

**Subject: Business Economics**

**Course: B.A., 6<sup>th</sup> Semester, Undergraduate.**

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**Paper Title: Business Strategy & Ethics**

**Unit No.: 1 (One)**

**Title: Overview of Strategic Management**

**Lecture No: 2 (Two)**

**Title: Strategic Management Process**

**Academic Script**

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**Introduction:**

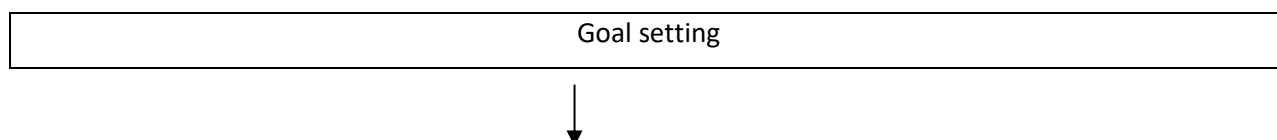
Part 2 delves into the process of strategic management actually from goal setting to strategy evaluation. Here students are introduced to such core concepts as strategic vision and formulation of mission statement. This chapter also focuses on – whether and why a company has a duty or obligation to contribute to the betterment of the society with its ethical principles and core values. This chapter will give some serious ideas to the students for ethical and socially responsible behaviour of the firm.

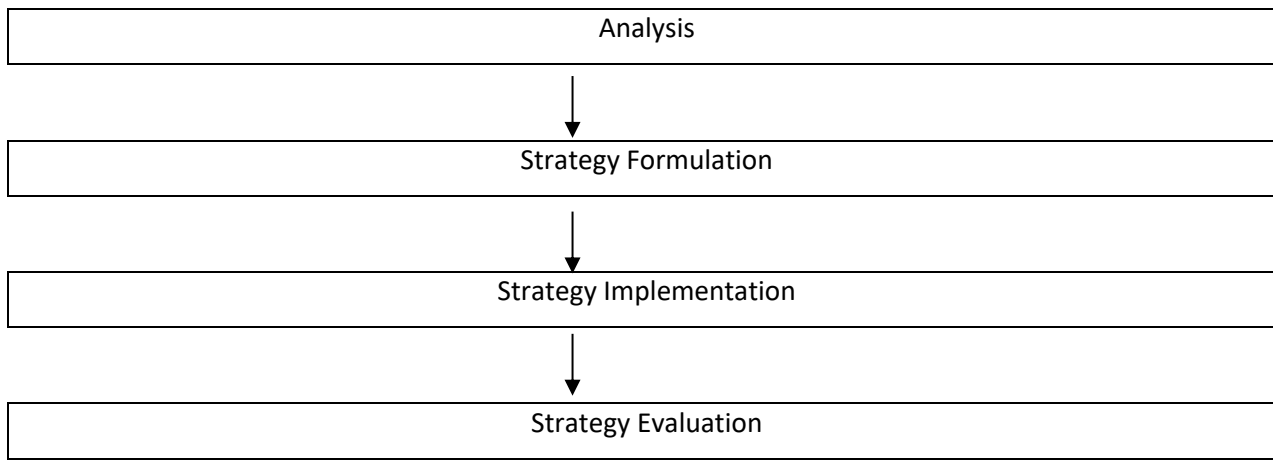
**1. Strategic Management Process**

**Strategic Management as a Process:** It is very important to recognize that strategy is developed within a firm. The final product will necessarily be shaped by the history of that firm, interest of its senior managers, and place for making fundamental business decisions. Typically these all factors come together in a ‘strategic Process’ through which strategy is defined and formulated and evaluated by the firm’s manager.

It is a method by which managers can implement a strategy that can lead to sustainable competitive advantage.

Following are conceptual steps of strategic management process:





- 1.1 Goal Setting:** The first step of strategic process is setting the goal for organization. Goals can be short term or long term. Manager has to choose capable staff to achieve short term as well as long term of organization.
- 1.2 Analysis:** A lot of information and data are gathered by people of organization to achieve goals. Internal and external factors can affect at the time of data collection. SWOT analysis is also done.
- 1.3 Strategy Formulation:** After strategy analysis, organization moves to strategy formulation. There is a need of giving priority to issues which organization is facing. Organization has to focus on requirement of resources and finally strategy is formulated according to plan.
- 1.4 Strategy Implementation:** After strategy formulation, the employees of an organization are clearly made aware about their role and responsibility towards organization. Thereafter Strategy implementation begins.
- 1.5 Strategy Evaluation:** After implementation of strategy it is required to check whether people are working on right track or not to achieve desired result. If any deviations found, the corrective actions should be taken at right time.

**2. Components of strategic Management Model:** There are four components of strategic management model

- 2.1 Environmental scanning:** It refers to a process of collecting, scrutinizing and providing information for strategic purposes.
- 2.2 Strategy formulation:** After environmental scanning, managers formulate corporate, business and functional strategies.
- 2.3 Strategy implementation:** It includes designing the structure of an organization, resources distribution, developing decision making process and managing human resources.
- 2.4 Strategy evaluation:** It is a final step of strategic management process. It is the assessment process that provides executives and managers performance information about programs, projects and activities designed to meet business goals and objectives.

These components are steps that are carried, in chronological order.

### Strategic Management Model

Strategic management is a broader term that includes not only the stages already identified but also the earlier steps of determining the mission and objectives of an organization within the context of its external environment. The basic steps of the strategic management can be examined through the use of strategic management model.

#### Andrews' Models

In 1965, *Kenneth Andrews* developed a simple model. This model includes the choice of a strategy, but ignores implementation and control. In 1971, *Andrews* formulated a more complete model that included implementation, but it still ignores a strategic control and evaluation.

#### Glueck's Model

*William F. Glueck* developed several models of strategic management based on the general decision-making process.

The phases of this model are as follows:

- \* **Strategic managements elements:** "*...to determine mission, goals, and values of the firm and the key decision makers.*"
- \* **Analysis and diagnosis:** "*...to search the environment and diagnose the impact of the threats and opportunities.*"
- \* **Choice:** "*...to consider various alternatives and assure that the appropriate strategy is chosen.*"
- \* **Implementation:** "*...to match plans, policies, resources, structure, and administrative style with the strategy.*"
- \* **Evaluation:** "*...to ensure strategy and implementation will meet objectives.*"

Moreover, Glueck broke down the planning process into analysis and diagnosis, choice, implementation, and evaluation functions. This model also treats leadership, policy, and organizational factors.

#### The Schendel And Hofer Model

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*Dan Schendel and Charles Hofer* developed a strategic management model, incorporating both planning and control functions.

Their model consists of several basic steps:

- (1) Goal formulation,
- (2) Environmental analysis,

(3) Strategy formulation,

(4) Strategy evaluation,

(5) Strategy implementation, and

(6) Strategic control.

According to Schendel and Hofer, the formulation portion of strategic management consists of at least three sub processes:

- Environmental analysis,

- Resources analysis,

- Value analysis.

The Thompson And Strickland Model

According to Thompson and Strickland strategic management is an ongoing process: "nothing is final and all prior actions and decisions are subject to future modification."

This process consists of five major five ever-present tasks:

1. Developing a concept of the business and forming a vision of where the organization needs to be headed.

2. Converting the mission into specific performance objectives.

3. Crafting a strategy to achieve the targeted performance.

4. Implementing and executing the chosen strategy efficiently and effectively.

5. Evaluating performance, reviewing the situation, and initiating corrective adjustments in mission, objectives, strategy, or implementation in light of actual experience, changing conditions, new ideas, and new opportunities.

*Thompson and Strickland* suggest that the firm's mission and objectives combine to define "What is our business and what will it be?" and "what to do now" to achieve organization's goals. How the objectives will be achieved refers to the strategy of firm.

## Korey's Model

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Korey's model incorporates both planning and control functions. Moreover, it describes not only long-range strategic planning process, but also includes elements of medium and short range planning.

This model adds several facets to the planning process that the reader has not seen in other models. Some of these are: *development of educational philosophy, analysis of the value systems, review of community orientation and social responsibilities, definition of planning parameters, planning studies, and feasibility studies.*

## Schematic Model

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This model was developed by *Peter Wright, Charles Pringle and Mark Kroll*(1994). It consists of six stages:

1. Analyze the environmental opportunities and threats.
2. Analyze the organization's internal strengths and weaknesses.
3. Establish the organizational direction: mission and goals.
4. Strategy formulation.
5. Strategy Implementation.
6. Strategic Control.

**3. Concepts of Vision and Mission:** Firms often commit their major goals and corporate philosophy to writing in a mission statement.

### 3.1 What is company Mission?

The mission of a company is the unique purpose that sets it apart from other companies of its type and identifies the scope of its operations in the product, market and technology terms.



### Characteristics of a Mission Statement.

- ◆ It identifies the **boundaries** of the **current** business and highlights
  - ➔ Present products and services
  - ➔ Types of customers served

→ Geographic coverage

◆ It conveys

→ **Who** we are,

→ **What** we do, and

→ **Why** we are here

A well-conceived mission statement *distinguishes* a company's *business makeup* from that of other profit-seeking enterprises in language specific enough to *give* the *company* its *own identity*!

**Examples of Mission statement:**

**Trader Joe's Mission Statement**

**TRADER JOE'S**

*(a unique grocery store)*

To give our customers the best food and beverage values that they can find anywhere and to provide them with the information required for informed buying decisions. We provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, and company spirit.

### 3.2 What is vision of company?

It is a statement that presents firms strategic intent designed to focus the energies and resources of the company on achieving a desirable future.

Company vision is sometimes developed to express the aspirations of the executive leadership for the business.

**Role of a Strategic Vision:**

◆ A well-conceived and well-communicated vision functions as a valuable managerial tool to

→ Give the organization a sense of direction, mould organizational identity, and create a **committed** enterprise

→ Inform company personnel and other stakeholders what management wants its business to look like and "where we are going"

→ Spur company personnel to action

→ Provide managers with a reference point to

- Make strategic decisions
- Translate the vision into hard-edged objectives and strategies
- Prepare the company for the future



A strategic vision exists only as words and has no organizational impact *unless and until it wins the commitment of company personnel and energizes them to act* in ways that move the company along the intended strategic path!

#### Examples of Strategic Visions:



Red Hat

To extend our position as the most trusted Linux and open source provider to the enterprise. We intend to grow the market for Linux through a complete range of enterprise Red Hat Linux software, a powerful Internet management platform, and associated support and services.



Wells Fargo

We want to satisfy all of our customers' financial needs, help them success financially, be the premier provider

of financial services in every one of our markets, and be known as one of America's great companies.



**Hilton Hotels Corporation**

Our vision is to be the first choice of the world's travelers. Hilton intends to build on the rich heritage and strength of our brands by:

- ◆ Consistently delighting our customers
- ◆ Investing in our team members
- ◆ Delivering innovative products and services
- ◆ Continuously improving performance
- ◆ Increasing shareholder value
- ◆ Creating a culture of pride
- ◆ Strengthening the loyalty of our constituents.



**eBay**

Provide a global trading platform where practically anyone can trade practically anything.

Mission statement always shows a road map of the company and works as ladder and vision statement express as a destination to the company. A manager or executive of the company can reach towards the destination means to achieve the vision of the company with the help of road map alike a mission statement of the company.

**4. Formulating a company Mission:**

Company mission can be best understood by thinking about business and its inception. Mission statement will state basic type of product and service to be offered, technology to be used, groups of customers to be served or primary markets to be served. The main aim of any firm is to survive through growth and profitability.



**Manager's sense of mission is based on following beliefs:**

- The product or service of the business can provide benefits to its price.
- The entrepreneur's self concept of the business can be communicated to employees and stakeholders and adopted by employees and stakeholders.
- Philosophy of management will provide financial and psychological rewards for investors which helping the business to succeed.
- Business can not only survive but also grow and be profitable with hard work and the support of the others.
- The product or service can satisfy need of customers and need of specific market segments.
- The technology which is used in production will provide cost cutting benefit and quality product or service and competitive advantage to survive in the market.

To understand the strategy and its formulation, it is required to identify mission statement components.

Following are the mission statement components:

1. Customer Markets
2. Product- service
3. Geographic domain
4. Technology
5. Concern for survival
6. Self concept
7. Philosophy
8. Concern for public image.

**5. Social Responsibility:**

Social responsibility means various duties or responsibility or obligations that a business organization has towards the society within which it exists and operates from.

Social responsibility of business are towards its-

1. Shareholders or investors
2. Employees or workers
3. Consumers or customers
4. Government or its administrative bodies
5. Local community
6. Environment

## 7. General public

A good business must give a proper dividend to its share holders and investors, fair wages and salaries to its employees and workers, good quality product or services to its consumers and customers, pay fair taxes and abide by all rules and regulations of government, contribution of betterment of local community, it must take care of environment for controlling pollution, it should offers social welfare services to general public.

Business objectives may broadly be divided into two categories: economic and social. Economic objectives are goals with respect to the marketplace. Social objectives refer to the company's intentions toward its employees, shareholders and the public at large.

In determining a firm's social responsibility, managers must identify the groups that are influenced by its actions and what are their expectations out of the business. In a broad sense, such groups may include owners, employees, customers, the community, the government, suppliers, and society in general.

### 1. Responsibility to owners:

- ❖ Utilizing funds in the best possible manner
- ❖ Ensure a fair rate of return regularly
- ❖ Fair and honest reporting of business operations from time to time

### 2. Responsibility to employees

- ❖ Recognize the social needs of workers and provide adequate participation to employees in matters affecting their life
- ❖ Fair and reasonable rates of pay
- ❖ Creating a healthy work climate, improving working and living conditions and making the work place safe and pleasant
- ❖ Improving the quality of working life of employees

### 3. Responsibility to customers:

- ❖ Providing goods of superior quality at reasonable prices
- ❖ Avoiding deceitful, false, and highly exaggerated advertisements and high pressure publicity gimmicks aimed at wooing the customers away from competitors

- ❖ Management should not indulge in anti-social activities like black marketing, hoarding, etc.

4. Responsibility to creditors and suppliers:

- ❖ Provide accurate information regarding the financial health of the organization.
- ❖ Ensure a reasonable price for the articles supplied, and make prompt repayments (involving interest on borrowings); there should be fairness in transactions.
- ❖ Promote a healthy atmosphere where creditors, suppliers and other interest groups are treated as partners in a cooperative endeavor.

5. Responsibility to community:

- ❖ Develop constructive relationship with members of the community.
- ❖ Participate in community activities and promote community welfare. Renovating neighborhoods surrounding the company's headquarters, building public parks with playground equipment, and granting employees paid leave of absence to work in social programs.
- ❖ Offer good housing and efficient transportation to own employees and to poorer sections of the community.

6. Responsibility to government:

- ❖ Follow fair trade policies and practices.
- ❖ Pay taxes to the government honestly.
- ❖ Obey the laws.
- ❖ Discourage unhealthy practices like bribing the government officials to get favors, obtain licenses in order to kill the competition, etc.

7. Responsibility to society:

- ❖ Elimination of poverty and provision of quality health care.
- ❖ Preservation of the environment by reducing the level of pollution.
- ❖ Providing equal employment and educational opportunities to all, regardless of race, color, creed or sex.
- ❖ Providing sufficient number of jobs and career opportunities and facilities for all members of society.

**Summary:** In recent years all firms have realized the importance of strategic management. The main difference between firms who succeed and who failed its due to strategic management and strategic planning is carried out. Still there are many firms which do not engage in strategic planning and not get the support from management.

At the end of this session students are able to understand importance of strategic management as a process and social responsibility and the effect of various options on company profitability.

Moreover this chapter focuses on mission statement and vision statement that present a firm's. After reading this session students learnt the continuum of social responsibility strategic intent designed to focus the energies and resources of the company on achieving a desirable future