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- STRATEGIC MANAGEMENT -

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1. Introduction

In this thesis our main goal is to outline, integrate and explain the term of strategic management. We will refer to the meaning and several definitions of strategy and strategic managements process, along with some analysis that is crucial for determining the corporate strategy of a firm. We begin by offering as hort definition of what is a strategic management: ‘’The systematic analysis of the factors associated with customers and competitors (the external environment) and the organization itself (the internal environment) to provide the basis for maintaining optimum management practices. The objective of strategic management to achieve better alignment of corporate policies and strategic priorities.’’

The word “strategy” is grammatically derived from the ancient Greek word “strategia”, which connoted the art and science of directing military force. The art of war, especially planning of movements of troops and ships etc, into favourable positions; plan of action or policy in business or politics etc., as Oxford Pocket Dictionary denotes

A more recent definition is provided by a 1974 survey which took opinions from corporate planners about the word “strategy” and its meaning for them. The conclusion of the respondents was that ‘’strategy includes the determination and evaluation of alternative paths to an already established mission or objective and eventually, choice of the alternative to be adopted. In other words *strategy* outlines how management plans to achieve its objectives.

In almost all situations there are many ways in which an objective or a set of objectives can be pursued. A strategy outlines the fundamental steps – the pathway – the management plans to follow in order to reach an objective or set of objectives. Strategy is the product of the strategic management process. Strategies also exist for individual units or individual members of a organization.

Below, and until the end of this introductory chapter, we will provide some alternative definitions of **strategy** and **strategic management**. We begin by offering definitions for ‘’**strategy**’’.

‘’The determination of the long term goals and objectives of an enterprise, and the courses of action and allocation of resources necessary for carrying out these goals.’’(Alfred Chandler (1962) Strategy and Structure, MIT Press, Cambridge, Ma.)

‘’The policies and key decisions adopted by management that have major impacts on financial performance. These policies and decisions usually involve significant resource commitments and are not easily reversible.’’ (Robert D Buzzell and Bradley T Gale (1987) The PIMS Principles, Free Press, NewYork.)

‘’What **business strategy** is all about … is, in a word, competitive advantage … The sole purpose of strategic planning is to enable a company to gain, as efficiently as possible, a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter a company’s strength relative to that of its competitors in the most efficient way.’’ (Kenichi Ohmae (1983) The Mind of the Strategist, Penguin Books, Harmondsworth.)

‘’**Strategy** is the pattern of objectives, purposes or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in, and the kind of company it is or is to be.’’ (Kenneth Andrews (1971) The Concept of Corporate Strategy, Irwin, Homewood, III.)

Below are some alternative definitions on the term ''strategic management''

''Strategic management is the process of managing the pursuit of accomplishment of organizational mission coincident with managing the relationship of the organization to its environment'' (Higgins 1979)

''A process of thinking through the current mission of the organization, thinking through the current environmental conditions, and then combining these elements by setting forth a guide for tomorrow's decisions and results'' (Steiner, Miner &Gray, 1982)

The rest of the paper is organized as follows: In chapter 2 we present the steps affirm has to undertake in order to create a strategy, along with examples of famous firms' strategies, and a small section regarding the connection of strategic management with entrepreneurship. In chapter 3 we analyze the factors that affect the choice of strategy by a firm, along with the most crucial analysis needed in order to define a corporate strategy, the SWOT analysis. In chapter 4 we present a small version of a case study on Unilever's ''*path to growth*'' strategy. The paper ends with some concluding remarks.

2. Development of a firm's corporate strategy

2.1 Introducing and the 5 tasks of strategic management

''A *company's strategy is the 'game plan' management has for positioning the company in its chosen market arena, competing successfully, pleasing customers, and achieving good business performance''.*

Strategy consists of the whole array of competitive moves and business approaches that managers employ when running a company. When crafting a strategic course, managers choose 'among all the paths and actions we could have chosen, we have decided to go in this direction and rely upon these particular ways of doing business''. A strategy thus entails managerial choices among alternatives and signals organizational commitment to specific markets, competitive approaches and ways of operating.

Managers devise company strategies due to two compelling needs.

- The first is the need to *proactively shape* a company's business. Allowing the strategy to drift passively along as the by – product of ongoing business approaches, occasional proposals for improvement, and periodic adjustments to unfolding events is a sure-fire ticket for inconsistent strategic actions, competitive mediocrity, and lacklustre business results. On the other hand, management's responsibility is to exert entrepreneurial leadership and commit the enterprise to conducting shrewdly calculated business to produce good results. A strategy provides a roadmap to operate by, a prescription for doing business, a game plan for building customer loyalty and winning sustainable competitive advantage over rivals.
- The second need is that of molding the independent decisions and actions initiated by departments, managers, and employees across the company into a *coordinated companywide* game plan. Absent of a strategy, managers have no framework for weaving many different action initiatives into a cohesive whole, no plan for uniting cross—department action operations into a team effort.

Crafting, implementing, and executing strategy are thus core functions of a company's management department. Among all the things managers do, nothing affects a company's ultimate success or failure more fundamentally than how well its management team charts the company's long—term direction, develops competitively effective strategic moves and business approaches, and implements what needs to be done internally to produce good day-in /day-out strategy execution. Indeed, *good strategy and good strategy execution are the most trustworthy sings of good management.*

Managers do not deserve a gold star for designing a potential strategy, but failing to put the organizational means in place to carry it out in high-calibre fashion –weak implementation and execution- undermines the strategy's potential and paves the way for shortfalls in customer satisfaction and company performance. Competent execution of a mediocre strategy scarcely merits enthusiastic applause for management's effort. To truly qualify as excellently managed, a company must exhibit excellent execution of an excellent strategy. Otherwise, any claim of talented management is suspect.

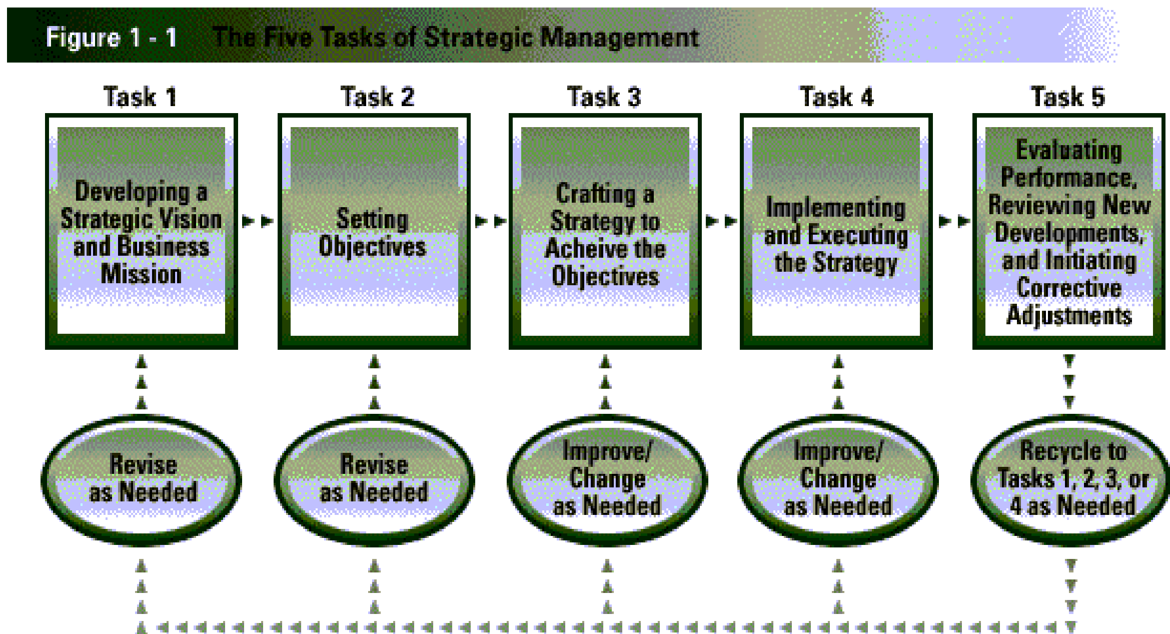
If taken for granted, good strategy combined with good strategy execution does not *guarantee* that a company will avoid periods of mediocre or even very bad performance. Sometimes it takes several years for the management's strategy-making /strategy-implementing efforts to show actual and positive results. Sometimes blue-chip organizations with showcase practices and reputable managers have performance problems because of surprisingly abrupt shifts in market conditions or internal miscues. But neither the 'we need time'' reason nor the bad luck of unforeseeable events is an excuse for mediocre performance for year after year. The management team is responsible to adjust to unexpectedly tough conditions by undertaking strategic defences and business approaches that can overcome adversity. Indeed, the essence of good strategy making is to build a market position strong enough and an organization capable enough to produce successful performance despite unforeseeable events, potent competition, and internal difficulties. The rationale for using the twin standards of good strategy making and good strategy execution to determine whether a company is well managed is therefore compelling: the better conceived a company's strategy and the more competently it is executed, the more likely the company will be a solid performer and a competitive success in the marketplace.

The five tasks of strategic management

The strategy making and implementing process consists of five interrelated managerial tasks:

1. Deciding the kind of business the company will undertake and forming a strategic vision of where the organization needs to be headed - in effect, setting the organization with a sense of purpose, providing long-term direction, and establishing a clear mission to be achieved.
2. Setting objectives - Converting the strategic vision and mission into measurable objectives and performance targets.
3. Crafting a strategy to achieve the results needed to succeed.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Evaluating performance, reviewing new developments, and initiating corrective adjustments in long-term direction, objectives, strategy, or implementation in the light of actual experience, changing conditions, new ideas, and newopportunities.

Figure 1-1below illustrates this process. Altogether, these five components define what is commonly known by the term strategic management.



2.2. Developing a Strategic Vision and Business Mission

The very first question that senior managers need to ask is "What is our vision for the company—what are we trying to do and to become?’’

Developing a carefully reasoned answer for this question leads managers to consider what the company's business character should be and to develop a clear picture of where the company needs to be headed over the next 5 to 10 years. Management's answer to "who we are, what we do, and where we're headed" shapes a course for the organization and helps to establish a strong organizational identity. What a company seeks to do and to become is commonly termed the company's mission. ***A mission statement defines a company’s business and provides a clear view of what the company is trying to accomplish for its customers***. Managers also have to strategically think about what the company’s march of route will be. Management's concept of the business needs to be supplemented with a concept of the company's future business characteristic and long-term direction. Their view of what kind of company are they trying to create and their intent to be in a particular business position represent a strategic vision for the company. By developing a business mission and a strategic vision, the manager educates the workforce with a sense of purpose and a persuasive reasons for the company's future direction.

*If you don’t know where you’re going, any road will get you there. - **Lewis Carroll***

Below we present some examples of company mission and vision statements from publicly known and successful companies:

Avis Rent-a-Car: "Our business is renting cars. Our mission is total customer satisfaction."

Public Service Company of New Mexico: "Our mission is to work for the success of people we serve by providing our customers reliable electric service, energy information, and energy options that best satisfy their needs."

American Red Cross: "The mission of the American Red Cross is to improve the quality of human life; to enhance self-reliance and concern for others; and to help people avoid prepare for, and cope with emergencies."

Compaq Computer: "To be the leading supplier of PCs and PC servers in all customer segments."

Levi Strauss& Company :"We will clothe the world by marketing the most appealing and widely worn casual clothing in the world".

2.3 Setting Objectives

The purpose of setting objectives is to convert managerial statements of business mission and company direction into specific performance targets, by which the organization's progress can be measured. Setting objectives implies challenge, establishing performance targets that require stretch full and disciplined effort. The challenge of trying to close the gap between actual and desired performance pushes an organization to be more inventive, to exhibit some urgency in improving both its financial performance and its business position, and to be more intentional and focused on its actions. Setting objectives that are challenging but achievable can help guard against self-satisfied, non-directed and internal confusion over what to accomplish. As Mitchell Leibovitz, CEO of Pep Boys—Manny, Moe, and Jack states, "If you want to have ho-hum results, have ho-hum objectives."

The objectives managers establish should ideally include both short-term and long-term performance targets. Short-term objectives spell out the immediate improvements and outcomes management desires. Long-term objectives prompt managers to position the company to perform well over the longer term. As a rule, when a choice has to be made between achieving long-run objectives and achieving short-run objectives, long-run objectives should be the prior. A company rarely prospers from repeated management actions that sacrifice better long-run performance for better short-term performance.

Objective-setting is required from every manager. Every unit in a company needs concrete, measurable performance targets that contribute meaningfully towards achieving company objectives. When a company's general objectives are broken down into specific targets for each organizational unit and lower-level managers are responsible for achieving them, a results-oriented climate builds throughout the enterprise. The ideal strategy would be a case where each organizational unit would be striving hard to produce results in its area of

responsibility that will help the company reach its performance targets and achieve its strategic vision.

Regarding a company’s general objectives, two types of performance objectives are called for: financial objectives and strategic objectives. Financial objectives are important because without acceptable financial performance an organization risks being denied the resources it needs to grow and prosper. Strategic objectives are needed to prompt managerial efforts to strengthen a company's overall business and competitive position. Financial objectives typically relate to such measures as earnings growth, return on investment, borrowing power, cash flow, and shareholder returns. Strategic objectives, however, concern a company's competitiveness and long-term business position in its markets: growing faster than the industry average, overtaking key competitors on product quality, customer service or market share, achieving lower overall costs than rivals, boosting the company's reputation with customers, winning a stronger foothold in international markets, exercising technological leadership, gaining a sustainable competitive advantage, and capturing attractive growth opportunities. Strategic objectives apply to the task a manager has not only to deliver good financial performance but also to improve the organization's competitive strength and long-range business prospects. Below we present some examples of strategic and financial objectives from large, reputable and worldwide known corporations.

Apple Computer: "To offer the best possible personal computer technology, and to put that technology in the hands of as many people as possible."

Atlas Corporation: "To become a low-cost, medium-size gold producer, producing in excess of125,000 ounces of gold a year and building gold reserves of 1,500,000ounces."

Exxon: To provide shareholders a secure investment with a superior return."

2.4. Crafting a Strategy

Constructing a strategy leads us to the critical managerial issue of how to achieve the targeted results in light of the organization's situation and prospects. Objectives are the "outcomes," and strategy is the "means" of achieving them. In effect, strategy is the pattern that actions managers employ to achieve strategic and financial performance targets. The task of

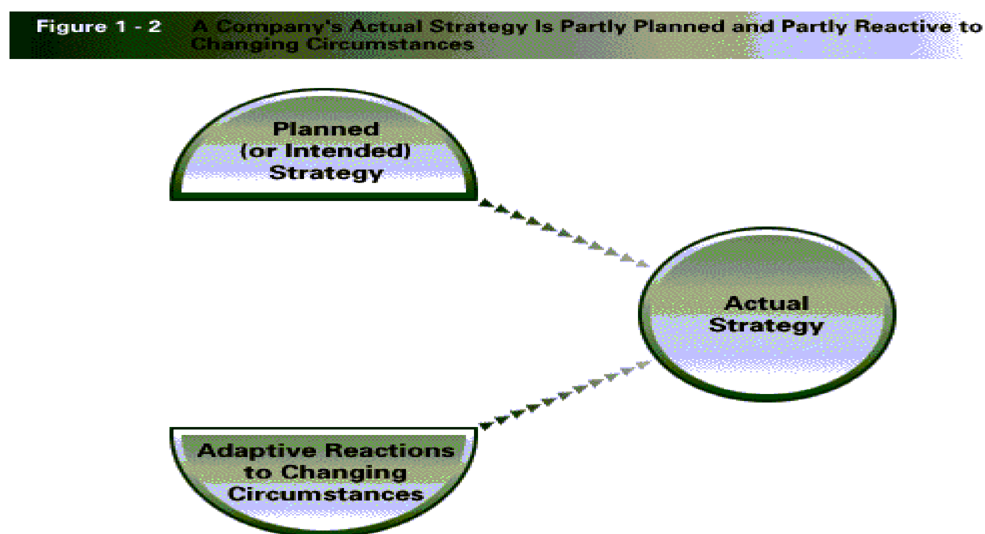
crafting a strategy starts with solid analysis of the company's internal and external environment. Managers are prepared to make a sound strategy to achieve targeted strategic and financial results, only when extensive analysis is done about the internal and external conditions. This, because misanalysis of the situation increases the risk of pursuing ill-awarded strategic actions, and threatens the managers success.

--An organization's strategy consists of the actions and business approaches management employs to achieve the targeted organizational performance—

A company's strategy is typically a combination of (1) deliberate and purposeful actions and (2) pinpointed reactions to unanticipated developments and fresh competitive pressures. As illustrated in Figure 1-2, strategy is more than what managers have carefully set out in advance and intend to do as part of some important strategic plan. New circumstances always emerge, whether important technological developments, rivals' successful new product introductions, newly enacted government regulations and policies, widening consumer interest in different kinds of performance features, etc. There's always enough uncertainty about the future that makes managers unable to plan every single strategic action in advance and pursue their intended strategy without alteration. Company strategies end up, therefore, being a composite of planned actions (intended strategy) and pinpointed reactions to unforeseen conditions ("unplanned" strategy responses).

-- Strategy is both proactive (intended) and reactive (adaptive)--

Consequently, strategy is best considered as a combination of planned actions and on-the-spot adaptive reactions to fresh developing industry and competitive events. The strategy-making task involves developing a game plan, or intended strategy, and then adapting it as events occur. A company's actual strategy is a task managers must undergo as events arise outside and inside the company



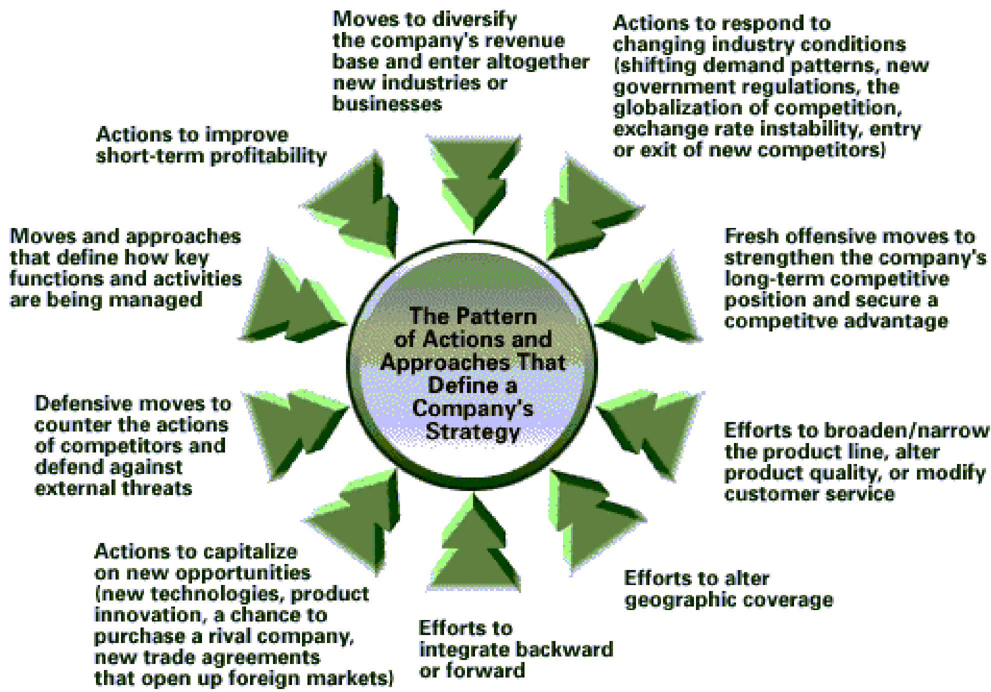
2.5. Why Company Strategies Need to Evolve

Frequent fine-tuning and adjusting a company's strategy, at first in one department or functional area and then in others too, are quite normal. On occasion, fundamental changes in strategy are called for—when a competitor makes a dramatic move, when technological breakthroughs occur, or when crisis strikes and managers are forced to make radical strategy alterations very quickly. Because strategic moves and new action approaches are ongoing across the business, an organization's strategy forms over a period of time and then reforms as changes begin to occur. Current strategy is typically a combination of previous approaches, fresh actions and reactions, and potential moves in the planning stage. Except for crisis situations (where many strategic moves are often made quickly to produce a substantially new strategy almost overnight) and new company start-ups (where strategy exists mostly in the form of plans and intended actions), it is common for key elements of a company's strategy to emerge in bits and pieces as the business develops.

A company's strategy is almost never so well-conceived and durable to withstand the test of time. Even the best-laid business plans must be adapted to shifting market conditions, altered customer needs and preferences, the strategic maneuvering of rival firms, emerging opportunities and threats, unforeseen events, and fresh thinking about the necessary movements needed to improve the strategy. This is why strategy-making is a dynamic process and why a manager must revaluate strategy regularly, refining and recasting it as needed.

However, when strategy changes that fast and fundamentally that the game plan undergoes major amendment every few months, managers are almost certainly guilty of poor strategic analysis, bad decision-making, and weak "strategizing". Occasionally important changes in strategy are needed, especially in crisis situations, but they cannot be made too often without creating organizational confusion and disrupting performance. Well-crafted strategies normally have a life expectancy of at least several years, requiring only minor adjustment to keep them in tune with changing circumstances.

Figure 1-3 Shows the kinds of actions and approaches that reflect a company's overall strategy. Because many of them are visible to outside observers, most of a company’s strategy can be deduced from its actions and public pronouncements. Yet, there's an unrevealed portion of strategy where outsiders can only speculate about the actions and moves company managers are considering. Managers often, for good reason, choose not to reveal certain elements of their strategy until the time is right.



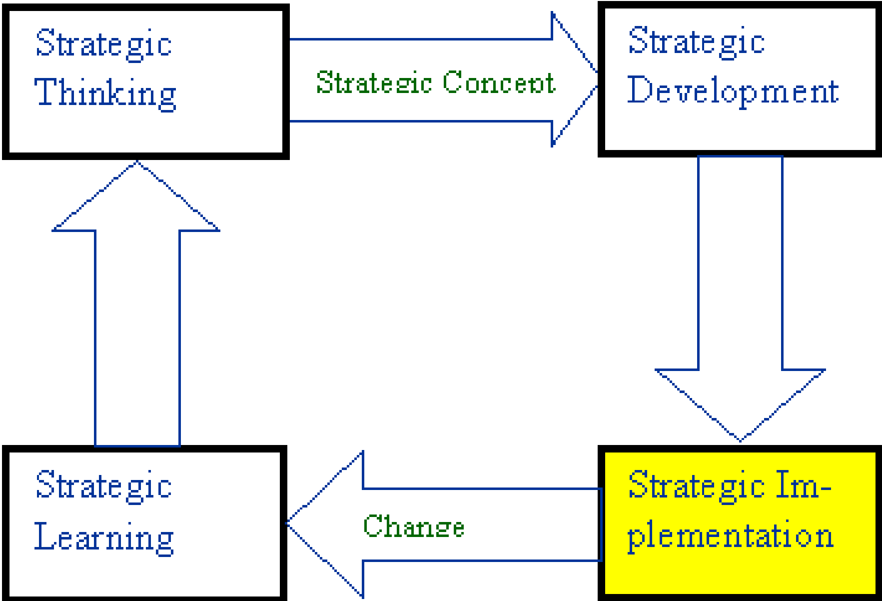
2.6. Strategy and Strategic Plans

The development of a strategic vision and mission, establishment of objectives, and decision on a strategy are basic direction-setting tasks. They map out where the organization is headed, its short-range and long-range performance targets, and the competitive moves and internal action approaches to be used in order to achieve the targeted results. Together, they constitute a strategic plan. In some companies, especially large corporations committed to regular strategy reviews and formal strategic planning, a document describing the upcoming year's strategic plan is prepared and circulated to managers and employees (although parts of the plan may be omitted or expressed in general terms if they are too sensitive to reveal before they are actually undertaken).

In other companies, the strategic plan is widespread distributed but rather exists in the form of consensus and commitments among managers about where to head, what to accomplish, and how to proceed. Organizational objectives are the part of the strategic plan most often spelled out explicitly and communicated to managers and employees.

However, annual strategic plans seldom anticipate all the strategically relevant events that will occur in the next 12 months. Unforeseen events, unexpected opportunities or threats, plus the constant emerging of new proposals encourage managers to modify planned actions and make "unplanned" reactions. Postponing the redrafting of strategy until it's time to work on next year's strategic plan is both foolish and unnecessary. Managers who confine their

strategizing to the company's regularly scheduled planning cycle (when they can't avoid turning something in) have a wrongheaded concept of what their strategy-making responsibilities are. Once-a-year strategizing under "have to" conditions is not a prescription for managerial success.



2.7. Strategy Implementation and Execution

The strategy-implementing function consists of understanding the needed steps for the strategy to work and to reach the targeted performance on schedule — the needed skill here is to be craft at figuring out what must be done to put the strategy on schedule, execute it excellently, and produce good results. The job of implementing strategy is mainly a practice, close to-the-scene administrative task that includes the following principal aspects:

1. Building an organization capable of carrying out the strategy successfully.
2. Developing budgets that steer resources into those internal activities critical to strategy success.
3. Establishing strategy-supportive policies.
4. Motivating people in ways that stimulate them to pursue the target objectives energetically and, if need be, modifying their duties and job behaviour to better fit the requirements of successful strategy execution.
5. Tying the reward structure to the achievement of targeted results.
6. Creating a company culture and work climate useful for successful strategy implementation.
7. Installing internal support systems that enable company personnel to carry out their strategic roles effectively day in and day out.
8. Performing best practices and programs for continuous improvement.
9. Applying the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed.

The administrative aim is to create "connection" between the implementation process and the necessary activities for effective strategy execution. The stronger the connection, the better the strategy execution. The most important connections are between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal support systems, and between strategy and the organization's culture (the latter emerges from the values and beliefs shared by organizational members, the company's approach to people management, and rooted behaviours, work practices, and ways of thinking). Fitting the ways the organization does things internally to what it takes for effective strategy execution helps unite the organization behind the accomplishment of strategy.

The strategy-implementing task is easily the most complicated and time- consuming part of strategic management. It cuts across virtually all parts of managing and must be initiated from many points inside the organization. The strategy implementer's agenda for

action emerges from careful assessment of necessary organizational activities in order to carry out the strategic plan proficiently. Each manager has to think through the answer to "What has to be done in my area to carry out my piece of the strategic plan, and how can I best get it done?" The amount of internal change and effort that is needed to put the strategy into effect depends on the degree of strategic change, the amount of internal practices which are on the wrong track from what the strategy requires, and how well strategy and organizational culture already match each other. As the necessary changes and actions are identified, managers must supervise all the details of implementation and apply enough pressure on the organization to convert objectives into results. Depending on the amount of internal change involved, full implementation can take several months to several years.

Strategy Execution: What's Standing in Your Way?

The figure below illustrates that only 10% of strategies that are initially planned, are actually implemented.

According to Kaplan and Norton and the figure above, there are four barriers to successful strategy implementation, which can be summarized in the four following points.

1. 85% of executive teams spend less than one hour per month discussing strategy.
2. 60% don't link budgets to strategy.
3. Only 25% of managers have incentives linked to strategy.
4. Only 5% of the workforce understands the strategy.

2.8. Strategy and Entrepreneurship

Crafting strategy is an exercise of entrepreneurship and thinking strategically and out-of-the-box. The challenge for company managers is to keep their strategies closely matched to outside crucial factors influencing them, such as changing buyer preferences, the latest actions of rivals, market opportunities and threats, and newly appearing business conditions. Unless managers exhibit entrepreneurship in studying market trends, listening to customers, enhancing the company's competitiveness, and leading company activities in new directions in a timely manner, company strategies can't be responsive to changes in the business environment. *Good strategy-crafting is therefore inseparable from good business entrepreneurship.* One cannot exist without the other.

2.8.1. Two threats when engaging with entrepreneurship

A company encounters two kinds of threats when its managers fail to exercise entrepreneurship in strategy making.

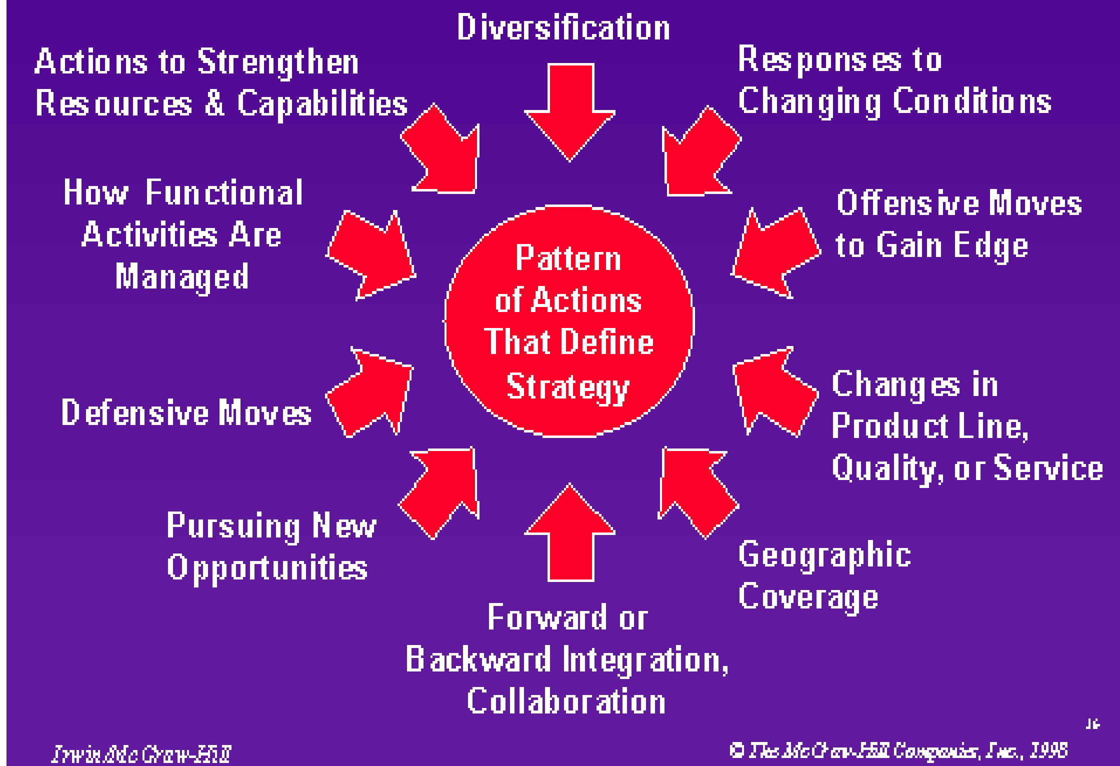
The first is a stale strategy. The faster a company's business environment changes, the more critical it becomes for its managers to be good entrepreneurs in diagnosing shifting conditions and making strategic adjustments. Coasting along with a set strategy tends to be riskier than making modifications. Strategies that are increasingly not linked with market realities make a company a good candidate for a performance crisis.

The second threat is inside-oriented strategic thinking. Managers with weak entrepreneurial skills are usually risk-averse and hesitant to carry out a new strategic course so long as the present strategy produces acceptable results. They pay only neglectful attention to market trends and listen to customers infrequently. Often, they either dismiss new outside developments as unimportant ("we don't think it will really affect us") or else study them to death before taking actions. Being comfortable with the present strategy, they focus their energy and attention inward on internal problem-solving, organizational processes and procedures, reports and deadlines, company politics, and the administrative demands of their jobs. Consequently the strategic actions they initiate tend to be inside-out and governed by the company's traditional approaches, what is acceptable to various internal political coalitions, what is philosophically comfortable, and what is safe, both organizationally and career wise. Inside-out strategies, while not disconnected from industry and competitive conditions, are not that much market-driven and customer-driven as should be. On the other hand, outside considerations end up being compromised to harmonize internal considerations. The weaker a manager's entrepreneurial instincts and capabilities, the greater a manager's trend to engage in

inside-out strategizing, an outcome that raises the potential for reduced competitiveness and weakened organizational commitment to total customer satisfaction.

Good standards of a manager’s entrepreneurial spirit, are the measures of how boldly managers embrace new strategic opportunities, how much they emphasize out-innovating the competition, and how often they lead actions to improve organizational performance. Entrepreneurial strategy-makers are inclined to be first-movers, responding quickly and opportunistically to new developments. They are willing to take prudent risks and initiate trailblazing strategies. In contrast, reluctant entrepreneurs are risk-averse; they tend to be late-movers, hopeful about their chances of soon catching up and alert to how they can avoid whatever "mistakes" they believe first-movers have made.

In the process of strategy-making, all kinds of managers, not only senior executives, must take prudent risks and exercise entrepreneurship. To give some examples, entrepreneurship is involved when a district customer service manager, as part of a company's commitment to better customer service, crafts a strategy to speed the response time on service calls by 25 % and commits $15,000 to equip all service trucks with mobile telephones. Also, entrepreneurship is involved when a warehousing manager contributes to a company's strategic emphasis on total quality by figuring out how to reduce the error frequency on filling customer orders from one error every 100 orders to one error every 100.000. A sales manager exercises strategic entrepreneurship by deciding to run a special promotion and cut sales prices by 5 percent to get market share from rivals. A manufacturing manager exercises strategic entrepreneurship in deciding, as part of a companywide emphasis on greater cost competitiveness, to source an important component from a lower-priced South Korean supplier instead of making it in-house. Company strategies can't be truly market - and customer-driven unless the strategy-related activities of managers all across the company have an outside-oriented entrepreneurial character and contribute to boosting customer satisfaction and achieving sustainable competitive advantage.



2.8.2. Towards the entrepreneurial organization

In this sub-chapter we will analyse a very interesting aspect when a firm engages with entrepreneurship in order to develop a corporate strategy. It is an aspect well analyzed in the paper of Stevenson and Jarillo (1990),‘‘ A paradigm of entrepreneurship: entrepreneurial management’’.

As the authors argue, any definition of entrepreneurship can easily be applied to a corporation, and this application can be summarized in six logical propositions concerning corporate entrepreneurship. The field of corporate entrepreneurship would not limit itself to the study of internal venturing, but also to the ability of corporations to act entrepreneurially. The first proposition is purely definitional. Together with proposition 2, they set the stage for the rest, more testable and research oriented:

Proposition 1*: An entrepreneurial organization is that which pursues opportunity, regardless of resources currently controlled.*

As has been argued in previous literature on the subject, it is important to distinguish between individuals and organizations. At least in the case of entrepreneurial behaviour, this cannot be avoided by equating an organization's direction to the wishes of its top managers: an opportunity is, by definition, something beyond the current activities of the firm, and it is very hard for top managers to 'force' that pursuit through the normal managerial mechanisms of planning and control: it has to come from below. Therefore:

Proposition 2*: The level of entrepreneurship within the firm (i.e. the pursuit of opportunities) is critically dependent on the attitude of individuals within the firm, below the ranks of top management*.

The crux of corporate entrepreneurship is, then, that opportunity for the firm has to be pursued by individuals within it, who may have perceptions of personal opportunity more or less at variance with opportunity for the firm. In addition, an opportunity can hardly be pursued, of course, if it has not been spotted. This is a subject very interesting when it comes for the construction of a corporate strategy, and as we have argued before, spotting opportunities is certainly a function of the individual's abilities: his/her intimate knowledge of the market, the technologies involved, customer's needs, etc. As a consequence, the kind of jobs and positions the firm designs, the effort it puts into developing generalists, able to make the necessary mental connections to detect the opportunity, should have a measurable impact. Thus:

Proposition 3*: The entrepreneurial behaviour exhibited by a firm will be positively correlated with its efforts to put individuals in a position to detect opportunities; to train them to be able to do so and to reward them for doing so.*

But, as the authors argue, the individual's motivations are decisive to the emergence of entrepreneurial behaviour. By definition, nobody will pursue an opportunity if he/she does not want to, and we have seen argued that the very exceptional nature of pursuing opportunities without adequate resources makes it very difficult for top management to 'force' that pursuit through the typical managerial mechanisms by pre specifying task goals. There is a large body-of literature on motivation, not only in the field of entrepreneurship (the 'why' question) but also in organization theory and psychology. It is not redundant to remark how important motivation is for the emergence of entrepreneurial behaviour within the corporation. In most

cases the individuals who must exhibit that behaviour if the firm is to succeed have already satisifed most of their basic needs, since they are on a company's payroll.

So, as the authors conclude, it may be more efficient to lessen the impact of deterrents to entrepreneurial behaviour, particularly that of fear of the consequences of failure to the career of the corporate entrepreneur. Given that the would-be entrepreneurs enjoy an acceptable status within the firm, the treatment of failure would appear to be a critical component of the necessary motivation to pursue opportunity. We shortly present the following 3 propositions of what consists an entrepreneurial behaviour:

Proposition 4*: Firms which make a conscious effort to lessen negative consequences of failure when opportunity is pursued will exhibit a higher degree of entrepreneurial behaviour. The third element in the pursuit of opportunity, after its detection and the willingness to pursue it, is the belief that it can, at least with some likelihood, be successfully exploited. Thus:*

Proposition 5: *Not only the success rate, but the very amount of entrepreneurial behaviour will be a function of the employees' (subjective) ability to exploit opportunities.*

Proposition 6*: Organizations which facilitate the emergence of informal internal and external networks, and allow the gradual allocation and sharing of resources, will exhibit a higher degree of entrepreneurial behaviour.*

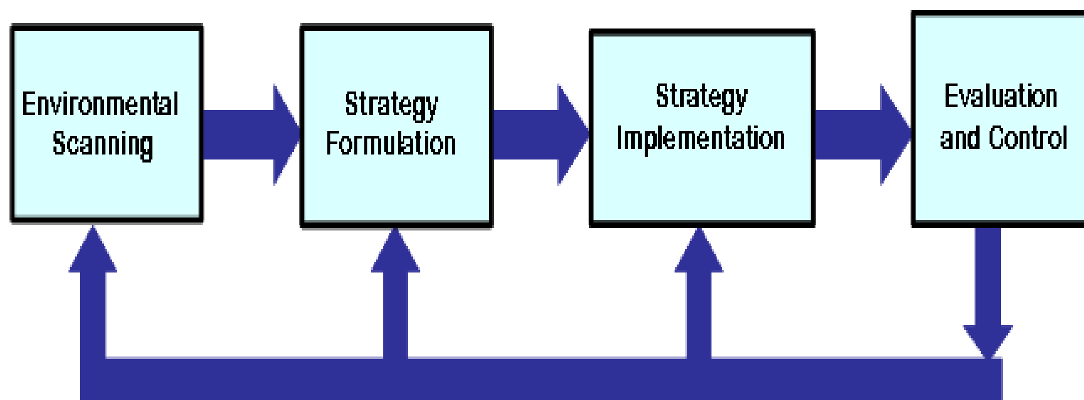
The above mentioned propositions can help us a lot when we want to identify the entrepreneurial component in an organization that builds its corporate strategy. As mentioned, this component can be very crucial for a firm. Being, acting, and thinking as an entrepreneur, can lead the managers/ strategy makers of a company to exploit all the resources efficiently, in order to construct a strategy that lasts in time, with little or no changes.

3. Evaluating Performance, Reviewing New Developments, and Initiating Corrective Adjustments

3.1 Feedback in strategic management

None of the previously stated four tasks of successful strategy making are one-time exercises. New circumstances call for corrective adjustments. Long-term direction may need to be altered, the business redefined, and management's vision of the organization's future course narrowed or broadened. Performance targets may need raising or lowering in light of past experience and future prospects. Strategy may need to be modified because of shifts in long-term direction, because new objectives have been set, or because of changing conditions in the environment.

The search for ever better strategy execution is also continuous. Sometimes an aspect of implementation does not evolve as well as intended and changes have to be made. Progress is typically uneven—faster in some areas and slower in others. Some tasks get done easily; others prove difficult. Implementation has to be thought of as a process, not an event. It occurs through the gross effects of many managerial decisions and many actions on the part of work groups and individuals across the organization. Budget revisions, policy changes, reorganization, personnel changes, reengineered activities and work processes, culture—changing actions, and revised compensation practices are typical actions managers take to make a strategy work better.

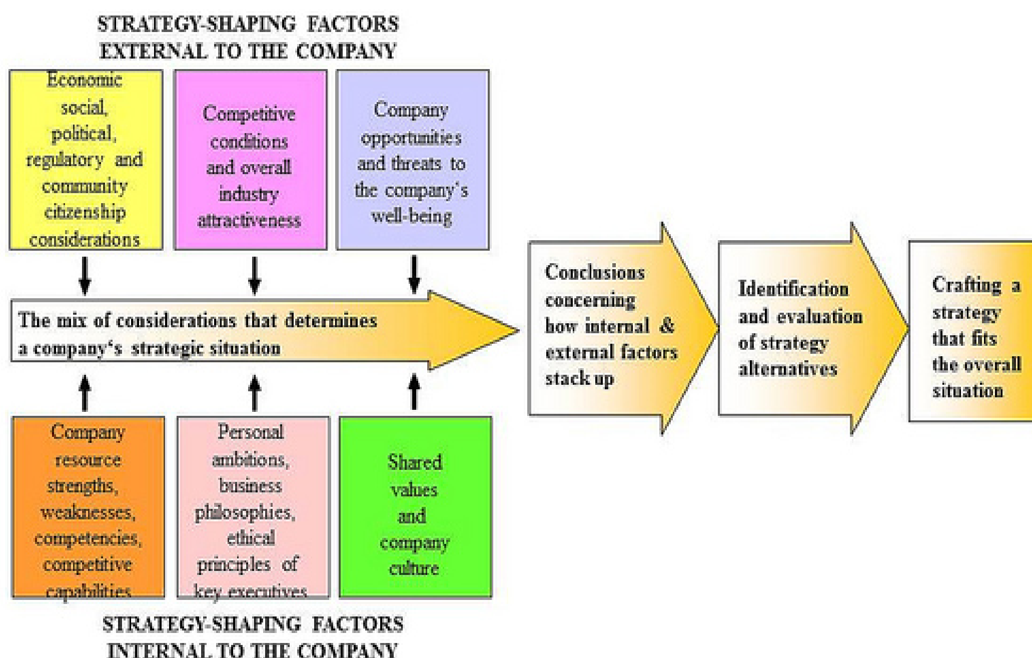


3.2. The Factors That Shape Strategy

Organizations do not exist in a vacuum. Many factors enter into the forming process of a company's strategy. Each exists within a complex network of environmental forces. These forces, conditions, situations, events, and relationships over which the organization has little control are referred to collectively as the organization's **environment**. In general terms, environment can be broken down into three areas:

1. **The microenvironment, or general environment** (remote environment) - that is, economic, social, political and legal systems in the country;
2. **Operating environment** - that is, competitors, markets, customers, regulatory agencies, and stakeholders; and
3. **The internal environment** - that is, employees, managers, union, and board directors.

When formulating a strategy, the strategic decision makers must analyze conditions internal to the organization as well as conditions in the external environment, which are described in the following sections.



Factors shaping the choice of strategy

- **Competitive Conditions and Overall Industry Attractiveness**

An industry's competitive conditions and overall attractiveness are crucial strategy-determining factors. A company's strategy has to be tailored to the nature and mix of key competitive factors: price, product quality, performance features, service, warranties, etc. When competitive conditions intensify significantly, a company must respond with strategic actions to protect its position.

- **The Company's Market Opportunities and External Threats**

The particular business opportunities for a company and the threatening external developments it faces are key influences on strategy choice and shaping, as they play a crucial role in feedback effects. Both of them point to the need for strategic action. A company's strategy needs to be deliberately aimed at capturing its best growth opportunities, especially the ones that hold the most promise for building sustainable competitive advantage and enhancing profitability. Likewise, strategy should provide a defence against external threats to the company's well-being and future performance.

- **Company Resource Strengths, Competencies, and Competitive Capabilities**

One of the most pivotal strategy-shaping internal considerations is whether a company has or can acquire the resources, competencies, and capabilities needed to execute a strategy proficiently. These are the factors that can enable an enterprise to capitalize on a particular opportunity, give the firm a competitive edge in the marketplace, and become a cornerstone of the enterprise's strategy.

- **The Personal Ambitions, Business Philosophies, and Ethical Beliefs of Managers**

Managers do not dispassionately assess what strategic course to steer. Their choices are typically influenced by their own vision of how to compete and how to position the enterprise and by the status and icon they want the company to possess. Both casual observation and formal studies indicate that manager's ambitions, values, business philosophies, attitudes toward risk, and ethical beliefs have important influences on strategy.

- **The Influence of Shared Values and Company Culture on Strategy**

An organization's policies, practices, traditions, philosophical beliefs, and actions combine to create a distinctive culture. Typically, the stronger a company's culture, the more that culture is likely to shape the company's strategic actions, sometimes even dominating the choice of strategic moves. This is because culture-related values and beliefs are so embedded in management's strategic thinking and actions that they condition how the enterprise does business and responds to external events.

--Societal, political, regulatory, and citizenship factors limit the strategic actions a company can or should take--

3.3. SWOT Analysis

Scanning the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths **(S)** or weaknesses **(W),** and those external to the firm can be classified as opportunities **(O)** or threats **(T).** Such an analysis of the strategic environment is referred to as a **SWOT analysis**.

As Sabbaghi and Vaidyanathan (2004) analyse in their article, SWOT analysis is an effective framework for analyzing the Strengths, Weaknesses, Opportunities, and Threats of an organization (or a project) that helps to address the effectiveness of a project planning and implementation. The acronym comes from an old term from the strategic planning field that is concerned with the content and the objectives of the project, and with identifying the right things to do. What is right depends on the specific interface between the project, the objectives it serves, and its environment (target groups, market, law and regulations, etc.). Strengths would define any internal asset that will help to meet demands and to fight of threats. These terms are often understood or identified by the forming of questions such as: What are we good at in project management? How are we doing competitively? Moreover, what are our resources?

Weaknesses describe internal deficits such as lack of motivation, lack of transport facilities, problems in distribution of services or products, low reputation, etc. that hinder the organization in meeting its demands. In this context, one may consider the following questions in order to identify the weaknesses: what are we doing badly? What annoys our clients most?

Opportunities describe any external circumstances or trends that favour the demand for an organization's specific competence. Again, the forming of questions helps us identify this field of analysis too. Questions can be for example: what changes in economic, political, or technological factors (development of new markets for high quality products, new technologies that favor our product, etc.)? Do we expect to see in demand in the near future? The project's success probability depends on whether its strengths not only match the key success requirements for operating in the target environment but also exceed of those of project threats.

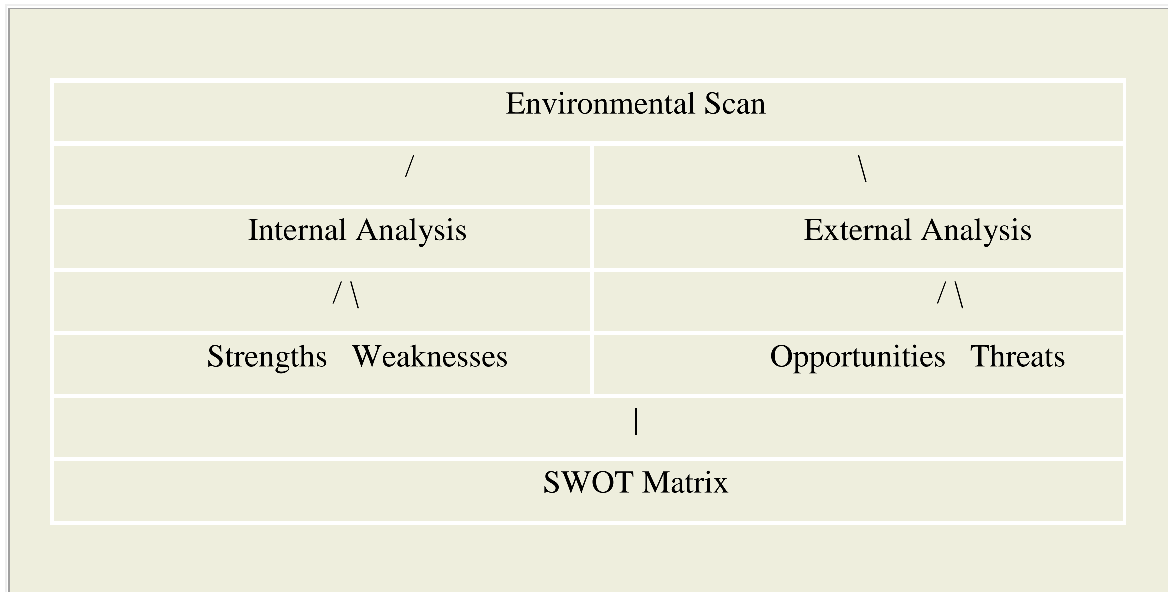
Threats define any external circumstance or trend (establishment of strong competitors, government deficit, or regulations that limit free distribution of our products or buying our services, etc.) that will unfavourably influence demand for an organization's competence.

We will offer an example of a well-known company that can use the SWOT strategy implementation in order to carve a strategy, provided by the same article of Sabbaghi and Vaidyanathan (2004). Dell Computer Corp. recognized that its strength was selling directly to consumers and keeping its costs lower than those of other hardware vendors. As for weaknesses, the company acknowledged that it lacked solid dealer relationships. Identifying opportunities was an easier task. Dell looked at the marketplace and saw that customers increasingly valued convenience and one-stop shopping and that they knew what they wanted to purchase. Dell also saw the Internet as a powerful marketing tool. On the threat side, Dell realized that competitors like IBM and Compaq Computer Corp. had stronger brand names, which put Dell in a weaker position with dealers. Dell developed a business strategy that included mass customization and just-in-time manufacturing (letting customer design their own computers and custom-building systems). Dell also stuck with its direct sales plan and offered sales on the Internet.

In short, SWOT analysis provides a framework for better understanding of framework conditions (strengths and weaknesses) from external framework conditions (opportunities and threats)? For example, an information technology department needs to determine the strengths and weaknesses of its people the project objectives by focusing on the following questions: What are our objectives? What do our customers want? How do we distinguish ourselves from competitors? How can we improve our services? How can we distinguish internal and its technology. It also needs to ensure that the IT strategy complements the company's business goals. The department head needs to ask: What is each staff member good at in project management? What are they not good at in project management? Project leaders also must consider opportunities and threat -- or customers and competitors. How attractive is the market or direction they are considering? What is their market share and cost structure?

The SWOT analysis provides pieces of information helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection. The following diagram shows how a SWOT analysis fits into an environmental scan:

SWOT Analysis Framework



Strengths

A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. Examples of such strengths include:

- patents
- strong brand names
- good reputation among customers
- cost advantages from proprietary know-how
- exclusive access to high grade natural resources
- favorable access to distribution networks

Weaknesses

The absence of certain strengths may be viewed as a weakness. For example, each of the following may be considered weaknesses:

- lack of patent protection
- a weak brand name
- poor reputation among customers
- high cost structure
- lack of access to the best natural resources
- lack of access to key distribution channels

In some cases, a weakness may be the flip side of strength. An example of this fact is the case of a firm that has a large amount of manufacturing capacity. While this capacity may be considered a strength that competitors do not share, it also may be a considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

Opportunities

The external environmental analysis may reveal certain new opportunities for profit and growth. Some examples of such opportunities include:

- an unfulfilled customer need
- arrival of new technologies
- loosening of regulations
- removal of international trade barriers

Threats

Changes in the external environmental also may present threats to the firm. Some examples of such threats include:

- shifts in consumer tastes away from the firm's products
- emergence of substitute products
- new regulations
- increased trade barriers

The SWOT Matrix

A firm should not necessarily pursue the more lucrative opportunities. Rather, it may have a better chance at developing a competitive advantage by identifying a connection between the firm's strengths and upcoming opportunities. In some cases, the firm can overcome a weakness in order to prepare itself to pursue a compelling opportunity.

To develop strategies that take into account the SWOT profile, a matrix of these factors can be constructed. The SWOT matrix (also known as a **TOWS Matrix**) is shown below:

- **S-O strategies** pursue opportunities that are a good fit to the company's strengths.
- **W-O strategies** overcome weaknesses to pursue opportunities.
- **S-T strategies** identify ways that the firm can use its strengths to reduce its vulnerability to external threats.
- **W-T strategies** establish a defensive plan to prevent the firm's weaknesses from making it highly susceptible to external threats.

SWOT / TOWS Matrix

	Strengths	**Weaknesses**
Opportunities	S-O strategies	W-O strategies
Threats	S-T strategies	W-T strategies

		Key Questions:	Typical answers
Internal	Strengths	What are our advantages? What do we do well?, How are we doing competitively? What are our resources? Are there any internal assets (know-how, motivation, technology, finance, business links) which will help to meet demands and to fight off threats?	Well-trained man-power , well established knowledge base, good contact to target group, technology, etc.
	Weaknesses	What could be improved? What is done badly? What should be avoided? Are there any Internal deficits hindering the organization in meeting demands?	Lack of motivation, lack of transport facilities, problems in distribution of services or products, low reputation (the lack of a particular strength)
External	Opportunities	What are the good tasks? What are the interesting trends? What changes do we expect to see in the market over the next few years? Are are any external circumstances or trends that favors the demand for an organization's specific competence?	Changes in technology and market that favor your products or services, changes in government policy related to your industry, changes in social patterns, population profiles, lifestyle, etc., local, national, & international events increasing purchasing power.
	Threats	What is our competition doing? What are the obstacles? What future changes will affect our organization? Is changing technology threatening our position? Do we have management support? Sufficient resources? Are we using the right tools, software, and platform? Are there any external circumstances or trends which will unfavorably influence demand for an organization's competence?	Establishment of strong competitors, lack of cash at household level, governmental regulations that limit free distribution of our product.

In the above table we present a fairly analytical example of constructing a SWOT analysis, based on the ''questioning'' form that we analysed in the beginning of this chapter. As we can see, there is an enormously big amount of questions that we can set in order to define a company's threats, opportunities, strengths and weaknesses. If we answer them fairly correct and honestly, we will develop a skeleton upon we can base the construction of our business plan and our corporate strategy in general. It is a fact that, although kind of ''old'', the SWOT analysis is the first and the very best that comes in mind when we consider the making of a company's strategy.

4. The strategic management process: Case Study: SMP – UNILEVER'S "The path to Growth"

In this chapter, we give a brief example of what constitutes a strategy for a large firm. As we can see, the strategy has got a full name, which means that it is treated as a living organism, which should be fed, and treated carefully in order to flourish and give results in favour f the company.

4.1. Unilever's strategic vision and business mission

"To meet the everyday needs of people everywhere"

4.2. Objectives of "The Path to Growth"

Five-year strategic plan announced in February 2000 designed to accelerate top-line growth and further increase operating margins. The plan centered on a series of initiatives to focus on fewer, stronger brands to accelerate growth. It was subsequently amended, following the acquisition on Best foods, which was completed in October 2000.

In our Path to Growth strategy we committed ourselves to delivering by 2004:

- Annual top line growth of 5-6%
- Operating margins before exceptional items and amortization of goodwill, of more than 16%, compared to 11% at the start of Path to Growth
- Continue to secure low double digit Earnings per share growth through to 2004

4.3. Getting to know the ''Path to Growth"

Principal components of the plan:

Brands: The cornerstone of the plan is the focus of product innovation and brand development on a portfolio of around 400 leading brands which will lead to less fragmentation of resource and bigger hit innovations. By 2004 we expect our leading brands to represent 95% of the business (compared to 75% in 1999). The increase in brand power reflects the contribution from our acquisitions, the planned acceleration in exit from the non-corporate

businesses and the disposal or 'harvesting' of tail brands. Marketing support will have increased by 2004 with 200 basis points of sales.

Supply Chain: The re-ordering of manufacturing plans around a base of 150 key sites and consequent site reduction of 100, costing some €2.3 billion.

Simplification

The revision of knowledge and information systems for and the refocusing of resources behind 400 leading brands with consequent reduction of overheads and streamlining of the corporate centre, costing some €2.0 billion.

Under-performing Businesses

The re-organization or divestment of businesses that do not meet performance standards.

Best foods Integration

In addition to the Path to Growth restructuring, savings of €0.8 billion (US$ 750 million) will be generated through the integration with Best foods. The total cost of the programme will amount to €1.2 billion (US$ 1.1 billion) and involves an additional reduction in job numbers of 8 000 and the sale, or closure of some 30 sites.

The key drivers of value creation in the Path to Growth strategy are:

- Growth of the leading brands
- The exit from the tail in a value creating way
- Delivery of earnings per share growth in a quality way with increased gross margins partly re-invested in additional brand support.
- Restructuring proceeding according to plan
- Under-performing businesses being resolved
- Organization put in place to execute strategy with a real passion for winning.

4.4. Evaluating Performance, Reviewing New Developments

Having just moved past the half-way point in the 5-year Path to Growth programme and having thus far delivered what it said it would, Unilever is comfortable with its progress to date and remains confident of achieving its targets – 5- 6% top line growth and 16%+ operating margin by the end of 2004 and low double-digit earnings per share (EPS) growth throughout the 5-year period of the programme. Indeed, given the strong increase in profitability, our outlook for the year's EPS growth has now been raised to the high-teens.

Key Financial Indicators

- Leading Brands sales growth in the quarter accelerated to 5.4%, with a little over 3% from volume. Foods grew at 4.6% – a significant step up in growth from Q2 – and Home & Personal Care (HPC) at 6.5% in the quarter. The good momentum in the quarter is expected to be maintained in the rest of the year.
- Operating margin (before exceptional and goodwill amortization) reflects the progress made in Path to Growth and moved ahead by 0.5% to 16.2% in the quarter. Within this, advertising and promotions have risen by 1.8%. Operating margin for the last 12 months improved to 15.1% (compared to 11.2% at the outset of Path to Growth).
- Earnings per share increased by 18% for the quarter and 27% for the year to date, due to improvements in profitability and lower interest costs.

Key Features

- Underlying sales grewby 4.5%.
- Total turnover for the quarter was down slightly at €13.11 billion (and for the year to date at €38.75 billion), due to disposals and the managed rate of tail attrition in the non-leading brands.
- Operating profit in the quarter was ahead by 2% to €2.12 billion (and by 10% to €5.94 billion for the year to date), driven by continued benefits from our Path to Growth procurement and restructuring programmes and portfolio re-shaping.
- Cash Flow from operating activities in the quarter continued to be strong at €2.2 billion and, on a moving annual total basis, has gone up from €5.6 billion in 1999 to €8 billion in the last 12 months.
- Net debt at the quarter end is €18.8 billion, compared with €22.9 billion a year ago. EBITDA net interest cover was 8.4 times in the quarter.

Key Components

Brands:

- Most importantly, the growth rate of the leading brands for the last 12 months it is 4.5 %. Within this, HPC is already growing in the target range at 5.6%, while Foods has shown a significant step-up from 1.9% in 2000 to just under 4%.
- For the full year we expect a leading brand growth of 4.5-5%. By the end of the year leading brands will represent close to 90% of total sales (up from 75% of Unilever turnover in 1999) and plans are in place to increase this to 95%+ by the end of 2004.

We have a focused portfolio of 400 brand names (1600 at the outset of Path to Growth) which we manage as 200 brand positions (at the end of Q3 the number of brands had been reduced by around half since the start of Path to Growth).

The innovation plan in 2002 is phased differently from 2001, but examples from the year to date in 2002 include: The launch of Knorr Vie healthy soups in the UK, the launch of Axe deodorant and All fabric conditioner in the US, roll-out of Dove shampoo and conditioner across Europe, the introduction of tetrahedral teabags in Japan, the roll-out of Crème Bonjour and launch of Sunrise (vitamin enriched) Margarine in Central & Eastern Europe, the launch of Lipton Asian side dishes, Ragu Rich & Meaty and Hellmann's flavored mayonnaise in North America, the launch of Ramen Noodle soups in Mexico and Poland, the roll-out of Cornet to Soft in Europe and the re-launch of Omo in Africa.

Organizational Restructuring Progress:

- New dedicated HPC and Foods organization was implemented on 1 January 2001 allowing a sharper business focus. This includes a new innovation structure with fully integrated R&D in place and Global Brand Directors leading key brands on a worldwide basis.
- Fresh talent – 40% of the top 100 managers is different from 2 years ago, with 80% being different from 5 years ago. The average age amongst them has reduced by 10 years.
- An enterprise culture is being re-awakened with a real passion for winning, through remuneration systems that are designed to reward outstanding performance.

Excellent progress has been made on the savings programmes and the integration of Best foods. 90% of the restructuring has been authorized, 70% has been implemented and 80% of our €3.9 billion savings target has been delivered.

Within this:

- We reached this quarter our buying savings target of €1.6 billion 3 months ahead of plan. Capability will be retained and there is more to be gained in this area.
- Path to Growth restructuring savings of €0.7 billion, to date.
- Best foods integration savings of around €0.7 billion to date.

Including Best foods integration, some 83 factories have now been either sold or closed (a reduction of 8 in the quarter), and 31,500 people (2,900 in the quarter) have left the business.

Portfolio Shape

- Portfolio change adds 1% to Unilever growth rate and 1% to operating margin.
- 79 businesses have been sold with proceeds of €6.2bn since the start of Path to Growth.
- We have acquired strong businesses: Best foods; Amora Maille; Slim Fast; Ben & Jerry's.

Best foods Integration

We set out to integrate 33,000 people, in 63 countries, in 120 factories to produce a total synergy benefit of €790 million. Some €700 million has been achieved to date, ahead of plan.

The sale of the remedy brands to Campbell's was completed in Q2, 2001, the sale of the Best foods Baking Company to Weston in Q3, 2001 and in Q2, 2002 we completed the sale of some North American brands (including Mazola) to Associated British Foods.

We chose to integrate Best foods using a fast track approach in order to get through that process as quickly as possible and then turn the attention to growth. Our plan for 2002 envisaged lower growth in the first part of the year to ensure that the organization was bedded down and we have now begun to drive successfulinnovations across the world.

- In 2001 the Best foods leading brands grew by approaching 4% as we ensured that brands and market shares remained healthy throughout the integration.
- In 2002 innovation has been weighted towards the later part of year to Minimize disruption from integration.
- Knorr, our largest brand, grew by an excellent 4% in 2001. This year, the Knorr family has grown by 5.5% as we move from integration to innovation.

Progress is broad based in terms of geography and is driven by a strong innovation programme.

Hellmann's has maintained or grown its shares in all key markets, with a good performance in Europe and Latin America.

5. Conclusion

In this thesis we undertook the aim of presenting, analyzing and integrating the term and concept of strategic management.

At first we reffered to some definitions of strategic management and strategy as well, where we pinpointed the importance of customers, managers, and their skills in developing a good strategy. In the following chapters we analyzed step by step the crucial path which the development of strategic management follows in order to be implemented. As noticed, most important facts for developing a good, adapting and above all a lasting strategy are the following:

a) Skilful managers. Entrepreneurs, fearless and willing to take risks, but also know how far their real abilities can take them.
b) Development of realistic strategies by examining carefully the internal and external conditions.
c) Feedback effects. A correct strategy must have the ability to react in unforeseen facts, good or not, absorb their effects and use them to become more adaptive.

In light of all these details, we presented and explained a case study for a successful strategy, that of Unilever company named ''the path to growth''.

In conclusion, the remarks we ought to make are the following: A successful strategy needs skilful managers, the correct exploitation of the information on internal and external environment, and the ability to adapt in unexpected events that crush the markets.

But above all, the correct strategy needs patience. Patience in order to give the actions we make the time they need to show actual results. No good strategy was built on impatient managers and quickly, without thought, decisions. In order to be successful in our business we need to take the risk of waiting until we observe the first results, and to act immediately to put them in the right order or strengthen them.

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