Strategic Management

Part of module-1

Strategic Leadership, Competitive Advantage and superior performance

Strategic Leadership

- Strategic leadership is about how to most effectively manage a company's strategy –making process to create competitive advantage.
- The strategy-making process is by which managers select and then implement a set of strategies that aim to achieve a competitive advantage.

Strategic Leadership

- Strategy formulation is the task of selecting strategies .
- Strategy implementation is is the task of putting strategies into action which inlcludes designing ,delivering,and supporting products;Improving the efficiency and effectiveness of operations;and designing a company's organization structure,control systems,and culture.

Strategic Leadership

- A company has a sustained competitive advantge when its strategies enble it to maintain above average profitability for a number of years.
- Business model.
- A business model is a manager's conception of how the set of strategies his company pursues should mesh together into a congurent whole ,enabling the company to gain a competitive advantage and achieve superior profitability and profit growth.

Strategic Leadership

- A business model encompases the totality of how a company will
  - Select its customers
  - Define and differentiate its product offerings
  - Create value for its customers
  - Acquire and keep customers
  - Produce goods or services

Strategic Leadership

- Lower costs
- Deliver those goods and services to the market
- Organize activities within the company
- Configure its resources
- Achieve and sustain a high level of profitability.
- Grow the business over time.

A Model of the Strategic Planning Process

1. Select the corporate mission and major corporate goals.
2. Analyse the organization’s external competitive environment to identify opportunities and threats.
3. Analyse the organization’s internal operating environment to identify the organization’s strength and weaknesses.

A Model of the Strategic Planning Process

4. Select strategies that build on the organization’s strengths and correct its weakness in order to take advantage odf external opportunities andc ounter external threats.These strategies should be consistent with the mission and major goals of the organization.

5.Implement the strategies.

Goals and Objectives

- Goals denote what an organisation hopes to accomplish in a future period of time.
- Objectives are the ends that state specifically how the goals shall be achieved.

Characteristics of Objectives

1. Objectives should be understandable. Objectives play an important role in strategic management. They should be understandable by those who have to achieve them.

Characteristics of Objectives

2.Objectives should be concrete and specific.

Our company plans to achieve 12 %.

Our company seeks to increase its sales.

First statement implies a concrete and specific objective and is more likely to lead and motivate managers.

Role of objectives

3.Objectives should be related to a time frame.

Ex.Our company wants to increase its sales by 12 percent by the end of two years. It enhances the specificity of objectives.Time frame is most important.

Characteristics of Objectives

4.Objectives should be measurable and controllable.

5.Objectives should be challenging. Not unrealistic.

6. Different objectives should correlate with each other.

Issues in objective setting

1.Specificity-They might be very broadly states as goals, while at the other ,they might be specifically stated as targets.

Objectives should be fixed at different levels –Corporate, general so that they serve the needs of performance and its evaluation.

Issues in objective setting

2.Multiplicity.

Since objectives deal with a number of performance areas, a variety of them have to be formulated to cover all aspects of the functioning of an organization.

Organization levels, importance[Ex.Primary or secondary]ends[survival or growth],functions [eg.marketing or finance]

Organisations need to set adequate and appropriate objectives so as to cover all the major performance areas.

Issues in objective setting

3.Periodicity.

Objectives are formulated for different time periods.Long term and short term.

4.Verifiability

5.Reality.Organizations tend to have two sets of objectives;Officaland operative.Offical objectives are those which the organizations profess[വിശ്വാസം പ്രകടിപ്പിക്കുക] to attain

while operatives objectives are those which they seek to attain in reality.

Issues in objective setting

6.Quality.

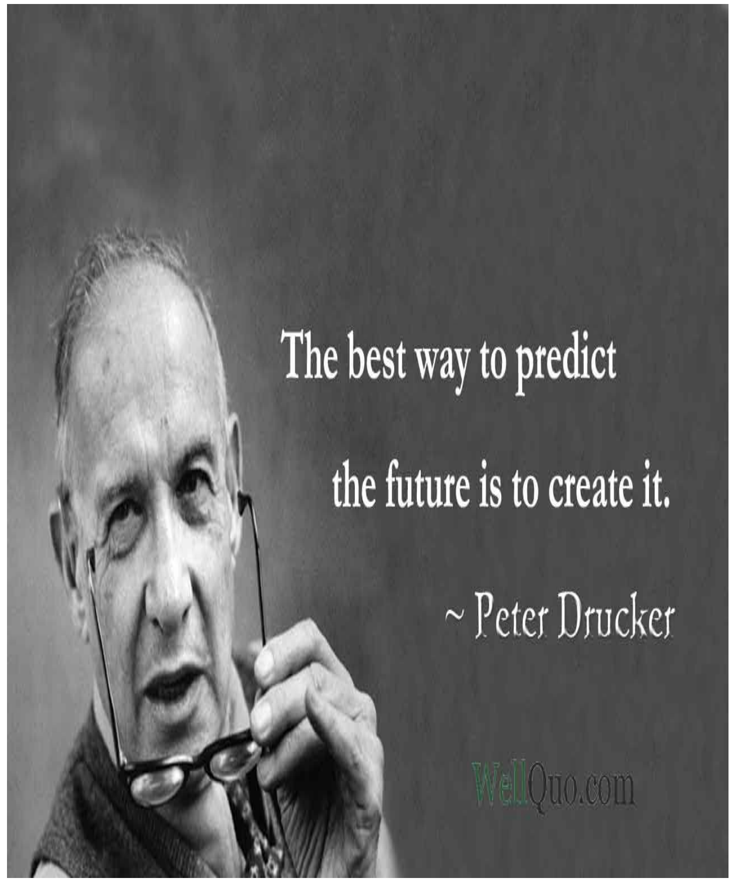
Bad objective: ‘to be market leader in our industry’

Good objective: To increase market share to minimum level of 40 percent of the total with respect to a product A, over a period of next two years and to maintain it thereafter 'is good objective since it is specific, relates to performance, is measurable and provides a definite direction.

What objectives are set?

According to peter drucker objective to be set in the eight vital areas of

1.Market standing.
2.Innovation
3.Productivity
4.Physical and financial Resources
5.Profitability
6.Manager performance and development
7.Worker performance and attitude
8.Public responsibility



How are Objectives Formulated

Four factors should be considered for objective setting.

1. The forces in the environment.
2. Realties of the enterprise’s resources and Internal power relationships
3. Value system of top executives
4. Awareness in management of the past objectives of the firm.

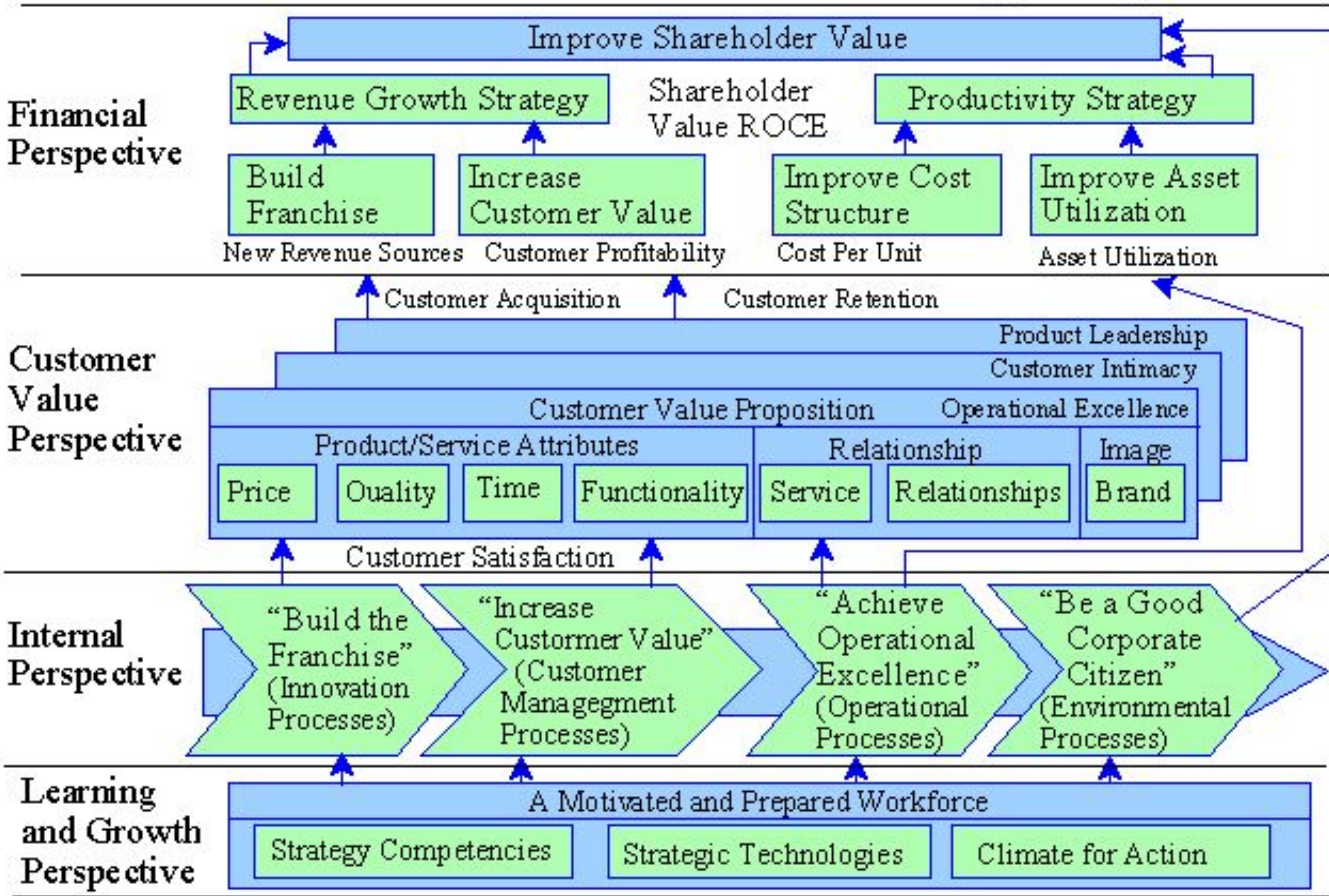
Balance Scorecard approach to objectives setting

What is a Balanced Scorecard?

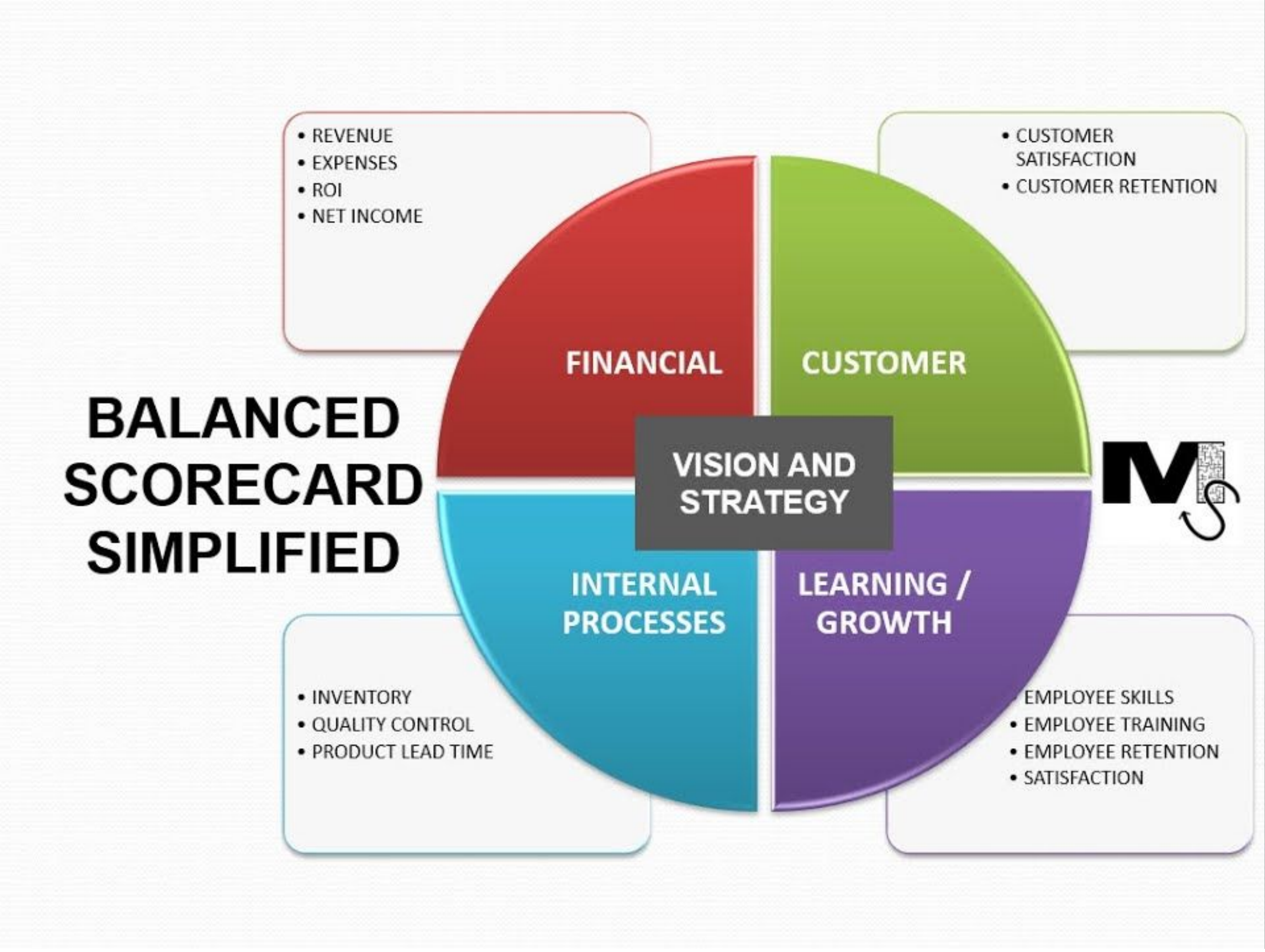
- A balanced scorecard is a strategic planning framework that companies use to assign priority to their products, projects, and services; communicate about their targets or goals; and plan their routine activities.
- The scorecard enables companies to monitor and measure the success of their strategies to determine how well they have performed.


Balanced Scorecard
Financial
Business Processes
Customer
Organizational Capacity
Drives strategy, business actions, and the behavior of direct reports
Business Outcomes

The Balanced Scorecard Generic Strategy Map*



* Adapted from Kaplan & Norton Figure 3-15 page 96.



BALANCED SCORECARD SIMPLIFIED
FINANCIAL
• REVENUE
• EXPENSES
• ROI
• NET INCOME
CUSTOMER
• CUSTOMER SATISFACTION
• CUSTOMER RETENTION
VISION AND STRATEGY
INTERNAL PROCESSES
• INVENTORY
• QUALITY CONTROL
• PRODUCT LEAD TIME
LEARNING / GROWTH
• EMPLOYEE SKILLS
• EMPLOYEE TRAINING
• EMPLOYEE RETENTION
• SATISFACTION

Four Perspectives of the Balanced Scorecard

1. **Financial perspective**

- Under the financial perspective, the goal of a company is to ensure that it earns a return on the investments made and manages key risks involved in running the business. The goals can be achieved by satisfying the needs of all players involved with the business, such as the shareholders, customers, and suppliers.
- The shareholders are an integral part of the business since they are the providers of capital; they should be happy when the company achieves financial success.
- They want to be sure that the company is continually generating revenues and that the organization meets goals such as improving profitability and developing new revenue sources.
- Steps taken to achieve such goals may include introducing new products and services, improving the company's value proposition, and cutting down on the costs of doing business.

Four Perspectives of the Balanced Scorecard

2. Customer perspective

- The customer perspective monitors how the entity is providing value to its customers and determines the level of customer satisfaction with the company's products or services. Customer satisfaction is an indicator of the company's success. How well a company treats its customers can obviously affect its profitability.
- The balanced scorecard considers the company's reputation versus its competitors. How do customers see your company vis-à-vis your competitors? It enables the organization to step out of its comfort zone to view itself from the customer's point of view rather than just from an internal perspective.
- Some of the strategies that a company can focus on to improve its reputation among customers include improving product quality, enhancing the customer shopping experience, and adjusting the prices of its main products and services.

Four Perspectives of the Balanced Scorecard

3. Internal business processes perspective

- A business' internal processes determine how well the entity runs. A balanced scorecard puts into perspective the measures and objectives that can help the business run more effectively. Also, the scorecard helps evaluate the company's products or services and determine whether they conform to the standards that customers desire. A key part of this perspective is aiming to answer the question, "What are we good at?"
- The answer to that question can help the company formulate marketing strategies and pursue innovations that lead to the creation of new and improved ways of meeting the needs of customers.

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Four Perspectives of the Balanced Scorecard

4. Organizational capacity perspective

- Organizational capacity is important in optimizing goals and objectives with favorable results. The personnel in the organization's departments are required to demonstrate high performance in terms of leadership, the entity's culture, application of knowledge, and skill sets.
- Proper infrastructure is required for the organization to deliver according to the expectations of management. For example, the organization should use the latest technology to automate activities and ensure a smooth flow of activities.

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