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STRATEGIC FINANCIAL MANAGEMENT

Overview

Organizations need to know not just where they are today, but where they (and their competitors, customers, and stakeholders) will be in the future. This is a key integrative skill that you will be faced with on the strategic financial management. You start by considering the importance of a vision and a mission to the organization's strategic direction. Unless an organization knows what it is about and where it wants to go, it cannot make the strategic plans necessary to achieve both long-term and short-term success. Next is a look at how to set clear and measurable objectives that will enable the organization to pursue its mission and vision. The final part of direction setting is the articulation of the organization's strategy. The strategy will guide the executives and managers of the organization in their decision making, ensuring that they all work toward the common goals and strategic direction that has been set.

The organizational leaders must learn to be strategic. Strategic leadership isn't limited to the CEO or top management team, although it is crucial for them. Rather, strategic leadership is an orientation to both long-term and short-term viability of the firm that is critical for all general managers, divisional managers, and middle managers. In this light, strategic leadership is especially important for financial managers, who must learn to balance short-term returns and stability with the longer-term viability of the firm. Timely information is important in making strategic decisions, and tools such as SWOT analysis and competitor analysis provide important information on the environment an organization exists in.

Remember that the information on the strategic approach can be applied to the public and not-for-profit sector with little modification; however, it is important to identify which stakeholders are affected by the strategic approach. For public and not-for-profit sector organizations, the stakeholders may be quite different than those for businesses. For example, the general taxpaying public will have a stake in government financial statements, and individual users of services may be impacted by a not-for-profit’s financial health.

1.1 Three strategy-making tasks

Objective

Identify the three strategy-making tasks of the general manager, and distinguish between visions, mission, strategy, and objectives.

The following three important strategy-making tasks are the responsibility of management:

1. Developing and articulating the vision and mission of the organization
2. Setting objectives that will help the organization achieve that vision
3. Formulating the strategy that will allow the organization to meet those objectives

As you consider the factors involved in developing these strategic tasks, keep in mind that other stakeholders may be involved and ethical issues play a role. For example, a popular North American television series, The Sopranos, follows the adventures of an organized crime family. This organization would certainly have a mission and strategy but would not be as ethically motivated as an organization such as United Way.

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Vision and mission statements

A vision is the answer to the question: What do we want this organization to be like in five or ten years' time? It is a future-oriented starting point for setting the organization's direction. The vision is not about what the organization does today or about what it used to do; it is about where management wants to take the organization.

The mission statement is about the here and now. It answers the question: What business are we in today —right now? It is important to be specific when formulating a mission statement. Three crucial questions guide a mission statement:

Who exactly are we?
Where exactly are we going?
How exactly will we get there?

The mission and vision are not "to make a profit" for a private sector organization or "to serve the public" in the case of a public sector organization; that is an outcome of the organization's strategy and operations. Rather, the mission and vision guide or direct how the organization operates, so that it may make a profit or serve the public.

A strategic vision requires three steps:

1. Decide what business the organization is in.
2. Set a long-term strategic course for the organization.
3. Communicate the vision to the organization's stakeholders — its employees, customers, suppliers, union, management, and all others who have a stake in the company's operations.

In this way, the vision can be used to guide the decisions that each of these stakeholders make so that they support the achievement of that vision. In determining a strategic vision, an organization must first decide what business it is in by answering these important questions:

Who are our customers?
What needs of theirs are we satisfying?
How are we satisfying those needs?

Then, it can go on to develop mission statements for all areas of the organization. Managers of functional areas should also develop mission statements for their departments. These mission statements can guide the department's members in the decisions that they make, especially with regard to their roles in achieving the organization's overall vision.

A critical step in this process is communicating the vision in an exciting and inspirational way. After all, you are asking organizational members to go on a journey with you, and they will only follow if you make the destination seem worthwhile. A vision needs to be clear, coherent, and easy to grasp so that stakeholders' efforts are expended in achieving that vision, not in trying to understand what you mean by it. A good vision statement also captures the imagination of all stakeholders associated with the organization.

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Setting objectives

The next strategy-making task is setting objectives. These are performance targets that, if reached, will allow the organization to achieve the vision that has been articulated and communicated. Objectives must be specific, measurable, attainable, and time limited. Two key types of objectives must be set: financial performance objectives and strategic performance objectives. Financial objectives are tied into the financial performance of the firm, while strategic objectives relate to the vision and mission that have been articulated and communicated to stakeholders. Most firms have both financial and strategic objectives.

There is often pressure to favour short-term objectives over long-term ones, especially if the firm is struggling or if there is pressure to provide return for shareholders. However, long-term viability of the firm is more beneficial to shareholders than short-term profit, and it is important to keep this in mind when setting financial and strategic objectives.

It is important for firms to set objectives at all levels, not simply at the overall organizational level. It is crucial that all areas, divisions, and departments set objectives that support the overall strategic and financial objectives of the firm.

Crafting a strategy

The third strategy-making task is crafting a strategy that will tell organizational members how to achieve the objectives that have been set and how they will achieve the vision that has been articulated for them.

Generally, strategy is competitive decision making as well as the business approach for growing the business, creating a market position, attracting and satisfying customers, competing successfully, conducting operation, and achieving target objectives.

Like objectives, strategy must be formulated not just at the overall organizational level, but also at each functional level and for each business that the organization is in. Forward-looking organizations recognize the critical role of employees and develop strategies to address the working environment.

When creating strategy, a number of different actions can be utilized:

- Gain sales and market share via lower prices, better performance and more features, better quality, or appealing design
- Diversify into new businesses
- Strengthen competitive capabilities and shore up competitive weaknesses
- Define how key organizational activities are to be handled by management
- Pursue new market opportunities and defend against threats
- Create strategic alliances and collaborative partnerships
- Establish a merger with or acquisition of the rivals
- Enter new product markets
- Respond to changing market conditions and external circumstances

Strategy should blend proactive decisions to improve market position and financial performance with reactions to unanticipated developments and market conditions. The biggest portion of a current strategy flows from previous business approaches that worked well enough to merit the launch of a new initiative in an effort to strengthen the overall positions and performance.

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All strategic plans should be viewed as works in progress. Changing circumstances and market conditions cause a strategy to emerge and change over time. Strategy should be considered temporary outcomes that respond to market changes and to constant experimentation and modifications. A winning strategy should fit with the organizations external and internal situation, build sustainable competitive advantage, and improve the performance.

Crafting strategy is concerned principally with forming responses to changes in the external environment, devising competitive moves and market approaches aimed at producing sustainable competitive advantage, building competitively valuable competencies and capabilities, and uniting the strategic actions initiated in various parts of the company.

The more a company's operations cut across different products, industries, and geographical areas, the more strategy making becomes a team effort involving managers and company personnel at many organizational levels.

The total strategy that emerges in such companies is really a collection of strategic actions and business approaches initiated partly by senior company executives, partly by the heads of major business divisions, partly by functional-area managers, and partly by frontline operating managers.

It should be carefully noted, as indicated above, that this same approach, with appropriate adjustments, can be successfully applied to not-for-profit and other types of organizations.

Formulating a strategy is one of the most important but also one of the most difficult challenges faced by businesses. How can one identify the “best bets” from the many different strategic options available, and how can these be translated into a coherent business strategy that the organization and its stakeholders will buy into?

For instance, at performance reviews of sales teams, it is important to analyze sales performance and to isolate what is creating any shortfall.

- Has the team’s view of the market changed?
- Is the marketing strategy still the best way to compete in the market?
- Is there a full set of tactics in place to deliver the marketing strategy?
- Are enough resources being allocated to the tactical programs?
- Are the sales teams organized, and focused on using the tactics?

If you can answer this list of questions honestly, you will have isolated the problem in almost every case. If the plan is sounded, unless there has been a seismic shift in the environment, some factor involved in the execution will need to be addressed. Make sure that people on the ground know what their part in the plan is. Even better, tie it to their compensation packages if you really want to set their pulses racing. To successfully respond to the organization’s needs, it is important to identify the three strategy-making tasks, mentioned above, and identify the “people on the ground” (the stakeholders) and exactly what they need to do to be in line with the strategy.