Organizing for Strategic Management

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In this paper, the author—a well-known Dutch academic and consultant—discusses the factors which make 'strategic management' effective. Among these, a dominant factor is the organization climate which, in its turn, is determined by the quality of the managers and the availability of alternatives. He suggests that to improve the organization climate in which strategic management can be effective, the quality of the managers is a crucial factor. The scope for alternatives is an important constraint. This article assesses common problems and failures in strategic management and gives some suggestions for organizing it, including the use of consultants and the role of formal procedures.

The effectiveness of strategic management is determined by several factors. These are set out in Figure 1. It is compiled from the works of Gälweiler, Fauré, Rhenman, Tregoe and Thompson.

In our opinion the organization climate for strategic decision making is one of the most important factors which determines the effectiveness of strategic management.

In this paper we will not analyse the organizational climate—as a sociological phenomenon—but we will assess the factors which determine this climate. In particular we will discuss one factor: the quality of managers, and how to improve it. This can be done by developing an understanding what strategic management is and is not. The paper discusses central ideas on planning and some common problems and failures in strategic management. Also, it gives some suggestions about how strategic planning should be organized.

Figure 1 serves as a broad framework and as background information. The factors mentioned in the framework will be discussed in the paper and the figure is explained in Appendix 1.

Strategic Management

The process of strategic management is directed to the reduction of uncertainty and eventually to the taking of strategic decisions. This can be done either on a cyclical yearly basis or on an ad hoc project basis. However, every company should be involved in strategic management, because management always have opportunities to evaluate and threats to cope with. In this process of strategic management the company relies heavily on its strengths. Figure 2 gives the components of strategic management.

Flexibility

The first condition for the process, indicated above, to be carried out successfully, is that there is room for alternatives. If the margin for taking strategic decisions were next to zero, the whole process would be a waste of time and money. More specific: there should be a contingency margin in financing, in time, in know-how (in the broadest sense) and last but certainly not least in decision-making. An example; a cleaning company which has just invested in an automatic washing process is tied to this decision for several years. The financial resources have been put into this expensive washing equipment. After having taken this decision there is little point in evaluating alternative actions in the production area for several years. This is, by the way, one of the reasons why strategic management in smaller firms should be done on a project basis.

Furthermore, strategic planning (see Figure 2) is a systematic procedure to sustain the process of strategic management. A strategic plan is the result of this process and should address itself to:

What is our scope or what kinds of business are we in? Products, markets, technology, which
Pressure on the Effectiveness of Strategic Management

Adequate Techniques and Procedures

Figure 1. A conceptual framework for determining the effectiveness of strategic management (\(\uparrow = \text{higher/better}; \downarrow = \text{lower/worse}\))

Figure 2. The elements of strategic management

Customer-groups do we serve? Which needs do we fulfil?

\(\star\) In which direction will we extend or diminish our scope?

\(\star\) What objectives do we have in doing this? (Objectives can either be an input or a result of the strategic process.)

\(\star\) How these objectives should be met: in what time and with which human, financial and material resource (action plans)?

Objectives should describe the desired situations:

\(\star\) financial and economic;

\(\star\) social;

\(\star\) commercial;

\(\star\) technological

\(\star\) in management development and organization structure;

\(\star\) in productivity.

Objectives can be stated explicitly on paper, but can be implicit as well and should be realistic, related to the actual alternatives at hand. Smaller firms will tend to have implicit objectives, whereas larger firms will make their objectives explicit. This is simply because the greater the number of people who are involved in the process of strategic management, the more it is necessary to communicate the objectives in a formal way.
Objectives Should Be Realistic
They might be challenging, but never castles in the air. Nor should they be set too low, as they are often in communist countries, so that the plan can be met easily with an excess of ten or more per cent. In setting realistic objectives, one takes the planning process seriously. But even with realistic plans, objectives will be met only by accident. This does not mean that the process of preparing plans is a waste of time. Allowing some room for alternatives, which are available most of the time (e.g. closing the business is almost always a possibility), one must choose. And to choose properly one should discuss the consequences of several alternatives with the information available at that moment. Later-on, after the decision has been taken, it will show that things happen differently. Connected with the misunderstanding that objectives should be met and that otherwise planning is a waste of time, is that one should distinguish between prognoses and plans. You need prognoses to make plans, but they are certainly not the same as plans. Figure 3 gives the relationship between prognoses and plans within the whole process of strategic management. Figure 3 gives a very simple example to explain the difference between prognoses and plans. Even if the prognosis (weather-forecast) is rain, you can decide (i.e. plan) not to bring your raincoat with you. Maybe you do not mind a little rain, or you can take the risk that it does not rain when you are out, or you do not believe the weather-forecast.

Strategic Decisions Have Important and Long-Range Consequences
At the same time they are non-routine decisions, because they are concerned with new situations. So we are faced with a dilemma; on the one hand they are of vital importance, on the other hand they are unique decisions. But even if it is very difficult to make such vital decisions, we do this in a proper way. We have to acknowledge the lack of information and shortage of time.

Later on we often recognize that the wrong decision had been taken. This does not mean, however, that we should not plan. At the time the decision was made, with the information which we had then, it may have been a good decision. We probably put a lot of thought into it and this is usually better than doing nothing or reacting impulsively. Evaluating the decision in the light of what actually happened is always useful; in doing this we often learn a great deal.

Decision Makers are Often Not Very Creative in Doing New Things
There are several reasons for this:
☆ to avoid risk;
☆ poor information and bad communication;
☆ they have been creative in the past, but failed to exploit this commercially; some managers think that new should be really new, a totally different product, market or technology and in such ventures small companies will fail most of the time;
☆ the room for manoeuvre is too small, especially in smaller firms;
☆ they think merely in terms of ‘solutions’, rather than in terms of ‘alternatives’; decision-making is done implicitly and intuitively and not in an analytical way. This approach leads to obvious solutions or even worse jumping to conclusions.

A Common Belief is that Strategic Management has Little to do with Today
It mainly affects things in the (far) future. It is a vague philosophical process which deals with the long term. On the contrary strategic management deals with today and with today’s decisions. Even if the decision is postponed, a decision has been taken NOW; the decision that the decision is postponed. And that decision can have dramatic consequences! Think of delaying a decision to merge. Later-on we may be glad that this decision was postponed until better information was at hand, or we may regret a missed opportunity.

Of all the possible mistakes in strategic management, there are two serious mistakes made in practice (see Figure 2):

(a) The allocation of resources is started, before the strategy formulation has been carried out:
allocation degenerates to long-term budgeting, carried out by middle management and is not supported by top management;

☆ so it has no ‘vision’ in it and it will not lead to new ideas;

☆ even worse, there will be a reaction against the idea of strategy formulation—people will regard it as unnecessary and useless;

☆ the allocation is made through a financial extrapolation; e.g. on the basis of a 4 year plan.

(b) The strategy is formulated and the resource allocation is expected to be carried out spontaneously:

☆ top management has communicated its ideas and leaves it to middle management to translate the ideas into action;

☆ it is very difficult for middle management to do this if they do not know why; in rare cases they might even sabotage the ideas;

☆ strategy formulation is quite useless if at the same time the ideas are not translated into action plans and projects;

☆ preferably middle management should be involved in developing the ideas at an early stage.

The Organization of the Strategic Management Process

This brings us to the following question. Who should take part in the process of strategy formulation and allocation?

☆ First of all the top management; they have to take strategic decisions which determine the direction of the company (objectives—WHAT—and strategies—HOW) and furthermore they should create conditions in such a way that directions also can be followed; i.e. conditions in the field of reducing manpower, a proper allocation of tasks and conditions for communication to middle-management, because they have to execute the plans; e.g. the sales director, the production director, but also a representative of the labour-force;

☆ one or more outsiders such as: a new (top) manager, a consultant, someone from a bank, an accountant, maybe a competitor, e.g. when there exists a regional separation between the markets served.

Involving Outsiders

I would like to go further into detail concerning the outsider. What are the criteria for choosing one and why should we involve an outsider? First some criteria:

☆ the outsider should have the confidence of top management and all the others who are involved in the process of strategic management;

☆ he must have experience with the process;

☆ he must have the ‘art’ of putting pointed questions to the managers, who in their turn should be prepared to discuss things frankly, e.g. to come forward with their doubts.

Before giving more criteria, I would like to answer the second question: ‘Why an outsider?’

Experience teaches us that most managers can only get a ‘breakthrough’ in strategic thinking if an outsider is involved. The reasons for this are rather obvious:

☆ an outsider brings in new ideas and approaches;

☆ most managers have good ideas, but have—in their reflections—great need for someone, who brings some ordering into their thoughts; in other words, a ‘sounding-board’ is needed.

This is connected with the fact that a manager often thinks in terms of ‘solutions’ rather than in terms of ‘alternatives’. If so, it is very useful to link the manager with an outsider who does think in terms of alternatives.

In addition, this outsider should:

☆ have the task of scheduling the strategic procedure—strategic planning; without programming it often deteriorates;

☆ not push his ideas; this is quite counter-productive, because it is the manager who decides and he will—in the end—only decide that in which he believes.

In strategic management it is results which count, not brilliant ideas.

☆ Keep in mind what the managers can bear; strategic planning is often a tedious job!

How to organize it? Here, there are usually important differences between smaller and larger firms. In larger firms strategic planning is normally done on an annual basis. Sometimes it is completed by some sort of Issue Management. See Figure 5. At the top level ideas are generated, whereas at the middle level facts are produced which are put together to form plans. These plans are tested against the top management ideas and objectives by a Corporate Planning Department. Finally the plans are confirmed by top management and carried out by the businesses.

The tasks are divided as follows:

☆ top management should provide the framework of ideas and agree the business plans;
Board of Directors (Top Management)  

Corporate Strategic Planning Department  

Business A  Business B  Business C  

Ideas  Plans  Facts

Figure 5. Strategic planning in a large firm

.middle management should gather facts, prepare the business plans and execute them;  
the Corporate Planning Department should develop procedures, consult top management and the businesses, develop planning guidelines, carry out broad environmental surveys, compare the business plans with the guidelines, carry out special projects (e.g. product innovation, manpower planning), etc.

The members of this department should have a thorough knowledge of the firm and a substantial part of the department should consist of people, who are experienced in the company and have seen the company from different angles.

In smaller firms the organizational set-up is simpler. As there is a narrow margin left for manoeuvre, strategic decisions are not as frequent as in larger firms. If a firm has less than 500 members, strategic decision making on a project basis will be quite sufficient. The project-team should consist of 3-8 members. The chairman should be the director of the firm, because he makes the decisions. Working groups, committees or experts can be attached to the project-team depending on the agenda. The chairman of these groups should be a member of the project-team (see Figure 6).

It is important to agree on a limited time for the project-team, e.g. 1 or 2 years. Moreover it is very important to do everything together in the team. For the following reasons:

- it motivates people to execute the plan later-on;  
- they will have a better idea what it is all about and so they will make better plans and execute the plans in a better way;  
- it improves the communication among the members;  
- it shows quickly the difference in ideas so that the decision can be more to the point and will lead to a consensus;  
- the decisions will delay the decision making in the beginning, but time will be gained later-on, because the execution will take place without confusion or discussion.

A drawback may be that the project-team is regarded by the rest of the organization as an elite and this can result in misunderstandings between the project-team and the rest of the organization. Therefore a proper introduction of the project-team is necessary, and adequate information from the project-team should be provided to the organization.

How should we start with strategic management? To a certain extent one can do strategic management intuitively, but as the situation grows more complex (i.e. more products, more regional areas and the like), it is usually necessary to use a procedure. This ensures that we consider subjects and/or aspects of the organization step by step. Although it is true that everything interacts with everything one cannot possibly consider everything at the same time! Knowing this we cut the problem into pieces, so that it will be more tractable. This cutting into pieces is necessary when strategic management is being carried out by—say—more than three persons.
By putting strategic management into a procedure—a planning schedule—it will be clear for each member of the project-team what is the subject for discussion at each stage. It works much the same way as an agenda for a meeting. Also this procedure will put time-pressure on the members to avoid delays. So we see that strategic management is an important means to organize policy making and communication in the company:

☆ as we have seen before it is a way to get decisions taken;
☆ and it motivates people to carry out the decisions.

Moreover:
☆ it is a way of learning both for the individuals and for the company as a whole;
☆ it is a way of preparing and executing strategic decisions;
☆ it helps to make the policy clear to the members of the organization;
☆ employees can then give more adequate information to management;
☆ and they can show a consistent image to the outside world; e.g. via Public Relations.

Should strategic management be comprehensive? In our opinion it should not, because you only plan to make decisions. If there are areas which have no strategic problems (e.g. purchasing or production), they should not be planned for in a comprehensive way. Maybe they can even be skipped. An elegant way to plan in a comprehensive way and yet not to elaborate is the following: emphasize only one or two areas per year, focusing on those areas that call for strategic decisions, i.e. where there are major problems. It is helpful to stress one area per year; for example:

1982: purchasing
1983: the international division
1984: manpower planning and personnel development
1985: product-market combination number 12 (whatever that may be)
1986: production technology etc.

So now we have created a range of planning processes including both project planning and the planning cycle, see Figure 7.

Do we really need formal planning? Research shows that companies which have formal planning procedures perform better than those who do not have them. Moreover, if informal planning is replaced by formal planning, the performance is raised.

Two last remarks to balance what I have said about the need for planning procedures. The quality of the planning according to Gälweiler depends on three key factors:
☆ the quality of the people involved in planning;
☆ the quality of the information and;
☆ the quality of the methods and procedures used.

In our opinion the quality of the procedure is not the most important factor but it is the factor which can be influenced most easily. As I mentioned previously it is important to start with a simple procedure—it is the agenda for the meeting, no more and no less . . .

This brings us to my last remark: any procedure which is simple and acceptable to the members of the project (planning) team will do for a start.

For convenience one can find a basic pattern for these procedures in Appendix 2. In essence they are all alike.

Appendix 3 provides a case study, which illustrates several of the problems which I have described in this paper.

Acknowledgements. I thank Prof. C. Botter of Eindhoven University of Technology for his valuable contribution to this paper.

References
Appendix 1: A Conceptual Framework for Determining the Effectiveness of Strategic Management—see Figure 1

In our opinion the organization climate for strategic decision making is one of the most important factors which determines the effectiveness of strategic management.

This climate is determined by four key factors.

1. The Quality of Managers

(a) Their understanding of Strategic Management is crucial; therefore much of the paper has been dedicated to common problems, misunderstandings and failures in introducing and executing strategic management.

(b) The better managers perform on the managerial grid (Blake and Mouton), the more they will tend to be 'strategically capable', and also more socially oriented and co-operative, co-operative with people inside as well as outside the company. The paper explained the need for co-operation with outside experts in developing strategic management.

2. Scope for Alternatives

This margin itself is determined by several factors:

(a) the profitability of the organization;

(b) the dependence on other organizations and pressure groups;

(c) the complexity of the organization. Are the products and production methods unique or standard, i.e. are the decisions being made on a non-routine or routine basis? Complexity again is influenced by the technology—is it advanced or not advanced?

(d) the turbulence in the market place and as a consequence of that the turbulence within the company. This is related to the length of the life-cycle of the products, typically we see high advanced technology in a turbulent environment (e.g. semi-conductors), short life-cycles;

(e) the heterogeneity of the output, how many different products are being manufactured, the variety of markets served or needs fulfilled. This factor is closely related to the complexity of the organization.

(f) specialization of the production process: are the production resources versatile or not? This factor is also closely related to complexity, but in our opinion not necessarily the same. Once a company has invested in specific (non-versatile) resources (i.e. capital goods—economies of scale—or know-how), it is difficult to change and the scope for alternatives is less;

(g) the quality of managers; the better the manager, the more scope for alternatives he will see. It is only a matter of facts, but also a matter of perception and a better manager will perceive more opportunities

3. Atmosphere of the Organization

Are people used to discussing problems and plans openly or is the atmosphere more like 'the survival of the fittest'.

Of course this factor also influences the quality of the managers and vice versa, certainly in the long run.

The atmosphere is highly influenced by the organization structure.

4. Pressures Upon the Organization

Sometimes the scope for alternatives is quite small, but the organization climate for strategic decision making is positive.

This is caused by the pressures which are acting on the organization from outside or inside the company. (For example: a subsidiary in a large concern may be urged to better performance, representatives of the labour force may urge the management to plan in a more sophisticated way or there may be pressures from competitors.)

To complete the analysis of Figure 1 we should emphasize that the quality of the managers influences the attitude towards planning. Better quality managers produce better communications, more adequate information, better intuition, a higher analytical level and a longer time-horizon. In short, a better climate for strategic management.

On the other hand, better planning results in better information and more effective techniques and procedures. By 'effective' we mean: better adapted to the situation, not necessarily more 'advanced', e.g. computerized corporate models.

Eventually, the effectiveness of strategic management is determined by the organizational climate, the quality of information and the adaptation of the techniques and procedures used.

Appendix 2. A Basic Pattern for Strategic Planning Procedures

(1) What is Our Position?

History and strengths/weaknesses relative to the competitors.

(2) What are the Possibilities for the Future?

Opportunities, threats and risks in the market place and within the company.

(3) What is the Current Forecast?

Where will we be, if we do not change our strategy?

(4) What do we Want to Do, Where do we Want to Go?

Our 'vision', goals and objectives.

(5) What are the Alternatives?

What are the alternative possibilities for our company?

(6) What do we Choose?

And what alternatives do we have to fall back on?

(7) What is our Action Planning?

Who does what and when and with what financial, material and personal resources?
(8) Evaluation and Control
During and after the planning process.

Appendix 3: A (Tragic) Case

A family company with a long tradition in manufacturing high quality machine-parts is faced with a decrease in sales and increase in costs over the years. The decrease in sales is a result of a fall in the total market and an increase in imports. The manager reacted by cutting manpower costs. In the last 10 years the manpower was reduced from 300 to 140. The labour-unions and the representatives of the labour-force protested more and more. They stated that they only wanted to co-operate with the next reduction if management presented a sound strategic plan. In this plan, it should be indicated what perspectives the company had in a current forecast and what alternatives could be developed for the future, so that employment was secured. The manager was not familiar with strategic management and he had a nervous breakdown, when all these pressures came upon him. Attempts to give him some strategic insight, failed completely.

Referring to Figure 1 we see that the quality of the manager was poor in terms of strategic management, although he was an excellent salesman and engineer. Also he had gathered people around him with the same low interest in long-term matters. He was very authoritarian and did not involve his personnel at all in decision-making. Hence, they were not very creative in doing new things, because they perceived they had little discretion, and they had little knowledge of other production-processes or methods of finding new products. Also they were not rewarded for proposing new ideas.

The published profit was nearly zero and the actual profit way below zero, because the depreciation was far too low. The technology was out of date and the production-process, the product and the organization were quite simple. The turbulence was low as well as the heterogeneity. Finally, the company had invested heavily in one specific production process. So, in short: the room for alternatives seemed very low.

Together with the low quality of the manager it resulted in a terrible organization-climate in terms of strategic management.

As consultants for the representatives of the labour-force we advised them to install an interim-manager for about 2 years, who should prepare and execute a strategic plan. This manager should have the same authority as his colleague.

During the coming half year the new manager installed a project-team. Motivation, within and outside this team, was raised enormously and people turned away from the first manager. But the problem was of course: what if the interim manager leaves? This dilemma became dramatically greater, when it became obvious that a further reduction in manpower was unavoidable. This problem of loyalty divided the whole company into two groups. A smaller group remained loyal to the first manager and his son (who could become the new one). The best alternative, removal of the manager and some staff members, was not feasible because the manager had most of the shares.

The decrease in manpower was to be between 20 and 35, but of course everybody remembered the last figure only and was wondering whether he was the one who might be dismissed. And as earlier stated: whether he could raise his chances if he was a "loyalist".

This decrease in manpower was necessary because of two reasons:

☆ the profit was actually below zero and:
☆ there should be a fund created for innovation in new products.

For the personnel, who was gathered at a meeting this was quite confusing. Besides the fear of being dismissed and unemployed for the rest of their life (at the moment unemployment is over 15 per cent in Holland), they did not—quite understandable—get the picture very clear and asked e.g.:

☆ Why should people be dismissed if there is no concrete idea for a new product?
☆ We had to admit that this indeed was the case, but that the alternative was even worse: a reduction of manpower down to zero within, say, 5 years.
☆ Could not the company borrow more money or strengthen the equity? This was refused by the bank and the second was quite impossible.
☆ How can you make more products with less people? We explained that other people would be subtracted: people with other skills and know-how.

Still it remained quite confusing for the personnel.

Also the plan was not agreed by the manager. He went along with the first part, but not with the second. He thought it much too uncertain and too risky and a waste of money.

There upon the interim-manager said that he could not be responsible for a decrease in manpower only. And that he insisted on a plan for the future for new products. So he resigned. The manager then made a 'smart' move. He contacted the personnel to say that he regretted that the interim-manager stopped the co-operation, but since the result of the last half year was positive, there was no reason to panic. He therefore proposed a new strategic plan, which provided for a decrease in manpower of only 18. This was discussed on a second meeting, on which most of the personnel was gathered. The discussion was preceded by the labour-unions. We, as consultants, were the experts for the labour-representatives.

On this meeting we explained once more our point of view: there had to be a strategic breakthrough and room for alternatives. And the co-ordination of the new activities should be done by the interim-manager or a new one. Or—another possibility—the company should merge with another one. The best alternative, removal of the manager and some staff members, was not feasible because the manager had most of the shares.

When it came to voting it was agreed almost unanimously, that should be chosen for survival on the long term and that this point of view should be stressed on the following meeting between the unions and the manager.

Meanwhile we got the strong impression that the manager had a strategy already! He wanted the decrease of manpower to about 50 or 60 people; at that time he could hand over the company to his son. He presumed that his son was not capable of managing a larger company. Frankly, this certainly was a feasible alternative to talk about with us and the unions.