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STRATEGIC MANAGEMENT- DYNAMICS APPROACH IN CORPORATE AND BUSINESS

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ABSTRACT

Implementing a successful corporate-level strategy has become an urgent priority for all corporations. Parent companies must demonstrate that they are creating stockholder value by their own actions and initiatives, and not just reaping the profits of the businesses in their charge. The sanctions for being seen to fail in this challenge can be severe. At the very least, stock prices will suffer; at the other extreme, predators will force a breakup. The challenge of corporate-level strategy is to ensure that value is being added to every business in the company's portfolio. That value must, of course, exceed its cost. Corporations with good corporate strategies do even better: they add more value than other companies in the same businesses. Ensuring that this value-added process is productive requires several actions by top management. Corporate level strategies influence the entire organization. The main focus of leaders at the corporate level is to enhance stakeholder value by developing the organization in accordance with its mission statement. The main priority of business level strategies is to develop a sustainable competitive advantage. Leaders at the business level are primarily concerned with building and maintaining superior positioning within the industry in which the organization does business.

INTRODUCTION

Corporate level strategy covers the strategic scope of the organization as a whole. If an enterprise is involved in several businesses or activities, it will need a corporate strategy as well as a business strategy for each of the separate businesses. Corporate strategy addresses the issues of a multi-business enterprise as a whole. Corporate strategy addresses issues relating to the intent, the enterprise and in particular has to provide answers to the questions as what should be the nature and-values of the enterprise in the broadest sense? What are the aims in terms of creating value for stakeholders? What kind of businesses should we be in? What would be the scope of activity in the future so what should we divest and what should we seek to add? What structure, systems and processes will be necessary to link the various businesses to each other and to the corporate centre? How can the corporate centre add value to make the whole worth more than the sum of the parts? Thus corporate strategy is of particular concern in diverse enterprises to demonstrate, justify and extend the value of that diversity. Corporate level strategy occupies the highest level of strategic decision-making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various Strategic business units (SBUs) for optimal performance. Top management of the organization makes such decisions. The nature of strategic decisions tends to be value-oriented, conceptual and less concrete than decisions at the business or functional level.

Corporate Strategy: Chronological Development

During the 1950s, many large companies, which had previously been organized by function, found that this form of organization was overloading headquarters and that they would be more efficient if they divided themselves into divisions. General Motors and other leading US companies had already demonstrated the advantages for divisional organization built its reputation as a firm of management consultants at this time partly through its success in assisting a large number of major companies to make the change from functional to divisional organization.

The 1960s may now be seen as the age of the 'conglomerate'. Conglomerates were companies with a portfolio of unrelated businesses. The conglomerates were created as a result of multiple acquisitions. After acquisition, the conglomerate usually imposed a standard management reporting system. This would typically be more sophisticated than the systems previously in place and had the effect of tightening financial control and making managers very much aware of the importance of 'making their numbers'. On the other hand, these systems could not be tailored to the diverse nature of the businesses acquired. The conglomerates grow fast partly because the financial markets awarded them high P/E (price/earnings) ratios. The high market valuations were a result of the high visibility of the conglomerates and probably also because analysts admired the tighter control and better financial reporting which the conglomerate parents imposed. There was a belief at the time that a good manger could manage anything and that a good control system could be applied to any type of business. Certainly the management control systems of most conglomerates were designed to control each separate business as an entity. Questions about the scope of the enterprise as a whole and the relationships between the different businesses needed a new approach. By the 1970s, investors were becoming more suspicious of conglomerates and portfolio analysis offered a basis for planning some much-needed rationalization. The trend towards rationalization accelerated in the early 1980s when the best selling book, In Search of Excellence was published. This book had a major impact on management thinking. The phrase 'Stick to the knitting' particularly caught the popular imagination and ushered in a period where the fashionable corporate strategy was to restructure around core businesses and to dispose of poorly performing divisions.

While the historical pattern described above is probably a fair sketch of the most important issues with which corporate strategy has been concerned over the last half century, it should be clear that the different frameworks and techniques tended to be suited to addressing particular issues. These issues may still occur and so any of the ideas may still be appropriate in particular contexts. In general, the techniques are now available as a tool kit to answer the questions to be addressed in creating a corporate strategy. The current emphasis is on achieving value for shareholders over the long term. The significance for corporate strategy is to apply these techniques widely to ensure that attention is focused on businesses that create value and to divest those that do not.

Corporate Strategy: Financial Markets

The focus on shareholder value relates closely to the fact that most large publicly owned companies, particularly in the USA and UK, are very sensitive to their standing in financial markets. Total shareholder value is determined by the increase in the share price and by the stream of expected future dividends. The former is more important than the latter during bull markets, the latter more important in market downturns. The share price may be heavily influenced by analysts who tend to calculate the price of a share by applying a price/earnings (P/E) multiple to the earnings per share. Both factors in this product are somewhat subjective and sometimes open to manipulation. The expected P/E is determined by somewhat subjective assessment such as whether the share is a ‘growth stock’ or the nature of the industry. In general, mangers in public companies must be sensitive to the linkages between their strategies and the price of their shares, but also aware that these linkages are somewhat fickle. One obvious example of this linkage is when a company chooses to demerge one or a group of its businesses. A common motivation for demerging is to increase the value of the set of businesses to share holders because some parts merit a higher P/E ratio than the whole. Amram and Kulatilaka take this argument a step further by suggesting that many strategic choices can be valued directly by markets by assessing them as financial options. To some extent, this allows managers to replace their own judgments about likely future outcomes directly by market valuations. They suggest that this will result in more disciplined decisions and link strategy more directly to building shareholder value. These questions begin to move beyond issues of corporate strategy into the more technical field of financial strategy.

Corporate strategy addresses the question for the extent of the corporation and is therefore necessarily closely related to mergers and acquisitions (M&A). M&A activities involve a wide range of intermediaries such as investment bankers, accountants, and lawyers, all of whom tend to benefit from the number of transactions irrespective of the strategic logic of those transactions. Secondly, managers themselves often have personal financial interests and their careers at stake in merges. There may be attractive stock options or higher compensation on offer from the merged company. There may be a choice between acquiring or being acquired, with power and hence better career prospects tending to move to the acquirer. Top appointments are particularly important. It may be that the crucial reason that the merger proposed between Glaxo-Wellcome and Smith Klein. Beecham did not happen in 1998 was because the question of who should get the top job could not be resolved. It is apparent that financial markets have an extremely potent effect on corporate strategy and have to be taken into account in practice. Market pressures are likely to outweigh the logic laid out in books such as this one - perhaps to the detriment of long-term outcomes.

Documenting Corporate Strategy

Formal documents on corporate strategy are less common than for business strategies, however, the chairman’s statement in the annual report of a public company often gives some indications of the corporate strategy. Chairman’s statements rarely answer all the questions suggested. This may be because the enterprise has not addressed all the questions or because the chairman's statement is slanted towards the needs of public relations or to impress financial analysis. Clearly it is often useful to a corporation to record the answers to the questions of corporate strategy in a short written document. The format of this document is not important but it should describe the Scope of Business, Structure, Systems, and Processes clearly and succinctly.

The rationale for overall scope of the business should be explained in terms of core competence, technological focus, shareholder value, parenting skill, geographical scope, or necessary market share to compete. Techniques such as parenting advantage or portfolio management may assist in providing the rationale for the business scope. Visible choices on divestments or acquisitions should be seen to fit with this rationale. It should be apparent what the dominant dimension to organizational structure is. The commonest forms are independent businesses linked by a headquarters umbrella, functional organization, geographical organization, or a matrix combining more than one of these dimensions. There should be a clear rationale as to why this organization is appropriate. The systems and processes should support the organization and there should be an analysis of the principal systems in place, assurances that their quality is adequate, and that their design is appropriate to support the organization.

BMW and Marks & Spencer are large and diverse enough for the distinction between corporate and business strategy to have much significance. BMW, although a large business, is still predominantly in the motorcar market. Its corporate strategy would need to address the issues of the relationship of its dominant business with its other interests in motorcycles and aero-engines. The relationship between Rover and BMW does not seem to have been thought through in strategic terms. This is more an issue of business than corporate strategy because the two companies are in the same business. M&S has its major businesses in retailing (subdivided into clothes, food, and home furnishings) and financial services. The issues for its corporate strategy certainly include the future geographical scope of each of these businesses. In addition, there is an issue on the extent to which it should focus on a single M&S image and value-set worldwide or seek to exploit its other brand names such as Brooks Brothers, It has issues about how best to organize its logistical processes to support its wide geographical spread and its sharp variations in the degree of market penetration.

Business Level Strategies

An organization's core competencies should be focused on satisfying customer needs or preferences in order to achieve above average returns. This is done through Business-level strategies. Business level strategies detail actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets. Business-level strategy is concerned with a firm's position in an industry, relative to competitors and to the five forces of competition. A business strategy describes how a particular business intends to succeed in its chosen market place against its competitors. It therefore represents the best attempt that the management can make at defining and securing the future of that business. A business strategy should provide clear answers to the questions what is the scope of the business (or offering) to which this strategy applies? What the current and future needs of customers and potential customers of this business? What are the distinctive capabilities or unique competence that will give us competitive advantage in meeting these needs now and in the future? What in broad terms needs to be done to secure the future of our business? These questions should have been addressed during the process of strategy formulation. The processes and techniques and processes may have contributed to answering them. In this lesson, we are concerned with some of the practical issues that arise when thinking and analysis leads into action and commitment. We are concerned also with what makes the difference between good and indifferent business strategies. I suggest that a good business strategy will meet six tests of quality as it will be correctly scoped. It will be appropriately documented. It will address real customer needs. It will exploit genuine competencies. It will contribute to competitive advantage. It will lay the ground for implementation. Business-level strategy is applicable in those organizations, which have different businesses-and each business is treated as strategic business unit (SBU). The fundamental concept in SBU is to identify the discrete independent product/market segments served by an organization. Since each product/market segment has a distinct environment, a SBU is created for each such segment.

Business Strategy: Scope

Each separate 'business' should have its own business strategy, so that a multiple business enterprise will have a number of separate business strategies. They suggest that there should be a separate competitive strategy for each offering defined as the unit of customer choice. The unit of customer choice depends on what the customer is comparing when he or she makes the buying decision. To divide businesses so finely is likely to be too much work and it is unlikely that it would be possible ever to implement such fine-grained strategies. There is often a conflict between theoretical rigor and practical constraints. In practice, the problem is more often the reverse of the Nescafe example in that a business is defined too broadly and, consequently, a single strategy is expected to apply to all its facets. One reason for this is that a division or region considers a 'business strategy' for its business that includes several distinct offerings. If the genuinely different needs of the different offerings are not separated, the resulting strategies can only be muddled and less useful than they might have been. There is a need for a balance in choosing the scope for each business. If the scope of the business is defined at too low a level, the work becomes too much. If the level is too high, the analysis loses its rigor. In practice, the problem is usually that this question of scope is never clearly posed, not that it would be difficult to provide a workable answer.

The Content of Business Strategy Document

There is a tendency for strategy documents to be too long. It should be possible to read the whole document at a sitting and find it easy to understand. Statement of strategic intent for the business should describe in general terms the business as it expects to become in the future. It should outline in practical and tangible terms how this future is different from the present. Clearly, the strategic intent for the business has to relate to the strategic intent for the enterprise as a whole and be coherent with any other corporate strategies. Principal findings of strategic assessment include typically, the strategic assessment will have involved detailed analysis of both the external business environment and the capabilities of the enterprise. Only the most important or most surprising results need to be recorded. However, this section should provide a reasoned assessment of current status and future prospects of the business, if present strategies were to be continued. This then makes the case for change in business terms. Strategic choices which have been made and supporting rationale, has to summarize the options that have been identified and the choices made. The reason for preferring one direction to another has to be spelt out and must be persuasive. The rationale for strategic choice should be based on a rigorous analysis of the basis of competitive advantage and how that will relate to the demonstrable capabilities of the enterprise. It is also desirable to show how the choice matches the strategic intent of the enterprise as a whole. The overall goal is to realize the strategic intent of the business. More measurable supporting goals are also very valuable. Objectives should not all be financial.

The Major Driver of Business Strategy

The needs of customers are one major driver of business strategy. It is essential to understand the needs and to identify how to satisfy these needs more fully, more exactly, or more profitable than competitors. Business strategy is therefore about beating competitors in meeting customer needs; beating competitors for other purposes may be fun but it is a distraction. It follows from this that a deep analysis and understanding of customers needs is essential to produce a good business strategy. It is necessary to understand the nature arid scope of customer needs, how these needs differ between different groups or individuals, how these needs are changing. It is normally the responsibility of the marketing function to understand these needs. Business strategy is therefore market driven and likely to have very heavy involvement of marketing people. This does not; however mean that a business strategy is the same thing as a marketing strategy. Business strategy is also heavily influenced by strategic intent, by Financial and human constraints, and in fact by everything that makes the chief executive’s job different forms the marketing director. In the BMW case example, there is no evidence that BMW defined clearly exactly how the BMW/Rover combination was expected to look from the customer’s point of view or how it would help BMW to meet customers’ needs better. Five years after the take-over, the BMWs brand strategy still looked like two separate companies. In 1999, Rover launched the Rover 75 that appears to compete almost directly with its BMW executive models. At the same time, BMW was developing the MXs, a four-wheel drive vehicle, in apparent competition with Rover’s Landover range. BMW may have had a clear strategy for how the merged entity would meet customer needs but we cannot detect it.

The second major driver of business strategy is the competence of the enterprise. We have described various analytical techniques for measuring resources and identifying capabilities. The ultimate goal is to identify a unique core competence that can provide the basis for differentiating ourselves from our competition. This is not easy to do and probably more business strategies go wrong because they failed to be honest in their assessment of their own capabilities that because they misunderstood customer needs. In the Nolan, Norton case example, the widening impact of information technologies caused the scope of Nolan, Norton’s consulting assignments to broaden and to require larger teams with broader-skills in people and change management.

Worldwide Strategies - A Drastic Change in Business World

Globalization is a challenge to strategic management. Not too long ago, a business corporation could be successful by focusing only on making and selling goods and services within its national boundaries. International considerations were minimal. Profits earned from exporting products to foreign lands were considered frosting on the cake, but not really essential to corporate success. During the 1960s, for example most US companies organized themselves around a number of product divisions that made and sold goods only in the United States. All manufacturing and sales outside the United States were typically managed through one international division. An international assignment was usually considered a message that the person was no longer promotable and should be looking for another job. Today, everything has changed. Globalization, the internationalization of markets and corporations, has changed the way modern corporations do business. To reach the economies of scale necessary to achieve the low costs, and thus the low prices, needed to be competitive, companies are now thinking of a global (worldwide) market instead of a national market. Nike and Reebok, for example, manufacture their athletic shoes in various countries throughout Asia for sale in every continent. Instead of using one international division to manage everything outside the home country, large corporations are now using matrix structures in which product units are interwoven with country or regional units. International assignments are now considered key for anyone interested in reaching top management.

As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and position the company for long-term competitive advantage. For example, Maytag Corporation purchased Hoover not so much for its vacuum cleaner business, but for its European laundry, cooking and refrigeration business. Maytag's management realized that a company without a manufacturing presence in the European Union would be at a competitive disadvantage in the changing home appliance industry. Globalization presents a real challenge to the strategic management of business corporations. How can any one group of people in any one company keep track of all the changing technological, economic, political-legal, and socio-cultural trends around the world? This is clearly impossible. More and more companies are realizing that they must shift from a vertically organized, top-down type of organization to a more horizontally managed, interactive organization. They are attempting to adapt more quickly to changing conditions by becoming learning organizations.

CONCLUSION

Corporate level strategy and business level strategy are operationalized in terms of inter-industry and infra-industry variation respectively. In this study we briefed the different levels in corporate strategies, in which the business level strategy, business scope and particularly the global strategy that is highly essential in the present day context have also been explained. An organization's core competencies should be focused on satisfying customer needs or preferences in order to achieve average returns. This is done through Business-level strategies. Business level strategies detail actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets. Business-level strategy is concerned with a firm's position in an industry, relative to competitors and to the five forces of competition. In the globalized business, companies require strategic thinking and only by evolving good corporate strategies can they become strategically competitive. A strategy of a business organization is a comprehensive master plan stating how the organization will achieve its mission and objectives.

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