strategic-management techniques and concepts more frequently. Richard Cyert, president of Carnegie-Mellon University, says, "I believe we do a far better job of Strategic management than any company I know ". The significant change in the competitive climate has taken place in the educational environment. Hence, they are adopting different strategies for attracting best students.

The academic institutions have also joined hands with industries in order to deliver education to make graduates more employable. The educational delivery system has also undergone considerable changes with the introduction of computers and internet technologies. The first all-Internet law school, Concord University School of Law, boasts nearly two hundred students who can access lectures anytime and chat at fixed times with professors. Online college degrees are becoming common and represent a threat to traditional Colleges and universities.

- ◆ **Medical organizations:** Modern hospitals are creating new strategies today as advances in the diagnosis and treatment of chronic diseases are undercutting that earlier mission. Hospitals are beginning to bring services to the patient as much as bringing the patient to the hospital. Pathological laboratories have started collecting door-to-door samples. Chronic care will require day-treatment facilities, electronic monitoring at home, user-friendly ambulatory services, decentralized service networks, and laboratory testing.

A successful hospital strategy for the future will require renewed and deepened collaboration with physicians, who are central to hospitals' well being and a reallocation of resources from acute to chronic care in home and community settings.

Backward integration strategies that some hospitals are pursuing include acquiring ambulance services, waste disposal services, and diagnostic services. Millions of persons research medical ailments online, which is causing a dramatic shift in the balance of power between doctor, patient, and hospitals.

The whole strategic landscape of healthcare is changing because of the Internet. Intel recently began offering a new secure medical service whereby doctors and patients can conduct sensitive business on the Internet, such as sharing results of medical tests and prescribing medicine. The ten most successful hospital strategies today are providing free-standing outpatient surgery centres, outpatient surgery and diagnostic centres, physical rehabilitation centres, home health services, cardiac rehabilitation centres, preferred provider services, industrial medicine services, women's medicine services, skilled nursing units, and psychiatric services.

- ◆ **Governmental agencies and departments:** Central, state, municipal agencies, Public Sector Units, departments are responsible for formulating, implementing, and evaluating strategies that use taxpayers' money in the most cost-effective way to provide services and programs. Strategic-management concepts increasingly are being used to enable some organizations to be more effective and efficient.

But strategists in governmental organizations operate with less strategic autonomy than their counterparts in private firms. Public enterprises generally cannot

diversify into unrelated businesses or merge with other firms. Governmental strategists usually enjoy little freedom in altering the organizations' missions or redirecting objectives. Legislators and politicians often have direct or indirect control over major decisions and resources. Strategic issues get discussed and debated in the media and legislatures. Issues become politicized, resulting in fewer strategic choice alternatives.

But in government agencies and departments are finding that their employees get excited about the opportunity to participate in the strategic-management process and thereby have an effect on the organization's mission, objectives, strategies, and policies. In addition, government agencies are using a strategic management approach to develop and substantiate formal requests for additional funding.



SUMMARY

With the increased competition, the management of business organisations has acquired strategic dimensions. This chapter began with the elaboration of the concept of strategy. A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customer, compete successfully and achieve organizational objectives. This chapter elucidated business policy as a discipline and its transformation to strategic management. It presented a framework for understanding strategic decision making.

The three strategic levels in an organization are explained. Managers formulate and implement strategies at corporate level, business level and functional level.

Towards end, strategic management in Government and not-for-profit organizations is also discussed.



TEST YOUR KNOWLEDGE

Short Answer Type Questions

Question 1

State with reasons which of the following statements is correct / incorrect:

- (a) Strategy is a substitute for sound, alert and responsible management.
- (b) Strategies are perfect, flawless and optimal organisational plans.
- (c) Strategic management is a bundle of tricks and magic.
- (d) Control systems run parallel with strategic levels.
- (e) A company's strategy has always to be proactive in nature.
- (f) Strategic management is not needed in non-profit organisations.

Answers

- (a) **Incorrect:** Strategy is not a substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. Strategies are goal-directed decision and actions in which capabilities and resources are matched with the opportunities and threats in the environment. A good management at the top can steer the organizations by adjusting its path on the basis of the changes in the environment.
- (b) **Incorrect:** Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated external events.
- (c) **Incorrect:** No, Strategic management is not a bundle of tricks and magic. It is a deliberate managerial process that involves systematic and analytical thinking. It involves systematic and analytical thinking and action. Although, the success or failure of a strategy is dependent on several extraneous factors, it cannot be stated that a strategy is a trick or magic. Formation of strategy requires careful planning and requires strong conceptual, analytical, and visionary skills.
- (d) **Correct:** There are three strategic levels in an organisation – corporate, business and functional. Control systems are required at all the three levels. At the top level, strategic controls are built to check whether the strategy is being implemented as planned and the results produced by the strategy are those intended. Down the hierarchy management controls and operational controls are built in the systems. Operational controls are required for day-to-day management of business.
- (e) **Incorrect:** A company's strategy is a blend of proactive actions and reactive actions by the management. Reactive actions are required to address unanticipated developments and environmental conditions. Thus, not every strategic move is the result of proactive and deliberate management actions. At times, some kind of strategic reaction or adjustments are required.
- (f) **Incorrect:** Strategic management applies equally to profit as well as non-profit organizations. Though non-profit organizations are not working for the profit, they have to have purpose, vision and mission. They also work within the environmental forces and need to manage strategically to stay afloat to accomplish their objectives. For the purpose of continuity and meeting their goals, they also need to have and manage funds and other resources just like any other for profit organization.

Question 2

Briefly answer the following questions:

- (a) Distinguish between The Three Levels of Strategy Formulation.
- (b) You are appointed as a Strategic Manager by XYZ Co. Ltd. Being a Strategic Manager what should be your tasks to perform?
- (c) Write a short note on Importance of Strategic Management.
- (d) "Strategy is partly proactive and partly reactive." Do you agree? Give reasons for your answer.
- (e) In your view, what is the role of Corporate level managers in Strategic management?
- (f) Organizations sustain superior performance over a long period of time, inspite of the rapid changes taking place continually in its competitive environment if they implement strategic management successfully.' Discuss.
- (g) Do you agree with the statement that "Strategic Management concepts are of no use to Government organizations and Medical organizations"? Explain with reasons.

Answers

- (a) A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional.

The corporate level of management consists of the chief executive officer and other top level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a self-contained division with its own functions - for example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

- (b)** The primary tasks of the strategic manager is conceptualizing, designing and executing company strategies.

For this purpose, his tasks will include:

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

- (c)** Importance of Strategic Management: Strategic Management is very important for the survival and growth of business organizations in dynamic business environment. Other major benefits of strategic management are as follows:

- ◆ It helps organizations to be more proactive rather than reactive in dealing with its future. It facilitates the organisations to work within vagaries of environment and remains adaptable with the turbulence or uncertain future. Therefore, they are able to control their own destiny in a better way.
- ◆ It provides better guidance to entire organization on the crucial point – what it is trying to do. Also provides framework for all major business decisions of an enterprise such a decision on businesses, products, markets, organization structures, etc.
- ◆ It facilitates to prepare the organization to face the future and act as pathfinder to various business opportunities. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.
- ◆ It serves as a corporate defence mechanism against mistakes and pitfalls. It helps organizations to avoid costly mistakes in product market choices or investments.
- ◆ Over a period of time, strategic management helps organizations to evolve certain core competencies and competitive advantages that assist in the fight for survival and growth.

(d) Yes, strategy is partly proactive and partly reactive. In proactive strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

There can be significant deviations between what was visualized and what actually happens. Strategies need to be attuned or modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

(e) There are three main levels of management in a typical organisation: corporate, business, and functional. The corporate level of management consists of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. They are responsible for strategic decision making and broadly have following roles:

1. Oversee the development of strategies for the whole organization.
2. Defining the mission and goals of the organization.
3. Determining what businesses it should be in.
4. Allocating resources among the different businesses.
5. Formulating strategies.
6. Implementing strategies.
7. Providing leadership for the organization.
8. Provide a link between the people who oversee the strategic development of a firm and those who own it.

(f) Business organizations function within dynamic environment. The environment may vary from being conducive to hostile. Whatever be the conditions, implementation of strategic management is very important for the survival and growth of business organizations. Strategy implementation helps in improving the competence with which it is executed and helps organizations to sustain superior performance in following manner:

- ♦ Strategic management helps organizations to be more proactive rather than reactive in dealing with its future.
- ♦ It provides better guidance to entire organization on the crucial point – what it is trying to do.

- ◆ It facilitates to prepare the organization to face the future. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.
 - ◆ It serves as a corporate defense mechanism against mistakes and pitfalls.
 - ◆ Over a period of time strategic management helps organization to evolve certain core competencies and competitive advantages.
- (g) Organizations can be classified as commercial and non-commercial on the basis of the interest they have. Typically, a government or medical organization may function without any commercial objectives. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. Their genesis may be for social, charitable, or educational purposes.

The strategic-management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and human resource.

Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no measurability of performance, and are totally dependent on outside financing. Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

Questions with Descriptive Answer

Question 3

What is Strategic Management? What benefits accrue by following a strategic approach to managing?

Answer

In a highly competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must have a system of managing strategically.

The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments where deemed appropriate.

The overall objective of strategic management is two fold:

- ♦ To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.
- ♦ To guide the company successfully through all changes in the environment.

The following are the benefits of strategic approach to managing:

- ♦ Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.
- ♦ Strategic management provides framework for all the major decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- ♦ Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- ♦ Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It help organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.