

STRATEGIC MANAGEMENT

CS SECTION 6

STUDY NOTES

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KASNEB SYLLABUS

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CHAPTER ONE

NATURE OF STRATEGIC MANAGEMENT

An 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 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. Strategic management is nothing but planning for both predictable as well as unforeseeable 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 reevaluates 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.

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.

Strategy - Definition and Features

The word —strategy is derived from the Greek word —stratēgos; stratus (meaning army) and —agos (meaning leading/moving).

Strategy is an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as —A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process.

A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy it is essential to consider that decisions are not taken in a vacuum and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

Features of Strategy

1. Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.
2. Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.
3. Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.

Strategy is a well defined roadmap of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors.

Strategy, in short, bridges the gap between —where we are and —where we want to be.

Importance of strategic Management

Why do we need to lay so much stress on strategic management?

Strategic management becomes important due to the following reasons:

Globalization: The survival for business

First, global considerations impact virtually all strategic decisions! The boundaries of countries no longer can define the limits of our imaginations. To see and appreciate the world from the perspective of others has become a matter of survival for businesses. The underpinnings of strategic management hinge upon managers' gaining an understanding of competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide. The price and quality of a firm's products and services must be competitive on a worldwide basis, not just a local basis.

The distance between the business sectors are becoming less due to the provisions of certain facilities. Although political boundaries are there but in order to become successful in business it is essential to lay stress on globalization.

E-Commerce: A business tool

A second theme is that *electric commerce (e-commerce) has become a vital strategic-management tool*. An increasing number of companies are gaining competitive advantage by using the Internet for direct selling and for communication with suppliers, customers, creditors, partners, shareholders, clients, and competitors who may be dispersed globally. E-commerce allows firms to sell products, advertise, purchase supplies, bypass intermediaries, track inventory, eliminate paperwork, and share information. In total, electronic commerce is minimizing the expense and cumbersomeness of time, distance and space in doing business, which yields better customer service, greater efficiency, improved products and higher profitability.

The Internet and personal computers are changing the way we organize our lives; inhabit our homes; and relate to and interact with family, friends, neighbors, and even ourselves. The Internet promotes endless comparison shopping which enables consumers worldwide to band together to demand discounts. The Internet has transferred power from businesses to individuals so swiftly that in another decade there may be "regulations" imposed on groups of consumers. Politicians may one day debate the need for "regulation on consumers" rather than "regulation on big business" because of the Internet's empowerment of individuals. Buyers used to face big obstacles to getting the best price and service, such as limited time and data to compare, but now consumers can quickly scan hundreds of vendors' offerings. Or they can go to Web sites such as CompareNet.com that offers detailed information on more than 100,000 consumer products.

The Internet has changed the very nature and core of buying and selling in nearly all industries. It has fundamentally changed the economics of business in every single industry worldwide

Earth environment has become a major strategic issue

A third theme is that *the natural environment has become an important strategic issue*. With the demise of communism and the end of the Cold War, perhaps there is now no greater threat to business and society than the continuous exploitation and decimation of our natural environment.

The resources are scarce but the wants are unlimited. In order to meet the wants of the world, the resources should be efficiently utilized. For example, the use of oil resources or energy resources will make the people to use these resources for a long time.

Strategic management – A route to success:

The study of strategic management integrates different topics. Different courses are integrated due to the study of this course so that businesses become successful in every sector. It integrates the following:

- Marketing
- Management
- Finance
- Research and development

The management and marketing are essential part of a business sectors. They should be integrated. Just like other sections of the business are integrated under this study. This term is mostly used by academia but this is also used in media.

History of strategic management:

This course develops in 1950's. Due to the detailed planning of the business circumstances, the importance of this increased rapidly.

In 1960; s and 70 it was consider to be panacea for problems. But in 1980; s two important revolutions occur in business world.

- 1) Computers
- 2) Mobiles

The invention of these things has decreased the importance of strategic management. But at the end of 1980, the business involves in computers and mobiles business realized that they still need to adopt the policies for strategic management.

1. In early time the management takes institution decisions. But now the management has to take decision by a specific process.
2. Organizational layers become more complex now a days and management divided into layers.
3. Environment change also evaluates the strategic management.

The scope of strategic management

J. Constable has defined the area addressed by strategic management as "*the management processes and decisions which determine the long-term structure and activities of the organization*". This definition incorporates five key themes:

- * **Management process.** Management process as relate to how strategies are created and changed.
- * **Management decisions.** The decisions must relate clearly to a solution of perceived problems (how to avoid a threat; how to capitalize on an opportunity).
- * **Time scales.** The strategic time horizon is long. However, it for company in real trouble can be very short.