

# Strategic Management-The Competitive Edge

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Module No. # 01

Lecture No. # 03

## Strategic Management Process - 01

In the last session, we have discussed important definitions. They are the definitions which really go into the strategic management process and we will just have a recap of these definitions.

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**Important Definitions**

**Strategic Management Process**  
The full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns

**Strategic Competitiveness**  
Achieved when a firm successfully formulates and implements a value-creating strategy

**Above-Average Returns**  
Occurs when a firm develops a strategy that competitors are not simultaneously implementing

**Provides benefits which current and potential competitors are unable to duplicate**

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The strategic management process refers to the full set of commitments, decisions and actions required for a firm to achieve strategic competitiveness and earn above average returns.

Some explanation further on this term is used: strategic competitiveness is achieved when a firm successfully formulates and implements a value creating strategy. Then, what is an above average return? An above average return occurs when a firm develops a strategy that competitors are not simultaneously implementing; it provides benefits which current and potential competitors are unable to duplicate.

I gave you some examples in the last class on each of these. We took the example of a well known razor manufacturing company - that is Gillette; it has come out with its new product that is the Mach 3. The Mach 3, according to the company uses a triple blade technology. This triple blade technology, which can be according to the company, harsh on the beard and it can in fact come down - come down very harsh on even the toughest of beards. This technology which the company has developed and brought out in the form of a product, the competitors are not able to duplicate.

This is a value creating strategy for the company and it has resulted in more than above average returns for Gillette. This product is still sustaining in the market with good success.

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So, the other definitions which we discussed are the risk - what is risk? Risk is an investor's uncertainty about the economic gains or losses that will result from a particular investment. I gave you the example of an individual investor being attracted by

many advertisements to invest in the IPO of several companies which are coming out with their new IPOs.

The investor should understand that there is a risk element always involved in spite of the companies having the long history of operations in the same field as well, because the future cannot be predicted with certainty.

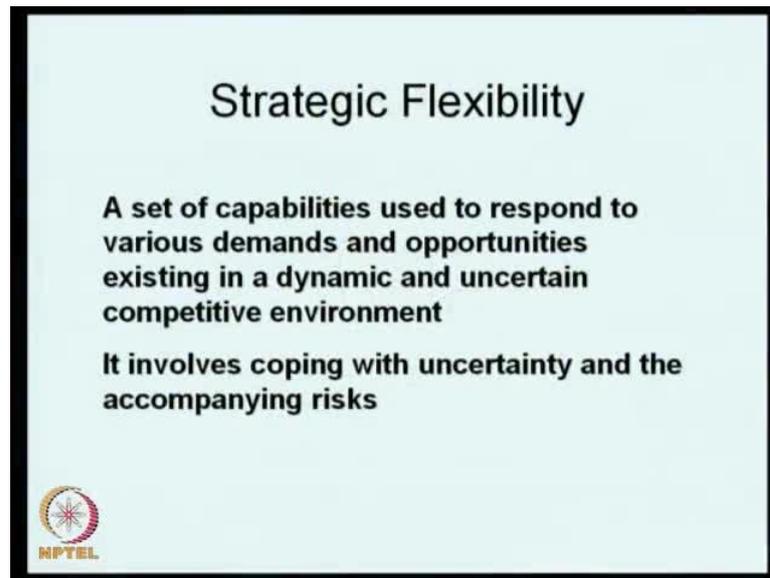
Then, the next definition we discussed was average returns; average returns refers to returns that are equal to those an investor expects to earn from other investments with a similar amount of risk. Suppose an investor invests his money in a bank, let us say a fixed deposit and gets about 7 percent interest, the risk that is involved in getting that 7 percent interest for the investor is almost negligible.

Now, suppose a company wants the investor to invest his money in the company; even in the company fixed deposits there is a certain amount of element of risk that is involved. Suppose for the ill luck or the misfortune of the investor, let us say the company is not able to perform according to expectations; first, it may not pay the interest on the fixed deposit; second, it may so happen it may not be in a position to return the principals also regularly. This happened to a well known finance company in the country, which was promoted by a well known manufacturing company.

The company that I am referring to is the Ceat financial services, which were promoted by this well known tyre manufacturing company, Ceat. So, the result is it was not able to pay its depositors not only the interest but also the principle. In fact, it went to the arbitration court and requested the court to allow it to pay the deposits over a certain time period, say 5 years, 3 years to 5 years and said we will repay the deposits over these 3 to 5 years period at 20 percent, 25 percent like that, all these things.

In fact, many of the depositors who have deposited in the Ceat financial services are still getting these types of returns at this 20 percent or 50 percent as agreed by the court and it has been accepted by the company, even now. This brings you to the point that an investor would be interested in investing his money in the company provided he is assured of a higher return than a bank where minimal interest is where he can get a reasonable rate of interest with minimal risk. Then, we looked at the strategic flexibility.

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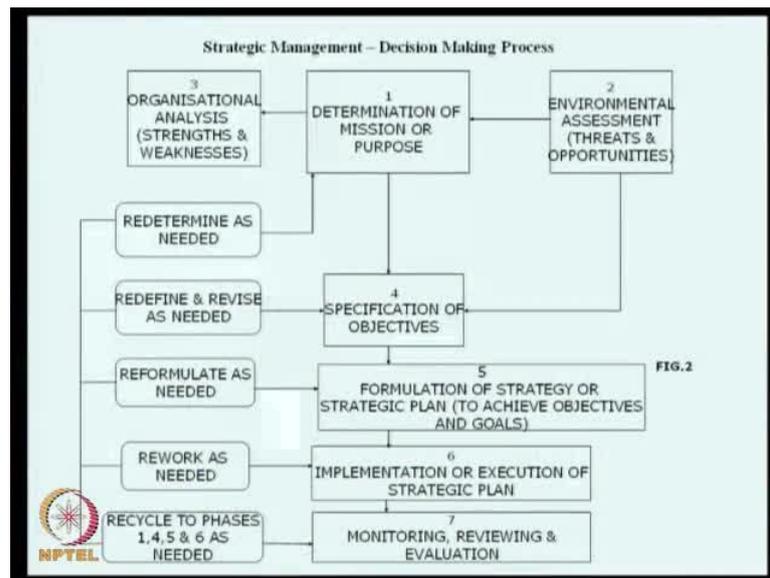
The strategic flexibility refers to set of capabilities used to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment. What you should appreciate in the present day context? It is that companies are operating in a highly dynamic environment. In fact, they are not very sure of the next quarter - what is going to happen? In these types of uncertainties, what are the companies trying to do? They are more relying on guidance, so this guidance is the one which suggest to the companies, the next quarter may be changing in this particular manner.

What does this involve? It involves coping with uncertainty and accompanying the risks, what does it mean? Sometimes, it may happen to the ill luck of the company things; it goes wrong and when it goes wrong **everything**, that is, the strategies misfire. When the strategies misfire, the results are there for the discerning public; that is, the performance of the company comes down. So, like our Indian cricket team which lost the first test against South Africa just now, concluded yesterday. Where did their strategy misfire? The strategy misfired because it relied on a new middle order - a new inexperienced middle order to replace its experienced middle order and that was a very high price to pay. Second, it relied on a bowling attack which was proved to be ineffective in different tests earlier. So again, a bowling attack which could not really take the opposition wickets and a middle order which could not sustain itself, the result is, you had a team really coming down in two innings in two days.

So, this is what a risk of a wrong strategy is. What do you mean by taking wrong strategic decisions? With respect to organizations, also strategic decisions as I mentioned to you, they are not taken day by day; that is, it is rare and you do not take them day after day. The consequences of taking these strategic decisions are quite high, because you are committing the resources of the organization - a good amount of resources of the organization.

These strategic decisions also involve for the organization a sense of direction, what do you mean by that? That is, it can tell the next decision maker, what is the type of decision that was taken by the strategic decision? That was taken in that particular scenario and what was the type of results which were obtained? Whether, it is wise to take the same decision or a different decision?

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Now, with all these inputs, again we go into this strategic management decision making process. Kindly look at this diagram; what does this diagram have? If we see this diagram - this diagram is arranged in the form of blocks. Look at block number 1; this block number 1 stands for determination of mission or purpose, what do you mean by this? It means, why did the organization come into being? Why should this organization be brought into existence at all?

So, take the example of Indian telephone industries. This was the first public sector undertaking to be started by the independent Indian government. What was the purpose for which this organization was started? To fulfill the telecommunication needs of the country, so this is the purpose. This organization was having this mission or purpose to fulfill the telecommunication needs of the country.

(Refer Slide Time: 13:22) Come to block 2, what does this block 2 mean? It means environmental assessment that is threats and opportunities; what do we understand by this? Environment means, the business environment in which the organization is functioning. We are looking only at business environment; kindly keep that in your mind.

So, the business environment in which the organization is functioning. what do we understand by the term threats? Threats refer to the number of competitors already in the existing business. Suppose in 1948 when this company - Indian telephone industries was started, if you looked at this block - environmental assessment, threats and opportunities applied it to I T I, how did it look like?

Threats, how many companies were manufacturing this telecommunication equipment in the country immediately after independence? The answer that you would get is practically 0; that is, the company - Indian telephone industries was in fact a monopoly player, it was entering a monopoly market; so, whatever it said was the last word in a telecommunication market in the country.

Then, what about this opportunity? Opportunities that is presented for the telecommunication market is simply unimaginable - huge, so without communication you really do not have anything in the market place, of course this scenario has undergone a sea change as we have moved from 1948 to 2010. So, you have the mobile communication, you have the e-commerce, you have the e-business, all these are different forms of communication changes, which have taken place due to technology changes (Refer Slide Time: 15:59).

Now, come to the third block that is organizational analysis strengths and weaknesses. The organizational analysis strengths and weaknesses; suppose we apply to a company like I T I again, what is the strength of I T I? At the point of its inception, the strength of

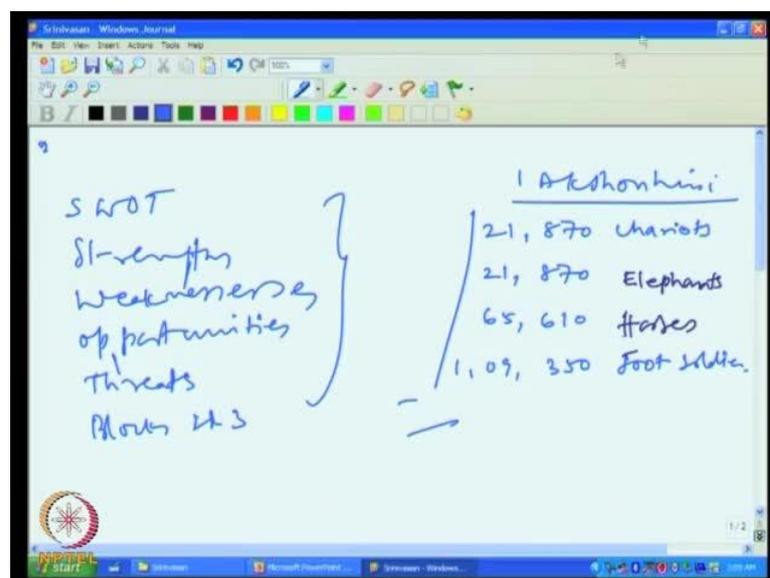
I T I was its technical man power. The technical man power that was infused into I T I to come out with telecommunication products was its strength.

At the time of inception, I T I had in fact sky as the limit for its operations and practically, saw no weakness. It had a real blank check from the central government that is the first Indian government to start its operations the way it wants and the government committed the resources. So, you had only full strengths for the company and weakness which was almost 0. So, a company started with s and w was 0.

Now, come to the 3 blocks, put together; that is, 1, 2 and 3. (Refer Slide Time: 17:29) When you look at these 3 blocks together what does it tell you? The organization is in the center; that is, it has been created for a purpose. You have a block 2 and you have a block 3, what does the block 2 tell you? The block 2 assesses the threats and opportunities, the block 3 looks at the strengths and weaknesses. So in other words, the block 2 looks at the outside environment of the organization or the external environment for the organization.

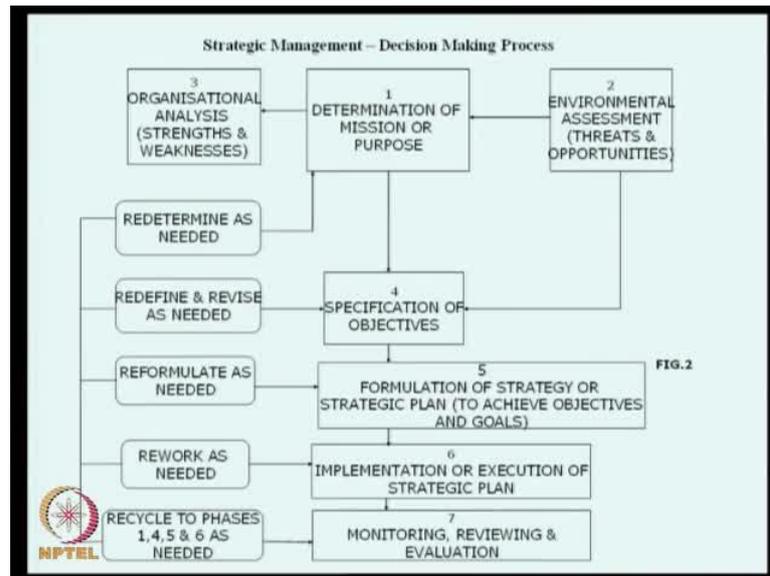
What does block 3 look at? The block 3 looks at the internal environment of the organization or within the organization. So, this block 2 and block 3 put together, what does it tell you? It comes out with what we call in strategic management, this SWOT analysis.

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SWOT stands for strengths weaknesses opportunities and threats. Now, these were the one which came out of blocks 2 and 3 in our diagram. So, this is the example which I gave you in the first class, to give you what does an akshouhini consists of; you just keep that as such.

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Now, come back to this particular power point, the slide what we were discussing? So, if you see what is happening, we looked at block 2 and block 3. This block 2, block 3 is the one which tells you about the threats and opportunities, and then about the strengths and weaknesses of an organization. We looked at or we considered this by using the example of I T I, why do we do this? We want to do this to find out what should be the objectives of the organization.

In other words, this 2 and 3 helps to find out what should be the specification of objectives for the organization. Suppose it so happens that the specification of objectives requires changes in the light of 2 and 3 then what do we do? We say redefine and revise as needed. Suppose we want to change this, then we say we redefine and revise this objective as might be needed.

What do you mean by as might be needed? This might be dictated by the dynamic business environment, which is pervading at that particular point of time, so you may

change your objectives according to the dynamics of the environment. Similarly, the specification of objectives will help you to formulate this strategy or the strategic plan.

Why are we formulating this strategy or strategic plan? It is to achieve the objectives and goals. Now again, suppose the dynamic environment requires you to reformulate them, this block on the left tells you reformulate as needed. Then, similarly, the block number 6 tells you after this strategic plan is formulated implementation or execution of the strategic plan; in other words, implement that strategic plan.

So, in the implementation of the strategic plan itself you may find so many bottlenecks, you may find so many hurdles in implementing the strategic plan. Some of the steps that you executed you may find they are not really implementable in the actual context and then what do you do? You have to rework your strategic plan, so in other words the strategic plan requires to be reworked. This is a block which gives you on the left side rework as needed (Refer Slide Time: 22:38).

Now, come to the seventh block. The seventh block is as a result of all the fore going blocks, what does it tell you? The implementation or the evaluation of the strategic plan also requires a very important component; that is, you have to monitor that implementation, you have to review that implementation and you have to evaluate that implementation.

Now, all this will help you to recycle to phases 1, 4, 5 and 6 as needed. In other words, you may come to a situation, where the purpose of the organization itself you may like to re determine as needed, so this is something extraordinary when you look at it. So, a strategic decision making process may force the organization even to look at its purpose itself, why did it come in to being? Whether that purpose is the right one or whether it has to be reworked?

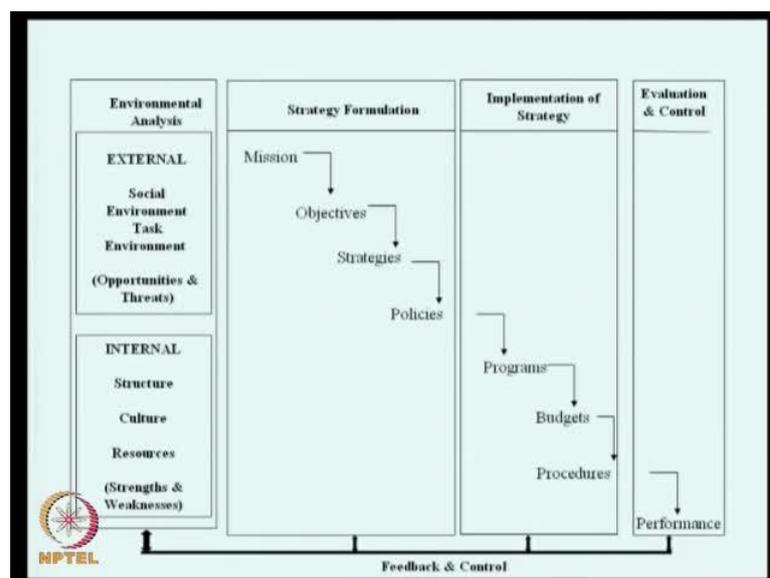
So, all the 7 blocks put together along with the blocks on the left side (Refer Slide Time: 24:07). Where we say redefine, revise, reformulate, rework, recycle and then re determine as needed for the mission or the purpose of the organization. All these form together as what we call the strategic management decision making process.

Just to give you in a very small nutshell, this strategic management decision making process has got 7 blocks (Refer Slide Time: 24:52). The most important crucial block in this is the 2 and 3, where we look at the evaluation of the threats and opportunities and also the analysis of the strengths and weaknesses of the organization. The threats and opportunities refer to the environment, this we normally refer to in strategic management as the SWOT analysis.

The next 4 blocks, which I mention to you is the specification of the objectives, the formulation of the strategy or the strategic plan, then the implementation or execution of the strategic plan and then the monitoring review and evaluation. All put together forming the strategic management decision making process. Along with these blocks, on the left side, you may require redefining or revising or reformulating or reworking or recycling or re determining as needed.

So, this is an important figure in strategic management, which you may like to go over again (Refer Slide Time: 26:16). Now, what is the main inference that you can draw from this figure? The main inference that you can draw from this figure is that this figure has been drawn using blocks. Now, suppose I wanted to draw the figure in a different manner, not using the blocks, what is the method by which I can draw or bring out the same strategic management decision making process in an organization?

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Otherwise, this is brought out to you in the next diagram; this is what is called the step and ladder approach. So, in the step and ladder approach you see several steps here and when you go from the bottom you look at it as a ladder. So these are the steps, this is the ladder. You have three-fourth of the compartments which is given to you, but basically the components of the compartments have not undergone any great drastic change compared to the block diagram that we discussed, kindly note that.

So, if you look at block number one you have environmental analysis, external and internal. External again refers to the opportunities and the threats, where some more insights are provided that is social environment and then task environment. What do you mean by social environment? A social environment refers to the society in which the organization is functioning. An Indian organization functions in the Indian society, the society put some obligations on the organization, so the organization has to be aware of those obligations, it cannot be turning a blind eye to them.

What could be an example for this? Take the working conditions for women in organizations; an organization has to provide certain facilities for its women employee. What are the types of facilities which an organization is expected to provide? It has to provide something like a crush, where the children of the women employees can be looked after when the employees are working in the organization or the factory or whatever it is.

Then some additional facilities for their medical care, not only for the women employee for also for the children. These are tasks which are enjoined on the organization concerned. What is the task environment? Task environment is nothing but the business environment in which the organization functions; it has to look at how many players are there in the market? What is the type of market in which it is functioning, whether it is a monopoly market or oligopoly market or is it or a duopoly market, how does it really formulate its strategies?

Internally, it has to look at the structure, the culture and the resources; what do you mean by culture? This is one aspect in which our country prides itself; that is, we have a culture which dates back to more than 5000 years old. We have a certain respect for our elders because of their age and experience. We have respect for women to be exhibited. All these things are to be followed or are to be shown in organizations also.

In other words, you have to be a caring employer not an uncaring employer. So, these are some things which organizations strive very hard to bring it into their work culture, so this is what we call as work culture.

(Refer Slide Time: 31:10) Now, come to the second block that is a strategy formulation. Kindly note that we have the changes between the block diagram and this diagram, these are not really drastic. You have the purpose for which the organization came to be this, leads to what is called objectives; in other words formulation of objectives. This leads to what is called the next stage; that is, the strategies; that is, in order to achieve the objectives you formulate strategies.

In order to implement these strategies you formulate policies, how do you implement these strategies? So you formulate policies for them. Next, you enter in to the implementation stage per say. When you come to the implementation stage per say you draw up the programs for implementation of the strategy. So in order to implement the strategies you formulate policies and then you come to the implementation stage itself, where you have the programs for implementing the strategies.

So, when you drop the programs for implementing the strategies the next stage is budgets that are committing the resources of the organization; this much of resources for the implementation of this strategy. Then the next step is the procedures, what do you mean by the procedures? How should actually be this budget be made use of? What is the method of making use of budget? An organization has got several procedures, let us say you want to make a travel from place A to place B, you should have a travel requisition to be made out depending on your eligibility.

The organization may say you go by this mode of transport, whether it is the train, bus or the air. Then depending on your eligibility the organization might also tell you that you are eligible to stay in this type of hotel or guest house. This is the T A that is the travel allowance eligible to which you are eligible; this is the daily allowance to which you are eligible; make yourself comfortable with this daily allowance; this is the type of things. So, all this comes under procedures.

Similarly, what could be another example of the procedure? Let us say you have vendor supplies materials to an organization, when the materials are supplied to the organization

then organization takes the materials to stock, but it may like to check the quality of the materials before releasing the payment (Refer Slide Time: 33:53). Now, this method has undergone a lot of change. Take for example, the organization Mico now known as Bosch. What is the type of changes that it has undergone? Now, this company says that the vendor is responsible for the quality of the product that is being supplied; it wants to absolve itself of the quality checks, so it wants to tell the vendor you are responsible for whatever you are supplying.

Now, you may ask the question what happens if the vendor is found wanting in quality? Then immediately that vendor will be blacklisted by the organization concern. In other words, the owner is put on the vendor, so the organization says you do the quality check at your place 100 percent. In any way my production process should not be affected by lack of quality or inferior quality of materials, which you supply. Suppose it was to happen, then we are blacklisting you. So, blacklisting is what do you call a high dent, which will cost on this supplier organization and the supplier organizations are extremely careful on this note.

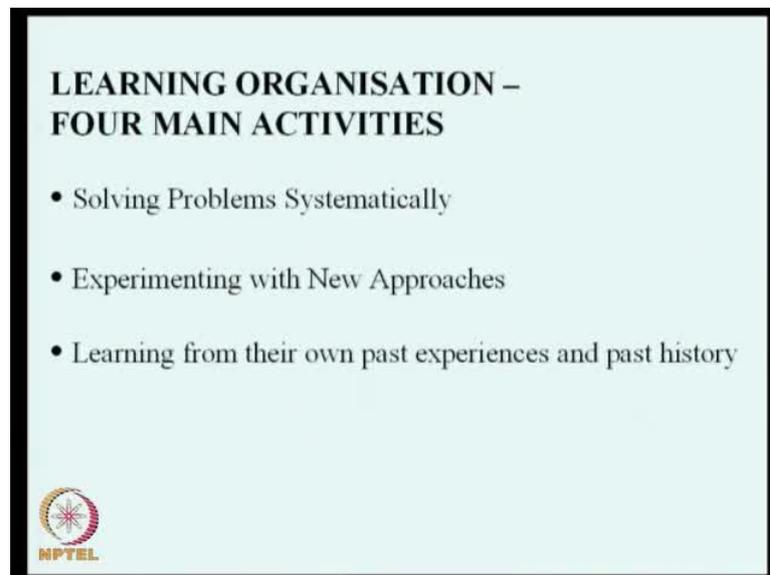
Now, the next question is, fine you put this owner on the organizations which are supplying these materials all right, but what does this vendor organizations get in return? Take the same example which I gave you. This organization, as soon as the vendor supplies these material 100 items, the item number 1, quantity supplied 100, the person immediately takes it to stock, one other person mix out the check. In the present day circumstances, it will be electronically credited to the account of the vendor organization, so that is the extraordinary speed with which remittances are taking place in organizations in the country. What could be a better example than Bangalore? Where you have the hub of the I T industry, you have top class manufacturing and other electronic industries also.

Now, we come to the last block that is the evaluation and control (Refer Slide Time: 37:10). The evaluation and control, what are we really looking at? We are looking at the performance of all these things which we did in blocks 2 and 3; that is, we formulated the strategy, we implemented the strategy. Now, we want to know what has been the performance. So this is the last step.

So, if you see these steps, if you go down, you are going in the form of steps mission to objectives to strategies to policies to programs to budgets to procedures to performance. Now, below all this is running, this bottom line that is the feedback and control, this feedback and control is in fact applicable for all the blocks; that is, it is applicable for evaluation and control, it is applicable for implementation of strategy, it is applicable for strategy formulation and it is also applicable for environmental analysis. What do we mean by this? It is also applicable for environmental analysis, because the environment is dynamic. Sometimes the steps we took for assessing our internal environment suppose it needs to be changed and all these things have to be brought out.

So, this is the underlying block or the line which goes through all the blocks; that is, a feedback and control (Refer Slide Time: 38:48). Together this forms again the strategic management process and brought out to you in the form of a step and ladder diagram. So, the previous diagram was bringing out the strategic management process in the form of blocks. The present diagram brings out the strategic management process in the form of steps and ladder; this is called the step and ladder approach to the strategic management process.

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We go further; we saw some terminologies which are coming in as we have progressed. So, as I mentioned to you in the first class, this term strategy was formally used by this gentleman Haines Loughead when he was working in this Lockheed Aircraft Corporation

in the year 1965. So far, first time in the country; that is, in our country we started implementing the corporate plan in 1974, the company which did this was the Bharat Heavy Electrical that is BHEL.

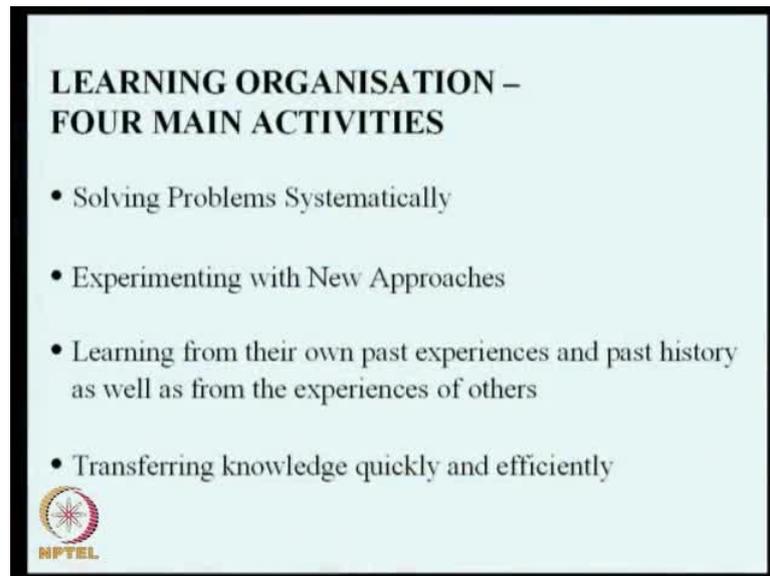
Now, over these 35 to 36 years so many changes have taken place; that is, the corporate plan has given way to strategic management. The strategic management has come through different process stages. What I gave you was putting all these process stages in the form of two figures, the first figure in the form of blocks and the second figure in the form of step and ladder.

I tried to present you some examples from the live situations. Let us say, we took the example of Indian telephone industries when it started down to the new organization. The Bosch, how does the types of changes that have taken place and also tried to explain the strategic management process.

Now, what has resulted in all this? Or what has resulted through all this? What has resulted through all this is that the organization is also learning through all these processes. It says we did this at this point of time, whether it is a right thing. Now, if it is not the right things, how do we correct this? So in the present day organization, in order to sustain itself, it has to be a learning organization. So, the present day organization has to be a learning organization.

So, what are the characteristics? Or what are the features of this learning organization? What is the type of activities it is going to perform? So, this is what I am going to present to you in this slide.

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A learning organization performs four main activities. The first one is solving problems systematically; this is very important. Do not solve a problem in a haphazard manner. This is what we discussed when we were looking at the decisions in an organization; that is, the strategic decisions. When we looked at those strategic decisions, we said; suppose we took those strategic decisions with care and we implemented them properly, it is likely to result in success. It resulted in success in the past; it is likely to result in success in the future.

In other words, what does this mean? A systematic approach is likely to pay dividends, so an organization should have a systematic approach not a haphazard approach to solve problems. The second activity, it should not be ours with new experimenting, with new approaches. I give you a very simple example, if you really look at the country about the late 70s or the early 80s, up to mid 80s, let us say, what were the two brands of cars which were there in the Indian market? The Indian market was exposed to two brands of cars, the first car was the Ambassador and the second car was the Fiat. Of course, some name changes like Premier Padmini all those things came, but basically the Ambassador and the Fiat.

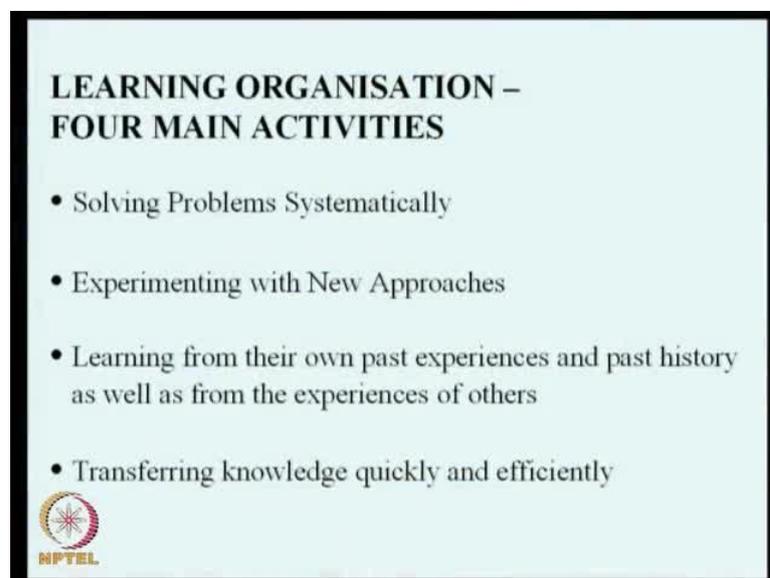
Now, this Ambassador and the Fiat, if you really look at it, how did this ambassador and fiat really worked out in a family? If you see, you had the ambassador passed on from perhaps the grandfather to your father, from your father to you and then from you

perhaps to your son. The family used to pride itself by saying this is the car which was used by my great grandfather.

Fine, but unfortunately, what is the negative point in this whole process? Over the years, the technology has changed to such an extraordinary extent; your good old ambassador has not been able to incorporate all those technologies in its new product line. Now, what does that mean? In other words, in a market, which is dynamic, you should be prepared to give up sentimental values.

So, you should be prepared to say this product is not working. If this product is not working, if this product is a failure in the market place, you should be prepared to discard the product or the product line. You should say, for some reason we have not been able to come out well with this particular product, so just give it up. In other words, the organization should be willing to experiment with new technologies, should be willing to experiment with new products and should be willing to experiment with new markets in order to assert itself in a market place.

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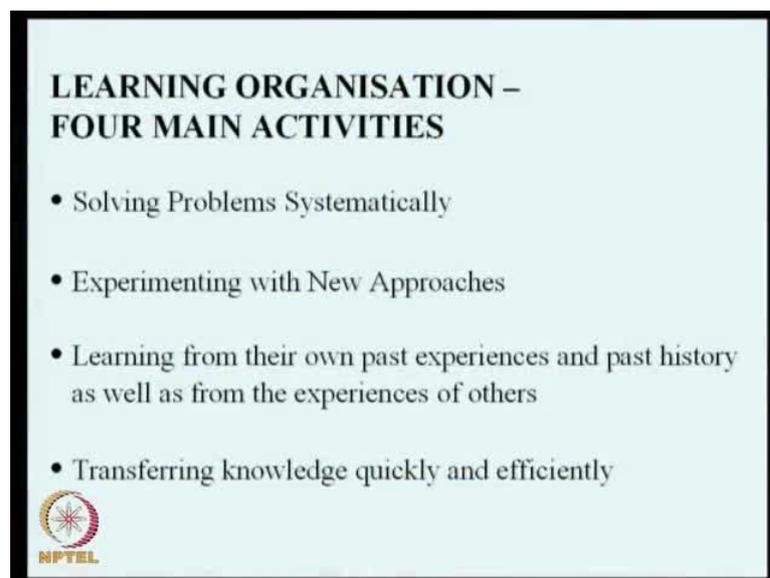


The third one is learning from their past experiences and past history. What does that mean? When the organization introduced its products, it may so happen that it has gained certain amount of experience. So, when you introduce a new model of the automobile you introduce it into the market. The market might provide you with a lot of feedback

saying that this model is having all these inadequacies. So, what is the type of example that you can think of, so you have this electric charge vehicles.

One of the market feedbacks which the market is giving to the company is that this charge is a sustainable only for this many kilometers. Suppose I want to have a longer drive this charge is not going to sustain. All this past experiences and past history should enable a company to come out with a winning product and a winning combination. It should also learn along with its past experience and past history, the experiences of others. That is, some others have to come out into the market earlier than you, with products some of them are successful and some of them are not successful. Why they were successful and why these failed, all these should be brought out.

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The last one is what is called transferring knowledge quickly and efficiently. You have gained certain amount of knowledge throughout this exercise of making this products or product line. There is no point in keeping that knowledge only with you, this should be disseminated throughout the organization and this is what is called in the present day context the knowledge management and the knowledge sharing.

This knowledge management and knowledge sharing is happening in different places that is you may be in place x, but you may be sharing your knowledge experience or knowledge with a person in place y; it may be in the same country or in a different

country. You may be even sharing your knowledge in a virtual organization; that is, the organization does not really exist in reality, but it virtually exists. You want to find out what is going to happen in all these are called simulating organizational environment. So, this simulating organizational environment is the one which knowledge management has brought out in the present day context.

So, a learning organization should be able to transfer the knowledge it gained from the different products or the product line experiments quickly and efficiently throughout the organization. You should not be holding back information. So, many times, we use to wonder; or many times, we have wondered that Suppose all the knowledge that was there in our epics was transferred to the next generations, may be, the country would have brought out better defense equipment much ahead of the so called developed countries.

In other words, not only an organization can be a learning organization, we can also have a learning country as well. So, we stop here for this particular session, so just giving you back on the learning organization. Learning organization has got four main activities; that is, solving problem systematically, experimenting with new approaches, learning from their own past experiences and past history as well as from the experiences of others, and lastly, transferring knowledge quickly and efficiently throughout the organization; thank you.