Opening Case

STRATEGIC MANEUVERS AT BHARTI ENTERPRISES*

The Indian telecom market is one of the fastest growing for mobile telecommunication services. Every three months a few million subscribers are added to the burgeoning base of telephone service users. For instance, more than 14 million new subscribers were added during January – March 2006 to take the total number of subscribers in India to over 90 million. That number, in a country of a billion plus population, is less than 10 per cent of the total population, indicating the huge market potential that would exist for quite some time.

The mobile telecom industry in India is highly competitive with one of the lowest average revenue per unit in the world, thus making it a strategic challenge for the best of companies to operate successfully. Among the market leaders is Bharti Airtel, a company belonging to the Bharti Enterprises group. It is currently (in 2007) the market leader with a slight edge over the government telecom service provider, BSNL and the private service provider Reliance. Bharti's Airtel brand claims to have nearly 32 million subscribers.

The businesses at Bharti Airtel have been structured into three individual strategic business units (SBUs) - mobile services, broadband and telephone services and enterprise services.

Sunil Bharti Mittal, chairman of the Bharti group of industries, is a first-generation entrepreneur from the state of Punjab, who has demonstrated his ability to think big and put ambitious plans into action. For Bharti Airtel, his strategic intent is 'to create a globally admired telecommunication company'. The stated vision of Bharti Airtel is 'to be the most admired brand in India by 2010' that will be loved by more customers, targeted by top talent and benchmarked by more businesses.

In March 2006, Manoj Kohli was named the president of the company, to lead the Airtel management board which will have the overall responsibility of driving the strategy and the operational performance. Three joint presidents looking after three SBUs and four functional directors of finance and business integration, IT and innovation, marketing and communication, and networks make up the top executive management at Bharti Airtel.

The group corporate office of Bharti Airtel will focus on the overall business strategy, provide support to the Airtel management board and conduct periodic reviews and governance. Four of the functional roles at the president's office, i.e. finance, HR, legal and networks will have functional reporting to the corporate office.

The corporate strategy of Bharti Enterprises seems to be of strategic alliances with global companies for rapid growth in sunrise industries through access to finance and established market brands. For instance, Bharti Airtel has strategic alliances with Singtel and Vodafone as investors. Ericsson and Nokia are mobile network equipment partners. Other equipment suppliers include Siemens, Nortel and Corning. With IBM, there is an information technology alliance for group-wide information technology requirements and with Nortel, for call center technology requirements. In late 2006, Bharti Enterprises announced its foray into retailing in alliance with Wal-Mart, where the latter will provide backend logistics support involving sourcing and Bharti will handle the front-end retail aspect by setting up stores across India.[1]

Managerial decisions of long-term significance that organisations such as Bharti Enterprises take are studied in the subject of strategic management and business policy. Strategic management and business policy are overlapping terms that are not clearly distinguishable from each other. While strategic management is generally considered as the process of formulating, implementing and evaluating strategies for an

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organisation, business policy is usually considered as an academic field of study, an area of specialisation or a specifically named course related to strategic management.

1.1 EVOLUTION OF STRATEGIC MANAGEMENT AND BUSINESS POLICY

It is useful, as well as interesting, to start the learning of any subject with an idea about its historical evolution. In this brief section, we will learn about the genesis of strategic management and business policy and then look at how the discipline has undergone a process of historical evolution and what lies in store in the future. Finally, we will study some new developments in the Indian context in the field of strategic management and business policy.

The Genesis of Strategic Management and Business Policy

The origins of business policy can be retraced to 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability. This course was based on case studies which had been in use at the School for instructional purposes since 1908.[2]

However, the real impetus for introducing business policy in the curriculum of business schools (as management institutes or departments are known in the US) came with the publication of two reports in 1959. The Gordon and Howell report, sponsored by the Ford Foundation, recommended a capstone course of business policy '..... which will give students an opportunity to pull together what they have learned in the separate business fields and utilise this knowledge in the analysis of complex business problems.'[3] The Pierson report, sponsored by the Carnegie Foundation and published simultaneously, made a similar recommendation.

In 1969, the American Assembly of Collegiate Schools of Business, a regulatory body for business schools, made the course of business policy a mandatory requirement for the purpose of recognition. During the last two decades, business policy has become an integral part of management curriculum. From the US, the practice of including business policy in the management curriculum spread to other parts of the world. The contents of the course, teaching methodology, etc. vary from institution to institution, but basically, business policy is considered as a capstone, integrative course offered to students who have previously been through a set of core functional area courses. The term 'Business Policy' has been traditionally used, though new titles such as Strategic Management, Corporate Strategy and Policy, etc. are now being used extensively for the course. The discussion so far related to the academic status of the courses in business policy. In practice, however, development has been on different lines.

Evolution Based on Managerial Practices

Glueck views the development in business policy as arising from the use of planning techniques by managers.[4] Starting from day-to-day planning in earlier times, managers began to try to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasise the role of preparing for the future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning and later, by strategic management—a term that is currently used to describe the process of strategic decision making. Strategic management is the theoretical framework for business policy courses today.

Historical Perspective of Evolution of Strategic Management and Business Policy

Hofer and others view the evolution of business policy in terms of four paradigm shifts.[5] For the sake of convenience, these shifts may be considered as four overlapping phases in the development of the subject of business policy.

It is interesting to note that the development of business policy, as a field of study, closely followed the demands of real-life business. According to Hofer and others (referred to above), the first phase, which can be traced back to the mid-1930s, rested on the paradigm of *ad hoc* policy-making. The need for policy-making arose due to the nature of American business firms in that period. The firms, which commenced operations with a single product line catering to a unique set of customers in a limited geographical area, expanded in one or all of these three dimensions. The informal control and coordination became partially irrelevant as expansion took place and a need arose to integrate the functional areas. This integration was brought about by framing policies to guide managerial action. Policy-making became the prime responsibility of erstwhile entrepreneurs, who later assumed the role of senior management.

Due to the increasing environmental changes in the 1930s and 1940s in the U.S., planned policy formulation replaced *ad hoc* policy-making. Based on this second paradigm, the emphasis shifted to the integration of functional areas in a rapidly changing environment.

Increasing complexity and accelerating changes in the environment made the planned policy paradigm irrelevant since the needs of businesses could no longer be served by policy-making and functional area integration alone. By the 1960s, there was a demand for a critical look at the basic concept of business and its relationship with the environment. The concept of strategy satisfied this requirement and the third phase, based on a strategy paradigm, emerged in the early sixties.

The current thinking—that emerged in the eighties—is based on the fourth paradigm of strategic management. The initial focus of strategic management was on the intersection of two broad fields of enquiry: the strategic processes of business firms and the responsibilities of general management.

The story is far from being complete and, as Thompson and Strickland say, the approaches and methods of analysis of strategic management 'have not yet coalesced into a "theory" of how to manage an enterprise', but, 'they very definitely do represent a powerful way of thinking to resolve strategic issues.'[6]

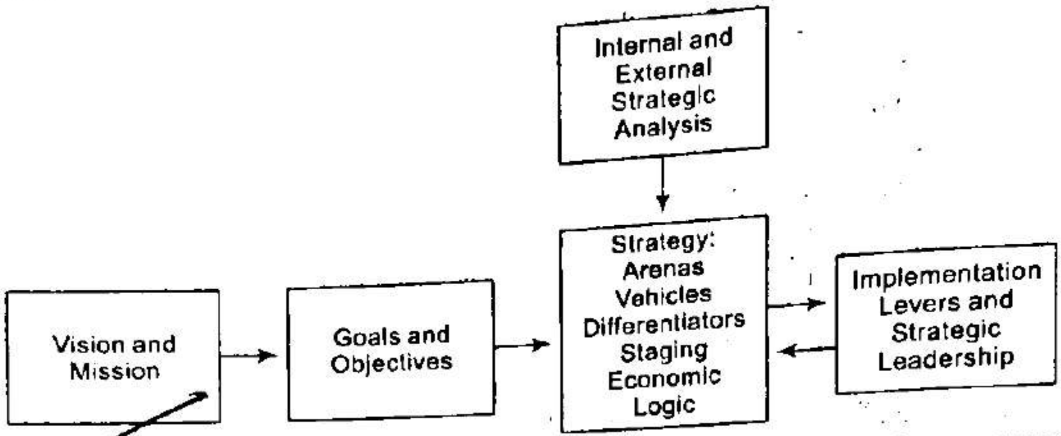
Pointers to the Future

The resolution of strategic issues that affect the future of a business firm has been the continual endeavour in the subject of business policy. The endeavour is based on the development of strategic thinking. It is felt that 'really useful training (in strategic management should yield)...a comprehension of a few general principles with a thorough grounding in the way they apply to a variety of concrete details'.[7] Most likely, the students will forget the details and principles but 'remember (usually unconsciously) new, non-obvious ways of thinking strategically'.[8] The general principles undergirding strategic thinking have been the focus of the efforts of researchers and academicians in the field of business policy. What, then, are these general principles? As a first step, the model of strategic management that has been developed and is under constant review, incorporates these general principles. We will be using a well-established model of strategic management in this book that you will shortly come across in the last section of this chapter. The model that we will use, is not the only framework available. There are continual efforts to build upon existing knowledge and experiences and refine the model of strategic management. Exhibit 1.1 presents information related to an alternative model of strategic management that may well be a pointer to the future developments in strategic management theory.

Exhibit 1.1 An alternative model of strategic management

In their 2001-paper titled 'Are you sure you have a strategy?' in the *Academy of Management Executive*, D.C. Hambrick and J.W. Fredrickson talk at length about the misconceptions surrounding the use of the term and assert that most organisations do not actually have a strategy. They go on to define strategy as 'An integrated, overarching concept of how the business will achieve its objectives.'

Hambrick and Fredrickson propose that strategy outlines the means by which a firm intends to create unique value for its customers and important stakeholders. In doing so, strategy is the central, integrated, externally-oriented concept of how a firm will achieve its objectives. In such a manner, strategy consists of an integrated set of choices. These choices are the five related elements of the strategy based on decisions that managers make regarding them.



A diagrammatic representation of Hambrick and Fredrickson model of strategic management

The five elements that make up the strategy, according to Hambrick and Fredrickson and those that form the core of their model of strategic management, in the form of questions are:

1. *Arenas*: The arenas attempt to answer the question: where will we be active? Typically, the arenas would comprise of the products, services, distribution channels, geographic markets and technology in which the firm participates.
2. *Vehicles*: The vehicles attempt to answer the question: how will we get there? The vehicles thus, are the means for entering new arenas such as through acquisitions, alliances or internal development.
3. *Differentiators*: The differentiators attempt to answer the question: how will we win in the marketplace? The differentiators are the features and attributes of a firm's products or services that help it compete in the market. Some examples of differentiators could be price, quality or reliability of products.
4. *Staging*: The staging attempts to answer the question: what will be our speed and sequence of moves? Thus, the staging refers to the timing and the pace of strategic moves. There are resources as well as limitations that determine when a firm moves into a market and at what speed.
5. *Economic logic*: The economic logic attempts to answer the question: how will we obtain our returns? Every firm has to earn a profit over and above its cost of capital. Explaining how profit will be created is the economic logic of the firm.

A comprehensive strategic plan should be dealing with all these five elements of strategy. When the five elements of strategy are aligned and reinforce each other, success is more likely.

The strategic management model proposed by Hambrick and Fredrickson has a lot of merit. It is being used in some recent textbooks on strategic management, among them being *Strategic Management* by Carpenter and Sanders.

Sources: D. C. Hambrick & J. W. Fredrickson: 'Are you sure you have a strategy?' (2001), *Academy of Management Executive* Vol. 15, No. 4, pp. 48-59.; M. A. Carpenter & Wm. G. Sanders: *Strategic Management: A Dynamic Perspective* Upper Saddle River, N.J.: Pearson Prentice-Hall, 2007.

The direction in which strategic management is moving can be anticipated from what Ansoff calls an emerging comprehensive approach of 'management of discontinuous change, which takes account of psychological, sociological, political and systemic characteristics of complex organisations'.[9]

With the emergence of futuristic organisations, which, in the words of Toffler, are 'no longer responsible simply for making a profit or producing goods but for simultaneously contributing to the solution of extremely complex ecological, moral, political, racial, sexual and social problems',[10] the demands on business policy are expected to rise tremendously. The general managers of tomorrow may be called upon to shoulder a set of entirely new responsibilities, necessitating a drastic review of the emerging concepts and techniques in business policy.

Responding to the need for evolving new approaches to the teaching of business policy, the American Assembly of Collegiate Schools of Business no longer insists on just one course in the area. There is now an emerging trend to have several courses such as the theory of strategy, competitive strategy, industry dynamics, hypercompetition and global strategy.[11]

Reviewing the development of strategy and theory, Rumelt *et al.* pose four fundamental questions which, in their view, characterise the major concerns in the field of strategic management. These four fundamental questions are:[12]

1. How do firms behave? Or do firms really behave like rational actors and, if not, what models of their behaviour should be used by researchers and policy makers?
2. Why are firms different? Or, what sustains the heterogeneity in resources and performances among close competitors despite competition and imitative attempts?
3. What is the function of or value added by the headquarters unit in a diversified firm? Or, what limits the scope of the firm?
4. What determines success or failure in international competition? Or, what are the origins of success and what are their particular manifestations in international settings or global competition?

Reviewing the state of strategic management research and pointing to the future, Hitt and others comment that 'the field of strategic management has advanced substantially in both theory and empirical research over the last 25 years' but cracks have begun to appear in the methodology where challenges have to be dealt with in the areas of research questions, data collection, construct measurement, analysis of endogenous relationships and applications.[13]

The 'state of the art' shows that the field of strategic management is 'replete with competing prescriptions and directives with regard to successful performance' requiring synthesis for the purpose of 'drawing firm boundaries, developing dynamic capabilities and finding viable strategy configurations'.[14]

The subject matter in this book will deal with several of the issues raised by the fundamental questions and future pointers indicated in this section.

Let's pause here to look at what has been happening on the Indian scene.

The Indian Scenario

Formal management education started in India in the late fifties and gained an impetus with the setting up of the Indian Institutes of Management (IIMs) and the Administrative Staff College of India in the early sixties. In the formative years of the IIMs, the curriculum and philosophy of management education '... were borrowed substantially from the American business schools'.[15] The IIM Ahmedabad based its teaching methodology on the Harvard model of developing and using case studies as the major pedagogical tool. With the spread of the network of IIMs and the creation of several university departments and private management institutes, management education has experienced an unparalleled growth.

Almost all management education institutions offer the strategic management and business policy course, usually in the later part of the degree or diploma programme. The All India Council of Technical Education, the regulatory agency for management education in India, prescribed business policy, first in 1990[16] and again in 1995[17], as an integrative component in management studies curriculum, in the form of a course in corporate planning and strategic management. The Association of Indian Management Schools, a representative body of management institutes and university management departments, while recommending a standard curriculum, included business policy and strategic management as a compulsory course.[18] The All India Management Association, New Delhi, which is a national body for the promotion of scientific management in India, offers a popular distance education programme in management that includes a course on strategic management and ethics in its curriculum.

The course contents of strategic management and business policy courses draw heavily from foreign, mostly American, literature. The development and revision of course contents usually follow those taking place in the subject of business policy in the U.S., albeit with a time lag which also varies among institutions. The fact that management institutions in India lean heavily on American literature in strategic management and business policy (and in other subjects too) is understandable from two viewpoints. First, the origins of management education can be traced directly to the American models. Since borrowing concepts and techniques was inevitable in the absence of indigenous theory, the dependence of Indian management education on American sources has been firmly established. This is a controversial and debatable point and often, opinions are expressed against this tendency by academicians and practitioners. But till such time that the elusive 'Indian system of management' can be developed, based on indigenous research, the dependence on American sources will have to be accepted. The second cause could be ascribed to the lack of research efforts in management education, in general and specifically, in the area of strategic management and business policy. This is as true for the Indian context as it is for the developed countries like the US. There, research in business policy has attracted considerable attention, yet the 'state of the art is disappointing'.[19]

Murthy, based on a survey of research in business policy in India (1970-1982), concludes that 'research in India (in business policy) has yet to come to grips with the job of the general manager'. Further, he points out the causes for the lack of research efforts, which include non-cooperation from the top management in Indian industry, paucity of researchers and the requirements of multi-disciplinary skills and considerable business knowledge to conduct research in business policy.[20]

A survey of research in management in India during the decade 1983–1993, reveals that only 13 doctoral dissertations, out of a total of 339, have been prepared in the area of business policy and strategic management.[21] It's been quite some time since a follow-up survey of research in business policy in India was conducted, yet the situation may not be much different at present.

An encouraging development is seen in terms of increasing India-focused international research studies. This has to be viewed in conjunction with the heightening interest of foreign investors and producers in Indian corporate sector in recent times. India as an important member of the emerging economies[22] and of Asian economies[23] is seen as significant as an investment destination and a large market for goods and services. This gives rise to an increasing interest of international scholars in India and of Indian scholars, finding avenues for reporting research results abroad.

On the whole, there are a number of desirable changes taking place in the Indian context: the availability of literature in strategic management and business policy is increasing, research studies are occasionally reported in publications and organisations seem to be willing to put strategic management and business policy concepts and techniques in practice. There is now an actively-functioning, professional association: Strategic Management Forum of India,[24] exclusively devoted to the development and propagation of the theory and practice of strategic management in India.

Another welcome development is that of publications. The popular press, including business magazines and newspapers are playing a seminal role in popularising the concepts and techniques in the discipline of strategic management in India. Almost all business magazines and newspapers, several of which have proliferated in recent times, devote space to strategy developments and reporting about strategic management in Indian organisations. For instance, the leadership special supplement in the *Business World* magazine and the management magazine *Business Today*, regularly devote considerable space to matters related to strategic management. Other examples are of the weekly supplement 'Strategist' of the *Business Standard* newspaper, the 'Mentor' supplement in the *Business Line* newspaper and the general management reports in *domain-B.com*, the online business magazine. Prestigious international periodicals like the *Economist*, *Business Week*, etc. are also devoting more space to developments in the Indian corporate sector.

This book brings together many sources from literature and practice in the Indian context related to strategic management and business policy. A variety of these sources will be referred to in the subsequent chapters.

Exhibit 1.2 An agenda for strategic management in Indian companies

A consultant-academic duo has attempted to analyse the strategic issues facing Indian companies over three periods: the pre-liberalisation stage, i.e. till the 1980s, the liberalisation stage, i.e. the 1990s and the post-liberalisation stage, i.e. 2000 and beyond.

The key patterns in strategic management as practised by the Indian companies in the three periods are as below.

Pre-liberalisation stage: Strategic management on government's fringes

- Subsuming enterprise objectives into the national planning framework
- Capabilities in generating and grabbing opportunities
- High diversification, non-competitive scales and weak technology capabilities
- Secretive and 'one man' strategic management process

The decade of the 1990s: Transitional euphoria and reality-check

- Carried 'operation de-linked strategy' mindset to the early 1990s
- 'Foreign complex' governed strategy in older groups in early 1990s
- Strategy of focus through rationalisation and operations improvement by majority of companies in the late 1990s
- Strategy of growth through acquisitions, internationalisation and product-market expansion by some companies in the late 1990s
- Experimentation with international consulting firms in strategic management process

Post-liberalisation stage: Issues and agenda in 2000–2010

- Acquire a 'global maverick' mindset and actively shed pre-liberalisation thinking
- Synergise entrepreneurial flair with professional skills in strategic management
- Complete portfolio rationalisation, but also expand boundaries through internationalisation and entry into emerging sectors
- Mobilise increased resources and ensure adequate growth through existing businesses
- De-merge businesses as independent companies, for focus and improved market capitalisation
- Actively promote development of technology capabilities
- Decentralise organisations and develop institutionalised control mechanisms

Source: Adapted from R Karki and R. T. Krishnan 'Strategic management in Indian companies: Evolution and an agenda for 2000-2010', *Proceedings of the Second Annual Conference of the Strategic Management Forum of India*, Indian Institute of Management, Bangalore, May 1999.

Ultimately the value of an educational course depends on its applicability in the organisations. Here, what one finds is a heightened awareness of strategic management. Indian companies are now acutely aware of the need for strategic management. The evidence lies in the fact that several large companies have departments devoted to strategic planning. Companies also engage consultants, many of them of foreign origin, to advise them on strategic matters. Besides, there are numerous reports in the business press of the strategic actions that Indian companies are taking. The processes of liberalisation, globalisation and privatisation are contributing in a large measure, to the increasing applications of strategic management in Indian organisations. (Exhibit 1.2 provides a glimpse of the state of strategic management in the Indian context over three periods and provides pointers to the future of strategic management in Indian companies.)

1.2 INTRODUCTION TO BUSINESS POLICY

Business policy, as defined by Christensen and others, is the study of the function and responsibilities of senior management, the crucial problems that affect success in the total enterprise and the decisions that determine the direction of the organisation and shape its future. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organisational identity and character, the continuous definition of what needs to be done and the mobilisation of resources for the attainment of goals in the face of competition or adverse circumstance'.[25]

This comprehensive definition by Christensen and others covers many aspects of business policy. First, it is considered as the study of functions and responsibilities of the senior management related to those organisational problems which affect the success of the enterprise as a whole. Secondly, it deals with the determination of the future course of action by the organisation. Thirdly, it involves a choice of purpose and defining what needs to be done in order to mould the character and identity of the organisation. Lastly, it is also concerned with the mobilisation of resources by the help of which the organisation can achieve its goals.

The senior management consists of those managers who are primarily responsible for long-term decisions and carry designations such as the Chief Executive Officer, President, General Manager or Executive Director. These are the persons who are not concerned with the day-to-day problems but are expected to devote their time and energy to thinking and deciding about the future course of action.

Business policy, with its concern for determination of the future course of action, lays down a long-term plan which the organisation then follows. The senior management, while determining the future course of action, has a mental picture of the type of organisation they want their company to become.

In deciding about the future course of action, the senior management is confronted with a wide array of decisions and actions that could possibly be taken. The senior management exercises a choice, depending on the given circumstances and which, in their opinion, would lead the organisation towards a specific direction. Moving in a predetermined direction, the organisation attains the planned identity and character.

Organisational decisions are not made in isolation and managerial actions cannot be taken without providing the resources necessary for them. The senior management, while deciding about the future course of action, concern themselves with the resources—financial, material and human—that would be required for the implementation of the long-term plans.

The nomenclature of Business Policy is assigned to a compulsory course included in a typical management studies curriculum. Almost all the management education programmes offered by universities, management institutes or business schools in India include the business policy course, by whatever nomenclature it might be addressed, normally in the later part of the degree or diploma programme. The content of the business policy course is drawn from the field of strategic management.

1.3 UNDERSTANDING STRATEGY

Central to the process of strategic management, is the concept of strategy that we will try to understand first. After that, we will go on to discuss the process of strategic management.

The Concept of Strategy

The concept of strategy is central to understanding the process of strategic management. The term 'strategy' is derived from a Greek word *strategos*, which means generalship—the actual direction of military force, as distinct from the policy governing its deployment. Literally, therefore, the word 'strategy' means the art of the general. In business parlance, there is no definite meaning assigned to strategy. It is often used loosely to mean a number of things.

A strategy could be:[26]

- a plan or course of action or a set of decision rules making a pattern or creating a common thread;
- the pattern or common thread related to the organisation's activities which are derived from the policies, objectives and goals;

- related to pursuing those activities which move an organisation from its current position to a desired future state;
- concerned with the resources necessary for implementing a plan or following a course of action;
- connected to the strategic positioning of a firm, making trade-offs between its different activities and creating a fit among these activities; and
- the planned or actual coordination of the firm's major goals and actions, in time and space that continuously co-align the firm with its environment.

In simplified terms, a strategy is the means to achieve objectives. In complex terms, it may possess all the characteristics mentioned above. With so many different interpretations of a term, it is really difficult to fathom what strategy really means. This is understandable. Yet, we need to consider all these interpretations at once. This diversity of interpretations gives us valuable insights into what thinkers and writers have proposed from time to time. With the wealth of understanding we have at our command, thanks to the intellectuals who have contributed to creating it, we can broaden our thinking. Strategic management benefits much from such an approach of looking at issues holistically. Practicing strategic management by doing case analyses and discussions aids in clarifying the issues. Just like there being two sides to a coin, strategy often emerges as a concept having two differing perspectives, making it a paradox. The process of solving the paradox leading to a synthesis is an interesting practice that leads to greater understanding. This point is elaborated in Exhibit 1.3.

Exhibit 1.3 Strategy as paradox

Bob De Wit and Ron Meyer have written a highly readable book titled *Strategy Synthesis*. The approach adopted in the book is very different from the common strategy texts. De Wit and Meyer consider strategy as a paradox. This is so because "(at) the heart of every set of strategic issues, a fundamental tension between apparent opposites can be identified" (p. 13). The challenge is to grapple with these tensions. Basically, these tensions arise owing to the different assumptions that strategy theorists make in enunciating their theories. On every conceivable strategy topic, there are two diametrically opposite perspectives creating a paradox. It requires considerable debate to transcend the paradox and come out with synthesis that creatively combines the two differing perspectives.

The idea of De Wit and Meyer can be illustrated in the case of competition versus cooperation. Organisations are often confronted with this paradox of whether to achieve success through competing or cooperating with their rivals. A large body of strategy literature is firmly rooted in the assumption that competing is essential to winning. On the other hand, there is convincing evidence that cooperation also can create winning situations. So what should the organisation do? The paradox is: compete or cooperate. Some theorists have come up with the idea of 'co-opetition strategy' that refers to simultaneous competing and cooperation, trying to beat the paradox.

Another paradoxical situation arises when organisations have to decide to remain within the national boundaries or go international. This is the paradox of globalisation versus localisation. In dealing with this paradox, organisations are confronted with the differing perspectives of global convergence versus international diversity. Practically, this means whether the organisation should offer the same product globally or adapt it to suit the different national markets it serves. There is an approach that combines the differing perspectives and is called the 'transnational strategy' where the organisation attempts to combine global scale of production with local responsiveness to national markets, thereby creating a winning situation.

Strategy, according to De Wit and Meyer, is a highly complex issue and the two sides of any issue need to be thoroughly debated to bring to the fore a synthesis that is unique to each thinker. In such a manner, strategy emerges as a synthesis out of the process of intellectual churning of the two opposing perspectives.

Source: Bob De Wit & Ron Meyer, *Strategy Synthesis: Resolving Strategy Paradoxes to Create Competitive Advantage* 2nd ed., London: Thomson Learning, 2005.

Undoubtedly, strategy is one of the most significant concepts to have emerged in the subject of management studies in the recent past. Its applicability, relevance, potential and viability have been put to severe test. It has emerged as a critical input to organisational success and has come in handy as a tool to deal with the uncertainties that organisations face. It has helped to reduce ambiguity and provided a solid foundation as a theory to conduct business: a convenient way to structure the many variables that operate in the organisational context and to understand their interrelationship. It has aided thinkers and practitioners in formulating their thoughts in an ordered manner and to apply them in practice. There have been several such benefits, yet there are some pitfalls too.

It would be prudent on our part to realise that a blind adherence to the postulations of strategy could be counter-productive. The limitations of the concept of strategy also need to be understood. This is likely to elicit a mature response so that the full potential of this powerful concept can be realised. It is also intended to provide a balanced understanding of the concept of strategy. Here are two points of consideration to temper our enthusiasm while embracing the concept of strategy:

- The application of the concept of strategy to real-life situations may tend to oversimplify things. Actual situations are complex and contain several variables that are not amenable to structuring. The concept of strategy tends to distort reality and, as an abstraction of reality, it is anything but a true reflection of the actual situation. Of course, this limitation is not unique to strategy. It is there in any situation where modelling has to be resorted to, to provide a structured understanding of reality. Several mathematical formulations start with a phrase indicating that a certain number of variables are assumed to be constant.
- The application of the concept of strategy commits an organisation to a predetermined course of action. While this is essential to chart out a path ahead, it often blinds the organisation to the emergent situations as it goes along the path. Rigidity leads to an attitude of finality with regard to the situations that are actually not known at the time of starting the journey. It might be better, for instance, to move slowly, one step at a time and keep in mind the maxim: look before you leap. One might say that this is already known to the perceptive managers. Yet, there is no harm in being cautious. Discretion is certainly the better part of valour.

Let us proceed with a basic understanding of the concept of strategy while keeping in mind its limitations, to see the levels within an organisation at which strategy operates.

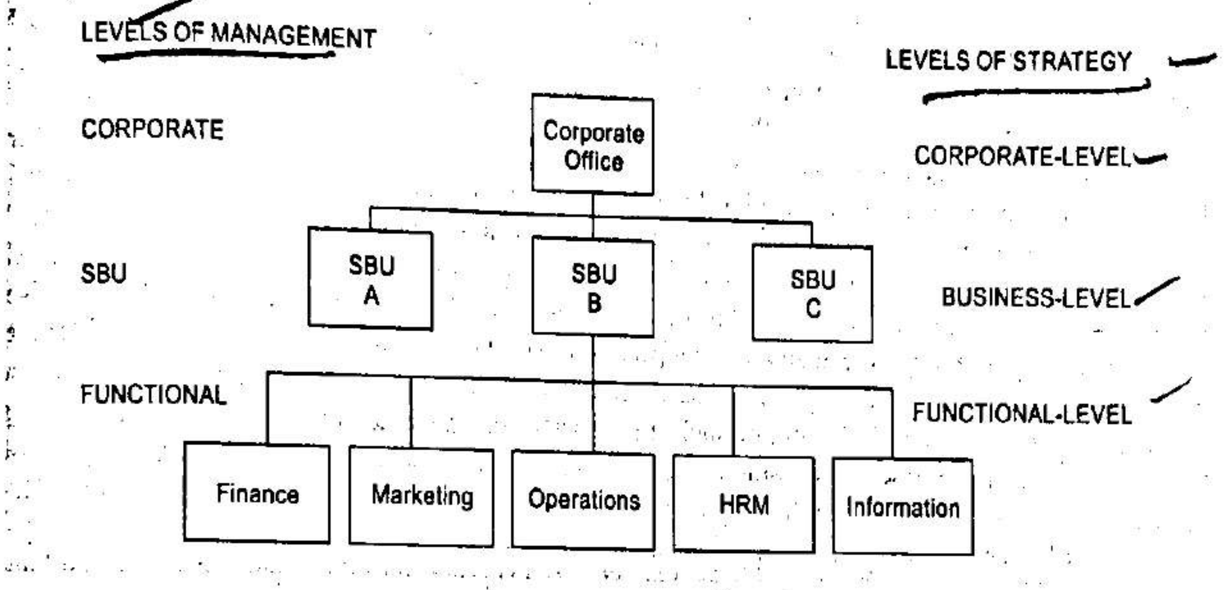
Levels at which Strategy Operates

It is not uncommon to find many companies, or a group of companies, that while being under the same top management, are working in different business lines with regard to either products/services, markets or technology. Here are a few illustrations:

- Hindustan Levers, the venerable multinational subsidiary, organises itself into four businesses of home and personal care, foods, new ventures and exports.
- The TVS Group has companies like Sundaram Fasteners, Lucas TVS, Brakes India, Wheels India, Sundaram Brake Linings, TVS Motor Company and TVS Electronics. It operates in technology areas as diverse as airbrake systems, aluminium castings, automotive components, computer peripherals, software design and two-wheelers.
- Balmer Lawrie, a public sector company, has a diversified portfolio of businesses in the fields of grease and lubricants, leather & functional chemicals, packaging, turnkey projects, tea exports, travel and tourism and cargo and logistics.
- Finolex Group is a business conglomerate with interests in diverse areas such as telecommunications, petrochemicals, irrigation and education.

For many companies, such as illustrated above, a single strategy is not only inadequate but also inappropriate. The need is for multiple strategies at different levels. In order to segregate different units or segments, each performing a common set of activities, many companies organise on the basis of operating divisions or, simply, divisions. These divisions may also be known as profit centres or strategic business units (SBUs). An SBU, as defined by Sharplin, is "any part of a business organisation which is treated separately for strategic management purpose."[27]

Exhibit 1.4 Different Levels of Strategy



Generally, SBUs are involved in a single line of business. A complementary concept to SBU, valid for the external environment of a company, is a strategic business area (SBA). It is defined as 'a distinctive segment of the environment in which the firm does (or may want to do) business'.[28]

A number of SBUs, relevant for different SBAs, form a cluster of units under a corporate umbrella. Each of the SBUs has its own functional departments or a few major functional departments while common functions are grouped under the corporate level. The different levels of strategy could be at the corporate level, the SBU level and at the functional level. These different levels are illustrated in Exhibit 1.4. Two types of levels are depicted in this exhibit. One relates to the organisational levels or hierarchies and the other to the strategic levels. The organisational levels are those of the corporate, SBU and functional levels. The strategic levels are those of the corporate, SBU and functional level strategies.

Corporate level strategy is an overarching plan of action covering the various functions that are performed by different SBUs. The plan deals with the objectives of the company, allocation of resources and coordination of the SBUs for optimal performance.

SBU level (or business) strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and coordination between them for making optimal contribution to the achievement of the corporate level objectives.

Functional strategy deals with a relatively restricted plan, providing objectives for a specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives.

Panacea Biotec is a health management company in India, involved in research, manufacturing and marketing of pharmaceuticals, biopharmaceuticals, new chemical entities, natural products and vaccines. It is organised into five SBUs: Critical Care, Diacar, PRO, GROW and Best on Health (BOH), which enables it to respond to changes in the industry and marketplace with speed and sensitivity. Critical Care is focused on Nephrology, Diacar for diabetes and cardiovascular management, PRO SBU promotes therapeutic products, GROW SBU caters to clinicians across the country and 'Best On Health' (BOH) offers therapeutic solutions to cater to the specific needs of customers and promotes natural products developed through modern technology and extensive research.[29]

Another example of a company using multiple-level planning is Bajaj Electricals Ltd. (BEL). It is a part of the Bajaj Group, which is in the business of steel, sugar, two wheelers and three wheelers, besides that of consumer electrical products. The company commissioned Accenture, which recommended a comprehensive strategy for business growth along with organisational restructuring. BEL has five major strategic business units comprising of home appliances, fans, lighting, luminaires and engineering & projects. The SBU structure aims to lend greater empowerment to the employees and also bring about a significant accountability for the performance of each SBU with the SBU head and his senior team.[30]

Apart from the three levels at which strategic plans are made, occasionally, companies plan at some other levels too. Firms often set strategies at a level higher than the corporate-level. These are called the societal strategies. Based on a mission statement, a societal strategy is a generalised view of how the corporation relates itself to the society in terms of a particular need or a set of needs that it strives to fulfil. Corporate-level strategies could then be based on the societal strategy. Suppose a corporation decides to provide alternative sources of energy for the society at an optimum price and based on the latest available technology. On the basis of its societal strategy, the corporation has a number of alternatives with regard to the businesses it can take up. It can either be a manufacturer of nuclear power reactors, a maker of equipments used for tapping solar energy or a builder of windmills among other alternatives. The choice is wide and being in any one of such diverse fields would still keep the corporation within the limits set by its societal strategy. Corporate- and business-level strategies derive their rationale from the societal strategy.

Some strategies are also required to be set at lower levels. One step down the functional level, a company could set its operational level strategies. Each functional area could have a number of operational strategies. These would deal with a highly specific and narrowly defined area. For instance, a functional strategy at the marketing level could be subdivided into sales, distribution, pricing, product and advertising strategies.

Activities in each of the operational areas of marketing, whether sales or advertising, could be performed in such a way that they contribute to the functional objectives of the marketing department. The functional strategy of marketing is interlinked with those of the finance, production and personnel departments. All these functional strategies operate under the SBU-level. Different SBU-level strategies are put into action under the corporate-level strategy which, in turn, is derived from the societal-level strategy of the corporation. Ideally, a perfect match is envisaged among all strategies at different levels so that a corporation, its constituent companies, their different SBUs, functions in each SBU and various operational areas in every functional area are synchronised. When perceived in this manner, the organisation moves ahead, towards its objectives and mission, like a well-oiled machine. Such an ideal, though extremely difficult—if not impossible to attain—is the intent of strategic management.

A note of caution to readers here: when we refer to strategy in business policy texts, it is generally meant to be a corporate-level strategy or a business- or SBU-level strategy. Societal strategies manifest in the form of the vision and mission statements, while functional and operational strategies take the shape of functional and operational implementation respectively.

A reading of this section gives an impression of an organisation having a number of strategies at different levels which would solve its strategic problems or lay down the groundwork for its strategic success. Mark the words we have used: 'the organisation moves ahead ..... like a well-oiled machine'. In reality, however, rarely does an organisation move ahead so smoothly. Strategy has been viewed from several perspectives. In some cases, it is seen as something which arises systematically, due to conscious decision-making. Yet, others see it as the product of a messy and complicated series of manoeuvres. The next section provides an overview of the strategic decision-making process.

1.4 STRATEGIC DECISION-MAKING

(1) Decision-making is the most important function of any manager. Strategic decision-making is the primary task of the senior management. Both these kinds of decision-making are essentially the same. The difference lies in the levels at which they operate. While decision-making pertains to all managerial functions, strategic decision-making largely relates to the responsibilities of the senior management.

Most people agree that decision-making is the process of selecting a course of action from among many alternatives. The process works somewhat like this:

(2)
- Objectives to be achieved are determined;
- Alternative ways of achieving the objectives are identified;
- Each alternative is evaluated in terms of its objective-achieving ability; and
- The best alternative is chosen.

The end result of the above process is a decision or a set of decisions to be implemented. Such a process of decision-making is deceptively simple. In practice, decision-making is a highly complex phenomenon.

The first set of problems encountered in decision-making is related to objective-setting. Second, the identification of all possible alternatives is a difficult task. How to test the objective-achieving ability of each alternative is easier said than done and, lastly, choosing the best alternative is a formidable task too.

The problems encountered in decision-making, as indicated above, are experienced by all managers in the course of their day-to-day activities. On the other hand, strategic tasks are, by their very nature, complex and varied. Decision-making while performing strategic tasks is, therefore, an extremely difficult, complicated and, at times, intriguing and enigmatic process.

An illustration of strategic decision-making in a medium-sized company shows how the top management takes steps to implement its growth strategies. The Ahmedabad-based Astral Poly Technik Ltd. is a manufacturer and provider of chlorinated poly vinyl chloride (CPVC) piping and plumbing systems. Mr. Sandeep Engineer, its managing director, reported a strategic decision of manufacturing and marketing the 'BlazeMaster' fire sprinkler system under an agreement with the \$4-billion global specialty chemical company, Lubrizol, whose wholly-owned subsidiary Noveon Inc. makes BlazeMaster. For this purpose, Astral signed a licence agreement with Noveon to manufacture and market its fire sprinkler system under the brand name of BlazeMaster, which is a trademark of Noveon. The company, in order to strengthen its business plans, had taken a strategic decision to enter into a techno-financial joint venture with Specialty Process LLC of USA, which provided it the required technical expertise for manufacturing CPVC pipes and fittings for home and industrial applications. Astral was also going for an initial public offering to further its growth plans.[31]

(3) The basic thrust of strategic decision-making, in the process of strategic management, is to make a choice regarding the courses of action to adopt. Thus, most aspects of strategy formulation rest on strategic decision-making. The fundamental strategic decision relates to the choice of a mission. In other words, the answer to such questions as: What is our business? What will it be? and What should it be? are the basic concerns in strategic management. With regard to objective-setting, the senior management is faced with alternatives regarding the different yardsticks to measure performance. Finally, at the level of choosing a strategy, the senior management exercises a choice from among a number of strategic alternatives in order to adopt one specific course of action which would make the company achieve its objectives and realise its mission.

Apart from the fundamental decisional choice, as pointed above, there are numerous occasions when the senior management has to make important strategic decisions. Environmental threats and opportunities are abundant; it is only a few that the senior management focuses its attention on. Company strengths and weaknesses, likewise, are many; the senior management considers only a limited number at any given time. With regard to resource allocation, the management faces a strategic choice from among a number of alternatives that it could allocate resources to. Thus, strategic decision-making forms the core of strategic management.

Issues in Strategic Decision-Making

Being a complex process, strategic decision-making is difficult to perform. It is incomprehensible; it cannot be analysed and explained easily. Decision makers are unable to describe the exact manner in which strategic decisions are made. Like the working of the human mind, strategic decision making is fathomless. And rightly so, for it is based on complex mental processes which are not exposed to view. Henry Mintzberg, commenting on the nature of strategic decision-making says that 'the key managerial processes are enormously complex and mysterious, drawing on the vaguest of information and using the least articulated of mental processes. These processes seem to be more relational and holistic than ordered and sequential and more intuitive than intellectual...'.[32]

For these reasons, no theoretical model, however painstakingly formulated, can adequately represent the different dimensions of the process of strategic decision-making. Despite these limitations, we can still attempt to understand strategic decision-making by considering some important issues related to it. We deal with six such issues below.

1. Criteria for Decision-making The process of decision-making requires objective-setting. These objectives serve as yardsticks to measure the efficiency and effectiveness of the decision-making process. In this way, objectives serve as criteria for decision-making. There are three major viewpoints regarding setting criteria for decision-making.

(a) The first is the concept of *maximisation*. It is based on the thinking of economists who consider objectives as those attributes which are set at the highest point. The behaviour of the firm is oriented towards achieving these objectives and, in the process, maximising its returns.

(b) The second view is based on the concept of *satisficing*. This envisages setting objectives in such a manner that the firm can achieve them realistically, through a process of optimisation.

(c) The third viewpoint is that of the concept of *incrementalism*. According to this, the behaviour of the firm is complex and the process of decision-making, which includes objective-setting, is essentially a continually-evolving political consensus-building. Through such an approach, the firm moves towards its objectives in small, logical and incremental steps.

2. Rationality in Decision-making Rationality, in the context of strategic decision making, means exercising a choice from among various alternative courses of action in such a way that it leads to the achievement of objectives in the best possible manner. The economists who support the maximising criterion consider a decision to be rational if it leads to profit maximisation. Behaviourists, who are the proponents of the satisfying concept, believe that rationality takes into account the constraints under which a decision maker operates. Incrementalists are of the opinion that the achievement of objectives depends on the bargaining process between different interested coalition groups existing in an organisation and therefore, a rational decision-making process should take all these interests into consideration.

3. Creativity in Decision-making To be creative, a decision must be original and different. A creative strategic decision-making process may considerably affect the search for alternatives where novel and untried means may be looked for and adopted to achieve objectives in an exceptional manner. Creativity, as a trait, is normally associated with individuals and is sought to be developed through techniques such as brainstorming. You may recall that one of the attitudinal objectives of a business policy course it to develop the ability to go beyond and think, which, in other words, is using creativity in strategic decision-making.

4. Variability in Decision–making It is a common observation that, given an identical set of conditions, two decision makers may reach totally different conclusions. This often happens during case discussions also. A case may be analysed differently by individuals in a group of learners and, depending on the differing perceptions of the problem and its solutions, they may arrive at different conclusions. Such things happen due to variability in decision-making. It also suggests that every situation is unique and there are no set formulas that can be applied in strategic decision-making.

5. Person-related Factors In Decision-making There are a host of person-related factors that play a role in decision-making. Some of these are: age, education, intelligence, personal values, cognitive styles, risk-taking ability and creativity. Attributes like age, knowledge, intelligence, risk-taking ability and creativity are generally supposed to play a positive role in strategic decision-making. A cognitive style which enables a person to assimilate a lot of information, interrelate complex variables and develop an integrated view of the situation is especially helpful in strategic decision-making. Values as enduring prescriptive beliefs are culture-specific and important in matters of social responsibility and business ethics—issues that are important to strategic management.

6. Individual Versus Group Decision-making Owing to person-related factors, there are individual differences among decision makers. These differences matter in strategic decision-making. An organisation, possessing special characteristics, operates in a unique environment. Decision makers who understand an organisation's characteristics and its environment are in a vantage position to undertake strategic decision-making. Individuals such as chief executives or entrepreneurs play the most important role as strategic decision-makers. But as organisations become bigger and more complex and face an increasingly turbulent environment, individuals come together in groups for the purpose of strategic decision-making.

Strategic decision making leads to the formation of strategies. On the basis of an understanding of the nature of strategic decision-making and the issues related to it, let us now move ahead to study the different perspectives to strategy.

1.6 INTRODUCTION TO STRATEGIC MANAGEMENT

Strategic decision-making is done through the process of strategic management. In this section, we deal with four aspects: a definition of strategic management; the different phases in the process of strategic management; the elements this process contains; and lastly, the model of strategic management that we have adopted in this book.

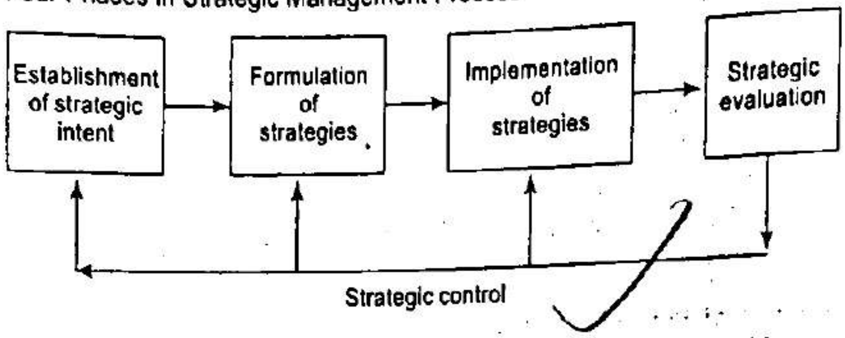
Definition of Strategic Management

In this text, strategic management is defined as *the dynamic process of formulation, implementation, evaluation and control of strategies to realise the organisation's strategic intent.*

First, strategic management is a dynamic process. It is not a one-time, static or mechanistic process. By being dynamic, strategic management is a continual, evolving, iterative process. By this, it means that strategic management cannot be a rigid, step-wise collection of a few activities arranged in a sequential order. Rather, it is a continually evolving mosaic of relevant activities. Managers perform these activities in any order contingent upon the situation they face at a particular time. By being iterative, an activity may not be required to be performed only once but repeated over time as the situation demands.

The next part of the definition states the four phases in the strategic management process of formulation, implementation and evaluation and control. The four phases are shown in Exhibit 1.5.

Exhibit 1.5 Four Phases in Strategic Management Process



The first phase consists of establishing the strategic intent for the organisation. In this text, strategic intent is the hierarchy of objectives that an organisation sets for itself. Within this, there are the vision, mission, business definition and objectives. The aim of strategic management is to help the organisation realise its strategic intent.

The second phase of the formulation of strategies is concerned with the devising of a strategy or a few strategies. This phase is also called strategic planning. Essentially, this is an analytical phase in which strategists (managers who are responsible for strategic management in an organisation) think, analyse and plan strategies.

The third phase of implementation is the 'putting into action' phase. The strategies that are formulated are implemented through a series of administrative and managerial actions.

The fourth and the last phase of evaluation and control involves assessing how appropriately the strategies were formulated and how effectively they are being implemented. Depending on the outcome of assessment, actions could be taken ranging from fine-tuning implementation to a drastic reformulation of strategies.

These four phases are considered to be sequentially linked to each other and each successive phase provides a feedback to the previous phases. However, in practice, the different phases of strategic management may not be clearly differentiable from each other. In fact, we prefer to call them phases rather than stages or steps (as some authors do) to signify that the different phases, at the interface, may exist simultaneously and the strategic activities gradually emerge in one phase to merge into the following phase. The feedback arising from each of the successive phases is meant to revise, reformulate or redefine the previous phases, if necessary. Such a representation yields a dynamic model of strategic management which takes into account the emerging factors as the process moves on.

Elements in Strategic Management Process

Each phase of the strategic management process consists of a number of elements, which are discrete and identifiable activities performed in logical and sequential steps. As many as twenty different elements could be identified in the models provided by various authors. From the literature on strategic management, we note that most or all of the following activities are considered as parts of the strategic management process:

A. *Establishing the hierarchy of strategic intent:*

1. Creating and communicating a vision

2. Designing a mission statement
3. Defining the business
4. Adopting the business model
5. Setting objectives

B. *Formulation of strategies:*

6. Performing environmental appraisal
7. Doing organisational appraisal
8. Formulating corporate - level strategies
9. Formulating business-level strategies
10. Undertaking strategic analysis
11. Exercising strategic choice
12. Preparing strategic plan

C. *Implementation of strategies:*

13. Activating strategies
14. Designing the structure, systems and processes
15. Managing behavioural implementation
16. Managing functional implementation
17. Operationalising strategies

D. *Performing strategic evaluation and control:*

18. Performing strategic evaluation
19. Exercising strategic control
20. Reformulating strategies

Model of Strategic Management Process

The process of strategic management is depicted through a model which consists of different phases; each phase having a number of elements. Most authors agree on dividing the strategic management process into four phases consisting of about twenty elements. The model of strategic management that we adopt in this book is provided in Exhibit 1.6.

Exhibit 1.6 Comprehensive model of strategic management