

decisions, their greater awareness of the parameters that limit the available options makes them more likely to accept those decisions.

THE STRATEGIC MANAGEMENT PROCESS

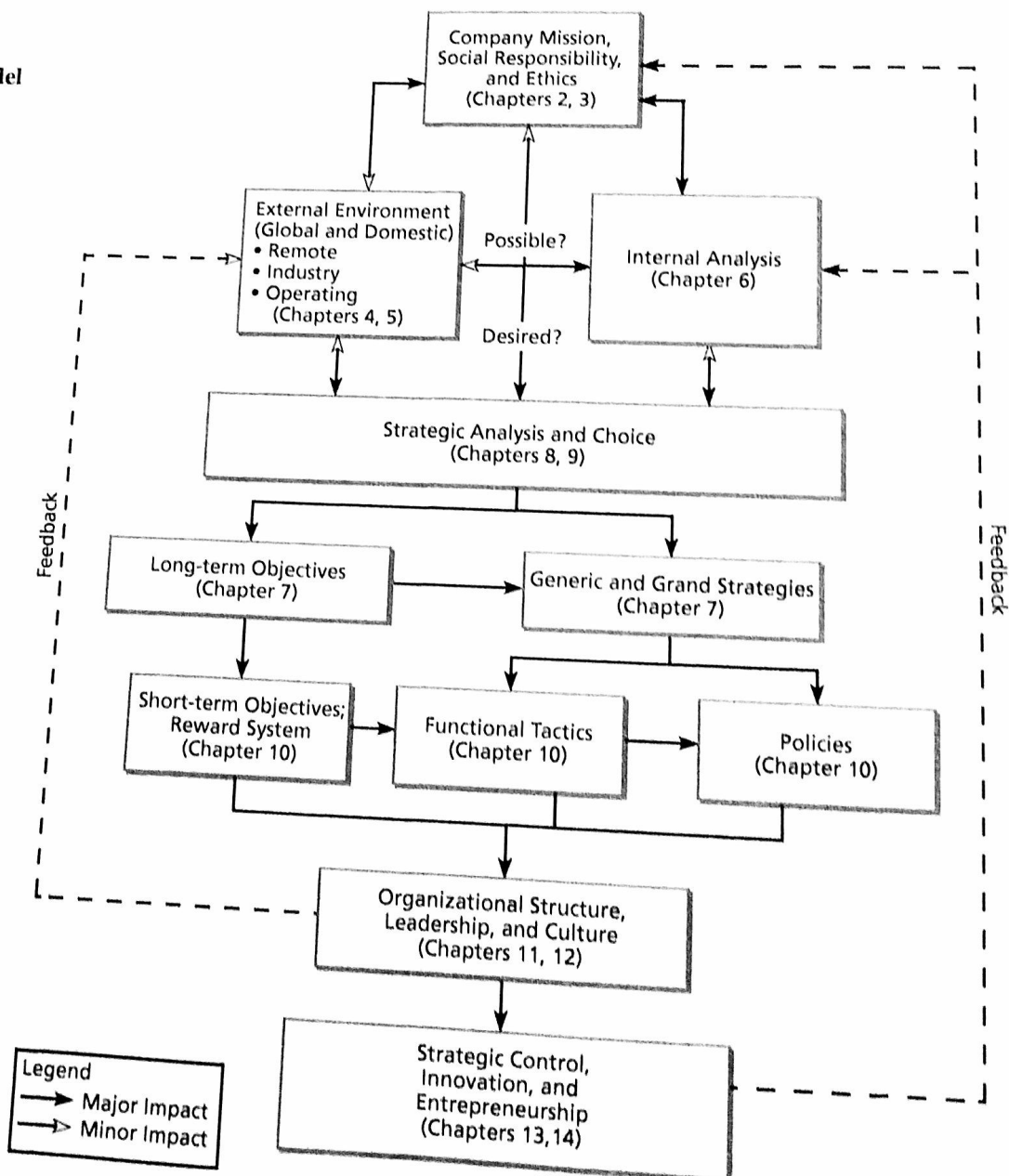
Businesses vary in the processes they use to formulate and direct their strategic management activities. Sophisticated planners, such as General Electric, Procter & Gamble, and IBM, have developed more detailed processes than less formal planners of similar size. Small businesses that rely on the strategy formulation skills and limited time of an entrepreneur typically exhibit more basic planning concerns than those of larger firms in their industries. Understandably, firms with multiple products, markets, or technologies tend to use more complex strategic management systems. However, despite differences in detail and the degree of formalization, the basic components of the models used to analyze strategic management operations are very similar.

Because of the similarity among the general models of the strategic management process, it is possible to develop an eclectic model representative of the foremost thought in the strategic management area. This model is shown in Exhibit 1.5. It serves three major

EXHIBIT 1.5

Strategic

Management Model



functions: (1) It depicts the sequence and the relationships of the major components of the strategic management process. (2) It is the outline for this book. This chapter provides a general overview of the strategic management process, and the major components of the model will be the principal theme of subsequent chapters. Notice that the chapters of the text that discuss each of the strategic management process components are shown in each block. (3) The model offers one approach for analyzing the case studies in this text and thus helps the analyst develop strategy formulation skills.

Components of the Strategic Management Model

This section will define and briefly describe the key components of the strategic management model. Each of these components will receive much greater attention in a later chapter. The intention here is simply to introduce them.

Company Mission

company mission
The unique purpose that sets a company apart from others of its type and identifies the scope of its operations.

The mission of a company is the unique purpose that sets it apart from other companies of its type and identifies the scope of its operations. In short, the **company mission** describes the company's product, market, and technological areas of emphasis in a way that reflects the values and priorities of the strategic decision makers. For example, Lee Kun-Hee, the former chairman of the Samsung Group, revamped the company mission by stamping his own brand of management on Samsung. Immediately, Samsung separated Chonju Paper Manufacturing and Shinsegae Department Store from other operations. This corporate act of downscaling reflected a revised management philosophy that favored specialization, thereby changing the direction and scope of the organization.

Social responsibility is a critical consideration for a company's strategic decision makers because the mission statement must express how the company intends to contribute to the societies that sustain it. A firm needs to set social responsibility aspirations for itself, just as it does in other areas of corporate performance.

Internal Analysis

The company analyzes the quantity and quality of the company's financial, human, and physical resources. It also assesses the strengths and weaknesses of the company's management and organizational structure. Finally, it contrasts the company's past successes and traditional concerns with the company's current capabilities in an attempt to identify the company's future capabilities.

External Environment

A firm's external environment consists of all the conditions and forces that affect its strategic options and define its competitive situation. The strategic management model shows the external environment as three interactive segments: the remote, industry, and operating environments.

Strategic Analysis and Choice

Simultaneous assessment of the external environment and the company profile enables a firm to identify a range of possibly attractive interactive opportunities. These opportunities are *possible* avenues for investment. However, they must be screened through the criterion of the company mission to generate a set of possible and *desired* opportunities. This screening process results in the selection of options from which a *strategic choice* is made. The process is meant to provide the combination of long-term objectives and generic and grand strategies that optimally position the firm in its external environment to achieve the company mission.

Strategic analysis and choice in single or dominant product/service businesses center around identifying strategies that are most effective at building sustainable competitive advantage based on key value chain activities and capabilities—core competencies of the firm. Multibusiness companies find their managers focused on the question of which combination of businesses maximizes shareholder value as the guiding theme during their strategic analysis and choice.

Long-Term Objectives

The results that an organization seeks over a multiyear period are its **long-term objectives**. Such objectives typically involve some or all of the following areas: profitability, return on investment, competitive position, technological leadership, productivity, employee relations, public responsibility, and employee development.

Generic and Grand Strategies

Many businesses explicitly and all implicitly adopt one or more **generic strategies** characterizing their competitive orientation in the marketplace. Low cost, differentiation, or focus strategies define the three fundamental options. Enlightened managers seek to create ways their firm possesses both low cost and differentiation competitive advantages as part of their overall generic strategy. They usually combine these capabilities with a comprehensive, general plan of major actions through which their firm intends to achieve its long-term objectives in a dynamic environment. Called the **grand strategy**, this statement of means indicates how the objectives are to be achieved. Although every grand strategy is, in fact, a unique package of long-term strategies, 15 basic approaches can be identified: concentration, market development, product development, innovation, horizontal integration, vertical integration, joint venture, strategic alliances, consortia, concentric diversification, conglomerate diversification, turnaround, divestiture, bankruptcy, and liquidation.

Each of these grand strategies will be covered in detail in Chapter 7.

Short-Term Objectives

Short-term objectives are the desired results that a company seeks over a period of one year or less. They are logically consistent with the firm's long-term objectives. Companies typically have many **short-term objectives** to provide guidance for their functional and operational activities. Thus, there are short-term marketing activity, raw material usage, employee turnover, and sales objectives, to name just four.

Action Plans

Action plans translate generic and grand strategies into "action" by incorporating four elements. First, they identify specific actions to be undertaken in the next year or less as part of the business's effort to build competitive advantage. Second, they establish a clear time frame for completion of each action. Third, action plans create accountability by identifying who is responsible for each "action" in the plan. Fourth, each "action" has one or more specific, immediate objectives that the action should achieve. Philips Healthcare describes its action plans for its supply chain in the event of a recession in Exhibit 1.6, Global Strategy in Action.

Functional Tactics

Within the general framework created by the business's generic and grand strategies, each business function needs to undertake activities that help build a sustainable competitive advantage. These short-term, limited-scope plans are called **functional tactics**. A radio ad campaign, an inventory reduction, and an introductory loan rate are examples of tactics.

long-term objectives

The results that an organization seeks to achieve over a multiyear period.

generic strategies

Fundamental philosophical options for the design of strategies.

grand strategies

The means by which objectives are achieved.

short-term objectives

Desired results that provide specific guidance for action during a period of one year or less.

functional tactics

Short-term, narrow scoped plans that detail the "means" or activities that a company will use to achieve short-term objectives.

Global Strategy in Action

Philips Healthcare: Keeping the Supply Chain Recession-Ready

Philips Healthcare (PHC), a leading supplier of diagnostic imaging systems and patient monitoring and cardiac devices, has implemented several supply chain practices to minimize the impact of recessions while maintaining high product quality.

"We use supplier-managed and -owned inventory programs that combine vendor-owned inventories and CPFR," says Steve Saunders, PHC's supply chain programs manager. "Philips shares its forecast information with its suppliers and provides visibility into its inventory and production schedules. We allow the suppliers to store supplier-owned inventory in a Philips warehouse. Philips takes ownership of the material only when it is pulled to the manufacturing line."

PHC also negotiates risk management contracts with suppliers to avoid having to make so many long-term, non-cancellable commitments. The company also actively monitors its suppliers' financial health. If the risks seem to be growing beyond what is acceptable, PHC is ready with risk mitigation plans such as alternate sourcing or temporary inventory increases. At the same time, the company runs a significant customer service organization that supports its installed base of equipment.

This service business generally remains stable regardless of economic conditions.

The company also ensures that its cost structure is flexible. Explains Saunders: "We try to minimize fixed overhead and have a variable cost structure. While we still perform most final assembly and test, we procure virtually all major materials, such as circuit boards, plastics and sheet metal. In addition, we outsource a wide variety of supply chain support functions such as warehousing, security and building maintenance. And by using a contingent workforce in most production operations, we have upside and downside flexibility as demand fluctuates."

Those approaches helped PHC expand sales 4–8 percent a year between 2005 and 2009, while earnings before interest, taxes, and amortization expenses have grown to more than 13 percent of revenue. In 2009, PHC commanded more than 22 percent of the global market for such healthcare equipment.

Source: Excerpted from Bruce Arntzen, "How to Recession-Proof Your Supply Chain," *Supply Chain Management Review* 13, no. 3 (April 2009), p. 12.

Managers in each business function develop tactics that delineate the functional activities undertaken in their part of the business and usually include them as a core part of their action plan. Functional tactics are detailed statements of the "means" or activities that will be used to achieve short-term objectives and establish competitive advantage.

Policies That Empower Action

Speed is a critical necessity for success in today's competitive, global marketplace. One way to enhance speed and responsiveness is to force/allow decisions to be made whenever possible at the lowest level in organizations. **Policies** are broad, precedent-setting decisions that guide or substitute for repetitive or time-sensitive managerial decision making. Creating policies that guide and "preauthorize" the thinking, decisions, and actions of operating managers and their subordinates in implementing the business's strategy is essential for establishing and controlling the ongoing operating process of the firm in a manner consistent with the firm's strategic objectives. Policies often increase managerial effectiveness by standardizing routine decisions and empowering or expanding the discretion of managers and subordinates in implementing business strategies.

The following are examples of the nature and diversity of company policies:

- A requirement that managers have purchase requests for items costing more than \$5,000 cosigned by the controller.
- The minimum equity position required for all new McDonald's franchises.
- The standard formula used to calculate return on investment for the six strategic business units of General Electric.

policies

Predetermined decisions that substitute for managerial discretion in repetitive decision making.

- A decision that Sears service and repair employees have the right to waive repair charges to appliance customers they feel have been poorly served by their Sears appliance.

Restructuring, Reengineering, and Refocusing the Organization

Until this point in the strategic management process, managers have maintained a decidedly market-oriented focus as they formulate strategies and begin implementation through action plans and functional tactics. Now the process takes an internal focus—getting the work of the business done efficiently and effectively so as to make the strategy successful. What is the best way to organize ourselves to accomplish the mission? Where should leadership come from? What values should guide our daily activities—what should the organization and its people be like? How can we shape rewards to encourage appropriate action? The intense competition in the global marketplace has made this traditionally “internally focused” set of questions—how the activities within their business are conducted—recast themselves with unprecedented attentiveness to the marketplace. *Downsizing, restructuring, and reengineering* are terms that reflect the critical stage in strategy implementation wherein managers attempt to recast their organization. The company’s structure, leadership, culture, and reward systems may all be changed to ensure cost competitiveness and quality demanded by unique requirements of its strategies.

The elements of the strategic management process are evident in the turnaround activities at Ford Motor Company. In 2008, Ford undertook to create a strategy to lower costs, increase efficiency, improve designs, and increase brand appeal. These improvements were needed to keep cash flows up to cover rising pension costs. For Ford to accomplish this new strategy it had to improve operations. New executives were brought in to lead product development and financial controls. To break down the bureaucratic boundaries, a committee was created that included employees from the major functional areas, and it was given the assignment to reduce the time needed to develop a new-concept vehicle.

Strategic Control and Continuous Improvement

Strategic control is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises, and making necessary adjustments. In contrast to postaction control, strategic control seeks to guide action on behalf of the generic and grand strategies as they are taking place and when the end results are still several years away. The rapid, accelerating change of the global marketplace of the last 10 years has made continuous improvement another aspect of strategic control in many organizations. **Continuous improvement** provides a way for managers to provide a form of strategic control that allows their organization to respond more proactively and timely to rapid developments in hundreds of areas that influence a business’s success.

Continuous improvement includes preparing for contingencies. An extended period of economic decline brought on by a recession is an example. Exhibit 1.7, *Strategy in Action*, provides guidelines for improvements that a company can make on an ongoing basis to recession-proof its supply chain.

Strategic Management as a Process

A **process** is the flow of information through interrelated stages of analysis toward the achievement of an aim. Thus, the strategic management model in Exhibit 1.5 depicts the process. In the strategic management process, the flow of information involves historical, current, and forecast data on the operations and environment of the business. Managers evaluate these data in light of the values and priorities of influential individuals and

strategic control

Tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises, and making necessary adjustments.

continuous improvement

A form of strategic control in which managers are encouraged to be proactive in improving all operations of the firm.

process

The flow of information through interrelated stages of analysis toward the achievement of an aim.