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An Executive-Level Perspective on the Strategic Management Process

Strategic management is increasingly being acknowledged by corporate executives as their principal approach to determining and directing the efforts of their firms for the long term. One recent study found that 49 percent of the predominately *Fortune* 500 firms that responded to a mail questionnaire were engaged in "complete" strategic planning. These firms had written long-range plans covering at least three years which were rated as comprehensive, systematic, and future oriented. An additional 35 percent of the respondents were classified as involved in some, but not all, major phases of strategic management planning.[1] However, the approach has not experienced similar adoption rates across the wide spectrum of American businesses. This is particularly true among firms which do not employ permanent personnel with responsibilities exclusively in planning, among smaller firms, and within certain industries. A recent survey of banking institutions with total assets in excess of $10 million found that only 33 percent of the respondents had long-range plans with at least a two-year time horizon. The research also found the expected positive relationship between bank size and involvement in strategic management planning. Sixty percent of the banks reporting over $500 million in total assets prepared long-range plans, while less than 27 percent of the banks with $10 to $50 million took similar action.[2]

However, the trend favoring a strategic management orientation is clear and accelerating, particularly as evidence mounts attesting to its favorable bottom-line impact.[3] The problem for most planning executives who are as of yet uncommitted to a strategic management system is that of determining the ways by which this "new" approach differs from their current framework for planning.[4] There is an understandable reluctance to restructure existing systems, with the associated inherent cost, before the pros and cons of the proposed method are clear. The focus of this article is to provide an executive-level perspective on the management process of strategy formulation and implementation. The emphasis will be on the major components of the process and their interrelationships, followed by a critical evaluation of the system's strengths and limitations.

The Strategic Management Process

The processes which businesses use as a means to formulate and direct their strategic management activities vary among companies. Sophis-

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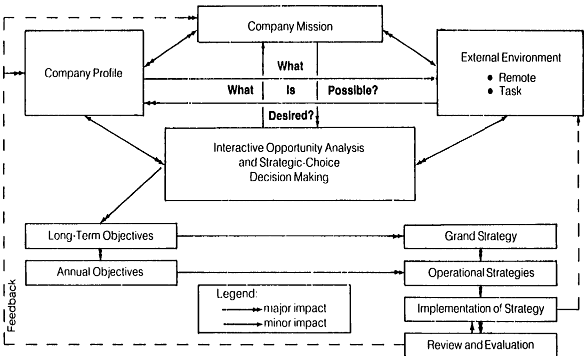
Figure 1. Strategic Management Model



ticated planning organizations, like General Electric, Procter & Gamble, and IBM, have developed more detailed processes than similarly sized, less formal planners. Small businesses which rely on the strategy formulation skills and limited time of an entrepreneur typically exhibit very basic planning concerns when contrasted with larger firms in their industries. Understandably, firms with diverse operations due to their reliance on multiple products, markets, or technologies also tend to utilize more complex strategic management systems. Nevertheless, the basic components of almost all strategic management models are very similar.[5]

Because of the similarity among general models of the strategic management processes, it is possible to develop one eclectic model which is representative of the foremost thought in the area. One such effort, the Strategic Management Model, is shown in Figure 1. It provides a visual display of the major components of the entire strategic management process. The model also shows conceptually how the components are related and their sequence throughout the process.

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Components of the Strategic Management Model

In this section the components of the Strategic Management Model will be defined and briefly described. The majority of the components will be familiar, but the discussion which accompanies them will indicate the new scope, priorities, relationships, and imperatives of strategic management.

Company Mission. The mission of a business is the fundamental, unique purpose that sets it apart from other firms of its type and that identifies the scope of its operations in product and market terms. The mission is a general, enduring statement of company intent. It embodies the strategic decision makers' business philosophy; it implies the image the company

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Table 1. Mission Statement of NICOR, Inc.

Preamble

We, the management of NICOR Inc., here set forth our belief as to the purpose for which the Company is established and the principles under which it should operate. We pledge our effort to the accomplishment of these purposes within these principles.

Basic Purpose

The basic purpose of NICOR Inc. is to perpetuate an investor-owned company, engaging in various phases of the energy business, striving for balance among those phases so as to render needed, satisfactory products and services and earn optimum, long-range profits.

What We Do

The principal business of the Company, through its utility subsidiary, is the provision of energy through a pipe system to meet the needs of ultimate consumers. In order to accomplish its basic purpose, and to assure its strength, the Company will engage in other energy-related activities, directly or through subsidiaries or in participation with other persons, corporations, firms, or entities.

All activities of the Company shall be consistent with its responsibilities to investors, customers, employees and the public and its concern for the optimum development and utilization of natural resources and for environmental needs.

Where We Do It

The Company's operations shall be primarily in the United States, but no self-imposed or regulatory geographical limitations are placed upon the acquisition, development, processing, transportation or storage of energy resources, nor upon other energy-related ventures in which the Company may engage. The Company will engage in such activities in any location where, after careful review, it has determined that such activity is in the best interest of its stockholders.

Utility service will be offered in the service territory of the Company's utility subsidiary to the best of its ability, in accordance with the requirements of regulatory agencies and pursuant of the subsidiary's Purposes and Principles.

seeks to project; it reflects the firm's self-concept; and it indicates the principal product or service areas and the primary customer needs which the company will attempt to satisfy. Further, it suggests the prioritized goals of the firm in terms of survival, growth, and profitability. In short, the mission describes the product, market, and technological areas of emphasis for the business in a way that reflects the values and priorities of the strategic decision makers.

Because the conceptualization of company mission can be difficult to grasp, an excellent example is shown in Table 1: the mission statement of NICOR, Inc. as abstracted from an annual report to its stockholders.

Company Profile. A company profile is the product of a firm's internal analysis which determined its performance capabilities based on existing or attainable resources. It depicts the quantity and quality of financial, human, and physical resources available to the firm. It assesses the inherent strengths and weaknesses of the firm's management and organizational structure. The profile contrasts the historical successes of the firm and the traditional values and concerns of its management with the firm's current capabilities in an attempt to identify the future capabilities of the business.

An example of one kind of analysis that contributes to the overall development of a company profile is the functional-area, resource-development matrix. This analysis provides a yearly record for the firm of its level of commitment of each functional area. This approach enables the firm to quickly calculate the total investment which it has made to each functional area over time as a basis for better understanding its comparative and competitive strengths and weaknesses. (See Table 2.)

External Environment. A firm's external environment consists of the sum total of all conditions and forces which affect the strategic options of a business but which are typically beyond its ability to control. The Strategic Management Model shows the external environment of a firm as consisting of two interactive segments, the remote environment and the task environment.

The remote environment consists of the forces and conditions which originate beyond and usually irrespective of any single firm's immediate operating environment and which provide the general economic, political, social, and technological framework within which competing organizations operate. Spiralling inflation, import restrictions on raw materials,

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Table 2. A Functional-Area Resource-Deployment Matrix

Functional Areas	Resource-Deployment Emphasis	5 Years Ago	4 Years Ago	3 Years Ago	2 Years Ago	1 Year Ago	This Year
R&D and Engineering	% strategic development dollars						
	Focus of efforts						
Manufacturing	% strategic development dollars						
	Focus of efforts						
Marketing	% strategic development dollars						
	Focus of efforts						
Finance	% strategic development dollars						
	Focus of efforts						
Management	% strategic development dollars						
	Focus of efforts						

Source: William F. Glueck, *Business Policy and Strategic Management* (New York: McGraw-Hill, 1980), p. 169.

demographic swings in the populations of the geographic areas served, and revolutionary technological innovations which make production systems unexpectedly obsolete are examples.

The task environment refers to forces and conditions in a specific competitive operating situation, external to the firm, which influences the selection and attainment of alternative objective/strategy combinations. Unlike changes in the remote environment, changes in the task environment are often the result of strategic actions taken by the firm or its competitors, consumers, users, suppliers, and creditors, or by appropriate regulatory groups. A consumer shift toward greater price consciousness, a loosening of local bank credit restrictions, a change of administrators in the regional OSHA office, or the opening of a new wholesale outlet by a competitor are all likely to have a direct and intentional positive or negative impact on a firm.

Interactive Opportunity Analysis and Strategic-Choice Decision Making. The simultaneous assessment of the firm's forecasted environment and its company profile enables a firm to determine the range of interactive opportunities which it might find attractive. These opportunities represent the alternatives which are possible avenues for investment. However, the full list must be screened through the criterion of the company mission before a set of possible and *desired* opportunities can emerge. The latter process is called strategic-choice decision making. Its purpose is to provide the combination of long-term objectives and grand strategy,

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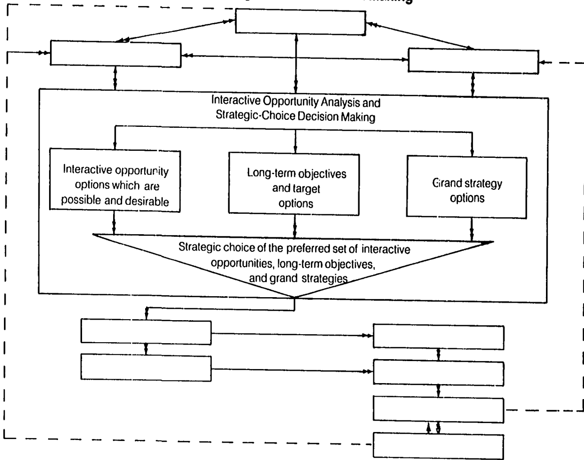
Figure 2. Detailed Component: Interactive Opportunities Analysis and Strategic-Choice Decision Making



which will optimally position the total firm in the external environment as the means to achieving the company mission.

Consider a firm whose strategic managers feel that it is overly dependent on a single customer group, such as a chain of record shops whose principal customers are ten to twenty years old. The firm's interactive opportunities might include expanding the product line, heavily emphasizing related products, accepting the status quo, or selling out profitably to a competitor. While each of these options might be possible, a firm whose mission stressed a commitment to continued existence as a growth-oriented, autonomous organization might find only the first two opportunities desirable. In that case, the two options would be evaluated on the basis of payoff and risk potential, compatibility with or capability for becoming the firm's competitive advantage, and other critical selection criteria.

The subprocess by which strategic choice is determined is complicated. Figure 2 magnifies interactive opportunities analysis and strategic-choice decision making. As the figure shows, strategic-choice decision making involves a process of matching each of the possible and desirable interactive opportunity options with reasonable long-term objectives and targets, and with the most promising grand strategies. Each of the resulting sets of alternatives is then evaluated individually and comparatively to determine the single set or group of sets which is expected to best achieve the company mission.

The critical assessment of strategic-choice alternatives initially involves the development of evaluative criteria which will serve as the basis for comparing one set of alternatives with all others. As is the case in making any selection, the company's strategic-choice process involves the evaluation of alternatives which are rarely wholly acceptable or wholly unacceptable. The alternatives are compared to determine which option will have the most favorable overall, long-run impact on the the firm.

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Among the evaluative criteria used by businesses in assessing strategic-choice alternatives are strategic managers' attitudes toward risk, flexibility, stability, growth, profitability, and diversification. Other factors which are included in the decision-making process are the volatility of the external environment, the life-cycle stages of the evaluated products, the company's current level of commitment to its organizational structure, its access to needed resources, its traditional competitive advantages, and the potential reaction of influential external or internal interest groups.

Long-Term Objectives. The results which an organization seeks to achieve over a five-year period are known as its long-term objectives.[6] Such objectives are typically developed in some or all of the following areas: profitability, return on investment, competitive position, technological leadership, productivity, employee relations, public responsibility, and employee development. To be of greatest value, each objective should be motivating, measurable, achievable, and consistent with other objectives of the firm. Objectives state what is expected from pursuing a given set of business activities. Examples of company objectives include: a doubling of earnings per share within five years with increases in each interim year; a move from the rank of third to second as a seller of commercial electrical fixtures in Oregon; and a decrease of 10 percent a year in undesirable employee turnover over the next five years.

Grand Strategy. The comprehensive, general plan of major actions by which a firm intends to achieve its long-term objectives within its dynamic environment is called the grand strategy. This statement of means indicates how the objectives or ends of business activity are to be achieved. Although every grand strategy is in fact a fairly unique package of long-term strategies, twelve basic approaches can be identified. They include concentric and conglomerate diversification, product and market development, concentration on current activities, joint ventures, horizontal and vertical integration, innovation, retrenchment, liquidation, and divestiture. The purpose of any of these grand, or master, strategies is to guide the acquisition and allocation of resources over a period of time, typically five years. Admittedly, no single grand strategy, or even several in combination, can adequately detail the strategic actions which a business will undertake over so long a period. However, the commitment of a firm's strategic managers to a fundamental approach for positioning the business in the competitive marketplace provides a galvanizing central focal point for subsequent decision making.

Annual Objectives. The results which an organization seeks to achieve within a one-year period are referred to as annual objectives. The topic areas for short-run or annual objectives are similar to those for long-term objectives. The difference between the two types of objectives stems principally from the greater specificity which is possible and necessary to guide short-term strategies. For example, a long-term objective of increasing companywide sales volume by 20 percent in five years might be translated into a 4 percent growth objective in year one. It is reasonable that this companywide short-run objective should be reflected in the planning activities of all major functional or divisional components of the firm. The research and development department might be expected to suggest one major addition to the product line in the first and each following year; the finance department might set a complementary objective of obtaining the necessary $300,000 in funds for an immediate expansion of production facilities; and the marketing department might establish an objective of reducing turnover among sales representatives by 5 percent per year.

Operating Strategies. Within the general framework of the grand strategy, a specific and integrative plan of actions is needed for each distinctive business unit in the firm. Most strategic managers attempt to develop an operating strategy for each related set of annual objectives (one for the marketing department, the production department, and so on). Operating strategies are detailed statements of the means that will be used to achieve objectives within the following year. The company's budgeting process is usually coordinated with the development of the operating strategies to insure specificity, practicality, and accountability in the planning process.

Implementation of Strategy. Implementation in-

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volves the management activity of acquiring and allocating financial resources in conjunction with the development of structures and procedures necessary to put a strategy into operation. Prior to implementation, strategies are only ideas. Principally, implementation involves the assignment of responsibility for the success of all or part of a strategy to appropriate employees, along with the allocation of required resources. Implementation means putting strategies into action.

Five variables are commonly considered to be critical factors in the implementation of a strategy: tasks, people, structures, technologies, and reward systems. Successful implementation of company strategies requires that methods be effectively designed and managed to efficiently integrate these factors. A major priority of implementation efforts involves synchronizing the key resource components of the planning process.

Review and Evaluation. An implemented strategy needs to be monitored in order to determine the extent to which it is resulting in the achievement of its objectives. The process of formulating a strategy is largely subjective, despite often extensive efforts to reduce it to objective decision making. The first substantial reality test of the value of a strategy comes only after implementation has begun. Strategic managers must watch for early signs of the responsiveness of the marketplace to their strategies. They must also provide the means for monitoring and controlling to insure that their strategic plan is followed correctly.

Although the early review and evaluation of the strategic process concentrates on market-responsive modifications of the strategy, the underlying and ultimate test of a strategy is its proven ability to achieve its ends—the annual objectives, long-term objectives, and mission. In the final analysis, a firm is only successful when its strategy achieves its objectives.

Strategic Management as a Process

The Strategic Management Model shown in Figure 1 depicts a process. The term *process* refers to an identifiable flow of information through interrelated stages of analysis directed toward the achievement of an objective. In the strategic management process the flow of information pertains to the historical, current, and forecasted data on the business, its operations and environment, which is evaluated in light of stakeholder values and priorities. The interrelated stages of the process are the ten components discussed in the last section. The objective of the process pertains to the formulation and implementation of strategies which result in long-term achievement of the company's mission, and near-term achievement of its aims.

There are several important implications of strategic management as a process. First, it means that a change in any components of the system will affect several or all other components. The majority of arrows in the model point both ways, suggesting that the flow of information or the impact is usually reciprocal among components. For example, forces in the external environment influence the nature of the mission which a company's strategic managers and stakeholders design for the firm. Reciprocally, the existence of that company with that mission legitimizes the environmental forces and implicitly heightens competition in the firm's realm of operation. An example is that of a business that is persuaded, in part by governmental incentives, that its mission statement should include a commitment to energy-efficient products, and that promises to extend its research and development efforts in the area of solar photovoltaics. Obviously, the external environment has affected the firm's definition of its mission, and the existence of the revised mission alters a competitive condition in the environment.

A second implication of strategic management as a process is the sequential nature of strategy formulation and evaluation. The strategic management process begins with the development or reevaluation of the company mission. This step is associated with, but essentially followed by, the simultaneous development of a company profile and an assessment of the external environments. Then come strategic-choice decision making (which results in the definition of long-term objectives and the design of grand strategy), definition of short-term objectives, design of operation strategies, implementation of strategy, and review and

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evaluation. The apparent rigidity of the process needs to be tempered by two qualifications:

- The need for a reevaluation of the strategic posture of a firm on any of the principal factors which determine or affect company performances. Entry into the market of a major new competitor, death of a prominent board member, replacement of the chief executive officer or a downturn in positive market responsiveness are among the thousands of changes which can prompt the need to reassess a company's strategic plan. However, irrespective of where the interest in a reassessment originates, the strategic management process begins with the mission statement.
- Not every component of the strategic management process deserves equal attention each time a planning activity takes place. Firms in an extremely stable environment may find that an in-depth assessment is not required on a five-year schedule.[7] Often, companies are satisfied with their original mission statements, even after decades of operation, and need to spend only a minimal amount of time in addressing that factor. Additionally, while a formal strategic-planning process may be undertaken only on a five-year basis, yearly updating of objectives and strategies are usually undertaken. At these times, rigorous reassessments of the initial stages of the process are rarely necessary.

A third implication of strategic management as a process is the necessity for feedback from implementation, review, and evaluation to the early-stage components of the process. *Feedback* can be defined as the post-implementation results of a strategy which are collected as inputs for the enhancement of future decision making through the strategic management process. As shown in Figure 1, it is important for strategic managers to attempt to assess the impact of their implemented strategies on their external environments so that future planning can reflect any changes which were precipitated by their actions. They should also carefully measure and analyze the impact upon the need for possible modifications for the company mission.

A fourth and final implication of strategic management as a process is the need to view it as a dynamic system. *Dynamic* is a term used to describe the constantly changing nature of conditions which affect interrelated and interdependent strategic activities. Managers need to recognize the components of the strategic process as constantly evolving. They must remember that formal planning artificially "freezes" the changing conditions and forces in the company's internal and external environments, much as a photograph freezes the movement of a swimmer. In actuality, change is continuous and the dynamic strategic planning process must be constantly monitored to detect significant changes in any of its components as a realistic precaution against implementing a strategy which is obsolete.

Practical Limitations of a Model

It is important to understand the limitations of models such as the Strategic Management Model so as not to diminish their overall impact by overlooking their weaknesses. An awareness of how the models can be properly used will help to insure effective strategic management. In this section, three points will be stressed, namely, that most models are "wholistic," descriptive, and nonpolitical.

Most prominent strategic management models are "wholistic." This means that users of these models believe that strategic planning should be initiated by a company's top management. Because of the broad perspective of these executives, the strategy process works from general to specific. The business is first studied as a whole within the context of its competitive environment; then individual functions or divisions, and eventually specific operations of the firm, are involved in the strategic management process.

Some researchers have argued that in certain circumstances the wholistic approach is inferior to a tactical approach to strategic planning. With the tactical approach, strategic managers work up through the firm in their study of its potential. Then, with a strongly operational view of the firm's strengths and weaknesses, the managers assess their firm's compatability with its external environment.

The risk of using the wholistic approach, which is implicitly advocated by models like the Strategic Management Model, is that executives might be unrealistic in their planning because

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of a potential tendency to minimize the difficulties of implementing a plan. The wholistic approach can sometimes lead managers to gloss over details that may eventually be critical to putting into operation the firm's strategies.

The tactical approach poses far greater risks to strategic managers. First, the tactical approach tends to create inflexibility in planning. Managers risk placing such a great priority on operational details that they can come to overstate the extent to which the firm is locked into the status quo. It is difficult to envision new interactive opportunities when initial planning activities stress narrow operational concerns. Second, the integration of planning activities is more difficult with the tactical approach. Lacking the kind of overall framework for planning which is characteristic of the wholistic method, the initial phases of planning are often disjointed, leading to complications in developing a unified strategic plan. Third, and most damaging, the tactical approach concentrates on the present rather than on the future of the firm as strategic planning does. The emphasis is too often on improving current capabilities to satisfy historical rather than anticipated needs.

In the final analysis, it appears that the wholistic approach is superior to tactical alternatives. However, users of a wholistic model should be alert to the shortcomings in planning which it fosters and should guard against their development. Specifically, users of wholistic models should continually challenge themselves on issues pertaining to the data-gathering and implementation phases of their firm's strategic activities. In this context it is important to remember that although middle and lower-level managers seldom vote in the strategic-choice process, they are a principal source of the operational data on which the ultimate decisions are largely based. These managers' advice and critiques should be actively sought and carefully considered in all phases of the strategic management process.

A second major issue of concern in the use of strategic management models is that they are analytical or descriptive rather than prescriptive in nature. The models typically either suggest a conceptual framework for the evaluation of strategic situations or describe in a general sense an approach that businesses have actually used in conducting their strategic activities. However, while there is considerable evidence that firms which undertake formal strategic planning outperform nonplanners, somewhat different planning models were used by every business that has been studied.[8] There is no known best wholistic model, and no model should be seen as the prescription for strategic planning. In using the Strategic Management Model or any similar model, it should be remembered that the model builders are recommending the general approach they believe will provide a sound basis for strategic planning, not a model which they are certain will lead to the best results. It is important that users of such models are continually alert to the need for occasional additions to or deletions from overall planning activities. Strategic management models will be most valuable if they are treated as dependable outlines upon which strategizers must construct individualized planning systems.

The third major limitation of the models is that they are nonpolitical in constitution. A new planner could be misled to perceive the strategic management process as largely devoid of subjective assessments, biased interpretations, human error, self-serving voting by individual managers, intuitive decision making, favoritism, and other forms of political activity. In reality, most strategic planning experts believe the opposite. Strategic planning is a behavioral activity and as such is vulnerable to the same shortcomings as other people processes. It is truly a management process. People involved in all phases of the strategy formulation and implementation must be skillfully organized, led, planned about, and controlled. The limitation of the strategic management planning models is that they explicitly ignore the political considerations. The principal reason for this intentional omission is that managers cannot dictate rationality, objectivity, or altruism. The models presume that strategic planners are skilled managers, and that they are sensitive to the people-related issues that continuously arise in every phase of the strategic planning process.

Owing to the incalculable variations in political

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activity which can take place during the strategy process, it is not particularly valuable to include this factor as a component in the process models. However, the effects of political activity on the planning process are critical to its effective functioning and are a principal determinant of the plan's final composition. Strategic planners who are attentive to this political realization, and who skillfully manage the inevitable people-related concerns, will have overcome the limitations of the nonpolitical models.

Conclusion

The strategic management process can be seen now to represent a logical integration and extension of established planning systems. The task facing most potential adopters is one of revising rather than replacing their existing approach. The adjustments for most companies center in the process used in planning rather than in the content of the information needed in order to design and put into operation the plan itself. This is because the major differences between traditional and strategic management processes are found less in terms of what the inputs should be and more in terms of how the inputs should be prioritized and integrated in an organization's comprehensive planning and implementation efforts.

While the strategic management process is not without its limitations, it offers a promising approach whose proponents have experienced generally improved success in positioning their firms profitably in increasingly turbulent environments.

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6. Five years is the normal, but largely arbitrary, period of time identified as the "long term."

7. Formal strategic planning is not necessarily done as a rigid five-year schedule, although this is the most common period of time. In fact, some planners advocate planning on an irregular timing basis to keep the activity from being overly routine.

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