CHAPTER - 1

INTRODUCTION

Need for this thesis

The study of strategic management in India is a recent phenomenon. There are some researches made on the subject. It was observed that most researches focus on micro analysis. Not a single research was found focusing on the macro aspects of corporate strategic management: processes and practices in India covering a large number of respondent base.

This research is an exploratory one. No attempt was made, in the design of the research to "test and validate" any prior hypothesis regarding the corporate strategic management processes or practices in India. It focused on the significant macro aspects of the processes and practices of corporate strategic management.

The objectives of this thesis are, to carry out the literature survey on strategic management, carry out field study covering sample size of about 100 large well known organizations in India, study the processes and practices of corporate strategic management in India, make some case studies, and make suggestions.

Output of the Research

The thesis is divided into 10 chapters. The first chapter provides introduction to the thesis and the last chapter covers findings and suggestions. The second chapter is based on the findings of the field
research conducted in various Indian industries covering a wide spectrum.

The third chapter analyses mission and objectives of some leading Indian business firms based on published literatures of firms collected during personal interviews as well as from other secondary sources. The fourth chapter is on the environmental factors affecting business firms in India with specific emphasis on the opportunities and threats to them under liberalization. The fifth chapter deals with the formulation and implementation of corporate strategy. In this chapter corporate strategic management processes and practices of Indian firms have been presented in a theoretical framework.

The liberalization in India and globalization have significantly increased the importance of mergers and acquisitions, and strategic alliances for the Indian firms. Hence separate chapters, sixth and seventh are devoted to them. A joint venture is a type of strategic alliance which was popular in India even before the liberalization. The nature of joint venture has, however, changed significantly in the post-liberalization era. Thus a separate chapter, eight, has been exclusively devoted to joint ventures. The sixth, seventh, and eighth chapters draw upon information from corporations in the developed countries for a simple reason that Indian firms have to learn from their experiences. Moreover, the Indian background in mergers and acquisitions, strategic alliances, and joint ventures in a new perspective is scanty.

The ninth chapter presents case studies of some of the leading firms in
India covering detailed aspects of corporate strategic management processes and practices.

**Historical Background of Strategic Management**

Fundamental objective of a business firm is survival. For surviving from the long term point of view, growth becomes the second most important objective. Corporate strategic management aims to ensure survival and growth of a business firm. Literature on corporate strategic management has evolved parallel to the actual state of affairs of business and industry as well as that of the environment to which firms are subjected to. The major contribution to literature has been from the US, where development of business as well as that of literature on management has been unparalleled in the world till date. Contribution from the UK also is significant. Language barrier allows not to comment on contribution from other non-english speaking European countries as well as that of Japan. But whatever material in English is available, does justify their importance. India also has been a contributor. It has, however, been a sporadic contributor.

Few books, articles and research papers had been written on corporate strategic management till 1970. Many books and articles were published in 1970s and since 1980 number of quality research papers published, in addition to books and articles has grown substantially. There is, now, an acceptable degree of clarity on the conceptual domain of corporate strategic management.
The roots of corporate strategic management may be traced to Financial Planning in the 1950s and earlier, developing into Long Range Planning in the 1960s, and than achieving sophistication in the form of Strategic Planning in the 1970s. It is 1980s when it crystallized as Strategic Management.

The role of consultants like Boston Consulting Group, and McKinsey as well as that of corporations like General Electric, and General Motors is important in development of the subject apart from contributions from academics like Alfred Chandler, Igor Ansoff, Kenneth Andrew, WF Gluck, Michael Porter, Henry Mintzberg and CK Prahalad.

Financial Planning in the 1950s largely focused on budget in an organization for one or two years. The basic aim was to develop a control mechanism for the management enabling it to become more effective in controlling costs and internal environment. The data and variables were all reduced to financial measures based on past performance and projections into future. This was the domain of financial executives and excluded people from other functional areas from the planning process except that they provided raw statistics about their activities. All these caused jerks to the rhythmatic movement of the organization. It was realized that the approach was myopic and soon the need was felt for more effective system for the business from the long term view.

Long Range Planning replaced Financial Planning in the 1960s. Long range planning transcended beyond finance function and encompassed other functions like marketing, production, finance, human resources in a
coordinated fashion aimed at the future growth of the organization. It lacked relevance to the external environment. However, the role of long range planning is important because it led to formation of separate cells/departments with staff employed and trained exclusively for developing long range plans at both corporate level, and the individual business unit or division level. The long range planning also opened scope for services of external experts, the consultants. The consulting practice of BCG, McKinsey and other major consultants helped developed certain tools of strategy. The tools of strategy developed during late sixties are 'learning curves' and 'the growth-share matrix'.

**Learning Curves** showed the relationship between unit costs and cumulative production. These ideas introduced in World War II to understand aircraft production economies were popularized by Bruce Henderson at BCG as a way to frame market leadership and pricing problems. This tool was found to be of greater use in industries with units having mass scale production. This led businesses to prefer expansion of production capacities. This became weakness of firms as they became production oriented and less concerned about the needs of consumers.

**The Growth-share Matrix** showed for each unit of the corporation where it placed in the two dimensional picture of its industry growth and its relative market share compared to the leading competitors. BCG's emphasis here was on where the resources of the corporation might/should be moved between divisions.
This was the period when the American business was preoccupied with growth (Boyett, 1995). Corporate strategies shifted from developing company strengths to expansion. It was the age of conglomerate. Corporations became collections of what were often unrelated businesses or product lines. The value of the corporation was increased through acquisition rather than the development of the business internally. In such an environment, the corporation owned a wide variety of businesses and produced a wide variety of products. The chief strategic issue was how to allocate financial resources between the businesses and product lines — in other words, which businesses or products would receive an influx of cash and which businesses would be starved of funds? The tool of the growth-share matrix helped answer the problem.

Strategic Planning was the enlargement of the scope of the long range planning taking care of its limitations. Strategic planning in the 1970s (and 1980s) also focused on the outside players mainly the customers and competitors. The strategic planning, however, was found to be less related to the practice of the business. Involvement of all the people and from all levels within the organization on continuous basis was lacking. This led to the development of Strategic Management in the 1980s. The tools of strategy developed during 1970s are 'strategic business units', 'industry attractiveness-business strength matrix', 'PIMS (profit impact of marketing strategies)', 'life cycle analysis', and 'scenario analysis'.

Strategic Business Units (SBUs) were framed as stand alone business could be managed and judged on a profit and loss basis. Product
markets were focused and the specific competitors (and customers) could be identified. This tool is useful mainly for large corporations or business groups as there exist higher degree of confusion and insufficiency of clarity about business of all the divisions/units and so their contribution to the corporate growth. Strategic plans for such units could be understood by the top management of the company. McKinsey working with GE developed these ideas.

The Industry Attractiveness-Business Strength Matrix also came from GE-McKinsey work facilitated placing each of the corporation's SBUs in a framework permitting corporate analysis. This helped the top management establish linkage between different SBUs and their impact on the corporate level business. In turn the top management became able to divest even profit making SBUs if belonging to less attractive industry or not contributing to the business strength of the corporation and retain, develop, infuse more resources into even loss making SBUs which were in attractive industries or were found to be contributing to the strength of the corporate business.

PIMS (Profit Impact of Marketing Strategies) also developed out of GE and then set up as a separate group by the Strategic Planning Institute (SPI). Many companies participated in supplying a large data base. With the SBU level of analysis, scores of variables of business, industry, and performance measures were organized to permit statistical analysis of important relationships. The findings of PIMS helped industries collectively.
Life Cycle Analysis was based on the premise that strategy issues and approaches might be best understood in the context of the particular phase or stage of an industry's or product's life cycle. Arthur D. Little was a strong advocate of this approach. This approach could bring out the weaknesses of even a well performing organization if found to be encashing on the products or industries which were on decline. On the other hand it helped organizations prolong their stay in business if found to be on the verge of entering developing phase of the life cycle of products or industries.

Scenario Analysis popularized by Royal Dutch Shell as a means of coping with multiple variables uncertainty, their possible combinations, and alternative strategies. This tool helped organizations plan their strategies base on not only the existing environmental factors but those likely to emerge in the future along with competitors' positions.

Strategic Management dealt with all the necessary implementation steps to assure that strategy worked through involvement of all the concerned from all the relevant levels of the organization in the strategy formulation. It was observed that there exists strong linkage between successful implementation of strategies with the degree of involvement of people implementing strategy at the strategy formulation stage. Besides, instead of periodical planning in the organization element of continuity was induced through the strategic management. Strategy's links with
structure, systems, staff, styles, skills, and shared values were developed into comprehensive approach called strategic management.

Further the attempt was made to align the internal and external environments for survival from the long term point of view through development of core competence to influence the variables in the world. Strategic management was found to be most powerful and effective system in business management. In a way all the people in the organization as well as connected with it were being converted into a weapon-less/non-violent army, alert and responsive to the business influences in the world for ensuring survival of the organization. The tools developed during the 1980s are ‘five competitive forces’, ‘net present value’, ‘discounted cash flow’, ‘market/book value’, ‘value chain’ and ‘Kaizen’.

**Five Competitive Forces**, a central theme of Michael Porter’s seminal book changed the definition of competitor. Industry competitive analysis is facilitated by the careful identification of the forces of competition — suppliers, competitors, customers, substitutes, and potential entrants. This tool was regarded as perhaps the most comprehensive tool of strategic management.

**Net Present Value (NPV), Discounted Cash Flow (DCF) and Market/Book (M/B) Value.** While derivative from finance theory, several consultancy firms used such financial tools to throw light on the value of individual business units within the corporation. This again facilitated questions of resource allocation, acquisitions, and divestments.
Value Chain featured in Porter's (1985) book, bringing attention to where in the economic chain competitive advantage might be critical, and where synergies might exist across different businesses. This helped analyse the internal environment of organization to identify its strengths, or core competence, and weaknesses as well as their relationships synergistic or otherwise with the competitiveness of the organization.

Kaizen, basically an old Japanese tool of strategy became popular outside Japan in the 1980s. Kaizen is continuous improvement in all activities. It is possible only by linking it with the strategy of the organization and treating strategy as a continuous process. Kaizen helped Japanese organizations achieve world leadership in many industries. Kaizen also stressed the need for time compression, which is crucial in making the organization an agile entity. Agility of an organization is important element of successful strategic management in the present era.

While corporate strategic management as a subject has been crystallized, the nature of corporation is undergoing significant change. The 1990s has brought about series of changes in the world. In 1989 only 20 per cent of the people in the world lived in market based economies, now only 10 per cent do not. Also the dramatic increase in the strategic alliances and synergic networks of corporations across the world coupled with breakthrough in the information technology is fading away the boundaries of corporations. This has posed yet another challenge to the
subject of strategic management. This is also likely to produce new concepts and theories of competition, strategic issues, and tools of strategy.

 Academics and Corporate Strategic Management

Many academics have undertaken research in the history of strategic management. Some have even contributed to the development of history of strategic management. Their contribution is discussed below.

Mamoria (1987) writes that up to the late seventies, terms like "Long-range Planning" and "Strategic Planning" were largely deployed to explain the enterprise's overall approach to deal with both internal and external contingencies. But the said words semantically connote rather a narrow meaning of the terms. Contrary to it, strategic management is a more broader concept, it embraces the overall managerial process to optimize the enterprise effectiveness."

Before the subject of corporate strategic management crystallized, elements of it could be traced back in the literature on general management. Highlighting importance of top management as a function and as a structure, Drucker (1974) states that "there is a top-management function. There are number of tasks which are top management tasks,....... because they are tasks that can be discharged only by people who are capable of seeing the whole business and of making decisions with respect to the whole business." Tracing the origin of the concept of the top management Drucker writes that the "Top management as a function and
as a structure was first developed by Georg Siemens (1839-1901) in Germany between 1870 and 1880, when he (solving problem of Organization and Coordination of top management) designed and built the Deutsche Bank and made it, within a very few years, into continental Europe’s leading and most dynamic financial institution."

Taylor (1856-1915) advocated in his book "The Principles of Scientific Management" in 1911 that "The principal object of management should be to secure the maximum prosperity for the employer, coupled with the maximum prosperity for each employee". He further mentioned that the words "maximum prosperity" are used, in their broad cause, to mean not only large dividends for the company or owner, but the development of every branch of the business to its highest state of excellence, so that the prosperity may be permanent. This certainly implies survival and growth of company from long-term point of view.

According to him "To govern is to conduct the undertaking towards its objective by seeking to derive optimum advantage from all available resources and to assure the smooth working of the six essential functions." And "The maxim, 'managing means looking ahead,' gives some idea of its importance attached to planning in the business world, and it is true that if foresight is not the whole of management at least it is an essential part of it. To foresee, in this context, means both to assess the future and make provision for it....." Elements of corporate strategic management here are found both in "managerial activities" as well as in "govern(ance)".

According to Bhattacharyya (1976) "The process of management of an organization may be viewed as essentially consisting of major activities like Planning, Organizing, Staffing, Directing, Implementing, and Controlling. Every Organization exist to attain certain objectives by using the resources available to that organization."

Ackoff (1970) commenting on the nature and content of planning writes that "wisdom is the ability to see the long-run consequences of current actions, the willingness to sacrifice short-run gains for larger long-run benefits, and the ability to control what is controllable and not to fret over what is not. Therefore the essence of wisdom is concern with the future, It is not the type of concern with the future that the fortune teller has; he only tries to predict, it. The wise man tries to control it."
Suggestions

History of strategic management is of little value if the business manager or a business student acquaints himself/herself with the mere facts of history. The researcher considers that history of strategic management is of high learning value. The business scenario in India today resembles that of the US in the 1960s or earlier in many respects. What was relevant in the US than is equally relevant here in India today. All the tools of strategy are of relevance and utility to Indian business even today. The liberalization and globalization has made the global business environment competitive. Indian business is likely to benefit using the tools of strategies that were popular in the US and in the other advanced countries in the 1960s and later.

The importance of strategic management as well as that of tools of strategy is not only time specific. They are important in relation to the size of the organization also. A small business firm stands to gain little from adopting SBU analysis which are more useful to medium and large organizations. Even the largest business organization in India is nowhere closer to the large multinationals in the world. This leaves tremendous scope for all the organizations in India small, medium or large to learn from the past experience of the businesses in the developed countries in the world.

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