Future Challenge for Strategic Management

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ABSTRACT

The field of strategic management has offered a variety of frameworks and concepts during the last half century, many aimed at "taking business and its management seriously." Research conferences and resulting books and journals have provided intellectual momentum, augmented by stimulation from challenges to "conventional wisdom" experienced in the global market performance. This article highlights the future Challenges for Strategic Management.

INTRODUCTION

As we all know Management is an art as well as science. Many concepts of Management theory have been derived from practice unlike the pure science which has their foundation in experimental research. Management studies draw upon the practical experiences of managers in defining concepts. Business policy is rooted in practice of management & passed through different phases before, taking its shape in the present form of strategic management.

According to Alfred D Chancellor strategy is, "The determination of the basic long term goals & objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals".

He refers to three aspects:

1. Determination of basic long term goals & objectives.
2. Adoption of courses of action to achieve these objectives and
3. Allocation of resources necessary for adopting the courses of action.

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- According to Kenneth Andrews strategy refers to the business definition which is a way of stating the current & desired future position of company and the objectives, purposes, goals, major policies & plans required to take the company from where it is to where it want to be.

- According to Henry Mintberg strategy is – a pattern in a stream of decisions & actions.

On the basis of above mentioned views of different authors strategy is varied in nature, depth and coverage, offer us a glimpse of the complexity involved in understanding future challenges of strategic management concept.

Strategy is not just a set of tools but also a state of mind. Even after extensive usage of the concepts of Total Quality Management (TQM) and business process re-engineering, strategy is still unclear. Strategy seems like a challenge because it is paradoxical in nature, as the strategies that have made some business successful often seem to be absurd for other. A particular strategy that will work for one company, may not work for another. It is contradictory nature can be seen in the form of statements that make a strategy successful like vision of the future, considering the bigger picture while keeping in mind all the details. Each of these statements forms an essential ingredient of successful. Comprehending these paradoxes and being able to work it out and learn about the different levels at which strategy can be formulated.

Levels at which strategy operates: It is uncommon to find many companies, or a group of companies, working in different business lines with regard to either products/services, market or technology. Here are few illustrations:

1. Hindustan Lexico, the Venerable multinational subsidiary, is in several (businesses, such as animal feeds, beverages, oils & dairy fats, soaps and detergents, and specially chemicals.

2. Sundaram Clayton and its associate companies – Hasita Grammar, Sundaram fasteners, TVS Suzuki, TVS Electronics and TVS Whirlpool operate in technology areas as diverse as brake and signal systems or railways, two wheelers, computer peripherals, and electric appliances.

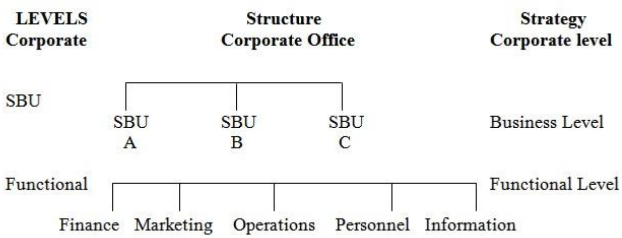
3. Balmer Laurie, a public sector company, has a diversified portfolio of businesses in fields of Cargo, Chemicals, Containensation, lubricants, Packaging project consultancy, tea exports and international business.

4. The flow more group of companies manufactures pumps for irrigation, a range of engineering products, turbines, castings, specialized conversion equipments, and has recently started the manufacture of Polyester films. It also offers engineering

consultancy services for Power projects & environmental engineering.

For above mentioned illustrations (companies) a single strategy is not only inadequate but also inappropriate. The need is for multiple strategies at different levels. In order to segregate different units or segments each performing a common set of activities, many companies are organized on the basis of operating divisions or, simply, divisions. The divisions are also known as profit centres or Strategic Business Units (SBUs). A SBU, as defined by Sharplin, is “any part of a business organization which is treated separately for strategic management purpose”.

Different levels of strategy:



Generally, SBUs are involved in a single line of business. A complementary concept to the SBU, valid for internal environment of a company, is a strategic business area (SBA). It is defined as a destructive segment of the environment in which the firm does (or may want to do) business.

A number of SBUs, relevant for different SBAs, form a cluster of units under a corporate umbrella. Each one of the SBUs has its own functional departments, or a few major functional departments, while common functions are grouped under the corporate level. As described above, one level relates to the organizational levels and the other to the strategic level.

SBU level (or business) strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas, and coordination between them for making an optional contribution to the achievement of corporate level objectives.

Functional strategy deals with a relatively restricted plan providing objectives for a specific function, allocation of resources among different operations within that functional area, and coordination between them for optimal contribution to achieve SBU & corporate level objectives.

Illustration of a company using corporate and SBU-level plans at Hindustan Petroleum Corporation Ltd.

The deregulation & divestment of government equity has made HPCL-one of the three oil sector grants besides IOC & BPCL-undertake a restructuring exercise, on the basis of recommendation from Anderson consulting, four strategic business units – lubes, liquefied Petroleum gas, retail, and industrial have been created.

In 1995 HPCL formulated 925 year perspective plan which incorporated its long term view of the emergency scenario. Not much is known about the plan as it is a confidential document. Though what is evident from HPCL's strategic actions is that it is adopting a grand strategy of expansion that includes integration, joint ventures, and strategic alliances as corporate strategies.

Likewise, business-level strategies have been stated at the level of each of the four SBUs. For instance, the lube SBU has a two pronged strategy of expansion of distribution from the petrol pumps to the bazaar trade and of activating R&D.

Apart from three levels at which strategic plans are made, occasionally companies plan at some other levels too. Firms often set strategies at a level higher than the corporate level. These are called the societal strategies. Based on a mission statement, a societal strategy is a generalized view of how the corporation relates itself to society in terms of a particular need or a set of needs that is strives to fulfill. Corporate-level strategy could then be based on the societal strategy; the corporation has a number of alternatives with regard to the businesses it can take up. It can either be a manufacturer of Nuclear Power reactors, a maker of equipments used for taping solar energy, or a build of wind mills, among other alternatives. The choice is wide & being in one of these diverse fields still keeps the corporation within the limits set by its societal strategy. Corporate and business level strategies derive their rational from the societal strategy.

Some strategies are also required to be set at lower levels. One step down the functional level, a company could set its operations-level strategies. Each functional area could have a number of operational strategies. These would deal with a highly specific & narrowly-defined area. For instance, a functional strategy at the marketing level could be subdivided into sales, distribution, pricing, product, and advertising strategies. Activities in each of the operational areas of marketing, whether sales or advertising, could be performed in such a way that they contribute to the functional objectives of the marketing department. The functional strategy of marketing is interlinked with those of the finance, production and personnel departments. All these functional strategies and operation level strategy which, in term, is derived from the societal-level strategy of a corporation.

Societal strategies are manifest in the form of vision and mission statements, while functional & operational strategies take the shape of functional and operational implementation, respectively.

HR's Contribution to Merger and Acquisition Underperformance

Merger and acquisition underperformance is caused by human capital elements that point toward poor HR risk management by the HR department. There are two primary issues that contribute to HR's ineffectiveness in overseeing M & A deals:

Lack of early involvement-HR departments are involved in the deal process at a much later stage inhibiting their ability to overcome HR risks during integration proactively or at an early stage. Typically, HR departments are informed about the merger or acquisition after the financial deal is struck. A majority of deals are never checked for human capital synergy.

Lack of capability in executing critical mandates

In cases where HR departments are involved actively in the deal process, failure is caused due to the HR department's inability to implement effectively. HR does not identify and foresee challenges, rendering the companies unprepared in the event of a crisis. In several cases, HR fails to create and design tools that meet and overcome these challenges. Lastly, poor monitoring of the process results in ineffective identification of bottlenecks and insufficient learning from the process.

We have under the circumstances outlined strategies that are CRITICAL in nature to ensure the success of mergers and acquisitions. Together they constitute the 'soft issues' that need the 'hard attention' to underwrite success of M & A decision.

Different kinds of strategies

1. **Communication strategy**

Communication is a driver of engagement and ensures transparency. Employees value information on changes around them as it enables them to understand and adjust with their peers and work environments. Companies use effective communication messages to enhance employee morale and decrease resistance.

2. **Retention strategy**

Retaining and appropriately rewarding human capital is a challenge for the HR department at the time of mergers. All too often the most talented resources of the organization leave the organization first. Hence proactive steps to mitigate the voluntary turnover need to be taken. A wait and watch attitude can spell trouble as employees walk into the ranks of the competitors. Speed, alacrity and discretion on the part of the HR department are very critical to stem attrition.

3. Integration strategy

The success of mergers hinges upon identifying people likely to block the merger process and taking appropriate action. A sense of urgency should prevail during the early stages of the merger process. Also opportunities to employees to air their concerns and steps initialed to alleviate their anxiety would strengthen the integration efforts. The appointment of an integration champion would help smoothen the process.

4. Training strategy

Post-deal, employees tend to believe that opportunities for promotion and development diminish. To counter this belief, companies provide several developmental activities. These include individual development plans, short-term stretch roles, rotational opportunities, and redesigned roles.

5. Intellectual buy-in

Mergers and acquisitions need to be facilitated through not only an 'emotional buy-in' but also through an 'intellectual buy-in'. Managers should provide opportunities for their teams to participate in the details of merger and acquisition. Team meetings to deliberate on; and clarify the new information, before examining the consequences for the team itself; can follow official announcements. This would provide a valuable opportunity for less outgoing employees to voice their views.

To encourage intellectual buy-in, managers should repeat important messages, especially about the benefits of the combination - this helps prevent staff being overwhelmed by details and losing the bigger picture; supplement any gaps in official announcements by networking with other managers to discover what is happening, or to help resolve ambiguities or confusions in work tasks and processes; and prepare for negative feeling among teams after each formal announcement and recognize people's need for fresh reassurance.

6. Culture strategy

Culture is driven by managers and senior executives, which in turn drives employee satisfaction. It sets the platform for flexibility and future orientation. Whether to pursue a cultural preservation strategy, cultural assimilation strategy, cultural integration strategy or cultural transformational strategy is the key decision that has to be taken.

7. Assessment strategy

An assessment or due diligence strategy helps the merging companies identify the presence of any hidden liabilities for the integrated business. The assessment would help the companies have a re-look at their decision and recheck its feasibility. HR too has a role to play in the due diligence or assessment process. Components for the HR due diligence review include industrial relations, pending employee litigations, HR policies and procedures and key talent analysis.

8. Leadership strategy

The operational and financial synergies sought to be realized through mergers and acquisitions will not be realized unless emphasis is placed on leadership. Many companies have encountered a leadership vacuum because they failed to make the establishment of leadership a priority. Lack of leadership resulted in dysfunctional conflicts, delayed decisions, and constituencies - from employees to customers to market analysts -losing patience.

The execution of the merger objectives calls for the appointment of the top management team and then - successively and quickly -the levels immediately below. The newly appointed key executives would be the leaders of the integration. Delay leads to drift and drift is a precursor of demise. Hence the need for strong leadership has be in place from the early days.

In conclusion we state that if we are to do the right deal we need to do the deal right. This in its turn calls for an intense effort and leadership that is committed and focused on the disciplined pursuit of creating value for the diverse stakeholders. The blueprint we proffered is a step in that direction.

Decision-Making

Decision-making is the most important function of any manager. Strategic decision-making is the prominent task of the senior management. Both kinds of decision-making are essentially the same. The difference lies in the levels at which they operate. While decision-making pertains to all managerial functions, strategic decision-making largely relates to the responsibilities of the senior management.

Conventional Decision-making

Most people agree that decision-making is the process of selecting a course of action from among many alternatives. The process works somewhat like this:

- objectives to be achieved are determined,
- alternative ways of achieving the objectives are identified,

- each alternative is evaluated in terms of its objective-achieving ability, and
- The best alternative is chosen.

The end result of the above process is a decision or a set of decisions to be implemented. Such a process of decision-making is deceptively simple. In practice, decision-making is a highly complex phenomenon. The first set of problems encountered in decision-making is related to objective-setting. Second, the identification of alternatives is a difficult task. How to test the objective-achieving ability of each alterna-tive is easier said than done, and, lastly, choosing the best alternative is a formidable task too.

Strategic Decision-making

As indicated above, the problems encountered in decision-making are experienced by all managers in the course of their day-to-day activities. On the other hand, strategic tasks are by their very nature complex and varied. Decision-making in performing strategic tasks is, therefore, an extremely difficult, complicated and, at times, intriguing and enigmatic process. Illustration given below of a company's managing director reveals his thoughts with regard to the strategic decisions related to growth objectives and the intended strategy. This exhibit is indicative of the complexity of strategic decision-making.

CASE STUDY

Strategic Decision-making at Zodiac Clothing

Zodiac, with its 'classic business statement', is one of the strongest brands in shirts and ties in India. Anees Noorani, the managing director of Zodiac Clothing Com-pany, answered an interviewer's queries on the prospects for his company and the intended strategy.

Zodiac is aiming at a growth of 20 per cent in the topline (premium) segment and 35 per cent in the bottom line segment of branded garments. The reason for the strategic decision to set these objectives is that the Indian markets are now ready for branded garments. Foreign brands have made an entry into the market and retailing is on the rise. The company is perceived to have the necessary infrastructure in terms of manufacturing, distribution and logistics to take advantage of the emerging opportunities. From a dominant position in the export market it is now focusing on the domestic market.

Another significant strategic decision has been the company's reverse backward integration. This means that Zodiac no longer wants to produce fabric for its garments. It wishes to have the flexibility of outsourcing for a changing product mix dictated by fashion. Motivated by this logic, it has abandoned its plans for manufac-turing cloth for its garments. Rather, it would like to extend its product range to producing branded trousers.

Ten Necessary Steps for making Strategy Work

The basic things to remember are to know what your direction is and why, knowing your current position and customers, choosing the right path with the strategy in mind, taking action on decisions and monitoring the actions. Here are the steps which will help make your strategy a success.

Step 1 - A Compelling Vision

Vision is an important factor of the organization. Without vision the organization has no basis to formulate its strategy on. It is important to have a strong compelling vision.

Step 2 - The Magic of Intent

When there is an ability to believe in one's self and move forward in the right direction, it is magic. This magic forms the second step in trying to make strategy a success.

Step 3 - Develop Awareness

It is an important factor in a strategy cycle. An organization should be able to recognize its core competencies and its current position. It is necessary for the organization to be aware of ground realities; it should be able to analyze its position in the market and the subsequent consequences on its future.

Step 4 - Know Your Customers

Everyone will agree that this is the most important factor in strategy formulation and its success. A company should understand its customers, their needs and then formulate strategies that will help fulfil those needs.

Step 5 - Evaluation and Selection of Strategic Options

Considering the advantages and disadvantages of every strategy and sub-strategy formulated, the feasibility and risks should be analyzed. Internal constraints and external risks should be understood properly before selecting a particular strategy or a sub-strategy.

Step 6 - Creativity

The ability to look at a problem from different angles is an equally important factor for an organization's success. When creativity is allowed to prosper at the individual level, organization will succeed.

Step 7 - Leadership

The success of an organization has its basis in leadership. No organization prospers without a good leader. It is an important factor for a strategy to be a success.

Step 8 - Trust

Trust has to be gained in order to obtain commitment from all the levels of the organization. When this happens, an organization is said to be on its way to success.

Step 9 - Make it Happen

This step means implementation. For any organization to move forward, a well-planned strategy needs to be implemented, calling for certain changes. Change is the only constant factor in the world and hence, it is imperative that an organization handles change effectively.

Step 10- Measure the Performance

Feedback on the performance before and after the changes is vital. It helps to know where the organization stands in the market after the implementation of the strategies and sub-strategies.

CONCLUSION

The strategy should be formulated in such a way that a unique & valuable position is created for the organization in the market. A match between the external and internal capabilities is essential for the purpose.

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