TOPIC 1: ORGANISATIONAL STRATEGY

Strategic Management

The word strategy is derived from the Greek word "STRATEGIA" which means the art and science of directing the military forces.

Strategy is defined as a unified comprehensive and integrated plan of the firm to meet the challenges of the environment. The main challenges that the organizations face from the environment is competition. Competition is at the heart of strategy formulation and if competition is absent there would be no need for strategy. Hence strategy is a well thought out systematic plan of action to defend oneself or to defeat rivals. Strategy is formulated in anticipation of the possible positions, moves, actions and reactions of rivals.

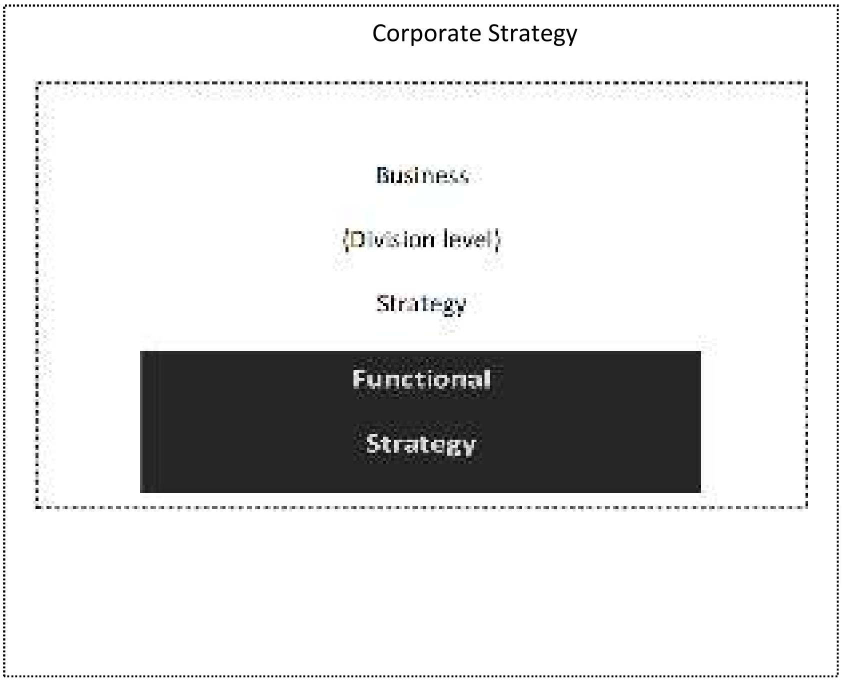
What are strategies?

The typical business firm usually considers three types of strategy: Corporate, Business, and Functional.

1. Corporate strategy describes a company's overall direction in terms of its general attitude toward growth and the management of its various businesses and product lines. Corporate strategy comprises of stability, growth, retrenchment.
2. Business strategy usually occurs at the business unit or product level, and it emphasizes improvement of the competitive position of a company's products or services in the specific industry. Business strategies are composed of competitive and cooperative strategies. For E.g. Apple computer uses a differentiation competitive strategy that emphasizes innovative products with creative design. In contrast, British airways followed a cooperative strategy by forming an alliance with American Airlines in order to provide global service.
3. Functional strategy is the approach taken by a functional area, such as marketing or research and development, to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with a developing and nurturing a

distinctive competence to provide a company or business unit with a competitive advantage. An E.g. of a functional strategy is America Online's marketing strategy of saturating the entire market with a low priced product.

Hierarchy of strategy



Business firms use all three types of strategy simultaneously. A hierarchy of strategy is the grouping of strategy types by level in the organization. This hierarchy of strategy shown in Figure is a nesting of one strategy within another so that they complement and support each other. Functional strategies support business strategies, which, inturn, support the corporate strategy.

What is strategic management?

It is that set of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives. The process of strategic management starts with the formulation of mission. Mission is the very purpose of the existence of the organization. The mission focuses on the purpose of the business and the employees should find it achievable and relatable. The mission of ISRO is to send Man to Moon and also Space Technology should benefit the society.

Therefore organizations today come out with mission statements.

MISSION STATEMENT

What is mission statement?

It is an enduring statement of purpose that distinguishes one business from other similar business of different firms. A mission statement reveals the long term vision of an organization of what it wants to be and whom it wants to serve in the distant future(A vision is a very long term imagined view of the organization as it might be in the future). The mission statement describes an organization's purpose, customers, products or services, markets and the basic technology that is adopted by the organization. A mission statement is evolved through various meetings amongst the senior management team and after calling for suggestions from employees.

What are the elements of mission statements?

1. It must be clearly articulated: - It should be easy to understand so that the values and purpose of the organization are clear to everybody in the organization and will be a guide to them.
2. It must be relevant: - should be appropriate to the organization in terms of its history, culture, and shared values.
3. It must be current: - A mission statement may become obsolete after some time because of change in the environmental factors and organizational factors. Some companies have changed there mission statements several times. The factors which call for change in the mission statement are changes in the market, growth, diversification into new areas.

4. It must be written in a positive tone: - It must be capable of inspiring and encouraging commitment towards fulfilling the mission.
5. It must be unique: - It should establish the individuality if not the uniqueness of the company and its products of services.
6. It must be enduring: - It should continually guide and inspire and be challenging in the pursuit of its mission.
7. Adapted to the target audience: - The mission statement must be directed towards the consumers, general public, share holders, employees.

What is the importance of mission statement?

1. It provides a road to development and drive for growth.
2. It provides a clear sense of purpose , direction, and desired future state and when this image is widely shared individuals are able o find their own roles both in the organization and in the society.
3. Mission statement empowers individuals and confers status on employees because they see themselves as a apart of a worth while enterprise.
4. It results in a clear definition of the business of a company.
5. Mission statement helps in modifying, extending and developing the existing ongoing business.
6. A mission statement makes everybody imbibe the spirit and inspires employees.

Peter F Drucker: "without an effective statement there will be no performance it has to express the contribution the organization plans to make to the society, customer and to the economy."

Stakeholders and interested parties

Stakeholders or interested parties of an organization are those affected by it and those who affect it . They hold varying types of degree of influence and interest in it, its product and services; it was of working, its standards and outcomes, its successes and its failures. They are as follows.

1) The staff : Everyone who works for and in the organisation and who is therefore dependent upon it for their income and spending power and , to a greater extent, for the standard and style of living.
2) The communities in which the staff lives and work and in which the organisation operates.
3) Social customers: for example, charities, schools and hospitality which may approach the organisation for sponsorship and support for social, educational, charitable or other worthy causes.
4) Shareholders: The investors of money in an organisation in the expectation and anticipation of returns.
5) Other financial interests including backers , contributors
6) Suppliers of components and raw materials: These have a vested interest in the success of the organisation in focus.

Customers and clients

The customers and clients of organizations are those who avail themselves of its product and services. A finer distinction may also be drawn as follows:

The customers are the one who pays for the offering; the clients are the one who uses it. The two may be the same (the driver who both pays for and uses the petrol for the car), or they may not be (the parent buys toys, the child uses them).

This also applies to public services and the not – for profit sector. In each case, continual focus on the client groups in question is critical to their effective operation, maximization and optimization of what are invariably scarce resources.

OBJECTIVES

What are objectives?

Objectives may be defined as those ends which the organization seeks to achieve by its existence and operations. What the organization seeks to achieved must be quantified and specific so that there is no confusion when one reaches there. The changes in the market environment, changes in the organizational factors like strength, weakness may call for modification of objectives.

What are the factors that affect objective?

1. Forces in the environment
2. Internal forces
3. The value system of top executives

Forces in the environment like the politics of the government, competition, and change in customer preference of products / services affect objectives.

Internal forces like employer – employee relation, technology adopted by the organization, commitment of the top management and its employees.

The value system of the top Executives like there social and moral responsibilities to the customer, shareholders, societies etc.

Necessity of formal objectives(remember acronym: SMS CODE)

1. Strategy Plans: Objectives help strategy planning and thus help effective functioning of the organizations in a given environment
2. Management by objective: Clearly formulated objectives form the basis for the management to manage the organization by objectives so that the desired objectives are achieved.
3. Standards for assessments and control: By making clear the objectives what the results should be provided the basis for control and assessment of organizational performance.

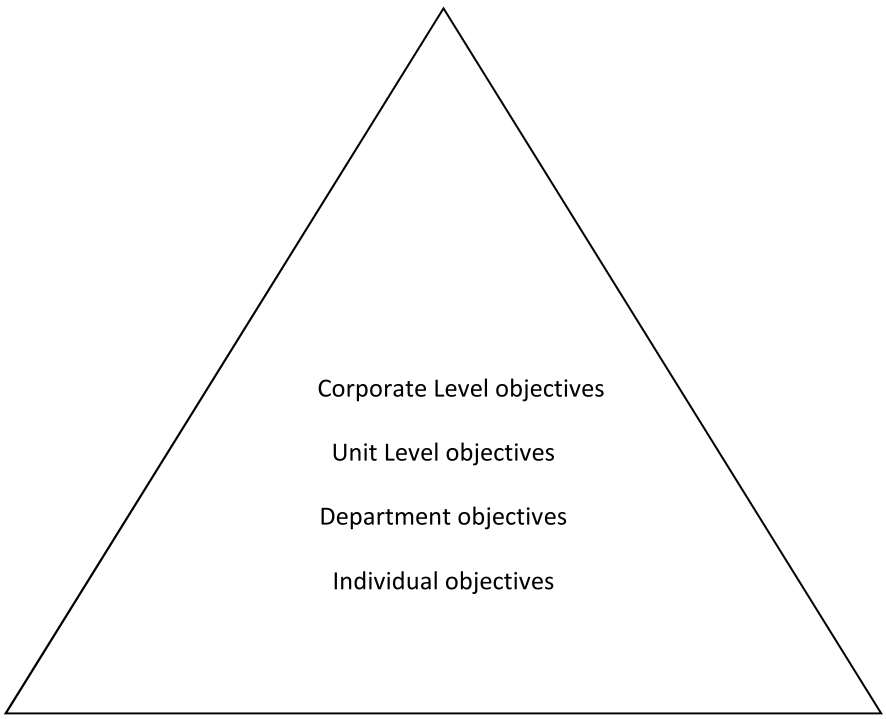
4. Coordination: Objectives help coordinate decision and decision makers. It reduces conflict in decision making.
5. Organization: Objectives indicate the purpose and aim of the organization there by justifying its existence.
6. Decentralization: Objectives help decentralization, i.e., objectives when assigned to lower level employees in the organization it helps faster decision making.
7. Efficiency: Objectives help in the overall efficiency of the organization thereby helping the organization for the achievement of the strategies or strategic plans.

*Examples of objectives:*Objectives must be achievable and materially quantifiable.

Profit objective: To increase profits from Rs.10.00 lakh today to 80.00 lakhs ten years hence.

Marketing objective: To increase total company sales by 10% annually to reach Rs. 22.00 lakhs 10 years from now.

Hierarchy of objectives



Corporate level objective form the overall objectives of the organization which are long range. It is formulated and pursued by the top management, Board of Directors and the top most managers.

Unit level objectives: - These objectives of the strategic business unit (SBU) form the next level.

Department level objective: - These are the objectives of the different departments like production, marketing, finance, personal, research and development which will help the unit level objective which in turn would help the corporate objective.

Individual objectives: - A department may have several sections under it. Each section has several personnel responsible for the achievement of the department objectives. E.g.: A salesman in a marketing division will have to achieve specific objectives like sales targets.

GOALS

CASE FOR STUDENTS: Objectives and goal setting at Canara Bank

B. Ratnakar, ex-chairman of Canara Bank, on being interviewed by Business World just before completing his six-year term, expressed the purpose of his organisation as: "Our mission is to be the most competitive and progressive institution in our(i.e.banking) industry." The bank's stated objectives are: "growth, innovativeness, high profits as a barometer of efficiency, highly involved employees distinctively charged with pride..."

During his six-year successful tenure, Ratnakar has attempted to achieve the above objectives in a number of ways.

- *Growth has been achieved in terms of customers (20.4million), reserves (Rs 200 crore), average business per employee (Rs 21.78lakh), deposits per branch (Rs3.4 crore) and priority sector lending (47 per cent of net credit against an industry norm of only 40 per cent). All figures relate to 1987.*

- *Innovativeness is reflected in a number of new schemes like mutual funds such as Canstock and Canshare, and setting up of Canbank Financial Services Ltd, for merchant banking and portfolio management.*
- *High profits of Rs 45 crore in 1987; the highest among all public sector banks and nearly equal to that of the industry leader, State Bank of India.*
- *Employee involvement has been sought through delegation of authority and devolution of power to grassroot levels through a change in administrative structure and the creation of circle and branch management boards.*

Observe from the above that bank's purpose is supported by objectives, which in turn are achieved through goals that are measurable.

DIFFERENTIATE BETWEEN OBJECTIVES AND GOALS:

AN ILLUSTRATION OF OBJECTIVES AND GOALS:

EXAMPLE OF OBJECTIVES	EXAMPLE OF OBJECTIVE CONVERTED TO GOALS
To improve efficiency of factory	Reduce shut down 10% monthly
To improve the profitability of the outlet	Improve nteprofit to 12 % from current 10%
To promote growth of the chain of hotels	Add 250 keys this year to the chain
To contribute to the wealth of shareholders	Pay ---% of dividend
To ensure optimal use of resources	Improve return on investment by 5% this financial year
To contribute to employee welfare	Annual increment ,P L I,etc
To promote towards welfare of society	Construction of bus stands,wells,etc. this budgeted year
To be leaders in technology and knowhow	Innovative technologies the operational year.

STRATEGIES: DEVELOPING STRATEGIES

Many strategies are developed for the long run future of the organization. Strategic decision is made by the CEO who has a brilliant insight and is quickly able to convince others in the organization to follow the idea. Some typical approaches are the following.

***Adaptive search*:**

As per this approach an appropriate solution to a problem is formulated by moving in incremental steps for many years. Eureka Forbes door to door selling of its water purifier to the customer to sell its products in the market is an example of adaptive search. This product will not sell unless there is door to door selling.

Intuition search:

As per this approach the executive uses his institution for strategy development. It comes out of his instinct. He thinks without any data available but his experience in the field matters. He is very keen and ha quick insight.

Strategic factors:

Under this approach the CEO looks out for various critical factors in the organization – like the various SBUs and its business in terms of its strengths and weakness that would determine the success or future of the organization.

Picking niches:

A Niche is a product / service suitable for a segment of customers. For e.g. A company manufactured a machine for smoothing ice for ice skating which earlier was done manually. No company has found a substitute. This company has found a niche in the business world. The customers are clearly defined and the products are unique.

***Entrepreneurial approach*:**

In this approach the strategy is developed by one powerful individual. The focus is on opportunity and the problems are secondary. The strategy is pushed ahead and the power rests with one man who is capable of taking bold decision.