STRATEGIC MANAGEMENT

AN INTEGRATED APPROACH

THEORY & CASES

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CHAPTER 1

STRATEGIC LEADERSHIP: MANAGING THE STRATEGY-MAKING PROCESS FOR COMPETITIVE ADVANTAGE
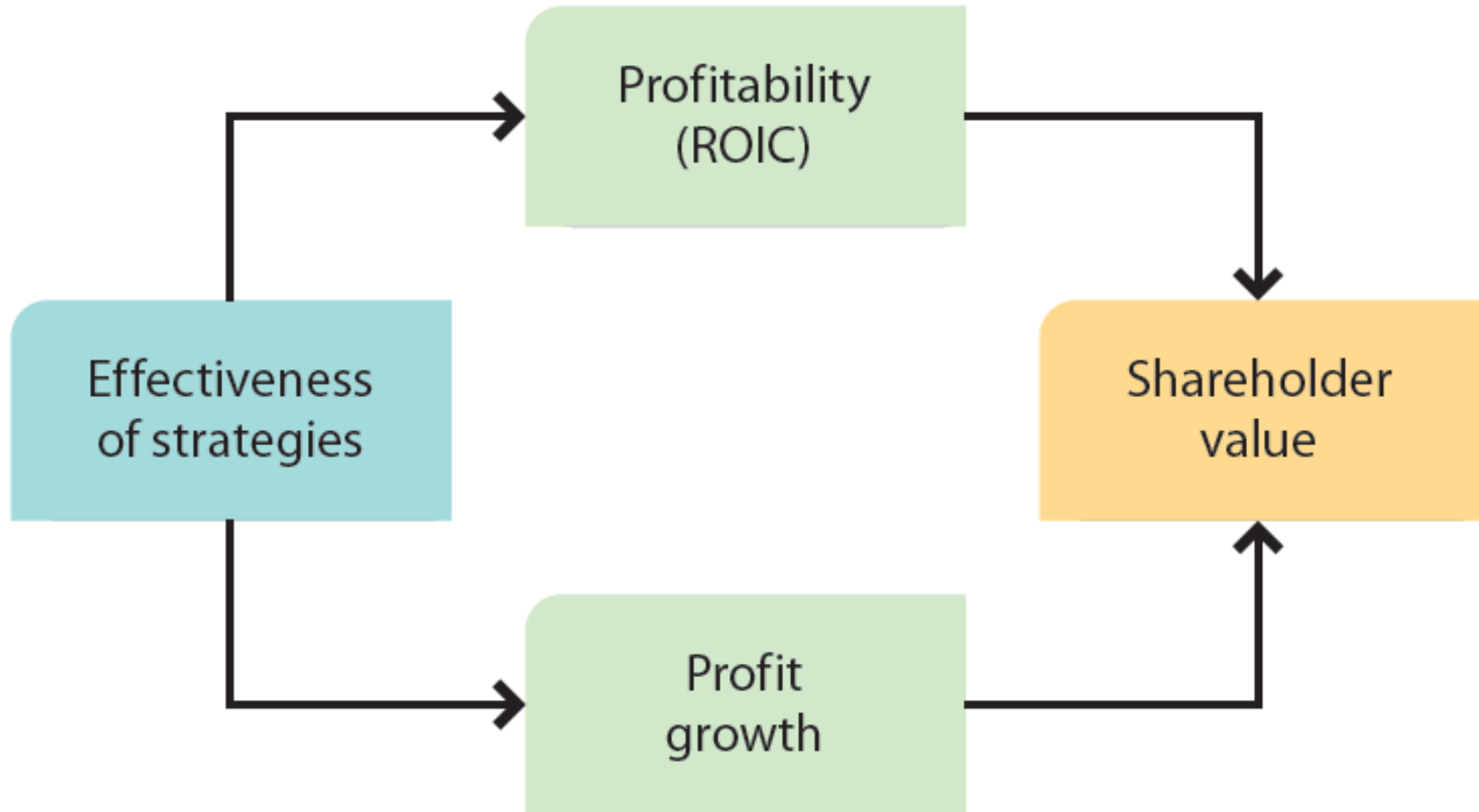
LEARNING OBJECTIVES

- Explain what is meant by competitive advantage
- Discuss the strategic role of managers at different levels within the organization
- Identify the primary steps in a strategic planning process
- Discuss the common pitfalls of planning and how those pitfalls can be avoided
- Outline the cognitive biases that might lead to poor strategic decisions, and explain how these biases can be overcome
- Discuss the role strategy leaders play in the strategy-making process

STRATEGY

- Set of related actions that managers take to increase their company's performance
- **Strategic leadership**: Creating competitive advantage through effective management of the strategy-making process
  - **Strategy formulation**: Selecting strategies based on analysis of an organization's external and internal environment
  - **Strategy implementation**: Putting strategies into action

FIGURE 1.2 - DETERMINANTS OF SHAREHOLDER VALUE

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COMPETITIVE ADVANTAGE AND BUSINESS MODEL

Competitive advantage

- Occurs when a company's profitability is greater than the average profitability of firms in its industry
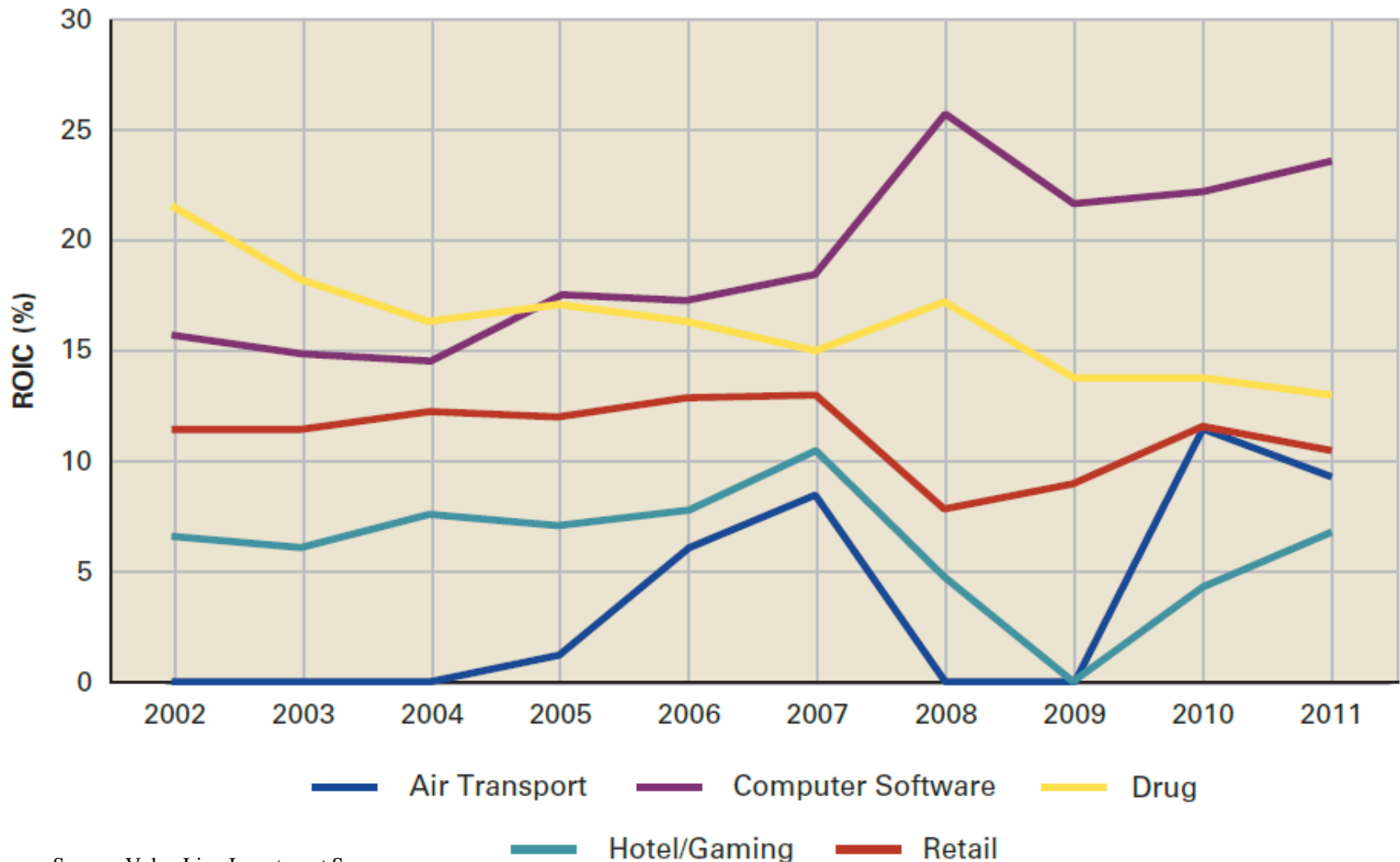
Sustained competitive advantage

- A company's strategies enable it to maintain above-average profitability for a number of years

Business model

- Conception of how strategies should work together as a whole to enable the company to achieve competitive advantage

FIGURE 1.3 - RETURN ON INVESTED CAPITAL (ROIC) IN SELECTED INDUSTRIES, 2002-2011

Source: Value Line Investment Survey.

STRATEGIC MANAGEMENT

General managers

- Bear responsibility for a company's overall performance or for one of its major self-contained subunits or divisions
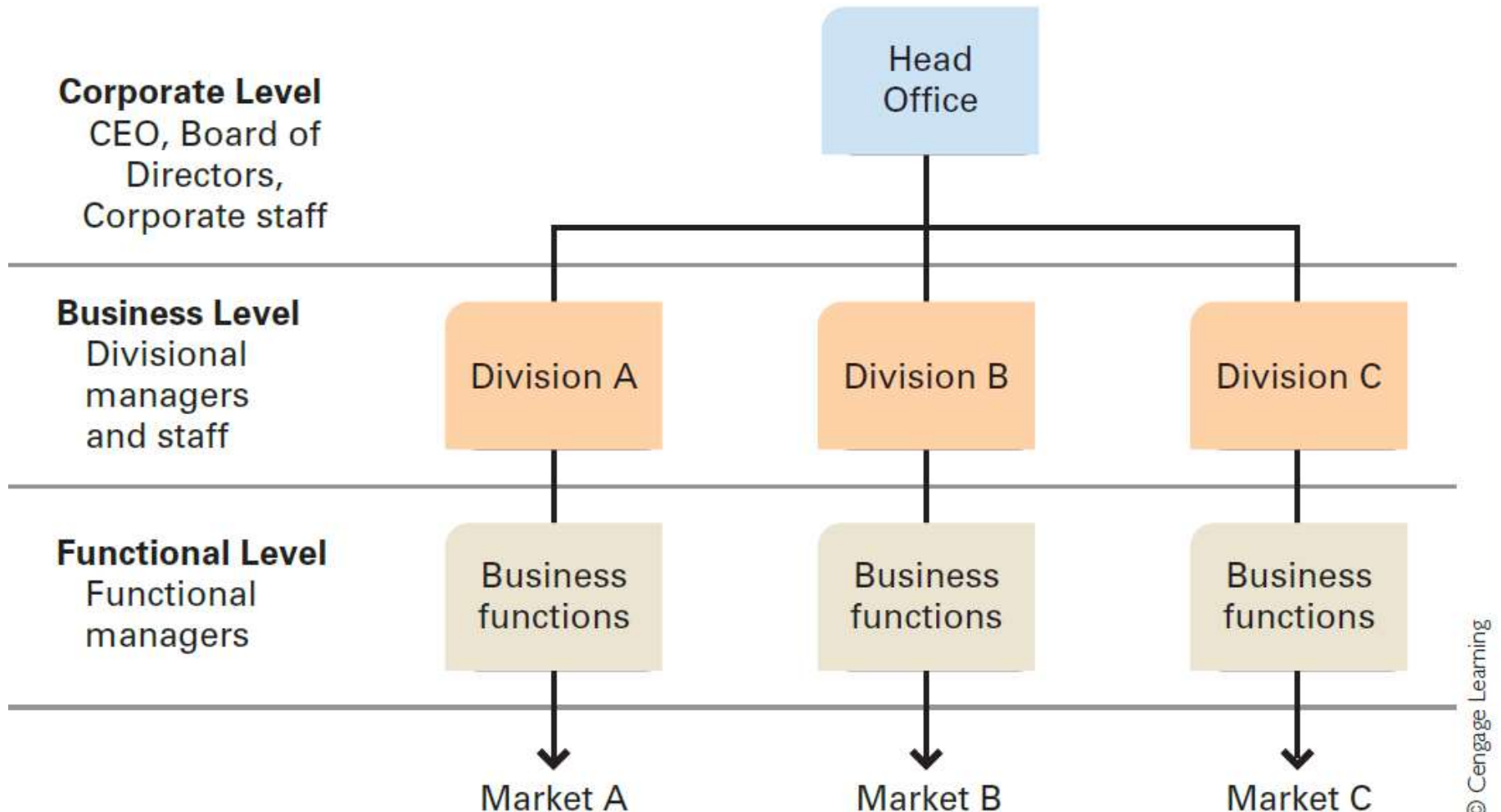
Functional managers

- Responsible for supervising a particular function, task, activity, or operation

Multidivisional company

- Competes in several different businesses and has a separate self-contained division to manage each
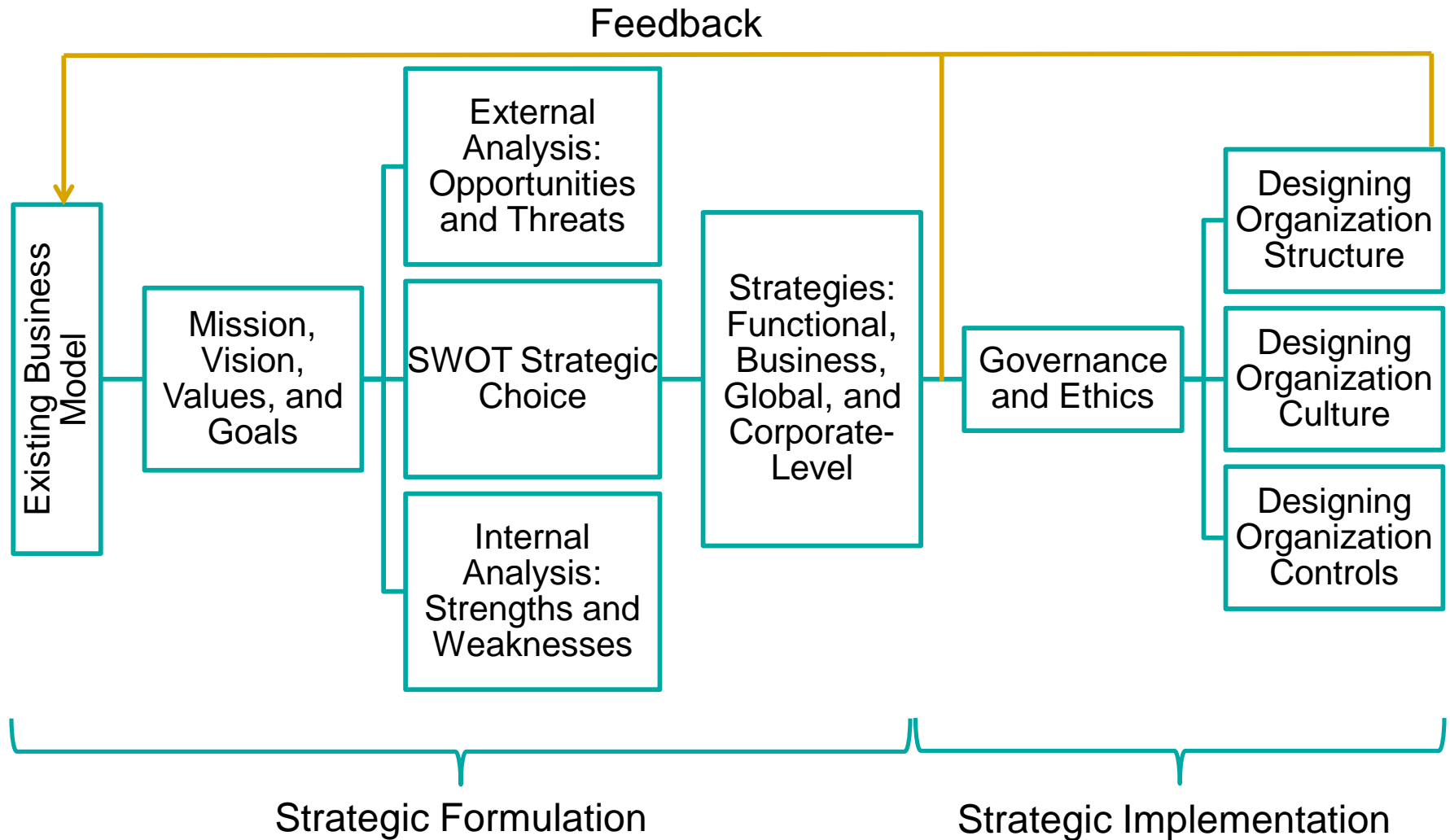
FIGURE 1.4 - LEVELS OF STRATEGIC MANAGEMENT

Corporate Level
CEO, Board of Directors, Corporate staff

Business Level
Divisional managers and staff

Functional Level
Functional managers

Head Office

Division A   Division B   Division C

Business functions   Business functions   Business functions

Market A   Market B   Market C

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STEPS IN A FORMAL STRATEGIC PLANNING PROCESS

- Select the corporate mission and goals

- Analyze the organization's external competitive environment and internal operating environment

- Select strategies that:
  - Build on the organization's strengths and correct it's weaknesses
  - Are consistent with the organization's mission and goals
  - Are congruent and constitute a viable business model

- Implement the strategies

MAIN COMPONENTS OF THE STRATEGIC PLANNING PROCESS

COMPONENTS OF A MISSION STATEMENT

Mission

- Purpose of the company, or a statement of what the company strives to do

Vision

- Articulation of a company's desired achievements or future state

Values

- Statement of how employees should conduct themselves and their business to help achieve the company mission

Goals

- Precise and measurable desired future state that a company attempts to realize

EXTERNAL AND INTERNAL ANALYSIS

- External analysis - Identifies strategic opportunities and threats that will affect how an organization pursues its mission
  - Involves examination of the:
    - Industry environment in which the company operates
    - Country or national environment
    - Macroenvironment
- Internal analysis - Focuses on reviewing the resources, capabilities, and competencies of a company
  - Goal - Identify the company's strengths and weaknesses

SWOT ANALYSIS

Functional-level strategies

- Directed at improving the effectiveness of operations within a company

Business-level strategies

- Encompass the business's overall competitive theme

Global strategies

- Address how to expand operations outside the home country
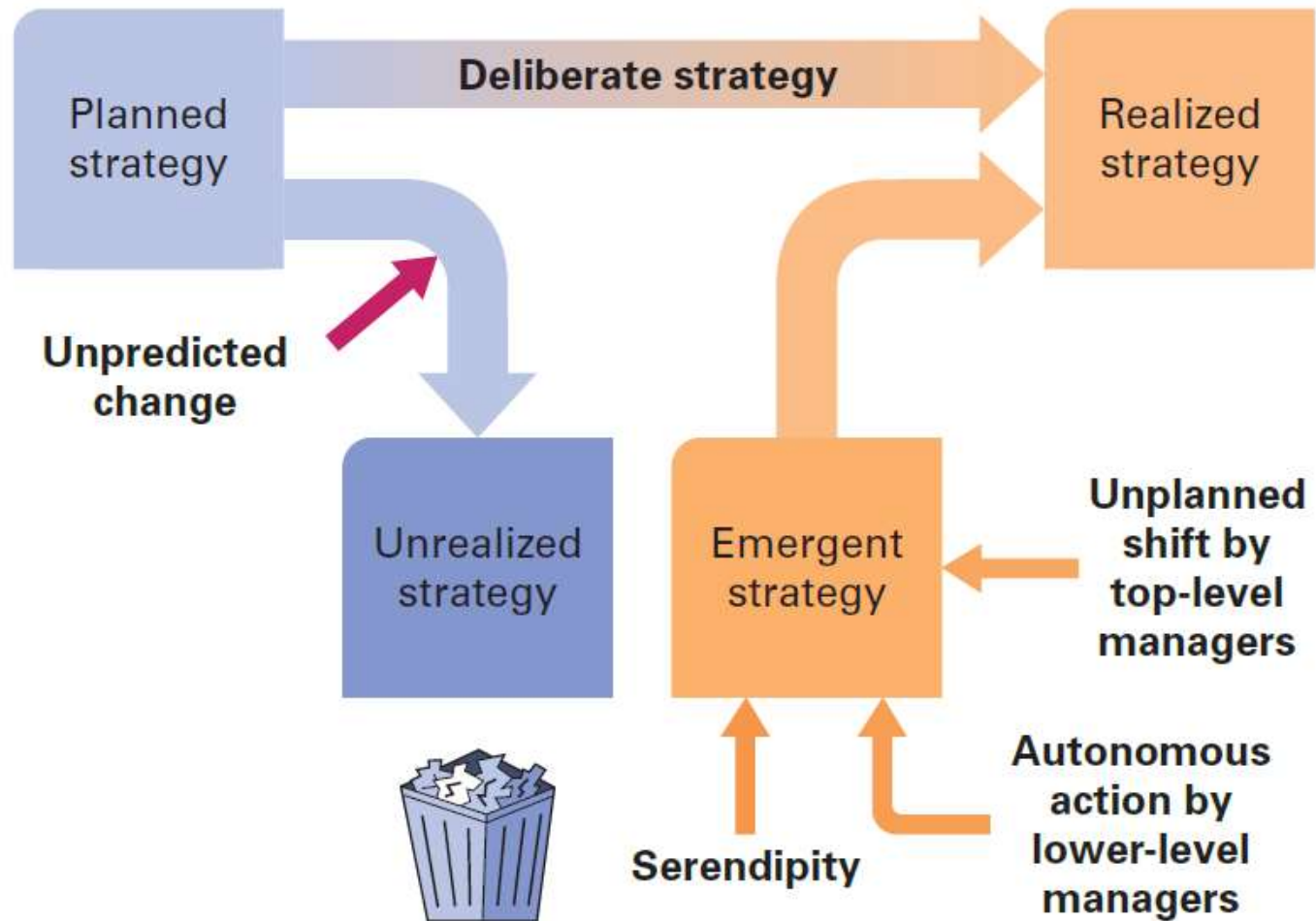
Corporate-level strategies

- Determine:
  - The businesses a company should be in to maximize profitability and profit growth
  - How to gain a competitive edge
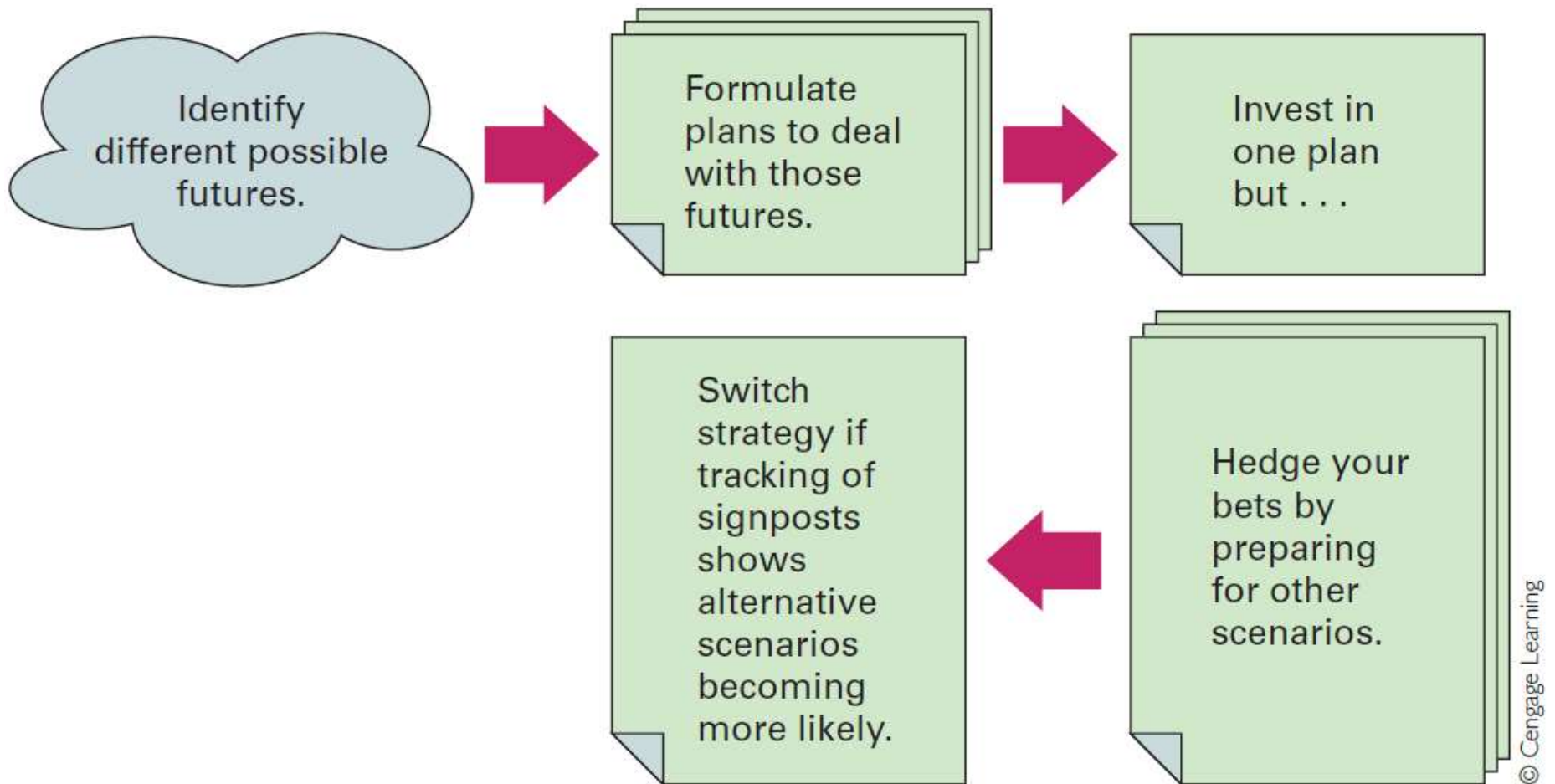
STRATEGY IMPLEMENTATION AND FEEDBACK LOOP

- Strategy implementation
  - Taking action at the functional, business, and corporate levels to execute a strategic plan
  - Designing the best organization structure, culture, and control systems to put a chosen strategy into action
- Feedback loop - Provide information to the corporate level on the:
  - Strategic goals that are being achieved
  - Degree of competitive advantage being created and sustained

FIGURE 1.7 - EMERGENT AND DELIBERATE STRATEGIES

Source: Adapted from H. Mintzberg and A. McGugh, *Administrative Science Quarterly* 30:2 (June 1985).

FIGURE 1.8 - SCENARIO PLANNING

Identify different possible futures. → Formulate plans to deal with those futures. → Invest in one plan but . . .

Hedge your bets by preparing for other scenarios. → Switch strategy if tracking of signposts shows alternative scenarios becoming more likely.

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SCENARIO PLANNING

- Formulating plans that are based on "what-if" scenarios about the future

- Encourages managers to:
  - Think outside the box and be more flexible
  - Anticipate probable scenarios

- Ivory tower planning - Recognizes that successful strategic planning encompasses managers at all levels of the corporation

COGNITIVE BIASES AND STRATEGIC DECISION MAKING

Cognitive biases

- Systematic errors in human decision making
  - Arise from the way people process information

Prior hypothesis bias

- Decisions are made based on prior beliefs, even when evidence proves that those beliefs are wrong

Escalating commitment

- Decision makers, having committed significant resources to a project, commit even more, despite receiving feedback that the project is failing

Reasoning analogy

- Use of simple analogies to make sense out of a complex problem

COGNITIVE BIASES AND STRATEGIC DECISION MAKING

Representativeness

- Tendency to generalize from a small sample or a single vivid anecdote
  - Violates the statistical law of large numbers

Illusion of control

- Tendency to overestimates one's ability to control events
  - General or top managers are more prone to this

Availability error

- Arises from our predisposition to estimate the probability of an outcome based on how easy it is to imagine it

TECHNIQUES FOR IMPROVING DECISION MAKING

Devil's advocacy

- A member of a decision-making team identifies all the considerations that might make a proposal unacceptable
  - Possible perils of recommended courses of action are brought into light

Dialectic inquiry

- Generation of a plan and a counter-plan that reflect plausible but conflicting courses of action
  - Promotes strategic thinking

Outside view

- Identification of past successful or failed strategic initiatives to determine if they will work for the current project

CHARACTERISTICS OF GOOD STRATEGIC LEADERS

- Vision, eloquence, and consistency
- Articulation of a business model
- Commitment
- Being well informed
- Willingness to delegate and empower
- Astute use of power
- Emotional intelligence
  - Self-awareness, self-regulation, and motivation
  - Empathy and social skills