BASIC CONCEPTS OF STRATEGIC MANAGEMENT (PART 1)

Definition of Strategy

A strategy involves the courses of action that managers undertake to attain organizational goals. It is a general direction set for the company and its various components to achieve a desired state in the future. In addition, a strategy includes integration and alignment of organizational activities and allocation of scarce resources within the organizational environment to meet the present objectives.

The following are the features of strategy:

- According to the *Management Study Guide*, a strategy pertains to a well-defined roadmap of an organization. It defines the overall mission, vision, and direction of an organization; and
- *Management Study Guide* also stated that the objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors.
- In the book the "Art of War," Sun Tzu stated that "the skillful strategist defeats the enemy without doing battle, captures the city without laying siege, overthrows the enemy state without protracted war." This means that businesses must formulate strategies to capture a greater market share than their competitors.
- Sun Tzu also stated that "the most critical factor to a winning strategy is in the planning stage, where you must calculate your strengths and weaknesses against the enemy's strengths and weaknesses. Only then can you properly decide if it is advantageous to attack, or stay put, or flee." This means that companies must engage in planning in order to determine their marketing move or tactic that will make market demand shift to their business and not to their competitors. In addition, the planning stage helps in assessing if the company can gain a market share in a particular industry considering the strengths of their competitors.

The Study of Strategic Management

According to Bamford, Hoffman, Hunger, and Wheelen (2018), strategic management is a set of managerial decisions and actions that help determine the long-term performance of an organization. It includes internal and external environment, short term and long-term strategy formulation, strategy implementation, evaluation, and control. Originally called business policy, strategic management has advanced substantially with the concentrated efforts of researchers and practitioners. Today, we recognize both a science and an art to the application of strategic management techniques (Bamford, Hoffman, Hunger, & Wheelen, 2018, p. 37).

The following phases describe the evolution of strategic management:

- **Phase 1: Basic financial planning.** During this phase, managers prepare complex proposals whenever they are requested to provide the following year's budget. Projects are proposed based on shallow analysis, with most information coming from within the firm. The sales force usually provides a small amount of environmental information used in this effort. Such simplistic operational planning only pretends to be strategic management, yet it is quite time-consuming. Normal company activities are often suspended for weeks while managers try to cram ideas into the proposed budget.
- **Phase 2: Forecast-based planning.** During this phase, managers attempt to propose five-year budget plans since annual budgets became less useful at stimulating long-term planning. At this

point, they consider projects that may take more than a year. This phase is also time-consuming, often involving a full month or more of managerial activity to make sure all the proposed budgets fit together. The process gets very political as managers compete for larger shares of limited funds. Seemingly endless meetings take place to evaluate proposals and justify assumptions.

- **Phase 3: Externally oriented planning.** During this phase, top management initiates a formal strategic planning system due to their frustration with the highly political and yet ineffectual five-year plans. The company seeks to increase its responsiveness to changing markets and competition by thinking and acting strategically. Planning is taken out of the hands of lower-level managers and concentrated in a planning staff whose task is to develop strategic plans for the corporation. Consultants often provide sophisticated and innovative techniques that the planning staff uses to gather information and forecast future trends. Organizations start competitive intelligence units. Upper-level managers meet once a year at a resort "retreat" led by key members of the planning staff to evaluate and update the current strategic plan. Such top-down planning emphasizes formal strategy formulation and leaves the implementation issues to lower-management levels. Top management typically develops long-term plans with help from consultants but minimal input from lower levels.
- **Phase 4: Strategic management.** During this phase, the top management realizes that even the best strategic plans are worthless without the input and commitment of lower-level managers, so they organize planning groups of managers and key employees at many levels, from various departments and workgroups. They develop and integrate a series of plans focused on emphasizing the company's true competitive advantages. Strategic plans at this point detail the implementation, evaluation, and control issues. Rather than attempting to forecast the future perfectly, the plans emphasize probable scenarios and contingency strategies. The sophisticated annual five-year strategic plan is replaced with strategic thinking at all levels of the organization throughout the year. Strategic information, previously available only centrally to top management, is used by people throughout the organization. Instead of a large centralized planning staff, internal and external planning consultants are available to help guide group strategy discussions. Although top management may still initiate the strategic planning process, the resulting strategies may come from anywhere in the organization. Planning is typically interactive across levels and is no longer strictly top down. People at all levels are now involved.

Types of Strategies

The following are the different types of strategies:

- **Business strategy**. This strategy emphasizes the act of strengthening the company's competitive position of products or services. Business strategies are composed of competitive and cooperative strategies. It covers all the activities and tactics for competing in contradiction of the competitors and the management behaviors that require strategic alignment and coordination. The focus of business strategies is on product development, innovation, integration, market development, and diversification among others.
- **Corporate strategy.** This strategy entails a clearly defined, long-term vision that organizations set, seeking to create corporate value and motivate the workforce to implement proper actions to achieve customer satisfaction. It is a continuous process that requires constant effort to engage investors in trusting the company with their money, thereby increasing the company's equity.

Organizations that manage to deliver customer value unfailingly are those that revisit their corporate strategy regularly to improve areas that may not deliver the aimed results.

- **Functional strategy**. This strategy emphasizes a particular functional area of an organization. It is formulated to achieve some objectives of a business unit by maximizing resource productivity. Functional strategy is concerned with developing distinctive competence to provide a business unit with a competitive advantage. Each business unit or company has its own set of departments, and every department has its own functional strategy. Functional strategies are adapted to support the competitive strategy. For instance, a company following a low-cost competitive strategy needs a production strategy that emphasizes on reduction cost operation and also a human resource strategy that emphasizes on retaining the lowest possible number of employees who are highly qualified to work for the organization.
- **Operating strategy.** This strategy is usually created at the field level to achieve immediate objectives. Operating strategy is formulated in the operating units of an organization. In some companies, managers develop an operating strategy for each set of annual objectives in the departments or divisions.

Competitive Advantage

Competitive advantage means superior performance relative to competitors in the same industry or superior performance relative to the industry average. It can also be defined as the factor that makes an entity's goods or services superior to the available options in the market.

The following are the determinants of competitive advantage:

- **Benefit.** This pertains to the value being offered by a product or service to the market. Aside from the product features, companies must also identify the unspoken benefits of their product or service. This means being constantly aware of new trends that affect the value of a product or service. For instance, newspapers slowly adapt to the current technological trends because most news and information are already available via Internet. Other newspaper companies may perceive that some people are still willing to pay for news delivered on a piece of paper every day.
- **Target market.** This pertains to a selected group of customers within a business' available market at which a business aims its marketing efforts and resources. Companies must be aware of their target market to innovate their products and services based on the particular needs of their customers. For instance, newspapers' target market is drifted towards older people who are not comfortable or capable of getting their news online.
- **Competition.** This pertains to the rivalry between companies that sell similar goods and services. Aside from the companies that sell similar products, a business must also identify its indirect competitors in the market. For instance, newspaper companies thought their competition was with other newspaper companies until they realized that it is actually the advent of modernization because of the Internet.
- **Cost advantage.** This pertains to the strategy of a company that involves producing a product or providing a service at a lower cost than its competitors. Companies with this advantage produce products in higher quantities and customer benefit. This is mainly influenced by multiple factors such as access to low-cost raw materials, efficient processes and technologies, low distribution and sales costs, and efficiently managed operations. An example of a global company that

employs cost advantage is the *Unilever*, which is influenced by its large operation and massive presence in the market.

- **Differentiation strategy.** This pertains to the strategy of a company that involves marketing the qualities of a product which sets it apart from other similar products and uses that difference to drive consumer choice. Product differentiation makes consumers' attention focused on one or more key benefits of a brand that make it better than others. An example of a global company that employs differentiation strategy is *Apple*, which creates its own operating system (IOS) that distinguishes its product as superior apart from its competitors.

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