

Strategic Management – The Competitive Edge
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Lecture 06
Modes of Strategic decisions

Welcome to this session. In the last session, we looked at the four main activities of a learning organization. A small recap.

The four main activities of a learning organization are to solve problems systematically, experiment with new approaches, learning from their own past experiences and past history as well as the experiences of others, the last one being transferring knowledge quickly and efficiently throughout the organization. This has been the main characteristic of this whole exercise on strategic management, which organizations have been able to really imbibe into themselves now, especially the IT industry; it applies equally to manufacturing industries as well.

We look at four modes of strategic decision making given by Mintzberg. The first mode is called the Entrepreneurial mode. Here, the decision is taken by one powerful individual. So, the person is always looking for opportunities. For him the problems are secondary, he thinks that he can overcome the problems. In other words, he is prepared to take risk. Sometimes the risk should not boomerange. When the risk is very huge, it has boomeranged. The example that you can think of is the America Online founded by Steve Case.

America Online give an offer, but was not able to really keep up with that offer because the services rendered by AOL to the customer were found to be far from satisfactory. Though AOL, in the Entrepreneurial mode, had clear growth strategy as an advantage, tendency to market products before being able to support them with certainty is a great disadvantage.

The second mode given by him is what is called the adaptive mode. This adaptive mode is muddling through - there is no proactive decision making. Decision making most of the times is characterized by reaction to a problem. Let us say a market problem has cropped up- your competitor has reduced the price. Now, you start reacting to that reduction in price by the competitor. But you do not have a clear vision- this is what is called the muddling through, which most of our Indian organizations, especially the medium and small-scale industries are doing even to this day. If you really see bargaining process goes on concerning priorities of objectives.

The strategy that is developed by these organizations is fragmented and can move the company

forward incrementally typical of the government agencies or universities, the education system, etc. So, in the US, Encyclopedia of Britannica moved away from this approach to television advertising and internet marketing from 1996 after acquisition by the dual career couples.

The third mode, which is a very sought-after mode, is the planning mode. In the planning mode, there is a systematic gathering of appropriate information for situation analysis. So, you are not found wanting for information since market information is gathered on a continuous basis. This helps to develop feasible alternative strategies and in rational selection of the most appropriate strategy. So, what is the characteristic of this planning mode? You are doing a proactive search for new opportunities and relative solutions of existing problems. The company taken as an example is J.C. Penney.

This is a popular company in most of the airports in the United States and you see as soon as you get into your arrival platforms, in most of the European airports and US. What did they do? After careful study of shopping trends in 1980s moved out of hardware, appliances, automotive items, and electronics to apparel and home furnishings.

Lower personal incomes in 90s, let J.C. Penney to emphasize private brands could offer high quality of goods at lower prices than department stores.

The fourth mode of decision-making strategic decision making given by Mintzberg is called the logical incrementalization. What is this logical incrementalization? It is a synthesis of planning, adaptive and to a lesser extent Entrepreneurial mode of decision making. Organization learns through an interactive process of probing into the future, experimenting and learning from a series of incremental commitments, rather than through global formulations of total strategies. Useful when the environment is changing rapidly and it is important to build consensus and develop needed resources before committing the organization to a specific strategy. In other words, looks like can be the type of approach that could be adopted by most of the Indian organizations in the present-day context.

So, many market changes are happening rapidly. When they are happening rapidly there is no time for planning because data many times is not available. So, you have to go into a reaction mode on what is happening in the market. So, when that type of situation is characterizing the present market scenario as in the Indian context, this logical incrementalization, appears to be a better method- it takes into account some aspects of planning some aspects of adaptive and to a lesser extent Entrepreneurial mode of decision making.

In the entrepreneurial mode of decision making, you are the person to take the decision- whether it clicks or not, onus is on the Entrepreneur.

Many of the IT companies, which started in the 80s in India, including Infosys, had a very hard time- many of them wanted to close shop, because they were not getting clients; some of them did close shop also.

Some who held on, profited immensely. The best example is Infosys only. Though started in 1981, its first fortune 500 client came in 1985. So, many times they used to think whether it was worth being in the business. After they got this first client, they never looked back. Though at some point of time, in early 90s, there was a very good offer given to Infosys founders to sell Infosys, which did not happen. Today Infosys is one of the top three companies in the Indian context in the IT field, along with TCS and Wipro. So, even an organization like Infosys when they started, they did not go whole hog into this Entrepreneurial mode or the planning mode. So, many times they adopted this what Mintzberg is now called has given us logical incrementalization synthesis of all this. So, this is the present-day setup in most of the IT organizations.

Now, we look at corporate plan. It looks at the changes in the overall shape of an organization- many times it takes years to fructify, that is long range. However, corporate plan and long-range plan do not mean the same. In the case of the long-range plan, the assumption is the current environment is going to remain in future as well.

The best example for this is the Vishakhapatnam dockyard. A typical time period to build a ship is between 3 to 5 years. Once an order is received by this Vishakhapatnam dockyard, it works on the building of the ships. It is oblivious of the other external environmental factors. Its job is to deliver the ship to the client.

And contrast with Kudremukh Iron Ore Company, KIOCL. When KIOCL was started the Government of Iran was to lift the entire stock of Kudremukh Iron Ore Company. But so many changes happened in Iran itself- the monarchy was overthrown; the Royal Government was not there. And the new government did not honor the previous government decisions and KIOCL was left in the lurch- it had to find new clients.

Fortunately, it found. Survived, but still was not in a very healthy shape. So, this is what can happen sometimes, when external environments change- it is not in the control of the organization. When KIOCL took up the order for this iron ore mining, it never expected, nobody expected that the governmental structure itself in Iran would undergo such a change.

So, the difference between Long Range Planning and Corporate Planning is that whereas in the long-range planning, you are not looking at the dynamics of the environment, in the corporate

plan, you are looking at the dynamics of the environment. The other important aspect of corporate plan is you are looking at strategic planning. So, it looks at strategic planning and in the present day integrates strategic planning with short range operational plans.

Now, the system has advanced to such an extraordinary extent that you are having corporate planning with the systems approach- you are having so many computer models for corporate planning being used by organizations, most of the IT organizations have to really keep pace with the market changes.

So, what are the benefits that these organizations are deriving through this- they are able to anticipate technological changes. When they are able to anticipate technological changes, they can achieve the strategic objectives and goals. When they are able to achieve these strategic objectives and goals, it can result or translate into rational resource allocation. Improved coordination, emphasis on manpower development and always looking for opportunities.

When you are looking for opportunities, you are always looking at what could be the new product that could be introduced into the market. So, you are looking at new product development and long-term investments and you are looking at a new sense of direction for the organization.

Studies in the US bring out that use of corporate planning and strategic planning in organizations has helped sales to increase by 38 to 40 percent, which is quite huge. Similarly, a 64 percent increase in earnings per share. Again, very huge. You can see what is happening to so many of the present-day companies also.

The one company which you can take as example is that of Tesla only- the electric car company. The owner of this company has made a bid for taking over Twitter. So, he made a bid -given 43 billion dollars for this whole company Twitter. So, this is where organizations have profited immensely by the use of strategic planning and management- 56 percent increase in share prices.

So, having all this I give you a figure of or a conceptual model of corporate planning. What does this the conceptual model of corporate planning give you? You can see there are so many blocks here. This corporate planning is referred to as the plan to plan, in other words, it is called the master plan. So, if you look at the plan to plan you have in the first series of blocks the expectations of major stakeholders. The inside interests in the second block, the database in the third block and the evaluation of the environment in the fourth block. So, when you are looking at the first block, you are looking at society, community, stockholders, customers, suppliers, creditors, when you are looking at major inside interests, you are looking at top managers, other managers other than the workers or the staff, the database is past performance, the current

situation and the forecast.

The evaluations of the environment is with respect to opportunities, threats and with respect to strengths and weaknesses, we commonly refer to SWOT. This leads you to what is referred to as strategic planning. This strategic planning helps you to build master strategies, takes into account the mission, the purpose, the objectives, the policies, and ends up with programs strategies.

So, you develop programs strategies. Now, the information flow starts coming into the picture throughout this whole planning process. So, this information flow leads you to the next block that is the medium range programming and programs. So, you do not normally go to large planning scenarios, you want to be in the present-day looking at short planning horizons, that is what a typical IT organization is looking at.

So, many times it is this medium range planning also used by manufacturing organizations- even they are looking at shorter horizons now. So, medium range programming and programs, then leading to short range planning and plans, then implementation of plans- here you come into one aspect called the technical planning. What is technical planning?

This is where all the brains or the brains trust of the organization comes into picture when you are implementing the plan because you expect so many things to change, when you are implementing. So, when fast changes are happening, expert strategists are required to take decisions on the spot to change the course.

So, these expert strategists are the people who provide these technical planning inputs. Then review and implement and evaluation of the plans is the last block. All these characterized at the bottom by decision and evaluation rules- this conceptual model is taken from the book by George Steiner- management policy, plan and strategy.

So, armed with all this, we discuss the next aspect of strategic management. This is called the 7S matrix. This 7S matrix is the one which helps organizations to find out whether time is appropriate for change. We will discuss this in the next session. Thank you.