The Strategic Management Process

CHAPTER 1

Source: Wright Studio/Shutterstock

"Cheshire Puss," she [Alice] began . . . "Would you please tell me which way I ought to go from here?"
"That depends on where you want to get to," said the cat.
Lewis Carroll, Alice in Wonderland

Learning Objectives

Upon completing this chapter, you should be able to:

1. define a strategic plan
2. differentiate between a strategic plan and strategic management
3. describe the strategic management process
4. describe stakeholders involvement in the strategic management process
5. explain the strategic management cycle
6. describe ethical issues in business
7. explain individual factors affecting business ethical decisions
8. explain organizational factors affecting business ethical decisions
9. describe qualities and characteristics of corporate social responsibility and sustainability
10. explain the arguments for developing a code of standards in lieu of a code of ethics

Chapter Outline

Introduction

Strategic management process The process of identifying and pursuing an organization's strategic plan by aligning internal capabilities with environmental demands and ensuring that the plan is properly executed.

Strategic plan An organization's long-term plan that is broad in scope and entails developing vision and mission statements along with objectives and strategy. This type of plan answers the question of how the organization is to commit its resources over the next three to five years.

Organizational myopia Focusing on the short-term and failing to consider the long-term direction of the organization.

Strategy A plan of action designed to attract and please customers, compete successfully, respond to changing markets and regulatory environments, and achieve organizational performance objectives.

This chapter presents an overview of the **strategic management process**. Each of the steps in the strategic management process discussed in this chapter is dealt with in more detail in later chapters. The intention here is to provide an introduction to the major components of the process and stress the importance of strategic planning and the role of ethics and corporate social responsibility in the planning process.

Without a **strategic plan**, organizations can develop "**organizational myopia**". Myopia is a condition of the eyes that is referred to as "nearsighted" or "shortsighted" because objects are seen clearly up close, but distant objects are blurred. Some organizations suffer from organizational myopia because their focus in on the short-term and they fail to consider the long-term direction of their organization. Daily activities can consume so much time that little time and effort is given to trying to obtain a view of the organization from a long-term perspective. This may result in an organization being stuck in a situation that inhibits growth or results in a decline in customer population over time.

Consider the case of a furniture store that was built in the early 20's in a downtown area with a lack of room for expansion. As the city grew, the downtown area prospered and buildings sprang up and surrounded the store. With a post office on one side and a city park on the other side, the only way to expand was to build over the parking lot which would result in the need to build a multistory parking garage to handle parking for customers and employees. There was land available when the store was built, but now the store is "boxed in" by surrounding buildings and the city park, leaving no room for growth in its present location. The store must stay in its present location with limited opportunity for expansion or abandon the current historical location and move to the suburbs where land is still available. Evidently the founders never envisioned growth and the consequences of not buying available land when the store was first built. Of course, hindsight is always 20/20, but the point is that the failure to consider growth and the long-term implications of not buying additional land for expansion has negative consequences for the company.

The word "strategic" means "pertaining to strategy." **Strategy** is derived from the Greek word *strategos,* which means "generalship," "art of the general," or, more broadly, "leadership." The word "strategic," used in the context of planning, provides a perspective to planning that is long-run in nature and deals with achieving specified end results. Just as military strategy has as its objective the winning of the war, so, too, strategic planning

Source: Shutterstock/Radu Salajan Photography

Many older downtown retail locations do not have room for expansion.

has as its goal the achievement of an organization's vision and mission—service to the firm's customers.

Strategic Planning Overview

The **strategic planning process** is basically a matching process involving an organization's internal resources and its external opportunities. The objective of this process is to peer through the "strategic window" and identify opportunities that the individual organization is equipped to take advantage of or respond to. Thus the strategic planning process can be defined as *a managerial process that involves matching the organization's capabilities with its opportunities.* These opportunities are identified over time and decisions revolve around investing or divesting resources to address these opportunities. The contexts in which these strategic decisions are made are:

Strategic planning process A managerial activity that involves determining an organization's vision and mission, analyzing the operating environment, setting objectives, and crafting a strategy to reach those objectives.

1. the operating environment;
2. the vision and mission; and
3. the organization-wide objectives.

Strategic planning is the process that ties all these elements together to facilitate strategic choices that are consistent with all three areas and then implements and evaluates these choices. The successful results of planning described earlier can be achieved through implementing an effective strategic planning process. The breakdown of this process is a complete outline of a system capable of creating true change in the organization's attitudes as well as in its productivity.

It is important to recognize the difference between the *plan* and the *planning process*. The plan must be something you can hold in your hand, a written product of your efforts. If the plan is not in writing, it is simply daydreaming. A written plan communicates its seriousness to decision-makers and everyone else. The planning process comprises the steps needed to develop the plan; the process must have maximum input from everyone. Those who execute the plan must be involved in its construction to gain their commitment or ownership of the plan. The best way to ensure a plan's failure is to overlook both the product and the process. They are equally important.

While there are many different ways in which an organization can approach the strategic planning process, a systematic approach that carries the organization through a series of integral steps helps focus attention on a basic set of questions each organization must answer:

- *What is our vision?* This question focuses on the ultimate aim of the organization.
- *What will we do?* This question focuses attention on the specific needs the organization will try to meet.
- *Who will we do it for?* This question addresses the need for an organization to identify the various groups whose needs will be met.
- *How will we do what we want to do?* Answering this question forces thinking about the many avenues through which an organization's efforts may be channeled.

The strategic planning process used by an organization must force the organization's leadership to deal with these questions on a continuous basis. Ongoing answers to these most fundamental questions allow the organization to continuously adapt over time and do the work it is best suited to do.

The Strategic Management Process

Strategic planning differs from strategic management. Strategic planning is part of the overall strategic management process and results in a strategic plan. Strategic management is the process of developing and implementing strategic plans, plus evaluating the plans' success in reaching organizational objectives.

Strategic management is defined as a process with the following steps:

1. Defining an organization's vision and mission
2. Analyzing environmental opportunities and threats and internal strengths and weaknesses
3. Developing a set of organizational objectives
4. Crafting strategies to accomplish the objectives
5. Developing operational plans to implement the strategies
6. Setting up control and evaluation processes and procedures to align performance with objectives

The six steps of the strategic management process are illustrated in Exhibit 1.1. They are important because they force the organization to consider certain questions. As each step requires the people at various organizational levels to discuss, study, and negotiate the process as a whole, it fosters a planning mentality. When the first four steps are completed, the result is a strategic plan for the organization; completing all six steps represents strategic management of the organization.

Step 1: Defining Vision and Mission

Vision An organization's vision statement explains what the organization aspires to be in the long run.

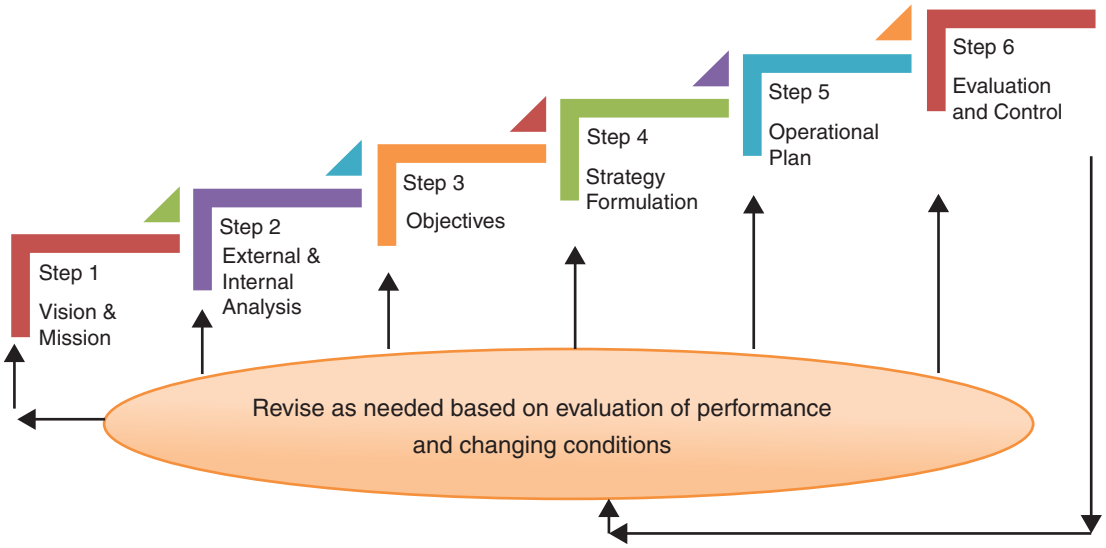
Mission An organization's mission statement explains what the organization will do, for whom they will do it, and with what technologies.

The first and probably the most important consideration when developing a strategic plan is to define the **vision** and **mission** for the organization as a whole. Subsequently, in support of this umbrella mission statement, statements of mission should also be written for specific divisions or units of the organization.

> **Google's** corporate **mission** is "to organize the world's information and make it universally accessible and useful." Ever since its beginnings, the company has focused on developing its proprietary algorithms to maximize effectiveness in organizing online information.

Writing the statement of mission is usually a difficult process, even though it may appear simple. Multiple, often diverse views of the organization's fundamental mission may exist because of the differing perspectives of the numerous constituencies that hold a stake in the performance of the organization. Nevertheless, as Peter Drucker, noted management authority, emphasizes, "The best nonprofits devote a great deal of thought to defining their organization's mission" (Drucker, 1989). Certainly this would be true of for-profit organizations as well.

EXHIBIT 1.1 The Strategic Management Process



For example, an inner-city healthcare organization that defines itself as "a delivery system for the healthcare of the needy" may be on the right track but will constantly face the need to explain and expand this definition. Does "healthcare" mean only acute inpatient care, or does it include other services, such as neighborhood clinics? If other services are added to the definition, will they involve only traditional physical care or will they address other needs, such as psychological counseling or substance abuse treatment? Granted, these things may change as the organization evolves and grows; but thinking through these issues provides a sense of vision and also avoids pursuit of tangential activities that do not fit with what the organization wants to do or be.

The vision statement should explain what the organization aspires to be. Creating the vision statement should also be a participative process, during which organizational members try to visualize what they want the organization to become. If the participants can see where they are going and have an image of the real mission of the organization, plans will fall into place more easily. The critical implementation phase of the plan will go more smoothly as the participants buy into the process and make it their own. In most situations, ownership results in commitment.

A vision of what can be accomplished creates the spark and energy for the whole planning and management process. It is important to spend ample time defining the vision statement. The process should emphasize getting everyone involved in the dream of how things can be. Without a vision, people just work day-to-day and tend not to be as productive or willing to go all out as they could be.

As discussed in Chapter 2, a good statement of mission not only clarifies what the organization does, it sets boundaries. It defines what the organization will not do. It helps limit expectations, and that alone can make it the organization administrator's best friend.

Threats External changes and challenges an organization must deal with to accomplish its objectives.

Opportunities External gaps in what customers want or need and what is being offered to meet those needs.

Strengths The capabilities of an organization that give it a strong position in the environment.

Weaknesses Areas where the organization needs to improve/change to remain competitive.

Step 2: Analyzing the Environment

It is vital that an organization gauge the environment within which it operates. This should be standard practice for all organizations. The only way we can manage change is to constantly monitor the environment within which we operate. This analysis stage is where we look at the environment external to our organization for potential **threats** and **opportunities** and compare them against our internal operations for **strengths** and **weaknesses**.

For example, some "downtown" companies faced the dilemma of whether to remain in the downtown area or move to the suburbs. In these instances, the companies found that their historic location resulted in two significant problems: lack of space to grow and changes in the socioeconomic makeup of the neighborhood. The socioeconomic changes made the organization less effective in meeting the needs of those in the neighborhood who were less able to afford their products. Potential customers with greater ability to afford care had moved and now sought shopping closer to their new homes.

The solution that some of these organizations adopted was interesting. They bought land and built satellite stores in growing parts of their community. Everybody won: The original neighborhood stores could serve the needs of those who lived there, while the new stores were built in areas where they could grow and help fund the inner-city stores. This illustrates how the changing operating environment an organization operates in affects an organization.

Source: Nate Hovee/Shutterstock

Crowded downtowns encourage suburban shoppers to seek retail outlets closer to their homes.

It is also important, when conducting an environmental analysis, to note new trends that are being adopted by competitors. For example, most traditional "brick and mortar" retailers have

EXHIBIT 1.2 Example of SWOT Analysis for a Hospital

Strengths	Weaknesses
Strong financial position Acquisition strategy to acquire physician practices Well-known Alzheimer's treatment center	Geographically "boxed–in" with little room to grow Aging facilities Declining neighborhood
Opportunities	**Threats**
Acquisition of smaller suburban clinics Aging population increasing demand for services Development of larger donor base	Reduce reimbursements from third party payers Shortages of qualified RNs and LPNs Fewer psychiatric residents

created online shopping services. Failure to integrate new technology used by competitors may leave an organization in a precarious situation.

SWOT An acronym for strengths, weaknesses, opportunities, and threats, which provide a framework for organizational analysis.

Many organizations have found it useful to use an analytical framework referred to earlier as a **SWOT** analysis. SWOT is an acronym for strengths, weaknesses, opportunities, and threats. Strengths and weaknesses refer to elements internal to the organization, while opportunities and threats are external to the organization. A detailed SWOT analysis helps the organization take a good look at the organization's favorable and unfavorable factors with a view toward building on strengths and eliminating or minimizing weaknesses. At the same time, the organization's leadership must also assess external opportunities that could be pursued and threats that must be dealt with in order to survive. Exhibit 1.2 offers one example of a SWOT analysis for a hospital.

Step 3: Establishing Objectives

Objectives Key results the organization wants to accomplish within a given time period.

Often the words "key results," "goals," and "targets" are used synonymously with **objectives** when managers are thinking about long-term and short-term objectives. Think of an archer drawing an arrow and aiming directly at a target. The bull's-eye represents exactly where a person wants to be at a certain point in time. An organization wants all of its arrows aimed at the same target. Just as an archer who shoots arrows off in any direction is liable to hit almost anything—including the wrong target—members of an organization may become confused and disorganized if they do not know where they are going.

Source: bizvector/Shutterstock

It's important to aim for the right target.

Objectives must be clear, concise, written statements outlining what is to be accomplished in key result areas within a certain time period. Wherever possible, they should be expressed in measurable terms that are consistent with the overall mission of the organization. Objectives are the results desired upon completion of the period the plan covers. In the absence of objectives, no sense of direction can be attained in decision making. Another basic purpose served by objectives is in the evaluation of performance. Objectives in the strategic plan become the yardsticks used to evaluate performance. As will be pointed out later, it is impossible to evaluate performance without some standard against which results can be measured. The objectives become the standards for evaluating performance because they are the statement of results desired by the planner. (See Chapter 2.)

Step 4: Developing Strategy

After developing a set of objectives for the time period covered by the strategic plan, the methods or strategy needed to

accomplish those objectives must be formulated. Strategy formulation is accomplished in stages.

First, strategy alternatives must be developed and evaluated by management before committing to a specific option. From these, an overall strategy can be designed. Then operational strategies for each functional area can be developed to detail activities to accomplish the grand strategy. In so doing, strategy becomes the link between objectives and results.

If the industry is in an unpredictable environment, it makes applying traditional forecasting techniques difficult and a rapidly changing environment makes it difficult to properly interpret market signals. This rapid change shortens the planning cycle. Organizations that fail to constantly develop their strategy will likely find themselves in an uncompetitive situation.

The firm's **scope** involves the product and services the organization will offer, the geographic location in which the firm operates, and the extent to which the firm is vertically integrated. Many organizations are engaged in acquisition and merger activities that are expanding their offerings. It is important the organization carefully consider the scope of its operations in formulating its strategy.

Step 5: Creating Operational Plans

After these steps have been taken and a strategy has been developed to meet objectives and goals, it is time to develop functional plans and operational or action plans. The **operational plan** stage is the "action" or "doing" stage. Here an organization hires, fires, builds, advertises, and so on. How many times has a group of people planned something, gotten enthusiastic—and nothing happened? This is usually because they did not complete an operational plan to implement their strategy.

Operational plan The "action" or "doing" stage during which an organization implements its plan and hires, fires, builds, advertises, and so forth to create the activities needed to accomplish the strategic plan.

Functional plans need to be developed in all the areas that are used to support the overall strategy. These include service delivery operations, information systems, finance, marketing, and human resources. Each of these more detailed functional plans is designed to spell out what needs to happen in a given area to implement the strategic plan.

Supporting the functional plans are the detailed operating plans and individual plans of all members of the organization. When planning is carried from the top to the lowest level in the organization, everyone becomes involved in negotiating and setting performance objectives that support the organization's objectives. Then individuals begin to develop their own action plans, which are used to accomplish these objectives. Finally, performance appraisals, which must be done on an individual basis, use those performance objectives as the basis of appraisal and reward.

One key in successful implementation of functional plans is the ability to adapt to rapid change. This requires a constant monitoring of the environment for signals of change from consumers, providers, vendors, technology, and governmental agencies. With information available in real time to everyone, the proper interpretation of change signals takes on increased importance. Organizational structure is also important for functional plan implementation. As new information is received, the organization needs the capability to respond quickly, bypassing bureaucratic hierarchies.

Source: ra2studio/Shutterstock

Failure to plan results in not knowing which path to take.

Step 6: Implementing Evaluation and Control Procedures

Failure to establish procedures to appraise and control the strategic plan can lead to less than optimal performance. A plan is not complete until the controls are identified and the procedures for recording and transmitting control information to the managers of the plan are established. Many organizations fail to understand the importance of establishing

Source: AntonSokolov/Shutterstock

Control steers the organization toward its objectives.

procedures to appraise and control the planning process. Control should be a natural follow-through in developing a plan.

Planning and control should be integral processes. The strategic planning process results in a strategic plan. This plan is implemented (activities are performed in the manner described in the plan), and results are produced. These results may be reflected in sales, customer satisfaction, financial sponsorship, and image enhancement.

Information on these and other key result areas can be used by an organization's executives to compare the results with original objectives to evaluate performance. This performance evaluation identifies the areas where decisions must be made to adjust activities, people, or finances. The actual decision making controls the plan by altering it to accomplish stated objectives, and a new cycle begins.

Individual performance appraisal is a vital part of this step. Rewards or reprimands must be related to the personal achievement or lack of achievement of agreed-upon objectives. This creates a work environment where people know what to do and rewards are tied to performance.

Stakeholder A person or group that has or claims ownership, rights, or interests in a corporation, and its past, present, or future activities.

Stakeholder analysis The process of identifying stakeholders; determining the relationship of the stakeholders to the organization; incorporating the stakeholders' wants or needs; and establishing how these wants or needs can be met.

Stakeholders' Role in Strategic Plan Development

One basic issue organizations must face in developing the strategic plan is who should be involved in the process. Ideally, all of the organization's stakeholders are involved, at least to some extent, in the strategic planning process. A **stakeholder** may be defined as persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation and may be legal or moral, individual or collective. Exhibit 1.3 lists possible stakeholders and their interests.

In order to include stakeholders in the strategic planning process, it is important for the organization to know its stakeholders and its impact on each separate stakeholder group. This is done through a **stakeholder analysis** that identifies stakeholder groups, their relationship to the organization and the concerns both the organization and the stakeholder

EXHIBIT 1.3 Examples of Stakeholders and Impact on Different Stakeholder Groups

Stakeholder	Impact on this stakeholder group
Employees	Compensation, job security, and benefits
Customers	Quality, availability, and cost
Board of Directors	Business continuance and potential liability
Investors	Transparency in communications and protection of earning potential
Vendors	Assurance of long-term relationships
Governmental Subdivisions	Ability to handle emergencies and potential disasters
Professional Associations	Maintain high ethical and professional standards

group has about their relationship. Stakeholder analysis is accomplished through interviews, focus groups, and surveys. Information gained through this analysis can be used as input for the strategic plan.

Often such a stakeholder analysis will reveal that not all stakeholders are equal. Normally, the analysis identifies two broad groups: **primary stakeholders** and **secondary stakeholders**. Primary stakeholders are those people and organizations essential for the organization's survival (employees, customers, suppliers, stockholders, etc.). Secondary stakeholders have a less essential relationship with the organizations but are important nonetheless. Examples include industry associations, the media, and community groups.

Stakeholder input does not mean consensus on what the organization's strategy should be. The board of directors and senior management have the legal and moral obligation to determine how the organization is managed. A question that must be answered is whether or not this process can be completed with the current staff or if an outside consultant needs to be hired to lead the organization through the process.

Hiring a consultant to lead the process has the advantages of bringing in a "fresh pair of eyes" to help evaluate the organization's current situation and the expertise and experience of working with other organizations in strategic plan development. If the consultant leads the process and gains the confidence and participation of all the stakeholders, this can be a successful approach to moving through the process. Care should be taken by the organization's management however, to make sure the consultant is leading the process and not using a cookie-cutter approach—trying to make a plan developed for another organization fit the current client's needs.

Consultants are helpful in the strategic planning process to:

- Prepare the organization for the planning process through education or retreats
- Give an objective assessment of the organization's strengths, weaknesses, threats, opportunities and in some cases, capabilities
- Steer the organization through the process
- Keep the planning process moving and on track

Source: kostudio/Shutterstock

Sometimes a consultant is needed.

A consultant cannot substitute for the manager's unique knowledge of the organization and its vision/mission. The consultant should not take on the role of the planner but rather serves as a facilitator.

If the current leadership of the organization has the skills to lead the process, then several potential roles and sets of responsibilities may be assigned for various stakeholders. The board of trustees then directs the process as described below.

Primary stakeholders People and organizations essential for the firm's survival, such as employees, customers, vendors, investors, etc.

Secondary stakeholders Stakeholders that have a less essential relationship with the organization but are nonetheless important. Examples include governmental entities, trade associations, the media, and community groups.

Board Members

Boards of directors of organizations usually have three primary purposes. One is to establish policies, which is crucial to the subsequent roles. Effective policies delineate the tasks and responsibilities of the board and management.

The second role of the board is to develop the organization's mission, vision, and to participate in and direct the strategic planning process. Often the board assigns the details of the plan to management, but retains oversight.

Third, the board then monitors management's implementation of the organization's mission, vision, and strategic plan. Notes that oversight is not the same as management. While the board is legally responsible for everything that happens in the organization, its job is governance and not management. And finally, have responsibility for the organization's profitability. Most boards of directors have the responsibility of hiring/firing the CEO and reporting to the shareholders regarding the direction, management, and profitability of the organization.

Source: GorodenkoffShutterstock

Board of directors establish policies for the organization.

Strategic Planning Committee

A strategic planning committee may be set up by the board of directors to guide the process and be assigned some or all of the following responsibilities:

- Organizing the planning process
- Make sure all employees have input and are included in the process
- Scheduling and conducting meetings
- Focusing the planning process
- Ensuring that all stakeholders values are reflected in the plan
- Developing a draft of the strategic plan
- Present the plan to the board/administration for approval

The committee members must represent all of the key functional areas of the organization and have sufficient time to devote to these tasks. A timeline should be established for the completion of each task and the chairman of the committee must have the authority to hold members accountable for their individual tasks in the process.

Chief Executive Officer/Chief Operating Officer

The organization's chief executive officer (CEO) or chief operating officer (COO) may take the lead in the process as a strategist, organizer, tactician and facilitator. The CEO/COO is responsible for carrying out the strategic plan after it is approved by the board. Each of these roles requires a different set of knowledge and skills:

1. Strategist—the strategist can see the "big picture" of the organization in terms of how the organization fits into the industry the competitive environment and the services needed to position the organization for the long term.
2. Organizer—the organizer needs the skills to determine key functions of the organization, how the functions should be related to each other, and making sure that capable people are heading up these functions
3. Tactician—the tactician must be the "details person" who knows the specific tactics needed in implement a strategy and the processes to carry out tactical, day to day operations.
4. Facilitator—the facilitator is the person who moves the organization forward by communicating what is to be done, by whom, when, how, and with what resources.

It is important to note that one person may not have all the knowledge and skills to perform all these roles and therefore a team building approach should be used to make sure all these leadership skills are present in the team. If each team member knows their role and how their role relates to the strategic plan, the team will operate as a unit to smoothly carry out tasks.

Source: Alina G/Shutterstock

Departments are the "boots on the ground" in an organization.

Department Heads

Department heads make an extremely valuable contribution to the strategic planning process and their perspectives must be included in the plan. Their functional operations planning serves a major role in the process of developing objectives and implementing the approved plan. Department heads are the people that must be relied on to coordinate their department's operations with the organizational strategic plan. Each department's operation must support the strategic plan and the department head is charged with that responsibility. They are the "boots on the ground" that know what their department is capable of doing and the specific needs for personnel and other resources to carry out the department's specific function.

For example, the food preparation department of a restaurant must coordinate staffing, equipment, and scheduling to ensure that food is prepared and served in a timely manner to create customer satisfaction.

Customers and Community

The role of customers and the community in the strategic planning process is another critical element in the strategic planning process. These stakeholders provide information in the organization's analysis of the internal and external environments, and development of the organization's vision/mission statements. Participation by these groups in the process can be accomplished through focus groups, surveys and inclusion on planning committees. Many organizations have set up processes to allow customers and members of the community to provide input. Customer surveys have become a vehicle to get needed

Source: Stephen Coburn/Shutterstock

Community organizations can aid in assimilation into the community.

input on awareness, use, and satisfaction with products. Their inclusion on the board or planning committee provides an outside perspective that is invaluable to the organization.

The community is not only a source of informational input into planning but also a source of support. Some community organizations specialize in services to help new employees relocate and assimilate into the community.

Vendors

Just-in-time inventory
Allows the organization to keep lower inventories of supplies. These supplies arrive.

Vendors may also be involved in the strategic planning process. This is particularly true with the increasing need for technology and the sophisticated equipment needed by most companies. Additionally, many companies have adopted **just-in-time inventory** for products/supplies. These programs require close working relationships with vendors. A just-in-time inventory system allows the organization to keep lower inventories of products/supplies. These supplies arrive "just in time" before current inventories are depleted.

This not only requires that the organization be able to forecast the need for specific types of products/supplies but also requires that vendor delivery schedules are coordinated with desired levels of inventory. Communicating with vendors on a constant basis is needed to ensure a system is operating correctly but also that information flows on changes in needs or the development of new vendor products and services are incorporated into operating procedures.

Strategic Management as an Ongoing Process

Strategic management is not simply a singular event to be repeated only every three to five years. The word "process" can be defined as a series of actions or operations leading to an end. Here, we wish to emphasize the ongoing action aspect of the planning process which is sometime referred to as the planning cycle or strategic management cycle. The actions are the activities in which the organization engages to accomplish objectives and fulfill its mission. In today's dynamic environments, these activities must continually evolve.

There are several important reasons for viewing strategic management as a process. First is the idea that a process can be studied and improved. An organization just getting involved in strategic management will need to review the whole process on an annual basis, not only to account for changing environmental forces but to improve or refine

Source: Trong Nguyen/Shutterstock

Stockouts lead to lost sales opportunities.

the plan. Mission statements, objectives, strategies, and appraisal techniques can be fine-tuned over time as the planners gain more experience and as new and better information becomes available.

A second reason for viewing strategic management as a process is that a change in any component of the process will affect most or all of the other components. For example, a change in mission or objective will lead to new analysis, strategies, and evaluations. Thus, major changes that affect the organization must lead to a reevaluation of all the elements of the plan.

Finally, and perhaps most important, involvement in the strategic management process can become the vehicle through which the whole organization mobilizes its energies to accomplish its mission. If all members of the organization can participate in the process in some way, an atmosphere can be created within the organization that implies that doing the right things and doing things right is everyone's job. Participation instills ownership. It's not *my* plan or *their* plan but *our* plan that becomes important, and everyone will want to contribute to make it happen.

Strategic Management in an Ethical and Socially Responsible Environment

Involvement in the strategic management process assumes the organization will act in an ethical manner when dealing with all stakeholders. Unfortunately, there are always some "bad actors" who take advantage of customers, vendors, investors and even local communities. Such criminal acts are clearly deliberate and intended to harm some for the gain of others. Many ethical decisions, however, are not as clearly right or wrong as are criminal acts. It may be difficult to even recognize an ethical situation, yet good ethical decisions are beneficial to society and to the organization. For this reason, a discussion of ethics in business is provided below.

Ethics, Corporate Social Responsibility, and Sustainability

The word "**ethics**" comes from the Greek *ethos,* which is translated as "character" in English. Yet, *ethos* means more than character. It also refers to the fundamental set of values

Ethics The set of values and standards we use to make decision about right and wrong.

Source: krissikunterbunt/Shutterstock

Ethical decisions are made in context.

one uses to make decisions. Thus, we can define ethics, for our purposes, as the set of values and standards we use to make decisions about right and wrong.

The application of ethics to business takes place at three levels: the individual, the organization and the social/political environment. Thus, ethical decisions in business are the result of an interaction of these three factors. That is, an ethical decision is made by individuals working within the policies and procedures of the firm and within the laws and mores of the society at large (Goodpaster, 1992).

This multi-level aspect of business ethics can make some ethical decisions difficult. Many large, multi-national organizations employ people from different cultures and backgrounds who may well differ in their approach to ethical issues. Organizations themselves often operate within an ethical framework that is common to its industry but may differ from other industries.

Finally, the organization operates in the broader social/political environment. For a multi-national organization, that can mean operating in a free market democracy while at the same time have operations in countries that are socialist and autocratic.

In our discussion of business ethics, we will look at different philosophical approaches to ethical decision making, how organizations affect ethical decision making, and steps in developing ethical standards in an organization.

Virtue ethics This school of thought posits that ethical decisions are based on one's moral virtue or character.

Rights principle This principle holds that a decision is ethical when it is the same decision most people would make based on universal morals (i.e., morals held by all people such as respect for life).

Utilitarianism Also known as *teleology,* this school seeks an ethical decision that benefits everyone in the best way. It can be summarized as "the greatest good for the greatest number."

Philosophical Approaches to Ethical Decision Making

People use several approaches in governing their ethical decision making. These include: moral philosophy, the rights principle, utilitarianism, relativism, and justice. It is important to note that these approaches are not mutually exclusive. That is, most people use some combination of these to make their decisions.

One such approach is moral philosophy, Also known as **virtue ethics**, this school of thought posits that ethical decisions are based on one's moral virtue. As described by Aristotle, a decision in a certain situation is the one a mature person with good character would make. The virtues that constitute good moral character are timeless and can be taught. Moreover, these virtues transcend and are a higher order than community standards or consensus. Aristotle believed that a person learned character from the people he or she associated with. If one associates with others of good moral character, then that person will develop the proper virtues. Many adherents of virtue ethics today believe that such institutions as places of worship and schools should be used to foster the proper virtues.

Source: Neoplantski/Shutterstock

The rights principle is another approach to ethical decision making. Underlying the **rights principle** are the rights of individuals and the intentions of behavior with respect to those rights. Originally expressed by Immanuel Kant (1724–1804) this principle holds that a decision is ethical when it is the same decision most people would make based on universal morals (i.e., morals held by all people such as respect for life). This leads to the concept that an ethical decision is correct if it can be applied to all similar situations. For example, if it is wrong to lie, it is wrong to lie at all times including "white lies" one may tell to spare someone's feelings. This is known as Kant's "moral imperative." The concept goes beyond legal requirements and insists that people volunteer the truth in situations where they are not obligated to reveal information. As an example, when buying a used car, the salesperson is not obligated to reveal information not requested by the buyer. Under the moral imperative, the salesperson is obligated to reveal the information whether asked or not. The rights principle is often compared to the Golden Rule. Therefore, decision makers need to ask, is this decision the same decision that I would expect most moral people to agree with?

Another approach to ethics is called **utilitarianism** (also known as *teleology*), which means the greatest good for the greatest number of people.

Teleology comes from the Greek word *telos* which means "end." Thus, individuals who espouse utilitarianism seek a decision that benefits everyone in the best way. This is commonly referred to as the "greatest good for the greatest number." Often this process includes a cost/benefit analysis. That doesn't mean this approach will yield the best ethical result. For example, an automobile defect may injure only a few people. Instead of recalling the defective model, however, the automobile company pays the damages to the few injured. The injured get compensation while the automobile manufacturer saves money. It may appear that everyone in this situation wins, but there is still a risk that other consumers will be harmed by the defects, even if these consumers are notified of the defects. This is an example of how utilitarianism suggests that resources be implemented in the most efficient form. Even though there is still a risk of harm to consumers, individuals who use this approach feel they have made the best ethical decision.

A moral philosophy that is particularly relevant to individuals within the firm is the **justice principle** which refers to the fairness of processes and rewards when dealing with others. There are three categories: 1) **distributive justice**, 2) **procedural justice**, and 3) **interactive justice**. Distributive justice deals with the equitable determination of rewards. For example, if it is announced that promotion to sales manager will go to the year's top salesperson, then the top salesperson should get the position. To give the sales manager job to someone who came in second or third violates the equitable determination of rewards.

Justice principle Refers to the fairness of processes and rewards when dealing with others.

Distributive justice Deals with the equitable determination of rewards.

Procedural justice involves the "rules of the game" and if they are followed. In the above example, if the one salesperson falsely manipulates sales figures and comes out as number one for the year, the rules have been violated. Once procedural justice has been breached, distributive justice is also brought into doubt.

Procedural justice Involves the "rules of the game" and if they are being follow.

Interactive justice involves the communication used in the relationship. Again, using the example above, if the announced rules for the promotion are that the position goes to the top salesperson; but if management fails to stipulate that it is the most profit on sales and not the most revenue, the lack of communication will violate the concept of interactive justice. Such a violation will undermine employees' beliefs in distributive and procedural justice as well.

Interactive justice Involves the communication used in the relationship between members of an organization.

The final moral philosophy presented is **relativism**. Relativists make ethical decisions based on the people around them or the specific context in which they find themselves. Often, they simply follow a group's consensus rather than applying any ethical standards of their own. As consensus or context changes, the relativist changes his or her ethical decisions. Everyone has heard the old saying, "When in Rome, do as the Romans do." This sums up the relativist position – ethics change as context changes.

Relativism Relativists make ethical decisions based on the people around them or the specific context in which they find themselves.

There is a strong tendency for business managers and other business practitioners to become relativists in international situations. Despite the temptation, core standards still need to be followed in foreign cultures. It is also important to understand the law both in the host country and in the United States. Managers and other business professionals may be prosecuted for violation of U.S. law (e.g., bribery) while in a foreign country.

Corporate Governance

The set of rules, controls, practices, and processes that direct how a firm is directed and controlled is known as **corporate governance**. The firm's board of directors is the unit primarily responsible for corporate governance.

Corporate governance The set of rules, controls, practices, and processes that direct how a firm is directed and controlled.

Corporate governance often determines **corporate culture** which is the pattern of shared values and beliefs that help members of an organization understand why things happen and thus teach them the behavioral norms of the organization (Desphande & Webster, 1989). In short, employees are involved in the firm's socialization process that makes a person a complete member of the organization and teaches him or her "the way we do things around here" (Peters & Waterman, 1982). In this way, the firm directs employees' behavior. Obviously a culture that teaches honesty, openness, and respect for the

Corporate culture The pattern of shared values and beliefs that help members of an organization understand why things happen and thus teach them the behavior norms of the organization.

Source: Rawpixel.com/Shutterstock

Corporate Social Responsibility is an integral part of many firms.

individual will have fewer ethical lapses than one focused strictly on profit, competition, and considers employees expendable.

Corporate Social Responsibility and Sustainability

Corporate social responsibility (CSR) Intentional actions taken by managers to benefit stakeholders of the organization and/or actions taken to avoid harmful consequences for corporate stakeholders and the larger society.

A firm's corporate governance will determine, to a large extent, the firm's approach to **corporate social responsibility (CSR).** CSR can be defined as "intentional actions taken by managers to benefit stakeholders of the company and/or actions taken to avoid harmful consequences for corporate stakeholders and the larger society" (Filatotchev & Nakajima, 2014, p. 4).

Many corporations see CSR as simply writing a check or giving vocal support to a cause. However, these approaches to CSR are often disconnected from the firm's overall strategy. When CSR is aligned with the firm's strategic plan there are opportunities to benefit society and the firm.

The International Standards Organization (ISO) developed an international guidance for corporate social responsibility. As a guide, it is not certified as are most other ISO standards. Nonetheless, the guide recognizes seven key underlying principles of CSR and seven core subjects pertaining to CSR. See Exhibit 1.4 for a list of these key principles and core concepts.

EXHIBIT 1.4 Key Principles and Core Concepts

Seven Key Underlying Principles Pertaining to CSR	Seven Core Subjects Pertaining to CSR
Accountability	Organizational governance
Transparency	Human rights
Ethical behavior	Labor practices
Respect for stakeholder interests	The environment
Respect for international norms of behavior	Fair operating practices
Respect for human rights	Consumer issues
Respect for the rule of law	Community involvement and development

Source: oiso.org

Source: Iam_Anupong/Shutterstock

Protecting the environment is part of many firms' strategy.

Part of a firm's corporate social responsibility involves the environment and here the goal is an emphasis on **sustainability**.

Sustainability for a firm means adopting and implementing business strategies that meet the firm's needs and those of its stakeholders today, while at the same time, protecting and sustaining the natural and human resources that will be needed for future generations (Weybrecht, 2010). There are several advantages of sustainability for the firm. These include reduced costs, preserving scarce resources, keeping up with legislation, an enhanced reputation, and satisfying the needs of customers and other stakeholders. Exhibit 1.5 outlines these advantages.

Many consumers interested in sustainability will look for a firm that meets the International Standards Organization (ISO 14001) standards. This standard is auditable and provides customers and stakeholders reasonable assurance that the environmental claims made by a firm are accurate.

Sustainability Means adopting and implementing business strategies that meet the firm's needs and those of its stakeholders today, while at the same time, protecting and sustaining the natural and human resources that will be needed for future generations.

EXHIBIT 1.5 Advantages of Sustainability to the Firm

Reduce costs	Use less resources, make processes more efficient and minimize or eliminate waste
Preserve Resources	Preserve habitat for resources used in production
Keep up with Legislation	Firms that practice sustainability stay ahead of new regulations and standards
Enhance Reputation	Environmental performance is key to a firm's strategy
Differentiate	A strategy of sustainability can differentiate a firm in the consumers' minds
Attract and Retain Quality Employees	Employees feel pride in working for a firm involved in sustainability
Satisfy Customer Needs	Eco-conscious customer is a growing segment of the market
Meet Stakeholder Expectations and Attract Capital Investment	Many investors now insist that firms are environment friendly

Source: adapted from Weybrecht, 2010.

EXHIBIT 1.6 Sample Codes of Conduct

Whole Foods	www.wholefoodsmarket.com (click on "Corporate Policies and then "Whole Foods Market Code of Business Conduct")
Tom's of Maine	www.tomsofmaine.com (click on "Our Promise")
ExxonMobil	https://corporate.exxonmobil.com/company/who-we-are/corporate-governance/code-of-ethics#overview
Starbucks	www.starbucks.com (Click on "Social Policy")

Development of a Code of Standards

Organizations in all industries often find it advantageous to develop a code of standards to inform boards of directors, managers, employees, subcontractors, and anyone else working for or in the firm of the appropriate ethical conduct expected. A list of several well-known firms and their websites are displayed in Exhibit 1.6. Each of these websites will have a link to the firm's code of ethics or business conduct. These firms offer templates for any organization wishing to develop its own code of standards.

The term *code of standards* is used in lieu of "code of ethics" to illustrate that the firm should go beyond traditional ethical issues. A code of standards is more inclusive. As well as ethics, a code of standards addresses:

- Client confidentiality
- Duty of care to the environment and community

Source: Viktoria Kurpas/Shutterstock

Building a code of standards.

EXHIBIT 1.7 Steps in the Development of a Code of Standards

Get Everyone Involved	Employees will feel more ownership if they help craft the document. Other shareholders such as customers and vendors can also add valuable insight.
Decide whether to do the job in-house or outsource to a consultant	If the firm lacks the knowledge and expertise necessary to write a code of standards, a consultant may be helpful. The consultant's role, however, is just that–to consult. The firm still needs to take ownership of the document.
Make sure the standards apply to everyone in the organization	A code of standards is ineffective if anyone in the organization is held to a different criterion. This is especially true if senior executives are allowed to engage in behavior for which other employees would be sanctioned.
Avoid legalese	Keep the firm's code of standards in simple language, easily understood by those who will implement it.
Publicize	Publicize the code of standards on the firm's Web page, in brochures and in sales presentations. Publication aides in implementation, provides good publicity, and builds pride among employees.
Provide training	Employees, subcontractors, and others should not be held to standards of behavior of which they are not aware. Hold regular training on the code of standards and make sure all new hires understand the conduct expected.
Implement and follow-up	Make sure all supervisory personnel are implementing the new plan. At the same time, gather feedback from employees and other stakeholders and make necessary adjustments. It is a good idea to have a regular time frame (e.g., annually) to re-vise the standards to keep up with changing conditions and technology.
Enforcement	Have procedures in place to sanction those who violate the standards. Apply the concepts of procedural and distributive justice to the enforcement process.
Ombudsman	Provide employees, clients, and other stakeholders with a senior executive to whom violations can be reported outside of the chain of command. Employees need to be assured that they can report a supervisor's unethical behavior without fear of retaliation.

- Conflicts of interest
- Fair pricing policies
- Equitable treatment of employees
- Quality management/assurance
- Non-discriminatory policies
- Corporate citizenship

The steps in developing a code of standards are in Exhibit 1.7

Ethical Decision Making

An old Chinese proverb is, "To starve to death is a small thing, but to lose one's integrity is a great one." To keep our integrity, we need to make good ethical decisions. Unfortunately, most ethical situations do not present themselves as simple right or wrong problems, but instead are most often complex and ambiguous. Ethical situations may also be ill-defined and difficult to recognize. As business becomes more globalized, technology advances, and workers gain more knowledge, ethical problems take on increasing complexity. These factors put ethical decision makers at "ethical risk." That is, managers and others who

EXHIBIT 1.8 Factors to Consider When Assessing an Ethical Decision

Follow the rules that are mutually understood and agreed upon. Everyone needs to operate under the same rules of the game.
Be able to discuss and defend your choices. An ethical decision maker needs to be open about how a decision is reached. Openness indicates a confidence in one's attempt to make the right decision.
Employ the Golden Rule. That is, would you want to be on the receiving end of your actions? Additionally, consider what society would look like if everyone acted as you did.
Consider the decision alternatives. This is best done by seeking input from those with different points of view who are inside and outside the organization.

Source: Adapted from L.G. Bolman and T.E. Deal, (2008). *Reframing Organizations: Artistry, Choice, and Leadership, 4th edition Jossey-Bass: San Francisco, CA.*

make the wrong ethical decisions put their organizations, employees, and the public at risk of physical, social, or environmental harm.

Ethical decision making will remain difficult, but there are guidelines researchers can employ to assist in making the right choices. Exhibit 1.8 illustrates these guidelines.

In addition to these factors, ethical decision makers should reflect on their own moral philosophy. A person's values guide actions, and the better one understands his or her values, the easier ethical decisions will be.

Summary of Learning Objectives

1. Define strategic plan

A strategic plan is defined as an organization's long-term plan that is broad in scope and entails developing vision and mission statements along with objectives and strategies. A strategic plan answers the question of how the organization is to commit its resources over the next three to five years.

2. Differentiate between a strategic plan and strategic management

Strategic planning and strategic management are not the same. Strategic planning is a *part* of the strategic management process. Strategic management is the process of developing and implementing strategic plans, plus evaluating the plan's success in reaching organizational objectives.

3. Describe the strategic management process

The strategic management process has six steps: (1) develop vision and mission; (2) analyze the internal and external environments; (3) set organizational objectives; (4) formulate strategy; (5) develop operational plans; (6) determine methods for evaluation and control.

4. Describe stakeholders involvement in the strategic management process

Stakeholders are persons or groups that have, or claim, ownership, rights, or interest in an organization and its activities, past, present or future. Stakeholders include, but are not limited to, employees, customers, boards of directors, investors, vendors, governmental subdivisions, and professional associations.

5. Explain the strategic management cycle

The strategic management cycle is based on the idea that a process can be studied and improved. Firms need to review the entire process, at least annually, to account for changes in the environment and to refine the plan. Another reason for reviewing the plan is that a change made in any component of the plan will affect other parts of the plan. Finally, plan revision can become the vehicle through which the whole organization mobilizes its energies to accomplish its mission.

6. Describe ethical issues in business

The application of ethics to business takes place at three levels: the individual, the organization and the social/

political environment. Thus, ethical decisions in business are the result of an interaction of these three factors. That is, an ethical decision is made by individuals working within the policies and procedures of the firm and within the laws and mores of the society at large.

7. Explain individual factors affecting business ethical decisions

Individual factors affecting business ethical decisions are include which of several moral philosophies the individual uses in determining if there is an ethical situation and how to deal with it. Major moral philosophies involve virtue ethics, rights principle, utilitarianism, the justice principle, and relativism.

8. Explain organizational factors affecting business ethical decisions

The two organizational factors that affect business ethical decisions are corporate governance and corporate culture.

9. Describe qualities and characteristics of corporate social responsibility and sustainability

Corporate social responsibility (CSR) includes those actions managers take that benefit the organization's stakeholders or avoids harm to the organization's stakeholders and society at large. Sustainability for a firm means adopting and implementing business strategies that meet the firm's needs and those of its stakeholders today, while at the same time, protecting and sustaining the natural and human resources that will be needed for future generations.

10. Explain the arguments for developing a code of standards in lieu of a code of ethics

A "code of standards" goes beyond the term "code of ethics" to illustrate that the firm should go beyond traditional ethical issues.

Key Terms

Corporate culture, p.15
Corporate governance, p. 15
Corporate social responsibility (CSR), p. 16
Distributive justice, p. 15
Ethics, p. 13
Just-in-time inventory, p. 12
Justice principle, p. 15
Interactive justice, p. 15
Mission, p. 4
Objectives, p. 6
Operational plan, p. 7
Opportunities, p. 5
Organizational myopia, p. 2
Primary stakeholders, p. 9
Procedural justice, p. 15
Relativism, p. 15
Rights principle, p. 14
Secondary stakeholders, p. 9
Stakeholder, p. 8
Stakeholder analysis, p. 8
Strategy, p. 2
Strategic management process, p. 2
Strategic plan, p. 2
Strategic planning process, p. 3
Strengths, p. 5
Sustainability, p. 17
SWOT, p. 6
Threats, p. 5
Utilitarianism, p. 14
Virtue ethics, p. 14
Vision, p. 4
Weaknesses, p. 5

Discussion Questions and Application Exercises

1. Explain how a strategic plan can help avoid "organizational myopia."
2. Differentiate between a strategic plan and the strategic management process.
3. Search the internet for the mission and vision statements of a well-known company. Do the statements fit the description of mission and vision as outlined in the text? Explain.
4. Conduct a SWOT analysis on your career goals. Remember, strengths and weaknesses are internal (personality, temperament, persistence, etc.) and opportunities and threats are external (the economy, technology, etc.). Ask someone who knows you well to review your analysis and see if they agree. What advice could they give you to improve the analysis?
5. What is a stakeholder? Who are the stakeholders in your career goals? How can you incorporate their input as you set your goals and objectives?
6. Explain why strategic planning is an ongoing process.
7. Describe the major philosophies an individual may use in approaching an ethical issue. Does one of these

philosophies appeal to you more than the others? Explain.

8. Choose a for-profit organization you believe is committed to sustainability. Explore the internet to see if their sustainability program meets the ISO 14001 standards.
9. Develop your own "code of standards." Regularly review and refine it.
10. Characterize the differences between utilitarianism and the rights principle. Discuss if it is ever morally acceptable to lie. Explain your answer.
11. Do you agree with Aristotle that virtue can be taught? Explain your answer.
12. What organizational pressures might managers face? What are some ways for them to deal with these situations?
13. What is the value of a Code of Standards? What are the steps in developing one?
14. What are some guidelines in making good ethical decisions?

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