STRATEGIC MANAGEMENT

Strategic Management- managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing a strategy and then over times initiating whatever corrective adjustments in the vision, objectives, strategy and execution are deemed appropriate.

Framework

Stage 1- where are we now (beginning)
Stage 2- where we want to be (ends)
Stage 3- how might we get there (means)
Stage 4- which way is the best (evaluation)
Stage 5- how can we ensure arrival (control)

Vision- **roadmap for company's future**- providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the **kind of company that management is trying to create.**

Elements of strategic vision

1. Coming up with a mission statement (who we are and where we are now)
2. Using the mission statement to decide long term course (where we are going)
3. Communicating the strategic vision

Mission- focused on its present business scope- **who we are and what we do**; it broadly describes an organization's present capabilities, customer focus, activities and business makeup.

- Justification for the firm's very presence

- Expression of the vision of the corporation
- Corporation's guiding principles
- Proclamation to insiders and outsiders on what the corporation stands for

PORTFOLIO ANALYSIS

- A business portfolio is a collection of businesses and products.
- It is a set of techniques that help in taking strategic decisions with regard to individual products or businesses in a firm's portfolio

Prerequisites to understand different models of Portfolio analysis

1. Strategic Business Unit
2. Experience Curve
3. PLC

STRATEGIC BUSINESS UNIT

- Unit of the company that has separate mission and objectives and which can be planned independently from other company businesses.
- Has its own set of competitors
- Has a manager who is responsible for strategic planning and profit

Experience Curve

- Explains the efficiency increase gained by workers through repetitive productive work
- Shows the unit cost decline as a firm accumulates experience in terms of a cumulative volume of production
- Barrier for new firms

BCG growth share matrix

Stars

- growing rapidly
- heavy investment to maintain their position and rapid growth potential
- best opportunities for expansion

Strategy- to preserve market share (hold)

Question Marks

- problem children or wildcats
- require a lot of cash to hold their share
- invest more to get more. Invest only if you could compete with stars.

Strategy- to increase market share even by forgetting short term earning (build)

Cash Cows

- they generate cash and have low costs
- no need to invest; only earn

Strategy- to increase short term cash flow (harvest)

Dogs

- may generate enough cash to maintain themselves but do not have much future
- sell it out for better opportunity

Strategy- to liquidate the business (divest)

Directional Strategies

Concentric Diversification

- Related diversification
- The new business is linked to the existing business through process, technology or marketing
- New product is a spin-off from the existing facilities
- Example- sugar factory-sugar-paper-alcohol

Conglomerate Diversification

- The new businesses are disjointed from the existing businesses in every way
- Example- ITC- agriculture and hotels

Turnaround Strategies

For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy

Business Process Reengineering

- Business Process Reengineering refers to the analysis and redesign of workflows and processes both within and between the organizations.
- The orientation of redesign is radical i.e. starting all over from scratch
- **Michael Hammer**, father of BPR

Steps in BPR

1. Determining objectives and framework
2. Identify customers and determine their needs
3. Study the existing process
4. Formulate a redesign process plan
5. Implement the redesign

Benchmarking

- Approach of setting goals and measuring productivity based on best industry practices
- Regularly comparing different aspects of performance with the best practices
- Continuous improvement in search of competitive advantage
- **Robert Camp**, founder of benchmarking

Steps in Benchmarking

1. Identifying the need for benchmarking and planning
2. Clearly understanding existing business process
3. Identify best processes
4. Compare own processes and performance with that of others

5. Prepare a report and implement the steps necessary to close the performance gap
6. Evaluation

TQM

- Total Quality Management is a people focused management system that aims at continual increase in customer satisfaction at continually lower real cost.
- **William Edwards Demming** gave the concept

Principles guiding TQM

- A sustained management commitment to quality
- Focusing on the customer
- Preventing rather than detecting defects
- Universal quality responsibility
- Continuous improvement and learning
- Root cause corrective action
- Employee involvement and empowerment
- The synergy of teams
- Thinking statistically
- Inventory reduction
- Value improvement
- Supplier teaming
- Training

Six Sigma

- Motorola has invented it
- Means maintenance of the desired quality in processes and end products. It means taking systematic and integrated efforts towards improving quality and reducing cost.
- Aims at improving customer satisfaction, improving quality, reducing wastage, reducing cycle time, reducing defects

Six Sigma Methodology

1. **DMAIC**- define, measure, analyze, improve, control
2. **DMADV**- define, measure, analyze, design, verify

Six Themes of Six Sigma

1. Genuine focus on the customer
2. Data and fact-driven management
3. Processes are where the action is
4. Proactive management
5. Boundaryless collaboration
6. Drive for perfection

Strategic Control

Kurt Lewin Change Process

1. Unfreezing the situation- aware of the necessity of change. Breaking down the old attitudes and behaviors
2. Changing to the new situation

- Compliance- strictly enforcing the change. Fear of punishment
- Identification- members are psychologically impressed upon to identify themselves with some given role models
- Internalization- freedom to learn and adopt new behavior

3. Refreezing- new behavior becomes a normal way of life

Types of Strategic Control

1. Premise control-

- a strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment.
- Over a period of time, these premises may not remain valid.
- It primarily involves monitoring environmental factors (economic, technology, social) and industry factors (competitors, suppliers, substitutes)

2. Strategic surveillance-

- It is unfocussed

- Involves general monitoring of various sources of information to uncover unanticipated information

3. Special alert control-

- at times, unexpected events may force organizations to change their strategy
- Like natural calamities, terrorist attacks, unexpected mergers and acquisitions

4. Implementation control-

- it is directed towards assessing the need for changes in the overall strategy
- The two basic forms are monitoring strategic thrusts and milestone review

Organization and Strategy Implementation

The Functional Structure

- Widely used because of simplicity and low cost
- Promotes specialization of labor, encourages efficiency
- Minimizes the need for an elaborate control system
- Allows rapid decision making
- It forces accountability to the top
- Minimizes career development opportunities, low employee morale
- Poor delegation of authority
- Mostly abandoned by large organizations

The Divisional Structure

- Here, functional activities are performed both centrally and in each separate division
- Used by larger organizations
- Motivate employees, control operations
- Accountability is clear
- Extensive delegation of authority
- Employee morale is generally higher
- Costly; because each division requires functional specialists, well qualified managers

The Matrix Structure

- Here, functional and product forms are combined simultaneously at the same level of organization
- Employee have two superiors- a product or project manager and a functional manager
- Most complex of all designs as it depends upon both vertical and horizontal flows of authority and communication
- Project objectives are very clear
- Very useful when the external environment is very complex and dynamic

Network Structure

- More radial design; non-structure
- Many activities are outsourced
- Virtual organization
- Useful when environment is unstable and is expected to remain so
- Instead of having salaried employees, it may contract with people
- Increased flexibility
- Allows the company to concentrate on its distinctive competencies

Hourglass Structure

- Consists of three layers with constrained middle layer
- Wide at the top, narrow at the middle, widest at the bottom
- Reduced cost
- Enhancing responsiveness by simplifying decision making