

Redefining Strategic Management Process : The need of the Hour

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ABSTRACT

Strategic management is defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable the organization to achieve its objectives. Generally, strategic management is not only related to a single specialization but covers cross-functional or overall organization. Strategic management involves the formulation and implementation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes.

1. Introduction

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

Strategic management is a comprehensive area that covers almost all the functional areas of the organization. It is an umbrella concept of management that comprises all such functional areas as marketing, finance & account, human resource, and production & operation into a top level management discipline. Therefore, strategic management has an importance in the organizational success and failure than any specific functional areas.

Strategic management deals with organizational level and top level issues whereas functional or operational level management deals with the specific areas of the business. Top-level managers such as

Chairman, Managing Director, and corporate level planners involve more in strategic management process.

Strategic management relates to setting vision, mission, objectives, and strategies that can be the guideline to design functional strategies in other functional areas. Therefore, it is top-level management that paves the way for other functional or operational management in an organization.

Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn't ignore the threats. This can be explained with the help of following diagram.

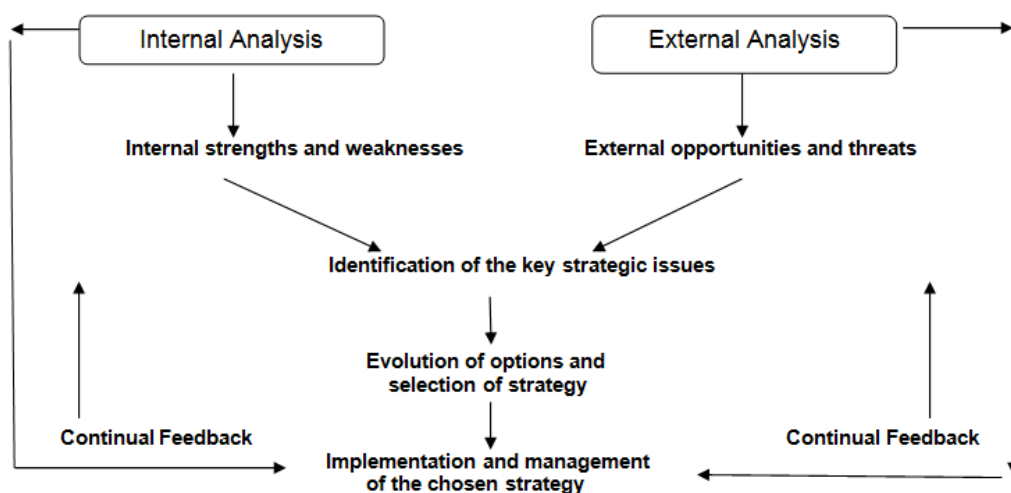


Figure 1. The SWOT Process

Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage. It is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving.

Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then re-evaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes. The managers and employees must do appropriate things in appropriate manner. They need to be both effective as well as efficient.

According to Chandler, Strategic Management can be defined as "The determination of the basic long-term goals & objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals".

Strategic management always concentrates on the anticipated aim. Future is always uncertain. Hence, strategic decisions are always incomplete and sometimes these are based on false information. It may lead to further problems. The strategic manager should always aim at achieving predetermined goal of the organization. Further, organizations have to work with brevity and variety. Thoughts should become actions. Actions will lead to results. Result-oriented action is the need of hour.

2. Business Policy

Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization. It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions.

Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved. Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organization in long-run.

3. Strategy

Strategy is the determination of the 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. Strategy is management's game plan for strengthening the organization's position, pleasing customers, and achieving performance targets.

4. Types of Strategy

Strategy can be formulated on three different levels:

- corporate level
- business unit level
- functional or departmental level.

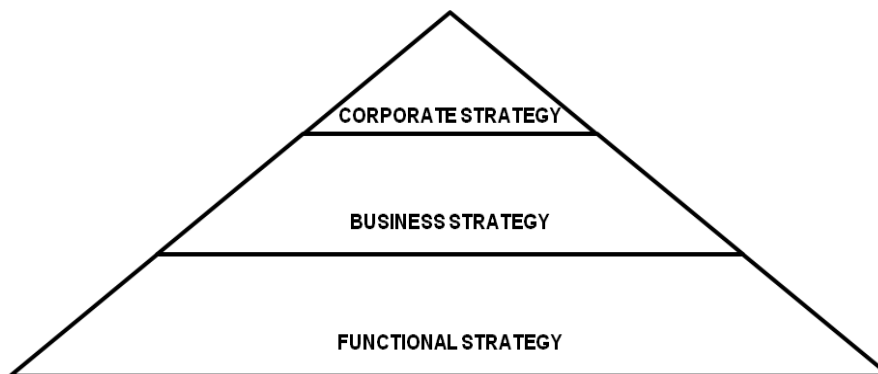


Figure 2. Types of Strategy

Corporate Level Strategy- What business or business the firm should be in?

It relates to the future formula and structure of the Company, and affects the rationale of the Company and the business in which it intends to compete.

Business Level Strategy – How each business attempts to achieve its mission within its chosen area of activity

A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm. At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced.

Functional Level Strategy – how the different functions of the business support the corporate and business strategies.

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively. Once the higher-level strategy is developed, the functional units translate it into discrete action-plans that each department or division must accomplish for the strategy to succeed.

5. Benefits of Strategic Management

1. With the help of strategic management, the decision makers can select best strategy and sub-strategies.
2. The companies can fix production targets and productivity, with the help of strategic management.
3. Profit maximization, wealth maximization will form part of formulation of strategies. Hence, strategic management helps the management for future growth.
4. Strategic management helps in determination for achievement of results which leads to growth. Every organization always seeks to achieve high result as low performing entities cannot survive in the competitive world.
5. It helps in reduction of complexity in procedures result in achieving high results.
6. Social responsibility is expressed in terms of types of activities, number of days of service, or financial contributions. These can be determined with the utility of strategic management.
7. By implementing strategic management process, the business entities can enhance their customer satisfaction leading to increase in goodwill.
8. Manpower planning and development is one of the key factors of strategic management. It tries to concentrate on improving skills of manpower.
9. The benefit of adaptability to change with minimum resistance is also likely to follow the uses of strategic management.
10. Cost control is one of the important objectives of the strategic management.
11. Strategic management helps in enhancement of profitability of organizations.
12. Strategic management helps in analyzing market. The organization would be able to increase sales, and it

may achieve expected market share with the implementation of best strategies.

6. Limitations of Strategic Management

1. Strategic management process is a costly exercise.
2. Its gestation period is very long.
3. Sometimes strategies may fail, which leads to frustration.
4. Future is uncertain and risk is very high. Strategic management mostly depends on long-term results, hence it is uncertain and high-risk oriented.
5. Resistance to change by the employees.

7. Concept of Globalisation

Globalisation is a process that encompasses the causes, course, and consequences of transnational and trans-cultural integration of human and non-human activities. Reich (1998) defined globalisation as a set of economic and political structures and processes deriving from the changing character of the goods and assets that comprise the base of the international political economy in particular, the increasing structural differentiation. The notion of globalisation is not new, but the concept and its far-reaching implications have a great influence on the way an organisation conducts its business. Rapid globalisation is one of the most salient aspects of the new millennium, particularly because of the fast development of information technology. To different observers, different types of globalisation can be identified even though most of the attention is in the areas of economy, technology, and culture.

Globalisation has brought with it effects that have created need for organisations to devise means of staying competitive not only in the global market but also in the local market where they operate. The need to develop multicultural and multinational organisations to compete in the global marketplace effectively is the logical next step in the evolution of the global organisation.

8. Strategic Management Process

Strategic management is the process of specifying an organisation's objectives, developing policies and plans to achieve these objectives, and allocating resources so as to implement the plans. Strategic management process can be defined as 'a combination of managerial decisions and actions that determines the long-run performance of a corporation. It includes environmental observation, strategic planning, formulation, implementation, evaluation and control. In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper.

The firm must engage in strategic planning that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress, and make adjustments as necessary to stay on track.

Strategic Management Process

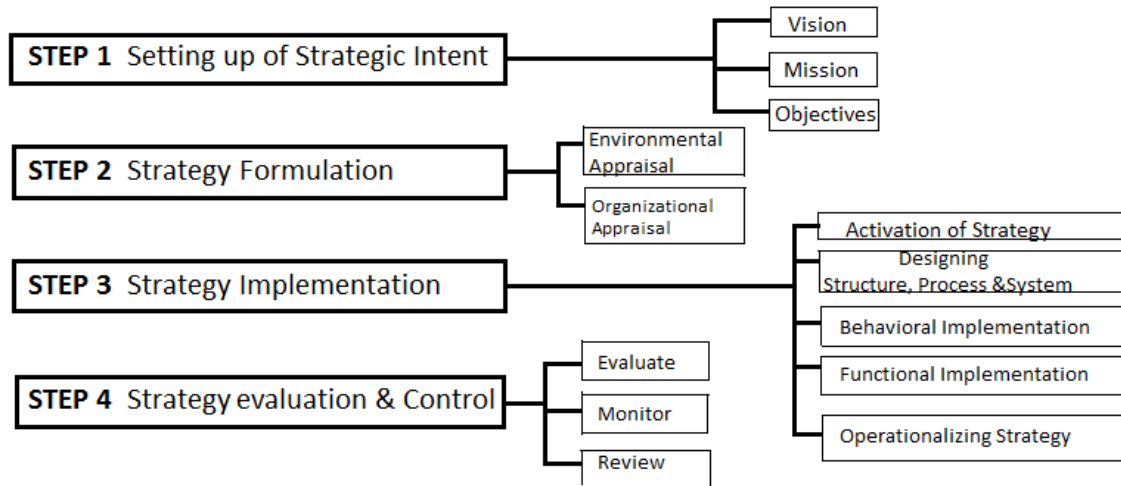


Figure 3. Strategic Management Process

Strategic management process that could be followed in a typical organization is presented in the above figure. The process takes place in the following stages:

1. The Strategic Planner has to define what is intended to be accomplished (not just desired). This will help in defining the objectives, strategies and policies.
2. In the light of stage I, the result of the current performance of the organisation are documented.
3. The Board of Directors and the top management will have to review the current performance of the documented.
4. In view of the review, the organization will have to scan the internal environment for strengths and weaknesses and the external environment for opportunities and threats.
5. The internal and external scan helps in selecting the strategic factors.
6. These have to be reviewed and redefined in relation to the Mission and Objectives.
7. At this stage a set of strategic alternatives and generated.
8. The best strategic alternative is selected and implemented through programme budgets and procedures.
9. Monitoring, evaluation and review of the strategic alternative chosen is undertaken in this mode. This can provide a feedback on the changes in the implementation if required.

9. Effects of Globalisation on Strategic Management

Globalisation is creating numerous opportunities for sharing knowledge, technology, social values, and behavioural norms and promoting development at different levels including individuals, organisations, communities, and societies across different countries and cultures. Various social movements have been initiated against the threats of globalisation, particularly on developing countries. Survival and success of an organisation occurs when the organisation creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy.

Responses to globalisation require organisations to change their strategy to match the environment and also to redesign their internal capability to match this strategy. If an organisation's strategy is not matched to its environment, then a strategy gap arises. If its internal capabilities are not matched to its strategy, then a capability gap arises. It is important that organisations be able to shift strategy with changes in the environment and match their capabilities to the selected strategy in order to survive, succeed and remain relevant. Firms in dynamic industries respond to environmental changes and competitive forces in different ways. Some improve current products, diversify and divest, while others employ techniques that ensure operational effectiveness. In order to achieve a competitive advantage, strategy needs to focus on unique activities.

Operational effectiveness is necessary but not sufficient for achieving a sustainable competitive advantage. Changes in environmental conditions shape a firm's opportunities and challenges. A new environment necessitates the formulation of new strategy best suited to cope with change. Globalisation has brought with it effects that have made companies to devise means of staying competitive not only in the global market but also in the local market. Companies have been forced to diversify their product portfolio to cope with competition, maintain market share, enter into new markets and seal off any unexplored market segments that foreign competitors may come to exploit. Globalisation is creating numerous opportunities for sharing knowledge, technology, social values, and behavioural norms and promoting development at different levels including individuals, organisations, communities, and societies across different countries and cultures.

Learning organisation settings prevent global operations managers from being at risk of cultural conflicts and assist them to translate and transfer knowledge from their sites to other parts of the enterprise.

Strategic learning in the learning organisation can be in different settings that directly affect the company's global strategies and policies. The determinant factor in today's dynamic global competition is how to manage knowledge

benefits in the enterprise. Creating new knowledge for a specific purpose within the learning organisation results in developing and securing a core competency for the company. The success of companies in their competitiveness is attributed to the development of core competencies through learning organisation settings.

10. Linking Strategic Management with Global Strategy through Expansion Method Matrix

Expansion Method matrix helps in linking prescriptive strategy with the global strategy. This distinguishes between what happens inside the company such as exporting or overseas manufacture and what happens outside the company's existing resources such as the acquisition of a new company or a joint venture. These activities do not necessarily take place outside the company's home country. But when they do, they are essentially an international or global business strategy. The full matrix is shown below.

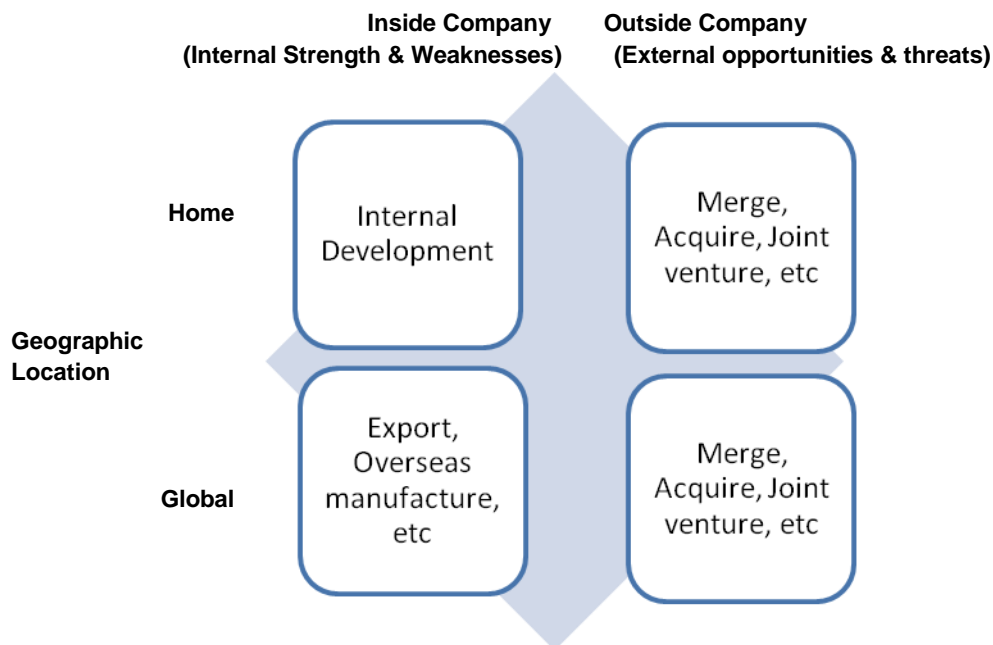


Figure 4. Expansion Method Matrix (Source: Richard Lynch, Strategic Management, 5th edition)

11. Conclusion

As can be seen, strategic management process provides a rational approach to strategic decision making and it can be successfully practiced by Indian organizations, which now have to operate in a competitive environment. Strategic decisions for implementing a course of action have broad implications and long term ramifications and the people of an organisation have to commit themselves to the decisions and plans for a long period of time. Once a firm takes strategic decisions and implements the action programs, the impact is seen slowly on its competitive image and the advantage tied to the particular strategy start pouring in. The companies become known in certain markets, products, or technologies or the decisions may adversely affect the previous progress.

In today's business world, where changes are by leaps and bounds, some organisations may decide for radical changes through reengineering of their business processes to gain strategically better position. Strategies are essentially for the future. Strategic decisions are taken based on forecasts that are in turn based on available data on trends.

Strategic Management Process can be defined as 'a combination of managerial decisions and actions that determines the long-run performance of a corporate organization.' It includes environmental observation, strategic planning, formulation implementation, evaluation and control. Strategic alternatives are vital tools for increasing the

profitability of the organization. There are four major strategic alternatives like stability, growth or expansion, retrenchment, combination or mixed strategies. The strategist may adopt any of these strategies or combinations, to solve the problems of organization. Stability strategies are required for small or medium scale entities, growth and retrenchment strategies may be adopted by large scale entities. Combination strategies are useful for enhancing profitability of the organization. However, selection of suitable strategic alternative is a crucial consideration for a strategist.

Strategic choice is selection of the best strategy. The main problem before a strategist is to choose from many alternatives which suit the organization in achieving its goals. Strategic planning is a comprehensive approach to preparation of strategies. It differs from project planning, tactical planning and operational planning. Strategic planning is long-term in nature, high-risk oriented and decided by top level management. While, tactical planning is medium-term, medium-risk oriented and implemented by middle level managers. Operational planning is short-term, low-risk and followed by low-level managers.

Globalisation requires companies not only to be multinational and multilingual, but also to be multicultural corporations. Hence, many multinationals must accept, adopt and blend multicultural aspects in their business processes. There is an emerging global culture that is changing human expectations and understanding. This culture provides a global reality where co-creation and innovation in knowledge-sharing

and relationships is flourishing. The success of an organisation depends on the degree of excellence as a learning organisation

where culture is optimized to gain knowledge.

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