CHAPTER NINE

Strategic Management

DETAILED LECTURE OUTLINE

I. Importance of strategic management
   A. Strategic management consists of the analysis and decisions necessary to formulate and implement strategy
      1. Strategy is the combination of goals, plans, and actions designed to accomplish an organization’s mission
   
   B. Four-step process of strategic management
      1. Review the mission and vision of the organization
      2. Analyze the organization’s external environments and internal resources
      3. Choose and develop the strategy to be followed
      4. Implement the chosen strategy
   
   C. Mainstream versus Multistream approach
      1. Mainstream approach tends to emphasize how managers develop the content of the strategy
      2. Multistream approach tends to emphasize how managers oversee the ongoing process

II. Mainstream strategic management
   A. Step 1: Review organizational mission and vision
      1. Typically reviewed on a regular basis
      2. Mainstream emphasis of mission and vision is maximizing organizational competitiveness
   
   B. Step 2: Analyze external and internal factors (SWOT)
      1. SWOT = acronym for Strengths, Weaknesses, Opportunities, and Threats
      2. Purpose of a SWOT analysis is to examine an organization’s internal strengths and weaknesses in light of external opportunities and threats
      3. External factors
         a) Opportunities and threats
            (1) Opportunities = conditions in the external environment that have the potential to help the organization meet its goals
            (2) Threats = conditions in the external environment that have the potential to hinder organizational goals
         b) Industry = a subset of business and nonbusiness organizations that can be grouped together because they are within the same branch of the economy
         c) Michael Porter’s “Five Forces Model” for identifying competitive forces (an industry is attractive when the five forces are relatively low)
            (1) Supplier power
               (a) Refers to the influence of suppliers on the organization
               (b) Supplier power is low when there are numerous suppliers
            (2) Buyer power
               (a) Refers to the influence of customers on the organization
               (b) Buyer power is low when there are numerous buyers
(3) Substitutes
   (a) Refers to products or services that are similar or meet the same needs of a customer but come from a different industry

(4) Threat of entrants
   (a) The degree to which conditions make it difficult or easy to enter and compete in a particular industry
   (b) Barriers to entry include government regulations and licensing
   (c) Economies of scale = a barrier to entry because large organizations enjoy lower costs due to their size advantage

(5) Intensity of rivalry
   (a) The intensity of competition among existing organizations in an industry
   (b) Increases when an organization has many competitors seeking similar customers
   (c) Increases when the industry growth rate slows or declines
   (d) Increases when the industry has intermittent overcapacity
   (e) Increases when brand identity and switching costs are low
   (f) Increases when an organization’s fixed costs are high and cannot be easily converted to a new industry or product
   (g) Increases when there is little ability to differentiate the product or service being offered

4. Internal factors
   a) Strengths and weaknesses
      (1) Strengths = valuable or unique resources or abilities of an organization
      (2) Weaknesses = lack of specific resources or abilities that an organization needs
   b) Three important types of internal resources
      (1) Physical = the material assets the organization owns or can access
      (2) Human = competencies held by an organization’s members
      (3) Infrastructural = the organization’s structures and systems
   c) Core competency = a strength that is central for achieving the firm’s goals
   d) Distinctive competency = a core competency that an organization has that is superior compared to its competitors
   e) Competitive strategy = a strategy that seeks to create value for customers by providing low prices or unique features that are not offered by rival organizations
   f) Sustained competitive advantage = a competitive strategy that other organizations are unable to duplicate
      (1) Four characteristics of resources that develop sustained competitive advantage
         (a) Valuable: can be used to neutralize threats or exploit opportunities
         (b) Rare: held by no (or very few) other organizations
         (c) Inimitable: cannot be easily copied by other organizations
         (d) Nonsubstitutable: cannot be easily replaced by other resources

C. Step 3: Formulate strategy
   1. Competing within a specific industry
      a) Business-level strategy = the strategy followed by a business in a specific industry
         (1) Cost leadership strategy = increasing the profit margin by keeping costs lower than competitors, but still maintaining price and quality at approximately the same level as competitors
         (2) Differentiation strategy = offering a product or service for which buyers are willing to pay a higher price than they would for a competitor’s product or service
Focus strategy = choosing a small niche in the overall market, such as a specific geographic area or a small product segment

2. Competing in multiple industries
   a) Corporate-level strategy = helps managers in diversified organizations decide which industries to compete in
      (1) Diversified organizations compete in more than one industry or sector or serve customers in several different product, service, or geographic sectors
      (2) Strategic business unit (SBU): often each separate division in a diversified company is treated as a SBU with its own mission, business-level strategy, products or services, markets, and competitors
   b) Two basic types of diversification strategies
      (1) Related diversification expands an organization’s activity in industries related to its current activity
         (a) Horizontal integration is evident when an organization’s services or products are expanded into new markets
         (b) Synergy occurs when the performance gain from two or more units working together is greater than the simple sum of their individual contributions
         (c) Vertical integration occurs when an organization produces its own inputs (backward integration) or sells its own outputs (forward integration)
      (2) Unrelated diversification occurs when an organization acquires or enters new industries unrelated to its current activities
   c) BCG Matrix = a tool that classifies organizations according to their market share and the rate at which the industry is growing
      (a) Dog = low market share, low market growth rate
      (b) Question mark = low market share, high market growth rate
      (c) Cash cow = high market share, low market growth rate
      (d) Star = high market share, high market growth rate
   d) Four phases of a product (or industry) life cycle
      (a) Introduction = product is new on the market, and demand for it is not yet established
      (b) Growth = demand for product increases, but the costs of building capacity to meet customer demand may cause cash-flow problems
      (c) Maturity = demand levels off, some competitors consolidate efforts or drop out of the industry, and efforts are made to differentiate from competitors
      (d) Decline = demand drops, profitability drops, and the advantage goes to the most efficient and well-diversified competitors

D. Step 4: Implement strategy
   1. Content school approach to strategy emphasizes rational-analytic, top-down, and linear aspects of strategy formulation
      a) Associated with Mainstream management
   2. Process school approach to strategy is a bottom-up, emergent, egalitarian approach that emphasizes strategic learning
      a) Associated with Multistream management
      b) Strategic learning = using insights from actual strategy as it is being implemented to improve intended strategy
         (1) Unimplemented strategy = aspects of the intended strategy that never get put into practice
         (2) Emergent strategy = actions taken that were not part of the original intended strategy
III. Multistream strategic management  
A. Two main differences from Mainstream strategic management  
   1. Goes beyond Mainstream focus on maximizing financial competitiveness to incorporating  
      concerns of other stakeholders  
   2. More focused on process of strategy than on content  
B. Step 1: Review organizational mission and vision  
C. Step 2: Analyze external and internal factors (SWOT)  
   1. Considers a broader range of issues than Mainstream approach, namely the ecological  
      environment  
   2. External factors (opportunities and threats)  
      a) Mainstream focuses on achieving sustainable competitive advantage, whereas  
         Multistream focuses on achieving sustainable mutually advantageous relationships  
         between organizations  
      b) In comparison to Michael Porter’s Mainstream “Five Forces Model” of enhancing  
         power, the Multistream parallel suggests five ways to nurture community by  
         increasing:  
         (1) Use of previously wasted resources  
            (a) Rather than minimizing dependence on suppliers, a Multistream approach  
               welcomes reliance on trustworthy suppliers who transform their  
               underutilized resource outputs (waste) into material for inputs  
         (2) Capacity for customers to meet community needs  
         (3) Substitutes that enhance overall well-being  
         (4) Bridge building among organizations  
            (a) Rather than building barriers to hinder competitors, Multistream  
               organizations remove barriers to foster cooperation between  
               organizations  
            (5) Mutually beneficial interdependence  
      3. Internal factors (strengths and weaknesses)  
         a) Assesses same four characteristics of resources as Mainstream approach but is  
            concerned with nonfinancial as well as financial outcomes  
            (1) Valuable: enhances the well-being of humankind  
            (2) Rare: increases need for responsibility to protect rare resources  
            (3) Inimitable: may teach others the secrets of their resources  
            (4) Nonsubstitutable: protects stakeholder overall well-being  
D. Step 3: Formulate strategy  
   1. Competing within a specific industry  
      a) Two basic types of Multistream strategies  
         (1) Minimizer strategy seeks to provide desired goods and services in a way that  
             limits a variety of costs (financial, social, ecological)  
         (2) Transformer strategy seeks to provide desired goods and services in a way that  
             redeems what were previously discarded or wasted resources  
   2. Competing in multiple industries  
      a) Multistream managers can use a matrix similar to the BCG matrix in which they  
         measure the degree of sustainability and restorativeness of an industry  
         (1) Sustainability = the eco-friendliness of an industry  
         (2) Restorativeness = how well organizations in an industry help to reduce waste  
            produced by others  
   
   c) Process school approach is more complex than the content school approach but may more  
      accurately depict reality
(3) Four quadrants of the matrix
   (a) Sustainability hero = high sustainability, high restorativeness
   (b) Innocent bystander = high sustainability, low restorativeness
   (c) Fragile player = low sustainability, high restorativeness
   (d) Lavish actor = low sustainability, low restorativeness

E. Step 4: Implement strategy
   1. Strategic learning is of utmost importance to Multistream strategy implementation
   2. Multistream approach focuses on emergent strategies from customers, employees, or other stakeholders