DEFINITION OF STRATEGIC MANAGEMENT

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Abstract: The paper describes the major issues of strategic management. Basic steps that any company needs to go through to survive in a competitive environment are examined.

Keywords: Strategic management, competition, strategic objectives, competitive advantage.

Management is the organizational process that includes strategic planning, setting objectives, managing resources, deploying the human and financial assets needed to achieve objectives, and measuring results. Management also includes recording and storing facts and information for later use or for others within the organization. Management functions are not limited to managers and supervisors. Every member of the organization has some management and reporting functions as part of their job.

Strategic management is defined as the process by which managers of the firm analyze the internal and external environments for the purpose of formulating strategies and allocating resources to develop a competitive advantage in an industry that allows for the successful achievement of organizational goals (Cox, 2012).

Strategic management consists of the analysis, decisions, and actions which an organization undertakes in order to create and sustain competitive advantages. This definition captures two main elements that go to the heart of the field of strategic management (Lumpkin, 2005).

Firstly, the strategic management of an organization entails three ongoing processes: analysis, decisions and actions. That is, strategic management is concerned with the analysis of strategic goals (vision, mission, and strategic objectives) along with the analysis of the internal and external environment of the organization. Leaders must make strategic decisions. These decisions address two basic questions: What industries should we compete in? How should we compete in those industries? These questions also often involve an organization’s domestic and international operations. And the last process is the actions that must be taken. Decisions are of little use, of course, unless they are acted on. Firms must take the necessary actions to implement their strategies. This requires leaders to allocate the necessary resources and to design the organization to bring the intended strategies to reality. As we will see in the next section, this is an ongoing, evolving process that requires a great deal of interaction among these three processes.

Secondly, the essence of strategic management is the study of the process why some firms outperform others. Thus, managers need to determine how a firm is to compete so that it can obtain advantages that are sustainable over a lengthy period of time. That means focusing on two fundamental questions: how should we compete in order to create competitive advantages in the marketplace? For example, managers need to determine if the firm should position itself as the low-cost producer, or develop products and services that are unique which will enable the firm to charge premium prices-or some combination of both (Lumpkin, 2005).

Managers must also ask how to make such advantages sustainable, instead of highly temporary, in the marketplace. That is, how can we create competitive advantages in the marketplace that are not only unique and valuable but also difficult for competitors to copy or substitute?

Ideas that work are almost always copied by rivals immediately. In the 1980s, American Airlines tried to establish a competitive advantage by introducing a frequent flyer program. Within weeks, all the airlines did the same thing. Overnight, instead of competitive advantage, frequent flyer programs became a necessary tool for competitive parity, not competitive advantage. The challenge, therefore, is to create competitive advantage that is sustainable.

As Michael Porter points out, sustainable competitive advantage cannot be achieved through operational effectiveness alone. Most of the popular management innovations of the last two decades are:

- Total quality. This is a management approach centered on quality, based on the participation of an organization's people and aiming at long term success. This is achieved through customer satisfaction and benefits all members of the organization and society. In other words, TQM is a philosophy for managing an organization in a way which enables it to meet stakeholder needs and expectations efficiently and effectively, without compromising ethical values.
- Just-in-time. JIT is a management philosophy aimed at eliminating manufacturing wastes by producing only the right amount and combination of parts at the right place at the right time. This is based on the fact that wastes result from any activity that adds cost without adding value to the product, such as transferring of inventories from one place to another or even the mere act of storing them.
- Benchmarking. It is simply the comparison of one organization's practices and performance against those of others. It seeks to identify standards, or "best practices," to apply in measuring and improving performance.
- Business process reengineering. It refers to the analysis, control and development of a company's systems and workflow. The principal idea behind business process re-engineering is that a company is a collection of processes that evolves over time.
- Outsourcing. This is when a company contracts with an outside provider for services or other business processes, rather than employing staff to do these services in-house. These services may be provided on-site or off-site. Typically outsourcing is done with an eye toward efficiency and cost-saving for the company. Outsourcing could be as simple as hiring a freelancer to edit a company newsletter or as large-scale as hiring an outsourcing company to handle all accounting and payroll functions.

They are all about operational effectiveness (Porter, 1999). Operational effectiveness means performing similar activities better than rivals. Each of these is important, but none leads to sustainable competitive advantage, for the simple reason that everyone is doing them. Strategy is all about being different from everyone else. Sustainable competitive advantage is possible only through performing different activities from rivals or performing similar activities in different ways. Companies such as Wal-Mart, Southwest Airlines, and IKEA have developed unique, internally consistent, and difficult to imitate activity systems that have provided them with sustained competitive advantage (TADVISER State. Business. IT. 2013 [сайт]. URL http://www.tadviser.ru/).

In conclusion, a company with a good strategy must make clear choices about what it wants to accomplish. Trying to do everything what your rivals do eventually leads to mutually destructive price competition, not long-term advantage.

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