

Chapter 1

The Nature of Strategic Management

Learning Objectives

- *After studying this chapter, you should be able to do the following:*
 1. *Describe the strategic-management process.*
 2. *Discuss the three stages of activities for strategy formulation, implementation, and evaluation activities.*
 3. *Explain the need for integrating analysis and intuition in strategic management.*
 4. *Define and give examples of key terms in strategic management.*
 5. *Describe the benefits of engaging in strategic management.*
 6. *Explain why some firms do not engage in strategic planning.*
 7. *Describe the pitfalls in doing strategic planning.*
 8. *Discuss the connection between business and military strategies.*
 9. *Explain how this course can enhance a student's employability.*

Preface

- *This course is the capstone of business administration ...*
- *This chapter gives an overview of strategic management, introduces a practical, integrative model of the strategic-management process and defines basic activities and terms in strategic management.*
- *The primary focus of this course is on **learning by doing**.*

What Is Strategic Management?

- *The art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.*
- *Strategic Management focuses on integrating management, marketing, finance, accounting, production, and information systems to achieve organizational success.*

What Is Strategic Management?

- *Firms have liberty to compete many different ways in a variety of geographic areas, so decisions must be made regarding what markets to enter, what markets to avoid, which competitor's space to invade, and which to avoid.*
- *We want to unveil the process needed for making **effective strategic decisions**.*
- *For example, Westinghouse Electric's recent strategy to build a new generation of nuclear power plants was ill formulated and thus resulted in bankruptcy and eventual acquisition (in 2018) by Canada's Brookfield Business Partners LP.*

What We Follow? Strategy Positioning!

- *Formulating strategies such as deciding what to produce and where, when, and how to compete is what leads to a **sustainable competitive advantage**.*
- *Even the best strategies must be implemented well through operational- or tactical-level activities like hiring and motivating employees, cutting costs, benchmarking, outsourcing, securing financing, and keeping facilities warm (or cool).*
- *Implementation activities are vitally important and must be monitored by strategists, but effectively formulated strategies, more so than operational tactics, is generally what leads to sustained competitive advantages.*

What We Follow? Strategy Positioning!

- *To gain a sustainable competitive advantage, firms need to provide unique products and services.*
- *☛ Uniqueness matters!*
- *To assure “effective uniqueness,” firms must accept concessions in the strategy process to gain a sustainable competitive.*
- *Rolex is the company not offering cheaper lines of watches.*
- *Instead, Rolex has maintained its unique reputation and market share as the top luxury watch brand in the world.*
- *Rolex, and all successful firms, thus make tradeoffs and tough decisions throughout the process of developing, producing, and selling products.*

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Key Terms in Strategic Context

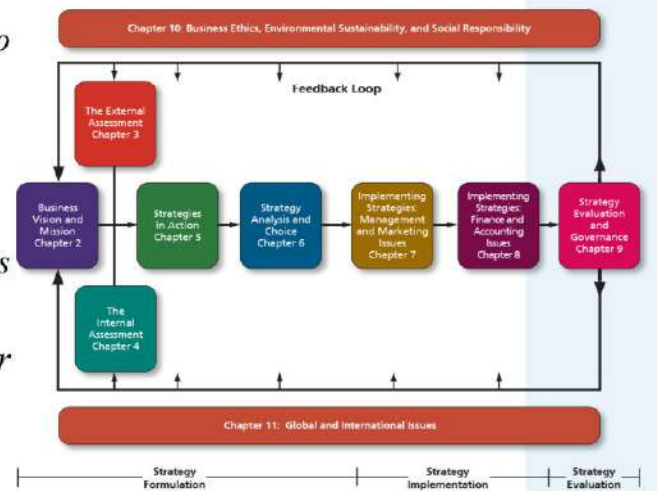
- *Strategic Planning*
- *Strategic Management Model*
- *Strategic Management Process*
- *Adoption*
- *Competitive Advantage*
- *Strategists*
- *Vision and Mission Statements*
- *External Opportunities and Threats*
- *Internal Strengths and Weaknesses*
- *Long-Term Objectives*
- *Strategies*
- *SWOT Analysis*
- *Policies*

Strategic Planning

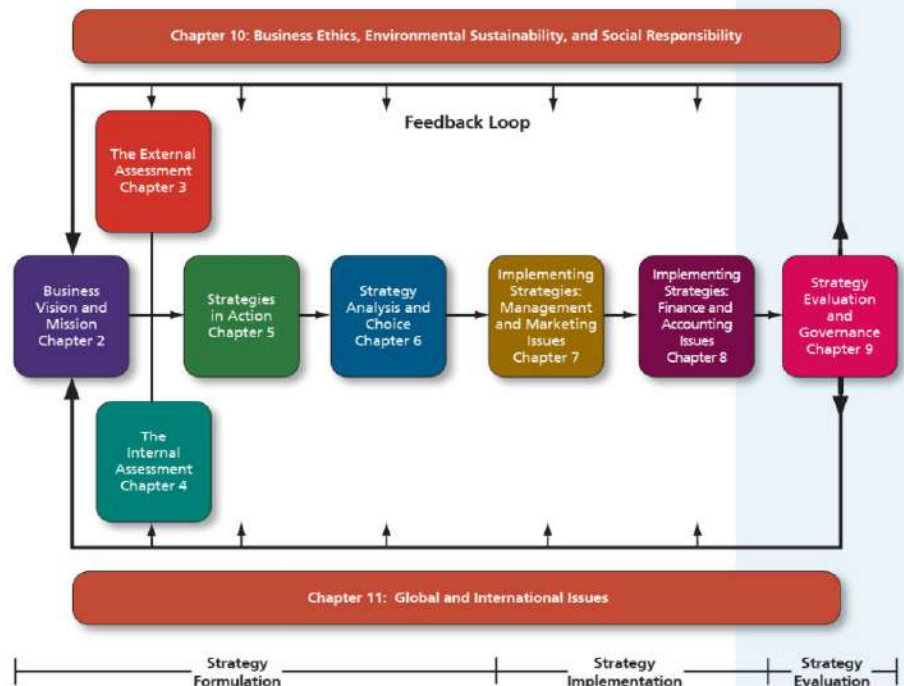
- *The term strategic management in this text is used synonymously with the term strategic planning.*
- *The latter term is more often used in the business world, whereas the former is often used in academia.*
- *Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation.*
- *A strategic plan is, in essence, a company's game plan ...*

The Strategic Management Model

- A widely accepted, comprehensive depiction of the strategic management process
- There are three important questions to answer in preparing a strategic plan:
 1. Where are we now?
 2. Where do we want to go?
 3. How are we going to get there?
- The strategic-management process is dynamic and continuous.
- The strategic-management process never really ends ...



The Comprehensive, Integrative Strategic-Management Model



Strategic Management Process

- The strategic management process consists of three stages:

1. **Strategy formulation:** includes developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue.

Strategy-formulation issues include deciding what new businesses to enter; what businesses to abandon, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover.

Strategy-formulation decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time.

Strategies determine long-term competitive advantages.

Top managers have the best perspective to understand fully the ramifications of strategy-formulation decisions; they have the authority to commit the resources necessary for implementation.

Strategic Management Process

- The strategic management process consists of three stages:

2. **Strategy implementation:** requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed efficiently. Strategy implementation often is called the "action stage" of strategic management.

Strategy implementation includes developing a strategy-supportive culture, creating an organizational structure, redirecting marketing efforts, preparing budgets, developing and using information systems, devising tactics, and linking employee compensation to organizational performance.

Implementing strategy means mobilizing employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice.

Strategic Management Process

- *The strategic management process consists of three stages:*
 3. **Strategy evaluation:** *the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information.*
Three fundamental strategy-evaluation activities are:
 - (1) *reviewing external and internal factors that are the bases for current strategies,*
 - (2) *measuring performance, and*
 - (3) *taking corrective actions.*

☛ *Edward Deming once said, "In God we trust. All others bring data!"*

Adoption

- *Organizations should continually monitor internal and external events and trends so that timely changes can be made as needed.*
- *Firms, like organisms, must be "adept at adapting" or they will not survive.*
- *To survive, all organizations must astutely identify and adapt to change.*

Competitive Advantage

- *This term can be defined as any activity a firm does especially well-compared with activities done by rival firms, or any resource a firm possesses that rival firms desire.*
- *A firm must strive to achieve sustained competitive advantage by doing the following:*
 1. *Continually adapting to changes in external trends and events and internal capabilities, competencies, and resources.*
 2. *Effectively formulating, implementing, and evaluating strategies that capitalize on those factors.*
 3. *Offering products that are unique and not easily duplicated by rivals.*
 4. *Accepting tradeoffs by deciding what not to do; no firm can be everything to everybody.*

Strategists

- *Strategists are the individuals most responsible for the success or failure of an organization.*
- *They have various job titles, such as chief executive officer, chief strategy officer, president, owner, chair of the board, executive director, chancellor, dean, and entrepreneur.*
- *Jay Conger, professor of organizational behavior at the London Business School and author of Building Leaders, says, "All strategists have to be chief learning officers."*

Vision and Mission Statements

- *Many organizations today develop a vision statement that answers the question “What do we want to become?” Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence as revealed through numerous examples in Chapter 2.*
- *A mission statement is an “enduring statement of purpose that distinguishes one business from other similar firms. A mission statement identifies the scope of a firm’s operations in product and market terms.”¹⁰ It addresses the basic question that faces all strategists: “What is our business?”*

External Opportunities and Threats

- *Refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future.*
- *Opportunities and threats are largely beyond the control of a single organization, thus, the word external.*

Internal Strengths and Weaknesses

- *Organization's controllable activities that are performed especially well or poorly.*
- *Strengths and weaknesses are determined relative to competitors.*
- *Both internal and external factors should be stated as specifically as possible, using numbers, percentages, dollars, and ratios, as well as comparisons over time to rival firms.*
- *Quantification is important because strategies will be formulated and resources allocated based on this information.*

Long-Term Objectives

- *Objectives can be defined as specific results that an organization seeks to achieve in pursuing its mission.*
- *Long term means more than one year.*
- *Objectives should be challenging, measurable, consistent, reasonable, and clear.*

Strategies

- *Strategies are the means by which long-term objectives will be achieved.*
- *Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint venture.*
- *Strategies are potential actions that require top-management decisions and significant amounts of the firm's resources.*

SWOT Analysis

- *Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis is an important matching tool that helps managers develop four types of strategies: SO (strengths-opportunities) strategies, WO (weaknesses-opportunities) strategies, ST (strengths-threats) strategies, and WT (weaknesses-threats) strategies.*
- *Matching key external and internal factors is a critically important activity in strategic planning.*

	STRENGTHS (S)	WEAKNESSES (W)
	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.
OPPORTUNITIES (O)	SO STRATEGIES	WO STRATEGIES
1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	1. 2. ETC.	1. 2. ETC.
THREATS (T)	ST STRATEGIES	WT STRATEGIES
1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	1. 2. ETC.	1. 2. ETC.

SWOT Analysis

Key Internal Factor	Key External Factor	Resultant Strategy
S1: Demand for Dunkin Donuts up 6 percent annually (internal strength)	+ O1: Desire for healthy products up 8 percent annually (external opportunity)	= SO1: Dunkin Donuts eliminated all artificial dyes and colors in its donuts in 2018
W1: Insufficient production capacity by 1 million units annually (internal weakness)	+ O2: Exit of two major foreign competitors from the area (external opportunity)	= WO1: Purchase competitors' production facilities
S2: R&D has developed four new products in twelve months (internal strength)	+ T1: Sugary drink consumption is declining 5 percent annually (external threat)	= ST1: Spend \$1 million to promote healthiness of four new products
W2: Poor employee morale (internal weakness)	+ T2: Healthcare costs rose 7 percent last year (external threat)	= WT1: Implement a new corporate wellness program

Policies

- *The means by which annual objectives will be achieved.*
- *Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives.*
- *Policies are guides to decision making and address repetitive or recurring situations.*
- *Usually, policies are stated in terms of management, marketing, finance/accounting, production/operations, R&D, and MIS activities.*
- *They may be established at the corporate level and apply to an entire organization, at the divisional level and apply to a single division, or they may be established at the functional level and apply to particular operational activities or departments.*

Chapter Summary

- *All firms have a strategy, even if it is informal, unstructured, and sporadic.*
- *All organizations are heading somewhere, but unfortunately some organizations do not know where they are going.*
- *The old saying “If you do not know where you are going, then any road will lead you there!”*
- *Organizations should take a proactive rather than a reactive approach in their industry, and they should strive to influence, anticipate, and initiate rather than just respond to events.*
- *Strategic Management process is a logical, systematic, and objective approach for determining an enterprise’s future direction.*
- *It is a known and accepted fact that people and organizations that plan ahead are much more likely to become what they want to become than those do not.*

Topics for Further Collaboration ...

- *Coach Vince Lombardi (Page 32 – David Book)*
- *Global Capsule 1 (Page 38 – David Book)*
- *Amazon’s Strategies (Page 42 – David Book)*