MB0052 – Strategic Management and Business Policy

Assignment Set- 1

Q.1 What is meant by ‘Strategy’? Differentiate between goals and objectives.

Answer: The word strategy is derived from the Geek word “strategia”, and conventionally used as a military term. It means a plan of action that is designed to achieve a particular goal. Earlier, the managers adopted the day-to-day planning method without concentrating on the future work. Later the managers tried to predict the future events using control system and budgets. These techniques could not calculate the future happenings accurately. Thus, an effective technique called strategy was introduced in business to deal with long term developments and new methods of production.
The different concepts of strategy are:

- It is defined as a plan to direct or guide a course of action
- It is a pattern to improve the performance over time
- It is a fundamental way to view an organisation’s performance
- It is a scheme to out-maneuver competitor

Difference between Goals and Objectives of Business
Goals are statements that provide an overview about what the project should achieve. It should align with the business goals. Goals are long-term targets that should be achieved in a business. Goals are indefinable, and abstract. Goals are hard to measure and do not have definite timeline. Writing clear goals is an essential section of planning the strategy.

Example - One of the goals of a company helpdesk is to increase the customer satisfaction for customers calling for support.

Objectives are the targets that an organisation wants to achieve over a period of time.
Example - The objective of a marketing company is to raise the sales by 20% by the end of the financial year.

Example - An automobile company has a Goal to become the leading manufacturer of a particular type of car with certain advanced technological features and the Objective is to manufacture 30,000 cars in 2011.

Both goals and objectives are the tools for achieving the target. The two concepts are different but related. Goals are high level statements that provide overall framework about the purpose of the project. Objectives are lower level statements that describe the tangible products and deliverables that the project will deliver.

Goals are indefinable and the achievement cannot be measured whereas the success of an objective can be easily measured. Goals cannot be put in a timeframe, but objectives are set with specific timelines. The difference between organisational goals and objectives is depicted in table 1.

Table 1: Differences between Organisational Goals and Objectives

Goals	Objectives
Are long term	Are usually meant for short term
Are general intentions with broad outcome	Are precise statements with specific outcome
Cannot be validated	Can be validated
Are intangible – can be qualitative as well as quantitative	Are tangible – are usually quantitative and measurable
Are abstract	Are concrete

Q.2 Define the term "Strategic Management". What are the types of strategies?

Answer: Strategic Management

Strategic management is a systematic approach of analysing, planning and implementing the strategy in an organisation to ensure a continued success. Strategic management is a long term procedure which helps the organisation in achieving a long term goal and its overall responsibility lies with the general management team. It focuses on building a solid foundation that will be subsequently achieved by the combined efforts of each and every employee of the organisation.

Types of Strategies

1. Corporate level

The board of directors and chief executive officers are involved in developing strategies at corporate level. Corporate level strategies are innovative, pervasive and futuristic in nature.

The four grand strategies in a corporate level are:

— Stability and expansion strategy
— Retrenchment
— Corporate restructuring
— Combination strategies – concept of synergy

Stability strategy

The basic approach of the stability strategy is to maintain the present status of the organisation. In an effective stability strategy, the organisation tries to maintain consistency by concentrating on their present resources and rapidly develops a meaningful competitiveness with the market requirements.

Further classifications of stability strategy are as follows:

— *No change strategy* – No change strategy is the process of continuing the current operation and creating nothing new. Usually small business organisations follow no change strategy with an intention to maintain the same level of operations for a long period.

— *Pause/Proceed with caution strategy* – Pause/Proceed with caution strategy provides an opportunity to halt the growth strategy. It analyses the advantages and disadvantages before processing the growth strategy. Hence it is termed as pause/proceed with caution strategy.

— *Profit strategy* – Profit strategy is the process of reducing the amount of investments and short term discretionary expenditures in the organisation.

Expansion strategy

The organisations adopt expansion strategy when it increases its level of objectives much higher than the past achievement level. Organisations select expansion strategy to increase their profit, sales and market share. Expansion strategy also provides a significant increase in the performance of the organisation. Many organisations pursue expansion strategy to reduce the cost production per unit.

Expansion strategy also broadens the scope of customer groups, and customer functions.
Example – Prior to 1960's most of the furniture industry did not venture into expanding their industry globally. This was because furniture got damaged easily while shipping and the cost of transport was high. Later in 1970's a Swedish furniture company, IKEA, pioneered towards expanding the industry to other geographical areas. The new idea of transporting unassembled furniture parts lead to minimizing the costs of transport. The customers were able to easily assemble the furniture. IKEA also lowered the costs by involving customer in the value chain. IKEA successfully expanded in many European countries since customers were willing to purchase similar furniture.

The further classification of expansion strategy is as follows:
— *Diversification* - Diversification is a process of entry into a new business in the organisation either marketwise or technology wise or both. Many organisations adopt diversification strategy to minimise the risk of loss. It is also used to capitalise organisational strengths.
Diversification may be the only strategy that can be used if the existing process of an organisation is discontinued due to environmental and regulatory factors.

The two basic diversification strategies are:

Concentric diversification

The organisation adopts concentric diversification when it takes up an activity that relates to the characteristics of its current business activity. The organisation prefers to diversify concentrically either in terms of customer group, customer functions, or alternative technologies of the organisation. It is also called as related strategy.

Conglometric diversification

The organisation adopts conglometric diversification when it takes up an activity that does not relate to the characteristics of its current business activity. The organisation chooses to diversify conglometrically either in terms of customer group, customer functions, or alternative technologies of the organisation. It is also called as unrelated diversification.

— *Concentration* – Concentric expansion strategy is the first route towards growth in expanding the present lines of activities in the organisation. The present line of activities in an organisation indicates its real growth potential in the present activities, concentration of resources for present activity which means strategy for growth.

The two basic concentration strategies are:

Vertical expansion

The organisation adopts vertical expansion when it takes over the activity to make its own supplies. Vertical expansion reduces costs, gains control over a limited resource, obtain access to potential customers.

Horizontal expansion

The organisation adopts horizontal growth when it takes over the activity to expand into other geographical locations. This increases the range of products and services offered to the current markets.

Retrenchment

Retrenchment strategy is followed by an organisation which aims to reduce the size of activities in terms of its customer groups, customer functions, or alternative technologies.
Example – A healthcare hospital decides to focus only on special treatment to obtain higher revenue and hence reduces its commitment to the treatment of general cases which is less profitable.

Different types of retrenchment strategies are:

— *Turnaround* – Turnaround is a process of undertaking temporary reduction in the activities to make a stronger organisation. This kind of processing is called downsizing or rightsizing. The idea behind this strategy is to have a temporary reduction of activities in the organisation to pursue growth strategy at some future point.

Turnaround strategy acts as a doctor when issues like negative profits, mismanagement and decline in market share arise in the organisation.

— *Captive company strategy* – Captive company strategy is a process of tying up with larger organisations and staying viable as an exclusive supplier to the large organisations. An organisation may also be taken as captive if their competitive position is irreparably weak.

— *Divestment strategy* – Divestment strategy is followed when an organisation involves in the sale of one or more portion of its business. Usually if any unit within the organisation is performing poorly then that unit is sold and the money is reinvested in another business which has a greater potential.

— *Bankruptcy* – Bankruptcy is a legal protective strategy that does not allow others to restructure the organisation's debt obligations or other payments. If an organisation declares bankruptcy with customers then there is a possibility of turnaround strategy.

— *Liquidation* – Liquidation strategy is considered to be the most unattractive process in an organisation. This process involves in closing down an organisation and selling its assets. It results in unemployment, selling of buildings and equipments and the products become obsolete. Hence, most of the managers work hard to avoid this strategy.

Corporate restructuring

Corporate restructuring is the process of fundamental change in the current strategy and direction of the organisation. This change affects the structure of the organisation. Corporate restructuring involves increasing or decreasing the levels of personnel among top level, mid-level and lower level management. It is reorganising and reassigning of roles and responsibilities of the personnel due to unsatisfactory performance and poor results.

Combination strategies – concept of synergy

Combination strategy is a process of combining - stability, expansion and retrenchment strategies. This is used either at the same time in various businesses or at different times in the same business. It results in better performance of the organisation.
The effect towards the success is greater when there is a synergy between the strategies. Synergy is obtained in terms of sales, operations, investments and management in the organisation.

Example – Levis & co, a jeans manufacturing company suffered corrosion in market share in 1990. This was due to the manufacture of jeans that did not attract the younger generation. Hence there was a change in strategies laid at the corporate level with diversification of products. This led to the change in acquiring new resources, selling the current resources, changing the personnel at various levels of management and analysing the competitors in the market. With these changes the company was able to make profits and achieved success.

2. Business level

Business level strategy relates to a unit within an organisation. Mainly strategic business unit (SBU) managers are involved in this level. It is the process of formulating the objectives of the organisation and allocating the resources among various functional areas. Business level strategy is more specific and action oriented. It mainly relates to "how a strategy functions" rather than "what a strategy is" in corporate level.

The main aspects of business level strategies are related with: