

8.10: Summary

Key Terms

BCG Matrix:

a tool used to evaluate the various business units in a corporation.

Benchmarking:

a performance evaluation technique where the standard for a firm's performance is based on another firm's superior performance.

Business-Level Strategy:

ways that single-product firms organize their activities to succeed against rivals; at this level, include cost leadership and differentiation.

Corporate Strategy:

the broadest level of strategy, concerned with decisions about growing, maintaining, or shrinking very large companies.

Defensive Strategy:

a grand strategy pursued by companies facing challenges.

Goal:

something that a firm is trying to accomplish; can also be called an objective.

Growth Strategy:

a grand strategy to increase the size of the firm in terms of revenue, market share, geographic reach, or a combination of these elements.

Implementation:

the execution of a strategy by planning and assigning actions to employees to carry out to accomplish the company's strategic objectives.

International Strategy:

the level of strategy concerned with the large-scale actions involved in entering a brand-new geographic market.

Long-Term Strategic Plan:

company actions to achieve an objective that will take a year or longer to accomplish.

Mission Statement:

a general description of how the firm will try to accomplish the firm's vision.

Operational Planning:

first-line strategic planning consisting of specific daily and short-term actions that employees will perform to make the company function.

Performance Measurement:

the evaluation of firm activities to determine the success of that activity in helping the firm reach its strategic objectives.

Plan:

a decision to carry out a particular action to achieve a specific goal, including decisions about when and how the action should be accomplished and what resources will be required to carry out the action.

Short-Term Strategic Plan:

company actions to achieve an objective in a time frame of a year or less.

SMART Framework:

an acronym for the characteristics of good goals: specific, measurable, achievable, relevant, and time-bound.

Stability Strategy:

a grand strategy for a company that wants to maintain its current income, market share, or geographic reach. .

Strategic Analysis:

the systematic examination of a firm's internal and external situation that informs managerial decision-making.

Strategic Management Process:

the set of activities that firm managers undertake to try to put their firms in the best possible position to compete successfully in the marketplace.

Strategic Objectives:

the big-picture goals for the company: what the company will do to try to fulfill its mission.

Strategic Planning:

connects the company's actions back to its vision and mission statements.

Tactical Planning:

mid-level strategic planning consisting of broad ideas of what a company should do to pursue its mission.

Vision Statement:

a broad expression of what a business's founders want that business to accomplish.

Summary of Learning Outcomes

8.2 Strategic Management

1. What is the strategic management process?

The strategic management process is the set of activities that firm managers undertake to put their firms in the best possible position to compete successfully in the marketplace. Strategic management is made up of several distinct activities: developing the firm's vision and mission; strategic analysis; developing objectives; creating, choosing, and implementing strategies; and measuring and evaluating performance.

8.3 Firm Vision and Mission

2. What is the difference between a firm's vision and its mission?

A firm's vision is a broad statement expressing the reason for the firm's existence and what it hopes to accomplish. The mission statement explains (still broadly) how the firm intends to fulfill its vision—for example, by stating what products or services the firm will offer or what customers it wants to serve.

8.4 The Role of Strategic Analysis in Formulating a Strategy

3. Why is strategic analysis important to strategy formulation?

Strategic analysis produces information that managers need to develop appropriate strategies for their firms. A good strategy should use a firm's resources and capabilities to stake out a position in the marketplace that sets it apart from competitors and enables it to successfully compete in the external environment.

8.5 Strategic Objectives and Levels of Strategy

4. What are strategic objectives, levels of strategy, and a grand strategy? How are they related?

Strategic objectives are the big-picture goals for the company: what the company will do to try to fulfill its mission. These goals are broad and are developed based on top management's choice of a generic competitive strategy and a grand strategy for the firm. For example, competitive and grand strategies focused on cost-leadership and growth will require managers to develop objectives for growing the firm at low cost.

Business-level strategy is concerned with positioning a single company or business unit that focuses on a single product or product line. The primary business-level strategies are cost leadership and differentiation, as well as focus, which is combined with one of the other two strategies (focus-cost leadership, focus-differentiation).

Corporate-level strategy is concerned with the management and direction of multi-business corporations. These large firms make decisions about what businesses and industries to operate in so they can improve their overall performance and reduce the risk they would face if all their operations were concentrated in a single business or industry. Corporate CEOs use the BCG Matrix to evaluate their portfolio of businesses and use corporate actions such as acquisitions to make significant changes to their companies.

International strategy can be combined with either of the previous two strategies to incorporate international operations into a business or corporation. International strategy answers questions of what country or countries to operate in and how to be successful in foreign operations.

Grand strategies outline an approach to firm growth. The three grand strategies are growth, stability, and defense, and a firm chooses one of these approaches in addition to their choice of business-level, corporate, and/or international strategies. The choice of grand strategy is often dictated by conditions in the business environment, such as recessions or competitor activities.

8.6 Planning Firm Actions to Implement Strategies

5. How and why do managers plan? Why are goals important in the planning process?

Managers plan to decide what actions the firm will perform to achieve a specific goal. Planning includes decisions about when and how the goal should be accomplished and what resources will be required to perform the planned action. Planning is one of the basic functions of management, along with organizing, leading, and controlling.

Firms typically have several levels of planning happening simultaneously: one based on time and another based on detail. The time scale is expressed in terms of short-term (within the year) or long-term (over a yearlong) planning. Planning details become more specific as the manager moves downward in the hierarchy of planning levels. Strategic planning is the responsibility of firm leadership (CEO), while unit or division managers take the CEO's broad plans and focus them to be more suitable for their own units (tactical planning). Operational planning is the frontline manager's domain—he develops specific action plans for operational employees so that their work advances the entire firm toward the large-scale strategic goal.

Good goals are specific, measurable, achievable, relevant, and time-bound. These terms can be remembered by using the acronym SMART. Goals are critical to planning because they focus firm activities on specific objectives or outcomes.

8.7 Measuring and Evaluating Strategic Performance

6. How and why do managers evaluate the effectiveness of strategic plans?

Performance evaluation is to determine if plans have been successful and identify any changes that might be necessary. This is done both at the end and the beginning of strategic planning because when managers measure firm activities and progress towards objectives, the information they learn by doing that measurement becomes part of the analysis they use to develop improved plans and objectives to keep the firm on track to fulfill their mission and improve their overall performance.

? Chapter Review Questions

1. What does a mission statement explain about a firm that a vision statement does not?
2. Describe the three levels of strategy and what a manager developing strategy at each level is concerned with.
3. Give an example for why a firm would pursue each of the three grand strategies.
4. What actions can help a firm grow?
5. What managerial skills and actions are included in the planning process?
6. Why are good goals important to the planning process?
7. What are the strategic planning time frames? How do they work together?

8. Why is performance measurement often the start of new strategy development?

Management Skills Application Exercises

1. (Analytical Skills) You have recently completed a leadership development program, and your company has given you a retail store to manage. The employees at your store are diverse in terms of age, race, gender, and fluency in English. Your company has told you to set individual performance objectives for your employees to increase your store's profitability.

- What specific types of actions do you think you should include in a plan to increase profitability in a retail environment?
- Would you set the same performance objectives for different store roles, such as sales associates and cashiers?
- Should your employees be involved in creating their own performance objectives? Why or why not?
- Should your communication of performance goals be adapted for the diversity of the employees you supervise? How and why (or why not)?

2. (Ethical skills) You have probably experienced a situation in which you were not happy with the service you received as a customer of a business. Put yourself in the shoes of the manager of a business, and think about the following:

- How does a company's vision and mission impact your approach to trying to appease an unhappy customer?
- Imagine that the company follows a cost-leadership strategy and has a "no cash refunds" policy to reduce company costs. What kind of plan or rules would you develop for your employees to follow to deliver consistent customer service if a customer wants a refund?
- When might it be ethical to violate the rules you developed in (b) above to deliver the right response to a customer service problem?

3. (Personal skills) Use the strategy cycle (Exhibit 9.3) to outline a strategy for yourself. What is your personal vision and mission? Analyze your current situation, and develop three personal, professional, or educational goals or objectives that you would like to reach within the next five years. Brainstorm some strategies to achieve those goals. Even though you can't really implement them in the context of this exercise, think about performance measures you might use to track your progress toward your objectives.

Managerial Decision Exercises

1. Each of the following statements is a goal or objective, but it is not expressed very clearly. Rewrite each statement as a SMART goal and be ready to explain what you had to change to make it SMART.

- Amazon wants to improve product delivery times.
- Starbucks baristas should make customized drinks more quickly.
- Sales associates should sell more cars this month.
- McDonald's needs more customers at dinnertime.
- FedEx wants to compete with UPS.
- Boxed wants to reach more customers.
- Lyft wants to increase revenue.

2. Entrepreneurs must be strategic thinkers to develop the plans and objectives necessary to start a business that will last. Imagine you are starting a new music-streaming service. You have decided to differentiate your service from the others already in the marketplace. Think of three ways to add value to your service and also the performance measures you'll need to use to know if your added value is really valued by customers.

Critical Thinking Case

[Interface Inc.'s Strategy for Sustainability](#)

[Watch Interface CEO Ray Anderson present his vision for Interface, Inc.:](#)



Interface, Inc. is the world's largest manufacturer of carpet tile. Headquartered in Atlanta, Georgia, the global company manufactures the kind of carpet that millions of commercial buildings of all types have on their floors. Carpet manufacturing is a historically dirty business. Not only is commercial carpet a petroleum-based product, the manufacturing process is water-intensive, and carpet squares are installed using toxic glue. Because this carpet is aimed at the commercial market (think schools, libraries, malls, office buildings), it usually does not have a long lifespan. Malls and schools regularly remove and replace carpets after just a few years because of fading and wear from daily foot traffic. This puts millions of square feet of old carpet into landfills annually.

In 1994, Ray Anderson, the founder of Interface, was put on the spot when he was asked what his company was doing to be sustainable. He realized that the answer to the question was, unfortunately, “not much.” Anderson realized that to improve the company's sustainability performance, Interface was going to have to radically reimagine every part of their business.

Unlike what many CEOs in his position might have done, Anderson decided to do just that. He gave Interface a new vision, which he called Mission Zero. The objective was to reduce Interface's environmental impact to zero by the year 2020. To accomplish this vision, the company looked at every aspect of its operations and developed what it called the “Seven Fronts of Sustainability”:

Front #1—Eliminate Waste: Eliminate all forms of waste in every area of the business.

Front #2—Benign Emissions: Eliminate toxic substances from products, vehicles, and facilities.

Front #3—Renewable Energy: Operate facilities with 100% renewable energy.

Front #4—Closing the Loop: Redesign processes and products to close the technical loop using recycled and bio-based materials.

Front #5—Efficient Transportation: Transport people and products efficiently to eliminate waste and emissions.

Front #6—Sensitizing Stakeholders: Create a culture that uses sustainability principles to improve the lives and livelihoods of all of our stakeholders.

Front #7—Redesign Commerce: Create a new business model that demonstrates and supports the value of sustainability-based commerce.

To achieve the seven sustainability goals, Interface needed to redesign their operations from start to finish and even reconsider what constituted the start and finish for its products. Anderson empowered employees and invested in research to develop new ways to design, manufacture, and install carpet tiles. Interface also reimaged how its clients would use and dispose of carpet tiles.

Changing the strategy of a successful company is always risky, but Anderson felt he had to take the risk. Developing action plans for such a radical change meant that every step of the business had to be rethought, and Interface is on the way to achieving Ray Anderson's vision. “Since January 2014, Interface's plants in Holland and Northern Ireland have been using around 90% less carbon and 95% less water than in 1996, with no waste going to landfill. Its plant in Scherpenzeel, Netherlands, has hit two of its zero targets.”

How has Interface made these changes? In addition to changing the way they thought about their product's life cycle, Interface has implemented performance measures to track its progress, and it incentivizes employees to be part of the company's successful redesign. Connecting company actions to real cost savings was a key part of Ray Anderson's vision. "Over time, programs that linked bonuses for employees at all company levels to reductions in waste started to put meat on the bones of Ray's 'business case for sustainability.'" Interface's costs have dropped as they have learned to use fewer resources to manufacture their products, and the cost savings have improved profitability even as Interface continues to invest in Mission Zero.

Critical Thinking Questions

1. What reaction do you think employees had when Ray Anderson announced he wanted to change the company's mission?
2. How would you turn the Seven Fronts of Sustainability into SMART goals?
3. How is tying rewards to improved sustainability performance a form of strategic control?

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