

MAIN METHODOLOGICAL PROBLEMS OF STRATEGIC MANAGEMENT PROCESS

M.A. ROMANYUK

(Department of Forecasting and Planning of Russian State Agrarian University -
MTAA named after K.A. Timiryazev)

Abstract. Complexity and dynamism in progress of influencing factors introduce methodological difficulties into the process of managerial decisions development.

Main methodological problems are: disconformities of methods of managerial decisions development to condition of economic system, strategy is not defined as an exact economic category, action sequence and methodological features of strategic targeting and analysis, problems of choosing and describing a strategy by system of measures, available time to correct a strategy in the process of its realization. Right managerial decisions development depends on knowledge and qualification of a manager.

Key words: strategic management, uncertainty of external environment, strategic analysis, hierarchy of goals, macromedia, micro-environment, internal environment, matrix method, economic strategy.

Economic science always pays attention to problems of management theory and methodology. Theoretical and methodological aspects of strategic management are studied in detail by Igor Ansoff, P. Drucker, J. Strickland, M. Porter, Henry Mintzberg and other. Stages and methodological techniques of the strategic management process are described in economic literature. However there are some difficulties in process of strategy generation and solution of such difficulties depends on abilities of managers. The purpose of the article is detection of major methodological problems in the process of strategy generation.

Strategic management is a special kind of management which takes into account long-term objective of firm development in environmental uncertainty conditions.

The main result of strategic management is a strategy. Strategy is directions of actions and main approaches for goal achievement. In this moment goals and tasks are led for consolidation of viability and capability of firm as compared with its competitors.

Availability of necessary information to make a decision is a key factor of efficient firm operation. There are different ways to estimate conditions of external environment. In our case a degree of uncertainty of external environment is estimated from two positions: «simple — difficult» — this is a quantity of influencing factors, and «static — dynamic» — this is a velocity (intensity) of factors change (diagram 1). Methods of management decision-making depend on a degree of uncertainty of external environment. The present economic system operates in a dynamic external environment. Mainly application of expert methods is required in this connection. Therefore correctness and efficiency of management decisions depends on high experience and skill of a manager.

*Author for correspondence: Romanyuk Maria — PhD, associate professor of the department of Forecasting and Planning of RSAU - MTAA named after K.A. Timiryazev. Tel.: (499) 976-06-25, E-mail: romanyuk@timacad.ru

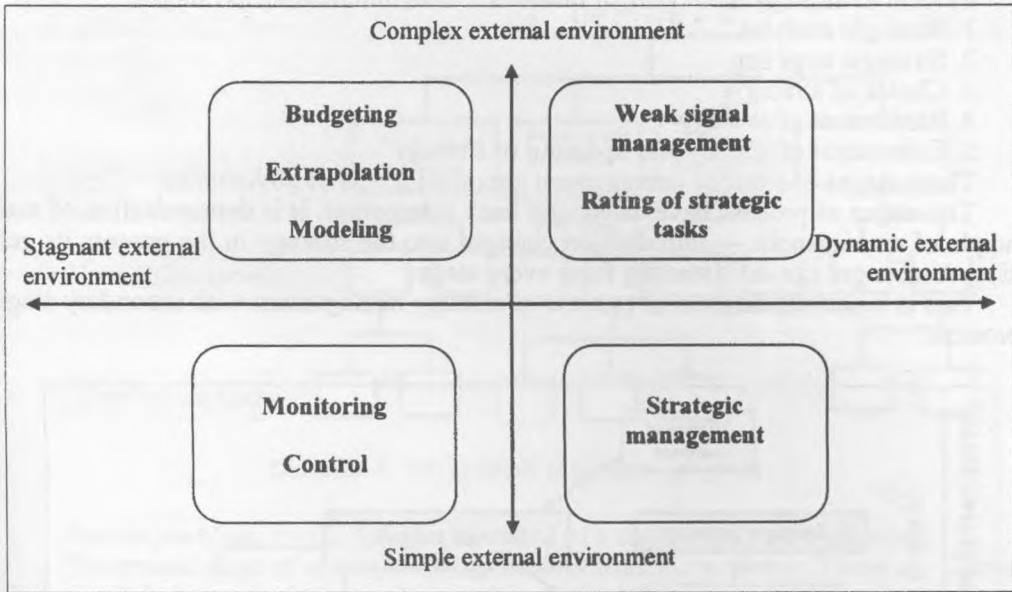


Diagram 1. The dependence of management methods on conditions of external environment

First problem of strategic management is disconformities of methods of managerial decisions development to condition of an economic system. A lot of firms have to operate in conditions of dynamic and difficult external environment. In this case it isn't enough to have developed methods of strategic management [3]. Therefore responsibility for decision making lies on a manager.

Second problem: strategy is not defined as an exact economic category. And so there are different interpretations and methods of strategy generation.

This is a complicated for economic science. For example, Henry Mintzberg gave definition of strategy as a system of 5 elements [5]:

- Plan is an establishment of purposes, tasks and actions.
- Position is a place between competitors.
- Practice is a special technique against competitors.
- Pattern is a model of behavior
- Perspective is a period of time when the strategy is used.

In our legislation the category "strategy" is not define. In this connect there are many methodological problems in its development and description. The main task of every strategy is effective employment of resources for goal achievement. All of actions for strategy realization are formed subject to resources and goals.

So, strategy is decision making about goal achievement in given situation with given resources and in consideration of candidate actions of competitors.

Third problem: action sequence of strategic targeting and analysis.

Process of strategy generation is very composite. It is based on creative solution of manager, not on copy procedure. A manager as a strategist must has enough knowledge, qualification and intuition. He mast thinks complex, creative and strategically. A manager settles many methodological problems of analysis, definition of goals and choice of strategy only on basis of his knowledge and intuition.

Process of strategy management includes 5 main interconnected stages:

1. Strategic analysis
2. Strategic targeting
3. Choice of strategy
4. Realization of strategy
5. Estimate of efficiency and updating of strategy

These stages of strategy management are on all levels of governance.

The stages of process have direct and back connection. It is demonstration of main principle of management — introduction changes into the strategy in the process its generation. A manager can do it starting from every stage.

This is branched diagram of process of strategy management with secondary stages of process.

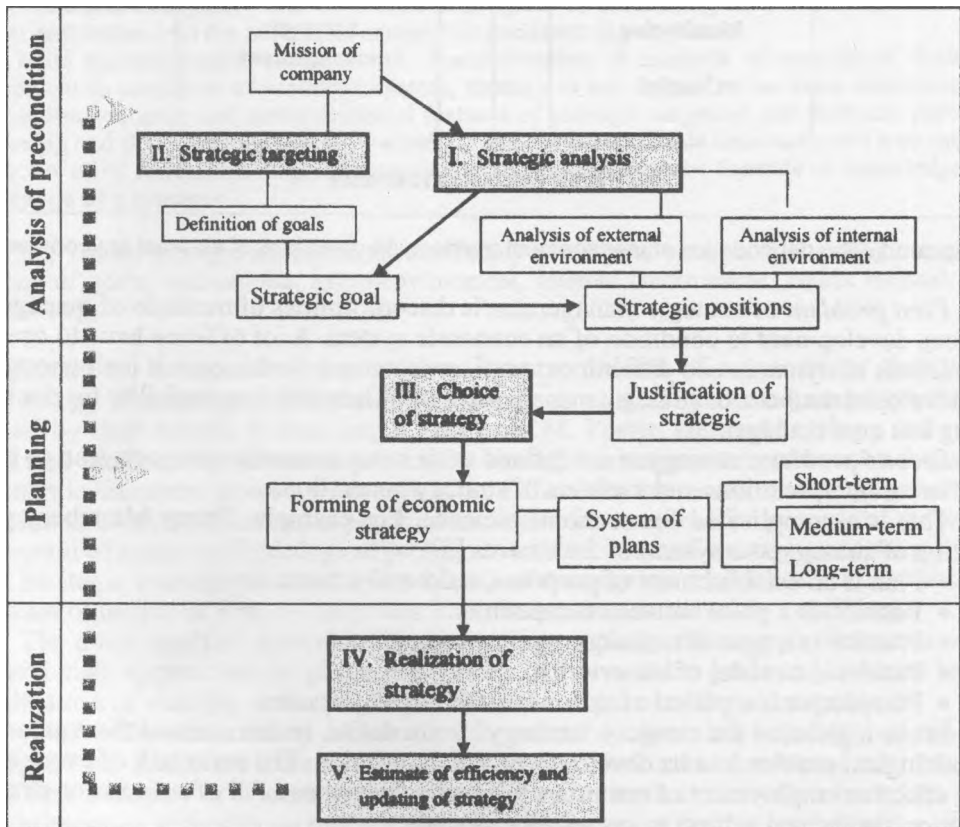


Diagram 2. The branched diagram of process of strategy management

On the first field “Analysis of preconditions” manager forms strategic goal and analysis environment. The result of this field is strategic positions of firm in compared with competitors. This field also has one methodological problem. In ideal situation the stages of targeting and analysis must be carried out together and parallel. The goal is formed on basis of result of analysis. And analysis must be carried out including this goal.

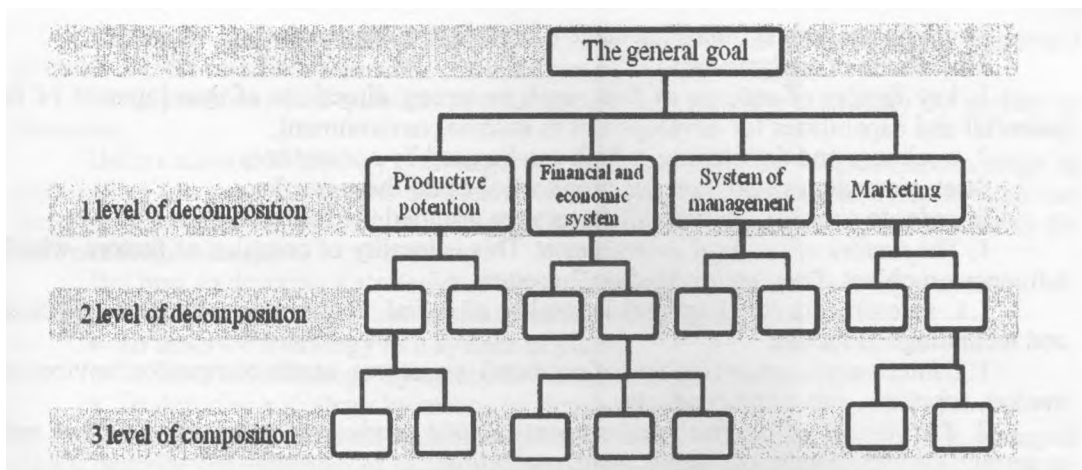


Diagram 3. The example of hierarchy of goals

Fourth problem: methodological features of a stage of strategic targeting.

The second stage of strategic management is strategic targeting. There are 2 steps of this stage: definition of mission and general goal.

The mission is concentrate form of meaning of firm existence. It is its predestination.

The strategic goal is goal which allows changing the situation to make a firm permanently profitable.

The best method of goal generation is decomposition of goal. In graphic description it is called as hierarchy of goals. The decomposition is breakup of general goal on component jobs which are addressed to concrete executors.

Besides, this decomposition method is applied widely to detect interconnections of development problems and actions of strategy realization and also to forming «resource tree». In our case it is very important to compare hierarchy of goals with hierarchy of strategy.

Fifth problem: methodological features of strategic analysis.

Strategic management uses special methods of analysis such as rating ore matrix. They allow to define most important factors which influence on the strategy and to define how to manage them.

The nature of matrix method is division of factors on groups of subject in their influence.

Table 1

The example of matrix method

		Influence of factor	
		Strong	Weak
Probability of factor coming	Strong	<ul style="list-style-type: none"> • Environmental monitoring • Analysis • Strategy generation 	<ul style="list-style-type: none"> • Analysis • Strategy generation
	Weak	<ul style="list-style-type: none"> • Environmental monitoring 	<ul style="list-style-type: none"> • Environmental monitoring • Analysis

Strategic analysis is important stage of strategic management.

The results of analysis are:

1. key factors of success of firm, such as strong directions of development of its potential and capabilities for development in external environment,

2. weakness and threatening, which can be used by competitors

Strategic analysis also includes prognostics of all these results.

In order to simplify analysis all factors are grouped the following:

1. *The factors of external environment.* This is totality of complex of factors, which influence on object. They are divided on 2 groups:

1.1. macromedia (total sphere) is totality of social, economic, ecological, political and technological factors.

1.2. micro environment (sphere of contacts) is customs, sector competitor, novices of market, suppliers, substitute products.

2. *The factors of internal environment* include productive potential, financial and economic system, system of management, marketing.

The firm cannot influence on factors of macromedia, it only can react. But firm can influence on factors of micro environment and here strategy of behavior is formed. A feature of analysis of external environment is to analysis from external position of competitors.

The main methods of strategic analysis for each section are indicated in the table 2.

Table 2

The main parts of strategic analysis

The parts of strategic analysis		Groups of factors	Method of analysis
1. Analysis of external environment	Macromedia	Social	STEEP
		Technological	
		Economic	
		Ecological	
		Political	
	Micro environment	Customs	The matrix of M. Porter «5 forces of competition»
		Sector competitor	
		Novices of market	
		Suppliers	
		Substitute products	
2. Analysis of internal environment		Productive potential	<ul style="list-style-type: none"> • Analysis of internal risks • Prediction of bankruptcy • GAP — analysis of gap point • CVP — analysis of break-even point
		Financial and economic system	
		System of management	
		Marketing	
3. Analysis of strategic positions	Positions on market	Analysis of commodity portfolio	The matrix of Boston Consulting Group
		Analysis of sectoral appeal	The matrix of General Electric
		Analysis of life cycle	The matrix of ADL- Life Cycle
	Total strategic positions	Key factors of success	SWOT: <ul style="list-style-type: none"> • Strength • Weakness • Opportunity • Threatening

Choice of analysis methods depends on a manager. In this stage it is very important to make correct conclusion to work out viable and efficient strategy.

Sixth problem: is a question how to choose and describe a strategy by system of measures.

Before choice of strategy a manager has to define strategic scripts. On this stage he already has the goal, the results of analysis and the strategic positions. He can work out them in different situations. So, it helps him to choose the right strategy and to make the future more predictable.

But how to describe a strategy? A manager can do it by the following ways:

- To choice a strategy from a classification which suits him;
- To describe a strategy as a system of plans;
- To describe a strategy by means of branched tree of objectives;
- To describe a strategy by means of simulation methods.

There are many different classifications of strategies. We have choose that strategies which describe development of internal potential and external environment. So, strategies of development of external environment are competitive strategies of M. Porter [2].

Table 3

The competitive strategies of M. Porter

Type of target market	Strategic advantage	
	Low costs	Product differentiation
Wide	Strategy of leadership in cutting of production costs	Strategy of product differentiation
Narrow	Strategy of focusing	
	In cutting of production costs	In product differentiation

The strategies of development of internal potential are growth strategies.

Table 4

The growth strategies

Type of growth strategies	Nature
<i>Strategy of survival</i>	It is used in conditions of economic crisis. When all of measures of company activity become worse.
<i>Strategy of stabilization</i>	It is used in conditions of stabilization of selling and profits. When a company has stable technology
<i>Growth strategy</i>	It is used in dynamic develop companies with technology which is improved permanently. When a company trends to rise of selling and profits.

There is interconnection between strategic goals and levels of strategies (table 5):

- General strategy is based on mission and general goal and realized in long-term perspective;
- Business-strategy gives directions of development of firm internal potential and its behavior in markets. It is realized in medium-term perspective;
- Functional strategy has tactical nature and gives directions of development in functional fields of firm activity. It is realized in short-term perspective.

The hierarchy of goals and strategies

Level code	Level of strategic goal	Level of strategy		Type of strategy
I	Mission	<i>General strategy</i>		
	General goal			
II A	Goal of development of internal environment	<i>Business-strategies</i>	The growth strategies	<ul style="list-style-type: none"> • Survival • Stabilization • Growth
II B	Goal of development of external environment		The competitive strategies of M. Porter	<ul style="list-style-type: none"> • Low costs • Product differentiation • Focusing
III An	Subgoals of development of internal environment	<i>Functional strategies</i>	Strategy of development of internal environment	<ul style="list-style-type: none"> • Productive potential • Financial and economic system • System of management • Marketing
III Bn	Subgoals of development of external environment		Strategy of development of external environment	<ul style="list-style-type: none"> • Customs • Sector competitor • Novices of market • Suppliers • Substitute products
IV	Strategic tasks	Actions of strategy realization		

At last in order to define a list of actions for future plans we use matrix of strategies. It allows finding out the most important and the same actions which are necessary for realization of strategy on different levels (table 6). The main actions of strategy are grouped into short-term, medium-term and long-term plans. So, in our case a strategy is described by system of plans (diagram 2).

Seventh problem: available time to correct a strategy in the process of its realization.

The last two stages of strategic management process are realization of strategy and estimate of efficiency and updating of strategy. Here the important point is a possibility of updating.

It is usually in practice conditions of external environment are changed suddenly and developed strategy becomes inefficiency. In this case the strategy has to be revised, but this operation takes some time. So, it is very important to spend little time to revise the strategy as it will minimize expenses and losses of a firm. Therefore a manager must aspire to reduce spending of time for revising the strategy. It can do by the following ways:

- A manager has to take probability and available time for a reaction during estimation of influencing external factors.
- A manager has to work out some probable versions of firm reactions, especially regarding powerful factors.
- It is important to have efficient and experienced a business team and qualitative methods for decision-making.
- To have necessary information and constantly keep track of factors changes.

The matrix of strategies

Level I	Mission and general goal					
	General strategy					
	Level II	Level III	Business-strategies of development of external environment <i>The competitive strategy of M. Porter (II B)</i>			
			Functional strategies of development of external environment			
		B1 Customs	B2 Sector competitor	B3 Novices of market	B4 Suppliers	B5 Substitute products
Business-strategies of development of internal environment <i>The growth strategy (II A)</i>	A1 Productive potential	actions	actions	actions	actions	actions
	A2 Financial and economic system	actions	actions	actions	actions	actions
	A3 System of management	actions	actions	actions	actions	actions
	A4 Marketing	actions	actions	actions	actions	actions

So, constantly changes of conditions of external environment require special type of administration — the strategic management. Complexity and dynamism in progress of influencing factors introduce methodological difficulties into process of managerial decisions development. Variety of methods of strategic analysis, a lot of classification of economic strategies, and ways of its realization require special manager quality: to have strategic thinking. What is why a quality and an efficiency of a developed strategy generally depends on knowledge and qualification of a manager.

References

1. *Arthur A., Jr. Thompson, A.J. Strickland III. Strategic Management: Concepts and Cases*, 12th Edition. — M.: «Williams publishing», 2007. — P. 328
2. *Porter M.E. Competitive Strategy*. — M.: «Williams publishing», 2000.
3. *Romanyuk M.A. Creation of strategic planning system*. // *Izvestiya TSKhA*, issue 5, 2010. P. 121-129.
4. *Strategic analysis*. Khorin A., Kerimov V. — M.: Eksmo, 2006. -P. 288.
5. *The Strategy Process*. Mintzberg Henry, Quinn James Brian, Ghoshal Sumantra / SPb: Piter, 2001, series «Theory and practice of management» — P. 688.

Аннотация. Высокая степень неопределенности в развитии влияющих факторов вносят методологические трудности в процесс принятия управленческих решений. К основным методологическим проблемам процесса стратегического менеджмента относятся: несоответствие методов разработки управленческих решений условиям функционирования экономической системы; стратегия не имеет точного определения как экономическая категория; взаимосвязь этапов стратегического целеполагания и анализа и их методические особенности; проблемы обоснования и выражения стратегии через систему экономических показателей; время, доступное для корректировки стратегии, в процессе ее реализации. Решение этих проблем и правильность выбранных методов управления во многом зависят от знаний, квалификации и опыта менеджера