

Introduction to Strategic Management Concepts and Tools

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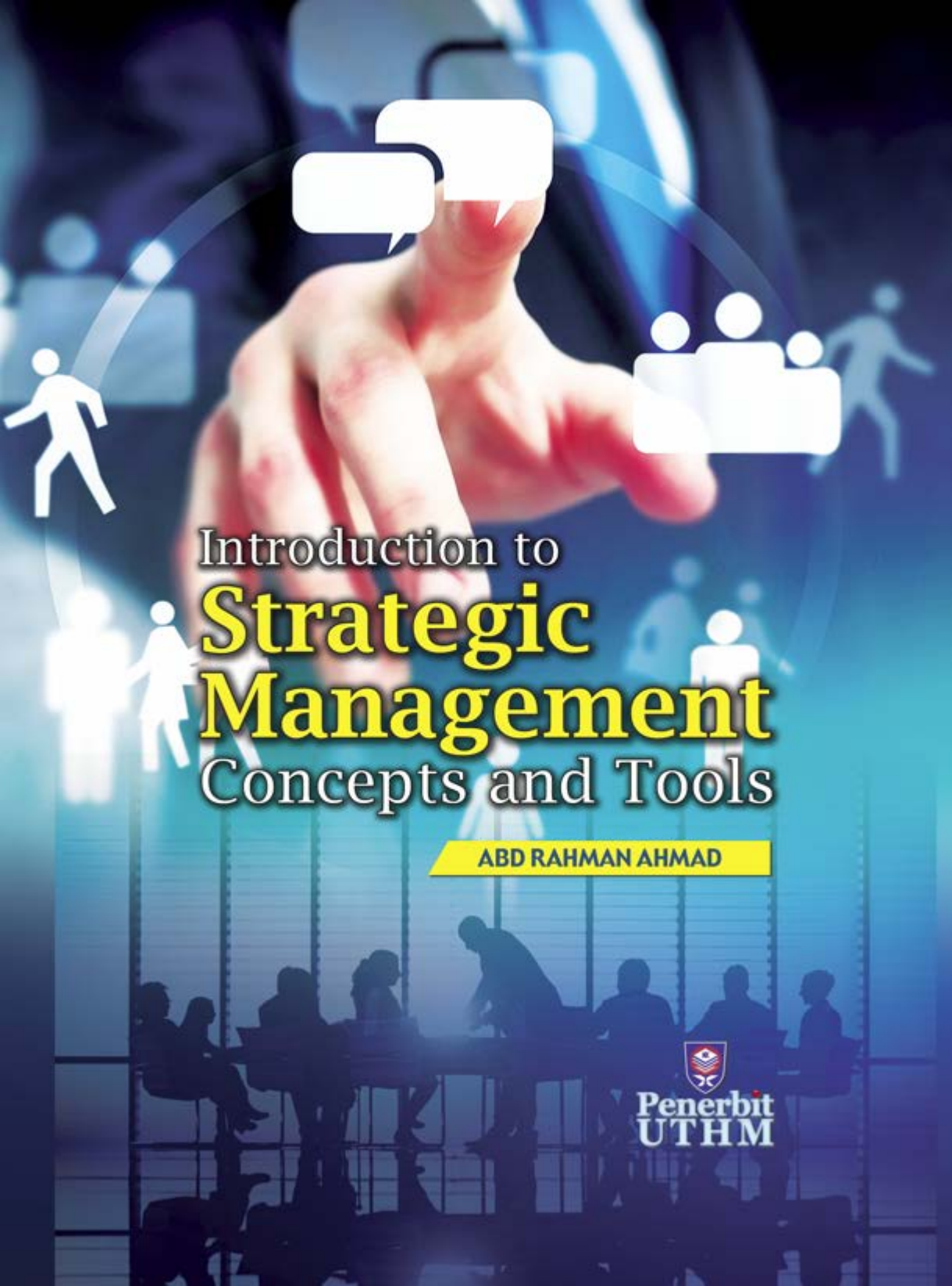
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Abstract: This book is an introduction to the field of the strategic management with emphasis on the basic concepts and tools in developing a strategy. The organizations of this book begin with the analysis of strategic management process and follow by the some of the important approaches used in the strategic management process. The topic cover the most popular strategy approaches and tools used by organizations in order to formulate, implement and evaluate their strategic plans and achieve a sustained competitive advantage.

This book also provides an understanding of some of the important tools used in the strategic management process. Here, the chapter is also presented in logically order as a guide to the readers.

Keywords: Strategic management, SWOT, TOWS, SPACE Matrix



Introduction to
**Strategic
Management**
Concepts and Tools

ABD RAHMAN AHMAD



Penerbit
UTHM

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Preface

This book is an introduction to the field of the strategic management with emphasis on the basic concepts in developing a strategy. The organizations of this book begin with the analysis of strategic management process and follow by some of the important approaches used in the strategic management process. The topic cover the most popular strategy and tools used by organizations in order to formulate, implement and evaluate their strategic plans.

Writing this book on strategic management concepts and tools have been a wonderful and exciting experience even though it can be a very difficult challenge. Therefore, your comments will be taken seriously in order to improve the quality of this book.

I hope you will enjoy the book and find it useful.

Abd Rahman Ahmad

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Abbreviation

BOS	Blue Ocean Strategy
BSC	Balanced Scorecard
BCG	Boston Consulting Group
CPM	Competitive Profile Matrix
CSF	Critical Success Factors
EFE	External Factor Evaluation
IFE	Internal Factor Evaluation
KPI	Key Performance Indicator
M&A	Mergers and Acquisitions
SWOT	Strengths, Weaknesses, Opportunities and Threats
SMART	Specific, Measurable, Achievable, Realistic and Time
SPACE	Strategic Position and Action Evaluation
TOWS	Threats, Opportunities, Weaknesses, Strengths
QSPM	Quantitative Strategic Planning Matrix
VCA	Value Chain Analysis

Chapter 1

Introduction to Strategic Management

1.1 Introduction

The term strategic management has acquired significant concern in the contemporary business world as organizations need to devise strategies to ensure the survival of their business in a competitive environment. While the concept of strategic management was restricted to discussions in the academic domain in the past, it is now employed to guide the actual practices of organizations across the world.

We often hear the announcement of short and long term strategic plans in the news and company reports. For example, the Federal Government in Malaysia has announced a range of strategic plans to ensure that the country remains competitive in the global business. In the context of higher education, for example, the Ministry of Higher Education (MoHE) has announced the implementation of National Higher Education Strategic Plan beyond 2020 in 2007 in order to stimulate competition in the higher education sector and ensure that the industry follows the objectives set by the government. Similarly, the leading low-cost air carrier, AirAsia, has formulated a strategy focusing on shareholder value, customer needs and operational excellence in order to remain competitive in the budget airline industry. These examples show the importance that strategic management is accorded in running an organization in the contemporary world. However, strategic management is a complex issue that is often challenging to formulate and difficult to implement.

Chapter 2

Vision

2.1 *Introduction*

Vision plays a key role in the strategic management of an organization as it provides a clear direction of what the organization wants to become. In the strategic management process, vision marks the initial point from which an organization begins by providing a clear picture of the overall goal and specific direction of activity to all staff. This chapter provides an explanation of the definition, purpose and process of developing a vision statement.

2.2 *Definition of Vision*

Vision can be defined as a statement that formulates the image and path for the organization to follow in the future. A cohesive vision statement can ensure that employees are motivated and encouraged to move in the same direction towards the collective goal (Hitt et al., 2009). Here, managers and executives in the organization have to agree upon the basic question “*what do we want to become*” (David, 2009, pp 50).

Bratianu and Balanescu (2008) define vision as an idealistic projection of the organization in an undefined future, envisioning a mature and successful position for the organization. Kouzes and Posner (1987) explain that the vision acts as the ideal and unique image of the future for the organization. Similarly, Bennis and Nanus (2003) state that vision is a mental image which is necessary for organization to determine their future. Differing

Chapter 3

Mission

3.1 *Introduction*

The mission statement of the organization indicates the purpose for which an organization exists. An effective mission statement plays a critical role in the strategic planning and management process. The mission statement acts as the foundation for the internal work documents for making strategic decisions. Mission statement is an internal work document which sets the boundaries and guidelines driving a strategic decision.

3.2 *Definition of Mission*

Research on mission statements began in early 1970s, with Drucker (1971) who stressed the importance of mission statements containing realistic business objectives. Mission can be defined as a simple, clear and understandable statement that works to enlighten and motivate the organizational members towards a common purpose (Bart & Hupfer, 2004; Schwartz & Cohn, 2002). It also acts as a social agreement between stakeholders in the organization. It is a managerial instrument which empowers the management in directing the behavior of employees in the implementation of a certain strategy.

Lawler (2006) indicated that mission statement is required to furnish a general idea of what the organization does and wants to be. It plays an important role in the process of crafting the organizational planning and goal setting. Mission contains a view

Chapter 4

Objective

4.1 Introduction

The organization's objective indicates the target towards which the organization continues its efforts. Organizations need to have clear objectives as a basis of the process of strategy formulation, strategy implementation and strategy evaluation.

4.2 Definition of Objective

Objectives refer to the specific aims that the organization tries to accomplish within a specific period of time. Fitzroy and Hulbert (2005) indicate that objectives should be clear in terms of attributes of scale, level of measurement, and time scale to clearly state the means for achieving targets or goals. Harrington and Voehl (2012) state that objectives should be able to sustain the profitability of the organization and enable it to grow within the industry. Objectives created by an organization should be clear, challenging, measurable, reasonable and consistent.

For example, one of the quality objectives of Universiti Tun Hussein Onn Malaysia (UTHM) is to produce graduates who are competent and highly competitive in the fields of science and technology. The objective is to ensure that the learning and teaching process at UTHM is able to produce fresh graduates with adequate level of competency and knowledge in these fields so that they can be hired in companies or industries. This objective guides UTHM in its activities.

Chapter 5

Internal Assessment Analysis

5.1 Introduction

Internal assessment analysis (IAA) helps the organization to analyze their strengths and weaknesses. Conducting the internal assessment analysis can lead to an understanding of organization's core competencies as this analysis can identify the strengths and weaknesses of the organization.

5.2 Definition of Internal Assessment Analysis

Internal assessment analysis is the process of identifying and evaluating an organization's specific characteristics in term of resources, capabilities, and core competencies to help determine the organization's current vision, mission, strategic and financial objectives (Hill & Jones, 2012). It focuses on identifying potential competitive advantages of the business and taking corrective action. Basically, every company has its own weaknesses that would limit its success in the industry. By understanding their own weaknesses, they can improve or overcome their weaknesses to aim for better performance. This analysis of the strength and weakness enables the organization to better understand its status so that it can survive in a competitive business environment. Hill and Jones (2012) define IAA as a strategic management procedure concentrating on appraisal of tangible and intangible resources, capabilities and weaknesses of the organization. Together with external analysis, internal analysis helps managers to select and implement appropriate business model and strategic planning.

Chapter 6

External Assessment Analysis (EAA)

6.1 Introduction

The external analysis focuses on identifying and scanning the external environment in order to formulate a strategic plan for how the company deals with challenges arising from external factors. An external analysis is needed to provide important information about the opportunities and threats from external sources that may impact the organization. As for managers, this information can be used to formulate the best strategies to take advantage of the opportunities and minimize the threats.

6.2 Definition of External Assessment Analysis

External assessment analysis (EAA) is a process of scanning and evaluating the external factors that affect the organization's performance. By conducting this analysis, firms can try to maximize the external opportunities and minimize the impact of threats (David, 2013). This assessment needs to be conducted during the strategy formulation stage because external assessment analysis helps the firm to develop a strategy in light of the opportunities and threats that have been identified. In others EAA is considered with:

External: Occurring from outside the organization;

Assessment: Evaluation, the act of judging or following an opinion about somebody or something; and

Chapter 7

Critical Success Factors (CSFs)

7.1 Introduction

Critical success factors (CSFs) are aligned with the mission and the strategic goals of the business. CSFs play an important role in identifying the areas of critical importance for any company.

7.2 Definition of CSF

CSFs mainly aim to *identify the factors which really matter to the success of an organization*. Rockart (1979, p.85) once defined CSFs as the significant areas in which results are essential to ensure the successful performance of the company. CSFs are also known as ‘*key results areas*’, that must be performed well for the company to reach the goal of its project. Using these CSFs, the firms can focus on the most important areas to achieve the mission.

“The key areas which must go right and making a good decision for an enterprise to flourish and achieve the company goals.” (John, 1979)

According to Leidecker and Bruno (1984), CSFs can encompass a range of characteristics, variables or conditions that, when properly managed, maintained or sustained help in the success of a company. In addition, Pinto and Slevin (1987) defined CSFs as factors which need to be addressed to ensure the success of project implementation. Meanwhile, Fiber (2006) count factors, such as markets, technologies and others, as CSFs that could have an impact on the firm’s success.

Chapter 8

Competitive Profile Matrix

8.1 Introduction

Competitive profile matrix (CPM) is a strategic analysis that focuses on competitors of an organization in the industry. It helps the strategist to visualize the competitive landscape and their competitors to understand the key threats and opportunities in the marketplace. In this manner, the management can use the matrix to develop the external business strategies to maximize the opportunities and minimize the threats.

8.2 Definition of CPM

Competitive profile matrix enables organizations to identify the key competitors to the firm within a particular industry and evaluate its strengths and weaknesses in contrast to the competitors (David, 2013). CPM is a strategic management tool that allows the manager to establish their company's competitive advantage. Carpenter and Sanders (2007, p. 19) defined *competitive advantage* as a firm's ability to create value in a way that its rivals cannot. In other words, the company must exploit the features and products that may give it an advantage over competitors. These values can be in the form of cost, product and service differentiation or the firm's ability to offer customers greater value in any form or shape. However, the process of building competitive advantage is not an easy job, and it is perhaps even more difficult to maintain company's competitive advantage. For example, with the rapid development of smart phones, Samsung developed a competitive advantage

Chapter 9

SWOT ANALYSIS

9.1 Introduction

SWOT is the abbreviation for strengths (S), weaknesses (W), opportunities (O), and threats (T) analysis. SWOT analysis enables firms to measure and gauge the position of the company in the market by forcing the company to list out internal and external factors that might influence their performance positively or negatively.

9.2 Definition of SWOT

The acronym SWOT in short stands for strengths, weaknesses, opportunities, and threats. SWOT analysis enables a firms to measure and gauge the position of the company in the market (Helms & Nixon, 2010). Thus, as the name suggests, this analysis defines the company's strengths and weaknesses from its existing resources in the present, and on the other hand, it predicts the opportunities and threats in potential business situations in the future. From a different perspective, the SWOT also analyzes the firm's internal and external factors because strengths and weaknesses are defined internally, while opportunities and threats are located in the external environment. These variables are also related to each other, as exploiting the strengths of the firm can enable the firm to take advantage of opportunities, and identifying the weaknesses of the company can help it impede threats. Figure 9.1 shows the components of SWOT analysis:

Chapter 10

TOWS ANALYSIS

10.1 Introduction

TOWS analysis is often used by firms to develop a strategic plan in the area of marketing, human resources and other fields of management to analyze the current condition and future potential of the organization. Similar to the SWOT analysis, TOWS analysis (threats, opportunities, weaknesses and strengths) identifies the strengths and weaknesses in an attempt to minimize the impact of the threats and maximize the opportunities.

10.2 Definition of TOWS

Heinz Wehrich developed the TOWS Matrix in the year 1982. According to Wehrich (1982), TOWS matrix is a tool to carry out situational analysis for planning alternative strategies to handle unexpected conditions occurring in the market. TOWS constitutes the next step after the SWOT analysis. In contrast to SWOT, Wehrich (1982) explains that TOWS analysis operates in a relational manner that link strengths and weaknesses to opportunities and threats. These variables are strength-opportunity (SO), strength-threat (ST), weakness-opportunity (WO), and weakness-threat (WT). This shows that while SWOT analysis is concerned with merely listing the variables, TOWS analysis seeks to identify relations that can meaningfully identify how the strength or weakness is related to each opportunity or threat.

Chapter 11

Boston Consulting Group (BCG) Matrix

11.1 Introduction

Boston Consulting Group matrix was devised by Bruce Henderson in 1960 as a technique of portfolio analysis. BCG matrix is meant to assist in the management of corporate finance by adjusting the cash flow from the business unit.

11.2 Definition of BCG Matrix

BCG matrix is almost similar to the concept of product life cycle – it is conceptualized as a graph plotting the time scale of the product's sale from the beginning till it reaches a mature peak and then subsides. According to Wheelen et al., (2006), BCG matrix is one of the simplest tools to analyze a company's investments. Table 11.1 below shows the definitions of BCG matrix proposed by researchers.

Chapter 12

Strategic Position and Action Evaluation (SPACE Matrix)

12.1 Introduction

SPACE Matrix is used to analyze the internal and external dimensions affecting the success of a project in an attempt to establish the appropriate strategy to be implemented. It can be used in strategies aimed at development of new market, development of products, market analysis and market penetration.

12.2 Definition of Space Matrix

Strategic position and action evaluation (SPACE) matrix is a useful management tool to appraise the performance of firms incorporating both internal and external factors to generate a useful strategic plan for future development. Table 12.1 below lists down some definitions of the SPACE matrix advanced by researchers.

Table 12.1: Definition of SPACE Matrix

Definition of Space Matrix:	Sources
SPACE Matrix is a planning tool that used to gain benefits to compete in the market by choosing a better strategy.	Laetitia and Lynette (1998)
The action evaluation or strategic position or SPACE Matrix is a framework which consists of four quadrants which show the most suitable strategies (aggressive, conservative, defensive or competitive) for a company to success their plans.	David (2009)

Chapter 13

Quantitative Strategic Planning Matrix (QSPM)

13.1 Introduction

Quantitative strategic planning matrix (QPSM) indicates the relative attractiveness of strategic plans by measuring them according to the organization's internal and external critical success factors. QPSM also helps the firm to determine feasible alternative strategies. In fact, QPSM provides a clear framework for firms to develop the best alternative strategies that can be implemented.

13.2 Definition of QSPM

QPSM is an effective tool in the strategy selection stage. David (2009) consider the QPSM to be a highly beneficial instrument for selecting the most appropriate strategy from a diverse array of alternatives.

QPSM can designs an effective strategic plan by assimilating and prioritizing the information extracted from the input stage and match this with key internal, external and competitive information to decide on the most appropriate path. QPSM aims to work out the most appropriate strategy based on the results of testing the external and internal factors, rival information assessment and SWOT analysis.

After the management has conceptualized a range of strategies, the QPSM is needed needed to evaluate the best alternative to achieve the mision and vision of the firm. This is because, QPSM is able

Chapter 14

Key Performance Indicator (KPI)

14.1 Introduction

Key performance indicators (KPIs) is a tool that is used to measure and evaluate organizational performance. Basically, KPI measures the inputs, strategic processes or outcomes that manifest the vitality of the organization. KPIs are normally used to analyze customer satisfactions, shareholder expectations, competitive threats, internal process quality, employee satisfaction, and financial performance index.

14.2 Definition of KPI

KPI is defined as an analytical tool consisting of “a series of measurement crucial for the organization’s present and future success which centralizes on the overall aspect of organizational performance” (Parmenter, 2012). Some other definitions of the KPI have also been proposed. KPI can also be defined as “*measures of the quantitative and qualitative that used to review an organization’s progress against their goals. These are broken down and set as targets for the achievement of individual and departments. The achievement of these targets or objective is reviewed at regular interval*” (Public Record Office Victoria, 2010, p. 6). Meanwhile, John and Susan (2000) state that, KPI consists of “*comprehensive measures established for the major strategic objectives and for all core processes of the organization*” (Viljoen & Dann, 2000, p. 305).

Chapter 15

Mergers and Acquisitions (M&A)

15.1 Introduction

Mergers and acquisitions (M&A) incorporate two strategies for joining two different firms to combine their resources in order to create competitive advantages. M&A is a corporate-level strategy that deals with buying, selling, and joining two different companies.

15.2 Definition of M&A

Merger is a strategy in which both firms conduct a deal to affiliate their whole operations on a relatively co-equal basis. In this process, two or more firms come together under one entity to expand their business operations and both the companies share equal profits in the newly instituted company.

Acquisitions, on the other hand, involves a situation where one company takes over another company to subsume it under its business operations. During this process of restructuring, one company buys out the stakeholders of the other company. The company that is sold may be facing financial problems or declining profit margins, and the acquiring company being in an ascendant position has the funds to buy out that company.

Chapter 16

Balanced Scorecard (BSC)

16.1 Introduction

Balanced scorecard (BSC) is a performance management tool that can be used by organizations to develop a strategy based on performance measures. It is a measuring tool for the overall performance of the enterprise to finance the organization based on measures of key performance indicators.

16.2 Definition of BSC

BSC is a tool to set direction for the firm's long term performance (Nair, 2004). An organization using the BSC approach has to identify the vision and implement the business project. This requires the management to observe balance between strategic vision and operational objective. Here, the overall performance of the enterprise is measured according to key performance indicators. These indicators can relate to the customer perspective, internal business processes, and organizational growth, learning, and innovation (Kaplan & Norton, 1992).

The concept of BSC was introduced by Norton and Kaplan in 1990s. They criticized existing methods of appraising organization performance for being too limited as they focused on organizational performance in the past without considering this for the future. They developed the BSC method that is now used extensively in business and industry, government, and non-profit organizations worldwide. The latest scenario shows that almost 50 per cent of

Chapter 17

Blue Ocean Strategy

17.1 Introduction

Blue ocean strategy is a strategy that is focused on creative innovation that enable the firm to harness exponential growth from unexplored markets. This strategy is focused on making value for customers and opening up new uncontested market spaces.

17.2 Definition of BOS

Blue ocean strategy (BOS) was introduced by W. Chan Kim and Renee Mauborgne in 2005. Blue ocean strategy is defined as a speculative strategy that seeks to venture into unknown or untapped market space to generate demand creation and exploit opportunities for profitable growth (Kim & Mauborgne, 2005). The term blue ocean here seeks to capture the vastness of untapped opportunities that lie in the unknown market. The strategy stresses the importance of innovative and creative steps that try something new in untapped markets despite the lack of prior experience.

It takes a different perspective on the idea of strategy by advocating a more adventurous stance that is focused on the future. This strategy is also a pre-emptive approach as it does not wait and watch for competitors to take actions, but is instead focused on making leaps in value-creation for customers and company that make market competition irrelevant. It also has a more holistic purview of success that considers the impact of the strategy for customers, employees, shareholders and society at large.

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