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ETHICAL FACTS IN STRATEGIC MANAGEMENT – A NECESSITY OF TODAY

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Abstract: *“Most of us worry alterations even when our minds state change is normal, our stomach quires at the present. But for strategist and managers, there is no choice but change”.*

Strategic management and change are closely related, as decisions are taken bearing in brain the possibility of a change in circumstances. Strategic decisions are worried with the formulation of the vision statement, increasing into new businesses and international expansion through mergers and acquisitions. While taking such strategic decisions, organizations may face some ethical difficulties.

Strategic management involves the decisions in relation to all levels of the management. These decisions have an impact on stakeholders. Stakeholders comprise stockholders, employees, customers and suppliers. All stakeholders anticipate some “returns” from the company. Stakeholders desire befitting comes back on their investment, employees request job satisfaction and rewards, clientele anticipate worth for money and suppliers seek dependable buyers. Clearly, any decision taken by management will have an impact on stakeholder’s anticipations and concerns.

While making strategies diverse ethical matters must be considered so this paper provides an overview of ethical matters that originate while making strategic decisions and principles underlying an ethical approach to strategic management.

Keywords: *Strategic management, Ethical matters, Vision statement, Stakeholder values, and Global interest*

I. INTRODUCTION

"**Strategic management** is an ongoing method that assesses and controls the business and the industries in which the business is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly or regularly to determine how it has been applied and if it has did well or desires replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new communal, financial, or political environment."

Strategic management investigates the foremost plans taken by a company's top management on behalf of proprietors, engaging resources and performance in internal and external environments. It entails specifying the organization's operations, vision and objectives, evolving policies and plans, often in terms of tasks and

programs, which are designed to accomplish these objectives, and then assigning resources to implement the policies, plans, tasks and programs. A balanced scorecard is often utilized to assess the overall performance of the enterprise and its advancement in the direction objectives. Latest investigations and leading management theorists have advocated that strategy needs to start with stakeholders anticipations and use a changed balanced scorecard which includes all stakeholders.

Strategic management is a grade of managerial undertaking below setting goals and above tactics. Strategic management supplies overall direction to the enterprise and is nearly related to the field of Organization Studies. In the area of business management it is helpful to converse about "strategic consistency" between the organization and its environment or "strategic consistency." According to Arieu (2007), "there is strategic consistency when the activities of an organization are consistent with the expectations of management, and these in turn are with the market and the context." Strategic management encompasses the management group and probably the Board of Directors and other stakeholders.

II. APPROACHES OF STRATEGIC MANAGEMENT

Strategic management can depend upon the dimensions of an organization, and the proclivity to change of its business environment. These points are highlighted below:

- A **global/transnational organization** may employ a more organized strategic management model, due to its dimensions, scope of procedures, and need to encompass stakeholder views and requirements.
- An **SME (Small and Medium Enterprise)** may employ an entrepreneurial approach. This is due to its comparatively lesser size and scope of operations, as well as owning lesser resources. An SME's top management easily outlines a mission, and pursues all activities under that mission.
- **Whittington (2001)** highlighted four approaches to strategic management. These are Classical, Processual, Evolutionary and Systemic approaches.
- **Mintzberg** stated there are prescriptive (what should be) and descriptive (what is) approaches. Prescriptive schools are "one size fits all" approaches that designate "best practice" while descriptive schools describe how strategy is applied in exact contexts.

No single strategic managerial procedure overrides, and remains a subjective and context-dependent process.

III. ETHICAL MATTERS IN STRATEGIC MANAGEMENT

Strategic management focuses on how an organization uses a strategic planning process to make decisions. All managerial actions should theoretically agree an organization's centered goals and department-level operational goals. While making strategies such as developing vision statements, implementing strategic changes, etc. or while taking decisions which had communal influence or environmental influence organizations may encounter diverse ethical issues.

Strategies which engage ethical issues are as follows:

- **Developing the Vision Statement:** The vision statement plays a foremost role in influencing the strategy of an organization. It reflects the values and main concerns of strategic decision makers. It supplies managers with a harmony of direction and also projects a sense of worth and intent that can be recognized and assimilated by the insider and outsiders of the company i.e. stakeholders. A company's vision statement reflects company's culture and standards.

There are no hard and very quick rules that vision statement should be written or published. Top management usually has a vital function in the development of the vision statement. The ethical question arises that to what extent do stakeholders have a right to be involved in developing and articulating the strategic vision?

- **Applying Strategic Changes:** In this world, nothing is unchanging except change. And strategic is often affiliated with the changes in work, people, workspace and ways of life. The ethical question that arises is to what extent are alterations necessary? The outcome of “alterations” can be both positive and contradictory. For example, computerization of the accounts department of a company is beneficial, because it enables employees to get access to data effortlessly and quickly. At the same time, some employees may lay off as an outcome of computerization, when taking a strategic decision. Organization should ensure that their decision has a minimal contradictory influence on stakeholders.

- **Leadership and Senior Manager’s Remuneration:** A leader is person who enables the organization to attain its business objectives by taking long-term strategic decisions. While attaining enterprise objectives, leaders or senior managers are compelled to encounter risky situations, organizations tend to pay them with huge remuneration. Therefore, a leader has to sustain a wholesome connection with stakeholders founded on three kinds of contracts: knowledge contract, efficiency contract and psychological contract in alignment to avoid risk and furthermore to glossy functioning of the business. Because of the leadership qualities the leader is paid with huge amounts even at the times of redundancy. The ethical topic is the huge remuneration package offered to senior managers. Stakeholders feel that the remuneration for senior managers is too high. Organizations facing difficulties regarding remuneration are inclined to set up a remuneration managing committee so as to give sense of fairness of both the employer and employees for whom the organization is meant. Indeed, the Kumaramangalam Birla committee on Corporate Governance suggests the formation of a ‘remuneration committee’ that will determine, on behalf of shareholders, the company’s policies on specific remuneration packages for Executive Directors and CEOs.

- **International Strategic Operations:** Multinational companies having origin in one country and functioning with their subsidiaries in other countries will experience difficulties due to different competitive arenas. It becomes imperative that these organizations formulate an effective strategy to counter these troubles. MNC’s can invest as they invested in their host country and can rapidly become an international leader if they can withstand the competition. At times, owner countries deliberately lower work standards in order attract new companies, while their less stringent consumer guidelines permit the dumping of unsafe or inappropriate products. Likewise, companies can easily accomplish the employment privileges and security measures while functioning in another country, but these measures are underneath that of the owner country standards.

The ethical question here is, should a company operating in another country take up distinct set of standards, from the one it follows in the domestic company?

Decisions involve ethical issues are as follows:

- **Communal Influence:** A business strategy may focus on finding the most cost-effective ways to make items for the organization. For example, contracting by organization of developed countries with factories of developing nations because labor and materials are cheaper could save tons of money for the business; however, the communal influence for the organization brand might not be worth it if employees are engaged in sweatshops with very low wages and poor working environments. A company must consider the ethics of services it pays for inside and outside of the country to demonstrate its social responsibility.

- **Public Interest:** Companies can evolve and function in such a large arena that the amount of resources they control makes them more powerful than a small or resource-poor country. In this way, the decisions of the company that seem to advantage one part of the business and be in the public interest and economic interest for one country might injure the concerns of another country. A business should study the ethical issue that its business strategies across nationwide boundaries and inside regions and lesser communities to measure if they are in the public interest.
- **Ecological Influence:** Businesses also take actions that contrary affect the natural environment, such as pollution and natural resource exploitation, in one or more operational locations. A firm can make better decisions and defend the natural environment using measures of an environmental management system. This system might encompass measures shared by companies in the identical industrial or commercial sector, encompassing compliance with regulations and guidelines, studying health and safety consequences of business practices and products, and working with the public and government agencies in an open way to comply with agreeable measures.

IV. PRINCIPLES UNDERLYING AN ETHICAL APPROACH TO STRATEGIC MANAGEMENT

There are three principles for ethical approach to strategic management. They are:

- **Stakeholders Theory, Strategy and Ethics:** The stakeholder theory is rooted in the conviction that enterprise is an activity of society, and hence business has responsibilities to a much broader variety of stakeholders than only its shareholders, directors, and creditors. The stakeholder theory resists a 'bolt-on' ethics mentality, which stems from the fact that the enterprise community sees itself as doing its best to survive in a hostile environment. With this kind of an attitude enterprise strategy becomes only of reaching to internal and external threats. In such a position ethically correct decisions are acceptable only when they make good sense. An alternative way of looking at ethics is to outlook enterprise as having a pro-active role in creating an ethical society. The argument is that business is such a pervasive and powerful force in contemporary life, that it can no longer restrict itself to a narrow universe of accounting goals.
- **Loyalty and Psychological Contract:** The connection between employer and employee founded on a 'psychological contract'. The employees' loyalty to the organization is a key component of this contract. Employees have certain anticipations about how they will be treated, and in turn, are eager to make certain sacrifices for the organization. Every strategic change calls for sacrifice by the employees. A thriving strategic change requires the commitment of all the organization members. The ethical issue here is that efforts should be made to convince people that the change is legitimate. Employees will continue to remain trusted to the organization only if they are certain that their psychological contract with the firm is not undermined.
- **Cultural Relativism:** There are no worldwide standards for the conduct of business. Cultural norms and standards vary within the country and also between countries. What is advised as unlawful in one country may be considered a usual business practice in some other country. For example, in some nations lobbying is considered legitimate, while in a country like India, it is regarded as an unethical business practice. Value systems too, vary from country to country. Dissimilarities in culture often pose problems for companies that operate in foreign nations. One way of dealing with this difficulty is to take up *cultural relativism*. The term cultural relativism implies, adopting the norms of the country, in which an organization operates its business. For instance, if bribes are considered a part of usual business practice then the fact must be acknowledged. But carrying too far raises serious ethical issues. As international operations become

progressively important for long-term survival of organization, these difficult ethical issues relativism are likely to boost.

V. CONCLUSION

Businesses are characterized as complex and ambiguous. In spite of such complexities, managers have to strike a balance between right and wrong decisions and recognize the right course of action. Ethical matters in strategically managed organizations surface when managers make decisions to accelerate goal that have contradictory consequences. Organizations while making strategic decisions need to be ethically concerned about its activities. Basic ethical matters are setting vision, applying strategic change, senior manager's remuneration and global strategic operation but the question among the management is to what extent such decisions are correct. In such a scenario managers make use of various ethical decision models, to make a right decision. And while taking such decisions organizations' principles of an ethical approach work.

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