

Strategic Management – The Most Exciting Management Discipline-An Analysis

Easwaran.S.Iyer¹, Subashini. K²

Dean, Commerce & Management, Jain University, Bangalore, Karnataka, India¹

CEO & Faculty, Martins Academy, Bangalore, Karnataka, India²

ABSTRACT: Strategic management is most exciting of the management disciplines. Strategic management is about success and failure, about the ability to plan wars and win them. Big mergers-perhaps the most visible sign of strategic management in action-catch the headlines. Effective strategic management can transform the performance of an organization, make fortunes for shareholders, or change the structure of an industry. Ineffective strategic management can bankrupt companies and ruin the careers of chief executives.

Thus, strategy can be defined as 'Ideas and actions to conceive and secure the future'. This definition highlights the fact that strategy requires thought about the future but also effective action to realize the conception. This definition, though brief, does not imply that strategy cannot have the many aspects discussed above.

It is apparent that definitions of strategy vary. 'To understand the reasons for this variation, it may help to have some understanding of where the ideas come from Military thinkers, political thinkers, academics, and practitioners have all considered the issue of strategy.

KEYWORDS: Strategies, stakeholders, strategic planning, internal organisational analysis, strengths to opportunities and threats, absenteeism, return on equity, dividend policy, disbursement, strategic alignments, appraisal of resources etc.,

I. INTRODUCTION

A well-conceived mission statement defines the fundamental, unique purpose that set a company apart from other firms of its type and identifies the scope of the company's operations in terms of products including services offered and markets served. It may also include the firm's philosophy about how it does business and treats its employees. It puts into words not only, what the company is now, but what it wants to become-management strategic vision of the firm's future. Some people like to consider vision and mission as two different concepts: a mission statement describes what the organization is now; a vision statement describes what the organization would like to become. We prefer to combine these ideas into a single mission statement. The mission statement promotes a sense of shared expectations in employees and communicates a public image to important stakeholder groups in the company' task environment. It tells who we are and what we do as well as what we would like to become.

One example of a mission statement is that of Maytag Corporation:

*"To improve the quality of home life by designing, building, marketing and servicing the best appliances in the world".
Another classic example is that etches, in bronze at Newport News shipbuilding, unchanged since it's founding in 1886:
"We shall build good ships here-at a profit if we can-at a loss if we must-but always good ships".*

Executive leadership is the directing the activities toward the accomplishment of corporate objectives. Executive leadership is important because it sets the tone for the entire corporation. *A strategic vision is a description of what the company is capable of becoming.* It is often communicated in the mission statement. People in an organisation want to have a sense of mission, but only top management is in the position to specify and communicate this strategic vision to the general workforce. Top managements enthusiasm or lack of it about the corporation tends to be contagious. The importance of executive leadership is illustrated by John Welch, Jr., the successful Chairman and CEO of General

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 3, Issue 10, October 2014

Electric Company (GE). According to Welch: “Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion”.

Chief executive officers with a clear strategic vision are often perceived as dynamic and charismatic leaders. For instance, the positive attitude characterizing many well-known industrial leaders such as **Bill Gates at Microsoft**, **Anita Roddick** at the Body Shop, **Ted Turner at CNN**, **Herb Kelleher** at Southwest Airlines, and **Andy Grove** at Intel has energized their respective corporations. They are able to command respect and to influence strategy formulation and implementation.

II. STRATEGIC OBJECTIVES

Strategic management is concerned with making decisions about an organization's future direction and implementing those decisions. Basically, strategic management can be broken down into two phases: strategic planning and strategy implementation. Strategic planning is concerned with making decisions with regard to

1. Defining the organization's philosophy and mission. Establishing long and short-range objectives to achieve the organization's mission.
2. Selecting the strategy that is to be used in achieving the organization's objectives.

Strategy implementation is concerned with making decisions with regard to:

1. Developing an organizational structure to achieve the strategy
2. Ensuring that the activities necessary to achieve the strategy are effectively performed.
3. Monitoring the effectiveness of the strategy in achieving the organization's objectives.
- 4.

Establishing Long and Short range Objectives

Long-range objectives specify the results that are desired in pursuing the organization's mission and normally extend beyond the current fiscal year of the organization. Short-range objectives are performance targets, normally of less than one year's duration, that are used by management to achieve the organization's long-range objectives.

As organization's objectives depend on the particular organization and its mission. Although objectives can vary widely from organization to organization, normally they can be categorized as follows:

1. Profitability
2. Service to customers, clients or other recipients
3. Employee needs and well-being
4. Social responsibility

The objectives of an organization are determined by the interaction among the following factors:

1. Present condition of the organization as determined by an internal organizational analysis.
2. External environment of the organization as determined by competitive analysis, environmental scanning and environmental forecasting.
3. Corporate culture of the organization. Corporate culture is the values that set a pattern for an organization's activities and actions.

The compass bearing for organization is their objectives. The purpose of the management of any organization is to lead and motivate the employees of the organization toward the accomplishment of the organization's objectives. Short-range objectives should follow logically from long-range objectives.

The objectives of an organization result from the interaction among the following factors:

1. Environmental scanning and forecasting
2. Competitive analysis
3. Internal organizational analysis
4. Organizational culture

Organizational culture is the pattern of beliefs and expectations shared by the organization's members, which powerfully shape the behaviour of individuals and groups within the organization.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 3, Issue 10, October 2014

Mix of Organizational Objectives

No one mix or combination of organizational objectives is applicable to all organizations. The type of objectives that are established depends on the nature of the particular organization. Ideally, an organization's objectives should be compatible with its culture and should

1. Match its strengths to opportunities
2. Minimize threats to the organization
3. Eliminate weaknesses in the organization

They should also support the organization's mission and need to be established for every area of the organization where performance and results directly influence the survival and success of the organization. The mix of objectives from prior years also influences the mix of organizational objectives. The degree of achievement of prior objectives influences the aspiration level of the management team and often serves as a starting point for determining the mix and exact nature of the objectives for a future time period.

The following items provide potential areas for establishing objectives for most organizations:

- a. Customer Service. Expressed in terms of delivery times or customer complaints.
- b. To reduce the number of customer complaints by 49 percent over the next three year.
- c. Financial Resources. Expressed in terms of the capital structure, new issues of common stock, cash flow, working capital, dividend payments, and collection periods.

Examples:

To increase work capital to \$10 million within five years

To reduce long term debt of \$8 million within three years

- d. Human Resource. Expressed in terms of rates of absenteeism, tardiness, turnover, or number of grievances. Also can be expressed in terms of number of people to be trained or number of training programs that are to be conducted.

Examples:

1. To reduce absenteeism by 8 percent within three years
2. To conduct a 40-hour supervisory development program for 300 supervisors at a cost not to exceed \$400 per participant over the next four years.

- e. Markets. Expressed in terms of share of the market or dollar or unit volume of sales. Examples:

1. To increase commercial sales to 85 percent of total sales and reduce military sales to 15 percent of total sales over the next three years
2. To increase the number of units of product X sold by 500,000 units within four years
3. Organizational structure. Expressed in terms of changes to be made or projects to be undertaken.

Example:

4. To establish a decentralized organizational structure within three years
5. Physical Facilities. Expressed in terms of square feet, fixed costs, or units of production.

III. FINANCIAL OBJECTIVES

Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in the fulfillment of a corporation's mission. Minnesota Mining & Manufacturing (3M), for example, has set very specific financial objectives for itself.

1. To achieve 10% annual growth in earnings per share
2. To achieve 20% -25% return on equity.
3. To achieve 27% return on capital employed.

Objectives can be expressed in both quantitative and qualitative terms. In both cases, they should be detailed enough so that the organization's personnel can clearly understand what the organization intends to achieve.

The finance function provides the financial resources necessary to implement strategy. Changes in strategy often involve adjustments to financial policies. Product and market development strategies, for example, may require an increase in working capital as well as in fixed capital.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 3, Issue 10, October 2014

A change in strategy will raise the following financial questions:

- Are sources of long term and short term financing available to support the new strategy?
- How will the change in strategy affect the company's standing with suppliers of capital?
- How will the change in strategy affect the cost of capital?
- Does the new strategy change uses of funds in such a way that new sources of capital are needed?
- Is dividend policy appropriate for the new strategy?
- Additional questions for organizations with international operations include:
- Are sources of local funding available and properly developed for non-domestic operations?
- How will the strategy be affected by currency depreciation and/or inflation?
- How can overall tax be minimized?
- How should that transfer of profits from foreign subsidiaries to headquarters be handled for optimum capital structure?

While most operating strategies guide implementation in the immediate future, the time frame for financial functional strategies varies because strategies in this area direct the use of financial resources in support of the business, long-term goals and annual objectives. Financial operating strategies with longer time perspectives guide financial managers in long-term capital investment, use of debt financing, dividend allocation, and the firm's averaging posture.

Long-term financial strategies usually guide capital acquisition in the sense that priorities change infrequently over time. The desired level of debt versus equity versus internal long-term financing of business activities airs a common issue in capital acquisition strategy.

The timing and amount of cash inflows and outflows are shown by a projection called a cash budget. Cash budgeting assists in strategy implementation by showing what cash needs are involved in implementing a new or adjusted strategy. Cash budgets are done on a monthly or even weekly basis. It flows are volatile or seasonal. Cash budgets for more stable situations may cover longer time periods.

The steps in cash budgeting are as follows:

- a. Prepare or obtain the sales forecast for the period of the budget.
- b. Determine the cash receipts from these sales and when they will be received.
- c. Determine whether any asset sales are planned for the period and include cash to be realized.
- d. Determine disbursements based on production plans, capital expenditures, dividend payments, federal income taxes, etc.
- e. Complete receipts with disbursements for each period to determine whether there will be a surplus or a deficit.
- f. If there will be a deficit, make arrangements to finance it or adjust tactics in operations and/or marketing.

IV. TASKS OF STRATEGIC MANAGEMENT

In view of the demands of the task in strategic management, identification of strategy involves elements of investigative work, clinical analysis, and scholarly reasoning. The purpose of identifying and articulating the current strategy of an organization as the first step in strategic analysis is threefold.

1. To provide an understanding, of how the organization reached its present status and current level of performance. Identifying current strategy also tells a great deal about the background of the organization and may provoke preliminary questions about the appropriateness of strategic alignments between the organization and the environment.
2. To provide the first alternative for any set of strategic alternatives. That alternative is to "continue as is". A change in strategy may not be desirable. Even when a change is necessary, incremental changes are often the most favourably received. A clear understanding of the current strategy is necessary to generate reasonable incremental change usually require careful defence and robust support based on knowledge of the current situation.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 3, Issue 10, October 2014

3. To communicate with other analysis to come to a common understanding of the situation. Discussion of a strategy statement with others who have performed a similar analysis is an excellent vehicle for discovering disparities or opinion without dwelling unnecessarily on areas of agreement.

The task of identifying a firm's current strategy requires several kinds of analysis. First, it is necessary to determine the level or levels of strategy, which are found in the organization. Next, the components of strategy for each level must be identified and patterns must be found in these components. . Finally, a statement of strategy should be written.

V. RESPONSIBILITY OF STRATEGIC MANAGEMENT

Successful strategic management involves the cooperation of several levels in the organization. Our definition of strategic management emphasizes the central role the top management plays in the process. What top management's role should be, and how it relates to the corporate planning staff and to line managers.

Role of the CEO in Strategic Management:

1. The CEO must understand that strategic management is his or her responsibility. Parts of this task, but certainly not all of it, can be delegated.
2. The CEO is responsible for establishing a climate in the organization that is congenial to strategic management.
3. The CEO is responsible for ensuring that the design of the process is appropriate to the unique characteristics of the company.
4. The CEO is responsible for determining whether there should be a corporate planner. If so, the CEO generally should appoint the planner and see that the office is located as close to that of the CEO as practical.
5. The CEO must get involved in doing the planning.
6. The CEO should have face-to-face meetings with executives for making plans and should ensure that there is a proper evaluation of the plans and feedback to those making them.
7. The CEO is responsible for reporting the results of the strategic management process to the board of directors.

VI. THE IMPORTANCE OF THE STRATEGY FORMULATION PROCESS

Every enterprise has a strategy at any time. It may be that nobody has ever used the word strategy and that no deliberate or disciplined process has ever taken place. The strategy may be to continue to do tomorrow what was done today. This is a somewhat neutral strategy but it may sometimes be appropriate and effective. It certainly has the advantage that it is easy to implement and it may be more likely to secure the future than ill-conceived radical departures into new activities. More often in practice, however, it is apparent that the future of the enterprise is less secure than it might be so there is a need to consider and formulate suitable new strategies, which will increase as chance of success. Such new strategies do not just happen; they result from a formulation process. The strategy formulation process is important because a better process should produce better strategies. It is, of course, arguable what better means.

Good strategies are judged by the results not by the quality of the process that generated them. It is apparent that there is considerable divergence of view among academic thinkers on what the best strategy process would look like. Successful enterprises adopt a formulation process that matches their business, their culture and the specific issues of the context. They certainly do not all go about formulating strategy in the same way. Management consultants specializing in strategy may offer their clients a proprietary method for formulating strategy and may claim that this approach offers advantages over alternative approaches. Such claims are hard to substantiate and the same process is likely to work better in some contexts than others. Certainly no standardized approach can ever guarantee success. **Gary Hamel** has referred to this as the 'dirty little secret of the strategy industry. He meant that, when management consultants guide their clients through a process, it is originality, creativity, and effective implementation that lead to future business success and not the process itself. It is impossible to be prescriptive about what process will generate the best strategies. In spite of this awkward fact, most enterprises find it useful to think about the process by which they formulate their future strategies and to try to improve the process so as to increase the chance of creative thinking happening.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 3, Issue 10, October 2014

In practice, strategy processes may be formal or informal; complex or simple. They may be exactly analytical or based on a broad understanding of important trends. The process may involve many people or just a few. In one very successful life insurance company the process is almost entirely informal. The senior six or seven executive directors meet regularly and discuss strategy among other more immediate matters. Strategic ideas may be discussed at committees chaired by the same directors so that any difficulties or objections become apparent. After a period of gradual agreement, the strategies will be reported to a meeting of the full board. The expectation is that the board will nod them through. There are no strategic plans written down; and very little documentation of any kind. All the executive directors maintain, however, that the strategy is very clear. The company has been highly successful over a long period of time.

At the other end of the scale, many large multi-divisional companies still operate formal processes in which individual companies or divisions present their strategies to the board for review. Such formality may have the important advantage that it causes busy managers to think about the future. On the other hand, formality may also have the disadvantage that thinking that is undertaken only to meet the requirements of a bureaucratic process may be stiff and unimaginative.

The case examples give some indication of the broad range of formality, style, and time-scale that occurs within planning processes. In ICI, under the pressure of a crisis, one or two people conceived a radically new strategy in a period of a few weeks. Marks & Spencer, also experiencing a crisis, found it appropriate to have an off-site meeting for the entire board and to study a strategy document several hundred pages long.

The strategy formulation process has to be tailored to the current needs of the organization. The task for the manager is to understand the process that has generated strategies in the past in that enterprise and to consider how to develop that process in the future. This may require minor adjustments, such as changes of emphasis, involvement of new groups of people, or new analysis of data. There is some evidence that planning processes need several years to bed down and begin to produce results. This argues for gradual development of the existing process. Sometimes, however, it may be appropriate to introduce an entirely new process for formulating strategy so as to generate new insights about the future of the business and to break out of accepted patterns of thought. The value of the process is that it can trigger new ideas, capture ideas for discussion, and clarify ideas for implementation. The process must lead to ideas about how the future can be secured and must lay the ground for effective action. The strategy formulation process should, in short, lead to good strategic thinking.

Effective strategic thinking usually has certain characteristics. It considers the enterprise as a whole and is more about the longer term than the immediate. Strategic thinking must address both the relationship of the enterprise with its external environment and its own capabilities and resources. Good strategic thinking is based on fact and reality and is supported by rigorous analysis. On the other hand, analysis is not enough; good strategic thinking also requires imagination. An effective strategic thinker has a good understanding of the present, is able to imagine the future, and is also able to think beyond the current constraints in an original way.

The design of the strategy process must cause strategic thinking to happen. It is important that all parts of the strategy process are appropriate to the context. The process must be coherent. Good strategic thinking requires the right combination of analysis and imagination.

Sometimes a strategy formulation process may fail to achieve this balance. This may be because it is too analytical. The highly formalized approach to strategic planning, which became very common in the 1960s and 1970s often involved large planning departments. These did extensive analysis but often failed to generate or communicate strategic thinking. This may have been because of a lack of imagination or because they failed to relate well to the line managers with the detailed knowledge of the business. **Mintzberg** suggests that highly formalized strategic planning or this kind may actually prevent strategic thinking.

International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 3, Issue 10, October 2014

Processes that are totally informal or not supported by sound analysis can also fail. This may result in unrealistic lists of desired future outcomes for which the resources are not available and for which there is no drive to find the resources or to build the capabilities.

VII. RESULTS FROM THE STRATEGY FORMULATION PROCESS

The strategy formulation process results in strategic choice and supporting strategies. **Robert Grant** suggests four critical elements to the results that have to be achieved from a strategy formulation process:

1. Goals that are simple, consistent and long-term
2. Profound understanding of the competitive environment
3. Objective appraisal of resources
4. Effective implementation

Clear strategic intent may be expressed as goals. This results of strategic assessment are an objective and profound understanding of resources and an objective appraisal of the competitive environment. A good strategic choice is one ingredient of effective implementation.

On the other hand, Grant's list does not guarantee success. There may also be other necessary useful results that are not on his list. The items on the list beg further questions. 'Clearly stated goals' may sound good but may be extremely woolly in their practical meaning. 'Profound understanding of the competitive environment' is a worthy aim but how can one know what degree of profundity is adequate? What if the present competitors are all equally blind to the nature of future change like a group of dodos? 'Objective appraisal of resources' may not be enough as it may be possible to find new resources to stretch the organization to meet future challenges. Certainly the strategy formulation process must generate strategies which are capable of implementation but actions will have to be modified in the light of events so that what is implemented is not the same as what seemed capable of implementation.

VIII. CONCLUSION

1. Strategic Management is a set of managerial decisions and actions that determines the long-run performance of an organisation. Good strategic management requires both clear thoughts and sound judgement.
2. Strategy formulation in Management is very important for the success of any organisation. The management has to set long term objectives and short term objectives according to situation for the consistent and sustained growth of the organisations. This should be implemented and controlled in a successful way. Next challenge would be to monitor continuously the progress towards its objectives, Long-term and short term, and study the controls needed to achieve the desired results.

REFERENCES

1. Peter Dnicher Strategic Management 1950s 1960s 1970s and 1980s
2. Karol Admiecki 1866-1933 Management
3. Charles Bedany 1866 1961 Scientific Management