



# Management

ELEVENTH EDITION

Stephen P. **ROBBINS**  
Mary **COULTER**

PEARSON

## LEARNING OUTCOMES

- **Define** strategic management and explain why it's important
- **Explain** what managers do during the six steps of the strategic management process
- **Describe** the three types of corporate strategies
- **Describe** competitive advantage and the competitive strategies organizations use to get it
- **Discuss** current strategic management issues

# What Is Strategic Management?

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- **Strategic management** - what managers do to develop the organization's strategies.
- **Strategies** - the plans for how the organization will do what it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals.
- **Business model** - how a company is going to make money.

# Why Is Strategic Management Important?

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1. It results in higher organizational performance.
2. It requires that managers examine and adapt to business environment changes.
3. It coordinates diverse organizational units, helping them focus on organizational goals.

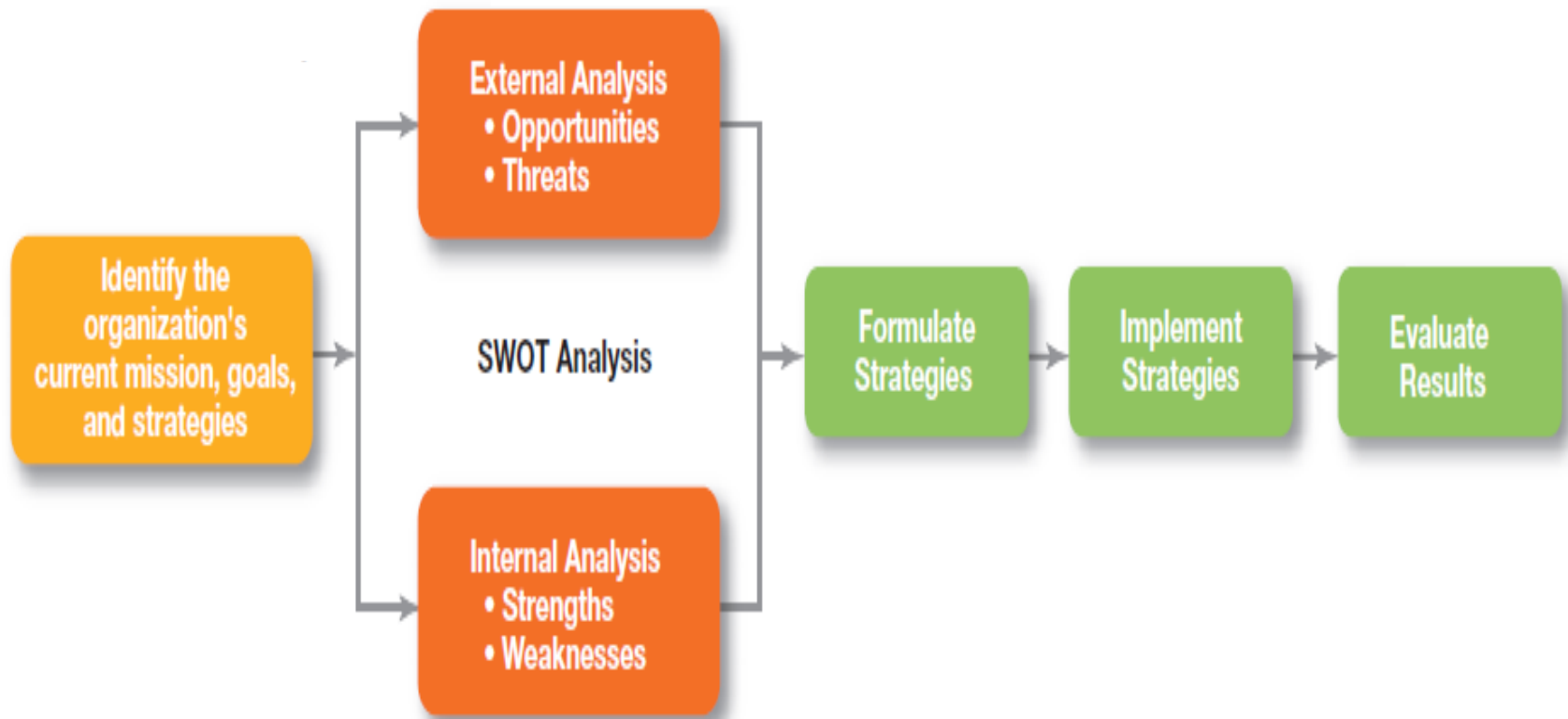
# What is the Strategic Management Process?

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- **Strategic management process** - a six-step process that encompasses strategic planning, implementation, and evaluation.

# Exhibit 9-1: Strategic Management Process

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# Strategic Management Process

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- Step 1: Identifying the organization's current mission, goals, and strategies
  - **Mission:** a statement of the purpose of an organization
    - The scope of its products and services
  - **Goals:** the foundation for further planning
    - Measurable performance targets
- Step 2: Doing an external analysis
  - The environmental scanning of specific and general environments
    - Focuses on identifying opportunities and threats

# Exhibit 9-2: Components of a Mission Statement

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**Customers:** Who are the firm's customers?

**Markets:** Where does the firm compete geographically?

**Concern for survival, growth, and profitability:** Is the firm committed to growth and financial stability?

**Philosophy:** What are the firm's basic beliefs, values, and ethical priorities?

**Concern for public image:** How responsive is the firm to societal and environmental concerns?

**Products or services:** What are the firm's major products or services?

**Technology:** Is the firm technologically current?

**Self-concept:** What are the firm's major competitive advantage and core competencies?

**Concern for employees:** Are employees a valuable asset of the firm?



# Strategic Management Process

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- Step 3: Doing an internal analysis
  - Assessing organizational resources, capabilities, and activities:
    - Strengths create value for the customer and strengthen the competitive position of the firm.
    - Weaknesses can place the firm at a competitive disadvantage.
  - Analyzing financial and physical assets is fairly easy, but assessing intangible assets (employee skills, culture, corporate reputation, etc.) isn't as simple.
- *Steps 2 and 3 combined are called a SWOT analysis. (Strengths, Weaknesses, Opportunities, and Threats)*

# SWOT Analysis

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- **SWOT analysis** - an analysis of the organization's strengths, weaknesses, opportunities, and threats.
- **Resources** - an organization's assets that are used to develop, manufacture, and deliver a product to its customers.
- **Capabilities** - an organization's skills and abilities in doing the work activities needed in its business.

# Strengths and Weaknesses

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- **Strengths** - any activities the organization does well or any unique resources that it has.
- **Weaknesses** - activities the organization does not execute well or needed resources it does not possess.
- **Core competencies** - the organization's major value-creating capabilities that determine its competitive weapons.

# Strategic Management Process

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- Step 4: Formulating strategies
  - Develop and evaluate strategic alternatives.
  - Select appropriate strategies for all levels in the organization that provide relative advantage over competitors.
  - Match organizational strengths to environmental opportunities.
  - Correct weaknesses and guard against threats.

# Strategic Management Process

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- Step 5: Implementing strategies
  - **Implementation** - effectively fitting organizational structure and activities to the environment.
  - The environment dictates the chosen strategy; effective strategy implementation requires an organizational structure matched to its requirements.
- Step 6: Evaluating results
  - How effective have strategies been?
  - What adjustments, if any, are necessary?

# Corporate Strategies

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- **Corporate strategy** - an organizational strategy that determines what businesses a company is in or wants to be in, and what it wants to do with those businesses.
- Types of Corporate Strategies
  - Growth: expansion into new products and markets.
  - Stability: maintenance of the status quo.
  - Renewal: examination of organizational weaknesses that are leading to performance declines.

# Corporate Strategies (cont.)

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- **Growth strategy** - a corporate strategy that's used when an organization wants to expand the number of markets served or products offered, through either its current business(es) or new business(es).

# Corporate Strategies (cont.)

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- **Stability strategy** - a corporate strategy in which an organization continues to do what it is currently doing.
- **Renewal strategy** - a corporate strategy designed to address declining performance.





# Exhibit 9-3: Types of Organizational Strategies

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Corporate

Competitive

Functional



# How Are Corporate Strategies Managed?

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- **Strategic Business Unit (SBU)** - the single independent businesses of an organization that formulate their own competitive strategies.

# The Role of Competitive Advantage

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- **Competitive strategy** - an organizational strategy for how an organization will compete in its business(es).
- **Competitive advantage** - what sets an organization apart; its distinctive edge.

# What is a Functional Strategy?

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- **Functional strategy** - the strategies used by an organization's various functional departments to support the competitive strategy.



# Five Competitive Forces

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- Threat of New Entrants
  - The ease or difficulty with which new competitors can enter an industry
- Threat of Substitutes
  - The extent to which switching costs and brand loyalty affect the likelihood of customers adopting substitute products and services
- Bargaining Power of Buyers
  - The degree to which buyers have the market strength to hold sway over and influence competitors in an industry

# Five Competitive Forces

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- Bargaining Power of Suppliers
  - The relative number of buyers to suppliers and threats from substitutes and new entrants affect the buyer-supplier relationship.
- Current Rivalry
  - Intensity among rivals increases when industry growth rates slow, demand falls, and product prices descend.

# Exhibit 9-5: Five Forces Model



# The Need for Strategic Leadership

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- **Strategic leadership** - the ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization.



# Exhibit 9-6: Effective Strategic Leadership



# Types of Competitive Strategies

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- Cost Leadership Strategy
  - Seeking to attain the lowest total overall costs relative to other industry competitors
- Differentiation Strategy
  - Attempting to create a unique and distinctive product or service for which customers will pay a premium
- Focus Strategy
  - Using a cost or differentiation advantage to exploit a particular market segment as opposed to a larger market

# The Need for Strategic Flexibility

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- **Strategic flexibility** - the ability to recognize major external changes, to quickly commit resources, and to recognize when a strategic decision was a mistake.



# Customer Service Strategies

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- Giving the customers what they want
- Communicating effectively with them
- Providing employees with customer service training


# Innovation Strategies

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- Possible Events
  - Radical breakthroughs in products
  - Application of existing technology to new uses
- Strategic Decisions about Innovation
  - Basic research
  - Product development
  - Process innovation
- **First Mover** - an organization that brings a product innovation to the market or uses new process innovations.

# Terms to Know

- strategic management
- strategies
- business model
- strategic management process
- mission
- opportunities
- threats
- resources
- capabilities
- core competencies
- strengths
- weaknesses
- SWOT analysis
- corporate strategy
- growth strategy
- stability strategy
- renewal strategy
- BCG matrix
- competitive strategy
- strategic business units
- competitive advantage
- functional strategies
- strategic flexibility
- first mover



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