CHAPTER 1: THE NATURE OF STRATEGIC MANAGEMENT

CHAPTER SYNOPSIS

Chapter 1 provides an overview of strategic management. A practical, integrative model of the strategic-management process is introduced. Basic activities and terms in strategic management are defined. The benefits of strategic management are presented. Important relationships between business ethics and strategic management are discussed. In addition, the chapter initiates discussion of two themes that are present throughout the text: global considerations and the strategic implications of the natural environment.

VTN (Visit the Net): The website www.strategyclub.com, designed by Dr. David, provides strategic planning tools, templates, links, and information to help strategic management students analyze cases.

The first theme is that global considerations impact virtually all strategic decisions. The boundaries of countries can no longer be the boundary of our minds. It has become a matter of survival for businesses to see and appreciate the world from the perspective of others. The underpinnings of strategic management hinge on managers gaining an understanding of competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide. The price and quality of a firm’s products and services must be competitive on a world basis, not just a local basis. A Global Perspective illustration is provided in all chapters of this text to emphasize the importance of global factors in strategic management.

A second theme evidenced throughout this text is that the natural environment is an important strategic issue. Perhaps no greater threat exists to business and society than the continuous decimation and degradation of our natural environment. This is a strategic issue that needs immediate and substantive attention by all businesses and managers. A Natural Environment Perspective is provided in all chapters. Like the Global Perspectives, these are boxed inserts.

VTN (Visit The Net): The website www.prenhall.com/david provides sample tests and supplemental material for each chapter.

CHAPTER OUTLINE

♦ What is Strategic Management?
♦ Key Terms in Strategic Management
♦ The Strategic-Management Model
♦ Benefits of Strategic Management
CHAPTER OBJECTIVES

After studying this chapter, you should be able to do the following:

1. Describe the strategic-management process.
2. Explain the need for integrating analysis and intuition in strategic management.
3. Define and give examples of key terms in strategic management.
4. Discuss the nature of strategy formulation, implementation, and evaluation activities.
5. Describe the benefits of good strategic management.
6. Explain why good ethics is good business in strategic management.
7. Explain the advantages and disadvantages of entering global markets.
8. Discuss the relevance of Sun Tzu’s *The Art of War* to strategic management.
9. Discuss how a firm may achieve sustained competitive advantage.
10. Explain ISO 14000 and 14001

ISSUES FOR REVIEW AND DISCUSSION

1. **Explain why Strategic Management often is called a “capstone course.”**

   Business policy is commonly called a capstone course because students’ major responsibility in this class is to use all knowledge gained in prior courses to chart the future direction of different organizations.

2. **What aspect of strategy formulation do you think requires the most time? Why?**

   Important aspects of strategy formulation include developing a business mission, performing an external audit, conducting an internal audit, generating alternative strategies, and choosing among alternative strategies. Performing an external audit generally takes the most time. For example, identifying competitors’ strengths and weaknesses is an essential aspect of the external audit. Effective use of the Internet can reduce the time required for performing an external audit.
3. Why is strategy implementation often considered the most difficult stage in the strategic-management process?

Strategy implementation is often considered to be the most difficult stage in strategic management because it requires discipline, sacrifice, commitment, and hard work from all employees and managers. It is always more difficult to do something than to say you’re going to do it.

4. Why is it so important to integrate intuition and analysis in strategic management?

Neither intuition nor analysis alone is sufficient for making good strategic decisions. Intuition, based on one’s past experiences, judgment, and “gut” feelings, does not include the use of analytical strategic-management concepts that have been developed and successfully tested in the business world. To ignore these techniques that are based on historical learning is like trying to reinvent the wheel. However, no analytical tools can capture all aspects of a given organization’s culture and situation. Nor can analytical tools assimilate all the subjective information that must be considered in strategic management, such as personalities, emotions, values, beliefs, customs, and ethical factors. Thus, it is very important to integrate intuition and analysis in strategic management.

5. Explain the importance of a vision and mission statement.

Reaching agreement on formal vision and mission statements can greatly facilitate the process of reaching agreement on an organization’s strategies, objectives, and policies. Organizational success depends on reasonable agreement on these issues, so a clear mission statement is a most important strategic-management tool.

6. Discuss relationships among objectives, strategies, and policies.

Long-term objectives and strategies are products of strategy formulation. Short-term (annual) objectives and policies are products of strategy implementation. Firms should translate long-term objectives into annual objectives. Similarly, strategies should be supported with clear policies.
7. Why do you think some chief executive officers fail to use a strategic-management approach to decision making?

Some chief executive officers, strategists, and organizations have been successful, to date, without using strategic-management concepts and techniques. However, success today is no guarantee for success tomorrow. The business world is becoming global in scope; technology is changing the nature of competition in all industries. Strategic management enables organizations to recognize and adapt to change more readily; successfully adapting to change is the key to survival and prosperity. There is no good alternative approach to strategic management.

8. Discuss the importance of feedback in the strategic-management model.

Note in the strategic-management model that feedback is critically important. Changes can occur that impact all strategic-management activities. Feedback allows these changes to be identified and adjustments to be made. Feedback in the strategic-management process promotes the creation of a climate for two-way communication and, thus, allows esprit de corps to be achieved in an organization.

9. How can strategists best ensure that strategies will be effectively implemented?

Strategists can best assure that strategies formulated will be effectively implemented by involving as many managers as possible in the strategy formulation process. Also, it is important to communicate effectively why changes are needed.

10. Give an example of a recent political development that changed the overall strategy of an organization.

Students’ answers will vary. Some possible examples might include 1) the recent tariffs placed on steel imported into the US and how that has changed strategy for steel companies both at home and abroad, 2) the change in guidelines and requirements for airport safety and subsequent changes in the strategies of airlines, or 3) the political investigations into the Enron case and potential changes that may result in major accounting/consulting firms.

11. Who are the major competitors of your college or university? What are their strengths and weaknesses? How successful are these institutions compared to your college?

Answers to this question will vary by institution.
12. If you owned a small business, would you develop a code of business conduct? If yes, what variables would you include? If no, how would you ensure that your employees were following ethical business standards?

It is advisable for all businesses, large and small, to have a clear code of business ethics. Such codes provide a guideline for appropriate behavior and aid in decision making. Chris MacDonald states these guidelines (available at www.ethicsweb.ca) for developing a code of ethics:

♦ What will be the purpose of your new code? Is it to regulate behavior? To inspire?
♦ Different kinds of documents serve different purposes. Is your new document intended to guide people or to set out requirements? Is it really a Code of Ethics that you need? You might consider creating a Statement of Values, a Policy, a Mission Statement, and a Code of Conduct.
♦ A code of ethics should be tailored to the needs and values of your organization.
♦ Many ethics codes have two components. First, an inspirational section, often in the preamble, that outlines what the organization aspires to, or the ideals it hopes to live up to. Second, an ethics code will typically list some rules or principles, which members of the organization will be expected to adhere to.
♦ Will your new ethics document include some sort of enforcement? If so, what kind?
♦ Often the principles or values listed in an ethics document will be listed in rough order of importance to the organization. The ordering need not be strict, but generally the value or principle listed first will have a natural prominence.
♦ Think carefully about the process by which you create your new code. Who will be involved? A small working group? Or all the people affected by the code? How will you distill the needs of your organization and the beliefs of your members into a document? The process may matter as much as the final product.
♦ How will your new code be implemented? How will it be publicized, both inside and outside of your organization? What steps, if any, will be taken to ensure that the values embodied in your code get implemented in organizational policies and practices?
♦ How/when will your code be reviewed / revised?

The answer to this question is yes. Many foreign businesses are using strategic-management concepts and techniques effectively. Students could look in the England-based journal Long Range Planning to read about foreign firms also benefiting from strategic-management ideas. Another good foreign-based business journal that carries strategic-management articles is the Journal of Management Studies.

14. What do you believe are some potential pitfalls or risks in using a strategic-management approach to decision making?

There is a risk of too little top management support for the process. There is a risk of too little involvement by line managers and employees. There is a risk that top managers will underestimate the importance of understanding and commitment.

15. In your opinion, what is the single major benefit of using a strategic-management approach to decision making? Justify your answer.

The single major benefit is the potential for improved understanding of the business and industry on the part of all managers and employees. Understanding generally leads to increased commitment, which, in turn, leads to creativity, innovativeness, and overall cooperativeness. The process is more important than the plan. Also, the strategic-management process allows an organization to initiate and influence, rather than just respond and react to its environment. That is, it allows an organization to be proactive, rather than reactive, in controlling its own destiny. Strategic-management concepts provide an objective basis for allocating resources and for reducing internal conflicts that can arise when subjectivity alone is the basis for major decisions.


As discussed in the latter part of this chapter, business and military strategy are similar in many respects. Many of the ideas developed in business strategy were first formulated as military strategy. Both military and business organizations have competitors. A fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with the assumption of competition, while military strategy is based on an assumption of conflict.
17. What do you feel is the relationship between personal ethics and business ethics? Are they, or should they be, the same?

Personal ethics is the foundation of business ethics. Business ethics encompass more situations than personal ethics, but a personal ethics doctrine still provides a basis for all business ethics decisions.

18. Why is it important for all business majors to study strategic management, as most students will never become a chief executive officer or even a top manager in a large company?

Strategic management takes place at multiple levels within an organization. Although most students may never become the CEO of a corporation, they may become the “branch manager” or department head of a larger firm. In these roles, they may be asked to complete a strategic plan for their branch or department. In addition, employees at all levels are frequently asked to contribute to the development of their firm’s strategic plan. As a result, an understanding of the strategic-management process is important.

19. Explain why consumption patterns are becoming similar worldwide. What are the strategic implications of this trend?

As a result of improvements in global communications, consumers across the world are increasingly being exposed to the same advertising, the same cultural events, the same news, and the same forms of entertainment. As a result, the tastes of consumers across the world are converging. This development helps to explain why consumption patterns are becoming similar worldwide.

20. What are the advantages and disadvantages of beginning export operations in a foreign country?

The following are the primary advantages and disadvantages of initiating export operations in a foreign country.

Advantages:

- Export operations can absorb excess capacity, reduce unit costs, and spread economic risks over a wider number of markets.
- Firms can gain new customers for their products and services, thus increasing revenues.
- Competitors in foreign markets may not exist, or competition may be less intense than in domestic markets.
Disadvantages:

- Firms confront different and often little understood social, cultural, demographic, and competitive forces when doing business overseas.
- Weaknesses of competitors in foreign lands are often overestimated, and strengths are often underestimated.
- Language, cultural, and value systems differ among countries, and this can create barriers of communication and other problems.


The SMCO website provides links to websites with information useful for case analysis such as corporate websites, business analysis services, news sites, magazines, governmental sites, and financial ratio analyses. It also provides links to job search websites, graduate school websites, and websites related to strategic planning. Several software packages are available for purchase on the site including a template for generating the matrices required for case analyses.

22. List four financial and four non-financial benefits of a firm engaging in strategic planning.

Businesses engaging in strategic planning experience the following financial benefits. They show significant improvement in sales, profitability, and productivity compared to firms without strategic planning activities. Firms using strategic planning generally exhibit superior long-term financial performance relative to their industry and seem to make more informed decisions with good anticipation of both short and long-term consequences. They are also prepared for fluctuations in their external and internal environments.

In addition to the financial benefits, firms using strategic planning also experience non-financial benefits. These include an enhanced awareness of external threats, an improved understanding of competitors’ strategies, increased employee productivity, reduced resistance to change, and a clearer understanding of performance-reward relationships.

23. Why is it that a firm can sustain a competitive advantage normally for only a limited period of time?

A firm can sustain a competitive advantage for only a certain period of time due to rival firms. These competing firms will attempt to imitate the competitive advantage in order to undermine the leader.
24. Why is it not adequate to simply obtain a competitive advantage?

Answer: Because other firms will constantly attempt to undermine firms with competitive advantages and imitate those advantages, organizations must constantly strive to achieve a sustained competitive advantage.

25. How can a firm best achieve a sustained competitive advantage?

A sustained competitive advantage can best be achieved by 1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources, and by 2) effectively formulating, implementing, and evaluating strategies that capitalize upon those factors.


ISO 14000 focuses on operating in an environmentally-friendly manner. The standards were created by the International Organization for Standardization and provide universal guidelines for standardization. ISO 14000 is a series of standards in the environmental field. ISO 14001 is part of the 14000 family of standards. 14001 standards offer a universal technical standard for environmental compliance in fields such as environmental auditing, environmental performance evaluation, environmental labeling, and life-cycle assessment.