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# STRATEGIC MANAGEMENT: ORIGIN, PROCESS, APPROACHES AND THEORIES

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## ABSTRACT

*Much has been written in the literature about the importance of strategic management in organizations. Regardless of size, organisations are seeking and identifying effective strategies through the strategic management process to assist them in the successful management of their businesses. Notwithstanding the tremendous attraction of strategic management, scant attention has been given to investigate its development to the current level of understanding. Based on the literature, this article examines its origin, process, approaches and theories.*

## ABSTRAK

*Terdapat banyak penulisan tentang pentingnya pengurusan strategik dalam organisasi. Melalui proses pengurusan strategik, organisasi mencari dan mengenal pasti strategi yang berkesan untuk membantu dalam menjayakan pengurusan perniagaan mereka. Meskipun pengurusan strategik mendapat perhatian yang banyak, tumpuan terhad diberikan bagi menyiasat tentang perkembangannya kepada tahap kefahaman semasa. Berasaskan kajian kepustakaan, artikel ini meneliti asal kewujudan, proses berkaitan, pendekatan dan teori pengurusan strategik.*

## INTRODUCTION

The attention on strategic management has been flourishing over the years. Since its introduction, strategic management has gained tremen-

dous growth and acceptance both as a field of study and good business practice. In fact, strategic management has been considered the most critical element of the management of organisations because it explains success and survival to a large extent (Cauwenbergh & Cool, 1982).

All organisations practice some form of strategic management. More importantly, business organisations adopt strategic management to formulate as well as implement strategy in order to compete successfully. Despite the importance of strategic management to organisations, the management literature suggests that very few studies have attempted to examine its development to the current level of understanding. In an attempt to narrow this information gap, this paper provides insight into its origin, process, approaches and theories.

## ORIGIN OF THE CONCEPT OF STRATEGIC MANAGEMENT

The concept of strategic management evolves from the concept of strategy used in military organisations. The word strategy is derived from the Greek word "strategos," which means army and leading. Initially, the concept of strategy was referred to the leading role of a general in command of an army as well as meant for military purposes (Greenly, 1989; Mintzberg & Quinn, 1991; Wren (1994).

Earlier on, Quinn (1980) pointed that the concept of strategy in military organisations was used for various military purposes such as developing organisational objectives, maintaining the initiative, concentrating organisational resources, conceding selected positions, flexibility, and coordinating and commitment.

As far as the field of modern management is concerned, earlier concepts of policy and strategy can be traced to the works of Henri Fayol and Peter Drucker. According to Wren (1994), in 1954, Peter Drucker established the basic conceptual framework for business policy and strategy, which later on developed into the concept of strategic management. The earliest empirical and theoretical studies on the concept of strategic management were pioneered by Chandler (1962), Ansoff (1965) and Andrews (1971). Initially, these authors viewed strategic management as an important process for formulating strategy in large business firms.

However, over the years, the process of adapting and modifying the original concept of strategy in the business context has resulted not

only changes in its original meaning, but has also increased its complexity and scope. At the same time, Wren (1994) noted that the original concept of business policy and strategy shifted to concepts such as corporate strategy, policy formulation, long range planning, corporate planning, strategic planning, which also mainly emphasise on the formulation of strategy in business organisations.

Nevertheless, the representations of strategic management in recent literature are largely consistent. Today, strategic management is widely accepted as a process that comprises three important phases: formulation, implementation and evaluation as well as control of strategy. Accordingly, the following section explains the strategic management process.

## THE STRATEGIC MANAGEMENT PROCESS

Through the strategic management process, top management mould and direct their organisations and relate them to the business environment to improve their performance. The strategic management process involves the organisation, management and the environment as a whole. Hence, to understand the strategic management process and how it works, a general knowledge of an organisation, its internal and external environments and management is required.

Many leading authors in this field of study, such as Hitt, Ireland and Hoskisson (2003), Wheelen and Hunger (1996), Thompson and Strickland (2002), and David (2001), stressed that the increased importance of the strategic management process to organisations resulted from the need for these organisations to respond effectively to increasing environmental turbulence.

Organisations are dependent on their environment. According to Pfeffer and Salanick (1978), environments can change (uncertainty of environment), new organisations enter and exit, and the supply of resources becomes more or less scarce. When environments change (become uncertain), organisations face the prospect either of not surviving or of changing their activities in response to these factors. Therefore, to survive and become effective, an organisation must be capable of making adaptations to the changing situations. It is due to these continuous changes that organisations need more powerful management process like strategic management to cope successfully.

Further, as a cyclical process, strategic management also emphasises on the development and maintenance of meaningful assets and skills and the selection of strategies and competitive arenas such as those assets and skills that form sustainable competitive advantage (Aaker, 1989).

Although there is still no one universally accepted way of practicing strategic management, in most cases, authors refer to strategic management as a process that includes the following three important phases:

a) **Strategy Formulation**
In the strategic management process, the strategy formulation phase involves the development of long term strategic plans for effective management of environmental opportunities and threats, based on a firm's strengths and weaknesses. The formulation of strategy includes important activities such as defining the firm's strategic vision, business mission, specific performance objectives, developing strategies to achieve these objectives, and establishing policy guidelines.

b) **Strategy Implementation**
In the strategy implementation phase, the firm is required to translate its strategies and policies into action through the development of specific programs, budgets and procedures. In this phase, necessary changes are required within the firm. The implementation calls for changes in organisational culture, structure (divisions, departments, products), resources (capabilities) and the relationships between these elements and the managerial levels (the top, middle and lower levels of the organisation).

c) **Evaluation and Control**
Strategic evaluation and control is the final phase of the strategic management process. Strategic evaluation is concerned with obtaining information about the strategic plans and performance, and comparing the information with the specific performance objectives. Finally, the strategic control involves taking the necessary corrective measures to bring activities into conformity with the strategic plans.

In addition to these three phases, the strategic management process also focuses on the importance of gathering and use of environmental

information. The environmental information which is collected through situational analysis can assist an organisation in identifying and understanding the various important factors that can contribute to its ability to develop effective strategy as well as achieve its objectives efficiently and effectively.

Courtney, Kirkland and Viguerie (1997) noted the importance of situational analysis to companies formulating and implementing strategy in uncertain environments. According to the authors, all strategy making should begin with some form of situational analysis. The authors emphasised that to cope with different levels of uncertainty, organisations need different analytical approaches to determine the best possible strategies.

Thompson and Strickland (1987); Johnson and Scholes (1988); and, Craig and Grant (1993) indicated that the strategic analysis process comprises external analysis such as the industry situation analysis and competitive situation analysis, and internal analysis (company situational analysis).

Apart from situational analysis, other authors suggested that strategic thinking and strategic readiness as the other important conditions for strategic management to be carried out effectively. Ohmae (1982), among others, noted that strategic analysis is the starting point of strategic thinking. The author stressed that the object of strategy in business is to bring about the conditions most favourable to one's side that can be accompanied with realistic responses to changing situation. Following this view, Christensen (1997) suggested that organisations need to develop competency in strategic thinking in order for them to conceive and implement creative and coherent strategies.

In addition to strategic thinking, Redding and Catalanello (1994) concluded that strategic readiness or an organisation's readiness for change will determine how well a strategy will be formulated and implemented.

## APPROACHES TO STRATEGIC MANAGEMENT

Strategic management is experiencing continuous changes in its approaches. This is because its concepts and applications have been characterised as developing, dynamic and applicable to all types of organisations. The changes in the approaches to strategic management resulted from the realisation that different organisations operat-

ing within a different environment will require a different type of strategic management. Mintzberg and Quinn (1991) believed that there is no one best way to create strategy. The literature suggests the following groups of approaches:

**The Process and Content Approaches**

The two most common approaches to strategic management are the strategy process approach and the strategy content approach. The strategy process approach focuses on the activities leading to and supporting a choice of strategy or how strategy is formulated in an organisation (Ketchen, Thomas & McDeniel, 1996; Jennings, 1986).

According to Jennings (1986), the strategy process was originally seen as a rational, comprehensive decision making activity which describes how strategy is formulated based on information gathered from analysing the strengths, weaknesses, opportunities, and threats facing the organisation.

On the other hand, the strategy content approach deals with what strategy type the organisation is using. In other words, strategy content refers to the actions taken to achieve results.

Earlier studies on strategic management by Ansoff (1965), Andrews (1971), and Thompson and Strickland (1987) adopted the strategy process/content approaches. These authors emphasised that strategy formulation be based on the evaluation of organisational competencies and resources. The authors stressed that organisational competencies and resources which are distinctive to those of the competitors, may become the basis for competitive advantage if they are matched appropriately to the environmental opportunities.

**The Economic and Organisational Approaches**

Carroll (1987) pointed that the wide inquiry in strategic management has also led to distinctive approaches such as the economic and organisational approaches. According to Carroll, the economic approach emphasised the best way to position a firm in a given structure of competition.

Rumelt, Schendel and Teece (1991) noted that the adoption of the economic approach resulted from the increased use of economics by strategy scholars and the ability of economists to contribute to

the field of strategic management. These authors claimed that the adoption of the economic approach resulted mainly from the lack of theory building in the early work of strategic management. The authors contended that the infusion of the economic approach in strategic management has been driven by the following five economic forces:

a) the need to interpret performance data;
b) the experience curve;
c) the problem of persistent profit;
d) the changing nature of economics; and
e) the changing nature climate within business schools.

On the other hand, the organisational approach recognises that the structures of organisations are ususally problematic and that they hindered strategic decisions and their implementation. Examples of the organisational approach are the studies by Burns and Stalker (1961), Chandler (1962), Lawrence and Lorsch (1967), and Rumelt (1986). These researchers have established the relationships that existed between corporate strategy, structure and economic performance.

**The Internal and External Approaches**

In addition to the above approaches, the literature reveals the external approach and the internal approach being adopted in the field of strategic management. The external approach takes the view that firms should develop their strategy based on the analysis of their external environment. On the other hand, the internal approach suggests that business organisations should formulate their strategy based on the analysis of their internal environment.

The literature review suggests that in the last decade, major developments in strategic management appeared to have over-emphasised on the use of external analysis in developing organisational strategies for competing as well as coping with the external environment.

Porter (1980 & 1985), and, Gilbert and Strelbel (1988) used the external approach to strategic management in their studies. These authors suggested that strategies should be formulated based on the findings of the external analysis of the industry structure and competitive positioning. According to the authors, strategies developed in this way and matched with the external competitive forces can provide significant benefits to firms.

However, Kay (1993), and Thompson and Strickland (1987) disagreed with the external approach in developing strategy. According to these authors, most often, the external approach has resulted in the development of wish-driven or deliberate strategies. Moreover, they pointed that the external approach to strategic management failed to recognise that the external opportunities are just illusions without the internal resources and capabilities needed to capture them .

In supporting this argument, Barney (1991) also concluded that the external approach can also lead to firms sacrificing their strategic positions and long term performances. According to Barney (1991), firms using this approach may eventually have the tendency to see and experience the same external threats and opportunities, as well as compete in the same manner, just as suggested by the economic theory of perfect competition.

The inward approach to strategy formulation and implementation resulted from the dissatisfaction with the earlier external approach. Interestingly, later literature on the effectiveness of strategic management on the performance of organisations tend to focus on the internal environment instead. Grant (1991), and Craig and Grant (1993) also pointed that more recently, there have been numerous efforts to link the role of the firm's resources and distinctive capabilities as the foundation for developing a firm's strategy. This internal approach also forms the basis for the development of the resource-based theory (RBV) in strategic management (Wernerfelt, 1984).

The use of internal resources and capabilities as the basis for developing strategy rests upon two premises; first, internal resources and capabilities provide the basic direction for a firm's strategy, and second, resources and capabilities are the primary source of profit for the firm (Grant, 1991).

The proponents of the internal approach view a successful firm as a bundle of somewhat unique resources and capabilities. If the firm's core capabilities are scarce, durable, defensible or hard to imitate, these capabilities can form the basis for sustainable competitive advantage and surplus profit, provided they are aligned well with the key success factors of the industry (Barney, 1991; Schoemaker, 1992; Hall, 1993; Peteraf, 1993).

In the 1990s, faced with global competition, technological change, and threats by smaller and less hierarchical competitors, companies were forced to seek for waves of new inward approaches to strategic management.

Similarly, Ulrich and Lake (1990) stressed that in the 1990s, a company's success depended not only on its ability to meet customer needs but also on how well its internal processes worked to meet its external demand. The authors pointed out that the traditional means of gaining competitive advantage through building better products or services, pricing of goods or services lower than the competition, or incorporating technological innovation into research and manufacturing operations were no longer adequate.

Kay (1993) also concluded that successful corporations based their strategies on an effective match between the external relationships of the firm and its own distinctive capabilities. According to Kay (1993), the success of a firm is often based on the exploitation of the capabilities which the firm already enjoys. As such, strategy should begin with an understanding of what these distinctive capabilities are.

Likewise, in building a firm's strategic vision, Schoemaker's framework (1992) linked the strategic vision to the firm's core capabilities. According to the author, if a firm's core capabilities are scarce, durable, defensible, or hard to imitate, it can form the basis for sustainable competitive and surplus profit.

**The Prescriptive and the Descriptive Approaches to Strategic Management**

The literature suggests that in addition to the above approaches, researchers have also adopted the prescriptive (normative) and descriptive approaches to offer alternate explanations and guides to understanding strategic management from different perspectives. According to Mintzberg (1987) the literature of normative or prescriptive guidelines and procedures for strategic management resulted from the synthesis of case studies and organisation theory research.

Mintzberg (1990) noted that the literature subsumed under strategy formation can be traced back to the work by Newman (1951) and in the case of Sun Tzu (military strategy) to probably fourth century B.C. Mintzberg (1990) identified ten schools of thoughts based on the prescriptive and descriptive perspectives. Using the prescriptive

orientation, Mintzberg treated three of the ten schools strategy formation as a process of conceptual design, formal planning and analytical positioning. The analytical positioning school was the result of his research on the content of competitive strategies.

In contrast, using the descriptive perspective, Mintzberg developed the entrepreneurial school (concerned with strategy formation as a visionary school), the cognitive school (a mental process), the learning school (an emergent process), and the environmental school (a passive process). Finally, by combining the descriptive and the integrative approaches, Mintzberg developed the configurational school that helps to place the findings of the other schools in context by seeking to delineate the various stages and sequences of the strategy formation process.

Following the traditional approach of the 1960s and 1970s, based on a more extensive use of systematic analyses, the second perspective (also prescriptive) was introduced in the 1980s. This second perspective viewed strategic management as a process that required formal analysis in order to be able to develop successful strategies (Porter, 1980; Johnson & Scholes, 1988). Both the approaches seemed to emphasise environmental scanning or analysis, specifically analysis of the external environment of an organisation. Furthermore, most of the authors of this second prescriptive approach viewed strategic management as a process that comprises of the following three sequential major activities:

a. Formulation of strategy.
b. Implementation of strategy.
c. Evaluation and control of strategy.

According to Wheelen and Hunger (1996), the normative or prescriptive models of strategic management generally reflect an explicit, planned and rational approach.

In developing a general normative model of strategic management process, Ginter, Rucks and Duncan (1985) identified the following eight components as the foundations as well as the similarities among the normative models of strategic management presented in the literature:

a. Establishing the mission of an organisation.
b. Setting the objectives of the organisation.
c. Conducting environmental scanning.

d. Identifying the organisation's internal strengths and weaknesses.
e. Formulating alternative strategies.
f. Choosing a strategy.
g. Implementing the strategy.
h. Evaluating and controlling the strategy.

In the 1990's, although the literature indicates that the trend is still towards the systematic analysis approach to strategic management, the analytical emphasis has instead moved from the external environment to internal environment of organisations. In this period, the internal environment of an organisation is viewed to be the best starting point for formulating strategy, particular its resources and distinctive capabilities.

To further explain the current level of understanding in the field of strategic management, the following section presents some of the important theories of strategic management.

## THEORIES OF STRATEGIC MANAGEMENT

It is possible now to turn to specific theories to explain the current level of understanding in the field of strategic management. However, it should be recognised that these theories are interrelated and each of them has had an effect on current strategic management principles and practices. These theories are:

i. the profit-maximising and competition-based theory
ii. the resource-based theory
iii. the socio-cultural theory
iv. the survival-based theory
v. the uncertainty-based theory
vi. the human resource-based theory
vii. the contingency theory.

### The Profit-Maximising and Competition-Based Theory

As the earliest theory of strategic management, Lynch (1997) pointed that the profit-maximising and competition-based theory emphasised on the importance of the market place to deliver profits. The profit-maximising and competition-based theory

states that strategic management in organisations is driven by the objective of maximising the organisation's profitability in the long term. The major argument of the proponents of the profit-maximising and competition-based theorists is that the purpose of strategic management is to develop sustainable competitive advantage over competitors.

Chandler (1962), and, Ansoff (1965) were the early contributors to the profit-maximising and competition-based theory. Later, Porter (1980), and more recently, Wheelen and Hunger (1996) added significantly to this school of strategic management.

However, as the complexity and scope of strategic management widen, the profit-maximising and competition-based theory attracted various criticisms. Mintzberg (1987), Prahalad & Hamel (1990), and Kay (1993) claimed that the theory was overemphasising on the external environment. These authors criticised the profit-maximising and competition-based theory for not being able to indicate how a firm could develop its own resources, skills and strategies in order to sustain its competitive advantage over competitors.

**The Resource-Based Theory**

The resource-based theory was developed as a the result of the disatisfaction with the earlier external approach which overemphasised the external environment as the principle source of a firm's competitive advantage.

Contrary to the profit-maximising and competition-based theory, the resource-based theory suggests that the principle source of a firm's competitive advantage lies in the firm's resources. The resource-based theory views a firm as having different levels of resources and capabilities that can form the basis for competition, as they provide the foundations for competitive advantage.

According to Godfry and Hill (1995), this theory views resources as both tangible and intangible such as physical and human resources that include plant and equipment, managerial and technical staff, and organisational routines.

Furthermore, according to the resource-based theory, the competitive advantage derived from a resource will depend on the extent to which the resource is able to reduce the cost structure of the firm, use to

produce differentiated products and the resource uniqueness in comparison with the competitors. The sustainability of the competitive advantage of a resource would depend on the rate of its durability, availability of substitutes and its inimitability (Prahalad & Hamel, 1990; Grant, 1991; Barney, 1991; Schoemaker, 1992; Hall, 1993; Kay, 1993; Peteraf, 1993).

**The Socio-Cultural Theory**

The socio-cultural theory of strategic management focused on the whole structure of society where a firm operates. The proponents of this theory suggest that different socio-cultural elements in different societies can influence the strategic management processes of different organisations.

The socio-cultural theory seeks clearly defined prescriptive strategies, but stresses the importance of the social and cultural frameworks and beliefs of nations as the starting point for strategy development. In other words, the socio-cultural theory focuses on the importance of the social and cultural aspects of different countries in the strategy management process.

According to Lynch (1997), the socio-cultural theory resulted from a greater awareness of cultures beyond the Anglo-American mould, where the concept of strategic management in businesses originated.

In conceptualising strategic management from several viewpoints, Hussey (1990) suggested that the cultures of countries may also affect the manner in which strategic management is applied in different countries. Hussey (1990) claimed that what managers do in the context of strategic management is to a large extent affected by not only the culture of the organisation, but also the complexity of the national culture.

**The Survival-Based Theory**

This theory of strategic management centres around the notion that in order for an organisation to survive it needs to adapt to its continuously competitive environment. The survival-based theory of strategic management is based on the idea of the survival of the fittest in the market. According to this theory, strategic management is about how to survive in an environment which is constantly changing and shifting.

Henderson (1989) noted that competition existed long before strategy. The author claimed that every business must cope with the continued existence of competitors. To do this, a business needs to develop a strategy that will help to develop its competitive advantage.

Lynch (1997) indicated that theorists suggest that the survival-based strategies should rely on running efficient operations that can respond to changes in the environment.

**The Uncertainty-Based Theory**

In contrast to the mainstream theories, the uncertainty-based theory of strategic management relies more on experimentation and adaptation. According to Lynch (1997), this theory of strategic management is based on mathematical probability concepts that show strategy development as complex, unstable and subject to major fluctuations, thus making it impossible to undertake any useful prediction in advance.

The uncertainty-based theory regards prediction as impossible because of the inherently unstable nature of business and its environment. This theory suggests that strategies must be allowed to react to the changing environment and emerge from the chaos of events.

**The Human Resource-Based Theory**

The human resource-based theory posits that firms are faced with continuous changes in the environment. To survive, a firm can learn to overcome the changes by focusing on developing its human resources (Rothwell & Kazanas, 1989).

In addition to focusing on human resources in strategy development, this theory also stresses the importance of motivation, the politics and cultures of organisations and the desires of individuals. However, the human-based resource theory has particularly emphasised the difficulties that can arise as new strategies are introduced and people are faced with the need for change and uncertainty.

**The Contingency Theory**

This theory results from the realisation that there is no one best way to manage and develop strategy in organisations. The contingency theory recognises that different types of organisations (such as a univer-

sity, a hotel or an industrial firm) need to develop strategies differently. The contingency theory of strategic management emphasises on situational factors. This theory is based on the representation of the situational factor as the determining factor of strategy development. The contingency theory states that the success of a particular firm depends on how well it is able to deal with the situational factors such as environment, organisational structure, strategy types, distinctive capabilities, and technology.

The literature suggests that of the theories discussed, the contingency theory is widely adopted in the study of strategic management (Hofer, 1975; Kukalis, 1991; Shane & Kolvereid, 1995; Merz and Sauber, 1995; and Dess, Lumpkin & Covin, 1997).

## CONCLUSION

From its humble beginnings, continuing contributions and interest in strategic management have increased its scope and complexity. The evidence suggests that over the years, strategic management has experienced remarkable growth and acceptance both as a field of study and a good business practice.

The lack of research emphasis on the development of the strategic management concept has justified the need for this paper to be forwarded. By focusing on the origin, process, approaches and theories of strategic management, this paper takes us a step closer to understanding the development of strategic management to the current level of understanding.

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