

Basic Concepts of Strategic Management

Chapter 1

Learning Objectives

- ✦ Understand the benefits of strategic management
- ✦ Explain how globalization and environmental sustainability influence strategic management
- ✦ Understand the basic model of strategic management and its components

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Learning Objectives

- ✦ Identify some common triggering events that act as stimuli for strategic change
- ✦ Understand strategic decision-making modes
- ✦ Use the strategic audit as a method of analyzing corporate functions and activities

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Introduction Video Clip

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The Study of Strategic Management

✦ Strategic Management

↳ a set of managerial decisions and actions that determines the long-run performance of a corporation

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The Study of Strategic Management

Strategic Management includes:

- ✦ Internal and external environment scanning
- ✦ Strategy formulation
- ✦ Strategy implementation
- ✦ Evaluation and control

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Phases of Strategic Management



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Benefits of Strategic Management

- ✦ The attainment of an appropriate match, or “fit,” between an organization’s environment and its strategy, structure and processes has positive effects on the organization’s performance.
- ✦ Strategic planning becomes increasingly important as the environment becomes more unstable.

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Benefits of Strategic Management

- ✦ Clearer sense of strategic vision for the firm
- ✦ Sharper focus on what is strategically important
- ✦ Improved understanding of a rapidly changing environment

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Impact of Globalization

✦ Globalization

- ↳ the integrated internationalization of markets and corporations
- ↳ has changed the way modern corporations do business

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Impact of Innovation

✦ Innovation

- ↳ describes new products, services, methods and organizational approaches that allow the business to achieve extraordinary returns
- ✦ Innovation is the implementation of potential innovations that truly drives businesses to be remarkable.

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Impact of Sustainability

✦ Sustainability

- ↳ refers to the use of business practices to manage the triple bottom line

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Impact of Sustainability

The triple bottom line involves:

1. the management of traditional profit/loss;
2. the management of the company's social responsibility; and
3. the management of its environmental responsibility.

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Theories of Organizational Adaptation

✦ Population ecology

↳ once an organization is successfully established in a particular environmental niche, it is unable to adapt to changing conditions

✦ Institution theory

↳ organizations can and do adapt to changing conditions by imitating other successful organizations

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Theories of Organizational Adaptation

✦ Strategic choice perspective

↳ not only do organizations adapt to a changing environment, but they also have the opportunity and power to reshape their environment

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Theories of Organizational Adaptation

✦ Organizational learning theory

↳ an organization adjusts defensively to a changing environment and uses knowledge offensively to improve the fit between itself and its environment

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Creating a Learning Organization

✦ Strategic flexibility

↳ the ability to shift from one dominant strategy to another and requires:

- Long-term commitment to the development and nurturing of critical resources
- Learning organization

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Creating a Learning Organization

✦ Learning organization

↳ an organization skilled at creating, acquiring and transferring knowledge and at modifying its behavior to reflect new knowledge and insights

✦ Organizational learning is a critical component of competitiveness in a dynamic environment.

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Creating a Learning Organization

Learning organizations are skilled at four main activities:

- ✦ Solving problems systematically
- ✦ Experimenting with new approaches
- ✦ Learning from their own experiences and past history as well as from the experiences of others
- ✦ Transferring knowledge quickly and efficiently throughout the organization

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Basic Model of Strategic Management

Strategic management consists of four basic elements:

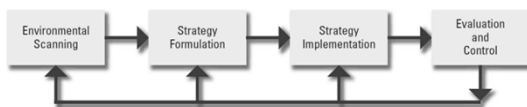
- ✦ Environmental scanning
- ✦ Strategy formulation
- ✦ Strategy implementation
- ✦ Evaluation and control

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Basic Elements of the Strategic Management Process

Figure 1-1

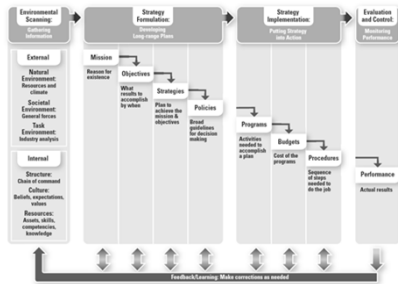


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Strategic Management Model

Figure 1-2



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Basic Model of Strategic Management

✦ Environmental scanning

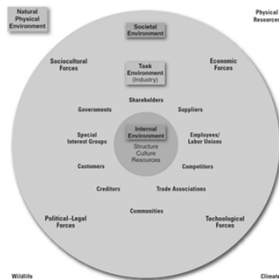
- ↳ the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the organization
- ↳ SWOT analysis

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Environmental Variables

Figure 1-3



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Basic Model of Strategic Management

✦ Strategy formulation

- ↳ process of investigation, analysis and decision making that provides the company with the criteria for attaining a competitive advantage
- ↳ includes defining the competitive advantages of the business (Strategy), crafting the corporate mission, specifying achievable objectives and setting policy guidelines.

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Basic Model of Strategic Management

✦ Mission

- ↳ the purpose or reason for the organization's existence

✦ Vision

- ↳ describes what the organization would like to become

✦ Objectives

- ↳ the end results of planned activity

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Basic Model of Strategic Management

✦ Strategy

- ↳ forms a comprehensive master approach that states how the corporation will achieve its mission and objectives
- ↳ maximizes competitive advantage and minimizes competitive disadvantage
- ↳ corporate, business, functional

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Hierarchy of Strategy



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Basic Model of Strategic Management

★ Policy

↳ a broad guideline for decision making that links the formulation of a strategy with its implementation

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Basic Model of Strategic Management

★ Strategy implementation

↳ a process by which strategies and policies are put into action through the development of programs, budgets and procedures

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Basic Model of Strategic Management

✦ Evaluation and control

- ↳ a process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance

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Basic Model of Strategic Management

✦ Performance

- ↳ the end result of organizational activities
- ↳ includes the actual outcomes of the strategic management process

✦ Feedback/Learning process

- ↳ revise or correct decisions based on performance

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Initiation of Strategy: Triggering Events

✦ Triggering event

- ↳ something that acts as a stimulus for a change in strategy and can include:
 - New CEO
 - External intervention
 - Threat of change of ownership
 - Performance gap
 - Strategic inflection point

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Strategic Decision Making

✦ Strategic decisions

↳ deal with the long-term future of an entire organization and have three characteristics:

- Rare
- Consequential
- Directive

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Three Characteristics of Strategic Decisions

✦ Rare

↳ Strategic decisions are unusual and typically have no precedent to follow.

✦ Consequential

↳ Strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels.

✦ Directive

↳ Strategic decisions set precedents for lesser decisions and future actions throughout an organization

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Mintzberg's Modes of Strategic Decision Making

Entrepreneurial

Adaptive

Planning

**Logical
incrementalism**

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Strategic Decision-Making Process

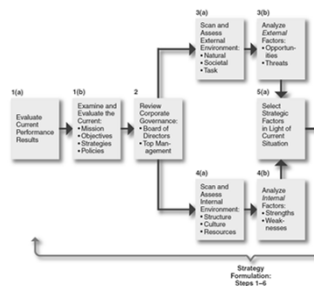
1. Evaluate current performance results
2. Review corporate governance
3. Scan and assess the external environment
4. Scan and assess the internal corporate environment
5. Analyze strategic (SWOT) factors
6. Generate, evaluate and select the best alternative strategy
7. Implement selected strategies
8. Evaluate implemented strategies

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Strategic Decision-Making Process

Figure 1-5

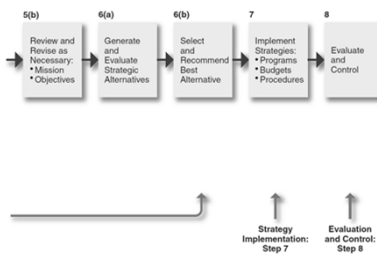


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Strategic Decision-Making Process

Figure 1-5



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The Strategic Audit: Aid to Strategic Decision Making

✦ Strategic audit

↳ provides a checklist of questions, by area or issue, that enables a systematic analysis to be made of various corporate functions and activities

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