# **UNIT-4**

**STRATEGIC MANAGEMENT AND BUSINESS POLCY**

# **Corporate Strategy: Concept, Components, Importance**

Corporate Strategy takes a portfolio approach to strategic decision making by looking across all of a firm’s businesses to determine how to create the most value.  In order to develop a corporate strategy, firms must look at how the various business they own fit together, how they impact each other, and how the parent company is structured in order to optimize human capital, processes, and governance.  Corporate Strategy builds on top of business strategy, which is concerned with the strategic decision making for an individual business.

The main tasks of corporate strategy are:

1. Allocation of resources
2. Organizational design
3. Portfolio management
4. Strategic tradeoffs

#### **1. Allocation of Resources**

The allocation of resources at a firm focuses mostly on two resources: people and capital.  In an effort to maximize the value of the entire firm, leaders must determine how to allocate these resources to the various businesses or business units to make the whole greater than the sum of the parts.

Key factors related to the allocation of resources are:

**People**

* Identifying core competencies and ensuring they are well distributed across the firm
* Moving leaders to the places they are needed most and add the most value (changes over time based on priorities)
* Ensuring an appropriate supply of talent is available to all businesses

**Capital**

* Allocating capital across businesses so it earns the highest risk-adjusted return
* Analyzing external opportunities (mergers and acquisitions) and allocating capital between internal (projects) and external opportunities

#### **2. Organizational Design**

Organizational design involves ensuring the firm has the necessary corporate structure and related systems in place to create the maximum amount of value.  Factors that leaders must consider are, the role of the corporate head office (centralized vs decentralized approach and the reporting structure of individuals and business units (vertical hierarchy, matrix reporting, etc.).

Key factors related to the allocation of resources are:

**Head office (centralized vs decentralized)**

* Determining how much autonomy to give business units
* Deciding whether decisions are made top-down or bottom-up
* Influence on the strategy of business units

**Organizational structure (reporting)**

* Determine how large initiatives and commitments will be divided into smaller projects
* Integrating business units and business functions such that there are no redundancies
* Allowing for the balance between risk and return to exist by separating responsibilities
* Developing centers of excellence
* Determining the appropriate delegation of authority
* Setting governance structures
* Setting reporting structures (military / top-down, matrix reporting

#### **Portfolio Management**

Portfolio management looks at the way business units complement each other, their correlations, and decides where the firm will “play” (i.e. what businesses it will or won’t enter).

Corporate Strategy related to portfolio management includes:

* Deciding what business to be in or to be out of
* Determining the extent of vertical integration the firm should have
* Managing risk through diversification and reducing the correlation of results across businesses
* Creating strategic options by seeding new opportunities that could be heavily invested in if appropriate
* Monitor the competitive landscape and ensure the portfolio is well balanced relative to trends in the market

#### **4. Strategic Tradeoffs**

One of the most challenging aspects of corporate strategy is balancing the tradeoffs between risk and return across the firm.  It’s important to have a holistic view of all the businesses combined and ensure that the desired levels are risk management and return generation are being pursued.

Below are the main factors to consider for strategic tradeoffs:

**Managing risk**

* Firm-wide risk is largely depending on the strategies it chooses to pursue
* True product differentiation, for example, is a very high-risk strategy that could result in a market leadership position, or total ruin
* Many companies adopt a copycat strategy by looking at what other risk-takers have done and modify it slightly
* It’s important to be fully aware of strategies and associated risks across the firm
* Some areas might require true differentiation (or cost leadership) but other areas might be better suited to copycat strategies that rely on incremental improvements
* The degree of autonomy business units have is important in managing this risk

**Generating returns**

* Higher risk strategies create the possibility of higher rates of return. The examples above of true product differentiation or cost leadership could provide the most return in the long run if they are well executed
* Swinging for the fences will lead to more home runs and more strikeouts so it’s important to have the appropriate number of options in the portfolio. These options can later turn into big bets as the strategy develops

**Incentives**

* Incentive structures will play a big role in how much risk and how much return managers seek
* It may be necessary to separate the responsibilities of risk management and return generation so that each can be pursued to the desired level
* It may further help to manage multiple overlapping timelines, ranging from short-term risk/return to long-term risk/return and ensuring there is appropriate dispersion

# **Strategy Formulation: Concept, Process & Affecting Factors**

Strategy formulation is the process of offering proper direction to a firm. It seeks to set the long-term goals that help a firm exploit its strengths fully and encash the opportunities that are present in the environment. There is a conscious and deliberate attempt to focus attention on what the firm can do better than its rivals. To achieve this, a firm seeks to find out what it can do best. Once the strengths are known, opportunities to be exploited are identified; a long-term plan is chalked out for concentrating resources and effort.

Since strategies consume time, energy and resources, they must be formulated carefully. Strategies, once formulated, must ensure a best fit between goals, resources and effort put in by people. The ultimate goal of every strategy that is being formulated should be to deliver outstanding value to customers at all times.

Henry Mintzberg, after much research found that strategy formulation is typically not a regular, continuous process. “It is small often an irregular, discontinuous process, proceeding in fits and starts. There are periods of stability in strategy development, but also there are periods of flux, of grouping of piecemeal changes and of global change.”

Performance results are generally periodic measurements of developments that occur during a given time period like return on investment, profits after taxes, earnings per share and market share. Current performance results are compared with the current objectives and with that of the previous year’s performance results. If the results are equal to or greater than the current objectives and past year’s results, the company will mostly continue with the current strategy otherwise, the strategy formulation process begins in earnest.

The strategic managers must evaluate the mission, objectives and policies. In fact, the strategic managers are evaluated in terms of management style, values and skills by the top management. Henry Mintzberg has pointed out that a corporation’s objectives and strategies are strongly affected by top management’s view of the world. This view determines the mode to be used in strategy formulation.

**These modes include:**

1. **Entrepreneurial Mode:**

Strategy is formulated by one powerful individual. The focus is on opportunities rather than on problems. Strategy is guided by the founder’s own visions of direction.

1. **Adaptive Mode:**

This strategy formulation mode is characterised by reactive solutions to existing problems rather than a proactive search for new opportunities.

1. **Planning Mode:**

Analysts assume main responsibility for strategy formulation. Strategic planning includes both the proactive search for new opportunities and the reactive solution of existing problems.

Strategic planning is a systemic and disciplined exercise to formulate strategies. It relates to the enterprise as a whole or to particular business units (identified as strategic business units – SBUs) of a divisionalised organisation. It consists of making risk- taking decisions -entrepreneurial decisions – for the future with the best possible knowledge of their probable outcome and effects.

In short, strategic planning concerns itself with the formulation of strategic alternatives to obtain sanctions for one of the alternatives which is to be ultimately interpreted and communicated in operational terms. Thus, strategic planning is a forward-looking exercise which determines the future posture of the enterprise with special reference to its products-market posture, profitability, size, rate of innovation and external institutions.

Strategic planning differs from project planning tactical, planning and operational planning. Strategic planning is more comprehensive, for strategy is dealt with at corporate level and is concerned mainly with the long-term aspects of business. It deals with what business the company wants to be in.

Project planning involves looking for new markets for existing products, developing new products, creating demand for the same, and utilising the existing facilities if they have the capacity to meet the marketing and selling requirements of the new product. Tactical planning is done at the functional level. It is concerned more with the present than the future. It implies an ad hoc approach based on expediency with a time schedule.

Operational planning, on the other hand, is essentially concerned with the existing product-market operations – the ‘bread and butter lines’ of the business. The scope of operational planning is restricted to the operations in the market with which the company has built up a rapport with the existing range of products through the facilities which are already in harness.

Choice activity consists of selecting the most appropriate strategy from among the alternatives. This framework is helpful in understanding the essential elements involved in strategy formulation. But the sequence of intelligence, design and choice activity may not be practiced in the same order. It is possible for a strategic planner to first choose a preferred strategy, then develop other options (alternatives) to analyse for rationalising the choice.

The degree of uncertainty in tactical planning and operational planning is of a low order. It is of a higher order in project planning, while in strategic planning risk and uncertainty involved are much greater. The time span of discretion is relatively shorter in tactical and operational planning than in project planning. It is much longer in strategic planning as compared with that of project planning. Thus the value of judgment is of much greater significance in strategic planning than in project planning or operational planning.

**Process**

**The strategy formulation involves the following steps:**

#### **Step # 1. Developing Strategic Vision:**

1. Vision specifies what direction or path to follow.
2. Specify what products, markets, technologies and customer policies to follows
3. Vision communicate management aspirations to stack holders of company.
4. Helps to boost morale of organization and engages them for a common direction.
5. Clear vision helps to provide a motivated and stimulated environment in the organization.
6. Vision specify management aspiration for the business in long-term.

#### **Step # 2. Setting Objectives:**

Corporate objectives are outcome of “Mission and Vision” of organization. Objectives define specific performance targets, results and growth that organization wants to achieve.

To determine the objectives an approach known as Balance Score Card is used.

**Balance Score Card Approach:**

Overall a company should set both strategic and financial objectives. However, organization can use Balance Score Card approach for setting objectives. This approach states that “Organization should focus more on achieving strategic objectives – like “performance”, “customer satisfaction”, “innovation” and “profitability” – than financial objectives (i.e., profit and profit growth) only.

Balance Score Card also provides a basis to measure company performance against set objectives.

Company strategic and financial objectives should be set both as, short-term and long-term objectives.

**Long-Term and Short-Term Objectives:**

**Long-Term Objectives:**

1. Profitability.
2. Productivity.
3. Competitive Position.
4. Employee Development.
5. Employee Relations.
6. Technological Leadership.
7. Public Responsibility.

Long-term objectives represent the results expected from pursuing certain strategies, usually from two to five years.

**Qualities of Long-Term Objectives:**

1. Acceptable
2. Flexible
3. Measurable
4. Motivating
5. Suitable
6. Understandable
7. Achievable.

Objectives are commonly stated in the following terms; growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility.

Short-range objectives can be identical to long-range objectives for example, if a company has long- term objective of 15 percent profit growth every year, then the company’s short-term objective would also be 15% profit growth for current year.

**Concept of Strategic Intent:**

Here intent refers to intension. A company exhibits strategic intent when it relentlessly (aggressively) pursues an ambitious strategic objective and concentrates its full resources and competitive actions on achieving that objective.

A company’s strategic intent can helps in many ways to the company, like –

1. In becoming the dominant company in the industry;
2. Unseating the existing industry leader;
3. Delivering the best customer service in the industry (or the world);
4. Turning new technology into products which capable of changing the way people work and live.

Sometime ambitious companies begin with strategic intents that are out of proportion to their immediate capabilities and market positions. But they continuously work hard— even achievement of objective may take a sustained effort of 10 years or more. Moreover, on reaching one target they stretch the set objectives and again pursue them relentlessly, sometimes even obsessively.

**The Need for Objectives at all Organizational Levels:**

Objective setting should not stop with top management’s setting the companywide performance targets. Company objectives need to be broken down into performance targets for each separate business, product line, functional department, and individual work unit.

Company performance can’t reach full potential unless each area of the organization does its part and contributes directly to the desired companywide outcomes and results. This means that objectives should be given to each and every business units and those should be combined with overall company objectives.

#### **Step # 3. Crafting a Strategy to Achieve the Objectives and Vision:**

A company can achieve its mission and objectives when all the components of a company work together. A company’s strategy is at full power only when its many pieces are united. Achieving unity in strategy planning and formulation is partly a function of communicating the company’s basic strategy themes effectively across the whole organization.

A company’s strategic plan lays out its future direction, performance targets, and strategy.

“Developing a strategic vision, setting objectives, and crafting a strategy are basic direction-setting tasks”.

Vision, Objectives and crafting a strategy set the both short-term and long-term performance targets for organization. Together, they constitute a strategic plan to deal with industry and competitive conditions.

For crafting or developing a strategy many assessments are performed.

**However, three assessments are very important:**

1. The first determine organizational strengths and weaknesses.
2. The second evaluates competitor strengths, weaknesses, and strategies, because an organization’s strength is of less value if it is neutralized by a competitor’s strength or strategy.
3. The third assesses the competitive environment, the customers and their needs, the market, and the market environment.

These assessments, based on the strategy selected, focus on finding how attractive the selected market will be. The goal is to develop or formulate a strategy that exploits business strengths and competitor weaknesses and neutralizes business weaknesses and competitor strength.

#### **Step # 4. Implementing & Executing the Strategy:**

Strategy implementation and execution is an operations-oriented activity. This stage is the most demanding and time-consuming part of the strategy-management process.

Till now, in the above stages everything was planning only. In this stage above plans are given actions. In this stage, based on company and competitor’s strength and weaknesses various activities are implemented.

**This stage is like management process and includes followings:**

1. Staffing the organization with the needed skills and expertise.
2. Developing budgets and organizing resources to carry out those activities which are critical to strategic success.
3. Using the best-known practices to perform business activities and pushing for continuous improvement.
4. Motivating people to pursue the target objectives energetically.
5. Tying rewards and incentives directly to the achievement of performance objectives and good strategy execution.
6. Creating a company good culture and work climate for successful strategy implementation and execution.
7. Keep on improving strategy execution and when the organization encounters stumbling blocks or weaknesses, management has to see that they are addressed and rectified quickly.

**Good Strategy Execution Involves Creating Strong “Fits”:**

1. Between strategy and organizational capabilities.
2. Between strategy and the reward structure
3. Between strategy and internal organization working systems, and
4. Between strategy and the organization’s work climate and culture.

#### **Step # 5. Monitoring Implemented Strategy and Making Corrective Adjustments:**

A company’s vision, objectives, crafting strategy, and implementing and execution of strategy are not final thing in strategic management – managing strategy is an ongoing process.

There is one more stage in the corporate strategy management and that stage is—monitoring and evaluating the company’s progress. As long as the company’s strategy is going well, executives may remain stick to implemented strategy except more changes are required with time.

But whenever a company encounters disruptive changes or downturn in its market positions then company managers are required to search out whether the reasons of downturn are due to poor strategy, poor execution, or both to take timely corrective action.

A company’s direction, objectives, and strategy have to be revisited anytime external or internal conditions warrant. It is to be expected that a company will modify its strategic vision, direction, objectives, and strategy over time, if required.

### **Affecting Factors**

The practice of strategy formulation is an ongoing exercise that is refined over the years. During the process, tools and techniques are validated and demonstrated by way of successful deployment in organizations. This is true for different kinds of organizations such as partnership firms, privately-held companies, corporate bodies, government businesses, and not-for-profit organizations.

Strategy formulation has to be scientific. We come across many instances wherein the strategic management process has failed to deliver the required results for competitive growth. This failure, in some cases, is attributed to a lacuna in the strategy formulation stage, leading to a failure in the subsequent strategy implementation stage. This obviously reflects the multiplicity and complexity of challenges faced at this stage.

**The following points try to capture such challenges in the context of effective operation of a business:**

#### **i. Achieving Shared Vision:**

This is one of the major issues in strategy formulation. There are instances where after choosing an appropriate strategy, the top management, among themselves and across organizations, fails to achieve synchronization of the vision, strategic intent and hence the strategy for way forward.

This leads to problems in implementation and in the obtainment of commitment from the stakeholders. This is a serious issue in making major decisions. For example, while venturing into inorganic moves such as mergers, acquisitions, sell offs, or divestiture, such instances are common. In this process, there could be a delay in pursuing the strategy, which may lead to value erosion.

One of the authors was involved in the selection of technology and boilers for a small power plant for co-generation of power and steam for processing. The delay in decision making made the company lose one operating season as it was a highly seasonal industry. The delay was mainly because the vision for co-generation of power was fully understood but the streamlining with operations was not clear. It required a combination of vision and operations expertise to consummate the idea, causing the delay.

To overcome such problems, creating a shared vision is critical. All successful organizations have one. Building confidence among stakeholders and communicating objectively are critical for creating a shared vision. It not only creates a shared vision but also a philosophy of oneness and growth through commitment of effort and energy for the benefit of all stakeholders.

#### **ii. Inability of Partners to Map a Vision:**

The inability of partners to map a vision and agree on strategy formulation could be another issue, especially in case of alliances and joint ventures, venture capitalists, and group companies. Though partners have well defined areas of interest, when it comes to the nitty-gritty of strategy formulation, there could be divergence of views. In addition, there could be a possibility of a dominant partner having a ‘big brother’ attitude, because of which the strategy formulation process could be jeopardized.

In case venture capitalists are active at the strategy formulation stage, they may try to overplay the role because of experience elsewhere or lack of on-ground realities. Many times, even debt fund providers drive strategic intent because of certain contractual clauses, such as the right to be present on the board. The inconvenient exposure may lead to a loss of control in making right decisions in the interest of all the stakeholders.

However, the problems among partners can be addressed by promoting healthy understanding and transparency. Key partners such as a venture capitalist can be given board responsibilities and may be involved in decision making. It may be a good idea to have an open and clear communication rather than taking problems to a breaking point and then trying to resolve them.

#### **iii. Leadership and Managerial Bias:**

Imposing leaders and self-motivated managers are often causes of dissonance at the strategy formulation stage. To overcome the same, leaders and managerial bias needs to be addressed effectively. A strong and active board is one which can balance this bias. Such an approach is possible only with large companies. Small and mid-sized companies have a problem in getting directors, who could overpower this bias, on the board of the company. In such cases, the strategy formulation team may need to involve the right advisors and experts to bring a balance.

Leaders who have a tendency to follow the success of others must be engaged in the details of operational situations and exposed to internal factors adequately so that someone’s success is not imitated. Wherever leaders have a problem with respect to assimilating the nuances of technical or functional perspectives, adequate time must be allocated during the formulation stage. Without the right perspectives, if leaders are driving or are driven by any of the stakeholders, the post-decision correction process could be time consuming. In addition, such moves may lead to strategic lapses, requiring resources and effort.

#### **iv. Managers Over-Emphasizing Tools and Techniques:**

Another issue involves managers over-emphasizing tools and techniques and losing touch with the pulse of the market or going in the wrong direction due to a herd mentality. Sometimes, they may be following the market without understanding the internal factors, leading to difficulty in strategy formulation. This is the most common issue when external agents or advisors are used to formulate a strategy.

Many times, investment bankers get enthusiastic and highly impressed with an idea, which may result in a slip at the input stage of strategy formulation. There are a number of examples especially in major strategic decisions such as sell-offs, mergers, diversification, and funding, which state that such problems of investment bankers’ overdrive have resulted in big mistakes.

It is not erroneous on the part of the advisors to commit to such situations. Many times, the internal strategists do not understand the situation in perspective or lack the ability to communicate clearly the various facets and risks of business. More importantly, the high brand value of such advisors overawes some clients, who leave the decision process to the advisors, instead of taking an active role.

The ability to manage the issue of bias towards tools and techniques, and find the right balance of experience, intellect and deployment of tools and techniques for decision making is required. This can again be achieved by involving senior board members and making a committee responsible for major strategic decisions. Such a committee can bridge the art and science of decision making for effective formulation of strategies.

# **Strategy Evaluation: Process, Criteria**

Strategic management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organisation. An organisation is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm’s performance. The manager must have a thorough knowledge and analysis of the general and competitive organisational environment so as to take right decisions.

They should conduct a SWOT analysis strengths, weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organisational weaknesses, make use of arising opportunities from the business environment and shouldn’t ignore the threats.

Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organisations as even the smallest organisation faces competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage.

Strategic management is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organisation. It helps us to identify the direction in which an organisation is moving.

Strategic management is a continuous process that evaluates and controls the business and the industries in which an organisation is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then revaluates strategies on a regular basis to determine how these have been implemented and whether these were successful or require replacement.

Strategic management gives a broader perspective to the employees of an organisation and they can better understand how their job fits into the entire organisational plan and how it is correlated to other organisational members. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives.

The employees become more trustworthy, more committed and more satisfied as they can correlate themselves well with each organisational task. They can understand the reaction of environmental changes on the organisation and the probable response of the organisation with the help of strategic management.

Thus, the employees can judge the impact of such changes on their own job and can effectively face the changes. The managers and employees must do appropriate things in appropriate manner. They need to be both effective as well as efficient.

The strategic management process defines the organization’s strategy. It is also the process which helps managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved, its competitors; and fixes goals to meet all the present and future potential competitors and then reassesses each strategy.

### **Strategic management process has following five steps:**

#### **Step # 1. Mission and Goals:**

The first step in the strategic management begins with senior managers evaluating their position in relation to the organization’s current mission and goals. The mission describes the organization’s values and aspirations; and indicates the direction in which senior management is going. Goals are the desired ends sought through the actual operating procedures of the organization. It typically describe short-term measurable outcomes.

#### **Step # 2. Environmental Scanning:**

Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes and helps in analyzing the internal and external factors influencing an organization. After executing the process, management should evaluate it on a continuous basis and strive to improve it.

#### **Step # 3. Strategy Formulation:**

Strategy formulation is the process of deciding best course of action for achieving organizational objectives. After conducting environment scanning process, managers formulate corporate, business and functional strategies.

#### **Step # 4. Strategy Implementation:**

Strategy implementation implies putting the organization’s chosen strategy in to action and making it work as intended. Strategy implementation includes designing the organization’s structure, distributing resources, developing decision making process, and effectively managing human resources.

#### **Step # 5. Strategy Evaluation:**

Strategy evaluation which is the final step of strategy management process involves- appraising internal and external factors, measuring performance, and taking remedial/corrective actions. Evaluation assure the management that the organizational strategy as well as its implementation meets the organizational objectives.

These steps are carried by the businesses, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation’s requirement, so as to make essential changes.

### **Strategic Management Process**

Strategic management involves certain functions or activities. The systematic way of doing these functions or activities is described as strategic management process.

**It consists of:**

1. Strategy formulation,
2. Implementation,
3. Evaluation & control

#### **Process # 1. Strategy Formulation:**

Strategy formulation is the first phase in the strategic management process. It is concerned with devising a suitable plan of action after studying the external business environment, analysing the industry and assessing the internal capabilities of the business concern. It involves six important steps.

**They are:**

1. Defining the company mission,
2. Analysis of the external business environment,

iii. Industry analysis,

1. Internal analysis of the firm,
2. Strategic alternatives, and
3. Strategic choice.

**The steps to be followed for the formulation of a strategy are explained below:**

**Defining the Company Mission:**

The first step in the formulation of a strategy is a clear definition of the mission of the company. This is necessary to formulate an ideal strategy. Otherwise, the strategy will not produce the desired results. An ideal strategy is one which reflects the mission of the company. A mission is the long-term vision of what an organisation wants to be and to whom it wants to serve and what impact on the society. The mission is, thus, the basic, unique purpose that differentiates a business from others.

**Analysis of the External Business Environment:**

The second step in the formulation of a strategy is an analysis of the external business environment. It is concerned with studying or observing what is prevailing in the external business environment and what changes have taken place. Such an assessment is necessary because every incident or change will have either positive or negative impact on the business.

It involves – (a) analysis of remote environment and (b) analysis of operating environment. The external business environment thus provides opportunities or threats to the business concerns. The business concern must formulate a suitable strategy to exploit the opportunities or manage threats depending up on its strengths or weaknesses.

**Analysis of the Industry:**

The third step in the formulation of a strategy is an analysis of the industry. It involves the examination of certain forces operating in an industry to understand the nature and the degree of competition in that industry. The level of competition in an industry depends on five basic forces which determine the profit potential of an industry. They are (a) the threat of new entrants, (b) The bargaining power of buyers, (c) The bargaining power of suppliers, (d) The threat of substitute products, and (e) Rivalry among the existing firms.

The study of these forces indicates the trend of industry, the strength and weakness of the company in the industry. Such a study will be useful to formulate a suitable strategy to utilise the opportunities or threats.

**Internal Analysis of the Firm:**

The fourth step in the formulation a strategy is a thorough internal analysis of the firm. It is concerned with a systematic appraisal or examination of the internal capabilities of a firm. Such an appraisal is necessary to know the strengths and weaknesses of the firm in the areas of finance, production, marketing, technology, research and development, and human resource management.

A systematic internal analysis of the firm involves (a) identification of strategic internal factors and (b) evaluation of the strategic internal factors to identify the key strategic strength and weakness. A factor is considered a strength only when a firm has a distinct competency in it than the competitors in the industry.

A factor is considered a weakness only when a firm performs it poorly than the competitors in the industry. A new strategy therefore has been formulated after considering the internal strategic strengths and weaknesses of the firm to utilise the external opportunities or minimise its activities to overcome threats.

**Strategic Alternatives:**

The fifth step in the formulation of a strategy is developing strategic alternatives. They are concerned with identifying other possible ways of achieving the same strategy formulated to utilise external business opportunities or minimise the firm’s activities to overcome threats.

For example, growth strategy may be achieved by intensive growth strategy of market penetration, market development, and product development or integrative growth strategy of horizontal integration and vertical integration or diversification strategy depending upon the internal strengths and weaknesses provided the external business environment is favorable.

**Strategic Analysis and Choice:**

The last step in the formulation of a strategy is strategic analysis and choice. Strategic analysis involves a systematic evaluation of strategic alternatives with reference to certain criteria. Each alternative has its own merits and demerits but all alternatives cannot be equally appropriate.

**Each alternative should be examined to determine its:**

1. Relevancy,
2. Feasibility and
3. Acceptability.

**Relevancy:**

Relevancy of a strategy refers to the examination of the appropriateness of a strategy with reference to certain aspects. So, the strategists should examine whether –

(i) The strategy is relevant to the mission of the company or not

(ii) The strategy is helpful to accomplish the long-term objectives or not

(iii) The strategy is fit to the strategic strengths and weaknesses of the company or not

(iv) The strategy exploits the external business opportunities or minimises its activities to overcome the threats or not.

1. **Feasibility:**

Feasibility of a strategy refers to the possibility of achieving the strategy. For testing the feasibility of a strategy, the strategists should examine before the selection of a strategy whether –

(i) The availability of resources are sufficient or not

(ii) The availability of the technology is appropriate or not

(iii) The availability of inputs are sufficient or not

(iv) The organisation’s structure is suitable or not.

**Acceptability:**

Acceptability of a strategy refers to the examination of the agreeableness of a strategy to certain interested parties in an organisation. So, the strategists should examine whether:

(i) The strategy satisfies the criterion of ROI to the management or not

(ii) The strategy is acceptable to the shareholders or not

(iii) The strategy will affect the present employees or not

(iv) The strategy will affect the relationship with the existing customers and suppliers or not

**Strategic Choice:**

Strategic Choice is concerned with the selection of the best strategy among alternatives. The process of strategy formulation, thus, comes to an end with the choice of an appropriate strategy.

#### **Process # 2. Strategy Implementation:**

Strategy implementation is the second phase in the strategic management process. It is concerned with putting the strategy into operation or translating the strategy into strategic action. It necessitates three interrelated activities of (i) Determination of annul objectives, (ii) Development of specific functional strategies, and (iii) Development of policies. For the successful implementation, the strategy must be also institutionalised through structure, leadership, and culture.

#### **Process # 3. Strategy Evaluation and Control:**

Strategy evaluation and control is the last phase in the strategic management process. Strategy evaluation is concerned with examining whether the strategy implemented is working or producing results or accomplishing its objectives or not. Strategic control is concerned with continuous monitoring and tracking the strategy putting the strategy in the right path or direction.

# **Environmental Analysis**

**Environmental Analysis** is described as the process which examines all the components, internal or external that has an influence on the performance of the organization. The internal components indicate the strengths and weakness of the business entity whereas the external components represent the opportunities and threats outside the organization.

To perform environmental analysis, a constant stream of relevant information is required to find out the best course of action. Strategic Planners use the information gathered from the environmental analysis for forecasting trends for future in advance. The information can also be used to assess operating environment and set up organizational goals.

It ascertains whether the goals defined by the organization are achievable or not, with the present strategies. If is not possible to reach those goals with the existing strategies, then new strategies are devised or old ones are modified accordingly.

**Advantages of Environmental Analysis**

The internal insights provided by the environmental analysis are used to assess employee’s performance, customer satisfaction, maintenance cost, etc. to take corrective action wherever required. Further, the external metrics help in responding to the environment in a positive manner and also aligning the strategies according to the objectives of the organization.

Environmental analysis helps in the detection of threats at an early stage, that assist the organization in developing strategies for its survival. Add to that, it identifies opportunities, such as prospective customers, new product, segment and technology, to occupy a maximum share of the market than its competitors.

**Steps Involved in Environmental Analysis**

1. **Identifying**

First of all, the factors which influence the business entity are to be identified, to improve its position in the market. The identification is performed at various levels, i.e. company level, market level, national level and global level.

1. **Scanning**

Scanning implies the process of critically examining the factors that highly influence the business, as all the factors identified in the previous step effects the entity with the same intensity. Once the important factors are identified, strategies can be made for its improvement.

1. **Analysing**

In this step, a careful analysis of all the environmental factors is made to determine their effect on different business levels and on the business as a whole. Different tools available for the analysis include benchmarking, Delphi technique and scenario building.

1. **Forecasting**

After identification, examination and analysis, lastly the impact of the variables is to be forecasted.

Environmental analysis is an ongoing process and follows a holistic approach, that continuously scans the forces effecting the business environment and covers 360 degrees of the horizon, rather than a specificsegment.