

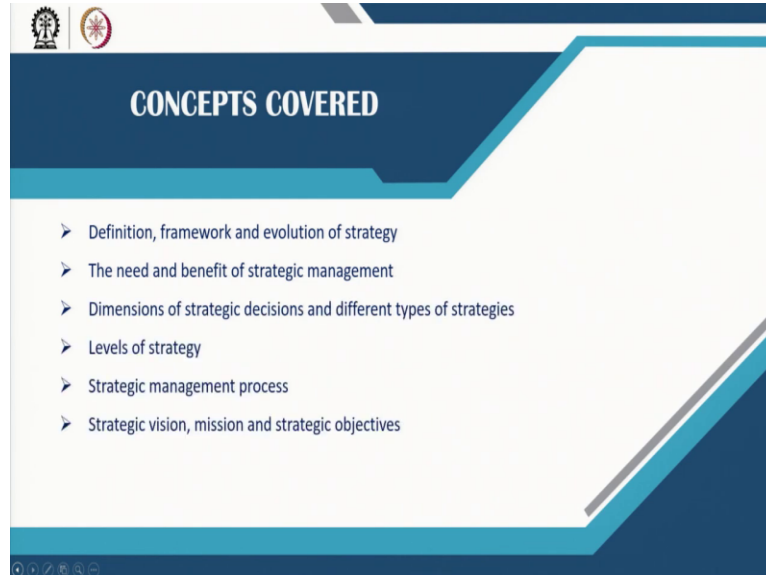
Strategic Management for Competitive Advantage
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Lecture 01
Introduction and Concept

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I heartily welcome all of you to this course. I am Professor Sanjib Chowdhury from Vinod Gupta School of Management of Indian Institute of Technology Kharagpur. Today's lecture as you know, the title of the course is strategic management for competitive advantage. And in the first module, we will cover the introduction to strategic management.

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To start with, I will first cover the topics that will be delivered in this lecture and the concepts covered are as follows: Definitions of strategic management, strategy framework and evolution of strategy, the need for strategy and the benefits of strategic management, then we will also cover dimensions of strategic decisions and different types of strategies, different kinds of strategies, then, we will also be covering levels of strategy, that is, the hierarchy of strategy, the strategic management process, how to develop a strategic planning, how you will develop that we will cover that.

And finally, we will also talk about what are the strategic vision, mission and strategic objectives of an organizations, what does it mean, how do you develop that? All these, we will be covering in this module, and you will be learning about it.

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Strategic Management: Introduction & Concept

- Genesis and evolution of strategic management
 - Strategia, Strategos
 - HBSA, Chandler study, Ansoff
 - Business policy → Corporate Planning (LRP) → Strategic Management
- What is Strategy?
 - determination of basic LT goals & objectives of an enterprise
 - adoption of courses of action
 - allocation of resources necessary to achieve those goals & objectives
- What is Strategic Management and its elements?

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So, to start with, let us discuss - what is the genesis and evolution of strategic management. In fact, the word strategy is believed to have come from Greek word strategia, or strategos. Some authors say, it has come from the Greek word strategia, which was first used around 500 BC and it connotes the “art and science of directing military forces”.

Some other authors say that it came from Strategos, which also mean, leading an army. So, on the whole you can say - this word came from ancient warfare planning, it relates to warfare planning.

Next coming to the modern age, the word “strategy” is not very old, it is around six and half decades old. It was first highlighted in the 25th National Business Conference in USA that was held in 1955 which was sponsored by Harvard Business School Association – there the word “strategy” was first highlighted.

Subsequently, Chandler's historical study of organization and structure was published in which Chandler studied some large American companies and observed that strategy was an important variable in the development of the organization. Soon after, in 1965, Ansoff another management expert - in his book “Corporate Strategy” relied heavily on his experience at Lockheed Aircraft Corporation, to develop a method for formulating strategy.

Earlier the subject was known as “Business Policy”, whose purpose was to integrate the internal environment, internal company affairs - different business groups to integrate for better cohesion, better productivity, and better planning. The competition was growing and the environment became dynamic.

It was found inadequate to integrate with the environment. So, strategic corporate planning emerged in the 1950s and 1960s that was an essentially long-range plan, say a 5-year plan and companies tried to project their cash flow requirements, project their financial growth, and so on. But in the 1970s there was a mega environment turbulent, and uncertainties were there. Therefore, they found competition was growing - the Japanese, Korean, and southeast Asian companies became formidable competitors to the west.

So, US companies and European companies found that this 5-year plan and all projections are not good enough, these are not adequate. So, they have to change to integrate this strategy with these plans and with the environment.

So, these dynamic changes have to be incorporated, thus evolving - strategic management. So, it is the internal growth of the organization, internal dynamics of the organization have to be linked with the external market, external environment. So, the importance of strategic management was filled and it grown.

Now, to define, what is strategy? Various experts have defined strategy in different ways, and these are contextual. So, one of the comprehensive definitions is the determination of basic long-term goals and objectives of an enterprise and adoption of courses of action and the allocation of resources necessary to achieve those goals and objectives.

So, I can say strategy is the determination of basic long-term goals and objectives of an enterprise, then it is the adoption of courses of action and the allocation of resources necessary to achieve those goals and objectives. This was the definition given by Alfred Chandler, you see, there are three parts in it. One is that it is the determination of basic long-term goals and objectives of an organization that means what? It is the formulation, formulations of the strategy, it is the formulation part.

Then adoption of courses of action means, it is the implementation of strategy; and allocation of resources necessary to achieve these goals and objectives. This means, resource allocation - any strategy requires resources to implement. Mind the word necessary, why it is necessary - because it should be the optimum resources, it should not be too less, not too high. Too high means wastage and too less means you are not having the full capacity for capability.

So, it consists of three courses one is the formulation of a plan, then it is the implementation of the plan, and allocation of resources. That is optimization, which is the decision analysis, and all you do in Management Sciences.

So, it is one of the comprehensive definitions, other authors have also given many other definitions you will find in the textbook. We can also say that strategy is a means by which the long-term goals and objectives of an organization are achieved.

Also, we can say, strategy is a creative match between the internal resources and capabilities of an organization and the external environment. So, we can also say that pro-activeness is implicit in the strategy. It does not allow an organization to drift. So, it is basically a proactive approach.

Now, next coming to that point, what is strategic management and what are its elements. So, strategic management is the “art and science of formulating, implementing and evaluating a cross functional decisions to achieve the goals and objectives of an organization”. Also, we can say – “strategic management is a set of guidelines, procedures and decisions to achieve the desired organization goals and objectives”. These are the strategic management and its elements.

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Strategic Management: Introduction & Concept

- Need for Strategic Management
 - Complexity, uncertainty, competition, rules, risk
- Benefits of Strategic Management
 - Convergence of common goals and objectives
 - Proactive, better prepared
 - Reduces conflict, resistance
- Stimulus for strategy
 - New CEO
 - Outside intervention
 - Imminent ownership change
 - Declining performance

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Coming to the next. So, why do we need strategic management? What is the need for strategic management? Business in today's world is much more complex than it was in previous years, and the uncertainty in the environment is much more today than the previous years. The competitions are fierce, rules are more complex, risks are more pervasive and the number of unknown variables is more. So, all these need a proper systematic study of the environment, of the situations to formulate strategies and all. So, this is the requirement for today's world.

Then next, what are the benefits of strategic management? As we are going for strategic management, what should be the benefit? One benefit is that, it allows the convergence of common goals and objectives among the various groups, various teams in the organizations. Say in the organizations, there are HR, Finance, supply chain management, operations, manufacturing, engineering, R&D groups and all these groups are having their own goals, objectives and targets. They are preoccupied with that, and one can always find there is conflict among different groups. Each group views their goals and objectives more than the organization's goals and objectives. So, strategic management gives a platform so that the goals and objectives of each group are convergent to the organization's goals and objectives.

Then, strategic management allows the organizations to be better prepared to face any uncertainty in the future. That means, it is proactive, it makes the organization proactive to deal with an uncertain future.

So, it also reduces conflict and resistance. Resistance what does it mean? Conflict - you see in an organization among different groups, and there is organization dynamics that goes on.

These conflicts are because they have their silo thinking and they view their goals and objectives are more important than others, as a result, when their departmental views/goals are converged with the common goals and objectives of the organization, it reduces the conflict among the people. It also reduces the resistance for the new strategy. When a new strategy comes to the organization, people generally resist because everyone wants a status quo. So, if they know, what are the common goals and objectives of the organization, resistance becomes less and it will be easier for the management to implement the strategy.

Then, coming to what are stimulus for a strategy like what are the triggering points that an organization changes its strategy. Triggering points are generally - you find may be anything, the list is exhaustive, but I will be giving you only a few main triggering effects, which are generally found across the organization. Like when a new CEO comes, he or she comes with his or her ideas and tries to implement them. So, there may be a shift to a new strategy, and new CEO wants to shake the status quo.

So, CEO actually want to lift the veil of complacency. So, there may be other triggering points for changing strategy, like outside intervention, this is basically your financial or the lending agency i.e., financial institution those who have a big stake in the organizations they sometime may see the performance is not up to their expectation or standard, company is sliding. So, they may intervene and that may stimulate the change of strategy.

As you have seen in the recent past Kingfisher Airlines, it was due to the intervention by the lending agencies - banks and others.

There may be the imminent ownership changes like the takeover bid. When a company is being approached to be taken over and the company may change its strategy. Another is the declining performance, that is, company's performance is sliding continuously, then they will be a forced to change the strategy. So, these are some of the stimuli for change in strategy. But the list is exhaustive and these are just a few indicative ones.

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Strategic Management: Introduction & Concept

- What are the differences between Policy, Strategy and Tactics?
- What are the tests to determine a winning strategy?
 - The Fit test
 - Competitive advantage test
 - Performance test
- Mintzberg's model
 - Entrepreneurial
 - Adaptive
 - Planning
 - Logical incrementalization mode

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Now, what are the differences between policy, strategy and tactics? So, what is a policy? Policy is a set of guidelines on the basis of which the decisions are taken in an organization. So, it is a set of guidelines, which are the basis for strategy-making in the organization. Strategy as we discussed is a determination of long-term goals and objectives of an organization and the means of achieving those goals and objectives.

And what are tactics? Tactic is an immediate plan to seize the market opportunities and safeguard from imminent risk. Suppose one player has gone out from the market, say one foreign player has gone out from the market. So, it is an immediate opportunity for the competitors.

So, here, you try to grab that opportunity. That is, you have to change your tactical plan, that is tactics. Also, imminent threats, as COVID pandemic came all of a sudden, people and organization are to be guarded against the imminent risks that means you change your tactical plan.

So, these are the differences between policy, strategy and tactics. Next, we will be discussing what are the tests to determine the winning strategy? What is a winning strategy that you get a competitive advantage, and, how to determine the winning strategy?

So, there are actually three tests for this, first test is called the Fit Test. The fit test is nothing but you try to see the internal resource capability of the organization should match with the external

market demand. So, it is more of matching the internal resource capability of the organization with the external environment demand, that is, the “Fit test”.

The next one is the competitive advantage test. Competitive advantage should be sustainable - it is not temporary competitive advantage. Temporary competitive advantage will expire within a few months or within a short period of time, but to sustain - a sustainable competitive advantage is your winning strategy. So, you have to look for that.

The third test is performance test. Performance tests are done on two counts, one is the competitive strength measure, the competitive strength that is market standing. The other one is financial, that is, profitability and financial parameters. These two constitute the performance tests. These are the three tests to determine the winning strategy.

Next, we will be talking about Mintzberg’s model of strategic decision-making. Mintzberg proposes that there are basically three and one is the combination of this mode of strategic decision-making.

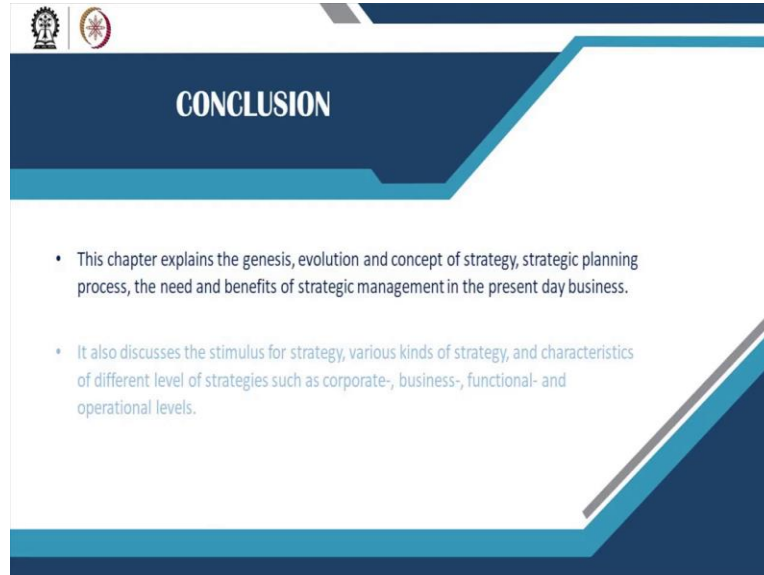
The first one is the entrepreneurial mode of decision-making. In this, it is generally for small business, or the starting or a startup. There, the owner or his chosen representative or the CEO takes the responsibility of strategic decision-making. The owner’s vision fuels the strategic making-decisions.

Like, take the example of Microsoft, Microsoft in its initial days, were driven by its owner’s (Bill Gates) vision. Bill Gates idea was instrumental in decision-making. Similarly, in Dell computers, Michael Dell’s vision and thought used to be decisive factors in the strategic decision-making of Dell. This is known as “entrepreneurial” mode of decision making.

The next one is the adaptive mode of decision-making. It is somewhat reactive, it is not a proactive thing, it is a mode of reaction - you see your competitors and what they are doing, accordingly, you decide your course of action/strategy that would be reactionary or the adaptive mode of decision-making. Take the case of Dell computers, when it was coming to India in the 80s, WIPRO in reaction entered the Desktop PC manufacturing. This is also called “muddle through” or reactive mode of decision-making.

The next mode of decision-making is called “Planning”. Planning is a systematic way of making strategic decision-making. First, you have to study the environment, you have to collect data, then with those you have to undertake “situational analysis”, then you develop your long-term objectives, formulate the strategic plan or develop your strategy, develop your alternatives. Thus, you move in a systematic and planned way for strategic decision-making. This can be both proactive and reactive, this is the actual mode of planning in large organizations. Another mode is called “logical incrementalization” mode of decision-making. It is nothing but combination of all three modes of strategic decision-making. These four are called Mintzberg’s mode of strategic decision-making.

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So, till now, what we have done is, this chapter explains the genesis, evolution and concept of strategy, and we have seen - what are the needs of strategy, benefits of strategic management in the present-day business. Next class, we will be talking about the various kinds of strategy, and levels of strategy, and related issues.

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References: these are the references, books, you can follow. So, that is all for this module. Thank you very much.