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THE DEVELOPMENT OF STRATEGIC MANAGEMENT

The top managers agree on the fact that the development of new strategies is their most important task. However, up to what extent do the time and means expended on the more or less formalized strategic processes really lead to a better efficiency and productivity of the firm? It was dominant task of the study of the German counselling firm The Galileo Consulting Group in cooperation with the European Business School in Oestrich-Winkel. Interactive strategic modelling is a method of an individualizing instrumentarium by means of which it is possible to depict interactively various variant of future actions.

1. Introduction

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and information systems aspects of a business to achieve organizational success [1].

The strategic-management process can best be studied and applied using a model. Every model represents some kind of process. The framework illustrated in Figure 1 is a widely accepted, comprehensive model of the strategic-management process. This model does not guarantee success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic-management process are shown in the model [1].

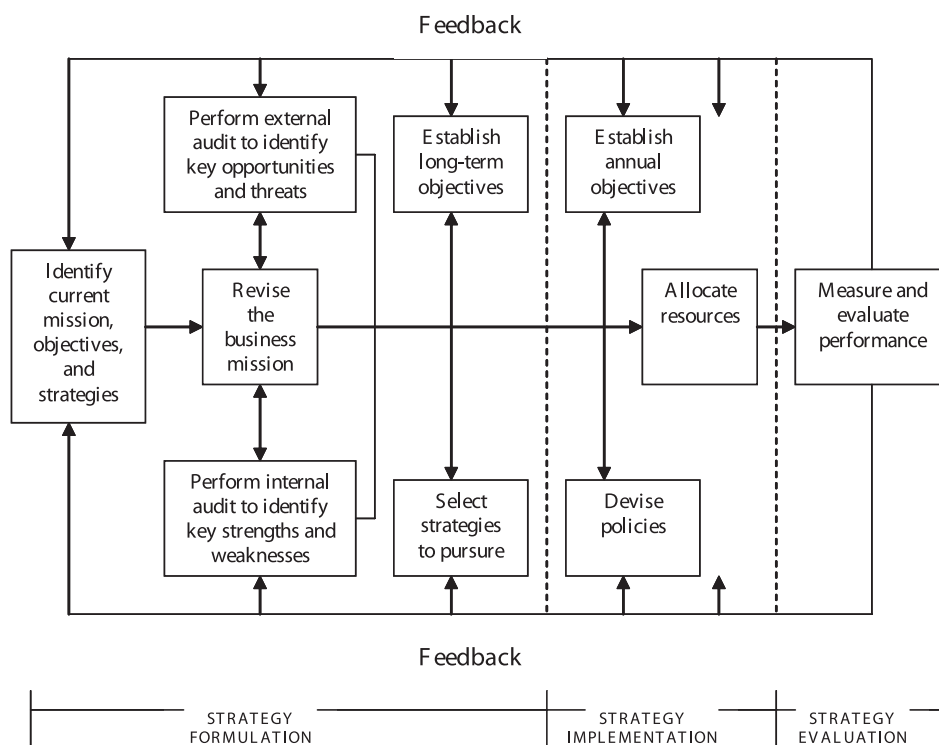


Fig. 1 A comprehensive strategic-management model

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2. The development of new strategies

The top managers agree on the fact that the development of new strategies is their most important task. That is why the majority of firms invest a lot of time and means in strategic planning.

However, up to what extent do the time and means expended on the more or less formalized strategic processes really lead to a better efficiency and productivity of the firm? That was the key problem led to the birth of a study realized in German companies in 2003 – 2004.

The study of the German counselling firm The Galileo Consulting Group in cooperation with the European Business School in Oestrich-Winkel was supposed to answer three questions [2]:

- *How should the strategic processes be outlined in order to have a positive effect on the survival of the firm?*
- *How do the successful strategic conceptions differ from the less successful?*
- *How should the strategic processes look like in order to assure an early acceptance or reassessment of the firm's strategy and realize the strategy in a successful way?*

Within the said study 428 firms in Germany were addressed taking into account the extent of their turnover. The invitation to join the study was positively accepted by 28 % of the addressed firms, i.e. 122 firms. 80 % of the firms participating in the research, including the banks reported a turnover exceeding a milliard euros. The research has shown that the success of the strategies is supported by the six of the most important factors:

1 Integrated conception

More successful are those firms which manage to combine and integrate various analytical approaches than firms applying one isolated approach. In strategic analyses and within the preparation of strategies, successful firms use the information from internal and external resources.

2 Behaviour of the competition

The firms that incorporate also the behaviour of the competition into their strategic plans and are able to anticipate the reaction of their competitors are more successful. Nevertheless 31 % of the addressed firms make up their strategies without taking into account the reaction of their competitors. There is a substantial deficit of the strategic management there.

3 Development of alternative strategies

The development of alternative strategic plans increases the hope for the success of the strategies. Still, only 38 % of the addressed firms make up various strategic variants and less than a half of them use the technique of scenarios. At the same time 76 % live in a complicated dynamic environment. An explanation can be found in the fact that the possibility of the technique of scenarios is underestimated and its time exigency is overestimated. And then, there is a strong belief in the correctness of a single proposed and elaborated strategy.

4 IT simulation

Only 19 % of the addressed firms use the computer simulation in the analytical phase of the strategy preparation and only 4 % of the firms use it at the development of strategic alternatives. That is a surprising fact because computer-supported controlling systems at present are standard in big firms. The potential of the use of the computer simulation in this field, however, is significant and a substantial expansion is being expected in the coming years.

5 Engagement of co-workers

Even though 70 % of the addressed firms declared this factor as highly important for the success of the strategic processes, only 51 % of the addressed firms inform their employees purposefully about the contents of the strategies. Systematic education of employees in strategic problems takes place only in 42 % of the addressed firms. How can the staff of the firm and its managerial workers realize the strategy if they are not properly informed about its contents? From this point of view, the requirement of involving one's co-workers in the development of the strategies is imprudent. In spite of the fact it holds true that to get the co-workers involved in the strategic processes provides the assumptions for the identification of the employees with the strategic orientation of the firm and it is a resource of their deeper motivation. Without such an involvement of the employees, the knowledge potentials of the employees, who are often able to discover the weak signals that are important from the strategic point of view much sooner than the management, are not exploited.

6 Regular updating

Three quarters of the addressed firms adapt their strategies to the altered conditions on a regular basis. In a turbulent environment of present markets, the adaptation of the strategies is inevitable. The firms, however, should not wait till some critical situation occurs and then alter the strategy. A continuous controlling process should be applied which will signal the necessity of the updating of the strategy. According to the aforementioned research, only 24 % of the big firms analyze the weak signals of strategic importance on a regular basis.

The overall analysis of the said six factors has shown that only one of fifth of the addressed firms had introduced more than three of the said six factors and none of the addressed firms had introduced all six factors.

In this connection, it is advisable to remember Ashby's law of required diversity which says that only diversity may govern diversity. It is possible to react and respond to the most diverse appeals of the present world only then, if the management system of the firm shows a similar diversity like that shown by the entrepreneurial and market environment. It means that a firm which wants to be successful should use all the six indicated key factors of success.

3. Interactive strategic modelling

It is necessary to bring the strategic management up to date. There is the possibility how to do it. The said possibility is the

interactive strategic modelling (ISM). It is a method of an individualizing instrumentarium by means of which it is possible to depict interactively various variant of future actions. Within this method classic concepts of the development of strategies such as the SWOT analysis or the portfolio method can be connected with the up-to-date approaches such as the technique of scenarios or the simulation technique [3].

The ISM conception divides the strategic management processes into four phases (Fig. 2):

- *Analysis of the present state*
- *Analysis of scenarios*
- *Strategic simulation*
- *Introduction of the results into practice*

These phases should proceed in an interactive way.

1 Analysis of the present state

"To know where we are"

A detailed analysis of the present state should precede the development of the strategic variants. On the one hand, by means of this analysis a frame for the formation of more real strategies is

provided and on the other hand a comparative basis for a future time comparison is being formed. Within such an analysis, suitable indexes for the expression of the attractiveness of the market on which the firm functions, for the assessment of the competitive power of the individual participants of the market and for the expression of the own firm are searched for. Mutual connections between such indexes are looked for. Such problems are usually analyzed by small groups from 4 up to 10 people consisting of representatives of different departments.

2 Analysis of scenarios

"Reflection of the future"

In order to represent the present state, the project group analyzes the problem how the chosen indexes in the planned horizon will develop. Scenarios of a specific market development with specific effects for strategic and financial indexes are proposed. Assessment concerning the development of the negotiating power of the firm in relation to the suppliers and customers in the individual years in accordance with the individual scenarios of the future development takes place. Also discussions are held analyzing how the individual scenarios will affect the strong and weak spheres of the firm.

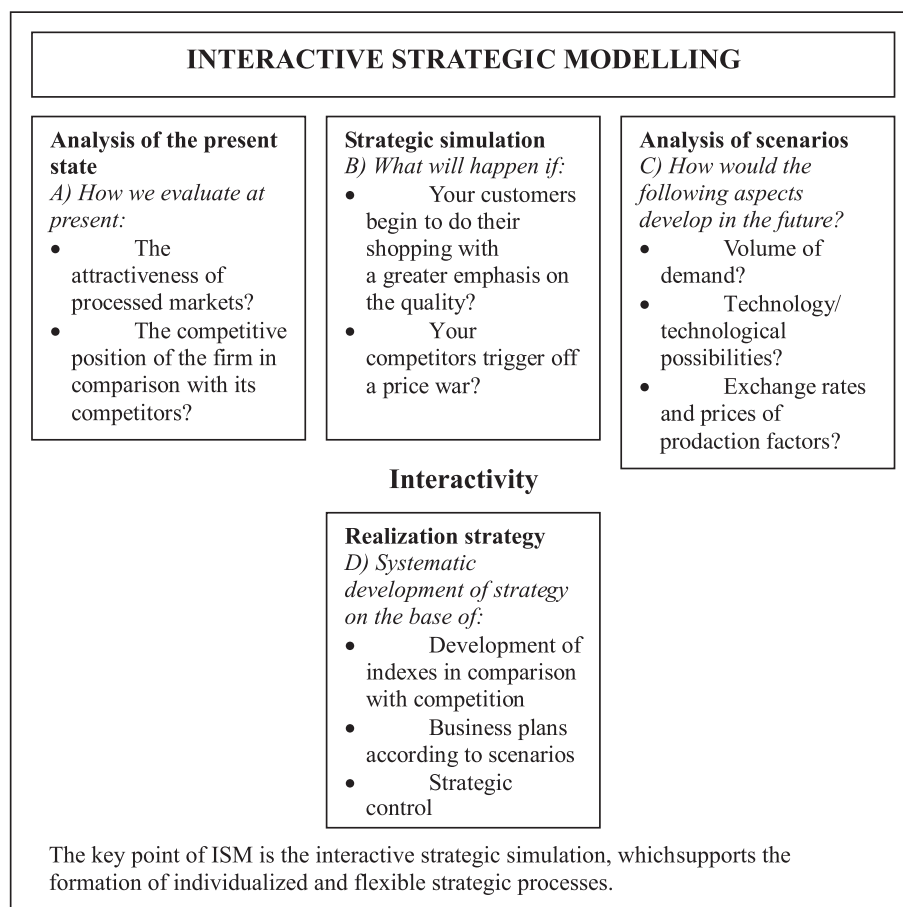


Fig. 2 Phases of interactive development of the strategy by means of ISM

3 Strategic simulation

"What will happen, if?"

The interactive approach to the computer simulation makes it possible continuously to adapt the alternative strategies to the changing conditions, changes in the behaviour of the competition and to the internal factors of the firm and to discover the effect of the changes on the success of the individual variants of the strategy. The simulation makes it possible to discover not only the short-term, but also the long-term effects of the changes.

4 Realization of results

"Who can do what + when?"

On the base of the results of the first three phases, investment plans, catalogues of realization provisions and realization plans are elaborated for a narrower choice of strategies. Since in the elaboration of simulations one works with concrete financial indexes, it is possible to incorporate the realization plans and the provisions immediately in the financial budgets and business plans. In order to make it possible to ensure an active cooperation of the employees in the realization of the strategy, the result of the simulation is reflected in the mutual cooperation with the employees.

4. Conclusions

At present, hardly any firm would rely on the technology of the seventies or eighties in the production sphere. However, we are witnesses of the fact that many firms rely on the outdated approaches.

According to the aforementioned German research, strategic processes suffer from a series of drawbacks. A firm that wishes to increase its hope for a future success will do good, if it brings its strategic management up to date. The interactive strategic conception, such as the said ISM system, provides tools for the modernization of the strategic management. The principle of interactivity included in this methodology, enables to rectify and to outline the initial real state by means of an improved database and to modify strategic scenarios in accordance with an altered development on the market. Despite an increased engagement, the role of the top management in the preparation of strategies remains unshaken. Every computer-supported programme is dependent on the quality of input data, after all, there must be somebody who knows how to interpret the results of the computer simulation in a qualified way. Here lies the unsubstitutable task of the top management.

There is no high-quality strategic management without the intuition of the experienced top manager. On the other hand, it is of importance if intuitively based strategies, in their consequences, can be simulated on computers and if their weak points and risks can be discovered.

Risks cannot be excluded from the strategic management, however, in this way, it is possible to discover many uncertainties which will make it possible for the top management to analyze them and to take necessary measures for their restraint.

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