# The Importance of the Strategic Management Process in the Knowledge-Based Economy

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*Abstract*

*In the modern economy, competitiveness means information and know-how rather than capital and physical assets. Therefore, the key process for any competitive organization is to strategically use their information resources and knowledge assets by remembering and applying experience. An organization's ability to compete on the market is increasingly seen as depending on the skills and knowledge of its managers and employees, regarded as intelectual capital, and put to good use while formulating, implementing and adjusting strategies. In the current business environment, knowledge evolves rapidly and the useful life span of the organizational skills is decreasing, which means the survival and competitiveness of an organization is linked to its ability to learn and include its findings in their strategic management process.*

**Keywords:** *strategic management, knowledge, high-performing organization*

In their quest for economic success, managers have always noticed that for some reason, some companies seem to flourish apparently effortless, while others, despite their continuous struggle, come across nothing but loss. The reason for this difference has been long studied, in order to understand which are the most important managerial actions that separate winners from losers. The results of these studies can be summarized as follows:

1. In successful organizations, managers have a clear vision of the purpose and direction of the company and don't hesitate to approach new directions or to initiate major changes. The managers of unsuccessful companies, on the other hand, are so preoccupied with current issues and details that simply neglect to identify any purpose and direction.
2. The successful managers are those who know everything about the clients' needs and behaviour, the market requirements and the opportunities provided by the environment. They often get their best

ideas from their clients, and their innovative vision is based on experience. These managers continuously seek new opportunities, always acting on those they find more appealing. Other managers don't always take into account their clients' needs or the market opportunities. They are less receptive to the clients' attitudes, their instinct telling them to react to the market's general direction instead of creating it. They can also reject new ideas out of fear of making a mistake, while their actions and decisions are usually those already „tried and proved successful".

3. The managers of successful organizations must have a strategic plan in order to insure a strong competitive position on the market and therefore achieve the desired outcome. They believe that the competitive advantage is the key for obtaining a high revenue and a long term success. Less profitable organizations are always those that lack a good strategy. Their managers, preoccupied with internal problems and paperwork deadlines, do a poor job of maneuvering their organizations into favourable competitive positions; they don't develop effective ways to compete more successfully. They often underestimate the strenght of competitors and overestimate the ability of their own organizations to offset the competitive advantage of the market leaders.
4. High-performing organizations are strongly results-oriented and performance-conscious. Their managers consider the individual performance of each emploee as the motor of organizational competitiveness, and they fairly reward outstanding results. The managers of poorly performing organizations excuse weak performance on the basis of uncontrollable factors such as a depressed economy, slack demand, strong competitive pressures, rising costs and unforeseen problems. In their case, rewards are only loosely tied to standards of superior performance.
5. In best performing companies, managers are deeply involved in implementing the chosen strategy and making it work as planned. They understand the internal requirements for successful strategy implementation and they insist that careful attention be paid to the details required for first-rate execution of the chosen strategy. They personally lead the process of strategy implementation and execution. In contrast, the managers of poorly performing organizations are into the machinations of corporate bureaucracy; the bulk of their time is taken up with studies, reports, meetings, policy making, memos and administrative procedure. They don't see systematic implementation of strategic plans as their prime administrative responsibility. They spend most of the workday in their offices, remaining largely invisible to their employees, using immediate subordinates as a conduit to the rest of the organization, and keeping tight control over most decisions.

These contrastant approaches are quite instructive from the managerial point of view. The managers of successful organizations are action-oriented strategic-thinkers who make a habit of keeping an eye on customer needs, new opportunities and competitive positioning while controlling internal operations. They are aware of their responsibility to shape their organization's long term direction, formulate a coherent strategic action plan that will produce competitive advantage and long-term financial success, and orchestrate successful implementation of the chosen strategy. These managers are good strategists and entrepreneurs as well as good inside leaders. Therefore, we can conclude that strategic management is the key factor in achieving organizational performance.

It is usually considered that strategic management has five critical components:

1. Defining the organization's business and developing a strategic mission as a basis for establishing what the organization does or doesn't do and where it's headed.
2. Establishing strategic objectives and performance targets.
3. Formulating a strategy to achieve the strategic objectives and targeted results.
4. Implementing and executing the chosen strategic plan.
5. Evaluating strategic performance and making corrective adjustments in strategy and/or how it is being implemented in light of actual experience, changing conditions and new ideas and opportunities.

**Defining the business**

Defining the business as it currently is and as it will be in the future is a necessary first step in establishing a meaningful direction and developmental path for the organization. Management's view of what the organization seeks to do and to become over the long-term is the organization's *strategic mission*. The strategic mission broadly charts the future course of the organization. Since decisions about long-term direction fall squarely upon the shoulders of senior officers, the strategic mission nearly always reflects the personal vision and thinking of top-level managers.

**Establishing strategic objectives**

Specific performance targets are needed in all areas affecting the survival and success of a company, and they are needed at all levels of management, from the corporate level on down deep into the organization's structure. The act of establishing formal objectives not only converts the direction an organization is headed into specific performance targets to be achieved but also guards against drift, aimless activity, confusion over what to accomplish and loss of purpose. Both short-run and long-run objectives are needed. The strategic objectives for the organization as a whole should at a minimum specify: the market position and competitive standing the organization aims to achieve, annual profitability targets, key financial and operating results to be achieved through the organization's chosen activities, and any other milestone by which strategic success is measured. Because performance objectives are needed up and down the organization, the objective-setting task of strategic management involves all managers; each must identify what their area's contribution to strategic success will be and then establish concrete, measurable performance targets.

**Formulating the strategy**

This component of strategic management brings in the critical issue of just how the targeted results are to be accomplished. While objectives are the "end product", the strategy is the "means" of achieving them. The task of formulating the strategy entails taking into account all of the relevant aspects of the organization's internal and external situation and coming up with a detailed action plan for achieving the targeted short-run and long-run results. Strategy is a blueprint of all the important entrepreneurial, competitive and functional area actions that are to be taken in pursuing organizational objectives and positioning the organization for sustained success.

The General Electric definition of strategy is "a statement of how what resources are going to be used to take advantage of which opportunities to minimize which threats to produce a desired result". This definition points toward the issues that strategy must address:

1. *How to respond to changing conditions* specifically, what to do about shifting customer needs and emerging industry trends, which new opportunities to pursue, how to defend against competitive pressures and other externally imposed threats, and how to strengthen the mix of the firm's activities by doing more of some things and less of others.
2. *How to allocate resources* over the organization's various business units, divisions, and functional departments making decisions that steer capital investment and human resources in behind the chosen strategic plan is always critical; some kind of strategy-supportive guidelines for resource allocation have to exist.
3. *How to compete* in each one of the industries in which the organization participates decisions about how to develop customer appeal, to position the firm against rivals, to emphasize some products and de-emphasize others, and to meet specific competitive threats are always integral to competitive survival and the achievement of a defendable competitive advantage.
4. Within each line of business of the organization, *what actions and approaches to take in each of the major functional areas and operating departments* to create a unified and more powerful strategic effort throughout the business unit. Obviously, the different functional and operating level strategies ought to be coordinated rather than be allowed to go off on independent courses; they need to support the creation of a sustainable

competitive advantage.

The issues of strategy thus go up and down the managerial hierarchy; strategy is not just something that only top management wrestles with. While there is indeed a strategy for the organization as a whole that is top management's responsibility, there are strategies for each line of business the organization is in; there are strategies at the functional area level (manufacturing, marketing, finance, human resources, and so on) within each business; and there are strategies at the operating level (for each department and field unit) to carry out the details of functional area strategy. Optimally, the strategies at each level are formulated and implemented by those managers closest to the scene of the action and then sufficiently coordinated to produce a unified action plan for the whole organization. The content of a strategic action plan reflects entrepreneurial judgments about the long-term direction of the organization, any need for major new initiatives (increased competitive aggressiveness, a new diversification move, divestiture of unattractive activities), and actions aimed at keeping the organization in position to enjoy sustained success. Specific entrepreneurial aspects of the strategy formation process include:

- Searching actively for innovative ways the organization can improve on what it is already doing.
- Identifying new opportunities for the organization to pursue.
- Developing ways to increase the firm's competitive strength and put it in a stronger position to cope with competitive forces.
- Devising ways to build and maintain a competitive advantage.
- Deciding how to meet threatening external developments.
- Encouraging individuals throughout the organization to put forth innovative proposals and championing those that have promise.
- Directing resources away from areas of low or diminishing results toward areas of high or increasing results.
- Deciding when and how to diversify.
- Choosing which businesses (or products) to abandon, which of the continuing ones to emphasize, and which new ones to enter or add.

Analysis and judgment are the most important factors. The right choice and strategy for one organization need not be right for another organization - even one in the same business, because situations differ from organization to organization, as well as from time to time. Strongly positioned firms can do things that weakly positioned ones can't do, and weak firms need to do things that strong ones don't. A good strategy is one that is right for the organization, considering all of the relevant specifics of its situation. The entrepreneurial task of formulating strategy thus always requires heavy doses of *situational analysis* and judgment, with the aim being to achieve "goodness of fit" between strategy and all the relevant aspects of the organization's internal situation and external environment. Indeed, one of the special values and contributions of managers is an ability to develop customized solutions that fit the unique features of an organization's situation.

**Strategy implementation and execution**

Putting the strategy into place and getting individuals and organizational subunits to go all out in executing their part of the strategic plan successfully is essentially an administrative task. This implies several managerial challenges, such as:

- Buiding an organization capable of carrying out the strategic plan;
- Developping strategy-supportive budgets and programs;
- Linking the motivation and reward structure directly to achieving the targeted results;
- Creating an organizational culture that is in tune with strategy in every success-causing respect;
- Developing an information and reporting system to track and control the progress of strategy implementation;
- Installing policies and procedures that facilitate strategy implementation.

Developing an action agenda for implementing and executing the strategy involved managers at all levels, deciding on answers to the question "What is required for us to implement our part of the overall strategic plan and how can we best get it done?" doing this task well means scrutinizing virtually every operating activity to see what actions can be taken to improve strategy execution and to instill strategy-supportive practices and behaviour. The administrative tasks of implementing and executing the strategy involve a process of moving incrementally and deliberately to create a variety of "fits" that bring an organization's conduct of its internal operations into good alignment with strategy. A number ot fits are thus needed:

- Between strategy and the internal organizational structure;
- Between strategy and organizational skills/technical know-how /operating capabilities;
- Between strategy and the allocation of budgets and staff size;
- Between strategy and the organization's systems of reward and incentives;
- Between strategy and internal policies, practices and procedures;
- Between strategy and the internal organizational atmosphere (as determined by the values and beliefs shared by managers and employees, the philosophies and decision-making styles of top-managers, and other factors that make up the organization's personality and culture).

Broadly viewed, the management's task of strategy implementation is one of scrutinizing the whole internal organization to diagnose what strategy-supportive approaches are needed and what actions to take to accomplish them. Then the different pieces of the implementation plan need to be arranged into a pattern of action that will produce orderly change (from the old strategy to the new strategy) rather than creating disruption and dissatisfaction with the way things are being handled. Both the sequence of actions and the speed of the implementation process are important aspects of uniting the entire organization behind strategy accomplishment.

### Evaluating strategic performance and making corrective adjustments

Neither strategy formulation nor strategy implementation is a once-and-for-all-time task. In both cases, circumstances arise which make corrective adjustments desirable. Strategy may need to be modified because it is not working well or because changing conditions make fine-tuning, or even major overhaul, necessary. Even a good strategy can be improved, and it requires no great argument to see that changes in industry and competitive conditions, the emergence of new opportunities or threats, new executive leadership, a reordering of objectives, and the like can all make a change in strategy desirable. Likewise, with strategy implementation there will be times when one or another aspect of implementation does not go as well as planned, making adjustments necessary. And changing internal conditions, as well as experiences with current strategy execution, can drive different or improved implementation approaches. Testing out new ideas and learning what works and what doesn't through trial and error is common.

Thus, it is always a compulsory task for managers to monitor both how well the chosen strategy is working and how well implementation is proceeding, making corrective adjustments whenever better ways of doing things can be supported. The function of strategic management is ongoing, not something to be done once and then neglected.

### The process of strategic management

Because each component of strategic management entails judging whether to continue with things as they are or to make changes, *the task of managing strategy is a dynamic process* - all strategic decisions are subject to future modification. Changes in the organization's situation and ups and downs in financial performance are constant drivers of strategic adjustments.

A model of the strategic management process is shown in Figure 1. The first three components, in combination, give direction to the enterprise, establish the directional map for strategic action, and, in effect, define what is called an organization's *strategic plan.* The fourth component is easily the most complicated and challenging one because it involves not only deciding on but also undertaking the administrative actions needed to convert the strategic plan into results; indeed, orchestrating the execution of strategy is probably 5 to 10 times more time-consuming than is formulating the strategic plan. The fifth component, evaluating strategic performance and making corrective adjustments, is both the end and the beginning of the strategic management cycle. The march of external and internal events guarantees that the time will come for making revisions in the four previous components. Most of the time, revisions will be of the fine-tuning variety, but occasions for major overhaul in one or more components arise - sometimes because of significant external developments and sometimes because of sharply sliding financial performance.

| **Phase 1** | **Phase 2** | **Phase 3** | **Phase 4** | **Phase 5** |
|---|---|---|---|---|
| Defining the business and establishing a strategic mission | Setting strategic objectives and performance targets | Formulating a strategy to achieve the target objectives | Implementing and executing the strategic plan | Evaluating performance and reformulating the strategic plan and/or its implementation |

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|---|---|---|---|---|
| Redefine as needed | Revise as needed | Reformulate as needed | Rework as needed | Recycle to phases 1, 2, 3 or 4 as needed |

**Figure 1 The strategic management process**

While defining the business, establishing strategic objectives, formulating a strategy, implementing and executing the strategic plan, and evaluating performance accurately portray the conceptual elements in managing an enterprise's strategy, the process is not quite so cleanly divided and neatly performed in actual practice. First, managers do not necessarily, or even usually, go through the sequence in rigorous lockstep fashion. Moreover, the boundaries between the components are sometimes hard to distinguish in practice: establishing a strategic mission shades into setting objectives for the organization to achieve (both involve direction-setting); objective-setting shades into considering whether and how strategies can be formulated to achieve them; and deciding on a strategy is nearly always entangled in discussions about the direction the organization needs to take and the position it should try to assume.

Second, the tasks involved in strategic management are never isolated from everything else that falls within a manager's purview. Strategy has to be formulated and implemented in the midst of a managerial schedule that is fragmented with appointments, meetings, paperwork deadlines, unexpected problems, and momentary crises. It is incorrect to construe the job of managing strategy as the exclusive task of managers, even though it may well be the most important function they perform where organizational success or failure is concerned.

Third, the demands that strategy management puts on the manager's time are irregular. Strategic issues, new opportunities, and bright ideas about strategy or its implementation do not appear according to some ordered timetable; they have to be dealt with whenever they arise.

Finally, formulating and implementing strategy must be regarded as something that is *ongoing* and that *evolves.* What qualifies as a high-performance strategy today is sooner or later rendered stale by events unfolding both inside and outside the company. The task of "strategizing" can never therefore be a one-time exercise. While the "whats" of an organization's strategic mission and long-term strategic objectives, once established, usually present fairly stable targets to shoot for, the "hows" of strategy evolve regularly in response to changes in an organization's internal situation and external environment. As a consequence, fine-tuning-type changes in strategic plans, and an occasional major change in strategic thrust, are normal and expected (big strategy changes, however, cannot be made often). The need to keep strategy in tune with an organization's changing situation makes the strategic management process dynamic and means that the prevailing strategy is rarely the result of a single comprehensive analysis. Strategic decisions are made over a period of time, not all at once; moreover, previous decisions are modified and decisions to initiate new strategic moves are forthcoming from time to time. Much of the time strategy evolves in a fairly orderly manner, but sometimes the strategy is crisis-driven, forcing a number of big strategic decisions to be made rapidly.

Similarly, strategy implementation is the product of incremental improvements, internal fine-tuning, the pooling effect of many administrative decisions, and gradual adjustments in the actions and behavior of both managerial subordinates and employees. Implementation is not something that can be made to happen overnight. The transition from the old strategy to executing the new strategy takes time; normally, the larger the degree of strategic change, the more time it takes for the new methods of implementation to take hold.

### The importance of the strategic management process in the knowledge-based economy

Every organization has both a strategy and an internal action agenda for executing it, however conscious or well considered or imperfect they may be. Sometimes strategic plans are openly stated by management, and sometimes they remain implicit in management decisions and the organization's patterns of operation. Sometimes courses of action are chosen after exhaustive analysis, and sometimes strategic decisions emerge haphazardly from chance occurrences and historical accidents occasioned by the experiences and personalities of previous leaders, the position of the company in the industry, and the economic circumstances surrounding its development. Or, in perhaps the most frequent case, an enterprise's menu of strategic actions and approaches is the product of many internal analyses and reviews, years of market feedback regarding what worked and what didn't, prior strategic moves and decisions, assessments about what the future will bring, and a solid dose of experience and judgment, in other words all the knowledge gained in time by an organization.

The advantages of first-rate strategic thinking and a deep commitment to the strategic management process include the guidance it provides to the entire management hierarchy in making clear just what it is the company is trying to do and to achieve; the contribution it makes to recognizing and responding to market changes, new opportunities, and threatening developments; the rationale it provides for management in evaluating competing requests for investment capital and new staff; the coordination it adds to all the strategy-related decision making done by managers across the organization; and the proactive instead of reactive posture that it gives to the organization. As already stated, high-performing companies use their knowledge and global expertise to deliberately try to impact their target markets with a powerful strategy; they try to initiate and lead, not just react and defend. In their view, the real purpose and value of strategy is to come up with an action plan that will successfully attract buyers, produce a sustainable competitive advantage, boost the firm's market stature, put added competitive pressure on rivals, and push performance to superior levels.

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