CHAPTER - III

STRATEGIC MANAGEMENT: AN INTERNATIONAL PERSPECTIVE
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THE OBJECTIVE OF THIS STUDY:

Presently there exists lot of confusion about the term 'Strategic Management'. It has become a ground where different players are playing different games creating a mess for viewers. The intent of this chapter is to provide strategic management a proper perspective delineating different stages through, which the concept has evolved. It highlights the distinguishing features of different stages and ultimately sets out, what the concept of strategic management implies. The understanding of the concept will help appreciate the stage firms in India and other countries have reached in strategic management. As the Indian situation is a subject of our larger study, which unfolds itself in ensuing chapters, this chapter will bring out a comparative account of stages other countries have reached in strategic management.

The chapter is divided into three parts. The first part clearly enunciates the concept. The second part focuses on
assessing the kind of strategic management firms in different countries are using, and finally, the third part presents summary and conclusions of the whole discussion.

I

STAGES IN THE EVOLUTION OF PLANNING

Hax and Majluf\(^1\) categorise evolution of planning into five stages:

1. Budgeting and Financial Control.
2. Long-range Planning (LRP).
4. Corporate Strategic Planning.
5. Strategic Management.

Budgeting and Financial Control:

Because of limited resources and competing multiple needs of business, prioritization of activities becomes necessary. Even in a current activity, weighting of sub-activities for resource-rationing is necessary. Hence, to contain money spent within limits, budgets are prepared. Budgets represent projections of revenues and costs normally covering one year period. These budgets can be prepared for
each activity and sub-activity ultimately leading to the preparation of the master budget, which includes all those activities whose monitoring is judged to be important for a healthy development of the firm's businesses, among them are sales, manufacturing, administrative activities, investment and cash management. When budgets are prepared, targets are set both on the basis of historical observation and trends in the external environment and internal-data. With experience, many improvements have been effected in budgeting. In order to permit modifications in the original standards with the changes in the actual level of operations, flexible budgets came into vogue and recently zero-base budgeting has gained popularity as it established rules to force managers to justify their budgetary allocations from ground zero.

Financial control was exercised to see that every penny was properly used. Originally it was adopted as a system to respond to pressures for better cash management, higher operational efficiency, cost reductions, and constrained financial resources. Now it is a structured process aimed at the efficient and effective use of financial resources in
connection with strategy for the corporation as a whole or well-defined segments such as responsibility centre/expense centre, revenue centre, profit centre and investment centre. The managers use some of key variables to track monthly performance of various functional and business units such as financial ratios, etc. However, this approach put excessive emphasis on short-term profitability at the expense of the long-term development by restricting our sights to immediate future. So long-range planning came into focus.

**Long-Range Planning:**

LRP emerged in the 1950s as a result of an extraordinary boom situation during the post-World War II period when planning horizons had to be extended from one year budgetary projection to a multi-year forecast to meet the required expansions of capacity and to find the corresponding financial resources. It is an organisation-wide effort to define objectives, goals, programmes and budgets over a period of many years based on thoughtful projections period of many years based on thoughtful projections of the environmental trends. It is a bottom-up functional process generating a set of plans a little more than budgets extended over a longer-
time horizon. Managers make use of payback and discounted cash flow techniques to evaluate capital expenditures. A serious flaw of this approach is that it assumes smooth continuity of the past and cannot work under changing conditions. In modern complex multi-product businesses facing intense global competition, accurate projections are not feasible and the use of discounted cash flow methods for resource allocation results in loss of strategic vision for long-term business development.

**Business Strategic Planning:**

When during the 1960s extraordinary growth started to temper down and competitive rivalry intensified, the focus shifted from production to marketing. This led to business segmentation and each business unit came to be regarded as semi-autonomous, independent business unit (SBUs), which would contribute not only to profit, but a profit. Now each business unit formulated its own strategy based on its relevant environmental scanning and internal scrutiny and followed a multi-year planning horizon for 3–5 years with a specific covering for 6 to 18 months period. The effort was to attain the position of either leadership or sustainable
competitive advantage. Keeping pace with the development of thinking, business portfolio approach developed during 1960s-1970s to cope with non-controllable forces in the external environment and internal competencies. However, this approach also suffered from lack of corporate vision, the totality of business plans not necessarily convergent toward the betterment of the corporation as a whole. Besides, portfolio approach affected creative thinking of business executives and placed too much emphasis on cash balancing, at times, leading to investment in unprofitable ventures.

**Corporate Strategic Planning:**

In this approach, there are several hierarchical levels of planning as the size is so large and units so many that the corporate level lacks an intimate knowledge of the wide array of businesses spanning a broad spectrum of industries. So the corporate level delegates in group executives, what actually is the management of a fairly complex segments of the corporation, but it retains the responsibility for diversification opportunities into new industries not covered by existing groups, or acquisition and merger decisions. A buffer between the corporate level and business level called group or
sector is created as a new hierarchical level to coordinate their strategic and operational activities, allocate resources among the SBUs and extend existing businesses into new and related product-market segments.

According to Hax and Majluf, corporate planning is neither a top-down nor a bottom-up process. It is a much more complex activity which requires a strong participation of key managers of the firm where objectives are being proposed from the top, and specific pragmatic alternatives are being suggested from business and functional levels. However, in this approach there is risk of excessive bureaucratization and internationalization of sub-unit goals inducing centrifugal tendencies to develop. According to James Brian Quinn², the actual planning process is usually fragmented, evolutionary, and largely intuitive. There is need for a compromise between formal planning us, opportunistic planning to provide for unexpected occurrences, and perhaps, for program-period planning process instead of calendar-driven system so that program initiatives are generated at any time during the year.
Strategic Management:

Strategic planning alone is not sufficient unless complemented by management control system, communication and information, motivation and reward. These deficiencies of various approaches are adequately met in strategic management which has, as an ultimate objective, the development of corporate values, managerial capabilities, organizational responsibilities, and administrative systems, which link strategic and operational decision-making, at all hierarchical levels, and across all businesses and functional levels of authority in a firm. It is a process through, which strategists use information to make decisions about the direction an organization will take. The chief strategist in an organization is the CEO. It is appropriate to ask: how does the CED in cooperation with others achieve effective strategic management for the organization? How can an organization gain a strategic advantage over its competitors and maintain that advantage over a long period during changing external and internal environmental conditions? This is the most advanced and coherent form of strategic thinking, mature and overall—encompassing concept embracing all about practice,
art and science of management, but because of its complexity, its implementation is said to be difficult. Therefore, it is still an adhoc process. In fact, despite the widespread awareness, the gap between strategic management as a concept and strategic management as a ‘mind set’ and established business practice within companies is still considerable. These terms are often tossed about rather loosely, too readily misused or misunderstood terms.³

This brief account of stages in evolution of planning vividly brings out that the concept of strategic management is still at its nascent stage and evolving. Some business executives have lingering doubts about its usefulness. They believe its adoption would require large paraphernalia and the costs involved therein would more than outweigh its potential benefits. Hence, it should be a concern only of large-sized corporate organizations, which can afford such an expense, do not put life savings of a few individuals in jeopardy and realization of invested capital can wait for some time. The answers to these questions depend upon the acceptance, understanding and use of workable concept of strategic management.⁴ There is enough evidence to suggest that
art and science of management, but because of its complexity, its implementation is said to be difficult. Therefore, it is still an adhoc process. In fact, despite the widespread awareness, the gap between strategic management as a concept and strategic management as a ‘mind set’ and established business practice within companies is still considerable. These terms are often tossed about rather loosely, too readily misused or misunderstood terms.  

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There is enough evidence to suggest that
organizations using strategic management perform more effectively and use their resources more productively than those that do not.

Let it, therefore, be clearly understood that strategic management involves more than strategic planning. It is based on the fundamental ideas of 'strategy' and 'management', and includes a wide range of management processes. In addition to planning, it includes implementation and control. After thorough analysis and projection into the future, the main steps required are: (1) identifying the critical issues, then (2) generation, evaluation, selection, implementation and control of strategic alternatives. Strategic management processes apply to 'strategies' which refer to fundamentally important decisions and actions. These decisions have, according to Dietger Hahn, the following characteristics:

- they substantially affect a company's ability to generate cash profits;
- they relate to company as a whole;
- they are taken by the top executive team and the board of directors;
they take effect in the long-term and therefore, tend to be made infrequently; and

- they reflect the values of top management and are taken in accordance with corporate philosophy and culture.

Thus, strategic management involves the development and communication of the corporate goals, the strategic plans, the corporate philosophy and the corporate culture.

Based on this analysis, Hahn defines the tasks and responsibilities of strategic management as follows:

1. determining the corporate philosophy;
2. defining the corporate objectives and goals;
3. formulating business strategies, functional strategies and regional strategies;
4. planning the company's organization structure and its legal forms;
5. planning the management system and process including:
   - management development,
   - information systems, and
   - management pay and incentives;
6. the processes of implementation and supervision; and
7. the design of the desired corporate culture.⁶

As the scope of strategic management process is vast overall encompassing, it is incomprehensible to many and therefore, the writers and researchers alike have often focused only on planning aspect of it and calling it long-range planning or corporate planning or strategic planning indistinguishably. As the terms have been used indiscriminately and the practice has not advanced as fast as growth of literature on the subject, strategic planning has been the perennial butt of devastating criticism. Steiner⁷ had regarded strategic plan as a "road map" with a fixed and well-defined target as well as the steps to reach the target. This form of strategic planning has yielded meager benefits and as it is still practiced, it heavily slanted toward the "predict-and-prepare" mode of coping with the future.⁸ What it implies is that the fast changing environment renders it irrelevant. This is what is echoed in the observations of an international sample of executives, when asked what factors discourage corporate planning, they cited as the primary factor "substantial environmental uncertainty."⁹ Thus, the
usefulness of the whole strategic planning process has become
doubtful because of the poor handling of uncertainty therein.
Therefore, strategic planning must include three ways for
organizations to cope with uncertainty:
- the predict- and prepare response;
- the power response: create your future by dominating
  or eliminating sources of uncertainty; and
- the structural response: build a capacity for flexible
  response and adaptation.\textsuperscript{10}

Ansoff\textsuperscript{11} observers that experience has shown that
while strategy is vital for decision making particularly in
turbulent environment, it is insufficient for assuring vigorous
strategic action by the firm. In the absence of appropriate
implementation mechanisms, strategic planning simply
becomes paralysis by analysis. A more comprehensive
management concept is needed which will assure an effective
and timely implementation of strategic plan by taking into
account organizational considerations. This concept which
envelops strategic planning and adds the organizational,
entrepreneurial, and leadership perspective, he appropriately
labels strategic management. Therefore, strategic
management is an extension of strategic planning which places emphasis on both sides of the strategic balance sheet, the external as well as the internal organizational perspective, lending equal weight to each. Strategic planning and management, them, is a way of thinking, deciding, and implementing, and it is an ongoing process that should be continuously employed by the key players in the organization.

II

INTERNATIONAL DIFFUSION OF STRATEGIC MANAGEMENT PRACTICES

Australia:

In Australia, more than half of major firms surveyed in 1981\textsuperscript{12} had planning systems started in 1970 or later. While U.S. companies had more experience with corporate planning than Australian companies, the Australian firms committed more resources to planning.

Belgium:

Caeldries and Dierdonck\textsuperscript{13} reported their findings on formal strategic planning practices in 82 Belgian firms and 42 non-strategic planning firms. They came to the conclusion
that the average Belgian firm was busy gaining experience and could be termed to use the strategy concept synonymous with forecast-based planning (Phase II)/externally-oriented planning (Phase III) of Glueck et al.;s\textsuperscript{14} proposed four-phased model. They cannot be classified as Phase IV firms using strategic management.

**Canada:**

By the mid-1970s, corporate planning had become a worldwide phenomenon in industrialized countries, and new concepts in corporate and strategic planning made a considerable impact.\textsuperscript{15} In 1975, Steiner and Schollhammer\textsuperscript{16} found that for a majority of firms from several countries, comprehensive and systematic long range planning was in an evolutionary phase. In Canada, U.K. and Italy, about one-third of firms studied had planning systems that were introduced after 1970. The late introduction of corporate planning in Canada was further corroborated by Frederick\textsuperscript{17} who reported that Canada was probably behind the U.S. by 5 to 10 years in most aspects of strategic planning.
Japan:

In Japan, about 8% of 109 Japanese companies had planning systems that originated prior to 1970\textsuperscript{18} Kono\textsuperscript{19} found that among Japanese companies, 77% of large manufacturing companies as against 85% of US firms had long range plans.

Netherlands:

Eppink et al.\textsuperscript{20} reported that 16 of 20 Dutch companies studied introduced formal corporate planning in the early 1970s. Their findings led them to believe that in the Netherlands, corporate planning lagged behind the U.S. and the U.K. by at least 5 years.

Nigeria:

Fubara\textsuperscript{21} conducted a study of corporate planning in 44 companies in Nigeria and came to the conclusion that planning was informal accompanied by annual budgets and extended budgeting extrapolated for 5 years to agree with Nigeria's 5 year development plans. According to him, the Nigerian chief executives misconstrued annual and extended budgeting for corporate plans, whereas no formal long-range planning in a true sense of the term existed.
Scotland:

Reid\textsuperscript{22} made a study of 94 companies reflective of the Scottish economy to probe the existence of strategic planning and thinking in the companies. Specific attempts were made to identify dimensions of measurement which enabled scrutiny and comparisons to be made of the sub-processes of strategic planning. He concluded that the quality of strategic marketing planning in the sampled companies was poor partly due to ignorance but more closely linked to an absence of vision which results in a lack of motivation to acquire and interpret information. This absence of interpretation is coupled with a lack of creativity, so as a result few alternative strategies are examined. In short, the process of strategic management is not fully executed.

Singapore:

The research on corporate planning in Singapore focused on large and foreign-based firms and evidence of planning activities was found in studies conducted by MacDonald,\textsuperscript{23} Low,\textsuperscript{24} and Putti and Chong.\textsuperscript{25} In a recent study of 223 local, U.S. and Japanese firms in Singapore, Wee, Farley and Lee\textsuperscript{26} found a high level of commitment to
planning, particularly for the short and medium-term. Differences among Japanese, US and local firms were consistent with common beliefs about management style and planning practices. However, similarities over types of companies were more striking than the differences.

**United Kingdom:**

Corporate planning also caught on slowly in the U.K. Taylor and Irving\(^{27}\) in the beginning of 1970s found that less than half of the 27 major U.K. companies sampled had corporate plans. Denning and Lehr\(^{28}\) found that 25 per cent of a sample of top 300 British companies did long range planning. A few smaller companies also had started practicing corporate planning by that time.\(^{29}\) Bazzaz and Grinyer\(^{30}\) were of the opinion that surveys of the art of corporate planning in the past decade showed that the adoption of corporate planning in the U.K., West Germany and France was later than in the U.S.A. and that the art was most sophisticated and advanced in the U.S.A. than anywhere else. In the 1980s, Kono\(^{31}\) also reported that there was corporate planning in the U.K., but less than what it was in the US or Japan. Denning
and Lehr\textsuperscript{32} observed that the British subsidiaries took the lead in developing long range plans in various countries.

**United States:**

Much of the literature on strategic planning and strategic management has developed in the United States. Not surprisingly, the corporate level planning took off in the early 1960s when many large US manufacturing corporations felt a need to develop systematic and longer-term management procedures because of a rapid increase in company size, product diversity, geographical dispersion of markets and technical complexity of operations. In the late 1960s, Ringbakk\textsuperscript{33} found that 28 of the 40 leading US companies were preparing corporate plans. The 1970s proved to be a period of development for planning. Rue\textsuperscript{34} found in 1974 that 86% of 398 US and Canadian sample companies developed some form of written corporate plans. A follow-up survey done by Steiner, Kunin and Kunin\textsuperscript{35} in 1983 on 142 companies from 1974 sample showed that corporate planning had by that time become much more sophisticated. After development of planning, the 1980s became a period of consolidation of planning for large firms in the US and UK, and
of diffusion of planning to other countries and to smaller firms. Early in the 1980s, a study of 19 countries found relatively rapid international diffusion of corporate and strategic planning led by transnational corporations following more advanced approaches in strategic planning.$^{36}$

A lot has been written about planning activity in giant-sized corporations in the U.S. Therefore, Shuman, Shaw and Sussman$^{37}$ conducted a study of strategic planning practices of the 500 fastest growing privately held smaller companies in the U.S. What they have observed is that the smaller company strategic planning is still in its formative period and the activity tends to be primarily concerned with the short-run, updated regularly, and operationally oriented. As the companies have grown from relying on personal experience and intuition, the planning processes utilized have become more formal, structured, and participatory to assure continued organizational effectiveness. However, the planning processes are generally much less sophisticated than those advocated in the literature.

Ackelsberg and Arlow$^{38}$ made a study of 135 small business firms in the US to determine the relationship
between planning and economic performance. They found that most of the small firms engaged in planning activities. Planning firms tended to engage in more goal-setting activities, forecasting and traditional planning procedures than non-planners. Planners (85% firms) also emphasise analytical dimension of planning encompassing assessment of strengths and weaknesses, consideration and evaluation of alternative courses of action, preparation of alternative plans and review-revision plans. They also seek to formalize plans by preparing goals and plans in written form and by preparing budgets. But 50% planners engaged in short-term planning (1–2 yrs.) and 18% planners in planning for a period of 3–5 years.

Alexander surveyed strategic business units of 93 private sector medium-sized and large-sized firms in the U.S. with an intent to determine which implementation problems occurred most frequently as they tried to put strategic planning into effect. The research is somewhat difficult due to the nature of the question and the majority of the literature has been on the long-range planning process itself in the context amount of the strategy being formulated.
The author came to the conclusion that a number of strategy implementation problems did seem to occur on a regular basis. Often implementation efforts took more time than originally allocated. Interestingly, high-success firms experience implementation problems to a significantly less extent than do low-success implementation firms.

III

CONCLUSION

Strategic management is an all-encompassing term which has very recently come into vague. It has organization-wide ramifications for achievement of organizational goals through effective use of its limited resources. Its scope extends beyond strategic planning involving SWOT analysis to implementation which sometimes may entail even resource, structural and leadership changes. Control and evaluation are its essential ingredients. The strategic management in such a purest form is rarely practiced. There are very wide inter and intra-country differences. Gradually, sophistication is creeping in large-sized firms in developed countries like the United States and Japan. The smaller firm strategic management even in the United States is still in its formative period
primarily concerned with the short-run and operationally oriented. In contrast, in a developing country like Nigeria, it is only corporate planning and that too, informal, restricted to annual budgets and extended budgeting extrapolated for 5 years. However, the idea is catching up and more and more firms world over are taking to planning with, of course, variations in stages of evolution. We will soon see what stage business firms in India have reached in strategic management.
NOTES AND REFERENCES


32. B.W. Denning and M.E., Lehr, op.cit.


