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THE IMPORTANCE OF STRATEGIC MANAGEMENT TO BUSINESS ORGANIZATIONS

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Abstract

This paper presents strategic management as an important business management concept. It defines strategy and explains the key concepts in strategic management; strategic vision, objectives, strategy formulation, strategy implementation, evaluation and initiating corrective action. The research also focuses on the corporate governance aspect of strategic management; role of the board of directors in crafting and executing strategy. The different levels of pitching strategy are also discussed in this paper; corporate, business, functional and operational. All these concepts are examined with a view to highlight their importance in the effective and efficient management of business organizations. In an operating environment that is dynamic and highly competitive, business organizations need to appreciate the importance of crafting and effectively executing strategies that can help them create sustainable competitive advantage.

Key Words: *Strategic Management, Vision, Objectives, Strategy Formulation, Strategy Implementation, Evaluation, Corporate Strategy, Business Strategy, Functional Strategy, Operational Strategy, Corporate Governance.*

1. INTRODUCTION TO STRATEGIC MANAGEMENT

Thompson, Strickland and Gamble (2007) [1] define strategy as "…management's action plans for running the business and conduction operations." They further assert that "a company's strategy consists of the competitive moves and business approaches that managers are employing to grow the business, attract and please customers, compete successfully, conduct operations, and achieve the targeted levels of organizational performance." Strategic management therefore entailsthe environmental scanning process, strategy formulation, strategy implementation and monitoring, evaluation and review of the implementation process to ensure effective and efficient accomplishment of organizational long term objectives.

Kim and Mauborgne (2005) [2] who concur with Mintzberg assert that companies need to continuously seek untapped market spaces outside the traditional boundaries of their industry, in which to compete and outperform those that stay within those bounds. What strategic thinking therefore calls for is questioning the status quo and innovatively developing new product offerings, new ways of delivering those offerings to existing and new markets and creating sustainable competitive advantage in the process. The theme of creating sustainable competitive advantage is clearly articulated by Ohmae (1982) [3] whopostulate that:

"What business strategy is all about – what distinguishes it from all other kinds of business planning – is, in a word, competitive advantage Without competitors there would be no need for strategy, for the sole purpose of strategic planning is to enable a company to gain, as efficient as possible, a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way."

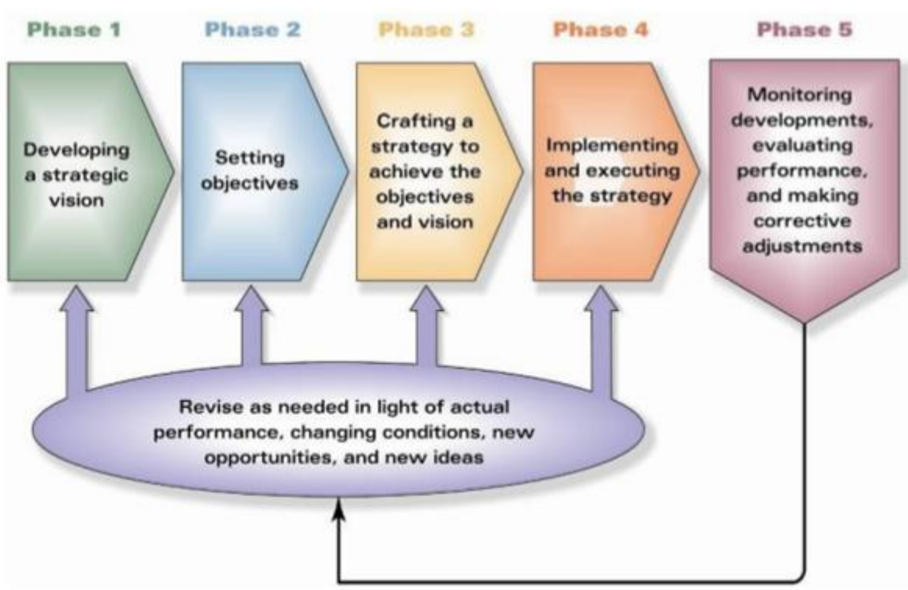
2. THE STRATEGIC MANAGEMENT PROCESS

The strategic management process can be summarized into two broad concepts, that is, strategy-making and strategy executing. The strategy-making, strategy executing process consists of five interrelated and integrated phases:

Developing a strategic vision of where the company needs to head and what its futureproduct/market/customer technology focus should be.

1. Setting objectives and using them as yardsticks for measuring company's performance and progress.
2. Crafting a strategy to achieve the objectives and move the company along the strategic course that management has charted.
3. Implementing and executing the chosen strategy efficiently and effectively.
4. Evaluating performance and initiating corrective adjustments in the company's long-term direction, objectives, strategy or execution in light of actual experience, changing conditions, new ideas and new opportunities. Figure1 below is a diagrammatic illustration of how these five phases are interrelated and integrated.

Figure 1: The Strategy-Making, Strategy-Executing Process



These five phases are briefly explained in the sections that follow.

I. Developing and Communicating a Strategic Vision

As quoted by Meadows and O'Brien (2007) [4] define vision as 'an image of a desired future state of an organization.' also allude to Kouzes and Posner (1996) who describe four attributes of vision: ideality, uniqueness, future orientation and imagery. the defining characteristic of a well-conceived strategic vision is what it says about the company's future strategic course – "the direction we are headed and what our future product/market/customer/technology focus will be." They further distinguish between a strategic vision and a mission statement wherein they assert that 'a strategic vision portrays a company's future business scope ("where we are going") whereas a company's mission typically describes its present business purpose ("who we are, and what we do, and why we are here").

Thompson, Strickland and Gamble (2007) assert that an effectively communicated vision is a valuable management tool for enlisting the commitment of company personnel to actions that get the company moving in the intended direction. They further reinforce the importance of communicating the strategic vision effectively by emphasizing that strategic visions become real only when the vision is imprinted in the minds of organization members and then translated into hard objectives and strategies.

II. Setting Objectives

Objectives are the end results of planned activity, and they state what is to be accomplished by when and should be quantified if possible. The effective and efficient achievement of corporate objectives should result in the fulfillment of an organization's mission. Thompson, Strickland and Gamble (2007) define objectives as an organization's performance targets – the results and outcomes management wants to achieve. These objectives function as standards against which organizational performance may be measured.

http://worldacademyonline.com highlights some of the areas in which organizations may establish their objectives:

- Profitability (net profits)
- Efficiency (low costs, etc.);
- Growth (increase in total assets, sales, etc.);
- Shareholder wealth (dividends plus stock price appreciation);
- Utilization of resources (ROE or ROI);
- Reputation (being considered a "top" firm);
- Contributions to employees (employment security, wages);
- Contributions to society (taxes paid, participation in charities, providing a needed product or service);
- Market leadership (market share);
- Technological leadership (innovations, creativity);
- Survival (avoiding bankruptcy); and/or
- Personal needs of top management (using the firm for personal purposes, such as providing jobs for relatives).

Phatak, Bhagat and Kashlak (2009) [5] refer to SumantraGhoshal's article "Global Strategy: An Organizing Framework," and allude to his framework that explains the broad categories for setting organizational objectives in a globally competitive environment, and the sources for developing an international or global competitive advantage for the organization. However, it can be observed that in pursuing both strategic and financial objectives, an organization has to strive to achieve efficiency, manage risks and in the process, innovate, learn and adapt to changes within the operating environment. Hence both categories of objectives are very important. intimate that the managerial purpose of setting objectives is to convert strategic vision into specific performance targets – results and outcomes the company's management wants to achieve.

III. Crafting a Strategy

The task of crafting a strategy entails answering a series of 'hows':

- how to grow the business,
- how to please the customers,
- how to outcompete rivals,
- how to respond to changing market conditions,
- how to manage each functional piece of the business and develop needed competencies and capabilities and,
- how to achieve strategic and financial objectives

Baumol and Blackman (1991) [6]postulate that in crafting strategy, there is need to proactively search for opportunities to do new things or to do existing things in new or better ways. This process entails developing and choosing among various strategic alternatives. In developing and weighing these strategic alternatives, organizations need to be conscious of the environment within which they operate and as such a process of scanning the environmental both internally and externally should be undertaken. The scanning process may take different approaches or use different models but largely involves both PESTLE and SWOT analyses for an organization's management to have a clear understanding of both internal and external environments.

An organizational strategy must be developed for each functional area within its mission statement. The resulting strategies must contain a clear purpose, measurable expected outcomes, fall-back plans in the event the primary strategy cannot be implemented, and a cost and benefit analysis.

Mitchell (2010)[7] asserts that in strategy formulation, organizations attempt to modify the current objectives and strategies in ways that make the organization more successful, creating sustainable competitive advantage in the process. An important aspect to consider at this point is the strategic fit between an organization's resources plus competencies with opportunities, as well as the fit between risks and expectations. According to Barrows (2010) [9]there are four primary steps in this phase:

- Reviewing the current key objectives and strategies of the organization, which usually would have been identified and evaluated as part of the diagnosis?
- Identifying a rich range of strategic alternatives to address the three levels of strategy formulation, including but not limited to dealing with the critical issues.
- Doing a balanced evaluation of advantages and disadvantages of the alternatives relative to their feasibility plus expected effects on the issues and contributions to the success of the organization.
- Deciding on the alternatives that should be implemented or recommended.

- According Harrison, E. Frank (1999).**[10]** the strategy making task involves four distinct types or levels of strategy, each of which involves different facets of the company's overall strategy:
  - **Corporate Strategy** consists of the kind of initiatives the company uses to establish businessoperations in different industries, the approaches corporate executives pursue to boost the combined performance of the set of businesses the company has diversified into, and the means of capturing cross-cutting business synergies and turning them into competitive advantage. Senior corporate executives normally have lead responsibility for devising corporate strategy.
  - **Business Strategy** concerns the actions and the approaches crafted to produce successfulperformance in one specific line of business. The key focus is crafting responses to market circumstances and initiating actions to strengthen market position, build competitive advantage, and develop strong competitive capabilities.
  - **Functional-area Strategies** concern the actions, approaches, and practices to be employed inmanaging particular functions or business processes or key activities within a business. This level represents strategies for functional departments within an organization such as marketing, finance, human resource management, and purchasing.
  - **4.Operating Strategies** concern the relatively narrow strategic initiatives and approaches formanaging key operating units (plants, distribution centers, geographic units and specific operating activities with strategic significance (advertising campaigns, the management of Specific brands, supply chain-related activities and Web site sales and operations.

These four levels of strategy largely relate to large corporate organizations that have more than one strategic business unit. In single-business entities, the corporate and business levels strategies are usually collapsed into one level – the business strategy, leaving these type of organizations with only three levels of strategy; business, functional and operational. Beckman and Rosenfield (2008)[8]emphasize the importance of consistency or strategic fit not only in crafting strategy but also in implementation who contend that there are three critical elements that need alignment in strategy development/crafting

IV. Implementing and Executing the Strategy

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The fourth phase of the strategy-making, strategy-executing process is the implementation and execution stage. eckman S. L. and Rosenfielf D. B.2008, Operations Strategy: [11] looks at strategy execution as a step-by-step process. In his article on "What is Strategy Execution". Barrows summarizes a 10-step process, postulating that these steps provide both high level direction and the intricate detail for guaranteeing strategy execution success:

- **Step 1: Visualize the strategy.** One of the most pressing challenges in all of strategy simply understands what a strategy is. An effective way to improve this understanding is to visualize the strategy via an illustration that shows both the important elements of the strategy and how each relates to one another.
- **Step 2: Measure the strategy.** Key elements of the visualized strategy should be assigned an easilyunderstood performance measure. The full set of strategic performance measures can be organized into a dashboard, a Balanced Scorecard, or some other framework so the reader can determine that progress is being made toward completion of the strategy.
- **Step 3: Report progress.** In the same way that a budget is reviewed monthly to ensure financialcommitments are being kept, the strategy should be reviewed regularly, but with more of an eye toward determining if the strategy is producing results, versus controlling performance.
- **Step 4: Make decisions.** Strategy execution is much like sailing a boat toward a planned destination.A defined course and a full complement of navigational charts will never eliminate the need to remain vigilant, to assess the environment, and to make corrections as conditions change.
- **Step 5: Identify strategy projects.** Organizations may have scores, if not hundreds, of project**s** ongoing at any point, but they rarely have a firm grasp on the type and range of these projects. The first step in improving project-oriented strategy execution is to capture and organize all projects—strategy projects in particular—that are underway in throughout an organization.
- **Step 6: Align strategy projects.** Once projects are captured they must then be aligned to thestrategies or goals for the organization. This step entails comparing each project, either proposed or ongoing, to the strategic goals to determine if alignment exists.
- **Step 7: Manage projects.** Organizations must develop a capability in project management if they areto execute strategy effectively. In some settings, projects receive very little management. In others, projects persist well beyond their scheduled completion.
- **Step 8: Communicate strategy.** It is difficult to execute strategy when the strategy itself isn't wellunderstood, or performance relative to it is not communicated. Leaders must communicate their visualized strategy to the workforce in a way that will help

them understand not only what needs to be done, but why.

- **Step 9: Align individual roles.** Employees want to know they are making a meaningful contributionto their organization's success. It's up to senior leaders to ensure that employees at all levels can articulate and evaluate their personal roles toward achievement of specific strategic goals.
- **Step 10: Reward performance.** In strategy execution, as in any other area of management, what get**s** measured gets done. Taking this one step further, what get measured and rewarded gets done faster.

V. Evaluating Performance and Initiating the Corrective Adjustments

Monitoring new external developments, evaluating the company's progress, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, or strategy execution methods.

G.2007, [12]highlights two important reasons why organizations need to put performance measures in place; to provide a signal that something is wrong and corrective action is needed and, to provide information that facilitates a review of the strategy execution process. Phatak A. V., Bhagat R. S. and Kashlak R. J. 2009,[13] concur and also intimate that performance measurement is an important component of the feedback path that enables management to learn about the actual success or failure of their strategic initiatives when they compare them with the desired organizational direction they want to head towards.

3. THE IMPORTANCE OF STRATEGY IN BUSINESS ORGANIZATIONS

Identify two primary reasons why strategy is important in business organization. The first important aspect about strategy is that management needs to proactively craft how the organization's business will be conducted. They further assert that a clear and well thought out strategy is management's prescription for doing business, its road map to competitive advantage, its game plan for pleasing customers and improving financial performance. Secondly, they say that a strategy-focused enterprise is more likely to be a strong bottom line performer that a company whose management views strategy as secondary and puts its priorities elsewhere. Effective strategy formulation and execution have a significantly positive impact on revenue growth, earnings, and return on investment.

Prefer terming the strategic management process a 'strategic **development** process.' They assert that the strategic development process embraces the management process that inform, shape and support the strategic decisions confronting an organization. Their inclination towards the term strategic development process is premised on three key issues which they highlight. Firstly these authors argue that strategy formulation and implementation are inseparable business activities in which organizations engage on a continuous basis; hence the idea of ongoing development is central to their thinking. Their second reason for their approach is that the widely used term 'strategic planning' has become debased by association with the creation of deterministic, one-shot 5-and 10-year plans, which suggests rigidity in thinking about the future. Their third argument is that 'strategic management' is too loose a term to describe the emphasis that has to be placed upon reflective engagement and analytical questioning that characterizes their recommended approach.

Despite their slight digression from the conventional approach to strategic management, they share common views who assert that crafting and executing strategy are core management functions; excellent execution of an excellent strategy is the best test of managerial experience – and the most reliable recipe for turning companies into standout performers. It is the latter authors' contention that how well an organization's management team charts the company's direction, develops competitively effective strategic moves and business approaches, and pursues what needs to be done internally to produce good day-in, day-out strategy execution and operating excellence, determines an organization's ultimate success or failure.

4. CONCLUSION

The importance of strategic management in running business organizations cannot be over-emphasized. Developing a strategic vision which sets critical direction and guides resource allocation within the organization is key. Crafting strategy, effective implementation, monitoring, evaluating performance and developing corrective interventions where necessary, are some of the critical aspects that can assist organizations in creating and maintaining sustainable competitive advantage. The role of the board of directors in the crafting and execution of strategy is also a very important component of corporate governance. Organizational boards and management teams therefore need to give strategic management in all its facets the attention it deserves for ensuring superior performance in their respective industries.

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