WHAT IS STRATEGIC MANAGEMENT? (6.1)

(Chapter 37 - A level 6.1)

A strategy is a way of achieving an objective. A **corporate strategy** is a long term plan of action for the entire business aimed at achieving a particular corporate objective.

Strategic management is the role of management in setting clear long term goals and implementing decisions to help achieve said goals. The

A **tactic** is a short-term decision aimed at resolving a particular problem or meeting a specific part of the overall strategy.

<u>Corporate strategies may be influenced by :</u>

- **Corporate objectives -** do they want to expand operations? Enter a new market? Develop a new product? To achieve each objective will require a different strategy
- **Resources available -** small businesses may lack the finance to take on certain strategies (like expansion, or developing a high-tech product.)
- **How competitive is the environment** - a highly competitive environment will require strategies that aim to differentiate the business from competitors
- **Strengths of the business -** focusing on existing strengths when developing strategies will be more successful than trying to develop new strengths to fit into strategies

<u>What is the difference between strategy and tactics?</u>

Strategies tend to be **long-term**, **require many resources**, are **made by directors/senior management**, are **difficult to reverse** and **impact the whole organisation**.

A company's corporate strategy may be to focus on sales, growth or leadership. **For example**, a business might implement a corporate strategy to expand its sales to different markets.

Tactics tend to be more **short-term**, **don't require many resources**, are decisions **made by middle/junior managers**, they can be **easily reversed/adapted** and mostly **impact only one department** of a business.

Strategy = What	Tactics = How (& Who)
• Plans the right things • Leverages strengths • Defines vision • Eliminates alternative paths – keeps focus • Is long term	• Does things the right way • Are flexible • Achieves milestones • Provides measureable accountability • Are short term

Tactics are related to making smaller-scale decisions that are a part of a long term strategy. For example, decisions that assist with the overall strategy of entering a new market.

Strategic management

Essentially strategic management refers to the ongoing **planning**, **monitoring**, **analysis** and **assessment** of all the aspects an organisation needs to meet its goals and objectives.

Strategic planning and management give companies a *competitive advantage* and also help in the identification of *possible opportunities*. Also, organisations may gain insight into *potential risks* that could become issues in the future.

If a business does not engage in strategic management it may fail to :

- Plan for the future
- Respond appropriately to the changing business environment (recession)
- Make effective long term decisions based on accurately set objectives

The stages of strategic management has 3 key stages :

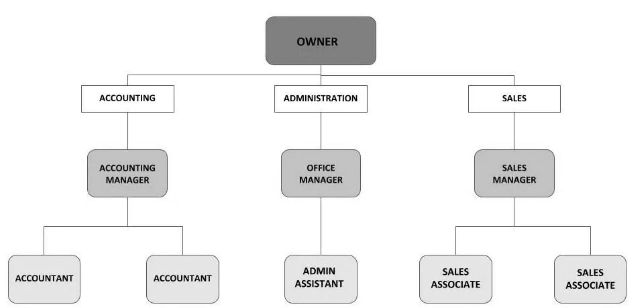
1. **Strategic analysis, where is the business now? -** how is the business doing in relation to its market, competitors and external environment? Is it more popular than its competitors? Does it have a high market share? Is the economy stable? Situational or strategic analysis ensures decision making is accurate

2. **Strategic choice, identifying, choosing and deciding between options** - what are they hoping to achieve? The setting of objectives helps provide focus and direction for its employees. Once the main objectives have been set, the business must then come up with the long-term strategies to achieve these goals. Like if the business decides it wants to expand globally, their strategy may be to look for a foreign company to merge/takeover/joint venture with

3. **Strategic implementation, carrying out the strategy and evaluating its success** - coordinating different departments, allocating the right amount of resources (labour, finance, materials etc.) in order to execute the strategy to achieve its set objectives. Once the strategy has been implemented, the business must then assess how they did. Were the objectives met? If so, at what cost? If not, why? What can we learn from our success/failure?

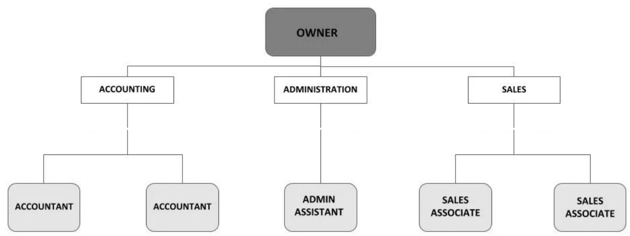
Strategy and organisational structure

Alfred Chandler stated that ‘structure follows strategy’, meaning the **organisational structure** of a company (it’s divisions, departments, teams, processes and technology) should reflect the strategies it is implementing. A reminder of what a typical organisational structure looks like :



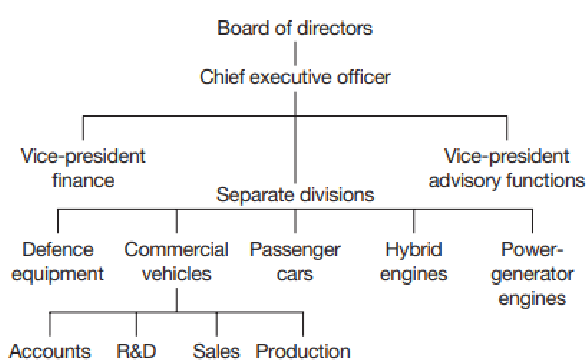
There are three main ways organisational structure is affected by business strategy :

- **Rationalisation** - a business may choose to rationalise its workforce in order to cut costs as a way of gaining a competitive advantage (lower costs means they can charge lower prices and therefore become more appealing to consumers.) They could do this by delayering the organisational structure, i.e **removing the middle layer of management**. This should cut costs as there are less people to pay as well as improve communication. However it could also result in more mistakes and confusion as there is less supervision.



- **Market development (i.e expanding into other countries' markets)** - the strategy of operating in new geographical markets usually means that a business will hire more employees (increasing size of structure) as well as allowing lower and middle management to make decisions regarding their own departments. To do this, they will need to **decentralise** their organisational structure (stop keeping decision making at the head of the business.) This is done as of course the HQ of a business won't be able to control all of the business's multinational activities, and oftentimes won't have the necessary local knowledge to make the best decisions

- **Expansion into different product areas** - a business deciding to begin developing multiple new products may alter its organisational structure so that each range of products is managed separately in different divisions, so there's no crossover. This may lead to hiring more experienced managers/skilled employees, thus enlarging structure and also increasing costs



What is meant by competitive advantage?

The term **competitive advantage** means that a business has a clear benefit over its rival competitors - increasing their chances for sales and profit growth.

The two main factors that lead to a competitive advantage are considered to be :

- **Cost advantage** - having lower costs than competitors allows businesses to charge lower prices while still profiting. Lower prices will attract customers. Obtaining a cost advantage can be done by using resources more efficiently than rivals in order to lower unit costs, rationalising your workforce to cut labour costs or lowering the price you pay for materials (although these have their own limitations as well)
- **Differentiated products** - developing goods and services that stand out from rivals, perhaps having a unique selling point such as higher quality, better service or better aesthetics. Differentiated products can often justify charging higher prices

What strategies can be implemented to help increase a business's competitive advantage when selling in a highly competitive/global market?

A business could introduce more **advanced technology** and **automation** to help use its production resources more efficiently, **rationalise its workforce** to cut costs and undergo extensive **research and development** to figure out how to differentiate its products.

These 3 strategies do come with several limitations however. The introduction of automation and new technology will come with high initial costs. Making one's workforce redundant may lead to bad publicity and a demotivated remaining workforce. Research and development will also be quite costly.