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MBCIII - 1 – Strategic Management

Unit I

Programme Educational Objectives

Our program will create graduates who:

1. *Will be recognized as a creative and an enterprising team leader.*
2. *Will be a flexible, adaptable and an ethical individual.*
3. *Will have a holistic approach to problem solving in the dynamic business environment.*

Logistics and Supply Chain Management
Course Outcomes

- CO1-Given the adverse business situation the student manager would be able to develop a strategy to sustain in the said business.

- CO2-Given the values of Critical Success Factors such as Sales, Market Share, ROI of an organization the student manager will be able to compare the same with market and compile the strengths & weakness chart for that organization.

- CO3-Given the vision document of an organization the student manager will be able to justify the role of the vision document in formulating the strategy for that organization.

- CO4-Given the business environment, the student manager will be able to construct the Porter's Five Forces model which is likely to guide formulation of a strategy in given business environment.

- CO5-Given a condition of competitive environment, the student manager will be able to suggest suitable growth Strategy for the firm.

- CO6-Given the reasons for an organization to go global, the student manager will be able to analyze various challenges likely to be faced by an organization while formulating global strategy.

STRATEGY

- A plan of action designed to achieve a long-term or overall aim.
- The art of planning and directing overall military operations and movements in a war or battle.
- Also, STRATEGICS the science or art of combining and employing the means of war in planning and directing large military movements and operations.
- Strategy a Greek word (Strategia means Generalship)

INTRODUCTION TO STRATETIC MANAGEMENT

- The policy process includes the following stages: policy formulation and legitimation, constituency-building, resource mobilization, implementation design and organizational structuring, and progress and impact monitoring.
- however, proposed reforms are not likely to progress through these stages without someone managing or directing them.
- For those who want to participate in and further the process of sectorial reform, strategic
- management provides an effective approach.
- Strategic management is a process for developing and enacting plans to reach a long-term goal that takes into account internal variables and external factors.
- Strategic management encompasses an integrated, future-oriented managerial perspective that is
- 1) outwardly focused
- 2) forward-thinking
- 3) performance-based

CONTD

- Strategic management as looking out, looking in, and looking ahead. “Looking out” means exploring beyond the boundaries of your organization to set feasible objectives, identify key stakeholders, and build constituencies for change.
- “Looking in” implies critically assessing and strengthening your systems and structures for managing personnel, finances, and other essential resources.
- Finally, “looking ahead” entails melding your strategy with structures and resources to reach your policy goals, while monitoring your progress and adjusting your approach as needed.

Features of Strategic Management

- **Goal Settings**: It enables you to articulate your vision. Mission statement summarizes your purpose and goals in terms easily understood by both staff & external stakeholders.
- **Analysis:** It guides you to collect and consider information so that you fully understand your situation.
- Asses external environment and internal situations to identify strength and weakness of your organizations and opportunities and threats you face as you seek to reach your goals.

- **Strategy Formulation**: Determine a strategy, you reflect, develop options and make decisions. Review the results of the analyses.

- **Strategy Implementation**: To implement assemble necessary resources and apply them

- **Strategy Monitoring**: It allows you to check your progress towards achieving your goals and asses whether any changes in environment necessitate alteration to your strategy.

Strategic Decision Making

- This topic will mainly discuss the constraints and factors affecting decision-making so that a high quality decision can be achieved.
  - State why businesses need to make decisions
  - State who usually makes what decisions in businesses
  - List the internal and external constraints on business decision-making
  - State the factors which may affect the quality of decisions

Importance for Learning the Theory of decision-making

- All businesses must make decisions. Businesses are decision-making units. It is extremely important for businesses to improve decision-making efficiency and make correct decisions.

- All decisions may involve some risk. So people must be very cautious in decision making. To study the theory of decision making may be of great help for risk elimination in decisions.

Why DO Make decisions?

All businesses must make decisions for some reasons.

General reasons for businesses to make decisions are seen in the following table: **Possible reasons for businesses to make**

Possible Reasons	**Brief Explanation**
1) To solve unexpected problems	For example, there is an employee strike in the company; there is a fire in the factory. These problems must be solved with decisions.
2) To be forced to make decisions	When there are 30 people applying for one position in the company. So many choices force you to make a decision.
3) To better achieve business objectives	Wrong decisions may cause damages for the business, but right decisions enable the firm to better achieve its goals.

Why DO Businesses Make decisions?

- **Other specific reasons faced by a Company:**
- What new machines to buy
- What products to produce
- How the price of product should be decided
- Whether to raise or lower the price
- Who should be sent to take a task
- Whether the product should be improved
- Which supplier should be used or chosen
- What development strategy to de designed

Decision Makers in A Business

- **Who will make decisions in the business?**
- In fact, decisions are made by all staff in a business.
- But responsibility for the decision may be different according to the employee's position in the business.
- For example, a senior manager may delegate decision power to his or her junior manager, but will retain final responsibility.
- The size of a company may also influence decision makers.
- **Types of decision makers:**
- In general, there are three major decision makers in a business. Please see the following table:

Who makes what decisions in a business?

- **Owners** are more likely to make **strategic** decisions.
- **Managers** are more likely to make **tactical** decisions.
- **All employees** will be involved in making **operational** decisions.

Question for your critical thinking:

1. Strategic:

2. Tactical:

3. Operational:

Constraints in Decision Making

- **Explanation of concept:**

Businesses can not make decisions with complete freedom. Decision making will be limited or restricted by a number of factors.

- **Internal and external constraints:**

These factors are classified as internal and external constraints on decisions, which are illustrated in the following table:

Internal constraints on decision making	**External constraints on decision making**
❖ **Finance -Do we have enough money?**	❖ **Government legislation-Does the law permit?**
❖ **People's ability-Do we have enough skilled people?**	❖ **Competition and competitors-Is the competition strong?**
❖ **Existing company policy-Does the company policy permit?**	❖ **Economic environment -Is there enough demand for the product?**
❖ **Cultural issues-Are there any resistance to change?…**	❖ **Modern technology-Can we carry out it with the use of modern technology? ...**

Mintzberg 5 Ps for Strategy

- Mintzberg provides five definitions of strategy:
- Plan
- Ploy
- Pattern
- Position
- Perspective.
- **Plan**
- Strategy is a plan - some sort of consciously intended course of action
- **Ploy**
- As plan, a strategy can be a ploy too, really just a specific manoeuvre intended to outwit an opponent or competitor.
- **Pattern**
- If strategies can be intended (whether as general plans or specific ploys), they can also be realized.

contd

- **Position**
- Strategy is a position - specifically a means of locating an organization in an "environment".
- **Perspective**
- Strategy is a perspective - its content consisting not just of a chosen position, but of an ingrained way of perceiving the world. Strategy in this respect is to the organization what personality is to the individual.

Qualities of Decisions

- **Importance:**
- High-quality decisions will benefit a business a lot. The quality of decisions is of great significance for the business. Good decisions may mean more chances of success, while poor decisions mean more risks and fewer opportunities of success.
- **Influence factors:**
- There are a number of factors affecting the quality of decisions, which can be seen in the following table:

Factors affecting the quality of decisions

Factors affecting the quality of decisions	Brief explanation or examples
1) Training	If people are well trained, their performance will be better in making decisions.
2) Quality of information	The more information acquired, the better decisions made. Inadequate information may lead to wrong or incomplete decisions.
3) Ability to use decision techniques	The ability of using decision techniques, such as financial ratios, decision trees, and SWOT analysis may lead to more accurate decisions.
4) People's experience	More experienced decision makers may make better decisions.
5) People's attitudes to risk	Cautious decision makers may be better in decision making than risk takers. But too cautious people may lead to the loss of good opportunities.
6) People's skills	More skilled decision makers may be more able to make better decisions.

? For you

- Supposing that you are the manager of a company, what measures should you take in order to make high quality decisions?

Strategic Management Process

- Step 1: Identifying the organisation's current mission, objectives, and strategies
  - Mission: the firm's reason for being
    - Who we are,
    - What we do, and
    - Where we are now
  - Goals: the foundation for further planning
    - Measurable performance targets

- Step 2: Conducting an external analysis
  - The environmental scanning of specific and general environments
  - Focuses on identifying opportunities and threats

Strategic Management Process (cont'd)

- **Step 3: Conducting an internal analysis**
  - Assessing organisational resources, capabilities, activities and culture:
    - Strengths (*core competencies) create value for the customer* and strengthen the competitive position of the firm.
    - Weaknesses (things done poorly or not at all) can place the firm at a competitive disadvantage.

- *Steps 2 and 3 combined are called a SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats)*

Strategic Management Process (cont'd)

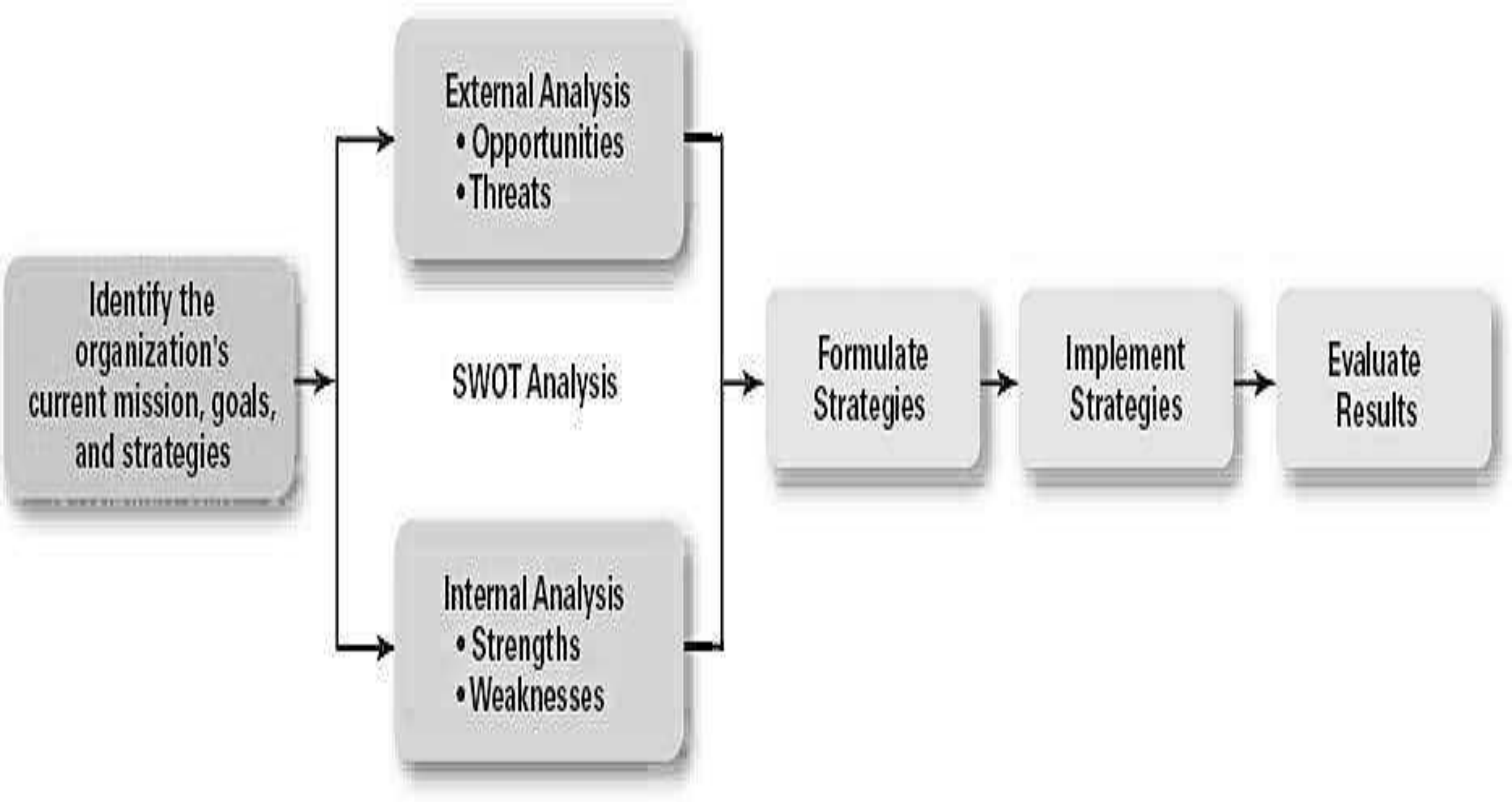
- **Step 4: Formulating strategies**
  - Develop and evaluate strategic alternatives
  - Select appropriate strategies for all levels in the organisation that provide relative advantage over competitors
  - Match organisational strengths to environmental opportunities
  - Correct weaknesses and guard against threats

Strategic Management Process (cont'd)

- **Step 5: Implementing strategies**
  - Implementation: effectively fitting organisational structure and activities to the environment
  - Effective strategy implementation requires an organisational structure matched to its requirements.

- **Step 6: Evaluating results**
  - How effective have strategies been?
  - What adjustments, if any, are necessary?

Strategic Management Process



Tactic

- An action or strategy carefully planned to achieve a specific end.
- E. g. : "The minority attempted to control the Council by a delaying tactic"
- **OR**
- “The art of disposing armed forces in order of battle and of organizing operations, especially during contact with an enemy.”

Definition of *tactics:*

- Tactics Means by which a strategy is carried out; planned
- Ad hoc activities meant to deal with the demands of the moment, and to move from ...

Strategic Management seeks to answer 6 key questions:

1. What good or service do we really sell?
2. How will we produce our goods or deliver our services?
3. Who will buy our goods or services?
4. How will we finance the operation?
5. How much risk are we willing to take?
6. How will we implement our strategy?

STRATEGY:

- Is it generalship or leading an army.
- Does it a art and science of planning and organizing resources for their most efficient and effective use.

OR

- Does it a method or plan
- Chosen to bring about a desired future,
- Like an achievement of a goal or solution to a problem.

So What is Strategy then?

- *"**Strategy**"* is the ***direction*** and ***scope*** of an organisation over the ***long-term***
- *"**Strategy**"* achieves ***advantage*** for the organisation through its configuration of ***resources*** within a challenging ***environment***,
- *"**Strategy**"* meet the needs of ***markets*** and to fulfil ***stakeholder*** expectations.

So let’s see where there is real role of ‘STRATEGY”

- Is it there where, business is trying to get to in the long-term : (**direction)**
- Which markets should a business compete what kind of activities are involved in such markets? (**markets**; **scope**)
- What resources (skills, assets, finance, relationships, technical competence, facilities) are required in order to be able to compete? (**resources**)?
- What external, environmental factors affect the businesses' ability to compete? (**environment**)?
- What are the values and expectations of those who have power in and around the business? (**stakeholders)**

Policy

- Practical or convenient conduct or action.
- A course or principle of action adopted or proposed by an organization or individual.
- For e.g.: "The government's controversial economic policies"

So one can define policy as

- “A definite course of action adopted for the sake of practicality, facility,” e. g. .: We have a new company policy.

- “A definite course of action adopted for the sake of feasibility, facility, e.g..: We have a new company policy.

What is the difference between a ‘policy’ and a ‘strategy’?

STRATEGY	A strategy is devised at the relevant level of management and is a long-term plan of change and improvement for an organisation.
POLICY	A policy is a document written to structure and outline the strategy to those that it affects and to those who must implement it.

Policy and Strategy Issues

What is the purpose of policies and strategies?

"Policies and standards ensure that processes, procedures and deliverables are consistent and meet the needs of the business, while complying with current legislation. Policies should be clearly communicated through all levels of an organisation detailing who is responsible for each policy and what onus that places on individuals employed by the organisation."

More Broadly, Three Big Strategic Questions

1. Where are we now?
2. Where do we want to go?
   - Business(es) to be in and market positions to try and achieve?
   - Buyer needs and groups to serve?
   - Outcomes to achieve?
3. How do we get there?

A complete strategic management process has three main components they are

Strategic Analysis :

The process of Strategic Analysis can be assisted by a number of tools which includes

- PEST Analysis : (Environment scanning)
- SWOT Analysis : (Knowing strengths & weakness both individual and Business as a whole)
- Five forces Analysis : (Identifying forces which affects the level of competition in industry)
- Competitor Analysis : (Analysis which summarizes a business overall competitive position)

Strategic Choice :

- This process involves understanding the nature of stakeholder expectations (the "ground rules")

- Identifying strategic options, and then evaluating and selecting strategic options.

Strategic Implementation :

- Usually the hardest part. Why?

- "When a strategy has been analyzed and selected, the task is then to translate it into organizational action."

Path of this objective

- Given this background on strategic management, the objective follows a path intended to give you experience in thinking about and applying strategic management concepts for
  - **Analysis** (External and Internal Environments)
  - **Decisions** (Formulating Strategy)
  - **Actions** (Implementing Strategy)

Roles in Strategic Management or, Who Makes Strategy?

- Top Management—President, Senior Organization Executives
- Board of Directors
- Managers of Subsidiary Business Units
- Functional Area Managers
- Operating Managers
- Empowered Employees

Setting Direction for the Organization

- Vision
- Mission
- Objectives
  - Financial
  - Strategic

Vision

- An inspiring, long-term “dream” about what the organization will achieve in the future
- Represents a destination driven by and invoking passion

Example:
Microsoft Vision

- Empower people through great software anytime, anyplace, and on any device

Mission

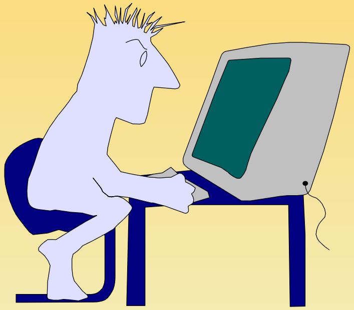
- Provides more specifics for the vision
- Includes such considerations:
  - Identification of products offered and customers served (What business are we in?)
  - How the company will compete (low price, innovation, service)
  - Ethical values of organization
  - Relations with employees and other stakeholders

Example Points From: Honda Mission Statement

- Proceed always with ambition and youthfulness.
- Respect sound theory, develop fresh ideas, and make the most effective use of time.
- Enjoy your work and always brighten your working atmosphere.
- Strive constantly for a harmonious flow of work.
- Be ever mindful of the value of research and endeavor.

Examples: Mission and Vision Statements

Microsoft Corporation



Empower people through great software anytime, anyplace, and on any device.

Objectives
Organizational Objectives

- Provides more specific direction on what the organization must do to achieve its vision and mission—interim steps toward achieving the vision and mission.
- As interim steps, objectives are
  - Long-term
  - Short-term

Objectives

- Strategic
  - Outcomes focused on improving long-term competitive position of the organization
- Financial
  - Outcomes focused on improving financial performance

Example Strategic Objectives

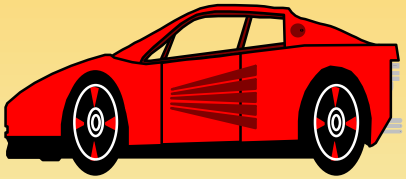
- Increase firm's market share
- Boost firm's reputation with customers
- Strengthen presence in international markets
- Become leader in new product innovation
- Attain lower overall costs than rivals
- Surpass competitors in quality or product performance

Examples: Strategic Objectives

Domino's Pizza

To safely deliver a hot, quality pizza in 30 minutes or less at a fair price and a reasonable profit.

Example: Strategic Objectives

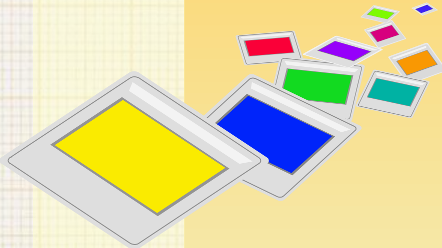


- To satisfy our customers by providing
  - Quality cars and trucks,
  - Developing new products,
  - Reducing the time it takes to bring new vehicles to market,
  - Improving the efficiency of all our plants & processes, and
  - Building on our teamwork with employees, unions, dealers, and suppliers.

Example Financial Objectives

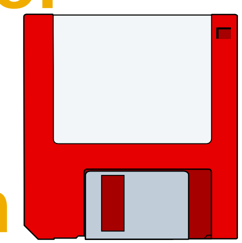
- Increase sales growth 6 to 8% per year
- Cut costs by 5% per year every year
- Increase annual dividends to shareholders by 5% per year
- Achieve highest Return on Investment (ROI) in industry

Example: Financial and Strategic Objectives



3M Corporation

- **Annual growth in earnings per share of 10% or better, on average;**
- **A return on stockholders' equity of 20-25%;**
- **A return on capital employed of 27% or better; and**
- **Have at least 30% of sales come from products introduced in the past four years.**



Criteria for Objectives

- Specific: precisely what needs to be achieved
- Measurable: at least one indicator that measures progress toward fulfilling objective
- Appropriate: consistent with vision and mission statements
- Realistic: must be achievable
- Time-based: must have a deadline for achieving the objective
- ***SMART***

ORGANIZATIONAL OBJECTIVES

- **Organizational objectives** are short- and medium-term goals that an **organization** seeks to accomplish so it might reach its overall strategic goals. **Objectives** will usually play a part in the setting of an **organization's** policies and allocation of resources.
- **3 Most Essential Objectives of Management**
- **(1) Organisational Objectives:**
- It refers to the objectives for the whole organisation. While fixing these objectives, management keeps into consideration the benefit of all the related parties (like owner, employee, customer, government, etc.). This also fulfils organisational economic objectives which are survival, profit and growth.
- **(i) Survival:**
- Every business wants to survive for long. So, management by taking positive decisions with regard to different business activities should ensure that business survives for long,
- **(ii) Profit:**
- Profit plays an important role in facing business hazards and successful running of business activities. So, it must be ensured by the management that adequate profit is earned by the business,

HIERARCHY OF OBJECTIVES

- The **hierarchy of objectives** is a tool that helps analyze and communicate the project **objectives**. ... This approach organizes **objectives** into three broad levels: Policy. **Strategic**, and operational.

EXAMPLE

Hierarchy of Objectives

Electric Power Project

Policy Objective	Increase Industrial Production
Strategic Objective	Produce 50 KW Power
Project Objective	New Power Plant
Input Objective	$10 Million Contract, Land, Labor

SETTINGS OF OBJECTIVES (SMART) Specific, measurable, achievable, result oriented & Time bound.

- The major outcome of strategic planning, after gathering all necessary information, is the setting of goals for the organization based on its vision and mission statement.
- **Tips on how to define your objectives in terms of key results.**
- Keep it simple. Focus on objectives that you know you can achieve in the given time frame. ...
- Be specific. ...
- Flow your objectives. ...
- Make it measurable. ...
- Do not worry about stretch goals. ...
- Break your key results into small goals. ...
- Celebrate and recognize.
- **End of Lecture-7**

Internal Resource Analysis

- An **internal analysis** is an exploration of your organization's competency, cost position and competitive viability in the marketplace.
- Conducting an **internal analysis** often incorporates measures that provide useful information about your organization's strengths, weakness, opportunities and threats -- a SWOT **analysis**.

- An important measure in an internal analysis is to determine your organization's level of strength and competency.
- A strong organization uses updated technology systems and equipment to accomplish its work.
- Its financial goals are being met and strategic planning objectives are being **accomplished**.

WHAT IS FOOD WITH INTEGRITY?

FOOD WITH INTEGRITY IS OUR COMMITMENT TO FINDING THE VERY BEST INGREDIENTS RAISED WITH RESPECT FOR THE ANIMALS, THE ENVIRONMENT AND THE FARMERS.

Resource-Based View:

	Tangible	Intangible
People/Assets	Specialized Employees/Talent Case Inventory - High Quality Ingredients Restaurants Equipment (Grill, Tortilla Press) Website and Technology Patents	Brand Equity Reputation Customer Loyalty Word of Mouth Technical Expertise
Systems/Processes	Supplier Contracts Reinvestment - No Dividends Speed of Service Burrito Construction Standardization Cleanliness of Restaurants	Wholesome Supplier Relationships Diversity and Education Health Awareness Employee Benefits Organic, Family, and Local Lifestyle Humane Treatment of Animals Sustainability "Fast-Casual" Dining

CHIPOTLE MEXICAN GRILL

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Strengths: ***Versatile Staff* - Employees work roles interchangeably** ***Ingredients* - Use of all-natural and locally raised inputs** ***Online Ordering / Delivery / Catering*** ***Brand / Reputation*** ***Customization Options*** ***Strong Marketing Approach* – Use of brand and word-of-mouth to communicate organic product offerings**	***Weaknesses:*** ***Menu prices* - Relatively expensive when compared to closest competitors** ***Niche Menu* - Hinders globalization efforts due to Americanized menu** ***Assembly Line Structure* - High demand and choice of ingredients can cause back-up and discourage customers**
Opportunities: ***Global Expansion*** - Currently only located in U.S., Canada, and UK ***Menu Diversification*** - Niche menu can be expanded upon to satisfy demand of larger range of domestic and international customers ***Social Demographic*** - Consumers are trending away from unhealthy fast food options towards more organic eateries ***Alcohol Offering*** - Select restaurants could incorporate "cantina-like" atmosphere with expanding alcohol list	***Threats:*** ***Competitors*** - As a "fast-casual" restaurant, Chipotle must compete with both fast food chains and more formal dining options ***Organic Input Costs*** - As demand for organic and freshly grown ingredients increases, costs could spike ***Market Saturation*** - If Chipotle does not expand geographically or broaden its menu offering, consumers may grow tired

VRIO ANALYSIS

VRIO Model

Is valuable?	Is rare?	Is difficult to imitate?	Is organization organized around?	What is the result?
NO				COMPETITIVE DISADVANTAGE
YES	NO			COMPETITIVE EQUALITY / PARITY
YES	YES	NO		TEMPORARY COMPETITIVE ADVANTAGE
YES	YES	YES	NO	UNUSED COMPETITIVE ADVANTAGE
YES	YES	YES	YES	LONG-TERM COMPETITIVE ADVANTAGE

VRIO Analysis is an analytical technique brilliant for the evaluation of company's resources and thus the competitive advantage. **VRIO** is an acronym from the initials of the names of the evaluation dimensions: Value, Rareness, Imitability, Organization.

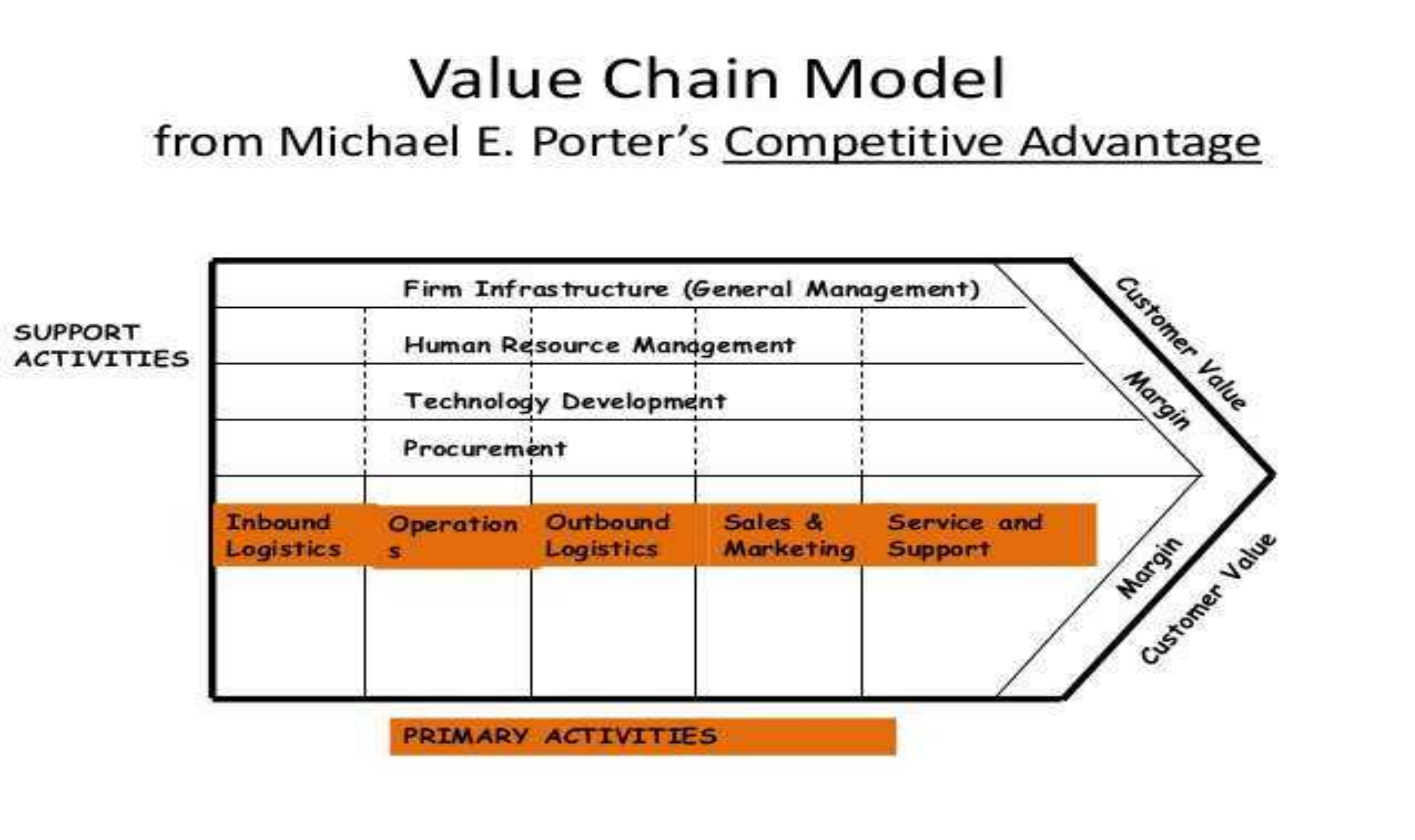
VRIO Framework:

Resource/ Capability	Value	Rarity	Costly to Imitate	Organization	Value Creation
Specialized Labor/Talent	Yes - Add to Service	No - Training	No - Can be Adapted	Yes	Parity
High-Quality Ingredients	Yes - Adds to Value	No - Can be used elsewhere	Yes - Expensive	Yes	Parity
Burrito Process Standardization	Yes - Faster Service	No - Qdoba	Yes - Business Process Reform	Yes - Consistency	Parity
Fast-Casual Dining Experience	Yes - Unique Brand	No - Others in Industry	Yes - Costly to Create Brand	Yes - Creates Consumer Value	Parity
Supplier Relations Organic and Locally Sourced	Yes	Yes	Yes	Yes	Sustainable Advantage
Brand/Reputation - Word of Mouth	Yes - Strengthens Perceptions	Yes - Unique Brand	Yes - High Effort to Develop	Yes - Increases Perceived Value	Sustainable Advantage

Value chain analysis

- **Value chain analysis** is a strategy tool used to **analyze** internal firm activities. Its goal is to recognize, which activities are the most valuable (i.e. are the source of cost or differentiation advantage) to the firm and which ones could be improved to provide competitive advantage.
- **Value chain analysis (VCA)** is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation.**Value chain** represents the internal activities a firm engages in when transforming inputs into outputs.

VALUE CHAIN by Porter



Concept of Synergy

- **Synergy** is the **concept** that the value and performance of two companies combined will be greater than the sum of the separate individual parts. **Synergy** is a term that is most commonly used in the context of mergers and acquisitions (M&A).
- Definition of **Synergy**. A **synergy** is where the whole is greater than the sum of its parts. In other words, when two or more people or organizations combine their efforts, they can accomplish more together than they can separately. They can get more done working together than they can working apart.

Core competency

- A **core competency** is a concept in management theory introduced by C. K. Prahalad and Gary Hamel. It can be defined as "a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace" and therefore are the foundation of companies' competitiveness.

Examples of Core Competencies

- Analytical Thinking. This refers to your ability to apply logic to solve problems and to get the job done.
- Computer Competency. ...
- Client Service. ...
- Creative Thinking. ...
- Forward Thinking. ...
- Conceptual Thinking. ...
- Conflict Resolution. ...
- Decision Making.

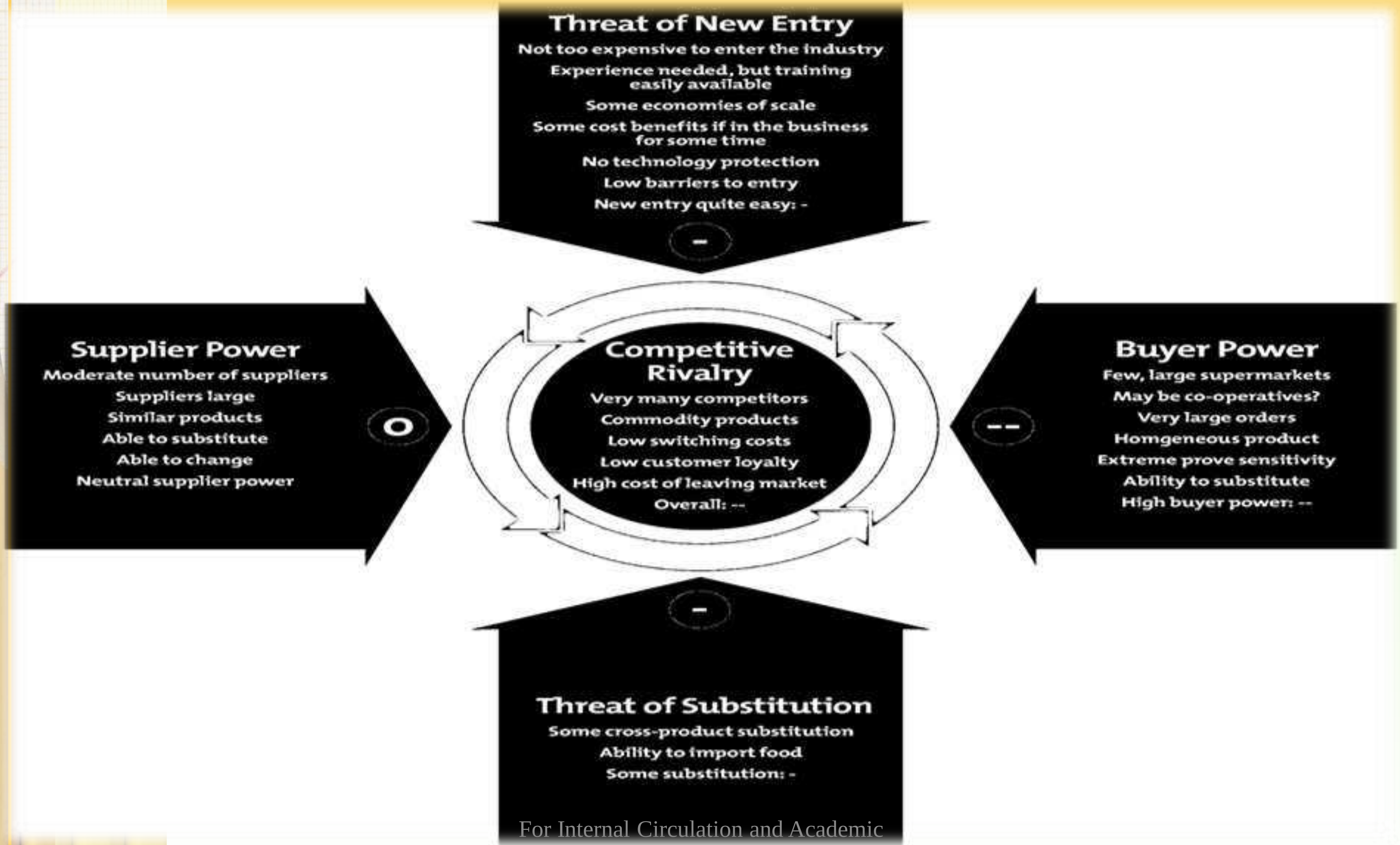
Competitive Analysis

- *Identifying your competitors and evaluating their strategies to determine their strengths and weaknesses relative to those of your own product or service.*
- A competitive analysis is a critical part of your company marketing plan. With this evaluation, you can establish what makes your product or service unique--and therefore what attributes you play up in order to attract your target market.

Interpreting the Five forces model

- The tool was created by Harvard Business School professor Michael Porter, to analyze an industry's attractiveness and likely profitability. ... He identified **five forces** that make up the competitive environment, and which can erode your profitability. These are: Competitive Rivalry.

Porters 5 forces model



Competitors analysis

- **Competitor analysis** in marketing and strategic management is an assessment of the strengths and weaknesses of current and potential **competitors**. This **analysis** provides both an offensive and defensive strategic context to identify opportunities and threats.
- There are **three** primary **types of competition**: direct, indirect, and replacement competitors. Direct **competitors** are the most recognizable variety of **competitors**, while the most difficult **type** to identify can be the replacement **competitors**.