Strategic Management

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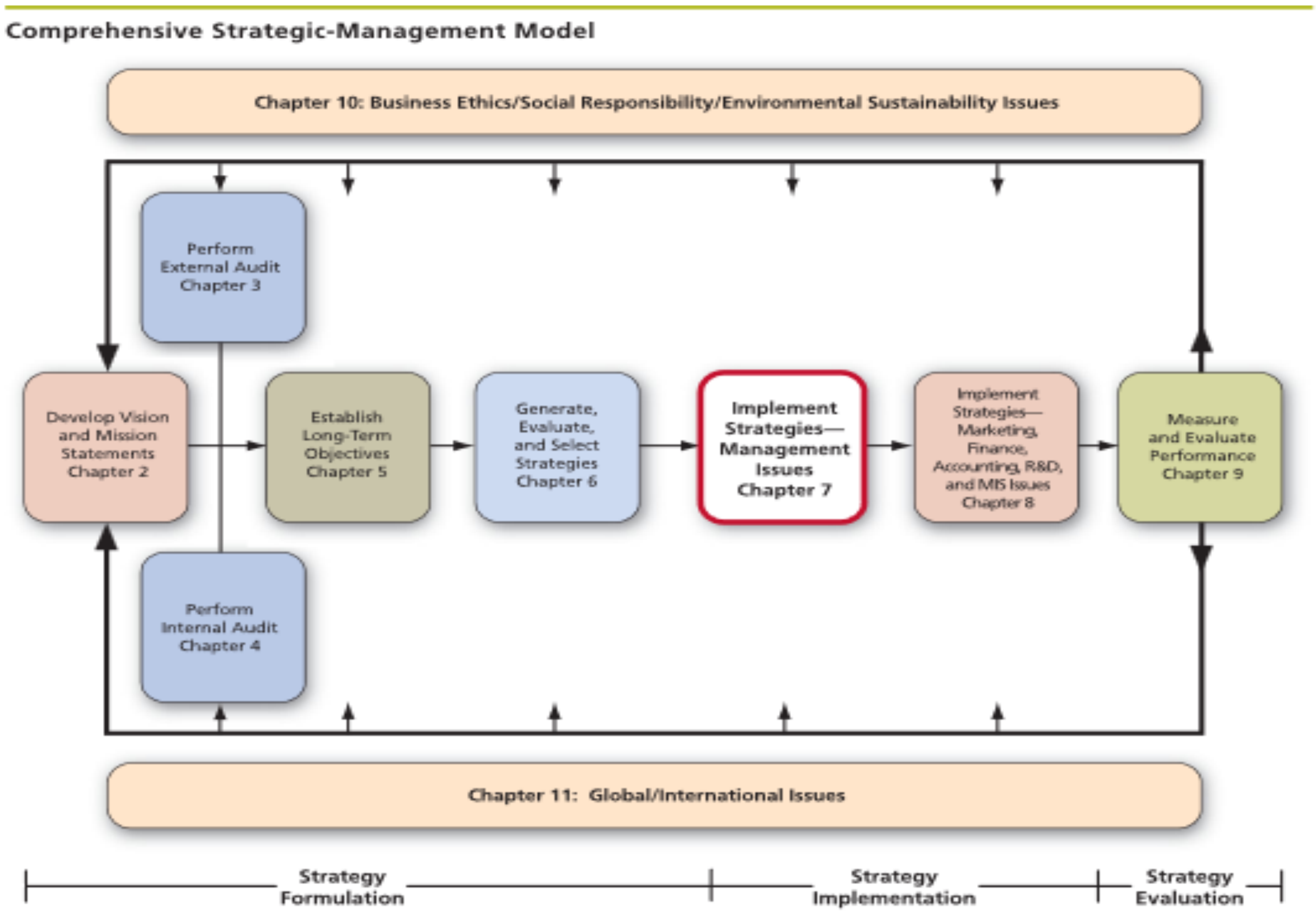
The Strategic-Management Model



Strategy Implementation

- Marketing, Finance, Accounting, R&D, MIS Issues

Notable Quotes

"The greatest strategy is doomed if it's implemented badly." —Bernard Reimann

"The real question isn't how well you're doing today against your own history, but how you're doing against your competitors." —Donald Kress

"As market windows open and close more quickly, it is important that R&D be tied more closely to corporate strategy." —William Spenser

"Most of the time, strategists should not be formulating strategy at all; they should be getting on with implementing strategies they already have." —Henry Mintzberg

"It is human nature to make decisions based on emotion, rather than on fact. But nothing could be more illogical." —Toshiba Corporation

Marketing Issues

The New Principles of Marketing:

1. Don’t just talk at consumers—work with them throughout the marketing process.
2. Give consumers a reason to participate.
3. Listen to—and join—the conversation outside your company’s Web site.
4. Resist the temptation to sell, sell, sell. Instead attract, attract, attract.
5. Don’t control online conversations; let it flow freely.
6. Find a “marketing technologist,” a person who has three excellent skill sets (marketing, technology, and social interaction).
7. Embrace instant messaging and chatting.

Two variables are of central importance to strategy implementation:

- **Market segmentation** – *subdividing of a market into distinct subsets of customers according to needs and buying habits.*
- **Product positioning** - *schematic representations that reflect how your products or services compare to competitors'*.

Finance/Accounting Issues

Finance/accounting concepts considered to be central to strategy implementation:

- acquiring needed capital,
- developing projected financial statements,
- preparing financial budgets, and
- evaluating the worth of a business.

Some examples of decisions that may require finance/accounting policies:

1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock
2. To lease or buy fixed assets
3. To determine an appropriate dividend payout ratio
4. To use LIFO (Last-in, First-out), FIFO (First-in, First-out), or a market-value accounting approach
5. To extend the time of accounts receivable
6. To establish a certain percentage discount on accounts within a specified period of time
7. To determine the amount of cash that should be kept on hand.

Research and Development (R&D) Issues

R&D policies can enhance strategy implementation efforts to:

1. Emphasize product or process improvements.
2. Stress basic or applied research.
3. Be leaders or followers in R&D.
4. Develop robotics or manual-type processes.
5. Spend a high, average, or low amount of money on R&D.
6. Perform R&D within the firm or to contract R&D to outside firms.
7. Use university researchers or private-sector researchers.

Management Information System (MIS) Issues

- Firms that gather, assimilate, and evaluate external and internal information most effectively are gaining competitive advantages over other firms.

Strategy Evaluation

- Strategy Review, Evaluation, and Control

Notable Quotes

"Although Plan A may be selected as the most realistic . . . the other major alternatives should not be forgotten. They may well serve as contingency plans.” **—Dale McConkey**

"Organizations are most vulnerable when they are at the peak of their success.” **—R. T. Lenz**

"Strategy evaluation must make it as easy as possible for managers to revise their plans and reach quick agreement on the changes.” **—Dale McConkey**

The Nature of Strategy Evaluation

- Strategy evaluation includes three basic activities:
  (1) examining the underlying bases of a firm's strategy,
  (2) comparing expected results with actual results, and
  (3) taking corrective actions to ensure that performance conforms to plans.
- Rumelt's criteria to evaluate a strategy: *consistency, consonance, feasibility, and advantage*.

Rumelt's Criteria for Evaluating Strategies

Consistency

- A strategy should not present inconsistent goals and policies. Organizational conflict and interdepartmental bickering are often symptoms of managerial disorder, but these problems may also be a sign of strategic inconsistency. Three guidelines help determine if organizational problems are due to inconsistencies in strategy:
  - If managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, then
  - strategies may be inconsistent.
  - If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may
  - be inconsistent.
  - If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

Consonance

- Consonance refers to the need for strategists to examine sets of trends, as well as individual trends, in evaluating strategies.
- A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm's key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends.
- For example, the day-care explosion came about as a combined result of many trends that included a rise in the average level of education, increased inflation, and an increase in women in the workforce. Although single economic or demographic trends might appear steady for many years, there are waves of change going on at the interaction level.

Feasibility

- A strategy must neither overtax available resources nor create unsolvable sub problems. The final broad test of strategy is its feasibility; that is, can the strategy be attempted within the physical, human, and financial resources of the enterprise?
- The financial resources of a business are the easiest to quantify and are normally the first limitation against which strategy is evaluated. It is sometimes forgotten, however, that innovative approaches to financing are often possible.
- Devices, such as captive subsidiaries, sale-leaseback arrangements, and tying plant mortgages to long-term contracts, have all been used effectively to help win key positions in suddenly expanding industries. A less quantifiable, but actually more rigid, limitation on strategic choice is that imposed by individual and organizational capabilities. In evaluating a strategy, it is important to examine whether an organization has demonstrated in the past that it possesses the abilities, competencies, skills, and talents needed to carry out a given strategy.

Advantage

- A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantages normally are the result of superiority in one of three areas: (1) resources, (2) skills, or (3) position. The idea that the positioning of one's resources can enhance their combined effectiveness is familiar to military theorists, chess players, and diplomats. Position can also play a crucial role in an organization's strategy. Once gained, a good position is defensible—meaning that it is so costly to capture that rivals are deterred from full-scale attacks. Positional advantage tends to be self-sustaining as long as the key internal and environmental factors that underlie it remain stable. This is why entrenched firms can be almost impossible to unseat, even if their raw skill levels are only average. Although not all positional advantages are associated with size, it is true that larger organizations tend to operate in markets and use procedures that turn their size into advantage, while smaller firms seek product/market positions that exploit other types of advantage. The principal characteristic of good position is that it permits the firm to obtain advantage from policies that would not similarly benefit rivals without the same position. Therefore, in evaluating strategy, organizations should examine the nature of positional advantages associated with a given strategy.

Why strategy evaluation is more difficult today

1. A dramatic increase in the environment's complexity
2. The increasing difficulty of predicting the future with accuracy
3. The increasing number of variables
4. The rapid rate of obsolescence of even the best plans
5. The increase in the number of both domestic and world events affecting organizations
6. The decreasing time span for which planning can be done with any degree of certainty

The Process of Evaluating Strategies

- Strategy evaluation is necessary for all sizes and kinds of organizations.
- Strategy evaluation should
  – *initiate managerial questioning of expectations and assumptions*,
  – *trigger a review of objectives and values, and*
  – *stimulate creativity in generating alternatives and formulating criteria of evaluation.*

There always comes a time when corrective actions are needed in an organization!

There is a time for everything,
A time to be born and a time to die,
A time to plant and a time to uproot,
A time to kill and a time to heal,
A time to tear down and a time to build,
A time to weep and a time to laugh,
A time to mourn and a time to dance,
A time to scatter stones and a time to gather them,
A time to embrace and a time to refrain,
A time to search and a time to give up,
A time to keep and a time to throw away,
A time to tear and a time to mend,
A time to be silent and a time to speak,
A time to love and a time to hate,
A time for war and a time for peace.

The analysis could also address such questions as the following:

1. How have competitors reacted to our strategies?
2. How have competitors' strategies changed?
3. Have major competitors' strengths and weaknesses changed?
4. Why are competitors making certain strategic changes?
5. Why are some competitors' strategies more successful than others?
6. How satisfied are our competitors with their present market positions and profitability?
7. How far can our major competitors be pushed before retaliating?
8. How could we more effectively cooperate with our competitors?

Some key questions to address in evaluating strategies:

1. Are our internal strengths still strengths?
2. Have we added other internal strengths? If so, what are they?
3. Are our internal weaknesses still weaknesses?
4. Do we now have other internal weaknesses? If so, what are they?
5. Are our external opportunities still opportunities?
6. Are there now other external opportunities? If so, what are they?
7. Are our external threats still threats?
8. Are there now other external threats? If so, what are they?
9. Are we vulnerable to a hostile takeover?

A Strategy-Evaluation Framework