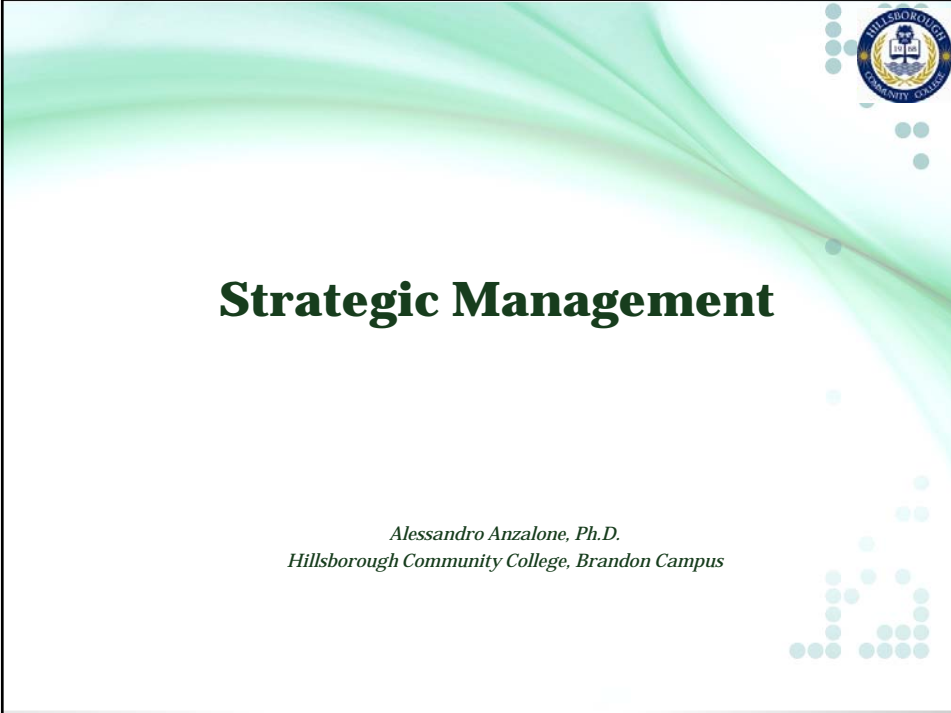


Strategic Management

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Agenda

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2. Competitive Strategy
3. Core Competencies and Competitive Advantage
4. Components of Strategic Management
5. Strategic Planning Overview
6. Creative Thinking in Strategic Planning
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What is Strategic Management?



Strategic management is management that **bases all actions, activities, and decisions on what is most likely, within an ethical framework, to ensure successful performance in the marketplace.** From the perspective of the strategic manager, resources are wasted unless they contribute to success in the marketplace, and the more direct the contribution, the better.

Competitive Strategy



To survive and thrive in a globally competitive marketplace, organizations must adopt a broad strategy that gives them a sustainable competitive advantage. All such strategies fall into one or more of the following categories:

Cost leadership strategies. Strategies in this category seek to improve efficiency and control costs throughout an organization's activity-cost chain (supplier activity costs, in-house activity costs, and distribution activity costs).

Competitive Strategy



Differentiation strategies. Strategies in this category seek to add value, as defined by customers, to the organization's products or services. Such strategies typically involve gaining technological superiority over competitors, continually outperforming competitors in the area of quality, providing more and better support services to customers, and providing customers more value for their money.

Market-niche strategies. Strategies in this category focus on a narrowly defined segment of the market (market niche) and attempt to make the organization in question the market leader in that niche. Leadership can be achieved by adopting cost leadership or differentiation strategies or both designed to appeal specifically to the target market.

Core Competencies and Competitive Advantage



One task to be accomplished as part of the strategic planning process is identifying the organization's core competencies. This task is generally completed as part of the **SWOT** (strengths, weaknesses, opportunities, and threats) analysis, since an organization's core competencies should be part of its strengths. A **core competency** is something an organization does so well that it can be viewed as a competitive advantage. A competitive advantage is any aspect of the organization that (1) contributes directly and significantly to increasing customer demand by achieving superior value (i.e., superior quality, cost, and service) and (2) is difficult for competitors to replicate.

Components of Strategic Management



Strategic management consists of two interrelated activities: strategic planning and strategic execution.

Strategic planning is the process by which an organization answers such questions as the following: Who are we? Where are we going? How will we get there? What do we hope to accomplish? What are our strengths and weaknesses? What are the opportunities and threats in our business environment? Strategic planning involves developing a written plan that has the following components: an organizational vision; an organizational mission; guiding principles; broad strategic objectives; and specific tactics, projects, and activities for achieving the broad objectives. Specific tactics, projects, and activities are often referred to as the “action plan.”

Components of Strategic Management



Strategic execution involves implementing strategies set forth in strategic planning, monitoring progress toward their achievement, and adjusting as necessary. Strategic execution is implementation that achieves maximum efficiency and effectiveness.

Monitoring involves constantly checking actual performance against performance benchmarks. Strategic monitoring answers such questions as these: Are we achieving our objectives? This is the effectiveness question. Are we performing as well as we need to perform? This is the efficiency question. Adjusting as necessary involves making corrections when the specific strategies or tactics adopted are not producing the desired results. Such adjustments can involve a minor tweaking of plans, a search for ways to overcome unexpected barriers that are encountered, or even the adoption of a whole new set of specific strategies.

Strategic Planning Overview

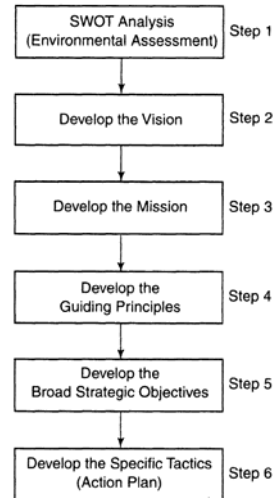


Figure 3-1
The Strategic Planning Process

Creative Thinking in Strategic Planning



In the age of global competition, it is even more important than ever to think creatively when developing strategic plans. Should we attempt to find new markets that take advantage of our core competencies? Should we undertake an acquisition that will give our organization a new and additional core competency? Should we adopt a local, regional, or global strategy? Part of the purpose of strategic planning is to ferret out things that are done the same way year after year simply because that is always what the organization has done or how it has done it.

Creative Thinking in Strategic Planning



Following are some strategies for promoting creative thinking as part of the strategic planning process: (1) begin by telling a couple of stories about creative ideas that changed everything for a few selected organizations (e.g. , Nokia's idea to produce digital cellular telephones when Motorola had a lock on the market for analog phones), (2) challenge participants to see who can suggest the most ridiculous idea and record all ideas (this will break the ice and remove inhibitions that might otherwise cause participants to think their ideas have no merit), (3) do not allow naysayers to put down or criticize the ideas of others or use the "that's already been tried" tactic, (4) challenge all existing approaches (they might be sacred cows), and (5) allow time for ideas to germinate—do not try to complete the planning process too quickly.

Conducting the SWOT Analysis



The rationale for conducting a SWOT analysis before proceeding with the development of the strategic plan is that the organization's **plan should produce a good fit between its internal situation and its external situation**. An organization's internal situation is defined by its strengths and weaknesses. An organization's external situation is defined by the opportunities and threats that exist in its business environment. The strategic plan should be designed in such a way that it exploits an organization's strengths and opportunities while simultaneously overcoming, accommodating, or circumventing weaknesses and threats.

Conducting the SWOT Analysis



Identifying Organizational Strengths

An organizational strength is any characteristic or capability that gives the organization a competitive advantage. The following are examples of common organizational strengths:

- Financial strength
- Good reputation in the marketplace
- Strategic focus
- High-quality products and services
- Proprietary products and services
- Cost leadership
- Strong management team
- Efficient technological processes
- Talented workforce
- Faster time to market

Conducting the SWOT Analysis



Identifying Organizational Weaknesses

An organizational weakness is any characteristic or capability that puts the organization at a competitive disadvantage. These are examples of common organizational weaknesses:

- Strategic confusion or lack of direction
- Obsolete facilities
- Obsolete processes
- Weak management team
- Insufficient skills or capabilities in the workforce
- Poorly defined operating procedures
- Too narrow a product line
- Products with decreasing demand
- Too diverse a product line
- Poor image in the marketplace
- Weak distribution system
- Weak financial position
- High unit costs compared with those of competitors
- Poor quality in products and services

Conducting the SWOT Analysis



Identifying External Opportunities

External opportunities are opportunities in the organization's business environment that represent potential avenues to grow and gain a sustainable competitive advantage. The following are examples of external opportunities that organizations may have:

- Availability of new customers
- Expanding market for existing or potential or planned products
- Ability to diversify into related products and services
- Removal of barriers that inhibit growth
- Failures of competitors
- New online technologies that enhance productivity or quality

Conducting the SWOT Analysis



Identifying External Threats

An external threat is a phenomenon in an organization's business environment that has the potential to put the organization at a competitive disadvantage. Such external threats might include the following:

- Entry of lower cost competitors
- Entry of higher quality competitors
- Increased sales of substitute products and services
- Significant slowdown in market growth
- Introduction of costly new regulatory requirements
- Poor supplier relations
- Changing tastes and habits of consumers
- Potentially damaging demographic changes

Developing the Vision



An organization's guiding force, the dream of what it wants to become, and its reason for being should be apparent in its vision. vision is like a beacon in the distance toward which the organization is always moving. Everything about the organization—its structure, policies, procedures, and allocation of resources—should support the realization of the vision.

In an organization with a clear vision, it is relatively easy to stay appropriately focused. If a policy does not support the vision, why have it? If a procedure does not support the vision, why adopt it? If an expenditure does not support the vision, why make it? If a position or even a department does not support the vision, why keep it? An organization's vision must be established and articulated by executive management and understood by all employees. The first step in articulating an organizational vision is writing it down. This is called the vision statement.

Developing the Vision

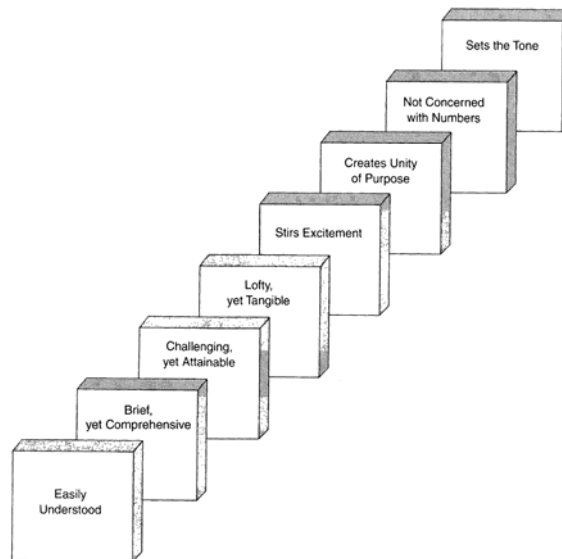


Figure 3-2
Characteristics of a Well-Crafted Vision Statement

Developing the Vision



From these characteristics, it can be seen that crafting a worthwhile vision statement is a challenging undertaking. What follows are three vision statements—two for service providers and one for a manufacturer—that satisfy the criteria set forth in the Figure.

- The Institute for Corporate Competitiveness will be recognized by its customers as the provider of choice for organizational development products that are the best in the world.
- Business Express Airlines will be recognized by customers as the premiere air carrier in the United States for business travelers.
- Pendleton Manufacturing Company will be the leading producer in the United States of fireproof storage cabinets.

Developing the Mission



An organization's mission describes **who** an organization is, **what** it does, and **where** it is going.

In developing the mission statement for any organization, one should apply the following rules of thumb:

- Describe the who, what, and where of the organization, making sure the who component describes the organization and its customers.
- Be brief, yet comprehensive. Typically, one paragraph should be sufficient to describe an organization's mission.
- Choose wording that is simple, easy to understand, and descriptive.
- Avoid how statements. How the mission will be accomplished is described in the "Strategies" section of the strategic plan.

Developing the Mission



- The Institute for Corporate Competitiveness (ICC) is a business-development company dedicated to helping organizations continually improve their ability to compete in the global marketplace. To this end, ICC provides high-quality, competitiveness-enhancing products and services to an ever-increasing number of organizations in the United States.
- Business Express Airlines (BEA) is a domestic air carrier dedicated to providing business travelers with air transportation that exceeds their expectations in terms of cost, convenience, service, and dependability. To this end, BEA provides air carrier service to and from a steadily increasing number of major hub airports in the United States.
- Pendleton Manufacturing Company is a hazardous materials storage company dedicated to making your work environment safe and healthy. To this end, Pendleton produces high-quality fireproof cabinets for safely storing toxic substances and hazardous materials for an ever-broadening market in the United States.

Developing the Guiding Principles



An organization's guiding principles establish the framework within which it will pursue its mission. Each guiding principle encompasses an important organizational value. Together, all of the guiding principles represent the organization's value system—the foundation of its corporate culture.

Freedom through control might be one such guiding principle. It is one of the cornerstones of total quality. It is a concept that applies at all levels, from line employees through executive managers. It means that once parameters have been established for a given job, level, or work unit, all employees to which the parameters apply are free to operate innovatively within them. In fact, they are encouraged to be innovative and creative within established parameters. This means that as long as they observe applicable controls, employees are free to apply their knowledge, experience, and judgment in finding ways to do the job better. Once a method is established that is better than the existing one, that new procedure should become the standard throughout the organization.

Developing the Guiding Principles



An organization's guiding principles establish the parameters within which it is free to pursue its mission. These principles might be written as follows:

- XYZ Company will uphold the highest ethical standards in all of its operations. At XYZ Company, customer satisfaction is the highest priority.
- XYZ Company will make every effort to deliver the highest quality products and services in the business.
- At XYZ Company, all stakeholders (customers, suppliers, and employees) will be treated as partners.
- At XYZ Company, employee input will be actively sought, carefully considered, and strategically used.
- At XYZ Company, continual improvement of products, processes, and people will be the norm.
- XYZ Company will provide employees with a safe and healthy work environment that is conducive to consistent peak performance.
- XYZ Company will be a good corporate neighbor in all communities where its facilities are located.
- XYZ Company will take all appropriate steps to protect the environment.

Developing Broad Strategic Objectives



Broad strategic objectives **translate an organization's vision and mission into measurable terms**. They represent actual targets the organization aims at and will expend energy and resources trying to achieve. Broad objectives are more specific than the mission, but they are still broad. They still fall into the realm of what rather than how. What must the organization do to achieve the vision? The how aspects of strategic planning come in the next step: developing specific tactics, projects, and activities for accomplishing broad objectives.

Developing Broad Strategic Objectives

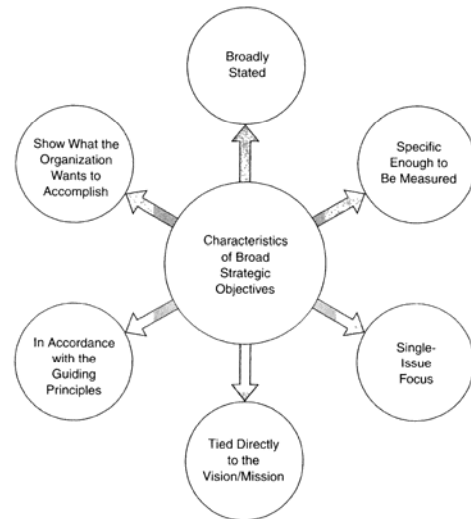


Figure 3-4
Characteristics of Well-Written Broad Strategic Objectives

Developing Broad Strategic Objectives



The Institute for Corporate Competitiveness will be recognized by its customers as the provider of choice for organizational development products that are the best in the world.

Following are the broad objectives that translate this vision into measurable terms:

1. To produce organizational development products of world-class quality that are improved continually
2. To provide organizational development services of world-class quality that are improved continually
3. To establish and maintain a world-class workforce at all levels of the organization
4. To continually increase the organization's market share for its existing products and services
5. To continually introduce new products and services to meet emerging needs in the organizational development market

Developing Broad Strategic Objectives



Five Steps for Writing Broad Strategic Objectives

In actually writing broad objectives for an organization, the following five steps should be observed:

1. **Assemble input.** Circulate the mission widely throughout the organization, and ask for input concerning objectives. Ask all stakeholders to answer the following question: "What do we have to accomplish as an organization in order to fulfill our mission?" assemble all input received, summarize it, and prepare it for further review.
2. **Find the optimum input.** Analyze the assembled input, at the same time judging how well individuals' suggestions support the organization's vision and mission. Discard those suggestions that are too narrow or that do not support the vision and mission.
3. **Resolve differences.** Proposed objectives that remain on the list after step 2 should be discussed in greater depth in this step. Allow time for participants to resolve their differences concerning the objectives.

Developing Broad Strategic Objectives



Five Steps for Writing Broad Strategic Objectives

4. **Select the final objectives.** Once participants have resolved their differences concerning the proposed objectives, the list is finalized.
5. **Publicize the objectives.** If stakeholders need to know what the organization's objectives are. Employees, managers, suppliers, and even customers have a role to play in accomplishing the organization's objectives. These stakeholders cannot play their respective roles unless they know what the objectives are. Publicizing the organization's objectives can be done in a number of ways. Variety and repetition are important when trying to communicate. It's also a good idea to publish the objectives along with the vision, mission, and guiding principles.

Developing Broad Strategic Objectives



Figure 3-6
Cautions Concerning Broad Strategic Objectives

Developing Specific Tactics (Action Plan)

The action plan consists of specific tactics that are well-defined, finite projects and **activities undertaken for the purpose of accomplishing an organization's broad strategic objectives.**

They provide the "how" for achieving broad strategic objectives and

- Are specific in nature
- Are measurable
- Can be quantifiable
- Can be accomplished within a specified time frame
- Can be assigned to a specific individual or group
- Are tied directly to a broad objective

Developing Specific Tactics (Action Plan)



Broad Strategic Objective

To establish and maintain a world-class workforce at all levels of the organization.

Tactic	Responsible Individual/Unit	Time Frame/Deadline
1. Arrange TQ training for all executive managers.	CEO	Completed by January 15
2. Arrange teamwork training for all executive managers.	CEO	Completed by January 30
3. Give all employees training in the use of problem-solving/quality tools.	Department Managers	January 15–February 20
4. Give all employees training in continual improvement methods.	Department Managers	March 15–May 15
5. Establish a company-supported off-duty education program for all employees.	Human Resources Department	In place by February 28

Figure 3–8
Tactics Development Form

Executing the Strategic Plan



The old saying “The best-laid plans of mice and men often go astray” is, unfortunately, all too true. Many organizations devote time, energy, and money to developing comprehensive, thorough, detailed plans, only to see them come apart at the seams shortly after they begin to be executed. **Execution is a critical component of strategic management, but for some reason, it rarely receives the attention it deserves.** To put less energy and thought into execution than into planning is a major error because even the best strategic plan won’t help an organization if it is poorly executed.

Executing the Strategic Plan



Picture the following scenario. A family plans a vacation to a national park. The parents envision a relaxing, fun-filled 2 weeks of camping, hiking, swimming, and biking. Their mission (that of the parents) is to get away together and share some quality time as a family. Certain guiding principles concerning behavior, spending, and work sharing are established by the parents. They also set up some broad objectives concerning the various activities the family wants to pursue. Wisely, the parents involve the children in this step. Also working with the children, the parents draft strategies for accomplishing their objectives.

Executing the Strategic Plan



The family had an excellent plan for an enjoyable vacation, but as soon as the plan went into execution, the problems began:

- Disagreements among the children concerning destinations and activities
- Problems when the children did not know how to perform some of their assigned duties (e.g. , setting up the tent at the campsite, building a proper campfire, monitoring daily gas mileage while the parents drove)
- Attitude problems concerning various aspects of the trip, including what distance to cover daily, how many rest stops to make, and where to eat while driving to the eventual destination

Executing the Strategic Plan



As a result of these difficulties, the planned vacation of shared family fun and relaxation turned into an emotionally draining 2 weeks of stress, anger, and frustration. The family's problems were the results of faulty execution of the vacation plan. The parents in this example failed to apply the following steps, all of which are critical to successful execution:

1. Communicate
2. Build capabilities
3. Establish strategy-supportive stimuli
4. Eliminate administrative barriers.
5. Identify advocates and resisters
6. Exercise strategic leadership
7. Be flexible and improvise
8. Monitor and adjust as needed

References



Quality Management for Organizational Excellence: Introduction to Total Quality, 6th Edition, David Goetsch and Stanley Davis, copyright 2010, Pearson, ISBN: 978-0-13-501967-2.