MB0052 – Strategic Management and Business Policy

Assignment Set- 1

Q1. What is meant by 'Strategy'? What are the levels of 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

Levels of strategy

Strategy exists at different business levels. The different levels of strategies are as follows:

- *Corporate Strategy* – This is regarding the general function and scope of the business to meet the stakeholder's expectations. As it is significantly influenced by the investors in the business, it is also called the critical level strategy.

- *Business Strategy* – This is regarding how a business competes effectively in a particular market. It includes strategic decisions about the selection of products and meeting customer requirements.

- *Operational Strategy* – This is regarding how each part of the business is organised and delivered to the corporate and business level. Operational strategy focuses on issues of resources and practices of an organisation.

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.

Table: 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

Q2. Define the term "Strategic Management". Explain the importance of strategic management?

Answer: Strategic Management

Definition: 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.

Importance of strategic management

- A rapidly changing environment in organisations requires a greater awareness of changes and their impact on the organisation. Hence strategic management plays an important role in an organisation.
- Strategic management helps in building a stable organisation.
- Strategic management controls the crises that are aroused due to rapid change in an organisation.
- Strategic management considers the opportunities and threats as the strengths and weaknesses of the organisation in the crucial environment for survival in a competitive market.
- Strategic management helps the top level management to examine the relevant factors before deciding their course of action that needs to be implemented in changing environment and thus aids them to better cope with uncertain situations.
- Changes rapidly happen in large organisations. Hence strategic management becomes necessary to develop appropriate responses to anticipate changes.
- The implementation of clear strategy enhances corporate harmony in the organisation. The employees will be able to analyse the organisation's ethics and rules and can tailor their contribution accordingly.
- Systematically formulated business activities helps in providing consistent financial performance in the organisation.
- A well designed global strategy helps the organisation to gain competitive advantages. It increases the economies of scale in the global market, exploits other countries resources, broadens learning opportunities, and provides reputation and brand identification.

Q3. Describe Porter's five forces Model.

Answer: Porter's Five Force model

Michael E. Porter developed the Five Force Model in his book, 'Competitive Strategy'. Porter has identified five competitive forces that influence every industry and market. The level of these forces determines the intensity of competition in an industry. The objective of corporate strategy should be to revise these competitive forces in a way that improves the position of the organisation.

Figure below describes forces driving industry competitions.

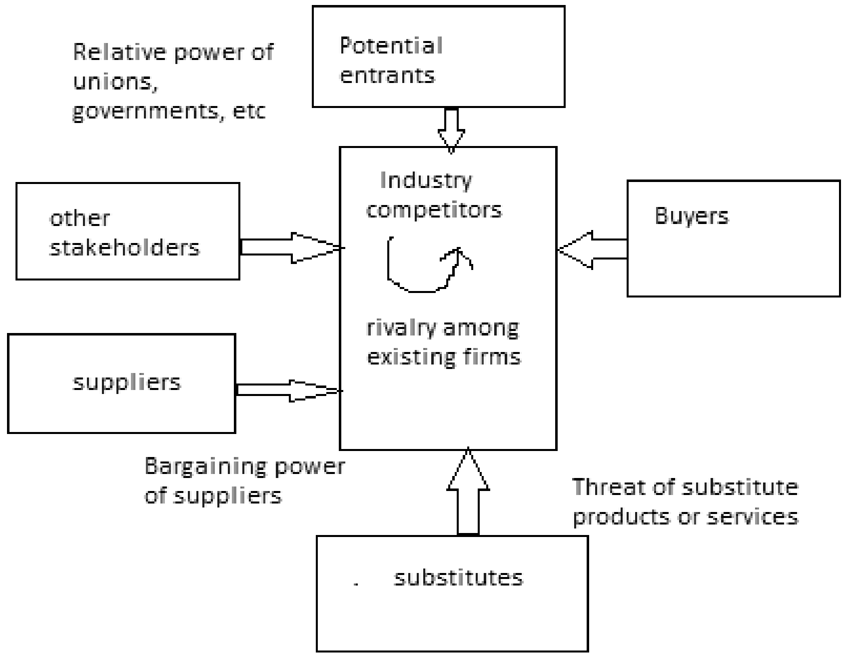

Figure: Forces Driving Industry Competitions

Forces driving industry competitions are:

Threat of new entrants – New entrants to an industry generally bring new capacity; desire to gain market share and substantial resources. Therefore, they are threats to an established organisation. The threat of an entry depends on the presence of entry barriers and the reactions can be expected from existing competitors. An entry barrier is a hindrance that makes it difficult for a company to enter an industry.

Suppliers – Suppliers affect the industry by raising prices or reducing the quality of purchased goods and services.

Rivalry among existing firms – In most industries, organisations are mutually dependent. A competitive move by one organisation may result in a noticeable effect on its competitors and thus cause retaliation or counter efforts.

Buyers – Buyers affect an industry through their ability to reduce prices, bargain for higher quality or more services.

Threat of substitute products and services – Substitute products appear different but satisfy the same needs as the original product. Substitute products curb the potential returns of an industry by placing a ceiling on the prices firms can profitably charge.

Other stakeholders - A sixth force should be included to Porter's list to include a variety of stakeholder groups. Some of these groups include governments, local communities, trade association unions, and shareholders. The importance of stakeholders varies according to the industry.

Q4. What is strategic formulation and what are its processes?

Answer: Strategy Formulation

Strategy formulation is the development of long term plans. It is used for the effective management of environmental opportunities and for the threats which weaken corporate management. Its objective is to express strategical information to achieve a definite goal.

The following are the features of strategy formulation:
— Defining the corporate mission and goals
— Specifying achievable objectives
— Developing strategies
— Setting company policy guidelines

Process in Strategy Formulation

The main processes involved in strategy formulation are as follows:

Stimulate the identification - Identifying useful information like planning for strategic management, objectives to achieve the goals of the employees and the stakeholders.

Utilisation and transfer of useful information as per the business strategies - A number of questions arising during utilisation and transfer of information have to be solved The questions that arise during utilisation and transfer of information are the following:
Who has the requested information?
What is the relationship between the partners who holds the requested information?
What is the nature of the requested information?
How can we transfer the information?

Henry Mintzberg's contribution to strategic planning

Henry Mintzberg is a well-known academician and generalist writer who has written about strategy and organisational management. His approach is broad, involving the study of the actions of a manager and the way the manager does it. He believes that management is about applying human skills to systems, but not systems to people. Mintzberg states certain factors as the reason for planning failure.

The factors are as follows:

— *Processes* - The elaborate processes used in the management such as creation of bureaucracy and suppression of innovation leads to strategic planning failure.

— *Data* - According to Mintzberg, hard data (the raw material of all strategists) provides information whereas soft data (the data gathered from experience) provides wisdom which means that soft data is more relevant than the hard data.

— *Detachment* – Mintzberg says that effective strategists are people who do not distance themselves from the details of a business. They are the ones who immerse themselves into the details and are able to extract the strategic messages from it.

In 1993, Henry Mintzberg concluded that planning is a formalised procedure to produce a coherent result in the form of an integrated system of decisions. The objectives must be explicitly labeled by words after being carefully decomposed into strategies and sub-strategies.