Chapter 8

Strategy Formulation and Implementation

Chapter Outline

I. Thinking Strategically
   A. What Is Strategic Management?
   B. Grand Strategy
   C. Global Strategy
   D. Purpose of Strategy
   E. Levels of Strategy

II. The Strategic Management Process
   A. Strategy Formulation Versus Implementation
   B. Situation Analysis

III. Formulating Corporate-Level Strategy
   A. Portfolio Strategy
   B. The BCG Matrix

IV. Formulating Business-Level Strategy
   A. Porter’s Competitive Forces and Strategies
   B. Partnership Strategies

V. Formulating Functional-Level Strategy

VI. Strategy Implementation and Control
   A. Leadership
   B. Structural Design
   C. Information and Control Systems
   D. Human Resources
   E. Implementing during Turbulent Times

Annotated Learning Objectives

After studying this chapter, students should be able to:

1. Define the components of strategic management.
   Strategic management is the set of decisions and actions used to formulate and implement strategies that will provide a competitively superior fit between the
organization and its environment so as to achieve organizational goals. A strategy consists of a core competence, synergy, and value creation.

2. **Describe the strategic planning process and SWOT analysis.**

The strategic management process begins when executives evaluate their current position with respect to mission, goals, and strategies.

Managers then scan the organization’s internal and external environments and identify strategic factors that may require change. Internal or external events may indicate a need to redefine the mission or goals or to formulate a new strategy at either the corporate, business, or functional level. The final stage in the strategic management process is implementation of the new strategy.

The situation analysis typically includes a search for SWOT. The SWOT analysis reviews the strengths (S), weaknesses (W), opportunities (O), and threats (T) that affect organizational performance. Situation analysis is important to all companies but is crucial to those considering globalization because of the diverse environments in which they will operate.

3. **Understand Grand Strategies for domestic and international operations.**

Grand strategy is the general plan of major action by which a firm intends to achieve its long-term goals. Grand strategies fall into three general categories: growth, stability, and retrenchment.

Growth can be promoted internally by investing in expansion or externally by acquiring additional business divisions.

Stability, sometimes called a pause strategy, means that the organization wants to remain the same size or grow slowly and in a controlled fashion.

Retrenchment occurs when the organization goes through a period of forced decline by either shrinking current business units (divestiture) selling off, or liquidating entire businesses.

Three grand global strategies can also be defined specifically for global operations.

Globalization means that product design and advertising are standardized throughout the world. This approach is based on the assumption that a single global market exists for most consumer and industrial products.

Multidomestic strategy means that competition in each country is handled independently of industry competition in other countries. Thus, a multinational company is present in many countries, but it encourages marketing, advertising, and product design to be modified and adapted to the specific needs of each country.

Transnational strategy seeks to achieve both global integration and national responsiveness. A true transnational strategy is difficult to achieve, because one goal requires close global coordination while the other goal requires local flexibility.
4. Define corporate-level strategies and explain the portfolio approach.

Corporate-level strategy pertains to the organization as a whole and the combination of business units and product lines that make up the corporate entity. Strategic actions at this level usually relate to the acquisition of new businesses, additions or divestment of business units, plants, or product lines, and joint ventures with other corporations in new areas.

The portfolio strategy pertains to the mix of business units and product lines that fit together in a logical way to provide synergy and competitive advantage for the corporation. Corporations like to have a balanced mix of business divisions called strategic business units (SBUs). A SBU has a unique business mission, product line, competitors, and markets relative to other SBUs in the corporation. Executives in charge of the entire corporation generally define the grand strategy and then bring together a portfolio of SBUs to achieve the plan.

5. Describe business-level strategies, including Porter’s competitive forces and strategies and partnership strategies.

The concern within the strategic business unit is how to compete. The same generic strategies of growth, stability, and retrenchment apply at the business level, but they are accomplished through competitive actions rather than the acquisition or divestment of business divisions.

Porter proposed that business-level strategies are the result of five competitive forces in the company’s environment. These five competitive forces are:

- Potential new entrants. Capital requirements and economies of scale are examples of two potential barriers to entry that can keep out new competitors.
- Bargaining power of buyers. Informed customers become empowered customers.
- Bargaining power of suppliers. The concentration of suppliers and the availability of substitute suppliers are significant factors in determining supplier power.
- Threat of substitute products. The power of alternatives and substitutes for a company’s products may be affected by cost changes or trends that will deflect buyer loyalty to companies.
- Rivalry among competitors. Rivalry among competitors is influenced by the preceding four forces as well as by cost and product differentiation.

In finding its competitive edge within these five forces, Porter suggests that a company can adopt one of three strategies:

- Differentiation. The differentiation strategy involves an attempt to distinguish the firm’s products or services from others in the industry.
- Cost Leadership. With a cost leadership strategy, the organization aggressively seeks efficient facilities, pursues cost reductions, and uses tight cost controls to produce products more efficiently than competitors.
Focus. With a focus strategy, the organization concentrates on a specific regional market or buyer group.

An alternative approach to strategy emphasizes collaboration. In some situations, companies can achieve competitive advantages by cooperating with other firms rather than competing. Partnership strategies are becoming increasingly popular as firms in all industries join with other organizations to promote innovation, expand markets, and pursue goals. Competition and cooperation often exist at the same time. The Internet is both driving and supporting the move toward partnership thinking. The ability to rapidly and smoothly conduct transactions, communicate information, exchange ideas, and collaborate on complex projects via the Internet, means that companies have been able to enter entirely new business by partnering in business areas that were previously unimaginable. Mutual dependencies and partnerships have become a fact of life, but the degree of collaboration varies. Organizations can choose to build cooperative relationships in many ways, such as through preferred suppliers, strategic business partnering, joint ventures, or mergers and acquisitions.

6. Explain the major considerations in formulating functional strategies.

Functional-level strategies are the action plans adopted by major departments to support the execution of business-level strategy. Major organizational functions include marketing, production, finance, human resources, and research and development. Managers in these departments adopt strategies that are coordinated with the business-level strategy to achieve the corporate-level strategy.

7. Enumerate the organizational dimensions used for implementing strategy.

The final step in the strategic management process is implementation, which is how strategy is put into action. Strategy implementation is the most difficult and important part of strategic management. Implementation requires changes in the organization’s behavior. These changes can be implemented by changes in leadership, structure, information and control systems, and human resources.

Lecture Outline

Suggested Opening Remarks

At Nintendo, CEO and president Satoru Iwata is still evaluating strengths, weaknesses, threats, and opportunities to see how Nintendo should position itself for the long-term future. In the short term, a functional level strategy of enhanced advertising and price cuts helped Nintendo increase its sales during the critical holiday sales period. Sony and Ibox both took a big hit from Nintendo’s price cuts by failing to do enough marketing. In addition, Nintendo plans to bring out its next generation console ahead of Sony’s and Microsoft’s, giving the company a competitive edge. For the long range, Iwata so far is sticking to a focused differentiation strategy rather than trying to compete as an all-in-one entertainment company. His strategy calls for focusing all the company’s entertainment...
Iwata is investing heavily in internal game development, building a new R&D facility, and adding 50 new developers to design entertainment for all ages. He’s also working hard to mend fences with third-party game publishers and partner with them on game design, something unheard of in Nintendo’s past.

The new inclination toward partnership may be carried even further if Iwata decides his company can’t survive on games alone. He has hinted that he wouldn’t mind making Nintendo’s technology available for incorporating into other kinds of hardware, perhaps even building a joint venture with a major electronics power such as Panasonic, which already sells a device that combines a DVD player with a Nintendo GameCube. Some observers believe such a move is the best approach for the ailing company but Iwata still believes that if Nintendo builds great games, it can thrive as a niche player in the entertainment industry. There is also a possibility that the all-in-one strategies of Sony and Microsoft will backfire, leading to higher prices that consumers just aren’t willing to pay.

I. THINKING STRATEGICALLY

What is meant by thinking strategically?

Every organization should be concerned with strategy formulation and implementation; strategic management is one specific type of planning.

Strategic planning in for-profit organizations pertains to competitive actions in the marketplace.

In not-for-profit organizations, strategic planning pertains to events in the external environment.

Strategic thinking means to take the long-term view and to see the big picture, including the organization and its environment to achieve organizational goals.

Understanding the strategy concept, the levels of strategy, and strategy formulation versus implementation is an important start toward strategic thinking.

A. What Is Strategic Management?

Strategic management is the set of decisions and actions used to formulate and implement strategies that provide a superior fit between the organization and its environment to achieve organizational goals.

It helps managers answer questions such as: What changes and trends are occurring in the competitive environment? What products or services should we offer? How can we offer those products and services most efficiently?
Answers to questions help managers make choices about how to position their organization in the environment with respect to rival companies.

B. Grand Strategy

*Grand strategy* is the general plan of action by which a firm achieves its long-term objectives. Grand strategies fall into the following categories:

1. Growth.

   *Growth* can be promoted internally by investing in expansion or, externally, by acquiring additional business divisions.

   External growth typically involves *diversification*, which means the acquisition of businesses that are related to current product lines or that take the corporation into new areas.

   Many companies have grown through mergers and acquisitions, acquiring resources to compete on a global scale, investing in new technology, and controlling distribution channels (e.g., Citibank).

---

**UNLOCKING CREATIV SOLUTIONS THROUGH TECHNOLOGY**

*EBay: Building on Success*

EBay is pursing a growth strategy, successfully molding itself into a new kind of enterprise—a whole online community where 30 million buy and sell more than $20 billion in merchandise; everything from computers to cosmetics. More used cars sell on eBay than the No. 1 U.S. auto dealer. The company has its own police force to patrol listings for fraud, an educational system that holds class around the country to teach people how to buy and sell on the site, and even something like its own bank. The company purchased Half.com, then partnered with AutoTrader.com, then acquired payment processor PayPal. Another growth strategy allows businesses such as J.C. Penney and IBM to set up virtual storefronts. Selling data will likely become an important part of the eBay’s business in future years. As eBay continues its astounding growth, no one seems to know how far it can go.

2. Stability.

   *Stability*, or *pause strategy*, means that the organization wants to remain the same size or grow slowly and in a controlled fashion.

   After organizations have undergone rapid growth, executives often focus on a stability strategy to integrate strategic business units and ensure efficiency.

3. Retrenchment

   Retrenchment means the organization goes through a period of forced decline by shrinking current business units or selling, or liquidating, entire businesses.
In the early 2000s, Nortel Networks laid off more than 40,000 employees and shut down several divisions to cope with reduced demand.

*Liquidation* means selling a business unit for the cash value of the assets, thus terminating its existence.

*Divestiture* involves the selling of businesses that no longer seem central to the corporation.

### C. Global Strategy

In global strategy, management tries to formulate coherent strategies to provide synergy among worldwide operations for the purpose of fulfilling common goals.

A systematic strategic planning process for deciding on the appropriate strategic alternative should be used.

The grand strategy of growth is a major motivation for both small and large businesses going international.

In the international arena, companies face a strategic dilemma between global integration and national responsiveness.

Firms that pursue international expansion must decide if each global affiliate is to act autonomously or standardize and centralize activities across countries.

This choice leads managers to select a basic grand strategy alternative such as globalization versus multidomestic strategy.

1. **Globalization.**

   In a strategy of *globalization*, product design and advertising strategies are standardized throughout the world.

   This is based on the theory that people everywhere want to buy the same products and live the same way; people everywhere want to drink Coca-Cola.

   A globalization strategy can help an organization reap efficiencies by standardizing product design and manufacturing, using common suppliers.

   Ford Motor Company’s Ford 2000 initiative built a single global automotive operation and saved $5 billion during the first three years.

   Globalization enables marketing departments to save millions of dollars.

2. **Multidomestic Strategy.**

   In a *multidomestic strategy*, product design, marketing, and advertising are modified to suit the specific needs of each country.

   A multinational company encourages marketing, advertising, and product design to be modified and adapted to the specific need of each country.

   Many companies reject the idea of a single global market; the French don’t drink orange juice for breakfast, and Mexicans use laundry detergent to wash dishes.
3. Transnational strategy.

A *transnational strategy* seeks to achieve both global integration and national responsiveness.

This is difficult to achieve, as one goal requires close global coordination while the other goal requires local flexibility.

Caterpillar Inc. uses a transnational strategy by designing products to use many identical components but adding certain product features to meet local needs.

Even global products may require some customization to meet government regulations in various countries or some tailoring to meet customer preferences.

D. Purpose of Strategy

*Strategy* is the plan of action that describes resource allocation and activities for dealing with the environment, achieving a competitive advantage, and attaining the organization’s goals.

A *competitive advantage* refers to what sets the organization apart from others and provides it with a distinctive edge in the marketplace.

The essence of formulating strategy is choosing how the organization will be different.

Through strategy, management attempts to develop within the organization a core competence and synergy, thus creating value for their customers.


A company’s *core competence* is something the organization does especially well in comparison to its competitors.

A core competence may include: research and development, expert technological know-how, process efficiency, and exceptional customer service.

Amgen, a pharmaceutical company, strategy focuses on the company’s core competence of high-quality scientific research.

Dell Computer’s fixation with speed and thrift is being challenged as it moves into new areas such as storage systems, networking gear, and information services.

2. Synergy.

*Synergy* occurs when organizational parts interact to produce a joint effect that is greater than the sum of its parts acting alone.

The organization may attain a special advantage with respect to cost, market power, technology, management skill.

FedEx hopes to achieve synergy with its recent acquisition of Kinko’s Inc.

Synergy can be obtained through good relations between suppliers and customers, or by strong alliances among companies; Swedish giant Electrolux partnered with Ericsson telecommunications.
3. Value Creation.

Delivering value to customers should be the heart of strategy; value is the combination of benefits received and costs paid by the customer.

Managers help their companies create value by devising strategies that exploit core competencies and attain synergy.

E. Levels of Strategy

Strategic managers normally think in terms of three levels of strategy, which are corporate, business, and functional.


*Corporate-level strategy* asks the question, “What business are we in?” It pertains to the organization as a whole and the combinations of business units and product lines.

Strategic actions relate to acquisition of new businesses, additions or divestment of business units, plants, or product lines, and joint ventures (e.g., Fiat and GM).


*Business-level strategy* asks the question, “How do we compete?” It pertains to each business unit or product line within the organization.

Strategic decisions concern advertising, direction and extent of R&D, product changes and development, equipment and facilities, and expansion of product lines.

**JCPenney’s** new business-level strategy features affordable merchandise with designer labels---between Wal-Mart’s low prices and trendy expensive retailers.


Functional-level strategy asks the question, “How do we support the business-level competitive strategy?”

Functional strategies involve the major functional departments within the business such as: research and development, marketing, manufacturing, and finance.

**Discussion Question #5:** What is meant by the core competence and synergy components of strategy? Give examples.

**Notes**
II. THE STRATEGIC MANAGEMENT PROCESS

Describe the strategic management process?

The strategic management process begins when executives evaluate their current position with respect to mission, goals, and strategies.

Then they scan the organizations internal and external environment and identify strategic factors that might require change.

Events might indicate a need to redefine the mission or goals or to formulate a new strategy at either the corporate, business, or function level.

The final stage in the strategic management process is implementation of the new strategy.

A. Strategy Formulation versus Implementation

*Strategy formulation* includes the planning and decision-making that lead to the establishment of the firm’s goals and the development of a specific strategic plan.

It includes assessing the external environment and the internal problems and integrating the results into goals and strategy.

*Strategy implementation* is the use of managerial and organizational tools to direct resources toward achieving strategic outcomes.

Managers may use persuasion, new equipment, changes in organization structure, or a reward system to ensure that employees and resources are used to make formulated strategy a reality.

**Discussion Question #3:** If an organization has hired strategic management professionals to help top managers, during which part of the strategic management process would they play the largest role?

---

B. Situation Analysis

Formulating strategy begins with internal and external factors.

*Situations analysis* often starts with a SWOT (strengths, weaknesses, opportunities, and threats) that affects organizational performance.

Situation analysis is important to all companies but is crucial to those considering globalization because of the diverse environments in which they will operate.

External information about opportunities is obtained from customers, government reports, professional journals, suppliers, bankers, friends, and consultants.

Scanning organizations provide newspaper clippings, Internet research, and analyses of trends.
Internal information comes from reports, budgets, financial ratios, surveys, and meetings.

1. Internal Strengths and Weaknesses

*Strengths* are positive internal characteristics an organization can exploit to achieve its strategic performance goals.

*Weaknesses* are internal characteristics that may inhibit or restrict the organization’s performance.

The information sought pertains to specific functions such as marketing, finance, production, or R&D; analysis also examines the firm’s overall structure.

**Discussion Question #1:** Assume you are the general manager of a large hotel and have formulated a strategy of renting banquet facilities corporations for big events. At a monthly management meeting, your sales manager informed the head of food operations that a big reception in one week will require converting a large hall from a meeting room to a banquet facility in only 60 minutes—a difficult but possible operation that will require precise planning and extra help. The food operations manager is furious about not being informed earlier. What is wrong here?

**Notes**

---

2. External Opportunities and Threats

*Opportunities* are characteristics of the external environment that have the potential to help the organization achieve or exceed its strategic goals.

*Threats* are characteristics of the external environment that may prevent the organization from achieving its strategic goals.

The task environment sectors are the most relevant to strategic behavior---behavior of customers, competitors, suppliers, and the labor supply.

The general environment includes technological developments, the economy, legal-political and international events, and sociocultural changes.

Kraft foods faced difficult challenges recently but the food company is using SWOT analysis to get things back on track.

**Discussion Question #4:** Perform a situation (SWOT) analysis for the university you attend. Do you think university administrators consider these factors when devising their strategy?

**Notes**

---

This edition is intended for use outside of the U.S. only, with content that may be different from the U.S. Edition. This may not be resold, copied, or distributed without the prior consent of the publisher.
III. FORMULATING CORPORATE-LEVEL STRATEGY

A. Portfolio Strategy.

*Portfolio strategy* pertains to the mix of business units and product lines that fit together in a logical way to provide synergy and competitive advantage for the corporation.

Corporations like to have a balanced mix of business divisions called strategic business units (SBUs).

An *SBU* has a unique business mission, product line competitors, markets relative to other SBUs in the corporation.

Senior corporate managers develop an overall plan called a grand strategy and then bring together a portfolio of SBUs to achieve the strategy.

B. The BCG Matrix.

*Exhibit 8.5*

The *BCG* (Boston Consulting Group) *matrix* evaluates SBUs with respect to the dimension of business growth rate and market share.

*Business growth rate* pertains to how rapidly the entire industry is growing.

*Market share* defines whether a business unit has a larger or smaller market share than competitors.

The combination of market share and business growth rate provides four categories to judge SBUs within a corporate portfolio:

- **Star.** The Star is a firm with large market share in a rapidly growing industry.

  The star is important because it has additional growth potential and profits should be reinvested for future growth and profits.

  It will generate a positive cash flow as industry matures and market growth slows.

- **Cash Cow.** The cash cow exists in a mature, slow-growth industry but has a large market share.

  The cash cow has a positive cash flow and can be milked to feed riskier businesses.

- **Question Mark.** The question mark exists in a new, rapidly growing industry but only has small market share.

  The question mark is risky. It could be a star or it could fail.

- **Dog.** The dog has small market share in a slow growth industry.

  A dog provides little or no profit and is a poor performer.

  A turnaround strategy should be applied. If turnaround is not feasible, then divest or liquidate.

Gillette’s shaving division is a cash cow producing over half of the profits; Duracell is still a question mark, oral care is a star, and a line of men’s toiletries is a dog.
**Discussion Question #7:** Walt Disney Company has four major strategic business units: movies (Touchstones), theme parks, consumer products, and television (primarily cable). Place each of these SBUs on the BCG matrix based on your knowledge of them.

**Notes___________________________________________________________________
________________________________________________________________________
________________________________________________________________________

**IV. FORMULATING BUSINESS-LEVEL STRATEGY**

Exhibit 8.6

The focus of business-level strategy is how to compete.

Generic strategies at the business level are the same as at the corporate level: growth, stability, and retrenchment.

At the business level, strategies are accomplished through competitive actions rather than acquisition or divestment.

Porter has examined the impact of the Internet on Business level strategy.

A. Porter’s Competitive Forces and Strategies

1. Five Competitive Forces.

Michael Porter’s competitive strategies are the result of five competitive forces in the company’s environment.

These forces determine a company’s position compared with competitors within the industry.

Competitive forces include the following:

- **Potential new entrants.** Capital requirements and economies of scale are examples of barriers to entry that can keep out new competitors.

  Internet technology has made it easier for new companies to enter an industry by curtailing an established sales force, building or machinery, or access to existing supplier and sales channels.

- **Bargaining power of buyers.** Informed customers become empowered customers.

  As advertising and buyer information educates customers about the full range of price and product options available in the marketplace, their influence over a company increases.

  Internet provides easy access to information about products, services and competitors, greatly increasing bargaining power.

- **Bargaining power of suppliers.**

  The concentration of suppliers and the availability of substitute suppliers are significant in determining the bargaining power of suppliers.
Procurement over the web gives a company greater power over suppliers.

The web also gives suppliers access to a greater number of customers as well as the ability to reach end users.

- **Threat of substitute products.** The power of alternatives and substitutes for a company’s product may be affected by cost changes or trends that will deflect buyer loyalty to companies.

  The Internet has created a greater threat of new substitutes by enabling new approaches to meeting customer needs.

- **Rivalry among competitors.** Rivalry among competitors is influenced by the preceding four forces as well as by cost and product differentiation.

  With the leveling force of the Internet and information technology, it has become more difficult for many companies to find ways to distinguish themselves from their competitors, so rivalry has intensified.

Porter referred to the advertising “slugfest” when describing the scrambling and jockeying for position that occurs among fierce rivals within an industry.

**Discussion Question #10:** Describe how the Internet increases the bargaining power of consumers, one of Porter’s five competitive forces. Have you felt increased power as a consumer because of the Internet? Explain.

Notes

---

2. Competitive Strategies

Based on these competitive forces Porter suggests a company can adopt one of the following competitive strategies:

- **Differentiation** The differentiation strategy is an attempt to distinguish the firm’s products or services from others in the same industry.

  In an attempt to be different a firm may use: advertising, distinctive product features, exceptional service, and new technology.

  The differentiation strategy can be profitable because customers are loyal and will pay high prices for the product (e.g., Mercedes-Benz, Maytag).

  Companies that pursue differentiation need strong marketing abilities, a creative flair, and a reputation for leadership.

  This strategy can reduce rivalry with competitors if buyers are loyal; it can reduce the bargaining power of large buyers because other products are less attractive.

  Differentiation erects barriers in the form of customer loyalty to new entrants; customers stayed loyal to eBay rather than switch to low-cost rivals.
UNLOCKING CREATIVE SOLUTIONS THROUGH PEOPLE

Happy Employees Want to Stay at the Harleysville Group

At Harleysville, managers strive to provide their employees with an appealing atmosphere and plenty of perks. The goal is to create a work environment that makes people want to stay. Besides an impressive vacation plan, extensive medical benefits, a cafeteria that serves freshly made food, the company also provides on-site ATMs and a clothes-cleaning services. Harleysville refuses to pay sky-high salaries, but the extensive benefits and the people-friendly work environment help the company stand out in the insurance industry.

- **Cost Leadership** With a cost leadership strategy the organization seeks efficient facilities, pursues cost reductions, and uses tight cost controls to produce products more efficiently than competitors.

  A low-cost position means the company can undercut competitors’ prices and still offer comparable quality and earn a reasonable profit.

  Being a low-cost producer provides a successful strategy to defend against the five competitive forces.

  Enterprise Rent-a-Car is a low-priced alternative to Hertz.

  The low-cost company is protected from price wars, powerful customers who cannot find lower prices elsewhere, suppliers, substitute products, and potential new entrants.

- **Focus** With a focus strategy, the organization concentrates on a specific regional market or buyer group.

  The firm may use a differentiation or low-cost approach but only on a narrow target market.

  Without a strategic advantage, businesses earned below-average profits compared with those that used differentiation, cost leadership, or focus strategies.

  Southwest Airlines was founded to serve only three cities in Texas; by using a focus strategy, Southwest was able to grow rapidly and expand to other markets.

  Managers think carefully about which strategy will provide their company with its competitive advantage.

  Porter found that some businesses did not adopt on of these three strategies and were stuck with no strategic advantage; they earned below-average profits.

  Because of the impact of the Internet, it is more important than ever that companies distinguish themselves through careful strategic positioning in the marketplace.
B. Partnership Strategies

A partnership approach to strategy emphasizes collaboration.

Cooperative strategies are popular as firms in all industries join with other organizations to promote innovation, expand markets, and pursue joint goals.

The Internet is both driving and supporting the move toward partnership thinking.

The ability to rapidly conduct transactions, exchange information and ideas, and collaborate on projects allows companies to enter entirely new businesses.

Target is partnering with Amazon.com and gaining a stronger online presence.

Mutual dependencies and partnerships have become a fact of life but the degree of collaboration varies.

Organizations can build cooperative relationships in many ways, through preferred suppliers, strategic business partnering, joint ventures or mergers and acquisitions.

A still higher degree of collaboration is reflected in joint ventures, which are separate entities created with two or more active firms as sponsors.

Mergers and acquisitions represent the ultimate step in collaborative relationships.

Motorola used to go it alone, but now partners with a chip manufacturer in Taiwan, has a joint with STMicroelectronics, and licenses its technology to global partners.

Discussion Question #6: Using Porter’s competitive strategies, how would you describe the strategies of Wal-Mart, Bloomingdale’s and Target? Do any of these companies also use partnership strategies? Discuss.

Notes___________________________________________________________________
________________________________________________________________________
________________________________________________________________________

V. FORMULATING FUNCTIONAL-LEVEL STRATEGY

Functional-level strategies are the action plans adopted by major departments to support the execution of business-level strategy to achieve the organization’s strategic goals.

Major organizational functions include marketing, production, finance, human resources, and research and development.

For example, a company with a differentiation strategy and new products, expected to experience rapid growth.

The human resources department should recruit personnel and train middle managers for promotion.
Marketing should start test marketing, use aggressive advertising, and conduct consumer product trials.

Finance should arrange credit, plan cash flow, and authorize construction of new production facilities.

Production should maintain long production runs, routinization, and cost reduction.

A company with mature products or a low-cost strategy would have different functional strategies.

**Discussion Question #9:** How would functional strategies in marketing, research and development, and production departments differ if a business changed from a differentiation to a low-cost strategy?

---

**VI. STRATEGY IMPLEMENTATION AND CONTROL** *Exhibit 8.9*

The final step in the strategic management process is strategy implementation. Implementation is probably the most difficult and important part of strategic management.

In today’s competitive environment, there is an increasing recognition of the need for more dynamic approaches to formulating, as well as implementing, strategy.

Strategy is not a static, analytical process. It requires vision, intuition and employee participation.

Once a new strategy is selected, it is implemented through changes in leadership, structure, information, and control systems, and human resources.

For strategy to be implemented successfully, all aspects of the organization need to be in congruence with the strategy.

Implementation involves regularly making difficult decisions about doing things in a way that supports rather than undermines the organization’s chosen strategy.
MANAGER’S SHOP TALK

Tips for Effective Strategy Implementation

Strategy gives a company a competitive edge only if it is skillfully executed through the decisions of front-line managers and employees. Here are a few clues for creating an environment that is conducive to effective implementation:

- **Build a commitment to the strategy**
- **Pay attention to culture.**
- **Take advantage of employees’ knowledge and skills**
- **Communicate, communicate, communicate**

A. Leadership

The primary key to successful strategy implementation is leadership.

*Leadership* is the ability to influence people to adopt the behaviors needed for strategy implementation.

Leadership means using persuasion, motivating employees, shaping culture and values to support the new strategy.

With a clear sense of direction and a shared purpose, employees feel motivated, challenged, and empowered to pursue new strategic goals.

Another way leaders build consensus and commitment is through broad participation.

Employees who participate in formulation are much more apt to have a vested interest in successful implementation.

B. Structural Design

*Structural design* typically begins with the organization chart. It pertains to managers’ responsibilities and authority, consolidation of facilities, departments, and divisions.

Structure also pertains to centralization versus decentralization, job task design, and production technology.

Implementing a new strategy requires making changes in organizational structure, such as adding or changing positions, reorganizing to teams, or redesigning jobs.

C. Information and Control Systems

*Information and control systems* include reward systems, pay incentives, budgets, information technology systems, rules, policies, and procedures.

Changes in these systems represent major tools for putting strategy into action.
Managers and employees can be rewarded for adhering to the new strategy and making it a success.

Wal-Mart uses sophisticated information technology to support a low-cost strategy by accelerating check-out, managing inventory, and controlling distribution.

D. Human Resources

*Human resources* are the organization’s employees.

To achieve the organization’s strategic goals, the human resource function: recruits, selects, trains, transfers, promotes, lays off or separates employees.

New strategies involve change, which generates some resistance.

**Discussion Question #8:** As administrator for a medium-size hospital, you and the board of directors have decided to change to a drug dependency hospital from a short-term, acute-care facility. Which organizational dimensions would you use to implement the strategy?

**Notes**

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

E. Implementation in Turbulent Times

The challenges of implementing strategy have escalated with the increased complexity and turbulence of today’s business environment.

Many managers are confident about their strategy to provide a competitive advantage but are less optimistic about their ability to implement it.

Three issues that are critical are a global mindset, paying close attention to corporate culture, and embracing the Internet.

1. Global Mindset

   A global mindset includes flexibility and openness as mandatory leadership skills.

   Structural issues are more complex as managers struggle to find the desired level of global integration and local responsiveness.

   To be effective internationally, managers have to apply a global perspective to strategy implementation.

2. Corporate Culture

   *Culture* is the link between strategy and performance outcomes, and different culture styles are better suited to different strategic directions.

   A study of the world’s most admired companies showed that managers paid close attention to culture and to the values that contribute to strategic success.
Managers want to develop a culture that is oriented toward performance—that encourages behavior and attitudes needed to meet strategic goals.

3. Information Technology

A final concern for managers implementing strategy is to incorporate the Internet and other information technology.

Dell pioneered the use of an online system to let customers configure computers to their specifications and submit an order over the Web.

Online mass customization is now used by many firms to decrease costs while enhancing their product mix and building their brand reputation.

**Discussion Question #2:** Which is most important—strategy formulation or strategy implementation? Do they depend on each other? Is it possible for strategy implementation to occur first?

**Notes**

---

**Lecture Example File**

Elixicon is a strategic communication firm specializing in interactive design, Information Architecture, and Integrated Marketing. Elixicon specializes in energizing and optimizing our client’s brand, information and relationships through a unique blend of creative and technical innovation.

Through attentive partnering and intelligent planning, management help clients discover the best strategies for leveraging interactivity and digital media to strengthen brands, information, and customer relationships. Management develops a grand strategy of creativity, interface design, information architecture, technical solutions, and project leadership to build engaging interactive communications such as Web sites, animations and presentations, Web applications, cross-media (Web-to-print) collateral and publications, and e-marketing campaigns.

This Web site provides you with a complete profile of Elexicon's expertise, track record, and personality.

This company is becoming a market leader of technological innovation. Its strategy of being customer focused is developed from a service orientation to meet short-term and long-term customer tastes and preferences. Its Grand Strategy is to achieve a customer focus, increase market share, and a return of invested capital to meet stakeholder expectations and long-term of the firm.
Answers To End-Of-Chapter Discussion Questions

1. Assume you are the general manager of a large hotel and have formulated a strategy of renting banquet facilities corporations for big events. At a monthly management meeting, your sales manager informed the head of food operations that a big reception in one week will require converting a large hall from a meeting room to a banquet facility in only 60 minutes—a difficult but possible operation that will require precise planning and extra help. The food operations manager is furious about not being informed earlier. What is wrong here?

The strategy of focusing on banquets for corporations has probably not been adequately communicated to all levels so that the food operations manager is unaware of the importance of this event. It may also be that the hotel does not have adequate resources to support this strategy. In analyzing its strengths and weaknesses, the hotel should have realized that its facilities and staff were limited for the strategy chosen. Adjustments in strategy or the expansion of banquet facilities, along with improved communications, needs to be made.

2. Which is most important—strategy formulation or strategy implementation? Do they depend on each other? Is it possible for strategy implementation to occur first?

In the field of strategic management, as in this chapter, the primary emphasis is on strategy formulation rather than implementation. Most of the models and frameworks pertain to strategy formulation. The point of this question is to have students think about and realize that strategy implementation is of equal importance. Great conceptual strategies are of no value unless they can be translated into organizational actions. On the other hand, the successful implementation of a poor strategy also has little value to the company.

Yes, strategy formulation and implementation depend on each other because the nature of the formulated strategy may influence implementation. If line managers are involved in strategy formulation, for example, they will understand the strategy and are more likely to support implementation. Moreover, line managers may understand from previous efforts at implementation, which strategies are more likely to succeed, and can feed this information into the strategy formulation process.

Strategy implementation can occur first in situations where management is indecisive and does not champion a clearly articulated strategy. If top managers are in a state of drift, department level managers will have to make decisions and take actions on their own. Thus, marketing managers will define sales goals and undertake advertising campaigns, and the research department will have to decide which new products to develop. The point is that strategy implementation can occur first because the actions taken by organizational departments will add up to an emergent strategy for the company. Whatever is implemented—that is, whatever people do—becomes the organization’s strategy; hence, implementation occurs first.

3. If an organization has hired strategic management professionals, during which part of the strategic management process would they play the largest role?
Strategic management professionals play the largest role during the early stages of strategy formulation. Professionals use data collection techniques to scan the internal and external environments. They attempt to define external opportunities and threats as well as internal strengths and weaknesses. Professionals may also provide an evaluation of current mission, goals, and strategies and may make recommendations for strategy formulation at the corporate and business levels. Professionals play a major role in the analytical portions of strategy formulation. They play a smaller role in the implementation of strategy, which is the responsibility of line managers. Thus, strategic management professionals can be involved in most elements of the strategic management process (summarized in Exhibit 8.3) except for the last part, implementation.

4. **Perform a situation (SWOT) analysis for the university you attend. Do you think university administrators consider these factors when devising their strategy?**

This question is designed to get students to apply situation analysis to a familiar organization, and there is no single correct answer. The following is a brief example of how SWOT analysis would apply to Texas A&M University.

Texas A&M’s strengths are the loyalty of former students who contribute millions of dollars each year, campus traditions that are good for the university and student body, high-quality faculty concerned with both teaching and research, above-average students who are serious and hard working, new buildings and facilities, few sororities and fraternities so that student loyalties are to the university, and a high level of federal and state research dollars received.

Weaknesses include insufficient student housing on campus, lack of access to business and government organizations because the campus is located in a small town, a rather bureaucratic, unresponsive organization structure, a senior administration that has been criticized for lack of management skills, and inability to transfer funds from declining to growing departments.

Opportunities include the ability to attract a huge number of merit scholars to give the university scholarly visibility, the desire of many graduating high school students to attend the university, the opportunity to increase the student quality by enforcing high enrollment standards, large business and engineering colleges that are suited to the shifting preferences of high school students for professional schools over liberal arts, and the opportunity to increase faculty size and quality through controlled growth.

The primary threat facing the university is from the balanced budget requirement by the state university that could mean reduced spending on education for the next few years and reduced spending for social science research by the federal government.

To a substantial extent, universities do consider these factors when devising their strategy. At Texas A&M a great deal of energy is devoted to gaining support around
the state to prevent the legislature from cutting the university’s budget. Moreover, the university takes advantage of Texas A&M’s popularity to increase the quality of students and to attract merit scholars. The university also takes advantage of the loyalty of students to reinforce current traditions and good teaching so that future donations will be forthcoming.

5. What is meant by the core competence and synergy components of strategy? Give examples.

Core competence refers to something the organization does especially well in comparison to competitors. A company may develop a core competence in the area of research and development, marketing, manufacturing efficiency, or customer service. Examples are 3M and Johnson & Johnson, companies which excel in the area of research and development, turning out successful new products at a rapid pace. Southwest Airlines has developed the core competence of exceptional customer service, with front line employees empowered to do whatever it takes to keep customers happy. One Southwest customer service agent went above and beyond the call of duty and kept a customer’s dog for two weeks when the panicked customer discovered that the airline does not fly animals. Encourage students to talk about local businesses they are familiar with and try to determine their core competencies.

Synergy occurs when the organization’s parts fit together to produce a joint effect that is greater than the parts acting alone. When an organization achieves synergy, it has an opportunity to be successful and profitable. For example, United Airlines acquired Westin Hotels and Hertz Rent-A-Car to create a synergy with United Airlines. The customers from the airline could be fed into the hotels and rent-a-car businesses, creating more business for the company as a whole than they had individually.

6. Using Porter’s competitive strategies, how would you describe the strategies of Wal-Mart, Bloomingdale’s and Kmart? Do any of these companies also use cooperative strategies? Discuss.

This answer will depend on how students perceive these companies. A reasonable answer is that Wal-Mart can be characterized as overall cost leadership in the Porter model. Wal-Mart has a well-controlled and tightly managed internal system, but it is innovative with respect to new and more efficient internal technology and is aggressively growing and expanding in a dynamic environment. Wal-Mart is known for its low prices, which are a result of internal efficiency and are typical of a cost leadership strategy in the Porter model. Wal-Mart has sustained capital investment, products are selected for ease of distribution, it has a low-cost distribution system, it has detailed control reports, and incentives are based on meeting quantitative targets.

Bloomingdale’s has a focus strategy in the Porter model. Bloomingdale’s focus strategy emphasizes differentiation because it is a high-class store targeted at a particular market segment. Bloomingdale’s has strong marketing, a creative flair, a reputation for retail leadership, and the amenities to attract creative retail people. It
has been growing nationally by placing stores in shopping centers around the country from its base in New York City.

In the Porter model, Kmart might be described as “stuck in the middle” because it does not excel at overall cost leadership or differentiation. Its overhead costs are greater than Wal-Mart’s, but it is not differentiated with respect to quality or reputation from many other retail chains.

A cooperative strategy is an alternative strategy; companies can achieve advantages by cooperating with other firms rather than competing. Cooperative strategies are becoming increasingly popular as firms in all industries join with other organizations to promote innovation, expand markets, and pursue joint goals. It is recommended Wal-Mart, Bloomingdales, and Kmart could join forces and develop a cooperative strategy because all three have distinct market segments. Competition and cooperation often exist at the same time. While they might compete domestically, a cooperative strategy could be utilized on an international scale.

Mutual dependencies and partnerships have become a fact of life, but the degree of collaboration varies. Organizations can choose to build cooperative relationships in many ways, such as through preferred suppliers, strategic business partnering, joint ventures, or mergers and acquisitions. With preferred supplier relationships, a company such as Wal-Mart, for example, develops a special relationship with a key supplier such as Procter & Gamble that eliminates middlemen by sharing complete information and reducing the costs of salespeople and distributors. Preferred supplier arrangements provide long-term security for both organizations, but the level of collaboration is relatively low.

7. Walt Disney Company has four major strategic business units: movies (Touchstones), theme parks, consumer products, and television (primarily cable). Place each of these SBUs on the BCG matrix based on your knowledge of them.

Students may not be familiar with each of these divisions, but can attempt to place them on the model based on their experience as consumers. Movies would be considered a star on the BCG matrix because Touchstone is doing so well. The business growth rate is high, and Touchstone is taking a high market share.

Theme parks would be considered a cash cow because they are well established and have a large market share, although growth rate is low.

Consumer products would be considered a question mark on the BCG matrix. Walt Disney characters are now appearing on Coke cans, T-shirts, and on hundreds of other products. The division is succeeding and may soon become a star.

The cable television network is becoming extremely successful. The Disney Channel started as a question mark and now could be categorized as a star. It has a high market share and continues to grow.
8. As administrator for a medium-size hospital, you and the board of directors have decided to change to a drug dependency hospital from a short-term, acute-care facility. Which organizational dimensions would you use to implement the strategy?

This is a major change in strategy. Rather than provide facilities for recovery from operations and diseases, the hospital will receive patients who have problems with alcoholism and drug dependency. This will require a different type of staff, and patients will be housed for two weeks to one month, depending on the severity of their dependency.

A major aspect of implementation will be human resources. Rather than traditional doctors and nurses, the facility will have to recruit psychologists and drug counselors. This changeover will be a major component of strategy implementation. New technology will also be required, which will be reflected in the design of buildings and the techniques and procedures used for treating patients. Leadership will be a third major component for strategy implementation; this includes communication of the changes and motivation of employees to adopt new behaviors. The other components of strategy implementation—structural design, information and control systems—may also have to reflect the new strategy, but they are less critical to implementation than are human resources, technology, and leadership.

9. How would functional strategies in marketing, research and development, and production departments differ if a business changed from a differentiation to a low-cost strategy?

Functional strategies must support business-level strategy. Because a differentiation strategy stresses innovation and growth, marketing would be expected to develop new markets and increase market share in existing markets. Research and development would be involved in developing new products. The production department would be expected to meet the needs for growth rather than to stress internal efficiency.

If an organization undertook a low-cost strategy, however, functional strategies would be quite different. Here the concern would be to protect one’s turf, maximize efficiency, and assert tight control over the organization. The marketing department would advertise to maintain current market share, but would not attempt to expand sales or the customer base. Research and development may refocus its efforts on developing improved technology for efficient production rather than on developing new products. Production would be concerned with low overhead and efficient production runs to minimize product costs.
Teaching Note for Experiential Exercise

Developing Strategy for a Small Business

After students have presented their proposed strategy, ask how their strategy is related to the SWOT analysis. Make the point that strategies should, to the extent possible, take advantage of environmental opportunities and minimize environmental threats. They should also make use of internal strengths or overcome weaknesses. The ideal condition, of course, is to identify an environmental opportunity for which the company has a strength it can use to exploit it.

You may also wish to ask students to consider the mission of their small business. What is the purpose of their business? Is the chosen strategy consistent with this mission?

Teaching Note for Ethical Dilemma

A Great Deal for Whom?

The ethical response for Haley is to tell the truth, the whole truth. If he lets people know his suspicions about the takeover bid, then other board members and managers can decide along with him what the best decision is, and whether short term profits are more important than the long term life of the company. When all the facts are on the table, he and others can determine whether immediate profit outweighs the long term risk. With truth as the guiding criterion, the best answer is #2, assuming he states his reasoning that Graham Industries is a high suitor. Haley made a mistake when he accepted an appointment as a board member assuming it would be easy. He was mistaken because this is a fast changing world. It is not the highest ethics to accept a position solely on what he would receive rather than also on what he could contribute. Now he has chance to contribute a lot to this decision, and he should tell what he knows.

Surf the Net

1. **Growth through Mergers and Acquisitions.** A merger of Exxon -- Articles & General info: Dallas -- Exxon shareholders today overwhelmingly voted to approve the proposed Exxon Mobil merger at Exxon's 117th Annual Meeting in Dallas.... 05/28/99 15:01 M2 Communications Ltd. (news). The industry is petroleum, and interesting information will be Exxon is within top ten companies with regards to profit in the United States. An interesting question is will this merger result in a monopoly? Anti-Trust legislation may apply.

2. **Competitive Intelligence.** Students may vary as to the industry selected to research. The industry selected could be financial services. In this industry Merrill Lynch, the nation’s largest stock brokerage house can be analyzed. A technology break through by this company has put this industry into cultural shock. Merrill Lynch & Co., shook the securities industry Tuesday, June 1st, 1999, by announcing it will let
customers trade stocks over the internet for $29.95 a pop. The decision marks a
dramatic change for Merrill Lynch, which has spent decades forging a nation-wide
network of 14,000 brokers who give investment advice and who earn commissions
of hundreds of dollars for placing stock trades. Merrill debated for months whether
online trading would undermine its traditional brokerage services. The firm was
finally swayed by the rapid loss of business to a growing number of online brokers
such as Charles Schwab, ETrade and Ameritrade. “This is probably the most
important decision we have made as an organization since the mid-1970’s.” said
David Komansky, Merrill’s chairman and chief executive. Merrill Lynch’s Internet
strategy, which competitors are likely to follow, reflects the revolutionary impact of
the Internet on financial services. With more than 7 million Americans trading
online, Merrill and others can no longer ignore the change. Online trades now
account for between 30 and 35 percent of all individual trades.

3. **Competitive Strategies.** A competitor is AG Edwards and Payne Weber who are
full service brokerage houses. The competitive strategy is a full service house
offering to the investment public a vast array of product items. Merrill Lynch has
developed a new strategy of an online service to those individuals who have access
to the Internet. This eventually will become a core market for Merrill Lynch
especially over a five to ten year time frame.

**Case for Critical Analysis Solution**

**Starbucks Coffee**

1. *Which of Porter’s competitive strategies is Starbucks using?*

Starbucks is using a differentiation strategy. The company works to distinguish
Starbucks’ product and service from the competition, maintaining control over the
quality of its coffees and creating a hip image that customers want to be a part of.
Customers are willing to pay a high price, not only for the good coffee, but because
of the image Starbucks has created.

2. *Discuss how Schultz is using leadership, structure, information and control systems,
and human resources to implement strategy at Starbucks.*

Shultz is a leader who recognizes the importance of hiring good people and then
giving them the autonomy to do their jobs as they see fit. He inspires workers with
his vision of Starbucks as a “happening” place and workers are motivated to
perpetuate that image. The structure is loose and organic; tight controls and
procedures would hamper service as well as destroy the relaxed, creative “feel” of
Starbucks. Information and control systems are a vital part of Shultz’s expansion
plans. Starbucks’ new computer network enables headquarters to spot regional
trends immediately and make adjustments in products as needed. The human
resources strategy is to recruit the right kind of people to fit into Starbucks culture
and then provide them with extensive training. Because of the way Starbucks
recruits workers, most of them have a higher educational level than typical restaurant
or “coffee shop” employees. “Baristas” who are well-trained in coffee making and traditions are a key to Starbucks’ growing success.

3. **What challenges may Schultz face in trying to expand Starbucks internationally?**

There are many challenges for Starbucks as it expands internationally. For one thing, the craze for lattes and mochas may be a passing fad and it may be limited to the U.S. Some risk is reduced by teaming with foreign partners, but coffee drinking patterns are different in Europe and Asia than in the U.S. Consumers have deeply entrenched coffee-drinking habits that include stronger coffees than are typically consumed in the U.S. Also, taking on venture partners will mean giving up control, and managers will have to deal with foreign companies that have different goals. The venture with PepsiCo is risky because the product is unproven, although PepsiCo may bear most of the development cost. Starbucks is going several directions at once in its desire to expand rapidly, and the things that helped it get this far may not work in the future. Starbucks will have to formulate and implement new strategic behaviors to succeed in the new international world it is entering.