

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 is strategic management considered important for global market competition?

Effective strategic management can ensure that an organization is adaptive and flexible enough to respond to environmental challenges and changes. The business environment in most economies, irrespective of whether they are developed or developing, is becoming increasingly complex and the needs of customers across the world are changing rapidly. To be successful in the global market, organizations must not only be able to execute current activities to satisfy an existing local market, but they must also adapt those activities to satisfy new and changing international markets. The attainment of an appropriate match between an organization's external environment and its strategy, structure, and processes has positive effects on the organization's long-term performance. Strategic management becomes increasingly important as the international environment becomes more volatile.

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. Define strategic flexibility and explain its implications. Why is organizational learning important to the long-term development of strategic flexibility of organizations that intend to enter overseas markets?

Corporations need to develop strategic flexibility, which is the ability to shift from one dominant strategy to another. Strategic flexibility requires an organization to commit to the long-term development of important and critical resources. It requires that the company become a learning organization, which is an organization skillful in creating, innovating, and transferring knowledge, and readjusting its behavior to reflect new knowledge and ideas. Organizational learning is a critical component of competitiveness in a dynamic environment. It is particularly important to innovation as well as new product development.

Strategic management through continuous self-improvement is essential for learning organizations to avoid sluggishness. Organizational employees at all levels participate in strategic management by helping to study and analyze the environment for useful information, suggesting changes to strategies and programs to take advantage of environmental changes. They can then work effectively with each other to continuously improve work methods, procedures, and evaluation techniques.

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. What is the most preferred planning mode of strategic decision making for organizations competing internationally?

Typically, global markets are considered to be highly volatile, ever-changing, and unstable. James Brian Quinn coined the phrase logical incrementalism in 1980. It refers to the synthesis of all other three modes (planning, adaptive, and, to a lesser extent, the entrepreneurial mode) of decision making, and it is considered to be the most effective method of strategic planning. Global organizations learn through an interactive process of probing into the future and testing and learning from a series of incremental operations and commitments rather than through formulations of stable and fixed strategies. It is very useful when the global environment is changing rapidly and it is important to build consensus and develop needed resources before committing the organization to a specific strategy.

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.