Chapter 1
The Nature of Strategic Management

Strategic Management: Concepts & Cases
10th Edition
Fred David

PowerPoint Slides by Anthony F. Chelka
Western New England College

Themes in the Text

• **Global Considerations** – impact virtually all strategic decisions
• **E-commerce** – vital strategic management tool.
• **Natural environment** – important strategic issue.

Strategic Management – Defined

Art & science of **formulating, implementing, and evaluating**, cross-functional decisions that enable an organization to achieve its objectives.

Strategic Management

In essence, the **strategic plan** is a company’s **game plan**.

Strategic Management achieves a firm’s success through integration --

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Strategy Formulation

- Vision & Mission
- External Opportunities & Threats
- Internal Strengths & Weaknesses
- Long-Term Objectives
- Alternative Strategies
- Strategy Selection
Issues in Strategy Formulation

- New Business opportunities
- Businesses to abandon
- Allocation of resources
- Expansion or diversification
- International markets
- Mergers or joint ventures
- Avoidance of hostile takeover

Strategy Implementation

- Annual Objectives
- Policies
- Employee Motivation
- Resource Allocation

Strategy Implementation

Action Stage of Strategic Management –
- Most difficult stage
- Mobilization of employees & managers
- Interpersonal skills critical
- Consensus on goal pursuit

Strategy Evaluation

- Internal Review
- External Review
- Performance Metrics
- Corrective Actions

Prime Task of Strategic Management

Peter Drucker: -- think through the overall mission of a business. Ask the key question: “What is our Business?”
The strategic management process attempts to organize quantitative and qualitative information under conditions of uncertainty.

Intuition is based on:
- Past experiences
- Judgment
- Feelings

Intuition is Useful for decision making:
- Conditions of great uncertainty
- Conditions with little precedent

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Intuition & Judgment
- Involve Management at all levels
- Influence all Analyses

Analytical Thinking
Intuitive Thinking

Organizations must monitor events:
- On-going process
- Internal and external events
- Timely changes

“Anything that a firm does especially well compared to rival firms”
Achieving Sustained Competitive Advantage

1. Adapting to change in external trends, internal capabilities and resources
2. Effectively formulating, implementing & evaluating strategies

Adapting to Change

Rate & magnitude of change increasing dramatically

E-commerce
Demographics
Technology

Adapting to Change

Effective Adaptation

Requires long-term focus

Adapting to Change – Key Strategic Management Questions

- What kind of business should we become?
- Are we in the right fields
- Are there new competitors
- What strategies should we pursue?
- How are our customers changing?

Key Terms

Strategists – Firm’s success/failure

Various Job Titles:

- Chief Executive Officer (CEO)
- Chief Strategy Officer (CSO)
- President
- Owner
- Board Chair
- Executive Director

Key Terms

Vision Statement – What do we want to become?

Mission Statement – What is our business?
Opportunities and Threats (External)

- Largely beyond the control of a single organization

Opportunities & Threats (External)

Analysis of Trends:
- Economic
- Social
- Cultural
- Demographic/Environmental
- Political, Legal, Governmental
- Technological
- Competitors

Environmental Scanning (Industry Analysis)

- Process of conducting research and gathering and assimilating external information

Basic Tenet of Strategic Management

- Take advantage of External Opportunities
- Avoid/minimize impact of External Threats

Strengths & Weaknesses (Internal)

- Controllable activities performed especially well or poorly

Strengths & Weaknesses (Internal)

Typically located in functional areas of the firm
- Management
- Marketing
- Finance/Accounting
- Production/Operations
- Research & Development
- Computer Information Systems
Assessing the Internal Environment

Key Terms

Strengths & Weaknesses

Internal Factors
- Financial Ratios
- Performance Metrics
- Industry Averages
- Survey Data

Long-term Objectives

- Mission-driven pursuit of specified results more than one year out

Strategies

- Means by which long-term objectives are achieved

Annual Objectives

- Short-term milestones that firms must achieve to attain long-term objectives

Long-term Objectives

Key Terms

Essential for ensuring the firm's success
- Provide direction
- Aid in evaluation
- Create synergy
- Focus coordination
- Basis for planning, motivating, and controlling

Key Terms

Strategies

Some Examples
- Geographic expansion
- Diversification
- Acquisition
- Market penetration
- Retrenchment
- Liquidation
- Joint venture
Key Terms

Policies

- Means by which annual objectives will be achieved

Strategic Management Model

Strategic Management Process

- Dynamic & Continuous
- More formal in larger organizations

Benefits of Strategic Management

- Proactive in shaping firm's future
- Initiate and influence firm's activities
- Formulate better strategies
  - Systematic, logical, rational

Strategic Management Model

1. Identify Existing --

- Vision
- Mission
- Objectives
- Strategies

Comprehensive strategic management model

2. Audit external environment
3. Audit internal environment
4. Establish long-term objectives
5. Generate, evaluate & select strategies
6. Implement selected strategies
7. Measure & evaluate performance
Benefits of Strategic Management

Financial Benefits

• Improvement in sales
• Improvement in profitability
• Productivity improvement

Non-Financial Benefits

• Improved understanding of competitors strategies
• Enhanced awareness of threats
• Reduced resistance to change
• Enhanced problem-prevention capabilities

Benefits of Strategic Management (Greenley)

1. Identification of Opportunities
2. Objective view of management problems
3. Improved coordination & control
4. Minimizes adverse conditions & changes
5. Decisions that better support objectives

Benefits of Strategic Management (Greenley – cont’d)

6. Effective allocation of time & resources
7. Internal communication among personnel
8. Integration of individual behaviors
9. Clarify individual responsibilities
10. Encourage forward thinking

Benefits of Strategic Management (Greenley – cont’d)

11. Encourages favorable attitude toward change
12. Provides discipline and formality to the management of the business

Why Some Firms Do Not Strategic Planning

- Poor reward structures
- Fire-fighting
- 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
- Suspicion

Business Ethics & Strategic Management

Business Ethics defined --

- Principles of conduct within organizations that guide decision making and behavior.

Business Ethics & Strategic Management

Good business ethics –

- Prerequisite for good strategic management

Business Ethics & Strategic Management

Code of business ethics –

- Provides basis on which policies can be devised to guide daily behavior and decisions in the workplace

Business Ethics & Strategic Management

Business practices always considered unethical –

- Misleading advertising
- Misleading labeling
- Harm to the environment
- Insider trading
- Dumping flawed products on foreign markets
- Poor product or service safety
- Padding expense accounts

Natural Environment Perspective

ISO used to gain strategic advantage

- ISO 9000 focuses on quality control
- > 1.5 million companies incorporate ISO

Prerequisite for good strategic management

Provides basis on which policies can be devised to guide daily behavior and decisions in the workplace

Misleading advertising
Misleading labeling
Harm to the environment
Insider trading
Dumping flawed products on foreign markets
Poor product or service safety
Padding expense accounts
Natural Environment Perspective

ISO 14000 standards

- Voluntary standards
- ISO 14001 standard for Environmental Management System
- Firms minimize harmful effects on environment

The Nature of Global Competition

International/multinational corporations

- Parent company
- Host country

The Nature of Global Competition

Strategy implementation may be difficult

- Cultural differences
  - Norms
  - Values
  - Work ethic

Advantages of International Operations

- Absorb excess capacity
- Reduce unit costs
- Spread risk over wider markets
- Low-cost production facilities

Advantages of International Operations (cont’d)

- Less intense competition
- Lower taxes
- Economies of scale

Disadvantages of International Operations

- Difficult communications
- Underestimate foreign competition
- Cultural barriers to effective management
- Complications arising from currency differences