
Chapter 1

The Nature of Strategic Management

**Strategic Management:
Concepts & Cases
11th Edition
Fred David**



Themes in the Text

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

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

- ***Natural environment*** –
important strategic issue

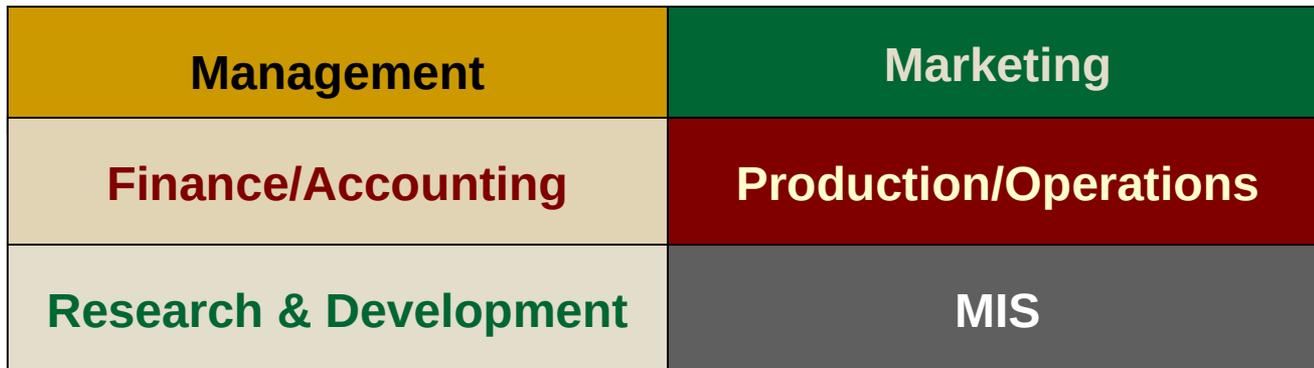
Strategic Management – Defined

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

Strategic Management

In essence, the *strategic plan* is a company's *game plan*

Strategic Management achieves a firm's success through integration --



A 2x3 grid of business functions enclosed in a green oval. The grid is divided into two columns and three rows. The top row contains 'Management' (yellow background) and 'Marketing' (green background). The middle row contains 'Finance/Accounting' (tan background) and 'Production/Operations' (dark red background). The bottom row contains 'Research & Development' (tan background) and 'MIS' (grey background).

Management	Marketing
Finance/Accounting	Production/Operations
Research & Development	MIS

Strategy Formulation

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

Vision & Mission

External Opportunities & Threats

Internal Strengths & Weaknesses

Long-Term Objectives

Alternative Strategies

Strategy Selection

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

```
graph TD; A([Strategy Implementation]) --- B[Annual Objectives]; A --- C[Policies]; A --- D[Employee Motivation]; A --- E[Resource Allocation];
```

Annual Objectives

Policies

Employee Motivation

Resource Allocation

Strategy Implementation

Action Stage of Strategic Management –

- ✓ Most difficult stage
- ✓ Mobilization of employees & managers
- ✓ Interpersonal skills critical
- ✓ Consensus on goal pursuit

Strategy Evaluation

```
graph TD; A([Strategy Evaluation]) --- B[Internal Review]; A --- C[External Review]; A --- D[Performance Metrics]; A --- E[Corrective Actions];
```

Internal Review

External Review

Performance Metrics

Corrective Actions

Strategy Evaluation

Final Stage of Strategic Management

- ✓ **Subject to future modification**
- ✓ **Today's success no guarantee of future success**
- ✓ **New & different problems**
- ✓ **Complacency leads to demise**

Prime Task of Strategic Management

Peter Drucker: -- Think through the overall mission of a business. Ask the key question: “***What is our Business?***”



Integrating *Intuition* and *Analysis*

The strategic management process attempts to organize quantitative and qualitative information under conditions of uncertainty

Integrating *Intuition* and *Analysis*

Intuition is based on:

- ❑ Past experiences
- ❑ Judgment
- ❑ Feelings

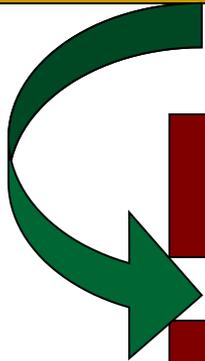
Intuition is useful for decision making in:

- ❑ Conditions of great uncertainty
- ❑ Conditions with little precedent



Integrating *Intuition & Analysis*

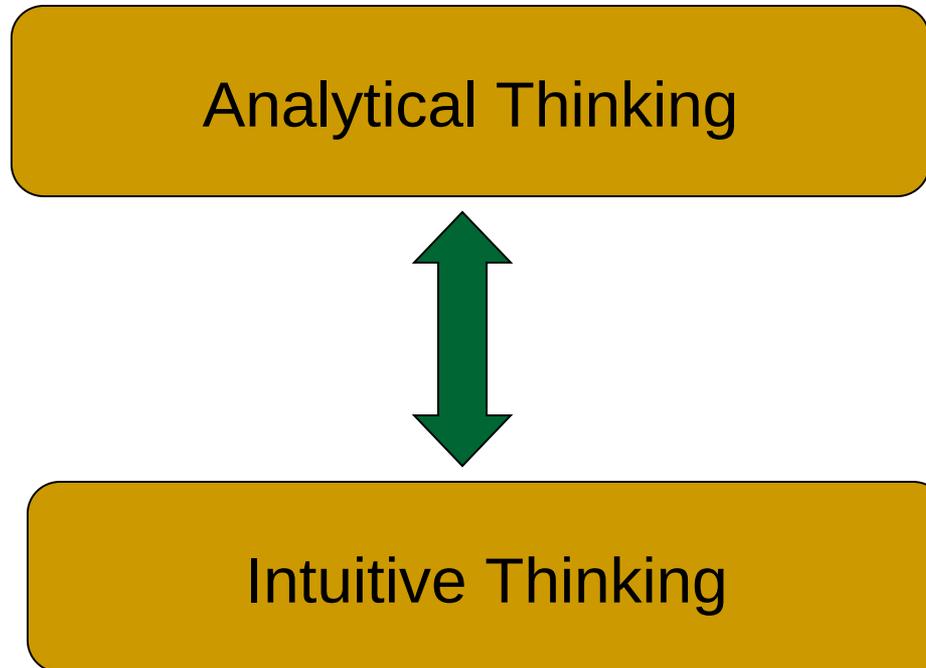
Intuition & Judgment



Involve Management at all levels

Influence all Analyses

Integrating *Intuition* & *Analysis*



Adapting to Change

Organizations must monitor events

- On-going process
- Internal and external events
- Timely changes

Strategic Management is Gaining and Maintaining *Competitive Advantage*

“Anything that a firm does especially well compared to rival firms”

Achieving *Sustained Competitive Advantage*

1. Adapting to change in external trends, internal capabilities and resources



2. Effectively formulating, implementing & evaluating strategies

TABLE 1-1 The Top Ten U.S. Newspapers (March 2005 data, compared to March 2004)

NEWSPAPER	WEEKLY CIRCULATION (IN THOUSANDS)	PERCENT CHANGE
<i>USA Today</i>	2,281	+0.05
<i>Wall Street Journal</i>	2,070	-0.80
<i>New York Times</i>	1,136	+0.24
<i>Los Angeles Times</i>	907	-6.47
<i>Washington Post</i>	751	-2.68
<i>New York Daily News</i>	735	-1.54
<i>New York Post</i>	678	+0.01
<i>Chicago Tribune</i>	573	-6.64
<i>Houston Chronicle</i>	527	-3.92
<i>San Francisco Chronicle</i>	468	-6.07

Source: Adapted from Joseph Hallinan, "Newspaper Circulation Declines 1.9%," *Wall Street Journal* (May 3, 2005):B4.

Adapting to Change

Rate & magnitude of change
increasing dramatically



Adapting to Change

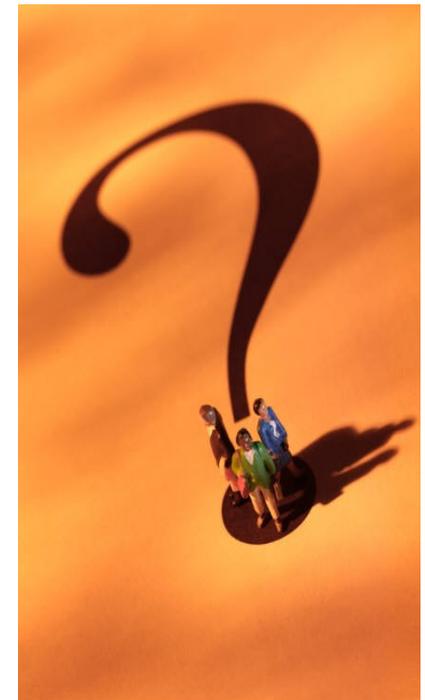
Effective Adaptation

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?*



Key Terms

Strategists – Firm's success/failure

Various Job Titles:

- **Chief Executive Officer (CEO)**
- **Chief Strategy Officer (CSO)**
- **President**
- **Owner**
- **Board Chair**
- **Executive Director**

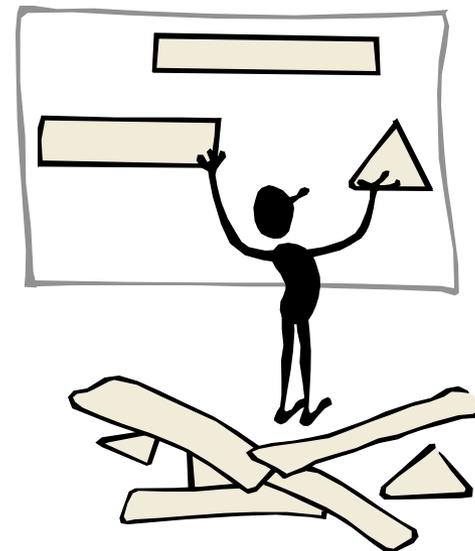
Key Terms

Vision Statement –

What do we want to become?

Mission Statement –

What is our business?



Key Terms

Opportunities and Threats (External)

- Largely beyond the control of a single organization

Key Terms

Opportunities & Threats (External)

Analysis of Trends:

- **Economic**
- **Social**
- **Cultural**
- **Demographic/Environmental**
- **Political, Legal, Governmental**
- **Technological**
- **Competitors**



Key Terms

Opportunities & Threats

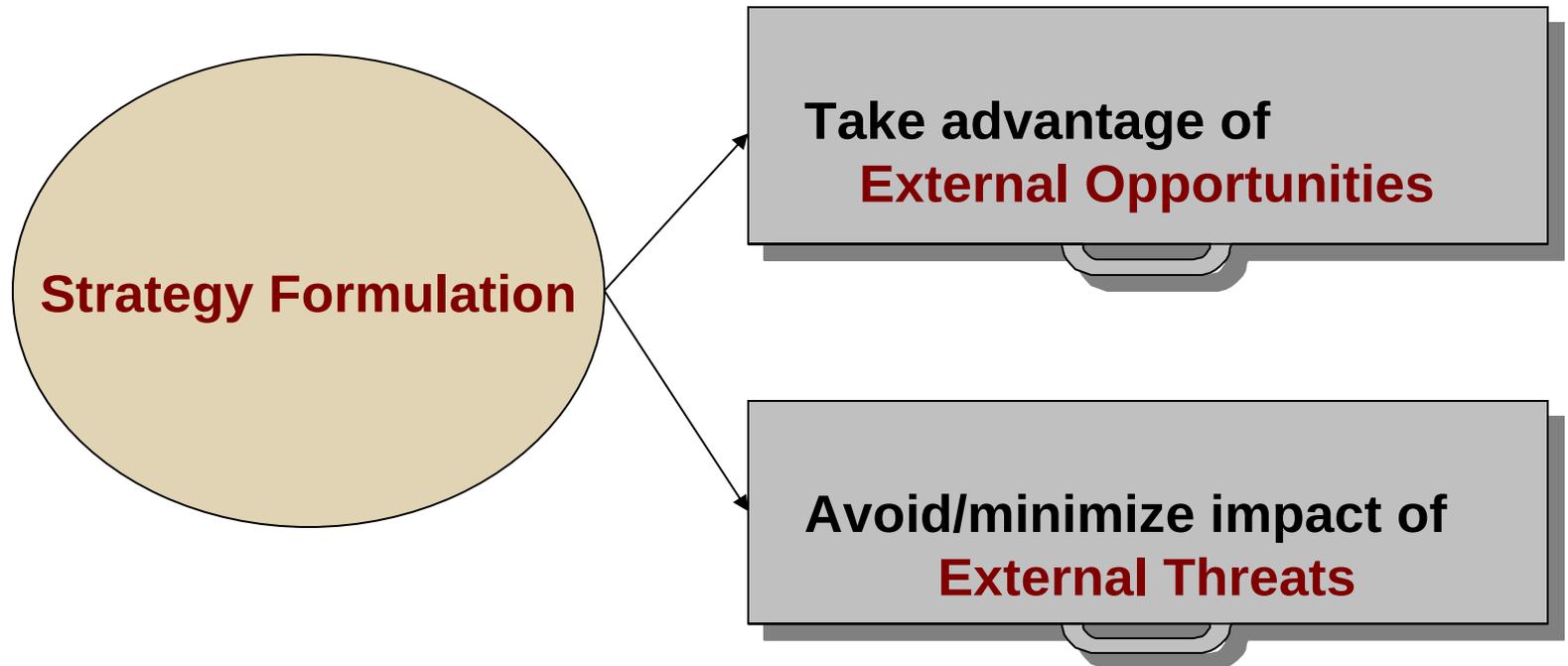
Environmental Scanning (Industry Analysis)

- ❑ Process of conducting research and gathering and assimilating external information

Key Terms

Opportunities & Threats

Basic Tenet of Strategic Management



Key Terms

Strengths & Weaknesses (Internal)

- Controllable activities performed especially well or poorly

Key Terms

Strengths & Weaknesses (Internal)

Typically located in functional areas of the firm

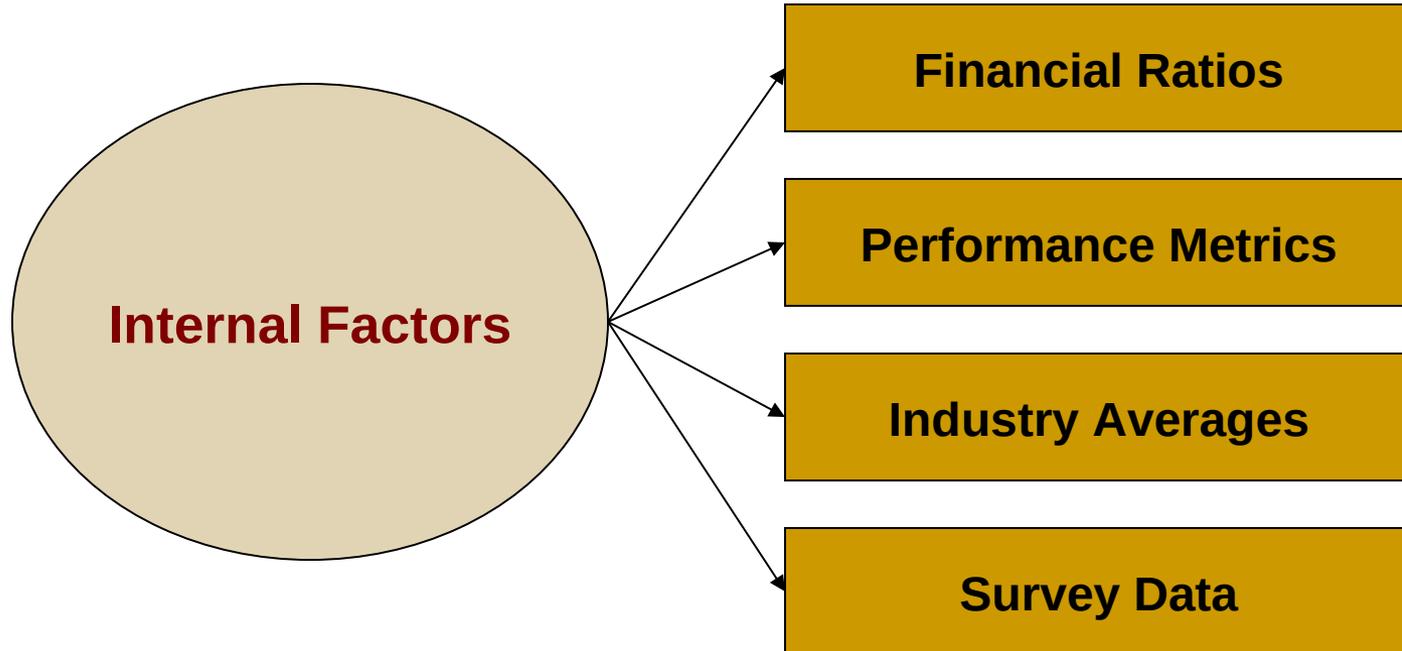
- **Management**
- **Marketing**
- **Finance/Accounting**
- **Production/Operations**
- **Research & Development**
- **Computer Information Systems**



Key Terms

Strengths & Weaknesses

Assessing the Internal Environment



Key Terms

Long-term Objectives

- ❑ Mission-driven pursuit of specified results more than one year out

Key Terms

Long-term Objectives

Essential for ensuring the firm's success

- **Provide direction**
- **Aid in evaluation**
- **Create synergy**
- **Focus coordination**
- **Basis for planning, motivating, and controlling**



Key Terms

Strategies

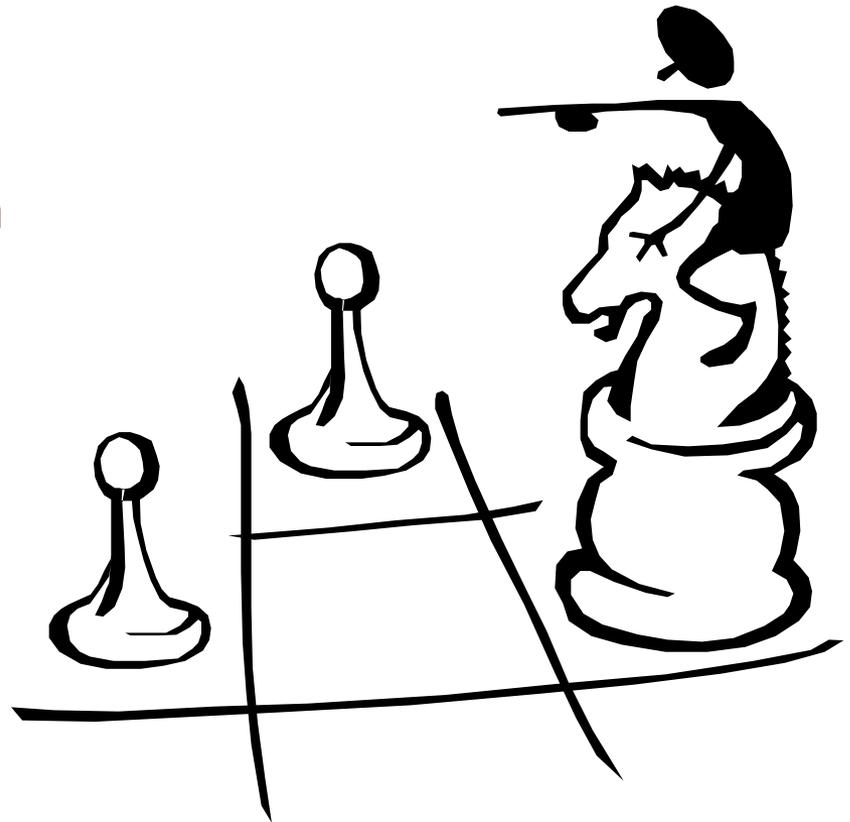
- Means by which long-term objectives are achieved

Key Terms

Strategies

Some Examples

- **Geographic expansion**
- **Diversification**
- **Acquisition**
- **Market penetration**
- **Retrenchment**
- **Liquidation**
- **Joint venture**



Key Terms

Annual Objectives

- ❑ Short-term milestones that firms must achieve to attain long-term objectives

Key Terms

Policies

- Means by which annual objectives will be achieved

Example Strategies in Action in 2005

WALGREENS

The large drugstore Walgreens now has 4,798 stores coast to coast serving over four million customers daily, but the firm faces intense competition on many fronts. Its biggest rival is CVS, which recently acquired 1,268 Eckerds stores to push its total store count to 5,415. Also, supermarkets and mass merchandisers such as Wal-Mart are rapidly moving into the pharmacy business. In addition, the rise in low-cost mail-order prescriptions, which represents a profound shift in the way Americans buy their medicines, threatens Walgreens. Drug purchases by mail grew 18 percent in 2004. So the Walgreens strategy is to open 450 new stores annually in “great” locations. CEO David Bernauer believes the United States has room for 12,000 Walgreens. The company also is a leader in driving down operating costs.

OUTBACK STEAKHOUSE, INC.

Outback Steakhouse, Inc., has pursued a strategy of diversification for more than a decade. Outback Steakhouse today owns Carrabba’s Italian Grill (176 locations); Bonefish Grill, a seafood house specializing in wild-caught fish (72 locations); Fleming’s Prime Steakhouse & Wine Bars, a white-tablecloth chain (32 locations); Roy’s, a purveyor of Hawaiian fusion food (19 locations); Cheeseburger in Paradise, a tropical-theme outlet featuring nightly entertainment (14 locations); Paul Lee’s Chinese Kitchens, a start-up business (3 locations); and Lee Roy Selmon’s “Southern Comfort” (2 locations). Outback plans to open 163 new restaurants across these divisions in 2005 compared to 120 new openings in 2004.

Example Strategies in Action in 2005

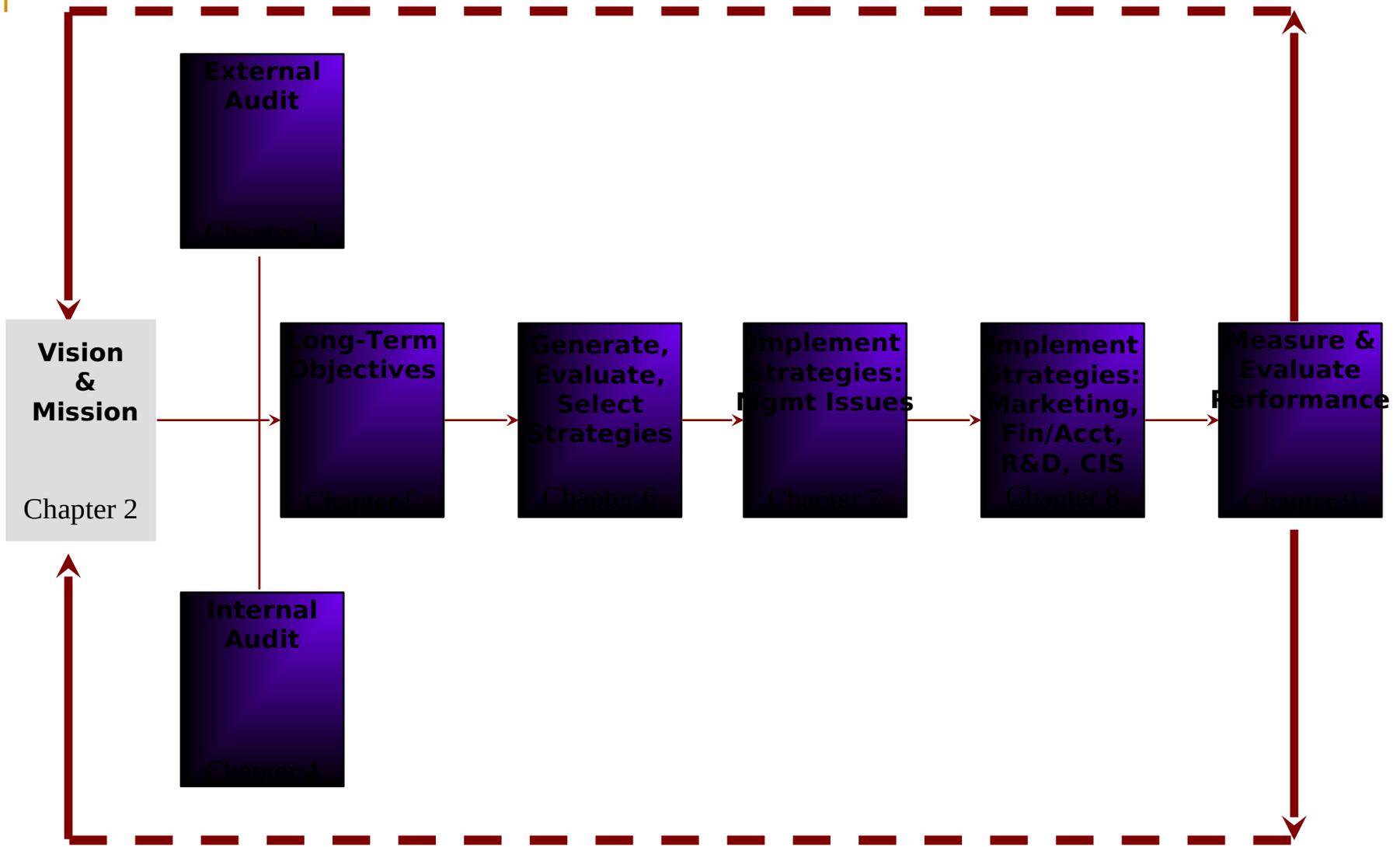
NUCOR CORP.

Nucor Corp., based in Charlotte, Nucor Corp, has become the tenth-largest steel-producing company in the world by acquiring faltering steel plants. Nucor acquired ten steel plants from 2001 to 2005 as profits soared to \$1.1 billion in 2004 on sales of over \$11 billion. Nucor uses nonunion workers and state-of-the-art technology to outperform larger integrated steel companies. Previous CEO Ken Iverson led Nucor's pioneering minimill approach to steelmaking for decades before current CEO Daniel DiMicco led Nucor to become *Business Week's* top performing company in materials/chemicals/forest products in 2004 based on both profit and revenue growth.

AUTODESK

Autodesk is among the best-performing stocks on the S&P 500, rising about 200 percent annually of late. Led by CEO Carol Bartz for the last thirteen years, Autodesk focuses on a strategy of product development and produces software for designing and manufacturing everything from skyscrapers to spoons. Since Carly Fiorina's exit from Hewlett-Packard, Carol Bartz of Autodesk is one of the most prominent women among U.S. technology firms (along with Meg Whitman, CEO of eBay). No CEO who is not a founder has served longer at any major tech company than Carol Bartz at Autodesk.

Comprehensive strategic management model



Strategic Management Model

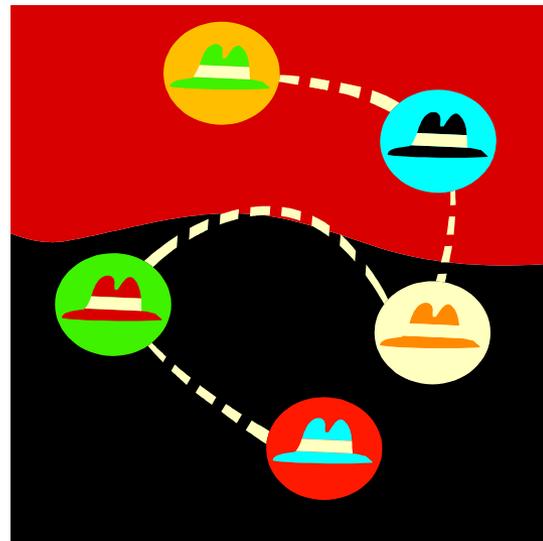
Strategic Management Process

- ❑ Dynamic & Continuous
- ❑ More formal in larger organizations

Strategic Management Model

1. Identify Existing --

- Vision
- Mission
- Objectives
- Strategies



Strategic Management Model

- 2. Audit external environment**
- 3. Audit internal environment**
- 4. Establish long-term objectives**
- 5. Generate, evaluate & select strategies**
- 6. Implement selected strategies**
- 7. Measure & evaluate performance**

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

Non-Financial 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 adverse 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 with success**

Why Some Firms Do No Strategic Planning

- **Fear of failure**
- **Overconfidence**
- **Prior bad experience**
- **Self-interest**
- **Fear of the unknown**
- **Suspicion**

Business Ethics & Strategic Management

Business Ethics defined –

- Principles of conduct within organizations that guide decision making and behavior

Business Ethics & Strategic Management

Good business ethics –

- Prerequisite for good strategic management

Business Ethics & 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 products on foreign markets**
- ❑ **Poor product or service safety**
- ❑ **Padding expense accounts**

Natural Environment Perspective

ISO used to gain strategic advantage

- ❑ **ISO 9000 focuses on quality control**
- ❑ **> 1.5 million companies incorporate ISO**

Natural Environment Perspective

ISO 14000 standards



- ❑ Voluntary standards
- ❑ ISO 14001 standard for Environmental Management System
- ❑ Firms minimize harmful effects on environment

The Nature of Global Competition

International/multinational corporations

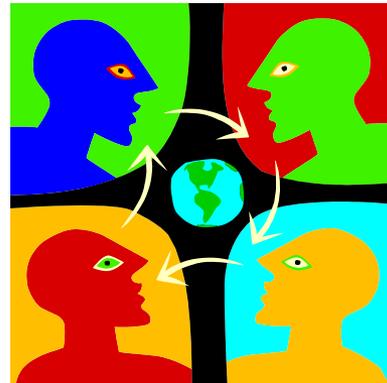
- ❑ Parent company
- ❑ Host country



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**