STRATEGIC MANAGEMENT

STUDY MATERIAL

STRATEGIC MANAGEMENT

UNIT-I

INTRODUCTION:

Strategic management is an on-going process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e., regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment.

Bracker (1980) – Strategic management entails the analysis of internal and external environments of firms to maximize the utilization of resources in relation to objectives.

OBJECTIVES OF STRATEGIC MANAGEMENT

2. To provide the conceptual frameworks that will help a manager understand the key relationships among actions, context, and performance.
3. To put an organisation into a competitive position.
4. To sustain and improve that position by the deployment and acquisition of appropriate resources and by monitoring and responding to environmental changes.
5. To monitor and respond to the demands of key stakeholders.
6. To find, attract, and keep customers.
7. To ensure that the company is meeting the needs and wants of its customers, which is a cornerstone in providing the quality product or service that customers really want.
8. To sustain a competitive position.
9. To utilize the company’s strengths and take full advantage of its competitor’s weaknesses.
10. To understand the various concepts involved like strategy, policies, plans and programmes.
11. To have knowledge about environment—how it affects the functioning of an organisation.
12. To determine the mission, objectives and strategies of a firm and to visualize how the implementation of strategies can take place.

13. To find the solutions of problems in real-life business.

14. To develop analytical ability to identify threats and opportunities present in the environment.

15. To develop the skills of strategic decision making.

16. To develop a creative and innovative attitude and to think strategically.

STRATEGIC MANAGEMENT – IMPORTANCE

i. It helps the organization to be more proactive instead of reactive in shaping its future. Organizations are able to analyze and take action instead of being mere spectators.

ii. It provides framework for all the major business decisions of an enterprise such as – decisions on businesses, products, and markets, manufacturing facilities, investments and organizational structure.

iii. It seeks to prepare the corporation to face the future and acts as a pathfinder to various business opportunities. Organizations are enabled to identify the available opportunities and identify ways and means to reach them.

iv. It helps organizations to avoid costly mistakes in product market choices or investments.

v. It helps organizations to evolve certain core competencies and competitive advantages that assist in their fight for survival and growth.

vi. Strategic management looks at the threats present in the external environment and thus companies can either work to get rid of them or else neutralizes the threats in such a way that they become an opportunity for their success.

vii. It also adds to the reputation of the organizations because of the consistency that results from organizational success.

STRATEGIC MANAGEMENT – LEVELS: CORPORATE, SBU AND FUNCTIONAL STRATEGIES

In a multi-business enterprise, having several SBUs, there would be three levels of strategy, viz., – corporate strategy, SBU strategy and functional strategy. In enterprises which do not have SBUs, there will be only two levels of strategy, i.e., corporate strategy and functional strategies.

1. Corporate Strategy:

Corporate strategy is the long-term strategy encompassing the entire organisation. Corporate strategy addresses fundamental questions such as what is the purpose of the enterprise, what business/businesses it wants to be in (portfolio strategy) and how to expand/get into such business/businesses (for example – by establishing greenfield enterprises or by M&As).

In other words, "corporate-level strategic management is the management of activities which define the overall character and mission of the organisation, the product/service segments it will enter and leave, and the allocation of resources and management of synergy among its SBUs."

Corporate strategy is formulated by the top level corporate management (board of directors, CEO, and chiefs of functional areas).

2. SBU Strategy:

SBU-level strategy, sometimes called Business Strategy or Competitive Strategy, is concerned with decisions pertaining to the product mix, market segments and manoeuvring competitive advantages for the SBU.

While corporate strategy decides the business portfolio (i.e., the types of business), the competitive strategy decides the strategy/strategies to succeed in the chosen business/businesses.

SBU strategy has to conform, obviously, to the corporate philosophy and strategy.

In short, "the SBU-level strategic management is the management of an SBU's effort to compete effectively in a particular line of business and to contribute to overall organisational purposes."

The responsibility for SBU strategy is with the top executives of the SBU who are normally second-tier executives in the corporate hierarchy. In single-SBU organisations, senior executives have both corporate and SBU-level responsibilities.

3. Functional Strategies:

Functional-level strategies are strategies for different functional areas like production, finance, personnel, marketing, etc. In other words, “functional-level strategic management is the management of relatively narrow areas of activity, which are of vital, pervasive, or continuing importance to the total organisation.”

Functional-level strategy is the responsibility of functional area heads.

STRATEGIC MANAGEMENT – FUNCTIONS

We can summarize the features and functions of Strategic management are as follows:

(a) Determination of basic long-term goals and objectives of the organization.

(b) Adoption of courses of action to achieve organization’s objectives.

(c) Adopting course of action necessary for allocation of resources.

(d) Relates formulation of company’s mission, including broad statements about its purpose, philosophy and goals.

(e) Long-term, future oriented plans for interacting with the competitive environment to achieve company’s objectives.

(f) Developing the company from its present position to the desired future position.

(g) Top management’s decision that directs organization and business towards predetermined goal,

(h) Carefully crafted plan with a stream of decisions and actions over time.

(i) Concerned with efficiency i.e. perceiving opportunities and threats and seizing initiatives to cope with them.

(j) Flows out of goals and objectives of the enterprise and is meant to translate them into realities.

(k) Recognize which competitor’s actions need critical attention.

(l) Identifies strengths and weaknesses compared with those of its competitors.

(m) Plan of action that reveals its objectives, purposes, goals, policies and plans that are required in achieving corporate mission.

(n) Analyze the company’s options by matching its resources with the external environment.

(o) Forward looking and it has orientation towards future.

(p) Provides an integrated and unified framework for managers, for effective decision making affecting all subsystems in an organization.

(q) Creates a fit between the organization and its external environment.

(r) Provides a framework for thinking about the business.

(s) Pattern in a stream of decisions and actions.

(t) Commonality of approach that exists in diverse organizational activities including the products and markets that define the current and planned nature of business.

(u) Way of stating current and desired future position of the company.

STRATEGIC MANAGEMENT MODELS

Strategic management is a broader term that includes not only the stages already identified but also the earlier steps of determining the mission and objectives of an organization within the context of its external environment. The basic steps of the strategic management can be examined through the use of strategic management model.

The strategic management model identifies concepts of strategy and the elements necessary for development of a strategy enabling the organization to satisfy its mission. Historically, a number of frameworks and models have been advanced which propose different normative approaches to strategy determination. However, a review of the major strategic management models indicates that they all include the following elements:

1. Performing an environmental analysis.
2. Establishing organizational direction.
3. Formulating organizational strategy.
4. Implementing organizational strategy.
5. Evaluating and controlling strategy.

Strategic management is a continuous and dynamic process. Therefore, it should be understood that each element interacts with the other elements and that this interaction often happens simultaneously.

The major models differ primarily in the degree of explicitness, detail, and complexity. These differences derive from the differences in backgrounds and experiences of the authors.

BUSINESS ETHICS IN STRATEGIC MANAGEMENT

Ethics are a set of moral standards that are relied upon to reach conclusions and make decisions. In a business environment, ethics are a key factor in responsible decision making. Maintaining a high ethical standpoint when operating your business can provide benefits to both the internal and external stakeholders of your business. Strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy and then over time initiating whatever corrective adjustments required for achieving the long-term objectives and goals of an organization.

The business case for ethics is based on the positive benefits that it can provide to your business. The reasons behind maintaining high ethical standards include:

1. **Long-term growth:** Sustainability comes from an ethical long-term vision which takes into account all stakeholders. Smaller but sustainable profits long-term must be better than higher but riskier short-lived profits.
2. **Cost and risk reduction:** companies which recognize the importance of business ethics will need to spend less protecting themselves from internal and external behavioral risks, especially when supported by sound governance -systems and independent.
3. **Anti-capitalist sentiment:** the financial crisis marked another blow for the credibility of capitalism, with resentment towards bank bailouts at the cost of fundamental rights such as education and healthcare.
4. **Limited resources:** the planet has finite resources but a growing population; without ethics, those resources are depleted for purely individual gain at a huge cost both to current and future generations.
5. **Creating Credibility:** An organization that is believed to be driven by moral values is respected in the society even by those who may have no information about the working and the businesses or an organization. Infosys, for example, is perceived as an organization for good corporate governance and social responsibility initiatives. This perception is held far and wide even by those who do not even know what business the organization is into.

6. **Improving Decision Making:** A man's destiny is the sum totals of all the decisions that he/she takes in course of his life. The same holds true for organizations.

Decisions are driven by values. For example, an organization that does not value competition will be fierce in its operations aiming to wipe out its competitors and establish a monopoly in the market.

UNIT-II

BUSINESS VISION, MISSION, OBJECTIVES

One of the first things that any observer of management thought and practice asks is whether a particular organization has a vision and mission statement. In addition, one of the first things that one learns in a business school is the importance of vision and mission statements.

It has been found in studies that organizations that have lucid, coherent, and meaningful vision and mission statements return more than double the numbers in shareholder benefits when compared to the organizations that do not have vision and mission statements. Indeed, the importance of vision and mission statements is such that it is the first thing that is discussed in management textbooks on strategy.

Some of the benefits of having a vision and mission statement are discussed below:

- Above everything else, vision and mission statements provide unanimity of purpose to organizations and imbue the employees with a sense of belonging and identity. Indeed, vision and mission statements are embodiments of organizational identity and carry the organizations creed and motto. For this purpose, they are also called as statements of creed.
- Vision and mission statements spell out the context in which the organization operates and provides the employees with a tone that is to be followed in the organizational climate. Since they define the reason for existence of the organization, they are indicators of the direction in which the organization must move to actualize the goals in the vision and mission statements.
- The vision and mission statements serve as focal points for individuals to identify themselves with the organizational processes and to give them a sense of direction while at the same time deterring those who do not wish to follow them from participating in the organization's activities.
- The vision and mission statements help to translate the objectives of the organization into work structures and to assign tasks to the elements in the organization that are responsible for actualizing them in practice.

- To specify the core structure on which the organizational edifice stands and to help in the translation of objectives into actionable cost, performance, and time related measures.
- Finally, vision and mission statements provide a philosophy of existence to the employees, which is very crucial because as humans, we need meaning from the work to do and the vision and mission statements provide the necessary meaning for working in a particular organization.

TYPES OF STRATEGIES

I.) INTEGRATION STRATEGY

Integration strategy also goes by the name of the management control strategy. As the name implies, it provides the business an option to have control over various processes like **competitors**, suppliers, or distributors.

Types of Integration Strategies

Business-integration strategy has two major types and sub-types; horizontal integration and vertical integration. They're as follows;

Horizontal Integration

Businesses use horizontal strategy when they're facing competition. A horizontal integration strategy is when a company acquires the supply chain system of the different/same industries that are operating at the same level.

In other words, horizontal integration in similar businesses is when a fast-food brand merges with the chain of the related **business** in the other country and foreign market.

Vertical Integration

Businesses also use vertical integration when they're facing competition. Vertical integration allows the company to have control over various stages of supply, distribution, and production.

Companies choose vertically-integrated strategy to make sure that they have complete control over the raw material, supply chain, and manufacturing processes. Most importantly, the purpose of vertical integration is to take charge of the distribution channels of the company's products.

For instance, Carnegie Steele Company acquires the iron mines to guarantee the consistent supply of raw material. Next, the company controls the railroads to support the distribution of raw material and final products. That's how Carnegie Steele Company manufactures cheap steel and controls the steel **market**.

II.) INTENSIVE STRATEGIES

Intensive strategies are those strategies, which demand furthermore intensive efforts to improve the performance of existing products in the market. We may also say that when an organization struggles to improve its competitive position with the current products then different types of intensive strategies should be considered.

Types of Intensive Strategies in Strategic Management

1. Market Penetration
2. Market Development
3. Product Development

Each one is discussed below in detail:

1. Market Penetration

In this strategy, the organization tries to enhance its market share through greater marketing efforts for its present products or services. This means that the organization does not launch new products or does not modify its existing products.

Rather it increases the sales volume of its existing products by focusing more on the marketing efforts in the existing markets. **Market Penetration Strategies** are used both solely & together with other strategies. Marketing penetration includes effective marketing efforts which are as follows.

- Enhancing the number of salespersons
- The advertising expenditure is enhanced
- Sales promotion items are extensively offered

- The publicity efforts are enhanced

Guidelines for Market Penetration

There are certain conditions that are more suitable to the market penetration strategy. In order to make market penetration strategy effective, certain guidelines should be followed by the organization in this regard.

- When the current markets are not much saturated
- The present customers are positively forced to increase the usage rate of the products of the market
- The condition in which the market share of the competitors fall while there is sales growth in the overall industry
- Major competitive advantages are availed by the greater economies of scale

Aspects of Market Penetration

Market penetration has two aspects which are as follow

- **Rapid Market Penetration**: The following two assumptions are based on it.
- To decrease the price
- To increase the promotional activities
- **Slow Market Penetration**: Two assumptions are based on it, which are as follow
- To decrease the price
- Promotional activities remain the same

2. Market Development

Market development strategy is the kind of intensive strategy in which the **Business Organization** launches its existing products in the new markets or geographical areas. This means that the organization does not introduce new or modified products rather the products remain the same but the new markets are added by entering into new geographical areas.

In recent years market development is rapidly employed on an international basis where multinational companies increase the market share by entering new regions & countries of the world through their existing products. Furthermore, the airline industry must also consider proper market development in the international market for its survival.

3. Product Development

In this strategy, the organization tries to improve its competitive position & sales through improvement & modification in its existing products. Usually, there are large portions of expenditures that are associated with the **New Product Development** Strategy as it requires detailed research & development activities to modify or improve the products.

There is a better example of a product development strategy that is employed by US postal service that offers postage & stamps through the Internet. The stamps are acquired from a number of online websites like stamps.com etc, which are printed through an inkjet printer or ordinary laser.

III.) DIVERSIFICATION STRATEGIES

Diversification strategies are used to extend the company's product lines and operate in several different markets. The general strategies include concentric, horizontal and conglomerate diversification.

Each strategy focuses on a specific method of diversification. The concentric strategy is used when a firm wants to increase its products portfolio to include like products produced within the same company, the horizontal strategy is used when the company wants to produce new products in a similar market, and the conglomerate diversification strategy is used when a company starts operating in two or more unrelated industries.

Diversification strategies help to increase flexibility and maintain profit during sluggish economic periods.

Concentric Diversification

A concentric diversification strategy lets a firm to add similar products to an already established business. For example, when a computer company producing personal computers using towers starts to produce laptops, it uses concentric strategies. The technical knowledge for new venture comes from its current field of skilled employees.

Concentric diversification strategies are rampant in the food production industry. For example, a ketchup manufacturer starts producing salsa, using its current production facilities.

Horizontal Diversification

Horizontal diversification allow a firm to start exploring other zones in terms of product manufacturing. Companies depend on current market share of loyal customers in this strategy. When a television manufacturer starts producing refrigerators, freezers and washers or dryers, it uses horizontal diversification.

A downside is the company's dependence on one group of consumers. The company has to leverage on the brand loyalty associated with current products. This is dangerous since new products may not garner the same favor as the company's other products.

Conglomerate Diversification

In conglomerate diversification strategies, companies will look to enter a previously untapped market. This is often done using mergers and acquisitions.

Moving into a new industry is highly dangerous, due to unfamiliarity with the new industry. Brand loyalty may also be reduced when quality is not managed. However, this strategy offers increasing flexibility in reaching new economic markets.

For example, a company into automotive repair parts may enter the toy production industry. Each company allows for a broader base of customers. There is an opportunity of income when one industry's sales falter.

IV.) MICHAEL PORTER GENERIC STRATEGY

These three approaches are examples of "generic strategies," because they can be applied to products or services in all industries, and to organizations of all sizes. They were first set out by Michael Porter in 1985 in his book, "**Competitive Advantage: Creating and Sustaining Superior Performance**."

Porter called the generic strategies "Cost Leadership" (no frills), "Differentiation" (creating uniquely desirable products and services) and "Focus" (offering a specialized service in a niche market). He then subdivided the Focus strategy into two parts: "Cost Focus" and "Differentiation Focus."

The Cost Leadership Strategy

Porter's generic strategies are ways of gaining competitive advantage – in other words, developing the "edge" that gets you the sale and takes it away from your competitors. There are two main ways of achieving this within a Cost Leadership strategy:

- Increasing profits by reducing costs, while charging industry-average prices.
- Increasing market share by charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.

The Differentiation Strategy

Differentiation involves making your products or services different from and more attractive than those of your competitors. How you do this depends on the exact nature of your industry and of the products and services themselves, but will typically involve features, functionality, durability, support, and also brand image that your customers value.

To make a success of a Differentiation strategy, organizations need:

- Good research, development and innovation.
- The ability to deliver high-quality products or services.
- Effective sales and marketing, so that the market understands the benefits offered by the differentiated offerings.

Large organizations pursuing a differentiation strategy need to stay agile with their new product development processes. Otherwise, they risk attack on several fronts by competitors pursuing Focus Differentiation strategies in different market segments.

The Focus Strategy

Companies that use Focus strategies concentrate on particular niche markets and, by understanding the dynamics of that market and the unique needs of customers within it, develop uniquely low-cost or well-specified products for the market. Because they serve customers in their market uniquely well, they tend to build strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors.

As with broad market strategies, it is still essential to decide whether you will pursue Cost Leadership or Differentiation once you have selected a Focus strategy as your main approach: Focus is not normally enough on its own.

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UNIT-III

ENVIRONMENTAL ANALYSIS

Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. These evaluations are later translated into the decision-making process. The analysis helps align strategies with the firm's environment.

Our market is facing changes every day. Many new things develop over time and the whole scenario can alter in only a few seconds. There are some factors that are beyond your control. But, you can control a lot of these things.

There are many strategic analysis tools that a firm can use, but some are more common. The most used detailed analysis of the environment is the PESTLE analysis. This is a bird's eye view of the business conduct. Managers and strategy builders use this analysis to find where their market currently. It also helps foresee where the organization will be in the future. PESTLE analysis consists of various factors that affect the business environment. Each letter in the acronym signifies a set of factors. These factors can affect every industry directly or indirectly.

The letters in PESTLE, also called PESTEL, denote the following things:

- Political factors
- Economic factors
- Social factors
- Technological factors
- Legal factors
- Environmental factor

P for Political factors

The political factors take the country's current political situation. It also reads the global political condition's effect on the country and business. When conducting this step, ask questions like "What kind of government leadership is impacting decisions of the firm?"

Some political factors that you can study are:

- Government policies
- Taxes laws and tariff
- Stability of government
- Entry mode regulations

E for Economic factors

Economic factors involve all the determinants of the economy and its state. These are factors that can conclude the direction in which the economy might move. So, businesses analyze this factor based on the environment. It helps to set up strategies in line with changes.

I have listed some determinants you can assess to know how economic factors are affecting your business below:

- The inflation rate
- The interest rate
- Disposable income of buyers
- Credit accessibility
- Unemployment rates
- The monetary or fiscal policies
- The foreign exchange rate

S for Social factors

Countries vary from each other. Every country has a distinctive mindset. These attitudes have an impact on the businesses. The social factors might ultimately affect the sales of products and services.

Some of the social factors you should study are:

- The cultural implications
- The gender and connected demographics
- The social lifestyles
- The domestic structures
- Educational levels
- Distribution of Wealth

T for Technological factors

Technology is advancing continuously. The advancement is greatly influencing businesses. Performing environmental analysis on these factors will help you stay up to date with the changes. Technology alters every minute. This is why companies must stay connected all the time. Firms should integrate when needed. Technological factors will help you know how the consumers react to various trends.

Firms can use these factors for their benefit:

- New discoveries
- Rate of technological obsolescence
- Rate of technological advances
- Innovative technological platforms

L for Legal factors

Legislative changes take place from time to time. Many of these changes affect the business environment. If a regulatory body sets up a regulation for industries, for example, that law would impact industries and business in that economy. So, businesses should also analyze the legal developments in respective environments.

I have mentioned some legal factors you need to be aware of:

- Product regulations
- Employment regulations
- Competitive regulations
- Patent infringements

- Health and safety regulations

E for Environmental factors

The location influences business trades. Changes in climatic changes can affect the trade. The consumer reactions to particular offering can also be an issue. This most often affects agri-businesses.

Some environmental factors you can study are:

- Geographical location
- The climate and weather
- Waste disposal laws
- Energy consumption regulation
- People's attitude towards the environment

There are many external factors other than the ones mentioned above. None of these factors are independent. They rely on each other.

If you are wondering how you can conduct environmental analysis, here are 5 simple steps you could follow:

1. Understand all the environmental factors before moving to the next step.
2. Collect all the relevant information.
3. Identify the opportunities for your organization.
4. Recognize the threats your company faces.
5. The final step is to take action.

It is true that industry factors have an impact on the company performance. Environmental analysis is essential to determine what role certain factors play in your business. PEST or PESTLE analysis allows businesses to take a look at the external factors. Many organizations use these tools to project the growth of their company effectively.

The analyses provide a good look at factors like revenue, profitability, and corporate success. If you want to take the right decisions for your firm, employ environmental analysis. The analysis you should conduct depends on the nature of your company.

STRATEGIC ANALYSIS AND CHOICE

Strategy analysis and choice focuses on generating and evaluating alternative strategies, as well as on selecting strategies to pursue. Strategy analysis and choice seeks to determine alternative courses of action that could best enable the firm to achieve its mission and objectives.

The firm's present strategies, objectives, and mission together with the external and internal audit information, provide a basis for generating and evaluating feasible alternative strategies. The alternative strategies represent incremental steps that move the firm from its current position to a desired future state.

Alternative strategies are derived from the firm's vision, mission, objectives, external audit, and internal audit and are consistent with past strategies that have worked well. The strategic analysis discusses the analytical techniques in two stages i.e. techniques applicable at corporate level and then techniques used for business-level strategies.

Strategic Analysis and Choice – Strategic Analysis at the Corporate Level: Techniques

Strategic analysis at the corporate level treats a corporate body constituting a portfolio of businesses in a corporate vase. The analysis considers the various issues regarding the several businesses in the corporate portfolio.

The strategic options are the generic strategies of stability, expansion, retrenchment, and combination. The corporate level strategic analysis is relevant to a multi-business corporation. For single business entities, business-level strategic analysis would suffice.

We begin with an explanation of the corporate level analysis techniques that form a major part of the analysis performed at the corporate level.

Corporate Portfolio Analysis:

During the 1960s and 1970s a number of management consulting companies developed a series of conceptual techniques aimed to help the top officers of diversified corporations better manage their portfolio of businesses. A fundamental method of corporate strategic analysis in diversified, multi-industry companies is the business portfolio analysis approach.
Corporate portfolio analysis can be defined as a group of techniques that assist strategists in making strategic decisions regarding individual products or businesses in a firm's portfolio. Corporate portfolio analysis may be employed for competitive analysis and strategic planning in multi-business corporations as well as for less diversified firms.

Technique # 1. BCG Matrix:

The BCG matrix is a tool that can be used to determine what priorities should be given in the product portfolio of a business unit. It has 2 dimensions; market share and market growth. The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows the better it is for the company. Placing products in the BCG matrix results in 4 categories in a portfolio of a company.
Boston Consulting Group's growth/share matrix has become one of the most widely used approaches that facilitate corporate strategic analysis of likely "generators" and optimum "users" of corporate resources. Each of the company's businesses is positioned in the matrix in accordance with its market growth rate and relative competitive position.

Stars:

Stars are businesses that have high market share in a high growth environment. They are growing rapidly and are the best long-run opportunities in terms of growth and profitability in the firm's portfolio. They are leaders in their business and generate large amount of cash. They require substantial investment to maintain and expand their dominant position in a growing market.

Cash Cows:

Cash cows are low-growth, high market-share products or divisions. Because of their high market share, they have low costs and generate cash. Since growth is slow, reinvestment costs are low. Cash cows provide funds for overhead, dividends, and investment for the rest of the firm and are in excess of their needs.

Dogs:

Such businesses are defined as those in which the growth rate is slow and the relative market share is low compared to the leading competitors. Because of their low market share these businesses are often expected to have a higher cost structure than industry leaders.

Technique # 2. Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix:

The TOWS matrix is an important tool that helps managers develop four types of strategies:

(a) SO Strategies

(b) WO Strategies

(c) ST Strategies

(d) WT Strategies

Matching key external and internal factors is the most tedious part of developing a TOWS Matrix. It requires good judgment. However, there is no one best set of matches.

(a) SO Strategies:

SO strategies use a firm's internal strengths to take advantage of external opportunities. All managers would like their organization to be in a position in which internal strengths can be used to take advantage of external trends and events. Organizations generally will pursue WO, ST, or WT strategies in order to get into a situation in which they can apply SO Strategies.

When a firm has major weaknesses, it will strive to overcome them and convert them into strengths. When an organization confronts major threats, it will attempt to avoid them in order to focus on opportunities.

(b) WO Strategies:

WO strategies focus at improving internal weaknesses by taking advantage of external opportunities. Sometimes a firm may have key external opportunities but it may have internal weaknesses that can prevent it from exploiting them.

For example, there may be a huge demand for electronic devices to control the amount and timing of fuel injection in automobile engines (opportunity), but a certain auto parts manufacturer may not possess the technology required for producing these devices (weakness).

(c) ST Strategies:

ST strategies make use of firm's strengths to minimize the impact of external threats.

(d) WT Strategies:

WT strategies are defensive tactics directed at reducing internal weakness and avoiding external threats. An organization faced with numerous external threats and internal weaknesses may indeed be in a precarious position. In fact, such a firm may have to battle for its survival, merge, retrench, declare bankruptcy, or choose liquidation.

The TOWS matrix involves eight steps:

1. List the firm's key external opportunities.
2. List the firm's key external threats.
3. List the firm's key internal strengths.
4. List the firm's key internal weaknesses.
5. Match internal strengths with external opportunities, and record the resultant SO Strategies in the appropriate cell.
6. Match internal weaknesses with external opportunities, and record the resultant WO Strategies.
7. Match internal strengths with external threats, and record the resultant ST Strategies.
8. Match internal weaknesses with external threats, and record the resultant WT Strategies.

Technique # 3. GE Nine-Cell Planning Grid:

GE nine cell planning grid, tries to overcome some of the limitations of BCG matrix in two ways:

1. It uses multiple factors to assess industry attractiveness and business strength in place of the single measure employed in the BCG matrix.
2. It expanded the matrix from four cells to nine cells. It replaced the high/low axes with high/medium/low making a finer distinction between business portfolio positions.

The grid then does rating of each of the company's business units on multiple sets of strategic factor within each axis of the grid.

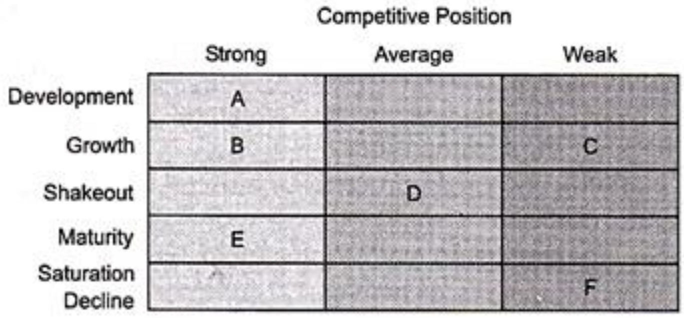
In order to assess the industry attractiveness factors such as market growth, size of market, industry profitability, competition, seasonality and cyclical qualities, economies of scale, technology, and social/environmental/ legal/human factors are included.

Technique # 4. Hofer's Matrix:

Hofer criticizes the BCG matrix because it inadequately represents new businesses in new industries that are just starting to grow. Hofer offers an extension of BCG analysis that remedies that inadequacy. Hofer analyzed businesses in terms of their competitive position and stage of product-market evolution.

Circles represent the size of the industries involved. The pie wedges within the circles represent the market shares of the firm. Hofer suggests that these be plotted for present and future businesses.

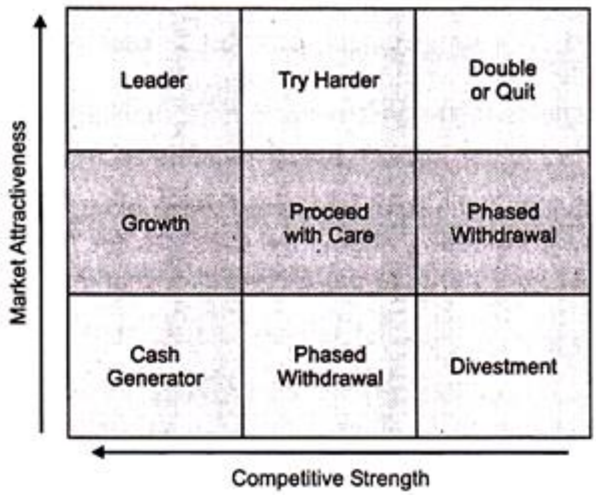
Exhibit 11.3: Business Strength-Industry Attractive Matrix



Technique # 5. Shell Directional Policy Matrix:

The Shell Oil Company developed the Directional Policy Matrix in the nineteen seventies following the widespread implementation of the Boston Matrix. General Electric and the McKinsey Company also contributed to the development of this technique, which resulted in what is now known as the GE-McKinsey, or Directional Policy Matrix.

Exhibit 11.4: Directional Policy Matrix



Technique # 6. Strategic Position and Action Evaluation (SPACE) Matrix:

The Strategic Position and Action Evaluation (SPACE) matrix is another important matching tool. Its four-quadrant framework indicates whether aggressive, conservative, defensive, or competitive strategies are most appropriate for a given organization.

The axes of the matrix represent two internal dimensions (financial strength (FS)) and competitive advantage (CA) and two external dimensions (environmental stability (ES)) and industry strength (IS). These four factors are the most important determinants of an organization’s overall strategic position.

UNIT-IV

STRATEGIC IMPLEMENTATION

Strategy Implementation refers to the **execution of the plans and strategies**, so as to accomplish the long-term goals of the organization. It converts the opted strategy into the moves and actions of the organisation to achieve the objectives.

Process of Strategy Implementation

1. Building an organization, that possess the capability to put the strategies into action successfully.
2. Supplying resources, in sufficient quantity, to strategy-essential activities.
3. Developing policies which encourage strategy.
4. Such policies and programs are employed which helps in continuous improvement.
5. Combining the reward structure, for achieving the results.
6. Using strategic leadership.

The process of strategy implementation has an important role to play in the company's success. The process takes places after environmental scanning, SWOT analyses and ascertaining the strategic issues.

PREREQUISITES OF STRATEGY IMPLEMENTATION:

- **Institutionalization of Strategy**: First of all the strategy is to be institutionalized, in the sense that the one who framed it should promote or defend it in front of the members, because it may be undermined.
- **Developing proper organizational climate**: Organizational climate implies the components of the internal environment, that includes the cooperation, development of personnel, the degree of commitment and determination, efficiency, etc., which converts the purpose into results.
- **Formulation of operating plans**: Operating plans refers to the action plans, decisions and the programs, that take place regularly, in different parts of the company. If they are framed

to indicate the proposed strategic results, they assist in attaining the objectives of the organization by concentrating on the factors which are significant.

- **Developing proper organisational structure**: Organization structure implies the way in which different parts of the organisation are linked together. It highlights the relationships between various designations, positions and roles. To implement a strategy, the structure is to be designed as per the requirements of the strategy.
- **Periodic Review of Strategy**: Review of the strategy is to be taken at regular intervals so as to identify whether the strategy so implemented is relevant to the purpose of the organisation. As the organization operates in a dynamic environment, which may change anytime, so it is essential to take a review, to know if it can fulfil the needs of the organization.

Even the best-formulated strategies fail if they are not implemented in an appropriate manner. Further, it should be kept in mind that, if there is an alignment between strategy and other elements like resource allocation, organizational structure, work climate, culture, process and reward structure, then only the effective implementation is possible.

Aspects of Strategy Implementation

- Creating budgets which provide sufficient resources to those activities which are relevant to the strategic success of the business.
- Supplying the organization with skilled and experienced staff.
- Conforming that the policies and procedures of the organisation assist in the successful execution of the strategies.
- Leading practices are to be employed for carrying out key business functions.
- Setting up an information and communication system, that facilitate the workforce of the organisation, to perform their roles effectively.
- Developing a favourable work climate and culture, for proper implementation of the strategy.

FUNCTIONAL STRATEGIES IN STRATEGIC MANAGEMENT

A functional level strategy is a short-term plan for a specific aspect of a business. It may be an advertising campaign for a new product or service or outsourcing services to an external third-party. For the purpose of strategic management, a functional strategy has defined tasks, timeline, budget, resources and goals.

Whether it's hiring for a new leg of the business or financing a project, functional strategies in strategic management helps businesses stay afloat with a sustained competitive advantage.

Today's dynamic world forces organizations to fall back on multiple layers of functional areas. It's a more complex—but helpful—way to do business. Technological advancements or even market crashes need to be accounted for when you're planning your corporate strategies. This is where functional strategies come into the picture. They act as airbags in a crisis situation.

Implementation of a functional strategy lies in the hands of management. Experts and specialists like chief officers and directors are responsible for delegating duties, monitoring progress and following-up with their staff. This way everyone's on the same page about their objectives and goals.

HUMAN RESOURCES AND FUNCTIONAL STRATEGIES

N.R. Narayana Murthy, the co-founder of Infosys said, "The future of any corporation is as good as the value system of the leaders and followers in the organization."

It's no secret that people make the organization what it is. The organization's values, culture and expectations define how well its people identify with them. A functional strategy for human resources is critical for growth and development. Employee engagement, learning and development and team-building are effective ways to increase productivity and improve performance. Human resources managers have to implement changes wherever necessary to keep their employees motivated to perform. Initiatives like opinion surveys, counseling and ensuring workplace safety are equally, if not more, important.

ORGANIZATIONAL SUCCESS WITH FUNCTIONAL STRATEGIES

Organizations work on the GRIN (Goals-Roles-Interdependence-Norms) framework. This helps them assess what needs to be done and how. It's important to arm yourself with the right skills for a nuanced approach to management. Harappa's Managing Teamwork course will teach you the essentials of collaborative goal-setting. Align your personal goals with organizational goals to achieve all-around excellence.

UNIT-V

STRATEGIC EVALUATION

'Strategy evaluation' is the process through which the strategists know the extent to which a strategy is able to achieve its objectives. In the words of Professor William F. Glueck and Lawrence R. Jauch,

"Evaluation of strategy is that phase of strategic management process in which the top managers determine whether their strategic choice as implemented is meeting the objectives of the enterprise."

Strategy Evaluation – Basic Requirements

Strategy evaluation system must meet several basic requirements to be effective.

Strategy evaluation:

1. Activities must be economical.
2. Should not provide too much information and provide required information at right time.
3. Should be done with average control and avoid too many controls.
4. Activities should specifically relate to a firm's objectives.
5. Should be designed to provide a true picture of what is happening.
6. Process should not dominate strategic decisions, it should foster mutual understanding, trust and commonsense.

PROCESS OF STRATEGIC EVALUATION

The task of planning, reviewing and controlling is an integral part of the organization. However, in some organizations evaluation is an informal task. For some others, it is an integral part and is being carried out in periodic review sessions. Argyris and Schon (1978), in their study on organizational learning, introduced the concepts of single-loop and double-loop learning. Organizational learning, as observed by them, is normally based on feedback control system.

The process of strategy evaluation consists of following steps:

1. Fixing Benchmark of Performance:

While fixing the benchmark, strategists encounter questions such as – what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task.

The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance.

A quantitative criterion includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as – skills and competencies, risk taking potential, flexibility etc.

2. Measurement of Performance:

The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier.

But various factors such as managers’ contribution are difficult to measure. Similarly divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done.

The measurement must be done at right time else evaluation will not meet its purpose. For measuring the performance, financial statements like – balance sheet, profit and loss account must be prepared on an annual basis.

3. Analyzing Variance:

While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted.

The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

4. Taking Corrective Action:

Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered.

THE STEPS IN THE PROCESS OF STRATEGIC EVALUATION ARE:

(i) The first step is a strategic analysis in order to gain a clear understanding of the circumstances affecting the organisation's strategic situation.

(ii) The second step is to produce a range of strategic options.

(iii) The third step is to develop a basis of comparison. This may be available from the strategic analysis or may need to be specially developed.

(iv) It is helpful to establish the underlying rationale for each strategy by explaining why the strategy might succeed. This is often done in qualitative terms and by using techniques like scenario building product portfolio analysis and the assessment of synergy.

(v) At this stage, the large number of strategic alternatives may be narrowed down, before a more detailed analysis is undertaken. Strategic alternatives may be ranked, based on their relative merits and demerits.

(vi) Suitability of each alternative should be tested. There are a number of techniques for testing. The specific choice of technique will depend upon the circumstances.

(vii) The next stage is assessing the feasibility and acceptability of strategies which appear reasonably suitable based on the analysis. The choice of the technique should be based on the circumstances of the company.

(viii) Finally, the company will need some system for selecting future strategies as a result of these evaluations.

CRITICAL FACTORS THAT COULD HELP IN EVALUATING A STRATEGY:

Quantitative Factors and Qualitative Factors

The critical factors that could help in evaluating a strategy may broadly be classified into two categories:

1. Quantitative factors and
2. Qualitative factors.

1. Quantitative Factors:

Quantitative criteria commonly employed to evaluate strategies are financial ratios, which strategies use to make three important comparisons – (i) comparing the firm's performance over different time periods (ii) comparing the firm's performance to competitors' and (iii) comparing the firm's performance to industry averages.

Some key financial ratios that are particularly useful as criteria for strategy evaluation may be stated thus:

i. Return on investment
ii. Return on equity
iii. Z score
iv. Employee satisfaction index
v. Return on capital employed
vi. Profit margin
vii. Market share
viii. Debt to equity
ix. Earnings per share
x. Sales growth
xi. Asset growth

However, there are some potential problems associated with using quantitative criteria for evaluating strategies. First, most quantitative measures are tied to annual objectives rather than many quantitative measures. Second, dividing the quantitative measures for various purpose involves judgment. For these and other reasons, qualitative criteria are also to be taken into account while evaluating strategies.

2. Qualitative Factors:

Many managers feel that qualitative organizational measurement is best arrived at simply by answering a series of important questions aimed at revealing important facets of organizational operations. The following list of questions, suggested by Milton Lauenstein could be useful to the practicing manager.

Seymour Tiles identified six qualitative that are useful in evaluating strategies way back in 1963 thus –

i. Is the strategy internally consistent?

ii. Is the strategy consistent with the environment?

iii. Is the strategy appropriate in view of available resources?

iv. Does the strategy involve an acceptable degree of risk?

v. Does the strategy have an appropriate time framework?

vi. Is the strategy workable?

Some additional key questions that reveal the need for qualitative or intuitive judgment in strategy evaluation may be listed thus –

i. How good is the firm's balance of investments between high-risk and low-risk projects?

ii. How good is the firm's balance of investments between long term and short-term projects?

iii. How good is the firm's balance of investments between slow-growing markets and fast-growing markets?

iv. How good is the firm's balance of investments among different divisions?

v. To what extent are the firm's alternative strategies socially responsible?

vi. What are the relationships among the firm's key internal and external strategic factors?

vii. How are major competitors likely to respond to particular strategies?

MAJOR DIFFICULTIES THAT MAY ARISE DURING STRATEGY EVALUATION

The major difficulties that may arise during the stage of evaluation are the followings:

1. No Best Way:

There is no clear-cut concept of right or wrong strategy. In fact for each business the choice of strategy is different as it depends on the situational logic. One has to tailor-made the strategy according to the solution need of the business problem. As a result, one cannot talk in terms of the best way of evaluating a strategy.

2. Lack of Focus for Evaluation:

Executives find it easier to talk in terms of goals and objectives. They are much eager to decide about goals and objectives rather than to evaluate objectives against achievements. The main reason behind such indifference towards evaluation can be traced back to their lack of training in problem structuring. Differences also arise out of the fact that objectives are devices for ensuring coherence in action but are mostly treated as values.

3. Selection of Evaluator:

Confusion arises about who should undertake the evaluation work in an objective way. Strategy being a comprehensive plan of actions, one has to evaluate its performance at the top management level. But strategists themselves cannot evaluate the performance of their strategies in an unbiased way, as they will remain emotionally attached with their strategic choice. Many of the strategic failures are due to evaluation of strategies by their planners.

Evaluation of a strategy at the next lower level invites problem, as the evaluators will have divisional and or functional inclinations. Further, organizational hierarchy may not ensure full freedom to them as evaluators. These difficulties might be absent for external evaluators. But they will have limited idea about the past conditions of the firm due to leadership implementation, structural modifications and adoption of different sets of functional policies.