**CHAPTER THREE**

**STRATEGIC MANAGEMENT**

**Developing a Vision and a Mission**

The foremost direction-setting question senior managers of any enterprise need to ask is "What is our business and what will it be?" Developing a carefully reasoned answer to this question pushes managers to consider what the organization's business makeup should be and to develop a clearer vision of where the organization needs to be headed over the next five to ten years. Management's answer to "What is our business and what will it be?" begins the process of carving out a meaningful direction for the organization to take and of establishing a strong organizational identity. Management's vision of what the organization seeks to do and to become is commonly termed the organization's mission. A mission statement establishes the organization's future course and outlines "who we are, what we do, and where we're headed." In effect, it sets forth the organization's intent to stake out a particular business position.

**Setting Objectives**

The purpose of setting objectives is to convert the statement of organizational mission and direction into specific performance targets, something the organization's progress can be measured by. Objective-setting implies challenge, establishing a set of desired outcomes that require stretch and disciplined effort, The challenge of trying to close the gap between actual and desired performance pushes an organization to be more inventive, to exhibit some urgency in improving both its financial performance and its business position, and to be more intentional and focused in its actions. Setting challenging but achievable objectives thus helps guard against complacency, drift, internal confusion over what to accomplish, and status quo organizational performance. The set of objectives management establishes should ideally embrace a time horizon that is both near-term and far-term. Short-range objectives spell out the immediate improvements and outcomes management desires. Long-range objectives prompt managers to consider what they can do now to enhance the organization's strength and performance capabilities over the long term.

Objective-setting is required of all managers. Every unit in an organization needs concrete, measurable performance targets indicating its contribution to the organization's overall objectives. When organization wide objectives are broken down into specific targets for each unit and lower-level managers are held accountable for achieving them, are suits-oriented climate emerges, with each part of the organization striving to achieve results that will move the whole organization in the intended direction.

Two types of performance yardsticks are called: financial objectives and strategic objectives. Financial objectives are needed because acceptable financial performance is critical to preserving an organization's vitality and well-being. Strategic objectives are needed to provide consistent direction in strengthening a company's overall business position. Financial objectives typically focus on such measures as earnings growth, return on investment, and cash flow. Strategic objectives, however, relate more directly to a company's overall competitive situation and involve such performance yardsticks as growing faster than the industry average and making gains in market share, overtaking key competitors on product quality or customer service, achieving lower overall costs than rivals, boosting the company's reputation with customers, winning a stronger foothold in international markets, exercising technological leadership, and developing attractive growth opportunities. Strategic objectives make it explicit that management not only must deliver good financial performance but also must deliver on strengthening the organization's long-term business and competitive position.

**Crafting a Strategy**

Strategy-making brings into play the critical managerial issue of how to achieve the targeted results in light of the organization's situation and prospects. Objectives are the "ends," and strategy is the "means" of achieving them. In effect, strategy is a management tool for achieving strategic targets. The task of forming a strategy starts with hard analysis of the organization's internal and external situation. Armed with an understanding of the "big picture," managers can better devise a strategy to achieve targeted strategic and financial results.

Definitionally, strategy is the pattern of organizational moves and managerial approaches used to achieve organizational objectives and to pursue the organization's mission. The pattern of moves and approaches already taken indicates what the prevailing strategy is; the planned moves and approaches signal how the prevailing strategy is to be embellished or changed. Thus, while strategy represents the managerial game plan for running an organization, this plan does not consist of just good intentions and actions yet to be taken. An organization's strategy is nearly always a blend of prior moves, approaches already in place, and new actions being mapped out. Indeed, the biggest part of an organization's strategy usually consists of prior approaches and practices that are working well enough to continue. An organization's strategy that is mostly new most of the time signals erratic decision-making and weak "strategizing" on the part of managers. Quantum changes in strategy can be expected occasionally, especially in crisis situations, but they cannot be made too often without creating undue organizational confusion and disrupting performance.

**Strategy and Entrepreneurship**

Crafting strategy is an exercise in entrepreneurship. Some degree of venturesomeness and risk-taking is inherent in choosing among alternative business directions and devising the next round of moves and approaches. Managers face an ever-present entrepreneurial challenge keeping the organization's strategy fresh, responding to changing conditions, and steering the organization into the right business activities at the right time. Consideration of strategy changes thus cannot and should not be avoided. Often, there is more risk in coasting along with the status quo than there is in assuming the risk of making strategic changes. When managers become reluctant entrepreneurs, they get complacent about current strategy and become overly analytical or hesitant to make strategic decisions that blaze new trails. How boldly or cautiously managers push in new directions and how vigorously they initiate actions for boosting organizational performance are good indicators of their entrepreneurial spirit.

All managers, not just senior executives, need to exercise entrepreneurship in strategy-making. Entrepreneurship is involved when a district customer crafts a strategy to cut the response time on service calls by 25% and commits $15,000 to equip aft service trucks with mobile telephones. Entrepreneurship is involved when a warehousing manager develops a strategy to reduce the error frequency on filling orders from 1 error per every hundred orders to 1 error per every thousand order. A sales manager exercise strategic entrepreneur in deciding to run a special advertising promotion and cut sales prices by 5 percent. A manufacturing manager exercises strategic entrepreneurship in deciding to source an important component from a lower-priced South Korean supplier instead of making it in-house.

Strategy-making is not something just top managers do; it is something all managers do every manager needs an entrepreneurial game plan, for the area he/she is in charge of.

**Why Strategy Is Constantly Evolving**

From the perspective of the whole organization, the task of "strategizing" is always an ongoing exercise. “The whats” of an organization's mission and long-term objectives, once chosen, may remain unaltered for several years. But "the hows" of strategy evolve constantly, partly in response to an everchanging external environment, partly from managers' efforts to create new opportunities, and partly from fresh ideas about how to make the strategy work better. On occasion, quantum changes in strategy emerge when a big strategic move is put to test in the real world or when crisis strikes and managers see that the organization's strategy needs radical reorientation. Refinements and additions, interspersed with periodic quantum leaps, are a normal part of managerial "strategizing."

Because strategic moves and new action approaches are made in an ongoing stream, an organization's strategy forms over a period of time and then reforms, always consisting of a mix of holdover approaches, fresh actions in process, and unrevealed moves being planned. Aside from crisis situations (where many strategic moves are often made quickly to produce a substantially new strategy almost overnight) and new company start-ups (where strategy exists mostly in the form of plans and intended actions), a company's strategy is crafted in bits and pieces as events unfold and as managerial experience accumulates. Everything cannot be planned out in advance, and even the best-laid plans must be responsive to changing conditions and unforeseen events. Strategy-making thus proceeds on two fronts—one proactively thought through in advance, the other conceived in response to new developments, special opportunities, and experiences with the successes and failures of prior strategic moves, approaches, and actions.

**Strategy Implementation and Execution**

The strategy-implementing function consists of seeing what it will take to make the strategy work and to reach the targeted performance on schedule— the skill comes in knowing how to achieve results. The job of implementing strategy is primarily an action-driven administrative task that cuts across many internal matters. The principal administrative aspects associated with putting the strategy into place include:

* Building an organization capable of carrying out the strategy successfully.
* Developing budgets that steer resources into those internal activities critical to strategic success.
* Motivating people in ways that induce them to pursue the target objectives energetically and, if need be, modifying their duties and job behavior to better fit the requirements of successful strategy execution.
* Tying the reward structure tightly to the achievement of the targeted results.
* Creating a work environment conducive to successful strategy implementation.
* Installing strategy-supportive policies and procedures.
* Developing an information and reporting system to track progress and monitor performance.
* Exerting the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed.

The administrative aim is to create "fits" between the way things are done and what it takes for effective strategy execution. The stronger the fits, the better the execution of strategy. The most important fits are between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal policies and procedures, and between strategy and the organization's culture (the latter emerges from the values and beliefs shared by organizational members and from management's human relations practices). Fitting the ways the organization does things internally to what it takes for effective strategy execution is what unites the organization firmly behind the accomplishment of strategy.

The strategy-implementing task is easily the most complicated and time-consuming part of strategic management. It cuts across virtually all facets of managing and must be initiated from many points inside the organization. The strategy-implementer's agenda for action emerges from careful assessment of what the organization must do differently and better to carry out the strategic plan proficiently. Each manager has to think through the answer to "What has to be done in my area of responsibility to carry out my piece of the overall strategic plan and how can I best get it done?" How much internal change is needed to put the strategy into effect depends on the degree of strategic change, whether internal practices deviate very far from what the strategy requires, and how well strategy and organizational culture already match. As needed changes and actions are identified, management must supervise all the details of implementation and apply enough pressure on the organization to convert objectives into actual results. Depending on the amount of internal change involved, full implementation can take several months to several years.