

# Strategic Management Essentials

## Chapter One

# Learning Objectives

1. Describe the strategic-management process.
2. Discuss the three stages of 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.

# Learning Objectives (cont.)

5. Illustrate the comprehensive strategic-management model.
6. Describe the benefits of engaging in strategic management.
7. Explain why some firms do no strategic planning.
8. Describe the pitfalls in actually doing strategic planning.
9. Discuss the connection between business and military strategy.

# 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* in this course.
- ❖ 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

- ❖ 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
- ❖ choosing particular strategies to pursue



# Strategy Formulation Decisions

- ❖ 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
- ❖ 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

- ❖ Determining which strategies are not working well
- ❖ Three fundamental activities:
  - ❖ reviewing external and internal factors that are the bases for current strategies
  - ❖ measuring performance
  - ❖ taking corrective actions

# Key Terms in Strategic Management

## Competitive Advantage

- ❖ any activity a firm does especially well compared to activities done by rival firms, or
  - ❖ any resource a firm possesses that rival firms desire.
- 
- ❖ A firm must strive to achieve sustained competitive advantage

# Key Terms in Strategic Management

## Strategists

- ❖ Individuals most responsible for the success or failure of an organization
- ❖ Help an organization gather, analyze, and organize information

## Vision and Mission Statements

- ❖ A vision statement answers the question “What do we want to become?”
- ❖ A mission statement answers the question “What is our business?”

# Key Terms in Strategic Management

## External Opportunities and Threats

- ❖ economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization

## Internal Strengths and Internal Weaknesses

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

# Some Opportunities and Threats

- ❖ Availability of capital can no longer be taken for granted.
- ❖ Consumers expect green operations and products.
- ❖ Marketing is moving rapidly to the Internet.
- ❖ Commodity food prices are increasing.
- ❖ An oversupply of oil is driving oil and gas prices down.

# Key Terms in Strategic Management

## Long-Term 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

## Policies

- ❖ the means by which annual objectives will be achieved

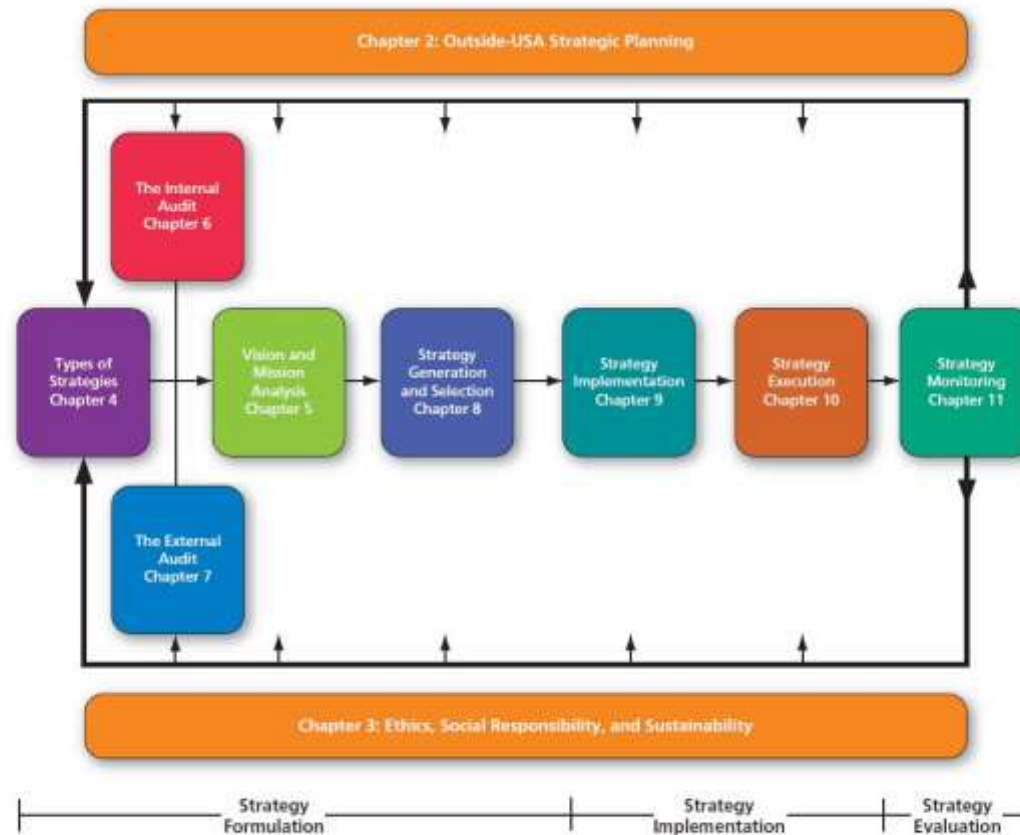
# The Strategic-Management Model

**Where are we now?**

**Where do we want to go?**

**How are we going to get there?**

# Comprehensive Strategic-Management Model



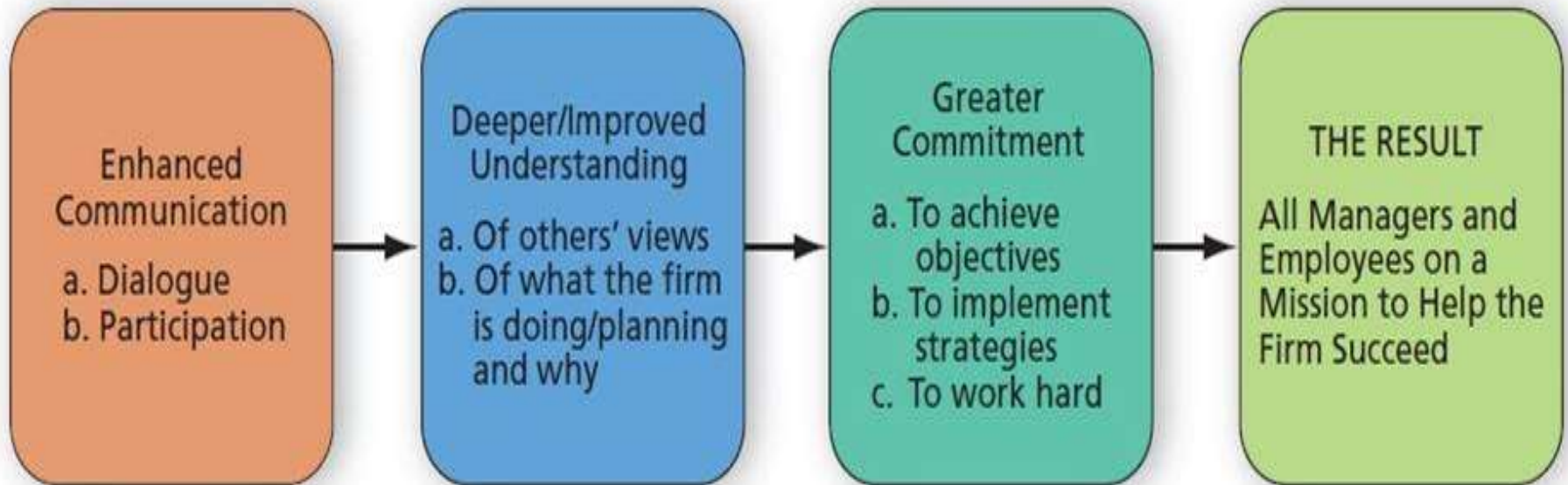
**FIGURE 1-1**  
A Comprehensive Strategic-Management Model

Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40.  
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# Benefits of Strategic Management

- ❖ Strategic management allows an organization to be more proactive than reactive in shaping its own future;
- ❖ It allows an organization to initiate and influence (rather than just respond to) activities—and thus to exert control over its own destiny.

# Benefits to a Firm That Does Strategic Planning



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# 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 tend to do systematic planning to prepare for future fluctuations in their external and internal environments

# 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



# Why Some Firms Do No Strategic Planning

- ❖ No formal training in strategic management
- ❖ No understanding of or appreciation for the benefits of planning
- ❖ No monetary rewards for doing planning
- ❖ No punishment for not planning
- ❖ Too busy “firefighting” (resolving internal crises) to plan ahead
- ❖ View planning as a waste of time, since no product/service is made

# Why Some Firms Do No Strategic Planning

- ❖ Laziness; effective planning takes time and effort; time is money
- ❖ Content with current success; failure to realize that success today is no guarantee for success tomorrow; even Apple Inc. is an example
- ❖ Overconfident
- ❖ Prior bad experience with strategic planning done sometime/somewhere

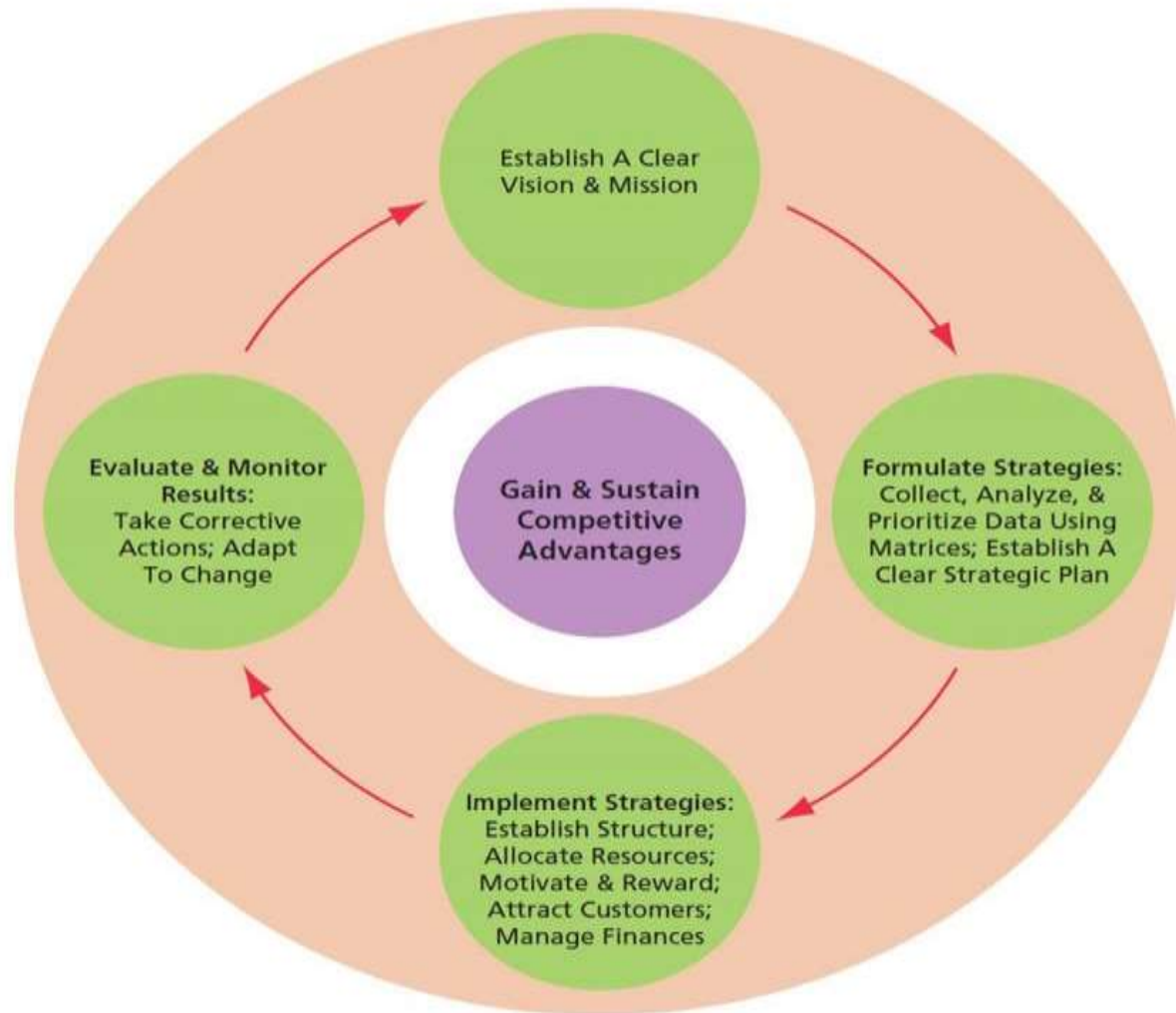
# Pitfalls in Strategic Planning

- ❖ 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

# Pitfalls in Strategic Planning

- ❖ 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 as 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

# How to Gain and Sustain Competitive Advantage



# 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