

Chapter One

- Scope of Strategic Management

Major Issues to Consider

- ❑ Global considerations impact virtually all strategic decisions.
- ❑ E-commerce has become a vital strategic management tool.
- ❑ The natural environment has become an important strategic issue.

Strategic Management Defined

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

Terminology

"Strategic Management"

Synonymous with

"Strategic Planning"

- Strategic management
 - Used more often in academia
- Strategic planning
 - Used more often in the business world

Terminology

□ ***Strategic management***

- Refers to:
 - Strategy formulation
 - Strategy implementation
 - Strategy evaluation

□ ***Strategic planning***

- Refers to:
 - Strategy formulation

Brief History

□ 1950s

- Term strategic planning originates

1960s – 1970s

- Strategic planning very popular
 - Widely viewed as panacea for problems

Brief History

□ 1980s

- Strategic planning cast aside
 - Planning models did not yield higher returns

□ 1990s–2000

- Revival of strategic planning
 - Widely practiced in business world

Strategic-Management Process

Three Stages

Strategy Formulation

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graph TD; A[Strategy Formulation] --> B(Strategy Implementation); B --> C(Strategy Evaluation);
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Strategy Implementation

Strategy Evaluation

Strategy Formulation

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graph TD; A[Strategy Formulation] --- B[Vision & Mission]; A --- C[Opportunities & Threats]; A --- D[Strengths & Weaknesses]; A --- E[Long-Term Objectives]; A --- F[Alternative Strategies]; A --- G[Strategy Selection];
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Vision & Mission

Opportunities & Threats

Strengths & Weaknesses

Long-Term Objectives

Alternative Strategies

Strategy Selection

Strategy Implementation



Strategy Evaluation



Key Strategic Management Terms (Cont'd)

1. Strategists
2. Vision statements
3. Mission statements
4. External opportunities and threats
5. Internal strengths and weaknesses
6. Long-term objectives
7. Strategies
8. Annual objectives
9. Policies

Strategic Management Terms (Cont'd)

Strategists

- *Usually found in high levels of management (CEO)*
 - Help organization gather, analyze, and organize information
 - Track industry and competitive trends
 - Develop forecasting model
 - Evaluate corporate and divisional performance

Strategic Management Terms (Cont'd)

Vision Statements

- *Answers the question: "What do we want to become?"*
 - First step in strategic planning
 - Oftentimes a single sentence
 - **"Our vision is to take care of your vision."**
(Stokes Eye Clinic, Florence, South Carolina).

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• www.spsu.edu/planassess/strategic.htm

Strategic Management Terms (Cont'd)

External Opportunities & Threats

- *Largely beyond the control of a single organization*
- Economic
- Social
- Cultural
- Demographic
- Environmental

Strategic Management Terms (Cont'd)

External Opportunities & Threats (cont'd)

- Political
- Governmental
- Technological
- Competitive trends & events

Strategic Management Terms (Cont'd)

Internal Strengths & Weaknesses

- *Controllable activities that are performed well or poorly relative to competitors*
 - Based on functional analysis of activities in the firm's:
 - Management
 - Marketing
 - Finance/accounting

Strategic Management Terms (Cont'd)

Internal Strengths & Weaknesses (Cont'd)

- Based on functional analysis of activities in the firm's:
 - Production/operations
 - Research and development
 - Computer information systems
- Organizations strive to pursue strategies that capitalize on strengths and improve weaknesses

Strategic Management Terms (Cont'd)

Long-Term Objectives

- *Results to be achieved in pursuing the organization's mission. Time frame is beyond one year.*
 - State direction
 - Aid in evaluation
 - Create synergy
 - Reveal priorities
 - Focus coordination
 - Provide basis for effective management

Strategic Management Terms (Cont'd)

Strategies

- *Potential actions that require top management decisions and large amounts of firm's resources*

Mechanisms by which long-term objectives are realized

- Geographic expansion
- Diversification
- Acquisition
- Product development

Strategic Management Terms (Cont'd)

Strategies (cont'd)

- *Mechanisms by which long-term objectives are realized*
 - Market penetration
 - Retrenchment
 - Divestiture
 - Liquidation
 - Joint venture

Strategic Management Terms (Cont'd)

Annual Objectives

- *Short-term milestones necessary to achieve long-term objectives.*
 - Represent the basis for allocating resources
 - Established at corporate, divisional, and functional levels

Strategic Management Terms (Cont'd)

Annual Objectives (cont'd)

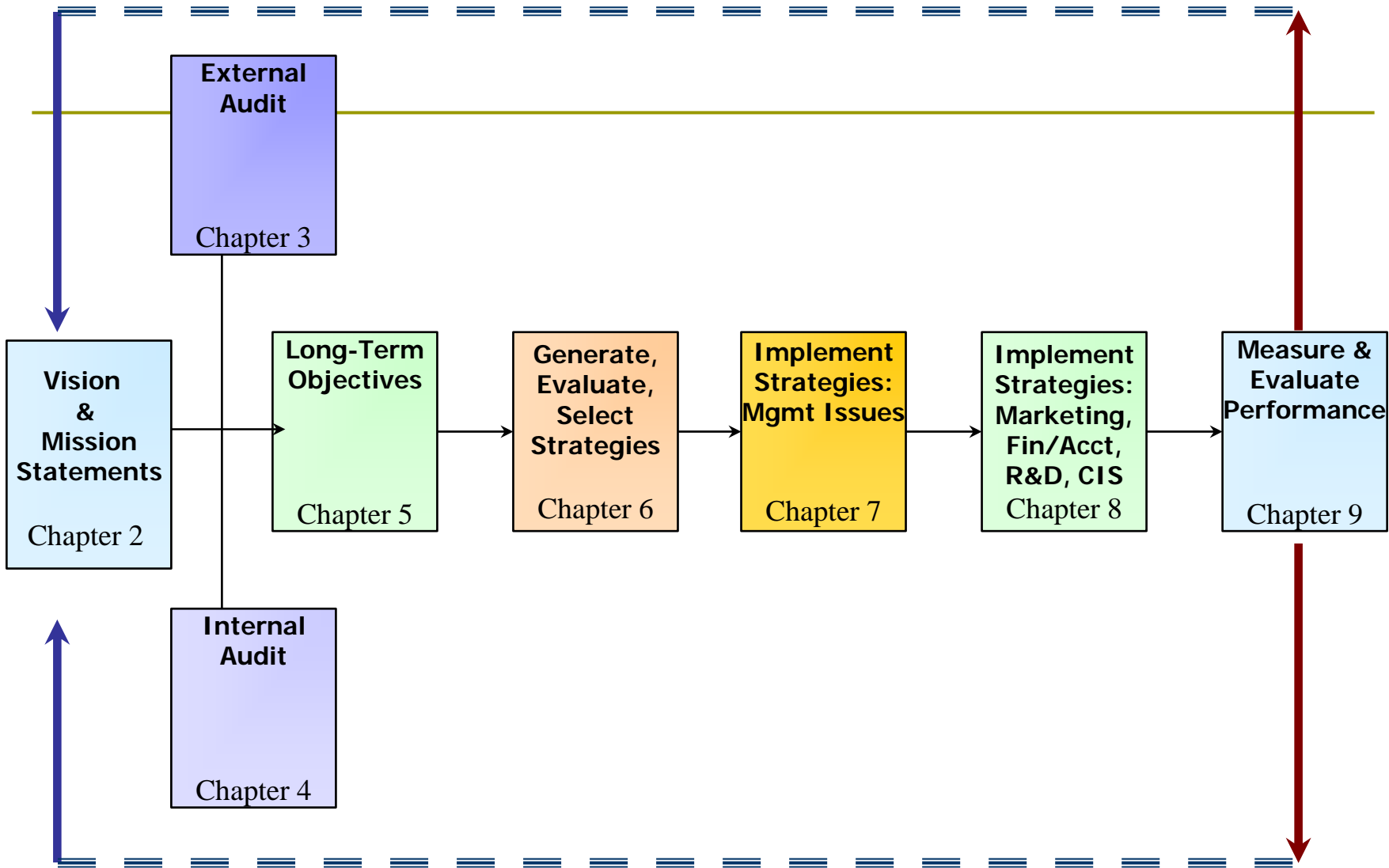
- Stated in terms of accomplishments for:
 - management
 - marketing
 - finance/accounting
 - production/operations
 - research and development
 - information systems accomplishments

Strategic Management Terms (Cont'd)

Policies

- *Important in strategy implementation as the means by which annual objectives will be achieved*
 - Guide to decision making and address repetitive situations
 - Established at corporate, divisional, or functional levels
 - Allow consistency & coordination within and between organizational departments

Comprehensive Strategic Management Model



Benefits of Strategic Management

- Proactive vs. Reactive
 - Initiate and influence activities
 - Helps shape firm's own future
- Principal Benefit
 - Formulate better strategies
 - Systematic, logical, and rational approach
- Communication
 - Key to successful strategic management

Benefits of Strategic Management (Cont'd)

□ Financial Benefits

- More profitable and successful
- Improvements in sales, profitability, and productivity
- High-Performing Firms
 - Systematic planning
 - ❖ Fluctuations in external and internal environments

Benefits of Strategic Management (Cont'd)

□ Nonfinancial Benefits

- Enhanced awareness of external threats
- Understanding of competitors' strategies
- Increased employee productivity
- Reduced resistance to change
- Clear performance-reward relationships
- Order and discipline to the firm
- View change as opportunity

Why Some Firms Do No Strategic Planning

- ❑ Poor reward structures
- ❑ Fire-fighting
- ❑ Waste of time
- ❑ Too expensive
- ❑ Laziness
- ❑ Content with success

Why Some Firms Do No Strategic Planning (Cont'd)

- ❑ Fear of failure
- ❑ Overconfidence
- ❑ Prior bad experience
- ❑ Self-interest
- ❑ Fear of the unknown
- ❑ Suspicion
- ❑ www.mindtools.com/plfailpl.html

Pitfalls to Avoid in Strategic Planning

- ❑ Using to gain control over decisions & resources
- ❑ Doing only to satisfy regulatory requirements
- ❑ Moving hastily from mission to strategy formulation
- ❑ Failing to communicate to employees
- ❑ Intuitive decisions that conflict with formal plan
- ❑ Top management not supportive of process

Pitfalls to Avoid in Strategic Planning (Cont'd)

- ❑ Failing to use as standard for performance measurement
- ❑ Delegating to a “planner” vs. involvement of managers
- ❑ Failing to involve key personnel
- ❑ Failing to create collaborative environment
- ❑ Formality that stifles creativity and flexibility

Business Ethics & Strategic Planning

Defined:

Principles of conduct within organizations that guide decision making and behavior

- Good business ethics is a prerequisite for good strategic management
- Good ethics is just good business!

Business Ethics & Strategic Planning (Cont'd)

- ❑ Strategists responsible for high ethical principles
- ❑ All strategic processes have ethical ramifications
- ❑ Formal codes of ethics are in place for many businesses
- ❑ Internet privacy emerging as ethical issue of immense proportions

Business Ethics & Strategic Planning (Cont'd)

Business actions *always* unethical include:

- Misleading advertising
- Misleading labeling
- Environmental harm
- Poor product or service safety
- Padding expense accounts
- Insider trading
- Dumping flawed products on foreign markets

Nature of Global Competition

- Companies conduct business across borders
 - International or multinational corporations
 - Parent company
 - Host country

- Strategy implementation more difficult
 - Cultural differences
 - Norms, values, work ethics

Advantages of International Operations

- ❑ Absorb excess capacity
- ❑ Reduce unit costs
- ❑ Low-cost production facilities
- ❑ Lower labor costs
- ❑ Competition less intense

Advantages of International Operations (Cont'd)

- ❑ Reduced tariffs, lower taxes
- ❑ Favorable political climate
- ❑ Economies of scale

Disadvantages of International Operations

Communication difficulties between parent and subsidiaries

- Based on cultural, political, social, language, demographic, and competitive forces

Foreign-based competitors

- Strengths underestimated
- Weaknesses overestimated

Planning in Action

- <http://www.planware.org/strategy.htm#1>