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THE SIGNIFICANCE OF STRATEGIC MANAGEMENT FOR BUSINESS ORGANIZATIONS

Reyimberdiyev Baburbek Adilbek o'g'li
Teacher of Tashkent State University of Economics Uzbekistan

ABSTRACT

This paper highlights the significance of strategic management in business organizations. It provides a comprehensive definition of strategy and explores key elements of strategic management, including strategic vision, objectives, strategy formulation, implementation, evaluation, and corrective action. The research also emphasizes the role of corporate governance in strategic management, particularly the involvement of the board of directors in developing and executing strategies. Additionally, the paper examines different levels of strategy, such as corporate, business, functional, and operational, and emphasizes their importance in effectively managing business organizations. Given the dynamic and competitive nature of the operating environment, the paper underscores the need for businesses to recognize the importance of developing and executing strategies that can establish sustainable competitive advantage.

Keywords: Strategic Management, Vision, Objectives, Strategy Formulation, Strategy Implementation, Evaluation, Corporate Strategy, Business Strategy, Functional Strategy, Operational Strategy, Corporate Governance.

INTRODUCTION

According to Thompson, Strickland, and Gamble (2007), strategy is defined as the management's plan of action for running a business and conducting its operations. It encompasses the competitive moves and business approaches employed by managers to drive business growth, attract and satisfy customers, achieve success in competition, conduct operations efficiently, and meet targeted organizational performance levels. Strategic management involves environmental scanning, strategy formulation, strategy implementation, monitoring, evaluation, and review processes to ensure the effective and efficient achievement of long-term organizational objectives. Eden and Ackerman (1998) perceive strategy as a cohesive set of individual actions that support a system of goals, backed by a self-sustaining critical mass or momentum of opinion within the organization. The common element among these authors' definitions is the focus on sustainable attainment of targeted organizational performance levels. Mintzberg et al. (1998), as cited by Beckman and Rosenfield (2008), captures the key areas organizations need to address when crafting and executing strategy.

Strategy is built upon fundamental elements that can be utilized for offensive, defensive, and maneuvering purposes. The process of strategy development involves discovering and implementing fresh combinations of these elements. However, technological advancements and societal structures impose constraints on the available combinations. Over time, these limitations are perceived as inevitable and unquestionable. As a result, strategists tend to adhere to established ideas and only explore variations within existing frameworks. It is left to exceptional leaders, like Napoleon, to introduce strategic innovations by identifying and realizing new combinations.

Kim and Mauborgne (2005), aligned with Mintzberg, argue that companies should consistently search for untapped market spaces beyond the traditional confines of their industry to compete and surpass those who remain within those boundaries. This necessitates strategic thinking that challenges the existing norms and involves innovative development of new products, novel approaches to delivering these offerings to existing and new markets, and the creation of sustainable competitive advantage. Ohmae (1982) further emphasizes the importance of creating a competitive advantage, stating that business strategy is distinct from other types of business planning as its primary objective is to enable a company to efficiently establish a sustainable edge over its competitors. Therefore, corporate strategy involves endeavors to modify a company's position relative to its competitors in the most effective manner possible.

1.0 The Significance of Strategy in Business Organizations

According to Thompson, Strickland, and Gamble (2007), there are two primary reasons why strategy holds importance in business organizations. Firstly, strategy allows management to proactively design how the organization conducts its business. They argue that a well-defined and carefully crafted strategy serves as management's plan for doing business, a roadmap for achieving competitive advantage, and a game plan for satisfying customers and enhancing financial performance. Secondly, they state that an enterprise focused on strategy is more likely to achieve strong financial performance compared to a company where management considers strategy as secondary and prioritizes other aspects. Effective formulation and execution of strategy have a significant positive impact on revenue growth, earnings, and return on investment.

Dyson et al. (2007) propose the term "strategic development process" as an alternative to "strategic management process." They argue that this process encompasses the management activities that inform, shape, and support strategic decisions within an organization. Their preference for the term "strategic development process" is based on three key factors they highlight. Firstly, they assert that strategy formulation and implementation are ongoing activities rather than separate events, hence emphasizing the idea of continuous development. Secondly, they believe that the widely used term "strategic planning" has become associated with rigid, deterministic long-term plans, which limits thinking about the future. Lastly, they argue that "strategic management" is too broad a term to capture the reflective engagement and analytical questioning that their recommended approach requires.

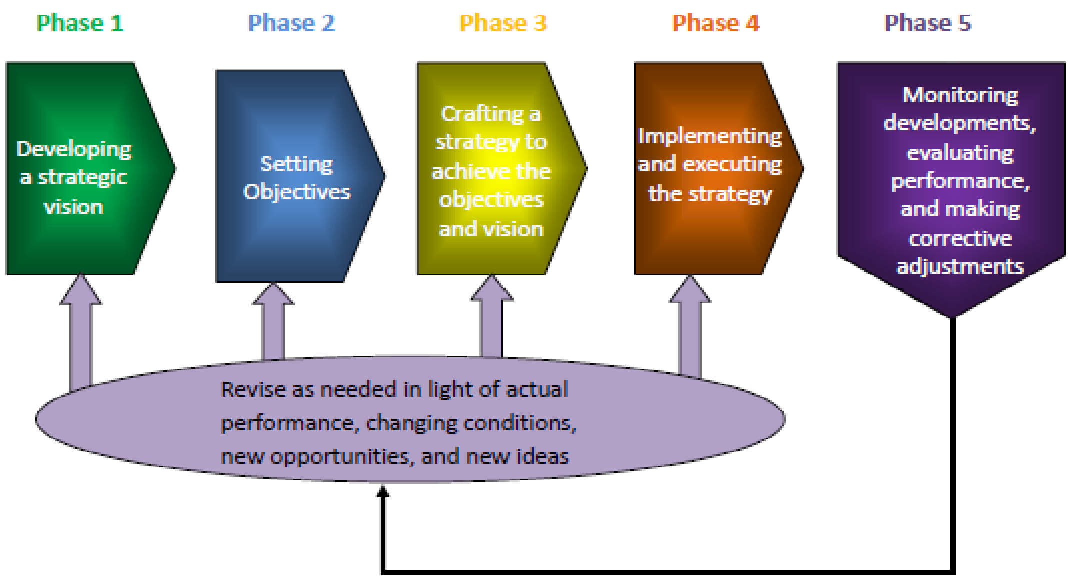
Despite their deviation from the conventional approach, Dyson et al. (2007) share a common perspective with Thompson, Strickland, and Gamble (2007). They agree that crafting and executing strategy are fundamental functions of management. According to Thompson et al., the successful execution of an excellent strategy is the ultimate test of managerial expertise and the most reliable means to transform companies into exceptional performers. They contend that the ability of an organization's management team to chart the company's direction, develop effective strategic moves and approaches, and execute day-to-day strategies with operational excellence determines the ultimate success or failure of the organization.

The Strategic Management Process

The strategic management process can be simplified into two main components: strategy-making and strategy executing. Thompson, Strickland, and Gamble (2007) outline the strategy-making, strategy-executing process as consisting of five interconnected phases:

1. Developing a clear strategic vision that outlines the desired direction and future focus of the company in terms of products, markets, and customers.
2. Establishing objectives that serve as benchmarks for measuring the company's performance and progress.
3. Formulating a strategy that aligns with the objectives and guides the company along the chosen strategic path.
4. Implementing and executing the selected strategy in an efficient and effective manner.
5. Evaluating performance and making necessary adjustments to the long-term direction, objectives, strategy, or execution of the company based on actual experience, changing conditions, new ideas, and emerging opportunities. Figure 5.1 provides a visual representation of how these five phases are interconnected and integrated.

Figure 3.1: The Strategy-Making, Strategy-Executing Process



The subsequent sections provide concise explanations of the five phases mentioned above.

Developing and Communicating a Strategic Vision

Parikh and Neubauer (1993), as cited in Meadows and O'Brien (2007), provide a definition of vision as an envisioned future state of an organization. Meadows and O'Brien (2007) also reference Kouzes and Posner (1996), who outline four attributes of vision: ideality, uniqueness, future orientation, and imagery. According to Thompson, Strickland, and Gamble (2007), a well-developed strategic vision is characterized by its ability to articulate the company's future strategic direction, encompassing the intended focus on products, markets, customers, and technology. They differentiate between a strategic vision, which portrays the organization's future business scope and direction, and a mission statement, which typically describes the present business purpose, identity, and reason for existence.

Developing strategic visions is crucial for organizations as they establish the critical direction in which the organization should move and guide the effective and efficient allocation of resources to achieve that direction. Walker (1996) highlights the motivation for engaging in a visioning process often stems from dissatisfaction with the current state or projected trajectory. In addition to developing a strategic vision, clear communication of the vision to all members of the organization is vital.

Thompson, Strickland, and Gamble (2007) assert that effectively communicating the vision serves as a valuable management tool to engage company personnel and align their actions with the intended direction. They emphasize that a strategic vision becomes meaningful when it is deeply embedded in the minds of organization members and translated into tangible objectives and strategies.

CONCLUSION

The significance of strategic management in the operations of business organizations cannot be overstated. It is crucial to develop a strategic vision that provides clear direction and guides the allocation of resources within the organization. Key aspects such as formulating strategies, implementing them effectively, monitoring progress, evaluating performance, and making necessary corrective interventions play a vital role in establishing and sustaining a competitive advantage. Additionally, the role of the board of directors in shaping and executing strategy is a critical component of corporate governance. Hence, organizational boards and management teams must prioritize strategic management in all its dimensions to ensure outstanding performance within their respective industries.

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