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1. INTRODUCTION TO BUSINESS STRATEGY

1.1. Definition of Strategy

Strategic management involves the formulation and implementation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes. Strategy is defined as "the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals." Strategies are established to set direction, focus effort, define or clarify the organization, and provide consistency or guidance in response to the environment. In other words, Strategy can be defined as the art, science, and craft of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives.

This can be illustrated by the following example. Suppose a company decides upon a sales growth of 35 per cent and desires to achieve this by acquiring other companies, instead of introducing new products. Acquisition in this case can be considered as a strategy chosen by the company. The company will then have to decide on the size of the firm to be acquired. If it decides on acquiring a small company, this becomes the objective.

1.2. Origins of Strategy Management

The strategic management discipline originated in the 1950s and 1960s. Among the numerous early contributors, the most influential were Peter Drucker, Philip Selznick, Alfred Chandler, Igor Ansoff, and Bruce Henderson. The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years. Prior to 1960, the term "strategy" was primarily used regarding war and politics, not business. Many companies built strategic planning functions to develop and execute the formulation and implementation processes during the 1960s.

Peter Drucker was a prolific management theorist and author of dozens of management books, with a career spanning five decades. He addressed fundamental strategic questions in a 1954 book The Practice of Management writing: "...the first responsibility of top management is to ask the question 'what is our business?' and to make sure it is carefully studied and correctly answered." He wrote that the answer was determined by the customer. He recommended eight areas where objectives should be set, such as market standing, innovation, productivity, physical and financial resources, worker performance and attitude, profitability, manager performance and development, and public responsibility.

In 1957, Philip Selznick initially used the term "distinctive competence" in referring to how the Navy was attempting to differentiate itself from the other services. He also formalized the idea of matching the organization's internal factors with external environmental circumstances. This core idea was developed further by Kenneth R. Andrews in 1963 into what we now call SWOT analysis, in which the strengths and weaknesses of the firm are assessed in light of the opportunities and threats in the business environment.

Alfred Chandler recognized the importance of coordinating management activity under an all-encompassing strategy. Interactions between functions were typically handled by managers who relayed information back and forth between departments. Chandler stressed the importance of taking a long term perspective when looking to the future. In his 1962 ground breaking work Strategy and Structure, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction and focus. He says it concisely, "structure follows strategy." Chandler wrote that:

"Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

Igor Ansoff built on Chandler's work by adding concepts and inventing a vocabulary. He developed a grid that compared strategies for market penetration, product development, market development and horizontal and vertical integration and diversification. He felt that management could use the grid to systematically prepare for the future. In his 1965 classic Corporate Strategy, he developed gap analysis to clarify the gap between the current reality and the goals and to develop what he called "gap reducing actions". Ansoff wrote that strategic management had three parts: strategic planning; the skill of a firm in converting its plans into reality; and the skill of a firm in managing its own internal resistance to change.

Bruce Henderson, founder of the Boston Consulting Group, wrote about the concept of the experience curve in 1968, following initial work begun in 1965. The experience curve refers to a hypothesis that unit production costs decline by 20-30% every time cumulative production doubles. This supported the argument for achieving higher market share and economies of scale.
Porter wrote in 1980 that companies have to make choices about their scope and the type of competitive advantage they seek to achieve, whether lower cost or differentiation. The idea of strategy targeting particular industries and customers (i.e., competitive positions) with a differentiated offering was a departure from the experience-curve influenced strategy paradigm, which was focused on larger scale and lower cost. Porter revised the strategy paradigm again in 1985, writing that superior performance of the processes and activities performed by organizations as part of their value chain is the foundation of competitive advantage, thereby outlining a process view of strategy.

1.3. Is Strategy static in nature or dynamic?

Because the firm's internal and external environment change over time, the Strategy also changes consequently, the idea that strategy is dynamic is inherent in our conception of strategic management. Strategy has four components. Firstly, strategy should include a clear set of long term goals. Second components are that it should define the scope of the firm i.e. the types of products the firm will serve etc. Thirdly, a strategy should have a clear statement of what competitive advantage it will achieve and sustain. Finally, the strategy must represent the firms' internal contest that will allow it to achieve a competitive advantage in the environment in which it has chosen to compete. Thus, you may say, 'Goals' are 'What' of the strategy 'Competitive Advantage; is how of the strategy and the; logic is the 'Way' of the strategy.

The strategic management or strategic planning encompasses long-range plans, new venture management, planning, programming, budgeting, business policy, etc. with greater emphasis on environmental scanning and forecasting and taking into account external and internal factors in formulating and implementing the plans.

Today, strategic management is understood as a process of formulating objectives of an organization and developing methods to achieve them. It is a process of designing a path and selecting one path, after due evaluation of various alternatives for reaching a goal. The objective can be in the form of a mission statement or may be clearly defined in the form of postulates.

Strategic management is a science of choosing the alternatives from the designed and available courses. The managers have to decide on a process that will be most suitable to their conditions and that would enable them to achieve a desired position for their organization.

Alfred D.Chandler (1962) made a detailed analysis of various interrelationships among environment, strategy, and organization structure in 70 manufacturing firms in the US and defined strategy as, 'The determination of the basic long term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals'.

It is pertinent to note here what Alfred D. Chandler has made reference to three basic aspects of strategic process;
- ✓ Determination of basic long-term goals,
- ✓ Adoption of course of actions to achieve these goals, and
- ✓ Allocation of necessary resources for carrying out these goals

Kenneth Andrews (1965) outlines business strategy definition as a method of describing the future position of a company, its objectives, purposes, goals, policies, and plans that may be required for guiding the company from its existing position to where it desires to be.

Andrews defines strategy as, 'The pattern of objectives for achieving these goals and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be." Thus, you find that Strategic Management is a set of rules aimed at taking decisions for sustenance and growth of an organization in a given environment.