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Strategic Management
Exam focus

You need to have a clear idea of the strategic process as it underlies much of the syllabus and it can form the basis of questions asking for advice on how to introduce strategic planning.

Key points

Corporate strategy looks at the organisation as a whole.
Business strategy looks at each individual business unit.
Operational strategy looks at each function or operational area.

Rational strategic planning

Also known as position-based strategy, this is the assumed strategic process for most of the syllabus. It considers the objectives of the organisation, looks at the environment to identify threats and opportunities and assesses the organisation’s current position in order to develop a strategic plan.

It therefore involves:

Defining the direction, mission and objectives

Strategic analysis

External analysis of the environment
Internal analysis of the firm
Corporate appraisal

Strategic choice

Selecting strategic options
Choosing options the firm is going to take

Strategic implementation

Policies and strategies for marketing, finance, R&D, IT, human resources and structure

Strategy evaluation and control
However, this method takes some time to develop and an organisation’s actions may then be constrained by the plan.

**Emergent strategies**

Emergent strategies are strategies which emerge out of the course of the business rather than having been formally planned. They could perhaps be due to opportunities which present themselves (e.g. a competitor comes up for sale) or threats which need to be addressed (e.g. a competitor develops a new product and the company must follow suit to remain competitive).

Emergent strategies can be combined with the successful elements of the planned strategy to define the way forward for the business. The process of bringing these together is called crafting a strategy. This is more appropriate for businesses in a changing environment, where restriction to one planned strategy may be a competitive weakness.

**Incrementalism**

In fast-changing environments it may be unrealistic to effectively undertake the full strategic planning process. Instead it is more practical to develop a short-term strategy based on the consensus of opinion of major stakeholders. The strategy is then developed regularly using a series of small-scale changes as dictated by the changing environment.

**Freewheeling opportunism**

In this model there is no formal approach to strategy development. Directors dictate the business direction through taking whatever opportunities are available at a particular point in time. This allows the business to be very flexible and take opportunities that companies using a more formal approach to strategy development would be slow to take.

**Questions**

**Question 1 N strategic management**

N Ltd is a small family controlled manufacturing company. In its 40-year history, the company has grown to the extent that it now employs 35 staff, producing a wide and diverse range of household goods and utensils. The company has increased in size from its small original base. However, it has never employed a strategic management approach for its development and has relied on operational decision-making to determine priorities. N Ltd has never gathered any information relating to its markets. In recent years, the company has experienced a reduction in turnover and profitability and is assessing how it might redress the situation.
Strategic Management

Requirements

(a) Explain how strategic management differs from operational management. (10 marks)

(b) The directors of N Ltd have now decided to introduce a strategic management approach which will assist in the selection of appropriate strategies for future development of the company.

Requirement

Discuss the cultural and organisational changes which N Ltd will need to implement in order to successfully introduce strategic management. (15 marks)

(Total = 25 marks)

Question 2 Strategic management accounting

Management accountancy has been criticised for being inward-looking and focusing too much on internal organisational efficiency. Keith Ward, in 1992, stated that Strategic Management Accounting is concerned with providing “management accounting in the context of business strategies being planned and implemented by an organisation”.

Requirements

(a) Discuss the above statement and explain the aims of Strategic Management Accounting. (8 marks)

(b) Discuss whether Strategic Management Accounting serves any useful purpose in assisting organisations in their strategic development. (12 marks)

(Total = 20 marks)

Question 3 Strategy formulation

Different approaches to strategy formulation were developed throughout the 20th century. These approaches have included the rational strategy process, emergent strategies and logical incrementalism. The rational strategy approach may be classified as a formal method of strategy formulation. Emergent strategies and logical incrementalism are regarded as informal approaches to strategy formulation.

Requirement

Compare and contrast the rational strategy approach with emergent strategies and logical incrementalism within the private sector environment. (25 marks)
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Question 4 Environmental uncertainty

Strategy involves planning ways in which the long-term objectives of the organisation can be achieved. An important part of such a process is the analysis of the external environment to determine future potential factors that are most relevant to the organisation.

Some believe that the external environment within which organisations operate has become increasingly uncertain and therefore wholly unpredictable. This raises important issues for strategy development, with some questioning the value of past approaches.

Requirements
(a) Discuss how environmental uncertainty might affect strategic thinking within organisations.

(12 marks)

(b) Assess the usefulness of scenario planning in strategy formulation, particularly under conditions of extreme uncertainty.

(13 marks)

(Total = 25 marks)

Answers

Question 1 N strategic management

(a) Strategic vs operational management

Strategic management differs from operational management in the following respects:

Strategic management is concerned with the longer term, whereas operations look at the shorter term. How far into the future the strategic management looks depends on the extent to which the external environment is predictable by management.

In using strategic management, the managers will need to assess the external environment and make predictions about the future environment. This will be compared with the internal position before designing and implementing strategy; operational management will focus on the internal resources and the management of them.

While strategic management will review the resources available and assess them in the light of the objectives set, accessing more when necessary, operational management will be concerned with managing those resources which the company has.

(b) Cultural and organisational changes

In the past, N has continued its small family business approach by managing the business at an operational level, but has made no attempt to take a longer-term strategic view. This will entail a number of changes, which will need to be handled carefully:

Cultural changes

N will need to ensure that managers are aware of the different approach being taken and are alert to changes in the environment in which the company operates. This may involve some training in strategic planning so that managers understand the importance and relevance of a changing environment. There may also need to be a change in the general
culture of management, as N will want managers to be innovative and participate so that they take a proactive role in recognising important changes in the company’s position.

However, it is notoriously difficult to change a long-established culture, and much of the process described in (a) will have to be enforced through imposed routines and controls, reinforcing acceptable behaviour and penalising the unacceptable. After managers and staff start to see some benefits from a more strategic approach, the attitudes of staff and culture within the company might start to change.

Organisational changes

N will need to formalise its approach to strategic planning by setting formal objectives, conducting environmental screening and then using these to allocate resources, along with targets consistent with the objectives, to different areas, of the business. It is likely that the board in a small company will undertake these tasks, using a strategic planning approach. While this gives the family more control and ensures consistency, it means that the employees are less likely to be convinced of the benefits. As a result, the board will need to monitor the operations carefully to ensure that targets are being met.

N will need to ensure that its information systems are appropriate for the style of management it implements. These systems may need to be improved or possibly replaced so that it focuses on those areas which relate to the strategic objectives. This may mean developing performance indicators for activities of key importance.

The organisational structure may need to be adjusted, as it is likely the company operates on a functional structure. It is important that resources are assessed across the whole organisation so that they can be made available where they have most strategic impact.

N will probably have to redesign the control and review systems so that progress towards strategic objectives can be assessed. It is possible that in a strategic review, certain products are discontinued; this will clearly impact on the organisational structure and mean that some employees will have their jobs redefined. There may be the need for new skills, such as strategic planning or a greater emphasis on marketing, which could be set up as separate departments.

Question 2 Strategic management accounting

(a) Strategic management accounting

Strategic Management Accounting (SMA) looks not only at the internal position of the company in terms of its resources, but more importantly on the external business environment. SMA will therefore focus on customers, competitors and suppliers so that it can monitor and assess the changes in the environment in which the company operates.

Traditionally, management accounting has focused on managing the resources within the organisation, and is backward-looking. SMA looks to the future by assessing the likely trends in the external environment and helps management to make positive longer-term decisions rather than reactive short-term ones.

This approach will be more in line with the areas of the various stakeholders, as these will be reflected in the strategic objectives of the organisation. SMA will not only look externally but will measure progress towards these longer-term objectives.
For an organisation to be successful, it is important for it to maintain or improve its competitive advantage; this will be helped by the information collected by SMA so that the company can judge the actions of its customers and competitors.

(b) Accounting system

A strategic management accounting system needs to provide suitable information for management to take strategic decisions. As with all management accounting systems, it needs to:

- provide relevant information for managers. SMA must therefore report on appropriate performance measures, which will need to be identified. The SMA itself in giving feedback on the environment can help in the selection of these measures.
- provide selective information for managers so that they have sufficient, accurate and relevant information for planning, decision-making and control without overwhelming the managers with information.
- be capable of coping with changes, as the environment will change and so might the information requirements of the managers. As the environment changes, the system needs to detect them quickly and report them so that action can be taken and strategic plans adjusted.

Such a system should help the organisation to assess and monitor changes to its strengths and weaknesses and to the threats and opportunities it faces. This will enable it to plan strategically so that it has a better chance of achieving its objectives.

Question 3 Strategy formulation

All approaches to strategy formulation are trying to achieve the long-term objectives of a company and increase shareholder value. The company must therefore examine its environment and its current resources and skills.

Strategy encompasses corporate strategy (what markets to be in, what acquisitions to undertake), business strategy (how to obtain competitive advantage in a market) and operational strategy (managing the various functions of the business). The strategies discussed below are mostly applied to business strategy.

Rational strategy

This gives a formal approach to derive a strategy. The company sets its mission statement and objectives which are quantifiable. The company then undertakes corporate appraisal, which assesses the organisation’s resources and skills and classifies them as strengths or weaknesses, and then the likely or possible changes in the environment in which it operates (including changes in competition) – these form opportunities and threats.

Strategic options are then derived by using the results of the corporate appraisal to identify ways in which it could achieve its objectives while minimising any weaknesses or potential threats. The options generated are then reviewed for suitability, feasibility and acceptability to assess how practical it really is to implement and how closely it will help to achieve its objectives. Strategies chosen are then implemented, which may involve acquiring new skills and resources, and progress towards the objectives carefully monitored.
This is a time-consuming process and is more suitable for large organisations; being very formal, it can be slow to react to changes in the environment and is therefore less suitable when there is a highly volatile environment. Smaller organisations often respond faster to changes but have limited scope for entering new markets or developing new products.

**Emergent strategies**

This suggests that strategies followed are not only those planned, but a mixture of those planned and those that emerged as time went by. These arise as a company takes advantage of any unforeseen opportunity (which is more likely in a faster reacting small company).

To encourage such flexible behaviour, a flatter structure and more entrepreneurial culture need to be encouraged, and management need a very clear understanding of the business and which situations would present opportunities. Again, this is more likely in smaller organisations.

**Logical incrementalism**

This says that most strategy is gradual in its development and implementation, even if management use the rational approach to give the overall direction of the strategy. This is partly because it takes time to persuade people to accept any major changes and partly because major changes may require finance which is not available.

Both emergent strategies and logical incrementalism show how in practice strategic planning often does not follow the logical, but theoretical, approach of rational strategy.

**Question 4 Environmental uncertainty**

(a) Impact of environmental uncertainty

The rational planning model sets objectives and then analyses the external environment and internal position so that a strategic plan can be put together. The external environment obviously changes, so managers need to make an educated guess as to the likely direction it will take and monitor the environment for changes.

When the environment is very uncertain, it becomes very difficult for managers to predict the future opportunities and threats and any strategy which results may not be appropriate. In addition, the changing environment will need to be constantly monitored which may lead to the strategy being regularly revised. When there is such uncertainty, organisations may, at the very least, decide there is too much risk in making long-term investment decisions. They may reduce their planning horizons and only plan for a shorter term, with smaller incremental steps. Organisations may follow low-risk strategies and lead to a trend to follow the leader.

Some organisations may decide that any logical strategic planning process is pointless and have no long-term strategy at all. However, this is an extreme reaction and companies should generally reduce their planning horizon to that which they can reasonably predict. This will lead to them being more risk-averse and unwilling to attempt innovation.
(b) Scenario planning

An organisation can use scenario planning as a method to assess future possible situations and consider the likely consequences for the organisation. These include well-established scenarios such as disaster recovery plans and hazard management. Public bodies may look at flooding, other natural disasters and major transport incidents.

When an organisation faces a very uncertain future, it can be difficult to decide on appropriate likely scenarios. However, in having to decide on those which are most likely, it will force organisations to identify the key uncertainties. It can then consider how it may influence these key uncertainties or mitigate their influence. There are various possibilities for dealing with a number of uncertain scenarios. The organisation could rank them according to likelihood and plan a course of action in response to the most likely ones. Alternatively, the organisation can try to develop core competencies which would sustain the organisation whichever scenario materialises. As the key uncertainties become clearer, the organisation can gradually make its strategy more specific and appropriate.

Scenario planning can therefore be very useful, particularly when there is extreme uncertainty as it will help the organisation think carefully about the key uncertainties. However, there are some difficulties in that:

- the scenarios may take considerable time and cost to construct
- they may be regarded as rather unreal and hypothetical
- they may still be ignored or down-played by decision-makers if they are unpalatable or would mean making unpopular decisions
- they might provoke disputes among managers.