
UNIT 1 CONCEPT OF STRATEGY

OBJECTIVES

After reading this unit you should be able to:

- Define strategy and understand its meaning
- Understand the essence of strategy.
- Distinguish b/w strategy, policy, tactics, programmes, procedures and rules.
- Understand strategic decisions and its difference with operational decisions.
- Understand different levels of strategy.
- Know the importance of strategy.

STRUCTURE

- 1.1 Introduction
- 1.2 Meaning of Strategy
- 1.3 Nature of Strategy
- 1.4 Essence of Strategy
- 1.5 Strategy v/s Policy and Tactics
- 1.6 Strategy v/s Programmes, Procedure, Rules
- 1.7 Levels of Strategy
- 1.8 Importance of Strategy
- 1.9 Summary
- 1.10 Key Words
- 1.11 Self Assessments Questions
- 1.12 Further Readings

1.1 INTRODUCTION

The top management of an organization is concerned with selection of a course of action from among different alternatives to meet the organizational objectives. The process by which objectives are formulated and achieved is known as strategic management and strategy act as the means to achieve the objective. **Strategy is the grand design or an overall 'plan' which an organization chooses in order to move or react towards the set objectives by using its resources.** Strategies most often devote a general programme of action and an implied deployment of emphasis and resources to attain comprehensive objectives. An organization is considered efficient and operationally effective if it is characterized by coordination between objectives and strategies. There has to be integration of the parts into a whole. Strategy helps the organization to meet its uncertain situations with due diligence. Without a strategy, the organization is like a ship without a rudder. It is like a tramp, which has no particular destination to go to. Without an appropriate strategy effectively implemented, the future is always dark and hence, more are the chances of business failure.

1.2 MEANING OF STRATEGY

The word 'strategy' has entered in the field of management from military where it refers to apply the forces against an enemy to win a war. Originally, the word strategy has been derived from Greek 'strategos' which means generalship. The word was used first time around 400 BC. The word strategy means the art of the general to fight in war.

The dictionary meaning of strategy is, "the art of so moving or disposing the instrument of warfare as to impose upon enemy, the place time and conditions for fighting by one self."

In management, the concept of strategy is taken in more broader terms. According **Glueck, "Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through proper implementation process."**

It lays stress on the following:

- a) Unified comprehensive and integrated plan.
- b) Strategic advantage is related to challenges of environment.
- c) Proper implementation ensures achievement of basic objectives.

Another definition of strategy is given below which also relates strategy to its environment. "**Strategy is organization's pattern of response to its environment over a period of time to achieve its goals and mission.**"

This definition lays stress on the following:

- a) It is organization's pattern of response to its environment.
- b) The objective is to achieve its goals and mission.

However, various experts do not agree about the precise scope of strategy. Lack of consensus has lead to two broad categories of definitions: strategy as action inclusive of objective setting and strategy as action exclusive of objective setting.

Strategy As Action Inclusive of Objective Setting

In 1960s, Chandler made an attempt to define strategy as "the determination of basic long term goals and objective of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals."

This definition provides for three types of actions involved in strategy:

- i) Determination of long term goals objectives
- ii) Adoption of courses of action
- iii) Allocation of resources.

Strategy As Action Exclusive of Objective Setting

This is another view in which strategy has been defined. It states that strategy is a way in which the firm, reacting to its environment, deploys its principal resources and marshalls its efforts in pursuit of its purpose. Michael Porter has defined strategy as **“Creation of a unique and valued position involving a different set of actives. The company that is strategically positioned performs different activities from rivals or performs similar activities in different ways.”**

The people who believe this version of the definition call strategy a unified, comprehensive and integrated plan relating to the strategic advantages of the firm to the challenges of the environment.

After considering both the views, strategy can simply be put as management’s plan for achieving its objectives. It basically includes determination and evaluation of alternative paths to an already established mission or objective and eventually, choice of best alternative to be adopted.

1.3 NATURE OF STRATEGY

Based on the above definitions, we can understand the nature of strategy. A few aspects regarding nature of strategy is a follows:

- Strategy is a major course of action through which an organization relates itself to its environment particularly the external factors to facilitate all actions involved in meeting the objective of the organization.
- Strategy is the blend of internal and external factors. To meet the opportunities and threats provided by the external factors, internal factors are matched with them.
- Strategy is the combination of actions aimed to meet a particular condition, to solve certain problems or to achieve a desirable end. The actions are different for different situations.
- Due to its dependence on environmental variables, strategy may involve a contradictory action. An organization may take contradictory actions either simultaneously or with a gap of time. For example, a firm is engaged in closing down of some of its business and at the same time expanding some.
- Strategy is future oriented. Strategy actions are required for new situations which have not arisen before in the past.
- Strategy requires some systems and norms for its efficient adoption in any organization.
- Strategy provides overall framework for guiding enterprise thinking and action.

The purpose of strategy is to determine and communicate a picture of enterprise through a system of major objectives and policies. Strategy is concerned with a unified direction and efficient allocation of an organization’s resources. A well made strategy guides managerial action and thought. It provides an integrated approach for the organization and aids in meeting the challenges posed by environment.

1.4 ESSENCE OF STRATEGY

Strategy, according to a survey conducted in 1974, includes the determination and evaluation of alternative paths to an already established mission or objective and eventually, choice of the alternative to be adopted. Strategy is characterized by four important aspects.

- Long term objectives
- Competitive Advantage
- Vector
- Synergy

LONG TERM OBJECTIVES

Strategy is formulated keeping in mind the long term objectives of the organization. It is so because it emphasizes on long term growth and development. Strategy is future oriented and therefore concerned with the objectives which have a long term perspective. The objectives give directions for implementing a strategy.

COMPETITIVE ADVANTAGE

Whenever strategy is formulated, managers have to keep in mind the competitors of the organization. The environment has to be continuously monitored for forming a strategy. Strategy has to be made in a sense that the firm may have competitive advantage. It makes the organization competent enough to meet the external threats and profit from the environmental opportunities. The changes that take place over a period of time in the environment have made the use of strategy more beneficial. While making plans, competitors may be ignored but in making strategy competitors are given due importance.

VECTOR

Strategy involves adoptions of the course of action and allocation of resource for meeting the long term objectives. From among the various courses of action available, the managers have to choose the one which utilizes the resources of the organization in the best possible manner and helps in the achievement of the organizational objectives. A series of decisions are taken and they are in the same direction.

Strategy provides direction to the whole organization. When the objective have been set, they bring about clarity to the whole organization. They provide clear direction to persons in the organization who are responsible for implementing the various courses of action. Most people perform better if they know clearly what they are expected to do and where the organization is going.

SYNERGY

Once we take a series of decisions to accomplish the objectives in the same direction there will be synergy. Strategies boost the prospects by providing synergy.

Activity 1

1. Ask the managers of three organizations about their perception regarding concept of strategy.

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2. Explain the term vector. How is it important in decision making?

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3. Discuss the nature of strategy.

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1.5 STRATEGY V/S POLICIES AND TACTICS

In this subsection, the concept of strategy is compared with concept of policies and tactics.

- **STRATEGY V/S POLICIES**

Strategy has often been used as a synonym of policy. However, both are different and should not be used interchangeably.

Policy is the guideline for decisions and actions on the part of subordinates. It is a general statement of understanding made for achievement of objectives. Policies are statements or a commonly accepted understandings of decision making. They are thought oriented. Power is delegated to the subordinates for implementation of policies. In general terms, policy is concerned with course of action chosen for the fulfillment of the set objectives. It is an overall guide that governs and controls managerial actions. Policies may be general or specific, organizational or functional, written or implied. They should be clear and consistent. Policies have to be integrated so that strategy is implemented successfully and effectively. For example, when the performance of two employees is similar, the promotion policy may require the promotion of the senior employee and hence he would be eligible for promotion.

Strategies on the other hand are concerned with the direction in which human and physical resources are deployed and applied in order to maximize the chances of achieving organizational objectives in the face of environmental variable. Strategies are specific actions

suggested to achieve the objectives. Strategies are action oriented and everyone in the organization are empowered to implement them. Strategy cannot be delegated downward because it may require last minute decisions.

Strategies and policies both are the means towards the end. In other words, both are directed towards meeting organizational objectives. Strategy is a rule for making decision while policy is contingent decision.

- **STRATEGY V/S TACTICS**

Strategies are on one end of the organizational decisions spectrum while tactics lie on the other end.

Carl Von Clausewitz, a Prussian army general and military scientist defines military strategy as ‘making use of battles in the furtherance of the war and the tactics as “the use of armed forces in battle”. A few points of distinction between the two are as follows:

- (i) Strategy determines the major plans to be undertaken while tactics is the means by which previously determined plans are executed.
- (ii) The basic goal of strategy according to military science is to break the will of the army, deprive the enemy of the means to fight, occupy his territory, destroy or obtain control of his resources or make him surrender. The goal of tactics is to achieve success in a given action and this forms one part of a group of related military action.
- (iii) Tactics decisions can be delegated to all the levels of an organization while strategic decisions can not be delegated too low in the organization. The authority is not delegated below the levels than those which possess the perspective required for taking decisions effectively.
- (iv) Strategy is formulated in both a continuous as well as irregular manner. The decisions are taken on the basis of opportunities, new ideas etc. Tactics is determined on a periodic basis by various organizations. A fixed time table may be made for following tactics.
- (v) Strategy has a long term perspective and occasionally it may have a short term duration. Thus, the time horizon in terms of strategy is flexible but in case of tactics, it is short run and definite.
- (vi) The decisions taken as part of strategy formulation and implementation have a high element of uncertainty and are taken under the conditions of partial ignorance. In contrast tactical decisions are more certain as they work upon the framework set by the strategy. So the evaluation of strategy is difficult than the evaluation of tactics.
- (vii) Since an attempt is made in strategy to relate the organization with its environment, the requirement of information is more than that required in tactics. Tactics uses information available internally in an organization.
- (viii) The formulation of strategy is affected considerably by the personal values of the person involved in the process but the same is not the case in tactics implementation.

- (ix) Strategies are the most important factor of organization because they decide the future course of action for organization as a whole. On the other hand tactics are of less importance because they are concerned with specific part of the organization.

Activity 2

1. List the policies of any organization and also state the strategies it undertook.

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2. Distinguish between strategy and tactics.

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3. Distinguish between strategy and policy.

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1.6 STRATEGY AND PROGRAMMES, PROCEDURE & RULES

In this subsection, the relation ship of strategy is explained with programmes, procedure and rules.

• PROGRAMMES

A programme is a single use comprehensive plan laying down the principal steps for accomplishing a specific objective and sets an approximate time limit for each stage. It is basically concerned with providing answers to questions like: By whom will the actions be taken up? When will the actions be taken? Where will the actions be taken?

Programmes are guided by organization's objectives and strategies and cover many of the other types of plans. Therefore, they provide a step by step approach to guide the action necessary to meet the objectives as set in the strategy. Programmes provide the sequence of activities in proper order which are designed to implement polices.

Programmes are the instruments for coordination as they require system, thinking and action. They also involve integrated and coordinated planning efforts.

• PROCEDURE

In general terms, a procedure can be defined as “ A series of functions or steps performed to accomplish a specific task or undertaking.” Strategies, programmes, policies, budgets etc. need to be supplemented with detailed specifications i.e. how they are to / would operate. A procedure is a precise means of making a step by step guide to action that operates within a policy framework. Most companies have hundreds of procedures like for selection, promotion, transfer etc. They are essential for smooth operation of the business activities. For example procedure may include calling tenders for purchasing materials, keeping them in stock room and issuing them against requisition slips. Procedures are concerned with communication of tasks to be performed, organization interfaces and the responsibilities of the individuals involved. They describe the customary method for handling a future activity. It gives sequence of actions directed at a single goal (usually short term) that is repeatedly pursued, i. g. adopting budget, making procedures or granting sick leave to an employee against medical certificate etc. Procedure are more rigid and allow no freedom as against strategies which are flexible and are not concerned with fixed steps.

• RULES

A rule is principle to which an action or a procedure conforms or is intended to conform. It is a standard or a norm to be followed in the conduct of a business in a particular situation. It is more rigid and demands a specific action with respect to particular situation. It does not mention any kind of time estimate or sequence as in the case of procedures. It is much more specific than a policy. It allows no liberty or leniency and does not tolerate much deviation. Rules have to be strictly followed and non compliance may entail penalty or punishment. For example, “No Smoking” is a rule which has to be adhered to by all the levels of management.

1.7 LEVELS OF STRATEGY

It is believed that strategic decision making is the responsibility of top management. However, it is considered useful to distinguish between the levels of operation of the strategy. Strategy operates at different levels:

- Corporate Level
- Business Level
- Functional Level

There are basically two categories of companies- one, which have different businesses organized as different directions or product groups known as profit centers or strategic business unit(SBUs) and other, which consists of companies which are single product companies. The example of first category can be that of Reliance Industries Limited which is a highly integrated company producing textiles, yarn, and a variety of petro chemical products and the example of the second category could be Ashok Leyland Limited which is engaged in the manufacturing and selling of heavy commercial vehicles. The SBU concept was introduced by General Electric Company (GEC) of USA to manage product business. The fundamental concept in the SBU is the identification of discrete independent product/ market segments served by the organization. Because of the different environments served by each product, a SBU is created for each independent

product/ segment. Each and every SBU is different from another SBU due to the distinct business areas (DBAs) it is serving. Each SBU has a clearly defined product/market segment and strategy. It develops its strategy according to its own capabilities and needs with overall organizations capabilities and needs. Each SBU allocates resources according to its individual requirements for the achievement of organizational objectives. As against the multi product organizations, the single product organizations have single Strategic Business unit. In these organizations, corporate level strategy serves the whole business. The strategy is implanted at the next lower level by functional strategies. In multiple product company, a strategy is formulated for each SBU (known as business level strategy) and such strategies lie between corporate and functional level strategies.

The three levels are explained below.

• **CORPORATE LEVEL STRATEGY**

At the corporate level, strategies are formulated according to organization wise policies. These are value oriented, conceptual and less concrete than decisions at the other two levels. These are characterized by greater risk, cost and profit potential as well as flexibility. Mostly, corporate level strategies are futuristic, innovative and pervasive in nature. They occupy the highest level of strategic decision making and cover the actions dealing with the objectives of the organization. Such decisions are made by top management of the firm. The example of such strategies include acquisition decisions, diversification, structural redesigning etc. The board of Directors and the Chief Executive Officer are the primary groups involved in this level of strategy making. In small and family owned businesses, the entrepreneur is both the general manager and chief strategic manager.

• **BUSINESS LEVEL STRATEGY**

The strategies formulated by each SBU to make best use of its resources given the environment it faces, come under the gamut of business level strategies. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and coordination between them for achievement of corporate level objectives. These strategies operate within the overall organizational strategies i.e. within the broad constraints and policies and long term objectives set by the corporate strategy. The SBU managers are involved in this level of strategy. The strategies are related with a unit within the organization. The SBU operates within the defined scope of operations by the corporate level strategy and is limited by the assignment of resources by the corporate level. However, corporate strategy is not the sum total of business strategies of the organization. Business strategy relates with the “how” and the corporate strategy relates with the “what”. Business strategy defines the choice of product or service and market of individual business within the firm. The corporate strategy has impact on business strategy.

• **FUNCTIONAL LEVEL STRATEGY**

This strategy relates to a single functional operation and the activities involved therein. This level is at the operating end of the organization. The decisions at this level within the organization are described as tactical. The strategies are concerned with how different functions of the enterprise like marketing, finance, manufacturing etc.

contribute to the strategy of other levels. Functional strategy deals with a relatively restricted plan providing objectives for specific function, allocation of resources among different operations within the functional area and coordination between them for achievement of SBU and corporate level objectives.

Sometimes a fourth level of strategy also exists. This level is known as the operating level. It comes below the functional level strategy and involves actions relating to various sub functions of the major function. For example, the functional level strategy of marketing function is divided into operating levels such as marketing research, sales promotion etc.

Three levels of strategies have different characteristics as shown in the following table.

TABLE 1
STRATEGIC DECISIONS AT DIFFERENT LEVELS

DIMENSIONS	LEVELS		
	CORPORATE	BUSINESS	FUNCTIONAL
TYPE OF DECISION	CONCEPTUAL	MIXED	OPERATIONAL
Impact	Significant	Major	Insignificant
Risk Involved	High	Medium	Low
Profit Potential	High	Medium	Low
Time Horizon	Long	Medium	Low
Flexibility	High	Medium	Low
Adaptability	Insignificant	Medium	Significant

1.8 IMPORTANCE OF STRATEGY

With the increase in the pressure of external threats, companies have to make clearer strategies and implement them effectively so as to survive. There have been companies like Martin Burn, Jessops etc. that have completely become extinct and some companies which were not existing before they have become the market leaders like Reliance, Infosys, Technologies etc. The basic factor responsible for differentiation has not been governmental policies, infrastructure or labour relations but the type of strategic thinking that different companies have shown in conducting the business.

Strategy provides various benefits to its users:

- Strategy helps an organization to take decisions on long range forecasts.
- It allows the firm to deal with a new trend and meet competition in a effective manner.
- With the help of strategy, the management becomes flexible to meet unanticipated future changes.
- Efficient strategy formation and implementation result into financial benefits to the organization in the form of increased profits.
- Strategy provides focus in terms of organizational objectives and thus provides clarity of direction for achieving the objectives.
- Organizational effectiveness is ensured with effective implementation of the strategy.

- Strategy contributes towards organizational effectiveness by providing satisfaction to the personnel.
- It gets managers into the habit of thinking and thus makes them, proactive and more conscious of their environments.
- It provides motivation to employees as it pave the way for them to shape their work in the context of shared corporate goals and ultimately they work for the achievement of these goals.
- Strategy formulation & implementation gives an opportunity to the management to involve different levels of management in the process.
- It improves corporate communication, coordination and allocation of resources.

With all the benefits listed above, it is quite clear that strategy forms an integral part of an organization and is the means to achieve the end in an efficient and effective manner.

ACTIVITY 3

1. Identify the benefits which an organization may have after implementing strategies. Choose any organization of your choice.

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2. Distinguish corporate level strategy and business level strategy.

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3. State three benefits of strategy.

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1.9 SUMMARY

In this unit we introduced the concept of strategy. Strategy is the conscious and rational management exercise which involves defining and achieving an organization objectives and implanting its mission. Strategy is a major course of action, a blend of internal & external factors and is particular to a specific situation. It is dependant on environmental variables and as futuristic in nature. Strategy has been misused with terms like policy, tactics, programmes and procedures and rules. It is differentiated with all these concepts. Strategy is operational at three levels – Corporate level, Business level and Functional level. There may be a fourth level known as the Operations level as well. Strategies are lifeblood of business activities.

1.10 KEY WORDS

- Strategy-** A unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment.
- Policy-** Guideline for decisions and actions on the part of subordinates and is a general statement of understanding made for the achievement of objectives.
- Tactics-** It is the Means by which previously determined plans are executed.
- Programmes-** A single use comprehensive plan laying down the principal steps for accomplishing a specific objective and sets an approximate time limit for each stage.
- Procedures-** A series of functions or steps performed to accomplish a specific task or undertaking.
- Rules-** A principle to which an action or a procedure conforms or is intended to conform.

1.11 SELF ASSESSMENT QUESTIONS

- 1) What do you mean by strategy? Explain the nature of strategy.
- 2) “Strategy is synonymous with policies” Comment on the statement.
- 3) Differentiate between strategy and programmes, procedures, rules.
- 4) What are the various levels at which a strategy may exist?
- 5) What is the importance of strategy?
- 6) List the important characteristics of strategy.
- 7) Distinguish business level and functional strategies.

1.12 FURTHER READINGS

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