

**Subject: Management**

Production of Courseware

**-Content for Post Graduate Courses**



**Paper: 3, Strategic Management**

**Module: 2, STRATEGIC MANAGEMENT PROCESS**



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ITEM	DESCRIPTION OF MODULE
<b>Subject Name</b>	<b>MANAGEMENT</b>
<b>Paper Name</b>	<b>STRATEGIC MANAGEMENT</b>
<b>Module Name/ Title</b>	<b>STRATEGIC MANAGEMENT PROCESS</b>
<b>Module Id</b>	<b>Module No – 2</b>
<b>Pre-requisites</b>	<b>Understanding of strategy, plans and strategic management</b>
<b>Objectives</b>	<b>Understanding the strategic management process</b>
<b>Keywords</b>	<b>Strategic management, Strategic management process, SMP</b>

### QUADRANT - I

<b>Module 2 : Strategic Management Process</b>
1. Learning Outcomes
2. Phases in Strategic Management Process (SMP)
3. Elements of SMP
4. Comprehensive Model of SMP
5. Wheelen & Hunger Model of SMP
6. Intended and Realised Strategies
7. Participants in SMP
8. Strategic Drift
9. Learning Organisations
10. Summary

## 1. Learning Outcomes

After studying this module, you shall be able to

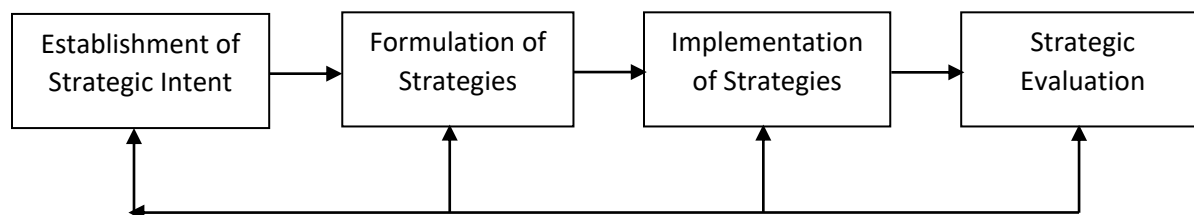
1. Identify different phases in strategic management process.
2. Understand various elements of strategic management process.
3. Learning different models of strategic management process.
4. Understanding Intended and Realised Strategies.
5. Learn about the approaches to strategic management process.
6. Learn about various participants in strategic management process.

## 2. Phases in Strategic Management Process (SMP)

*“Strategic management is the dynamic process of formulation, implementation, evaluation and control of strategies to achieve the organisation’s strategic intent.”*

This definition emphasises on four stages of the strategic management process namely formulation, implementation, evaluation and control. The four phases of strategic management process are depicted as –

### Four Phases of Strategic Management Process



*(Source – Kazmi, 2010. Strategic Management and Business Policy, 3<sup>rd</sup> Edition)*

The first stage relates to establishment of strategic intent for the organisation. Strategic intent is the list of objectives that an organisation creates for itself. This includes defining its vision, mission, objectives and business. The aim of strategic management is effectively realising the strategic intent.

In the second stage a single strategy or few strategies are formulated, the stage is also called strategic planning. Essentially, this is an analytical phase in which strategists think, analyse and plan strategies.

The third phase of implementation is the 'putting into action' phase. The strategies formulated in the previous stages are implemented through a number of executive and managerial actions.

Lastly, the fourth stage of evaluation and control involves assessing whether the formulated strategies were apt and whether the same were implemented effectively. The outcomes of assessment help in suggesting corrective actions ranging from making minor changes to severe reformulations of strategies.

These four stages are considered to be chronologically linked and each following phase provides a feedback to the previous phases. The feedback arising from each of the successive phases is meant to revise, reformulate or redefine the previous phases, if necessary.

### 3. Elements of SMP

Each phase of the strategic management process consists of a number of elements, which are discrete and identifiable activities performed in logical and sequential steps. The following are considered as essential elements of SMP –

#### A. *Establishing the hierarchy of strategic intent –*

- A. Creating and communicating a vision
- B. Designing a mission statement
- C. Defining the business
- D. Adopting the business model
- E. Setting objectives

#### B. *Formulation of strategies –*

- F. Performing environmental appraisal
- G. Doing organisational appraisal
- H. Formulating corporate-level strategies
- I. Formulating business-level strategies
- J. Undertaking strategic analysis

- K. Exercising strategic choice
- L. Preparing strategic plan
- C. *Implementation of strategies* –**
- M. Activating strategies
- N. Designing the structure, systems and processes
- O. Managing behavioural implementation
- P. Managing functional implementation
- Q. Operationalising strategies
- D. *Performing strategic evaluation and control* –**
- R. Performing strategic evaluation
- S. Exercising strategic control
- T. Reformulating strategies

#### **4. Comprehensive Model of SMP**

The strategic management process is elucidated with the help of a model consisting different phases which include the above mentioned elements.

The steps of the process are discussed in brief as –

- A. The hierarchy of strategic intent lays foundations for the strategic management of an organisation. The intent establishes the vision, mission, business definition, and objectives for the organisation. It makes clear what an organisation stands for, the vision highlights what the organisation wants to achieve in long run. The mission relates the organisation to the society at large. The business definition defines the businesses of the organisation while the business model depicts how the organisation creates revenue. The objectives of the organisation explain what is to be achieved in a set time frame and serve as benchmarks for measuring performance.
- B. Environmental and organisational appraisal identifies various opportunities and threats functional in the environment, as well as defines the strengths and weaknesses of an organisation. In such a manner, enables organisation to take advantage of existing opportunities by using its strengths and reduce the impact of threats and minimise the weaknesses.



E. For strategy implementation, the developed strategic plan is applied through various sub-processes like project implementation, procedural implementation, resource allocation, structural implementation, behavioural implementation, and functional implementation. Project implementation deals with setting up the organisation while procedural implementation deals with defines different regulations within which Indian organisations have to work. In resource allocation, resources are procured and committed for the plan. The structural aspect defines the organisational structure and systems to meet the requirements of the strategy. The behavioural aspect deals with the leadership style, corporate culture, corporate politics, personal values, ethics, social responsibility etc. and the functional aspect relates to different functional areas for the policies to be formulated.

F. The last phase is strategic evaluation which assesses the performance of the organisation and the results of the implemented strategies. The results of the assessment help in exercising strategic control over the future strategic management process.

## 5. Wheelen & Hunger's Model of SMP

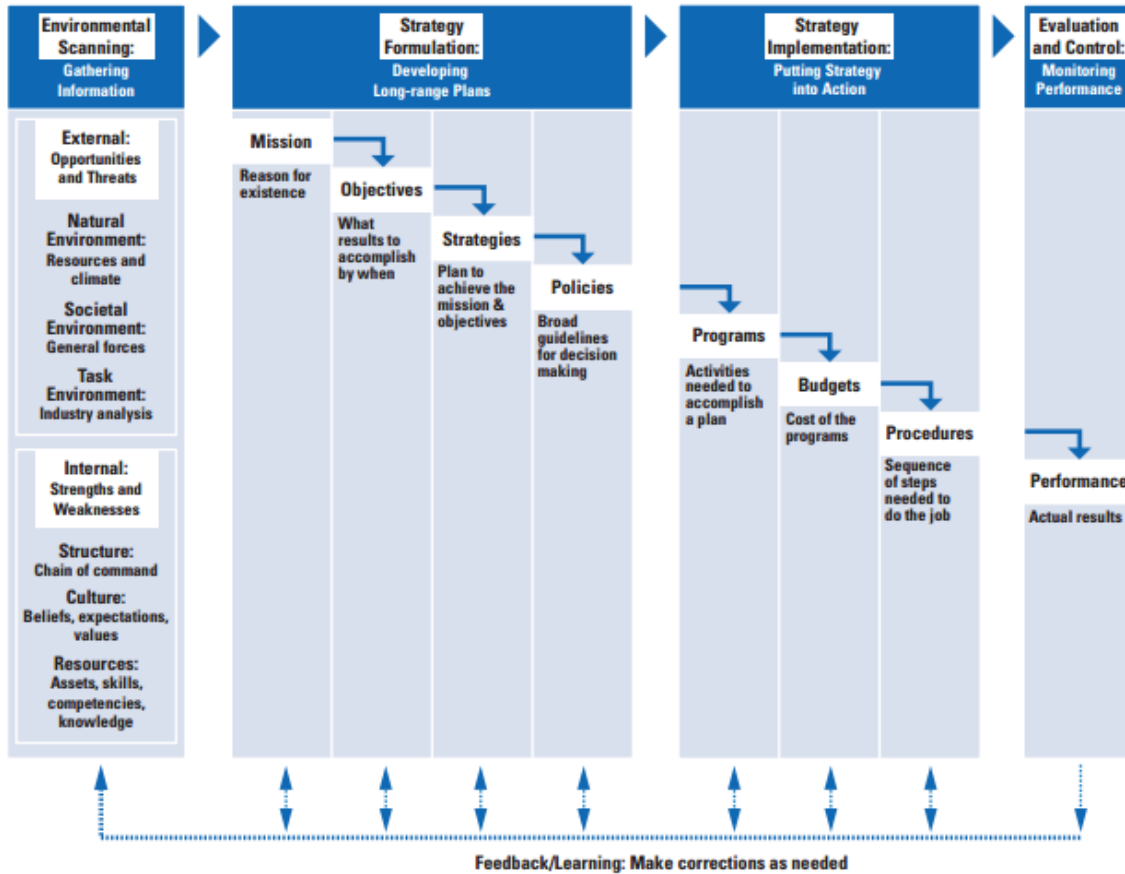
Another model on strategic management process proposed by Wheelen & Hunger, includes four steps namely environmental scanning, strategy formulation, strategy implementation, evaluation and control, and feedback/ learning process.

A. *Environmental scanning* is the observing, analysing and spreading information relating to the business environment both external and internal to all the important people in an organisation. The scanning process enables an organisation to identify strategic factors—which have a bearing on the future of the organisation. Environmental scanning can be done through SWOT analysis, which helps in identifying its Strengths and Weaknesses, and also facilitates the company in recognising Opportunities and Threats that exist in its business environment.

B. *Strategy formulation* relates to developing long-term plans on the basis of environmental opportunities and threats keeping in view the strengths and weaknesses (SWOT) of a company. Strategy formulation consists of outlining corporate mission, its objectives, making strategies and policy framework. An organisation may formulate its objectives in relation to - profitability, efficiency,

growth, shareholders' wealth, utilization of resources (ROE or ROI), reputation, contributions to employees, contributions to society, market leadership, technological leadership etc.

*Wheelen & Hunger's Model of Strategic Management*



(Source: Wheelen & Hunger, "Strategic Management and Business Policy: Toward Global Sustainability," adapted from "Concepts of Management," presented to Society for Advancement of Management (SAM), International Meeting, Richmond, VA, 1981.)

C. *Strategy implementation* is concerned with putting the formulated strategies and policies into action. This is done by making programs, budgets and processes; and may also involve alterations in the organisation structure, culture etc. The strategies are generally implemented at the middle and



lower management levels and are reviewed by the top management. This stage also involves making regular decisions on daily basis, thus is also referred as operational planning.

D. *Evaluation and control* is exercised by comparing actual performance with the previously set objectives. The result of this exercise helps managers and management is taking corrective measures to improve the performance. This process further helps in identifying the problems in the implemented strategic plans and providing useful information to improve the future plans and performance. Evaluation and control, thus, improves an organization's performance, which is generally measured in terms of profits and ROI.

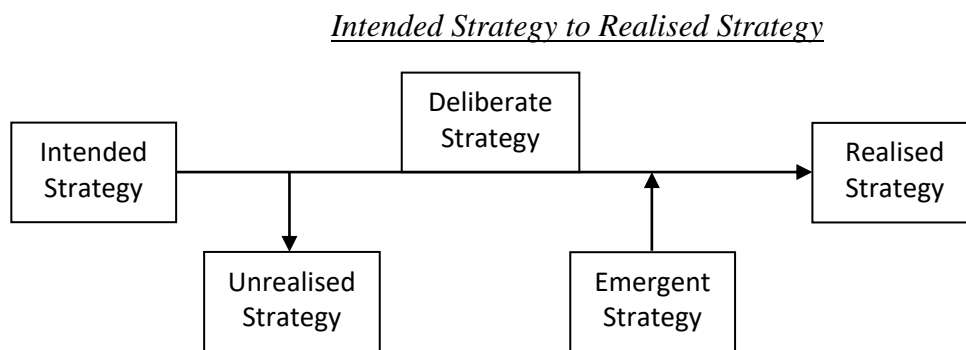
E. *Feedback/ Learning Process* - A business unit develops strategies and programs before undertaking any exercise but it must regularly take corrective actions or decisions with regards to the existing plans. For example, poor performance (as measured in evaluation and control) usually indicates that something has gone wrong with either strategy formulation or implementation. It may also help in identifying some of the key variable which might have been ignored during environmental scanning and assessment.

## **6. Intended and Realised Strategies**

All strategic management processes start with planned or intended strategies. However, the actual or realised strategy may be different. Taking the idea that an organisation's intended strategy is changed during its implementation, Mintzberg and Waters argue that new strategy emerge to modify and change the planned strategy, so that over time the realised strategy is different from the one originally intended by senior managers. Thus, a strategy is a mixture of a senior management's deliberate strategy, which is a planned strategy designed by senior managers for implementation at other organisational levels, and emergent strategy, which is strategy not foreseen by senior management that arises during the implementation of deliberate strategy. Between intended and realised strategies, there are emergent strategies. The intended strategy is the one originally planned: this can be emergent in its original, modified or an entirely different form because of developing situations. The realised strategy

is what is actually implemented because of changed internal or external circumstances. Wright and others (1998, 1997) have dealt with it at length.

Emergent strategies are usually suggested by functional or operating-level managers. Higher level management has to assess the emergent strategy in the context of the already approved strategy (intended strategy) and decide whether the emergent strategy suits the organisation's objectives, needs and capabilities. This would also involve assessment of the changed environment which necessitates the emergent strategy. Usually, intended strategies are top-down process whereas emergent strategies are a bottom-up approach. Therefore, the effectiveness of emergent strategy depends on the flow of communication between top management and functional-level management. In most cases, strategies are a mix of intended and emergent strategies. The unrealised intended strategy will be either dropped or replaced by an emergent strategy. The relationship between intended, emergent and realised strategies is depicted in the figure below –



*(Source: Witcher & Chau, 2014. Strategic management: principles and practice.)*

The difference between intended, emergent and realised strategies can be understood with the help of an example. Honda entered the US market with the intended strategy to market motorcycles with 250cc and 305cc engines. But, the intended strategy failed because the US market preferred smaller models. Honda had a 50cc motorcycle which was a great success in the domestic market. So, Honda had to review its strategy and decided to change its strategy. So, the intended strategy was modified by emergent strategy and the realised (final) strategy was met with great success.

## 7. Participants in SMP

Strategic planning is a team effort and involves all levels and functional units of an organisation — top executives, middle managers and supervisors, and employees. Although strategic planning begins at the top, leaders should seek and reflect the input of managers, supervisors, and front-line employees.

Since strategies are formulated at corporate level, SBU level and functional level, therefore, managers from all these levels participate in strategic management process. In addition to the managers, the board of directors also play a definite role. At times, consultants also play an important role in framing the strategic process. Thus, there are five major participants in the strategic management process with varied roles. The five participants are –

- A. Board of Directors
- B. Chief Executive Officer (CEO)
- C. Corporate Planning Staff
- D. Other managers
- E. Consultants

### Role of Board of Directors

Professional boards can play very effective roles in strategic management process. They participate in setting and reviewing corporate objectives, formulation of long-term strategies, examination and review of proposals for new investment, appointment of chief executives and other key personnel, etc. These boards play a balancing role between strategy making process in the companies and the shareholders. Major strategic functions performed by these boards are –

- a. Approval of corporate budget and resource allocation for strategic investments
- b. Periodic review of the strategic planning process
- c. Monitoring the chief executive's role in the strategic management process
- d. To trigger discussion on growth possibilities and alternatives
- e. Guiding the chief executive in formulating organisation-level strategies
- f. Review of strategy implementation with respect to results or profitability

### **Role of Chief Executive**

In the strategic management process of a company, the chief executive plays a crucial role. Main functions performed by chief executive are strategic as well as non-strategic. Some of the vital strategic functions of chief executives are –

- a. Deciding organisational mission and objectives
- b. Setting major policies, priorities etc.
- c. Providing direction and leading the process in long-term planning
- d. Directing short-term planning
- e. Leading organisational resource development team
- f. Allocating major resources to strategic functions and projects
- g. Committing new projects and resources
- h. Mobilising support to internal and external stakeholders
- i. Managing relationship with the environment
- j. Managing the board

### **Role of Corporate Planning Staff**

As a result of the rising instability in the competitive environment, the strategic management process has also become more complex. Therefore, most of the large and multinational companies have a separate corporate planning department, which is equipped with specialised planning staffs that form the core of strategic planning activities of a company. This unit perform various functions mostly of strategic nature like –

- a. Assisting the chief executive in developing and formalising fundamental concepts or visions about organisational growth and diversification.
- b. Scanning the environment and identifying new business opportunities.

- c. Analysing cost benefits of alternative investment opportunities and allocating resources to various projects and activities.
- d. Integrating SBU plans into corporate plans.
- e. Monitoring progress of strategic plans at corporate level, SBU level and functional levels.
- f. Undertaking mid-term review of plans and strategies and, suggesting changes, if required.
- g. Evaluating plan performance – measuring the degree of success or failure of strategic plans and reporting to the chief executive for necessary action.

### **Role of Senior Managers**

The senior managers can be heads of SBUs as well as functional heads who play an important role in the whole process of strategic management.

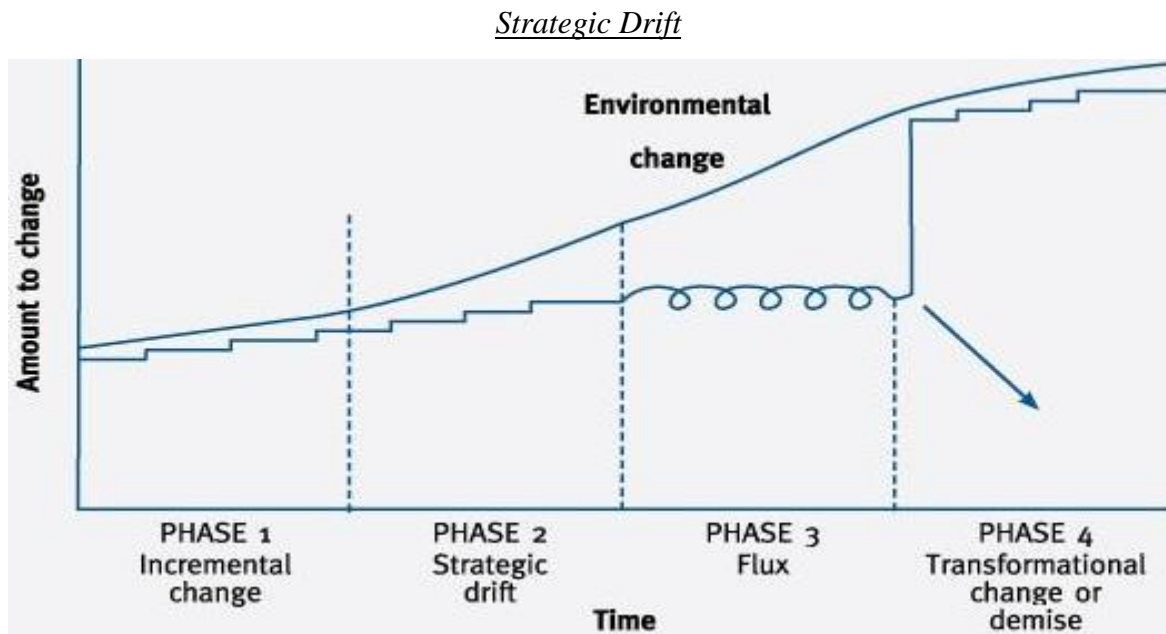
The senior managers also participate in various functional and managerial committees including top management committees which are involved in strategic planning and management. As members of such committees, they may participate in critical decisions like making new investment, restructuring, diversification, etc. Corporate planning staff is also represented in all these committees.

### **Role of Consultants**

Management consultants also play an important role in the process of strategic planning of a company. Consultants provide their services in diverse functional areas of management including the strategic planning. The companies where no strategic planning divisions exist, consultants provide inputs for planning. Whenever the management feels the need for such consultancies, the consultants can take planning and strategy exercises. The leading strategic consultants use latest tools, techniques and models to define solutions to specific strategic management issues. Consultants offer diversified skills and experience from various companies which make them more effective in formulating strategic plans.

## 8. Strategic Drift

In the strategic management process of every company, there is a risk of ‘strategic drift’. In other words, strategic drift is the widening gap between demand for change by environmental forces and actual strategic change in a company.



(Source: Johnson & Scholes, 2008. *Exploring corporate strategy: Text and cases*)

In simple term the failure to respond to company’s external environment i.e. the competition, consumers wants and needs etc. Strategic drift occurs when a company, is not able to act according to the changing business environment or respond swiftly to the changes in the external environment and thereby keeps following the same strategy which has served it very well in the past. This shows that the company is not following its changing external environment and thus is obviously out of touch with external trends. In actual business situations also many companies have continued with their once successful business model even when it is clearly evident that the model is increasingly inappropriate in terms of future trends.

When there is a pressure for change, companies usually look for what is familiar. However, this creates problems when managing strategic change, because the action required may be outside the present

system and organisations may be required to significantly change significantly their core strategies. The situation may be one of declining performance and company may first seek to improve implementation of the existing strategy. And in case this is not effective, a change of strategy may be required.

Therefore, an organisation should strive to strike a balance while developing strategies. It has internal pressures (cultural or managerial) which tend to constrain strategy development, environmental forces, including market and competitors, which it must cope with for a particular strategic process to succeed. Every organisation has to constantly endeavour to align or realign these two forces to avoid the occurrence of a strategic drift.

## **9. Learning Organisations**

Due to fear of strategic drift, every company should be learning organisation. The environment is too complex and changes too rapidly for strategic management to deliver desired results. Such uncertainty in the environment requires that strategy should be managed in a more unconventional, `discontinuous` way and not through incremental changes. Managers should not regard their experience as fixed and unalterable; in fact, they should try to develop an organisation in which they continually challenge past experience and practices and strive for new, innovative ways. In other words, they should develop learning organisation.

## **10. Summary**

- Strategic management is the dynamic process of formulation, implementation, evaluation and control of strategies to realise the organisation's strategic intent.
- The four stages of strategic management process are formulation, implementation, evaluation and control.
- Elements of strategic management process - establishing the hierarchy of strategic intent, formulation of strategies, implementation of strategies and performing strategic evaluation and control.

- Comprehensive Model of Strategic Management explaining strategic intent, strategy formulation, strategy implementation and strategic evaluation
- Wheelen and Hunger's Model of Strategic Management explaining environmental scanning, strategy formulation, implementation, evaluation and control, and feedback/ learning process.
- An organisation's intended strategy is changed during its implementation.
- A strategy is a mixture of a senior management's deliberate strategy, which is a planned strategy designed by senior managers for implementation at other organisational levels, and emergent strategy, which is strategy not foreseen by senior management that arises during the implementation of deliberate strategy.
- Intended strategy is the one originally planned: this can be emergent in its original, modified or an entirely different form because of developing situations.
- The realised strategy is what is actually implemented because of changed internal or external circumstances.
- Major strategic functions performed by boards of directors like approval of corporate budget and resource allocation for strategic investments, periodic review of the planning, monitoring the chief executive's role, trigger discussion on growth possibilities and alternatives, guiding the chief executive in formulating organisation-level strategies, review of strategy implementation.
- Strategic functions performed by chief executives are deciding organisational mission and objectives, setting major policies, priorities etc., providing direction and leading the process in long-term planning, directing short-term planning, leading organisational resource development team, allocating major resources to strategic functions and projects, committing new projects and resources, mobilising support to internal and external stakeholders, managing relationship with the environment etc.
- Specialised planning staffs perform various functions mostly of strategic nature like assisting the chief executive, Scanning the environment, identifying new business opportunities, analysing cost benefits, allocating resources to various projects, integrating SBU plans into corporate plans, monitoring progress of strategic plans at corporate level, SBU level and functional levels, evaluating plan performance etc.



- Role of senior managers relates to evaluation of proposals for new investment, restructuring, diversification, etc.
- Consultants also play very useful role, they use latest tools, techniques and models to define solutions to specific strategic management issues. which may relate to
- Strategic drift is the widening gap between demand for change by environmental forces and actual strategic change in a company.
- Strategic drift occurs when a company, is not able to act according to the changing business environment or respond swiftly to the changes in the external environment and thereby keeps following the same strategy which has served it very well in the past.
- Managers should try to develop an organisation in which they continually challenge past experience and practices and strive for new, innovative ways. In other words, they should develop learning organisation.

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