Strategic Management and Its Core Concepts

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ABSTRACT

In the 1950s and 1960s, the idea of strategic management first emerged. The term "strategy" was first used in relation to war and politics, not business. However, every organisation needs a plan to deal with the escalating competitiveness and the increased complexity of the market. Therefore, This chapter analysed the importance of the strategic management and its concepts.

Keywords: Strategic Management, Strategy, Plan, Vision, Mission, Evaluation, Scanning, Analysis, etc.

INTRODUCTION

The process of managing an organization's resources to accomplish its aim and objective is known as strategic management. It is the process of establishing the organization's goals and objectives, creating the vision and mission statement, putting strategies into action, and conducting ongoing evaluations. Additionally, we may state that it is the collection of choices made by top management for the creation and application of strategies for the accomplishment of pre-established long-term goals.

According to **William F. Glueck**[1]: A unified **(Unique)**, Comprehensive **(Formulate, Implement, Evaluation)** and Integrated plan **(At 3 levels of the organisation)** designed to assure the basic objectives of the enterprise **(Profit and Non-profit)** are achieved.

The art and science of formulating, implementing, and evaluating cross-functional decisions that help an organisation accomplish its goals, according to THE INSTITUTE OF CHARTED ACCOUNTANT OF INDIA (ICAI).

LITERATURE REVIEW

For the past 20 years, strategic management researchers' main focus has been on figuring out what choices and actions are necessary to gain a competitive edge. And entrepreneurship researchers have devoted a lot of their attention to figuring out how possibilities to generate future goods and services are found and taken advantage of to start and expand new businesses. The majority of moderately large firms have drawn the attention of strategic management researchers. Additionally, small and medium-sized businesses continue to be the focus of most studies on entrepreneurship (Dale Meyer et. al., 2017). A corporation's long-term performance is determined by a set of managerial choices and actions known as strategic management. It entails environmental scanning (internal and external), strategic planning, strategy design, implementation, assessment, and control. In order to establish and implement a new strategic direction for a company, the study of strategic management stresses the monitoring and evaluation of external possibilities and threats in light of a corporation's strengths and weaknesses (JD Hunger, 2020).

STRATEGIC MANAGEMENT

[1]http://epgp.inflibnet.ac.in/epgpdata/uploads/epgp_content/S000023MA/P001397/M022268/ET/1504596873Module1QUADRANTI.pdf

In the 1950s and 1960s, the idea of strategic management first emerged. The term "strategy" was first used in relation to war and politics, not business. However, every organisation needs a plan to deal with the escalating competitiveness and the increased complexity of the market.

What is Strategic management?

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VISION: A company's vision is a declaration of what it hopes to accomplish over the long term. By providing a clear path for the company's expansion, it serves as a road map for what the business hopes to accomplish. With the changes in the market, it ought to stay the same.

For example, the Vision of Pepsi CO. is **"BE THE GLOBAL LEADER IN CONVENIENT FOODS AND BEVERAGES BY WINNING WITH PURPOSE"**.

The mission of an organisation is stated in its mission statement, which is meant to be understood by all stakeholders, including customers, suppliers, creditors, debtors, and the general public. A mission statement serves as a roadmap for developing plans, strategies, or daily decisions.

Example: Mission of Pepsi Co. is **"CREATE MORE SMILE WITH EVERY SIP AND EVERY BITE"**

The 5Ps of Strategy by Mintzberg

The Canadian scientist Henry Mintzberg introduced the five P's of strategy. Plan, Pattern, Position, Perspective, and Ploy are the five. An organization can integrate as many various areas as it can and approach the plan from various perspectives with the use of these 5P's of strategy.

Figure 1

Show the 5Ps Of Strategy By Mintzberg

[2]http://epgp.inflibnet.ac.in/epgpdata/uploads/epgp_content/S000023MA/P001397/M022268/ET/1504596873Module1QUADRANTI.pdf

Source: https://www.marketing91.com/the-5-ps-of-strategy-explained/

Figure 2

Process/ Steps of Strategic management

Source: https://theintactone.com/2018/12/23/sm-u1-topic-5-process-of-strategic-management-and-levels-at-which-strategy-operates/

1) Environmental scanning: Environmental scanning is the initial stage of strategic management. It is the process of scanning an organization's internal and external environment. An organisation can discover the threats and opportunities present in the market with the aid of this approach.

2) Strategy formulation: This is the second stage of the strategic management process after scanning. The process by which an organisation chooses the most practical/appropriate plan of action out of all those available for achieving its goal is known as strategy formation. This process entails the creation of corporate, business, and functional strategies that involve planning and decision-making for the advancement of organisational goals and plans.

3) Strategy evaluation: The final step in the strategic management process is strategy evaluation. It entails evaluating performance, assessing internal and external variables, and taking corrective action.

The following are included in a strategy:

• Long-term planning

• Formulation, planning, and implementation

• A plan chosen for the organization's long-term growth, stability, and survival.

Strategic Decision: Decisions affecting the organization's long-term growth are considered strategic decisions. It took into account the organization's entire operating environment. It creates the plans and implements them in a way that changes the organisation. It serves as a link between the organization's present position and its future.

Strategic decision models

- Rational model
- Bounded- rationality or behavioural model
- Bargaining model
- Participative model
- Garbage can model

1. The rational decision-making framework Based on information and facts, this model decision has been made. Its major goal is to choose the optimal alternative in order to maximise the effectiveness of certain criteria. When issues are foreseeable, it is frequently used. When the environment is dynamic and political, the organisation cannot benefit from this model. It is broken up into six steps.

• Identifying the issue or objectives

• Understanding the alternatives

• Evaluate each alternative; choose the best one based on the specified criteria

• Monitoring implementation

2. Bounded-rationality or behavioural model: Herbert Simon, a Nobel Prize winner, developed this theory. According to the model, humans are incapable of making perfectly rational decisions because they are unable to simultaneously consider and analyse all available information. There are restrictions on knowledge and time in a situation. Instead of optimizing, the fundamental goal of this decision-making process is to satisfy. In addition, it will provide a good decision rather than the best possible decision.

3. Bargaining model: This model is suitable for organisations where there may be conflicts of interest between two or more parties participating in the decision. The manager makes the best choice in the interest of everyone or for both parties. This model works well in political arenas as parties typically share the same resources, which are also scarce. The limitation of this model is that it is time-consuming in some cases since it requires negotiation to resolve the disagreement.

4. Participative decision-making model: This model is known as a democratic decision-making process. It gathers people who are directly impacted by decision-making and takes into account the opinions of everyone. With this methodology, everyone has an equal chance to share their opinions, knowledge, and concerns about the circumstance. NATO, the UN, and other international bodies are a few examples.

5. Garbage CAN model: According to Cohen, March, and Olsen, decision-makers frequently work in an environment that is irrational and full of ambiguity. They therefore don't follow the rational process of obtaining information and carefully weighing the evidence when making decisions. The ideal option is not sought after in garbage can decision-making. Instead, it combines and contrasts the components that the company has already crammed into the can:

• Problem-seeking choices

• Issues and feelings looking for decisions to affect

• Solutions looking for issues they can resolve

• Decision-makers looking for something to do

Strategic Analysis: First, the primary goal of an organisation in strategic analysis is to analyse the business environment. Strategic analysis is required for creating strategic planning in order to accomplish the goal and ensure the organisation runs smoothly. It helps to identify the areas of operation that need improvement.

Strategic analysis comes in two flavours.

Internal analysis

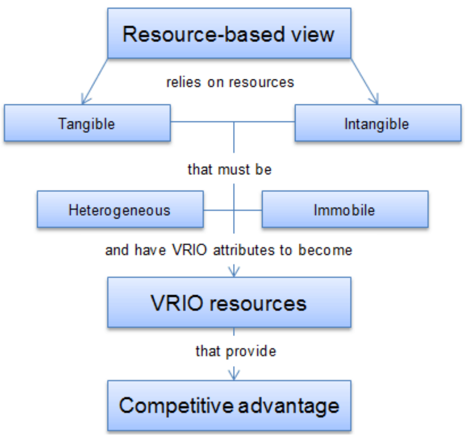
External strategic analysis

Techniques of internal analysis

1. Resource-based value approach: Wernerfelt, Barney, Prahalad, and Hamel established this strategy in the 1980s and 1990s. The main objective is to gain a competitive edge. According to this strategy, the organisation should concentrate on identifying the sources of competitive advantage rather than searching for it in the competitive environment.

Figure 3

Resource Based Value Approach

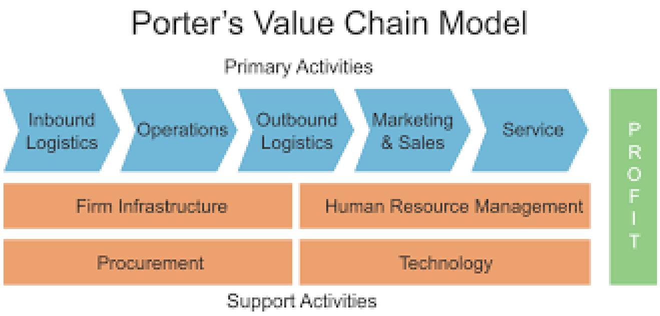


Source: https://strategicmanagementinsight.com/tools/resource-based-view/

Value Chain Analysis: Michael Porter introduced the value chain analysis approach. The concept splits a company's activity into two categories (Primary and support activities and identify their contribution to the value creation of the final product). Its main objective is to examine the actions that lower costs and increase differentiation. The model aids the organization in identifying the tasks that are most beneficial to the business and those that could be improved to provide the business a competitive edge.

Figure 4

Value Chain Analysis



Source: https://strategicmanagementinsight.com/tools/value-chain-analysis/

Primary Activities: These activities enable the organisation to transform input into output.

- Inbound Logistics: These activities include receiving, storing, distributing, handling materials during transportation, controlling stock levels, and other processes that make products and services available for use in operating procedures.
- Operations: This is the process of turning a raw resource into a finished good. Branding, labelling, packing, etc. are all included.
- Outbound logistics: These services assist in gathering, storing, and delivering products to their final recipients.
- Marketing and sales: This encompasses all actions taken to promote and sell products, including advertising, promotion, and sales as well as marketing research and public relations. Customers get more knowledgeable about the product as a result.
- Services: it includes all the extra services that are given to the buyer with a product to enhance the value of the product such as After-sale services.

Support Activities

- Procurement: This operation offers all the raw materials, equipment, and other consumable products needed by the business to carry out its main function at fair or negotiated pricing.
- Technology development: During research and development, technology is developed and used to automate operations as well as design and create production techniques. Equipment, hardware, software processes, and technical knowledge are all included.
- Human resource management is a crucial task that outperforms the organization's core duties. Examples include hiring, keeping, promoting, moving, evaluating, and terminating employees.
- Infrastructure

SWOT analysis

Strength, Weakness, Opportunities, and Threats is the abbreviation for a SWOT analysis. It is the most crucial instrument for examining the organisational environment. It assists in determining the best techniques to use by the organisation to achieve its goals and objectives.

- Strength: The job, activity, or action that an organisation is best at performing. It encompasses both real assets like capital and technology as well as internal resources like skills, knowledge, and talent. Strength is the difference-maker between the business and its rivals. It makes it possible for the business to fulfil the organization's objective.
- Weakness: The obstacles prevent the company from achieving its aim and goal. The company's expansion and prosperity are negatively impacted by the weakness. As an illustration, consider massive debts, high debts, high personnel turnover, increased raw material waste, etc.
- Opportunities are a form of available competitive advantage in the environment or market. By developing suitable strategic plans, the organisation may take advantage of these opportunities.
- Threats: These are uncontrollable elements. To deal with the situation, the organisation might take corrective action against these threats. These factors have the potential to shock the company's stability and ability to survive. By regularly monitoring the environment and executing appropriate tactics, such as the threat of new competitors entering the market, the organisation can take preventive measures.

Analysis of the external environment: These are variables that are beyond the purview of the organisation but are nevertheless strongly tied to the business. It affects or influences how an organisation runs, either directly or indirectly. Evaluation of market dangers and opportunities is accomplished through external analysis. The external environment is divided into three main categories.

- Local/business environment
- National/macroenvironment
- Border socioeconomic environment

Techniques Of External Environment Analysis

PEST: P is for politics, E is for economics, S is for social, and T is for technology analysis in PEST. An organisation can evaluate the hazards and possibilities in the external environment using this strategy.

Political factors: these factors are connected to government intervention such as law, tax, policy, tariffs, trade restrictions etc.

Economic factors: These are the elements that affect the nation's economic standing. Exchange rates, interest rates, inflation rates, etc. are a few examples.

Social factors: These are the elements of culture and society. Example: Consciousness, Health, and Growth.

Technological factors: These aspects, which are closely tied to innovation and technology, include technology, research and development effort, etc.

PORTER'S FIVE FORCE MODEL

The model is employed to analyse the market. This model explains how these industries can remain viable in the marketplace. It helps the company to get an entry with a lot of competition in it. Its primary objective is to analyse the business's internal and external environments and inform us of our options for entering the sector. Porter identified the five immovable forces that influence every market and business in the globe.

• The threat of new entrants: it’s a barrier to get entry into the industry. If there are entrance restrictions, an industry becomes more appealing. Barriers to entrance are necessary for the industry in order to preserve equilibrium and profitability.

• Threats of substitutes: Substitute products are those that have similar features as the company’s product. Many customers prefer to purchase alternatives that are less expensive than the original item. The business should conduct a market timing survey to get relevant market information.

• Customer bargaining power: The level of a seller's profitability is determined by the customer's bargaining power. The vendor will have to lower the price, raise the quality, and frequently offer more services if the buyer is controlling the market.

• Supplier bargaining power: Strong suppliers can affect an industry's degree of profitability. Suppliers have the option of raising prices or lowering product quality. Conversely, suppliers with less market dominance are less able to negotiate on their terms.

• The intensity of competitive rivalry: This factor affects both the market environment and the profitability of the market's existing businesses. While low competitive rivalry makes an industry less competitive and increases the potential profit of existing firms, high competitive rivalry has a greater impact on the industry and reduces the potential profit for the existing firms.

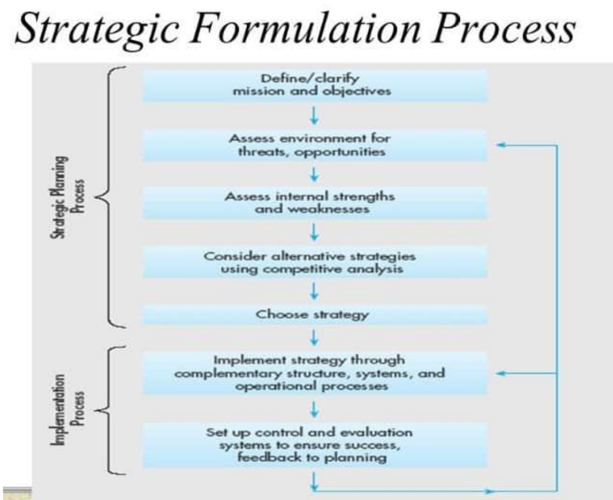
• Rivalry among existing competitors: Numbers of competitors, capabilities of competitors, barriers to exist, switching cost, quality difference, industry concentration.

STRATEGIC FORMULATION: STRATEGIC FORMULATION

It is the procedure by which a company chooses a workable course of action to carry out its predetermined objectives. All corporate employees should be informed of the strategic plans. They must be informed of the organization's mission, goals, and purpose.

Figure 5

Strategic Formulation Process



Source: https://learnmech.com/strategic-planning-process-strategic-formulation-process/

1) Identify the strategic mission. The strategic mission gives the organization's long-term perspective on its future goals. It serves as a roadmap for executing its strategy.

2) Specify the organisational goals: In this step, the organisation listed the goals and performance standards that must be met. The goals include things like production of goods and services, desired market share, corporate growth, and so forth.

3) Defining the competitive strategy: In this step, the company develops its plan for competing and adjusting to possible market changes.

4) Strategy implementation: This refers to all of the plans and actions that must be taken in order to realise an organization's goals and objectives.

5) Evaluation of the strategy: This last phase is necessary to assess the effectiveness and monitor development.

LEVEL OF STRATEGY

Figure 5

Level Of Strategy

Source: https://www.business-to-you.com/levels-of-strategy-corporate-business-functional/

The three levels at which strategies are created are corporate, business, and functional.

Corporate level: Corporate level strategies essentially determine the general course of the organisation. It involves choices related to choosing a business, establishing goals and missions, allocating resources, making strategic trade-offs, etc. It aims to coordinate the organization's operations. Employee collaboration and change adoption are encouraged by company level tactics. Corporate strategy refers to a certain type of strategy.

1. Growth level strategy: The company implements its growth strategy by breaking into a new industry or market. These tactics are intended to expand the company. Three sorts of growth strategies—integration, intense, and diversification—have been established.

2. Stability strategies: These strategies are designed for consolidating the organisation’s current/ present position and creating a strategic environment. It is conservative and prioritises lowering expenses and boosting revenue.

3. Retrenchment strategies: these strategies try to find out and eliminate the weak elements that are dragging the company down. The business strives to strengthen its market position by getting rid of the unprofitable components. Diversification, turnaround, bankruptcy, and liquidation are retrenchment tactics.

• Divestment: The act of selling a portion of an organisation is known as divestment. When the business is to blame for the company's subpar performance as a whole, this technique is employed. Diversification may be done for a number of reasons, including reduced debt loads, subpar performance, etc.

• Turnaround: A sick call is placed to the business. when a company experiences significant cash flow issues. Such businesses eventually go bankrupt if no suitable steps are done to strengthen their financial situation. This process of recovery is known as a turnaround strategy.

• Liquidation: This is the process of dissolving an organisation and selling off its assets. When the divestiture and turnaround strategies outlined in this plan fail, liquidation will be used.

Diversification

Diversification strategies are used by the firm to expand its business operation. There are mainly 3 types of diversification strategies: concentric, Horizontal and conglomerate diversification.

• Concentric Diversification: this strategy is employed when a business wants to diversify its product offerings. The organisation can expand its current product line with the aid of this method. An illustration would be a computer manufacturer starting to produce laptops.

• Horizontal diversification: This tactic is utilised when a business wants to launch a brand-new product in a related industry. A maker of televisions might begin making mixers, washers, etc.

Conglomerate diversification is the process by which a business enters two or more unrelated industries. The business will keep an eye out for the prospective market. As an illustration, a steel manufacturing company enters the toy manufacturing sector.

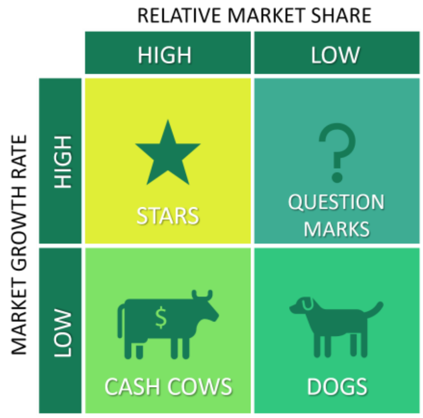
BCG MATRIX (1986)

- The growth-share matrix is its official name.
- It gives an organisation a graphical picture of the various firms so they may identify them based on their relative market shares and growth rates. A firm might be high or low depending on its relative market share and growth rate

- The percentage growth in sales for a given industry is shown on the vertical axis. The company's market rate to the sales of its biggest competitors in the market, or market share, is represented by the horizontal axis as the relative market share.

BCG matrix- Boston matrix
Relative market share: market share of the firm/ market share of the largest competitor

Figure 6
BCG MATRIX



Source: https://www.business-to-you.com/bcg-matrix/

- Stars: This cell denotes a company with substantial market share and growth. It stands for the development stage of the product life cycle. Most businesses adopt the expansion strategy during this stage to build a solid competitive position.
- Cash cow: In this cell, the business earns a lot of money, but it grows slowly. The majority of the businesses in this cell are mature and are benefiting from the experience curve. The business employs stability techniques in this cell. The money made during this phase is invested on stars and ambiguous symbols.
- Question mark: This cell represents high growth but a low market share. To maintain or increase market share during this phase, the corporation needs a sizable quantity of cash. In this case, no one approach could be recommended. Retrenchment may be more advantageous if the company believes it can capture a significant portion of the market; otherwise, expansion methods may be more effective. If enough work is put into it, a question mark situation can become a star; else, it will turn into a dog.
- Dogs: This industry contains companies with a market share and a growth rate. Retrenchment tactics are typically employed during this phase.

GE MODEL/MCKINSEYMATRIX

- The consulting firm McKinsey and Company provided this concept.
- It is also known as a directional policy matrix.
- The horizontal axis denotes market attractiveness, while the vertical axis indicates the strength of the business unit.
- The nine-cell matrix aids in the organization's understanding of the environment and aids in prioritizing investment choices among various business operations.

Market attractiveness: It includes overall market size, market structure, the current size of the market, annual growth rate, etc. Business unit strength consists of market share, production, promotional effectiveness.

Figure 7

GE MODEL/MCKINSEY MATRIX

Source: https://thinkinsights.net/strategy/ge-mckinsey-matrix/

ANSOOF'S GROWTH VECTOR MATRIX

Figure 7

ANSOOF'S GROWTH VECTOR MATRIX

Source: https://www.tractionwise.com/en/magazine/ansoff-matrix-growth/

It was created by H.IgorAnsoff and originally published in 1957 in the Harvard Business Review under the name "product-market matrix." It is employed to determine the direction's expansion. The Harvard Business Review first published it in 1957.

Market penetration: The primary goal is to concentrate on boosting sales of current products to an existing market.

Product development's major goal is to use current products to explore new markets.

Diversification: It focuses on entering into a new market with new products.

Market expansion: Enter a new domestic market and a new international market. Porter advised using one of the three tactics to get a competitive advantage.

• Cost leadership: This strategy aims to bring down production costs in their sector. Its primary goal is to reduce the cost by utilising all aspects of the production.

• Differentiation: The primary goal of these tactics is to set the company's product apart from similarly priced competitors.

• Niche strategies: In this case, the business concentrates on a certain market. It meets market need at the most affordable pricing. They create a competitive edge for this particular niche market and either thrive by being a low-cost product or differentiation inside the niche.

It outlines a corporate strategy in the industry through strategic dimensions and group mapping. Technology leadership, pricing principles, the level of product quality, the choice of distribution channels, and the types of customer service are some of the strategic factors.

Implementing a strategy is the process of putting a plan's tactics into action in order to achieve the desired goals. It covers when, how, and who will accomplish the specified goals. The strategy implementation enables the organisation to allocate tasks to each person, assisting it in achieving its goal. It takes time because it transforms a strategy into action.

Challenges of Strategic Implementation Changes can take many different shapes for a modern firm, such as a new leadership approach, a new sector focus, etc. Strategic planning is always centred on the organization's expansion and development. According to the Harward Business School, 90 percent of businesses fail to carry out their plans successfully due to ineffective resource allocation, lack of leadership conflicts, low morale, poor communication, systematisation, employee non-participation, coordination, and poor management, among other factors.

Program Development Mckinsey 7s Framework: The Mckinsey 7s framework offers guidelines for determining whether or not a firm is positioned to succeed. Rohert H. Waterman and Tom Peters created the framework in 1980.

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