

What Is Strategic Management?

Given the many challenges and opportunities in the global marketplace, today's managers must do more than set long-term strategies and hope for the best.¹³ They must go beyond what some have called “incremental management,” whereby they view their job as making a series of small, minor changes to improve the efficiency of their firm's operations.¹⁴ Rather than seeing their role as merely custodians of the status quo, today's leaders must be proactive, anticipate change, and continually refine and, when necessary, make dramatic changes to their strategies. The strategic management of the organization must become both a process and a way of thinking throughout the organization.

LO1.1

The definition of strategic management and its four key attributes.

Defining Strategic Management

Strategic management consists of the analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages. This definition captures two main elements that go to the heart of the field of strategic management.

strategic management the analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages.

First, the strategic management of an organization entails three ongoing processes: *analyses*, *decisions*, and *actions*. Strategic management is concerned with the *analysis* of strategic goals (vision, mission, and strategic objectives) along with the analysis of the internal and external environments of the organization. Next, leaders must make strategic decisions. These *decisions*, broadly speaking, address two basic questions: What industries should we compete in? How should we compete in those industries? These questions also often involve an organization's domestic and international operations. And last are the *actions* that must be taken. Decisions are of little use, of course, unless they are acted on. Firms must take the necessary actions to implement their strategies. This requires leaders to allocate the necessary resources and to design the organization to bring the intended strategies to reality.

strategy the ideas, decisions, and actions that enable a firm to succeed.

Second, the essence of strategic management is the study of why some firms outperform others.¹⁵ Thus, managers need to determine how a firm is to compete so that it can obtain advantages that are sustainable over a lengthy period of time. That means focusing on two fundamental questions:

- ***How should we compete in order to create competitive advantages in the marketplace?*** Managers need to determine if the firm should position itself as the low-cost producer or develop products and services that are unique and will enable the firm to charge premium prices. Or should they do some combination of both?

competitive advantage a firm's resources and capabilities that enable it to overcome the competitive forces in its industry(ies).

- ***How can we create competitive advantages in the marketplace that are unique, valuable, and***

difficult for rivals to copy or substitute? That is, managers need to make such advantages sustainable, instead of temporary.

Sustainable competitive advantage cannot be achieved through operational effectiveness alone.¹⁶ The popular management innovations of the last two decades—total quality, just-in-time, benchmarking, business process reengineering, outsourcing—are all about operational effectiveness. Operational effectiveness means performing similar activities better than rivals. Each of these innovations is important, but none lead to sustainable competitive advantage because everyone is doing them. Strategy is all about being different. Sustainable competitive advantage is possible only by performing different activities from rivals or performing similar activities in different ways. Companies such as Walmart, Southwest Airlines, and IKEA have developed unique, internally consistent, and difficult-to-imitate activity systems that have provided them with sustained competitive advantages. A company with a good strategy must make clear choices about what it wants to accomplish. Trying to do everything that your rivals do eventually leads to mutually destructive price competition, not long-term advantage.

operational effectiveness performing similar activities better than rivals.
Page 9

The Four Key Attributes of Strategic Management

Before discussing the strategic management process, let's briefly talk about four attributes of strategic management.¹⁷ It should become clear how this course differs from other courses that you have had in functional areas, such as accounting, marketing, operations, and finance. Exhibit 1.1 provides a definition and the four attributes of strategic management.

EXHIBIT 1.1 Strategic Management Concepts

Strategic Management Concepts



Definition: Strategic management consists of the analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages.

Key Attributes of Strategic Management

- Directs the organization toward overall goals and objectives.
- Includes multiple stakeholders in decision making.
- Needs to incorporate short-term and long-term perspectives.
- Recognizes trade-offs between efficiency and effectiveness.

EXHIBIT 1.1
Strategic Management Concepts Strategic Management Concepts

First, strategic management is *directed toward overall organizational goals and objectives*. That is, effort must be directed at what is best for the total organization, not just a single functional area. Some authors have referred to this perspective as “organizational versus individual rationality.”¹⁸ That is, what might look “rational” or ideal for one functional area, such as operations, may not be in the best interest of the overall firm. For example, operations may decide to schedule long production runs of similar products to lower unit costs. However, the standardized output may be counter to what the marketing department needs to appeal to a demanding target market. Similarly, research and development may “overengineer” the product to develop a far superior offering, but the design may make the product so expensive that market demand is minimal.

As noted by David Novak, CEO of Yum Brands:¹⁹

I tell people that once you get a job you should act like you run the place. Not in terms of ego, but in terms of how you think about the business. Don't just think about your piece of the business. Think about your piece of the business and the total business. This way, you'll always have a broader perspective.

Second, strategic management *includes multiple stakeholders in decision making*.²⁰ Stakeholders are those individuals, groups, and organizations that have a “stake” in the success of the organization, including owners (shareholders in a publicly held corporation), employees, customers, suppliers, the community at large, and so on. (We'll discuss this in more detail later in this chapter.) Managers will not be successful if they focus on a single stakeholder. For example, if the overwhelming emphasis is on generating profits for the owners, employees may become alienated, customer service may suffer, and the suppliers may resent demands for pricing concessions.

stakeholders individuals, groups, and organizations that have a stake in the success of the organization, including owners (shareholders in a publicly held corporation), employees, customers, suppliers, and the community at large.

Third, strategic management *requires incorporating both short-term and long-term perspectives*.²¹ Peter Senge, a leading strategic management author, has referred to this need as a “creative tension.”²² That is, managers must maintain both a vision for the future of the organization and a focus on its present operating needs. However, financial markets can exert significant pressures on executives to meet short-term performance targets. Studies have shown that corporate leaders often take a short-term approach to the detriment of creating long-term shareholder value.

Page 10

Andrew Winston addresses this issue in his recent book, *The Big Pivot*.²³

Consider the following scenario: It's near the end of the quarter and on your desk sits a project that you know will make money—it has a guaranteed positive net present value (NPV)—but it would reduce your earnings this quarter. Do you invest?

In a study that posed this question to 400 CFOs, a majority said they would not do it. In addition, 80 percent of the executives would decrease R&D spending, advertising, and general maintenance. So what happens if you cut back on these things to prop up short-term earnings *every* quarter? Logically, you don't invest in projects with good paybacks and you under spend on initiatives that build longer-term value. Your earnings targets in future quarters actually get harder to hit.

Fourth, strategic management *involves the recognition of trade-offs between effectiveness and efficiency*. Some authors have referred to this as the difference between “doing the right thing” (effectiveness) and

“doing things right” (efficiency).²⁴ While managers must allocate and use resources wisely, they must still direct their efforts toward the attainment of overall organizational objectives.

effectiveness tailoring actions to the needs of an organization rather than wasting effort, or “doing the right thing.”

efficiency performing actions at a low cost relative to a benchmark, or “doing things right.”

Successful managers must make many trade-offs. It is central to the practice of strategic management. At times, managers must focus on the short term and efficiency; at other times, the emphasis is on the long term and expanding a firm's product-market scope in order to anticipate opportunities in the competitive environment. For example, consider Kevin Sharer's perspective. He is CEO of Amgen, the giant \$20 billion biotechnology firm:

A CEO must always be switching between what I call different altitudes—tasks of different levels of abstraction and specificity. At the highest altitude you're asking the big questions: What are the company's mission and strategy? Do people understand and believe in these aims? Are decisions consistent with them? At the lowest altitude, you're looking at on-the-ground operations: Did we make that sale? What was the yield on that last lot in the factory? How many days of inventory do we have for a particular drug? And then there's everything in between: How many chemists do we need to hire this quarter? What should we pay for a small biotech company that has a promising new drug? Is our production capacity adequate to roll out a product in a new market?²⁵

Some authors have developed the concept of “ambidexterity,” which refers to a manager's challenge to both align resources to take advantage of existing product markets and proactively explore new opportunities.²⁶ Strategy Spotlight 1.1 discusses ambidextrous behaviors that are required for success in today's challenging marketplace.

ambidexterity the challenge managers face of both aligning resources to take advantage of existing product markets and proactively exploring new opportunities.