Chapter 1
The Nature of Strategic Management

Strategic Management: Concepts & Cases
12th Edition
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Themes in the Text

- **Global Considerations** – impact virtually all strategic decisions

- **E-commerce** – vital strategic management tool

- **Natural Environment** – important strategic issue
Themes in the Text

- **Global considerations** impact virtually all strategic decisions.
- The boundaries of countries can no longer be the boundary of our minds.
- It has become a matter of survival for businesses to see and appreciate the world from the perspective of others.
- The underpinnings of strategic management center on managers gaining an understanding of competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide.
Themes in the Text

- The natural environment is an important strategic issue.
- Perhaps no greater threat exists to business and society than the continuous decimation and degradation of our natural environment.
Strategic Management – Defined

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

- The term originated in the 1950s.
- Was very popular between mid-1960s and mid-1970s.
- It cast aside during 1980s.
- The 1990s and on brought the revival of strategic planning, the process is widely practiced.
The term *strategic management* is used synonymously with strategic planning.

The purpose of strategic management is to exploit and create new and different opportunities for tomorrow.

While long-range planning tries to optimize for tomorrow the trends of today.
Strategic Management

In essence, the **strategic plan** is a company’s **game plan**.
Strategic management achieves a firm’s success through integration –
Stages of strategic planning

- Strategy formulation
- Strategy implementation
- Strategy evaluation.
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
Action Stage of Strategic Management

- Most difficult stage
- Recruitment of employees & managers
- Interpersonal skills critical
- Consensus on goal pursuit
- Interpersonal skills are essential.
Strategy Evaluation

- Internal Review
- External Review
- Performance Metrics
- Corrective Actions
Final Stage of Strategic Management

- Subject to future modification
- Today’s success no guarantee of future success
- New & different problems
- Complacency\satisfaction leads to demise\death

Today’s success no guarantee of future success

New & different problems

Complacency\satisfaction leads to demise\death
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.
Integrating *Intuition & Analysis*

The strategic-management process can be described as an objective, logical, systematic approach for making major decisions in an organization.
Intuition is based on:
- Past experiences
- Judgment
- Feelings

Intuition is useful for decision making in:
- Conditions of great uncertainty
- Conditions with little precedent
Integrating Intuition & Analysis

- Involve management at all levels
- Influence all analyses

Intuition & Judgment
Integrating *Intuition & Analysis*

Analytical Thinking

Intuitive Thinking
Organizations must monitor events

- Ongoing process
- Internal and external events
- Timely changes
Adapting to Change

The need to adapt to change leads organizations to key strategic-management questions, such as, “What kind of business should be become?” “Are we in the right field?” “Should we reshape our business?” “What new competitors are entering our industry?”
Strategic Management is Gaining and Maintaining *Competitive Advantage*

“Anything that a firm does especially well compared to rival firms”
1. Adapting to change in external trends, internal capabilities, and resources

2. Effectively formulating, implementing, and evaluating strategies
Adapting to Change

Rate & magnitude of change increasing dramatically

- E-commerce
- Demographics
- Technology
Internet and sales value in US

- 2006 online sales in US rose 25% to reach 24.6$ billion.
- Traditional sales increased 5% only to 457.4$ billion.
- The internet has changed the very nature and core of buying and selling.
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?
Strategists

1. Strategists are individuals who are most responsible for the success or failure of an organization.
2. Strategists hold various job titles, such as chief executive officers, president, owner, chair of the board, executive director, chancellor, dean, or entrepreneur.
3. Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans.
Policies

1. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives.

2. Policies are most often stated in terms of management, marketing, finance/accounting, production/operations, research and development, and computer information systems activities.

Examples: smoking policy, recruitment policy
Example Strategies in Action in 2007

McDonald’s Corp

The world’s largest restaurant chain by number of outlets, Big Mac is doing fantastic both in the United States and abroad. In past months, McDonald’s began opening drive-through restaurants in China, closed 25 sites in the United Kingdom, and disposed of a supply-chain operation in Russia. Big Mac in 2007 opened 800 new restaurants in China, Japan, and Russia. Shares of McDonald’s stock increased 42 percent in 2006 as sales for the year eclipsed $41 billion. Big Mac is working to eliminate trans fats from their food (New York City is requiring this of all restaurants in 2007). McDonald’s plans in 2008 to turn ownership of about 2,300 restaurants in Canada and the United Kingdom over to licensees.
American General

A Fortune 500 company based in Piscataway, New Jersey, American General split into three businesses in 2007: Air-conditioning systems, Bath-and-kitchen business, and vehicle-control systems. The firm also is renaming itself Trane, after its flagship air-conditioning brand name. The company plans to divest the bath-and-kitchen division and to spin off its vehicle control division into a publicly traded company named Wabco. Led by CEO Fred Poses, American General employs about 62,000 persons and has manufacturing operations in 28 countries.
Figure 1.1 Comprehensive Strategic-Management Model

Vision & Mission
- Chapter 2

Long-Term Objectives
- Chapter 5

Generate, Evaluate, Select Strategies
- Chapter 6

Implement Strategies: Mgmt Issues
- Chapter 7

Implement Strategies: Marketing, Fin/Acct, R&D, CIS
- Chapter 8

Measure & Evaluate Performance
- Chapter 9

External Audit
- Chapter 3

Internal Audit
- Chapter 4
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
Benefits of Strategic Management

Financial Benefits

• Improvement in sales
• Improvement in profitability
• Productivity improvement
Benefits of Strategic Management

Nonfinancial 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 unfavorable 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 No Strategic Planning

- Poor reward structures
- Fire-fighting
- Waste of time
- Too expensive
- Laziness
- Content\happy with success
Why Some Firms Do No Strategic Planning

- Fear of failure
- Overconfidence
- Prior bad experience
- Self-interest: self-esteem through effectively using old system.
- Fear of the unknown: uncertain of their ability to learn new skills.
- Suspicion: employees may not trust management.
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
• 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
• Viewing planning to be unnecessary or unimportant
• Becoming so engrossed in current problems that insufficient or no planning is done
• Being so formal in planning that flexibility and creativity are stifled
Guidelines For Effective Strategic Management

- “Is strategic management in our firm a people process or a paper process?” should be addressed.
- Balancing between long-range versus short-range or maximizing profits versus increasing shareholders’ wealth.
- Subjective factors such as attitudes toward risk, concern for social responsibility, and organizational culture will always affect strategy-formulation decisions, but organizations must remain as objective as possible.
A. A Strong Military Heritage Underlies the Study of Strategic Management

Terms such as objectives, mission, strengths, and weaknesses were first formulated to address problems on the battlefield.

A fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with the assumption of competition, while military strategy is based on an assumption of conflict.
Business Ethics & Strategic Management

Business ethics defined –

- Principles of conduct within organizations that guide decision making and behavior
Good business ethics –

- Prerequisite for good 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/faulty products on foreign markets
- Poor product or service safety
- Padding expense accounts
The Nature of Global Competition

International/multinational corporations

- Parent company: a firm investing in international operations;
- Host country: the country where that business is conducted.
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