

Modul Session 11

STRATEGIC MANAGEMENT

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Universitas Indonesia, 2016

1. Strategic management

Strategic management involves the formulation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization operates.

Strategic management provides overall direction to the enterprise and involves specifying the organization's objectives, developing policies and plans designed to achieve these objectives, and then allocating resources to implement the plans.

Michael Porter identifies three principles underlying strategy: creating a "unique and valuable (market) position", making trade-offs by choosing "what to do", and creating "fit" by aligning company activities with one another to support the chosen strategy.

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

Strategic management involves the related concepts of strategic planning and strategic thinking. Strategic planning is analytical in nature and refers to formalized procedures to produce the data and analyses used as inputs for strategic thinking, which synthesizes the data resulting in the strategy. Strategic planning may also refer to control mechanisms used to implement the strategy once it is determined. In other words, strategic planning happens around the strategic thinking or strategy making activity.

Strategic management is often described as involving two major processes: formulation and implementation of strategy.

Formulation

Formulation of strategy involves analyzing the environment in which the organization operates, then making a series of strategic decisions about how the organization will compete. Formulation ends with a series of goals or objectives and measures for the organization to pursue. Environmental analysis includes the:

¹ *Acknowledgement.* A greatful thanks is to Nabila Ismail for her help in developing this module. This is a module to support the presentation slide in conducting lecture for a subject of Islamic Business at Faculty of Economics and Business Universitas Indonesia for a lecture needs.

- Remote external environment, including the political, economic, social, technological, legal and environmental landscape (PESTLE);
- Industry environment, such as the competitive behavior of rival organizations, the bargaining power of buyers/customers and suppliers, threats from new entrants to the industry, and the ability of buyers to substitute products (Porter's 5 forces); and
- Internal environment, regarding the strengths and weaknesses of the organization's resources (i.e., its people, processes and IT systems).

Strategic decisions are based on insight from the environmental assessment and are responses to strategic questions about how the organization will compete, such as:

- What is the organization's business?
- Who is the target customer for the organization's products and services?
- Where are the customers and how do they buy? What is considered "value" to the customer?
- Which businesses, products and services should be included or excluded from the portfolio of offerings?
- What is the geographic scope of the business?
- What differentiates the company from its competitors in the eyes of customers and other stakeholders?
- Which skills and capabilities should be developed within the firm?
- What are the important opportunities and risks for the organization?
- How can the firm grow, through both its base business and new business?
- How can the firm generate more value for investors?

The answers to these and many other strategic questions result in the organization's strategy and a series of specific short-term and long-term goals or objectives and related measures.

Implementation

The second major process of strategic management is *implementation*, which involves decisions regarding how the organization's resources (i.e., people, process and IT systems) will be aligned and mobilized towards the objectives. Implementation results in how the organization's resources are structured (such as by product or service or geography), leadership arrangements, communication, incentives, and monitoring mechanisms to track progress towards objectives, among others.

Running the day-to-day operations of the business is often referred to as "operations management" or specific terms for key departments or functions, such as "logistics management" or "marketing management," which take over once strategic management decisions are implemented.

2. Strategic management from an Islamic perspective

Leading an organization is like driving a car. We will use the analogy that leading an organization is like driving a car. The driver (leader of the organization) needs to decide where to go (vision), how to get there (strategy), and what speed to drive (risk and profitability). To achieve his or her goal, the driver needs to avoid hitting other cars (competitor) while obeying

the rules of the road (government regulations). The driver (leader) has a number of passengers in the car (stakeholders).

- In **conventional strategic management** the measure of success is **speed (profitability)**. Passengers (stakeholders) may not have a comfortable ride and some of them might be pushed out of the vehicle in order to arrive at the destination faster.
- In strategic management **from an Islamic perspective**, the measure of success is **striving for justice**. Generally, this is done by driving safely (reduced risk) although reasonable speed (profitability) is necessary to arrive at the final destination within a reasonable time frame without injuring the rights of any of the stakeholders. The driver has a moral duty to ensure the rights of all passengers (stakeholder). At the same time, the passengers have a moral duty to speak to the driver to help him drive the vehicle safely. This is because they have different views of the situation that may be important to the safety of all. Everybody agrees that none of the stakeholders ought to be sacrificed for the sake of arriving at the destination more quickly.

This analogy gets two basic messages across:

1. The protection of the rights of all stakeholders is shared moral duty. Although rules and regulations are important, a collective feeling of accountability toward God is necessary to give the passengers the courage to speak up.
2. The Islamic perspective on strategic management is visionary and more than simply a “moral version” of strategic management. A key theme is that conventional strategies fail because many drivers take ridiculous risks. However, the short term rewards of the taking ridiculous risks are such that many leaders are encouraged to feel that they are “better than the rest”-until the organization goes bankrupt. The need to achieve organizational goals while reducing risk is something we hope to explore in some detail.

- **The qur’anic perspective related to strategic management**

	The problem	The solution
Surah	At-takatsur (Qur’an, 102)	Al-ashr (Qur’an, 103)

Description	People are competing with one another to get their destination quickly. They hide embarrassing information from the boss and they play political games inside the organization. Their focus is on this life.	Successful people cooperate with one another because they are all in the same car. To arrive safely at their destination, they need to say the truth and they need to be patient. Their focus is on life after death.
Mental model	Competition	Cooperation
Motivation	Extrinsic	Intrinsic
Perspective	This life	The next life
Metaphor	A good driver drives quickly	A good driver drives safely

Lesson from surah At-takatsur

الكوثر
بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
إِنَّا أَعْطَيْنَاكَ الْكَوْثَرَ ﴿الكوثر: ١﴾
فَصَلِّ لِرَبِّكَ وَانْحَرْ ﴿الكوثر: ٢﴾
إِنَّ شَانِئَكَ هُوَ الْأَبْتَرُ ﴿الكوثر: ٣﴾

This roughly translates as: (1) mutual rivalry diverts your (from what is more important); (2) until you visit the graves; (3) surely, you will soon know; (4) again, surely you will soon know; (5) surely if you knew with certainty; (6) (that) you will see the blazing fire; (7) then you will be absolutely certain (but it would be too late); (8) on that day, you will be asked about the blessings you received.

Its basic message is:

- People are busy with things that are important (e.g., work) but to such an extent that they neglect what is more important (e.g., worshipping God).
- People are competing with one another to have more of this worldly life.

- People are boasting to one another, trying to show off what they have.

Fundamental problem	Some example implied in surah al-takatsur
Interest-based loans	Use interest-based loans to grow the business quickly and make more money
Sustainability	Why should I care about sustainability? I just want to make my money and get on with my life
Defensive routines	When everybody is looking for their own self-interest, a culture of defensive routines becomes the norm
Conflicts of interest	As above. In this case, people are actively promoting their personal agenda to get ahead, as opposed to merely avoiding embarrassment

Lesson from surah Al-ashr

العصر
بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
وَالْعَصْرِ ١:
إِنَّ الْإِنْسَانَ لَفِي خُسْرٍ ٢:
إِلَّا الَّذِينَ ءَامَنُوا وَعَمِلُوا الصَّالِحَاتِ وَتَوَّصُوا بِالحَقِّ وَتَوَّصُوا بِالصَّبْرِ ٣:

This roughly translates as: (1) I swear by time; (2) that everybody is in a state of utter loss, (3) except those who believe and do righteous deeds and encourage one another to the truth and encourage one another to have sabr.

Its basic message is: as a general rule, everybody is in a state of loss. The scholars explain that the vocabulary used implies that people were not born in that condition but because they disobeyed God, they willingly entered into that condition.

Fundamental problem	Some example implied in surah al-ashr

Interest-based loans	Using Islamic financing options to grow the business is necessity. Non-Islamic financing options are no acceptable
Sustainability	Muslims understand their social responsibility in regards to sustainability. In order to protect their common future, employees work together to develop a sustainable organization
Defensive routines	Assuming that top management has made avoiding defensive routines a priority in the organization, the culture of being truthful to one another spreads s that defensive routines are minimized
Conflicts of interest	Individuals feel accountable to God for their every decision. The corporate culture and the processes in place minimize conflicts of interest. When they do exist, individuals piety prevents them from unethical behavior

Strategic management from an Islamic perspective is to establish organizational justice. Organizational justice has a spiritual component, a work component, and a process component. In general, the organization has to avoid interest-based loans, develop a sustainable strategy, reduce defensive routines, and reduce conflicts of interest. On top of that, muslims must be able to perform their work without incurring sin if they wish to. At the same time, muslims leaders and managers have to be aware of the evolving theory management. It is their moral responsibility to keep themselves up to date (Fontaine, 2008; Ahmad and Fontaine, 2011). Process management, quality management, and constraint management will not solve every management problem that comes along, but they are good places to start. Certainly, there are many theoretical reasons to suspect that when an organization develops the right processes and the right organizational culture, organizational justice is attainable.

3. Culture and strategy

Culture is probably the most misunderstood and mismanaged part of the business system, yet it is one of the most powerful success factors or cause of failure. Strategy is a four-part process, there are:

1. Conducting a situational analysis
2. Defining strategic choices and the vision
3. Developing the culture to support the strategic choices made

4. Implementing and executing the strategy

With the right strategy and the right efforts at molding our employees values and behavior, we can develop a corporate culture that reflects Islamic values and principles, and support the strategy of the organization.

Building a corporate culture involves four steps:

1. Top management has to make building an Islamic corporate culture that fits the organizations strategy a priority
2. Top management has to invest in educational and training programs to create the organizations Islamic corporate culture
3. Top management has to reward employees who adhere to the organizations Islamic corporate culture and punish individuals who disregard the organizations Islamic corporate culture
4. The human resources department has to hire people whose attitudes, values, and skills are aligned to the organizations Islamic corporate culture

The role of top management

Top management has several roles in regard to building an Islamic corporate culture:

- Top management needs to understand the importance of having the intention of pleasing God.
- Top management needs to appoint a board of scholars to advise on shariah compliance. The shariah compliance not only focus on products and services, but also on an audit of existing policies, processes, and procedures that would encourage organizational justice.
- Top management needs to express the desired Islamic corporate culture in terms of desired behavior, not abstract values. Such as: tell the truth, keep promises, be fair, respect the individual, and encourage intellectual curiosity.
- Top management needs to make sure that corporate values should be achieved through a process of enrollment.
- Top management needs to create a reward and punishment system that reinforces a productive Islamic culture inside the organization.
- Top management has to understand and protect the rights of non-muslims.

Without a complete commitment from top management, building an Islamic corporate culture is doomed to fail. If the top management is committed, the human resources departments role in recruiting good people and retaining and developing them becomes critical.

4. Strategic decision making

Making a strategic decision involves the following steps:

1. Defining the strategic challenge

Distinction between planning and strategy has to be clear. Planning is about solving current problems in order to preserve the existing system. Strategy is about abandoning the current system and moving toward a future system.

2. Understanding the strategic challenge

We have made the point that there is a variety of tools and models that can be used to understand the strategic challenge. The traditional tools for analyzing strategies-Michael Porter's five forces, the balanced scorecard, and so forth-can be used, provided that using them does not become the end of the strategic process. If they are useful, use them, if these tools prevent critical thinking and lead to what we call "template thinking" then lose them. At the risk of sounding sarcastic, the Prophet (SAW) did not need SWOT analysis to develop the right strategies for Muslims.

3. Experimenting

Strategists should think beyond the narrow scope of the organization. Our thinking should automatically focus on humanity, on society, on politics, on philosophy, on religion, and so forth.

4. Deciding on the best strategic initiatives

Final conclusion is that there is no one form of strategic management from an Islamic perspective. As long as one understands Islamic principles, uses strategic management principles, and develops some expertise in its practice, that is good enough. Our major concern is that Muslims remember that, at the end of the day, it is the next life that counts.

References:

Fontaine, Rodrigue, & K. Ahmad (2013), Strategic Management from an Islamic Perspective, Text and Cases, Wiley & Sons, Singapore.