Overview of Strategic Management

W. Rofianto, ST, MSi
Art & science of **formulating, implementing, and evaluating**, cross-functional decisions that enable an organization to achieve its objectives

*strategic plan* is a company’s *game plan*
Firm’s success through integration

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Strategic Management Process

**Strategy Formulation**
- New business opportunities
- Businesses to abandon
- Allocation of resources
- Expansion or diversification
- International markets
- Mergers or joint ventures
- Avoidance of hostile takeover

**Strategy Implementation**
- Most difficult stage
- Mobilization of employees & managers
- Interpersonal skills critical
- Consensus on goal pursuit

**Strategy Evaluation**
- Subject to future modification
- Today’s success no guarantee of future success
- New & different problems
- Complacency leads to demise
Peter Drucker: Think through the overall mission of a business. Ask the key question: “What is our Business?”
The strategic management process attempts to organize quantitative and qualitative information under conditions of uncertainty.

**Intuition is based on:**
- Past experiences
- Judgment
- Feelings

**Intuition is useful for decision making in:**
- Conditions of great uncertainty
- Conditions with little precedent
Integrating Intuition & Analysis

Intuition & Judgment

- Involve management at all levels
- Influence all analyses

Analytical Thinking

Intuitive Thinking
Adapting to Change

Organizations must monitor events
- Ongoing process
- Internal and external events
- Timely changes

Effective Adaptation - Requires long-term focus

Key Strategic Management Questions
- What kind of business should we become?
- Are we in the right fields?
- Are there new competitors?
- What strategies should we pursue?
- How are our customers changing?
Strategic Management is Gaining and Maintaining *Competitive Advantage* - “Anything that a firm does especially well compared to rival firms”

**Achieving Sustained Competitive Advantage**
1. Continually adapting to change in external trends, internal capabilities, and resources
2. Effectively formulating, implementing, and evaluating strategies

**Rate & magnitude of change increasing dramatically**

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**Key Terms**

- E-commerce
- Consumer Behavior
- Technology
Strategists –> Firm’s success/failure
Various Job Titles:
Chief Executive Officer (CEO)
• Chief Strategy Officer (CSO)
• President
• Owner
• Board Chair
• Executive Director

Vision Statement
What do we want to become?

Mission Statement
What is our business?
Opportunities & Threats (External)
Largely beyond the control of a single organization

Analysis of Trends: Economic, Social, Cultural, Demographic/Environmental, Political, Legal, Governmental, Technological, Competitors.

Environmental Scanning (Industry Analysis) - Process of conducting research and gathering and assimilating external information

Basic Tenet

- Take advantage of External Opportunities
- Strategy Formulation
- Avoid/minimize impact of External Threats
Strengths & Weaknesses (Internal)
Controllable activities performed especially well or poorly

Typically located in functional areas of the firm:

Assessing the Internal Environment

✓ Financial Ratios
✓ Performance Metrics
✓ Industry Averages
✓ Survey Data
Long-term Objectives
Mission-driven pursuit of specified results more than one year out

Essential for ensuring the firm’s success:
- Provide direction
- Aid in evaluation
- Create synergy
- Reveal priorities
- Basis for planning, motivating, and controlling

Strategies - by which long-term objectives are achieved
- Geographic expansion
- Diversification
- Acquisition
- Market penetration
- Retrenchment
- Liquidation
- Joint venture
Annual Objectives
Short-term milestones that firms must achieve to attain long-term objectives

Policies:
- Means by which annual objectives will be achieved
- Including guidelines, rules and procedures
McDonald’s Corp

The world’s largest restaurant chain by number of outlets, Big Mac is doing fantastic both in the United States and abroad. In past months, McDonald’s began opening drive-through restaurants in China, closed 25 sites in the United Kingdom, and disposed of a supply-chain operation in Russia. Big Mac in 2007 opened 800 new restaurants in China, Japan, and Russia. Shares of McDonald’s stock increased 42 percent in 2006 as sales for the year eclipsed $41 billion. Big Mac is working to eliminate trans fats from their food (New York City is requiring this of all restaurants in 2007). McDonald’s plans in 2008 to turn ownership of about 2,300 restaurants in Canada and the United Kingdom over to licensees.
Comprehensive Strategic Management Model

Dynamic & continuous
More formal in larger organizations

Vision & Mission
Chapter 2

Long-Term Objectives
Chapter 5

Generate, Evaluate, Select Strategies
Chapter 6

Implement Strategies: Mgmt Issues
Chapter 7

Implement Strategies: Marketing, Fin/Acct, R&D, CIS
Chapter 8

Measure & Evaluate Performance
Chapter 9

External Audit
Chapter 3

Internal Audit
Chapter 4

David 1988
Benefits of Strategic Management

- Proactive in shaping firm’s future
- Initiate and influence firm’s activities
- Formulate better strategies (Systematic, logical, rational)

Financial Benefits

- Improvement in sales
- Improvement in profitability
  - Productivity improvement

Nonfinancial Benefits

- Improved understanding of competitors’ strategies
- Enhanced awareness of threats
- Reduced resistance to change
- Enhanced problem-prevention capabilities
Benefits of Strategic Management (Greenley)

1. Identification of opportunities
2. Objective view of management problems
3. Improved coordination & control
4. Minimizes adverse conditions & changes
5. Decisions that better support objectives
6. Effective allocation of time & resources
7. Internal communication among personnel
8. Integration of individual behaviors
9. Clarify individual responsibilities
10. Encourage forward thinking
11. Encourages favorable attitude toward change
12. Provides discipline and formality to the management of the business
Why Some Firms Do No Strategic Planning

- Poor reward structures
- Fire-fighting
- Waste of time
- Too expensive
- Laziness
- Content with success
- Fear of failure
- Overconfidence
- Prior bad experience
- Self-interest
- Fear of the unknown
- Suspicion
Business ethics – Principles of conduct within organizations that guide decision making and behavior

Good business ethics are prerequisite for good strategic management

Code of business ethics – Provides basis on which policies can be devised to guide daily behavior and decisions in the workplace

Always Considered Unethical Business Practices

- Misleading advertising
- Misleading labeling
- Harm to the environment
- Dumping flawed products on foreign markets
- Poor product or service safety
Natural Environment Perspective

- Using ISO 14000 Certification to Gain Strategic Advantage

- What are ISO 14000 & 14001?
- Requirements for ISO 14001
- Environmental Management Systems (EMS)
The Nature of Global Competition

International/multinational corporations

- Parent company
- Host country

Strategy implementation may be difficult

- Cultural differences (Norms, Values, Work ethic)

Globalization
### Advantages
- Absorb excess capacity
- Reduce unit costs
- Spread risk over wider markets
- Low-cost production facilities
- Less intense competition
- Lower taxes
- Economies of scale

### Disadvantages
- Difficult communications
- Underestimate foreign competition
- Cultural barriers to effective management
- Complications arising from currency differences
Global Considerations
impact virtually all strategic decisions

E-commerce
vital strategic management tool

Natural Environment
important strategic issue