

# **Corporate strategy**

## **MBA 401-18**

### **Lecture notes**

**Q1. What do you understand by the term Strategic Management?**

#### **Concept of Strategy:**

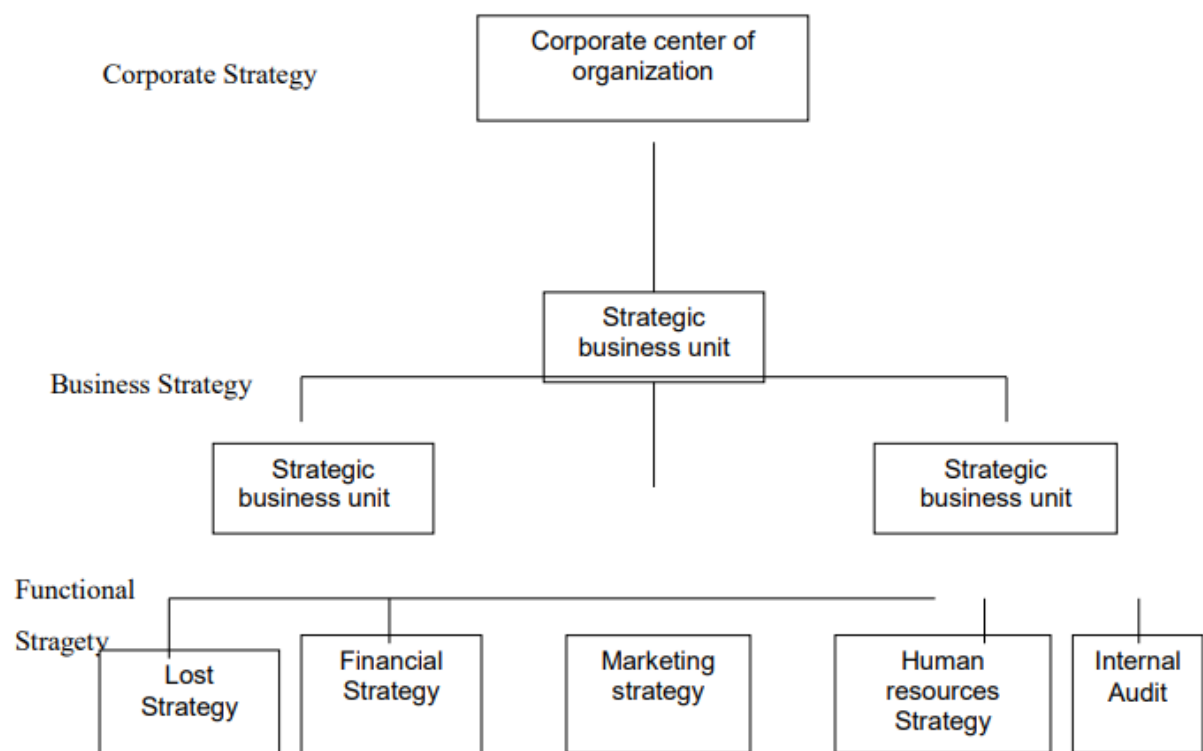
- 1. Strategy**: 'A course of action, including the specification of resources required, to achieve a specific objective.' CIMA: Management Accounting: Official Terminology, (2005 edition).
- 2. Strategic plan**: 'A statement of long-term goals along with a definition of the strategies and policies which will ensure achievement of these goals.' CIMA: Management Accounting: Official Terminology (2005 edition)
- 3.** Strategy is the direction and scope of an organization over the long term. Which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.
- 4.** "The basic characteristic of the match an organization achieves with its environment is called its strategy.'

**Q2. Discuss the various levels of Strategic Management**

#### **Levels of strategy:**

**Corporate strategy**: The corporate center is at the apex of the organization. It is the head office of the firm and will

contain the corporate board. The planning view of strategy assumes that all strategy was formulated at corporate level and then implemented in a 'top-down' manner by instructions to the business divisions. During the 1980s, high profile corporate planners like IBM, General Motors and Ford ran into difficulties against newer and smaller 'upstart'



Organization chart showing corporate, strategic business unit & functional strategies.

### **A Model of the Rational Strategy process:**

The traditional approach to strategic management is often termed the formal or rational approach, and can be described as a series of logical steps including:

#### **The determination of an organization's mission;**

- The setting of goals and objectives;
- The understanding of the organization's strategic position;
- The formulation of specific strategies;
- The commitment of resources.

This process seeks to answer questions concerning where the organization is now, where it should go in the future, and how it should get there. The rational model therefore involves a number of interrelated stages. These are illustrated in Figure below, which shows the various stages which management may take to develop a strategy for their organization.

The basic idea from the model is that we start with the existing strategy of the organization and evaluate it using information collected from internal and external analysis. From this we can determine if the organization should continue with its existing strategy or formulate a new strategy that will enable the organization to compete more effectively.

### **Mission, Objectives and goals:**

#### **Term & Definition Mission ::**

The Fundamental objects of entity expressed in general terms (CIMA).Overriding purpose in line with the values and expectations of stakeholders.

What business are we in?

**Vision or strategic intent ::**

Desired future state:

the aspiration of the organization.

**Goal ::**

General statement of aim or purpose- may be qualitative in Nature.

**Objective ::** Quantification (if possible) or more precise statement of the Goal.

**Q3. Explain the techniques to analyze Internal & external environment of an organization.**

**PEST framework:**

**Political:** These are political or legal factors affecting the organization, such as legislation or government policy, stability of the government, government attitudes to competition and so on.

**Economic:** These are economic factors such as tax rates, inflation, interest rates, exchange rates, consumer disposable income, unemployment levels and so on.

**Social:** These are social, cultural or demographic factors (i.e. population shifts, age profiles etc.) and refers to attitudes, value and beliefs held by people; also changes in lifestyles, education and health and so on.

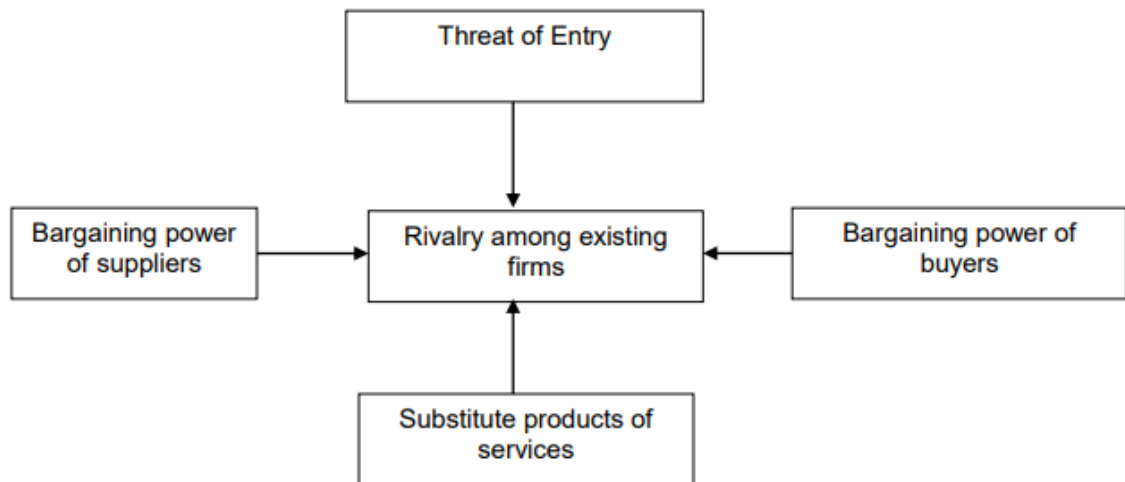
**Technological:** These are changes in technology that an organization might use and impact on the way work is done, such as new system or manufacturing processes.

Some authors have expanded the mnemonic PEST into PESTEL- to include explicit reference to ethical or environmental and legal factors. If you are asked to apply the PEST model to an organization, simply look for things that might affect the organization, and put each of them under the most appropriate heading. A brief explanation as to why you feel each activity creates either an opportunity or threat will suffice.

**The competitive environment- five forces model:**

As well as the general environmental factors, part of external analysis also requires an understanding of the competitive environment and what are likely to be the major competitive forces in the future. A well established framework for analyzing and understanding the nature of the competitive environment is Porter's five forces model.

- 1. Rivalry among existing firms;**
- 2. Bargaining power of buyers;**
- 3. Bargaining power of suppliers.**
- 4. Threat of new entrants;**
- 5. Threat of substitute products or services.**



The collective strength of these forces determines the profit potential, defined as long run return on invested capital, of the industry. Some industries have inherently high profits due to Threat of Entry Bargaining power of suppliers Rivalry among existing firms Bargaining power of buyers Substitute products of services the weakness of these forces. Others, where the collective force is strong, will exhibit low returns on investment. The model can be used in several ways

1. To help management decide whether to enter a particular industry. Presumably, they would only wish to enter the ones where the forces are weak and potential returns high.
2. To influence whether to invest more in an industry. For a firm already in an industry and thinking of expanding capacity, it is important to know whether the investment costs will be recouped. The present strength of the forces will be evident in present profits, so management will wish

to forecast how the forces may change through time. Alternatively, they may decide to sell up and leave the industry now if they perceive the forces are strengthening.

3. To identify what competitive strategy is needed. The model provides a way of establishing the factors driving profitability in the industry. These factors affect all the firms in the industry. For an individual firm to improve its profitability above that of its peers, it will need to deal with these forces better than they. If successful, it will enjoy a stronger share price and may survive in the industry longer. Both increase shareholder wealth.

