Chapter 3

3.0 Strategic Management Process

The number of decisions involved, the number of inter-dependencies among policy formulation and implementation variables, the unpredictability of environment development, the open-endedness in the choice of the missions, objectives and strategies, the perceptual differences and the difference in analytical abilities of executives (especially the qualitative ones) required for identifying environmental threats and opportunities and organisational strengths and weakness, all make the task of strategic management look as an onerous incomprehensible one. There is every chance of getting bogged down so much so that while counting the trees one may lose sight of the forest itself. Fortunately, over the years strong conceptual frameworks for strategic management process have been developed by scholars, which provide a sound structure for systematic analysis and decision making[1]. A framework, like the one shown in fig. 2.4, allows one to enter into details and undertake in-depth analysis, avoid from getting drowned in details, reverting back to key issues and decisions points. The conceptual framework of strategic management also helps in ensuring key linkages among various elements of strategic management and the upstream and downstream decisions.

The framework also sets the relative priorities, provides a basis for evaluation of post implementation performance of strategy, which facilitates follow up action. Strategic management process involves two distinct, albeit highly inter- related processes; namely, the strategy formulation and -the strategy implementation. Each of them involves planning and control processes, but basic nature of the tasks involved and, therefore, the managerial competencies required (in terms of skills, orientations and styles) are quite different for the two tasks, as discussed in the following paragraphs. Further it must be noted that while the focus of strategy formulation is more on analysis and thinking processes, the focus of strategy implementation is as much, if not more, on action or execution.

3.1 Strategy Formulation

As mentioned earlier, the strategy formulation is primarily a planning process, the purpose of which is to bring out clearly the organisation mission, objectives and the strategies to achieve them. However, planning is also involved for strategy implementation and several other purposes. It is therefore, necessary to distinguish between different types of planning in any organisation. Failure to do so may lead to inadequacies in different types of planning, which may prove to be costly.

Strategy formulation involves the following key exercises.

* Environment analysis (developments in various components of environment (discussed later) and diagnosis (its implication for the organisation's corporate strategy)
* Analysis of the organisation's strengths, its resource base (and core competencies) and weaknesses.
* Identifying the organisation's distinctive competencies (which can be transferred or used for a new business)
* Matching the above to develop an array of strategic alternatives
* For each alternative, analyzing the strength and weakness and resource base of the organisation's key competitors, comparing them with its own for developing competitive

strategies and also identifying opportunities for collaboration to serve the customer better at increasing scale.

* Screening out potential strategic alternatives where the organization is very weak compared to its close competitors and closely examining the existing business for either improving or divesting.
* Evaluating the remaining strategic alternatives on various criteria flowing from mission/ objectives and other considerations (discussed later in this chapter) including the confidence in implementing each of the alternative strategies (which involves an understanding of the tasks involved in implementing the alternatives and change associated with them which is to be managed)

3.1.1 Corporate Planning and Control

Strategic management involves planning and a great deal of it. However, one must be clear about what is the kind of planning involved. Planning in any organisation is done for three purposes, namely Planning for Shaping the Future of Organisation, Planning for the Management Control and Operational Planning (for coordinating the operating decision. and task control). In strategic management, we are primarily concerned with the first and second types of planning, which are typically covered under the name corporate planning, meaning planning for the organisation as a whole (see fig. 6). Nonetheless it is the duty of the people responsible for the strategic management to ensure that proper operational planning systems are in place for effective production/operation planning and control.

3.1.2 Long Range Planning

The word Corporate Planning has been used in various ways in the literature e.g; Long Range Planning, Strategic Planning or even Annual Planning. There is a need for clarity. This can be brought about by classifying corporate planning into three distinct parts namely, Planning, Programming and Budgeting[2]. They differ in terms of the content, the time horizon involved, the information requirements and sources of information, the managerial skills required for the same, the level of organisational commitments made and the executive responsibilities.

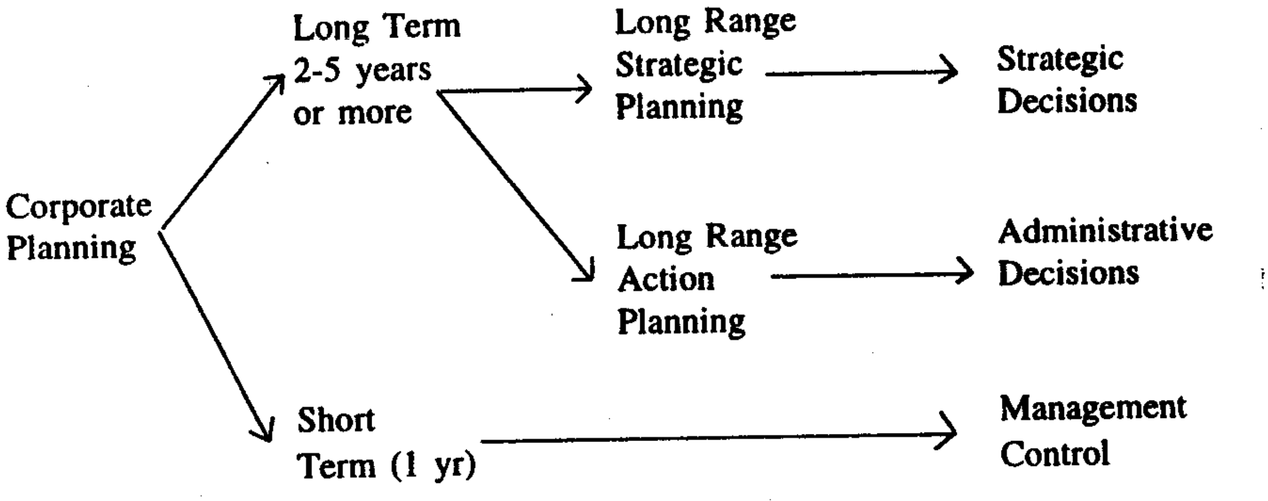

Fig. 6 : Relationship and Differences among Different Types of Planning

Fig. 3.1

3.1.2.1 Long Range Strategic Planning/ Strategy Formulation

The Long Range Strategic Planning (LRSP) focuses on the strategic decisions -the mission and objectives of the organisation, the businesses the organisation would like to be in future and the preferences thereof (the strategies). It determines the direction, the path the top management wants the organisation to follow: whether existing business will be carried on (in the same, expanded or reduced manner), or exited or some new businesses would be taken up. If latter, then what would be the type of new businesses? Whether the organisation would like to grow at the same rate or increased/ decreased growth rates will be adopted? Whether the organisation would continue to serve the existing customers only (in same or different geographical locations) or substantially different customers would also be approached, and so on.

3.1.2.2 Long Range Action Planning/ Strategy Implementation

Long Range Action Planning (LRAP) on the other hand deals with strategy implementation issues, the task of gearing up of the existing monetary, physical, human and organisational resources (skills, structures, functional policies, systems and procedures, and the organisational culture) to meet the demands of future business (as decided by the strategic planning). Thus, while strategic planning deals with whether the organisation will continue in same business (say textile) or to take up new ones (say computers) also, the long range action planning focuses on all that is required to be done to undertake computer business e.g., deciding and making arrangement for getting relevant technology, setting up plant and buildings for the same; recruiting and training people for computers business, developing appropriate (new) distribution network, financing (if installment sales are to be allowed) and so on. As mentioned in section 2.4, strategy implementation has two components, “thinking” and “doing”. The thinking part is covered under long range action planning. The doing part covers actual action, which involves and managing change that is covered in separate chapter 7-12.

3.1.2.3 Annual Planning and Budgeting

The Annual Planning and Budgeting focuses on developing the targets for various businesses, profits, investments, etc., in concrete, monetary terms and assignment of responsibilities for their achievement to the responsibility centres. Budgeting is Annual Planning of activities in monetary terms and includes both income and expense items. It is as much an exercise in Resource Allocation as target setting for control, while objective of Annual Planning is to decide level of activities mainly in physical terms. Budgeting also deals with deciding actual and exact level of financial resources to be provided for carrying out proposed level of business activities by various responsibility centres, and then withdrawal/ additions to be made, if any change in level of activities takes place during the year. Thus, while the LRSP and LRAP deal with strategy formulation and implementation issue respectively the Annual Planning/ Budgeting focus more on resource allocation for next year's operations and for management control, rather than catering to the strategy formulation or implementation.

The three types of planning mentioned above are closely related to each other. Indeed, one leads to the other. The LRSP sets the ball rolling by deciding the mission and objectives of the organisation and the strategies to achieve them. The LRAP takes a cue from there to decide the physical and organisational infrastructure to be developed to cater to the requirements of operations in future. This in turn allows the Annual Planning/ Budgeting to decide the targets to be achieved, manpower and financial resources to be committed for the next year's operations. If the LRSP decisions are not taken clearly and in time, the LRAP decisions will be hanging loosely and there is no question of Budget for the activities to be decided properly. Poor quality of LRSP decisions will lead to poor LRAP decisions and consequently poor Budgetary decisions and thus to poor performance.

From the foregoing discussions it would be realised that despite their close relationship, the three types of planning, differ in terms of the content, the time horizon involved, the information requirements and sources of information, the managerial skills required for the same, the managerial motivation, the level of organisational commitments made and the executive responsibilities as shown in table 1. If a failure in achieving planned targets takes place, the Management Control can correct the situation, focusing action on the people in the concerned responsibility centre or through tactical response to environmental changes. If that does not help, it may require corrections in LRAP decision areas (for example modifying the structure, systems, functional policies etc.). If that also does not work, the action lies in the strategic decision areas; modifying the strategies, long terms objectives or even the mission of the organisation. Planning moves from LRSP to budget, while control moves from budgeting to LRSP.

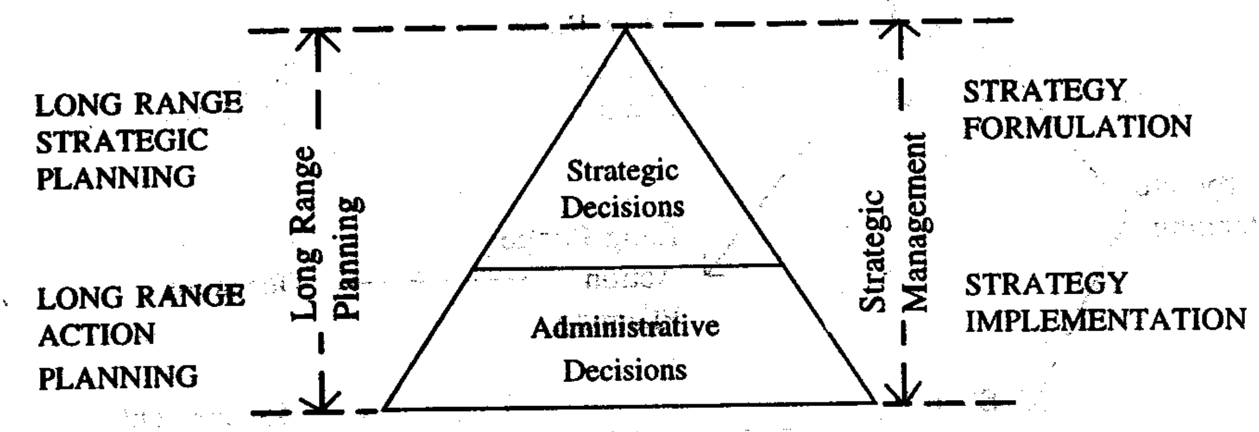

Fig.7 : Types of Managerial Decisions, Strategic Management Process and Nature of Long Range Planning

Fig. 3.2

The three types of planning are also linked in terms of time frame. Budgeting normally has 1 year time horizon, often split over 4 quarters for monitoring and control. Developing physical and organisational infrastructure may take anything from 6 months to 3-4 years or even more, depending upon the nature of business, the synergies available within, the type and nature of technology, the degree of modification in structure, systems, skills, policies required to be made etc. To this one has to add the amount of time to be spent on analysis and decision making related to mission, objectives and strategies, to arrive at the time frame required for the entire corporate planning process.

The management practices with regard to three types of planning vary \ quite a lot from one organisation to another, in terms of degree of formality, structure and processes. Some organisations undertake all the three types of planning in a formal way, creating even a separate department for it; while some others do it in an informal way, especially the long range planning. A formal Corporate Long Range Planning system is a desirable one, as it forces management attention to the strategic issues, to the discussion on the relevance of current mission and objectives and the efficacy of current strategies for the future. It also forces management to undertake systematic, time bound analysis of environmental changes of significance to the organisation. Moreover, it forces management to have periodic review of strategy implementation issues, the development/modification in various resources and infrastructure being made to ensure their timely completion, which is so crucial for the success of corporate strategy. However, it must be noted that mere creation of structure for long range planning (LRSP and LRAP) will not ensure proper strategy formulation and implementation. It requires a high level of commitment and conviction on the part of top management to the concept of strategic management, which develops from "realisation of the utility concept." This realisation dawns through inquisitive self learning or the firsthand experiences of success through strategic management in the past.

TABLE 3.1
Difference in Requirements of the LRSP, LARP and Annual Planning Budgeting

	LRSP	**LRAP**	**Budgeting**
Time Horizon	5 yrs and above	3-5 yrs	1 year
Tasks Involved	Identifying opportunities and deciding strategies for the future	Visualising and developing physical and organisational infrastructure	Setting targets and allocating resources to the responsibility centres for the budget period
Source of information	Mainly external, one time	Internal and external, infrequent	Mainly internal from operations., frequent
Key managerial skills and orientation	Creative, scenario building, conceptual skills, L.T.orientation, Integrative/Learning skills	Administrative, project mgmt. elaboration of ideas, resources acquisition and dev. skills	Operational decision human relation/resource mgmt.
Executive responsibility for result	Very nebulous	definite	Very concrete
Performance appraisal	Very difficult to appraise	Not very difficult	Easy to appraise
Level of participation reqd. for developing plan	Few persons, top mgmt.	Sr. mgmt./functional heads	All responsibility centre heads
Availability of planning expertise within org.	Less	Reasonable	High
Possible level of confidence in plan achievement at the time of planning	Moderate	Reasonably high	Very high

Degree of organisational resources committed	low	Reasonably high	Very high

The presence of a strategist is imperative for the LRSP and LRAP to take roots in the organisation, especially LRSP. If such commitment on the part of chief executive/ members of top management as strategists lacks, the formal structural arrangements for corporate planning may prove to be only ritualistic and of ornamental value to the organisation. If due care is not taken, not only strategic planning may suffer, but a deceptive, false sense may prevail that the strategic planning is taking place in the organisation. This may preclude whatever real strategic planning would have taken place due to environmental pressures. Top management should, therefore, be extremely careful in creating departments for Corporate Planning. It should not be used as corporate status/ symbol or to accommodate senior executives on their promotion.

It is necessary that the Chief Executive is committed to strategic planning and does spare adequate time for the same, if necessary, at the cost of some routine operating decisions/other ceremonial duties. Care should also be taken that there is no confusion between LRSP and LRAP, which is very likely, if a lot of line people (operation) are associated' with or assigned the task of LRSP.

This leads to an important and related issue in strategic management process: who all should be involved and what should be the nature of their involvement in the three kinds of planning. Before one addresses these questions, one must look at the differences in the tasks and skills required.

Annual Planning/ Budgeting is an exercise of setting the targets to be achieved, the involvement of line (operation) executives who are experienced in efficiently running the operations, is important. For want of such involvement a realistic/achievable target setting may be impossible, target set may be too tough (which in any case will not be achieved) or too easy (i.e., setting the targets at a level less than what it could be realistically expected to achieve). In either case the organisation loses. The role of planning (staff) specialists is that of a facilitator and that of coordinating the budgeting exercise (to finish it timely), and to provide analytical support on broader environmental data, which may not easily be available to the line executives.

There is a need to involve line executives in LRAP also, as experience of business may help them in creating/augmenting physical infrastructure required for carrying out businesses in future. But care should be taken that only those executives who are efficient, especially in the project execution, are involved. Care should also be taken that only those who have graduated from short term results orientation to long term results, have capacity to visualise the task of new physical infrastructure development and can complete it, are assigned this job of "project administrators". It will also be necessary that they have an integrative bent of mind i.e., they are able to see linkages of their part in strategic plans with the other parts of strategy implementation. The "organisational" infrastructure development may require skills of organisation design and experts of strategic management and organisation development are required. Assistance from external consultants may be sought, if, in-house expertise is not available for the purpose in the initial stages.

3.1.3 High Paced, Dynamic, Implementation Driven Strategy Formulation

Sometimes the strategy formulation and implementation are intertwined in a highly dynamic manner and it becomes difficult to know whether formulation is driving implementation or vice versa. It happens when the strategist is strong in implementation, with very high integrative thinking and creative problem solving abilities, which not only allows him to see opportunity under conditions of threat, acute resource scarcity and multiple constraints, but even weave new opportunities for expansion and diversification, often in the area of low or no competition. Adani Enterprise Ltd and Is Small Beautiful (A)-(F) cases amply demonstrate this phenomenon.

The process starts with the strategist choosing a strategy to implement, preparing a checklist, (implicitly or explicitly) of all the resources/ infrastructure requires and then ticking out which of them are already existing and which are to be arranged. At the next step, he starts acquiring/ developing balance of the resources/ infrastructure required to conduct the business following that strategy.

Now in the process some extra resources/ infrastructure get created as all the resources/ infrastructure acquired or developed are rarely in exactly matched condition. This "extra" unutilised resource/ infrastructure is noticed by an alert strategist, who sees this as an opportunity to expand or diversify into a new business, in view of developments in external environment. A creative strategist further modifies/ adjusts them as necessary, to weave a new/ better opportunity. This can dramatically change the economics of business for the better. At times it allows him to try out expansion/ diversification with an improvised infrastructure, instead of developing full, regular infrastructure for the activity and thus overcommit resources without testing market response. At a later stage, he develops full- fledged, regular infrastructure to meet the requirements of the business if the market response is positive. The new strategy formulation thus takes place when the current strategy is being implemented. The whole cycle keeps on repeating, leading to high paced strategy formulation driven by implementation that leads to high growth.

The formulation and implementation are thus intertwined in a highly dynamic manner, one driving the other. The strategist thus sees opportunities which others (who do not have high level of integrative thinking ability or lack creative problem solving ability) are not able to see. Such strategic management process is high paced, which is pursued with confidence, keeping economics of operation under strategist's control.

3.2 Strategy Implementation: Getting into the Action

Strategy implementation means gearing up the present organisation to meet the requirements of future operations to achieve the objectives. The essence of implementation is action, action for developing or acquiring resources, modifying or designing the organisational systems, structures, policies etc. to suit the requirements of future business. However, it also requires that strategy implementation issues are thought through, when the strategy formulation exercise is taking place. After all what is the point in developing a strategy if it cannot be properly implemented. One has to see through not only the tasks involved which may be required to be handled at the time of implementation but also the change issues (like how this will be done, who will do it, the timeline for the same etc.) while considering various strategic alternatives. If it is not done, they may stall the implementation. Indeed, one must have a clear idea of at least the major tasks and change issues involved in implementation of proposed strategy, before the strategy is adopted, to guard against failure arising on account of difficulties of non-implementation. Lack of thinking and appreciation of implementation issues at the time of strategy formulation is one of the major causes of failure of corporate strategies. Details of the strategy implementation are however covered in chapter 7 and 8 and change issues thereof are discussed in the chapters following them.

3.3 Strategic Control

The end result of strategy formulation (including consideration of strategy implementation) should be what has been described earlier as corporate strategy. Corporate strategy becomes then the blueprint for action, with clear focus on key tasks to be performed. Coming to the issue of strategic control system, it is necessary to differentiate it from management control, which shall be discussed in detail later. Strategic and Management Controls are the responsibility of top management. Management Control refers to the process by which management ensures that the organisation carries out its strategies[3]. For example if the management has decided to diversify from textiles to computers business, management control should aim at ensuring that the computers business performs as envisaged and articulated by the objectives, policies etc. On the other hand the purpose of strategic control would be to peruse the environmental changes and adjust or reformulate the strategies, i.e., to see whether the firm should continue in computer business, expand or give it up. It should be noted that strategic planning and control are almost integral exercises. The strategic control is more an exercise of evaluation of environmental changes, the follow up action lies in strategy reformulation (i.e., strategic planning) itself.

Management control does not go for modification of plan (i.e., targets set) itself as the follow up action in the first place, but focuses upon improving the operations. Both the strategic as well as the management control make extensive use of feedback information, but the primary source of information for management control is internal (from operations), while for strategic control it is external[4]. Further, while management control lays emphasis on control of internal variables, strategic control often deals with shifts in external variables. To the extent the external variables can be controlled by the organisation, the distinction between strategic and management control fades.

Review Questions

1. What are different types of corporate planning? Discuss significance of each one of them.
2. "Strategic management process is not a straight forward one shot process". Comment.
3. Differentiate between long range action planning and strategy implementation.
4. Explain high paced, dynamic, implementation driven strategy formulation.
5. "Strategic control is a part of strategic management". Comment.
6. "Strategic management process has only two parts, long range strategic planning and long range action planning". Do you agree?

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