Contents

strategic management

concepts

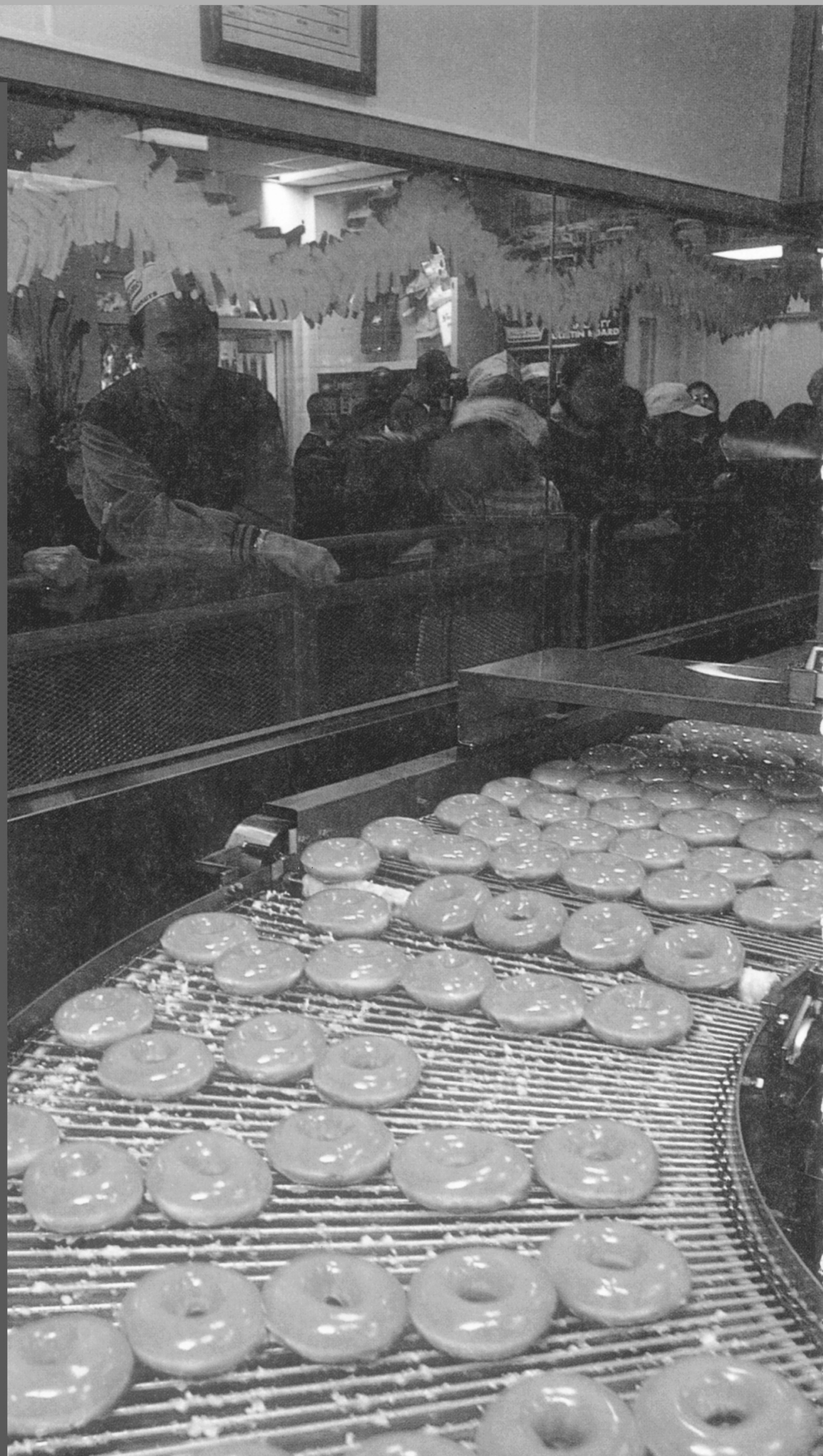
PART I *Overview of Strategic Management*

The Nature of Strategic Management 1

chapter objectives

After studying this chapter, you should be able to do the following:

1. Describe the strategic-management process.
2. Explain the need for integrating analysis and intuition in strategic management.
3. Define and give examples of key terms in strategic management.
4. Discuss the nature of strategy formulation, implementation, and evaluation activities.
5. Describe the benefits of good strategic management.
6. Explain why good ethics is good business in strategic management.
7. Explain the advantages and disadvantages of entering global markets.
8. Discuss the relevance of Sun Tzu's The Art of War to strategic management.
9. Discuss how a firm may achieve sustained competitive advantage.
10. Explain ISO 9000, 14000, and 14001.



experiential exercises

Experiential Exercise 1A
Strategy Analysis for Krispy Kreme Doughnuts (KKD)—2004

Experiential Exercise 1B
Developing a Code of Business Ethics for Krispy Kreme Doughnuts (KKD)—2004

Experiential Exercise 1C
The Ethics of Spying on Competitors

Experiential Exercise 1D
Strategic Planning for My University

Experiential Exercise 1E
Strategic Planning at a Local Company

Experiential Exercise 1F
Does My University Recruit in Foreign Countries?

Experiential Exercise 1G
Getting Familiar with SMCO

"notable quotes"

If we know where we are and something about how we got there, we might see where we are trending—and if the outcomes which lie naturally in our course are unacceptable, to make timely change.
Abraham Lincoln

Without a strategy, an organization is like a ship without a rudder, going around in circles. It's like a tramp; it has no place to go.
Joel Ross and Michael Kami

Plans are less important than planning.
Dale McConkey

The formulation of strategy can develop competitive advantage only to the extent that the process can give meaning to workers in the trenches.
David Hurst

Most of us fear change. Even when our minds say change is normal, our stomachs quiver at the prospect. But for strategists and managers today, there is no choice but to change.
Robert Waterman, Jr.

If business is not based on ethical grounds, it is of no benefit to society and will, like all other unethical combinations, pass into oblivion.
C. Max Killan

If a man takes no thought about what is distant, he will find sorrow near at hand. He who will not worry about what is far off will soon find something worse than worry.
Confucius

VISIT THE NET

Designed by the author, Fred David, especially for this textbook, this Web site provides strategic planning tools, templates, links, and information that will directly help strategic-management students analyze cases. Strategic Management Club Online. www.strategyclub.com

This chapter provides an overview of strategic management. It introduces a practical, integrative model of the strategic-management process; it defines basic activities and terms in strategic management; and it discusses the importance of business ethics.

This chapter initiates several themes that permeate all the chapters of this text. First, *global considerations impact virtually all strategic decisions*! The boundaries of countries no longer can define the limits of our imaginations. To see and appreciate the world from the perspective of others has become a matter of survival for businesses. The underpinnings of strategic management hinge upon managers' gaining an understanding of competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide. The price and quality of a firm's products and services must be competitive on a worldwide basis, not just on a local basis. A "Global Perspective" box is provided in all chapters of this text to emphasize the importance of global factors in strategic management.

A second theme is that *electronic commerce (e-commerce) has become a vital strategic-management tool.* An increasing number of companies are gaining a competitive advantage by using the Internet for direct selling and for communication with suppliers, customers, creditors, partners, shareholders, clients, and competitors who may be dispersed globally. E-commerce allows firms to sell products, advertise, purchase supplies, bypass intermediaries, track inventory, eliminate paperwork, and share information. In total, e-commerce is minimizing the expense and cumbersomeness of time, distance, and space in doing business, thus yielding better customer service, greater efficiency, improved products, and higher profitability.

The Internet and personal computers are changing the way we organize our lives; inhabit our homes; and relate to and interact with family, friends, neighbors, and even ourselves. The Internet promotes endless comparison shopping, which thus enables consumers worldwide to band together to demand discounts. The Internet has transferred power from businesses to individuals. Buyers used to face big obstacles when attempting to get the best price and service, such as limited time and data to compare, but now consumers can quickly scan hundreds of vendor offerings. Or they can go to Web sites, such as CompareNet.com, that offer detailed information on more than 100,000 consumer products.

The Internet has changed the very nature and core of buying and selling in nearly all industries. It has fundamentally changed the economics of business in every single industry worldwide. Broadband, e-trade, e-commerce, e-business, and e-mail have become an integral part of everyday life worldwide. Business-to-business e-commerce is five times greater than consumer e-commerce. Fully 74 percent of Americans think the Internet will change society more than the telephone and television combined.[1] An "E-commerce Perspective" box is included in each chapter to illustrate how electronic commerce impacts the strategic-management process.

A third theme is that *the natural environment has become an important strategic issue.* Global warming, bioterrorism, and increased pollution suggest that perhaps there is now no greater threat to business and society than the continuous exploitation and decimation of our natural environment. Mark Starik at George Washington University says, "Halting and reversing worldwide ecological destruction and deterioration . . . is a strategic issue that needs immediate and substantive attention by all businesses and managers." According to the International Standards Organization (ISO), and in this textbook, the word "environment" refers to the natural environment and is defined as "surroundings in which an organization operates, including air, water, land, natural resources, flora, fauna, humans, and their interrelation." A "Natural Environment Perspective" box is provided in all chapters to illustrate how firms are addressing natural environment concerns.

What Is Strategic Management?

Once there were two company presidents who competed in the same industry. These two presidents decided to go on a camping trip to discuss a possible merger. They hiked deep into the woods. Suddenly, they came upon a grizzly bear that rose up on its hind legs and snarled. Instantly, the first president took off his knapsack and got out a pair of jogging shoes. The second president said, "Hey, you can't outrun that bear." The first president responded, "Maybe I can't outrun that bear, but I surely can outrun you!" This story captures the notion of strategic management, which is to achieve and maintain competitive advantage.

VISIT THE NET

Designed by the publisher, Prentice Hall, especially for this textbook, this Web site provides sample tests and extra materials to supplement chapter concepts.
www.prenhall.com/david

Defining Strategic Management

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and computer information systems to achieve organizational success. The term *strategic management* in this text is used synonymously with the term *strategic planning*. The latter term is more often used in the business world, whereas the former is often used in academia. Sometimes the term *strategic management* is used to refer to strategy formulation, implementation, and evaluation, with *strategic planning* referring only to strategy formulation. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; *long-range planning*, in contrast, tries to optimize for tomorrow the trends of today.

The term *strategic planning* originated in the 1950s and was very popular between the mid-1960s and the mid-1970s. During these years, strategic planning was widely believed to be the answer for all problems. At the time, much of corporate America was "obsessed" with strategic planning. Following that "boom," however, strategic planning was cast aside during the 1980s as various planning models did not yield higher returns. The 1990s, however, brought the revival of strategic planning, and the process is widely practiced today in the business world.

A strategic plan is, in essence, a company's game plan. Just as a football team needs a good game plan to have a chance for success, a company must have a good strategic plan to be able to compete successfully. Profit margins among firms in most industries have been so reduced that there is little room for error in the overall strategic plan. A strategic plan results from tough managerial choices among numerous good alternatives, and signals commitment to specific markets, policies, procedures, and operations in lieu of other, "less desirable" courses of action.

The term *strategic management* is used at many colleges and universities as the subtitle for the capstone course in business administration, Business Policy, which integrates material from all business courses. The Strategic Management Club Online at **www.strategyclub.com** offers many benefits for business policy and strategic management students.

Stages of Strategic Management

The *strategic-management process* consists of three stages: strategy formulation, strategy implementation, and strategy evaluation. *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 issues include 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, and how to avoid a hostile takeover.

Because no organization has unlimited resources, strategists must decide which alternative strategies will benefit the firm most. Strategy-formulation decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time. Strategies determine long-term competitive advantages. For better or worse, strategic decisions have major multifunctional consequences and enduring effects on an organization. Top managers have the best perspective to understand fully the ramifications of strategy-formulation decisions; they have the authority to commit the resources necessary for implementation.

Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance.

VISIT THE NET

Provides nice narrative regarding strategy formulation and implementation at Southern Polytechnic State University. www.spsu.edu/planassess/strategic.htm

Strategy implementation often is called the action stage of strategic management. Implementing strategy means mobilizing employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation hinges upon managers' ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose.

Interpersonal skills are especially critical for successful strategy implementation. Strategy-implementation activities affect all employees and managers in an organization. Every division and department must decide on answers to questions, such as "What must we do to implement our part of the organization's strategy?" and "How best can we get the job done?" The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives.

Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modification because external and internal factors are constantly changing. Three fundamental strategy-evaluation activities are (1) reviewing external and internal factors that are the bases for current strategies, (2) measuring performance, and (3) taking corrective actions. Strategy evaluation is needed because success today is no guarantee of success tomorrow! Success always creates new and different problems; complacent organizations experience demise.

Strategy formulation, implementation, and evaluation activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional. By fostering communication and interaction among managers and employees across hierarchical levels, strategic management helps a firm function as a competitive team. Most small businesses and some large businesses do not have divisions or strategic business units; they have only the corporate and functional levels. Nevertheless, managers and employees at these two levels should be actively involved in strategic-management activities.

Peter Drucker says the prime task of strategic management is thinking through the overall mission of a business:

> . . . that is, of asking the question, "What is our Business?" This leads to the setting of objectives, the development of strategies, and the making of

> today's decisions for tomorrow's results. This clearly must be done by a part of the organization that can see the entire business; that can balance objectives and the needs of today against the needs of tomorrow; and that can allocate resources of men and money to key results.[2]

Integrating Intuition and Analysis

The strategic-management process can be described as an objective, logical, systematic approach for making major decisions in an organization. It attempts to organize qualitative and quantitative information in a way that allows effective decisions to be made under conditions of uncertainty. Yet strategic management is not a pure science that lends itself to a nice, neat, one-two-three approach.

Based on past experiences, judgment, and feelings, most people recognize that *intuition* is essential to making good strategic decisions. Intuition is particularly useful for making decisions in situations of great uncertainty or little precedent. It is also helpful when highly interrelated variables exist or when it is necessary to choose from several plausible alternatives. Some managers and owners of businesses profess to have extraordinary abilities for using intuition alone in devising brilliant strategies. For example, Will Durant, who organized General Motors Corporation, was described by Alfred Sloan as "a man who would proceed on a course of action guided solely, as far as I could tell, by some intuitive flash of brilliance. He never felt obliged to make an engineering hunt for the facts. Yet at times, he was astoundingly correct in his judgment."[3] Albert Einstein acknowledged the importance of intuition when he said, "I believe in intuition and inspiration. At times I feel certain that I am right while not knowing the reason. Imagination is more important than knowledge, because knowledge is limited, whereas imagination embraces the entire world."[4]

Although some organizations today may survive and prosper because they have intuitive geniuses managing them, most are not so fortunate. Most organizations can benefit from strategic management, which is based upon integrating intuition and analysis in decision making. Choosing an intuitive or analytic approach to decision making is not an either-or proposition. Managers at all levels in an organization inject their intuition and judgment into strategic-management analyses. Analytical thinking and intuitive thinking complement each other.

Operating from the I've-already-made-up-my-mind-don't-bother-me-with-the-facts mode is not management by intuition; it is management by ignorance.[5] Drucker says, "I believe in intuition only if you discipline it. 'Hunch' artists, who make a diagnosis but don't check it out with the facts, are the ones in medicine who kill people, and in management kill businesses."[6] As Henderson notes:

> The accelerating rate of change today is producing a business world in which customary managerial habits in organizations are increasingly inadequate. Experience alone was an adequate guide when changes could be made in small increments. But intuitive and experience-based management philosophies are grossly inadequate when decisions are strategic and have major, irreversible consequences.[7]

VISIT THE NET

Reveals that strategies may need to be constantly changed.
www.csuchico.edu/mgmt/strategy/module1/sld041.htm

In a sense, the strategic-management process is an attempt both to duplicate what goes on in the mind of a brilliant, intuitive person who knows the business and to couple it with analysis.

Adapting to Change

The strategic-management process is based on the belief that organizations should continually monitor internal and external events and trends so that timely changes can be made as needed. The rate and magnitude of changes that affect organizations are increasing dramatically. Consider, for example, e-commerce, laser surgery, the war on terrorism, economic recession, the aging population, the Enron scandal, and merger mania. To survive, all organizations must be capable of astutely identifying and adapting to change. The strategic-management process is aimed at allowing organizations to adapt effectively to change over the long run. As Waterman has noted:

> In today's business environment, more than in any preceding era, the only constant is change. Successful organizations effectively manage change, continuously adapting their bureaucracies, strategies, systems, products, and cultures to survive the shocks and prosper from the forces that decimate the competition.[8]

VISIT THE NET

Reveals that actual strategy results from planned strategy coupled with reactive changes.
www.csuchico.edu/mgmt/strategy/module1/sld032.htm

E-commerce and globalization are external changes that are transforming business and society today. On a political map, the boundaries between countries may be clear, but on a competitive map showing the real flow of financial and industrial activity, the boundaries have largely disappeared. The speedy flow of information has eaten away at national boundaries so that people worldwide readily see for themselves how other people live. People are traveling abroad more: 10 million Japanese travel abroad annually. People are emigrating more: Germans to England and Mexicans to the United States are examples. As the Global Perspective indicates, U.S. firms are challenged by competitors in many industries. We have become a borderless world with global citizens, global competitors, global customers, global suppliers, and global distributors!

The need to adapt to change leads organizations to key strategic-management questions, such as "What kind of business should we become?" "Are we in the right field(s)?" "Should we reshape our business?" "What new competitors are entering our industry?" "What strategies should we pursue?" "How are our customers changing?" "Are new technologies being developed that could put us out of business?"

Key Terms in Strategic Management

Before we further discuss strategic management, we should define nine key terms: competitive advantage, strategists, vision and mission statements, external opportunities and threats, internal strengths and weaknesses, long-term objectives, strategies, annual objectives, and policies.

Competitive Advantage

Strategic management is all about gaining and maintaining *competitive advantage.* This term can be defined as "anything that a firm does especially well compared to rival firms." When a firm can do something that rival firms cannot do, or owns something that rival firms desire, that can represent a competitive advantage. Getting and keeping competitive advantage is essential for long-term success in an organization. The Industrial/Organizational (I/O) and the Resource-Based View (RBV) theories of organization (as discussed in Chapters 3 and 4, respectively) present different perspectives on how best to capture and keep competitive advantage—that is, how best to manage strategically. Pursuit of competitive advantage leads to organizational success or failure. Strategic management researchers and practitioners alike desire to better understand the nature and role of competitive advantage in various industries.

Normally, a firm can sustain a competitive advantage for only a certain period due to rival firms imitating and undermining that advantage. Thus it is not adequate to simply obtain competitive advantage. A firm must strive to achieve *sustained competitive advantage* by (1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and by (2) effectively formulating, implementing, and evaluating strategies that capitalize upon those factors.

Strategists

Strategists are the individuals who are most responsible for the success or failure of an organization. Strategists have various job titles, such as chief executive officer, president, owner, chair of the board, executive director, chancellor, dean, or entrepreneur. Jay Conger, professor of organizational behavior at the London Business School and author of *Building Leaders*, says, "All strategists have to be chief learning officers. We are in an extended period of change. If our leaders aren't highly adaptive and great models during this period, then our companies won't adapt either, because ultimately leadership is about being a role model."

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. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist). In the last five years, the position of chief strategy officer (CSO) has emerged as a new addition to the top management ranks of many organizations, including Sun Microsystems, Network Associates, Clarus, Lante, Marimba, Sapient, Commerce One, BBDO, Cadbury Schweppes, General Motors, Ellie Mae, Cendant, Charles Schwab, Tyco, Campbell Soup, Morgan Stanley, and Reed-Elsevier. This new corporate officer title represents recognition of the growing importance of strategic planning in the business world.[9]

Strategists differ as much as organizations themselves, and these differences must be considered in the formulation, implementation, and evaluation of strategies. Some strategists will not consider some types of strategies because of their personal philosophies. Strategists differ in their attitudes, values, ethics, willingness to take risks, concern for social responsibility, concern for profitability, concern for short-run versus long-run aims, and management style. The founder of Hershey Foods, Milton Hershey, built the company to manage an orphanage. From corporate profits, Hershey Foods today cares for over one thousand boys and girls in its School for Orphans.

Vision and Mission Statements

Many organizations today develop a *vision statement* that answers the question, "What do we want to become?" Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence. For example, the vision statement of Stokes Eye Clinic in Florence, South Carolina, is "Our vision is to take care of your vision." The vision of the Institute of Management Accountants is "Global leadership in education, certification, and practice of management accounting and financial management."

Mission statements are "enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms."[10] It addresses the basic question that faces

GLOBAL PERSPECTIVE

Do U.S. Firms Dominate All Industries?

The *Wall Street Journal's* annual ranking of the world's largest companies reveals that U.S. firms are being challenged in many industries. The world's largest oil-producing and public finance companies are listed below in rank order.

The top ten oil-producing companies in millions of barrels a day (2003):

Company Name (Country)	*Production*
Saudi Aramco (Saudi Arabia)	8.3
National Iranian Oil Co. (Iran)	3.8
Pomex (Mexico)	3.6
PDV (Venezuela)	3.2
ExxonMobil (U.S.)	2.5
Iraq National Oil Co. (Iraq)	2.4
Royal Dutch/Shell (Netherlands/UK)	2.2
PetroChina (China)	2.1
ChevronTexaco (U.S.)	2.0
BP (UK)	1.8

The top ten public finance companies in total assets (2003):

Mizuho Financial Group	Japan
Citigroup	U.S.
Allianz	Germany
Fannie Mae	U.S.
Sumitomo Mitsui Financial	Japan
UBS	Switzerland
Mitsubishi Tokyo Financial	Japan
Deutsche Bank	Germany
HSBC Holdings	UK
JP Morgan Chase	U.S.
ING Group	Netherlands
BNP Paribas	France
Bayerische Hypo Bank	Germany
Freddie Mac	U.S.
Credit Suisse	Switzerland

Source: Adapted from: Brian Callanan, "The Global Giants," *Wall Street Journal* (September 22, 2003): R10.

all strategists: "What is our business?" A clear mission statement describes the values and priorities of an organization. Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organization. An example of a mission statement is provided below for Microsoft.

> Microsoft's mission is to create software for the personal computer that empowers and enriches people in the workplace, at school and at home. Microsoft's early vision of a computer on every desk and in every home is coupled today with a strong commitment to Internet-related technologies that expand the power and reach of the PC and its users. As the world's leading software provider, Microsoft strives to produce innovative products that meet our customers' evolving needs. At the same time, we understand that long-term success is about more than just making great products. Find out what we mean when we talk about Living Our Values (www.microsoft.com/mscorp/).

External Opportunities and Threats

External opportunities and *external threats* refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future.