CHAPTER ONE

THE NATURE OF STRATEGIC MANAGEMENT

1.1 Defining strategic management

Strategy was originally a term applied to warfare; it was defined as 'the art of planning and directing larger military movements and the operations of war.' The term 'strategy' is derived from the Greek word *strategos,* which means generalship – the actual direction of military force as directed from the policy governing its deployment. The term was first used around 360 BC when the Chinese military strategist *Sun Tzu* wrote The Art of War, a work which is said to have influenced the thinking of many modern Japanese businesses, and has led to a number of thoughts about how the 'art' can be applied to modern business.

What the concept actually means? Fundamentally, it is about the *purpose* of the business, why it exists and what it exists to do. From this '*mission'* the strategy will define the activities or *projects* that the business will adopt in order to achieve it. The projects that deliver the strategy demand the use of *resources.* Resources have a cost and so represent an *investment* in the business. Critically, a strategy will define how these resources will be used to *compete* against the other businesses that are trying to attract customers' valuable money. A strategy gives the firm a *competitive advantage.* A competitive advantage is the basis for a relationship with customers which is beneficial to both customers and supplying company. A good strategy will make this relationship resistant to competitive attack. It will make it *sustainable.*

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development and computer information systems to achieve organizational success.

Defining And Explaining Strategy Despite its importance, or perhaps because of it, there is no one, single universally agreed definition of strategy. Every authority gives his or her own version. One of the earliest contributors, Alfred D Chandler, defined strategy as: 'the determination of the basic long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals'. William F. Glueck (in Business

Policy and Strategic Management) defines strategy as: ‘a unified, comprehensive, integrated plan… designed to ensure that the basic objectives of the enterprise are achieved’ Hill and Jones (in Strategic Management Theory) defines strategy as: ‘a specific pattern of decisions and actions that managers take to achieve superior organizational performance’. Thompson and Strickland (in Strategic Management) defines strategy as: ‘the pattern of actions and business approaches managers employ to please customers, build an attractive market position, and achieve organizational objectives; a company’s actual strategy is partly planned and partly reactive to changing circumstances’.

Looking at these definitions we can say that strategy is about:

- A game plan or course of action or pattern of actions or competitive moves or business approaches that manager’s employ in running a company
- A strategy is the means used to achieve the ends (objectives)
- Strategy is both proactive (intended) and reactive (adaptive)
- Strategies are partly visible and partly hidden to outside view

A company’s strategy is the game plan management is using to stake out a market position, conduct its operations, attract and please customers, compete successfully, and achieve organizational objectives. ‘A company’s strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully, and achieve organizational objectives.’ A strategy entails managerial choices among alternatives and signals organizational commitment to specific markets, competitive approaches, and ways of operating. Closely related to the concept of strategy is the concept of a company’s *business model*. A company’s business model is more narrowly focused than the company’s business strategy. Strategy *relates to a company’s competitive initiatives and business approaches (irrespective of the financial and competitive outcomes it produces), while the term business model deals with whether the revenues and costs flowing from the strategy demonstrate business viability.*

Without a strategy:

- *managers have no prescription for doing business,*
- *no road map to competitive advantage,*
- *no game plan for pleasing customers, or achieving good performance*

We define strategic management as "*consisting of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages*." This definition captures two main elements of the field of strategic management.

- First, strategic management entails three on-going processes: analysis, decisions, and actions. That is, managers must analyze the internal and external environment as well as their hierarchy of goals in order to formulate and implement strategies.
- Second, the essence of strategic management is the study of why some firms outperform others. We draw on Michael Porter's work to make the important distinction between strategy and operational effectiveness. Managers must create advantages that are sustainable over a period of time, instead of merely temporary. That is: *How can we create competitive advantages in the marketplace that are not only unique and valuable but also difficult for competitors to copy or substitute?*

Strategy as an emergent process:

Traditional view on strategy emphasized that strategy is the outcome of formal planning process and that top management play the most important role. In recent years several scholars have advocated an alternative view of strategy that has called in to question the traditional planning centric view. These scholars have two main criticisms; one focuses upon the unpredictability of the real world, while the other looks at the role lower-levels managers can play in the strategy making. Henry Mintiziberg has incorporated the above ideas into a model of strategy development that provides us with a more encompassing view of what strategy actually is. The model has five elements as depicted below.

Intended Strategy is the strategy that managers talk about and say they want to see in to effect (this is the strategy included in formal strategic plans). Some elements of this will become part of the strategy managers attempt to put in to effect. This is the **deliberate strategy.** Those parts of the intended strategy that are not made deliberate are the **unrealized** elements of the strategy. The deliberate strategy will become manifest in the final strategy, the **realized strategy**, that the organization adopts. However, the realized strategy will also contain another element, the **emergent strategy**.

In Mintizberg's view, emergent strategies are the unplanned responses to unforeseen circumstances, and they often arise from autonomous action by individual employees deep within the organization. They are not the product of formal top-down planning mechanisms. Minitizberg maintains that they are often successful and may be more appropriate than intended strategies.

Figure 1.1 Minitizberg's model of strategy development

1.2 Stages of Strategic management

The strategic-management process consists of three stages: strategy formulation, strategy implementation, and strategy evaluation.

Strategy formulation *includes* developing a business mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy formulation issues includes deciding what new businesses to enter, what businesses to abandon, how to allocate resources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover. *Strategy formulation* decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time. Strategies determine long-term competitive advantages. Top managers have the best perspective to fully understand the ramifications of formulation decisions; they have the authority to commit the resources necessary for implementation.

Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed; strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance. Strategy implementation is often called the action stage of strategic management. *Implementing* means mobilizing employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation hinges upon manager's ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose. Interpersonal skills are especially critical for successful strategy implementation. Major activities are:

- *Strategic Control and Corporate Governance*
- *Creating Effective Organizational Designs*
- *Strategic Leadership: Excellence, Ethics and Change*
- *Fostering Corporate Entrepreneurship*
- *Analyzing Strategic Management Cases*

Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modifications because external and internal factors are constantly changing. Three fundamental strategy evaluation activities are

1) Reviewing external and internal factors that are the bases for current strategies
2) Measuring performance, and
3) Taking corrective actions

Strategy evaluation is needed because success today is no guarantee of success tomorrow! Strategy formulation, implementation, and evaluation activities occur at three hierarchical levels in large organizations: corporate, divisional or strategic business unit, and functional.

1.3 Key terms in strategic management

Strategists: Strategists are individuals who are most responsible for the success or failure of an organization. Strategists have various titles such as chief executive officer, president, owner, chairman of the board, executive director, chancellor, dean etc.

Mission Statement: Mission statements are “enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm’s operation in product or market terms. A clear mission statement describes the values and priorities of an organization and it broadly charts the future direction of an organization.

External opportunities and threats: These terms refer to economic, social, cultural, demographic, environmental, political, governmental, technological, and competitive trends and events that could significantly benefit or Harm an organization in the future. Opportunities and threats are largely beyond the control of a single organization. E.g. computer revolution, population shifts, changing work values and attitudes, increased competition e.t.c A basic tenet of strategic management is that firms need to formulate strategies to take advantage external opportunities and to avoid or reduce the impact of external threats. For this reason, identifying , monitoring, and evaluating external opportunities and threats is essential and it is called environmental scanning or industry analysis.

Internal strengths and Weaknesses: are controllable activities within an organization that are performed especially well or poorly. Management, marketing, finance/accounting, production/operations, research and development, and computer information systems activities of a business are areas where internal strengths and weaknesses arise. Organizations strive to pursue strategies that capitalize on internal strengths and improve on internal weaknesses. Strengths and weaknesses may be determined relative to a firm’s own objective. Internal factors can be determined in a number of ways that include computing ratios, measuring performance, and comparing to past periods and industry averages.

Long-term objectives: Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission. Long term means more than one year. Objectives are essential for organizational success because they provide direction, aid in evaluation, create synergy, reveal priorities, allow coordination, and provide a basis for effective planning, organizing, motivating, and controlling activities.

Strategies: are the means by which long term objectives will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint venture.

Annual Objectives: are short-term milestone that organizations must achieve to reach long term objectives. They should be established at the corporate, divisional, and functional levels in a large organization. Annual objectives should be stated in terms of management, marketing, finance/accounting, production/operations, research and development, and computer information systems.

Policies: It is the means by which annual objectives will be achieved. Policies include guideline, rules, and procedures established to support efforts to achieve stated objectives. Policies are guides to decision making and address repetitive or recurring situations. Policies can be established at a corporate level and apply to an entire organization, at the divisional level and apply to a single division or at the functional level and apply to a particular operational activities or departments. Policies allow consistency and coordination within and between organizational departments.

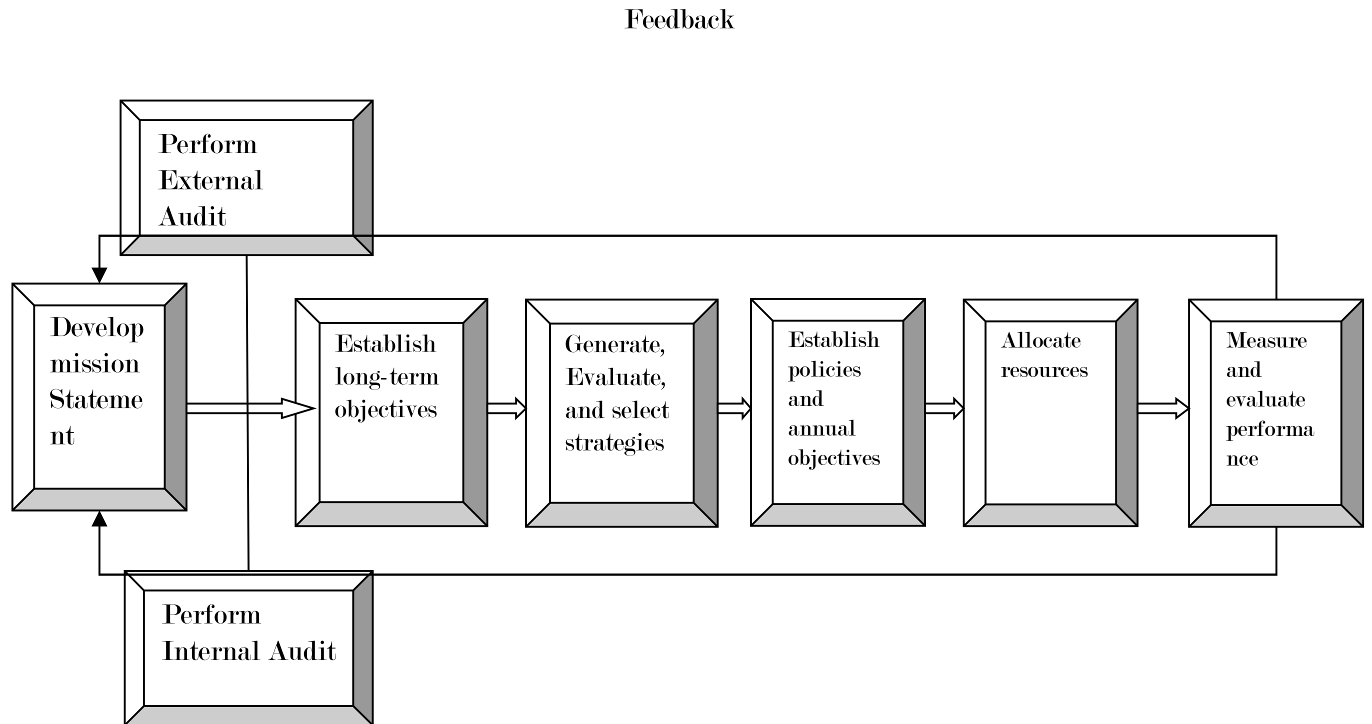
1.4 The strategic management model

The strategic management process can be best studied and applied using a model. Relationships among major components of the strategic management process are shown in the model. Identifying an organization’s existing mission, objectives, and strategies is the logical starting point for strategic management because a firm’s present situation and condition may preclude certain strategies and may even dictate a particular course of action. The strategic management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. Therefore, strategy formulation,

implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semiannually. The strategic-management process never really ends.

Figure 1-2

Comprehensive strategic management model



I------strategy formulation---I-----strategy implementation-------I—evaluation.

The strategic management process is not as cleanly divided and neatly performed in practices as the strategic management model suggests. Many organizations conduct formal meetings semiannually to discuss and update the firm's mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance.

1.5 Benefits of strategic management

Strategic management allows an organization to be more proactive than reactive in shaping its future; it allows an organization to initiate and influence (rather than just respond to) activities, and thus to exert control over its own destiny. Historically, the principal benefit of strategic management has been to help organizations make better strategies through the use of a more systematic, logical, and rational approach to choice. Some argues that the process is the more important contribution of strategic management as it makes employees to become committed to supporting the organization.

The manner in which strategic management is carried out is thus exceptionally important. A major aim of the process is to achieve understanding and commitment from all managers and employees. Understanding may be the most important benefit of strategic management, followed by commitment. When managers and employees understand what the organization is doing and why, they often feel a part of the firm and become committed to assisting it. This is especially true if employees also understand linkage between their own compensation system and organizational performance. A great benefit of strategic management, then, is the opportunity that the process provides to empower individuals.

More and more organizations are decentralizing the strategic management process, recognizing that planning must involve lower-level managers and employees. The process is a learning, helping educating, and supporting activity not merely a paper shuffling activity among top executives. The worst thing strategists can do is develop strategic plans themselves and then present them to operating managers to execute. Through involvement in the process, line managers become "owners" of a strategy. Ownership of strategies by the people who have to execute them is a key to success!

FINANCIAL BENEFITS Research studies indicate that organizations using strategic management concepts are more profitable and successful than those that do not.

NON FINANCIAL BENEFITS Besides helping firms avoid financial demise, strategic management offers other tangible benefits, such as enhanced awareness of external threats, an improved understanding of competitors' strategies, increased employees productivity, reduced resistance to change, and a clearer understanding of performance-reward relationships. Strategic management enhances the problem prevention capabilities of organizations because it promotes interaction among managers at all divisional and functional levels. Interaction can enable firms to turn on their managers and employees by nurturing them, sharing organizational objectives with them, empowering them to help improve the product or service, and recognizing their contributions. Strategic management offers the following benefits:

1. It allows for identification, prioritization, and exploitation opportunities
2. It provides an objective view of management problems.
3. It represents a framework for improved coordination and control of activities
4. It minimizes the effect of adverse conditions and changes
5. It allows major decisions to better support established objectives
6. It allows more effective allocation of time and resources to identified opportunities.
7. It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.
8. It creates a framework for internal communication among personnel
9. It helps to integrate the behavior of individuals in to a total effort
10. It provides a basis for the clarification of individual responsibilities
11. It gives encouragement to forward thinking
12. It provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities.
13. It encourages a favorable attitude toward change.
14. It gives a degree of discipline and formality to the management of a business.

1.6 Business ethics and strategic management

Business ethics can be defined as principles of conduct within organization that guide deision making and behavior. Good business ethic is a prerequisite for good strategic management. Strategists are the individuals primarily responsible for ensuring that high ethical principles are espoused and practiced in an organization. All strategy formulation, implementation, and evaluation decisions have ethical ramifications. Newspapers and business magazines daily report legal and moral breaches of ethical conduct by both public and private organizations.

A new wave of ethics issues related to product safety, employee health, sexual harassment, AIDS in the work place, smoking, acid rain, affirmative action, waste disposal, foreign business practice, cover-ups, takeover tactics, conflicts of interests, employee privacy, security of company records, and layoffs has accented the need for strategists to develop clear code of business ethics.

A business code of ethics can provide a basis on which policies can be devised to guide daily behavior and decisions at the work site. Merely having code of ethics, however, is not sufficient to ensure ethical business behavior. A code of ethics can be viewed as a public relations gimmick, or a set of platitude, or window dressing. To ensure that code is read, understood, believed and remembered, organizations need to conduct periodic ethics workshops to sensitize people to workplace circumstances in which ethics issues may arise.

One reason strategists' salaries are high compared to those of the individuals in organization is that strategists must take the moral risks of the firm. Strategists are responsible for developing, communicating, and enforcing the code of business ethics for their organization. Although primary responsibility for ensuring ethical behavior rests with a firm's strategists, an integral part of responsibility of all managers is to provide ethics leadership by constant example and demonstration. No society anywhere in the world can compete very long or successfully with people stealing from one another or not trusting one another, with every bit of information requiring notarized confirmation, with every disagreement ending up in litigation, or with government having to regulate business to keep them honest. History has proven that the greater the trust and confidence of people in the ethics of an institution or society, the greater its economic growth.

Some of the business actions which considered to be unethical includes misleading advertising or labeling, causing environmental harm, poor product or service safety, padding expense accounts, dumping banned product in foreign market, lack of equal oppor5tunites for women, overpricing, hostile takeovers, moving jobs overseas. Firms can align ethical and strategic decision making by incorporating ethical considerations in to long-term planning, integrating ethical decision making in to the performance appraisal process, encouraging whistle-blowing or the reporting of unethical practices, and monitoring departmental and corporate performance regarding ethical issues.

1.7 Levels at which strategy Operates

Businesses, especially conglomerates, are arranged in a hierarchical way. The business as a whole may be made up of a collection of smaller businesses. These may be grouped into divisions. These divisions may also be known as profit centers or strategic business units (SBUs). Each one of the SBUs has its own functional departments. This ordering of business activity suggests a hierarchical ordering of strategy as illustrated in the following figure.

A firm's strategy is formulated at several levels;

Corporate-Level Strategy focuses on two issues: (1) what businesses to compete in, and, (2) how businesses can be managed to achieve synergy, that is, create more value by working together than if they operated as a stand-alone entity.

This strategy is concerned with the type of businesses the firm, as a whole, is in or should be in. it addresses such issues as the balance in the organization's portfolio by directing attention to questions like:

- ✓ attractiveness of entire businesses,
- ✓ with reference to important strategic criteria, such as markets, contribution to corporate profits and growth in a particular industry
- ✓ Questions concerning diversification and the structure of the firm as a whole

Business-Level Strategy addresses the issue of how firms compete in an industry to gain competitive advantage. Strategic Business Units (SBUs) are created at corporate level, and can be subsumed under it.

The strategies of SBUs can be regarded as the parts which require and define the organizational whole. It empowered to make key decisions about current and future strategy within the framework of the overall corporate strategy. It seeks to determine how an organization should compete in each of its businesses.

Functional Level Strategy seeks to determine how to support the business-level strategy. A firm needs a functional strategy for every competitively relevant business activity and organizational unit – for R&D, Production, Marketing, Customer service, Distribution, Finance, HR, IT, and so on Functional strategies, while narrower in scope than business strategies, add relevant detail to the overall business game plan by setting forth the actions, approaches, and practices to be employed in managing a particular functional department or business process or key activity.

At this level the focus is likely to be on the maximization of resource productivity. Functional strategies while narrower in scope than business strategies, add relevant detail to the overall business game plan by setting forth the actions, approaches, and practices to be employed in managing a particular functional department or business process or key activity. They aim at establishing or strengthening specific competencies and competitive capabilities calculated to enhance the company's market position and standing with its customer. *Generally, this strategy is concerned with how the various functions – finance, marketing, operations, research and development, etc. contribute to both business and corporate strategy.*

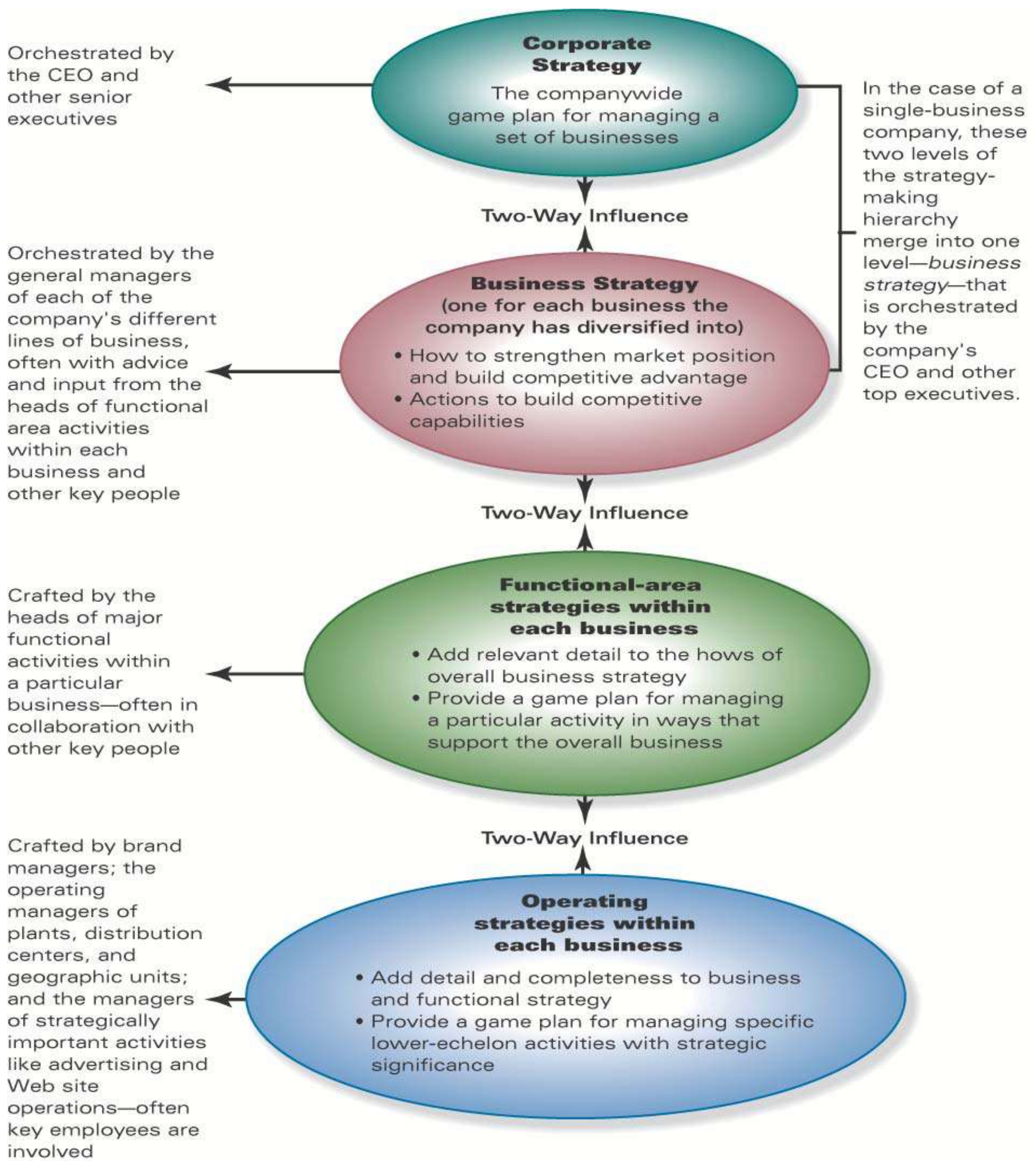


Figure 1.3 Levels at which strategy operates