

PART B

CHAPTER NOTES

CHAPTER ONE

BASIC CONCEPTS OF STRATEGIC MANAGEMENT

This chapter sets the stage for the study of strategic management and business policy. It summarizes research supporting the conclusion that those corporations that are able to learn from their experiences and manage strategically perform at a higher level than corporations that do not. It describes a number of triggering events that act to initiate strategic change in most organizations. A normative model of strategic management is presented as the basic structure underlying the book. Key concepts are defined and explained as part of the discussion of the model. The chapter also introduces the strategic audit as a method of operationalizing strategic decision making.

LEARNING OBJECTIVES

1. Discuss the benefits of strategic management.
2. Explain how globalization, innovation, and environmental sustainability influence strategic management.
3. Discuss the differences between the theories of organizations.
4. Discuss the activities where learning organizations excel.
5. Describe the basic model of strategic management and its components.
6. Identify some common triggering events that act as stimuli for strategic change.
7. Explain strategic decision-making modes.
8. Use the strategic audit as a method of analyzing corporate functions and activities.

TOPICS OUTLINE COVERED

1. The Study of Strategic Management
 - a. Phases of Strategic Management
 - b. Benefits of Strategic Management
2. Globalization, Innovation, and Sustainability: Challenges to Strategic Management
 - a. Impact of Globalization
 - b. Impact of Innovation
 - c. Impact of Sustainability
3. Theories of Organizational Adaptation
4. Creating a Learning Organization
5. Basic Model of Strategic Management
 - a. Environmental Scanning
 - b. Strategy Formulation
 - c. Strategy Implementation
 - d. Evaluation and Control
 - e. Feedback/Learning Process
6. Initiation of Strategy: Triggering Events
7. Strategic Decision Making
 - a. What Makes a Decision Strategic
 - b. Mintzberg's Modes of Strategic Decision Making
 - c. Strategic Decision-Making Process: Aid to Better Decisions
8. The Strategic Audit: Aid to Strategic Decision Making

SUGGESTED ANSWERS TO MYMANAGEMENTLAB QUESTIONS

1-1. How do the three elements of globalization, innovation, and sustainability impact your understanding of strategy?

Globalization is the integrated internationalization of markets and corporations. As more industries become global, strategic management is becoming more important in keeping track of international developments and positioning a company for long-term competitive advantage. Innovation is meant to describe new products, services, methods, and

organizational approaches that would position a company to achieve strong returns. Sustainability refers to a set of business practices that focus on the triple bottom line for an organization. Each of these is a new frontier that is impacting the way in which businesses develop and implement strategy.

1-2. Organizational strategy can be divided roughly into two categories: a) formulation and b) implementation. Although there is legitimate crossover between the two, how would you characterize the issues involved in each effort?

There are four basic phases of strategic management. Phase 1 is basic financial planning, phase 2 is forecast-based planning, phase 3 is externally oriented strategic planning, and phase 4 is strategic management. Phases 1, 2, and 3 are all considered part of the formulation category. Each of these stages suggests the need to scan the internal and external environment and develop a plan adapting to projections and forecast. The last phase, strategic management, is about the choices an organization makes to implement the planned strategy. In this stage, everyone across the organization is enlisted to support the strategic goals.

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1-3. Why has strategic management become so important in business?

Research indicates that organizations that engage in strategic management generally outperform those that do not. 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. The three most highly rated benefits of strategic management are a clearer sense of a firm's strategic vision, a sharper focus on what is strategically important, and an improved understanding of a rapidly changing environment. As the world's environment continually changes and becomes increasingly complex, strategic management is used by today's corporations as one way to make the environment more manageable.

1-4. How does strategic management typically evolve in a company?

Strategic management in a corporation appears to evolve through four sequential phases according to Gluck, Kaufman, and Walleck. Beginning with basic financial planning, it develops into forecast-based planning, then into externally oriented planning, and finally into a full-blown strategic management system. The evolution is most likely caused by increasing change and complexity in the corporation's external environment. The phases are thus likely to be characterized by a change from primarily an inward-looking orientation in the first phase to primarily an outward-looking orientation in the third phase, and to a more integrative orientation in the final strategic management phase with equal emphasis on both the external and internal environments.

1-5. What is a learning organization? Is this approach to strategic management better than the more traditional top-down approach in which strategic planning is primarily done by top management?

Simply put, a learning organization is one that is able to learn from its experiences. In reality, it is much more complicated. The text points out that learning organizations are skilled at four main activities: (1) systematic problem solving; (2) experimenting with new approaches; (3) learning from their own experience and past history as well as from the experiences of others; and (4) transferring knowledge quickly and efficiently throughout the organization. This means that people at all levels, not just top management, need to be involved in strategic management—by helping to scan the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures, and evaluation techniques. Research indicates that those organizations that are willing to experiment and able to learn from their experiences are more successful than those that do not.

Top-down strategic management assumes that only top management is in a position to contribute to strategic planning. This approach can work reasonably well in a bureaucratic organization with very little horizontal communication. Top-down strategic planning forces all units to get involved in the planning process and makes sure that all units fit into the overall corporate mission, objectives, strategies, and policies. A limitation of the top-down

approach is that all motivation comes from the top and lower units may simply go through the motions in order to please the boss. The likelihood of fresh, new strategic concepts at lower levels of the organization becomes less, the more the stimulus for strategic planning comes from above.

1-6. Why are strategic decisions different from other kinds of decisions?

Strategic decisions deal with the long-run future of the entire organization and have three characteristics that differentiate them from other types of decisions: (1) they are *rare*—strategic decisions are unusual and typically have no precedent to follow; (2) they are *consequential*—strategic decisions commit substantial resources and demand a great deal of commitment; and (3) they are *directive*—strategic decisions set precedents for lesser decisions and future actions throughout the organization. See *Top Decisions: Strategic Decision-Making in Organizations* by Hickson, Butler, Cray, Mallory, and Wilson for further discussion.

1-7. When is the planning mode of strategic decision making superior to the entrepreneurial and adaptive modes?

The planning mode is generally superior to the entrepreneurial and adaptive modes when the organization is fairly large, when knowledge is spread throughout the organization, and when the organization has at least a moderate amount of time to engage in strategic planning. The book proposes that the planning mode is more rational and thus a better way of making most strategic decisions. It may not, however, always be possible. The entrepreneurial mode can be very useful when time is short, when one person or group is able to grasp the essentials of the business and its environment, and that person or group is able to influence the rest of the organization to accept its strategic decision. The adaptive mode is generally not considered to be very effective in most situations, but seems to be the fallback mode when entrepreneurial or planning modes can't operate effectively because of political infighting or lethargy.

ADDITIONAL DISCUSSION QUESTIONS FOR INSTRUCTORS

These are not found in the text and may be used by the instructor for classroom discussion or exams.

A1-1. Describe the triple bottom line.

The term used to describe a business' sustainability is the triple bottom line. John Elkington coined the phrase in 1994 to suggest that organizations do pay attention to three different bottom lines. These include: (1) Traditional profit/loss; (2) People Account—social responsibility of the organization; and (3) Planet Account—the environmental responsibility of the organization. This has become increasingly important for organizations today. For instance, companies seek LEED certification for their buildings and mold a reputation for being friendly to the world. LEED certification is available to buildings that are created to be self-sustaining, with little impact on the environment.

A1-2. What is meant by a *hierarchy of strategy*?

A hierarchy of strategy is a term used to describe the interrelationships among the three levels of strategy (corporate, business, and functional) typically found in large business corporations. Beginning with the corporate level, each level of strategy forms the strategic environment of the next level in the corporation. This means that corporate level objectives, strategies, and policies form a key part of the environment of a division or business unit. The objectives, strategies, and policies of the division or unit must therefore be formulated so as to help achieve the plans of the corporate level. The same is true of functional departments that must operate within the objectives, strategies, and policies of a division or unit.

A1-3. Does every business firm have business strategies?

Every business firm should have a business strategy for every industry or market segment it serves. A business strategy aims at improving the competitive position of a business firm's products or services in a specific industry or market segment. Firms must therefore have business strategies even if they are not organized on the basis of operating divisions. Nevertheless, it is still possible that some business firms do not have clearly stated business

strategies. If they hope to be successful, however, they must have at least some rudimentary (even though unstated) position they take in terms of getting and keeping customers or clients.

A1-4. What information is needed for the proper formulation of strategy? Why?

In order to properly formulate strategy, it is essential to have information on the important variables in both the external and internal environments of the corporation. This includes general forces in the societal environment as well as the more easy-to-identify groups such as customers and competitors in the task environment. A corporation needs to have this information in order to identify a need it can fulfill via its corporate mission. It is also important to have information on the corporation's structure, culture, and resources. A corporation needs to have this information in order to assess its capabilities to satisfy a customer's need by making and/or distributing a product or service. Information on both the internal and external environments can also help a corporation predict likely opportunities and threats. Long-term strategies can be designed with these in mind.

A1-5. Reconcile the strategic decision-making process depicted in Fig. 1.5 with the strategic management model depicted in Fig. 1.2.

The strategic management model depicts the key input variables (internal and external environments) and the key output factors (mission, objectives, strategy, and policies). It shows how strategy formulation, implementation, and evaluation and control are related, and how a change in any one factor (e.g., corporate objectives) affects other factors (e.g., strategies, policies, programs, budgets, procedures, evaluation and control techniques). This model, however, does not depict how these output factors are generated. In contrast, the strategic decision-making model depicts how the process of strategic management happens in the form of strategic decisions. It is a series of interrelated activities depicted as eight distinct steps. These two models therefore complement each other and are very useful in increasing one's understanding of strategic management.

SUGGESTIONS FOR STRATEGIC PRACTICE EXERCISE

This end of chapter exercise is a good way to motivate students to apply some of the concepts in the chapter, particularly those from the strategic management model. Decisions are made every day, but not all decisions are seen as strategic ones.

The text states that strategic decisions are (1) rare, (2) consequential, and (3) directive. These deal with the long-term future of the entire organization. To aid in the decision making, the authors suggest an eight step decision-making process. Found on page 25 in the text, these include: (1) evaluating current performance results; (2) reviewing corporate governance; (3) scanning and assessing the external environment; (4) scanning and assessing the internal corporate environment; (5) analyzing the strategic factors; (6) generating and selecting the best alternative strategy; (7) implementing selected strategies; and (8) evaluating implemented strategies. These guidelines for making and evaluating decisions at a strategic level can be important for leaders.

Most people in business on most days deal with company tactics and decisions at a level that is not strategic. However, every decision made by every employee in a company ultimately impacts the success of the strategy for that company. As pointed out by Malcolm Gladwell in his book *The Tipping Point*, it is the collection of thousands of decisions all aimed in relatively the same direction that can lead a company to the achievement of a strategy. How do you decide what type of decision is strategic?

Open today's issue of *The Wall Street Journal* and look for an article about new moves being made by a corporation, specifically the decisions that are strategic. At what level is each of the decisions that you identified? Functional/Business/Corporate? Why do you believe this to be the case? What is your assessment of these decisions? Will they be effective? Why? How have you decided this?

This is a good exercise to encourage students to begin analyzing the strategic decision-making process. This exercise serves two purposes. It gets everyone up to speed in terms of identifying "real-world" strategic decisions. It also forces them to re-read Chapter 1 to get a solid understanding of what differentiates a good from a poor strategic decision. Encourage them to use the models presented in the chapter to justify their reasoning. You can give them

this assignment on the first day of class and then use the second day to discuss Chapter 1 and the various strategic decisions people have found. This is a good way to encourage student participation in the class.