



HOW STRATEGIC MANAGEMENT CREATES VALUE



19.01.2017

Strategic management gives companies a general direction and specifies the goals of the organization, develops policies and plans designed to achieve those goals, and then allocates business functions to implement the strategies for sustainable growth. The strategy includes responding to two basic questions: "What business should we be in?" and "How shall we compete in this business?"

Today, almost every company faces great strategic challenges. Among them, it is clear that visionary companies have the basic principles of building and using different talents to create value through successful strategic management.

Various research studies showed that the majority of the companies didn't think they had a winning strategy. Also, they admitted that they were missing major opportunities in the market, and their overall strategy was not well understood within their own company. [1] (http://www.escarus.com/how-strategic-management-creates-value#_ftn1) Actually, external forces are not only reason for these problems to arise. They are the outcomes of the way most companies are managed. Hence, it is noticed that there is a significant gap between strategy and execution in many businesses: a lack of connection between where the company targets to go and what it can achieve. Also, in another research study, it is observed that only few companies have a strong strategic planning process that is well-supported across the organization. [2] (http://www.escarus.com/how-strategic-management-creates-value#_ftn2)

It is observed that some major well-known companies, including Apple, IKEA, Inditex, and Starbucks, have closed the strategy-to-execution gap. [1] (http://www.escarus.com/how-strategic-management-creates-value#_ftn1) Since, those companies have produced critical abilities that give them a significant strategic advantage. During their history, each company shifted from the common way of doing business. Those followed a similar path, representing a strategy approach that made it easier to succeed.

These companies offer a wide variety of products and services in multiple sectors, but their identity is always clear. All the stakeholders including customers, employees, suppliers, shareholders, and regulators know who they are and what they stand for. For this reason, the identity of a successful company is determined by three key elements: a value proposition how this company distinguishes itself from others in delivering value to customers; a system of distinguished capabilities that enable the company to deliver on this value proposition; and a chosen portfolio of products and services that all make use of those capabilities. [3] (http://www.escarus.com/how-strategic-management-creates-value#_ftn3)

It does not mean that aligning the identity is losing the ability to change. It actually means using the strengths of the company as a guide in a rapidly changing world. When the entire company focuses on a specific way of creating value, employees are not easily distracted. They can concentrate on differentiating the company in ways that naturally differentiate from the competition. [1] (http://www.escarus.com/how-strategic-management-creates-value#_ftn1)

The company should focus on a few capabilities that are worth full attention, and dedicate themselves to making them excellent instead of having dozens of capabilities that have to be very good.

Business leaders know that the culture of a company can either reinforce or undermine its strategy, since the culture is difficult to control. Indeed, at companies stuck in the strategy-to-execution gap, executives tend to complain about cultural resistance and disharmony. This is a symptom of lack of

strategic focus. Since the company isn't clear about where it is going, employees also don't know where they stand. Companies that close the strategy-to-execution gap spend more time than their competitors do on what matters most to them and as little as possible on everything else. ^[1]

(http://www.escarus.com/how-strategic-management-creates-value#_ftn1)

The strategically successful companies don't treat costs as something separate from strategy. Cost management itself is a way to make critical choices about identity and direction. They seek out higher aspirations to apply their capabilities to a broader range of challenges, serving the most fundamental needs of customers, and ultimately leading their industries.

They build on their success to design their future. The key practices mentioned above are so interconnected that a company should adopt them all together. If the company can't apply any one of the practices, the company could possibly fall behind.

If the company doesn't have an identity, there is a risk of becoming fluctuated among a variety of objectives. It is not difficult to continually shift the focus of the company and build the capabilities the company needs. Furthermore, when the company can't find a way to translate the strategic plan into the everyday routine, it has to rely on its existing functions to achieve the strategic goals. Hence, there is a risk of becoming a company that promises great things but never able to accomplish.

If the company can't create its culture integrated into its business, the employees feel disengaged. Also, it could become a place where new strategies fail because people don't believe those will last. Furthermore, if the company can't decrease the costs to grow, it can't sustain the essential functions of the company and overdo those are not needed. The critical competencies lose support and negatively affect the rest of the company. Moreover, when the company can't define the future, it causes the risk of falling behind the competition. The company could lose the opportunity to become influential and could depend on more dominant players in the competition. ^[3] (http://www.escarus.com/how-strategic-management-creates-value#_ftn3)

All in all, it should be underlined that the acts mentioned above are not the only path to success; however it is the only path that has successful examples in business environment that enables those companies to have long term and sustainable success.

[1] Creating a Strategy That Works (Strategy+Business, 2016)

[2] Strategic Planning That Produces Real Strategy (Bain, 2016)

[3] HSBC Bonds and Climate Change 2015 report

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