

Strategic thinking



**ASSIGN
BUSTER**

CHAPTER 1

INTRODUCTION

Organizations nowadays look towards strategic thinking as a substitute for traditional directions of strategic management which is focused on strategic planning (Younis, 2000). Strategic thinking has become an important key to success to every organization and became the major pathway that management must pass through, so as to face the challenges of modern day environment (Jaugh & Glueck, 1988).

Previous studies explained that the basic term of strategic thinking is focused on the present situation of the organization and what could be done in this context Person (1999). Stump (1984) pointed out that strategic thinking involves the definition of the different methods to reach the individuals chosen targets, and identify the activities which those individuals need to get to where they desire. Rowe & Mason (1994) showed that strategic thinking generates a concept regarding the changes of circumstances and how they take place.

The Hamilton strategic management group (1999) explained that strategic thinking shows clearly the stages necessary to start reforming the basic pillars for the future of organizations. Ohmae (1982) also showed that the initial step in strategic thinking is to look for a clear understanding of the characteristic of each element from the situation faced by the organization. After that comes the use of full capabilities of the human brain to reshape an item in a very useful.

BACKGROUND OF THE PROBLEM

In recent years strategic thinking received more attention from the organizations, management, scholars and consultants. It has become an essential component of the strategic management. Previous studies showed that organizations which practice strategic thinking would be able to formulate and implement more effective and innovative strategies enhancing their performance and chances for survival, this makes an important evidence to increase the number of academic journal in this area.

Globalization had brought a lot of impact on organization. Those impacts made organizations particularly the Small and Medium Sized Enterprises SMEs to be aware of any changes that are happening everyday. The main reason for doing so, is to be able to compete with each other and in order to keep surviving in the business area. Organizations also need to adopt a good strategy to give satisfaction to its internal environment such as suppliers and employees of the organization, so organizations could never stand without having strategic thinking which helps to predict the present situation of the organization and what could be done.

PROBLEM STATEMENT

Although there are benefits that can be obtained from the strategic thinking as suggested by most of authors from the past studies , research that focused on strategic thinking especially those of Yemeni SMEs remain limited in a number of ways . There is a need of additional studies and quantitative evidences to prove the important of strategic thinking for the organizational success.

Also from the previous studies we can see that most of the authors were focusing to investigate the strategic thinking on the large organization (such as: Barnett and Berland; 1999, Linkow; 1999, Millet; 1988, Thakur and Calingo; 1992).

The different researchers showed different elements of strategic thinking resulting in a strategic thinking variable that tend too focused on a number of elements and overlooking other important elements.

Thus, there is a need to introduce more comprehensive strategic thinking variable that included the difference and important strategic thinking elements as defined by most authors in the literature. Doing so, would provide a more comprehensive strategic thinking variable that very much reflecting the suggestions made by most authors. So we need additional study that show the impact of strategic thinking on Small and Medium Sized Enterprises SMEs in Yemen.

This study seeks to address some of the shortcomings by identifying the various strategic thinking elements and the extent of strategic thinking emphasized by the Yemeni SMEs

RESEARCH QUASTIONS

This study attempts to discover answers for the following research questions on strategic thinking practices of Yemeni SMEs.

1. Do Yemeni SMEs adopt strategic thinking practices?
2. What is the level of strategic thinking practices among Yemeni SMEs?

3. What are the strategic thinking dimensions emphasized by Yemeni SMEs?

OBJECTIVES OF THE STUDY

Following the views presented in the literature, this study initiates an attempt to investigate the strategic thinking practices among Yamani SMEs. More specifically, the objectives of this study include the following:

1. To determine whether Yemeni SMEs adopt strategic thinking practices.
2. To examine the level of strategic thinking practices among Yemeni SMEs.
3. To identify the strategic thinking dimensions emphasized by Yemeni SMEs.

SIGNIFICANCE OF THE STUDY

1. This study would contribute to the literature on strategic management by providing some insight into the strategic thinking practices adopted by SMEs in the republic of Yemen.
2. This study would be able to indicate to what extent the Yemeni SMEs adopt the strategic thinking practices.
3. The result of this study may indicate the relevance of strategic thinking practices of Yemeni SMEs
4. The result of this study may also be useful to Yemeni SMEs supporting agencies. More specifically, the agencies would be able to use the information from this study to develop training programs for the Yemeni SMEs.

SCOPE AND LIMITATIONS OF THE STUDY

This study is limited in number of ways: First the study only focused on firms that are operating in Hadhramote. The second limited concern the SMEs in Yemen. This study focused on the SMEs in Yemen which employ not more than 100 employees.

DEFINITION OF TERMS

Strategic thinking: Its particular way of thinking, with very specific and clearly identifiable characteristics of the business or organization Liedtka (1998).

Small and Medium Sized Enterprises SMEs: is a convenient term for segmenting businesses and other organizations that are somewhere between the “ small office-home office” size and the larger enterprise. In this study the SME refers to firms that employ not more than 100 employees.

ORGANIZATION OF THE STUDY

This is the first chapter out of the five chapter of the project paper which has presented the background of the study as an introduction, describes the problem statement, research questions, research objectives and the significance of the study.

Chapter 2 will review the strategic thinking research findings done by other researchers and also the elements of the strategic thinking that can affect Yemeni Small and Medium Sized Enterprises SMEs.

Chapter 3 presents the method of the study, which is the research design and procedure. The chapter mentions the selection of the respondents, sample types and size, the development of the questionnaire for the

<https://assignbuster.com/strategic-thinking/>

research and data collection procedure. Chapter 3 ends with a brief description of the strategies and procedures that were used to analyze data collection from the survey.

Chapter 4 discusses the interpretation of the research findings. There are reports of the descriptive statistical analysis. The results are summarized in a number of tables to facilitate interpretation.

Chapter 5, the final chapter, discusses the interpretation of the research findings from the study. The findings from this study are compared to those found in past researches.

CHAPTER 2

LITRETURE REVIEW

INTRODUCTION

This chapter presents the literature review of the study. The literature review consists three sections. Section one discusses small and medium sized enterprises SMEe. Section two presents the literature on strategic thinking. Section three highlights the elements of strategic thinking.

SMALL AND MEDIUM SIZED ENTERPRISES SMEs

According to Cawe (2006), a literature review provides a meaningful context of a project with the universe of research that already exists. A literature review sets the basis for any discussion or analysis or contemplation of implications or anticipations of future researches. In sum, literature review presents the justification, the reason of a research topic.

The present global economy offers small and medium sized enterprises SMEs more cross border opportunities, and they now have an increasingly important role in international markets(Andersson, Gabriellsson and Wictor 2004; Bacon and Hoque 2005). So the reason behind the promotion to study on SMEs comes from the perceived failure of large enterprises in creating adequate productive jobs to absorb a significant share of the rapidly growing labor force in many developing countries(Snodgrass and Biggs, 1996), where the previous studies showed that SMEs help to generate external economies through the formation of industrial clusters and positioning themselves near large enterprises. Such clustering behavior enables them to reduce cost and acquire better facilities as well as skilled human resources through the sharing of specialized suppliers, labor market pooling, and development through knowledge spillover (Perkins 2000), which would, as a result, helps SMEs to capture productivity growth from the entire industry. According to the OECD(2000), SMEs make up 25 to 35% of world export manufacturers, an about one- fifth of manufacturing SMEs earn 10 to 40% of their sales from cross border activities , in addition , SMEs have become significantly internationalized (Andersson et al. 2004; lu and Beamish 2001).

Like many other countries around the world Yemeni SMEs play strong role in employment generation as well as ensuring country's economic development. The issue of Small and Medium Size Enterprises SMEs is not a new concept in economic development and management term. Though previous research emphasized that SMEs can play an important role in economic development in any country, a little insight on the relationship between strategic thinking and Medium Size Enterprises SMEs as that of

large enterprises (LEs) in developing countries (Bruch and Hiemenz (1984), Karlsson et al. (1993), Kunasirin (1984), and Liedholm et al. (1999)).

STRATEGIC THINKING

The increasing pressures from the rapid changes that are occurring in the business environment have led to a variety of responses among industrial organizations. Globalization of markets and production, the rate of technological innovation and fluctuation in consumer demand are among the factors that have increased the dynamism of the competitive environment to which organizations must respond. These factors make it very difficult for companies to further differentiate themselves from their competitors on the basis of products, prices, and technology (Fisher, Schoenfeldt, & Shaw, 2006).

Small and Medium Sized Enterprises (SMEs) in a global economy nowadays, they need to search and implement new strategies that are concerning in improving and developing their assets which leads to increase an organizational performance, thus many organizations are now concerning and focus on the strategic thinking which is very important key to organization success.

The focus on strategic thinking can be considered timely considering the challenges faced by most organizations today. The present environment characterized by the disappearance of industry and national boundaries and rapid advancement of communication technology resulted in greater turbulence and competition. This would pose greater challenges for organizations particularly for the Small and Medium Sized Enterprises (SMEs)

which are somewhat constraint in terms of resources. In confronting these new challenges, the ability to infuse strategic thinking would be an added advantage for these organizations.

Because of the evidence points of the relationship between thinking with the competitive position, the scholars looked towards using the term strategic thinking as alternative to the traditional directions of strategic management which is focused on strategic planning (Younis, 2000). This term has become an expression of the exceptionally good situation of the successful organizations and became the main pathway that administrations must pass through in order to face the challenges of modern day environment (Jaugh & Glueck, 1988).

A review of the literature also showed that the term strategic thinking is also being widely used in the field of management. Though widely used, today, there is no one standard definition of strategic thinking. This is so as different authors used the term differently. Regardless of the differences most authors agreed that, strategic thinking is an essential part of the strategic management process, (Hashim, 2005; De Witt and Meyer, 2004; Harrison, 2003; Heracleous, 2003; Wilson, 2003; Liedtka, 1998a; and Garrat, 1995b). There is a lack of clear understanding of just what is meant by the term strategic thinking and this, in turn, has lead to considerable confusion in the strategic management arena. Thus there exists a clear need to precisely define strategic thinking so that this management paradigm can be objectively embraced and appropriately situated within the strategic management context (Liedtka, 1998).

Person (1999) showed that the basic concepts of strategic thinking are centered on the current situation of the organization and what could be done in this context. Stamp (1984) pointed out that strategic thinking involves the definition of the different ways to reach the individuals chosen aims, and identified the activities which those individuals need to reach the place they desire. Liedtka (1998) approaches strategic thinking as derived from managerial competences. She defines strategic thinking as a particular way of thinking that includes five specific elements: it incorporates a systems perspective, is intent-focused, involves thinking in time, is hypothesis-driven, and is intelligently opportunistic. Having these competences is what characterizes the individual strategic thinker. For Nadler (1994), strategic thinking is a creative process of thinking about, forming, acting on, and learning about strategy. A collaborative process of formulating strategy generates shared learning, a frame of reference which constitutes the context for small decisions made over time.

Rowe & Mason (1994) explained that strategic thinking generates a concept regarding the changes of circumstances and how they take place. Bates and Dilliard (1993) propose a method for identifying individuals who have the ability and predisposition to think strategically as well as certain capabilities. According to Suutari (1993), strategic thinking is the ability to generate ideas and make decisions based on an understanding of the precepts of strategy formulation and in accordance with the business's strategic objectives and direction. Ginsberg (1994) conceives strategic thinking as the process of resolving critical strategic issues (from generating creative ideas for solutions to evaluating these ideas). The Hamilton strategic management

group (1999) pointed out that strategic thinking clearly shows the stages necessary to start reforming the basic poles for the future of organizations. Ohmae (1982) also showed that the first step in strategic thinking is the search for a clear concept of the exceptional characteristic of each element from the situation faced by the organization. After that comes the use of the full abilities of the human brain to reshape the element in a very useful way.

Despite the ambiguity and distortion which sometimes surround the term, but there are important conceptual characteristics can be described as follows (Al- Obiedy, 1998).

1. Strategic thinking reflects the awareness by the State of the strategic leader in the

Performance of their duties.

2. Strategic thinking is the result of the interaction between leadership characteristics

expressed by skills, experiences and abilities of the leaders, and the characteristics of the

external and internal environment of the organization. As the strategic leader is affected by the complex environment variables, he may also influence the formation and development of those variables. The strategic behavior of the organization will be shaped, then by this interaction.

3. Strategic thinking reflects the ability of creative thought for organizations leaders.

This kind of thinking is the main source for facing organization problems which became more complex in nature and far from simple logic based upon successive routine procedure. In this paper the concept of strategic thinking is concerned with the mental process in which the interaction of the mind's abilities and the environmental variables to define the opportunities and the threats that face the organization, the strengths and weakness of this organization, and how to deal with them insure continuous survival and development of the organization. Barnett and Berland (1999), explained that the capacity of strategic thinking can assist the businesses to identify the ways to develop confident forecasts, and to reduce the uncertainty of business decisions. Strategic thinking can improve long range planning, (Harper, 1991), respond quickly to environmental changes and to improve the quality decision making, (Suutari, 1993; Linkow, 1999; Liedtka, 1998b; Masifern and Vila, 1998), allow companies to be more innovative and develop approaches for outstanding the business (Barnett and Berland, 1999; Bonn, 2001; Masifern and Vila, 1998; Markides, 1997; Ohmae, 1982), help companies identifying, hold and attract customers, (Hickman and Silva, 1984), acts as a unique competency which is difficult for competitors to imitate, ability to develop superior products, and organization flexible enough to adopt to change withstand turbulence, (Bonn 2001; Graetz, 2002; Liedtka 1998b). Graetz (2002) declares that strategic thinking is essential to creating and sustaining competitive advantage. In addition, it has many advantages such as:

- Preparing for the future;
- Seeing the bigger picture;

- Anticipating threats;
- Making sensible business decisions;
- Solving challenging problems;
- Understanding environmental trends;
- Envisioning opportunities;
- Identifying market needs for the intended venture;
- Positioning the venture for success;
- Avoiding excessive risk;
- Building alliances;
- Assembling the right resources; and
- Managing for results.

Previous studies mentioned that strategic thinking as the kind of thinking process that shapes and clarifies the present and future strategic outline of an organization such as its present position, values, strategy, mission, as well as vision. Put it differently, strategic thinkers work backwards from the future, and in the process would have to take into considerations future changes into their strategic planning. These scholars believed that strategic thinking can help to provide not only insight to what an organization should be doing in the present, but also to focus on its future. By being able to do so, these authors further indicated that strategic thinking presented the organization with a more realistic and effective framework for developing its strategic plans (Viljoen and Dann (2003), Keelin and Arnold (2002), de Kluyer (2000) Raimond (1996), Morrissey (1996), Garrat (1995a), Hanford (1995), Wall and Wall (1995), Tweed (1992), Harper (1991), Zabriskie and

Huellmantel (1991), Schmincke, 1990; Robert (1988) and Tregoe and Zimmerman (1979)).

The study by Suutari (1993) pointed out that for strategic thinking to be effective in an organization, decision making skills are required at all levels of management in the organization. According to the author, the practice of strategic thinking requires not only decision making skills to generate ideas, but also to make decision based on an understanding of the precepts of strategy formulation and in accordance with the strategic objectives and direction of the business. In this way strategic thinking would be able to bridge the gap between planned and emergent strategies, thus would be advantages for organizations.

In another study, Stumpf (1989) specifically identified six important skills and knowledge for practicing strategic thinking successfully.

The six skills and knowledge include:

1. knowledge of the business and market;
2. ability to manage subunit rivalry;
3. ability to identify and overcome threat;
4. knowledge on strategy;
5. entrepreneurial ability; and
6. knowledge in accommodating adversity.

THE ELEMENTS OF STRATEGIC THINKING

Source: Zakaria, Hashim, Ghani, and Ahmad, (2007)

1. systems perspective- a strategic thinker needs to include a comprehensive approach and able to see the linkages within organizations and also between organizations in the process of creating value
2. intent-focused, implying future orientation,
3. intelligent opportunism, ready and awareness to seize opportunity that may emerged,
4. thinking in time- a strategic thinker understands the interdependence between the past, the present and the future,
5. Hypothesis-driven, a strategic thinker uses both, creative thinking to create strategic alternatives and critical thinking to evaluate them.

In addition, Bonn (2001) proposed that strategic thinking consists of three major elements:

1. holistic understanding of the organization and the environment,
2. creativity and,
3. Future vision of the organization.

Many previous studies have indicated a number of strategic thinking elements including, foresight, insight objectivity, aggressive, questioning of the status quo, practical considerations, proper timing, focus, competitive advantage and holistic perspective, (Hambrick; 2001, Hanford; 1995, Harper; 1991, Hickman and Silva; 1985, Hinterhuber and Popp; 1992, Garrat; 1995a, Jambekar; 1995, Markides; 1997, Millet; 1988, Morrison and Lee; 1979, Ohmae; 1982, Raimond; 1996, Schoemaker; 1995, Schmincke; 1990, South; 1981, Suutari; 1993, Wells; 1998, Zabriskie and Huellmantel; 1991).

According to Bates and Dillard (1993) successful strategic thinking is related

to certain measurable capabilities which include intuitive ability, mental elasticity, abstract thinking, and tolerance of risk and ambiguity.

Review of previous studies have showed that, so far there is no single standard strategic thinking variable, however most research seem to point out to the presence of a number of common elements of strategic thinking. For example Siti Maimon (1993) developed and tested strategic thinking instrument based on the strategic thinking elements as determined by Ohmae (1982). Strategic thinking in her instrument consists of 20 items include the following elements:

analysis of situation,

competing based on key success factor,

competing based on relative superiority,

continuous improvement, and

practical aspect, creativity (which include envisioning and focusing of resources).

Crouch and Basch (1997) in their study on sense making or what strategists think of when formulating strategy revealed that, certain elements exist when strategists contemplate on strategy. Their result suggests that a strategist's thought pattern emphasized analysis of events and cooperation among individuals or group of individuals. Strategic thinking may also focus on action to design or shape, practical considerations, and also emotion.

According to Thakur and Calingo (1992) where examined the result of

strategic thinking of 13 companies based on past strategic events and those that were planned in the near future. From their study the researchers gathered that strategic thinking involves direction setting processes, managing competition and cooperation with other firms and, human resource function that support strategy.

According to Graetz (2002) which made study on a large Australian telecommunication companies, resorted to scenario building exercise as a way to capture strategic thinking. Based on scenario building proposed by Schoemaker (1995) the author pointed out that among the strategic thinking elements are identifying strategic issues, major stakeholders, trends, uncertainties, and constructing scenarios. In addition the researchers noted that the managers of these organizations were not restraint from asking questions and there is a tendency to “ think in an integrative format that assisted in the orchestration of internal resources” (Thakur and Calingo, 1992, p. 54), which suggest focusing on unconventional approach and overall perspective to strategy.

In their survey of 15 large companies in the United States, Barnett and Berland (1999) observed that strategic thinking is required for companies to achieve superior’s approaches and innovate continuously. The researchers indicate that strategic thinking include the emphasis on:

1. forecasting of the future
2. understanding the real drivers of value for customers
3. understanding implication of complex relationships
4. competitive advantage.

From his case study of a small bank in the United States, Stumpf (1989) noted that unfamiliar or ill-structured work situation faced by managers may enhance a manager's capability for strategic thinking. The work experience includes:

1. starting a business or project from scratch
2. turn around assignment
3. special assignment project management
4. line/staff interchange.

Linkow (1999) in his study of 20 strategic thinkers who are senior managers of leading companies and non-profit organizations determined seven elements of strategic thinking:

1. reframing – challenging inherent basis in which decision and action are based on
2. scanning – looking for information in which current assumption are based on and that may affect future direction.
3. abstracting -capability to grasp underlying theme from multitude of information
4. multivariate thinking – ability to hold different view points
5. envisioning – working backward from the future
6. inducting – ability to conclude based on observation
7. valuating – understand values of stakeholders

Thus past research suggests organizations that practice strategic thinking seem to emphasize some common elements as pointed above. Recently the work of Wilson (2003) tended to encompass the various elements emphasized in strategic thinking as indicated by most authors. The author <https://assignbuster.com/strategic-thinking/>

suggests that strategic thinking comprises seven elements: holistic, focus, visionary, practical, inquisitive, flexible, and decisive.

Though there are numerous strategic thinking elements that can be found in the literature, the following eight elements of strategic thinking seem to be the more common ones. The following author's matrix depicts the elements of strategic thinking that can be identified from the conceptual and empirical literature.

Source: Zakaria, Hashim, Ghani, and Ahmad, (2007)

Most scholars of the strategic management agreed with the idea that companies that apply strategic thinking are able to challenge conventional business practices, develop innovative strategies and reap benefit thereof are due to a number of strategic thinking elements. Specifically the elements comprise foresight, holistic, insight, creativity, objectivity, pragmatic, competitive advantage, and, focus.

1. Foresight

2. It is the first element of strategic thinking. Foresight is important in the sense that it provides the direction and the intended destination for a firm, (Wilson, 2003). It is an overarching concept that shapes other strategy elements including mission, objective, strategy, product-market, competencies and other internal components including organizational structure and culture. Additionally foresight tends to integrate these components into a future picture of the firm, (Collin and Poras, 1995; Mintzberg, 1994a; Hamel and Prahalad, 1994; Wilson, 2003). The process of acquiring foresight would also act to galvanize

employees towards the intended future by providing a sense of discovery and destiny, (Hamel and Prahalad, 1994; Nanus, 1996)

There are several ways to achieve foresight such as through extrapolation, brainstorming, econometric modeling, and scenario construction. However at present strategic management scholars place greater emphasis in scenario construction as a realistic way to obtain foresight. Through the construction of scenarios, strategic thinking allows an organization to consider other factors that might have been left out or unexpected. This would reduce tunnel vision and provides an organization with more innovative options, (Collin and Poras, 1995; Nanus, 1992; Schoemaker, 1995).

By emphasizing the use of foresight an organization would be able to discover new competitive space and align its mission, objectives, strategy, and other internal components along the intended direction, (Chakravarthy, 1996; Hamel and Prahalad, 1994; Nanus, 1996). The quality of foresight will further determine the innovativeness and effectiveness of a firm's strategy. As Nanus (1992) cautioned that a strategy is only good as the vision that guides it.

3. Holistic

4. Holistic perspective is the second element of strategic thinking. A number of strategic management scholars emphasized the importance of holistic perspective, (such as: Bonn, 2001; Garrat, 1995a; Hanford, 1995; Liedtka, 1998b; Moore, 1993; Ohmae, 1982; Senge, 1990; Wilson, 2003). Having a holistic perspective would permit an organization to view itself within the greater framework of industries and at the same time identify its role within the business eco-system.

Bonn (2001) pointed that organization is a part of a complex system which consists of market, industries, and nations. In addition to the external system, Liedtka (1998b) added that the internal system is another perspective of concern to an organization. Within the organization there exist the various levels; corporate, business, functional, and also the individual level.

A holistic perspective would mean that an organization is able to discern the various interrelationships that exist within and among the different systems. By emphasizing a holistic perspective an organization would be more effective in crafting strategy and handling problem as organization will be focusing right on the particular issues at hand rather than treating the symptoms only, (Jambekar, 1995; Senge, 1990). In addition by emphasizing the holistic perspective an organization would not be overly focused on daily routines. As such an organization that emphasizes holistic perspective would be in a better position to assess the implication of the firm's strategy over the whole eco-system. The ability to see the impact of strategy would allow firm to be more prudent in selecting the best strategic option to implement.

5. Insight

6. Insight is the third element of strategic thinking. According to Barnett and Berland (1999), Wells (1998), Harper(1991), Hickman and Silva (1985), and Ohmae (1982) insight is another strategic element considered vital in strategic thinking. These authors maintain that