

# Adoption of Strategic Management in Medium and Large Manufacturing Companies in Ethiopia

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## Abstract

Strategic management addresses the question of why some organizations succeed and others fail. While the field of strategic management has developed rapidly, no one has attempted to investigate in the areas of strategic management particularly in manufacturing companies in Ethiopia. Hence, this research explores the adoption of strategic management in medium and large manufacturing companies in Ethiopia and provides insight about adoption of strategic management. The major finding of this research reveals the adoption of strategic management process, motivation of managers to adopt strategic management process and reasons not to adopt strategic management process in medium and large manufacturing companies in Ethiopia.

**Keywords:** Strategic management, Strategic management process, Formal strategic planning process

## 1. Introduction

Strategic management is a complex subject about the success and failure of organizations, with straightforward underlying principles but no right answers. Different strategic management authors and research articles raise question ‘Why do some companies succeed while others fail?’ to explain the importance of strategic management in any organization regardless of size and type. Thompson (2001) and Wheelen & Hunger (2012) argued organizations succeed if their strategies are appropriate for the circumstances they face.

Some scholars (Haley, 2000; Viljoen and Dann, 2000; David, 2011) stated strategy is fundamentally about a fit between the organization’s resources and the markets it targets and the ability to sustain fit over time and in changing environments. In other words, strategies are devised by planning to guide how the organization’s business will be conducted and to make reasonable cohesive choices among alternative courses of action (Thompson and Strickland 2003). Strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. This implies strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and information systems to achieve organizational success (David, 2011).

The strategic management process refers to the steps by which management’s converts a firm’s mission, objectives and goals in to a workable strategy. Strategic management process is the full set of commitments, decisions and actions needed for a firm to achieve strategic competitiveness and earn above average returns (Krishna and Rao, 2003). The history of manufacturing companies in Ethiopia dates back to the 1920s, but being prone to various challenges means its progress has been muted. Regular surveys by the Central Statistics Agency show almost 50% companies engaged in manufacturing sector in Ethiopia suffer from low productivity as low as 34% on average. Accordingly, this research explores adoption of strategic management process in medium and large manufacturing companies in Ethiopia. Since no prior research empirically established the adoption of strategic management process in manufacturing companies in Ethiopia, this research is by necessity exploratory in nature.

## 2. LITERATURE REVIEW

### 2.1 Introduction

According to Wheelen & Hunger (2012) Strategic management is stated as a set of managerial decisions and actions that determines the long-term performance of a corporation. It involves environmental scanning (both external and internal), strategy formulation (strategic or long range planning), strategy implementation, and evaluation and control. Whereas, David (2011) defined strategic management as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. This definition implies strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and information systems to achieve organizational success.

Hussey (1998) explained the question “What is different about strategic management?” by rising two points. First, it is about managing strategically as well as planning, so although the planning part may still be

important, it is only a component. That is strategic planning mainly focus on the 'hard' aspects of the external environment, and the formulation of strategy rather than its implementation. Second, strategic management includes the internal elements of organization, such as style, structure and climate; it includes implementation and control, and consideration of the 'soft' elements of the environment (Hussey, 1998; David, 2011).

## **2.2 Strategic Management Process**

Wheelen and Hunger (2006) stated strategic management is the set of managerial decision and action that determines the long-run performance of a corporation. The model of strategic management process includes environmental scanning (both external and internal), strategy formulation (strategic or long range planning), strategy implementation, and evaluation and control. Thompson & Strickland (2003) identified five major tasks of strategic management that include developing a strategic vision and business mission, setting objectives, crafting a strategy to achieve the objectives, implementing and executing the strategy, evaluating performance. Similarly, Johnson & Scholes (1999) developed a model for strategic management which consists of strategic analysis, strategic choice and strategy implementation

The firm's formal strategic planning process is concerned with defining, determining, implementing the strategic initiatives of the firm (Jarzabkowski & Balogun, 2009). Formal strategic planning process refers to a formal process which focuses on the implementation of specific objectives (Song et al., 2011). Different researchers used a variety of ways to measure strategy planning (Sharder, Mulford, and Blakeburn (1989), and wheel and Hunger (2004), but much of difference is in opinion on what are the core elements of strategic management process in organizations does it range from understanding of the environment to detailed written plans (formal plans). Several researchers have considered the relationship between formal planning and elements of the strategic management process and performance of organizations. The contemporary investigations opinions build on the perspective that strategic closing stages are increasingly difficult to predict, due to the rapidity of external change, and that being responsive to these changes is a requisite means that must be considered (Wiltbank et al., 2006; Read et al., 2009; Titus et al., 2011).

Contemporarily, scholars have paying attention more on the uses of both ends and means to emphasize distinctive, though related, concepts of the formal strategic planning process (Brews & Hunt, 1999; Titus et al., 2011). Whereas, according to Brews & Hunt (1999) ends pertain to what an organization desires to achieve (i.e., objectives), means reflect the process of how a firm intends to achieve these objectives. Formal strategic planning process objectives (i.e., ends) involve developing objectives and establishing the degree to which firms formalize and document these objectives. Means conversations define the broad resource allocation commitments related to the strategies. The current study's arguments build on the perspective that strategic ends are increasingly difficult to predict, due to the rapidity of external change, and that being responsive to these changes is a requisite means that must be considered (Wiltbank et al., 2006; Read et al., 2009; Titus et al., 2011 ). David (2011) explained that the strategic management process is dynamic and continuous. Figure 2.1 illustrates strategic management model developed by (Wheelen and Hunger, 2012).

### **2.2.1. Environmental Scanning**

David (2011), Hill and Jones (2009) and Wheelen and Hunger (2012) argue that strategic planning must include a scan of the environment and an assessment of the impact of environmental changes on the organization. Hitt et al. (2007) noted that when the firm understands of the external environment is matched with knowledge about its internal environment; it helps to form the company's strategic intent, strategic mission and also to create strategies.

### **2.2.2. Strategy Formulation**

Once a clear picture of the firm and its environment is in hand, specific strategic alternatives can be developed. Strategic formulation which also referred to as strategic planning or long-range planning (Wheelen & Hunger, 2012) starts with situation analysis to align the external opportunity and threats with internal strength and weakness. Hitt et al. (2007) asserts that effectively formulated strategy enables management to integrate the firm's resources, capabilities, and competencies so that it will be properly aligned with its external environment.

### **2.2.3. Strategy Implementation**

Having chosen a set of congruent strategies to achieve a competitive advantage and increase performance, managers must put those strategies into action. Strategy implementation is a process by which strategies and policies are put into action through the development of programs, budgets, and procedures (Wheelen & Hunger, 2012). Strategy implementation is an integral component of the strategic management process and is viewed as the process that turns the formulated strategy into a series of actions and then results to ensure that the vision, mission, strategy and strategic objectives of the organization are successfully achieved as planned (Thompson & Strickland, 2003).

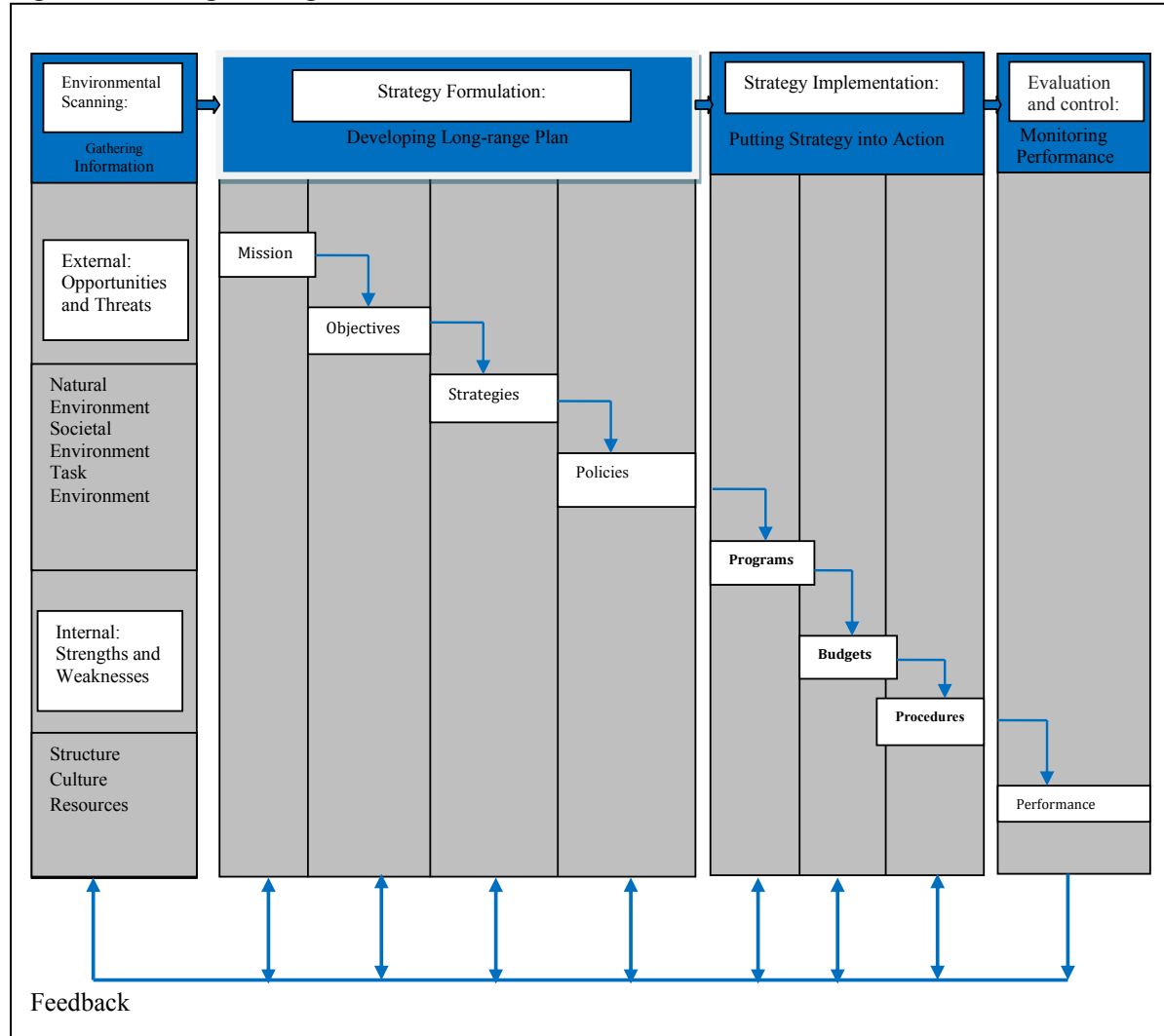
### **2.2.4. Strategy Evaluation and Control**

Once implemented, the results of the strategy need to be measured and evaluated, with changes made as required to keep the plan on track. Evaluation and control is a process in which corporate activities and performance

results are monitored so that actual performance can be compared with desired performance (David, 2011; Wheelen & Hunger, 2012). David (2011) suggested three basic activities for evaluating strategies:

- Examining the underlying bases of an organization’s strategy
- Comparing expected results with actual results
- Taking corrective actions to ensure that performance conforms to plans

**Figure 2.1: Strategic management model**



Source: Adapted from Wheelen and Hunger (2012)

### 3. SIGNIFICANCE OF THE STUDY

The researcher strongly believes that the result of the study have remarkable output in the area of strategic management in manufacturing companies in Ethiopia. Findings from this research will assist academicians or researchers in broadening of the syllabus with respect to this study hence providing a deeper understanding of strategic management in manufacturing companies in Ethiopia. The findings may as well attract other researchers to undertake into other factors affecting strategic management in manufacturing companies that have not been studied in the Ethiopian context.

### 4. STATEMENT OF THE PROBLEM

Strategic management is the most exciting of management disciplines. Strategic management is about success and failure, about the ability to plan wars and defeat them. An effective strategic management performance can transform an organization, bring wealth to shareholders, or change the structure of an industry. An inefficient strategic management can fail whole companies (Pearce and Robinson, 2003).

The most important advantage of the strategic management is that it significantly improves economic and financial results of the company, quick development and strengthening its market position, appreciably increases its competitiveness. Research has revealed that organizations that engage in strategic management

generally outperform those that do not. The attainment of an appropriate much or “fit” between an organization’s environment and its strategy, structure and process has positive effects on the organization’s performance (Wheelen and Hunger, 2006).

Bloom et al. (2011) found that manufacturing organizations in developed countries are the best managed. Organizations in developing countries have tended to be poorly managed. An overview performance of Ethiopian manufacturing enterprises during the last few years has been declined and was unstable. This is because Ethiopian manufacturing sector is faced with serious problems like inadequate policies and strategies for industrial development, and insufficient provision to encourage growth and improving the level of performance of domestic industry (UNIDO, 2004).

The model of strategic management is also relevant to any ventures and businesses. Research concluded that developing companies increase their chances of success if they make a serious attempt to work through the strategic issues embedded in the strategic management model. The key is to focus on what is important, the set of managerial decisions and actions that determines the long run performance of the company. Strategic management process includes define the mission, set objectives, formulate strategy, determine policies establish programs, prepare Performance budgets, specify procedures and determine performance measures (Wheelen and Hunger, 2004).

Several researchers have considered the relationship between formal and informal planning elements of the strategic decision process in large firms. Accordingly, this research explores adoption of strategic management in medium and large manufacturing companies in Ethiopia. This research is the first major research in exploring the adoption of strategic management process in medium and large manufacturing companies in Ethiopia

#### **Basic Research Questions**

There are three basic research questions which answered by the research.

- 1) To what extent strategic management process adapted in medium and large manufacturing companies in Ethiopia
- 2) What motivates managers to adopt strategic management process in medium and large manufacturing companies in Ethiopia
- 3) What are the reasons not to adopt strategic management process in medium and large manufacturing companies in Ethiopia

#### **5. RESEARCH OBJECTIVE**

- 1) To investigate adoption of strategic management process in medium and large manufacturing companies in Ethiopia
- 2) To identify motivation of managers to adopt strategic management process in medium and large manufacturing companies in Ethiopia
- 3) To identify reasons not to adopt strategic management process in medium and large manufacturing companies in Ethiopia

#### **6. METHODOLOGY**

The study employed a multiple response self-administered questionnaire on adoption of strategic management process for data collection. The population size for the study is 2170 which are registered as medium and large manufacturing companies according to federal democratic republic of Ethiopia central statistical agency report on large and medium scale manufacturing and electricity industries survey Addis Ababa (2012). Out of the population 338 samples were selected as sample based on sample size calculation recommended by Israel (1992), the minimum sample sizes necessary for different population sizes at 95% confidence level and +/- 5% sampling error using the following formula.

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precision. According to the equation the sample size for the study is 338.

This study had applied stratified random sampling method for samples selection due to the heterogeneous nature of the samples. Of the 338 questionnaires distributed, only 247 questionnaires managed to be collected which represents 73 percent of the total response rate.

The utilizable questionnaires for data analysis were only 247. The participants of the study consist of top level positions of managers or chief executive officers in the company. Of the 247 companies surveyed, 86 companies were in manufacture of food products and beverage, 11 in the manufacture of textile, 2 in the manufacture of wearing apparel except fur apparel, 22 in the tanning and dressing of leather, manufacture of footwear, luggage and handbags, 10 in the manufacture of paper, paper products and printing, 19 in the manufacture of chemicals and chemical products, 44 each in the manufacture of rubber and plastic products, and

textile, 21 in the manufacture of basic iron and steel, 23 in fabricated metal products except machinery and equipment, 7 in manufacture of furniture manufacturing and 2 in the manufacture of machinery and equipment.

## 7. ANALYSIS AND DISCUSSION

### 7.1. Industrial group of the organizations

Table 7.1 reveals the composition of industrial group of manufacturing companies. The table showed manufacture of food products and beverage 86 (34.8 percent), manufacture of textile 11(4.5 percent) , manufacture of wearing apparel except fur apparel 2(0.8 percent), tanning and dressing of leather, manufacture of footwear, luggage and handbags 22(8.9 percent), are from manufacture of paper, paper products and printing 10(4.0 percent), manufacture of chemicals and chemical products 19(7.7 percent) , manufacture of rubber and plastic products 44(17.8 percent) , manufacture of basic iron and steel 21(8.5 percent), fabricated metal products except machinery and equipment 23(9.3 percent) , manufacture of furniture manufacturing 7(2.8 percent) and manufacture of machinery and equipment 2(0.8 percent).

**Table: 7.1 Industrial groups of the companies**

Industrial group of the companies	Frequency	Percentage
Manufacture of food products and beverage	86	34.8
Manufacture of textile	11	4.5
Manufacture of wearing apparel except fur apparel	2	0.8
Tanning and dressing of leather, manufacture of footwear, luggage and handbags	22	8.9
Manufacture of paper, paper products and printing	10	4.0
Manufacture of chemicals and chemical products	19	7.7
Manufacture of rubber and plastic products	44	17.8
Manufacture of basic iron and steel	21	8.5
Fabricated metal products except machinery and equipment	23	9.3
Manufacture of furniture manufacturing	7	2.8
Manufacture of machinery and equipment	2	0.8
<b>Total</b>	<b>247</b>	<b>100</b>

Source: computed from primary data

### 7.2. Scale of the companies

Table 7.2 reveals the size of the sampled organizations. The sample organizations are classified as medium size and large size based on the employee number. According to Ethiopian context manufacturing organization having employee number from 10-49 are considered as medium size manufacturing company and organization having greater than or equal to 50 employees are large scale manufacturing company according to the federal democratic republic of Ethiopia central statistical agency report on large and medium scale manufacturing and electricity industries survey Addis Ababa (2012). Based on table 91(36.8) percent of the sample manufacturing companies are medium scaled and 156(63.2) percent of the sample manufacturing companies are included under large scale.

**Table: 7.2 Scale of manufacturing companies**

Scale of the companies	Frequency	Percentage
Medium scale manufacturing companies	91	36.8
Large scale manufacturing companies	156	63.2
<b>Total</b>	<b>247</b>	<b>100.0</b>

Source: computed from primary data

### 7.3. Adoption rate of strategic management process

Table: 7.3 reveals the adoption rate of strategic management process in manufacturing companies in Ethiopia. The table illustrates 188(76.1) percent of the respondent organizations have adopted strategic management process and 59(23.9) percent of respondent manufacturing companies have not adopted strategic management process. This confirmed that 188(76.1) percent of the respondent companies are formal strategic planners, out of 188 formal planners 147 are large scale manufacturing companies. This shows large scale manufacturing companies adopted strategic management process relative to medium scale.



**Table: 7.3 Adoption rate of strategic management process**

Have you adopted strategic management process	Frequency		Percentage
	Medium	Large	
Yes	41	147	76.1
No	50	9	23.9
<b>Total</b>	<b>91</b>	<b>156</b>	<b>100.0</b>

Source: computed from primary data

**7.4. Management motivation for adoption of strategic management process**

Table 7.4 reveals management motivation for adoption of strategic management process. Initiating change in the organization (64.9 percent), improving the company performance (51.1 percent), providing clear objectives and directions for future of the organization (61.2), gaining competitive advantage (54.8), minimizing resistance to change (57.4 percent) and improving understanding of a rapidly changing environment (60.1 percent). Therefore the major motivating factor for adoption of strategic management process in the companies are initiating change in the organization, providing clear objectives and directions for future of the organization and improving understanding of a rapidly changing environment.

**Table: 7.4 Management motivations for adoption of strategic management process**

Motivations (n=188)	Frequency	Percentage
Initiating change in the organization	122	64.9
Improving the company performance	96	51.1
Providing clear objectives and directions for future of the organization	115	61.2
Gaining competitive advantage	103	54.8
Minimizing resistance to change	108	57.4
Improving understanding of a rapidly changing environment	113	60.1

Source: computed from primary data

Note: Total percentage is more because of multiple responses

**7.5. Industry composition based on adoption of strategic management**

Table 7.5 reveals industry composition based on adoption of strategic management (formal planners). There are 66 formal planners from manufacture of food products and beverage, 11 from manufacture of textile, 1 manufacture of wearing apparel except fur apparel, 17 tanning and dressing of leather, manufacture of footwear, luggage and handbags, 7 manufacture of paper, paper products and printing, 13 manufacture of chemicals and chemical products, 32 manufacture of rubber and plastic products, 19 manufacture of basic iron and steel, 17 fabricated metal products except machinery and equipment, 3 manufacture of furniture manufacturing and 2 manufacture of machinery and equipment.

**Table: 7.5 Industry composition based on adoption of strategic management**

Industrial group of the organizations (n=188)	Frequency	Percentage
Manufacture of food products and beverage	66	35.1
Manufacture of textile	11	5.9
Manufacture of wearing apparel except fur apparel	1	0.5
Tanning and dressing of leather, manufacture of footwear, luggage and handbags	17	9.0
Manufacture of paper, paper products and printing	7	3.7
Manufacture of chemicals and chemical products	13	6.9
Manufacture of rubber and plastic products	32	17.0
Manufacture of basic iron and steel	19	10.1
Fabricated metal products except machinery and equipment	17	9.0
Manufacture of furniture manufacturing	3	1.6
Manufacture of machinery and equipment	2	1.1
Total	188	100.0

Source: computed from primary data

**7.6. Reasons for not adopting strategic management process**

Table 7.6 reveals reasons not to adopt strategic management process. Not having enough time (18.6 percent), unaware of strategic management process (74.6 percent), irrelevant to the manufacturing company situation (10.2 percent), lack of skills (67.8 percent), lack of trust and openness (16.9 percent) and limited flexibility (62.7 percent). Therefore, the major reasons of the manufacturing companies not to adopt strategic management process are unaware of strategic management process, lack of skills, and limited flexibility.

**Table: 4.6 Reasons not to adopt strategic management process**

Reasons (n=59)	Frequency	Percentage
Not having enough time	11	18.6
Unaware of strategic management process	44	74.6
Irrelevant to the manufacturing company situation	6	10.2
Lack of skills	40	67.8
Lack of trust and openness	10	16.9
Limited flexibility	37	62.7

Source: computed from primary data

Note: Total percentage is more because of multiple responses

### 7.7. Industry composition based on non adoption of strategic management process

Table 7.7 shows industry composition based on non adoption of strategic management process. The composition showed 20 from manufacture of food products and beverage, 1 from manufacture of wearing apparel except fur apparel, 5 from tanning and dressing of leather, manufacture of footwear, luggage and handbags, 3 from manufacture of paper, paper products and printing, 6 from manufacture of chemicals and chemical products, 12 from manufacture of rubber and plastic products have not adopted strategic management process, two from manufacture of basic iron and steel, 6 from fabricated metal products except machinery and equipment and 4 from manufacture of furniture manufacturing.

**Table: 7.7 Industry composition based on non adoption of strategic management process**

Industrial group of the organizations (n=59)	Frequency	Percentage
Manufacture of food products and beverage	20	33.9
Manufacture of wearing apparel except fur apparel	1	1.7
Tanning and dressing of leather, manufacture of footwear, luggage and handbags	5	8.5
Manufacture of paper, paper products and printing	3	5.1
Manufacture of chemicals and chemical products	6	10.2
Manufacture of rubber and plastic products	12	20.3
Manufacture of basic iron and steel	2	3.4
Fabricated metal products except machinery and equipment	6	10.2
Manufacture of furniture manufacturing	4	6.8
<b>Total</b>	<b>59</b>	<b>100.0</b>

Source: computed from primary data

## 8. SUGGESTION FOR FUTURE RESEARCH

Still, there is some scope for further research. As this study is exploratory in nature it provides insight about adoption of strategic management in medium and large manufacturing companies in Ethiopia and therefore, provide valuable information on manufacturing companies in Ethiopia for other researchers. Further studies should also be necessary to investigate overall strategic management practices in manufacturing companies and in other sectors which requires further study in Ethiopia.

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