Survey of Recent Developments in Strategic Management: Implications for Practitioners

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This paper is a survey of recent developments in the field of strategic management. Specifically, this paper argues that recent political, economic, and social changes, among other things, have had relatively little impact on operations in organizations, but have made a big difference to the planning and strategic aspects of management. The analysis and synthesis of the recent developments in strategic management developed in this paper argues that strategic management is entering 'a new era' in which (1) stakeholders interests are more important than before and (2) there is a greater concern for social responsibility than ever before. According to the analysis, these features of the new era are deep and pervasive trends that are much more than just responses to recent events such as corporate scandals.

Introduction

For most organizations the transition from the twentieth century to the twenty-first has had little significance in terms of change of operations. However, the new millennium has brought on new conditions that necessitated new planning and other management processes. Dess and Lumpkin (2001) has well documented the emerging issues in strategy-making processes. The massive managerial advances (known as the re-engineering or re-structuring era) brought about in the 1990s (Bowman and Singh 1993) was quickly overshadowed by first the collapse of the dot com economy and second by the September 11, 2001 destruction of the World Trade Center in New York and the ensuing Iraq war and recently the stock options backdating.

Both of the foregoing events resulted in loss of faith in what was called the "New Economy" and the loss of faith in institutions and economic agreements that had dominated international relations for over half a century (The Economist 1996). As a result, the fall-out for the business world was considerable. The world

economy was plugged into a recession in the early 2000s and U. S. Government's war on terrorism resulted in increasing trends towards "unilaterism" which consequently reversed many of the trends towards closer integration of the world economy. Hoskisson et al. (2001) have abundantly clarified that restructuring was taking place in most emerging economies as well during this time.

All of these events, whether domestic or international, imply that planning for the future is becoming harder and harder. Strategy managers across the spectrum need to re-assess their traditional planning processes. Need for new means or tools of scanning the different systems operating in any organization's external environment are becoming increasingly important. New forecasting techniques need to be established to address the emerging instability and volatility of world markets. Expecting the unexpected in all aspects of an organization's environment should be the rule rather than the exception as it used to be in the twentieth century economy. According to Lurie's (2004) research, even the consumers are facing different decision making approaches in this information-rich environments.

The purpose of this paper is to review recent developments in strategic planning processes and understand their implications for both strategy scholars and practitioners. First a review of some of the new developments and trends which have been shaping up the early part of this millennium are presented. Then, implications for strategic planning of those developments are analyzed. These implications are hoped to be helpful to strategy managers in generating new ideas that more than likely will reshape our thinking and strategies on how to cope with this era of high uncertainty and rapid change.

Quo Vadis from Here

Alan Greenspan, the former Chairman of the US Federal Reserve Bank, dubbed the phrase "irrational exuberance" in the late 1990s in describing the new economy of the dot com era then. At the heart of the new economy was a subtle shift taking place in corporate America. The shift from industrial economy to digital economy where intellectual capital was replacing brick and mortar assets had created a new challenge for strategic planning.

This new and emerging digital economy driven by digital technologies and new communications media had novel means or requirements of success. The new economy of the late 1990s has been described as the "third industrial revolution" (Grant 2005). Different companies rushed to capitalize on this new asset of knowledge or intellectual capital. Traditional strategies of lowering cost or taking advantage of economies of scale were no longer the first choice for managers. On-line methods (business-to-consumer or business-to-business) have challenged traditional marketing and distribution strategies.

The potential for the digital economy to create new means to advance productivity across the board and to revolutionize traditional manufacturing and distribution technologies seems robust. The prospects of the digital economy, using advanced telecommunication systems and informational technology predicated on good reputation will transform many management processes such as transforming traditional decision-making processes into paperless processes and real-time decision making. As Alan Greenspan (2000), put it in a speech:

"In today's world, where ideas are increasingly displacing the physical in the production of economic value, competition for reputation becomes a significant driving force, propelling our economy forward. Manufactured goods often can be evaluated before the completion of a transaction. Service providers, on the other hand, usually can offer only their reputations."

Thus, the digital economy will make it imperative for companies to lean heavily on their good reputation to be successful in this hypercompetitive marketplace.

Emerging New Values and Social Systems

An important process of any strategy is to match organizational resources and objectives with opportunities found in its macro environment. A major force in the external environment is the value/social system of the immediate and greater community(ies) where that organization conducts its business transactions. Compatibility between interests of business organizations and interests of their community or society should be the goal of any socially responsible business.

Traditional corporate strategies which have been emphasizing the maximization of shareholders' value need to, at least, partially reflect on maximization or fulfillment of society's interests. The recent collapse of some high profile U.S. firms, such as WorldCom, Enron, Global Logistics, and Health South are primary examples of the failure of these companies in reacting positively and quickly to changing societal values and beliefs. These companies were major advocates of maximizing shareholders values under any circumstances. Evolving societal values in this digital economy are rapidly changing.

This trend has created a challenge and a need to strategic planners to be able to predict such changing needs and values in a timely fashion. Enron and WorldCom planning and value systems have ignored the upsurge in demands by different societal forces for an increased and proactive role of socially responsible corporate citizens.

Emerging Competitive Forces

One of the consequences of the digital economy and its information technology is the ever increasing competition which is dubbed "Hypercompetition" by Lucas (2005). The electronic commerce and the Internet of the digital economy have created a greater competition than existed during the past economy. A hypercompetitive economy has to depend heavily on the generation of new resources for the firm, such as new products, services, procedures, and processes. Companies in the digital age find their investments and assets depreciate very rapidly. It has been estimated that a brand new PC depreciates at the rate of ten percent a month.

The Internet abolished some of the traditional barriers to entry in a number of industries. It also resulted in creating instant global markets for little known businesses. It has created a new, for less costly, distribution channel which drove cost of distribution to minimal levels compared to traditional distribution channels. All of that resulted in lowering profit margins per unit.

The creation of electronic commerce has profoundly changed rules of the game for competitors. Weak entry and exit barriers, instant global and national markets, and increasing price transparency have intensified competition. This internet era has transformed the traditional competitive variables in many industries. This emerging competitive environment made strategies such as winner-take-all markets not that uncommon strategy in some industries.

Emerging Manufacturing Strategies

Manufacturing in its traditional mode where company's assets is most invested in heavy equipment and other tangible assets is on the decline as a consequence to the digital economy and outsourcing. More than half of capital investment in the U.S. is in information technology. As a consequence this resulted in having innovation occurs at a rapid pace. As a matter of fact, U.S. manufacturing jobs have been in a descending trend since the early 1990s.

The digital economy has eliminated manufacturing all together in some industries. A new form of companies called the "virtual corporation or organization" is on the rise. These trends suggest that since technological and competitive conditions are changing rapidly, business organizations need to be more flexible in responding to the exigencies of the marketplace.

To enhance flexibility, companies have resorted to rely on outside independent firms. Almost 95 percent of virtual company operations or processes are outsourced. In some industries such as software or semiconductor, only two functions are under management control, that is, the research and development function and the firm headquarters is the other.

Emerging Trends in Strategic Planning

In the pre-internet economy, the premises of strategic planning were somewhat benign: low inflation, reasonable consumer demand, stable regulations, low interest rates, and stable equity markets. This stability in the business environment enabled strategic planners then to proceed with their aggressive strategies such as re-structuring, downsizing, outsourcing, refocusing, and engaging in drastic cost cuts. Those strategies resulted in substantially improving the bottom lines results of many large firms.

As we entered the twenty-first century most of the aforementioned strategies were exploited to the limit. The substantial gains in profits of the late 1990s began to disappear. As a result, firm's valuations or stock prices suffered. Some executives responded to demands and high expectations by their shareholders in unethical approaches, such as, what was known then as "creative accounting." In the short run, they employed creative accounting measures which kept valuation high. At some point, those firms ran out of any new or creative scheme to artificially boost revenues and profits. Well, by now we all know that that the path chosen (i.e., creative accounting) was the wrong strategy to follow.

Serious and responsible firms opted to take a step back and think strategically of what can they do to reverse their fortunes. A new strategy of focusing on what they know best or focusing on areas of their business where they have obvious and clear competitive advantages is gaining popularity.

For instance, some utilities firms have decided to choose refocusing on energy generation and distribution and to exist from energy trading and other non-core businesses. Similarly, some banks decided to focus on traditional banking services and to exit from brokerage and investment businesses.

At the heart of this new strategy of refocusing is avoiding fads and strategy bandwagons in favor of unique and customized strategies that exploit specific competitive advantages. This refocusing of strategy is also extended into other activities such as mergers and acquisitions. It seems that there is a trend towards consolidation in many industries as evidenced by the recent accelerations in mergers activities. However, this consolidation is different from the one we saw in the 1990s where high regulations enabled some firms to buy businesses about which they know very little. According to Drucker (Hesselbein et al. 1997), the diversity of product and service contributions by a company will make organizations "...fashioned differently: for different purposes, different kinds of work, different people, and different cultures."

Today's refocusing merger strategy is intended to enlarge or build on exiting core capabilities and not to gamble on acquiring new unknown capabilities. The drastic failures of some internet era mergers, such as the Time-Werner/AOL merger have made management very leery of pursuing mergers unless such mergers meet their very strict acquisition/merger criteria.

Emerging New Models of Management

The success of the 1990s was largely based on a model of performance-based management aimed at maximizing shareholders' value. The aim of maximizing shareholders' value was facilitated by the wide-spread use of financial incentives such as stock options. These financial incentives have resulted in unimaginable gains in shareholders' value by the end of the 1990s. This form of management incentives has spread to other similar economies around the world such as Germany and Japan. However, this widespread use of management incentives with the quest for shareholder value has created numerous cases of corporate greed and other corrupt practices. These issues have undermined the credibility of the successful management incentives model of the 1990s.

As stated above, today's business environment possibly exhibits greater dynamism and greater complexity. It is unlikely that the management model of the 1990s will fit today's business environment. The issues on which strategic planners need to focus in today's environment are far more challenging. One of the outstanding issues which still need an effective reconciliation is the trade off between short-run vs. long-run profit optimization. Management has ignored this issue in the 1990s and opted to focus exclusively on maximizing short-term gains.

The new model of management of this new millennium calls for taking this issue seriously. Evidence from numerous corporate scandals of the late 1990s and early 2000s showed that short-term gains are short-lived.

To maintain a sustainable shareholder value, management needs to re-focus its attention and mindset towards achieving long-term goals. Another issue which needs to be addressed by strategic planners relates to the need for striking a trade-off between cost efficiency and innovations. The management model of the 1990s focused on innovations and paid minimal attention to cost efficiencies.

The PC industry is a primary example of innovation vs. cost efficiency. Most PC companies focused on innovations and managed to generate little profits though the industry was growing at a double-digit rate (25-30 percent in late 1990s). Dell was the exception to that rule in its industry. While other PC companies were racing to be first in introducing PCs with new innovative features, Dell was focusing on improving or taking the lead in being the most cost efficient company in its industry through its direct sales business model, among other strategies.

It was only a matter of time before industry growth hits a wall and consumers become more knowledgeable about PCs and consequently more price sensitive. Indeed, in the early 2000s, the PC industry growth turned negative and consumers no longer were willing to pay a premium price for a PC. On the other hand, Dell, based on its successful implementation of a number of cost efficient strategies and helped by ever increasing PC components supply capacity, emerged as the most successful company in its industry-winner-takes-it all!

New Modes for Strategy Managers

The era of restructuring and shareholder value focus has been associated with traditional leaders who were highly visible and major drivers of change such as lee Iacocca of Chrysler or Louis Gerstner Of IBM Corporation. Such leaders have been, first and foremost, agents of change, strategists, and innovators of their companies. The dynamic and complex business environment of the 2000s requires different strategic skills from management than the above mentioned traditional ones.

To improve the quality of the decision-making process, managers are using decision technology, the application of decision-support modeling and computer software to their problems in business. The whole process is a value added activity to enhance success by lowering uncertainty surrounding different courses of action (Liberatore and Nydick 2003).

Some recent studies on the evolving role of the new leader, have suggested that the new strategy manager needs to shift his skills from masculine to feminine ones. Traditional masculine attributes such as strong decision making, leading the troops, and taking initiatives are quite different from feminine skills such as great listening capacity and the ability to nurture and build relationships. Consonant with nurturing and building relationships, Higgins (2005) suggests that successful executives expend a great deal of time on strategy execution; they are cognizant of the fact that implementing strategy is as important as formulating it in the first place.

Conclusions

The emerging exigencies of strategic planning processes cannot be ignored in the new landscape of world economy. There are many other areas to be considered. For space consideration, this paper only scratched the surface of the changing environment of business both at home and abroad.

It is imperative to point out that this paper was not intended to be merely a short review of how the macro-environment has changed in the past 15 years, but to provide arguments and evidence that we are really entering a more stakeholder relevant era. For example, increasing investor activism by popular institutional investors such as California Public Employees' Retirement System (CalPERS) underscores recent mounting calls for corporate reform and accountability. Hence, the abovementioned examples of extreme corporate collapses like WorldCom, Enron and Arthur Anderson go beyond issues relating to the old agency theory and, in my opinion, it is ushering a new era of social responsibility. Indeed, while we do see more effort put on being compliant with recent laws such as the Sarbanes-Oxley Act and the increased scrutiny of executive behavior, it seems that these efforts are also connected with other managerial processes and practices and not simply an attempt to root out violations of abuse by agents in the principle-agent relationship.

Additional skills are needed in today's business environment to address issues of diversity in our work force. Strategic managers need to focus on building organizations composed of teams rather than individuals. Focusing on teams tends to mitigate the effects of individual and cultural differences. It is possibly more worth-while for strategy managers to focus on building the right teams over creating the right strategy. After all, as they say "Individuals play the game, but teams win championships."

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