2.4STRATEGIC MANAGEMENT

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.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

2.4.1 STRATEGIC MANAGEMENT PROCESS HAS FOLLOWING FOUR TOOLS:

1. **Environmental Scanning-** Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
2. **Strategy Formulation-** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
3. **Strategy Implementation-** Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and

managing human resources.

4. **Strategy Evaluation-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as its implementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes.

Strategy Formulation vs Strategy Implementation

The main differences between Strategy Formulation and Strategy Implementation are listed below.

Strategy Formulation	Strategy Implementation
Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans.	Strategy Implementation involves all those means related to executing the strategic plans.
In short, Strategy Formulation is placing the Forces before the action.	In short, Strategy Implementation is managing forces during the action.
Strategy Formulation is an Entrepreneurial Activity based on strategic decision-making.	Strategic Implementation is mainly an Administrative Task based on strategic and operational decisions.
Strategy Formulation emphasizes on effectiveness.	Strategy Implementation emphasizes on efficiency.

Strategy Formulation is a rational process.	Strategy Implementation is basically an operational process.
Strategy Formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy Formulation requires a great deal of initiative and logical skills.	Strategy Implementation requires specific motivational and leadership traits.
Strategic Formulation precedes Strategy Implementation.	Strategy Implementation follows Strategy Formulation.

Strategy Evaluation

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management.

The process of Strategy Evaluation consists of following steps-

1. **Fixing benchmark of performance -** While fixing the benchmark, strategists encounter questions such as –
   (a) What benchmarks to set?
   (b) How to set them and
   (c) How to express them.

In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation.

The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. A quantitative criterion includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.

2. **Measurement of performance -** The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as manager's contribution are difficult to measure. Similarly divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done. The measurement must be done at right time else evaluation will not meet its purpose. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.

3. **Analyzing Variance -** While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

Taking Corrective Action - Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

Strategic decisions are the decisions that are concerned with whole environment in which the firm operates the entire resources and the people who form the company and the interface between the two.

Characteristics/Features of Strategic Decisions

a. Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.

b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.

c. Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.

d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.

e. Strategic decisions are complex in nature.

f. Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.

g. Strategic decisions are different from administrative and operational decisions.

Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. **Operational decisions** are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

The differences between Strategic, Administrative and Operational decisions can be summarized as follows-

Strategic Decisions	**Administrative Decisions**	**Operational Decisions**
Strategic decisions are long-term decisions.	Administrative decisions are taken daily.	Operational decisions are not frequently taken.
These are considered where The future planning is concerned.	These are short-term based Decisions.	These are medium-period based decisions.
Strategic decisions are taken in Accordance with organizational mission and vision.	These are taken according to strategic and operational Decisions.	These are taken in accordance with strategic and administrative decision.
These are related to overall Counter planning of all Organization.	These are related to working of employees in an Organization.	These are related to production.
These deal with organizational Growth.	These are in welfare of employees working in an organization.	These are related to production and factory growth.

Benefits of Strategic Management

(a) Possibility for newer products, newer markets, and newer forays into business lines are only possible if firms indulge in strategic planning.

(b) Strategic management allows firms to take an objective view of the activities being done by it and do a cost benefit analysis as to whether the firm is profitable.

Just to differentiate, by this, we do not mean the financial benefits alone (which would be discussed below) but also the assessment of profitability that has to do with evaluating whether the business is strategically aligned to its goals and priorities.

The key point to be noted here is that strategic management allows a firm to orient itself to its market and consumers and ensure that it is actualizing the right strategy.

Financial Benefits

It has been shown in many studies that firms that engage in strategic management are more profitable and successful than those that do not have the benefit of strategic planning and strategic management.

When firms engage in forward looking planning and careful evaluation of their priorities, they have control over the future, which is necessary in the fast changing business landscape of the 21st century.

It has been estimated that more than 100,000 businesses fail in the US every year and most of these failures are to do with a lack of strategic focus and strategic direction. Further, high performing firms tend to make more informed decisions because they have considered both the short term and long-term consequences and hence, have oriented their strategies accordingly. In contrast, firms that do not engage themselves in meaningful strategic planning are often bogged down by internal problems and lack of focus that leads to failure.

Non-Financial Benefits

(a) Apart from the financial benefits, the firms may have the following non-financial, if they engage in strategic management are More aware of the external threats

(b) Improved understanding of competitor strengths and weaknesses

(c) Increased employee productivity.

(d) Lesser resistance to change and a clear understanding of the link between performance and rewards.

The key aspect of strategic management is that the problem solving and problem preventing capabilities of the firms are enhanced through strategic management. Strategic management is essential as it helps firms to rationalize change and actualize change and communicate the need to change better to its employees. Finally, strategic management helps in bringing order and discipline to the activities of the firm in its both internal processes and external activities.

Closing Thoughts

In recent years, virtually all firms have realized the importance of strategic management. However, the key difference between those who succeed and those who fail is that the way in which strategic management is done and strategic planning is carried out makes the difference between success and failure. Of course, there are still firms that do not engage in strategic planning or where the planners do not receive the support from management. These firms ought to realize the benefits of strategic management and ensure their longer-term viability and success in the marketplace.

2.4.2 Strategic Planning techniques

1. **Conventional Strategic Planning**

This is the most common model of strategic planning, although it is not suited for every organization. It is ideal for organizations that have sufficient resources to pursue very ambitious visions and goals, have external environments that are relatively stable, and do not have a large number of current issues to address. The model usually includes the following overall phases:

Develop or update the mission and optionally, vision and/or values statements.

(a) Take a wide look around the outside and a good look inside the organization, and perhaps update the statements as a result.

(b) As a result of this examination, select the multi-year strategies and/or goals to achieve the vision.

(c) Then develop action plans that specify who is going to do what and by when to achieve each goal.

(d) Identify associated plans, for example, staffing, facilities, marketing and financial plans.

(e) Organize items 1-3 into a Strategic Plan and items 4-6 into a separate one-year Operational Plan.

2. Issues-Based Strategic Planning

This model works best for organizations that have very limited resources, several current and major issues to address, little success with achieving ambitious goals, and/or very little buy-in to strategic planning. This model might include the following phases:

(a) Identify 5-7 of the most important current issues facing the organization now.

(b) Suggest action plans to address each issue over the next 6-12 months.

(c) Include that information in a Strategic Plan.

After an issues-based plan has been implemented and the current, major issues are resolved, then the organization might undertake the more ambitious conventional model. Many people might assert that issues-based planning is really internal development planning, rather than strategic planning. Others would argue that the model is very strategic because it positions the organization for much more successful outward-looking and longer term planning later on.

3. Organic Strategic Planning

The conventional model is considered by some people to be too confining and linear in nature. They believe that approach to planning too often produces a long sequence of orderly activities to do, as if organizations will remain static and predictable while all of those activities are underway. Other people believe that organizations are robust and dynamic systems that are always changing, so a plan produced from conventional planning might quickly become obsolete.

That is true, especially if planning is meant to achieve a very long-term vision for many people, for example, for a community or even generations of people. The organic model is based on the premise that the long-term vision is best achieved by everyone working together toward the vision, but with each person regularly doing whatever actions that he or she regularly decides to do toward that vision. The model might include the following phases:

(a) With as many people as can be gathered, for example, from the community or generation, articulate the long-term vision and perhaps values to work toward the vision.

(b) Each person leaves that visioning, having selected at least one realistic action that he or she will take toward the vision before the group meets again, for example, in a month or two.

(c) People meet regularly to report the actions that they took and what they learned from them. The vision might be further clarified during these meetings.

(d) Occasionally, the vision and the lists of accomplished and intended actions are included in a Strategic Plan.

4. Real-Time Strategic Planning

Similar to the organic model of planning, this model is suited especially for people who believe that organizations are often changing much too rapidly for long-term, detailed planning to remain relevant. These experts might assert that planning for an organization should be done continuously, or in "real time." The real-time planning model is best suited, especially to organizations with very rapidly changing environments outside the organization.

(a) Articulate the mission, and perhaps the vision and/or values.

(b) Assign planners to research the external environment and, as a result, to suggest a list of opportunities and of threats facing the organization.

(c) Present the lists to the Board and other members of the organization for strategic thinking and discussions.

(d) Soon after (perhaps during the next month) assign planners to evaluate the internal workings of the organization and, as a result, to suggest a list of strengths and of weaknesses in the organization.

(e) Present these lists to the Board and other members of the organization for strategic thinking and discussions, perhaps using a SWOT analysis to analyze all four lists. Repeat steps 2-5 regularly, for example, every six months or year and document the results in a Strategic Plan.

5. Alignment Model of Strategic Planning

The primary purpose of this model is to ensure strong alignment of the organization's internal operations with achieving an overall goal, for example, to increase productivity or profitability, or to successfully integrate a new cross-functional system, such as a new computer system. Overall phases in this model might include:

(a) Establish the overall goal for the alignment.

(b) Analyze which internal operations are most directly aligned with achieving that goal, and which are not.

(c) Establish goals to more effectively align operations to achieving the overall goal. Methods to achieving the goals might include organizational performance management models, for example, Business Process Re-engineering or models of quality management, such as the TQM or ISO models.

(d) Include that information in the Strategic Plan.

Similar to issues-based planning, many people might assert that the alignment model is really internal development planning, rather than strategic planning. Similarly, others would argue that the model is very strategic because it positions the organization for much more successful outward-looking and longer term planning later on.