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BLOCK - 1 CORPORATE STRATEGY AND PLANNING

Corporate policy and practices is a challenging and fast developing field of study. It looks at the organisation as a whole and helps to explain why some organisations thrive while others stagnate. In today's dynamic environment, an organisation, whether large or small, must be managed strategically. The decisions in an organisation cannot simply be based on long standing rules, policies, or standard operating procedures. Instead the corporate management must look to the future to plan organisation - wide objectives, initiate strategy, and set policies. The corporate management must answer these questions: firstly, where is the organisation presently, and secondly, where it will be, if no changes are made, at some point in future? If the answer to the second question is not applicable, then the management must think what specific actions are required to be undertaken and what are their risks and pay offs.

This introductory block is divided into three units.

Unit 1 acquaints you with the Concept of Strategy and its various elements. The various aspects related with strategy, viz., missions, objectives and goals, and policies are explained with the help of suitable examples. The different types of strategies are discussed. The importance of strategy has been highlighted and the various phases involved in the process of strategic management are described.

Unit 2 elaborates upon the components of McKinsey 7-S Framework. The seven Ss, namely, Strategy, Structure, Superordinate goals, Systems, Styles and Skills are explained and then examined in the context of existing literature in this area. The unit concludes with a brief discussion about the Framework's utility and limitations.

Unit 3 deals with Corporate Policy and Planning in India. The basic concept of corporate planning and its characteristics are discussed. The various steps involved in the process of corporate planning and the approaches that can be followed in preparing corporate plans are described. The usefulness of Systems Concept in constructing corporate plans and benefits from corporate planning are understood. The unit then focuses on why corporate planning fails and what is required to make the planning experience a successful one.

UNIT - 1 CONCEPT OF CORPORATE STRATEGY

Objectives

The Objectives of this unit are to :

- ◆ Develop your understanding about the concept of strategy and its various components
 - ◆ acquaint you with various kinds of strategies that an organisation can follow.
- Structure :

1.1 Introduction

- 1.2 Definition of Strategy
- 1.3 Organisational Purposes and Missions
- 1.4 Objectives and Goals
- 1.5 Policies
- 1.6 Programme Strategies
- 1.7 Kinds of Strategies
- 1.8 Importance of Strategy
- 1.9 Strategic Management Process
- 1.10 Summary
- 1.11 Key Concepts / Terms
- 1.12 Self-assessment Questions
- 1.13 Further Readings

1.1 Introduction :

The development of concepts in strategic management has taken place during the last three decades. The key concept in this field is that of "strategy" which is an aid to the top manager in dealing with the problems and dilemmas posed by an increasingly complex and competitive environment.

The Twenty-fifth National Business Conference sponsored by the Harvard Business School Administration in 1955 made one of the earliest attempts to highlight the potentially powerful concept of strategy. Subsequently, Chandler's historical study of the development of some of the American enterprises proposed "strategy" as one of the most important variables in the study of organisations¹. In 1965, Ansoff published his "*Corporate Strategy*" and Learned, Christensen, Andrews and Guth of Harvard Business School published "*Business Policy: Text and Cases*". Ansoff relied heavily on his experience at the Lockheed Aircraft Corporation to develop a method for formulating the strategy. The concepts discussed in the text book developed by Harvard Business Policy Group was an attempt to understand the problems of general management in business enterprises with the help of the concept of strategy.

From the literature on strategic management, it is evident that long range planning and / or strategic planning refers to the management process in organisations through which the future impact of the change is determined and current decisions are made to reach a designed future. These concepts have far reaching influence on the organisations. They include the entire process of determining major outside interest groups and their stakes; expectations of dominant inside stakeholders; information about past, present and projected performance; and evaluation of company strengths and weaknesses; formulation of organisational purposes, missions, objectives, policies and strategies. However, despite the fact that management experts have been trying to emphasise the need for such long-term approaches in organisational management, they are among the least developed and understood concepts in management. There is empirical evidence to suggest that top managements of organisations recognise the significance of strategic planning, but, paradoxically, they devote little time and efforts to it. In the emerging world of business which is likely to be characterised by an increasing pace of change and complexity, top managers would be required to devote greater time and energy to the long-term and strategic issues confronting their organisations.

In this unit we shall explain the various terms related with the concept of strategy, its importance and the steps involved in the strategic management process.

1.2 Definition of Strategy :

There is a considerable confusion in management literature regarding the meaning of the different terms used in the area of strategic management. A survey conducted by the American Management Association revealed that the respondents found it difficult to define the word 'policy'. Various companies when asked to define 'policy', used different phrases such as: a broad interest, direction or philosophy; an expression of the corporation's principles and objectives; guides to thinking and action; general standards not subject to frequent change; and procedures and practices, etc.

The problem may be due to the fact that *strategy, policy and objectives*, according to Andrews, embrace a range of statements from the broad and important to the narrow and relatively unimportant ones². Policies merge into procedures and procedures into rules. Strategies blend into tactics while corporate objectives shade into budget limits thus creating an 'ends-means continuum'. The following case illustrates this ends - means continuum.

A company decides upon a sales growth goal of 25 per cent per year and also decides to achieve this by acquiring other companies rather than introducing new products developed through in-house research and development. It may be said that acquisition was the strategy chosen by the company. Once that is decided, the acquisition of a company becomes an objective. The strategic choice then may be between acquiring a large or a small company. Assuming that the decision is to acquire a large company, search for a large company to acquire then becomes an objective, and so on. Depending upon the inclination, the word policy can be substituted in this illustration with strategy³.

Some of the definitions of the term "strategy" available in the management literature are presented below. According to Chandler, "Strategy can be defined as the determination of the basic

long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals . . ."⁴

Anthony defined strategic planning as "the process of deciding on objectives of the organization, on changes in these objectives, on the resources used to attain these objectives, and on the policies used to govern the acquisition, use, and disposition of these resources"⁵.

This definition of strategic planning implicitly provides us a concept of strategy.

Ansoff developed a theory around the "strategic problem"; choosing a firm's objectives and goals; deciding whether to diversify or not; if so in what areas, how vigorously and how it should develop its existing product market position, etc. According to him, strategy consisted of four components, namely, product-market scope, growth vector, competitive advantage, and synergy.⁶ The following example of a chemical firm illustrates the concept.

Objectives :

Return on Investment : Threshold 10%, goal 15%

Sales Growth Rate : Threshold 5%, goal 10%

Strategy :

- a) Product-market scope : Basic chemical and Pharmaceuticals
- b) Growth vector : Product development and concentric diversification
- c) Competitive advantage : Patent protection, superior research competence
- d) Synergy : Use of the firm's research capabilities and production technology.

Learned, et al, defined strategy as : ". . . the pattern of objectives, purposes, or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and what kind of company it is or is to be".⁷

Chandler's definition highlights the fact that strategy refers to long-term decisions. However, this is not made explicit in the other definitions. In explaining the definitions further the various authors, however, mention, this characteristic of strategic decisions. To Chandler, Anthony and Learned, et al, strategy includes objectives, goals and the courses of action adopted to achieve them, whereas, to Ansoff strategy refers to the ways by which a firm can achieve its objectives. Product market scope, growth vector, competitive advantage and synergy can be thought of as "courses of action".

In the other definitions, there are other authors who also the terms "missions" and "strategies" as part of the overall term "strategy". The differences in the meaning of the term are quite evident".⁸

Despite the lack of consensus on the definition of strategy, these seems to be a trend towards accepting a definition which includes the determination of the missions, and the long term objectives of an organisation and the policies necessary for achieving those missions and objectives. This is the definition we shall be using here.

In the following sections the components of strategy are elaborated.