

Bases of strategic management

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.

Strategic management provides overall direction to the enterprise and involves specifying the organization's objectives, developing policies and plans designed to achieve these objectives, and then allocating resources to implement the plans. Academics and practicing managers have developed numerous models and frameworks to assist in strategic decision making in the context of complex environments and competitive dynamics. Strategic management is not static in nature; the models often include a feedback loop to monitor execution and inform the next round of planning.

Harvard Professor Michael Porter identifies three principles underlying strategy: creating a "unique and valuable [market] position", making trade-offs by choosing "what not to do", and creating "fit" by aligning company activities to with one another to support the chosen strategy. Dr. Vladimir Kvint defines strategy as "a system of finding, formulating, and developing a doctrine that will ensure long-term success if followed faithfully."

Corporate strategy involves answering a key question from a portfolio perspective: "What business should we be in?" Business strategy involves answering the question: "How shall we compete in this business?" In management theory and practice, a further distinction is often made between strategic management and operational management. Operational management is concerned primarily with improving efficiency and controlling costs within the boundaries set by the organization's strategy.

Definition: 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. Strategy is defined as "the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals." Strategies are

established to set direction, focus effort, define or clarify the organization, and provide consistency or guidance in response to the environment.

Strategic management involves the related concepts of strategic planning and strategic thinking. Strategic planning is analytical in nature and refers to formalized procedures to produce the data and analyses used as inputs for strategic thinking, which synthesizes the data resulting in the strategy. Strategic planning may also refer to control mechanisms used to implement the strategy once it is determined. In other words, strategic planning happens around the strategic thinking or strategy making activity.

Strategic management is often described as involving two major processes: formulation and implementation of strategy. While described sequentially below, in practice the two processes are iterative and each provides input for the other.

Formulation

Formulation of strategy involves analyzing the environment in which the organization operates, then making a series of strategic decisions about how the organization will compete. Formulation ends with a series of goals or objectives and measures for the organization to pursue.

Environmental analysis includes the: Remote external environment, including the political, economic, social, technological, legal and environmental landscape (PESTLE); Industry environment, such as the competitive behavior of rival organizations, the bargaining power of buyers/customers and suppliers, threats from new entrants to the industry, and the ability of buyers to substitute products (Porter's 5 forces); and Internal environment, regarding the strengths and weaknesses of the organization's resources (i.e., its people, processes and IT systems).

Strategic decisions are based on insight from the environmental assessment and are responses to strategic questions about how the organization will compete, such as:

- What is the organization's business?
- Who is the target customer for the organization's products and services?
- Where are the customers and how do they buy? What is considered "value" to the customer?
- Which businesses, products and services should be included or excluded from the portfolio of offerings?

- What is the geographic scope of the business?
- What differentiates the company from its competitors in the eyes of customers and other stakeholders?
- Which skills and capabilities should be developed within the firm?
- What are the important opportunities and risks for the organization?
- How can the firm grow, through both its base business and new business?
- How can the firm generate more value for investors?

The answers to these and many other strategic questions result in the organization's strategy and a series of specific short-term and long-term goals or objectives and related measures.

Implementation

The second major process of strategic management is implementation, which involves decisions regarding how the organization's resources (i.e., people, process and IT systems) will be aligned and mobilized towards the objectives.

Implementation results in how the organization's resources are structured (such as by product or service or geography), leadership arrangements, communication, incentives, and monitoring mechanisms to track progress towards objectives, among others.

Running the day-to-day operations of the business is often referred to as "operations management" or specific terms for key departments or functions, such as "logistics management" or "marketing management," which take over once strategic management decisions are implemented.

Many definitions of strategy

Strategy has been practiced whenever an advantage was gained by planning the sequence and timing of the deployment of resources while simultaneously taking into account the probable capabilities and behavior of competition.

Bruce Henderson

In 1988, Henry Mintzberg described the many different definitions and perspectives on strategy reflected in both academic research and in practice. He examined the strategic process and concluded it was much more fluid and unpredictable than people had thought. Because of this, he could not point to one process that could be called strategic planning. Instead Mintzberg concludes that there are five types of strategies:

- Strategy as plan – a directed course of action to achieve an intended set of goals; similar to the strategic planning concept;
- Strategy as pattern – a consistent pattern of past behavior, with a strategy realized over time rather than planned or intended. Where the realized pattern was different from the intent, he referred to the strategy as emergent;
- Strategy as position – locating brands, products, or companies within the market, based on the conceptual framework of consumers or other stakeholders; a strategy determined primarily by factors outside the firm;
- Strategy as ploy – a specific maneuver intended to outwit a competitor; and
- Strategy as perspective – executing strategy based on a "theory of the business" or natural extension of the mindset or ideological perspective of the organization.

In 1998, Mintzberg developed these five types of management strategy into 10 “schools of thought” and grouped them into three categories. The first group is normative. It consists of the schools of informal design and conception, the formal planning, and analytical positioning. The second group, consisting of six schools, is more concerned with how strategic management is actually done, rather than prescribing optimal plans or positions. The six schools are entrepreneurial, visionary, cognitive, learning/adaptive/emergent, negotiation, corporate culture and business environment. The third and final group consists of one school, the configuration or transformation school, a hybrid of the other schools organized into stages, organizational life cycles, or “episodes”.

Michael Porter defined strategy in 1980 as the "...broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals" and the "...combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there." He continued that: "The essence of formulating competitive strategy is relating a company to its environment."

Historical development

Origins

The strategic management discipline originated in the 1950s and 1960s. Among the numerous early contributors, the most influential were Peter Drucker, Philip

Selznick, Alfred Chandler, Igor Ansoff, and Bruce Henderson.[2] The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years. Prior to 1960, the term "strategy" was primarily used regarding war and politics, not business. Many companies built strategic planning functions to develop and execute the formulation and implementation processes during the 1960s.

Peter Drucker was a prolific management theorist and author of dozens of management books, with a career spanning five decades. He addressed fundamental strategic questions in a 1954 book *The Practice of Management* writing: "...the first responsibility of top management is to ask the question 'what is our business?' and to make sure it is carefully studied and correctly answered." He wrote that the answer was determined by the customer. He recommended eight areas where objectives should be set, such as market standing, innovation, productivity, physical and financial resources, worker performance and attitude, profitability, manager performance and development, and public responsibility.

In 1957, Philip Selznick initially used the term "distinctive competence" in referring to how the Navy was attempting to differentiate itself from the other services.[2] He also formalized the idea of matching the organization's internal factors with external environmental circumstances. This core idea was developed further by Kenneth R. Andrews in 1963 into what we now call SWOT analysis, in which the strengths and weaknesses of the firm are assessed in light of the opportunities and threats in the business environment.

Alfred Chandler recognized the importance of coordinating management activity under an all-encompassing strategy. Interactions between functions were typically handled by managers who relayed information back and forth between departments. Chandler stressed the importance of taking a long term perspective when looking to the future. In his 1962 ground breaking work *Strategy and Structure*, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction and focus. He says it concisely, "structure follows strategy." Chandler wrote that:

"Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

Igor Ansoff built on Chandler's work by adding concepts and inventing a vocabulary. He developed a grid that compared strategies for market penetration, product development, market development and horizontal and vertical integration

and diversification. He felt that management could use the grid to systematically prepare for the future. In his 1965 classic *Corporate Strategy*, he developed gap analysis to clarify the gap between the current reality and the goals and to develop what he called “gap reducing actions”. Ansoff wrote that strategic management had three parts: strategic planning; the skill of a firm in converting its plans into reality; and the skill of a firm in managing its own internal resistance to change.

Bruce Henderson, founder of the Boston Consulting Group, wrote about the concept of the experience curve in 1968, following initial work begun in 1965. The experience curve refers to a hypothesis that unit production costs decline by 20-30% every time cumulative production doubles. This supported the argument for achieving higher market share and economies of scale.

Porter wrote in 1980 that companies have to make choices about their scope and the type of competitive advantage they seek to achieve, whether lower cost or differentiation. The idea of strategy targeting particular industries and customers (i.e., competitive positions) with a differentiated offering was a departure from the experience-curve influenced strategy paradigm, which was focused on larger scale and lower cost. Porter revised the strategy paradigm again in 1985, writing that superior performance of the processes and activities performed by organizations as part of their value chain is the foundation of competitive advantage, thereby outlining a process view of strategy.

Change in focus from production to marketing

The direction of strategic research also paralleled a major paradigm shift in how companies competed, specifically a shift from the production focus to market focus. The prevailing concept in strategy up to the 1950s was to create a product of high technical quality. If you created a product that worked well and was durable, it was assumed you would have no difficulty profiting. This was called the production orientation. Henry Ford famously said of the Model T car: "Any customer can have a car painted any color that he wants, so long as it is black."

Management theorist Peter Drucker wrote in 1954 that it was the customer who defined what business the organization was in. In 1960 Theodore Levitt argued that instead of producing products then trying to sell them to the customer, businesses should start with the customer, find out what they wanted, and then produce it for them. The fallacy of the production orientation was also referred to as marketing myopia in an article of the same name by Levitt.

Over time, the customer became the driving force behind all strategic business decisions. This marketing concept, in the decades since its introduction, has been reformulated and repackaged under names including market orientation, customer orientation, customer intimacy, customer focus, customer-driven and market focus.

It's more important than ever to define yourself in terms of what you stand for rather than what you make, because what you make is going to become outmoded faster than it has at any time in the past.

Jim Collins

Jim Collins wrote in 1997 that the strategic frame of reference is expanded by focusing on why a company exists rather than what it makes.[28] In 2001, he recommended that organizations define themselves based on three key questions:

What are we passionate about?

What can we be best in the world at?

What drives our economic engine?

Nature of strategy

In 1985, Professor Ellen Earle-Chaffee summarized what she thought were the main elements of strategic management theory where consensus generally existed as of the 1970s, writing that strategic management:

Involves adapting the organization to its business environment;

Is fluid and complex. Change creates novel combinations of circumstances requiring unstructured non-repetitive responses;

Affects the entire organization by providing direction;

Involves both strategy formulation processes and also implementation of the content of the strategy;

May be planned (intended) and unplanned (emergent);

Is done at several levels: overall corporate strategy, and individual business strategies; and

Involves both conceptual and analytical thought processes.

Chaffee further wrote that research up to that point covered three models of strategy, which were not mutually exclusive:

Linear strategy: A planned determination of goals, initiatives, and allocation of resources, along the lines of the Chandler definition above. This is most consistent with strategic planning approaches and may have a long planning horizon.

The strategist "deals with" the environment but it is not the central concern.

Adaptive strategy: In this model, the organization's goals and activities are primarily concerned with adaptation to the environment, analogous to a biological organism. The need for continuous adaptation reduces or eliminates the planning window. There is more focus on means (resource mobilization to address the environment) rather than ends (goals). Strategy is less centralized than in the linear model.

Interpretive strategy: A more recent and less developed model than the linear and adaptive models, interpretive strategy is concerned with "orienting metaphors constructed for the purpose of conceptualizing and guiding individual attitudes or organizational participants." The aim of interpretive strategy is legitimacy or credibility in the mind of stakeholders. It places emphasis on symbols and language to influence the minds of customers, rather than the physical product of the organization.

Concepts and frameworks

The progress of strategy since 1960 can be charted by a variety of frameworks and concepts introduced by management consultants and academics. These reflect an increased focus on cost, competition and customers. These "3 Cs" were illuminated by much more robust empirical analysis at ever-more granular levels of detail, as industries and organizations were disaggregated into business units, activities, processes, and individuals in a search for sources of competitive advantage.

SWOT Analysis

A SWOT analysis, with its four elements in a 2×2 matrix.

By the 1960s, the capstone business policy course at the Harvard Business School included the concept of matching the distinctive competence of a company (its strengths and weaknesses) with its environment (opportunities and threats) in the context of its objectives. This framework came to be known by the acronym SWOT and was "a major step forward in bringing explicitly competitive thinking to bear on questions of strategy." Kenneth R. Andrews helped popularize the framework via a 1963 conference and it remains commonly used in practice.