

THE ROLE OF STRATEGIC MANAGEMENT ON CORPORATE PERFORMANCE

***Prof. Roshan M.Nadaf**, Asst professor, Nehru Arts, Science and commerce college, Hubli

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.

1.0 INTRODUCTION TO STRATEGIC MANAGEMENT

Thompson, Strickland and Gamble (2007) define strategy as "...management's action plan 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 entails the 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. Eden and Ackerman (1998) perceive strategy as 'a coherent set of individual discrete actions is support of a system of goals, and which are supported as a portfolio by a self-sustaining critical mass, or momentum of opinion in an organization.' Ackerman's "coherent set of individual discrete actions" may be equated to Thompson, Strickland and Gamble's "competitive moves and business approaches". The other common element between these authors in their definition of strategy is that its focus is sustainable achievement of targeted levels of organizational performance. Mintzberg etal (1998)

as quoted by Beckman and Rosenfield (2008) captures the bulk of the key issues that organizations need to focus on in crafting and executing strategy: “Strategy depends on basic building blocks, which are used in attack, defense and maneuver. Strategy making relies on finding and executing new combinations of these blocks. In every age, technology and social organization limit the combinations. After some time, these limits seem inevitable and hence natural. Strategists cease to question received wisdom and confine themselves to variations on accepted themes. It is therefore left to the great commanders, such as Napoleon, to innovate strategically by recognizing and bringing about new combinations.”

Kim and Mauborgne (2005) 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) who postulates 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.”

2.0 THE IMPORTANCE OF STRATEGY IN BUSINESS ORGANIZATIONS

Thompson, Strickland and Gamble (2007) 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 than 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.

Dyson et al (2007) 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

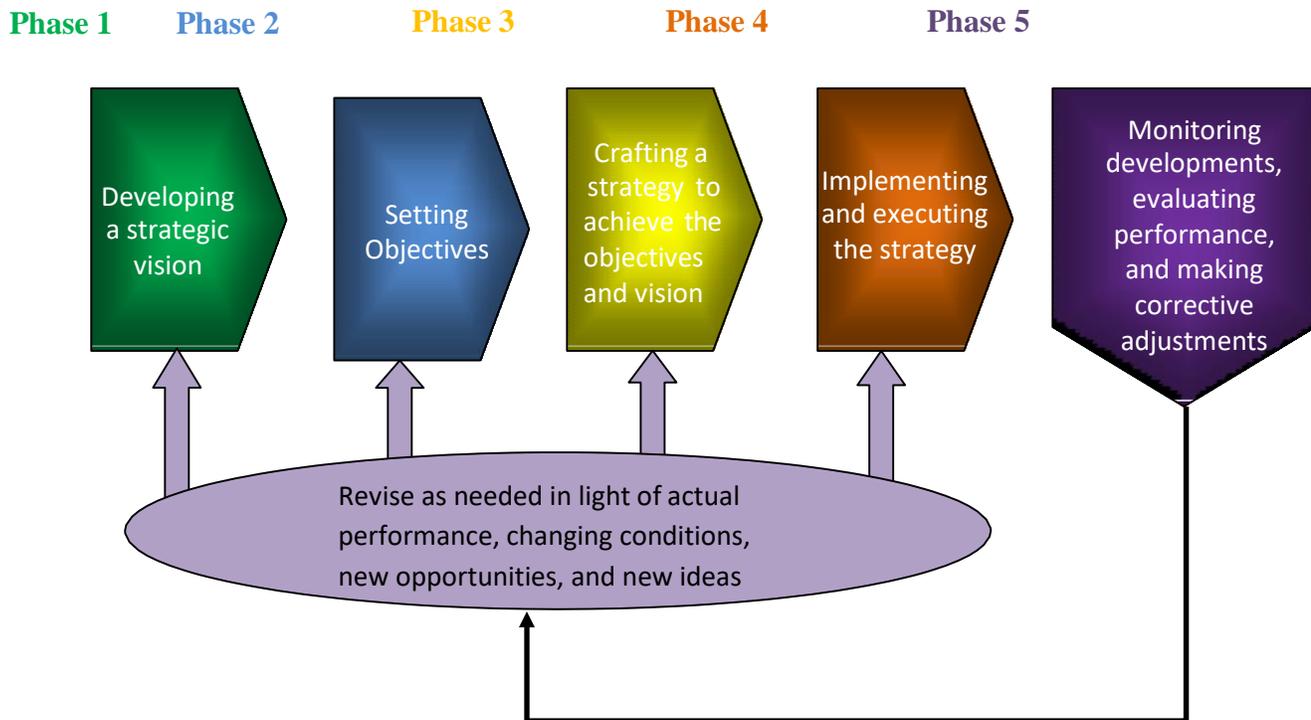
their approach is that the widely used term ‘strategic planning’ has become debased by association with the creation of deterministic, one-shot 5-and 10-year plans, which suggests rigidity in thinking about the future. Their third argument is that ‘strategic management’ is too loose a term to describe 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 a common view with Thompson, Strickland and Gamble (2007) 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.

3.0 THE STRATEGIC MANAGEMENT PROCESS

The strategic management process can be summarized into two broad concepts, that is, strategy- making and strategy executing. According to Thompson, Strickland and Gamble (2007), the strategy- making, strategy executing process consists of five interrelated and integrated phases:

1. Developing a strategic vision of where the company needs to head and what its future product/market/customer technology focus should be.
2. Setting objectives and using them as yardsticks for measuring company’s performance and progress.
3. Crafting a strategy to achieve the objectives and move the company along the strategic course that management has charted.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. 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. Figure 5.1 below is a diagrammatic illustration of how these five phases are interrelated and integrated.

Figure 3.1: THE STRATEGY-MAKING, STRATEGY-EXECUTING PROCESS

Source: Thompson Jr., A., Strickland III, A. J. and Gamble J. E. 2007, Crafting & Executing Strategy. 15th Edition, New York: McGraw-Hill Irwin

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

3.1 Developing and Communicating a Strategic Vision

Parikh and Neubauer (1993), as quoted by Meadows and O'Brien (2007) define vision as 'an image of a desired future state of an organization.' Meadows and O'Brien (2007) also allude to Kouzes and Posner (1996) who describe four attributes of vision: ideality, uniqueness, future orientation and imagery. According to Thompson, Strickland and Gamble (2007), 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").

It is important that organizations develop strategic visions because they set the critical direction in which the organization is supposed to go and how resources are effectively and efficiently allocated in pursuit of that set direction. This important aspect of visioning is captured by Walker (1996) who intimates that a common motivation for engaging in a visioning process is an awareness of the dissatisfaction with the way things currently are, or the direction in which things are heading. Over and above developing the strategic vision, it is

also important to clearly communicate it to the rest of the members of the organization.

3.2 Setting Objectives

According to <http://worldacademyonline.com>, 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 want 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) refer to Sumantra Ghoshal'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. The three broad categories of objectives that a firm competing in a global market can pursue are: 1) achieving efficiency, 2) managing risks, and 3) innovating, learning, and adapting. Thompson, Strickland and Gamble (2007) contend that there are two broad categories of objectives that any given organization has to set; financial objectives and strategic objectives. The financial objectives relate to the financial performance targets management has established for the organization to achieve. On the other hand, strategic objectives relate to target outcomes that indicate a company is strengthening its market standing, competitive vitality, and future business prospects. 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. Thompson, Strickland and Gamble (2007), 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.

3.3 Crafting a Strategy

According to Thompson, Strickland and Gamble (2007), 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) 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. Under PESTLE analysis, organizations seek to understand the Political, Economic, Socio-cultural, Technological, Legal and Environmental factors that affect their business operations. The SWOT analysis also assists organizations to appreciate their internal Strengths and Weaknesses and the Opportunities and Threats that characterize the external environment. Only after understanding both the internal and external environments can organizations effectively craft strategies that can guarantee them competitive advantage in their respective spheres of influence (markets).

According to Thompson, Strickland and Gable (2007), the strategy making task involves four distinct types or levels of strategy, each of which involves different facets of the company's overall strategy:

1. Corporate Strategy consists of the kind of initiatives the company uses to establish business operations 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.

2. **Business Strategy** concerns the actions and the approaches crafted to produce successful performance 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. This level of strategy is for the manager in charge of the business.

3. **Functional-area Strategies** concern the actions, approaches, and practices to be employed in managing 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. The heads of functions are entrusted with the lead responsibility of crafting functional strategies for their respective functional departments or sections.

4. **Operating Strategies** concern the relatively narrow strategic initiatives and approaches for managing 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 types of organizations with only three levels of strategy; business, functional and operational. Beckman and Rosenfield (2008) emphasize the importance of consistency or strategic fit not only in crafting strategy but also in implementation. They allude to Nath and Sudharshan (1994) who contend that there are three critical elements that need alignment in strategy development/crafting; 1) internal alignment to the firm where the implementation of strategy focuses on obtaining fit between the strategy and the structure of the organization, 2) external to the firm, where the strategy formulation process seeks a fit between the firm's strategy and the environment in which it operates, and 3) internal-external fit, where the formulation and implementation of strategy are considered to be interactive elements.

3.4 Implementing and Executing the Strategy

The fourth phase of the strategy-making, strategy-executing process is the implementation and execution stage. Barrows (2010) looks at strategy execution as a step-by-step process. In his article on “What is Strategy Execution” 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 is simply understanding 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. Frameworks such as the Strategy Map by Kaplan and Norton, the Activity Map by Michael Porter, or the Success Map by Andy Neely help in this regard.

Step 2: Measure the strategy. Key elements of the visualized strategy should be assigned an easily understood 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 financial commitments 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. As part of the regular reporting process leaders must make ongoing strategic decisions to keep the strategy current and on course.

Step 5: Identify strategy projects. Organizations may have scores, if not hundreds, of projects 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 the strategies or goals for the organization. This step entails comparing each project, either proposed or ongoing, to the strategic goals to determine if alignment exists. Only those projects that directly impact the strategy should be resourced and continued.

Step 7: Manage projects. Organizations must develop a capability in project management if they are to execute strategy effectively. In some settings, projects receive very little management. In others, projects persist well beyond their scheduled completion. The full complement of projects in any organization should be coordinated and controlled by a central project office or officer with the responsibility for monitoring both progress and performance.

Step 8: Communicate strategy. It is difficult to execute strategy when the strategy itself isn't well understood, 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 contribution to 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. This is perhaps one of the most critical aspects of the execution process.

Step 10: Reward performance. In strategy execution, as in any other area of management, what gets measured gets done. Taking this one step further, what get measured and rewarded gets done faster. After explaining the strategy and aligning the workforce to it, senior managers institute

According to Thompson, Strickland and Gamble (2007), managing the strategy execution process includes the following principal aspects:

- Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort.

- Allocating ample resources to these activities critical to strategic success.
 - Ensuring that policies and procedures facilitate rather than impede effective execution.
 - Using best practices to perform core business activities and pushing for continuous improvement.
- Organizational units have to periodically reassess how things are being done and diligently pursue useful changes and improvements.
- Install information and operating systems that enable company personnel to better carry out their strategic roles day in and day out.
 - Motivating people to pursue the target objectives energetically and, if need be, modify their duties and job behavior to better fit the requirements of successful strategy execution.
 - Tying rewards and incentives directly to the achievement of performance of objectives and good strategy execution.
 - Creating a company culture and work climate conducive to successful strategy execution.
 - Exerting the internal leadership needed to drive implementation forward and keep improving on how the strategy is being executed. When stumbling blocks or weaknesses are encountered, management has to see that they are addressed and rectified in timely and effective fashion.

3.5 Evaluating Performance and Initiating the Corrective Adjustments

According to Thompson, Strickland and Gamble (2007), 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. Tapinos (2005) 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. Dyson et al (2007) 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.

4.0 CORPORATE GOVERNANCE; THE ROLE OF THE BOARD OF DIRECTORS IN STRATEGIC MANAGEMENT

Thompson, Strickland and Gamble (2007) assert that while top management take the lead responsibility in crafting and executing the organization's strategy, the board of directors have a duty to exercise strong oversight and ensure that the five phases of the strategy crafting and execution are undertaken effectively and efficiently to benefit both shareholders and various other stakeholders. The board not only ensures that

management actions are designed to achieve organizational objectives but also aligned to the interest of stakeholders. In carrying out its mandate, the board of directors has four key functions to undertake: -

- 4.1.1 Be inquiring critics and oversee the company's direction, strategy, and business approaches.
- 4.1.2 Evaluate the caliber of senior executives' strategy-making and strategy-executing skills.
- 4.1.3 Institute a compensation plan for top executives that reward them for actions and results that serve stakeholder interests, and most especially those of shareholders.
- 4.1.4 Oversee the company's financial accounting and financial reporting practices.

According to the Board of Directors in an organization has three distinct strategic management responsibilities;

1) Monitoring; through its committees, a board can keep abreast of developments in both the organization's internal and external environments. The board may therefore bring to management's attention certain developments that management might have overlooked. This is the barest minimum that a board should undertake as a task in ensuring effective and efficient strategy formulation and execution. This particular task is more or less the same as what Thompson, Strickland and Gamble (2007) refer to as the duty to 'Be inquiring critics and oversee the company's direction, strategy, and business approaches.' This monitoring function also covers oversight over the organization's financial accounting and reporting practices, which the latter authors consider as the fourth important obligation for the board of directors.

2) Evaluating and Influencing; a board can examine management's proposals, decisions, and actions; agree or disagree with them; give advice and offer suggestions; and outline alternatives.

3) Initiate and Determine: A board can delineate a corporation's mission and specify strategic options to its management. Only those boards of directors that take a very active role undertake this task in addition to monitoring and, evaluating and influencing. From a corporate governance perspective, the board of directors has a critical role of ensuring that management's plans and actions in crafting and executing strategy are effective and efficient in meeting stakeholder and more importantly shareholder expectations.

5.0 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.

REFERENCES

- 5.1.1 Saunders M. and Lewis P. (2012, pages 201-216): “Doing Research in Business & Management – An Essential Guide to Planning Your Project”.
- 5.1.2 Saunders M., Lewis P. and Thornhill A. 2009, Research Methods for Business Students. 5th Edition, Essex: Pearson Education Limited
- 5.1.3 Thompson Jr., A., Strickland III, A. J. and Gamble J. E. 2007, Crafting & Executing Strategy. 15th Edition, New York: McGraw-Hill Irwin
- 5.1.4 O’Brien F. A. and Dyson R. G. 2007, Supporting Strategy, Framework, Methods and Models. West Sussex: John Wiley & Sons Limited
- 5.1.5 Gravetter F. J. and Forzano L. B. 2009, Research Methods for the Behavioral Sciences. 3rd Edition, California: Wadsworth
- 5.1.6 Creswell J. W. 2009, Research Design. 3rd Edition, California: Sage Publications.
- 5.1.7 Beckman S. L. and Rosenfielf D. B. 2008, Operations Strategy: Competing in the 21st Century, New York: McGraw-Hill Irwin.
- 5.1.8 Phatak A. V., Bhagat R. S. and Kashlak R. J. 2009, International Management. 2nd Edition, New York: McGraw-Hill Irwin.
- 5.1.9 Rouse, W. B. 2001, Essential Challenges of Strategic Management. New York: John Wiley & Sons, Inc.
- 5.1.10 Kim, W. C., and Mauborgne, R. “Blue Ocean Strategy: From Theory to Practice.” California Management Review 47, No. 3 (Spring 2005), pp. 105-121.