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STRATEGIC MANAGEMENT (DHU 3633)

CHAPTER 2: THE CONTEXT OF STRATEGIC

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THE CONTEXT OF STRATEGIC

1. Context of Strategic
2. The Organization
3. Management
4. The environment
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CONTEXT OF STRATEGIC

WHAT IS STRATEGIC CONTEXT?

1. Strategic thinking is about coping with ambiguity (not clear). A strategic thinker has the ability to adopt different perspective and use empathy (is a high degree of understanding of other people's emotions). From this they can develop insights about the organization's business model. The job of the leader is sense-making: to pick the signals from the noise and arrange them with some logic that appeals to stakeholders.

2. Each organization has a unique external context. Given that context, it develops strategy to provide an appropriate direction.

3. Even if strategic initiative leader is not involved in strategy formulation, he/she needs to understand the strategic context. This chapter explains several tools that can help you gain strategic perspective. You will also pick up a tip for creating your program documentation and will deepen your capacity for strategic thinking.

CONTEXT OF STRATEGIC

WHAT IS STRATEGIC CONTEXT?

4. The relevance of specific performance objectives and priorities should become apparent when they are presented within the context of the entity's operating environment, purpose, and strategic aims.

5. The strategic context helps explain, at a high level, the reason for the entity's existence, what it exists to achieve, and the powers and functions it may exercise to help achieve its goals.

6. A useful discussion about context will include information on the purpose of the entity, its role, and the nature and scope of its functions and operations. Such characteristics remain relatively fixed over time, because they express, at a fairly high level, the fundamental information on the entity's strategic positioning within the general, long-term aims of the organization.

CONTEXT OF STRATEGIC-PESTLE

The PESTLE Tool for Classifying Six Types of Strategic Context:

Strategic program managers invest time looking outward to understand the external drivers (and constrainers) that affect their organization's business model.

The acronym PESTLE gives you a tool for classifying six different kinds of strategic context:

1. **POLITICAL ENVIRONMENT** – Strategic initiatives are often international in scope, and they can be affected by local politics. For example, recent turmoil in the Ivory Coast problems made travel to the country impossible for the program manager. CSX Railroad's Director of Strategic Initiatives has an important responsibility to interacting with local politicians as the company makes capital improvement investments in new rail terminals. Of course, controls over resources are internal political factors that the initiative leader must consider.

CONTEXT OF STRATEGIC-PESTLE

2. **ECONOMIC ENVIRONMENT** – Here we would look at macroeconomic factors such as GDP, inflation, and industry growth rates. As I pointed out in my previous post on Growth as a Strategic Initiative, current economic conditions are making it more likely that companies will launch strategic initiatives focused on growth.

3. **SOCIAL ENVIRONMENT**– There are differences in generations (millenials vs baby boomers, for example) that have far-ranging affects upon the organization and its strategy. This contextual factor might affect HR strategic initiatives or marketing strategic initiatives.

4. **TECHNICAL ENVIRONMENT**– The technical environment gives us constraints, as well as new tools and capabilities. For example, many companies have launched initiatives involving social networking and mobile computing.

CONTEXT OF STRATEGIC-PESTLE

5. **LEGAL ENVIRONMENT** – The legal environment is closely associated with the political environment when we are considering the impact of new regulations or mergers and acquisitions. It also overlaps with the legal environment when we consider litigation.

6. **EARTH** – Climate, earthquakes, are just a few of the concerns that can affect an organization's strategy, hence its strategic initiatives. PepsiCo is an example of a company with a declared strategic initiative around environmental sustainability.

CONTEXT OF THE ORGANIZATION

1. **Context of the organization** as defined in ISO 9001 is understood as set of factors affecting business (internal and from environment).

2. ISO 9001:2015 require to evaluate internal and external factors affecting business during preparation to implement quality strategic management system.

3. Managers should define organizational objectives, culture of organization, production processes, information system, market position, customer requirements, employee needs, knowledge gap, key success factors, etc. Is should also contain comprehensive stakeholder analysis.

4. Context of the organization is then used to make strategic implementation decision and preparing resources needed for efficient QMS implementation

CONTEXT OF THE ORGANIZATION

5. This concept is in the uniform structure of "High Level Structure", which since 2012 has been defined for all management systems.

6. In organization context, two aspects can be distinguished:

   i. understanding the company and its context
   ii. understanding the overall needs
   iii. expectations of stakeholders.

7. The idea is to determine the requirements that affect the planning of the quality strategic management system.

CONTEXT OF THE ORGANIZATION

REQUIREMENTS:

1. The organization should define internal and external issues that affect the ability to achieve the intended goals of the quality management system and are appropriate to the strategic direction and purpose of the enterprise.

2. The organization must review and monitor these issues.

CONTEXT OF THE ORGANIZATION-External Issues

1. EXTERNAL ISSUES

The external environment of the company includes, among others, factors:

i. economic factors
ii. technological factors
iii. political factors
iv. social factors
v. cultural factors
vi. legal factors
vii. financial factors
viii. environmental factors

For example: The purchase of new technologies may have a positive impact on the functioning of the company, so it is important to design the system so that its implementation in the future is ready.

CONTEXT OF THE ORGANIZATION- Internal Issues

2. INTERNAL ISSUES

The internal context of the organization consists of elements such as:

i. human resources
ii. know-how and possessed technologies
iii. applicable standards
iv. targets
v. strategy
vi. organizational structure
vii. communication system

For example:

To increase the production volume, human resources that the organization has are not sufficient. The machine park that is used is energy-intensive. It is worth systematically approaching all planned improvements that improve the functioning of the company.

TOOLS THAT CAN BE USED FOR ANALYSIS IN STRATEGIC MANAGEMENT

Tools that can be used for analysis:

1. P.E.S.T analysis - Political, Economic, Social, Technological
2. P.E.S.T.L.E. (E) analysis - P.E.S.T + Legal + Environmental + (Ethical)
3. SWOT analysis - Strengths, Weaknesses, Opportunities and Threats

PEST

PEST is a tool that is used to analyze the company's macro-environment. The abbreviation PEST was taken from the words indicating the company's environment: Political, Economic, Social / Socio-cultural, Technological. When planning a business, all these factors must be taken into account.

Factors:

1. Political factors - which include the company regulation system is, for example, European integration, environmental protection regulations, antimonopoly laws and regulations relating to foreign trade.

2. Economic factors - they include inflation, interest rates, money supply, unemployment, economic cycles, trends in GDP, etc. In order to match the offer to the financial capabilities of citizens, the average salary or standard of living should also be taken into account.

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PEST

3. Socio-cultural factors - include studying the level of education, lifestyle, habits, population demographics, moral and ethical norms etc. When introducing a new product, we need to know what preferences consumers have in order to properly adapt the product to a potential buyer.

4. Technological factors - include state spending on research, focus on technological effort, transfer speed or new technologies.

SWOT

SWOT is a strategic analysis of an enterprise named after four concepts: STRENGTHS, WEAKNESSES, OPPORTUNITIES, THREATS.

- This analysis can be used both for the entire company and individual spheres of functioning, e.g. marketing, production, etc. It is often used as a technique of the initial strategic analysis of the company in the advisory activity.
- This analysis is a venture in which people in lower-level positions as well as managerial positions are involved.
- To properly develop a SWOT analysis, it is necessary to identify factors that may affect the current and future situation of the company.
- We distinguish two qualifying factors that cause both positives and negatives: external (PEST, scenario analysis, etc.), internal (knowledge, financial resources, personnel, etc.).

CONTEXT OF THE MANAGEMENT

In the field of management, strategic management involves the formulation and implementation of the major goals and initiatives taken by an organization's top managers on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization operates.

CONTEXT OF THE ENVIRONMENT

What is the concept of environment in strategic management?

- ✓ Environment may be defined as a set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization.
- ✓ Environmental factors can be explained as identifiable elements within the cultural, economic, demographic, physical, technological or political environment which impacts the growth, operations and survival of an organization.
- ✓ Environmental factors can be both internal as well external for the business.

CONTEXT OF THE ENVIRONMENT

What is the concept of environment in strategic management?

- Every organization has its own culture.
- Almost everything that affects an organization's ability to compete and respond successfully to changes in the external environment.
- Ultimately, the organization's success or failure – is an aspect of that culture.
- The internal factors determine how the organization moves forward, both as a self-contained organizational entity and in response to its external environment.

CONTEXT OF THE ENVIRONMENT

Internal & External Environment Factors Affecting Strategic Management

- External factors that affect an organization may be political, economic, social or technological.
- The same internal factors that lead to an organization's success inevitably characterize that organization's relationship to the external environment in these broad areas.

CONTEXT OF THE ENVIRONMENT

INTERNAL FACTORS:

MISSION

- Why does an organization exist? What is its purpose? Answering these fundamental questions describes an organization's mission. A successful organization has a clear sense of its ultimate purpose and knows how it intends to fulfill that purpose.

- Steve Jobs' original mission statement for Apple is a great example that describes in a few words both the company's ultimate goal, "To make a contribution to the world," and how it intends to reach that goal, "by making tools for the mind that advance humankind."

CONTEXT OF THE ENVIRONMENT

INTERNAL FACTORS:

LEADERSHIP

- Great leaders inspire and direct. Often the way they do that most persuasively is by example. After 30 years of brutal and isolating imprisonment, Nelson Mandela returned to South Africa to lead the country.
- It would have been understandable if upon gaining power Mandela had retaliated for the brutality of South Africa's Apartheid regime.
- Instead, he advocated communication, understanding and forgiveness. Consequently, South Africa achieved independence with a minimum of violence and retained and utilized the skills of the majority of its citizens.

CONTEXT OF THE ENVIRONMENT

INTERNAL FACTORS:

COMMUNICATION

- Successful organizations thrive on robust communication practices, where teams and team leaders communicate freely and often to improve results.
- This two-way communication up and down the hierarchical structure extends from top to bottom.
- Organizations with communication deficiencies often have rigid leadership structures that destroy trust.

CONTEXT OF THE ENVIRONMENT

INTERNAL FACTORS:

ORGANIZATIONAL STRUCTURE

- At one time, most organizations had highly hierarchical structures, with many layers of leadership and management defining the organization from top to bottom.
- More recently, there is a growing understanding that organizations with flat structures – few hierarchical layers from top to bottom – outperform organizations with hierarchical structures.
- W. L. Gore, a highly successful global materials science company that is focused on discovery and product innovation, has more than 10,000 employees, but only three hierarchical levels: a democratically elected CEO, a few group heads and everyone else.

CONTEXT OF THE ENVIRONMENT

INTERNAL FACTORS:

LEARNING

- Learning is one of the most fundamental human activities and accounts directly or indirectly for the success of any organization.
- As technological advances lead to faster rates of change, successful organizations need to find a way to respond that encourages innovation and builds into every employee's experience the opportunity to learn and explore.
- Today's most successful organizations, like Google, Apple, Amazon and the cluster of companies led by Elon Musk, are essentially learning organizations.
- Musk's willingness to explore areas where he's not already an expert has given him a tremendous advantage because what he's learning in one field often has an immediate application in another.

CONTEXT OF THE ENVIRONMENT

EXTERNAL FACTORS AFFECTING AN ORGANIZATION

- External factors that affect an organization may be:
    a. political,
    b. economic,
    c. social
    d. or technological.

- The same internal factors that lead to an organization's success inevitably characterize that organization's relationship to the external environment in these broad areas.

- An organization with a clear sense of mission, for example, can explain itself better to the world and can align itself with the positive elements in each area.

CONTEXT OF THE ENVIRONMENT

EXTERNAL FACTORS AFFECTING AN ORGANIZATION

- Leaders who can learn and communicate what they've learned within their organizations also can learn from the organization's external environment and communicate successfully with it, resulting in an ongoing exchange of ideas to the benefit of both the organization and its environment.

- Amazon, a single company that is transforming the way goods are bought and sold all over the world, has a reputation for communicating effectively with its suppliers and customers.

- Amazon is a customer-driven idea machine that believes the customer is always right. Determining what is right for each of its millions of customers and creating and maintaining a fast-growing organization that responds effectively to what each customer wants is Amazon's almost unprecedented triumph of 21st-century organization.

CONTEXT OF THE ENVIRONMENT

EXTERNAL FACTORS AFFECTING AN ORGANIZATION

- Companies are also impacted by external changes throughout society, like the impact of the #MeToo movement aimed at eliminating sexual harassment.
- Numerous firms have seen high level executives leave the company after credible charges had been leveled.
- Companies are also responding to gender equity issues by reviewing salaries of male and female employees to make sure comparable jobs receive comparable pay.

SOURCES OF ECONOMIC GROWTH

How does economy grow?

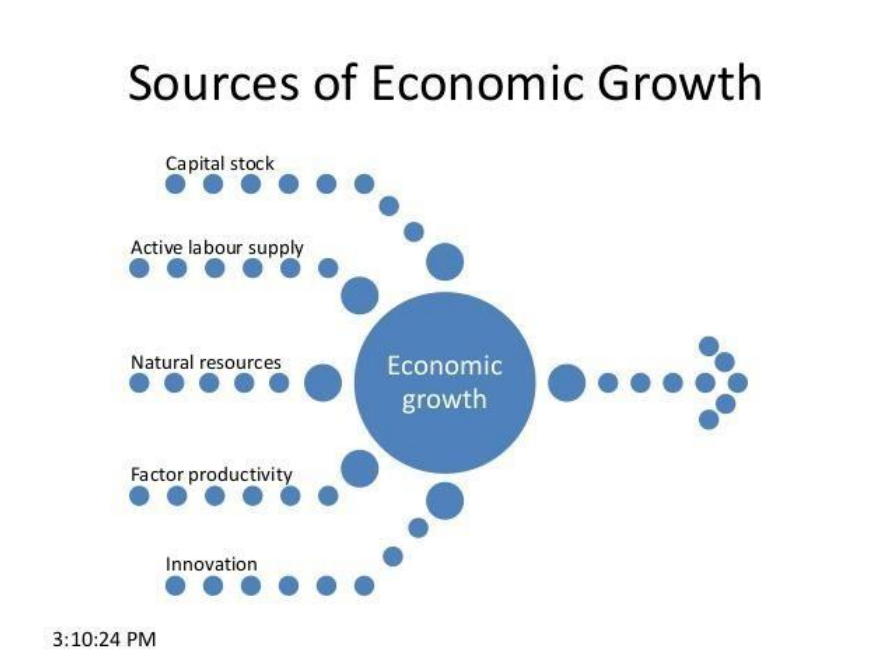
It takes time to develop and build capital goods, which requires savings and investments. Savings and investment increase when present consumption is delayed for future consumption.

When the human mind better understands how to use human tools, more goods and services are produced and the economy grows.

SOURCES OF ECONOMIC GROWTH

Sources of Economic Growth:

1. Natural Resources.
2. Physical Capital or Infrastructure.
3. Population or Labor.
4. Human Capital.
5. Technology.
6. Law.



4 FACTORS OF ECONOMIC GROWTH IN PRODUCTION

What are the 4 factors of production in economic growth?

Economic growth only comes from increasing the quality and quantity of the factors of production, which consist of four broad types:

1. land
2. labor
3. capital
4. entrepreneurship

The factors of production are the resources used in creating or manufacturing a good or service in an economy.