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An Overview of Strategic Management

The Concept of Strategy

In his book *The Concept of Corporate Strategy* (*Homewood, Ill: Dow Jones-Irwin, 1971, P.28*), Kenneth L. Ackoff defines corporate strategy as:

"...the pattern of major objectives, purposes, or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be."

Richard Pascale defines strategy as:

"[the] Plan or course of action leading to the allocation of a firm's scarce resources, over time, to reach identified goals." (Managing on the Edge: How Successful Companies Use Conflict To Stay Ahead, Simon & Schuster, 1990, p 42).

The word '*strategy*' has long been used implicitly in different ways. However, five definitions are presented here as *Plan*, *Ploy*, *Pattern*, *Position* and *Perspective*. These are called the *FIVE Ps FOR STRATEGY*.

1. ***Strategy as a Plan***

   A strategy is *a plan* because it is a conscious course of action intended to deal with predicted situations within a set of guidelines.

2. ***Strategy as a Ploy***

   A strategy is *a ploy* because it is a specific 'maneuver' intended to outwit an opponent or a competitor.

3. ***Strategy as a Pattern***

   A strategy is *a pattern* because it stresses **consistency** in intended and unintended behavior. In other words, if strategies can be intended, as general plans or specific ploys, then they can be realized by a pattern of actions.

4. ***Strategy as a Position***

   Strategy is *a position* because it locates an organization in what organization theorists often call an 'environment'. According to this definition, strategy becomes the mediating force between organization and environment, which are the internal and the external contexts, respectively.

5. *Strategy as a Perspective*

Strategy is *a perspective* because it is an ingrained way of perceiving the world. In this definition, strategy is a perspective shared by the members of an organization, through their intentions and / or actions.

As *a plan*, strategy deals with how leaders try to establish directions for organizations to set them on predetermined courses of action. As *a ploy*, strategy takes us to direct competition. As *a pattern*, strategy focuses on action for the achievement of consistency in organizational behavior. As *a position*, strategy helps us to look at organizations in the context of their competitive environment. Finally, as *a perspective*, strategy raises the issue of how intentions diffuse through groups of people to become shared norms and values.

Undoubtedly, there are interactions between these five definitions, in that they can be substituted for and complement each other. Each definition enhances our understanding of strategy and thereby, enriches our ability to manage the processes by which strategies are formed.

SOME USEFUL DEFINITIONS

The words ***strategy***, ***objective***, ***goal***, ***policy*** and ***program*** have different meanings to different individuals and organizations. The following are some of the more commonly used definitions:

- **GOALS (OR OBJECTIVES)**

  They state what is to be achieved and when results are to be accomplished.

- Long-range objectives

  They specify the results that are desired in pursuing the organization's mission and normally extend beyond the current fiscal year of the organization.

- Organizational mission

  They defines the organization's current and future expected business activities.

- Organizational philosophy

  It provides a framework of values, beliefs and guidelines for the organization to conduct its business.

- Short-range objectives

  They are performance targets, normally of less than one year's duration, that are used by management to reach the organization's long-range objectives.

❑ POLICIES

They are rules or guidelines that express the limits within which action should occur.

❑ PROGRAMS

They are the specific step-by-step actions necessary to achieve major objectives. They detail how objectives will be achieved within the limits set by policy.

- Projects

  They are special work packages related to a program. A program may be composed of several projects each with a specific common objective.

- Tactics

  They are the short-form, adaptive, action-interaction realignments that are used to accomplish limited goals after initial contact with opposing forces. Basically, tactics deal mainly with the implementation of programs and projects.

❑ STRATEGY

It involves determining, evaluating and choosing alternatives available to an organization in achieving its objective and mission.

- Strategic decisions

  They are those that determine the overall direction of an enterprise and its long-term viability through predictable and unpredictable changes.

- Strategic management

  It is concerned with making decisions about an organization's future direction and implementing those decisions. It is composed of two phases: ***strategic planning*** and ***strategy implementation***.

- Strategic planning

  It is concerned with making decisions with regard to determining an organization's philosophy and mission, establishing objectives, and selecting the strategy that is to be used to achieve these objectives.

- Strategy implementation

  It is concerned with developing an organizational structure to achieve the strategy, staffing the organization, providing leadership and motivation, and monitoring the effectiveness of the strategy to achieving its objectives.

LEVELS OF STRATEGY

Here are four commonly referred-to levels of strategy:

- **INDUSTRY-LEVEL STRATEGY**

  It concerns broad issues such as strategic alliances within the industry, incentives for investment, import and export trade barriers, duties and quotas, inflation and cost of capital, transportation and educational infrastructure, health and safety standards, employment levels, patent policy, etc.

- **CORPORATE-LEVEL STRATEGY**

  It is concerned with the areas of business which the corporation wishes to become involved in, and the acquisition and allocation of resources to these areas.

- **BUSINESS-LEVEL STRATEGY**

  At the business level, generally referred to as the strategic business unit (SBU) or strategic planning unit (SPU), three critical issues are specified:

  1. The scope or boundaries of each business unit and its operational links with corporate strategy.
  2. The basis on which the business unit will achieve and maintain a competitive advantage within its industry; and
  3. The form (if any) of the strategic alliances between the business unit and other participants in the industry.

- **FUNCTIONAL-LEVEL STRATEGY**

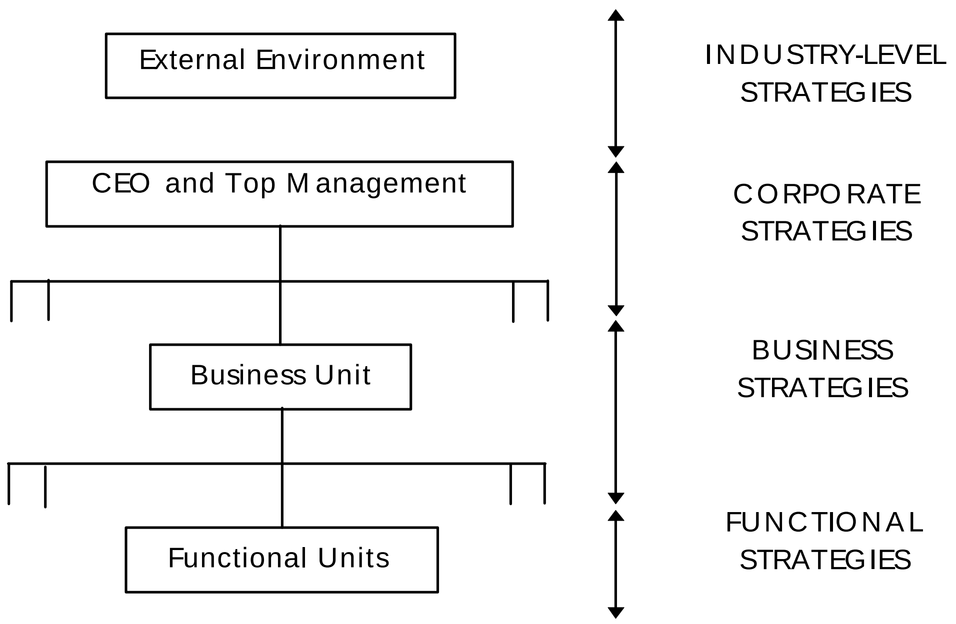
  This strategy specifies how functional-level strategies, like marketing/sales, manufacturing, research and development, and accounting, will support the desired competitive business-level strategy.

  Exhibit 1-1 depicts the four levels of strategic management as structured in practice. For most small businesses, however, corporate level and business level may overlap.

CHARACTERISTICS OF STRATEGIC DECISIONS

The characteristics of strategic decisions vary with the level of strategic activity considered. As shown in **Exhibit 1-2**, decisions at the corporate level tend to be more value oriented, conceptual, and vague than decisions at the business or functional level.

Exhibit 1-1: The organizational levels and the types of strategies

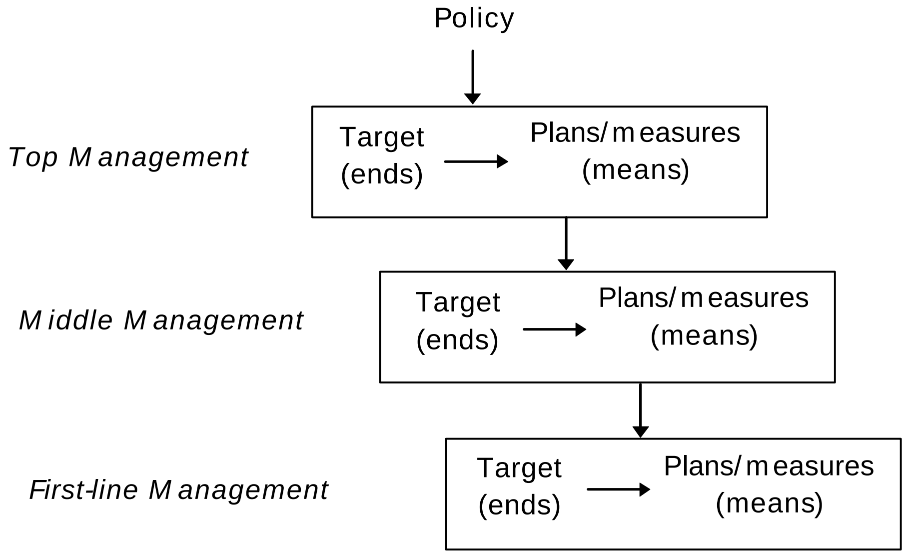


Corporate-Level Decisions are characterized by greater risk, cost and profit potential. Such decisions require high flexibility and involve long time horizons. These decisions include the choice of business, dividend policies, sources of long-term financing, and priorities for growth.

Functional-Level Decisions implement the overall strategy formulated at the corporate and business levels. They involve action-oriented operational issues, involve lower risk and are relatively short range. Common functional-level decisions include decisions on generic versus brand-name labeling, high versus low inventory levels, and close versus loose supervision.

Business-Level Decisions help bridge decisions made at the corporate and functional levels. Common-business level decisions include decisions on plant location, marketing segmentation and distribution channels.

Exhibit 1-2: Policy Deployment



THE EVOLUTION OF STRATEGIC MANAGEMENT

A recent survey of senior level executives reported that most companies still remain in the stage of 'Strategic Planning' (Christopher Oyeen, *Long Range Planning in Large Corporation: A Cross-National Survey*, Managerial Planning 33, Nov.–Dec., 1984, pp. 18–23). Strategic planning is the analysis of environmental conditions and organizational capabilities, and the formulation of plans. However, the strategic planning process does not specify how plans should be translated into action. This has led to the evolution of 'Strategic Management', which includes not only the elements of strategic planning, environmental analysis and strategy formulation, but also strategy implementation and control.

As the business environment becomes more turbulent, a more comprehensive strategic approach should be developed in response to the demands of changing business conditions.

Strategic planning and management used to look only at top management levels. Because of this, a gap occurred between the strategic direction set by senior executives and the results obtained by the firm. As Alex R. Oliver has indicated, one of the most common strategic planning mistakes is the inadequate involvement of line management in strategic planning (Alex R. Oliver and J. R. Garber, *Implementing Strategic Planning: Ten Sure-Fire Ways to Do It Wrong*, Business Horizons, Mar-Apr. 1983, pp. 49–51).

To solve these problems, leading Japanese companies use 'Policy Deployment' to orchestrate planning processes at different organizational levels (**Exhibit 1-2**). The six critical aspects of 'Policy Deployment' are:

- Top management is responsible for the corporate strategic planning for a longer period, usually about five years.
- The strategic planning is 'deployed' through the development and implementation of annual policy statements (annual plans).
- All levels of employees actively participate in generating targets, action plans and measures to achieve the plan.
- Hierarchical plans cascade down the organization from top management's strategic planning.
- These participative action-plans have a high degree of detail, and anticipate possible problems during the implementation stage.
- Processes and plans are audited monthly.

Based on this concept, at least four levels of planning can be illustrated:

1. ***Strategic Planning (5 years and beyond)***
    - Which business should the firm be in?
    - How should it be financed?

- How should it allocate its resources?

2. ***Tactical Planning (1–5 years)***

   - What are the optional patterns of capital and other investments on a longer term plan?
   - What decisions must be made about facility, location, expansion or shutdown?
   - What products and markets should be added or deleted?

3. ***Operations Planning (1–12 months)***

   - What is the optimal operating plan (vendor, inventory levels, distribution) to meet specified objectives, consistent with some longer term plan?
   - What is the best operating plan to meet customer requirements?

4. ***Specific Scheduling (Right Now)***

   - What specific sequence of operations should be performed?
   - How should tasks and priorities be set?

BENEFITS OF STRATEGIC MANAGEMENT

Using the strategic management approach, managers at all levels of the firm interact in planning and plan implementation.

1. Strategy formulation activities enhance the firm's ability to prevent problems from developing.
2. Group-based strategic decisions are likely to be drawn from the best available alternatives.

3. The involvement of employees in strategy formulation improves their understanding of the productivity—reward relationship and thus heightens their motivation.
4. Gaps and overlaps in activities are reduced as participation in strategy formulation clarifies differences in roles.
5. Resistance to change is reduced through managerial involvement at all levels in the planning process.

THE STRATEGIC MANAGEMENT PROCESS

Strategic management is designed to enable the firm to accomplish its vision / mission over an extended period. Top management sets strategic goals in areas such as market share, profitability, productivity, growth and return. To make strategic choices, successful top management should follow a process of logically analyzing information, formulating strategies, implementing, evaluating and controlling them.

Exhibit 1-3: A Hierarchy of objectives and strategies

		Strategic Decision Makers			
ENDS	*MEANS*	*Board of directors*	*Corporate Managers*	*Business Managers*	*Functional Managers*
Vision & Mission					
Long-term Objectives	Grand Strategies				
Annual Objectives	Policies				
Functional Objectives	Tactics				

Note: : Indicate a primary responsibility
: Indicates a secondary responsibility

Basically, strategic management can be broken down into two phases: *strategic planning* and *strategic implementation*.

1. ***Strategic Planning***

    - Establishing an organizational philosophy.
    - Defining the organization's mission.
    - Establishing long and short-term objectives to achieve the organization's mission.
    - Identifying strategic alternatives.
    - Evaluating and selecting the strategy.

2. ***Strategic Implementation***

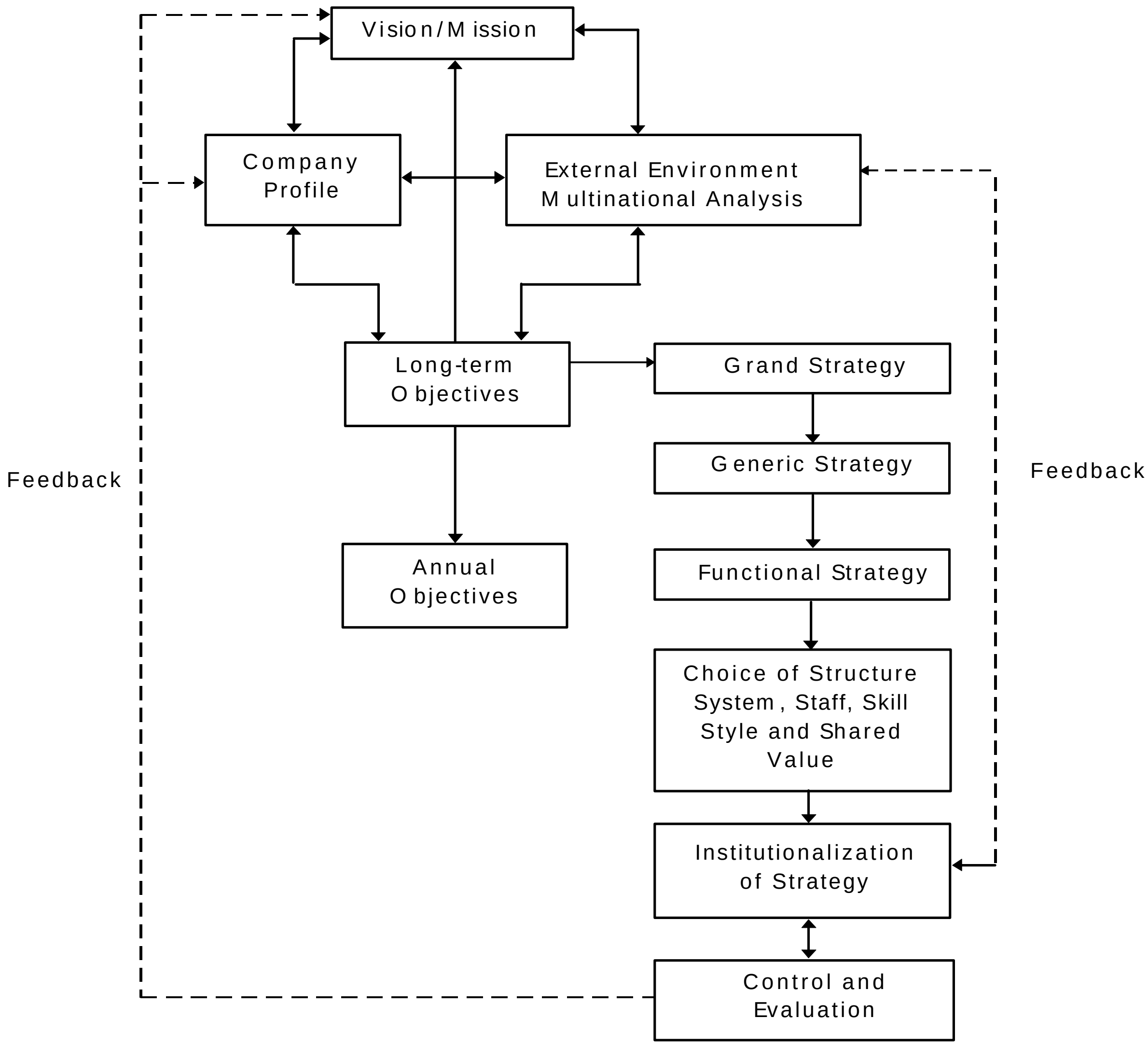
    - Developing an organizational structure, system and culture to achieve the strategy.
    - Insuring that the activities necessary to achieve the strategy are effectively performed.
    - Monitoring the effectiveness of the strategy in achieving the organization's objectives.

Exhibit 1-4 illustrates a model of the strategic management process. This model applies to all the levels of strategic development — industrial, corporate, business and functional.

COMPANY VISION

A *company vision* articulates top management's strategic intent. It focuses the attention of the corporation towards a common purpose.

Exhibit 1-4: A Model of the Strategic Management Process



Developing a strategic vision is a creative process. A strategic vision can be described as the concept for a new and desirable future reality that can be communicated throughout the organization. The organization's response should be to marshal its resources to achieve the vision. To accomplish these ends, a vision must:

1. Be simple, clear and easily understood by most people.
2. Be realistic, credible and able to withstand hypothetical cause-and-effect examination.
3. Have a sense of urgency.
4. Be able to make the organization focus on the right things with regard to scope and time.
5. Be frequently articulated by top management to gain a consensus that the vision is desirable and achievable.

Examples of Vision Statements

1. "In order to improve quality, we shall provide clearly-stated requirements, expecting each person to do the job right at the first time, in accordance with those requirements, or cause the requirements to be officially changed." — *Bechtel, Ann Arbor Pown Division.*

2. "We will deliver defect-free competitive products and services on time to our customers." - *IBM, Research Triangle Park, Releigh.*

3. "Milliden and Company is dedicated to providing products and services designed to be at a level of quality which will best help its customers grow and prosper. Its operational area (Research and Development, Marketing, Manufacturing, Administration, Services) will be expected to perform its functions exactly as written in carefully-prepared specifications." — *Milliden.*

Development of strategic vision requires the organization to look into the needs of its customers and competitors in terms of:

1. Quality
2. Cost

3. Delivery

4. Flexibility

Strategic planners need to conduct the benchmarking of the above strategic factors against their competitors. The four strategic factors will then be assigned high or low priorities within the organization.

Since poor product quality results in high after-sales costs, many US corporations today have ranked ‘quality’ as the number one priority. For instance, Ford has clearly stated that “Quality is Job #1.”

It should be noted that some companies may not have a vision statement. Their strategic intents may be described by only *a mission statement* only.

COMPANY MISSION

The *mission* statement describes the company's product, market, process and technological area of the emphasis in a way that reflects the values and priorities of the strategic decision makers. However, it should be remembered that a mission is normally prepared to provide a general guideline for planning what the company has set out to create. A mission statement is, therefore, also called a ‘policy statement’.

The objectives of the mission statement are as follows:

1. To insure unity of purpose within the organization.

2. To provide a basis for determining the use of the organization's resources.

3. To develop a basis, or standard, for allocating the organizational resources.

4. To establish a general tone or organizational climate.

5. To serve as a focal point for those who can identify themselves with

the organization's purpose and direction and to deter those who cannot do so from participating further in its activities.

6. To facilitate the translation of objectives and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
7. To specify organizational purposes and the translation of these purposes into goals in such a way that quality, cost, delivery and flexibility can be assessed and controlled.

Defining an organization's mission starts with a clear description of its customers and future business activities. Questions that need to be answered are as follows:

1. Who is the customer?
   a. Where is the customer located?
   b. How does the customer buy?
   c. How can the customer be reached?
2. What does the customer buy?
3. What does the customer consider as value? What does the customer perceive when he or she buys the product or the service?
4. What are the market trends and potential?
5. What changes in market structure might occur as a result of economic developments, competition, and changes in styles or fashions?
6. What innovations may alter the customer's buying behavior?
7. What needs does the customer currently have that are not being adequately met by available products and services?

8. Is the organization in the right business or should it change its business?

"It is the policy of XYZ company to provide products and services that:

1. Satisfy customers' needs and perform their required functions safely and reliably.

2. Meet all applicable codes and regulations of the federal, provincial, and county-wide industrial standards.

3. Are accurate as per the company's advertisements and sales promotion."

Many different versions of the above statement can reflect the messages and quality mission. It is also possible to specifically state quality policies quite separately from overall company policies, for the managers responsible to achieve the objectives of such policies by:

1. Establishing and implementing written procedures appropriate to the business and taking other necessary actions to provide products and services which are safe, reliable, and preserve or improve the present environment.

2. Reviewing and appraising legislation related to the safety, reliability, quality, and environmental effects of the company's products and services, and taking appropriate action.

3. Reviewing and appraising all situations and claims involving personal injury, property damage, and environmental damage arising from the use of the company's products and services, and being aware of all pertinent actions taken.

4. Periodically reviewing and appraising the effectiveness of the division's product-integrity efforts and initiating whatever changes are necessary to ensure achievement of their product-integrity objectives.

EXAMPLES OF MISSION STATEMENTS

The examples shown provide insight into how some companies define the mission for a specific business. As the business grows and/or alters its products, markets or technology, then it may become necessary to redefine its mission.

Armstrong World Industries, Inc. Consumer Affairs Department

The mission of the Consumer Affairs Department includes five general activities:

1. Understanding Armstrong's Consumer.
2. Responding Effectively to Consumer Inquiries and Specific Concerns.
3. Improving Company Response to Consumer Claims.
4. Monitoring Activities that Preserve Corporate Credibility and Standards.
5. Promoting Armstrong's Consumer Interests Outside the Company.

The Customer Response Center, established within the Consumer Affairs Department, responds to:

1. Requests for literature and information generated by corporate ads and publicity.
2. Complaints and concerns involving Armstrong products.
3. Routine care, maintenance and installation information prompted by 800 number positioning on floors, cartons, instruction sheets and literature.

4. Requests for convenient retail locations that keep an inventory of our products and participate in our marketing promotion.

The Center's performance standards include:

1. Fulfilling standard literature requests within 2–3 weeks.
2. Responding to consumer complaints within 24–48 hours.
3. Offering easy, free access to consumers in continental US from 9:00 am to 8:00 pm, Eastern Time, Monday through Friday.
4. Providing up to three retail sources for our products.

All contacts are coded and reports are prepared monthly for the Consumer Affairs, Advertising and Marketing Departments. These reports help us to determine how we can improve on our products and services.

❑ MISSION STATEMENT OF THE CONSUMER AFFAIRS DEPARTMENT OF ARMSTRONG WORLD INDUSTRIES, INC.

- Sutcliffe Mission Statement and Philosophy

Mission Statement

We aim to further enhance our position as the UK's leading contract caterer for the quality of its products and services. We will do this by forming a unique "quality partnership" with our clients, our customers, our staff and our suppliers. We shall continue to encourage our regional companies to grow their business through the use of their entrepreneurial flair, their strong local identities and their ability to innovate.

Philosophy

Our actions will at all times reflect our key values. We believe in freedom with responsibility, in strong leadership and in flexibility. Above all, we believe it is our duty as Company to allow every person within it the opportunity to fulfill his or her potential and to make the maximum possible contribution to the achievement of quality.

- Texaco (Ireland) Retail Mission Statement

  Quality and customer care will form the basis of developing Texaco Retail into a customer-driven profitable enterprise. The effort will come from within, with heavy emphasis on the importance of ongoing training both for staff and retailers. There is a New Vision for Texaco (Ireland):

  - A Company that is constantly changing in its determination to serve its customers better and improve its operating efficiency.
  - A Company of well-trained professionals dedicated to serving their customers.
  - A Company that respects its customers and is respected by them.
  - A Company that is both admired and feared by its competitors.
  - A Company that others in the industry strive to imitate, but when they do, they find that we have moved to a higher plateau.

- A Company that welcomes the question ‘why’ from its employees and customers.”

Kemper group Consumer Credo

Recognizing that the consumer is the lifeline to our existence, the Kemper Group and its employees will be guided by an attitude of service. That attitude embodies every effort on the part of our employees to conduct business fairly, openly, courteously, efficiently and in a manner that is responsive to the needs of our consumers. Each manager and supervisor will be held accountable for achieving established objectives aimed at promoting and maintaining that attitude.

We will:

1. Conduct business in an ethical, lawful and responsible manner.
2. Provide insurance products and services which are responsive to the needs of present and prospective consumers while fulfilling our responsibilities to our owners.
3. Respond to consumer grievances fairly, promptly, informatively, courteously and as we would wish to be treated while retaining the right to maintain our position if we deem it correct.
4. Initiate corrective action in our operations, where needed, to provide better consumer services.
5. Maintain mutually productive relationships with consumers and consumer groups.
6. Develop, implement and encourage insurance education programs internally and externally to bring about greater awareness and understanding of insurance.

7. Strive to develop greater consumer responsiveness among our employees and within the insurance industry and business community.

8. Continually review and revise our consumer relations policies and practices and search for ways to become increasingly consumer-oriented."

The 'Consumer Credo' of the Kemper Group of Insurance companies states that employees 'will be guided by an attitude of service'. Eight consumer objectives are listed in the credo.

- ***Company Profile***

  The company profile details the quantity and quality of the company's financial, human, and physical resources. It also assesses the strengths and weaknesses of the company's management and organization. It looks into the organizational capabilities.

- ***External Environment***

  The external environment consists of all the external conditions and forces that affect its strategic options, but are typically beyond its control, such as industry, government and society.

- ***Strategic Analysis and Choice***

  After looking into the internal and external environment, a set of the possible and desired opportunities can be generated. This process combines the development of long-term objectives and grand strategy to achieve the company mission.

- ***long-term Objectives***

  Objectives which seek, over a multiyear period, profitability, return on investment, productivity and competitive position, technological leadership, public responsibility and employee development.

- ***Grand Strategy***

  Grand strategy is a general plan of major actions to achieve the long-term objectives such as concentration, market development, product development, total quality, joint venture, innovation, diversification, turnaround and liquidation strategies.

- ***Generic Strategies***

  This refers to achieving a competitive position and sustainable competitive advantage by any type of business unit, regardless of its industry or product/service line.

- ***Functional Strategies***

  Functional strategy must be linked to the larger scope of corporate strategy, which is commonly characterized as a mission. The mission can usually be described in a few words that tell the nature of the target markets. The present practice in many organizations assumes that this interlocking would take place without consciously making functional strategy a part of the corporate strategy formulation, with disappointing results.

  Usually, some internal or external events, such as a loss of market share, degenerating cost or quality position, changes in the operating environment, new product or process technologies, deregulation, substantial price changes of raw materials or energy, etc. trigger a re-evaluation of the corporate strategy. Note that some of these events are operationally oriented, such as cost and quality position, technological changes, and price changes of ingredients. Functional strategy must be a part of corporate strategy and must be carefully coordinated with it. The six components of functional strategy are:

1. Positioning the productive system
2. Capacity / location decisions
3. Product and process technology
4. Workforce and job design
5. Strategic implications of operating decisions
6. Suppliers and vertical integration

These components are basic elements to operational strategy because there is a wide managerial choice available within each, and each affects the long-term competitive position of cost, quality, product availability and flexibility / service.

The standards of the six basic elements of operational strategy should be reviewed according to cost, quality, dependability and flexibility. The strategic standards are crucial assessments for which comparative data among all competitors, including the subject firm, are needed if strategic planning for operations is to be effective.

Exhibit 1-5 shows an assessment of a hypothetical company. The numbers in this status assessment are based on a 100-point scale and indicate the level of attainment for specified criteria.

Although our hypothetical company is set up for low-cost production, it emphasizes high quality or consistent quality. The production system will have difficulty, however, in responding to new design features and customization because flexibility is given low priority in the five basic elements of operations strategy. Curiously, however, in the positioning elements, flexibility is given a higher rating than cost. Perhaps positioning is largely determined by the marketing group. This mismatch must undoubtedly produce strains on manufacturing. The marketing group must also face some problems with slow response to customers' needs and long delivery lead times.

In our example, the marketing group will have to realize that in order to provide flexibility in product designs and features, the operation function will have to compromise on unit production cost and incur higher labor and capital costs. Similarly, the production group will have to realize that their emphasis on reducing costs at the expense of reducing flexibility which is not in the interest of the firm. These viewpoints and the internalization of the common values should help in designing a coherent strategy.

- ***Institutionalizing The Strategy***

  Institutionalizing the strategy means to internalize the functional strategy as the day-to-day life of the company. Successful implementation requires looking at every component of the organization which includes structure, system, staff, style, skill and shared values (culture).

- ***Control and Evaluation***

  An implemented strategy must be monitored to determine the extent to which its objectives are achieved. A management control and audit system should be set up to monitor progress against strategic programs, objectives and budgets for adherence to specific schedules.

THE PROCESS OF DECISION MAKING

The strategic vision and the mission statements of the company establish the intent of its product, market or technology in the future.

These specific objectives need to be translated by senior management into intermediary goals and milestones. Goals need to be translated again into specific tasks that can be assigned to lower level operational staff. Accordingly, policies must be deployed downward into procedures and methods. The process for decision making, which interlinks all levels of management, is described in **Exhibit 1-6**.

Exhibit 1-5: Status of the performance of operations functions relative to the operations strategy

	Criteria			
(Priority Weights) Elements of Operations Strategy	(25) Cost	(30) Quality	(10) Dependability	(35) Flexibility
1. Positioning	50	90	50	75
2. Process flow and technology	90	75	75	25
3. Capacity/location decisions	75	80	75	30
4. Workforce and job design	100	75	30	30
5. Operating decisions	80	90	75	25
6. Suppliers and vertical integration	90	90	50	25

Exhibit 1-6 : An overview of Strategic Management