

DEPARTMENT OF MASTER OF BUSINESS ADMINISTRATION

Overview of Strategic Management

1.1. STRATEGY

1.1.1. Meaning of Strategy

The word “strategy” is derived from a Greek word “*strategia*”, which means “generalship”. The term strategy entered the business world from military services where it was originally used. Strategy works as a blueprint of an organisation that defines its vision, mission, and also helps in determining the future course of action. Strategy helps an organisation to minimise the strengths of competitors by maximising its own strengths. Strategy is formulated to achieve current goals of an enterprise by optimum allocation and utilisation of internal resources and by collaborating different organisational pursuits.

Strategy tries to achieve synergy and balance between objectives, resources and concepts to maximise the possibility of success and fruitful results. In wider terms, strategy refers to determining the fundamental long-term organisational goals and at the same time developing plans, acquiring, allocating and deploying resources in order to achieve those goals. The purpose of formulating strategy is to bring consistency and alignment in the activities of an organisation, which can be accomplished by various endeavours, methods and resources.

According to George A. Steiner, “Strategy means deciding the basic mission of a company, the objectives which it seeks to achieve and the policies governing the use of resources at the disposal of the firm to achieve its objectives”.

According to Alfred D. Chandler, “Strategy is the determination of the basic long-term purpose and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out these goals”.

According to William F. Glueck, “Strategy is a unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved”.

According to Igor Ansoff, “Strategy is the common thread among the organisation’s activities and product markets that defines the essential nature of business that the organisation was or planned to be in

future”. Strategy is not as simple as it seems to be. However, a logical understanding of its theory helps to grasp it and work with more ease. Theories help in understanding various concepts related to strategy such as definitions, terms, assumptions and their explanations, propositions and related hypotheses, and the techniques used to test and modify them.

1.1.2. Nature of Strategy

The nature of strategy can be understood by following points:

- 1) **Provides Structure:** Strategy strives to establish and communicate the image of the organisation with the help of its various goals and objectives. Strategy develops a fundamental roadmap for providing guidance to the enterprise for making rational decisions and achieving organisational goals.
- 2) **Integrated Approach:** A good strategy follows an integrative approach for allocating internal resources and using them for the benefit of the entire organisation. It directs and supports the enterprise in taking necessary decisions for maximising the strengths and facing the environmental threats with confidence.
- 3) **Relates an Organisation with the Environment:** With the help of strategy an organisation can interact with the factors of external environment so that the management can take necessary steps to achieve the organisational goals. Hence, formulating strategy is an important activity by which the enterprise can relate to its environment.
- 4) **Set of Actions:** Strategy is an arrangement of different actions that are taken in varying situations to achieve certain objectives, or to solve some problems.
- 5) **Future Oriented:** Strategies are formulated to solve problems that are new and have not been previously handled by the organisation. Hence, it can be said that it is future-oriented.
- 6) **Combination of Internal and External Factors:** Strategy tries to match the internal strengths to meet external opportunities and threats. Therefore it is a combination of internal and external factors of the environment.

- 7) **System-Oriented:** To work efficiently, strategy operates under a certain system that consists of rules and standards, followed in the organisation.
- 8) **Involves Contradictory Actions:** As strategic actions are influenced by environmental factors, at times certain decisions taken on the basis of the strategy may be contradictory in nature. These actions may occur simultaneously or consecutively.

1.1.3. Scope of Strategy

The scope of strategy stipulates the market position as desired by the firm. Precisely, it gives the details about the market or the industry in which the organisation is desirous to explore, that is to say, the extent of the markets which the organisation will compete in future. The scope of strategy includes the following:

- 1) **Analysing Current Position:** The following things should be kept in mind while analysing current market position:
 - i) Where does the company stands?
 - ii) How does the firm and the brand match with the group in which it is placed?
 - iii) Who are the target audiences?
 - iv) What are the perceptions and misperceptions about the brand at present?
 - v) What types of marketing communications are adopted? Whether they are effective or not.
- 2) **Changes Made:** The scope of strategy is associated with analysing the following:
 - i) What are current trends within the industry?
 - ii) What changes are taking place?
 - iii) What factors are affecting the choice of the target audience?
 - iv) What are the effects of the economic and technological changes?
 - v) What are the various regional, national or international events that may influence the organisation? What is the role of competition?
 - vi) What are the various external forces which may influence the company and the manner in which trade is conducted?
- 3) **Future Forecast:** The scope of strategy includes the analysis of previous policies and framing of future policies by contemplating on the following aspects:
 - i) Where does the organisation want to see itself in the future?
 - ii) What are the short-term and long-term objectives of the organisation?
 - iii) Are company 'secret strategies' are still working?

- iv) What are the plans of the company for growth?
- v) How good are the staff members?
- vi) Where does the brand will reach in coming years?

Scope of a strategy includes recognising three kinds of strategies and showing how the scope of strategy can be affected by the description of the business model. Following are the three different business models:

- 1) Strategist is making a new business model when he is leading to a strategic initiative for implementing a corporate-level strategy.
- 2) Strategist is enhancing various or each part of a business model if he is leading to a strategic initiative for implementing a business-level strategy.
- 3) Strategist is optimising one or several elements of a business model if he is leading to a strategic initiative for, implementing a functional level strategy.

The term strategy is vague in several ways, not only in the way of distinguishing the corporate-level strategy, from the business-level and the functional strategy.

1.1.4. Elements of Strategy

Following are the various elements of strategy:

- 1) **Goals:** Goals or objectives are the first element of any strategy. A strategy inevitably identifies the long-term objectives that all efforts are focused on. Such long-term goals enable employees to give their all while also allowing the company to clearly define its competitive position to its competitors.
- 2) **Scope:** A strategy specifies the firm's scope, or the types of goods it will offer, the markets it will seek (geographies, technologies, processes), and the broad areas of activity it will pursue. At the same time, it also highlights the operations that the business will not engage in.
- 3) **Competitive Advantage:** What competitive advantage will the company requires to pursue and sustain is also defined by a strategy. When a company is able to conduct an activity that is distinct or different from that of its competitors, it has a competitive advantage.
- 4) **Logic:** The most important element of a strategy is logic. It is described as a technique for determining if something is true or untrue. Logic is seen as both a science and an art of reasoning. **For example,** a company's strategy may seek to dominate the market for low-cost, mass-market detergents by becoming the lowest-cost, mass-market manufacture.

1.1.5. Levels of Strategy

- 1) **Corporate Strategy:** Corporate level strategies or corporate strategies are the plans of top management developed for supervising the overall functioning of the enterprise and achieving the expected level of performance. These strategies outline the organisational activities and objectives in various areas of an organisation like divisions, product lines, technologies, consumers and their needs, etc. Corporate strategies guide an organisation to become what it wants to be in order to maximise the performance levels. **For example**, since the effort of Nokia to launch its own operating system failed, in the year 2011 Microsoft and Nokia formed an alliance in which Nokia agreed to produce smartphones with the Windows operating system. With this alliance, Microsoft was able to access the market of one of the largest cell-phone manufacturer. Nokia was able to retain its market share with the help of this merger.
- 2) **Business Strategy:** Business level strategies are also called as business strategies or Strategic Business Unit (SBU) level strategies. A **Strategic Business Unit (SBU)** is based on the idea of recognising the separate market segments catered by the company. Business strategies are formulated differently for each segment due to the differences in their environmental conditions. The business level strategies are formulated to satisfy the needs of the customers of different segments and also to provide value to them. Hence fulfilling

the demands of customers belonging to different segments helps the organisation in increasing and sustaining its competitive advantage. **For example, Domino's Pizza** owes its success to **Turnaround** strategy that had positive effects due to the organisation-wide efforts of achieving a simple and clear goal that was, "have a clear win against competitor in a taste test".

- 3) **Functional Strategy:** Functional level denotes the operating division levels and departments in an organisation such as marketing, finance, human resources, R&D, etc. Various strategic decisions at functional levels are associated with business practices and value chain. The functional level strategies are focused on expanding and synchronising the resources for implementing the business level strategies in an efficient manner. Functional level of an organisation provides input to the higher level strategies such as business level and corporate level strategies and converts them into action plans for various departments. These plans are needed to be carried-out for the strategy to be successful. Higher level strategies depend on the functional level for information regarding resources and capabilities on the basis of which strategies at business and corporate level are formulated. **For example**, marketing strategy can be broken into various functional level strategies such as pricing strategies, distribution strategies, promotion strategies, sales strategies, etc.

Difference between Corporate Strategy, Business Strategy and Functional Strategy

Basis of Difference	Corporate Strategy	Business Strategy	Functional Strategy
1) Meaning	Corporate strategy provides directions for strategic actions. It is a company's overall plan of main action for achieving its long-term objectives. Expansion, stability, retrenchment, and combination are the four categories.	It refers to the actions taken by a company for each of its companies in order to serve certain client groups and offer value to them by meeting their demands. The firm's competencies are used in this process to achieve, maintain, and improve its strategic or competitive advantage.	Each functional department within a firm will carry out relatively short-term operations in order to achieve the wider, longer-term corporate and business goals. Each functional area has a number of strategy options that interact with the overall business strategy and must be consistent with it.
2) Time Horizon	Long-term horizons, i.e., 10-15 years are the focus of corporate strategy.	Medium-term competitive postures of the firm, i.e., 3-5 years are the focus of business strategy.	Short-term goals of the firms are covered under the functional strategy.
3) Specificity	Major framework for the strategic decisions is provided by the corporate strategy.	General direction to the firm is provided by business strategy.	It gives functional managers more precise guidance by assisting them in understanding what has to be done and focusing on outcomes, explaining how top management plans to implement the company strategy, and enabling collaboration across functional units.

4) Participants	Company's CEO and Board of Directors are responsible for taking corporate strategy decisions.	Business unit managers and corporate managers are responsible for taking business strategy decisions.	Operating managers of the functional are responsible for taking functional strategy decisions.
5) Example	Tata Steel's \$12.2 billion acquisition of Corus, a significant European steel manufacturer. This is the largest deal ever made by an Indian firm. This was the first major event that signalled India Inc's entry on the world scene.	Moser Baer India, a world-class manufacturing business headquartered in Noida, Uttar Pradesh, produces CD-Recordable (CD-Rs) compact discs for one-time data recording. Taiwanese firms, who are known as low-cost makers of CD-Rs, dominate the global market. Moser Baer aspires to be one of the world's leading data storage firms. Its business approach is low-cost, focusing on attaining economies of scale and capitalising on the competitive advantages it possesses in terms of cheaper raw material and labour costs.	The Research and Development Group of Procter & Gamble is trying a novel strategy to stay competitive in the slow-growing consumer goods market. Rather than creating new goods in the lab and then testing them with customers, researchers are spending hours with customers, watching them wash laundry, sweep the floor, or apply cosmetics, looking for problems that a new product may answer. Then they go into the lab with the objective of resolving real-world consumer issues.

1.1.6. Importance/Significance of Strategy

Following points highlight the significance of strategy:

- 1) **Provides Direction:** Strategies direct an organisation to achieve its goals. Organisations lose their purpose in absence of proper guiding strategies.
- 2) **Facilitates Decision-Making:** Strategy facilitates decision-making as strategy and strategic initiatives act as point of reference for any action.
- 3) **Ensures Proper Allocation of Resources:** A good strategy helps the organisation in allocating the resources in an efficient manner. While formulating a strategy, the strategists have to keep in mind the information that they have access to, and appraise all possible outcomes before selecting a particular alternative.
- 4) **Synchronises Activities:** Organisations can also be benefited by developing a master strategy that encompasses the entire organisation. This comprehensive strategy helps the organisation in synchronising the strategic initiatives taken at different levels. A companywide strategy also ensures that there are no variations, and all the departments are working towards achieving a single goal with minimum conflicts, overlaps, and contradictions in the organisation.
- 5) **Improves Communication and Commitment:** Strategy helps in configuring companywide actions, communication and level of commitment between different departments of the organisation by giving a clear description of the vision and responsibilities.
- 6) **Enables Comparison of Alternative Actions:** Strategies help in analysing the records of previously adopted strategic initiative and allow the top level management to compare the alternative actions and select the best option among them for different business units. This ensures that the valuable resources are allocated optimally.
- 7) **Helps Accomplishing Goals:** Strategies enable a company to achieve its goals and create a market position by allocating resources, providing proper training to employees, enhancing the capacity of production, etc.

1.1.7. Difference between Strategy and Tactics

Tactics are the means of implementing a strategy. They represent those managerial activities which are used for dealing with momentary issues or moving ahead towards the fulfilment of the grand strategy. Tactics can be either planned or unplanned. The strategy of an organisation is framed by the board of directors whereas the tactics are decided by the departmental heads which are relayed for implementation at the frontline managerial level. The key differences between strategy and tactics are as follows:

Difference between Strategy and Tactics

Basis of Difference	Strategy	Tactics
1) Level of Conduct	They are framed by the top management and are never delegated to lower managerial levels.	These are typically framed and implemented by the lower strata of management.
2) Nature	Strategic problems of an organisation are of unstructured nature.	The tactical problems are generally more structured in nature.
3) Time Horizon	Strategies are developed for long period of time.	Tactics are framed for short period of time.
4) Importance	Strategies are very critical for an organisation because they chart the future path that the organisation will take in the pursuit of its goals.	Tactics are not much important as they are more concerned with the local issues that the management needs to tackle.
5) Values	The strategic decisions of the organisations are highly influenced by the personal values of the person(s) framing the strategy.	Tactics are generally free from the influence of personal values as they are framed through strategic decision-making.
6) Level of Personnel Involved	There is a separate team of managers who frame the strategy of the organisation.	Tactical decisions can be taken by lower level of employees as they involve lesser execution of strategic decisions.
7) Level of Certainty	Strategic decisions are inherently more uncertain and involve the synthesis of information from many sources.	They are generally more certain as they are framed keeping the strategic goals in mind.
8) Reach	The impact of strategic decisions can be observed across all segments and levels of the organisation.	The impact is more localised to the department where it is being implemented.
9) Details	Generally are less detailed in nature.	They are developed in detail.
10) Formulation	Formulation takes place from the corporate viewpoint.	Formulation takes place from the functional viewpoint.
11) Impact	The impacts of strategy are more long lasting and difficult to change. For example , planning a new distribution system or a new plant.	The impact of tactics is not long lasting as they are framed for short period of time.
12) Superiority	A strategy can be considered a superset or a superior action plan.	A tactic can be considered as a subset plan of action for a particular strategy.

1.1.8. Difference between Strategy and Policy**Table 1.1: Difference between Strategy and Policy**

Basis of Difference	Strategy	Policy
1) Meaning	A strategy provides a direction in which the organisation needs to go for achieving the organisational goals by employing various resources.	A policy provides guidelines to the employees for smooth operations and decision making.
2) Nature	With the help of strategy the formulated policies are applied practically within a stipulated time-frame.	A policy just instructs in work but is not associated with any time frame.
3) Features	Strategies are formulated for those situations which have yet not occurred and hence the organisation has no formal response.	Policies are formulated for the activities which are repetitive in nature.
4) Orientation	Strategy is formulated for critical issues and requires constant attention from the top management.	Policies are formulated by the top management for day-to-day activities. After the policies are formulated it becomes the responsibility of subordinates to implement those without the involvement of top management.
5) Scope	Strategies are formulated on the basis of actions.	Policies are formulated on the basis of thoughts.
6) Implementation at Level of Organisation	Strategy is implemented at every level in the organisation.	Policies are implemented by the middle and lower level employees.
7) Focus/Objectives	Strategies are the ways to achieve the organisational objectives.	Policies are the instructions to achieve the objectives.
8) Overall Goal	Strategies are formulated to utilise the available resources to achieve the organisational goals efficiently.	Policies are formulated to direct the operations and activities of the organisation.

1.2. STRATEGIC MANAGEMENT

1.2.1. Meaning of Strategic Management

The words "strategy" and "management" combine to form "strategic management". Strategic management is concerned with the formulation of vision, objectives, strategy formulation, strategic implementation and making changes in the strategic intent according to the changing requirements of the organisation. Strategic management begins with the formulation of mission statement and setting of objectives for the organisation. Then a portfolio of business or business model is prepared, and ends at conducting functional activities to achieve the pre-established objectives and goals.

According to Ansoffs, "Strategic management is a systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assure its continued success and make it secure from surprises".

According to Glueck, "Strategic management is a stream of decisions and actions, which leads to the development of an effective strategy or strategies to help achieve corporate objectives".

According to Lloyd L. Byars, "Strategic management is concerned with making decisions about organisations' future direction and implementing those decisions". The concepts of strategic management have developed over the years. Strategic management is not a one-time process but is re-evaluated and implemented periodically. It is a holistic approach that ensures that there is harmony between the organisation and its environment. Hence, strategic management is concerned with different organisation-wide activities such as analysing the environment, providing direction, developing and implementing strategies, and applying strategic control measures.

1.2.2. Nature/Characteristics of Strategic Management

Strategic management is a decision-making process that is depicted by the following features:

1) **Long-term Issues:** The issues which strategic management handles are usually of long-term in nature. These issues not necessarily affect the organisation immediately but will benefit the organisation in the future. **For example,** if a company spends in the education of its employees, it may not witness increase in

productivity in the short-run, but in due course, highly educated employees will deliver better results and will also help in increasing the returns.

- 2) **Competitive Advantage:** Strategic management assists the managers in looking for fresh avenues for achieving sustainable competitive advantage. When strategic management principles are applied regularly in the proceedings of the organisation, managers can increase the number of satisfied customers, provide goods and services at economical prices, and can develop a highly satisfied workforce.
- 3) **Impact on Operations:** An effective strategic management process affects operational issues positively. **For example,** if increase in salary and performance are correlated then this would increase the operational productivity, as the employees will be motivated to put more efforts in their work. Operations decisions are the ones that involve topics like deciding the best way to handle sales with particular segment of customers or making decision regarding selling products on credit. Decisions concerned with operational issues are made by lower level managers.
- 4) **Uncertain and Future-Oriented:** Strategic management makes decisions regarding situations that would occur in the future and are not a part of the day-to-day activities. Managers are ignorant about the after effects of their decisions because of the dynamic and uncertain business environment.
- 5) **Complex:** Since strategic management is uncertain, it becomes complex as well. Managers come across situations related to the business environment that are not easy to understand. There is a need for analysing internal and external environment.
- 6) **Organisation-Wide:** The implementation of strategic management affects the entire organisation and not merely the operation on which strategic management principles are applied. It entails strategic choices and is a systematic approach.
- 7) **Long-Term Implications:** The implications of strategic management are long-term and do not affect the routine operations of the organisations. The concepts of strategic management are concerned with mission, vision and objectives of the organisation.
- 8) **Facilitates Strategy Implementation:** Strategic management makes sure that strategies are effectively executed and implemented with the help of action-oriented plans.

1.2.3. Key Terms in Strategic Management

For developing a successful strategic management plan, the strategic management key terms are important to understand and one cannot develop a successful strategic management plan without learning all these strategic management key terms. Following are the key terms in strategic management:



1.2.3.1. Strategists

Those people in the organization who are fully responsible for the failure or success of the organization are referred to as strategists. Strategies are formed by strategists. Examples of strategists include the chief executive officer, chair of the board, chief executive officer, president & owner, entrepreneur or dean, etc.

The information is gathered, analyzed, and organized with the help of strategists. They identify industry & competitive trends, establish scenario analysis & forecasting models, evaluate corporate & divisional performance, and point out new marketing opportunities, highlight new threats for the organization & preparation potential action plans. They further assist in supporting or staffing roles. The decision-making at the top level of management in the organization is mostly taken by these strategists.

The most crucial & visible strategic manager in the organization is the CEO. Moreover, every manager in the organization who has the responsibility for profit or loss results, responsibility for division or unit, or having clear authority over some element of the organization is said to be a strategist or strategic manager.

Different organizations have different kinds of strategists whose working alter in the phase of formulation, implementation & evaluation of strategies. The personal philosophies of strategists also affect the selection of certain strategies.

Some other foundations differentiate one strategist from others like attitudes, ethics, values, concern for social responsibility, willingness to take risks, management style, concern for profitability, concern for long-term versus short-term objectives, etc.

1.2.3.2. Vision

A vision statement is quite necessary for the operation of the organization as it provides an answer to the question of what should be the organization wants to become. The first step in strategic planning is to develop the vision statement and after that mission statement is prepared. Most organizations develop single-sentence vision statements.

(Discussed in Module 4 in detail)

1.2.3.3. Mission

A mission statement is a long-lasting statement that differentiates one organization from another similar organization. The scope of the operations of the organization in terms of market & product is identified through the mission statement. The basic question faced that is related to the activities of the business is cleared with the help of the mission statement. It guides the nature & scope of current operations of the business as well as the future aspects of the market conditions & opportunities. The future direction of the organization is highlighted by the mission statement.

(Discussed in Module 4 in detail)

1.2.3.4. External Assessment/External Opportunities & Threats

External opportunities and threats are also part of strategic management's key terms. All those trends & events that are related to the social, economic, environmental, cultural, demographic, political, legal, technology & technology & competition that can harm or benefit an organization constitute external opportunities & threats. One major fact about the opportunities & threats is that they are out of control of the organization to much extent and hence they are "external" to the organization. Following are some examples of external opportunities & threats.

- 1) Computer revolution
- 2) Population shifts
- 3) Changing work values & attitudes
- 4) Space exploration
- 5) Increased competition from foreign companies
- 6) Space exploration
- 7) Recycle able packages etc.

The external opportunities & threats are significant for the organization as opportunities need to be

availed while threats should be avoided. For this purpose, there is a strong need to identify, monitor & evaluate external opportunities & threats so that the organization becomes successful in the long run.

(Discussed in Module 2 in detail)

1.2.3.5. Internal Assessment/Internal Strengths & Weaknesses

Those activities of the organization that is under the control of the organization, and may show good and bad impact on the organization are known as internal strengths & weaknesses of the organization. These are present in the marketing, management, production/operation, finance/accounting, and information technology & research & development activities of the organization.

It is a quite essential strategic activity for an organization to identify & evaluate organizational strengths & weaknesses. Organizations need to adopt those strategies that capitalize their strengths while improving their weaknesses. Moreover, the strengths & weaknesses of the organization can also be ascertained relative to the competitors.

(Discussed in Module 3 in detail)

1.2.3.6. Long Term Objectives

Long-term objectives are also one of the important strategic management key terms. Long Term Objectives are referred to as particular results that an organization wants to accomplish in targeting the mission. Expected results by targeting certain strategies are represented by long-term objectives. Strategies include those actions that are executed for the accomplishment of long-term objectives. There should be a consistent time frame for strategies & objectives which range from two to five years.

(Discussed in Module 4 in detail)

1.2.3.7. Strategies

The means through which allow us to achieve long-term objectives. The following are included in the business strategies.

- 1) Geographic Expansion
- 2) Diversification
- 3) Product development
- 4) Acquisition
- 5) Retrenchment
- 6) Market penetration
- 7) Liquidation & Joint venture

A large amount of the resources of the organization are required along with the decisions of top management for the application of strategies in the form of actions. Strategies are future-oriented as

these will affect the long-term prosperity of the organization. Both internal as well as external factors should be considered and therefore the strategies are multi-divisional consequences for the organization.

(Discussed in Module 4 in detail)

1.2.3.8. Annual Objectives

Those short-term targets that help achieve the long-term objectives of the organization are called annual objectives. The annual objectives must be quantitative, measurable, realistic, challenging, consistent & prioritized. These must be developed at functional, divisional & corporate levels in large organizations. This objective must be stated in terms of marketing, management, production/operations, finance/ accounting, and research & development. Each long-term objective always demands a set of annual objectives for its successful accomplishment.

The allocation of resources is represented by annual objectives. Annual objectives are significant for Strategy Implementation whereas the Strategy Formulation phase contains long-term objectives.

(Discussed in Module 5 in detail)

1.2.3.9. Policies

Annual objectives are accomplished by the means of policies. Policies contain rules, guidelines & procedures developed to assist efforts to accomplish stated objectives. Decision-making is guided through policies & recurring and repetitive situations are also addressed through policies.

Policies are usually mentioned in terms of marketing, finance/accounting, management, production/operation, activities related to information technology, and Research and Development. Policies may also be established at the functional level for a certain department or the divisional level or the corporate level for the entire organization. Policies play an important role in the implementation phase because the expectations of the organization about its managers & employees are specified through policies. The coordination & consistency between different departments & within the departments is ensured through policies.

(Discussed in Module 5 in detail)

1.2.4. Scope of Strategic Management

The decisions and activities which define the future perspective of an organisation by outlining its activities and structure, is called strategic management. These activities and structure determine the scope of the strategic management, which are described below:

- 1) **Economics:** Strategic management involves analysing and studying the market for formulating the strategies according to the market conditions. It is the field that is concerned with monitoring the patterns of competitors to scrutinise their competitive strategies, their production process, their costing strategy, etc., so that counter strategies can be formulated. It tries to understand the degree of competition in market. Strategic management also facilitates in analysing the environmental factors and their relations with the organisations as well as their relative influences on organisational operations.
- 2) **Sociology:** An organisation operates in an environment and in a specified market. Strategic management is a study of this environment and market. It includes providing a direction to the organisational activities.

It strives to achieve the organisational objectives by establishing a relation between the strategic alternatives and employee performance outcomes. It correlates the employee performance with the organisational activities, and the ways in which performances can be improved. Moreover, a business has some responsibilities towards the society in which it operates, as an organisation is a social entity.

- 3) **Marketing:** Strategic management involves studying the market structure, competitor analysis, strategic positioning of the firm's products, etc., so that effective strategies can be formulated for becoming a market leader. It emphasises on conducting researches on market structure and studying the influence of market-oriented factors and strategic alternatives that in turn helps in strategic planning. It is an interrelated field of study that requires concentrating on the factors that influence the business and planning so that they are handled effectively.
- 4) **Management:** Strategic management strives to achieve the organisational goals by continuously encouraging internal capabilities and utilising the resources in an optimum way so that the needs of shareholders can be satisfied. It deals with analysing the decisions made by the top management for the sustainable development of the organisation. It is the responsibility of the management to identify the environmental factors that influence the organisation, recognise the opportunities and threats existing in the environment, and formulate the strategies accordingly to deal with them.

1.2.5. Stages of Strategic Management/ The Strategic Management Model

The process of strategic management focuses on developing the strategy of the organisation. It is distinct process, which the management uses to select strategies that will help the organisation in improving its performance. It is a never-ending process that evaluates the companies and industries that are associated with the organisation and its opponents. Strategic management also enables the organisation to set realistic goals so that it is able to compete with existing and potential competitors. Process of strategic management is shown in **figure 1.1:**

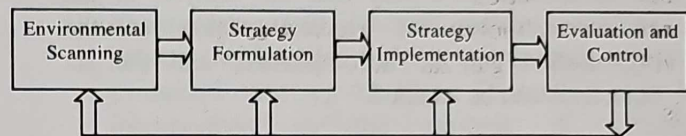


Figure 1.1: Wheelen and Hunger Strategic Management Model

- 1) **Environmental Scanning:** Environmental scanning is the monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identify strategic factors – those external and internal elements that will determine the future of the corporation. The simplest way to conduct environmental scanning is through SWOT analysis. SWOT is an acronym used to describe those particular Strengths, Weaknesses, Opportunities, and Threats that are strategic factors for a specific company.
 - i) **External Environment:** External environment consists of variables (Opportunities and Threats) that are outside the organisation and not typically within the short-run control of top management. These variables form the context within which the corporation exists.
 - ii) **Internal Environment:** Internal environment of a corporation consists of variables (Strengths and Weaknesses) that are within the organisation itself and are not usually within the short-run control of top management. These variables form the context in which work is done. They include the corporation's structure, culture, and resources. Key strengths form a set of core competencies that the corporation can use to gain competitive advantage.
- 2) **Strategy Formulation:** Strategy formulation means formulation of long-term organisational plans that would assist in carrying-out organisational activities

in the best possible way. Strategy formulation is essential for optimum functioning of the organisation. In this stage, strategies are framed by envisioning the future of the organisation in the long-run. Once the current and the future situations of the organisation have been determined by the strategists, SWOT analysis is used to identify the core competencies and strategic capabilities and also to set objectives, in the order in which they have to be achieved. These objectives are further used in developing the strategy. Strategies define the course of action an organisation would choose to reach its goals. An organisation's strategy should be formulated in a way that the analysis of the environment can be studied, vision of the organisation can be accomplished, and the set objectives can be attained.

Strategy formulation involves administering the external opportunities and threats effectively while keeping in mind the strengths and weaknesses of the organisation by formulating long-term plans. This involves developing the corporate vision, identifying corporate mission, setting realistic objectives, formulating strategies and establishing policy guidelines, which are as follows:

- i) **Vision of the Organisation:** An organisation's vision statement can be explained as a position that the organisation aspires to achieve in the future. A vision statement is developed by the top management which may include CEO, President, Managing Director, Chairman, etc. A vision statement conveys the future state of being with respect to objectives, scope and competitive leadership to the individuals that are in some way or the other associated with organisation. It creates an outline for facilitating the growth of mutual relationships between the organisation and its stakeholders, i.e., its investors, employees, suppliers, customers and other entities, directly or indirectly associated with the organisation. It helps in formulating general objectives relating to performance of the organisation and its expansion in different industries essential for the development of the organisation.

The basic idea behind formulating a vision statement is to provide a concentrated view of the organisation. It is a combining statement and also a challenging task for the entire organisation and all the diverse sectors that work on achieving their respective objectives. This statement provides

employees with a common goal and stimulates them for conducting their routine operations efficiently. It encourages the employees to perform ethically and morally in line with the organisation's expectations.

- ii) **Mission of the Organisation:** A mission statement describes the reason for existence of the organisation. It specifies the organisational culture and values and also sets the guiding points for carrying-out the activities of the business organisation. Strategy of the organisation is formulated on the basis of the mission statement. A mission is a unique statement that defines the products, markets and geographical scope of the business, market price, etc. At the business level, this statement becomes exclusive and focuses solely on the details. The facets of the mission statement denote the vision of the organisation towards strategy formulation, aim of the organisation and the perfection required in order to attain market leadership.
- iii) **Objectives:** Organisational plans are usually long-term and they craft long-term objectives. These objectives envelop areas like organisation's profitability, competitive position, public image, return on investment, productivity, growth of employees, etc. These objectives should not be vague, and should be clearly defined and in quantifiable terms. The objectives of the organisation should be challenging yet realistic. Objectives are the results that one expects out of the business activities. The objectives of an organisation symbolise that the management is committed towards achieving the desired results under a specific time period. They also help in setting performance standards on the basis of which the performance is evaluated. These objectives help in developing strategies by creating harmony between the decisions and decision-makers.
- iv) **Strategies:** A strategy of an organisation is a detailed plan which helps the organisation in realising its mission and objectives. Strategies are formulated for achieving competitive advantage and minimising the factors that result in lowering the position of the organisation. **For example**, when Tata Group of Companies comprehended that it is not able to meet its objectives with its current strategy to diversify, it sold its subsidiary

companies like Tomco, Lakme, etc., to Hindustan Lever Limited. It decided to carry on with its more basic businesses like automobiles and steel where it had better prospects for growth and development.

- v) **Policies:** Policies are a set of comprehensive instructions that are used for making decisions and for relating strategy formulation with strategic implementation. Policies are formulated by companies so that an organisation's mission, objectives and strategies are kept in mind while making decisions. Policies also focus on achieving corporate goals by ensuring optimum allocation of resources. A business policy is related to duties and responsibilities of corporate level managers, long-term strategic decisions and factors influencing the success of the organisation.

- 3) **Strategy Implementation:** Once strategies are formulated and a sound strategic plan has been developed, the next step in the process of strategic management is to ensure effective implementation of formulated strategies. Strategists need to take into account various facets of implementation as the selected strategy must be effectively put into action for realising corporate objectives of the organisation. Without successful implementation, a well devised strategy is of no use. Thus in short, strategic implementation is the process that facilitates in successful execution of the selected strategy.

Strategies are implemented with the help of **programmes, budgets and procedures**. This process may also result in modifying organisation's culture, structure or management system. The process of strategy implementation is generally conducted by the middle or lower management after being assessed by the top management. Following plans help in successful implementation of the strategy:

- i) **Programmes:** The actions or steps needed to implement a single-use plan is called programme. Programmes help in putting the strategies into action. Activities like corporate restructuring, changing organisational culture or initiating a new research project, etc., are a few examples of programmes.
- ii) **Budgets:** The declaration of organisation's programme in monetary terms is called a budget. A budget represents in detail the cost entailed in each programme. Budgets are generally used in the purpose of planning

and control. A budget along with providing a comprehensive plan of the selected strategy to be implemented also illustrates the anticipated impact on the organisation's financial future with the help of financial statements.

- iii) **Procedures:** Also known as Standard Operating Procedures or SOP, a procedure is a step-by-step explanation of the order in which a task is to be carried-out. Procedures generally provide an explanation regarding number of operations that are necessary for completion of programmes.

- 4) **Evaluation and Control:** After a strategy is implemented successfully, it is important that it is evaluated on a regular basis. Evaluation must be incorporated in the process of strategic management as an essential element of strategy implementation, as it helps in monitoring the whole procedure. Strategic objectives and performance measures are used as a base for evaluating the effectiveness of the implemented strategy. It is an important step for attaining an impartial assessment between expected and actual results. It is the manager's duty to monitor the expected responses from the different organisational sectors and business units where the strategies are put into action. Analysing the market response is also a significant part of strategic evaluation and control. Various factors such as size of the organisation, business activities, number of business segments, organisational structure, etc., determine the extent to which strategic control is necessary. Control should be imposed in a manner that it produces the intended remedial action. The amount of control that needs to be imposed is based on the difference between expected and actual results.

Performance is the final outcome of all the activities involved in the process of strategic management. Strategic management process has become widely accepted as it enhances the performance of the organisations. Managers need comprehensible, timely and impartial information from their subordinates in order to successfully carry-out the activities related to strategic evaluation and control. This information enables the managers to compare the actual outcome with the expected results laid down while formulating the strategy.

Successful evaluation of strategy is based on suitable and prompt **feedback**. The effectiveness of strategy evaluation depends on the information provided by the subordinates. It plays a significant role in monitoring the

soundness of the chosen strategy. If evaluation is done continuously, it would provide a regular feedback on the performance of the strategy that was initially formulated. The process of strategic management also has a feedback activity, which enables the management to attain feedback essential for evaluation of results and for taking the required remedial actions. When an organisation devises strategies, programmes etc., it should analyse its decisions and take corrective actions regarding any wrong decision made in the past. **For example**, performance below the desired level shows that either strategy formulation or implementation is at fault. It is also possible that an important factor like new competitor was overlooked at the time of environmental scanning and analysis.

1.2.6. Benefits/Importance of Strategic Management

The importance of strategic management can be explained with the help of the following points:

- 1) **Fulfilling the Responsibilities of the Board Members:** One of the most important reasons for implementing the process of strategic management in an organisation is that it relieves the board members from their duties.
- 2) **Helps in Assessing the Objectives:** Strategic management relieves the board and senior management from their daily tasks to some extent so that they can focus on securing the future of the organisation. Disciplines of strategic management help the organisations to gain a wider perspective instead of putting all their efforts in meeting short-term challenges.
- 3) **Develops a Decision-Making Framework:** With the help of an appropriate strategy, employees are able to make routine decisions within a framework while ensuring that those decisions are contributing to the progress of the organisation in one direction. Strategy helps in setting the vision, checks reason for existence and values of the organisation, defines its objectives, differentiates between threats and opportunities, identifies techniques to enhance organisation's strengths and minimise the weaknesses. Thus, it defines an outline and specifies the limits within which decisions are made.
- 4) **Helps in Measuring the Progress:** By implementing the process of strategic management, the organisation is forced to establish objectives and set measures of organisational success. In order to establish success measures it is important that the organisation analyses the factors that are crucial to its current success. Then the organisation needs to revise, re-evaluate or update, and then implement its objectives. It is also important that the board members and corporate level managers are also aware of these performance measures.
- 5) **Provides an Organisational Viewpoint:** While handling the operational issues, managers generally tend to overlook the interdepartmental issues or the issues related to the organisation as a whole. Strategic management considers the organisation's viewpoint and also lays stress on the interrelated sectors so that a strategy that is beneficial for the entire organisation is developed.
- 6) **Improves Stability:** There are certain strategies that provide strength to the organisation by opening more avenues of growth. **For example**, if a business deals with only a couple of clients, then in order to survive, it is not in the position to lose any one of them. Strategic management aims at helping the organisations in acquiring more customers so that the business is no longer dependent on only few clients. By implementing strategic management, an organisation can enhance its stability by executing strategies like – developing a new product line, acquiring a new company, catering a new customer segment, etc.
- 7) **Strong Labour Supply:** Strategic management helps in conducting hands-on staffing practices so that quality and quantity of labour can be improved. A strong workforce can be developed by – preparing organisational charts, providing employees with comprehensive job description, refining recruitment policies, conducting yearly appraisals, organising training sessions, taking measures to lower employee turnover rate, preparing succession plans, developing competitive compensation plans and abiding by the laws and regulations related to central and state government.
- 8) **Strengthens Brand Management:** A company's brand image can be damaged by introducing a new product in the product line or by acquiring a company that does not match with the market image of the organisation. Strategic management keeps in mind the objectives of brand management while making organisational decisions.
- 9) **Identifies SWOT:** Strategic management scans the organisation's environment for identifying the strengths, weaknesses, opportunities and threats that are faced by the organisation as a whole, as well as by its separate departments. Once these are identified, it becomes easy to find out the issues

related to the product line, marketing channels, pricing methods, marketing practices, staffing practices, e-commerce activities, etc.

1.2.7. Limitations of Strategic Management

Several drawbacks of strategic management are as follows:

- 1) **Time-Consuming:** Strategic management process is extremely time-consuming. An organisation has to put immense efforts and resources for implementing the process of strategic management.
- 2) **Challenging Process:** Implementing the process of strategic management is quite difficult. It takes a highly skilled and specialised workforce to craft and execute a strategy. A Master's or Doctorate degree in the same discipline is needed to become a **strategist**. Appointing these strategists or working with an organisation providing strategic assistance is generally quite expensive for an organisation.
- 3) **Absence of Short-Term Benefits:** Although the investors are interested in achieving quick returns, the rewards for applying strategic management principles can be realised only in the long-run. At times, strategic management causes short-term losses for the organisation in order to deliver long-term benefits.

These short-term losses can diminish the value of the organisation that may cause it to shut down.

- 4) **Unexpected Outcomes:** Many concepts of strategic management are related to making future predictions. But practically future cannot always be foretold. Any significant political or financial change in the environment may lead to results that would be totally different from those that were projected while formulating a strategy. It is very challenging to predict future business outcomes due to the dynamic nature of the environment. Hence, in such circumstances, strategic management can prove to be a bane for the organisation.
- 5) **Poor Adaptability:** Strategic management may create inflexibility and bureaucracy in an organisation and takes away the ability of the organisation to react to the changes in the environment. As a result, the organisation is not able to exploit the environmental opportunities and steer clear of the threats.
- 6) **Limited Set of Rules:** An organisation cannot apply the process of strategic management according to some prescribed norms, programmes and schedules. It is based on a theory that deals with every situation in prescribed manner. This makes strategic management a belief or dogma of business and management rather than a practical approach. This becomes a hindrance in strategy formulation.

1.2.8. Difference between Business Policy and Strategic Management

Basis of Difference	Business Policy	Strategic Management
1) Meaning	It offers guidelines for managers to take appropriate decisions.	It deals with strategic decisions that decide the long-term health of an enterprise. It is a comprehensive plan of action designed to meet certain specific goals.
2) Nature	It is a general course of action with no defined time limits.	It is a means of putting a policy into effect within certain time limits.
3) Features	It is a guide to action in areas of repetitive activity.	It deals with those decisions which have not been encountered before in quite the same form, for which no predetermined and explicit set or ordered responses exist in the organisation and which are important in terms of the resources committed or the precedents set.
4) Orientation	Once policy decisions are formulated, these can be delegated and implemented by others independently.	It deals with crucial decisions whose implementation requires constant attention of top management.
5) Time period	Policies are statements or commonly accepted understandings of decision making.	Strategies are specific actions suggested to achieve the objectives.
6) Scope	Policies are thought – oriented.	Strategies are action – oriented
7) Implementation of Decision	Power is delegated to the subordinates for implementation.	Everyone is empowered to implement the strategy

8) Focus/Objectives	Policies are guidelines.	Strategies are means to an end.
9) Implementation Process	Policy is in general concerned with the course of action to fulfil the set objectives.	Strategy is concerned with uncertainties, competitive situations, and risks etc., that are likely to take place at a future date.
10) Overall Goal	Policy is an overall guide that governs and controls the managerial action	Strategy is deployed to mobilise the available resources in the best interest of the company.

1.3. COMPETITIVE ADVANTAGE

1.3.1. Introduction

Competitive advantage can be defined as the superiority that is enjoyed by a firm over its competitors in an industry. Hence, it can be thought of as a strategic advantage of a business. It allows a firm to build its position stronger than before. The terms 'strategic advantage' and 'competitive advantage' can be used synonymously. It is a superiority of a firm in a specific competitive area. With the help of this supremacy, the firms are able to find a favourable market position. This supremacy can be developed in any of the functions or areas that a firm deals in. Therefore, this implies that there are many ways through which the firm can acquire the competitive edge.

Through competitive advantage, the organisation is able to make the target market aware about the supposed value which it can provide more efficiently than the competitors. It can be attained in many ways, such as by presenting goods or services of better quality, competitive pricing, innovative marketing, etc. When an organisation maintains the competitive advantage in a long-run, then it is called 'sustainable competitive advantage'. It establishes the firm and improves its image among the general public as well as increases the possibility of success in future.

A firm is said to have a competitive advantage when it has an access to the superior quality resources with some additional benefits, such as skilled and trained employees, latest technologies, natural resources, etc. All these resources lead to achievement of competitive advantage by the firm.

1.3.2. Competitive Advantage through Business Strategies

In addition to the five forces model of industry competition, Porter developed a framework of so-called generic business strategies based on two sources of competitive advantage – low cost and differentiation. Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader

in either cost or differentiation. The combination of these two sources with the scope of the target market served (narrow or broad) or product mix width (narrow or wide) yields four generic strategies – cost leadership, product differentiation, focused differentiation, and cost focus.

Generic strategies aiming at the achievement of competitive advantage demand that the firm make choices. The choices are the position it seeks to attain from which to offer unique value (based on cost or differentiation) and the market scope or product mix width within which competitive advantage will be attained. The nature of the choice between positions and market scope is a gamble and involves risk. By choosing a given generic strategy, a firm always risks making the wrong choice.

Competitive strategy deals exclusively with management's action plan for competing successfully and providing superior value to customers. Business strategy concerns not only how to compete but also how management intends to address all of the other strategic issues confronting the business.

A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

1.3.2.1. Low Cost

In this strategy, the firm employs economies of scale and brings efficiencies in the production lines to drive down the cost of its products lower than that of its competitors. Thus, here the firm tries to beat the competitors by keeping the prices lower. It is characterised by reduction of overheads and fixed costs of production and distribution. The firm can apply the low cost leadership strategy in situations, where the customers have a flexibility of changing suppliers, have good product knowledge and the product/service is standardised.

A very good **example** of this strategy is Walmart which has low overhead cost than other retail chains. It builds large shopping complexes situated outside cities where the rentals are low. It also has an iron

grip over its vendors and extracts the best terms from them. This results in an ability which is demonstrated by its "every day low price" policy. In India, Big Bazaar has been able to develop a similar business model. This strategy also leads to a lesser expenditure on marketing the product as the price of the product itself is the biggest attraction to the customers. It also develops entry barriers and it is not easy for newcomers to compete with the firm.

This strategy is utilised by the firm in becoming a low cost producer in the industry. By applying this strategy, the firm aims to achieve complete cost advantage and economies of scale with the help of offering a standardised product or service in the market.

The critical aspects of cost leadership are operational details, stable product lines, giving special attention to formal profits and budgets, and relying on capital rather than low efficiency labour.

Conditions for Achieving Cost Leadership

Low cost leadership is most effective in the following situations:

- 1) When the main basis of competition in the industry is price competition.
- 2) When an industry sells a standardised, commodity product which is easily accessible to many firms.
- 3) When it is possible to differentiate the product in only limited number of ways that has value for the customers.
- 4) When the buyers have similar preferences regarding the ways they use the product and when they are not seeking customisation.
- 5) When there is low switching cost in moving to an alternate seller and when the buyers are looking for best price in the market.
- 6) When the target market is big and the bargaining power of the buyers is high.

1.3.2.2. Differentiation

A differentiation strategy is adopted by a firm which wants to differentiate its products and services from its competitors. In other words, the firm wants to highlight some feature or benefit in its product offering as superior to that of its competitors. Differentiation strategy is adopted when the firm is likely to generate more profit by focusing on a particular product attribute than becoming a low cost leader. This strategy resorts to heavy advertising to insert this value proposition in the minds of its customers. In this manner it is able to create a brand loyalty for its products. This brand loyalty allows the company to charge a higher price or brand premium.

For example, L'Oréal has gained huge market share in hair colour segment by highlighting the 'no ammonia' attribute of their product. It has been able to create a very high brand loyalty for its product. A successful differentiation strategy also allows the firm from erecting entry barriers which act as deterrents to new entrants in the industry.

Conditions for Achieving Differentiation

A differentiation strategy works in the following conditions:

- 1) Other competitors have a differentiation strategy in place.
- 2) The market is large enough for offering differentiated products.
- 3) Customers have diverse needs.
- 4) Other competitors in the industry offer largely undifferentiated products and focus on the generic needs of the customers. Special needs of the customers are not being addressed.

1.3.2.3. Focus

The third generic strategy after cost leadership and differentiation is focus. This is different from the other two strategies because in this the firm focuses on a particular segment or market within an industry. These segments may be defined in terms of products, geography or customers.

A firm is able to create a differentiated and secure market position by catering to a small set of customers. Focus can be of two types – Cost focus and Differentiation focus. A cost focused strategy implies a cost advantage in the identified segment whereas a differentiation focus focuses on a differentiated offering in the segment.

The focus strategy achieves a low cost or differentiation in its segment. However it does not have the same value proposition for the entire market. **For example,** Mahindra Holidays is a timeshare company in India which caters to family audience. In its segment Mahindra Holidays has a differentiated offer, as it offers holiday packages for the family. They focus on the family segment in the market.

Conditions for Achieving Focus

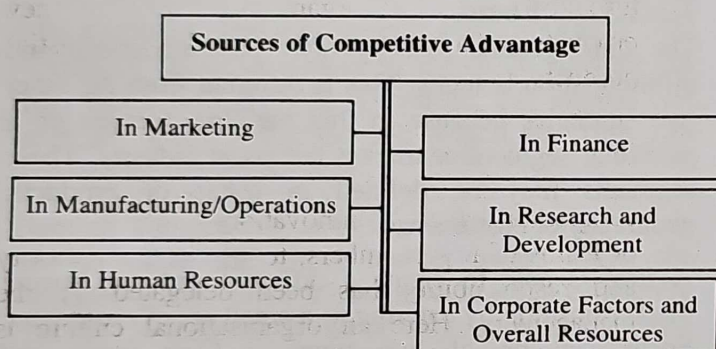
A focus strategy can be applied in the following conditions:

- 1) The presence of profitable niches which are being ignored by the market leaders.
- 2) Industry competition is low.
- 3) Players who follow a niche strategy can create barriers for potential entrants and market leaders from entering the market segment.

1.3.3. Sources of Competitive Advantage

Analysing strategic advantage can be regarded as a process which helps the strategists to assess the resources and capabilities of the firm in the major functional areas in order to determine major strengths and weaknesses of the firm. It helps the organisation to utilise the opportunities and counteract the threats. By pursuing a different process, developing unique tactics, creating the barriers for the rivals, etc., competitive advantage can be achieved.

Competitive advantage can originate from any of the functions performed by the firm such as production, marketing, R&D and personnel. Competitive advantage can emerge from any of these functions and the sub-functions existing under them. The sources from which the competitive advantage is achieved should not be stretched beyond a certain limit that they stop providing competitive advantage to the firm. Some of the major sources of competitive advantage are as follows:



1) In Marketing

- i) Launching new product,
- ii) Offering low price,
- iii) Larger market share,
- iv) Applying creativity and innovation in marketing activities,
- v) Increasing the level of customer satisfaction,
- vi) More prompt customer service,
- vii) Improving marketing channel,
- viii) Innovative promotional strategies,
- ix) Increasing efficiency of advertisement,
- x) Effective and productive sales activities,
- xi) Continuous market research,
- xii) Collaborations with other marketing organisation,
- xiii) Reducing the costs in marketing,
- xiv) Improving the product-mix and product lines of the firm,
- xv) Market standing,
- xvi) Product-wise position in following areas:
 - a) Brand power,

- b) Product quality,
- c) Product design,
- d) Profitability,
- e) Product's sophistication/technological strength,
- f) Positioning,
- g) Stage of the product in the life cycle,
- h) Differentiation, and
- i) Marketing capability.

2) In Finance

- i) Liquidity,
- ii) Assets,
- iii) Gearing,
- iv) Leverage,
- v) Costs,
- vi) Cash flow,
- vii) Profitability,
- viii) Cost of capital,
- ix) Efficient tax planning, and
- x) Quality of financial management,

3) In Manufacturing/Operations

- i) Improved production capacity,
- ii) Better plant location,
- iii) Better production facilities,
- iv) Post-production facilities,
- v) Full capacity utilisation,
- vi) Efficient utilisation of raw materials,
- vii) Maintenance,
- viii) Reduced cost of production,
- ix) Achieving break-even position,
- x) Improved productivity,
- xi) Better inventory management,
- xii) Experience curve benefit,
- xiii) Value engineering capability,
- xiv) Improved flexibility, and
- xv) Automation.

4) In Research & Development

- i) Features, quality and depth of research facilities,
- ii) Proper allocation of financial and other resources for R&D activities,
- iii) Skills, knowledge and experience of researchers,
- iv) Promptness in research activities,
- v) Technical skills and abilities for carrying-out research and development,
- vi) Maintaining records about patents and copyrights, and
- vii) Comparing the cost input and outcome obtained in terms of product.

Overview of Strategic Management (Module 1)

5) **In Human Resources**

- i) Skills, knowledge and experience of employees,
- ii) Dedication and motivation in employees,
- iii) Low personnel turnover,
- iv) Minimal labour costs, and
- v) Improved industrial relations.

6) **In Corporate Factors and Overall Resources**

- i) Size of the company,
- ii) Corporate image,
- iii) Capability of management,
- iv) Capable and experienced top level management,
- v) Efficient and co-operative board of directors who can make policies and take decisions.
- vi) Impressive record of organisation's performance,
- vii) Continuous effort towards innovation and creativity,
- viii) Effective strategic planning,
- ix) Productive organisational culture,
- x) Flexible and adaptable organisational structure, and
- xi) Implementation of latest technology.

- 6) **Outperforms Existing Competitors:** A strong competitive advantage helps in dealing with the present and the evolving competitors. In order to compare their performance with that of the rivals, the firms make use of the customer value analysis, which throws light on the factors that are rated high by the customers while selecting a product or a supplier. These factors help in providing a measure for developing competitive advantage. Strong competitive advantages are built by the firms by creating entry barriers and by beating existing rival firms.
- 7) **Increases Investor Value:** The competitive advantage of an organisation helps in finding-out the capability of the organisation to bring back surplus gains on capital for the shareholders. The relation between the business strategy and its financial and investment strategies helps the shareholders to ensure that they can continuously invest in a resource that provides and maintains the competitive advantage.

1.4. BUSINESS MODELS

1.4.1. Meaning of Business Models

There are number of people who frequently use the terms 'business model' and 'strategy'. But still the meaning of these terms is ambiguous. In simple terms, strategy is a plan which determines company's proposed future goals. While, business model is an intellectual depiction of a strategic plan applied by a company to generate revenue and earn profits. Thus, a business model can be applicable to more than one organization and several business models can constitute to a firm's strategy.

Magretta proposed the definition of business model- a business model is a notional or symbolic representation of a characteristic of a firm's strategy. It summarizes the necessary specifications required by a firm to successfully furnish value to the customers.

A business model is the core narration as to how and why the organization's product line and competitive viewpoint will generate revenue. It also specifies the relation with the cost structure of the company that yields lucrative earning opportunities and return on investment. A suitable business model is required for a new and existing venture to obtain value from an innovative. These models transform new technologies into cost-effective means.

Sometimes, a well-known business models cannot be applied to new ventures; hence a new model is necessary for start-ups. It is not just the model which

is solely significant at times. The importance lies in the innovative business model and not in the innovative products or services offered by the organization.

The various complications related to the firm's products, markets and external environment is understood by few or no individuals. Technical specialists understand their field of activity and the business experts understand their work. A business model helps to associate these two fields as shown in **figure 1.2:**

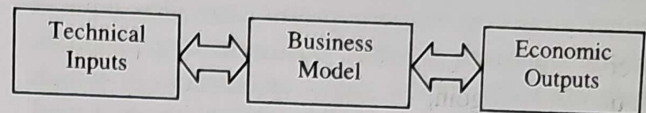


Figure 1.2: Business Model

1.4.2. Components of the Business Model

A business model is used as a resource for several business subjects like marketing, finance, economics, strategy, entrepreneurship and operations. A business model helps to predict the profits to be earned with the help of innovation. The six important components of a business model are as follows:

- 1) **Value proposition:** It is an explanation of a customer's problem, the product which solves the problem and the customers' viewpoint towards that product value.
- 2) **Market segment:** It consists of specific set of people to be targeted and identifying different market segments having different needs and demands. At times, the potential of an innovation is revealed by considering a different market segment.
- 3) **Value chain structure:** It implies the place a firm and its activities hold in a value chain and the manner in which the firm apprehends the part of value created by it.
- 4) **Revenue generation and margins:** It explains the process of revenue generation (including sales, support, subscription, leasing, etc.) the cost structure and the targeted profit margins.
- 5) **Position in value network:** It recognises the competitors, complementors and network effects which can be used to provide added value to the customers.
- 6) **Competitive strategy:** It specifies the strategy adopted by a company to create a sustainable competitive advantage. **For example,** the company can attempt to design a strategy by means of cost, differentiation or a niche strategy.

1.4.3. Business Model and Strategy

Every company's business model has a common issue which is related to the selection of a strategy whether the strategy is sound enough or not from

profit-making perspective. The idea of company's business model is restrictively concentrated in comparison to the company's business strategy. A business strategy of a company is majorly concerned with its business approach and competitive capabilities. Whereas, the business model is all about revenue and cost generation from the business strategy which indicates business sustainability. The leading players in the industry have a proven business models i.e. both in terms of feasibility and profitability. These proven business models have distinct strategies to earn profits and also have a realistic approach towards business. Organizations which are in the initial stages of business or which are incurring losses have a debatable business model their strategies still seek to generate high outputs which portray their ultimate intentions and this act ruptures the viability of the business enterprise.

Business model concepts are diverse from the business strategies of an enterprise. Some of these distinguishing factors are as follows:

- 1) A business model begins the process by identifying and developing value for consumers and establishes the model in a way which delivers value on a regular and reliable basis. Business strategy majorly concentrates on handling the competition faced in the industry.
- 2) A business model defines the fundamental reason of an enterprise i.e., the value that the entity offers to its customers, whereas a strategy defines the plan of action.
- 3) There is a difference between creating a value base for the company and creating value for its shareholders. Many times, the financial aspects of a business are excluded from the business model. Internal corporate resources are supposed to be financed out of the business model so that they do not feature eminently in the model. Similarly, the business model of a new entity requires venture capital financing from the initial stage of the business cycle. While, designing a business model, integration of financial domain is necessary to convert value in the business into value for the shareholder.
- 4) The intention behind the formation of a business model is based on the facts that the understanding of the consumers and other client parties is restricted and is prejudiced by the previous accomplishments of the firm. Usually, a strategy demands cautious, analytical computation and choice which is based on the presumption that a large amount of definitive data is available. It also concludes that any

cognitive constraints by the firm have a restrictive significance. Thus, in the creation of a business model, it is significant to interact, share and frame new innovations with the help of external stakeholders whereas during strategy formulation these activities are primarily undertaken internally.

Both the concepts of business model and business strategy are not similar but are supportive in nature. At the same time, while designing a business model an individual has to design a strategy which is matching with the business model created. Similarly, a business model design can be affected by the strategic reasoning, enabling the model itself to be a prime distinguishing factor. However the design of a business model has important indications for value representation. It states how value is generated with the help of suppliers, partners and customers. The following important relationships between a business model and strategy should be considered for business organizations:

- 1) A business corporation has a varied number of business units or business divisions. Generally, all these units or businesses compete in different industry other than the parent industry.
- 2) Competing industries should always have different business model for each type of business so as to provide sustaining and unprecedented value innovations. A corporation should have a composed strategy which includes several business models for all the industries where the corporation is present (along with few new business models guiding into new industries or inducing creation of new industries in the near future).
- 3) Every business model whether new or existing should have a strategy which forces the business model towards proper implementation that gives the model a distinguishing character from present or prospective competitors.

1.4.4. Relationship between a Company's Strategy and its Business Model

The methods or techniques used by a business to attain its organisational mission and objectives are called the "business strategy". A mission defines the fundamental value system, long-term goals and the overall purpose of the business. **For example,** a grocery shop may have the goal of profit-making by offering good quality food items to customers, maintaining its environmental impact to the minimum possible level and strengthening its position in the local market. A company's strategy

involves procuring of goods from the local food producers, motivating customers to carry their own grocery bags, giving advertisements in local newspapers and procuring recycled product packaging materials. A business strategy involves the method to deal with opportunities and threats it confronts.

A company's business model concept works closely in connection with the concept of business strategy. The business model outlines the basis which creates the value; provide the value to its customers and in return collects earnings from them. Considerable variation is observed between business models from one company to another.

For example, a business model of a grocery shop may include purchasing food items at wholesale prices and selling it to customers at a higher price to earn profit. On the other hand, a website might include a business model which provides video content to end users and earning income by showing advertisements on the website. A business model of a company functions as a part of the overall strategy of the business. It provides the fundamentals of how a company earns profits to accomplish its organisational objectives.

For example, if a website is not earning sufficient profits by advertisements then the management may change the model by selling other goods via online store to improve the profitability level.

Basis of Difference	Company's Strategy	Business Model
1) Perspective	A company's strategy mainly associated with its business view- point and competitive edge.	Company's business model has limited application in comparison to a company's business strategy.
2) Focus	The main focus of strategy is on the competition in the market.	A business model Initiates the process by finding and designing value to the customers and establishes the model in a way which delivers the designed value on a regular and reliable basis.
3) Rationale	Strategy is a plan of action to execute the business model.	A business model defines the fundamental reason of an enterprise to function as a business entity.
4) Assumption	A strategy demands cautious and analytical computation and choice which is based on the presumption that a large amount of definitive data is available.	The intention behind the formation of a business model is based on the facts that the understanding of the consumers and other client parties is restricted and is prejudiced by the previous accomplishments of the firm.
5) Orientation of activities	During the evolution of a strategy network, sharing information and framing new value innovations with external stakeholders is internalized.	In the creation of a business model, it is significant to interact; share and frame new innovations with the help of external stakeholders are externalised.