

Chapter One:

The Nature of Strategic Management

1.1. Defining strategic management

The Word ‘strategy’ is derived from the Greek term *strategos*, meaning a carefully formulated military style plan of campaign.

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 objective.”

Strategic Management is “The on-going process of formulating, implementing and controlling broad plans guide the organizational in achieving the strategic goods given its internal and external environment”.

Strategic management is a set of managerial decisions and actions that determines the long run performance of a corporation. It includes environmental scanning (both external and internal), strategy formulation (strategic or long-range planning), strategy implementation, and evaluation and control. The study of strategic management, therefore, emphasizes the monitoring and evaluating of external opportunities and threats in light of a corporation’s strengths and weaknesses.

1.2. Stages of strategic management

The strategic management process consists of three stages:

- ✓ Strategy Formulation (strategy planning)
- ✓ Strategy Implementations
- ✓ Strategy Evaluation

Strategic Formulation:

It is the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses (SWOT). It includes defining the corporate mission, specifying achievable objectives, developing strategies, and setting policy guidelines.

Strategic formulation means a strategy formulate to execute the business activities. Strategy formulation includes developing:-

- **Vision and Mission** (The target of the business)
- **Strength and weakness** (Strong points of business and also weaknesses)
- **Opportunities and threats** (These are related with external environment for the business)

Strategy formulation is also concerned with setting **long term goals and objectives**, generating alternative strategies to achieve that long term goals and choosing particular strategy to pursue.

The considerations for the best strategy formulation should be as follows:

- Allocation of resources
- Business to enter or retain
- Business to divest or liquidate
- Joint ventures or mergers
- Whether to expand or not
- Moving into foreign markets

Strategy Implementation

It is a process by which strategies and policies are put into action through the development of programs, budgets, and procedures. This process might involve changes within the overall culture, structure, and/or management system of the entire organization

Strategy implementation requires a firm to establish annual objectives, devise policies, motivating employees and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing strategy supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information system and linking employee compensation to organizational performance. Strategy implementation is often called the action stage of strategic management. Implementing means mobilizing employees and managers in order to put formulated strategies into action. It is often considered to be most difficult stage of strategic management. It requires personal discipline, commitment and sacrifice.

Strategy evaluation:

It is a process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems. Although evaluation and control is the final major element of strategic management, it can also pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again.

1.3.Key terms in strategic management

Before we further discuss strategic management, we should define the following key terms: competitive advantage, strategists, mission statements, external opportunities and threats, internal strengths and weaknesses, long-term objectives, strategies, annual objectives, and policies.

Competitive Advantage

The term can be defined as anything that a firm does especially well compared to rival firms. When a firm can do something that rival firms cannot do, or owns something that rival firms desire, that can represent a competitive advantage.

Strategists

Strategists are individuals who are most responsible for the success or failure of an organization. *Strategists* are individuals who form strategies. Strategists have various job titles, such as chief executive officer, president, and owner, chair of the board, executive director, chancellor, dean, or entrepreneur.

Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist).

Vision Statements

Many organizations today develop a "vision statement" which answers the question, what do we want to become? Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence.

Mission Statements

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 operations in product and market terms. It addresses the basic question that faces all strategists: What is our business? A clear mission statement describes the values and priorities of an organization. Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organization.

External Opportunities and Threats

External opportunities and *external threats* refer to economic, social, cultural, demographic, environmental, political, legal, 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, thus the term *external*.

The computer revolution, biotechnology, population shifts, changing work values and attitudes, space exploration, recyclable packages, and increased competition from foreign companies are examples of opportunities or threats for companies. These types of changes are creating a different type of consumer and consequently a need for different types of products, services, and strategies.

A basic tenet of strategic management is that firms need to formulate strategies to take advantage of external opportunities and to avoid or reduce the impact of external threats. For this reason, identifying, monitoring, and evaluating external opportunities and threats are essential for success.

Internal Strengths and Weaknesses/Internal assessments

Internal strengths and *internal weaknesses* are an organization's controllable activities that are performed especially well or poorly. They arise in the management, marketing, finance/accounting, production/operations, research and development, and computer information systems activities of a business. Identifying and evaluating organizational strengths and weaknesses in the functional areas of a business is an essential strategic-management activity. Organizations strive to pursue strategies that capitalize on internal strengths and improve on internal weaknesses.

Strengths and weaknesses are determined relative to competitors. *Relative* deficiency or superiority is important information and also Strengths and weaknesses may be determined relative to a firm's own objectives. For example, high levels of inventory turnover may not be strength to a firm that seeks never to stock-out.

Long-Term Objectives

Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission. *Long-term objectives* represent the results expected from pursuing certain strategies. Strategies represent the actions to be taken to accomplish long-term objectives. The time frame for objectives and strategies should be consistent, usually from two to five years.

Objectives are essential for organizational success because they state direction; aid in evaluation; create synergy; reveal priorities; focus coordination; and provide a basis for effective planning, organizing, motivating and controlling activities. Objectives should be challenging, measurable, consistent, reasonable, and clear.

Strategies

Strategies are the means by which long-term objectives will be achieved. Strategies are potential actions that require top management decisions and large amounts of the firm's resources. In addition, strategies affect an organization's long-term prosperity, typically for at least five years, and thus are future-oriented.

Annual Objectives

Annual objectives are short-term milestones that organizations must achieve to reach long-term objectives. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized. 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 information systems accomplishments. A set of annual objectives is needed for each long-term objective. Annual objectives are especially important in strategy implementation, whereas long-term objectives are particularly important in strategy formulation.

Policies

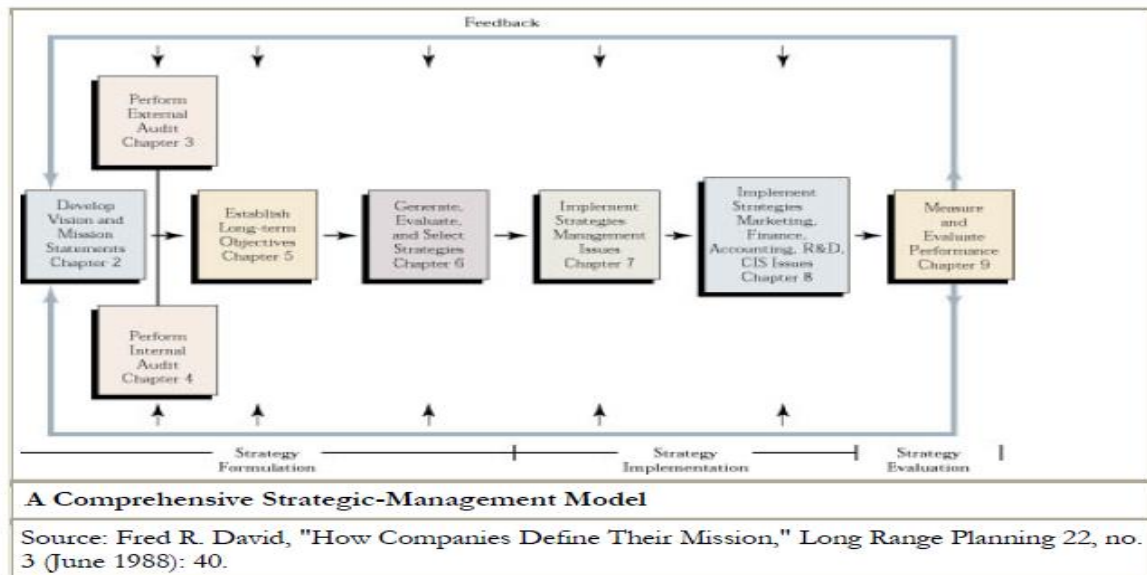
Policies are the means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives. Policies are guides to decision making and address repetitive or recurring situations.

Policies can be established at the 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 particular operational activities or departments.

Policies, like annual objectives, are especially important in strategy implementation because they outline an organization's expectations of its employees and managers.

1.4 The Strategic-Management Model

The strategic-management process best can be studied and applied using a model. Every model represents some kind of process. The framework illustrated in the below Figure is a widely accepted, comprehensive model of the strategic-management process. This model does not guarantee success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic-management process are shown in the model.



Identifying an organization's existing vision, 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. Every organization has a vision, mission, objectives, and strategy, even if these elements are not consciously designed, written, or communicated. The answer to where an organization is going can be determined largely by where the organization has been.

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. For instance, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy could require a change in the firm's mission. Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually. The strategic-management process never really ends.

1.5 Benefits of strategic management

Greenly stated that strategic management offers the following benefits:

- It allows for identification, prioritization, and exploitation of opportunities.
- It provides an objective view of management problems.
- It represents a framework for improved coordination and control of activities.
- It minimizes the effects of adverse conditions and changes.
- It allows major decisions to better support established objectives.

- It allows more effective allocation of time and resources to identified opportunities.
- It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.
- It creates a framework for internal communication among personnel.
- It helps integrate the behavior of individuals into a total effort.
- It provides a basis for clarifying individual responsibilities.
- It encourages forward thinking.
- It provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities.
- It encourages a favorable attitude toward change.
- It gives a degree of discipline and formality to the management of a business.

1.6 Business ethics and strategic management

The term **ethics** refers to accepted principles of right or wrong that govern the conduct of a person, the behavior of members of a profession, or the actions of an organization.

Business ethics are the accepted principles of right or wrong governing the conduct of business people and also it can be defined as principles of conduct within organizations that guide decision making and behavior. Ethical decisions are those that are in accordance with accepted principles of right and wrong, whereas an unethical decision is one that violates accepted principles. Good business ethics is a prerequisite for good strategic management; good ethics is just good business.

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.

A new wave of ethics issues related to product safety, employee health, sexual harassment, AIDS in the workplace, smoking, acid rain, affirmative action, waste disposal, foreign business practices, cover-ups, takeover tactics, conflicts of interest, employee privacy, inappropriate gifts, security of company records, and layoffs has accented the need for strategists to develop a clear code of business ethics. **A code of business ethics** can provide a basis on which policies can be devised to guide daily behavior and decisions at the work site.