

STRATEGIC CONCEPTS & CASES MANAGEMENT

A Competitive Advantage Approach

FOURTEENTH EDITION



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The Nature of Strategic Management

Chapter One

Chapter Objectives

1. Describe the strategic-management process.
2. Explain the need for integrating analysis and intuition in strategic management.
3. Define and give examples of key terms in strategic management.
4. Discuss the nature of strategy formulation, implementation, and evaluation activities.

Chapter Objectives (cont.)

5. Describe the benefits of good strategic management.
6. Discuss the relevance of Sun Tzu's *The Art of War* to strategic management.
7. Discuss how a firm may achieve sustained competitive advantage.

Defining Strategic Management

- ◆ **Strategic management**
 - the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives

Defining Strategic Management

- ❖ *Strategic management* is used synonymously with the term strategic planning.
- ❖ Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation.

Defining Strategic Management

- ❖ A **strategic plan** is a company's game plan.
- ❖ A strategic plan results from tough managerial choices among numerous **good alternatives**, and it signals commitment to specific markets, policies, procedures, and operations.

Stages of Strategic Management

- **Strategy formulation**
- **Strategy implementation**
- **Strategy evaluation**

Stages of Strategic Management

◆ **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

- ❖ Deciding what new businesses to enter,
- ❖ What businesses to abandon,
- ❖ How to allocate resources,
- ❖ Whether to expand operations or diversify,
- ❖ Whether to enter international markets,
- ❖ Whether to merge or form a joint venture,
- ❖ How to avoid a hostile takeover.

Stages of Strategic Management

◆ Strategy implementation

- requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed
- often called the action stage

Stages of Strategic Management

◆ **Strategy evaluation**

- reviewing external and internal factors that are the bases for current strategies, measuring performance, and taking corrective actions

Stages of Strategic Management

- ❖ Strategy formulation, implementation, and evaluation activities occur at **three hierarchical levels** in a large organization: corporate, divisional or strategic business unit, and functional
- ❖ Strategic management helps a firm function as a competitive team

Integrating Intuition and Analysis

- ❖ Most organizations can benefit from strategic management, which is based upon integrating intuition and analysis in **decision making**
- ❖ **Intuition** is particularly useful for making decisions in situations of great uncertainty or little precedent

Adapting to Change

- ❖ The second-largest bookstore chain in the United States, Borders Group, declared bankruptcy in 2011 as the firm had not adapted well to changes in book retailing from traditional bookstore shopping to customers buying online, preferring digital books to hard copies
- ❖ Borders was on the brink of financial collapse before being acquired in July 2011 by Direct Brands

Key Terms in Strategic Management



Competitive advantage

- anything that a firm does especially well compared to rival firms



Strategists

- the individuals who are most responsible for the success or failure of an organization

Key Terms in Strategic Management

Vision statement

- answers the question “What do we want to become?”
- often considered the first step in strategic planning

Key Terms in Strategic Management

Mission statements

- enduring statements of purpose that distinguish one business from other similar firms
- identifies the scope of a firm's operations in product and market terms
- addresses the basic question that faces all strategists: “What is our business?”

Key Terms in Strategic Management

◆ **External opportunities and external 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

Some Opportunities and Threats

- ❖ Computer hacker problems are increasing.
- ❖ Intense price competition is plaguing most firms.
- ❖ Unemployment and underemployment rates remain high.
- ❖ Interest rates are rising.
- ❖ Product life cycles are becoming shorter.
- ❖ State and local governments are financially weak.

Key Terms in Strategic Management

◆ **Internal strengths and internal weaknesses**

- an organization's controllable activities that are performed especially well or poorly
- determined relative to competitors

Key Terms in Strategic Management

Objectives

- specific results that an organization seeks to achieve in pursuing its basic mission
- long-term means more than one year
- should be challenging, measurable, consistent, reasonable, and clear

Key Terms in Strategic Management

Strategies

- the means by which long-term objectives will be achieved
- may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures

Key Terms in Strategic Management



Annual objectives

- short-term milestones that organizations must achieve to reach long-term objectives
- should be measurable, quantitative, challenging, realistic, consistent, and prioritized
- should be established at the corporate, divisional, and functional levels in a large organization

Sample Strategies in Action in 2011

TABLE 1-1 Sample Strategies in Action in 2011

Skype

Headquartered in Luxembourg and acquired by Microsoft Corporation in 2011, Skype offers software applications that enable users to make voice calls over the Internet as well as video conferencing, instant messaging, and file transfer. Wildly popular among people who regularly make international calls, Skype audio conferences support up to 25 people at a time, including the host. Skype 3.0, recently released for Apple's iOS platform, offers video chat for the iPhone, iPad, and iPod Touch devices. Skype recently acquired Qik, a mobile video streaming and storage company, and partnered with Sony and Panasonic to create Skype-ready Blu-ray players. Skype now accounts for more than 25 percent of all international calls, up from 13 percent in 2009. The mobile-based video call market is expected to exceed \$1 billion by 2015.

Sbarro Inc.

The fast-food Italian eatery located in many mall food courts around the world is struggling to survive and swamped in debt. Based in Melville, New York, Sbarro is closing weak stores among its 1,000 total in 40 countries, including Qatar, Egypt, and New Zealand. Sbarro has hired bankruptcy and restructuring lawyers to help the firm survive as many consumers have switched, for various reasons, to other mall fast food choices, such as Chick-fil-A. Sbarro needs a clear strategic plan to survive.

Key Terms in Strategic Management

Policies

- the means by which annual objectives will be achieved
- include guidelines, rules, and procedures established to support efforts to achieve stated objectives
- guides to decision making and address repetitive or recurring situations

The Strategic-Management Model

Where are we now?

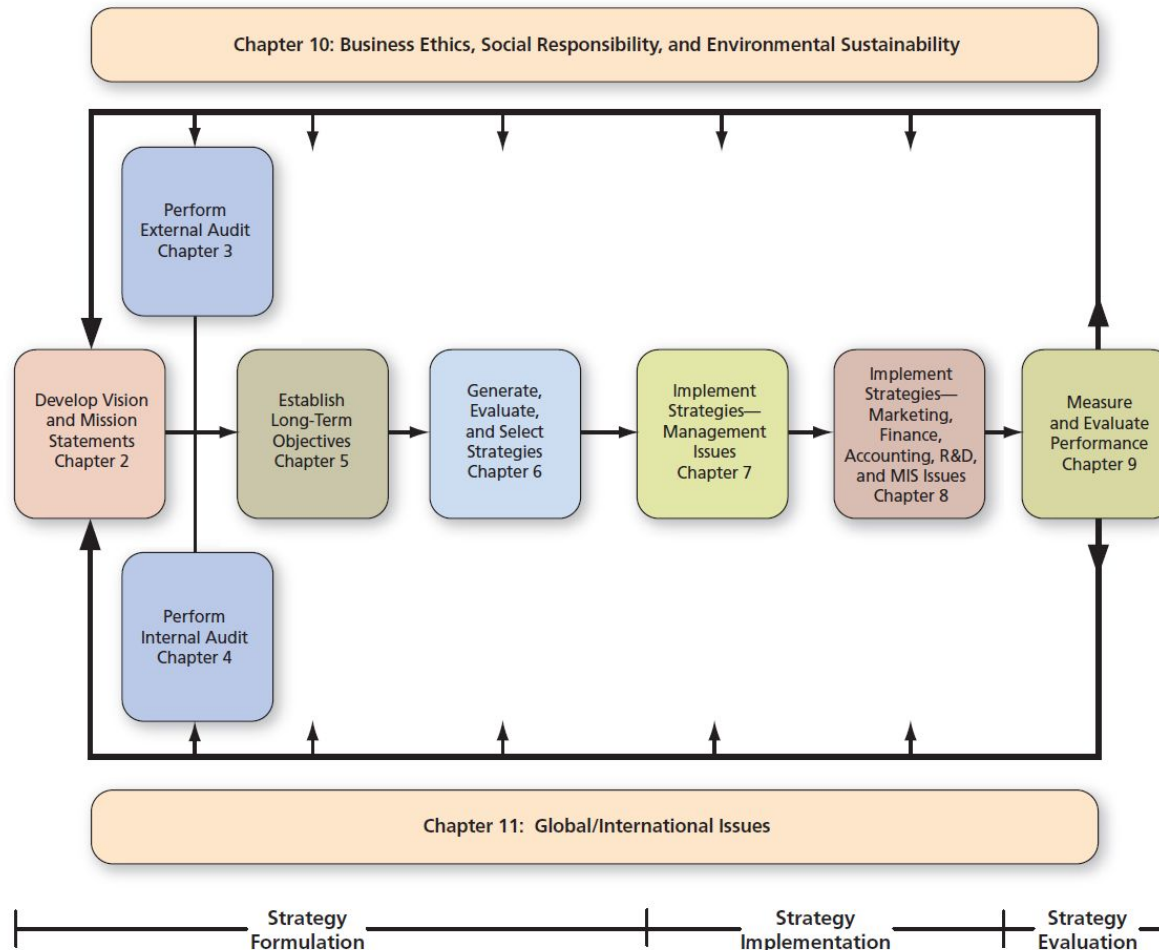
Where do we want to go?

How are we going to get there?

A Comprehensive Strategic-Management Model

FIGURE 1-1

A Comprehensive Strategic-Management Model



Benefits of Strategic Management

- ❖ Historically, the principal benefit of **strategic management** has been to help organizations formulate better strategies through the use of a more systematic, logical, and **rational approach** to strategic choice

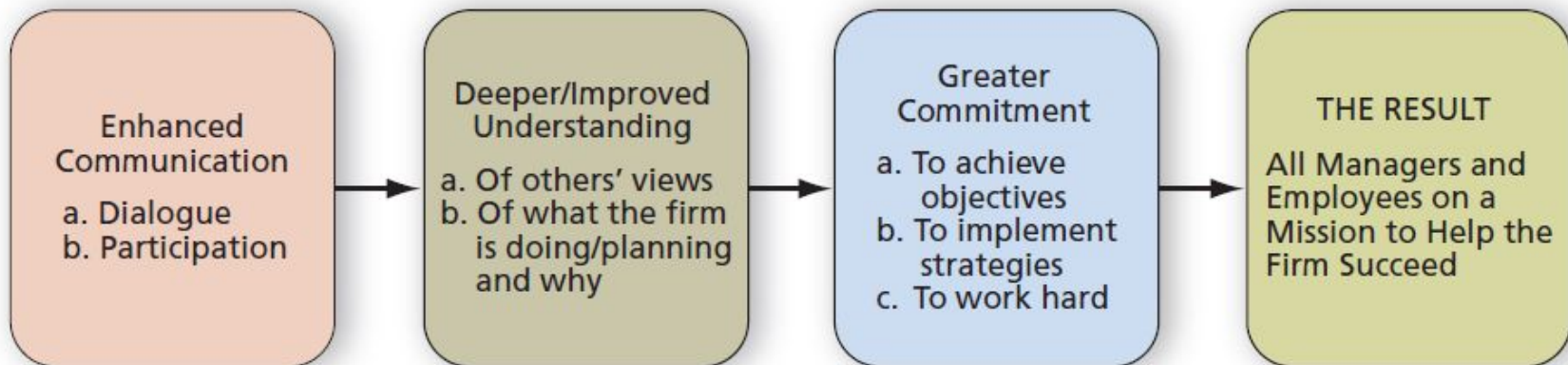
Benefits of Strategic Management

- ❖ *Communication* is a key to successful strategic management
- ❖ Through dialogue and participation, managers and employees become committed to supporting the organization

Benefits to a Firm That Does Strategic Planning

FIGURE 1-2

Benefits to a Firm That Does Strategic Planning



Financial Benefits

- ❖ Businesses using strategic-management concepts show **significant improvement** in sales, profitability, and productivity compared to firms without systematic planning activities
- ❖ **High-performing** firms seem to make more informed decisions with good anticipation of both short- and long-term consequences

Nonfinancial Benefits

- ❖ It allows for identification, prioritization, and exploitation of opportunities.
- ❖ It provides an objective view of management problems.
- ❖ It represents a framework for improved coordination and control of activities.
- ❖ It minimizes the effects of adverse conditions and changes.

Nonfinancial Benefits

- ❖ It allows major decisions to better support established objectives.
- ❖ It allows more effective allocation of time and resources to identified opportunities.
- ❖ It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.
- ❖ It creates a framework for internal communication among personnel.

Why Some Firms Do No Strategic Planning

- ❖ Lack of knowledge in strategic planning
- ❖ Poor reward structures
- ❖ Firefighting
- ❖ Waste of time
- ❖ Too expensive
- ❖ Laziness
- ❖ Content with success

Why Some Firms Do No Strategic Planning

- ❖ Fear of failure
- ❖ Overconfidence
- ❖ Prior bad experience
- ❖ Self-interest
- ❖ Fear of the unknown
- ❖ Honest difference of opinion
- ❖ Suspicion

Pitfalls in Strategic Planning

- ❖ Using strategic planning to gain control over decisions and resources
- ❖ Doing strategic planning only to satisfy accreditation or regulatory requirements
- ❖ Too hastily moving from mission development to strategy formulation
- ❖ Failing to communicate the plan to employees, who continue working in the dark
- ❖ Top managers making many intuitive decisions that conflict with the formal plan

Pitfalls in Strategic Planning

- ❖ Top managers not actively supporting the strategic-planning process
- ❖ Failing to use plans as a standard for measuring performance
- ❖ Delegating planning to a “planner” rather than involving all managers
- ❖ Failing to involve key employees in all phases of planning
- ❖ Failing to create a collaborative climate supportive of change

Guidelines for Effective Strategic Management

TABLE 1-3 Seventeen Guidelines for the Strategic-Planning Process to Be Effective

1. It should be a people process more than a paper process.
2. It should be a learning process for all managers and employees.
3. It should be words supported by numbers rather than numbers supported by words.
4. It should be simple and nonroutine.
5. It should vary assignments, team memberships, meeting formats, and even the planning calendar.
6. It should challenge the assumptions underlying the current corporate strategy.
7. It should welcome bad news.
8. It should welcome open-mindedness and a spirit of inquiry and learning.
9. It should not be a bureaucratic mechanism.
10. It should not become ritualistic, stilted, or orchestrated.
11. It should not be too formal, predictable, or rigid.
12. It should not contain jargon or arcane planning language.
13. It should not be a formal system for control.
14. It should not disregard qualitative information.
15. It should not be controlled by “technicians.”
16. Do not pursue too many strategies at once.
17. Continually strengthen the “good ethics is good business” policy.

Comparing Business and Military Strategy

- ❖ A fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with an assumption of *competition*, whereas military strategy is based on an assumption of *conflict*
- ❖ Both business and military organizations must adapt to change and constantly improve to be successful

Excerpts from Sun Tzu's The Art of War Writings

- ❖ War is a matter of vital importance to the state: a matter of life or death, the road either to survival or ruin. Hence, it is imperative that it be studied thoroughly
- ❖ Know your enemy and know yourself, and in a hundred battles you will never be defeated
- ❖ Skillful leaders do not let a strategy inhibit creative counter-movement



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