UNIT – III

STRATEGIC MANAGEMENT

Introduction:

Strategic management provides better guide lines to entire organization on the crucial point of "what is it we are trying to do and to achieve"?

Strategic management is what managers do to develop the organization's strategies. Strategic management involves all four of the basic, management functions – planning, organizing, leading, and controlling. Strategic management is important for organizations as it has a significant impact on how well an organization performs. Strategic management is an ongoing 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 its existing potential competitors.

Strategy:

The strategy is the central to understanding the strategic management. The word strategy is originated from the **Greek word**, **"strategic**" which means to lead; **"generalship**" and which described the role of general in the command of the **army**. This word is mainly drawn from armed forces.

Meaning of Strategy

Strategy is the determination of basic long term goals and objectives of an organization. It is the central understanding of the strategic management process. Strategy allocates the necessary resources for implementing course of action. It develops the company from its present position to the desired future position. Enterprise knows its strengths and weaknesses compared those of its competitors.

Definition:

According to **Alfred D. Chandler** defines strategy as, "the determination of the basic long-term goals and objectives of an enterprise and the adoption of the Courses of action and the allocation of resources necessary for carrying out these goals."

According to **Arthur Sharplin,** "strategy is a plan or course of action which is of vital pervasive or continuing importance to the organization as a whole."

CRITERIA FOR EFFECTIVE STRATEGY:

Although each strategic situation is unique, there are some common criteria that tend to explain an effective strategy. Criteria for effective strategy include:

Clear, decisive objectives: All efforts should be directed towards clearly understood, decisive and attainable overall goals. All goals need not be written Down or numerically precise but they must be understood and be decisive.

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Maintaining the initiative: The strategy preserves freedom of action and enhances commitment. It sets the pace and determines the course of events rather than reaching to them.

Concentration: The strategy concentrates superior power at the place and time likely to be decisive. The strategy must define precisely what will make the enterprise superior in power, best in critical dimensions in relation to its competitors. A distinctive competency yields greater success with fewer resources.

Flexibility: The strategy must be purposefully being built in resources, buffers and dimensions for flexibility. Reserved capabilities, planned maneuverability and repositioning allow one to use minimum resource while keeping competitors at a relative disadvantage.

Coordinated and committed leadership: The strategy should provide responsible, committed leadership for each of its major goals. Care should be taken in selecting the leaders in such a way that their own interest and values match with the requirements of their roles. Commitment but not acceptance is the basic requirement.

Surprise: The strategy should make use of speed, secrecy and intelligence to attack exposed or unprepared competitors at an unexpected time. Thus surprise and correct time are important.

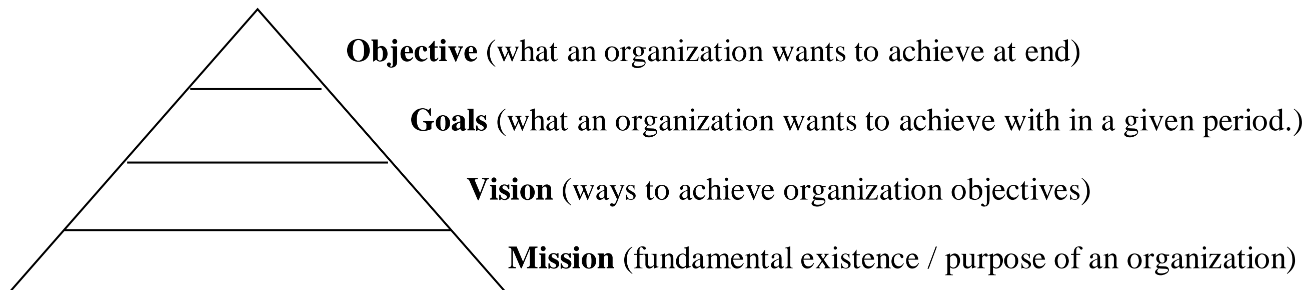
Security: The organization should secure or develop resources required, securely maintain all vital operating points for the enterprise, an effective intelligence system to prevent the effects of surprises by the competitors.

Need for strategy:

→ To have rules to guide the search for new opportunities both inside and outside the firm.
→ To take high quality project decisions.
→ To have and develop internal ability to anticipate change.
→ To develop measures to judge whether a particular opportunity is a rare one (or) whether much better ones are likely to develop in future.

Elements / components of strategy:

Strategy mainly considers four components.



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MISSION

The mission statement is an explicit written statement of what an organization whishes to achieve in the employees at levels to put forth their best in their individuals and collective efforts in the organization**.**

Company mission:

The mission of a company is having fundamental, unique purpose that is setting it apart from other companies of its type and identifies the scope of its operations in product and market terms.

Mission statement defines the aspirations, values, roles, growth, goals, survival and profitability of a company.

Definition:

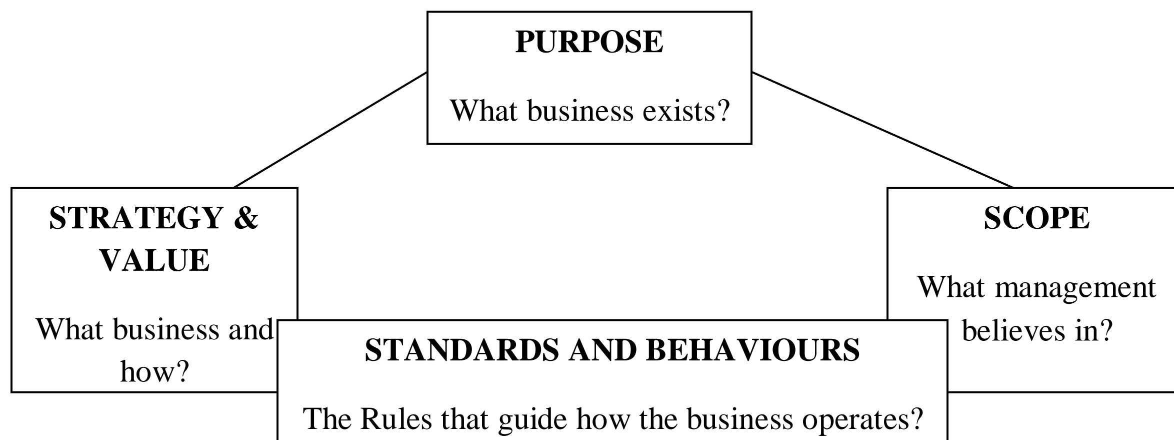
"Mission is the purpose (or) fundamental reason for the organization organization's purpose of existence. When strategies raise certain fundamental questions related to business such as:

→ What is our business?
→ Why are we in the business?
→ What will it be after five years?

Then, the need of the mission statements arises. The survival of an organization mainly depends on its needs, for satisfying the needs of the society.

Elements of a mission statement: A mission statement contains following elements.

i) purpose ii) strategic scope iii) standards and behaviors iv) strategy and values.



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Characteristics of an effective mission statement: A mission statement should incorporate the basic business purpose and the reason for its existence by rendering some valuable functions for the society. An effective mission statement should posses the following characteristics.

- **It should be clear enough to trigger action:** A clear statement mission facilities understanding among the employees. This in turn leads to action.

Ex: NASA's mission in 21st century is to know more about mars.

- **It should be flexible:** No mission statement can ever be rigid & hard. It should be flexible. If the company finds that the mission is achieved (or) the present mission does not hold relevance any more, (or) it is not economical to pursue the mission, further it is freely to modify its mission.
- **It should be measurable in terms of specific targets:** Organisations must establish specific targets so that the performance can be exactly measured.
- **It should be motivating:** By determine a clear mission statement which is easily understand by each and every employee that means that mission statement perfectly pinpoints the what they have to do in the organisation without getting any confusion it deals to employee motivation.
- **It should be precise:** The mission statement has to detail address about the organisation's activities, vision, goals, and objectives.
- **Mission should be distinctive:** A mission statement made the distinct than the other companies.
- **Mission focuses on customer needs and utilities, not products:**
A mission statement should define the broad scope of activities with in which the company will operate competitively. It may specify the details of the range industries, products, and their markets. However, all these must build around the customer needs and utilities.
- **It should be focus limited number of goals:** The mission statement has to priorities its preferences and put forward what it wants to achieve in the year to come.

Benefits of mission statement:

By framing a good mission statement any organisation can get following benefits.

- ✓ The mission statement develops a unified purpose of organization.
- ✓ It provides basis for allocating organizational resources.
- ✓ It helps to establish organizational climate.
- ✓ It specifies organizational purpose, and then to translate these objectives, in such a way that cost, time, and performance parameters can be assessed and controlled.
- ✓ It facilitates the translation of objectives in to work structure.

Mission statements of some Indian companies:
Reliance industries – "speed and innovation is a way of life"
Hero Honda motors – "we hero Honda constantly innovative products and processes".
L&T – "L&T shall be innovative and attaining global benchmarks".

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VISION

Vision is the starting point of articulating organizations hierarchy of goals and objectives. A vision statement is a vivid idealized of a desired outcome that inspires, energizes and helps firm to create a mental picture of its target.

The vision statement seeks to answer the basic question, "What do we want to become"?

Definition:

A company vision is sinuous with the company's mission. This means that alternative name for the company's mission is vision. – **Robinson.**

Vision is the art f seeing things invisible.

Examples of vision statement: Motorola – "Total customer satisfaction". **Mc Donald's** – "To be world's best quick service restaurant". **The canon** – "Beat Xerox" **Disneyland** – "To be the happiest place on earth".

Vision statement may also contain slogan a diagram, or a picture – whatever grabs attention.

Components of vision:

The vision statement consists of two elements. They are as follows

Core ideology: it means the long lasting character of a firm as it passes through the changing circumstances like competition, technology (or) management style. Generally core ideology resets on the core values and purposes. By values, we mean the beliefs, business principles, and practices that are incorporated into the way the company operates and the behavior of the organizational personnel. The typical value statement consists of – ethics, trust, customer focus, team work.

Envisioned future: it is consistent long term goal and description of what is would be like to achieve that goal.

Characteristics of an effective vision:

Strategic vision must convey something definite about how the organisations leaders intend to beyond where it is today. A good vision always needs to beyond a company reach. The following are the characteristics of effective vision statement.

Focused: Is specific enough to provide managers with guidance in making decisions and allocating resources.

Graphic: paints a picture of the kind of company that management is trying to create and the market position the company is striving to carve itself.

Directional: says something about the company's journey or destination and signals the kind of business and strategic changes that will be forthcoming.

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Flexible: vision is a path it should change according to the situations.

Feasible: what the company can reasonably expect to achieve in due time.

Desirable: appeals to the long term interest to the shareholders, employees and customers.

Easy to communicate: it is able to explain in short time and it is a simple memorable slogan.

Benefits of vision:

- ✓ It provides competitive advantage through efficiency and innovativeness.
- ✓ It gives direction and sense of purpose.
- ✓ Encourage and builds confidence- a good vision is inspiring.
- ✓ Builds loyalty through investment (ownership).
- ✓ Promotes laser like focus.
- ✓ Alerts stakeholders to need change.

Differences between mission and vision

MISSION	VISION
Mission is defined as a "purpose or reason for the organizations existence"	Vision is defined as a, "description of something can organization, a corporate culture, a business, a technology, an activity in future".
Mission is the strategic intent	It is the first and core step in strategic intent.
Mission statements are formulated on the basis of vision decided by entrepreneur.	A vision is like a dream which is derived from the actions.
Mission statement an organization's philosophy, identity, character and images are reflected.	Vision statement, goals, objectives, strategies, policies and programmes can be developed.

GOALS

The term goal signifies general statement of direction in line with the mission. It may be well be qualitative in nature. A company's goal describes the desired future position the company wants to reach. The selection of goal is based on the defined mission of the company. Goals are the overall objectives of a department or organization.

Definition: goal is defined as what an organization wants to achieve during (or) by the end of a given period of time.

Any goal is said to be effective it should be consist of following elements:

Specific enough for focus and feedback.
Meaningful enough to engage participants.
Accepted by the participants.
Realistic but challenging.
Time framed means it should be complete in given time.

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Significance:

It helps to define organization in its environment: By stating the goals, the company can attract people who identity with these goals to work for them. A non government organization announces its mission as 'to empower women' and goal as 'to educate the tribal women about the self-employed opportunities during next five years'.

It helps in coordinating decisions: Goals help the managers to coordinate resources and the efforts of the employees under their command effectively.

Goals are more tangible targets: Goals are capable of being measured. At times, the mission statement may look abstract one should be innovative in the goal- setting process.

It facilitates performed appraisal: The performance of both the organization and the individuals in it can be evaluated by considering whether the goals have been achieved or not.

OBJECTIVES

Objectives are formulated from mission statements. Objectives and goals are used interchangeably in management literature. Objective is the ended statement. Objectives are the targets, that define what the organization achieve for its employee, shareholders, consumers etc.

Definition: objectives are to be defined as what an organization wants to achieve over a long period of time duration.

Objectives may be defined as" the targets people seek to achieve over various time periods".

--- Robert L. Trewatha & M. Gene Newport

Difference between objectives and goals

GOALS	OBJECTIVES
Goals are short- term objectives of a business organization.	Objectives are goals, aims or purpose that organizations wish to achieve over varying periods of time.
Goals are to be set at different levels of the organization i.e., corporate, divisional and operational levels. The established are SMART. Specific, measurable, achievable, realistic, time specific	The objectives should vary with levels of management. **Example**, objective of top management is to maximize profit, but at lower it is to manufacture quality oriented products.
In corporate planning after setting goals, objectives are set.	In corporate planning objectives can be set after setting goals.
Goals are higher in hierarchy.	Objectives are down the hierarchy as they serve the goals.
Goals are short-term nature.	Objectives are intangible.
Goals are broad	Objectives are narrow
Goals are short-term in nature.	Objectives are long-term in nature.

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POLICIES

Generally policies are set after goals and objectives. Policies are **broad guideline** set by the top management. For the purpose of making decisions at different levels in the organization. Companies use policies to make sure that the employees throughout the firm make decisions and take actions that support the corporations' mission, its objectives and its strategies.

Definition: policy may define as the mode of thought and the principles underlying the activities of an organization or an institution.

"Policies are general statements or understandings which guide or channel thinking in decision making of subordinates".

PROGRAMMES

Programmes are refers to the **logical sequence of operations to be performed in a given job**. Mission, objectives and policies are known as master strategies. Programme strategies refer to specific action plans or methods to be used to achieve an already established objective**.**

Definition:

A programme is a collection of activities that are designed to achieve a certain end or specific purpose**.**

A programme denotes a small agenda or plan laying down the principal steps for accomplishing a specific objective and approximate time limit for each stage.

STRATEGIC MANAGEMENT:

Introduction: Strategic management is the process of management of strategic decision-making, implementation and control. It is not a complete meaning of strategic management as it fails to cover many important aspects of Strategic management.

Definition: According to **Samuel C. Certo and J. Paul Peter**, "Strategic management is a continuous, iterative, cross-functional process aimed at keeping an organization as a whole appropriately matched to its environment."

Schellenberger and Bosenan define the term strategic management as, "the continuous process of effectively relating the organization's objectives and resources to the opportunities in the environment."

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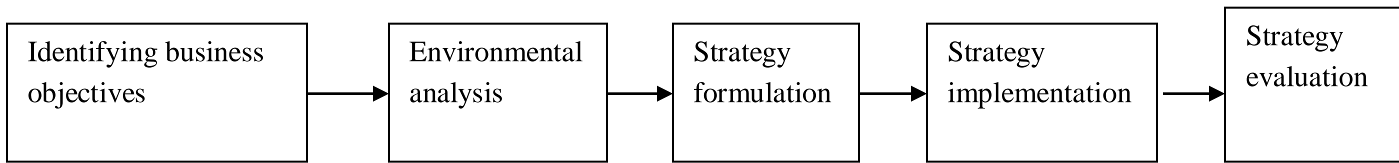
STEPS IN STRATEGIC MANAGEMENT (OR) STRATEGIC MANAGEMENT PROCESS



1. Identifying or defining business mission, purpose and objectives: Identifying or defining an organization's existing mission, purpose and objectives is the logical starting point as they lay foundation for strategic management. Every organization has a mission, purpose and objectives, even if these elements are not consciously designed, written and communicated. These elements relate to organization with the society and states that it has to achieve for itself and to the society.

2. Environmental analysis: Environmental factors- both internal environment and external environment- are analyzed to: (1) identify changes in the environment, (2) identify present and future threats and opportunities, and (3) assess critically its own strengths and weaknesses. Organizational environment encompasses all factors both inside and outside the organization that can influence the organization positively and negatively. Environmental factors may help in building a sustainable competitive advantage. Managers must understand the purpose of environmental analysis and recognize the multiple organizational environments in which they operate.

3. Revise organizational direction: A thorough analysis of organization's environment pinpoints its strengths, weaknesses, opportunities and threats (SWOT). This can often help management to reaffirm or revise its organizational direction.

4. Strategic alternatives and choice: Many alternative strategies are formulated based on possible options and in the light of organizational analysis and environmental appraisal. Alternative strategies will be ranked based on SWOT analysis. The best strategy out of the alternatives will be chosen. The steps from identification of business mission, purpose and objectives of alternative strategies and choice can be grouped into the broad step of strategy formulation.

5. Strategy Implementation: The fifth step of strategic management process is the implementation of strategy. The logically developed strategy is to be put into action. The organization cannot reap the benefits of strategic management, unless the strategy is effectively implemented. The managers should have clear vision and idea about the competitor's strategy, organization's culture, handling change, skills of the managers-in-charge of implementation and the like. The progress from the stage of identification of business mission, purpose and objectives to the stage of achieving desired performance must overcome many obstacles.

6. Strategic Evaluation and Control: The final step of strategic management process is strategic evaluation and control. It focuses on monitoring and evaluating the strategic management process in order to improve it and ensure that it functions properly. The managers must understand the process of strategic control and the role of strategic audit to perform the task of control successfully.

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BENEFITS OF STRATEGIC MANAGEMENT

Several corporations & institutions have been using strategic management. Organizations reap several benefits from effective strategic management. The benefits of strategic include:

- ❖ Strategic management helps an organization to be proactive rather than reactive in shaping its future.
- ❖ It helps the organization not only to respond to its relevant environment, but also to initiate and influence its environment and thereby exert control over its density.
- ❖ It helps organizations to make effective strategies trough the use of a more systematic, logic and rational approach to strategic choice.
- ❖ It helps the organizations to achieve understanding & commitment from all managers & employers. Managers & employers become creative & innovative when they understand & commit to the company's strategic management. This process results in employee empowerment. Empowerment is the act of strengthening an individual's sense of effectiveness.
- ❖ It encourages the organizations to decentralize the management process involving lower level managers and employees.

CORPORATE PLANNING

The corporate plans provide a rational approach to achieve corporate goals. Through corporate planning, uncertain events can be turned to relatively less uncertain, less certain events to more certain. Corporate planning is an intellectually demanding process; it sets the background for a viable course of action based on the organizational goals, skills and resources.

DEFINITION: Corporate planning can be defined as the process of formulating the corporate mission, scanning the business environment, evolving strategies, creating necessary infrastructure, and assigning resources to achieve the given mission.

Corporate planning has a company-wide and comprehensive perspective. It is not just a long term planning where, usually, there is a selective focus like that on a department of the organization. **Strategic planning, if done for the entire organization, can also be called corporate planning**.

ELEMENTS OF CORPORATE PLANNING PROCESS

The vital components of the corporate planning process. The elements of the corporate planning process can be described as below:

(a) Identifying corporate mission	**(f)** Establish strategic business units
(b) Formulating strategic objectives	**(g)** Fix targets and allot resources to each SBU
(c) Appraising internal and external environment	**(h)** Developing operating plans
(d) Developing and evaluating alternative strategies	**(i)** Monitoring the performance
(e) Selecting the best strategy	**(j)** Revising the plans, where necessary.

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a) Identify corporate mission: Identify what the organization wants to be achieve, to start with. For this purpose, it is necessary that all concerned parties understand the overall purpose of the organization and the methods of attaining them. It is also desirable that they agree on the corporate policies of the organization.

b) Formulate strategic objectives: By preparing statements of mission, policy, strategy, and goals, the top management establishes the frame work with in which its divisions or departments prepare their plans. It is essential that the members of the organization agree on these given strategic objectives. The goals should be very specific in terms of profits, market share, and employee retention and soon. The strategic objectives thus formulated reinforce the commitment of the members of the organization to achieve corporate goals.

c) Appraise internal and external environment: To evolve alternative strategies to achieve these goals, a detailed appraisal of both the internal and external environment is carried out. The appraisal of internal environment reveals the strengths and weaknesses of the firm. The appraisal of the external environment reveals the opportunities and threats for the firm. An analysis of strengths, weaknesses, opportunities, and threats, popularly called SWOT analysis, is an essential exercise every firm has to carry out to evolve an appropriate strategy to achieve the given goal.

d) Develop and evaluate alternative strategies: There could be some alternative strategies to pursue a given goal. If the goal is to expand the business, the following could be the three alternatives:

- Adding new products to the existing product line
- Finding new markets, apart from the present market territories
- Manufacturing within the organization, the components, which were earlier procured from outside?

Similarly, if the goal is to attain stability, the alternative strategies could be maintaining the following:

- The existing range of products
- The existing markets
- The functions presently being carried out

To arrive at a feasible strategy, it is necessary to identify the possible alternative strategies.

e) Select the best strategy: For the firm to be more successful, it is necessary to focus its strategies around its strengths and opportunities. It is a prerequisite that the members of the team or organization agree on a strategic plan. Such a plan, which has been generally agreed upon, is normally considered as the best strategy. Such strategies ensure a better degree of participation and involvement of its members in the process of achieving the goals.

f) Establish strategic business units: It is more strategic to define a business unit in terms of customer groups, needs, and/or technology and set up the business unit accordingly. This is not followed many a time. Most of the companies define their businesses in terms of products. For instance, if a company defines its business as electronic typewriting machines, it may have to change such a product-based definition when the technology changes. In due course, when the technology changes, the company may prefer to switch over to personal computers. A business must be viewed as a customer-satisfying process, not as a goods-producing process.

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g) Fix targets and allot resources to each SBU: The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate funding. The top management knows that its portfolio has certain old, established, relatively new, and brand new products. It cannot rely just on opinions; it needs to classify its businesses by profit potential by using analytical tools.

The major factors indicating market attraction are: overall market size, rate of annual increase in the market size, profit margin, and degree of competition, technological standards, rate of inflation, energy needs, impact on environmental issues, and others. These factors affect the decision-making at the macro level. Management should visualize what each SBU should become in the next 3 to 5 years, given the current strategy. In this process, it is necessary to identify the specific stage for each of its products and services in their product life cycle and analyze this in relation to the competitor strategies, new technologies, economic events, and the like.

The management also has to critically evaluate, from time to time, their portfolio-the list of products and services they have to offer through each SBU. Resources should be allocated based on market growth rate and relative market share of each SBU. Here, resources mean executive talent, money, and time. The resources have to be assigned in line with the strategy. If the strategy is to expand, then the resources should be adequate enough to reinforce the strategy. Where the resources are not adequate, they fail to give the necessary force to the strategy and the strategy remains a tiger on paper.

h) Developing operation plan: The operating plans explain how the long-term goals of the organization can be met. The corporate plans reveal how much the projected sales and revenues are. Most often, the management would like to have performed better than these projections. Where the top management finds a significant gap between the targeted sales and actual sales, it can either develop the existing business or acquire a new one to fill the gap.

i) Monitor performance: The results of the operating plans should be well monitored from time to time. In the case of poor or low performance, check up with the members of the team to find out their practical problems and sort these out. Also, it is essential to verify whether there are any gaps in formulating the operating plans.

j) Revise the operating plans, where necessary: It is necessary to revise the operational plans particularly when the firm does not perform as well as expected. The operating plans can be revised in terms of focus, resources, or time frame. In case of any organizational bottlenecks, suitable changes can be initiated to the organization structure itself. This would ensure adequate authority or freedom for the members of the team and enable them to achieve the targets.

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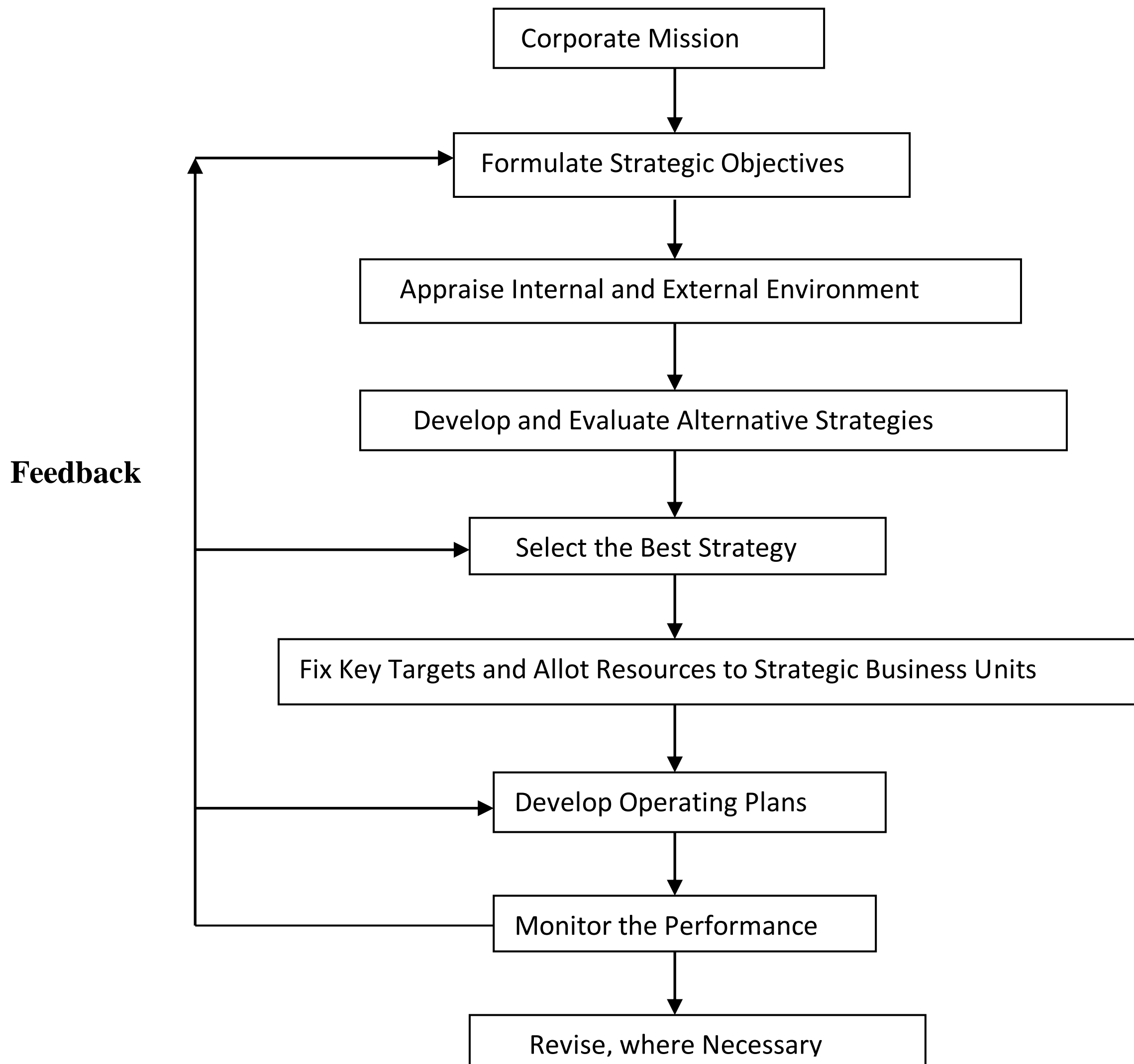

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ENVIRONMENTAL SCANNING:

The process of environmental scanning has been far from being systematic except with regard to information relating to current developments. Environmental scanning requires information relating to current developments. Environmental scanning is also called as **"environmental analysis".**

Definition:

"**Environmental scanning** is the process by which strategies monitor the environmental factors to determine opportunities for and threats to their firms. Environmental diagnosis consists of managerial decisions made by assessing the significance of the data of the environmental decisions made by assessing the significance of the data of the environmental analysis".

"**Environmental scanning** is the process of monitoring the organizational environment to identify both present and future threats and opportunities that may influence the firm's ability to reach its goals.

Key Sources of Information for Environmental Scanning: Once strategists have selected key environmental variables, the next step is to select key sources of environmental information for scanning. The sources of information include:

- The economic and business daily newspapers like The Economic Times, Business Standard, Business Line, and Financial Express.
- Journals and periodicals like Business India, Business World, Business Today, Update, Fortune India. Annual reports of various companies, publications of professional organizational like Federation of Indian Chamber of Commerce and Industry.
- Government publications like Economic Survey, Guidelines to India Bulletins, ICICI Portfolio Studies, Business Intelligence and Data, The State of Nation Report, Quarterly Survey of Industries, Indian Trade Journal, Yojana etc.

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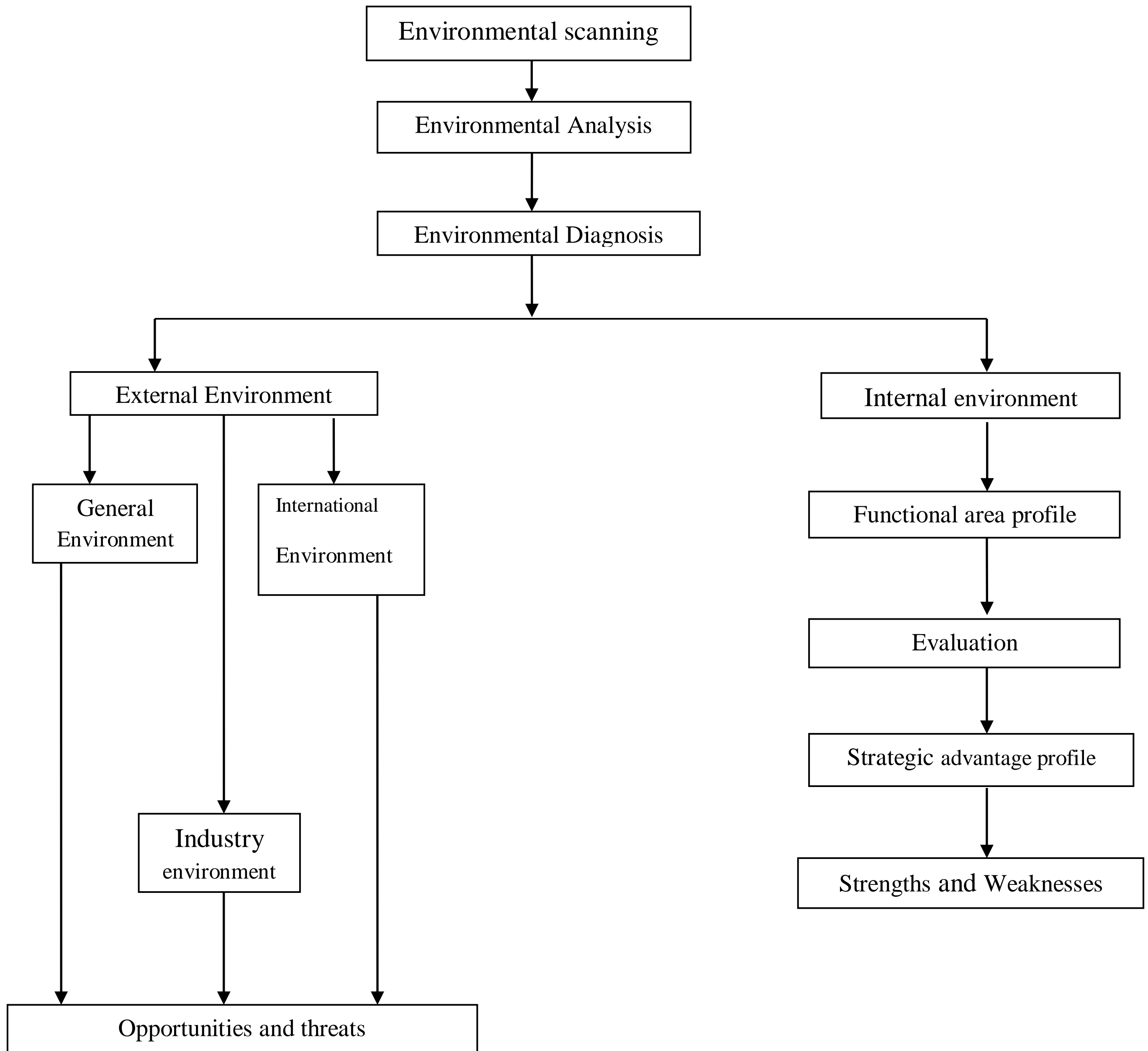
PROCESS OF ENVIRONMENTAL SCANNING:



Why Environmental scanning:

The following **examples** summarize the purpose of environmental scanning.
i) The banks and business enterprises in the public sector are being disinvested by the government.
ii) Computers have wiped out the market for type writers and electronic type writers.
iii) The govt. policies keep changing. The current focus of the govt. of India has been on globalization, privatization, and deregulation.

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- **Environmental analysis:**

It refers to the process of analyzing the environment component-wise or sector wise to provide a basis for further diagnosis. It inter-relates the formation of objectives, generation of alternative strategies, and other related issues.

- **Environmental Diagnosis:**

It comprises the managerial decisions based on the perceived opportunities and threats of the firm. In effect, it helps to determine the nature of the implementing task, to take advantage of opportunity or effectively manage a threat. The environmental diagnosis is performed by completing the both internal and external environments.

✓ **External environmental analysis:**

The external environment has a profound effect on the business operations irrespective of the nature of the business. The business has to monitor the key forces both in the micro and macro environment. the forces in the micro environment may be customers, competitors, and others. The forces in the macro environment may be demographic, economic, technological, socio-cultural and political. All these factors affect the business both in short run and long run. These factors can be grouped in to three parts of the environment.

- General environment
- Industry environment
- International environment

General (National) Environment: The purpose of general (national) environmental analysis is to predict the state of the future, which will shape the organization's environment. The predict serves **three important** purposes.

(a) It enables the firm to review and revise (if necessary) the mission and objectives concerning how it wishes to interact with future events.
(b) It identifies the fundamental requirements for success in future.
(c) It permits the firm to formulate strategy to accomplish the goals within the constraints of the fundamental requirements for success.
The national environment consists of,

i) **Economic Environment:** Economic environment refers to all those economic factors which have a bearing on the functioning of a business. Economic environment and business are mutually interdependent. In fact, the dependence of the business on the economic environment is more. The important economic factors that constitute the economic environment are; Growth strategy, Economic system, Economic planning, Industry, Agriculture, Infrastructure, Population, Per capita and national income.

ii) **Political Environment:** The political system prevailing in a country dictates policies and controls of business. The democratic political system promotes and encourages business while the authoritarian

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political system controls the business very much. A stable, honest, and efficient political system is a primary and essential factor for economic development in general and business growth in particular.

iii) Technological environment: This affects the flow and development of alternative raw materials, the life cycles of products and services.

iv) Socio-cultural environment: These factor the economy society, and the business climate.

Role of the strategist:

The job of the strategist starts with the diagnosis of the data analysed. The quality of diagnosis depends upon the following factors.

- The **personal capabilities** and business insights of the strategies (such as his experience, motivation, ability to lead groups, perception of opportunities and threats.)
- **Functional resources** of the strategist (such as resource constraint and degree of freedom)
- **Working environment** (which include pressure for achievement of results)

✓ **Industry environment**:

It is an important component of the overall environmental analysis. Industry refers to group of firms carrying on similar activity. It has three sectors: customers, competitors, suppliers.

Customers: It is necessary to identify the profile of buyers, in terms of their needs and preferences based on the basic demographic factors such as age, income, size of the households and consumption patterns.

Suppliers: Strategist also must determine the availability and cost of supply conditions including raw materials, energy, prevailing technology, money, and labour. The suppliers can influence the firm and its strategy particularly the firm is outsourcing. Its logistic requirement.

Competition: The exit or entry of competitors, the emerging substitutes, and major strategic changes by competitors are some of the important factors to be analyzed and diagnosed.

✓ **International Environment:** internal analysis and diagnosis is a process of analyzing and diagnosing the firm's internal strengths and weaknesses. By identifying strength and weaknesses, the firm can strategically exploit the available opportunities, overcome threats and correct weaknesses placing itself at a competitive advantage

Conducting internal analysis and diagnosing: To conduct internal analysis and diagnosis, identify first the internal strengths and weaknesses. The internal strengths and weaknesses may include the following: Marketing factors, research and development, engineering design and development, production management, managerial personnel, accounting and financial policies and procedures. By analyzing the each element the strategist able to develop functional area profile.

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For instance, the profile of research and development listed below:

- **Financial resources** – budget to conduct basic research, to develop new products and processes, improve existing processes, and so on.
- **Infrastructural facilities** – in terms of state – of – the – art technologies.
- **Human resources** – hoe many scientist and engineers are required, presently available, turn over of key personnel.
- **Organizational systems –** systems to monitor technological developments from time to time.
- **Technological capabilities –** how capable the firm is in terms of number of patents, new products, sales contribution from new products, so on.

Evaluation: In this step the firm by considering the different factors of each functional areas, to know the strengths & weaknesses of the entire functional areas of the firm, it tries to find out the answers for following **questions:** **(i)** what does the firm do well? **(ii)** Do these competencies count?

(iii) What are the areas of the poor performance? **(iv)** Do these areas really matter?

The ultimate result of such a detailed internal analysis is to build a ***strategic advantage profile.*** The strategic advantage profile is a tool used to evaluate systematically the enterprise's internal factors. The competitive strengths and weaknesses for each internal area such as marketing, R&D, and others have been identified as follows:

Internal area	**Competitive strength or weaknesses**
Marketing	+ product line is extensive + service is excellent -channels of distribution are weak.
Research and development	+ 4 patents, -2 scientists left,
Finance	+ internally generated resources
Operations	+ Plenty of raw materials, -outdated machinery.
Corporate resources	0 the company is just three years old, + the size of the company is more than average, -poor union and management relations.

(+) indicates strengths, **(-)** indicates weaknesses, **(0)** indicates neutral.

Strategic advantage profile

With this advantage profile the internal analysis is completed and the firm knows what are its strengths and weaknesses, opportunities and threats.

Finally by knowing the SWOT of the firm the environmental analysis is completed based on that the firm can prepare required strategies to grab the opportunities and to overcome the weaknesses.

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SWOT ANALYSIS:

Introduction: Organizational analysis requires data and information about the internal environment. SWOT analysis refines this information by applying a general framework for understanding and managing the environment under which a company operates. SWOT analysis was developed in the middle of the 1960's.

SWOT analysis strands for strengths, weaknesses, opportunities, and threats.

Definition:

SWOT analysis is defined as the rational and overall evaluation of a company's strengths, weaknesses, opportunities, and threats which are likely to affect the strategic choices significantly.

- **Internal environment (strengths & weaknesses):**

The internal environment of the organisation will cover the organizational position with respect to different functional areas like production, finance, marketing, R&D etc. it is necessary to analyze own strengths and weaknesses. It mainly concentrates on the organizational sales volume, market share, profitability and employee competencies.

Strength: strengths are the internal capabilities of the organization when compared to the competitors in the market. The strength of an organization provides competitive advantages such as good customer service, high quality product, etc.

Weakness: weakness is the limitation, faults, defects in the organization that will keep it from achieving its objectives. The weakness may due to the financial resource, technical knowledge, etc.

- **External environment (opportunity and threat):**

The external environment will do necessary scanning of the business environment to identify any threat and opportunities posed on the company, its products or services. More especially this will include the industry performance, competitive activities and a review of the growth and decline of the user industry.

Opportunities: opportunities are those favorable conditions in a firm's environment which help the firm strengths its position. These are the external factors and forces in the business environment that provide scope for the organization to grow and increase its market share and profitability.

Threats: threat is the any unfavorable situation in the organization environment that may directly damage the organization's strategy. The threat may be problem or constraints anything may cause problem to the organization. These are the factors that can hide the organization to achieve its goals.

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Based **on the degree of threat** and its impact on business, the business can be of the following **four types:**

Ideal business: a business is said to be the ideal one when it has a large number of major opportunities and a minimal number of major threats.

Speculative business: a business is said to be speculative one when it has a large number of both opportunities and threats of major magnitude.

Mature business: a business is said to be mature one when it has a lower number of opportunities and threats of major magnitude.

Troubled business: a business is said to be troubled one when it has a lower number of opportunities and a high number of threats.

Significance:

SWOT analysis provides four alternative strategies to deal with the factors in the external and the internal environment. They are:

The threat- weakness (TW) strategy: this attempt to minimize the both weaknesses and threats. As a part of this strategy, the firm may have to add new product base or the range of services by taking over the competitors business. The government of India has been disinvesting from most of the public sector units in recent years through this strategy. It is able to minimize its threats & weaknesses of public sector are minimized.

The opportunity – weaknesses (OW) strategy: here, the weaknesses are minimized while the opportunities are minimized. As a part of this strategy, the firm can overcome its weaknesses by developing necessary competencies among the workforce by investing moderately in the latest technology, and thus offering products of the best quality to its customers.

The strength – threat (ST) strategy: the strategy enables the firm to address the threats through its strengths. The focus is to maximize the strengths and minimize the weaknesses. In this strategy the firm can seek long term and low invest loans to minimize the cost of its operations.

The strength – opportunity (SO) strategy: in this strategy the firm considers expanding in to new markets with the existing products and services. This is the most preferred strategy. Here, the firm can take advantage of the available opportunities through its present strengths.

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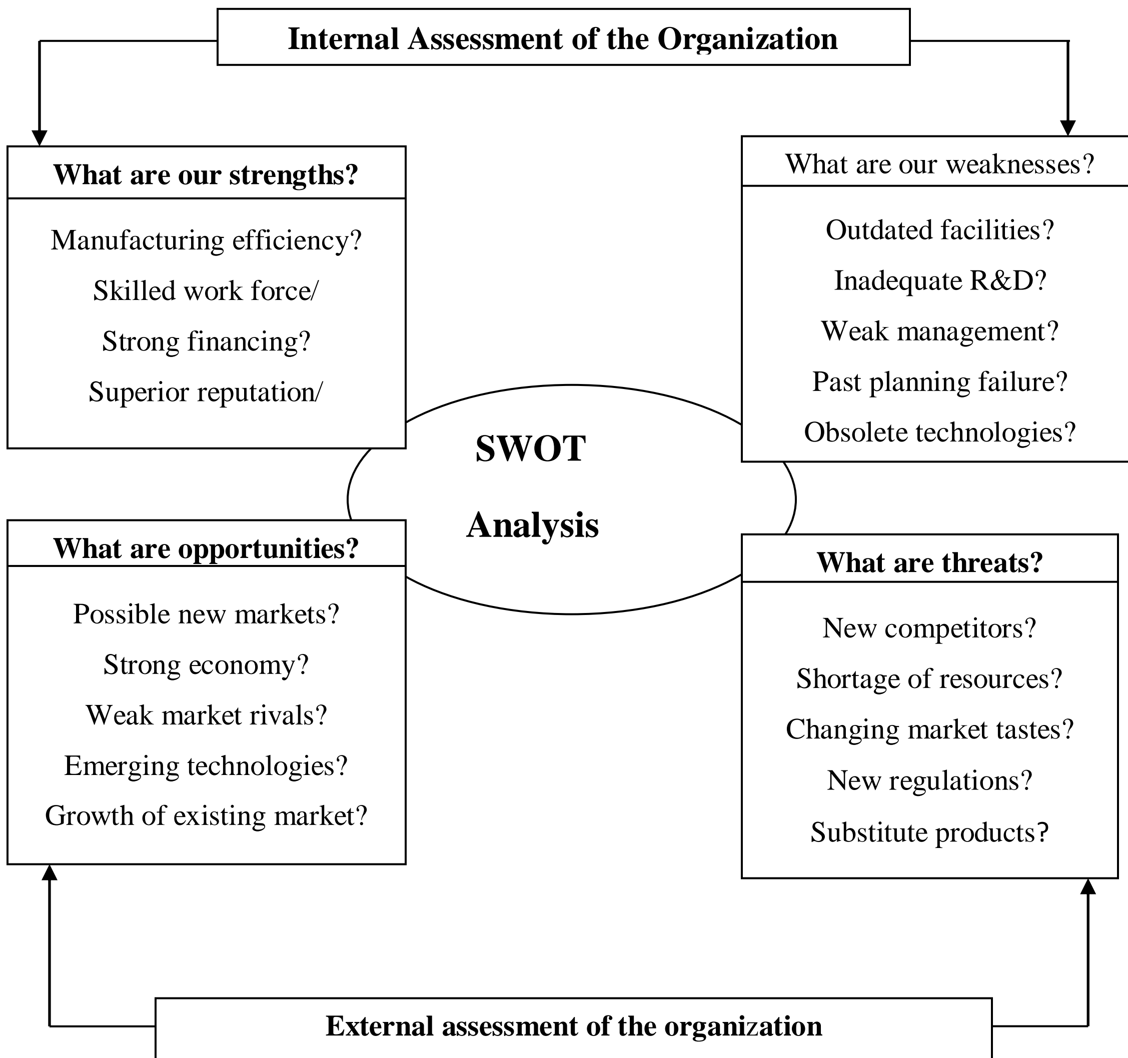

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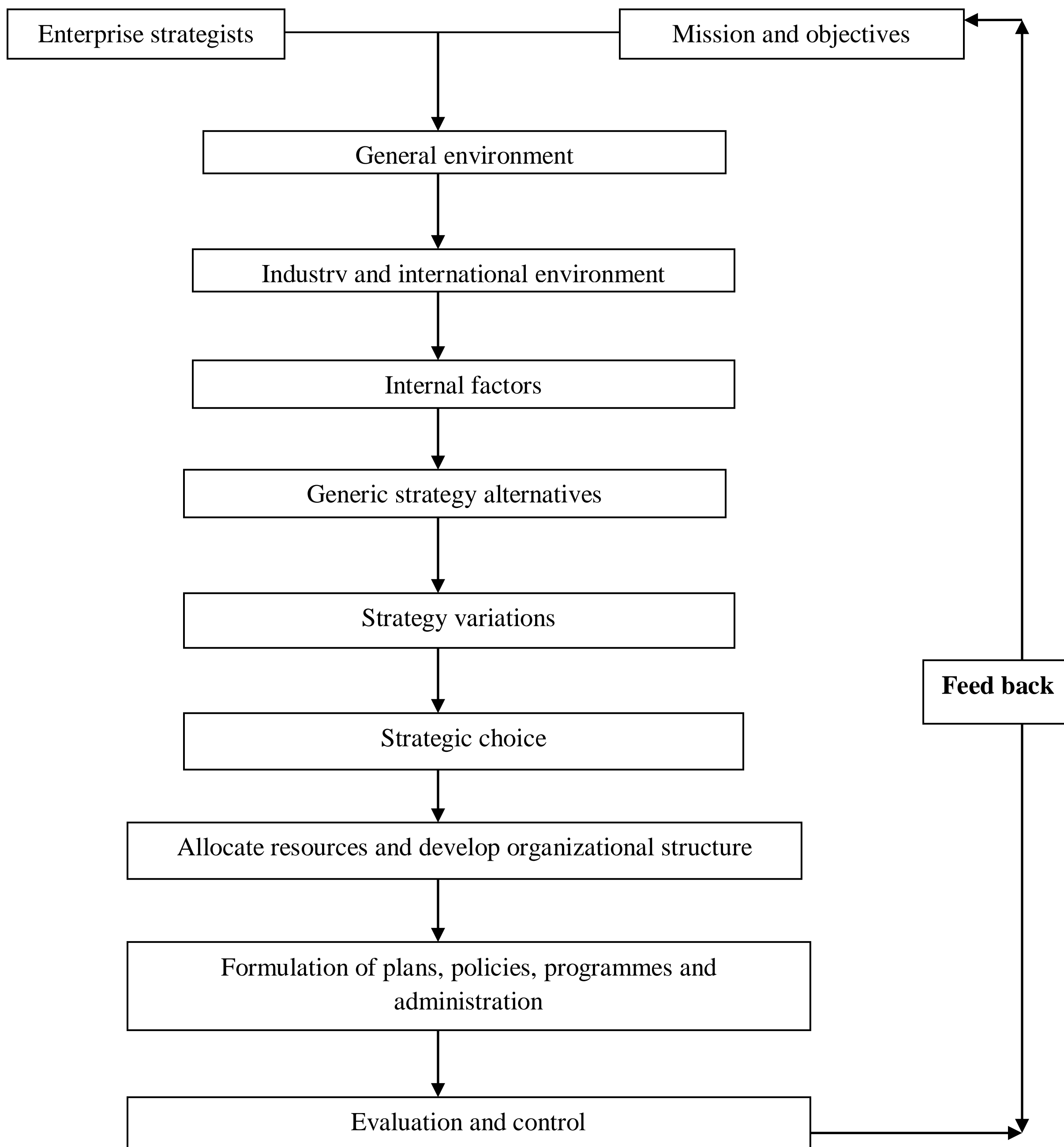
STRATEGY FORMULATION AND IMPLEMENTATION:

After preparation of the strategy then we take the steps for its implementation both actions are plays a crucial role to get the results of the strategy.

Strategy formulation: Strategy formulation is the process through which management develops an organisation's strategic mission, derives specific objectives to implement.

Strategy implementation: Strategy implementation and execution means that translating a decision in to action is essentially an administrative task.

The strategy formulation and implementation includes the following stages:



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- **Identification of mission and objectives:**

For formulating a strategy first the company has to clearly analyse its mission statement and what are its objectives according to that it frames a strategy.

- **Environmental scanning:**

After analyzing the mission statement the strategist has to analyse the environment of the company. For doing this activity he has to know about in which type of environmental situations present the firm is operates its business activities, what are the various factors like international, industrial, general environmental factors influences the environment of the firm. By this analysis he knows the SWOT of the organization.

- **Generic strategy alternatives:**

Generic strategy alternatives refer to the strategy alternatives in broader terms. After the nature of business of the firm is defined, the next task is focus on the type of strategic alternative, in general, the firm should pursue. The strategist seeks to identify the right alternative through questions such as:

  - Should we get out of this business entirely?
  - Should we try to expand?

For any firm mainly four generic strategic alternatives are available thy are: **i)** to expand, **ii)** to wind up or retrench, **iii)** to stabilize, **iv)** to combine its operations pertaining to is products, markets, or functions.

- **Considering strategy variations:**

Strategy variation is a global phenomenon. When the firm finds that it is not possible to fill up a gap in the market with the existing strategy, it may consider a change in the focus of the strategy. There can be a no. of variations of the generic strategy alternatives. For instance, if strategy is to expand, then the alternatives are internal expansion or external expansion. Internal expansion can be achieved through any of the following approaches:

  - Penetrate existing markets
  - Add new markets
  - Add new products, and so on.

Similarly, the external expansion can be achieved through mergers or acquisitions, if the firm is to attain stability, then the alternatives could be internal or external stability.

- **Selection of best alternative:**

The best alternative is the one that can improve the performance. The selection of the right alternative is depend upon the

  - Particular configuration of the objectives
  - Environmental threat and opportunity
  - Strategic advantage profile
  - The generic strategy itself.

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- **Strategic Choice:**

Here the exact strategy is chosen. Strategic choice involves the decision to select from among the alternatives; the best strategy which effectively contributes to the business objectives. The spade work to be undertaken before making a strategic choice consists of

- Identifying the few viable alternative course of action
- Considering the parameters for selection of best alternative
- Evaluating each alternative on its own merits and in relation to other alternative
- Making the final choice
- Keeping the next best alternative as stand by

The following are the questions in terms of which environmental and internal conditions are analyzed:

- What are the main business objectives?
- Does the selected strategy contribute to these objectives?
- What is the business definition – is it product based, market based, or function- based?
- Will it be achieved in the future?

These questions help us to examine the performance gap between the expected and the ideal outcomes in relation to the alternatives under consideration.

→ If the gap is **negligible or narrow** stability strategy is best. Stability strategy focuses on "doing in the best way what we do"

→ If the gap is **large or significant**, the alternatives are either to expand or with draw from the under related areas.

In this way different factors influences the decision maker by analyzing the all these questions and choices he has to take one best alternative course of action.

- **Allocation of resources and development of organizational structure:**

The process of strategy implementation calls for an integrated set of choices and activities. These include allocating resources, organizing, assigning appropriate authority to the key managers, setting policies and developing procedures.

A good strategy with effective implementation has a higher probability of success. The resource allocation decisions such as, which department is sanctioned how much amount of money and resources, in the name of budget, and so on. Set the operative strategy of the firm.

- **Formulation of policies, plans, programmes and administration:**

The resources allocated are said to be well utilized only when they are well monitored. For this purpose it is essential

- To develop policies and plans
- To assign or reassign leaders task and decisions to support the chosen strategy.
- To provide a conductive environment in the organization through proper administration to achieve the given objectives.

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The implementation of plans and policies is designed in accordance with the strategy chosen. The firm creates plans and policies to guide the managerial performance, and these make the chosen strategies work.

The implementation of the strategy becomes easy when the organization

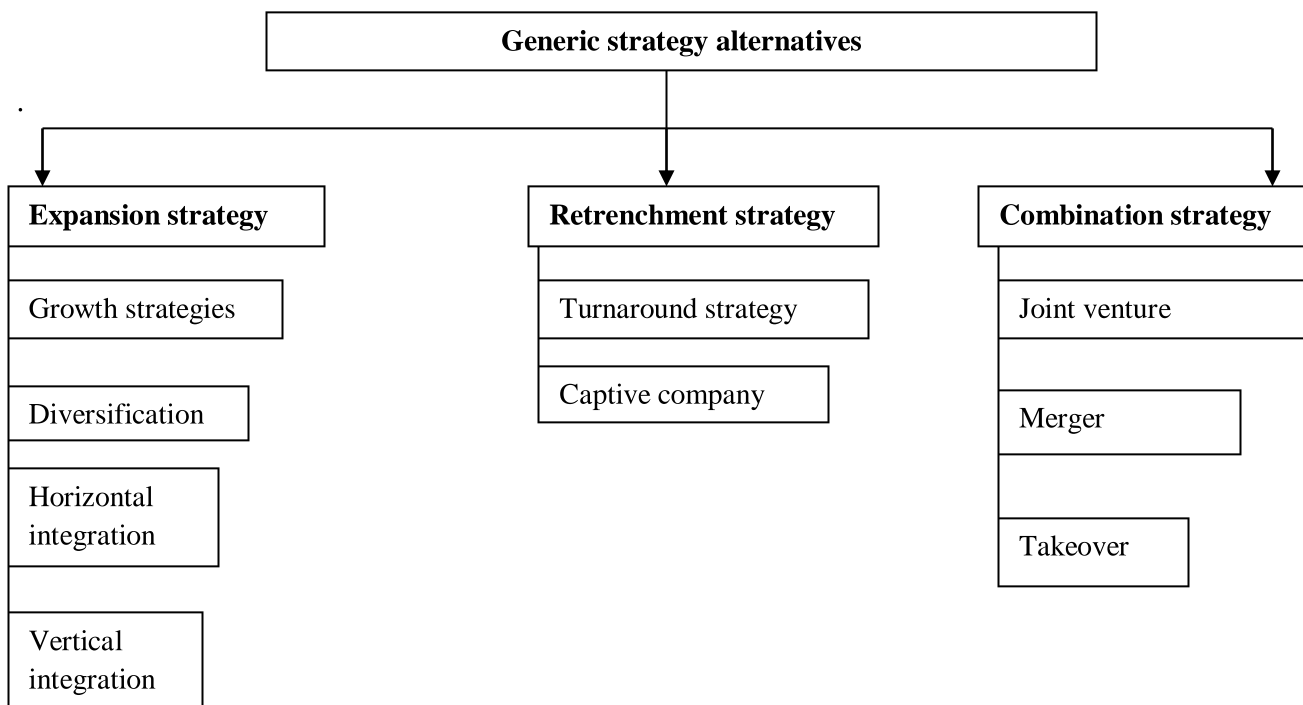
- Plan for career development of its personnel at all levels
- Applies organizational development concepts in its normal functioning
- Ensure that the strategist is capable, experienced, and versatile enough to match the strategy demands.

- **Evaluation and control:**

It is the last phase in the strategic management process. It is at this high stage that the success of the programmes can be assessed. There should be a built-in mechanism to examine the deviations and initiate corrections as and when required. This assures that the chosen strategies will be implemented properly. Timely measurement of performance and the effectiveness of the implementation of the strategy.

GENERIC STRATEGIC ALTERNATIVES:

Generic strategy alternatives refer to the strategy alternatives in broader terms. The alternative helps to the firm to take right step for their improvement. Selection of the proper suitable alternative brings profits to the organization. The generic strategy alternatives are classified in to following types:



- **Expansion strategy:**

It can be adopted in the case of highly competitive and volatile industries, particularly, if they are in the introduction stage of product / service life cycle. Expansion strategy is of following types.

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Internal Growth: Internal growth is a achieved through increasing the firms production capacity, employees and sales. Some firms prefer this strategy to the strategy of external growth as internal growth preserves their efficiency, quality and image unlike in external growth.

Concentration Strategies: Firms pursue concentration strategies to grow while remaining relatively simple. The efforts of the firm are concentrated on a limited combination of customer groups, customer functions, alternative technologies and products.

Horizontal Integration: Many companies expand by creating other firms in their same line of business. The reasons for engaging in this process of horizontal integration are:

- To increase the market share
- To reduce the cost of operation per unit of business through the large scale economies
- To get greater leverage to deal with the customers and suppliers
- To promote the products and services more efficiently to audience

conglomerate diversification: Horizontal integration strategy aims at related diversification. In other words, diversification occurs, when the existing firm creates another business unit in the same industry. But, firms may also expand through unrelated or conglomerate diversification.

In other words, firms create new business units that are unrelated to its original business. Example: Gujarat Gas ltd.., created another business unit i.e Gujarat finance company ltd.

Vertical Integration: Another growth strategy is vertical integration, in which new products and services. Which are complimentary to the existing product or service lines are added. Vertical integration is characterized by the extension of the company's business definition in three possible directions from the existing business viz.; Backward Integration**,** Forward Integration**,** Both backward and Forward Integration.

Backward vertical integration: Backward vertical integration occurs when the firms acquire or create the company that supplies the firm the raw materials or components and other inputs.

Forward vertical integration: Forward vertical integration occurs when the firm acquire or create the company that purchases it products and services.

- **Retrenchment strategies:**

It is the obvious choice when the firm is not doing well in terms of sales and revenue and finds greater returns elsewhere, or the products / services is in the finishing stage of the product life cycle. Retrenchment strategies are following types:

Turnaround strategy: Improving internal efficiency can be done by adopting turnaround strategy. The main aim of turnaround strategy is to transform the organization into a learner and more effective business.

Indicators of Turnaround strategy: Adoption of turnaround strategy is necessarily during the adverse conditions of the firm. Especially the indicators include:

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- Incurring losses continuously.
- Declining demand for product and services.
- Increasing cash outflows and declining cash inflows.
- Declining sales and market share.

Captive company strategy: In this captive market stage the firm acts as learner it learns things from the surrounding environment like a newly established firm.

- **Combination strategy:**

Combination strategy is the best strategy when the firm finds that its product wise performance is not even, or all its products differ in their future potential. These are following types:

Merger strategy: Many firms prefer to grow through mergers. Combination of two or more firms is known as a merger. When the firms of similar objectives and similar strategies combine into one firm, such combinations are called as ***"mergers".***

A merger is a combination of two or more businesses in which one acquires the assets and liabilities of the other in exchange for stock or cash or both. Companies are dissolved and assets and liabilities are combined and new stock issued. Mergers can take place within one nation or across nations.

Types of Mergers: Mergers can be classified in to the following types:

Horizontal Merger: Horizontal mergers are a combinations of firms engaged in the same business.

Vertical Mergers: Vertical mergers are combination of different firms engaged in activities complimentary to each other like supply of raw material, production of goods and marketing.

For example, combination of a firm engaged in mining of iron ore, and iron and steel company.

Concentric Mergers: Concentric mergers are combination of a firms related to each other in terms of customer groups or customer functions or alternative technologies. ***For example,*** combination of firms producing televisions, washing machines, and kitchen appliances.

Conglomerate Mergers: These are the combination of firms unrelated to each other in terms of customer groups, customer functions, and alternative technologies. ***For example,*** combination of publishing company and an automobile company.

Takeovers or Acquisitions Strategy: Sometimes firms want to grow through the strategy of takeover or acquisition. Takeover is defined as, "the attempt of the firm to acquire ownership or control over another firm against the wishes of the latter's management".

But in practice, takeovers can be hostile or friendly. Takeover strategy is currently the most popular strategy in India, particularly after the economic liberalization.

Joint Ventures: Joint ventures are partnerships in which two or more firms carryout a specific project or corporate in a selected area of business. Joint ventures can be temporarily, disbanding after the project is finished. Even a successful joint venture may not last forever. Not does the collapse for specific and time-bound objectives which, once achieved leave little reason for the alliance to be continued**.**

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