Importance of Strategic Management

• Why Is Strategic Management Important?
  – Because managers vary in how well they formulate and implement strategies, and this affects their organization’s competitiveness.
  – Strategic management
    • The analysis and decisions that are necessary to formulate and implement strategy.
  – Strategy
    • The combination of goals, plans and actions designed to accomplish an organization’s mission.
Strategic Management Process

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.

Figure 9.1: Overview of the Strategic Management Process

Mainstream Strategic Management

- **Step 1: Review mission and vision**
  - Emphasis is on maximizing competitiveness.
  - Plan is revisited on a regular basis.
- **Step 2: Analyze internal and factors**
  - (SWOT)
    - Internal strengths and weaknesses
    - External opportunities and threats
  - An analysis of the external environment is key to uncovering what current and future opportunities and threats might exist.
SWOT Analysis

Strengths
Valuable or unique resources of an organization or any activities that it does particularly well that can help managers to achieve their strategic objectives.

Weaknesses
A lack of specific resources or abilities that an organization needs in order for it to do well; a characteristic that hinders the achievement of the strategic objectives of an organization.

Opportunities
Conditions in the external environments that have the potential to help managers meet or exceed organizational goals.

Threats
Conditions in the external environments that have the potential to prevent managers from meeting organizational goals.

Table 9.1: Overview of Porter’s Five Competitive Forces and Strategic Management

<table>
<thead>
<tr>
<th>Five Competitive Forces</th>
<th>Attractive to Strategic Managers When …</th>
<th>The Force Is Lower When …</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier power</td>
<td>Low</td>
<td>There are numerous suppliers.</td>
</tr>
<tr>
<td>Buyer power</td>
<td>Low</td>
<td>There are numerous customers.</td>
</tr>
<tr>
<td>Threat of substitutes</td>
<td>Low</td>
<td>There are few substitutes, or when the use of substitutes requires extra investment.</td>
</tr>
<tr>
<td>Threat of entrants</td>
<td>Low</td>
<td>There is a high capital requirement to start a new organization in the industry.</td>
</tr>
<tr>
<td>Intensity of rivalry</td>
<td>Low</td>
<td>There is a lot of differentiation among organizations, so that managers face little direct competition from other organizations.</td>
</tr>
</tbody>
</table>


Industry Rivalry

- Rivalry intensity will increase when:
  - An organization has many competitors seeking similar customers.
  - The industry growth rate slows or declines.
  - The industry has intermittent overcapacity.
  - Brand identity and switching costs are low.
  - A firm’s fixed costs are high or cannot be easily converted to a new industry or product.
  - There is little ability to differentiate the product or service being offered.
Strategies

• 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.
• Sustained Competitive Advantage
  – A competitive strategy that other organizations are
    unable to duplicate.

Table 9.2: Four Characteristics of Resources That Help to Achieve Sustained Competitive Advantage

<table>
<thead>
<tr>
<th>Valuable</th>
<th>The resource can serve as the basis of a competitive advantage.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rare</td>
<td>The resource is held by no (or very few) other organizations.</td>
</tr>
<tr>
<td>Inimitable</td>
<td>The resource cannot easily be copied or developed in another</td>
</tr>
<tr>
<td></td>
<td>organization.</td>
</tr>
<tr>
<td>Nonsubstitutable</td>
<td>The resource cannot be easily replaced by other resources.</td>
</tr>
</tbody>
</table>

Mainstream Strategic Management

• Step 3: Formulate Strategy
  – Competing within a specific industry
    • Business level strategies
      – Cost leadership strategy
      – Differentiation
      – Focus strategy
  – Competing multiple industries
    • Diversification strategies
      – Related
      – Unrelated
Business-Level Strategies

- **Cost Leadership**
  - Increase the profit margin by keeping overall costs lower than competitors through efficiencies in production and distribution.
  - Maintaining price and quality at roughly the same level as competitors.
  - Gaining economies of scale as the market leader.

Business-Level Strategies (cont’d)

- **Differentiation Strategy**
  - Offering a product or service with a significant difference 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.
  - Strategy can be based on either cost leadership or differentiation.

Diversification Strategies

- **Related Diversification**
  - Involves expanding an organization’s activity in industries related to its current activities.
- **Synergy**
  - The performance gain that results from two or more units working together is greater than the sum of their individual contributions.
Diversification Strategies (cont’d)

• Horizontal Integration
  – Services and products are expanded or offered in new markets.

• Vertical Integration
  – Occurs when an organization produces its own inputs (backward integration) or sells its own outputs (forward integration).

Diversification Strategies (cont’d)

• Unrelated Diversification
  – Occurs when an organization grows by acquiring or entering new industries unrelated to its current activities.
  – Reasons for diversification:
    • When there are no opportunities for expansion in current markets.
    • When current markets are beginning to decline.

Business Portfolio Planning

• BCG Matrix
  – Developed by the Boston Consulting Group.
  – Classifies portfolio businesses by relative market share (strength) and market growth rate (potential).
    • Stars—high growth, high market share
    • Cash cows—low growth, high market share
    • Question marks—high growth, low market share
    • Dogs—low growth, low market share
  – Is limited by its focusing exclusively on market share and market growth.
Mainstream Strategic Management

- Step 4: Implement Strategy
  - Content school approach to strategy
    - Emphasizes the rational-analytic, top-down and linear aspects of strategy formulation.
    - Aligned with mainstream approach.
  - Process school of strategic management
    - Bottom-up, emergent (un-planned), and egalitarian approach that emphasizes strategic learning—strategy formulation and implementation are ongoing and iterative.
    - Aligned with the Multistream approach.
Strategic Learning

- Focus of Strategic Learning:
  - Why was some of the original intended strategy not implemented?
  - Which elements of the (unintended) emergent strategy resulted in positive outcomes for the organization?
  - What are the implications of this analysis for the organization’s next intended strategy?

Multistream Strategic Management

<table>
<thead>
<tr>
<th>Mainstream Strategic Management</th>
<th>Multistream Strategic Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on acquisitive economics and maximizing the owners’ financial wealth</td>
<td>Focused on sustenance economics and balancing the material well-being of owners with the overall well-being of all stakeholders</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mainstream Four-Step Model</th>
<th>Multistream Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasizes how managers develop the content of strategy by analyzing stakeholders</td>
<td>Pays greater attention to how stakeholders contribute to the overall process by which strategy is developed</td>
</tr>
</tbody>
</table>
What Do You Think?
What Are the Pros And Cons of Competitiveness?

- How might you react if you were a shareholder in the poultry company where managers opted to help their stricken competitor?
- What if the burnt-out firm were rebuilt with state-of-the-art facilities, thereby developing a strategic advantage that would make your company less able to compete?
- What are the short- and long-term implications of competitiveness? Of cooperation?
- Does competitiveness bring out the best in humankind and in organizations? Are there better ways?

Multistream Strategic Management

- Step 1: Review mission and vision
  - Concern is for mutually beneficial cooperation and the well-being of multiple stakeholders.
- Step 2: Analyze external and internal factors (SWOT)
  - Considers a broad range of issues with an emphasis on the ecological environment.
    - Focused on financial sustainability, overall community well-being, and corporate social responsibility.

Table 9.3: Mainstream Versus Multistream Approaches to External Relationships

<table>
<thead>
<tr>
<th>Mainstream Approach</th>
<th>Multistream Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance power by minimizing:</td>
<td>Nurture community by Innuencing:</td>
</tr>
<tr>
<td>Supplier power</td>
<td>Usage of previously wasted resources</td>
</tr>
<tr>
<td>Buyer power</td>
<td>Capacity for customer to meet community needs</td>
</tr>
<tr>
<td>Substitutes</td>
<td>Substitutes that enhance overall well-being</td>
</tr>
<tr>
<td>Threat of entry</td>
<td>Bridge building among organizations</td>
</tr>
<tr>
<td>Rivalry intensity</td>
<td>Mutually beneficial independence</td>
</tr>
</tbody>
</table>
What Do You Think?

Can Managers In Other Organizations Be Trusted?

- What external and internal conditions support the sort of neighborliness and trust that Uzzi had initially found in the New York fashion industry? What conditions stifle it?
- Do you think that the Mainstream approach is at odds with fostering trust and neighborliness in an industry?
- Is it at odds with enhancing aesthetic well-being? Would you have concerns about a Multistream approach that emphasizes trust and community?

Table 9.4: Mainstream and Multistream Criteria for Strengths

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Mainstream Emphasis</th>
<th>Multistream Emphasis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuable</td>
<td>Enhance profitability</td>
<td>Enhance the well-being of mankind</td>
</tr>
<tr>
<td>Rare</td>
<td>Increase revenues</td>
<td>Increase need for responsibility</td>
</tr>
<tr>
<td>Irrelevant</td>
<td>Enhance monopoly</td>
<td>Teach others</td>
</tr>
<tr>
<td>Non-restrictive</td>
<td>Protect financial interests</td>
<td>Protect stakeholder overall wellbeing</td>
</tr>
</tbody>
</table>
• Step 3: Formulate strategy
  – Competing within a specific industry
    • Minimizer strategy
      – Seeks to provide desired goods and services in a way that limits various costs.
    • Transformer strategy
      – Seeks to provide desired goods and services in a way that redeems what were previously discarded or under-appreciated resources.

Figure 9.6: A Multistream Portfolio Matrix

• Step 4: Implement strategy
  – Strategic learning
    • Is learning from other stakeholders and identifying the emerging patterns in the “stream of actions” that make up organizational life.
    • Places more emphasis on the “art” or “craft” of management, rather than the “analytical science” of management.
    • Focuses on emergent strategies.