COM 401 UNIT I

STRATEGIC MANAGEMENT

Introduction

Strategic management is the latest addition to the management disciplines. It is about success and failure about the ability to plan wars and win them. Effective strategic management can transform the performance of an organization make fortunes for shareholders or change the structure of an industry. Ineffective strategic management can bankrupt companies and ruin the career of executives. Strategic Management is an area that hovers around the word 'strategy' which ranges from making to implementation to control with the aim of leading an organizing in the battlefield. The entire management is about creating a corporate that is widely recognized and well-positioned in the minds of the customers and to be an example for others to follow. The area of strategic management is considered as "a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance". The foremost thing that is required for the purpose is the need to have knowledge of the environment (both outside the organization and within it). Hence, we have situational analysis as an important step in the management process.

The theme strategic management is about creating an organization which is always ready to tap opportunities and mitigate threats by using its strengths and removing its weaknesses. It is about creating plans for both predictable and unpredictable circumstances. It is about setting objectives, drawing the route and pursue it for attaining the targets in the short-term and in the long-term. Strategic management is process that should be systematic and be continuous in use so that it is always able to monitor the organization and modify strategies as required. It is an area of management which is focused on the general directions and long term policies of the business as distinct from short-term practices and may be defined as its long term objectives and the general means by which it intends to achieve them.

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry. Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the

firm's performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn't ignore the threats.

Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage. It is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving. Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved, evaluates its competitors and sets goals and strategies to meet all existing and potential competitors and then reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task.

Decision situation and types

In the book authored by Sun Tsu, "The art of War", the aim of a strategy is defeating the enemy by fighting as few battles as possible. He defines priorities for gaining advantage as our adversary. The highest priority is to foil the enemy's plots followed by to ruin his alliances, to attack the enemy and finally to besiege his castle. In his view, strategy is as much avoiding battles as it is fighting them.

In the case of organizations, decisions have to be taken on a routine and non-routine basis to manage the affairs. Decisions have to be taken in a variety of situations which fall into three categories:

Decision under certainty: It is rarely seen. In this situation, all information are known and the decision-maker is also sure about the results from the different options.

Decision under uncertainty: In this situation, the decision-maker does not have any information and has no idea about the options and their outcomes.

Decision under risk: This is the situation which is most commonly seen in which the decision-maker is capable of assigning probabilities to the different likely situations and the outcomes. Hence, this is a probabilistic situation.

Types of decisions: Strategic, Operational and Tactical

For running an organization, decisions are of various types and the variety arises in terms of scope, importance, criticality, risk etc. The table below highlights the features of the different decisions and therefore shows a comparative analysis of the decisions.

Point of comparison	**Strategic Decisions**	**Administrative Decisions**	**Operational Decisions**
By whom?	Top management	Administrative heads	Functional managers
Time frame	Long-term	Regular	Frequently taken.
Impact on the organization	Long-term	Short-term and Medium term	Short-term
Basis of decisions	Long-term goals	For smooth functioning of organizations	For effective functioning of functional areas

Area of concern	Organizational growth	Welfare of organizational members	For smoothness of running the operations

Concept of Strategy

Some of the definitions of the term strategy are presented below:

According to Chandler strategy can be defined as "the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

Kennoth Andrew defined strategies as the pattern of major objectives, purposes and goals and essential polices on plans for achieving those goals stated in such a way as to define what business the company is in and the kind of company it is or is going to be .

Anthony defined strategic planning as the process of deciding the objectives of an organization and on their changes and changes in the in resources and the policies used to govern the acquisition use and disposition of these resources.

According to Kenneth Hatten strategic management "is the process by which an organization formulates objectives and manages to achieve them". Strategy is the means to an organizational end it is the way to achieve organizational objectives.

Strategy is therefore an interpretative plan formulated to give meaning to other plans in the light of specific situations. Strategy gives direction to the organization by steering it as required in changing circumstances. It is the long-term plan that not only creates a fit between the internal and external environments but also helps in generating a competitive advantage. It is however, to be noted that the effective formulation and implementation of the strategy entire depends on the capability of the organization. It is a long-term plan which helps an organization to pursue its goals in the fast changing, volatile, uncertain, complex and ambiguous environment.

What should a good strategy specify?

A good strategy specifies some facets which include the following:

What is to be achieved?

How it is to be achieved?

How resources will be garnered?

How resources will be utilized and managed?

How resources will be used to meet product targets and geographical targets?

How competitive advantage will be generated?

Components of strategy

Any strategy has the following components

1. Scope which points to the breadth of a firm in respect of industries, products, markets.
2. It should mention the long-term goals.
3. This long – term plan gives an idea about how resources will be collected, distributed and managed. It is about allocation of the resources across businesses, product/markets, departments and activities.
4. Creation of a sustainable competitive advantage which will help to continue to be in an advantageous position in the long-term.
5. Synergy which is about creating such a system which will generate an output which is more than those of the individual parts.

Components of a Strategy Statement

From the above paragraphs, it is evident that strategy plays an important role since without strategy the existence of the organization becomes meaningless. The strategy that is designed comes up with the aim of fulfilling the long-term goals. The plan gives a direction to the entire organization. The main constituents of a strategic statement are as follows:

Strategic Intent

An organization's strategic intent throws light on the intention/purpose of an organization. It is well explained in terms of:

- Where it wants to see itself in the future?
- Why is it doing business?

Strategic intent gives a snapshot about what it should invade into in order to realize its dreams which are yet to be fulfilled. Strategic intent is different from strategic fit because the former is related with creating new resources to exploit or take advantages of future opportunities, whereas

the latter is about channeling and coordinating the available resources in the best interest of an organization. The strategic intent in the long-term is well defined by two statements:

- The vision statement and
- The mission statement.

A vision statement shows where an organization wants to see itself in the distant future. It describes dreams and aspirations for future. On the other hand, the mission statement explains the reasons behind the existence of a business. In other words, it explains the purpose behind the organisation’s existence. It talks about the present, in contrast to the vision where the focus is entirely on the future.

For these two statements to be effective, it is believed that they should be having certain features as named below.

Features of a mission statement:

- ✓ Feasibility
- ✓ Transparency
- ✓ Inspiring
- ✓ Uniqueness

Features of a vision statement:

- ✓ Non-ambiguity
- ✓ Transparency
- ✓ Realistic
- ✓ Inspiring

Importance of vision and mission statements

If one considers the above two statements as simple lines, he/she would be grossly wrong. Both these intents have a lot of things to convey which are cited below:

- It provides a unity of purpose
- It is an identity for an organization
- It defines the reason for existence of an organization
- It gives a sense of direction
- It creates a sense of belongingness among the members
- It helps to translate the objectives of the organization
- It helps to build organizational culture

Goals and Objectives

The concept relating to the vision and the statement are long-term oriented. But, for the realization of the long-term goals, targets have to be met in the short-term. Hence, the short-term targets are defined in terms of objectives and goals. It is understood that objectives should have the characteristics of being 'SMART' (specific, measurable, achievable, realistic and time-bound) in order to yield positive results.

The strategic plan hierarchy is often represented with the help of the following figure.

Source: google.com

Benefits of strategic management

i. It creates a clear sense of strategic vision and sharper focus on goals and objectives
ii. The process helps organizations to remain competitive and profitable in the long-term
iii. It prepares the organizations to remain ready to face threats.
iv. It keeps organizations ready to capitalize on opportunities
v. It helps to manage uncertainty. .
vi. It keeps the organizations goal-oriented.
vii. It keeps organizations effective.
viii. It helps in better resource management.
ix. It keeps organizations to manage change
x. It helps to strengthen decision-making
xi. It acts as an effective way of implementing actions for results

BUSINESS ENVIRONMENT AND ITS RELEVANCE FOR BUSINESSES

The term business environment includes all those factors within the business and outside which are relevant for business operations. These are the factors that affect a business or are affected by it. It is that area which is vital for any business since it will guide the business about what it can do and what it has to do. Any trigger for change in the business strategy comes from the business environment. The basic characteristics of today's business environment are:

- Volatility: which means a phase of continuous change
- Uncertainty: which means that predictability about the future cannot be made which makes forecasting so difficult
- Complexity: which means that number of factors affect a business which makes understanding it so difficult. Some of them can be considered by the manager whereas some of them can arise as a surprising event. Moreover, the inter-connectedness between the factors makes the situation even more difficult
- Ambiguity: means that the business environment cannot be easily understood
- Multifaceted: means the segments of business environment are multiple in number
- Dynamism: captures the fast-changing characteristic of the business environment
- Consequential: implies that the consequence of movement in business environment is severe for businesses.

In strategic management literature, it is extremely important to study the business environment in detail and learn from it. The contribution of business environment to business houses comes from the following angles:

The term 'business environment' comprises of both external and internal environment. The former can be further categorized into two viz. macro (or mega) environment and industry (or micro or task) environment. The mega component consists of all those factors which are fully uncontrollable whereas the task environment includes those which are to some extent controllable but dominantly uncontrollable. The diagram below shows the business environment.

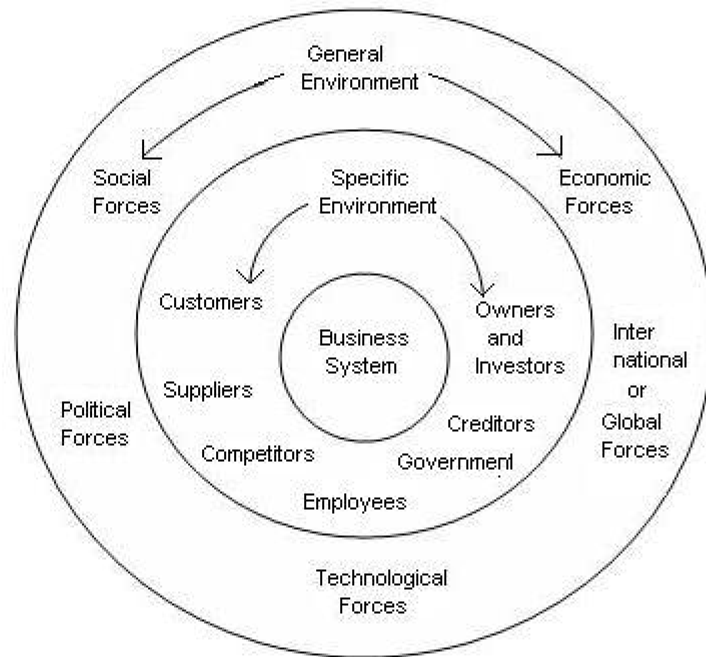
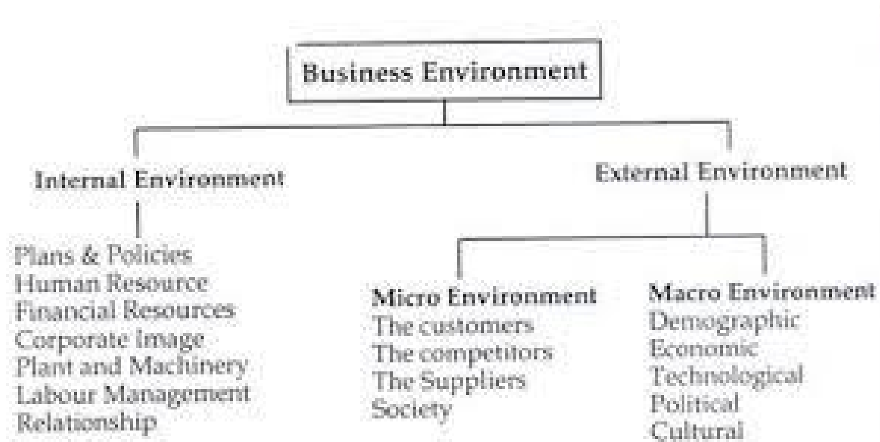


Figure of Business environment



In strategic management process, situation analysis has a very important role to play as it gives information about the strengths and weaknesses on the one hand (from study of the organization viz. organisational appriasal) and opportunities and threats on the other hand (from study of the external environment viz environmental scanning). The micro environment gives a detailed understanding at the industry level which is done by undersatnding the five forces as understood from Porter's Five Forces Model. The external environment is understood using the terms like PESTLE analysis, STEEP analysis, PEST analysis etc.

Levels of Strategy / Strategic hierarchy – Strategic formulation exists at three levels in an organization – corporate level, business level and operating level.

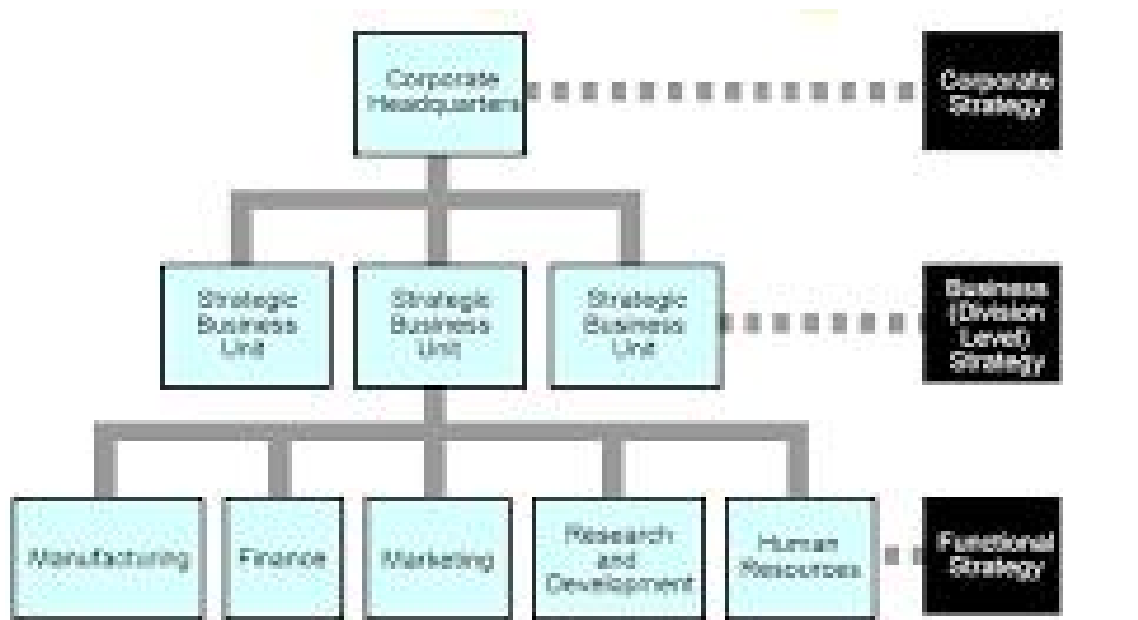


Figure of strategic hierarchy

Corporate level – The Board of Directors and the Chief Executive Officer are the primary groups involved at this level of strategy making. Corporate planners and consultants may also be involved. In a small family owned business, the entrepreneur is both the general manager and the chief strategic manager. Here, the strategy is concerned with what sort of business the company as a whole should be in. Spreading the range of business interests, the types of business the company should enter, expanding the range of products etc. constitute strategic decisions. It is

known as directional strategy. The other two sub-strategies are parenting and portfolio strategy. The former means that the members of this level analyze the cash flow of different business and the investment requirement based on business performance and industry growth. Based on this, they take appropriate decisions for ensuring justifiable flow of resources to the different businesses. Since the Board members act as a ‘parent’ ensuring nutrition to all businesses, this strategy is called ‘parenting’ strategy. The latter on the other hand is about taking decisions about the composition of the portfolio of business of the corporate with a view to ensuring high return at a moderate risk. This is possible if the corporate enters into such industries that are profitable, prosperous and sustainable in terms of growth. Moreover, decisions are taken for the movement of cash flows from one business to another. For the purpose, portfolio matrices like the BCG and McKinsey’s come in handy.

Business level - Strategic business unit (SBU) managers are involved at this level in taking strategic decisions with a focus on a particular SBU. Here strategies are about how to compete in particular product markets. The strategies are here related to a business unit within the organization aiming to generate competitive advantage for the firm. This level of strategy is also known as ‘competitive strategies’ as per Michel Porter. Accordingly to this level of strategy, the purpose is to help business in a particular industry to generate competitive advantage not just for today or near future but also in the distant long-run. As per Porter, there are two dimensions which decide the strategic option. They are:

(i) How to compete in the industry?
(ii) Which section of the market to target?

For question (i), the possibilities are low cost or differentiation and for question (ii) the answer is either to focus on broad target (almost all segments of the market) or narrow target (a small selected segment or segments). Based on the various combinations, there are four options:

(a) Low cost-broad target
(b) Low cost-narrow target (also called cost low cost focus strategy)
(c) Differentiation-broad target
(d) Differentiation-narrow target (also called differentiation focus strategy)

Competitive Advantage	Lower Cost	Differentiation
Competitive Scope: Broad Target	1. Cost Leadership	2. Differentiation
Competitive Scope: Narrow Target	3a. Cost Focus	3b. Differentiation Focus

Porter's competitive strategies

Porter has however warned that one should not follow 'middle of the road' strategy while competing in an industry.

Functional level – The third level of strategy is at the functional end of the organization. The strategies are concerned with how the different functions of the enterprise like marketing, finance and manufacturing etc. contribute to the strategies of other levels. These contributions are important in terms of how an organization can become competitive.

Operational strategies – There are different functional areas under each of which there are several operations. The operational strategies aim to ensure that the operations work most effectively and efficiently.

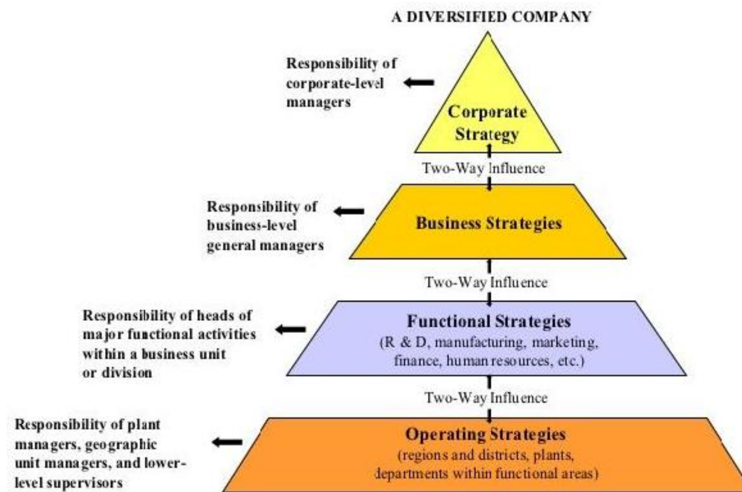


Figure: Strategy making pyramid

Table: Comparison between the three levels of strategy

Point of difference	Corporate level	Business level	Functional level
Nature	Conceptual	Conceptual but business related	Totally operational
Span	Long-term	Medium-term	Short-term
Objective	Achieving long-term goals	Make the business unit number one in the industry	Efficient functioning of functional areas
Who manages?	Top management	SBU heads	Functional heads
Risk	High	Medium	Low
Importance	Highly critical	Very important	Important
Cost involved	High	Medium	Low
Relevance of environment	External and internal	External and internal	Internal mainly
Character	Creative	Action-oriented	Totally action-oriented
Effect of any change	The entire corporate	Only the concerned SBU	The concerned functional area

ENVIRONMENTAL SCANNING

Environmental scanning means the possession and utilization of information about events, patterns, trends, and relationships that exist within an organization's internal and external environment. It is a device which helps managers to draw the future path of the organization. It is the thorough study of the external environment in order to identify areas of threats and opportunities that exist in the external environment. It is the gathering of information from the organization's external environment and monitoring it in order to identify future threats and opportunities. It is therefore the understanding of all factors that is likely to affect the future of the organization. The purpose of this process of environmental scanning is therefore to provide a manager a roadmap to the likely changes that are going to take place in the future. Environmental scanning is the internal communication of external information about issues that may potentially influence an organization's decision-making process. In essence, environmental scanning is a method for identifying, collecting and translating information about external influences into useful plans and decisions. The focus of such scanning is on strategic thinking and planning. External scanning is a method that enables decision-makers to understand the external environment and the interconnectedness among the various sectors which will get moulded and incorporate into corporate strategies. Fahey and Naravanan (1986) suggest that an effective environmental scanning program should enable decision-makers to understand current and potential changes taking place in the external environment of a business. Scanning provides strategic intelligence inputs that are in designing organizational strategies. The consequences of this activity include accepting change, incorporating change and predictable forecasting. Brown and Weiner (1985) define environmental scanning as "a kind of radar to scan the world systematically and signal the new, the unexpected, the major and the minor". Aguilar (1967) defined scanning as the systematic collection of external information in order to:

i. lessen the randomness of information flowing into the organization, and
ii. provide early warnings for managers of changing external conditions.

According to Coates (1985), the following are the key objectives of any environmental scanning system:

a. detecting scientific, technical, economic, social, and political trends and events important to the institution,

b. defining the potential threats, opportunities, or changes for the institution implied by those trends and events,
c. promoting a future orientation in the thinking of management and staff, and
d. alerting management and staff to trends that are converging, diverging, speeding up, slowing down, or interacting.

So, this way they can adapt the business strategies to overcome the threats and capitalize on the opportunities.

Importance of Environmental Scanning

(a) Key inputs for SWOT Analysis

Environmental scanning is a complex process. The close study of the external environment gives valuable information about the opportunities and threats. This set of information together with the knowledge about strengths and weaknesses help to arrive at strategic decisions. The company can formulate strategies to combat the threats and also make use of the opportunities.

(b) Resource management

Environmental scanning leads to the best/optimum utilization of resources, no matter what it is. It will help us to avoid wastages and direct resources in the direction what will create sustainable wealth and profits.

(c) Business sustainability

Nowadays, short-term success is not a target. Instead, it is necessary to focus on business sustainability. Environmental scanning helps in attaining the same.

(d) Long-term planning

The planning of long-term objectives and strategies can only occur after proper analysis of the external environment.

(e) Helps in Decision Making

Decision making is the choice of the best alternative done by management. Environmental scanning allows the firm to make the best decision keeping in mind the success and growth of the business. They point out all the threats and weaknesses. And they also identify the strengths of the firm.

Sources of information for environmental scanning

The different sources for gathering information on the events, trends, issues and developments include the following which may not be exhaustive as there may be many others as well.

- Internet
- Research publications
- Industry reports
- Reports of formal institutions like the RBI, NSO, CSO, IRDA etc.
- Industry reports
- Bulletins and conference reports
- Journals and magazines
- Media of any form
- Consultancy reports
- Market research reports
- Suppliers
- Distributors
- Customers and many others

Environmental threat opportunity profile (ETOP)

It is the mechanism by which organizations have a continuous monitoring on the external environment with the help of which they can identify the opportunities and threats. This knowledge helps them to make necessary changes and adapt themselves to the new developments and trends that are emerging outside. An example which is given below will help to understand the concept.

ETOP of an automobile manufacturing company

Factor	Sub-factors	Effect
Economic	Falling GDP growth rate	- ve
	Declining industry growth rate	- ve
	Increasing interest rate	- ve
	Increasing per capita income	+ ve
	Increasing number of millionaires	+ ve

Socio-cultural	Increasing number of working couples	+ ve
Regulatory	Stricter lending norms	- ve
	Shift from BS IV to BS VI	- ve
	Government's focus on e-vehicles	-ve
International	Increase in price of steel (which is imported) in the international market	-ve
	Falling price of rubber in international market	+ve
	Increasing price of crude oil	- ve

+ sign stands for opportunity, - sign for threats and 0 for neither of the two

STRATEGIC HIERARCHY: A DETAILED DISCUSSION

Corporate / Grand Strategies: A discussion

Corporate level strategies have a tremendous amount of both latitude and responsibility. The myriad decisions required of these managers are overwhelming considering the potential consequences of incorrect decisions. One way to deal with this complexity is through categorization: one categorization scheme is to classify corporate level strategy decisions into three different types or grand strategies. These grand strategies involve efforts to expand business operations (growth strategies), decrease the scope of business operations (retrenchment strategies) or maintain the status quo (stability strategies). The growth strategies aim to expand the scope of business operations, the retrenchment strategies cut down the scope of business operation whereas the stability strategies help to continue with the same set of businesses.

Growth Strategy – Growth strategies are designed to expand an organizations' performance, usually as measured by sales profits, product mix, market coverage, market share or other market based variables. Typical growth strategies involve one or more of the following:

1. With a concentration strategy, the firm attempts to achieve greater market penetration by becoming highly efficient at servicing its market with a limited product line (e.g. Mc Donalds in fast foods).
2. By using a vertical integration strategy, the firm attempts to expand the scope of its current operations by undertaking business activities that will facilitate its functioning through what is known as backward integration or forward integration.

3. A diversification strategy entails moving into different markets or adding products to its mix. If the products or markets are related to existing product or service offerings, the strategy is called concentric diversification and else conglomerate diversification.

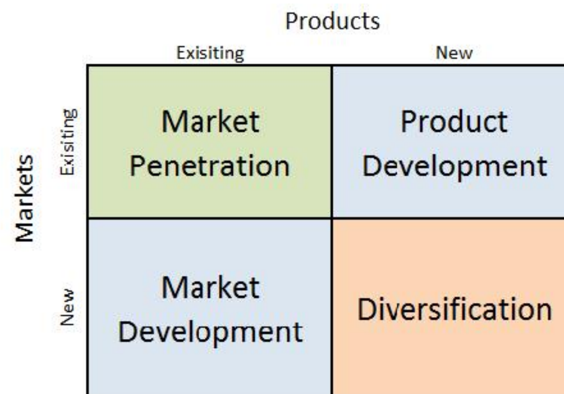


Figure: Ansoff's growth matrix

The other common ways of expansion include mergers and acquisitions, joint ventures, strategic alliances and internationalization.

Stability Strategies - When firms are satisfied with their current rate of growth and profits, they may decide to use a stability strategy which is essentially a continuation of existing strategies. Such strategies are typically found in industries having relatively stable environments. The firm is often making a comfortable income operating from the business they know and see that there is no need to make the psychological and financial investment that would be required to undertake a growth strategy.

Retrenchment Strategies - Retrenchment strategies involve a reduction in the scope of a corporation's activities, which also generally necessitates a reduction in the number of employees, sale of assets associated with discontinued production service/product lines, exit from locations, possible restructuring of debt through bankruptcy proceedings and in the most extreme cases, liquidation of the firm.

Firms pursue a turnaround strategy (a part of retrenchment strategy) by undertaking a temporary reduction in operations in an effort to make the business stronger and more viable in the future. These moves are popularly called downsizing or rightsizing. These are taken with the hope that going through a temporary belt-frightening will allow the firm to pursue a growth strategy at some future point. A divestment decision occurs when a firm elects to sell one or more of businesses which are in its corporate portfolio. Typically, a poorly performing unit or a non-core

business not fitting strategically is sold to another company and the money is reinvested in another business within the portfolio that has greater potential. Bankruptcy involves legal protection against creditors or others allowing the firm to restructure its debt obligations or other payments, typically in a way that temporarily increases cash flow. Such restructuring allows the firm time to attempt to a turnaround strategy. For example, since the airline hijackings and the subsequent tragic events of September 11, 2001, many of the airlines bases in the US filed for bankruptcy to avoid liquidation as a result of decreased demand for air travel and rising fuel prices. Liquidation is the most extreme form of retrenchment. Liquidation involves the selling or closing of the entire operation. There is no future for the firm, employees are released, building and equipment are sold and customers no longer have access to the producer service. This is a strategy of last resort and one that most managers work hard to avoid. Some of the common ways of retrenchment include:

- Selling off products
- Selling off plants/divisions
- Downsizing of employees
- Cost-cutting measures
- Exiting from an industry
- Selling off a brand to another business house
- Exiting from a market, be it in the domestic or foreign country
- Liquidation of businesses
- Divestment of businesses
- Sale of assets of the business, either in part or whole
- Filing for bankruptcy

Business Level Strategies

Business-level strategies are similar to corporate strategies in that they focus on overall performance. In contrast to corporate level strategy, they focus on only one rather than a portfolio of businesses. Business units represent individual entities oriented towards a particular industry product or market. In large multi-product organizations, individual business units form a strategic business unit which is responsible to its corporate headquarters for its performance. Each strategic business unit will have its own set of competitors and its own unique strategy. A

common focus of business level strategies is sometimes on a particular product or service line. There are also strategies that take into account the relationships between products. One product may contribute to corporate-level strategy by generating a large positive cash flow for new product development, while another product uses the cash to increase sales and expand market share of existing businesses. Given this potential for business-level strategies to impact other business level strategies, business level managers must provide ongoing intensive information to corporate level managers. Without such crucial information, corporate level managers are prevented from best managing overall organizational direction. Business level strategies are primarily concerned with:

1. Coordinating and integrating unit activities so they conform to organizational strategies (achieving synergy).
2. Developing distinctive competencies and competitive advantage in each unit.
3. Identifying product or service market niches and developing strategies for competing in each.
4. Monitoring product or service markets so that strategies conform to the needs of the markets at the current stage of evolution.

Hierarchy of plans

In any organization, various types of plans are framed each of which is important but has a different focus and criticality. The different plans are mission, vision, policies, procedures, rules, programmes starting from the top level to the bottom level. Of this, in the context of strategic management, strategy is the most important for survival in the long-run. A strategy is a route to a destination and objective is the destination. Picking a destination is the choice of an objective. Selecting a route represents a decision. Strategic management is an artful blending of insightful analysis and learning used by managers to create value from the skills and resources which they control.

Ansoff developed a theory around the strategic problem, choosing a firm’s objectives and goals and deciding whether to diversify and to what extent, in what areas to diversify, how it should develop its existing product, market position etc. According to the strategist, strategy consists of two components, namely the product and market growth vector. Chandler’s definition highlights the fact that strategy refers to long-term decisions. However, this is not made explicit in other

definitions. Various authors have mentioned the characteristics of strategy decisions. So, strategy includes objectives, goals and the courses action adopted to achieve them. On the other hand, according to Ansoff, strategy refers to the ways by which a firm can achieve its objectives. Despite the lack of consensus on the definition of strategy, there is a trend towards accepting a definition which includes setting the missions and long term objectives of an organization and the policies necessary for achieving those missions and objectives.

Strategy and strategic management: An elaborate explanation

Business strategy of a firm includes the plans, policies and their implementation in a given time frame. Plans and policies are converted into activities, where tasks are assigned to individuals or to teams for achieving specific targets. Strategy can also be defined as follows :

Strategy is a a set of goals and objectives and the firm's policies and plans for achieving the same correlating with the defined purpose of the firm.

Strategy is the way a firm reacts to its business environment, deploying its resources and marshalling its efforts for achieving its goals.

Strategy is defining the long and short term goals of the firm and adopting action plans and resource deployment for achieving the same.

Strategy is a unified, comprehensive and integrated plan designed for achieving the objectives of the firm. Strategy relates to the firm's environment covering both external and internal factors and a comprehensive action plan. It is flexible to change quickly as per changing environment and is always forward looking.

Strategic management is a process that involves building a careful understanding of how the world is changing, as well as knowledge of how those changes might affect a particular firm. Strategic management refers to how organizations define the business outcomes that they want to achieve, and then how they will utilize their resources to achieve those outcomes. Strategic management covers strategic planning/formulation, strategic implementation and strategic control.

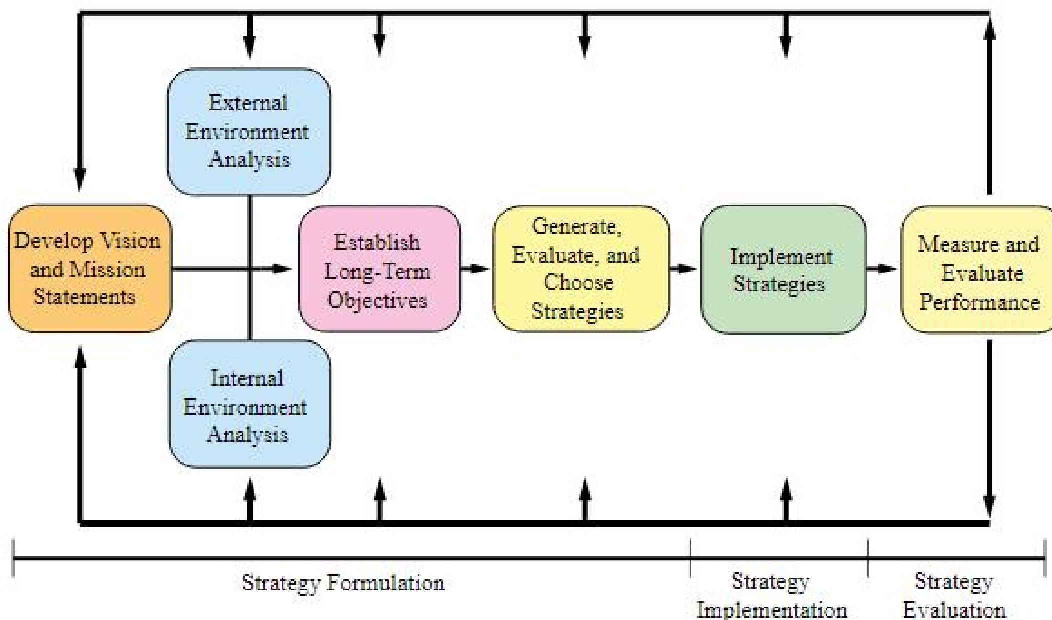


Figure: Strategic management process (Source: David, pp. 46)

Strategic management is the process of specifying organizations objectives, developing policies and plans to achieve these objectives and allocating resources so as to implement the plans. It is the highest level of managerial activity, usually performed at the top with the help of the executive team. It provides overall directions to the whole enterprise. Ten schools of thought have emerged in strategic planning whom Mintzberg and Lampel have classified into three groups.

The term 'strategy' implies that there is some instability in the environment and needs to be stabilized through key measures. It the world did not change, it would not have been a problem. However, world is changing fast. Alvin Toffler described trend toward accelerating rates of change. He illustrated low social and technological norms has sheltered lifespan with each generation and he questioned society's ability to cope with the resulting turmoil and anxiety. In the "Third Waves", Toffler characterized the shift from relative stability to shortening of such periods and consequently relentless change as the defining feature of the third phase of civilization (the first two phases being the agricultural and industrial waves). In such a world, there is a need for a planning model that helps in anticipating the future and using this anticipation in conjunctions with an analysis of the organization, its culture mission, strengths

and weaknesses to define strategic issues. For example, subsidy may be necessary for poverty-stricken farmers. But, it is seen that subsidy to farm producers in developed countries is often given to make them competitive in the world market. So, negotiations in the World Trade Organization where subsidies are not favored except under a few clauses may require strategy formulation by both the parties.

Mintzberg and Waters believe that strategic planning is at the deliverable end of the continuum between deliberate and emergent strategies. Deliberate strategy is consciously intended, designed and controlled in contrast to emergent strategy which is unintended. It is argued that more stable is the environment and more centralized is the control, more are the chances of employing a deliberated strategy. Reverse is true for the opposite.

The importance of strategy lies in the following factors:

(i) Its concern is with the long-term direction of the organization.

(ii) Its distinct identity separates from the operational matters which are decreased to be concerned with day to day matters.

(iii) The need to put the organization in to a position to carry out its mission effectively and efficiently and

(iv) Integrate an organizations goals, policies and activities into a cohesive whole.

Bownean and Asch state that strategic management is the process of making and implementing strategic decisions and is about the process of strategic change. It is the match an organization makes between its own resources and threats sand risks and opportunities created by an external environment in which it operates. So, strategy can be seen as a link between what the organization wants to achieve and its objectives and the policies adopted to guide its activities. Strategic management can also be referred to as a technique that can be used to create favourable future for the organization. Stakeholders are involved in envisioning the most desirable future and then in working together to make this vision a reality.

There are short term strategies focusing on planning and management for the present and these are long-term strategies involving preparation for pre-empting the future. Derek Abell has suggested that understanding this dual nature of strategic management is the least understood part of the process. He claims that balancing the temporal aspects of strategic planning requires the use of dual strategies simultaneously.

Strategic management: The main contributors

Although the literature on the subject matter can be traced back to earlier periods, strategic management as a discipline originated in the 1950s and 1960s. Alfred Chandler, Philip Selznick, Igor and Peter Ducker have been the notable contributors.

Alfred chandler recognized the iterance of coordinating the various aspect of management under one encompassing strategy. While many thinkers like Fayol had discussed the importance of coordination in the organizations, the discourse was not related to strategy.

Philip Selznick favored matching the organizational internal factors with the external environmental circumstances. This code idea was developed into what is known as strengths weaknesses, opportunities and threats (SWOT) analysis. Harvard Business School is credited with developing the concept. Here, the strengths and weaknesses of the enterprise are assessed in the light of the opportunities and threats from the environment.

Igor Ansoff built on Chandler's work by adding a range of strategic concepts and inventing a whole new vocabulary. His focus was more on the businesses in the market in his classic 'Corporate Strategy'. He developed the "gap analysis" which is still used in understanding the gap between the current and desired position and then developed what he called "gap reducing actions".

The contribution of Peter Ducker to strategic management is very significant but two aspects are most important. Firstly, he emphasized the importance of objectives. An organization without clear objectives is considered a ship without a rudder. As early as 1954, he propounded a theory of management based on objectives, which later evolved into theory of 'Management by objectives'. According to Drucker, the procedure of setting objectives and monitoring the organizations' progress towards them should permeate the entire organization, from top to bottom. His other seminal contribution was in predicting the importance of intellectual capital. He predicted the rise of what he called the "knowledge worker" and explained its consequences for management. Chaffee summarized his thoughts about the main elements of strategic management theory as:

(i) It involves adopting the organization.
(ii) It is fluid and complex.
(iii) It affects the entire organization by providing direction.
(iv) It involves both contents strategy formation and process strategy implementation.

(v) It is partially planned and partially unplanned.

(vi) It is done at several levels, both at the macro and micro level.

(vii) It involves both conceptual and analytical thought process.

Mintzberg and Quinn re-examined the process of strategic management. They concluded that it was much more fluid and unpredictable than people thought and came up with five concepts of strategy. They are:

- Strategic as a plan – it is a complex, rational and a linear approach to objective setting implementation and appraisal, proceeding in a logical manner.
- Strategy as ploy –it is exercise intended to outwit a competitor.
- Strategy as a pattern – it is a consistent pattern of past behavior realized rather than intended.
- Strategy as a position – it is determined primarily by factors outside the ferries.
- Strategy as a perspective- it is determined primarily by a master strategist.

In the 1970s, however, when strategic planning was being widely applied, external events were still viewed as relatively stable and planning was typically retrospective. Let us now examine the views propagated by important schools of thought in the area of strategic management.

Strategic Management Process – The strategic management process allows for the structured, systematic and ongoing process in managing strategies in an organization. The process consists of following five phases:

1. Target-setting is about determining the strategic intents of the organization which cover both long-range and short-range objectives.
2. Situational analysis which means the detailed analysis of the situation, i.e. the internal and external environment.
4. Strategy formulation implies the preparation of strategy for the different levels.
5. Strategy Implementation covers the execution aspect, i.e. conversion from blue print to actual filed.
6. Strategic control covers the process of continuous monitoring of the performance in order to realize the need to change and extent of change/ modification.

The task of strategic management is far from complete after strategies have been formulated and a concrete strategies plan has been prepared. Then it is the job of strategists to put the plan into

action. It is important to consider the interrelationship between the formulation and implementation of strategies. It is to be noted that the division of strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are intertwined. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of the formulation on implementation while the backward linkages are concerned with the impact in the opposite direction.

Forward Linkages: The different elements in strategy starting with the various constituents of strategic intent through environmental and organisational appraisal, strategic alternatives, strategic analysis and choice and ending with the strategic plan, determine the course that an organisation adopts for itself. With the formulation of new strategies, or reformulation leading to modified strategies, many changes have to be effected within the organisation. For instance, the organisational structure has to undergo a change in light of the requirements of a modified or new strategy. The style of leadership has to be adapted to the formulation of strategies. A whole lot of changes have to be undertaken in operationalising the formulated strategies. Clearly, the strategies formulated provide the direction to implementation. In this way, the formulation of strategies has forward linkages with their implementation.

Backward Linkages: Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. Recall that in the previous chapter, while dealing with strategic choice we observed that past strategic actions also determine the choice of strategy. Organisations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time, take the organisation from where it is to where it wishes to be. It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making. Looked at from another angle, formulation is a managerial task requiring analysis and thinking, implementation primarily rests on action and doing. Although inextricably linked, strategy implementation is fundamentally different from strategy formulation.

Strategy formulation and implementation can be contrasted in the following ways:

Strategy formulation is positioned before the action whereas strategy implementation is managing forces during the action.

Strategy formulation focuses on effectiveness whereas strategy implementation focuses on efficiency.

Strategy formulation is primarily an intellectual process whereas strategy implementation is primarily an operational process.

Strategy formulation requires good intuitive and analytical skills but strategy implementation requires special motivation and leadership skills.

Strategy formulation requires coordination among a few individuals whereas strategic implementation requires coordination among many persons.

Strategy formulation and implementation – This step in strategic assessment is to determine the appropriate strategic directions in which the organization should head and what objectives to achieve. It creates a picture of the desired future. The information developed through SWOT analysis is used to review the organization's mission, develop strategic vision and determine the most critical issues the organization must address if it is going to achieve this vision.

The objectives of strategic direction are to help ensure that the organization vision and goals are compatible with the organizational capabilities and complement its culture. Moreover, it fosters commitment and co-operation among stakeholders apart from maximizing the benefits inherent in environmental opportunities and minimize the risks inherent in environmental threats. After the strategic assessment, planning activity is undertaken. In the context of a business or any large-sized organization, strategies have to be set for three different levels, namely corporate, business and functional level.

The most popular technique used in making strategies is scenario planning. It deals with creating a range of scenarios to cover different situations in terms of favorability – an optimistic scenario, a pessimistic one and a one between these two probabilities of occurrence. The number of possible situations in the future may be large especially in the case of public management systems, which may require envisioning several scenarios. Besides this, value of a scenario is a

function of several variables and may be beyond the capacities of the strategists to identify all future variables.

Contingency planning is another technique which supplements the scenario planning. It requires the plan to be made for possible damaging combinations of events. For example, construction of nuclear power centers in seismic zones may require incorporating contingency plans in case of a disaster. Making a strategic choice is the final step in strategic planning. The choice is again guided by the capacities of the organization. Different types of organizations may respond differently in the same environment and often the strategies are better accounted for by prevailing beliefs than by environmental stimuli. Overtime because of this there is strategic difference between environmental change and strategic change.

Strategy implementation involves execution of the chosen strategy effectively and efficiently. It encompasses:

- Allocating sufficient resources financial personnel and infrastructure.
- Establishing a chain of command or structure to carry out tasks efficiently.
- Assigning responsibility for specific tasks or processes to specific individuals on groups.
- Managing the process, which includes monitoring results, comparing them with benchmarks and best practices for evaluation of the efficiency of the process, controlling for variances and making adjustments to the process as necessary, and
- Implementing specific programs, which involve acquiring the required resources, developing the process, testing documentation and integration with processes.

Strategic control – Strategy formation and implementation are on-going in nature which leads to continuous reassessment and reformation. They help to know whether the plan is being carried out as desired and if it is achieving the desired results. Apparently, it compares actual and desired results which subsequently enable the strategist in introducing corrections in the plans, resources and times as circumstances warrant. A system is established to monitor the use of resources by the organization and its efficacy. The monitoring and reporting system is continuous with periodic output reviewed by teams. However, major evaluation may be conducted on a rather long term basis.

Stages in the strategic management process: a simplified version

Thus, the different steps in the strategic management process are the following -

a. Strategy Formulation
b. Strategy Implementation
c. Strategy Evaluation

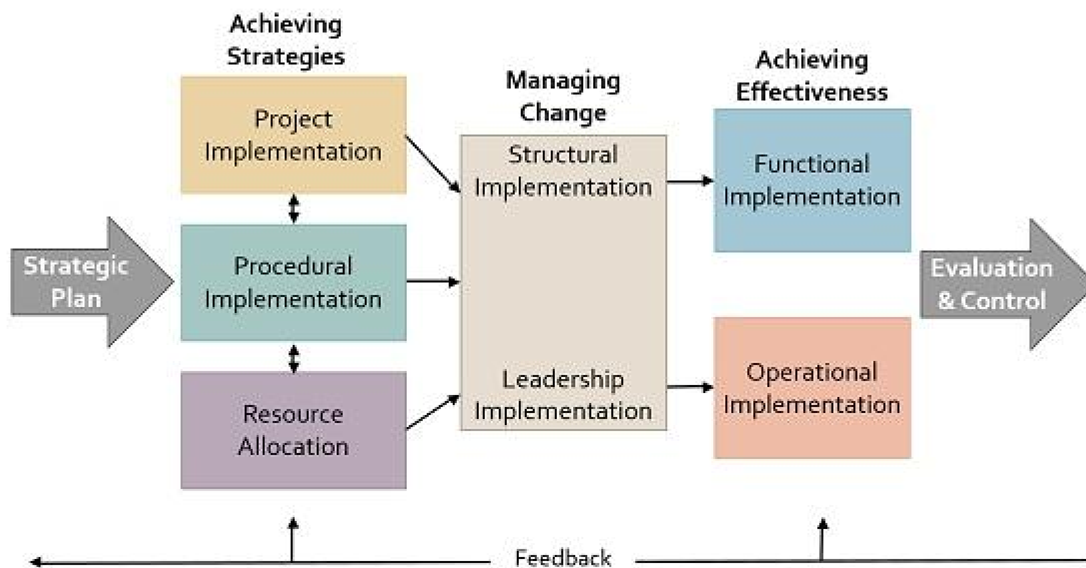
Strategic formulation

1. Develop vision and mission
2. Do a situational analysis: Study the external environment (Environmental scanning) and also the internal environment (organizational appraisal)
3. Do a SWOT analysis
4. Choose and finalize strategy at different levels of the strategic hierarchy.

Strategic implementation

It means the execution of the strategies finalized at different levels of the organization. The implementation step in the process includes the following:

- Structural implementation
- Behavioral implementation
- Project implementation
- Functional implementation
- Procedural implementation
- Leadership implementation
- Operational implementation



Strategic control

It is a controlling measure that aims at long-term success. It includes various sub-measures like:

- Special alert control: to look out for occurrence of sudden events (called special alerts) against which necessary change is required to be made by the organization
- Surveillance control: to propose for a change in the existing way of doing business because of a change in the environment
- Premise control
- Implementation control

Strategic formulation

The strategic Intents of a firm vision – What the firm should become?

Businesses are started by entrepreneurs who have an idea or a vision for being of service to a large mass of people, the customers. The concept of vision in the context of business hovers around farsightedness. It is about where the organisation wants to see itself in the long-term after many years from now. It is the dream of a business, yet to be fulfilled. Visionaries are the people who have a dream for others.

Mission – What the firm should do?

In order to see their vision come true, entrepreneurs have to discuss it with other knowledgeable people who then come up with the firms' mission statement. This provides the firm, the impetus

to concretize its vision which is considered the intent of what the firm should be doing. Mission can be defined an area more tangible; whereas, the vision gives the firm its character and cultural stream. It is stable for many years and acts as a guiding force that help strive people towards the vision. The question answered by a mission statement is: ‘why the business is in existence?’ or ‘what needs is the business striving to fulfill?’ Therefore, the mission statement provides strategic boundaries by defining what the firm will do and which it will not. It acts as a standard for its employees and their behavior and gives the responsibility of the stakeholders to the firm’s management. Mission statements are unique as they enshrine the values, beliefs and character of the firm. They are the second of the strategic intents goals.

The third set that comes in is the objective which is more specific than the mission statement. Objectives should be ‘SMART’: i.e., specific, measurable, achievable, realistic and time-bound.

Objectives can be set in the following areas:

- Market share
- Productivity
- Profitability
- Human Resource Development
- Innovation
- Resource Planning
- Manager and worker performance

The fifth level of intents is the targets which are set for separate departments of the firm or even for individuals. They play a vital role in the success of the firm. However, in the overall strategy of a firm they have little impact. Strategic management is as applicable to large businesses as it is to small firms, because even the smallest firms have competition and with timely development and implementation of strategies, they can get sustainable competitive advantage. Strategies are the most fundamental means of achieving the ends. The following chart depicts the business perspective of strategies.

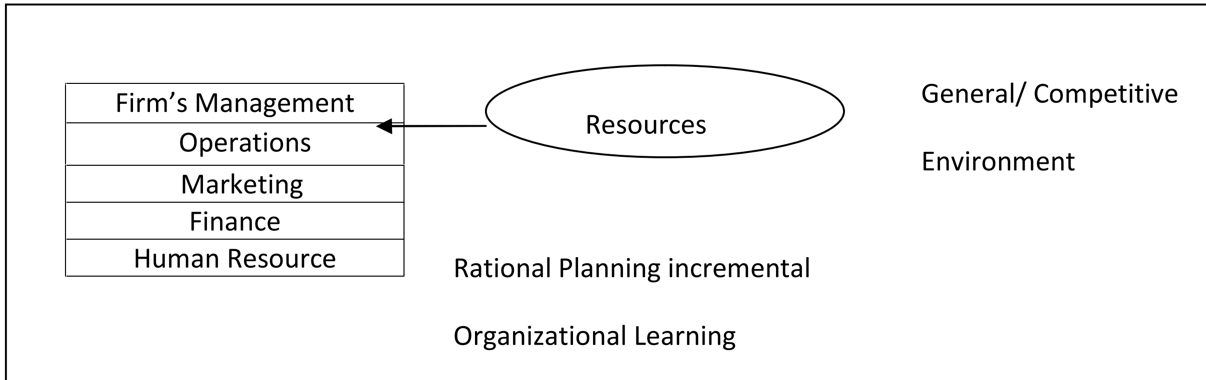


Figure: Business perspective of strategy

The above chart shows that a firm operates with its management in a business in general and competitive environment for achieving its objectives with the help of one of the three strategic process; rational planning incrementalism and organizational learning. The firm needs resources that are outside the firm for its operations.

Strategy Formulation vs Strategy Implementation

Following are the main differences between Strategy Formulation and Strategy Implementation-

Strategy Formulation	Strategy Implementation
Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans.	Strategy Implementation involves all those means related to executing the strategic plans.
In short, Strategy Formulation is placing the Forces before the action.	In short, Strategy Implementation is managing forces during the action.
Strategy Formulation is an Entrepreneurial Activity based on strategic decision-	Strategic Implementation is mainly an Administrative Taskbased on strategic

making.	and operational decisions.
Strategy Formulation emphasizes on effectiveness.	Strategy Implementation emphasizes on efficiency.
Strategy Formulation is a rational process.	Strategy Implementation is basically an operational process.
Strategy Formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy Formulation requires a great deal of initiative and logical skills.	Strategy Implementation requires specific motivational and leadership traits.
Strategic Formulation precedes Strategy Implementation.	Strategy Implementation follows Strategy Formulation.

Pierce and Robinson say that to effectively direct and control the use of the firm's resources, mechanisms such as organizational structure, information systems, leadership styles, assignment of key managers, reward systems etc. are essential strategy implementation ingredients. The implementation activities are in fact related closely to one another and decisions about each are usually made simultaneously.

Organizations begin strategy formulation by carefully specifying their mission, goals and objectives and then engage SWOT analysis to choose appropriate strategies. Henry Mintzberg suggests that the traditional way of thinking about strategy implementation focuses only on deliberate strategies. Mintzberg claims that some organizations begin implementing before they clearly articulate mission, goals or objectives. In this case, strategy implementation actually precedes strategy formulation. Mintzberg calls strategies that unfold in this way as emergent

strategies. Implementation of an emerging strategy involves the allocation of resources even though an organization has not explicitly chosen its strategies.

Most organizations make use of both deliberate and emergent strategies. Whether deliberate or emergent, a strategy has little effect on an organization's performance until it is implemented. In order to achieve its objectives, an organization must not only formulate but also implement its strategies effectively. Success is the most likely outcome when strategy is appropriate and implementation is good. Roulette involves situation where a poor strategy is implemented well. Trouble is characterized by situations wherein an appropriate strategy is poorly implemented. Failure involves situations wherein a poor strategy is poorly implemented. Diagnosing the reason behind the failure of strategies in the roulette trouble and failure cells requires the analysis of both formulation and implementation.

Certo and Peter proposed a five stage model of the strategy implementation process:

1. Determining how much the organisation will have to change in order to implement the strategy under consideration.
2. Analyzing the formal and informal structures of the organization.
3. Analyzing the culture of the organization.
4. Selecting an appropriate approach to implement the strategy.
5. Implementing the strategy and evaluating the results.

Implementation is successfully initiated in three inter-related stages:

1. Identifying measurable, mutually determined annual objectives.
2. Developing specific functional strategies.
3. Developing and communicating concise policies to guide decisions.

Resource allocation and strategic implementation

Resource allocation is used to assign the available resources in an economic way. It is a part of resource management. In project management, resource allocation is the scheduling of activities and the resources required by those activities while taking into consideration both the resource availability and the project.

In strategic planning, resource allocation is a plan for using available resources. It is the process of allocating resources among the various projects or business units. The plan has two parts: (i)

Firstly, there is the basic allocation decision and (ii) Secondly, there are contingency mechanisms. The basic allocation decision is the choice of which items to fund in the plan and what level of funding to be given. Consequently, the resources are allocated to some items, while excluding the others.

There are two contingency mechanisms that can be followed for deciding the funding. There is a priority ranking of items excluded from the plan, showing which items to fund if more resources should became available; and there is a priority ranking of some items included in the plan, showing which items should be sacrificed if total funding must be reduced.

Strategic implementation

The specific components of the six-strategy implementation tasks are discussed below:

1. Building an organisation capable of executing the strategy: The organisation must have the structure necessary to turn the strategy into reality. Furthermore, the firm's personnel must process the skill needed to execute the strategy successfully. Related to this is the need to assign the responsibility to the right individuals or groups for accomplishment of the tasks.
2. Establishing a strategy-supportive budget: If the firm is to accomplish strategic objectives, top management must provide the people, equipment, facilities and other resources to carry out its part of the strategic plan. Once the strategy has been decided, the key tasks to be performed and kinds of decision required must be identified and formal plans must also be developed. The tasks should be arranged in a sequence comprising the plan of action within targets to be achieved at specific dates.
3. Installing internal administrative support systems: Internal systems are policies and procedures to establish the desired types of behavior. Information systems are in place to provide strategy-critical information on a timely basis. Moreover, it helps to keep information about the inventory, materials, customer service, cost accounting and other administrative systems which are needed to give the organisation important strategy-execution capability. These internal systems must support the management process so that the managers work together as well as monitor the strategic process.
4. Devising rewards and incentives: People and departments of the firm must be influenced through incentives, constraints, control standards and rewards to accomplish the strategy.

5. Shaping the corporate culture to fit the strategy. A strategy supportive corporate culture causes the organisation to work towards the accomplishment of the strategy.
6. Exercising strategic leadership. Strategic leadership consists of outstanding commitment to the strategy and its accomplishment. It also involves the constructive use of power and politics in building a consensus to support the strategy.

Strategic evaluation and control

Introduction

In the context of any business, it is to be remembered that the concept of strategy formulation relies on the assumptions about the environment. In other words, the different plans that are adopted by organizations depend on the planning premises. Nowadays, there is immense possibility that the assumptions get changed between the planning and the implementation stage. As a result, it is necessary to see whether in reality there have been changes and to look into the extent of the change. This will help in checking whether everything is in track and if not, to bring it back to the right path.

Strategic Control, Operational Control and Preventive Control

Strategic Control: This type of control aims to bring success to an organisation in the long-term. The aim of the strategic control is to have a greater focus on the external environment and to look into its effects on the firm. This is necessary in order to bring back the organization to the right path before it is diverted to a big way. Moreover, this type of control aims to impose some control on the strategy so that the long-term goals are fulfilled.

There are four types of control under strategic control:

- Premise control
- Implementation control
- Strategic surveillance
- Special alert control

Premise Control

- Every strategy is based on assumptions called planning premises around which a firm's strategy is designed. Premise control is designed to check systematically whether or not the premises set during the planning and implementation process are still valid. If a premise is no

longer valid, then the strategy has to be changed. The sooner an invalid premise is revised, better the chances that an acceptable shift in the strategy can be devised. Premises are mainly concerned with two types of factors – environment and industry. A company has no control over environmental factors but these factors exercise considerable influence over the success of the strategy. Inflation, interest rates, technology, demographic changes form one environment factor. Strategies are usually based on the key premises about these factors. Industry factors affect the performance of companies in a given industry. They differ among industries and a company should be aware of the factors that influence the success in its own particular industry. Competitors, suppliers, substitutes are barriers to entry, about which also strategic assumptions are made.

- Premises are often made along numerous environmental and industry variables. So attempt to track every premise may be expensive and time consuming. Therefore, managers must select premises that are (1) likely to change and (2) would have a major impact on the company and its strategy if they did. The key premises should be identified during the planning process. The premises should be recorded and responsible for monitoring them should be assigned to the persons who are qualified sources of information. For example : the sales force may be a valuable source for monitoring the expected price policy for major competitors, while the finance department might monitor interest rate trends. Premises should be updated based on the latest information. Finally key areas within the company or key aspects of the strategy that the predicted changes may significantly impact should be pre identified, so that adjustments necessitated by a revised premise can be determinant and initiated.

Implementation Control

- The action phrase of strategic management is located in the series of steps, programs, investments and moves undertaken over a period of time to implement the strategy. Functional areas initiate several strategy – related activities. Key people are added resources and mobilized manages convent board strategic plans into concrete actions as they go in for implementing strategy at unit level. Strategic control can be exercised within this context. This type of strategic conditions referred to as implementation control. Implementation control is designed to access whether the accurate strategy should be changed in the light of unfolding events and results

associated with incremental steps and actions that implement the overall strategy. Two basic type of implementation control are (1) monitoring strategic thrusts and (2) milestone reviews.

Implementing broad strategies often involves undertaking several new strategic projects. These projects or thrusts provide a source of information from which managers can obtain feedback that helps determine whether the overall strategy is progressing as planned and whether it needs to be adjusted. While strategic thrusts seems a readily apparent type of control, using them as control sources is not easy to do. Early experience may be difficult to interpret.

- Two approaches are useful in exercising implementation controls focused on monitoring strategic thrusts. One approach is to agree early in the planning process on which thrusts are critical factors for success. Managers responsible for these implementation controls single these out from other activities and observe them frequently. The second approach for monitoring strategic thrusts is to use stop. Managers often attempt to identify critical milestones that will occur over the time period the strategy is being implemented. These milestones may be critical events or simply the passage of a certain amount of time. In each case, a milestone review usually involves a full scale assessment of the strategy and the advisability of continuing or refocusing the direction of the economy.

Strategic Surveillance

- Premise control and implementation control are focused control. The third type of strategic control – strategic surveillance – is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy. The basic idea behind strategic surveillance is that some form of general monitoring of multiple information sources should be encouraged for discovering important yet unanticipated information. Strategic surveillance must be kept unfocused as much as possible and should be designed as loose environmental scanning activity.

Special Alert Control

- Another type of strategic control special alert control is needed to thoroughly and often rapidly reconsider the firm's basic strategy based on a sudden, unexpected event. A political coup in the middle east, an outside firm suddenly acquiring a leading competitor – all of these

represent sudden changes that can practically alter the company's strategy. Such an occurrence should trigger an immediate and intense reassessment of the company's strategy and its current strategic situation. Many firms have developed crisis teams to handle initial response and co-ordinate when faced with unforeseen occurrences that may have an immediate effect on the firm's strategy.

- While each type of strategic control is different, they share a common purpose i.e., to assess whether the strategic direction should be altered in light of unfolding events. Unlike operational controls, strategic controls are designed to continuously and proactively question the basic direction of the strategy. Operations controls are concerned with providing action control. Strategic controls are concerned with steering the company's future direction. Both are needed to manage the strategic process effectively.

Operational Control

Operational control regulates the day-to-day output relative to schedules, specifications, and costs. Some of the common questions that are answered include:

- Are products and service outputs of high-quality and delivered on time?
- Are inventories of raw materials, goods-in-process, and finished products being purchased and produced in the desired quantities?
- Are the costs associated with the transformation process in line with cost estimates?
- Is the information needed in the transformation process available in the right form and at the right time?
- Is the energy resource being used efficiently?

Operational control can be a very big job, requiring substantial overhead for management, data collection and operational improvement. The idea behind operational control is streamlining the process to minimize costs and work as quickly and efficiently as possible.

Preventive and Detective Controls

One can recall that internal controls are actions taken to make sure that the right things happen and the wrong things don't. There are two types of internal controls: preventive controls and detective controls. Preventive controls are designed to keep errors or irregularities from

occurring in the first place. They are built into internal control systems and require a major effort in the initial design and implementation stages. However, preventative controls do not require significant ongoing investments. Detective controls, on the other hand help to find errors or irregularities after they have occurred. Examples of detective controls include reviews of performance, reconciliations, audits etc.

Effective Evaluation and Control System

Strategic control is concerned with tracking the strategy as it is being implemented, detecting problems or changes in the premises and making necessary adjustments. In contrast to post – action control, strategic control is concerned with controlling and guiding efforts on behalf of the strategy as action is taking place. Managers responsible for a strategy and its success are concerned with two sets of questions for carrying out strategic control:

1. Are we moving in the proper direction? Are our assumptions about major trends and changes correct? Do we need to adjust this strategy?
2. How are we performing? Are we meeting objectives and schedules? How are costs, revenues and cash flows matching projections? Do we need to make operational changes?

Control of strategy can be characterized as a form of "Steering Control". Usually, a significant time span exists between initial implementation of a strategy and achievement of desired results. During that time, numerous projects are undertaken, involvements made and actions performed to implement the new strategy. In this duration, both the environmental situation and the firm's internal situations are developing. Strategic controls are necessary to steer the firm through these events. They must provide the basis for correcting the actions and direction of the firm in implementing its strategy as development and changes in its environmental and internal situations take place.

The few basic types of strategic control as discussed in the previous unit are:

1. Premise Control
2. Implementation Control
3. Strategic Surveillance and
4. Special Alert Control

Operational Control System

Strategic controls are useful to top management in monitoring and steering the basic strategic direction of the company. But operating managers also need control methods appropriate to their level of strategy implementation. The primary concern at the operating level is the allocation and use of the company's resources.

Operational control systems guide, monitor and evaluate progress in meeting annual objectives. While strategic controls attempt to steer the company over an extended time period, operational control provide post – action evaluation and control over short time periods. Solve effective, operational control systems must take four steps common total post – action controls:

1. Set standards of performance
2. Measure actual performance
3. Identify deviations from standards
4. Initiate corrective action

Three types of operational control systems are: budget, schedules and key success factors. Nature and use of this three operational control systems are described here:

Budgeting systems

The budgetary process was the fore summer of strategic planning. Capital budgeting in particular provided the means for strategic resource allocations. With the growing use of strategic management, such allocations are now based on strategic assessment and priorities, not solely on capital budgeting, yet capital and expenditure budgeting as well as sales budgeting remain important control mechanisms in strategy implementation.

A budget is simply a resource allocation plan that helps managers co-ordinate operations and facilities managerial control of performance.

Budgets themselves don't control anything. Rather they set standards against which action can be measured. They also provide a basis for negotiating short – term resource requirements to implement strategy at the operating level.

Most firms engaged a budgetary system, not a singular budget in controlling strategy implementation. A budgetary system incorporates a series of different budgets fitting the

organization's unique characteristics. Most firms include three general types of budget – revenue, capital and expenditure – in their budgetary control system.

Firms generally imply some form of revenue budget to monitor their sales projections because this reflects a key objective of the chosen strategy. The revenue budget provides important information for the daily management of financial resources and key feedback as to whether the strategy is working. For evaluative purposes, the revenue budget may be derived form revenue forecasts arrived at in the planning process or it may be linked to past revenue patterns. A revenue budget is particularly important as a tool for control of strategy implementation. Revenue budgets provide an early warning system about the effectiveness of the firm's strategy.

If the deviation is considerably below or above expectations thus budgetary tools showed initiate managerial action to re – evaluate and possibly against the firm's strategic posture.

Capital budgets outline specific expenditures for plant machinery and other capital items during the budget period.

To support their strategies many firms require capital investments or divestiture. A firm committed to a strong growth strategy may need additional facilities to support increased sales. On the other hand, a firm which wants to retrench, many has to divest some points of its current operations to generate additional resources. In both cases, the firm is concerned with management of financial resources over an extended period of time. For effective control, a capital budget that carefully plans the acquisition and expenditure of funds as well as the time is essential.

Two additional budgets are often developed to control the use of capital resources. A cash budget forecasts receipts and disbursements of cash during the budget period. Balance sheet budget is usually developed to forecast the status asset & liabilities and net worth at the end of the budget period.

Numerous expenses/cost budgets will be necessary for budgetary control in implementation of strategy in various operating units of the firm. An expenditure budget for each functional unit can guide and control individual execution of strategy, thus increasing the likelihood of

profitable performance. In such budgets money variables will be the predominant measures, although non – monetary measures of physical activity levels may be used as supplement.

An expenditure or operating budget is meant to provide concrete standards against which operational costs and activity can be measured and adjusted to maintain effective strategy execution. The expenditure budget is perhaps the most common budgetary tool in strategy implementation. If its standards are properly linked to strategic objectives, then it can provide an effective communication link between top management and operating managers about what is necessary for a strategy to succeed. It provides and then warning system alerting management to the problems in the implementation of the firm's strategy.

Scheduling

Timing is often a key factor in the success of a strategy. Scheduling is simply a planning tool for allocating the use of a time – constrained resource or arranging the sequence of independent activities. The success of strategy implementation is dependent on both. So scheduling provides a mechanism with which to plan for, monitor and control these dependencies.

Key success factor

One way to effect operational control is to focus on the key success factors. These identify performance areas that must receive continuous management attention and are of great importance in implementing the company's strategies. Examples of key success factors focused on internal performance include:

1. Improved productivity
2. High employee morale
3. Increased earning per share
4. Growth in market share
5. Customer service

Each key success factor must have measurable performance indicators.

Budgeting, scheduling and monitoring key success factors are important means to control the implementation of strategy at the operational level of the company. Common to each operational

control system is the need to establish measurable standards and to monitor performance against these standards. Let us see how to accomplish this important role.

Operational control system requires the establishment of performance standards. In addition, progress must be monitored and deviation from standards evaluated as the strategy is implemented. Timely information must be obtained so that deviation can be identified and actions take to correct them.

Execution and control of the strategy ultimately depend on individual organizational members, particularly key managers. Motivating and rewarding good performance by individuals and organizational units are key ingredients in effective strategy implementation. While positive reinforcements are given primary emphasis negative reinforcements are important tools for controlling poor performance. Motivating and controlling individual efforts in execution of strategy is accomplished through a firm’s reward sanction mechanisms. These mechanisms are positive and negative, short – run and long – run.