



Module 5–Strategic Decision Making

What we will cover

What is Strategic Decision Making?

Dimensions of a Strategic Decision

Levels of Strategic Decision Making

Strategic Decision Making Process

McDonald's entry into India - A Corporate Strategic Decision

What is Strategic Decision Making??

A decorative graphic at the bottom of the slide consists of a teal horizontal line that starts from the left edge and extends to the right. Below this line, a diagonal hatched pattern of thin teal lines covers the bottom portion of the slide, sloping downwards from left to right.

What is Strategy?

Large scale future oriented plan for interacting with competitive environment and to achieve objectives

Company's game plan

Framework for managerial decisions

Direction of the organization towards long term so that it can achieve its objectives

Strategy is therefore, the direction and scope of an organization over the long term which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations

What is Decision Making?

Making a choice from two or more alternatives

Decision Making is the process of identifying problems and opportunities and then resolving them

Deciding on Business Strategies is therefore a vitally important role of the top management

Taking the appropriate decisions can either make or break a business

Strategic Decisions in everyday work life....

Which would you rather have??

Three months doing a job you really hate for a lot of money

Or

A job for a year that you really love but for much less money

A prestigious award from your industry

Or

A 25% pay raise

Being able to work on an important project

Or

Getting along with everyone at work

Strategic Decisions – Some Examples

Modernization

Product Launch

Divestment

Acquisition/ Merger/ Collaboration/ Alliance

Overseas Investments

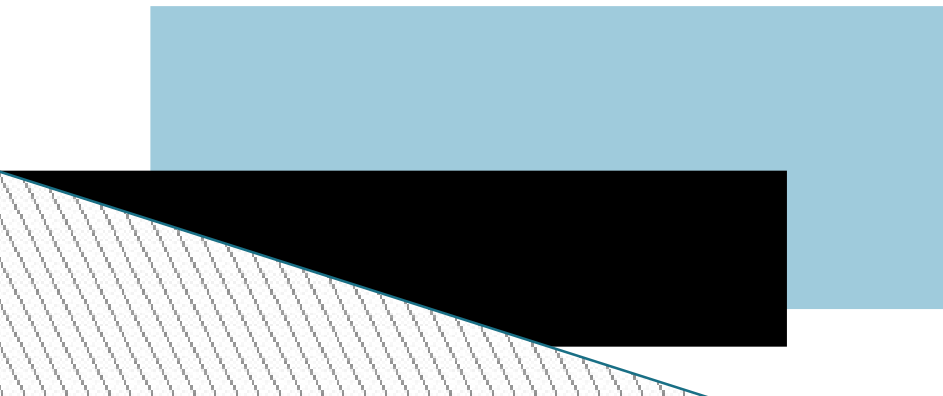
Turnaround/ Restructuring/ Reengineering

Technology Transfer

Entry into new markets

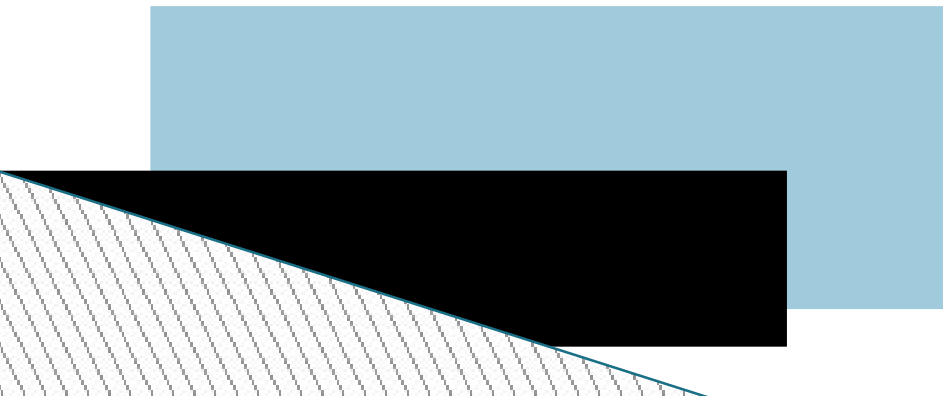
Dimensions of a Strategic Decision

- Strategic Decisions require top management commitment
 - They overreach several areas of the organization
 - Typically, only top management has the perspective needed to understand the implications of a strategic decision
 - Usually only top management has the power to authorize the required resource allocation



Dimensions of a Strategic Decision

- Strategic Decisions typically require high levels of resource commitment
 - They involve substantial allocations of people, physical assets, and money;
 - Strategic decisions commit the firm to actions over an extended period
 - In highly competitive firms, strategic decisions may require commitment from every facet/function of the firm



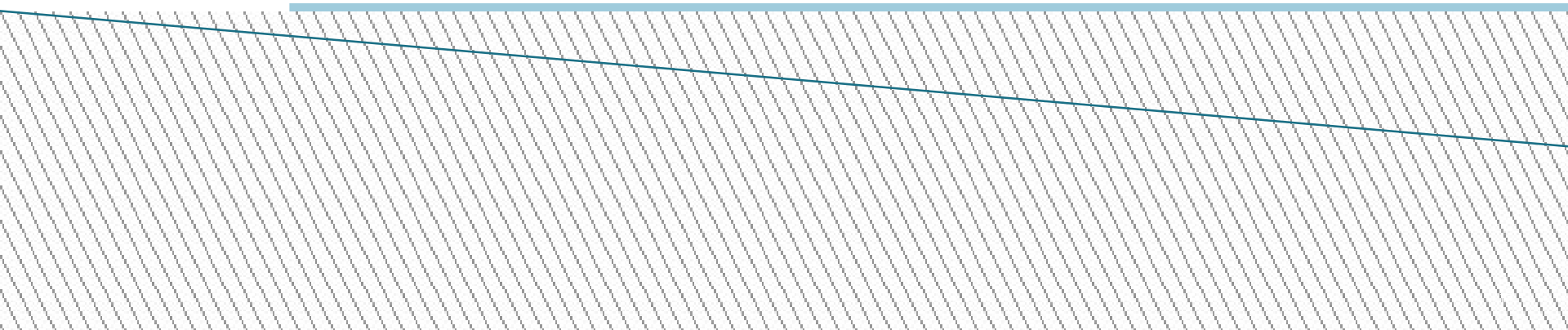
Dimensions of a Strategic Decision

- Strategic Decisions often affect the firm's long term prosperity
 - They commit the firm for a long time – typically at least 5 years – the impact however may last much longer;
 - Once the firm has committed to a particular decision, its image and competitive advantages are tied to that strategic decision;
- Strategic decisions are future oriented
 - They are based on what managers forecast and not what they know;
 - Emphasis is on development of solid projections that will enable the firm to take the most promising strategic option.

Dimensions of a Strategic Decision

- Strategic Decisions usually have multifunctional or multi-business consequences
 - Complex implications for most areas of the firm
 - Decisions about customer mix, competitive emphasis, or organizational structure will involve a number of the firm's SBUs, divisions, or program units.
- Strategic decisions require consideration of firm's external environment
 - All businesses exist in an open system. They affect and are affected by external conditions that are largely beyond their control;
 - Successful decision making requires that strategic managers look beyond operations and consider what others are likely to do

Levels of Strategic Decision Making



Levels of Strategic Decision Making

Corporate Level – Highest

MD/ CEO/ BOD

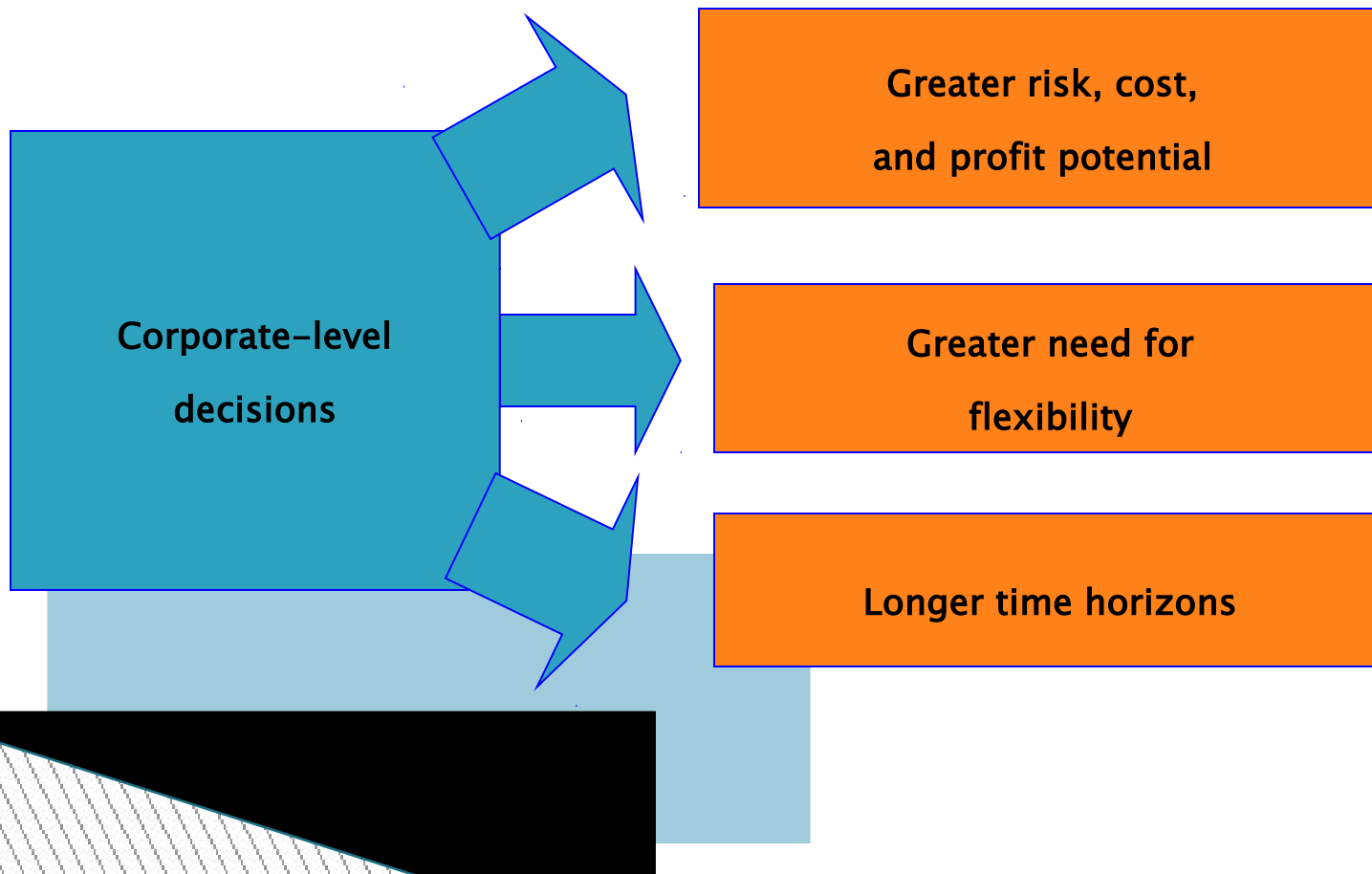
Business Level – Middle

Business and corporate
Managers

Functional Level – Highest

Product/ Geographic and
Functional Area Managers

Strategic Decision Making – Corporate Level



Some Corporate Level Strategic Decisions

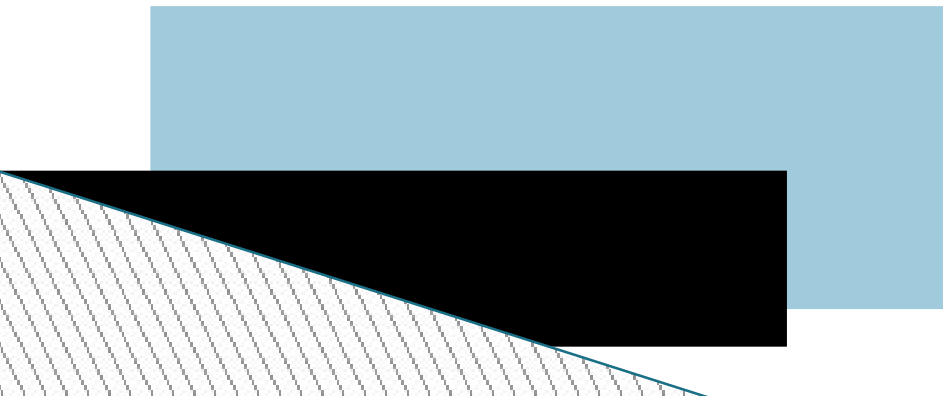
- Defining the Mission Statement for the organization
 - Unique purpose of the organization
 - Distinguishes it from other firms
 - Defines the primary direction of the organization
 - Sets the boundaries of its operations
 - Key foundation on which the objectives and strategies are based
 - Important from an internal as well as external point of view
 - Focal point for individuals to identify with the organization's direction
 - Creation of corporate identity in the external environment

Some Corporate Level Strategic Decisions

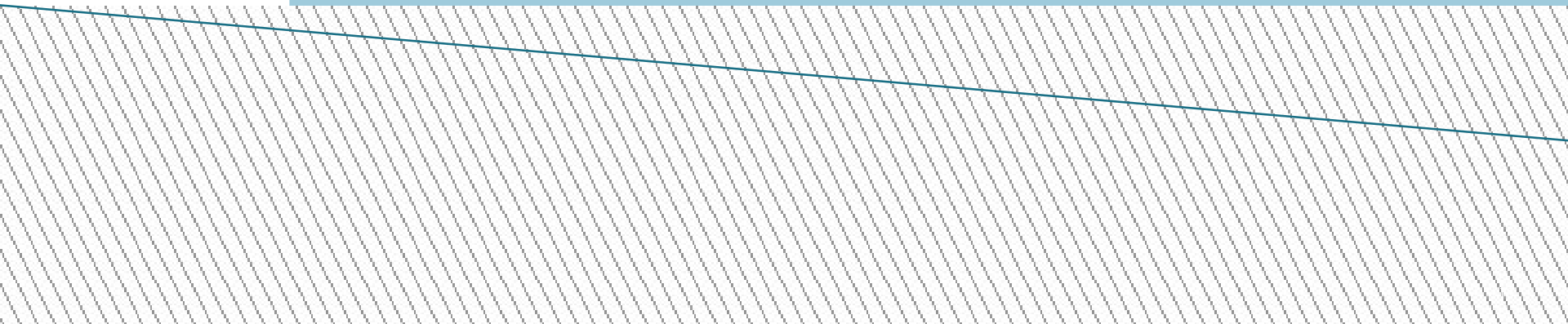
- Choosing the Directional Strategy for the organization (Grand Strategies)
 - Growth strategies – expand the firm’s activities
 - Stability strategies – business as usual
 - Retrenchment strategies – reduce the firm’s level of activities
- Some examples
 - Should we expand into new markets
 - Should we diversify into new businesses/ products?
 - Mergers/ Strategic alliances/ Joint ventures
 - Divestment/ Liquidation

Some Corporate Level Strategic Decisions

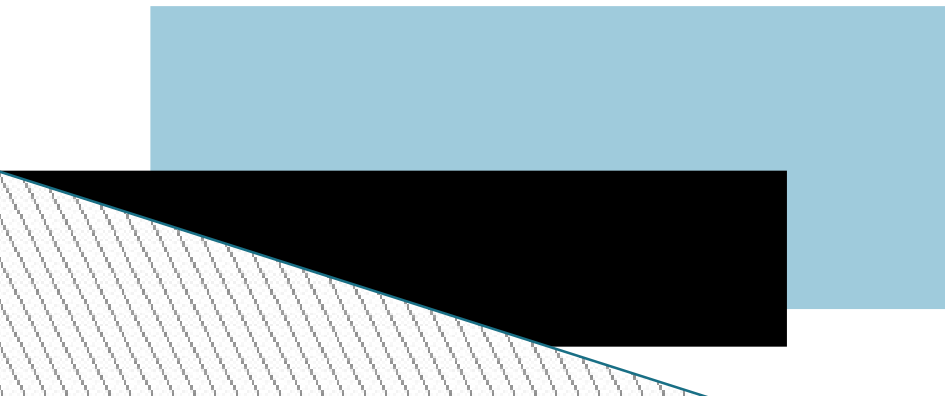
- Allocating resources between SBUs
 - Very relevant for large organizations with multiple products or SBUs
- Various tools can be used to do a portfolio analysis
 - BCG Matrix
 - Shell Directional Matrix
 - TOWS Matrix



Strategic Decision Making Tools



BCG Matrix



Shell's Directional Matrix

		Prospects for Sector Profitability		
		Unattractive	Average	Attractive
Company's Competitive Capability	Weak	Disinvest	Phased Withdrawal Custodial	Double or Quit
	Average	Phased Withdrawal	Custodial Growth	Try Harder
	Strong	Cash Generation	Growth Leader	Leader

Shell Directional Policy Matrix

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- **Leader**- Major resources are focused on the SBU
- **Try harder**- Could be vulnerable over a period of time
- **Double or quit**- Gamble on potential SBU for the future
- **Growth**- Grow the market by focusing just enough resources
- **Custodial**- Just like a cash cow, milk it but do not commit any resources
- **Cash generator**- Even more like a cash cow, milk it for expansion elsewhere
- **Phased withdrawal**- Move cash to SBU's with better potential
- **Divest**- Liquidate or move these assets as fast as you can

TOWS Matrix

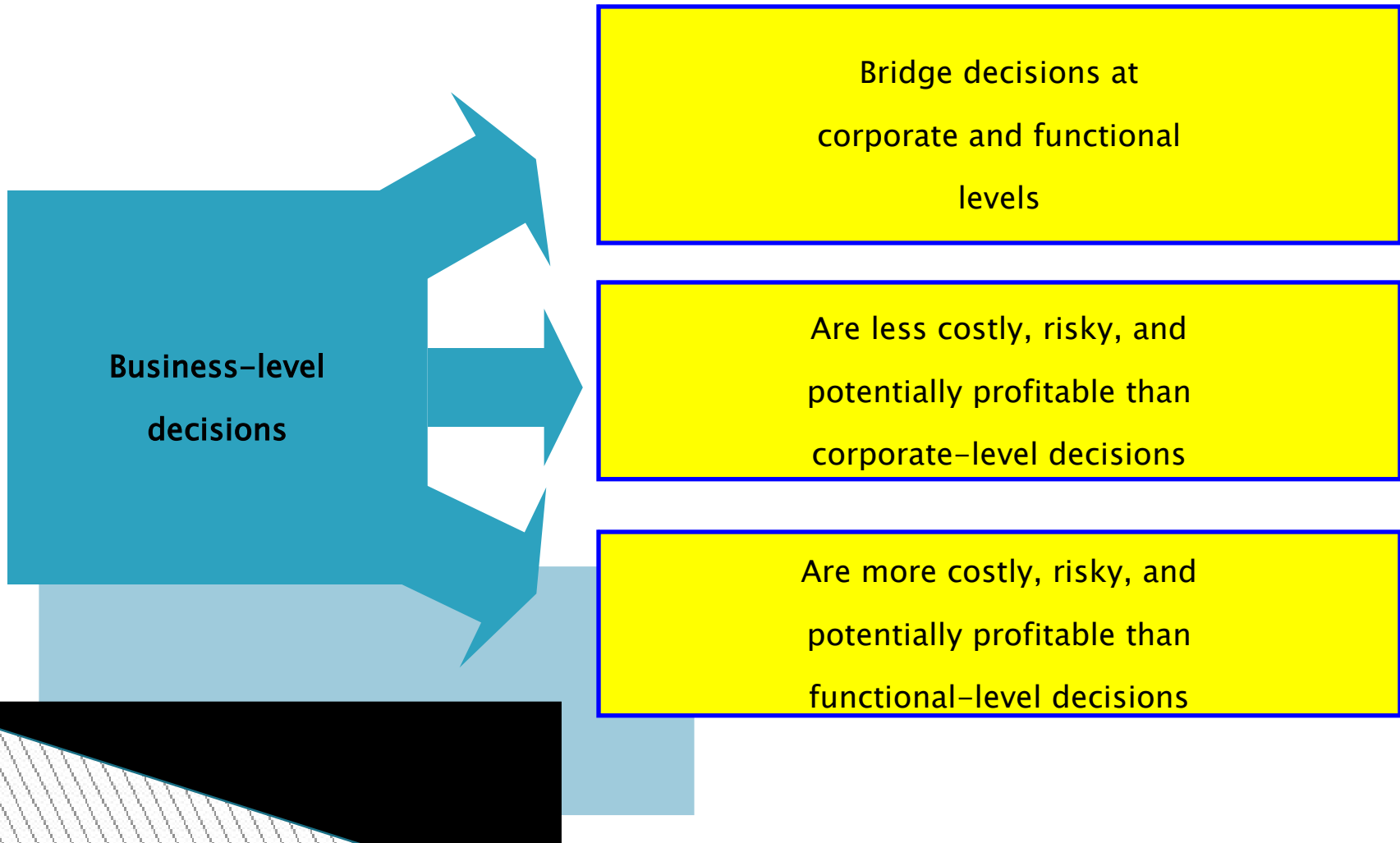
<p>INTERNAL FACTORS (IFAS)</p> <p>EXTERNAL FACTORS (EFAS)</p>	<p>Strengths (S)</p> <p>List 5 – 10 <i>internal</i> strengths here</p>	<p>Weaknesses (W)</p> <p>List 5 – 10 <i>internal</i> weaknesses here</p>
<p>Opportunities (O)</p> <p>List 5 – 10 <i>external</i> opportunities here</p>	<p>SO Strategies</p> <p>Generate strategies here that use strengths to take advantage of opportunities</p>	<p>WO Strategies</p> <p>Generate strategies here that take advantage of opportunities by overcoming weaknesses</p>
<p>Threats (T)</p> <p>List 5 – 10 <i>external</i> opportunities here</p>	<p>ST Strategies</p> <p>Generate strategies here that use strengths to avoid threats</p>	<p>WT Strategies</p> <p>Generate strategies here that minimize weaknesses and avoid threats</p>

TOWS Matrix–Strategy to be used

EXTERNAL FACTORS (EFAS)	INTERNAL FACTORS (IFAS)	Strengths (S) List 5 – 10 <i>internal</i> strengths here	Weaknesses (W) List 5 – 10 <i>internal</i> weaknesses here
	Opportunities (O) List 5 – 10 <i>external</i> opportunities here	SO Strategies Generate strategies here that use strengths to take advantage of opportunities	WO Strategies Generate strategies here that take advantage of opportunities by overcoming weaknesses
Threats (T) List 5 – 10 <i>external</i> opportunities here	ST Strategies Generate strategies here that use strengths to avoid threats	WT Strategies Generate strategies here that minimize weaknesses and avoid threats	

- SO Strategy – Maxi–Maxi
 - Capitalizes on a company’s strengths to take advantage of most desirable opportunities
 - All organizations would like to move to this position in the matrix
- ST Strategy – Maxi–Mini
 - Based on using the organizational; strengths to overcome the threats in the environment
 - Maximize strengths and minimize threats
 - Eg., a Company may use its financial, marketing and technological strengths to overcome the threat of a new product launch by a competitor
- WO Strategy – Mini– Maxi
 - Aim to minimize the company’s weaknesses and maximize opportunities
 - Eg., Training and development to overcome weaknesses
- WT Strategy – Mini–Mini
 - Minimize both threats and weaknesses
 - E., Company may form a JV, retrench or even liquidate

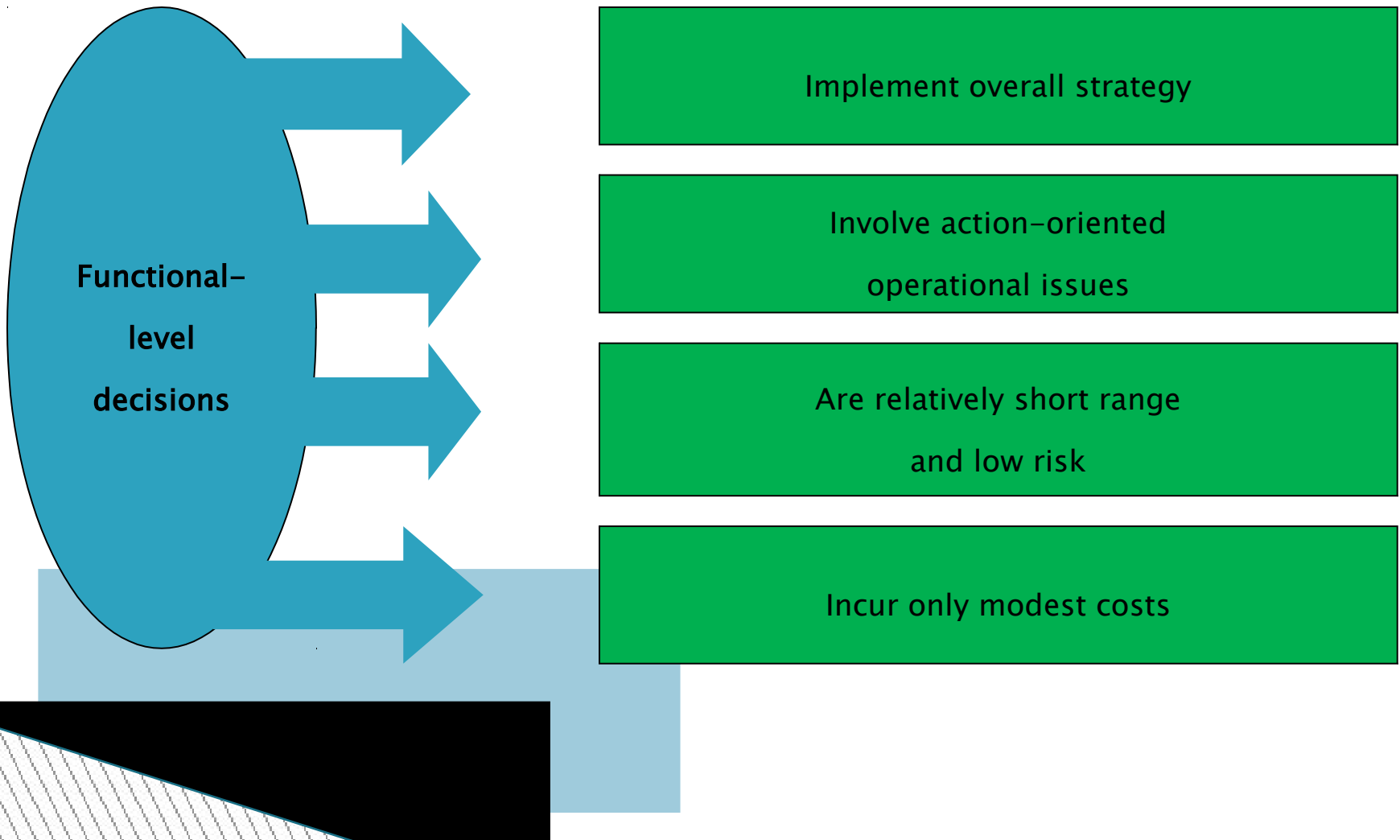
Strategic Decision Making – Business Level



Some Business Level Strategic Decisions

- Developing a competitive strategy
 - Usually select a strategy that exploits the company's internal strengths and external opportunities
 - Utilizes the company's competitive advantage over the competitors
- Some generic competitive strategies
 - Cost Leadership
 - Differentiation
- Pricing Strategies
 - Skimming Strategy
 - Penetration Strategy

Strategic Decision Making – Functional Level



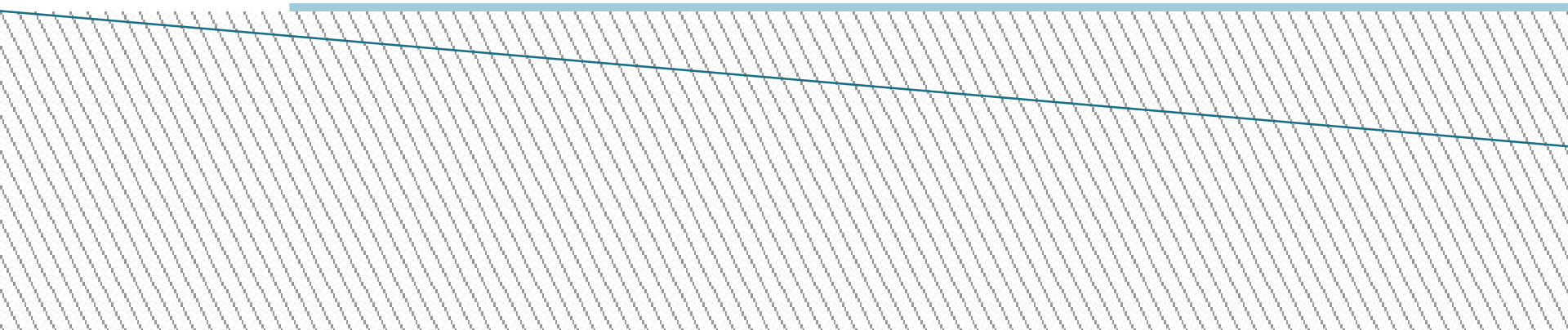
Some Functional Level Strategic Decisions

- Usually related to various functional areas
 - Market segmentation and positioning
 - Financial strategies
 - Optimum utilization of financial resources
 - Raising capital to support the competitive strategy
 - Manufacturing strategies
 - Optimum utilization of resources in production
 - Production design
 - Integrating HR strategy with corporate strategy

The Strategy Makers

- ***The ideal strategic management team includes***
 - Chief executive officer (CEO)
 - Vertical or SBU Heads
 - Heads of functional areas
- ***The strategic management team obtains input from***
 - Planning staff
 - Lower-level management and supervisors
- ***Role of CEO***
 - Provides long-term direction
 - Assumes ultimate responsibility for firm's success
 - Solicits guidance from Board of Directors

Strategic Decision Making Process



W

The Strategic Decision Making Model

w

W

b

a

b

w

a

g

b

W

a

g



A Typical Strategic Decision Making Model

A NORMATIVE STRATEGIC DECISION MAKING PROCESS

Source: Heracleous and Langham (1996).



Strategy Formulation

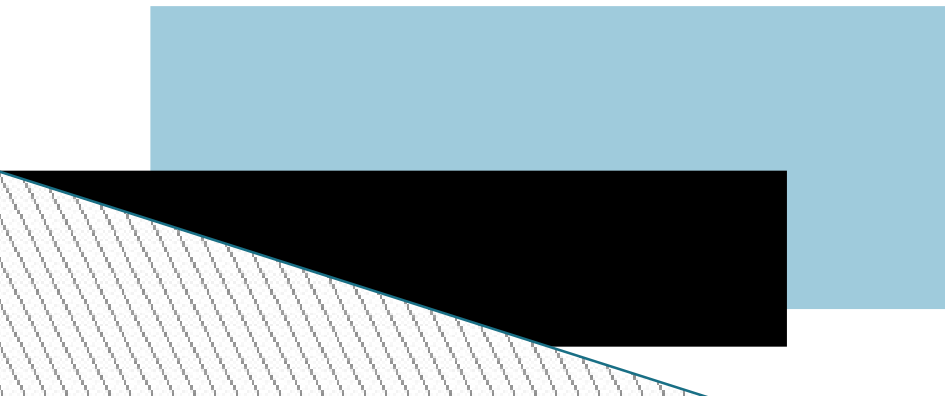
- What is our business vision and mission?
- Who are our customers?
- What do our customers consider as value?
- What have been our results?
- What is therefore OUR PLAN

Strategy Implementation

- The process of allocating resources and putting the strategy into action
- Finalize the strategic plan of action
- Motivate employees
- Allocate resources
- Often called the “Action Stage”

Strategy Evaluation

- Reviewing the internal and external factors
- Measuring performance
- Taking corrective action



In Summary...

Strategic decisions are marked by ambiguity and uncertainty

Strategic Decision Making process is iterative – it keeps on looping around instead of unfolding in a linear fashion

A decision isn't necessarily a choice from among alternatives but it is always a commitment to a particular course of action.

And, finally, the decision – the commitment to a particular course of action must be communicated; clearly, coherently and convincingly.

GroupPresentations

- Scenario: You are the **advisor to the CEO** of a large firm
- You may choose **whichever sector** you prefer
 - Banking/ FMCG/ Telecom
- Make a presentation recommending the following
 - **New product launch in existing geography**
- Present your **reasons and analysis** for the recommended course of action