UNIT 2 PROCESS OF STRATEGY

Objectives

After reading this unit, you should be able to:

- understand the process of strategy;
- identify various steps of strategy formulation;
- understand the role played by different participants in the process; and
- know the sequence of activities involved in the process.

Structure

2.1 INTRODUCTION

There are two dimensions of every action – substantive and procedural. The former involves determination of what to do and the latter is concerned with determination of how to do. Both of these dimensions are interdependent and taken together help in achieving the objectives for which the action is contemplated. In the context of an organization engaged in strategy formulation and implementation, the substantive dimension deals with the determination of strategy or set of strategies and procedural dimension deals with putting a strategy into operation. Besides these, it has to be decided that who will do what in completing the action. The logic of a process is that its particular elements are undertaken in a sequence over a period. The strategy process involved in strategy includes a number of elements. The process can be defined as a set of management decisions and actions which determines the long run direction and performance of the organization. It is a dynamic and continuous process. However, there are two problems in identifying and sequencing the elements:

i) There is no unanimity among various authors about the elements and their interaction.

ii) After the elements have been identified, their sequential arrangement is another problem.

Both these problems highlight the complexity of strategic process. The process includes definition of organizational vision, mission and objectives, environmental analysis, identification and evaluation of strategic alternatives, making a choice, implementing it and evaluating and controlling the strategy.

2.2 PROCESS OF STRATEGY

The process of strategy is cyclical in nature. The elements within it interact among themselves. Figures 2.1 and 2.2 present the process for single SBU firm and multiple SBU firm respectively. The process has to be adjusted for multiple SBU firms because there it is conducted at corporate level as well as SBU levels as these firms insert SBU strategy between corporate strategy and functional strategy. Initially, the process of strategy was discussed in terms of four phases which are:

- Identification phase
- Development phase
- Implementation phase
- Monitoring phase

The process of strategy does not have the same steps as stated by different authors. According to C.K. Prahalad, the process comprises of five steps. They are:

- Strategic Intent
- Environmental Analysis
- Evaluation of strategic alternatives and choice
- Strategy Implementation
- Strategy Evaluation and Control

For our understanding, the process has been divided into the following steps:

- Strategic Intent
- Environmental and Organizational Analysis
- Identification of Strategic Alternatives
- Choice of Strategy
- Implementation of Strategy
- Evaluation and Control

2.3 STRATEGIC INTENT

Setting of organizational vision, mission and objectives is the starting point of strategy formulation. The organizations strive for achieving the end results which are ‘vision’, ‘mission’, ‘purpose’, ‘objective’, ‘goals’, ‘targets’ etc. The hierarchy of strategic intent lays the foundation for the strategic management of any organization. The strategic intent makes clear what an organization stands for. It is reflected through vision, mission, business definition and objectives. Vision serves the purpose of stating what an organization wishes to achieve in long run. The process of assigning a part of a mission to a particular department and then further sub dividing the assignment among sections and individuals creates a hierarchy of objectives. The objectives of the sub unit contribute to the objectives of the larger unit of which it is a part. From strategy formulation point of view, an organization must define ‘why’ it exists, ‘how’ it justifies that existence, and ‘when’ it justifies the reasons for that existence. The answers to these questions lies in the organization’s mission, business definition, objectives and goals. These terms become the base for strategic decisions and actions.

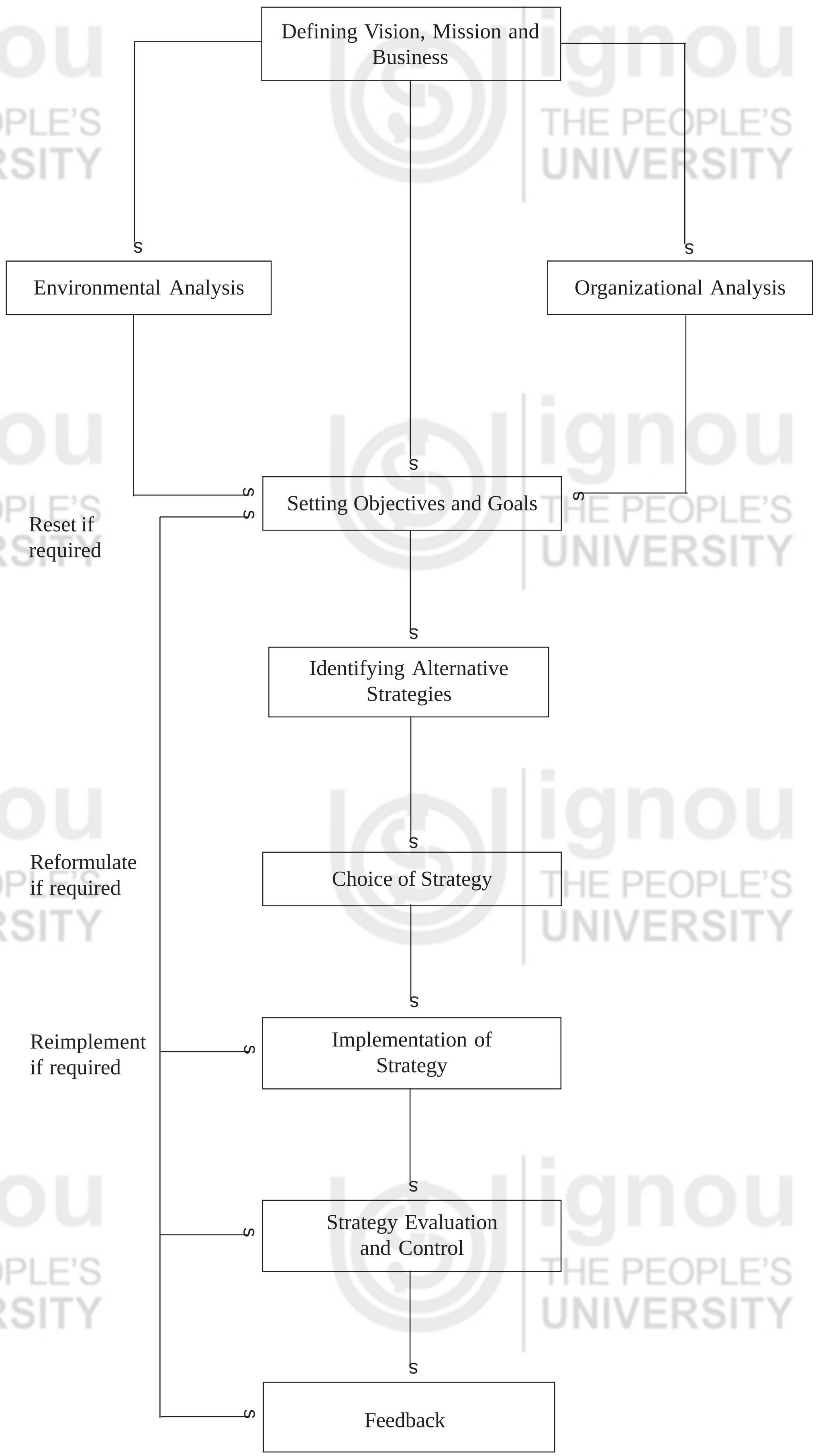

Figure 2.1: Strategic Process in a Single SBU Firm

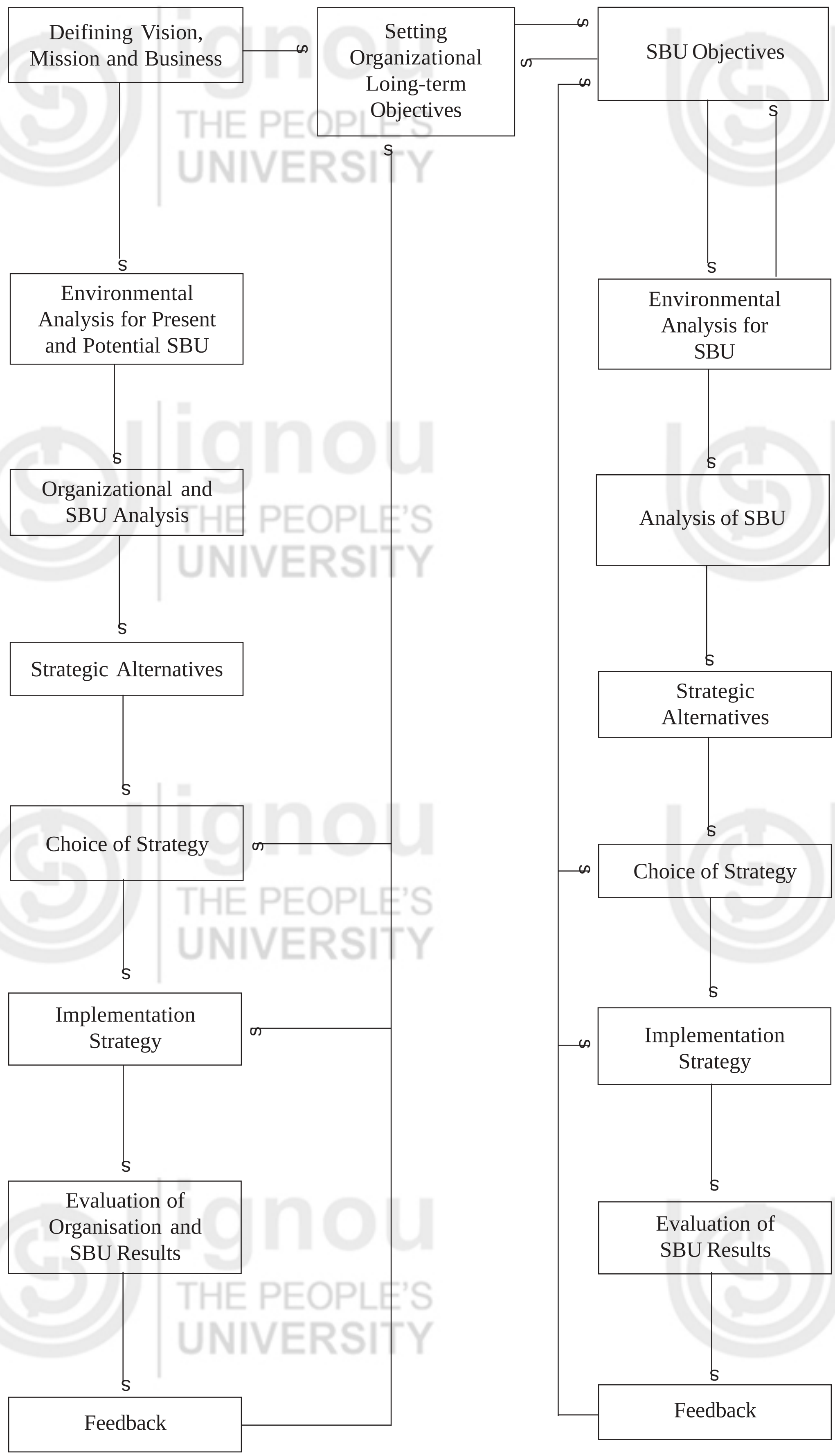

Figure 2.2: Strategic Management Processing in a Multiple SBU Firm

Mission

The vision of an organization is the expectation of the owner of the organization and putting this vision into action is mission. Often these terms are used interchangeably, but both are different. The dictionary meaning of mission is that, "mission relates to that aspect for which an individual has been or seems to have been sent into the world". Mission is relatively less abstract, subjective, qualitative, philosophical and non-imaginative. Mission has a societal orientation and is a statement which reveals what an organization intends to do for a society. It is a public statement which gives direction for different activities which organizations have to carry on. It motivates employees to work in the interest of the organization.

Business Definition

The answer to the question that 'how' does an organization justify its existence is defining business of the organization. A business definition is the clear cut statement of the business or a set of businesses, the organization engages or wishes to pursue in the future. It also defines the scope of the organization. An organization can face its competitors not by doing what they do but by doing it differently. Business can be defined along three dimensions viz a viz product, customer and technology. In whatever dimensions, it is defined, it must reflect two features:

- focus
- differentiation

Focus of business is defined in terms of the kind of functions the business performs rather than the broad spectrum of industry in which the organization operates. A sharp focus on business definition provides direction to a company to take suitable actions including positioning of the company's business.

The next feature involved in business definition is differentiation i.e. how an organization differentiates itself from others so that the business concentrates on achieving superior performance in the market. Differentiation can be on several bases like quality, price, delivery, service or any other factor which the concerned market segment values. For example, an organization can charge comparatively lower price as compared to its competitors in the same product quality segment, then price is not the differentiating factor. As against this, if the organization is charging a much lower price in the same product group excluding quality, price becomes a differentiating factor. For example, in synthetic detergent market, HLL and Nirma provide for such a differentiation. We will discuss this aspect in detail in Block 3.

Objectives and Goals

Once the organization's mission has been determined, its objective, desired future positions that it wishes to reach, should be identified. Organizational objectives are defined as ends which the organization seeks to achieve by its existence and operation. Objectives represent desired results which the organization wishes to attain. They indicate the specific sphere of aims, activities and accomplishments. An organization can have objectives in terms of profitability and productivity. Objectives provide a direction to the organization and all the divisions work towards the attainment of the set objectives. Objectives and goals are the terms which are used interchangeably.

It is necessary for the organization to assess the process identifying the objectives of each functional area. After accomplishment of these objectives, the overall objectives of the organization are achieved. Organization's mission becomes the cornerstone for strategy. Objectives are other factors which determine the strategy. By choosing its objectives, an organization commits itself for these.

Activity 1

1. Explain strategic process in a single business firm.

   ....

   ....

   ....

2. Distinguish between mission, objectives, and goals. Give some real world examples.

   ....

   ....

   ....

3. Explain hierarchy of strategic intent and its importance.

   ....

   ....

   ....

2.4 ENVIRONMENTAL AND ORGANIZATIONAL ANALYSIS

Every organization operates within an environment. This environment may be internal or external. For conducting an environmental analysis, the strategic intent has to be very clear. This clarity in definition of mission and objectives helps in the detailed analysis of the environment. Environmental analysis, also known as environmental scanning or appraisal, is the process through which an organization monitors and comprehends various environmental factors and determines the opportunities and threats that are provided by these factors. There are two aspects involved in environmental analysis:

- Monitoring the environment i.e. environmental search and
- Identifying opportunities and threats based on environmental monitoring i.e. environmental diagnosis.

Environmental analysis is an exercise in which total view of environment is taken. The environment is divided into different components to find out their nature, function and relationship for searching opportunities and threats and determining where they come from, ultimately the analysis of these components is aggregated to have a total view of the environment. Some elements indicate opportunities while others may indicate threats.

A large part of the process of environmental analysis seeks to explore the unknown terrain, the dimensions of future. The analysis emphasizes on what could happen and not necessarily what will happen. The factors which comprise firms environment are of two types:

- factors which influence environment directly including suppliers, customers and competitors, and
- factors which influence the firm indirectly including social, technological, political, legal, economic factors etc.

The environmental analysis plays a very important role in the process of strategy formulation. The environment has to be analysed to determine what factors in the environment present opportunities for greater accomplishment of organizational objectives and what factors present threats. Environmental analysis provides time to anticipate the opportunities and plan to meet the challenges. It also warns the organization about the threats. The analysis provides for elimination of alternatives which are inconsistent with the organizations objectives. Due to the element of uncertainty, environmental analysis provides for certain anticipated changes in the organization's network. The organization equips itself to meet the unanticipated changes and face the ever increasing competition.

For doing the environmental analysis, there can be the strategic advantage profile which provides for analysis of internal environment, and the organization capability profile as well. For analyzing the external environment, environmental threat and opportunity profile could be adopted. An organization has to continuously grow in term of its core business and develop core competencies.

Through organizational analysis, the organization has to understand its strengths and weaknesses. It has to identify the strengths and emphasize on them. At the same time, it has to identify its weaknesses and unprove them or try to eliminate them. Organizational threats and opportunities, strengths and weaknesses help in identifying the relevant environmental factors for detailed analysis.

Therefore, after developing the strategic intent, environmental analysis becomes the next important step in the process of strategy formation. The environmental analysis is covered in detail in unit 4 of block 2.

2.5 IDENTIFICATION OF STRATEGIC ALTERNATIVES

After environmental analysis, the next step is to identify the various strategic alternatives. After the identification of strategic alternatives they have to be evaluated to match them with the environmental analysis. According to Glueck & Jauch, "strategic alternatives revolve around the question whether to continue or change the business, the enterprise is currently improving the efficiency or effectiveness with which the firm achieves its corporate objectives in its chosen business sector" the process may result into large number of alternatives through which an organization relates itself to the environment. All alternatives cannot be chosen even if all of these provide the same results. Obviously, managers evaluate them and limit themselves.

According to Glueck, there are basically four grand strategic alternatives:

- Stability
- Expansion
- Retrenchment
- Combination

These are together known as stability strategies/ basic strategies.

Stability: In this, the company does not go beyond what it is doing now. The company serves with same product, in same market and with the existing technology. This is possible when environment is relatively stable. Modernization, improved customer service and special facility may be adopted in stability.

Expansion: This is adopted when environment demands increase in pace of activity. Company broadens its customer groups, customer functions and the technology. These may be broadened either singly or jointly. This kind of a strategy has a substantial impact on internal functioning of the organization.

Retrenchment: If the organization is going for this strategy, then it has to reduce its scope in terms of customer group, customer function or alternative technology. It involves partial or total withdrawal from three things. For example L & T getting out of the cement business. The objective varies from company to company.

Combination: When all the three strategies are taken together, this is known as combination strategy. This kind of strategy is possible for organizations with large number of portfolios.

Apart from these four grand strategies, different strategies which are used commonly are as follows:

Modernization: In this , technology is used as the strategic tool to increase production and productivity or reduce cost. Through modernization, the company aims to gain competitive and strategic strength.

Integration: The company starts producing new products and services of its own either creating facility or killing others. Integration can either be forward or background in terms of vertical integration. In forward integration it gains ownership over distribution or retailers, thus moving towards customers while in backward integration the company seeks ownership over firm's suppliers thus moving towards raw materials. When the organization gains ownership over competitors, it is engaged in horizontal integration.

Diversification: Diversification involves change in business definition either in terms of customer functions, customer groups or alternative technology. It is done to minimize the risk by spreading over several businesses, to capitalize organization strength and minimize weaknesses, to minimize threats, to avoid current instability in profit & sales and to facilitate higher utilization of resources. Diversification can be either related or unrelated, horizontal or vertical, active or passive, internal or external. It is of the following types:

- Concentric diversification
- Conglomerate diversification
- Horizontal diversification

Joint Ventures: In joint ventures, two or more companies form a temporary partnership (consortium). Companies opt for joint venture for synergistic advantages to share risk, to diversify and expand, to bring distinctive competences, to manage political and cultural difficulty, to take technological advantage and to explore unexplored market.

Strategic Alliance: When two or more companies unite to pursue a set agreed upon goals but remain independent it is known as strategic alliance. The firms share the benefits of the alliance and control the performance of assigned tasks. The pooling of resources, investment and risks occur for mutual gain.

Mergers: It is an external approach to expansion involving two or more than two organizations. Companies go for merger to become larger, to gain competitive advantage, to overcome weaknesses and sometimes to get tax benefits. Merger takes place with mutual consent and common goals.

Acquisition: For the organization which acquires another, it is acquisition and for organization which is acquired, it is merger.

Takeovers: In takeovers, there is a strong motive to acquire others for quick growth and diversification.

Divestment: In divestment, the company which is divesting has no ownership and control in that business and is engaged in complete selling of a unit. It is referred to the disposing off a part of the business.

Turnaround Strategy: When the company is sick and continuously making losses, it goes for turnaround strategy. It is the efforts in reversing a negative trend and it is the efforts to keep an organization alive.

All these alternatives are available to an organization and according to its objectives, it can decide on the one which is most suitable. We will study all these strategies in detail in block 4.

Activity 2

1. What is strategic advantage profile?

   ....

   ....

   ....

   ....

2. Select any two strategic alternatives and cite company examples of each.

   ....

   ....

   ....

   ....

2.6 CHOICE OF STRATEGY

The next logical step after evaluation of strategic alternatives is choice of the most suitable alternative. For a business group, it may be possible to choose all strategic alternatives but for a single company it is quite difficult. The strategic alternatives has to be matched with the problem. While making a choice, two types of factors have to be considered:

- Objective factors
- Subjective factors

Objective factors are the ones which can be quantified while subjective factors are the ones which cannot be quantified and are based on experience and opinion of people. Strategic choice is like a decision making process. There are three objective ways to make a choice:

- Corporate Portfolio Analysis
- Competitor Analysis
- Industry Analysis

Corporate Portfolio Analysis

When the company is in more than one business, it can select more than one strategic alternative depending upon demand of the situation prevailing in the different portfolios. It is necessary to analyze the position of different business of the business house which is done by corporate portfolio analysis. This analysis can be done by using any of the seven technologies given below:

- Experience curve
- PLC concept
- BCG Matrix
- GE nine cell Matrix

- Space Diagram
- Hofer's product market evaluation matrix
- Directional Policy Matrix

In the **experience curve technique**, the experience of the strategist enables him to decide which businesses to enter or quit.

Depending upon the stage of the **product life cycle** of the business, one can make a strategic choice for different portfolio.

Boston consultancy developed a matrix called **BCG Matrix** which is helpful to make strategic choice. In this, the products are positioned based on various external and internal factors to know the continuity, growth and discontinuing product. The factors given are specific in nature and attempt has been made to quantify them.

The **GE Nine Cell Matrix** is a matrix in which nine positions are defined in terms of business strength factors and industry attractiveness factors. The business strength factors include market share, profit margin, ability to compete, market knowledge, competitive position, technology, and management caliber and the industry attractiveness factor include market size, growth rate, profit, competition, economics of scales, technology and other environmental factors. Nine cells are divided into three zones and depicted by different colours i.e. green, yellow and red. Each zone of matrix presents a specific type of strategy or set of strategies.

The **strategic position and action evaluation (SPACE)** is an extension of two dimensional portfolio analysis which helps an organization to hammer out an appropriate strategic posture. It involves consideration of dimensions like organization's competitive advantage, organization's financial strength, environmental stability etc. Various SPACE factors are measured in terms of degrees, often quantified from 0 to 5 with 0 indicating most unfavourable and 5 indicating most favourable. On basis of four dimensions, organization can choose its strategy.

Hofer and Schendel suggested the **product market evaluation matrix**. They constructed a 15 cell matrix taking competitive position and stages of product / market evolution dimensions.

The **directional policy matrix** was developed by shell chemicals, U.K. It used two dimensions – business sector prospects and company's competitive capabilities to choose strategies. Each dimension is further divided into unattractive, average and attractive (for business sector prospects) and weak, average and strong (for company's competitive capabilities. Each quadrant shows a different strategy which the organization may adopt.

Competitor Analysis

In this analysis, we try to assess what the competitor has and what he does not have. We explore everything with respect to the competitor. In competitor analysis, focus is on external environment as one of the components of external environment is the competitor. The difference between SWOT analysis and competitor analysis is that in competitor analysis we are concerned with only one component of the environment i.e. competitor while in SWOT analysis we take about all the factors of the environment.

Industry Analysis

In industry analysis, all the competitors belonging to the particular industry with which the organization is associated are looked at. All the members of the industry are considered as a whole. In competitive analysis, only the major competitors are assessed while in industry analysis all the competitors belonging to the industry are looked at.

The strategic choice is a decision making process which looks into the following steps:

- Focussing on strategic alternatives
- Evaluating strategic alternatives
- Considering decision factors – objective factors and subjective factors.
- Finally, making the strategic choice.

2.7 IMPLEMENTATION OF STRATEGY

After the evaluation of the alternatives, the choice of strategy is made. This choice now needs to be implemented i.e. strategy is now put into action. This step of strategy process is the implementation step. This includes the activation of the strategic alternatives chosen. Strategy making and strategy implementation are two different things. Strategy making requires person with vision while strategy implementation requires a person with administrative ability. If the strategy made is not implemented properly then the objectives would be lost. Strategy implementation is as good as starting a new business. The stage requires looking at the problems and eliminating them. In strategy implementation, one has to pass through different steps:

- Project Implementation
- Procedural Implementation
- Resource Allocation
- Structural Implementation
- Functional Implementation
- Behavioural Implementation

Project implementation is a comprehensive plan of action from acquiring land to the installation of machinery within a time frame.

Procedural implementation takes place by following the "Law of the Land" i.e. the rules and regulation in terms of wastage cost, utility etc. It involves completing all those procedural formalities that have been prescribed by the governments both central and state. A procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished. Procedural implementation involves different steps. These steps vary from industry to industry. Also these may change as per the changes in the government policies. The major procedural requirements are:

- Licensing Requirements
- FEMA Requirements
- Foreign Collaboration Procedure
- Capital Issue Requirements
- Import and Export requirements
- Incentives and benefits

After procedural implementation thire comes **resource allocation**. The organization has to allocate resource both inside the company and outside the company. It has to make decisions regarding short term and long term allocation. The problems associated with resource allocation is the problem involved in the process. The problems emerge because:

- Resources are limited.
- There are competing organizational units with each trying to have the major portion.
- Organization's past commitment.

The **structural implementation** of strategy involves designing of the organization structure and interlinking various units and sub units of the organization. It involves issues like

- How the work of the organization will be divided?
- How will the work be assigned among various positions, groups, department, divisions, etc.?
- The coordination among these for achivement of organizational objectives.

There are basically two aspects:

- Differentiation and
- Integration

Differentiation refers to, "the differences in cognitive and emotional orientations among managers in different functional departments."

Integration refers to, "the quality of the state of collaboration that are required to achieve unity of efforts in the organization."

The organization has to emphasize on both aspects and therefore, it must design organization structure and provide systems for integration and coordination among organization's parts and members.

Functional implementation deals with the development of policies and plans in different areas of functions which an organization undertakes. The major functions of the organization include:

- Production
- Marketing
- Finance
- Personnel

Each and every function makes its own policies and plans in tune with the whole organization's strategy and then implements to fulfill the objectives. For example, the production function may involve decisions relating to size and location of plants, technology to be used, cost factor, production capacity, quality of the product, research and development etc. Similarly marketing function may include the decisions relating to type of products, price of products, product distribution and product promotion.

The financial function deals with decisions like sources of funds, usage of funds and management of earnings. Likewise, the major consideration in personnel policies include recruitment of right personnel, development of personnel, motivation system, retaining personnel, personnel mobility, industrial relations etc.

Behavioural implementation deals with those aspects of strategy implementation that have impact on behaviour of people in the organizations. Since human resources form an integral part of the organization, their activities and behaviour need to be directed in a certain way. Any departure may lead to the failure of strategy. The five issues in this context relevant to strategy implementation are:

- Leadership
- Organization Culture
- Values and Ethics
- Corporate Governance, and
- Organizational Politics

2.8 EVALUATION AND CONTROL

This is the last step of the strategy making process. This is an ongoing process and evaluation and control have to be done for future course of action as well. To get successful results and to achieve organizational objectives, there has to be continuous monitoring of the implementation of strategy. The evaluation and control of strategy may result in various actions that the organization may have to take for successful well being, such actions may involve any kind of corrective measures concerned with any of the steps involved in the whole process be it choice for setting mission or objectives. The process of strategy formulation is considered as a dynamic process wherein corrective actions are taken and change is brought in any of the factors affecting strategy.

Evaluation of strategy is done by the top managers to determine whether their strategic choice is implemented in a manner that it is meeting the organization's objectives. Evaluation emphasizes measurement of results of a strategic action. On the other hand, control emphasizes on taking necessary action in the light of gap that exists between intended results and actual results in the strategic action.

When evaluation and control is carried out efficiently, it contributes in three basic areas:

- Measurement of organizational process,
- Feedback for future actions, and
- Linking performance and rewards.

The board of directors, the chief executive and other managers all play a very important role in strategy evaluation and control. Control can be of three types:

- Control of inputs that are required in an action, known as feed forward control.
- Control at different stages of action process, known as concurrent control.
- Past action control based on feedback from completed action known as feedback control.

Control is exercised by mangers in the form of four steps:

- Setting performance standards
- Measuring actual performance
- Analyzing variance
- Taking corrective actions

After evaluation and control, the strategy process continues in an efficient manner. The effectiveness could be assessed only when the strategy helps in the fulfillment of organizational objectives.

2.9 SUMMARY

A good strategy is one which helps in the accomplishment of the organization' s objectives. The first step, therefore, is the development of strategic intent i.e. the setting of organizational mission and objectives. After this, the organization has to assess its environment external to it and which affects its strategy. It has to assess the opportunities and threats in the environment. Alongwith the environmental analysis, the organization has to go for an organizational analysis as well, through which it assesses its own strengths and weakness and then incorporates them in the strategy being formulated. It becomes necessary for the organization to identify the various strategic alternatives and choose from them the one which is most compatible with the organizational objectives. The strategic choice has to be implemented in a manner that the organization's culture and structure support the implementation. After implementing the strategy, strategic evaluation and control is carried out so that the firm is successful in meeting its objectives.

2.10 KEY WORDS

Acquisition : For the organization which acquires another it is acquisition and for organization which is acquired, it is merger.

Diversification : is a growth strategy which involves adding of new products or services to existing ones.

Diversification : Diversification involves change in business definition either in terms of customer functions, customer groups or alternative technology.

Divestment : In divestment, the company which is divesting has no ownership and control in that business and is engaged in complete selling of a unit. It is referred to the disposing off a part of the business.

Expansion : Strategy in which company broadens its customer groups, customer function and the technology.

Mergers : It is an external approach to expansion involving two or more than two organizations.

Retrenchment : Strategy in which organization has to reduce its scope in terms of customer group, customer functions or alternative technology.

Stability : Strategy in which the company serves the same product in same market and with existing technology.

Structure : is the configuration of resources used by management to coordinate the activities of the organization so that the objectives can be achieved.

Takeovers : In takeovers, there is strong motive to acquire others for quick growth and diversification.

Turnaround Strategy : When the company is sick and continuously making losses, it goes for turnaround strategy. It is the efforts in reversing a negative trend and it is the efforts to keep an organization alive.

2.11 SELF ASSESSMENT QUESTIONS

1. Describe the process of strategy formulation.
2. What are the various strategic alternatives? Give example of each.

2.12 REFERENCES AND FURTHER READINGS

Drucker, P.F. (1974). "*Management Task Responsibilities and Practices*", Harper & Row, New York.

Ghosh, P.K. (1996). "*Business Policy Strategic planning and Management*", Sultan Chand & Sons, New Delhi.

Ghosh, P.K., I.C. Dhingra, N. Rajan Nair and K.P. Mani (1997). "*Advanced Management Accounting Strategic Management*", Sultan Chand & Sons, New Delhi.

Glueck, W.F. and Iavch, L.R. (1984). "*Business Ploicy and Strategic Management*" Mc graw Hill, New York.

Kazmi, Azhar. (2002). "*Business Policy and Strategic Management*", Tata Mcgraw Hill Publishing Co, Ltd., New Delhi.

Mamoria, C.B., Mamoria Satish and Rao, P. Subba. (2001). "*Business Planning and Plicy*", Himalaya Publishing House, Mumbai.

Miller, A. and Den, G.G. (1996). "*Strategic Management*" Mcgraw hill, New York.

Prasad, L.M. (2002). "*Business Policy: Strategic Management*", Sultan Chand & Sons, New Delhi.

Shrivastava, R.M. (1995). "*Corporate Strategic Management*", Pragati Prakashan, Meerut.

Shrivastava, R.M. (1999). "*Management Policy and Strategic Management: Concepts, Skills and Practices*, Himalaya Publication House, Mumbai.

Thompson, J.L. (1997). "*Strategic Management: Awareness and Change*", International Thompson Business Press, London.