Strategy-Making Process

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Ing. Šárka Zapletalová, Ph.D.
Department of Business Economics and Management
STRATEGIC MANAGEMENT

Basic information

Course: Strategic Management PEMNASMA
Tutor: Šárka Zapletalová
Office: building B202
Consultation hours: Thursday 9,00 – 12,00
Contact: zapletalova@opf.slu.cz

Requirements on students (total sum of points 100)

1. Active participation in seminars and case studies solution – 10% of points
2. Seminar paper and defence of the seminar paper (no later than 10. 12. 2023) – 10% of points
3. Continuous test (in the week 6. 11. – 10. 11. 2023) – 20% of points
4. Final written exam – 60% of points

Outline of the lecture

1. Strategic Management
2. Strategic Management: Impact of Globalization
3. Strategic Management: Impact of Environmental Sustainability
4. Strategic Decision Making
5. Strategic Decision Making Process
6. Strategy Formulation
7. Initiation of Strategy: Triggering Events

Introduction

- *General Electric*, one of the pioneers of strategic planning, led the transition from strategic planning to strategic management during the 1980s. By the 1990s, most other corporations around the world had also begun the conversion to strategic management.

- *Strategic management emphasizes long-term performance*. Many companies can manager short-term bursts of high performance, but *only a few can sustain it over a longer period* of time.

- To be successful in the long-run, companies must not only be able to execute current activities to satisfy an existing market, but they must also adapt those activities to satisfy new and changing markets.

- The three **most highly rated benefits** of strategic management to be:
    1. *Clearer sense of strategic vision* for the firm.
    2. *Sharper focus on what is strategically important*.
    3. *Improved understanding* of a rapidly changing environment.

Strategic Management

- Strategic management is a set of ***managerial decisions and actions that determines the longrun performance of a corporation***. It includes environmental scanning (both external and internal), strategy formulation (strategic or long-range planning), strategy implementation, and evaluation and control.

- The study of strategic management, therefore, emphasizes the monitoring and evaluating of external opportunities and threats in light of a corporation's strengths and weaknesses.

- Originally ***called business policy***, strategic management incorporates such topics as strategic planning, environmental scanning, and industry analysis.

- Many of the concepts and techniques that deal with strategic management have been developed and used successfully by business corporations such as General Electric and the Boston Consulting Group.

Strategic Management

- To be successful in the long-run, companies must not only be able to execute current activities to satisfy an existing market, but they must also adapt those activities to satisfy new and changing markets.

- Strategic management is a broader term that includes not only the stages already identified but also the earlier steps of determining the mission and objectives of an organization within the context of its external environment.

- Initially, *strategic management was of most use to large corporations operating in multiple industries*. ***Increasing risks of error, costly mistakes, and even economic ruin are causing today's professional managers in all organizations*** to take strategic management seriously in order to keep their companies competitive in an increasingly volatile environment.

As managers attempt to better deal with their changing world, a firm generally evolves through the following **four phases of strategic management**.

Phase 1 - Basic financial planning: *Managers initiate serious planning when they are requested to propose the following year's budget.*

- Projects are proposed on the basis of very little analysis, with most information coming from within the firm.
- The sales force usually provides the small amount of environmental information. Such simplistic operational planning only pretends to be strategic management, yet it is quite time consuming.
- Normal company activities are often suspended for weeks while managers try to cram ideas into the proposed budget. The time horizon is usually one year.

Phase 2 - Forecast-based planning: *As annual budgets become less useful at stimulating long-term planning, managers attempt to propose five-year plans*.

- In addition to internal information, managers gather any available environmental data - usually on an ad hoc basis - and extrapolate current trends five years into the future.
- This phase is also time consuming, often involving a full month of managerial activity to make sure all the proposed budgets fit together.
- The process gets very political as managers compete for larger shares of funds. Endless meetings take place to evaluate proposals and justify assumptions. The time horizon is usually *three to five years*.

Phase 3 - Externally oriented (strategic) planning: *Top management takes control of the planning process by initiating strategic planning.*

- The company seeks to increase its responsiveness to changing markets and competition by thinking strategically.
- Planning is taken out of the hands of lower-level managers and concentrated in a planning staff whose task is to develop strategic plans for the corporation. Consultants often provide the sophisticated and innovative techniques that the planning staff uses to gather information and forecast future trends.
- Upper-level managers meet once a year at a resort “retreat” led by key members of the planning staff to evaluate and update the current strategic plan.
- Top management typically develops five-year plans with help from consultants but minimal input from lower levels.

Phase 4 - Strategic management: *Realizing that even the best strategic plans are worthless without the input and commitment of lower-level managers, top management forms planning groups of managers and key employees at many levels.*

- Strategic plans at this point detail the implementation, evaluation, and control issues. Rather than attempting to perfectly forecast the future, the plans emphasize probable scenarios and contingency strategies.

- The sophisticated annual five-year strategic plan is replaced with strategic thinking at all levels of the organization throughout the year. Strategic information, previously available only centrally to top management, is available via local area networks and intranets to people throughout the organization.

- Planning is typically interactive across levels and is no longer top down. People at all levels are now involved.

Strategic Management: Impact of Globalization

- Sustainability, as a term, was used to describe competitive advantage, not the environment.
- Globalization, the integrated internationalization of markets and corporations, has changed the way modern corporations do business.
- As *Thomas Friedman points out* in *The World Is Flat*, *jobs, knowledge, and capital are now able to move across borders with far greater speed and far less friction than was possible only a few years ago.*
- To reach the *economies of scale* necessary to achieve the low costs, and thus the low prices, needed to be competitive, companies are now thinking of a global market instead of national markets.

Strategic Management: Impact of Globalization

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and position a company for long-term competitive advantage.

- The formation of regional trade associations and agreements, such as the European Union, NAFTA, Mercosur, Andean Community, CAFTA, and ASEAN, is changing how international business is being conducted.

- These associations have led to the increasing harmonization of standards so that products can more easily be sold and moved across national boundaries.

Strategic Management: Impact of Environmental Sustainability

- Environmental sustainability refers to the use of business practices to reduce a company's impact upon the natural, physical environment. Climate change is playing a growing role in business decisions.

- ***Porter and Reinhardt warn*** that "*in addition to understanding its emissions costs, ever firm needs to evaluate its vulnerability to climate-related effects such as regional shifts in the availability of energy and water, the reliability of infrastructures and supply chains, and the prevalence of infectious diseases.*"

- *The effects of climate change on industries* and companies throughout the world can be grouped into six categories of risks: **regulatory, supply chain, product and technology, litigation, reputational, and physical.**

Strategic Decision Making

- As organizations grow larger and more complex, with more uncertain environments, decisions become increasingly complicated and difficult to make.

- *Strategic decisions deal with the long-run future* of an entire organization and have three characteristics:
    1. **Rare**: Strategic decisions are unusual and typically have no precedent to follow.

    2. **Consequential**: Strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels.

    3. **Directive**: Strategic decisions set precedents for lesser decisions and future actions throughout an organization.

- According to **Henry Mintzberg**, the three most typical approaches, or modes, of strategic decision making are ***entrepreneurial, adaptive, and planning*** (a fourth mode, ***logical incrementalism***, was added later by **Quinn**).

Entrepreneurial mode

- Strategy is made by one powerful individual.
- The focus is on opportunities; problems are secondary.
- Strategy is guided by the founder's own vision of direction and is exemplified by large, bold decisions.
- The dominant goal is growth of the corporation.
  - Amazon.com, founded by Jeff Bezos, is an example of this mode of strategic decision making. Although Amazon's clear growth strategy was certainly an advantage of the entrepreneurial mode, Bezos' eccentric management style made it difficult to retain senior executives.

Adaptive mode

- Sometimes referred to as "*muddling through*," this decision-making mode is characterized by ***reactive solutions to existing problems***, rather than a proactive search for new opportunities.

- Much bargaining goes on *concerning priorities of objectives*. Strategy is fragmented and is developed to move a corporation forward incrementally.
    - This mode is typical of most universities, many large hospitals, a large number of governmental agencies, and a surprising number of large corporations.

Planning mode

- This decision-making mode ***involves the systematic gathering of appropriate information for situation analysis***, the generation of feasible alternative strategies, and the rational selection of the most appropriate strategy.
- It includes both the ***proactive search*** for new opportunities and the ***reactive solution*** of existing problems.

Logical incrementalism

- A fourth decision-making mode can be viewed as a ***synthesis of the planning, adaptive, and, to a lesser extent***, the entrepreneurial modes.
    - Top management has a ***reasonably clear idea of the corporation's mission and objectives***, but, in its development of strategies, it chooses to use "*an interactive process in which the organization probes the future, experiments and learns from a series of partial (incremental) commitments rather than through global formulations of total strategies*".
    - This approach appears to be useful when the ***environment is changing rapidly*** and when it is important to build consensus and develop needed resources before committing an entire corporation to a specific strategy.

Strategic Decision Making Process

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

1(a)
Evaluate Current Performance Results

1(b)
Examine and Evaluate the Current:
- Mission
- Objectives
- Strategies
- Policies

2
Review Corporate Governance:
- Board of Directors
- Top Management

3(a)
Scan and Assess External Environment:
- Natural
- Societal
- Task

3(b)
Analyze *External* Factors:
- Opportunities
- Threats

4(a)
Scan and Assess Internal Environment:
- Structure
- Culture
- Resources

4(b)
Analyze *Internal* Factors:
- Strengths
- Weaknesses

5(a)
Select Strategic Factors (SWOT) in Light of Current Situation

Strategy Formulation: Steps 1–6

SOURCE: T. L. Wheelen and J. D. Hunger, Strategic Decision-Making Process.

Strategic Decision Making Process

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

5(b) → Review and Revise as Necessary:
- Mission
- Objectives

6(a) → Generate and Evaluate Strategic Alternatives

6(b) → Select and Recommend Best Alternative

7 → Implement Strategies:
- Programs
- Budgets
- Procedures

8 → Evaluate and Control

Strategy Implementation: Step 7

Evaluation and Control: Step 8

- *This rational approach to strategic decision making has been used successfully by Corporations such as Warner-Lambert, Target, General Electric, IBM, Avon Products, Bechtel Group Inc., and Taisei Corporation.*

SOURCE: T. L. Wheelen and J. D. Hunger, Strategic Decision-Making Process.

Strategic decision-making process to improve the making of strategic decisions

1. **Evaluate current performance results** in terms of (a) return on investment, profitability, and so forth, and (b) the current mission, objectives, strategies, and policies.

2. **Review corporate governanc**e - that is, the performance of the firm's board of directors and top management.

3. **Scan and assess the external environment** to determine the strategic factors that pose Opportunities and Threats.

4. **Scan and assess the internal corporate environment** to determine the strategic factors that are Strengths (especially core competencies) and Weaknesses.

Strategic Decision Making Process

5. **Analyze strategic (SWOT) factors** to (a) pinpoint problem areas and (b) review and revise the corporate mission and objectives, as necessary.

6. **Generate, evaluate, and select the best alternative strategy** in light of the analysis conducted in step 5.

7. **Implement selected strategies** via programs, budgets, and procedures.

8. **Evaluate implemented strategies** via feedback systems, and the control of activities to ensure their minimum deviation from plans.

Strategy Formulation

Strategic management is a broader term that includes not only the stages already identified but also the earlier steps of determining the mission and objectives of an organization within the context of its external environment.

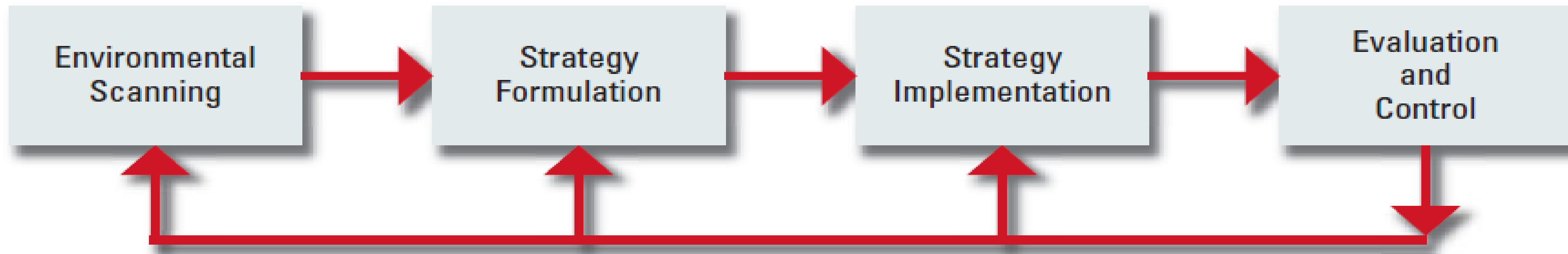
Strategy formulation is the *development of long-range plans* for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses.

- It includes defining the ***corporate mission, specifying achievable objectives, developing strategies, and setting policy guidelines***.
- An organization's **mission** is the ***purpose or reason for the organization's existence***. **Mission** describes what the organization is now.
- **Vision** describes what the organization would like to become.

Strategic Management Process

Strategic management consists of four basic elements:

- Environmental scanning
- Strategy formulation
- Strategy implementation
- Evaluation and control



SOURCE: T. L. Wheelen, "Strategic Management Model," adapted from "Concepts of Management," presented to Society for Advancement of Management (SAM)

Strategic Management Model

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Environmental Scanning: Gathering Information

- **External:** Opportunities and Threats
  - **Natural Environment:** Resources and climate
  - **Societal Environment:** General forces
  - **Task Environment:** Industry analysis
- **Internal:** Strengths and Weaknesses
  - **Structure:** Chain of command
  - **Culture:** Beliefs, expectations, values
  - **Resources:** Assets, skills, competencies, knowledge

Strategy Formulation: Developing Long-range Plans

- **Mission** – Reason for existence
- **Objectives** – What results to accomplish by when
- **Strategies** – Plan to achieve the mission & objectives
- **Policies** – Broad guidelines for decision making

Strategy Implementation: Putting Strategy into Action

- **Programs** – Activities needed to accomplish a plan
- **Budgets** – Cost of the programs
- **Procedures** – Sequence of steps needed to do the job

Evaluation and Control: Monitoring Performance

- **Performance** – Actual results

Feedback/Learning: Make corrections as needed

SOURCE: T. L. Wheelen, “Strategic Management Model,” adapted from “Concepts of Management,” presented to Society for Advancement of Management (SAM)

Strategy Formulation

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Strategy scholars **Donald Hambrick and James Fredrickson** propose that a **good strategy has five elements**, providing answers to five questions:

1. Arenas: Where will we be active?

2. Vehicles: How will we get there?

3. Differentiators: How will we win in the marketplace?

4. Staging: What will be our speed and sequence of moves?

5. Economic logic: How will we obtain our returns?

Initiation of Strategy: Triggering Events

A **triggering event** is something that acts as a stimulus for a change in strategy. Some possible triggering events are:

- **New CEO**: By asking a series of embarrassing questions, a new CEO cuts through the veil of complacency and forces people to question the very reason for the corporation's existence.
- **External intervention**: A firm's bank suddenly refuses to approve a new loan or suddenly demands payment in full on an old one. A key customer complains about a serious product defect.
- **Threat of a change in ownership**: Another firm may initiate a takeover by buying a company's common stock.

Initiation of Strategy: Triggering Events

A **triggering event** is something that acts as a stimulus for a change in strategy. Some possible triggering events are:

- **Performance gap**: A performance gap exists when performance does not meet expectations. Sales and profits either are no longer increasing or may even be falling.
- **Strategic inflection point**: Coined by ***Andy Grove***, past-CEO of Intel Corporation, a *strategic inflection point is what happens to a business when a major change takes place due to the introduction of new technologies, a different regulatory environment, a change in customers' values, or a change in what customers prefer.*