Strategic Management: Theory and Practice

Chapter 1

Fundamentals of Strategic Management

Chapter 1: Key Issues

- Strategy & Strategic Management
- Intended & Realized Strategies
- Influences on the Strategic Management Field
- Corporate Governance
- Strategic Decisions
- The Global Imperative

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Key Terms in Strategy

- The **mission** is a broadly defined but enduring statement of purpose that identifies the scope of an organization's operations and its offerings to the various stakeholders. Numerous examples can be found on the Internet.
- **Strategy** refers to top management's plans to develop and sustain competitive advantage so that the organization's mission is fulfilled.
- **Competitive advantage** is a state whereby a firm's successful strategies cannot be easily duplicated by its competitors. Maintaining a **sustained competitive advantage** over time can be challenging.

What Is Strategic Management?


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- **Strategic Management** is a broader term than strategy and is a process that includes top management's analysis of the environment in which the organization operates prior to formulating a strategy, as well as the plan for implementation and control of the strategy.

The Strategic Management Process

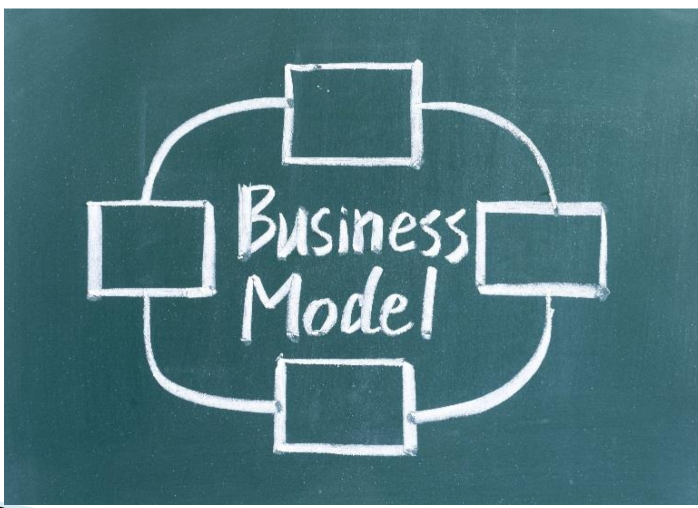
1. External Analysis (Chapters 2–4)
2. Internal Analysis (Chapter 5)
3. Strategy Formulation (Chapters 6–9)
4. Strategy Implementation (Chapters 10–11)
5. Strategic Control (Chapter 12)

Foundational Concepts of Strategy

- **Efficient market hypothesis**- The idea that all individuals or firms in a market earn the same returns in the long run. *If this is completely true, then strategy wouldn't matter.*
- **Subjective value**- The idea that a resource's value differs across firms because it is determined by the individual or organization possessing it. *This explains why firms obtain different resources and implement different strategies.*

Business Model

- A **business model** explains how the organization seeks to earn a profit by selling its goods.
- Progressive firms often devise innovative business models that extract revenue—and ultimately profits—from sources not identified by competitors.



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5 Characteristics of a Successful Strategy

1. Understand the competitive environment.
2. Strengths and weaknesses are assessed in a thorough and realistic manner.
3. The strategy is consistent with the mission and goals of the organization.
4. Plans for putting the strategy into action are designed before it is implemented.
5. Possible future changes (i.e., strategic control) are evaluated before the strategy is adopted.

Intended & Realized Strategies

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- **Intended Strategy**—what management originally plans.
- **Realized Strategy**— what management actually implements.
- Intended & realized strategies typically differ because of unforeseen events, better information that was not available when the strategy was formulated, and/or an improvement in top management's ability to assess its environment.

Art *vs.* Science Debate: Strategy as an Art

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- The lack of environmental predictability and the fast pace of change render elaborate strategy planning as suspect at best.
- Strategic managers should emphasize creativity and innovation.
- Strategies should be developed like a potter molds clay.

Art *vs.* Science Debate: Strategy as a Science

- The scientific approach is the most widely recognized view of strategy.
- Strategic managers are encouraged to systematically assess the firm's external environment and evaluate the pros and cons of myriad alternatives before formulating strategy.
- The scientific approach is more prominent in this text.

3 Theoretical Perspectives on Strategic Management

- **Industrial organization** (IO), a branch of microeconomics, emphasizes the *influence of the industry environment* on the firm.
- **Resource-based theory** views performance primarily as a function of a firm's ability to utilize its resources and emphasize the development of a **distinctive competence**.
- **Contingency theory** represents a *middle ground* perspective that views organizational performance as the joint outcome of environmental forces and the firm's strategic actions.

3 Theoretical Perspectives on Strategic Management (Table 1-2)

Theoretical Perspective	Primary Influence on Firm Performance	How Applied to the Case Analysis
Industrial Organization (I/O) Theory	Structure of the industry	Industry analysis portion of the external environment
Resource-Based Theory	Firm's unique combination of strategic resources.	Analysis of internal strengths and weaknesses
Contingency Theory	Fit between the firm and its external environment.	SWOT analysis & SW/OT matrix

Corporate Governance

- Strategic decisions are typically made by the owners in small privately-held firms. It's much more complicated in large corporations.
- **Corporate governance** refers to the board of directors, institutional investors (e.g., pension and retirement funds, mutual funds, banks, insurance companies, among other money managers), and large shareholders known as **blockholders** who monitor firm strategies to ensure effective management.

Boards of Directors

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Boards consist of officials elected by shareholders who are responsible for monitoring activities in the organization. Boards are responsible for:

1. Evaluating top management's strategic proposals.
2. Establishing broad direction for the firm
3. Selecting and determining the compensation for the chief executive

Criticisms of Boards

- **CEO Duality**—when the CEO also serves as the chairman of the board—represents a potential conflict of interest.
- Some boards simply "rubber stamp" top management's proposals.
- Evidence suggests that many boards are becoming more responsive and assertive in their responsibilities.

Sarbanes-Oxley Act (2002)

- Covers public firms in the United States
- Requires that both the CEO and the CFO certify every report that contains company financial statements
- Restricts membership of the firm's audit committee to outsiders
- Prohibits firms from extending personal loans to board members or executives
- The effectiveness of S-Ox is widely debated

4 Characteristics of Strategic Decisions

1. Based on a systematic, comprehensive analysis of internal and external factors.
2. Long-term and future-oriented—usually several years to a decade or longer.
3. Seek to capitalize on favorable situations outside the organization.
4. Involve choices and trade-offs.

- *Strategic decisions are typically made by a top management team, although the CEO alone is usually held responsible.*

The Global Imperative

- Most firms are involved globally to some extent.
- The basis for global involvement is **comparative advantage**, the idea that certain products may be produced more cheaply or at a higher quality in particular countries due to cost or technology advantages.
- *Note: Comparative advantage and competitive advantage are distinct concepts.*

Case Analysis Step 1: Introduction of the Organization

- This step provides background information and creates the context for the analysis.
- When and how did the organization form?
- Is the company public or private?
- What is the firm's mission?
- What is the firm's business model?