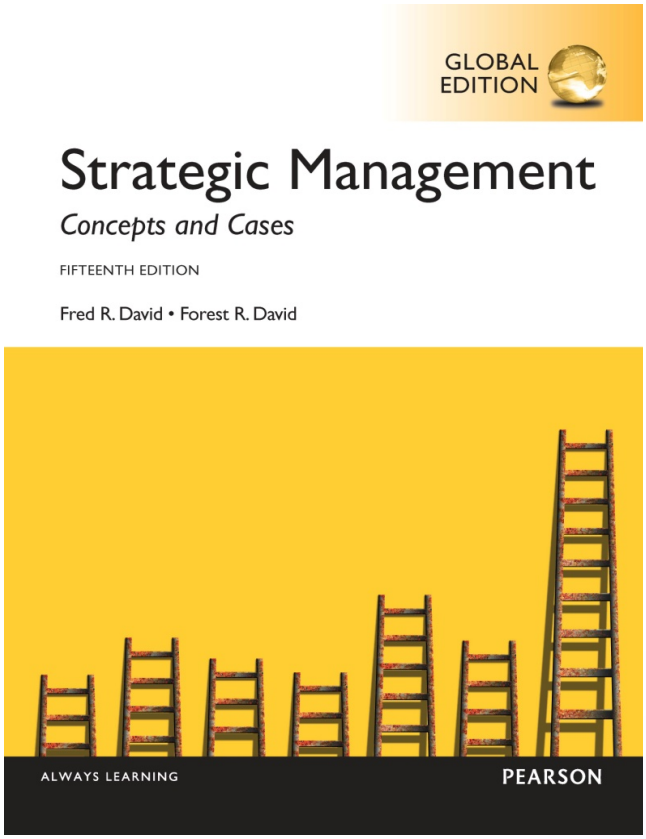


STRATEGIC MANAGEMENT ESSENTIALS

Chapter One

CHAPTER OBJECTIVES

1. Discuss the nature and role of a chief strategy officer (CSO).
2. Describe the strategic-management process.
3. Explain the need for integrating analysis and intuition in strategic management.
4. Define and give examples of key terms in strategic management.

CHAPTER OBJECTIVES (CONT.)

5. Discuss the nature of strategy formulation, implementation, and evaluation activities.
6. Describe the benefits of good strategic management.
7. Discuss the relevance of Sun Tzu's The Art of War to strategic management.
8. 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

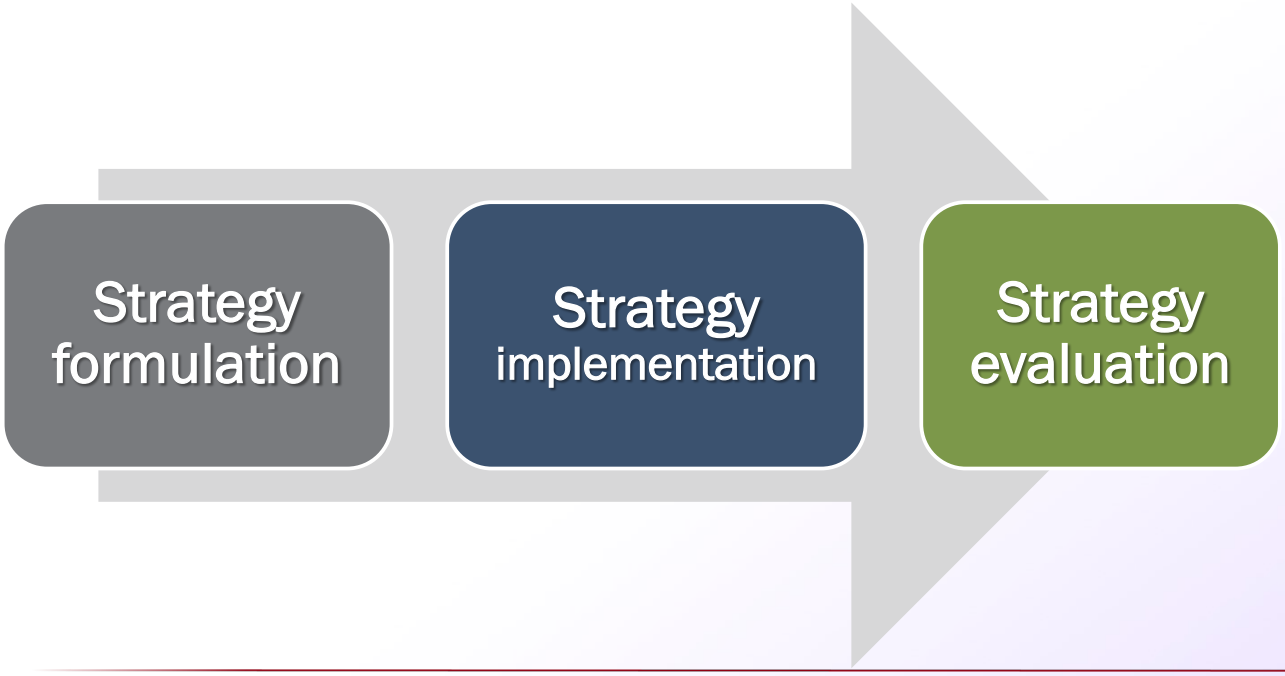
DEFINING STRATEGIC MANAGEMENT

- *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



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

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

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

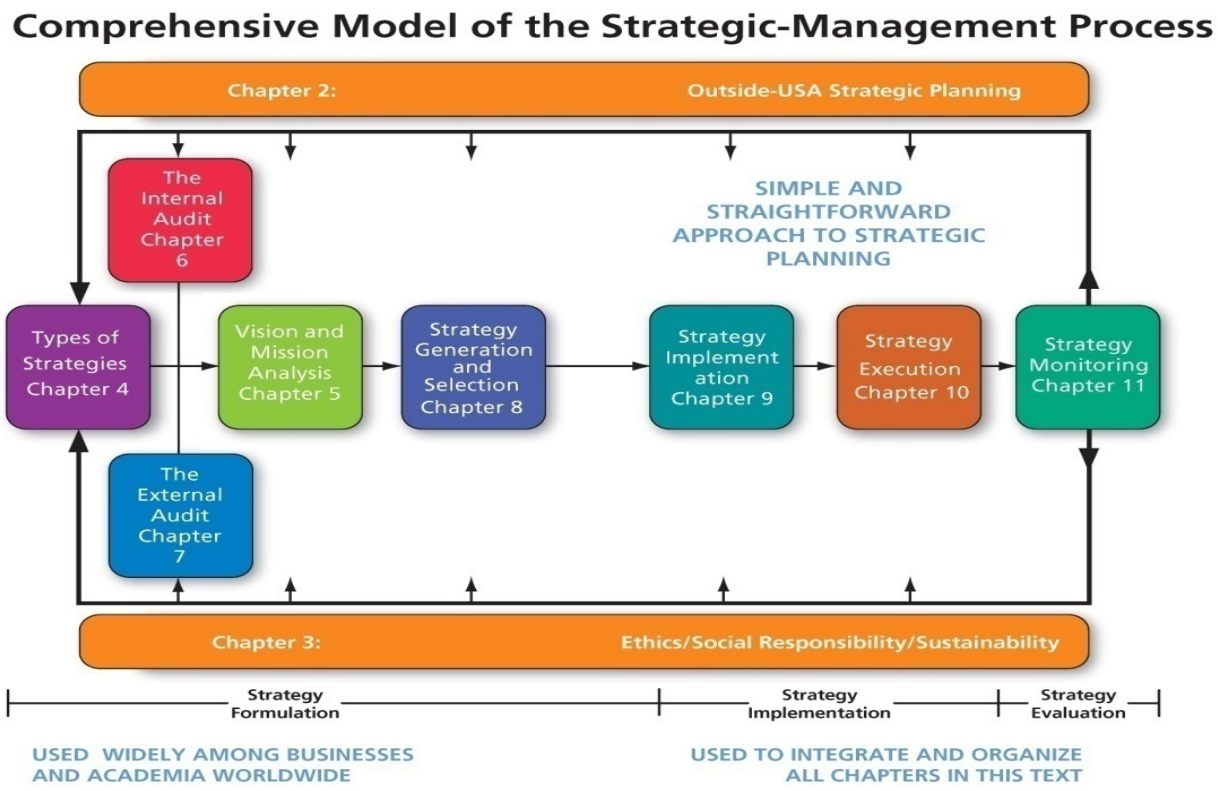
THE STRATEGIC-MANAGEMENT MODEL

Where are we now?

Where do we want to go?

How are we going to get there?

A COMPREHENSIVE STRATEGIC-MANAGEMENT MODEL



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

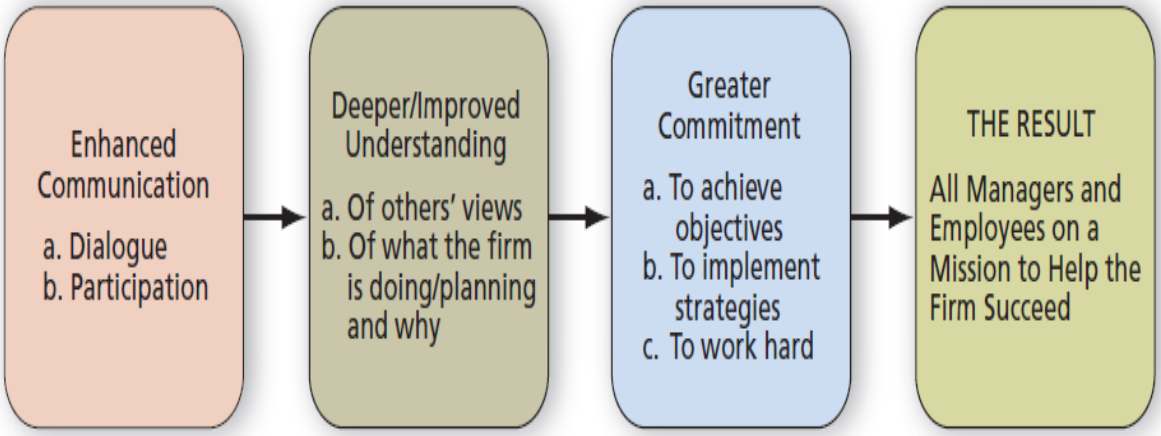
BENEFITS OF STRATEGIC MANAGEMENT

- *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

- Enhanced awareness of external threats,
- Improved understanding of competitors' strategies,
- Increased employee productivity,
- Reduced resistance to change,
- Clearer understanding of performance–reward relationships.

NONFINANCIAL BENEFITS

- Increased discipline
- Improved coordination
- Enhanced communication
- Increased forward thinking
- Improved decision-making
- Increased synergy
- Effective allocation of time and resources

WHY SOME FIRMS DO NO STRATEGIC PLANNING

- Lack of knowledge in strategic planning
- Poor reward structures
- Firefighting
- Waste of time
- Too expensive

WHY SOME FIRMS DO NO STRATEGIC PLANNING

- Laziness
- Content with success
- Overconfidence
- Prior bad experience
- Honest difference of opinion

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-mindness 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