Business Policy & Strategy

Block

1

OVERVIEW OF STRATEGIC MANAGEMENT

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Course Introduction

"The general who wins the battle makes many calculations in his temple before the battle is fought. The general who loses makes but few calculations beforehand."

- Sun Tzu

"There is no 'perfect' strategic decision. One always has to balance conflicting objectives, conflicting opinions, and conflicting priorities. The best strategic decision is only an approximate – and a risk."

- Peter Drucker

Strategic management consists of a set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organization. It involves taking decisions about the products, location, and the organization's structure – decisions that determine the survival of the organization in the short and long term. It starts with strategic diagnosis, and culminates in new products, markets, technologies, and capabilities. The strategist's work is to challenge the prevailing setup with a single question: "Why?", and to ask the same question as many times as necessary to make the future as clear as the present for managers at all levels.

The course, *Business Policy & Strategy*, discusses the concepts and practices in strategic management. The course focuses on the organization and its interaction with its environment. It provides a panoramic view of the changing corporate environment and seeks to explain how organizations can be more effective and efficient not only in today's but also in tomorrow's business environment.

This edition has added a large number of contemporary examples and deleted old examples and exhibits. It has simplified the language and text layout to make it more readable.

BLOCK 1: OVERVIEW OF STRATEGIC MANAGEMENT

The first block of the course on Business Policy & Strategy deals with the fundamental concepts in strategic management. The block contains three units. The first unit discusses the basic concepts involved in strategy. The second unit focuses on the concept of strategic management. The third unit discusses how to implement management control systems.

The first unit, *Introduction to Strategy*, discusses the evolution of the concept of strategy. It discusses the three levels of strategy. The unit ends with a discussion on why organizations often fail to develop sound strategic management perspectives.

The second unit, *Strategic Management*, discusses the concept and process of strategic management. The unit describes in detail the components of strategy formulation. The unit ends with a discussion on the strategic decision-making process.

The third unit, *Vision, Mission, and Social Responsibility*, discusses the definition of the vision and mission of an organization. The unit also discusses the process of formulating a mission statement. The unit ends with a discussion on the concept of social responsibility, and the various types of social responsibility.

Unit 1

Introduction to Strategy

Structure

"The company without a strategy is willing to try anything."

- Michael Porter

1.1 Introduction

As Michael Porter emphasizes the need of strategy, it is necessary to lay down the precise pathway of each goal-oriented business activity. In this unit, we shall introduce you to the concept of strategy.

The dynamic nature of the environment often renders the strategy being pursued by a firm redundant and there is a need for it to be replaced with new strategies. In the intensely competitive global environment of today, an organization/firm should have strategies that provide the framework for long-term success. Strategic management aims at creating an enduring organization.

Different firms pursue a variety of strategies to stay successful over a period of time as the tenure of success of a particular strategy is dependent on the intensity of competition in the marketplace. Strategic management deals with the issues of staying perpetually successful. It deals with how a firm utilizes its resources and capabilities to counter or pre-empt competitive moves and succeed in the dynamic marketplace.

This unit will first discuss the evolution of the concept of strategy. We shall then move on to discuss the three levels of strategy. Finally, we shall discuss why organizations often fail to develop sound strategic management perspectives.

1.2 Objectives

By the end of this unit, you should be able to:

- Discuss the evolution of the concept of strategy.
- Identify the three levels of strategy.
- Explain why organizations often fail to develop sound strategic management perspectives.

1.3 The Evolution of the Concept of Strategy

The word Strategy comes from the Greek word Strategia, which means a General or Military Commander. War and strategy are inseparable. Wherever there has been war, there has been a strategy to wage it. War and strategy are not new concepts; what is new is the increased emphasis on strategy in the business context.

Igor Ansoff (Ansoff), Henry Mintzberg (Mintzberg), Peter F. Drucker (Drucker), Michael E. Porter (Porter), George Stalk, Philip Evans, Lawrence E. Shulman, C. K. Prahalad (Prahalad), Gary Hamel (Hamel), and others have contributed to the evolution of the concept of strategy.

Example: Impact of War on Business Strategies

Today's successful business strategies can be traced back to military strategies that have been used effectively from ancient Greece to the 21st century. For example, the following strategic principles continue to be relevant across changes in time and context.

1. Attack Strength: Attack the enemy in his stronghold. The Japanese attack on Pearl Harbor is an example of this principle. Similarly, in the 1990s, Lexus (Toyota) successfully fought Cadillac (GM) and Lincoln (Ford) in the US luxury car market.

2. Attack Weakness: The American attack against Germany in Morocco during the Second World War is an example of this strategy. The Nazis ignored the impending US attack on Morocco, thinking that Morocco was hardly worth defending. The successful American attack on Morocco opened up the way for the ultimate defeat of Hitler in the Second World War. Sam Walton, the founder of Wal-Mart, executed this strategy in the early 1960s by opening retail stores in small towns ignored by the then giant – Sears.

3. Concentrate Your Forces: This strategy is most relevant in today's business scenario. Organizations should coordinate their resources and concentrate on the areas where the competition is most intense.

Contd….

Using this strategy, in ancient times, generals like Caesar and Genghis Khan overwhelmed rivals with much bigger armies. Companies like Nike, Nokia, and FedEx excel because of their concentration strategy.

4. Forge a Strategic Alliance: The alliance among the US, the UK, and the USSR overcame Nazi Germany in the Second World War. Similarly, in today's highly competitive business environment, organizations are increasingly entering into alliances and forming business networks to take advantage of various synergies.

5. Sometimes, Containment is Good Enough: The Cold War between the US and the erstwhile USSR during the second half of the 20th century is an example of containment strategy. In business, when there is competition between two organizations of equal size, if one organization tries to eliminate the other, then both firms will end up with shattered profit margins and mountains of debt, and, in the end, bankruptcy. So, containment is often preferred.

Adapted from Laurie, Dennis. From Battlefield to Boardroom: Winning Management Strategies for Today's Global Business. New York: Palgrave, 2001.

1.3.1 Ansoff's Strategic Success Paradigm

Ansoff pioneered the systematic study of strategy. He conducted extensive research on acquisitions by American companies between 1948 and 1968. He found that acquisitions based on a rational strategy fared far better than those based on opportunistic decisions. Ansoff's strategic success paradigm identifies the conditions that optimize profitability. The key elements of this paradigm are as follows --

1. There is no universal success formula for all firms.
2. The level of turbulence in the environment determines the strategy required for the success of a firm.
3. The aggressiveness of the strategy should be aligned with the turbulence in the environment to optimize the firm's success.
4. The management's capabilities should be aligned with the environment to optimize the firm's success.
5. Internal capability variables, that is, cognitive, psychological, political, anthropological, and sociological variables, all jointly determine the firm's success.

After 11 years of testing his strategic success paradigm empirically, Ansoff translated it into a diagnostic instrument called 'Strategic Readiness Diagnosis'. His book *'Corporate Strategy'* (1965), played a key role in the development of the concept of strategic planning. He introduced 'gap analysis' (the gap between where the company is today in terms of growth and aspirations and where it wants to be) and the concept of *synergy* to a wide audience for the first time. He also proposed the Ansoff Product/Market Grid, also known as the Ansoff Matrix, to depict four growth strategies – market penetration, market development, product development, and diversification.

1.3.2 Mintzberg: Strategy as Craft

Mintzberg added a new dimension to strategic management by bringing the personal side of the manager into the picture. He proposed an *intuitive* view of strategic management, and attacked the *rationalism* of his contemporaries with regard to the subject. In his first book, *The Nature of Managerial Work* (1973), he advocated a more humane approach to strategy formulation and implementation, and coined the term ‘crafting strategy’. He drew a parallel between a craftsman, potter, and a manager who is crafting strategy. He proposed that the manager is aware of the corporate capabilities and the future market opportunities which are taken advantage of by him/her, using his/her knowledge. Accordingly, a manager while crafting strategy may start with a pre-planned deliberate strategy but while implementing it, may use his/her capabilities to sense changes required in the strategy due to the dynamic nature of the environment and may craft a new strategy, different from the one he/she started with. Mintzberg saw strategy formulation as a deliberate, delicate, and dangerous process, and advocated that strategies are both plans for the future and patterns from the past.

1.3.3 Peter Drucker’s Contribution

After World War II, the use of formal strategic thinking to guide management decisions was encouraged. Drucker argued that “management is not just passive, adaptive behavior; it means taking action to make the desired results come to pass.”

Drucker expected managers to influence and control market forces. He said, “It (managing) implies responsibility for attempting to shape the economic environment, for planning, initiating, and carrying through changes in that economic environment, for constantly pushing back the limitations of economic circumstances on the enterprise’s freedom of action.”

Drucker’s biggest contribution to strategic management was the introduction of the concept of management by objectives (MBO). When he introduced the concept in 1954, most managers were concerned with processes rather than goals. With MBO, the focus shifted from processes to goals. According to Drucker, MBO is more than a technique of management; it is a philosophy of managing. MBO transforms the basic assumptions of managing from exercising control to self-control.

1.3.4 Michael Porter: Strategy and Sustainable Competitive Advantage

Porter is a leading authority on competitive strategy, and on the competitiveness and economic development of nations, states, and regions. In his book *‘Competitive Strategy’* (1980), Porter addressed the issue of how firms analyze industries and competitors and develop their strategies accordingly. He proposed that competitive strategy is about being different. Being different here refers to the manner in which customers perceive the firm to be distinct from its competitors. Hence strategy is about positioning the firm in the customer's perspective. In his book *'Competitive Advantage'* (1985), he addressed the issue of how firms create and sustain superior performance that is, build a sustainable competitive advantage.

Porter's important contributions to strategic management include the 'Five Forces model', the 'value chain' concept, and the concept of 'generic strategies'. According to the 'Five Forces model', the nature and degree of competition in an industry depends on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products, and the rivalry between existing players. To determine a strategic plan for growth in the business environment, an organization must understand how these forces operate in the industry and affect the company-specific situation.

Porter proposed assessing every activity of the company in terms of its overall competitiveness. Further, he proposed the use of value chain analysis of an organization's internal processes, and the interactions between different functions, to determine how and where value could be added for the customer by the company. He also advocated three generic strategies: overall cost leadership, differentiation, and focus, which help the organization to compete effectively in the marketplace. These strategies determine the basis of competition.

Example

Walmart Inc. is a US-based multinational retail corporation, operates a chain of hypermarkets, discount department stores, and grocery stores. By 2018, Walmart operated over 11300 stores in 27 countries and e-commerce websites in 10 countries with a strong network of more than 2800 diverse suppliers that deliver quality products and services. For suppliers, working with Walmart access to the 275 million customers who shop at Walmart stores around the world each week. In 2017, Walmart introduced a new supplier policy, which says: if the supplier delivers products one day early or two days late compared to delivery schedule - Walmart will fine the supplier 3% on the supplies. Walmart exercised the bargaining power of buyers by putting pressure on suppliers.

Source: ICFAI Research Center

1.3.5 Competing on Capabilities and the Resource-Based View

The ability of a firm to succeed today depends on its capability to move quickly in and out of products, markets, and at times from entire business areas. Success depends on anticipation of market trends and responding quickly to the changing customer needs. This is enabled when a firm builds its strategic capabilities around key business processes and not functional areas. For a capability to be considered strategic, it should be focused on the customer. A firm which strategizes on the basis of the capabilities it possesses will enjoy clear advantages in terms of speed, agility, acuity, consistency, and innovativeness.

According to George Stalk, Philip Evans, and Lawrence E. Shulman, the four-basic principles of capabilities-based competition are:

"The building blocks of corporate strategy are not products and markets but business processes. Competitive success depends on transforming a company's key processes into strategic capabilities that consistently provide superior value to the customer. Companies create these capabilities by making strategic investments in a support infrastructure that links together and transcends traditional Strategic Business Units (SBUs) and functions. Because capabilities necessarily cross functions, the champion of a capabilities-based strategy is the CEO."

In a capabilities-driven firm, senior management does not tell managers what to do. Rather, they create an environment where they can learn from the market and from each other. An environment is built in which the capabilities are rooted as the primary object of strategy. These capabilities, along with valuable assets -- tangible and/or intangible -- that can provide a competitive advantage, are together referred to as 'resources' in strategy literature. For a resource to be valuable and provide a competitive advantage to the firm, the market demand for the resource should be high, market availability should be low, and the firm should have the bargaining power to capture the value that is created by the resource. Further, such resources should be durable, superior to similar resources possessed by competitors, and difficult to imitate/copy or substitute. Resources form the foundation of the resource-based view (RBV) of the firm which visualizes strategy as a choice that matches what the firm can do (given its resources and capabilities) with the competitive environment (in terms of Porter's Five Forces).

Check Your Progress - 1

1. Which of the following **goes against** Igor Ansoff's strategic success paradigm?
   a. There is no universal success formula for firms.
   b. The level of turbulence in the environment determines the strategy required for the success of a firm.
   c. The aggressiveness of a strategy should be aligned with the turbulence in the environment to optimize a firm's success.
   d. Internal capability variables -- cognitive, psychological, political, anthropological, and sociological variables -- do not play any role in a firm's success.

2. Henry Mintzberg advocated a more humane approach to strategy formulation and implementation. Which of the following strategies is referred here?
   a. Crafting strategy
   b. Drafting strategy
   c. Designing strategy
   d. Choreographing strategy
3. Which of the following is **not** a theory introduced by Michael Porter?
   a. Generic strategies
   b. Five forces model
   c. Gap analysis
   d. Value chain
4. Which of the following is **not** a generic competitive strategy proposed by Michael Porter?
   a. Cost leadership
   b. Value chain
   c. Differentiation
   d. Focus
5. George Stalk, Philip Evans, and Lawrence E. Schulman proposed four basic principles of capabilities-based competition. Which of the following is **not** one of those principles?
   a. The building blocks of corporate strategy are products and markets, and not business processes.
   b. Competitive success depends on transforming a company's key processes into strategic capabilities that consistently provide superior value to the customer.
   c. Companies create these capabilities by making strategic investments in a support infrastructure that links together and transcends traditional Strategic Business Units (SBUs) and functions.
   d. Because capabilities necessarily cross functions, the champion of a capabilities-based strategy is the CEO.

1.3.6 The Concept of Core Competence

In 1990, Prahalad and Hamel introduced the concept of core competence. They defined core competencies as the "collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies." Core competence is also about the organization of work and the delivery of value. Miniaturization, one of Sony's core competencies, was brought to its products by ensuring that the company's technologists, engineers, and marketers had a shared understanding of customer needs and technological possibilities.

Prahalad and Hamel are of the opinion that while in the short run, a company's competitiveness depends on the price/performance attributes of its products, in the long-run, competitiveness depends on the ability to build core competencies faster than competitors and at a lower cost. A company's competitive advantage depends on the management's ability to consolidate technologies and production skills into competencies. The competencies would empower individual businesses to adapt quickly to opportunities.

Core competence involves communication, involvement, and a deep commitment to working across organizational boundaries. It involves people at all levels and all functions. Unlike physical assets, core competence does not reduce with use. In fact, it grows when applied and shared.

Identifying a core competence

A core competence in a company can be identified by applying three tests. A core competence must have the potential to provide access to a variety of markets; make a contribution to preconceived consumer benefits of the end product; and be difficult for a competitor to copy.

For example, if a company's core competence is said to be the manufacture of display systems, it should be able to participate in diverse businesses such as calculators, miniature TV sets, and monitors for laptop computers. Though a competitor may be able to copy some technologies that comprise a core competence, it should find it difficult to copy the comprehensive pattern of internal learning and coordination.

Developing a core competence

To develop core competence, companies need not spend more on R&D than their competitors. According to Prahalad and Hamel, core competence also does not mean sharing costs, such as two or more SBUs using a common facility, e.g., plant, service facility, sales force, or common component. Sharing of costs is an effort to rationalize production across existing businesses, and not part of a predetermined effort to build competencies.

Redefining core competence

While most examples in Prahalad and Hamel's article referred to knowledge of one or more technologies, executives have extended the idea of core competence to include many types of skills and functions like process engineering, production, new product idea generation, and even corporate identity. According to one such definition, core competence is "a combination of complementary skills and knowledge bases embedded in a group or team that results in the ability to execute one or more critical processes to world-class standard."

Core competences can be grouped into two categories: insight/foresight competences and frontline execution competences. Insight/foresight competences enable a company to learn facts that create first-mover advantages. Insights can be derived from technical or scientific knowledge such as optics knowledge and miniaturization ability, proprietary data, flair for inventing successful products (such as displayed by 3M), and superior analysis and inference which may result in outstanding returns (as in the case of Berkshire Hathaway).

A frontline execution competence refers to the unique ability to deliver products and services whose quality is equal to the best that could have been produced under ideal circumstances.

It is possible for insight/foresight and frontline competences to co-exist in the same company. But each would require its own managerial focus. For example, McDonald's uses its frontline execution competence to improve its food delivery system at individual restaurants and uses its insight/foresight competence to identify sites for its outlets.

Applicability to emerging markets

The application of the concept of core competence to strategy suggests that companies should 'focus' on serving their markets based on a portfolio of core competencies. Tarun Khanna (Khanna) and Krishna Palepu (Palepu) argued that focus or emphasis on core businesses may not be the right strategy in emerging markets. They argued that focus is good for western countries where there are institutions that support their business activities. But many such institutions are absent in emerging markets. Companies must adapt their strategies to fit a country's product, capital, labor markets, and regulatory system.

According to Khanna and Palepu, diversified business groups are better suited to developing countries. The chaebols of Korea, the business houses of India, and the grupos of Latin America add value by carrying out the functions of several institutions that are prevalent in developed countries.

In product markets, there is dearth of information due to three reasons: poor communication infrastructure in emerging markets; absence of a mechanism to corroborate the claims made by sellers; and no mechanism for redressal if the product does not deliver on its promise. As there is lack of information in emerging markets, companies incur higher costs for building brands than their counterparts in developed countries. Conglomerates, which are reputed for their products and services, can enter new businesses even if those businesses are not related to their current product lines. Conglomerates have an advantage when they try to build brands because they can spread the cost of maintaining brands across multiple lines of business.

Conglomerates can also provide the flexibility needed for labor markets. In emerging markets, rigid labor laws prevent companies from laying off employees.

Labor unions also insist on job security. Conglomerates are in a better position to deal with rigid labor laws and union demands. Khanna and Palepu opine that conglomerates can develop their own internal labor markets. If one company in the group faces declining prospects, its employees can be transferred to other companies in the group. Conglomerates can also make better use of talent. They can allocate talent where it is most required and thus get a head start in beginning new activities.

1.3.7 The Concept of Strategic Intent

The term strategic intent refers to the purpose(s) an organization strives to achieve. Traditionally, a strategy was described in terms of matching the resources a firm had at its disposal and the opportunities being thrown up by the environment. However, Hamel and Prahalad brought to light the concept of strategic intent. Strategic intent is defined as the ability of the firm to think beyond its resources at a given point of time and define its purpose in terms such as challenging the market or industry leader. Hamel and Prahalad describe the success stories of Komatsu vis-à-vis Caterpillar, Honda vis-à-vis Chrysler, and Canon vis-à-vis Xerox to explain that the ability of a firm to grow is not dependent on the resources at its disposal at a given point of time; rather, it is the strategic intent which is reflected in terms beyond its resources at a given point of time.

The time horizon of strategic intent is long term. Strategic intent can be understood as a firm's obsession to win, which is sustained over a long period of time, say, 10 to 20 years. However, strategic intent is not a simple ambition: it involves enthusing the human resources, environmental scanning, and appropriate resource allocations guided by the strategic intent.

Strategic intent envisages the company's position in the long term and furthers a unique point of view about the future. Employees will be excited about the feeling of exploring something new. It brings a sense of discovery. Strategic intent also possesses an emotional edge. Employees feel that the pursuit of the company's goals is a worthwhile experience. In this way, it gives rise to a sense of shared destiny.

1.3.8 Competitive Strategy as Leverage

Leveraging comes into the picture only when a resource-scarce firm is facing a wealthy rival. Wealth here refers to market share, financial resources, and revenue. The challenger has a small market share, scarce resources, and little or no revenues. A challenger (a smaller firm) will exploit opportunities to change the rules of the game rather than follow the same rules that others in the game do. It will look for gaps in the bigger firm's defenses rather than fight the competitor in well-guarded market segments. It will focus its investments on relatively fewer competencies where it sees a chance of being a leader. It will also look for ways to reduce its manufacturing costs by following lean manufacturing methods that make it possible to do more with less.

In their book *'Competing for the Future'*, Hamel and Prahalad proposed that leveraging is based on an understanding of the following premises:

1. A firm is a portfolio of resources, as well as a portfolio of products or market-focused business units.
2. Resource constraints are not necessarily an important impediment to the achievement of global leadership.
3. Great differences do exist between different firms in the market in terms of the competitive impact they can generate with a given amount of resources.
4. Leverage-based efficiency gains come primarily from raising the numerator in productivity ratios rather than from reducing the denominator.
5. The resource allocation task of management has received too much attention as compared to the task of resource leverage.
6. The capacity for resource leverage is the ultimate selection mechanism, separating the victorious from the victims in prolonged battles for industry leadership.

Example: Resource Leverage in the North Vietnam War

The experience of North Vietnam in its conflict with the US is an example of resource leverage. Necessity leads to invention; similarly, stretch leads to leverage. Facing the military might of the US, the North Vietnamese had no other way except to resort to guerilla warfare. They hoped to exploit the orthodoxies and complacency of the larger US army. The Vietnamese tried to outmaneuver rather than overpower the US army.

For example, the North Vietnamese could move their men and material freely across rivers, despite the attempts of the US military to locate and destroy bridges used for transfer of these resources. The Vietnamese built their bridges just below the water line so that they couldn't be seen by the airborne reconnaissance, and could be used by men and machines. In this case, resource scarcity led to tactical creativity.

Adapted from Hamel, Gary and C. K. Prahalad. Competing for the Future. New Delhi: Tata McGraw-Hill, 2008 and other sources.

Refer to Table 1 for an overview of the five ways to realize resource leverage.

Table 1: Realizing Resource Leverage – The Five Ways

Way to Leverage	Techniques to be Adopted
Concentrating resources on key strategic goals	**Converging** Firms can streamline the efforts of individuals, functional departments, and entire businesses by pursuing a single strategic intent over a long period.

Way to Leverage	Techniques to be Adopted
	Focusing Focusing protects the firms against the dilution of resources at a particular point in time. **Targeting** Targeting ensures that the focus remains fixed on set priorities.
Efficiently accumulating resources	**Mining** Every firm has access to information that is collected from various sources. But firms differ in their capacity to extract useful information from the available stockpiles of information. **Borrowing** Resource leverage can also be achieved by taking ideas from other firms. For example, Sony commercialized the transistor and the charge-coupled device technologies pioneered by AT&T's Bell Laboratories.
Complementing resources of one type with those of another to create more value	**Blending** Different types of resources can be blended together in different ways to multiply the value of each. Blending needs technology generalization, systems thinking, and the capacity to optimize complex technological trade-offs. For example, Honda was competent as an organization at blending engine-related technologies such as combustion engineering, electronic controls, and lean burn. **Balancing** A balanced firm possesses a strong product-development capability, capacity to produce its products or deliver its services at world-class levels of cost and quality, and a sufficiently widespread distribution, marketing, and service infrastructure.

Way to Leverage	Techniques to be Adopted
Conserving the resources	**Recycling** Resources must be as reused as far as possible. The more the resources are reused, the greater the resource leverage. For example, companies such as Unilever and P&G, recycle their product brands by using unknown brands with well-known brands till the new brands become popular. **Co-opting** A potential competitor may be co-opted to fight against a common enemy, to work collectively to establish a new standard or develop a new technology, or to build a lobby to influence a particular legislative issue. **Protecting** Intelligent generals rarely attack well-fortified positions. The objective in a war is to maximize enemy losses without facing much risk. Similarly, a shrewd firm never attacks a competitor in its local market. It does not try to overpower a larger competitor, nor does it accept the market structure as defined by the industry leader.
Recovering, that is, by minimizing the time between expenditure and payback	**Expediting success** The time between expending resources and recovering resources should be minimized. A firm that completes any activity in half the time, with similar resources, holds a twofold leverage advantage. For example, the Japanese firms that were able to shorten their product-development times gained a competitive advantage over their US and European competitors.

Adapted from Hamel, Gary and C. K. Prahalad. Competing for the Future. New Delhi: Tata McGraw-Hill, 2008.

1.3.9 Intended and Realized Strategies

When we speak of strategy as plans for the future, we refer to an intended strategy. When we speak of strategy as actions taken, we refer to a realized strategy. In both cases, we are considering the efforts directed toward fulfilling an organization’s purposes. In fact, strategy comprises the most fundamental ends and means of an organization.

The realized strategy may be very different from the intended strategy, and if so, it is termed as an emergent strategy. The emergent strategy is a product of the interplays between a firm's environment and the intended strategy. When the environment renders the intended strategies redundant, new unplanned strategies emerge to counter the environment and these are known as emergent strategies.

The strategic ends pursued by a typical business could be either generic, like the vision and mission of the organization, or more focused, like the goals and objectives of the firm. Every organization needs to be careful about aligning the broad and narrow scenarios. Otherwise, money may be invested, time spent, energy dissipated, and resources utilized to fulfill a narrow set of objectives that do not move in the direction of the broader vision of the firm. The focus of the set of narrow intentions should be consistent with the broader ones.

Check Your Progress - 2

6. According to C. K. Prahalad and Gary Hamel, corporations should view themselves as a portfolio of core competencies rather than as a portfolio of businesses. From the following options, identify the statements that correctly describe this concept of core competence.
   - i. A core competence represents the collective learning in the organization, especially on how to coordinate diverse production skills and integrate multiple streams of technologies.
   - ii. In the long run, an organization's competitiveness depends on its ability to build core competencies faster than competitors and at a lower cost.
   - iii. A core competence in a company must have the potential to provide access to a variety of markets and make a contribution to preconceived consumer benefits of the end product.
   - iv. A core competence must be difficult for a competitor to copy.
   - a. Only i and iii
   - b. Only i, iii, and iv
   - c. Only ii, iii, and iv
   - d. i, ii, iii, and iv
7. Which of the following refers to the purpose an organization strives to achieve?
   - a. Strategic intent
   - b. Company profile
   - c. Strategy
   - d. Policy

8. Gary Hamel and C. K. Prahalad popularized the concept of competitive strategy as leverage, in the context of a resource-scarce firm facing a ‘wealthy rival’. Which of the following is **not** one of the premises that help us to understand this concept and its relevance to strategic management?
   a. Great differences do exist between different firms in the market in terms of the competitive impact they can generate with a given amount of resources.
   b. Resource constraints are necessarily an important impediment to the achievement of global leadership.
   c. The resource allocation task of management has received too much attention as compared to the task of resource leverage.
   d. Leverage-based efficiency gains come primarily from raising the numerator in productivity ratios rather than from reducing the denominator.

Activity 1.1

A firm which strategizes on the basis of the capabilities it possesses will enjoy clear advantages in terms of speed, agility, acuity, consistency, and innovativeness. Use an example to illustrate this statement.

Answer:

1.4 The Three Levels of Strategy

Strategy can be formulated at three levels -- corporate, business, and functional levels. There is a clear hierarchy in levels of strategy, with corporate level strategy at the top, business level strategy being derived from the corporate level, and the functional level strategy being formulated out of the business level strategy. In a single business scenario, the corporate and business level responsibilities are clubbed together and undertaken by a single group, that is, the top management, whereas in a multi business scenario, there are three fully operative levels.

14.1 Corporate Level

At the corporate level, strategy is formulated for the organization as a whole. Corporate level strategy deals with decisions related to various business areas in which the firm operates and competes. It defines the business areas in which a firm will operate. It deals with aligning the resource deployments across a diverse set of business areas, related or unrelated. Strategy formulation at this level involves integrating and managing the diverse businesses and realizing synergy at the corporate level. The top management team is responsible for formulating the corporate strategy. The corporate strategy reflects the path toward attaining the vision of the organization. For example, a firm may have four distinct lines of business operations, namely, automobiles, steel, tea, and telecom. The corporate level strategy will outline whether the organization should compete in or withdraw from each of these lines of businesses, and in which business unit, investments should be increased, in line with the vision of the firm.

Example

Walmart Inc. is a leading US-based multinational retail corporation, operates a chain of hypermarkets, discount department stores, and grocery stores. By 2018, Walmart operated over 11300 stores in 27 countries. Apart from the retail chain business, it also runs a range of businesses such as Jet.com (e-commerce business in US), Hayneedle (online home furnishings and décor retailer), Moosejaw (online active outdoor retailer in US), shoes.com (online footwear, clothing and accessories retailer), Modcloth (online fashion retailer) and so on. In addition to this, in May 2018, Walmart acquired parent Flipkart Group (an India-based e-commerce company) for $ 16 billion. After acquisition, the company said, it will include $ 2 billion of fresh investment to take on rival Amazon's global expansion. In the given case, Walmart's acquisition of Flipkart group represents corporate level strategy.

Source: ICFAI Research Center

1.4.2 Business Level

At the business unit level, strategy is formulated to convert the corporate vision into reality. Business level strategies are formulated for specific strategic business units and relate to a distinct product-market area. It involves defining the competitive position of a strategic business unit. The business level strategy formulation is based upon the generic strategies of overall cost leadership, differentiation, and focus. For example, a firm may choose overall cost leadership as a strategy to be pursued in its steel business, differentiation in its tea business, and focus in its automobile business. The business level strategies are decided upon by the heads of strategic business units and their teams in light of the specific nature of the industry in which they operate.

1.4.3 Functional Level

At the functional level, strategy is formulated to realize the business unit level goals and objectives using the strengths and capabilities of the organization. Functional level strategies relate to the different functional areas which a strategic business unit has, such as marketing, production and operations, finance, and human resources. These strategies are formulated by the functional heads along with their teams and are aligned with the business level strategies. The strategies at the functional level involve setting up short-term functional objectives, the attainment of which will lead to the realization of the business level strategy.

For example, the marketing strategy for a tea business which is following the differentiation strategy may translate into launching and selling a wide variety of tea variants through company-owned retail outlets. This may result in the distribution objective of opening 25 retail outlets in a city; and producing 15 varieties of tea may be the objective for the production department. The realization of the functional strategies in the form of quantifiable and measurable objectives will result in the achievement of business level strategies as well.

Cargill is an American-based global food system corporation. It serves as a trusted partner for food, agriculture, financial and industrial customers in more than 125 countries with more than 155,000 employees. The company wanted to evolve sales practices from demand fulfillment to demand creation. Cargill launched a sales effectiveness initiative aimed at improving selling efforts across the world. This initiative focused on aligning sales functions around consistent sales knowledge and skills, establishing a common sales language, and putting in place key practices for how salespeople qualify leads. The company purchased the services of Richardson (US-based sales professional company) for conducting the program which was carried in a series of Instructor-led classes. Cargill made a functional strategical move to improve selling efforts.

Activity 1.2

A firm has three levels of decision making — corporate level, business level, and functional level. Strategy formulation at the three levels is also different. Explain this statement with examples.

Answer:

1.5 Developing a Strategic Perspective

Developing the right strategic perspective contributes to effective implementation of strategy. However, organizations often fail to develop sound strategic management perspectives for a variety of reasons. Some of these reasons are:

1. Lack of awareness within the top management team about the organization's real operating situation. This happens when information systems fail to provide the information the top management needs to determine the organization's position relative to competitors, consumption trends, relative costs, etc.

2. "Kidding themselves" syndrome. This happens when senior managers are collectively deluding themselves about the organization's condition. Usually this occurs when the senior management team acts as a tightly-knit group. As there is no flow of either fresh information or new perspectives, the top managers tend to hold the same stereotyped views of the business environment. They reject or ignore or reinterpret the unpleasant information that does not tally with their own preferred views of the operating environment.
3. Vested interests of the managers also play havoc with strategic planning. Managers prefer to maintain their existing position and power. This personal interest results in continuation of the same strategies even in a changed business environment.
4. Excessive involvement of senior managers in everyday operational problems also leads to inefficient strategic plans. This over-emphasis on regular activities leaves no time to study emerging trends and to think about future plans.
5. The top management in many organizations gets complacent after some initial successes. This blinds the managers to the difficult situations the company faces. This is another reason why managements often continue with tried and trusted strategies that may be inappropriate in the present and future scenarios.
6. A change in direction is often misinterpreted as an admission that what was done in the past was a mistake. This makes managers who were closely associated with decisions taken in the past, reluctant to see the organization move in a new direction.
7. Inability on the part of the top management to locate its competitive edge may also lead to its ignoring strategy planning altogether.

Activity 1.3

The restaurant industry in India has multinational corporations like McDonald's, Domino's Pizza, and Pizza Hut. Explain the strategies followed by them to achieve success in the Indian market.

Answer:

Check Your Progress - 3

9. At which organizational level does the formulation of a multifunctional strategy for a single industry or product-market area take place?
   a. Corporate level
   b. Functional level
   c. Business level
   d. Board Level
10. Of the following, who play an important role in the success of products and services and in increasing the market share of single product/market firms?
    a. Functional level managers
    b. Corporate level managers
    c. Business level managers
    d. Board level managers

1.6 Summary

- Different firms pursue a variety of strategies to stay successful over a period of time.
- Strategic management deals with the issues of staying perpetually successful. It deals with how a firm utilizes its resources and capabilities to counter or pre-empt competitive moves and succeed in the dynamic marketplace.
- Igor Ansoff, Henry Mintzberg, Peter Drucker, Michael Porter, George Stalk, Philip Evans, Lawrence E. Shulman, C. K. Prahalad, Gary Hamel, and others have contributed to the evolution of the concept of strategy.
- Strategy can be formulated at three levels -- the corporate level, the business level, and the functional level. Corporate strategy deals with decisions related to various business areas in which the firm operates and competes. Business level strategy is formulated to convert the corporate vision into reality. Functional level strategy is formulated to realize the business unit level goals and objectives using the strengths and capabilities of the organization.
- Organizations often fail to develop sound strategic management perspectives for various reasons. Some of these reasons are: lack of awareness within the top management team about the organization’s real operating situation; ‘kidding themselves’ syndrome; vested interests of the managers; and excessive involvement of senior managers in everyday operational problems.

1.7 Glossary

Core competence: The collective learning in an organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies. A core competence must: have the potential to provide access to a variety of markets; make a contribution to preconceived consumer benefits of the end product; and be difficult for a competitor to copy.

Emergent strategy: The realized strategy may be very different from the intended strategy, and if so, it is termed as an emergent strategy. The emergent strategy is a product of the interplays between a firm's environment and the intended strategy. When the environment renders the intended strategies redundant, new unplanned strategies emerge to counter the environment and these are known as emergent strategies.

Emerging industries: Industries created by technological innovations, emergence of new consumer needs, or shifts in relative cost relationships. In emerging industries, the fundamental rules of the competition change due to changes in the environment.

Intended and realized strategies: When we speak of strategy as plans for the future, we refer to an intended strategy. When we speak of strategy as actions taken, we refer to a realized strategy. The realized strategy may be very different from the intended strategy, and if so, it is termed as an emergent strategy.

Strategic intent: The term strategic intent refers to the purpose(s) an organization strives to achieve. It is defined as the ability of the firm to think beyond its resources at a given point of time and define its purpose in terms such as challenging the market or industry leader. Strategic intent envisages the company's position in the long term and furthers a unique point of view about the future.

Strategic management: Strategic management can be defined as a rational and intuitive process through which a firm streamlines and leverages its resources on a continuous basis to position itself distinctly from its competitors. It involves defining the vision and the mission of the firm which clearly define what the firm aspires to become and the reason for its existence. It deals with how a firm utilizes its resources and capabilities to counter or pre-empt competitive moves and succeed in the dynamic marketplace.

Strategy: Strategy refers to the plans made and actions taken to enable an organization fulfill its intended objectives. Strategy can be formulated at three levels, namely, the corporate level, the business level, and the functional level. Also see 'Strategic management'.

Three levels of strategy: Strategy can be formulated at three levels -- the corporate level, the business level, and the functional level. Corporate strategy deals with decisions related to various business areas in which the firm operates and competes. At the business unit level, strategy is formulated to convert the corporate vision into reality. At the functional level, strategy is formulated to realize the business unit level goals and objectives using the strengths and capabilities of the organization.

1.8 Self-Assessment Test

1. Explain the evolution of the concept of strategy.
2. Discuss in detail the three levels of strategy.
3. Why do organizations often fail to develop a strategic perspective?

1.9 Suggested Readings/Reference Material

1. Thomas L. Wheelen, et al., Strategic Management and Business Policy: Globalization, Innovation and Sustainability, Fifteenth Edition, Pearson Paperback – 30 July 2018
2. P.N. Srivastava, Business Policy and Strategy Hardcover, Horizon Press, January 2019
3. Joan Magretta, Emile Holmewood and Heinrich Zimmermann, What is Strategy?: An Illustrated Guide to Michael Porter Hardcover – Illustrated, 15 September 2020, Harvard Business Review Press
4. Shabbar Suterwala, Top 20 Business Strategies for your Business Growth, Notion Press; 1st edition Paperback – 27 May 2021
5. Brian Tracy, Business Strategy: The Brian Tracy Success Library Hardcover – 26 February 2018, Manjul Publishing House
6. Callie Daum, Business Strategy Essentials You Always Wanted to Know (Second Edition), January 2020, Vibrant Publishers

1.10 Answers to Check Your Progress Questions

1. (d) Internal capability variables -- cognitive, psychological, political, anthropological, and sociological variables -- do not play any role in a firm's success.

The key elements of Ansoff's paradigm are: there is no universal success formula for all firms. The level of turbulence in the environment determines the strategy required for the success of a firm. The aggressiveness of the strategy should be aligned with the turbulence in the environment to optimize the firm's success. The management's capabilities should be aligned with the environment to optimize the firm's success. Internal capability variables, i.e., cognitive, psychological, political, anthropological, and sociological variables, **all jointly determine** the firm's success. Since they all jointly determine the firm's success, they are important variables and cannot be ignored.

2. (a) **Crafting strategy**

Mintzberg added a new dimension to strategic management by bringing the personal side of the manager into the picture. In his first book, *The Nature of Managerial Work,* (1973), he advocated a more humane approach to strategy formulation and implementation. He called this crafting strategy.

3. (c) **Gap analysis**

Michael Porter introduced generic strategies like focus, cost leadership, and differentiation for a firm to achieve competitive advantage. He suggested the study of different components of strategic management such as the environment, in which the company operates, through his 'five forces' theory. Besides, Porter also proposed the use of value chain analysis of an organization's internal processes, and the interactions between different functions, to determine how and where value could be added. Igor Ansoff introduced gap analysis stating that it is the analysis of the gap between where the firm is today and where it wants to reach in terms of aspirations and goals.

4. (b) **Value chain**

Michael Porter advocated three generic competitive strategies: cost leadership, differentiation, and focus, which help the organization to compete effectively in the marketplace. Value chain analysis, though introduced by Porter, is **not** a generic competitive strategy.

5. (a) **The building blocks of corporate strategy are products and markets, and not business processes.**

The first principle proposed by Stalk, Evans, and Schulman is that the building blocks of corporate strategy are **not products and markets**, but business processes.

6. (d) **i, ii, iii, and iv**

The first statement defines core competence. The second highlights the importance of core competence in the context of an organization's competitiveness. The third and fourth statements list the tests that are used to identify the core competence in an organization.

7. (a) **Strategic intent**

The term strategic intent refers to the purpose an organization strives to achieve. Hamel and Prahalad defined strategic intent as an ambitious and compelling dream that energizes and provides the emotional and intellectual energy for the journey into the future. Company profile depicts the quantity and quality of the company's financial, human, and physical resources. Strategy refers to the plans made and the actions taken to enable an organization to fulfill its intended objectives. Policy is a directive or a guideline given to managers and subordinates as a framework to guide their thoughts, decisions, and actions while implementing the firm's strategy.

8. (b) Resource constraints are necessarily an important impediment to the achievement of global leadership.

Resource constraints are **not necessarily** an important impediment to the achievement of global leadership. This can also be inferred from the first statement that great differences do exist between different firms in the market in terms of the competitive impact they can generate with a given amount of resources.

9. (c) Business Level

Business level strategy involves making decisions about the competitive position of a single business unit. Managers at this level translate the general statements of corporate strategic planners into exact, concrete, functional objectives and strategies for individual business divisions. Corporate level strategy deals with the selection of the areas of business in which the company is going to operate. Functional level managers design short-term strategies and fix annual objectives in different areas. Board level is the highest level of hierarchy in an organization and the basic framework or strategies required to run the business are formed here.

10. (a) Functional level managers

Functional level managers design short-term strategies and fix annual objectives in different areas such as research and development, finance and accounting, marketing, production, operations, and human relations. They address problems related to the efficiency and effectiveness of production, success of particular products and services, and increasing their market share and quality of customer service.

Unit 2

Strategic Management

Structure

"Strategy is a commodity, execution is an art."

- Peter F. Drucker

2.1 Introduction

Peter F. Drucker with his statement highlighted that just forming a business strategy would not attain the organizational desired results. The execution of strategy is important. This reflects the significance of strategic management in the success of an organization. In the previous unit, we have discussed the concept of strategy. In this unit, we shall discuss the concept of strategic management.

Strategic management can be defined as a rational and intuitive process through which a firm streamlines and leverages its resources on a continuous basis to position itself distinctly from its competitors. It involves taking decisions about business units, products, location, and the organization's structure which determine the survival of the organization in the short and long term.

This unit will first discuss the concept and process of strategic management. We shall then move on to discuss the components of strategy formulation. Finally, we shall discuss the strategic decision-making process.

2.2 Objectives

By the end of this unit, you should be able to:

- Discuss the concept of strategic management.
- Explain the process of strategic management.
- Identify the components of strategy formulation.
- Explain the strategic decision-making process.

2.3 Introduction to Strategic Management

Strategic management involves defining the vision and the mission of the firm which clearly define what the firm aspires to become and the reason for its existence. Once the vision and mission are defined, an internal and external environment analysis is carried out to identify opportunities and threats emerging in the firm's environment and the firm's strengths and weaknesses.

The strengths of the firm are leveraged upon to build competitive advantages and core competencies and capabilities to outperform competition. Strategic management is a continuous process and not a point-in-time exercise. Periodic reviews of strategies and the incorporation of new elements in line with changes in the environment are essential in strategic management.

Strategic management is a comprehensive procedure and starts with a strategic diagnosis. It continues with a series of additional steps, culminating in new products, markets, technologies, and capabilities. The strategic task of the leadership team is to challenge the prevailing set-up with a single question: "Why?", and to ask the same question as many times as necessary to make the future as clear as the present for managers at all levels.

Strategic management enables a firm to survive in the long run. It maps the firm's strengths and weaknesses against the competitor's strengths and weaknesses and enables it to leverage on its resources to achieve its goals. It is through strategic management that the long-term vision for the firm is set which provides the firm with an indication of its growth direction. Strategic thinking involves answering three basic questions -- Where are we now? Where do we want to go in the future? How will we get there?

Activity 2.1 To be successful once is easy but to be perpetually successful is not. Strategic management deals with staying perpetually successful. Explain this, using examples of your choice. **Answer:**

2.4 The Process of Strategic Management

There are four basic elements in the process of strategic management – environmental scanning, strategy formulation, strategy execution (implementation), and evaluation and control.

2.4.1 Environmental Scanning

Environmental scanning involves monitoring the environment, and evaluating and disseminating information obtained from the internal and external environments. The internal sources of information include personal contacts, internal reports and conference papers, internal memoranda, internal databases, internal audits, committees/meetings, employees, managers, and Board of Directors. The external sources of information include annual reports, journals/magazines, professional conferences and meetings, radio, television, the Internet, customers, and commercial databases.

The aim of environmental scanning is to identify the strategic factors that may determine the future of the firm. An organization can derive several benefits from environmental scanning including the development of a common perception, identification of strengths and weaknesses, an understanding of trends and conditions, and the optimum utilization of internal and external information. Techniques such as secondary research, surveys, questionnaires, focus groups, and open forums can be employed in environmental scanning.

SWOT (acronym for strengths, weaknesses, opportunities, and threats) analysis is often used along with environmental scanning. Strengths and weaknesses are within the control of the top management in the long run. Opportunities and threats are external factors that are outside the control of the organization.

Example

OLX India is a popular online classifieds marketplace for automobile, real estate and goods and services with over 40 million monthly active users. In January 2019, OLX reported that real estate was among its fastest growing verticals. One in every five users on the platform visits the real estate section. With this effect, the company announced doubling of its sales team to expand its presence across 25 Indian cities. The company said, the new sales team will be responsible for onboarding builders, professional sellers, and tenants. Engaging with the local real estate communities with a focus on premium developers. The team will also assist the sellers in understanding the challenges faced by them and training them on the tools available on the platform to increase visibility with buyers. OLX did environmental scanning by evaluating their database and made a strategy to increase the sales team to expand its presence across 25 Indian cities.

Source: ICFAI Research Center

2.4.2 Strategy Formulation

Strategy formulation refers to the development of long-term actionable plans for managing opportunities and threats in the external environment, and for utilizing the strengths and overcoming the weaknesses within the organization. The strategy team takes into consideration components of strategic management such as mission, internal profile, external environment, strategic analysis and choice, long-term objectives, annual objectives, and grand strategy while formulating a strategy. Strategy formulation helps an organization to capitalize on available opportunities, address the challenges faced by the organization, provide leadership that understands and masters change, and incorporate an in-depth planning model.

2.4.3 Strategy Execution

The process by which strategies are put into action is called strategy execution or strategy implementation. Programs, budgets, and procedures are developed for this purpose. This process may call for changes in overall culture, organizational structure, and/or the management system. Strategy execution is typically handled by middle and lower level managers, except when drastic organization-wide changes are needed. However, the progress of the implementation is reviewed by the top management from time to time.

The firm’s structure plays a vital role in achieving the firm’s objectives. A proper structure is essential for strategy to be operational. Structure serves as a vehicle for managers to exploit the skills and capabilities of their subordinates. They can further use the structure in motivating their subordinates through providing incentives to ensure superior efficiency, quality, innovation, or customer responsiveness.

Budgets are used for planning and control. The budget details the investments to be made and the returns expected from the investments. It is also a proforma financial statement.

2.4.4 Evaluation and Control

The ultimate test of the strategy is its ability to achieve the ends – in terms of vision, mission, and long-term objectives. The firm is successful only to the extent that the strategy used achieves the ends. Strategy formulation is largely subjective, and the first test of reality for a strategy is in its implementation. When a strategy is implemented, it should be monitored to determine the extent of success, that is, the number of objectives achieved. Strategic managers should employ timely monitoring and control methods, to ensure successful execution of the strategy. Periodic review and evaluation is also helpful for making modifications to the plan.

Evaluation and control refer to the processes in which corporate activities and performance results are compared with the desired performance. This information is used to take corrective action and resolve problems. It also pinpoints the weaknesses of strategic plans implemented earlier. Thus, this exercise provides a valuable opportunity for organizational learning.

For effective evaluation and control, the management must obtain clear, prompt, and unbiased information from the people who actually execute the strategies. Unbiased information is essential as this information is used for corrective action and to minimize the mistakes the organization might commit in the future.

Feedback is a very important part of the evaluation process as it provides an opportunity to revise or correct decisions made in the earlier stages. Poor performance indicates that something has gone wrong with either strategy formulation or implementation. It could also mean that a variable was ignored in the environmental analysis.

The feedback from execution, evaluation, and control will loop back into the early stages of planning. Feedback is defined as the post-implementation results, collected as inputs for future decision-making. Plans for the future should reflect changes brought about by previous strategic actions.

Activity 2.2

Organizations have started building social criteria into their strategic decision-making. Human rights issues and healthy environmental practices are no longer seen as compromising on profitability. The firms with good reputation in these areas are regarded highly by the public and are often able to sustain profits even under adverse circumstances. Give an instance where a company has handled its social responsibility in a noteworthy manner.

Answer:

Check Your Progress - 1

1. Which of the following elements of strategic management identifies the strategic factors that may determine the future of a firm?
   a. Evaluation and control
   b. Environmental scanning
   c. Strategy formulation
   d. Strategy implementation
2. Which of the following processes involves defining the company mission, specifying objectives, and developing strategies?
   a. Environmental scanning
   b. Strategy formulation
   c. Strategy implementation
   d. Evaluation and control

3. Which of the following options puts strategies and policies into action through programs, budgets, and procedures?
    a. Environmental scanning
    b. Strategy formulation
    c. Strategy implementation
    d. Evaluation and control
4. Among the people mentioned below, who does typically handle the implementation of strategy, except when drastic company-wide changes are needed?
    a. Middle level managers
    b. Directors
    c. Top level managers
    d. Stakeholders
5. Which of the following provides a valuable opportunity for organizational learning that pinpoints the weaknesses of strategic plans implemented earlier?
    a. Environmental scanning
    b. Strategy formulation
    c. Strategy implementation
    d. Evaluation and control

2.5 Components of Strategy Formulation

Strategy formulation involves the interplay of interrelated components which enable a firm to compete effectively and survive in the dynamic business world. The components are: vision and mission, external environment, internal profile, long-term objectives and annual objectives, grand strategy, generic strategy, and functional/operational strategies.

2.5.1 Vision and Mission

The company's vision is a description of what the organization is trying to do and to become. It gives a view of an organization's future direction and course of business activity. Above all, the vision is a powerful motivator and keeps an organization moving forward in the intended direction.

The mission identifies the purpose of the company; defines the scope of the company's operations; describes the company's product, market, and technological areas of thrust; and reflects the values and priorities of its strategic decision-makers. It sets apart one company from other companies in the same area of business. The mission of a business looks to an endless future as if the firm were immortal.

2.5.2 External Environment

The external environment of a company comprises forces and conditions over which the firm has little or no control, and they exert an influence on the company's strategic options as well as on its competitive position. The external environment is of two types, the operating environment and the remote environment. The operating environment has a direct bearing on the firm's performance and includes variables like competitors, consumers, and vendors. The remote environment, on the other hand, includes political, social, economic, and demographic variables.

2.5.3 Internal Profile

An internal analysis of the firm's resources helps in determining the company's capabilities and developing an internal profile. The profile reflects the strengths and weaknesses of the firm and also evaluates the past performance of the firm in the context of current capabilities. This is done to identify the capabilities required by the firm in the future.

2.5.4 Long-term Objectives and Annual Objectives

Objectives are outlined in order to translate the organization's vision and mission into clearly defined performance targets. In terms of time horizon, strategic management uses two types of objectives – long-term objectives and annual objectives.

Long-term objectives refer to those results that an organization seeks to achieve over a number of years. Such objectives are typically set in terms of market share, return on assets deployed, profitability, technological leadership, employee relations, social responsibility, and employee development.

Annual objectives are the objectives that the firm seeks to achieve in one year. Annual or short-term objectives flow from the long-term objectives. The short-term objectives are more specific and are to be achieved within a time span of one year.

2.5.5 Grand, Generic, and Functional/Operational Strategies

A grand strategy is a statement of means that indicates the methods to be used to achieve the firm's objectives. This strategy is a unique package of long-term strategies. The grand strategy provides the framework for the entire business of the firm. Grand strategies include the following strategies: market penetration, market development, product development, horizontal integration, vertical integration, concentric diversification, conglomerate diversification, turnarounds, divestiture, and liquidation. For competing in each of its businesses, the firm can choose a generic competitive strategy – cost leadership, differentiation, or focus.

The grand strategy is split into strategies for each function. These strategies are referred to as functional strategies. They are specific to the needs of each functional area and prescribe an integrated action plan for every function. Operational strategies provide the means for achieving annual objectives. The company budget is coordinated with the needs of operating strategies to ensure specificity, practicality, and accountability in the plans.

Strategic analysis is taken up to identify attractive investment opportunities which are compatible with the firm's vision and mission. Such opportunities are called desired opportunities. Strategic choice is made after comparing the desired opportunities. The goal of strategic analysis and choice is to ensure that the firm's grand strategies are aligned with the objectives of the firm in order to optimally achieve the vision and mission of the firm.

Example

Xiaomi, a popular Chinese-based smartphone brand entered the Indian smartphone market in 2014. By 2018, it has nearly 30% of market share in smartphones. However, in 2018, the company identified items such as air conditioners, washing machines, refrigerators, laptops and small appliances like vacuum cleaners and water purifiers to enter into large categories in India. In February 2019, Xiaomi entered a new segment in India with the launch of its smart TV, about 30-50 per cent cheaper than the top three brands — Samsung, LG and Sony. An industry executive said, "India is a crucial market in China-based electronics and software company Xiaomi's strategy, the company is actively considering to enter 500 new towns next year (2020) to increase its presence in offline stores with its range of smartphones, televisions and appliances. At present (2019), Xiaomi concentrates on top 50 markets in the country for its offline presence. Another executive said, "The company will follow the same model for appliances. The products will be priced aggressively in line with its announced strategy of keeping just 5 per cent profit margin for itself and start local assembly after gaining some scale to take advantage of Make in India duty benefits." The case of Xiaomi represented grand and generic strategies.

Source: ICFAI Research Center

2.5.6 Implications for Managers

Looking at strategic management as a process helps to highlight certain aspects of the model:

Strategic management is done keeping in view the environment and the organization's capabilities. A change in any component of the strategy formulation model will have an influence on several other components. For instance, the mission has an effect on the relevant environmental variables, and vice versa.

The process of strategic management should be kept flexible. If the strategic plan has to be reevaluated because of factors like the entry of new competitors or appointment of a new CEO for the firm, then the process should start once again with environmental analysis. However, equal attention need not be given to all the components of the process; instead, attention paid to different components should be based on need. The mission statement may remain the same for a long time, whereas objectives and strategies may have to be updated annually in tune with the achievements of the firm.

Strategic management would fail if it is based on a wrong set of assumptions or on arbitrary and inflexible goals. It will also fail if a system of controls is not implemented to achieve a balance among culture, rewards, and boundaries.

Pursuing a uni-dimensional strategy which focuses on a short-term competitive advantage instead of creating a long-term, sustainable competitive advantage is bound to result in the failure of strategic management.

Strategic management is bound to fail if the communication in the organization is stifled.

Strategic management is a continuous process and not an event to be executed at a point of time. The dynamic nature of the environment makes it a continuous process. Failure to recognize the environmental flux also results in a failure to achieve coordination and integration of core processes and key functions across organizational boundaries.

Check Your Progress - 2

6. Identify the statements that hold **true** with regard to strategic components
   - Vision is a description of what the organization is trying to do and to become.
   - Mission identifies the scope of the company’s operations.
   - The company profile is determined as an outcome of internal analysis of the company.

   a. Only i and ii
   b. Only i and iii
   c. Only ii and iii
   d. i, ii, and iii
7. Which of the following strategic aspects of a company sets the company apart from other companies in the same area of business?
   a. Vision
   b. Mission
   c. Profile
   d. External environment

8. Which strategy provides a means for achieving a company’s annual/short-term objectives?
   a. Organizational strategy
   b. Business strategy
   c. Operating strategy
   d. Corporate strategy

Activity 2.3

A firm that is the first to enter a market generally gets the opportunity to define the rules in the industry and attain market leadership. Give an example of a company that was the first to enter a market and attain market leadership. Explain what strategies it adopted to carve a stable position for itself in the market.

Answer:

2.6 Strategic Decision-making

Strategic management places a heavy emphasis on strategic decision-making. As organizations grow larger and environments become more uncertain, decisions become increasingly more complex and difficult to make. For a decision to be called strategic, it should have the following characteristics:

- It deals with the long-run future of the entire organization.
- It commits substantial resources and demands a great deal of commitment from people at all levels.
- It acts as a directive. It sets a precedent for lower level decisions and future actions, and has implications for the entire organization.

2.6.1 Modes of Strategic Decision-Making

Henry Mintzberg has classified strategic decision-making into three different modes -- entrepreneurial mode, adaptive mode, and planning mode. There is a fourth approach – logical incrementalism – which has some characteristics of each of these three approaches.

Entrepreneurial mode

In this mode, strategies are framed by one powerful individual. The entrepreneurial mode focuses solely on the organization’s opportunities.

Problems associated with strategy are given secondary importance. Strategy is formulated based on the founder's own vision of direction and is exemplified by bold decisions. The dominant goal is the growth of the organization. The disadvantage of this mode is that it does not consider problems that may arise during strategy implementation. The advantage is the speed with which a strategy can be formulated and implemented.

Example

In July 2017, Reliance Jio launched its VoLTE feature phone namely "Jio Phone" in India. The device will be effectively free for Jio users. The company is collecting fully refundable ₹ 1500 one-time payment from Jio Phone users. A Jio Phone user can use it for 36 months and can get full refund by returning the used phone. Jio Phone will have an access to unlimited data. Ambani (Company's CMD) said that device affordability is a challenge in India as entry level smartphone costs ₹ 3000-4000 making it unaffordable for feature phone users to upgrade to a smartphone. Jio is going to reinvent conventional feature phone. He added that India has over 50 crore feature phone users who pay more for voice call and SMS in India. He said, "Voice will always be free on Jio Phone. 50 crore feature phone users don't have basic internet and application. I believe, today every young Indian should have information access at his finger tips that is what the Jio Phone enables. To enable a digital life, all need access to data at an affordable price. I am declaring digital freedom for all feature phone users." Ambani's decision to launch fully refundable Jio Phone with an access to unlimited data indicates entrepreneurial mode strategy.

Source: ICFAI Research Center

Adaptive mode

This mode is characterized by reactive solutions to existing problems. It results in a fragmented strategy with incremental improvement.

Planning mode

In this mode, appropriate information for situational analysis is gathered systematically. A few feasible alternative strategies are developed and the most appropriate strategy is selected. The planning mode encompasses both a proactive search for opportunities and a reactive solution to existing problems. The planning mode helps the firm to be better prepared for environmental uncertainties.

Though every mode of strategic decision-making can be used in one situation or the other, the planning mode, which includes the basic elements of the strategic management process, is a more rational and better method of strategic decision-making than the others. It is more appropriate for dealing with complex and changing environments.

Logical incrementalism

There is a fourth approach that might be followed by a firm – logical incrementalism. It is a synthesis of the three approaches just mentioned. When developing strategies, organizations choose an interactive process for probing the future, experimenting, and learning from a series of incremental commitments. This approach is useful when the environment is changing rapidly and it is important to build a consensus before committing the entire company to a specific strategy.

2.6.2 Characteristics of Strategic Decisions

The characteristics of strategic decisions flow from the nature of strategic management. There are several important differences between strategic management and various management functions like operations, human resources, marketing, accounting, finance, and research and development. The distinguishing features of strategic management are listed here.

Strategic management entails multiple time horizons

Strategic management involves strategy formulation at three levels, namely, the corporate level, the business level, and the functional level. The three levels have different orientations of time, though they are synchronized in their objectives. The corporate manager deals with the vision of the organization, which has a long-term perspective. The strategic business unit level managers deal with translating the vision into the mission and objectives for the firm, and they have a medium-term perspective. The functional managers tend to have a short-term perspective.

Strategic management is concerned with both efficiency and effectiveness

Strategic management lays emphasis on both efficiency and effectiveness. It deals with the environment over which the firm has little or no control. Accordingly, efficiency, that is, doing things right might lose validity and relevance if the environment conditions undergo a change. It is effectiveness which will align the activities and strategies to the dynamic environment. Effectiveness when coupled with efficiency will enable a firm to achieve its mission and hence strategic management places a balanced importance on both.

Strategic management integrates various functions

Strategic management adopts an integrative perspective of the various functional areas in an organization. This enables the organization to build on its strengths and minimize its weaknesses across functional areas and also provides synergistic effects for the organization.

Strategic management considers a broad range of stakeholders

Strategic management deals with both the external environment (operating and remote) and the internal environment effectively, and meets the expectations of the various stakeholders. The hierarchical level of strategy formulation helps in meeting the expectations of a wide variety of stakeholders.

Check Your Progress - 3

9. In the case of the entrepreneurial mode, which of the following statements is **not correct**?
   a. In this mode, strategies are framed by one powerful individual.
   b. It focuses solely on the organization's opportunities.
   c. Problems associated with strategy implementation are given top priority.
   d. Its dominant goal is the growth of the organization.
10. In the case of the planning mode, which of the following statements holds **true**?
   a. Appropriate information for situation analysis is gathered unsystematically.
   b. A few feasible alternative strategies are developed and the most appropriate strategy is selected.
   c. It encompasses a proactive search for opportunities but not a reactive solution to existing problems.
   d. It helps the company to be better prepared for evaluation.
11. Which of the following is **not** a characteristic of strategic decision making?
   a. Strategic management integrates various functions.
   b. Strategic management considers a broad range of stakeholders.
   c. Strategic management entails a single time horizon.
   d. Strategic management is concerned with both efficiency and effectiveness.

Activity 2.4

The decision-making hierarchy of a firm typically contains three broad levels: corporate level, business level, and functional level. Discuss.

Answer:

Activity 2.5

A firm is expected to adhere to the generally held beliefs about behavior in society. It is supposed to take into consideration ethical issues while doing business. How far do you think a company can compromise on ethics while looking after the interests of the shareholders? Make your argument using a suitable example.

Answer:

Activity 2.6

Strategic management often requires a firm to craft a new strategy different from the pre-planned strategy it had started with. Illustrate this phenomenon with an example.

Answer:

2.7 Summary

- Strategic management can be defined as a rational and intuitive process through which a firm streamlines and leverages its resources on a continuous basis to position itself distinctly from its competitors. It involves evaluating and building upon the firm's strengths, and minimizing or eliminating its weaknesses while taking advantage of the opportunities emerging in the environment and countering the threats effectively.
- The four basic elements in the process of strategic management are -- environmental scanning, strategy formulation, strategy execution (implementation), and evaluation and control.
- Strategy formulation involves the interplay of interrelated components which enable a firm to compete effectively and survive in the dynamic business world.
- The components of strategy formulation are -- vision and mission, external environment, internal profile, long-term objectives and annual objectives, grand strategy, generic strategy, and functional/operational strategies.

- Strategic decision-making can be classified into the following modes -- entrepreneurial mode, adaptive mode, planning mode, and logical incrementalism.
- The distinguishing features of strategic management are: strategic management entails multiple time horizons; strategic management is concerned with both efficiency and effectiveness; strategic management integrates various functions; and strategic management considers a broad range of stakeholders.

2.8 Glossary

Adaptive mode: Henry Mintzberg has classified strategic decision-making into three different modes -- entrepreneurial mode, adaptive mode, and planning mode. Adaptive mode is characterized by reactive solutions to existing problems. This mode of decision making results in a fragmented strategy with incremental improvement.

Annual objectives: Annual objectives are the objectives that the firm seeks to achieve in one year. Annual or short-term objectives flow from the long-term objectives. The short-term objectives are more specific and are to be achieved within a time span of one year. Achieving the short-term objectives will lead to achievement of the long-term objectives.

Entrepreneurial mode: Henry Mintzberg has classified strategic decision-making into three different modes -- entrepreneurial mode, adaptive mode, and planning mode. In the entrepreneurial mode, strategies are framed by one powerful individual. It focuses solely on the organization’s opportunities. Problems associated with strategy are given secondary importance. Strategy is formulated based on the founder’s own vision of direction and is exemplified by bold decisions. The dominant goal is the growth of the organization.

Environmental scanning: Environmental scanning involves monitoring the environment, and evaluating and disseminating information obtained from the internal and external environments. The aim of environmental scanning is to identify the strategic factors that may determine the future of the firm.

External environment: The external environment of a company comprises forces and conditions over which the firm has little or no control, and they exert an influence on the company’s strategic options as well as on its competitive position. The external environment is of two types, the operating environment and the remote environment. The operating environment has a direct bearing on the firm’s performance and includes variables like competitors, consumers, and vendors. The remote environment includes political, social, economic, and demographic variables.

Functional strategies: A short-term game plan for a key functional area within a firm. Functional strategies clarify the grand strategy and provide specific details about the management of key functional areas in the near future. They must be consistent with long-term objectives and the grand strategy. They enable the grand strategy to be pursued in terms of daily activities. Functional strategies help in the implementation of the grand strategy by organizing and activating specific subunits (marketing, finance, production, etc.) of the firm.

Generic competitive strategies: A firm, in order to stay competitive, can pursue any of the three generic strategies proposed by Michael Porter, namely, ‘overall cost leadership’, ‘differentiation’, and ‘focus’. These generic strategies leverage a firm’s capabilities and enable it to cope with the five forces model as well.

Grand strategy: A statement of means that indicates the methods to be used to achieve the firm’s objectives. This strategy is a unique package of long-term strategies, and provides the framework for the entire business of the firm. Grand strategies include the following strategies: market penetration, market development, product development, horizontal integration, vertical integration (forward and backward integration), concentric diversification, conglomerate diversification, horizontal diversification, retrenchment, divestiture, and liquidation.

Logical incrementalism: Apart from the classification of strategic decision-making given by Henry Mintzberg, firms a follow another approach called the logical incrementalism. Logical incrementalism is a synthesis of the adaptive, entrepreneurial, and planning modes. When developing strategies, organizations choose an interactive process for probing the future, experimenting, and learning from a series of incremental commitments. This approach is useful when the environment is changing rapidly and it is important to build a consensus before committing the entire company to a specific strategy.

Long-term objectives: Results that an organization seeks to achieve over a number of years. Long-term objectives are typically set in terms of market share, return on assets deployed, profitability, technological leadership, employee relations, social responsibility, and employee development.

Mission: A firm’s mission describes the product, the market, and the technological areas of emphasis for the business, and forms its overriding *raison d’être,* that is, ‘reason for existence’. It embodies the business philosophy of strategic decision-makers, reflects the firm’s self-concept (how the firm perceives itself), and indicates the principal product or service areas, and identifies the primary customer needs that the firm attempts to satisfy.

Planning mode: Henry Mintzberg has classified strategic decision-making into three different modes -- entrepreneurial mode, adaptive mode, and planning mode. In the planning mode, appropriate information for situational analysis is gathered systematically. A few feasible alternative strategies are developed and the most appropriate strategy is selected. The planning mode encompasses both a proactive search for opportunities and a reactive solution to existing problems. It helps the firm to be better prepared for environmental uncertainties.

Strategic management process: The process of strategic management comprises four basic elements. These are environmental scanning, strategy formulation, strategy execution (implementation), and evaluation and control.

Strategic management: Strategic management can be defined as a rational and intuitive process through which a firm streamlines and leverages its resources on a continuous basis to position itself distinctly from its competitors. It involves defining the vision and the mission of the firm which clearly define what the firm aspires to become and the reason for its existence. It deals with how a firm utilizes its resources and capabilities to counter or pre-empt competitive moves and succeed in the dynamic marketplace.

Strategy evaluation and control: The ultimate test of the strategy is its ability to achieve the ends – in terms of vision, mission, and long-term objectives. When a strategy is implemented, it should be monitored to determine the extent of success. Evaluation and control refer to the processes in which corporate activities and performance results are compared with the desired performance. This information is used to take corrective action and resolve problems. It also pinpoints the weaknesses of strategic plans implemented earlier.

Strategy execution: The process by which strategies are put into action is called strategy execution or implementation.

Strategy formulation: Strategy formulation refers to the development of long-term actionable plans for managing opportunities and threats in the external environment, and for utilizing the strengths and overcoming the weaknesses within the organization.

SWOT analysis: SWOT is an acronym for strengths, weaknesses, opportunities, and threats. It is a systematic study and identification of those aspects and strategies that best suit the individual firm's position in a given situation. The strategy should improve a firm's business strengths and make use of opportunities while at the same time reducing its weaknesses and countering threats.

Vision: An organization envisioned future and reflects its core ideology. The vision spells out clearly what the organization intends to become in the future. A defines a core ideology, 'what we stand for and why we exist' that never changes and sets forth an envisioned future, 'what we aspire to become, to achieve, to create' that demands significant change and progress.

2.9 Self-Assessment Test

1. Explain the concept and process of strategic management.
2. What are the different components of strategy formulation?
3. Discuss the strategic decision making process in detail.

2.10 Suggested Readings/Reference Material

1. Thomas L. Wheelen, et al., Strategic Management and Business Policy: Globalization, Innovation and Sustainability, Fifteenth Edition, Pearson Paperback – 30 July 2018
2. P.N. Srivastava, Business Policy and Strategy Hardcover, Horizon Press, January 2019
3. Joan Magretta, Emile Holmewood and Heinrich Zimmermann, What is Strategy?: An Illustrated Guide to Michael Porter Hardcover – Illustrated, 15 September 2020, Harvard Business Review Press
4. Shabbar Suterwala, Top 20 Business Strategies for your Business Growth, Notion Press; 1st edition Paperback – 27 May 2021
5. Brian Tracy, Business Strategy: The Brian Tracy Success Library Hardcover – 26 February 2018, Manjul Publishing House
6. Callie Daum, Business Strategy Essentials You Always Wanted to Know (Second Edition), January 2020, Vibrant Publishers

2.11 Answers to Check Your Progress Questions

1. (b) Environmental scanning

Environmental scanning involves monitoring the environment and evaluating and disseminating information obtained from the internal and external environments. The aim of environmental scanning is to identify the strategic factors that may determine the future of the firm. Evaluation and control refer to the processes in which corporate activities and performance results are compared with the desired performance. Strategy formulation refers to the development of long-term plans for managing opportunities and threats in the external environment, and for utilizing the strengths and overcoming the weaknesses within the organization. The process by which strategies are put into action is called strategy implementation.

2. (b) Strategy formulation

Strategy formulation refers to the development of long-term plans for managing opportunities and threats in the external environment, and for utilizing the strengths and overcoming the weaknesses within the organization. In order to achieve this objective, the strategist forms the company mission, specifies objectives, and develops strategies.

3. (c) Strategy implementation

The process by which strategies are put into action is called strategy execution/implementation. Programs, budgets, and procedures are developed in order to implement a strategy.

4. (a) **Middle level managers**

Typically, it is the middle and lower level managers who handle the implementation of strategy unless drastic company-wide changes are needed. The top management reviews the strategy from time to time.

5. (d) **Evaluation and control**

Evaluation and control refer to the processes in which corporate activities and performance results are compared with the desired performance. This information is used to take corrective action and resolve problems. It also pinpoints the weaknesses of strategic plans implemented earlier. Thus, this exercise provides a valuable opportunity for organizational learning.

6. (d) **i, ii, and iii**

A comprehensive understanding of strategic components (vision, mission, company profile, policies, etc.) helps in designing effective plans for the future of the organization. The company's vision is a description of what the organization is trying to do and to become. It gives a view of an organization's future direction and course of business activity. The mission of a company sets the company apart from other companies in the same area of business. The company profile, which is determined by internal analysis of the company, depicts the quantity and quality of the company's financial, human, and physical resources.

7. (b) **Mission**

The mission of a company sets the company apart from other companies in the same area of business. It identifies the scope of the company's operations, describes the company's product, market, and technological areas of thrust, and reflects the values and priorities of its strategic decision makers. The external environment consists of all the conditions and forces that affect an organization's strategic options and define its competitive situation.

8. (c) **Operating strategy**

Operating strategy provides a company with the means to achieve its short-term objectives. The company budget is coordinated with the needs of the operating strategies to ensure specificity, practicality, and accountability in the plans. Functional strategies are specific to the needs of each functional area and prescribe an integrated action plan for every function. Business level strategies translate the general statements of corporate strategic planners into exact, concrete, and functional objectives and strategies. Corporate strategies aim to exploit the firm's distinctive competencies by developing long-term plans for business operations.

9. (c) Problems associated with strategy implementation are given top priority.

In the entrepreneurial mode, strategies are framed by one powerful individual. It focuses solely on the organization's opportunities. Problems associated with strategy **are given secondary importance**. Strategy is formulated based on the founder's own vision of direction and is exemplified by bold decisions. The dominant goal is the growth of the organization. The disadvantage of this mode is that it does not consider problems that may arise during strategy implementation. The advantage is the speed with which a strategy can be formulated and implemented.

10. (b) A few feasible alternative strategies are developed and the most appropriate strategy is selected.

In the planning mode, appropriate information for situational analysis is gathered **systematically**. A few feasible alternative strategies are developed and the most appropriate strategy is selected. The planning mode encompasses both a proactive search for opportunities **and a reactive solution** to existing problems. The planning mode helps the company to be better prepared for **environmental uncertainties**.

11. (c) Strategic management entails a single time horizon

The characteristics of strategic decisions are: strategic management integrates various functions; it considers a broad range of stakeholders; it **entails multiple time horizons**; it is concerned with both efficiency and effectiveness.

Unit 3

Vision, Mission, and Social Responsibility

Structure

"When you discover your mission, you will feel its demand. It will fill you with enthusiasm and a burning desire to get to work on it."

- W. Clement Stone

3.1 Introduction

The statement of Clement actually recalling the designing of proper mission statement that outlines reason for the existence of the organization.

In the previous unit, we have discussed the concept of strategic management. In this unit, we shall discuss the vision, mission, and social responsibility.

The vision is a very important guiding factor for an organization. An organization's vision is its envisioned future and reflects its core ideology. It spells out clearly what the organization intends to become in the future. As such, it provides a direction path and controls the direction of the effort of employees. The organization's mission flows from the vision.

An organization's vision and mission act as guidelines for strategy formulation. The process of strategy formulation involves articulating a vision for the organization, translating the vision into a mission that defines the organization's purpose, converting the mission into performance objectives, and formulating strategies and tactics for accomplishing the objectives. Further, social responsibility of the organization has to be considered as an integral part of strategic management.

We first define vision and mission of an organization. We shall then discuss the process of formulating a mission statement and the social responsibility concept.

3.2 Objectives

By the end of this unit, you should be able to:

- Define the vision and mission of an organization.
- Explain the process of formulating a mission statement.
- Discuss the concept of social responsibility, and the various types of social responsibility.

3.3 Vision and Mission

A well-conceived vision has two main components: core ideology and envisioned future. A good vision builds upon the interplay between these two complementary components. It defines a core ideology, 'what we stand for and why we exist' that never changes and sets forth an envisioned future, 'what we aspire to become, to achieve, to create' that demands significant change and progress.

The vision needs to be specific so that the scope for different interpretations is minimized. It needs to be communicated effectively as a first step to its actual implementation. Both effective communication and effective implementation require substantial effort and deployment of resources.

The vision of an organization is what insiders of the organization create or perceive. However, it should also reflect the concerns of other stakeholders such as shareholders, customers, the local community, and society in order to be effective. The support of shareholders is necessary to bring about any major change in the organization. The vision of the firm should also try to streamline and relate the personal goals of employees with organizational goals to the extent possible.

A well-drafted vision should be realistic, credible, attractive, and future-oriented. If the vision statement is not realistic, it will not have the support of the stakeholders and hence will never be realized. Similarly, if the stakeholders do not find the vision statement credible and attractive, they will not put in the efforts necessary to realize it. The vision has to be future-oriented and should bridge the gap between the present and the future.

The vision of a firm provides managers with a unity of direction that transcends individual, parochial, and transitory needs. It projects a sense of worth and intent that can be identified and assimilated by those inside and outside the firm. This is articulated through the vision statement of a firm.

Example

JK Tyre & Industries Ltd., is a leading tyre manufacturer in India. The firm is amongst the top 25 manufacturers in the world with a wide range of products catering to diverse business segments in the automobile industry.

Contd….

The company mentioned its vision over its website as: "To be amongst the most admired companies in India committed to excellence." JK Tyre's vision highlighted the 'envisioned future'- a component of vision.

Source: ICFAI Research Center

3.3.1 Mission

A firm's mission plays a critical role in its survival. The absence of a mission often results in the failure of a firm since its short-run actions can be counterproductive to the firm's long-run purpose. Firms without a mission identify the scope of their operations in product and market terms only. A mission statement, on the other hand, describes the product, the market, and the technological areas of emphasis for the business, and forms its overriding *raison d'être,* that is, 'reason for existence'.

The term 'mission' is defined as "the fundamental and enduring purpose of an organization that sets it apart from other organizations of a similar nature". The mission statement is an enduring statement of purpose for an organization; it refers to the philosophy of the business and serves to build the image of the firm in terms of activities currently being pursued by the organization, and its future plans. This philosophy establishes the values, beliefs, and guidelines for business plans and business operations. Mission statements come in various forms but the most effective are those that are direct, precise, and memorable. Most corporate mission statements are built around three main elements:

- *History of the organization*: The critical characteristics and events of the past must be considered while formulating and developing a mission statement.
- *Distinct competencies of the organization*: The key goals that reflect the distinct competencies of the organization where it offers an advantage over other organizations should be articulated.
- *The environment of the organization*: The management should identify the opportunities provided and threats or challenges posed by the environment before formulating a mission statement.

The characteristics of a good mission statement are:

- It differentiates the firm from its competitors.
- It defines the business(es) that the firm wants to be in, not necessarily the one(s) it is in.
- It is inspiring.
- It is relevant to all the stakeholders in the firm, not just shareholders and managers.

- It attempts to ensure that the organization behaves in the way that it promises it will by defining the purpose for which the firm exists.
- It seeks to clarify the purpose of the organization – why it exists.

A mission statement usually attempts to answer the following questions:

- What is our reason for being? What is our basic purpose?
- What is unique or distinctive about our organization?
- Who are, or should be, our principal customers, clients?
- What customer needs should we satisfy?
- What are, or should be, our principal economic concerns?
- What is likely to be different (from its existing state) about our business three to five years in the future?
- What are our principal products at present and what will they be in the future?
- How do we create and deliver value?
- What are the basic beliefs, values, aspirations, and philosophical priorities of the firm?

The mission statement flows from the vision statement and verbalizes the beliefs of the manager and the directions in which he/she seeks to lead the organization. A firm's mission embodies the business philosophy of strategic decision-makers, reflects the firm's self-concept (how the firm perceives itself), and indicates the principal product or service areas, and identifies the primary customer needs that the firm attempts to satisfy. It describes the market, product, and technological areas of the business and in doing so, reflects the values and priorities of the strategic decision-makers and guides future executive action.

3.3.2 Significance of Vision and Mission for Strategy Formulation

The vision and mission statements together provide the growth directions for the organization and control the allocation of resources. They define the scope of business activities into which an organization may venture, thereby controlling the allocation and utilization of its resources.

Activity 3.1

The mission statements of different companies may focus on different aspects. Use examples to illustrate mission statements focused on diverse aspects.

Check Your Progress - 1

1. Which of the following aspects of strategy act as guidelines for strategy formulation?
   a. Objective, vision
   b. Vision, mission
   c. Vision, goal
   d. Mission, objective
2. Which of the following are the two main components of a well-conceived vision?
   a. Ideology, organization purpose
   b. Customer needs, plans
   c. Goals, envisioned future
   d. Core ideology, envisioned future
3. In the case of the vision of a company, which of the following statement **is false**?
   a. The vision needs to be specific so that the scope for different interpretations is minimized.
   b. The vision needs to be communicated effectively as a first step to its actual implementation.
   c. The vision should ignore the concerns of external stakeholders in order to be effective.
   d. The vision of the company should also try to streamline and relate the personal goals of employees with organizational goals to the extent possible.

3.4 Formulating a Mission Statement

The process of formulating a mission is best understood by considering a firm at its inception. A typical business organization begins with the aspirations and beliefs of a single entrepreneur. The mission is then based on the following fundamental assumptions:

1. The product or service can provide benefits at least equal to its price.
2. The technology to be used in production will provide a product/service that is competitive in cost and quality.
3. The product or service can satisfy a customer need currently felt by specific market segments.

4. The management philosophy of the business will result in a favorable public image.
5. The business will provide financial rewards for those willing to invest their labor and money in the firm.
6. With hard work and the support of others, the business can grow and be profitable in the long run.
7. The entrepreneur’s concept of the business can be communicated to and adopted by employees and stockholders.

As the business grows, the firm may redefine its mission statement. The revised mission statement generally reflects the same set of elements as the original. It will state:

- The basic type of product or service to be offered.
- The primary markets or customer groups to be served.
- The technology to be used in production or delivery.
- The fundamental concern for survival through growth and profitability.
- The public image sought.
- The managerial philosophy of the firm.
- The firm’s self-concept.

Example

Deloitte is a multinational professional services company. It is one of the "Big Four" accounting organizations and the largest professional services network in the world by revenue and number of professionals. Deloitte mentioned the company’s mission over its website as: “Our mission is to help our clients and our people excel. We are one of the world's leading business advisory organizations. Our size, strength and resources will help us carry out our mission now and in the future.” Deloitte’s mission statement reflects their distinct competencies like size, strength and resources

Source: ICFAI Research Center

3.4.1 Basic Product, Primary Market, and Principal Technology

The mission statement of a firm centers on its basic product, primary market, and principal technology.

3.4.2 Organizational Philosophy/Values

Organizational philosophy is the creed of the organization, and reflects the beliefs, values, and aspirations of the firm. It provides a framework for individual actions aimed at achieving corporate goals. It is often written along with the mission as the values driving the firm.

3.4.3 Public Image

Customers associate certain qualities with certain companies. The mission statement should reflect the public image.

3.4.4 Self-Concept

A firm should be in a position to know itself in terms of its strengths and weaknesses and the competitive environment in which it operates. A firm's mission statement should reveal its self-concept.

The strategic decision-makers should see the firm as a socially responsive, prudent, and independent entity.

Activity 3.2 Should an organization's mission focus only on customers and products, or should it also address the needs of employees? Substantiate your position with an example.

Check Your Progress - 2

4. Which of the following statements describes the product, the market, and the technological areas of emphasis for the business, and forms the firm's reason for existence?
   a. mission
   b. objective
   c. vision
   d. goal
5. The fundamental assumptions on which a mission statement is based include:
   i. the basic type of product or service to be offered.
   ii. the managerial philosophy of the firm.
   iii. the technology to be used in production or delivery.
   iv. the public image sought.
   a. Only i, ii, and iii
   b. Only i, ii, and iv
   c. Only i, iii, and iv
   d. i, ii, iii, and iv

6. Which of the following is a statement of the role that a company will seek to adopt and the description of what the company hopes to accomplish as a means to gauge future success?
   a. Fundamental intention
   b. View of the future
   c. Competitive arenas
   d. Source of competitive advantage
7. What do you call the businesses and regions/geographies where the company will compete?
   a. fundamental intention
   b. view of the future
   c. competitive arenas
   d. source of competitive advantage
8. Which of the following is the creed of the organization, and reflects the basic beliefs, values, and aspirations of the firm?
   a. Company mission
   b. Company philosophy
   c. Company vision
   d. Company goal

3.5 Social Responsibility

Corporate social responsibility is a public movement that has gained momentum over the past few decades. Citizens have started demanding that corporations be accountable for their actions. This movement has resulted in business managers becoming more transparent and socially responsible in their actions. Organizations are being pressured to improve their performance not only in financial but also in non-financial areas. As a result, they have started building social criteria into their strategic decision-making. Human rights issues and healthy environmental practices are no longer seen as compromising on profitability. Firms with a good reputation in these areas are highly regarded by the public and are often able to sustain profits even under adverse circumstances.

3.5.1 Types of Social Responsibilities

Managers of business organizations have four social responsibilities:

Economic H3

This responsibility deals with producing goods and services of value to society so that the firm may repay its creditors and shareholders.

Legal H3

Legal responsibilities are laid down by governments. They are set out as laws that organizations have to obey.

Ethical H3

Ethical responsibilities involve the widely-held beliefs about behavior in a society. Society expects companies to adhere to its ethical norms and reacts negatively to what are seen as unethical practices.

Discretionary H3

Discretionary responsibilities refer to the purely voluntary obligations that a corporation assumes, such as philanthropic contributions and training the unemployed. Ethical responsibilities are obligatory whereas discretionary responsibilities are purely voluntary.

Example

On March 21st 2019, Chennai Super Kings, a popular Indian Premier League (IPL) cricket team, announced to donate the proceeds from their first IPL home game to families of the CRPF (Central Reserve Police Force) personnel martyred in the Pulwama terrorist attack (2019). The 12thIndian Premier League will begin with defending champions Chennai Super Kings taking on Royal Challengers Bangalore, and ticket proceeds of the game, scheduled to be held at the MA Chidambaram Stadium on 23rd of March 2019, will go to the kin of the CRPF personnel who lost their lives in the February 14th terror attack, said CSK's Director Rakesh Singh. Chennai Super Kings announced voluntarily to donate the funds to the families of martyred CRPF personnel, which is a part of philanthropic contributions. It is a discretionary type of social responsibility.

Source: ICFAI Research Center

3.5.2 Stakeholders

A firm can behave responsibly in the interests of society in a number of ways. Social responsibility is not a one-way process; the organizations themselves benefit considerably by undertaking greater social responsibility. While formulating and executing strategy, to whom are organizations responsible? The answer to this question is: all who come under the category of 'corporate stakeholders'. The stakeholders are those who affect, or get affected by, the business activities of corporations. The category of stakeholders comprises the following groups:

Shareholders H3

Shareholders provide the capital that is necessary for firms to survive and grow. In turn, they expect the management to operate in ways that bring them the highest possible returns on their investment. Shareholders and managements sometimes hold different perspectives on business opportunities. These different perspectives occasionally lead to conflict.

Employees H3

Although managers speak of their organization's employees as "members of the family", their actual treatment of employees may not always conform to this ideal. One area of concern is the treatment of employees during plant closures. Plant closures should be accompanied by a degree of managerial concern for employees.

Customers H3

Several decades ago, words like *caveat emptor* (let the buyer beware) were used to indicate that the firm had little responsibility toward its customers. However, this is no longer acceptable as customers punish firms with this attitude by turning away from their products. Social concerns such as health, safety, and quality are also gaining greater prominence.

Local community H3

The community in which an organization operates is its local area of influence. While communities usually want businesses in their areas, businesses in turn expect various forms of infrastructure facilities like adequate transportation systems, gas, and electricity services. Organizations provide goods and services the community needs. They also provide employment opportunities to its constituents. Thus, organizations cater to the needs of the local community and benefit.

Society H3

Social responsibility at the societal level encompasses issues that are regional and national in scope. Some organizations provide training in basic skills to help workers meet the requirements of available jobs. Organizations also take on environmental responsibilities such as recycling, waste disposal, protecting the ozone layer, and energy efficiency.

An interesting question that arises is whether companies that are socially responsible are more successful financially. It is difficult to arrive at an answer to this because it is not easy to measure the social responsibility of one firm against that of another. Research suggests that a firm's financial performance influences its ability to undertake socially responsible activities. Firms engaged in socially responsible activities build stable relationships with their major stakeholders. This helps them to reduce the risk of lawsuits and governmental fines that threaten organizational well-being.

Check Your Progress - 3

9. Which of the following responsibilities involve the widely-held beliefs about behavior in a society?
   a. Economic
   b. Legal
   c. Ethical
   d. Discretionary
10. Which of the following responsibilities refer to the purely voluntary obligations that a corporation assumes, such as philanthropic contributions and training the unemployed?
   a. Economic
   b. Legal
   c. Ethical
   d. Discretionary

Activity 3.3

Elecpro Industries Ltd is involved in manufacturing industrial chemicals. In recent past, the company was in the news for all the wrong reasons. Environmentalists alleged that the company was flouting all environmental protection laws, and employees said that working conditions in the plant were hazardous. The management of the company appointed a high-level committee to build the image of the company as a socially responsible one. In this context, discuss the various stakeholders that the company needs to address to rebuild its image.

3.6 Summary

- An organization's vision and mission act as guidelines for strategy formulation. Together, they provide the growth direction for the organization and control the allocation of resources.
- A well-conceived vision has two main components: core ideology and envisioned future. A well-drafted vision should be realistic, credible, attractive, and future-oriented.

- A mission statement describes the product, the market, and the technological areas of emphasis for the business, and forms its overriding *raison d'être*, that is, 'reason for existence'.
- The mission statement of a firm centers on its basic product, primary market, and principal technology. It also reflects the firm's philosophy/creed, public image, and self-concept.
- Managers of business organizations have four social responsibilities -- economic, legal, ethical, and discretionary.
- While formulating and executing strategies, organizations are responsible to their stakeholders who affect, or get affected by, their business activities.
- Shareholders, employees, local community, and society are some of the important stakeholders of a corporation.

3.7 Glossary

Vision: An organization envisioned future and reflects its core ideology. The vision spells out clearly what the organization intends to become in the future. A defines a core ideology, 'what we stand for and why we exist' that never changes and sets forth an envisioned future, 'what we aspire to become, to achieve, to create' that demands significant change and progress.

Mission: A firm's mission describes the product, the market, and the technological areas of emphasis for the business, and forms its overriding raison d'être, that is, 'reason for existence'. It embodies the business philosophy of strategic decision-makers, reflects the firm's self-concept (how the firm perceives itself), and indicates the principal product or service areas, and identifies the primary customer needs that the firm attempts to satisfy.

Social responsibility: Corporate social responsibility is a public movement that has resulted in business managers becoming more transparent and socially responsible in their actions. Organizations are being pressured to improve their performance not only in financial but also in non-financial areas. As a result, they have started building social criteria into their strategic decision-making. Managers of business organizations have four social responsibilities: economic, legal, ethical, and discretionary.

3.8 Self-Assessment Test

1. Define the vision and mission of an organization.
2. How can a mission statement be formulated? Explain the process in detail.
3. Discuss the concept of social responsibility. What are the various types of social responsibility?

3.9 Suggested Readings/Reference Material

1. Thomas L. Wheelen, et al., Strategic Management and Business Policy: Globalization, Innovation and Sustainability, Fifteenth Edition, Pearson Paperback – 30 July 2018
2. P.N. Srivastava, Business Policy and Strategy Hardcover, Horizon Press, January 2019
3. Joan Magretta, Emile Holmewood and Heinrich Zimmermann, What is Strategy?: An Illustrated Guide to Michael Porter Hardcover – Illustrated, 15 September 2020, Harvard Business Review Press
4. Shabbar Suterwala, Top 20 Business Strategies for your Business Growth, Notion Press; 1st edition Paperback – 27 May 2021
5. Brian Tracy, Business Strategy: The Brian Tracy Success Library Hardcover – 26 February 2018, Manjul Publishing House
6. Callie Daum, Business Strategy Essentials You Always Wanted to Know (Second Edition), January 2020, Vibrant Publishers
7. "Vision and Mission Statements" <http://www.mindtools.com/pages/article/newLDR_90.htm> (Accessed on 31st March 2022)

3.10 Answers to Check Your Progress Questions

1. (b) Vision, mission

The vision of a company provides managers with a unity of direction which is not affected by individual, narrow-minded, and temporary needs. The vision statement of Microsoft, for example, is "Empower people through great software anytime, anyplace, and on any device." The mission statement is an enduring statement of purpose for an organization; it refers to the philosophy of the business and serves to build the image of the company in terms of activities currently pursued by the organization, and its future plans. For instance, the mission statement of Unilever is "Unilever's mission is to add Vitality to life. We meet every day needs for nutrition, hygiene, and personal care with brands that help people feel good, look good, and get more out of life." Hence, we can say an organization's vision and mission act as guidelines for strategy formulation.

2. (d) Core ideology, envisioned future

A well-conceived vision has two main components. The first component is core ideology and the second is envisioned future. A good vision defines core ideology (what we stand for and why we exist) that never changes, and sets forth the envisioned future (what we aspire to become, to achieve, to create) that demands significant change and progress.

3. (c) The vision should ignore the concerns of external stakeholders in order to be effective.

Vision **should reflect the concerns** of external stakeholders such as shareholders, customers, the local community, and society in order to be effective. The support of shareholders is necessary to bring about any major change in the organization.

4. (a) Mission

A mission statement describes the product, the market, and the technological areas of emphasis for the business, and forms the firm's reason for existence. An objective is the concrete, specific aim that the management seeks to achieve for the organization, often within a stated time. The vision of a company provides managers with a unity of direction that transcends individual, parochial, and transitory needs. Company goals indicate a desired future state that a company attempts to realize.

5. (d) i, ii, iii, and iv

The mission is based on the following fundamental assumptions: the basic type of product or service to be offered; the primary markets or customer groups to be served; the technology to be used in production or delivery; the fundamental concern for survival through growth and profitability; the public image sought; the managerial philosophy of the firm; and the firm's self-concept.

6. (a) Fundamental intention

The key elements of a mission statement are fundamental intention, view of the future, and the source of competitive advantage. Fundamental intention is a statement of the role that a company will seek to adopt and the description of what the company hopes to accomplish as a means to gauge future success. View of the future is the anticipated regulatory, competitive, and economic environment in which the company must compete. Competitive arenas are the business and geographic arenas where the company will compete. The skills that the company will develop to achieve its vision and a description of how the company intends to succeed are its sources of competitive advantage.

7. (c) Competitive arenas

Competitive arenas are the business and geographic arenas where the company will compete. A firm chooses the geographic locations and the product/market segments where it will operate, and thereby, determines its competitors. For example, a firm manufacturing plastic bottle may decide to operate only in Delhi, and hence, it will not face competition from plastic bottle manufacturers operating only in Hyderabad. Fundamental intention is a statement of the role that a company will seek to adopt and the description of what the company hopes to accomplish as a means to gauge future success. View of the future is the anticipated regulatory, competitive, and economic environment in which the company must compete. The skills that the company will develop to achieve its vision and a description of how the company intends to succeed are its sources of competitive advantage.

8. (b) Company philosophy

Company philosophy and values give a framework/boundary for individual actions aimed at achieving corporate goals. A company's philosophy is also known as its creed, and usually forms a part of the company's mission. It reflects or states the basic beliefs, values, aspirations, guiding principles, and philosophical priorities that the strategic decision-makers are committed to emphasize in their management of the firm.

9. (c) Ethical

Ethical responsibilities involve the widely-held beliefs about behavior in a society. Society expects companies to adhere to its ethical norms and reacts negatively to what are seen as unethical practices. The moral values of a country help shape the country's ethics and they vary from country to country. Ethical standards define acceptable norms of behavior and firms need to comply with them. For example in India, cows are considered auspicious by a section of society and slaughtering them is not acceptable. Any firm that sells products which use beef will be considered to be indulging in unethical practices in India. However, the same practice would be acceptable in America.

10. (d) Discretionary

Discretionary responsibilities refer to the purely voluntary obligations that a corporation assumes, such as philanthropic contributions and training the unemployed. These are responsibilities which a firm takes up as its responsibility toward the community or the society in which it operates on a purely voluntary basis. When a firm engages in taking up such responsibilities, it helps in building an image of a good corporate citizen for itself.

Business Policy & Strategy

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