**UNIT IV**

**STRATEGIC MANAGEMENT**

**STRATEGIC MANAGEMENT:** Strategic Management is the process of managing the strategic decision making, implementation and control. Strategic Management is concerned with deciding on strategy and planning how the strategy is to be put into effect. The three elements included in strategy management process are strategic analysis, strategic choices and strategic implementation.

**CORPORATE PLANNING**: Corporate planning refers to the process of planningundertaken by top management to achieve their organization goals.

**MISSION**:Mission is also called overall objective or overall goal.

The mission or purpose identifies the basic function ortask of an enterprises or agency or of any part of its. Every kind of organized operation has, or at least should have if it is to be meaningful, purpose or mission.

Mission is the guiding force for all the activities here. The first step in the process of achievement of the mission is to break the mission in to objectives, strategies and programme have to be formulated and implemented to achieve the given objectives which would eventually lead to the fulfilment of mission.

**VISION:** Vision statement provides strategic decision and describes what the owner or founder wants the company to achieve in the future. A carefully crafted vision statement is at the heart of every successful business.

**OBJECTIVES**: Objectives are the ends towards which activities are aimed. They areresults to be achieved. They represent not only the end point of planning but the end toward which point of planning but the end toward which organizing, staffing, leading and controlling are aimed. While enterprises objectives are basic plan of firm a department may also have its own objectives.

**GOAL**: It goals naturally contribute to the attainment of enterprises objectives butthe two sets of goals may entirely different.

**For example**: The objective of a business might be to make a certain profit byproducing a given line of home entertainment equipment, while the goal of the manufacture department might be to produce the required number of television sets of given design and quality at a given cost.

**POLICIES**: Policy a broad guideline set by the top management for the purpose ofmaking decisions at different levels in the organization, once the corporate objectives are established policies can be formulated organization policy reflects the owner’s attitude to different segments such a creditors the employees, customers and society at large.

**PROGRAMMES**: Programmes refer to the logical sequence of operations to beperformed in a given project based on a set of goals, policies, procedures, rules and task assignments. They are used carry out a given course of action.

**CORPORATE PLANNING**

**CORPORATE PLANNING**: Corporate planning refers to the process of planningundertaken by top management to achieve their organization goals.

The basic steps of the corporate planning process are:

* **Identifying Corporate Mission:** Identify what the organization wants to achieve, to start with. For this purpose, it is necessary that all concerned parties understand the overall purpose of the organization and the methods of attaining them. It is also desirable that they agree on the corporate policies of the organization.
* **Formulate strategic objectives:** By preparing statements of mission, policy, strategy, and goals, the top management established the frame work within which its divisions or departments prepare their plans. It is essential that the members of the organization agree on these given strategic objectives. The strategic objectives thus formulated reinforce the commitment of the members of the organization to achieve the corporate goals.
* **Appraise internal and external environment:** To evolve alternative strategies to achieve these evolve alternative strategies to achieve these goals, a detailed appraisal of both the internal and external environment is carried out. The appraisal of internal environment reveals the strengths and weakness of the firm. The appraisal of external environment reveals the opportunities and threats for the firm. It is popularly called as SWOT analysis capitalizes on internal strengths, make use of best opportunities and beware of the threats in the external environment.
* **Develop and evaluate alternative strategies:** There could be some alternative strategies to pursue a given goals. If the goal is to expand the business, the following could be the three alternatives.

1. Sold new products to the existing product line
2. Finding new markets, a part from the present market territories.
3. Manufacturing within the organization, the components, which were earlier procured from outside.

* **Select the best strategy:** For the firm to be more successful, it is necessary to focus its strategies around its strengths and opportunities. It is a prerequisite that the numbers of the organization agree on the strategic plan. Such a plan, which has been generally agreed upon, is normally considered as the best strategy.
* **Establish strategic business units (SBUs):** It is more strategic to define a business unit in terms of customer groups, needs and/or technology and set up the business unit accordingly. Most of companies define their businesses in term of products.
* **Fix target allot resources to each SBU:** The development of SBUs based on appropriate finding the top level management knows that its portfolio has certain old, established relatively new, and brand new products. Resources should be allocated based on market growth rate and relative market share of SBUs. Here resources mean executive talent money and time.
* **Developing operating plans:** The operating plan explain how the long-term goals of the organization can be met, the corporate plans reveal how much the projected sales and revenue are where the top management finds a significance gap between the targeted sales and actual sales, it can either develop the existing business or acquire a new one to fill the gap.
* **Monitor performance:** The results of the operating plans should be will monitored from time to time. In the case of poor performance, check up with the members of the team to find out their practical problems and sort these out. Also, it is essential to verify whether there are any gaps in formulating the operating/tactical plans.
* **Revise the operating plans, where necessary:** It is necessary to rise the operational plans particularly when the firm does not perform as well as expected. The planes can be revised in terms of focus, resource or time frame.

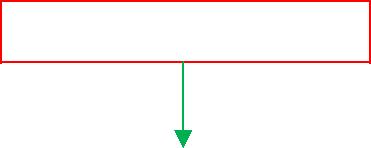
**ENVIRONMENT SCANNING**

**ENVIRONMENTAL SCANNING**: Environmental scanning is a vital part of the corporate planning process. Effective planners try to anticipate what is likely to happen or attempt to influence the environment in favourable directions. This requires long-term strategic vision and commitments to corporate planning.

**ENVIRONMENTAL SCANNING PROCESS**:

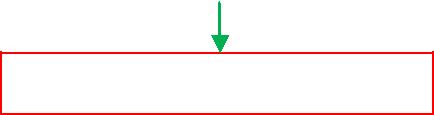
**Environmental analysis**: Refers to the process of analyzing the environment,component-wise or sector-wise to provide a basis for further diagnosis. It interrelates the formation of objectives, generation of alternative strategies, and other related issues.

**Environmental diagnosis**: Comprises the managerial decisions based on theperceived opportunities and threats of the firm. In effect, it helps to determine the nature of the impending tasks to take advantage of opportunity or to effectively manage threat.



Corporate Planning

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Strategic advantage profile



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|  |  | Strength and Weakness |  |
| Opportunity and Threats |  |  |
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**I. External Environment Analysis (Opportunity and Threat)**: The externalenvironment has a profound impact on the business operations irrespective of the nature of the business. The business has to monitor the key forces both in to micro and macro environment. The forces in the micro-environment may be customer competitors, and other

The forces in the macro environment may be demographic, economic, technological socio-cultural, political or legal. All these factors and parties affect the business operations both in the short and long run. These factors can be grouped under three parts of the environment.

1. General environment
2. Industry environment
3. International environment
4. **General environment:** A firm is said to be more effective when its strategy caters to the the needs of the environment. The additional features added to the main product at times could provide a new life to the main product. The corporate units, which realize this, will survive in the long-run. Thus, the major causes of growth, decline, and other large scale changes in firms are the factor in the external environment, not internal development. It includes

Socio-economic sector

The technological sector

The government sector

1. **Industry environment:** It is an important component of the overall environmental analysis as input for corporate planning. Industry refers to the group of firms carrying on similar activity. It has three sectors, customers, suppliers and competitors.

* Customers: The strategist must identify and analyze the customers for the organization locates the potential customers and the emerging changes in their buying pattern. It is necessary to identify the profile of buyers in terms of their needs and preferences based on the basic demographic factors such as age, income size of household and consumption pattern. These factors create the primary demand for products or service and help to scan the geographical environment for potential market and customers.
* Suppliers: Strategist also must determine the availability and costs of supply condition including raw materials, energy, prevailing technology, money and labour. The supplier can influence a firm and its strategy, particularly when the firm is outsourcing its logistic requirements.
* Competition: The strategist moulds his strategy in the light of the competitor’s strategy, the exit or entry of competitors to be analyzed and diagnosed.

1. **International Environment:** The strategy of globalization implies a great source of opportunities and also threats to business firms. Such firms, which an make use of the opportunities, would flourish and those, which cannot gear up, would demise.

**II. Internal Environment analysis and diagnosis**: Internal environmental analysisand diagnosis is a process of analyzing and diagnosing the firm’s internal strengths and weaknesses. By identifying its strength and weaknesses, the firm can strategically exploit the available opportunities, overcome threats, and correct weaknesses placing itself at a competitive advantage.

* **Conducting internal analysis and diagnosis:** Identify first the internal strength and weaknesses. The strength and weaknesses may include the following:

Marketing factors

Research and development

Engineering design & management

Production management

Managerial personnel

Accounting and financial policies and procedures.

* **Strategy advantage profile**: The ultimate result of such a detailed internal analysis tobuild a strategic advantage profile strategic advantage profile is a tool used to evaluate systematically the enterprises internal factors the competitive strengths or weaknesses for each internal area such as marketing, R &D and others.

**SWOT ANALYSIS**

**SWOT ANALYSIS**: SWOT analysis is defined as the rational and overall evaluation of acompany’s strength, weakness, opportunities, and threats which are likely to affect the strategic choice significantly.

**I. External environment analysis (Opportunities and Threats)**: The externalenvironment has a profound impact on the business operations irrespective of the nature and size of the business. The business has to monitor its key macro-environment forces and micro economic parties.

**Opportunities:** It necessary should identify what opportunities are available to it to focus upon. The latest technology, deregulated or free markets, liberalized rules and regulations and other may make a lot of difference for a business organization provided it can envision how to avail these visionary identify opportunities from treats.

**Threats:** Some development in the external environment represents threats. A threat is a challenge posed by an unfavourable trend or a development that results in the loss of sales or profit till a defensive marketing action is initiated. A few example of threat could be outlined as change in government policy such as liberalization privatization and globalization, changing technology changing value systems environmental constraints law and order.

**II. Internal environment analysis (Strength and Weakness)**: It is necessary to analyzeone’s own strength and weakness periodically to sustain the degree of its competitive strength. Generally top management or an outside consultant reviews competencies pertaining to marketing, financial, manufacturing and organizational system and rates each factor as a major strength, minor strength, mental, factor, minor weakness, or major weakness.

**Strength:** It is not necessary that a business organization has to correct all its weakness nor that it propagates its strength. The big question is whether the business should limit itself to those opportunities, where it possesses the required strength or should it consider better opportunities where it might have to develop certain strength.

**Weakness:** Sometimes the company may not do well not because its departments lack the required motivation but because they do not work together as a team for example consider the case of an electronics company which employs engineers, sales and service staff for its operations. It is not adequate if they keep on doing their work. The organization becomes more effective only when they work as a team. It is therefore, critically important to build effective teams and assess the effectiveness of these teams. This is a part of the internal environmental audit. Progressive companies adopt this strategy.

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| Internal Environment | |
| Strengths(S)   * Well established customer base. * Good financial performance. * Availability of skilled workforce. | Weakness(W)   * Worn-out plant and equipment. * Inadequate systems and controls. * Inadequate knowledge of appropriate technology. |
| External Environment | |
| Opportunities(O)   * Large potentials for exports * Encouragement from government in terms of subsidies, lower taxes etc,. | Threats(T)   * Demand fluctuations in the domestic market. * Absence of entry barriers into industry. |

**STRATEGY FORMULATION AND IMPLEMENTATION**

**Introduction:** Strategy formulation and implementation is the crux of the strategic management process. Strategy refers to the course of action desired to achieve the objectives of the enterprise. Managers use strategies for different purposes such as to overcome competition, to increase the sales, to increase production, to motivate the employees and so on. Implementation of strategy is as crucial task as the formulation of it.

Stages in Strategy Formulation and Implementation:

Mission and Objectives

Enterprise Strategists

General Environment

Industry and International Environment

Internal Factors

Generic Strategy Alternatives

Strategy Variations

Strategic Choice

Allocate Resources and Develop Organisational Structure

Formulation of plans, policies, programmes and administration

Evaluation and control

* **Identifying Corporate Mission:** Identify what the organization wants to achieve, to start with. For this purpose, it is necessary that all concerned parties understand the overall purpose of the organization and the methods of attaining them. It is also desirable that they agree on the corporate policies of the organization.
* **Environmental Scanning:** Environmental scanning is a vital part of the corporate planning process. Effective planners try to anticipate what is likely to happen or attempt to influence the environment in favourable directions. Here, we analyse general environment, industry and international environment and internal factors.
* **Generic Strategy Alternatives:** Generic strategy alternatives refer to the strategy alternatives in broader terms. There are four strategic alternatives for any business. They are:

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|  | **Expand** | | **Retrench** | | **Stabilise** | | **Combination** |
|  | **Business Definition** | **Pace** | **Business Definition** | **Pace** | **Business Definition** | **Pace** | **Business Definition** |
| **Products** | Add new products | Find new uses | Drop old products | Decrease product development | Maintain | Make Package changes, quality improvements | Drop old while adding new products |
| **Markets** | Find new territories | Penetrate markets | Drop distribution channels | Reduce market share | Maintain | Protect market shares | Drop old customers while adding new customers |

* **Strategy Variations:** There can be number of variations of the generic strategy alternatives. For instance, if the strategy is to expand, then the alternatives are internal expansion or external expansion.

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|  | **Expansion** | **Retrenchment** | **Stability** | **Combination** |
| **Internal** | Penetrate existing markets, add new products, new markets | Reduce costs, reduce assets, drop products, drop markets, drop functions | Seek production and marketing efficiencies, | Sub contracting |
| **External** | Acquisitions, mergers | Disinvest SBUs, liquidation, bankruptcies | Maintain market shares | Cross licensing, Joint ventures |

* **Strategic Choice:** Here the exact strategy is chosen. Strategic choice involves the decision to select, from among the alternatives, the best strategy which effectively contributes to the business objectives.
* **Allocation of Resources and Development of organisational structure:** The process of implementing strategies includes allocating resources, organising, and assigning appropriate authority to the key managers. The resource allocation decisions such as which department is sanctioned how much amount of money and resources should be taken.
* **Formulation of policies, plans, programmes, and administration:** The resources allocated are said to be well utilised only when they are well monitored. For this purpose, it is essential

1. To develop policies and plans
2. To assign or reassign leaders the tasks and decisions to support the chosen strategy.
3. To provide a conducive environment in the organisation through proper administration to achieve the given objectives directly and indirectly.

* **Evaluation and control:** Evaluation is the last phase of the strategic management process. It is at this stage that the success of the programmes can be assessed. There should be a built-in mechanism to examine the deviations and initiate corrections as and when required. This assures that the chosen strategies will be implemented properly.

**PROJET MANAGEMENT (PERT/CPM)**

**PROJECT:** Project is defined as a set of activities with a specific goal occupying a specific period of time.

**NETWORK ANALYSIS**: It is refers to a number of techniques for the planning andcontrol of complex projects. The basis of network planning is the representation of sequential relationships between activities by means of a network of lines and circles. The idea is to link the various activities in such a way that the overall time spent on the project is kept to a minimum.

**PERT AND CPM**:

**PERT**: Programme evaluation and review technique (PERT) is a tool to evaluatea given programme and review the progress made in it from time to time. A programme is also called a project. A project is defined as a set of activities with a specific goal occupying a specific period. It may be a small or big project, such as construction of a college building, roads, marriage, picnics etc.

It is concerned with estimating the time for different stages in such a programme or a project and find out what the critical path is, which consumes a maximum resources.

**CPM**: Critical path method assumes that the time required to complete anactivity can be predicted fairly accurately, and thus, the costs involved can be quantified once the critical path has been identified. Since time is an important factor, CPM involves a trade-off between costs and time. It involves determining an optimum duration for the project, that is, a minimum duration that involves the lowest overall costs.

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| **PERT** | **CPM** |
| PERT is event oriented. | CPM is activity oriented. |
| It is based on three time estimates: optimistic (to), most likely (tm), and pessimistic (tp). | It is deterministic. Here, time estimates are based on past data. |
| PERT terminology includes network diagram, event and slack. | CPM terminology includes arrow diagram, nodes and float. |
| Time, in PERT, is not related to costs. Hence, it is more applied where pressure on the end results is meaningless. | Here, time is related to costs. It can be advantageously applied where there is a need to complete the projects within a given deadline. |
| Suitable especially in defense projects and research and development. | Suitable for problems in industries settings, plant maintenance, civil construction projects. |
| It assumes that all the resources (men, money, materials, and machines) are available as and when required. | It is more realistic. It considers the constraints on the resources. It provides information about the implications of crashing the duration of the network and the consequent additional costs. |

**PERT BASIC TERMINOLOGY**:

**Event:** An event is specific instant of time which indicates the beginning or end of the activity event is also known as a junction or node. It is represented by a circle and the event number is written with in the circle.

Tail event Head event

Predecessor event Successor event

**Activity:** Every project consists of number of job operations or tasks which are called activity.



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| **Ex**: Start machine installation | | - | An event |
|  | Machine installation | - | An activity |
|  | Completion of machine | - | An event |

**Dummy Activity:**  This is an activity drawn to show clear logical dependences between activities so as not to violate the rules for drawing networks.

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**Network:** This is the combination of activities, dummy activities and events in a logical sequence.

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**Critical Path:** Critical path is that path which consumes the maximum amount of time(longest path). It is that path which has zero or minimum slack value.

**Slack:** Slack means the time taken to delay a particular event without affecting the project completion time. It is a measure of flexibility.

**Slack= TL-TE**

**TIME ESTIMATES IN PERT:**

* **Optimistic Time Estimate:** It is denoted by to. It refers to the minimum time the activity takes.
* **Pessimistic Time Estimate:** It is denoted by tp. It refers to the maximum possible time it could take to complete the job.
* **Most likely Time Estimate:** It is denoted by tm. It lies between the optimistic and pessimistic time estimate.

**AVERAGE TIME:** It is denoted by te.

te= to+4tm+tp

6

**RANGE**= (tp-to)

**STANDARD DEVIATION**= tp-to

6

**VARIANCE=** (tp-to/6)2

**Project Management – II**

**PROJECT CRASHING**: In this chapter, we will discuss the concepts of direct andindirect costs, the relationship between project time and project cost, the concept of cost slope and how the optimum cost and optimum duration are ensured for a given projects while crashing.

**PROJECT COSTS**: Costs associated with any project can be classified into twocategories

a) Direct cost b) Indirect cost

**a) Direct cost:** These costs are those, which are directly proportional to the number of activities involved in the project Ex: Raw material cost

b**) Indirect cost:** In direct cost are those costs that are determined per day. Some of examples for indirect costs are supervisory personnel salary, supplies, rent, interest an borrowings, ads, depreciation. These costs are directly proportional to the number of days of the duration of the project. If the project duration is reduced the indirect cost also comes down.

**Normal cost (Nc)**: It is the lowest cost of completing an activity in the minimumtime, employing normal means i.e. not using overtime or other special resource.

**Normal time (NT)**: It is the minimum time required to achieve the normal cost

**Crash cost (CC)**: It is the least cost of completing an activity by employing allpossible means like overtime, additional machinery, proper materials etc.

**Crash time (CT)**: It is the absolute minimum time associated with the crash cost.

**Cost Slope**: Cost Slope is the amount that has to be spent over and above thenormal direct cost for reducing the duration by one unit of time (day, week etc.). Cost slope is defined as the additional cost for reducing one unit of time, assuming a given rate of increase in direct cost with a decrease in one unit of time.

**Crashing of Network**: After identifying the critical path, it is necessary to identifythe priority to crash the activities by calculating the cost slope. Crashing is done for reducing the duration extra expenditure to be incurred, but to save resources, organizations keep this extra expenditure at a minimum.