STRATEGIC MANAGEMENT

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BMT 2400

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1: Introduction

Strategic management is an area of study that examines the problems of maximizing organizational effectiveness from the perspective of executives at the highest command level of the organization’s hierarchy. If the organization consists of a single firm, the problems are referred to as business-level problems. If the organization consists of a group of firms under common ownership, the problems are referred to as corporate-level problems. Solutions to these problems are called strategies. Strategic management is the study of how executives formulate and implement strategies (Learned, Christiansen, Andrew, & Guth, 1969).

In process, strategy implementation follows strategy formulation. In life, however, strategy implementation precedes strategy formulation, for executives learn to follow orders before they learn to give orders. For this reason, the narrative that follows begins with strategy implementation and ends with strategy formulation. In between, simulation games and cases are discussed.

CHAPTER OVERVIEW

2: Strategy Implementation

The goal of strategy implementation is to realize the organization's vision as articulated by its leaders. Executives implement strategies through subordinates. The strategy might be one that the executive is told to implement exactly as formulated, one that the executive has decided, or one that the executive seeks to develop in collaboration with subordinates. In all three instances, face-to-face meetings are necessary to reach a mutual understanding between executive and subordinates.

2.1: Meeting With Subordinates

Meetings between executive and subordinates, individually and as a group, can be conducted using one of three basic methods: tell and sell, tell and listen, and problem solving (Maier, 1973). The objective that can be achieved and the skills needed for an effective meeting depend on the method.

The objective of tell-and-sell is to transmit information. This method is suitable when high acceptance by subordinates is assured or unnecessary, because the strategy involve issues about which subordinates are indifferent. A strategy involving product pricing, sourcing, and coding is of this kind.

The objective of tell-and-listen is to maintain control while encouraging subordinates to express themselves in a setting that is safe and therapeutic. This method is suitable for a strategy that is firm but unpleasing to subordinates, such as one involving termination of service, demotion, transfer, and undesirable working conditions.

The objective of problem solving is to arrive at the best strategy that the executive's team can devise based on the ideas and facts available to all team members. This general-purpose method is suitable for an executive skillful in leading problem-solving discussions. To be successful, the executive will have to work around subordinates' reluctance to admit to problems and to disagree with their superiors. The executive also will have to inhibit the executive's own tendency to make suggestions, because any suggestion made by a superior will be seen as a command by subordinates, and a signal that their views are not welcome. As such, the superior's suggestion will not be properly considered. The suggestion may be met with silence, or vehemently attacked.

High subordinate acceptance is assured when the strategy decided is one devised by the team. The quality of a team-devised strategy, however, depends on the skill of the executive conducting the meeting. Even so, a less-than-best strategy implemented by subordinates who believe in it can be more effective than the best strategy implemented by subordinates who do not believe in it.

2.2: Quality and Acceptance

3: Simulation Games

Simulation games give practice in strategy implementation, for practice requires action that games demand. In a game, as in life, no action is an action and no strategy is a strategy.

A game involves both fictitious elements and real elements. The fictitious elements of a strategic-management simulation game are the attributes of the simulated business environment. The real elements are the players, their thoughts, feelings, and actions. To learn principles and skills that can be useful in everyday life, the player should accept the game's fictitious elements as given, and work with the real elements to win in the game. Winning, the objective of every game, should not be overlooked, for the game is not worth playing when players do not try to win. Yet the reward of winning is incidental to its true purpose, which is for the players to learn strategy-implementation skills. Learning strategy-implementation skills means learning how to take care of yourself and your associates whatever executive or ownership role you and they might play in a firm, for the challenge of strategy implementation is in reconciling each executive's personal interests with the personal interests of others on whom the executive depends.

CHAPTER OVERVIEW

4: Cases

Cases give practice in strategy formulation. A case may be fictional or real. When real, the case may be set or live.

When a case is fictional, all the facts for strategy formulation are contained within the write-up of the case. The student is expected to formulate the strategy that best addresses the facts as given. Generally, no research beyond what is supplied in the write-up is required. The only information outside of the case write-up that would be useful is information that is common knowledge among the students enrolled in the course.

A case that is real and set is about a firm at a set time, as given in the write-up of the case. The student is expected to formulate the strategy that best addresses the facts known at that time. Generally, searching for information going beyond what is contained in the write-up of the case and what is asked by the instructor is unnecessary. Moreover, information found about opinions or events that occurred after the time of the case can hinder good work, because a strategy based on the opinion of others is vacuous, and a strategy based on events occurring after the time of the case is illogical.

A case that is real and live is about an ongoing, generally local, firm. The student is expected to formulate a strategy that best accomplishes the goals of the assignment. While the case is being studied, important aspects of the case may change, including the goals sought and the limitations of the assignment. Adapting to the changes is part of the challenge of the live case.

Casework generally involves a writing assignment or a presentation-participation assignment, or both. The writing assignment may be an individual assignment or a group assignment. The presentation-participation assignment is generally structured such that a group of students present the case to the rest of the class or to a panel of judges.

4.1: Writing Assignment

4.2: Presentation-Participation Assignment

CHAPTER OVERVIEW

5: Strategy Formulation

The process of strategy formulation is the process of solving problems. The goal is to arrive at the best strategy, which is one that is (a) supported by the facts of the problem situation, (b) practical, and (c) aligned with the mission of the organization and the vision of its leaders.

5.1: Facts

5.1.1: Financial Statements

> This page is a draft and is under active development.

5.1.2: Porter's Five Forces

5.2: Practicality

5.3: Mission

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5.3.1: Mission/Vision

6: Common Types of Strategies

Many strategies fall readily into one of a small number of common types. A type is not a strategy, because a type is not a workable plan. For a plan to be workable, the plan must specify who is to act and when the action is to occur. When a strategy fits into a type, however, the strategy may be immediately assessed as better or worse because of its type.

6.1: Liquidation

A liquidation strategy, whereby the entire firm is offered for sale, is a case of strategic failure. Liquidation is an admission of defeat rather than a practical strategy. Firms do not need strategic managers to liquidate themselves. They need lawyers.

6.2: Continuous Improvement

Continuous improvement is philosophy, not strategy. It implies continuing to do what has been done, with efforts made towards small improvements in process and product from time to time. The philosophy can suffice for successful firms in stable environments. That is, in the absence of a decision to change directions, employees of well-managed firms look for ways to improve the work they do. They are usually aware of ways to improve the work by spending more money. The challenge of strategic management is to find ways to improve the work while spending less money, or spending the least amount of money. Meeting that challenge, however, requires a strategy.

6.3: Divestiture

Divestiture, when a firm sells part of itself but remains viable, is practical only when facts show that a buyer will pay an attractive price for the part of the firm that is divested. Absent a buyer, divestiture is hope, not strategy.

6.4: Partnership

Partnership, where a firm joint ventures or contracts with another, is similar to divestiture in that it requires the cooperation of another firm. If the facts do not show that another firm is a willing, able, and ready partner, partnering also is hope, not strategy.

6.5: Acquisition and Integration

Acquiring a supplier (backward integration), a customer (forward integration), a competitor (horizontal integration), or an unrelated business (conglomeration) requires a target firm and the ability to pay a premium price, usually 15% or more, for the acquisition. Unlike products, which may be more useful to the buyer than to the seller, firms are moneymaking entities for which the value of the monetary stream they deliver is generally the same for both parties. The seller bought into the firm because the seller viewed the firm positively, as the interested buyer does. The seller will only sell when the seller is offered payment distinctly more than the monetary stream that the seller expects with continued ownership. This is why the thought that a firm can be acquired without paying a substantial premium is fantasy, and why a strategy of acquisition is usually not practical.

6.6: Research

Research is a gamble. Unless the facts show that the gamble is likely to pay off, gambling with the firm's resources is not what top managers are paid to do.

6.7: Retrenchment

Retrenchment is cutting expenditures. The strategy is practical if the facts show that the savings would exceed the possible loss of revenue.

6.8: Organic Growth

Organic growth refers to growth in revenue attributable to regular business operations, which does not include acquisitions and mergers. This kind of growth can arise from four types of strategies, as illustrated by the Ansoff (1957) matrix of Figure 6.1.

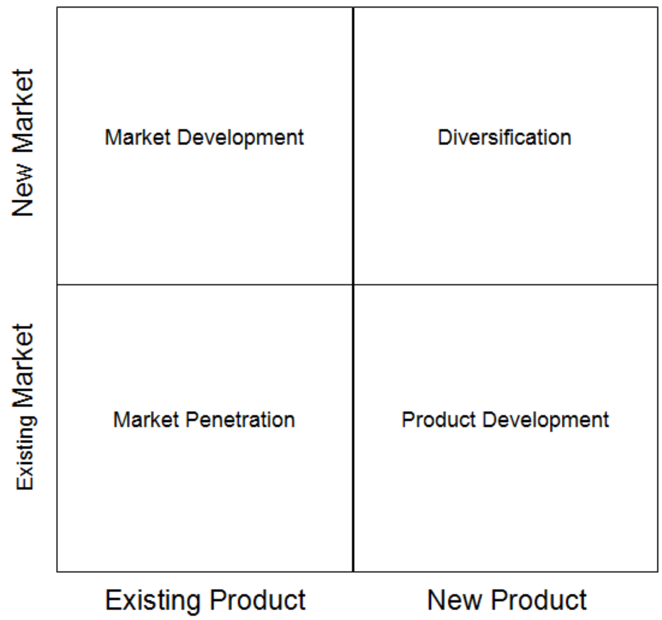

Figure 6.1: Ansoff Matrix of Organic Growth

6.8.1: Market Penetration

Market penetration is lowering prices or raising promotional expenditures or both, with the objective of increasing sales volume. The strategy raises the firm's breakeven point, undermining the firm's financial position. The strategy must be justified by its coherence with the mission of the firm and vision of its leaders.

6.8.2: Market Development

Market development is introducing an existing product to a new market. The method by which the product will be made available must be clear, together with the costs of building and maintaining the supply chain of product to market.

6.8.3: Product Development

Product development is either modifying a product to make it more appealing to customers, or developing a new product. The strategy can result in expanding customer choice. If so, the cost of managing stock to assure availability whenever a customer places an order increases. The increased cost is difficult to estimate, so it tends to be overlooked. The compelling justification for the strategy is that the strategy identifies, using a method such as a product-position matrix, the key attributes of the product that is to be developed, together with price, cost, and profit estimates based on reasoning that is sound.

6.8.4: Diversification

Diversification is introducing a modified or new product to a new market. The strategy involves both market development and product development, which makes it especially difficult to execute successfully.

7: Common Types of Strategies

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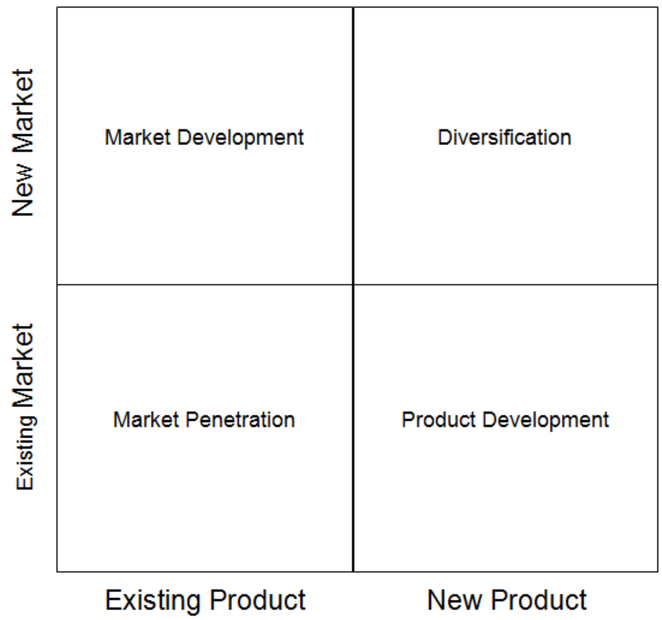

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8: Conclusion

Good ideas are not good because they are the same ideas that have been successful elsewhere. Good ideas are good because they are based on facts of the problem situation. Inasmuch as the task of strategic management is to formulate and implement good ideas, the search for good ideas should always start by studying the facts that are known. Theory can be helpful in organizing and clarifying the facts.

Sometimes, however, theory misleads either because the theory is either wrong or incorrectly applied. When the theory is incompatible with the facts, the facts must prevail. The strategy based on theory must give way to the strategy based on facts.

Thus, the first consideration in evaluating a strategy is the extent to which the strategy is based on facts of the problem situation. The final consideration is the extent to which the strategy is acceptable to those who must execute it. The former is a quality consideration; the latter is an acceptance consideration. The effective strategy satisfies both considerations: Effectiveness = Quality × Acceptance.

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Glossary

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