Evaluating Of Strategic Management Importance

Introduction

This report will evaluate the strategic management involved in a merger or acquisition which includes change management and the leadership skills required for a successful project. This will also include a detailed project plan which looks at system benchmarking and the payroll / pension expertise options compared to outsourcing or keeping the service in-house.

Strategic Management

The starting point has to be looking at what is strategic management. Strategic management can provide overall direction to an enterprise and involves specifying the organisations objectives, developing polices and plans designed to achieve these objectives, and then allocating resources to implement the plans. International journal of Management and Applied Science.

Dr Vladimir Kvint defines strategy as a “a system of finding, formulating, and developing a doctrine that will ensure long-term success if followed faithfully”.

Thomson and Strickland (1988) defined strategy as “a company’s strategy is the game plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance.”

However Knapp (2000) defines strategy as a “game plan” with five tasks which are:

1. Forming a strategic vision of what the company’s future business makeup will be and where the organisation is heading in order to provide long-term direction, and precisely define what kind of enterprise the company is trying to become, and infuse the organisation with a sense of purposeful action.
2. Setting Objectives to convert the strategic vision into specific performance outcomes for the company to achieve.
3. Crafting a strategy to achieve the desired outcomes.
4. Implementing and executing the strategy efficiently and effectively.
5. Evaluating performance and initiating corrective adjustments in vision, long-term direction, objectives, strategy or implementation in light of actual experience, changing conditions, new ideas and new opportunities.

Johnson et al (2008) say that strategic management has three levels mainly,

- Corporate Level – is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This crucial level is heavily influenced by investors in the business and act to guide strategic decision-making throughout the business. Corporate strategy is stated explicitly in a “mission statement”.
- Business level – is concerned more with how a business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting

needs of customers, gaining advantage over competitors, or creating new opportunities.
- Operational level – is concerned with how each part of the business is organised to deliver the corporate and business-unit level strategic direction. Operational strategy therefore focuses on issues of resources, processes and people.

Strategic position

The strategic position is concerned with the impact on strategy of the external environment, internal resources, competences and influence of stakeholders. It's important to take account of the future and to assess whether the current strategy is a suitable fit with the strategic position. If not, the organisation needs to determine what changes it needs to make and whether it is capable of effecting such changes.

Organisations need to understand the external environment in terms of the:

- macro influences - which include political, economic, technological and social factors.
- Micro influences – which include factors specific to the particular industry and related industries, including competition, customers, suppliers and barriers to entry.

Strategic objectives

Once the strategy planning has been carried out, the next step is to design the operational plan, using the objectives to achieve the company strategy.

Strategic objectives are long-term organisational goals that help to convert a mission statement from a broad vision into more specific plans and projects. They set the major benchmarks for success and are designed to be measurable, specific and realistic translations of the mission statement that can be used by management to guide decision-making. Strategic objectives are usually developed as a part of a two-to four-year plan that identifies key strengths and weaknesses and sets out the specific expectations that will allow the company or organisation to achieve its vision statement. This process is better known as SWOT analysis.

If an organisation is to grow long-tem then the "business as usual" mindset is not necessarily going to increase profits and reach new customers.

There are numerous options available, such as developing new products or opening up new markets, the difficulty is knowing which strategy will work.

One option would be to use the Ansoff Matrix to establish the potential risks for each option and help devise the most suitable plan the particular situation the organisation find its self in. The Ansoff Matrix gives business leaders a quick and simple way to think about the risks of growth.

The Ansoff Matrix or Product/Market Expansion Grid (see Figure 1 in appendix) shows four strategies a company can use to grow and helps analyse the risks associated with each strategy. The idea is that as the organisation moves into a new quadrant either horizontally or vertically, the risk increases.

The four quadrants are:

Market Penetration, the lower left quadrant is the safest option here the organisation concentrates on expanding sales with the existing product range and in the existing market. The organisation knows their products work and the existing market holds very few surprises.

Product Development, the lower right quadrant, is slightly more risky, because the organisation is introducing new products in the existing market.

Market Development, the upper left quadrant the organisation is putting existing products into an entirely new market. This can be achieved by finding new uses for the products or by adding new features or benefits to existing products.

Diversification, the upper right quadrant is the riskiest of the four options, because the organisation is introducing new unproven products into an entirely new market that may not be fully understood by the organisation.

Leading the Change

Once the organisation review has started, where change is inevitable it is important all the risks are taken into account. One of the hurdles will be to retain the staff and ensure that as change is happening the staff are on board and stay with the organisation.

One model that can be used to manage the change is the Organisational Iceberg. Aird (2001) says that radical change involves a three stage process which is ‘freezing’, changing and ‘refreezing’.

1. An upsetting of a stable equilibrium and some ‘unlearning’ of existing attitudes and behaviour. Will take place.
2. Following this, the motivation to change and seek help in order to effect the change. New attitudes and behaviour will begin to form.
3. Lastly the new attitudes and behaviour becomes established as refreezing takes place.

Some writers have identified different types of cultures that can impact how employees see their organisation. Handy (1993) suggests there are four types of culture that can influence employees which are:

Power Culture, This is found in smaller organisations where power and influence stem from a central source through whom all communication, decisions and control are channelled.

Task Culture, is reflected in project teams and task forces. The most important people are the experts who have the ability to accomplish a particular aspect of the task. Such organisations are flexible and constantly changing as tasks are accomplished and new needs arise.

Person Culture, is found in organisations where the purpose is to serve the interests of individuals within it.

Role Culture, bureaucracy is another form of bottleneck that hinders the smooth running of the organisation. It slows down the process of doing things and is usually stereotyped.

Leadership skills required for a successful project

There are numerous definitions of leadership and the qualities needed in the modern world. Drucker (1989) describes the qualities of a good leader as someone who should be able to motivate their followers or staff whilst designing organisational contexts to allow the followers to function effectively.

CIPD (2007) says that although it is difficult to decide who and what makes a good leader there are certain attributes that leaders do need to , some of these are:

- General Intelligence
- Technical or professional knowledge in their field
- Personality including enthusiasm
- Communication skills
- Ability to listen and share
- Integrity, trust and honesty
- Be a risk taker and have a vision

Mullins (2007) states management tends to be viewed as getting things done through people to achieve organisational objectives.

The McKinsey 7-S framework can be used in a wide variety of situations where an alignment perspective is useful, for example, to help:

- Improve the performance of a company.
- Examine the likely effects of future changes within a company.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.

The way the McKinsey 7-S model is presented (see Figure 2) it depicts the interdependency of the elements and indicates how a change in one affects all the others.

Leadership styles

When an organisation is involved in planning its strategy or in the midst of a merger or acquisition the leadership styles of the management can influence the final outcome. There are numerous leadership styles. According to Mullins (2007) there is a close relationship between management and leadership and it is not easy to separate them as distinct activities.

It’s one thing for a leader to have a grand vision, but this is redundant unless the vision is managed so it becomes a real achievement. According to Mullins (2007) there are many dimensions to leadership styles and he simplified them into three headings as:

The Authoritarian style: The manager alone exercises decision making and authority for determining policy. Procedures for achieving goals, work tasks and relationships, control of rewards and punishments.

The Democratic style: The leadership functions are shared with members of the group and the

manager is more part of the team. The group members have a greater say in decision making, determination of policy, implementation of systems and procedures.

A Laissez faire style : The manager consciously makes a decision to pass the focus of power to members, to allow them freedom of action “to do as they think best”, and not to interfere, but is readily available if help is needed. There is often confusion over this style of leadership behaviour.

Development and change

With any merger or acquisition there will be development and change for both the organisation that is acquiring or being acquired.

French and Bell (1999) describe this process as “Organisation development is a long-term effort, led and supported by top management, to improve an organisation’s visioning, empowerment, learning, and problem-solving processes, through an ongoing collaborative management of organisation culture – with special emphasis on the culture of intact work teams and other team configurations – utilising the consultant-facilitator role and the theory and technology of applied behavioural science, including action research”

With the coming together of two organisations there will inevitably be resistance to change for various reasons from people wanting to do things the way they have always done to fear of the unknown. An example of this is learning to use new technology for those who have been using old and outdated systems can create a fear of having to learn new skills.

The Project

A merger or acquisition of another organisation is in most cases a major project and as such it will involve a substantial amount of work. The following is a summary of the most significant steps that should lead to a successful outcome of the project.

1. Financial Matters – What do the company’s annual quarterly and monthly financial statements for at least the last three years reveal. The following financial matters should also be investigated.
    - Are the margins for the business growing or deteriorating
    - Are the company’s projections reasonable and believable.
    - Are the company’s financial statements audited.
2. Technology / Intellectual Property. The buyer will be very interested in the extent and quality of the company’s technological and intellectual property. The due diligence will often focus on the following areas of inquiry:
    - What registered and common law trademarks does the company have.
    - What copyright products and materials are used, controlled or owned by the company.
    - Does the company’s business depend on the maintenance of any trade secrets, and if so what steps has the company taken to preserve their secrecy. For example Coca- Cola and KFC recipes.
3. Customers / Sales. The buyer will want to fully understand the target company’s customer base including the level of concentration of the largest customers.

    - Will there be any issues in keeping customers after the acquisition.
    - How are the sales staff compensated / motivated, what effect will the acquisition have on them e.g. retention of key sales personnel.
4. Strategic Fit with Buyer. The buyer will be interested in the future performance of the target company as a stand-alone business and understand the extent to which the company will fit strategically within the lager organisation.
    - Will there be a strategic fit between the company and the buyer.
    - What integration will be necessary, how long will the process take, and how much will it cost.
    - What cost savings and other synergies will be obtained after the acquisition.
    - What revenue enhancements will occur after the acquisition
5. Material Contracts. One of the most time-consuming but critical components of a due diligence inquiry is the review of all the material contracts and commitments. For example:
    - Guaranties, loans and credit agreements.
    - Employment and Union agreements.
6. Employee / Management Issues. The buyer will want to review a number of matters in order to understand the quality of the target company's management and employee base, including:
    - Organisation chart
    - Plans relating to severance, termination pay, holiday and sick pay,
7. Litigation. An overview of any litigation, pending, threatened, or settled, arbitration or regulatory proceedings involving the target company. Review the following:
    - Correspondence from company's legal advisors.
8. Tax Matters. A review of the historical tax liabilities including confirmation from HMRC the PAYE account is fully paid and up to date. The For example:
    - Local and foreign income and sales tax returns filed in the last five years.
    - Any pending government audits or the results of such audits.
    - Correspondence with taxing authorities regarding key tax items.
9. Regulatory issues. Regulatory scrutiny of acquisitions has been increasing in recent years for example the Sky takeover by Fox and Vauxhall takeover by Peugeot. The buyer will want to understand and asses the following:
    - Analyse any competition issues
    - If the buyer is in a regulated industry that requires approval from a regulator.
10. Insurance. In any acquisition the buyer will want to undertake a review of key insurance policies.

Either as part of the due diligence process or as a separate exercise the following review should also be carried out when organisations merge.

- Payroll system benchmarking
- Evaluation of the Payroll / pension options including whether service should be outsourced or kept in-house.

Payroll System

As a result of a merger an organisation may find itself with more than one payroll department and system. A change in the business profile, rapid growth or even downsizing may be the

driver for an organisation to streamline the whole payroll process.

With more HR and payroll systems in use an integrated system may deliver advantages from a shared services. According to Ward A (2009) for a centralised payroll system to succeed, the application must have the flexibility to hold all the different types of payroll rules required for the entire payee population, can process these rules at different pay frequencies, have a robust architecture that will cope with high volume of transactions, and process pay in a reasonable amount of time.

The first decision is to decide whether the organisation seriously wants a new system and what the requirements are. The payroll manager should be part of the committee with representatives from many departments who have an interest e.g. Finance, IT and Audit.

Once the decision has been made to change the system a tight definition of requirements as possible should be prepared, which will be the starting point together with a statement of requirements (SOUR) should be prepared.

A decision should be made of who will discuss the options with suppliers, will it be a committee or an individual. The following need to be considered:

- Obtain an understanding of what is required.
- Define the requirements
- Establish who will be involved in the evaluation and reporting.
- Who will decide and sign the contract
- Obtaining budget approval.
- Review the processing methods.

As many potential suppliers as possible should be contacted for details of their service and the solutions they can offer. From the SOUR and details of any constraints such as existing hardware or geographical locations available. In return the potential suppliers should submit their solution.

The next stage should be to consider:

- In-house bespoke system
- In-house Package system
- Bureau service
- Fully-managed outsourced service

Most organisations narrow the choice to either an in-house or an outsource service. A SWOT analysis may help define the best option for the organisation.

The advantages of an in-house system are:

- The company has control over the payroll process.
- The company will be able to employ any specialist staff required for their industry.
- It will be easier to implement any changes.
- The company can take advantage of any opportunities that may arise e.g. provide services to other companies e.g. Coal and Natwest Bank.

- The disadvantages of an in-house system are:
- The cost of system maintenance could be high as the entire burden is on the company
- The technical resources may be limited depending on the size of the company.
- The responsibility to remain up-to-date with legislation is the responsibility of the company.
- The Advantages of an outsource service are:
- The payroll bureau can offer to do everything for the company.
- No need for a large payroll department.
- The capital costs are distributed over all the customers of the bureau.
- The risk of a system that is not working properly can be removed.
- The disadvantages of an outsource service are:
- The payroll process timetable is managed by the bureau.
- The payroll bureau may not have the specialist staff or knowledge relating to customers specialist industry.
- The culture of the bureau may not be aligned to that of the company.
- Some payroll bureaux are based overseas so contact and communication may be limited.

Conclusion

Merger and acquisitions are undertaken by companies to achieve certain strategic and financial objectives. The process involves the bringing together of two organisations often with different personalities, cultures, values and systems. The success of mergers can depend on how well the organisations are integrated.

Mergers can have an anti-competition implications, for that reason many countries have laws and regulations to scrutinise any merger not in the public interest.

Globalisation has increased recent activity in mergers and acquisitions, the dismantling of barriers to trade and investment has led to companies having not only to compete in domestic markets but also in foreign markets. However Merger can help firms deal with International completion posed by multinationals and compete on an international scale.

Mergers can be beneficial in a declining industry where firms are struggling to stay afloat e.g. the merger between Lloyds TSB and HBOS.

A merger or acquisition is ultimately a major project for all the parties involved from the management teams, employee’s, suppliers, customers, shareholders and local communities. Like any project the success of the plan can be measured in various ways depending on what the initial strategy for the project was i.e. to increase profits, improved economies of scale or to remove a competitor.

When judging the success or failure of the merger or acquisition the above factors have to be considered when the final evaluation is made.