

Strategic Management: Concepts and Cases

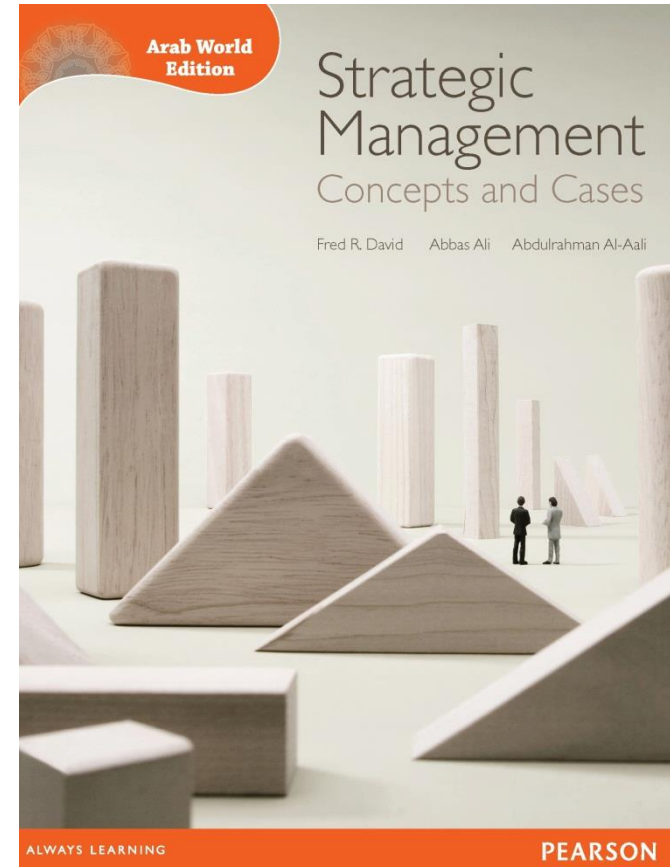
Arab World Edition

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Chapter 1: The Nature of Strategic Management



Chapter Outline

- What is Strategic Management?
- Key Terms in Strategic Management
- The Strategic-Management Model
- Benefits of Strategic Management
- Why Some Firms Do No Strategic Planning
- Pitfalls in Strategic Planning
- Guidelines for Effective Strategic Management

Chapter Outline (cont'd)

- Business Ethics and Strategic Management
- Comparing Business and Military Strategy
- The Nature of Global Competition

Themes in the Text

- **Global Considerations** – impact virtually all strategic decisions
- **E-commerce** – vital strategic management tool
- **Natural Environment** – important strategic issue

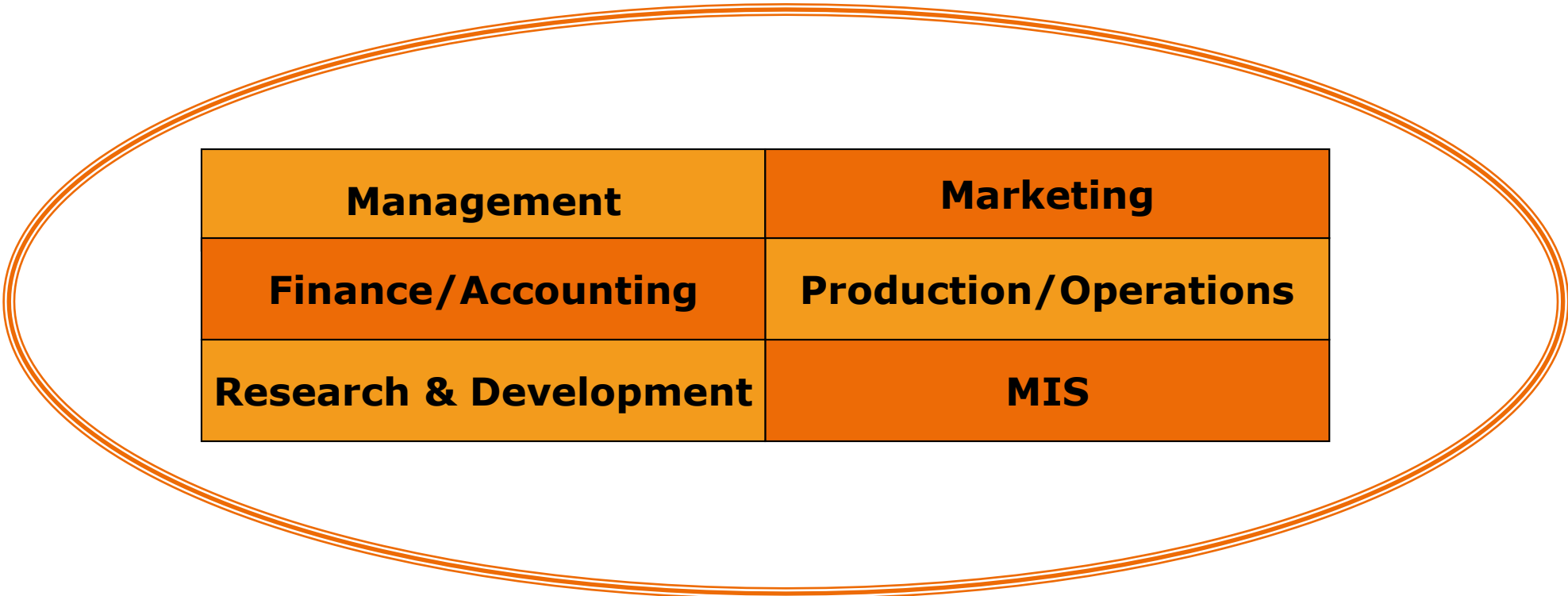
Strategic Management – Defined

Art & science of formulating, implementing, and evaluating, cross-functional decisions that enable an organization to achieve its objectives

In essence, the **strategic plan** is a company's **game plan**.

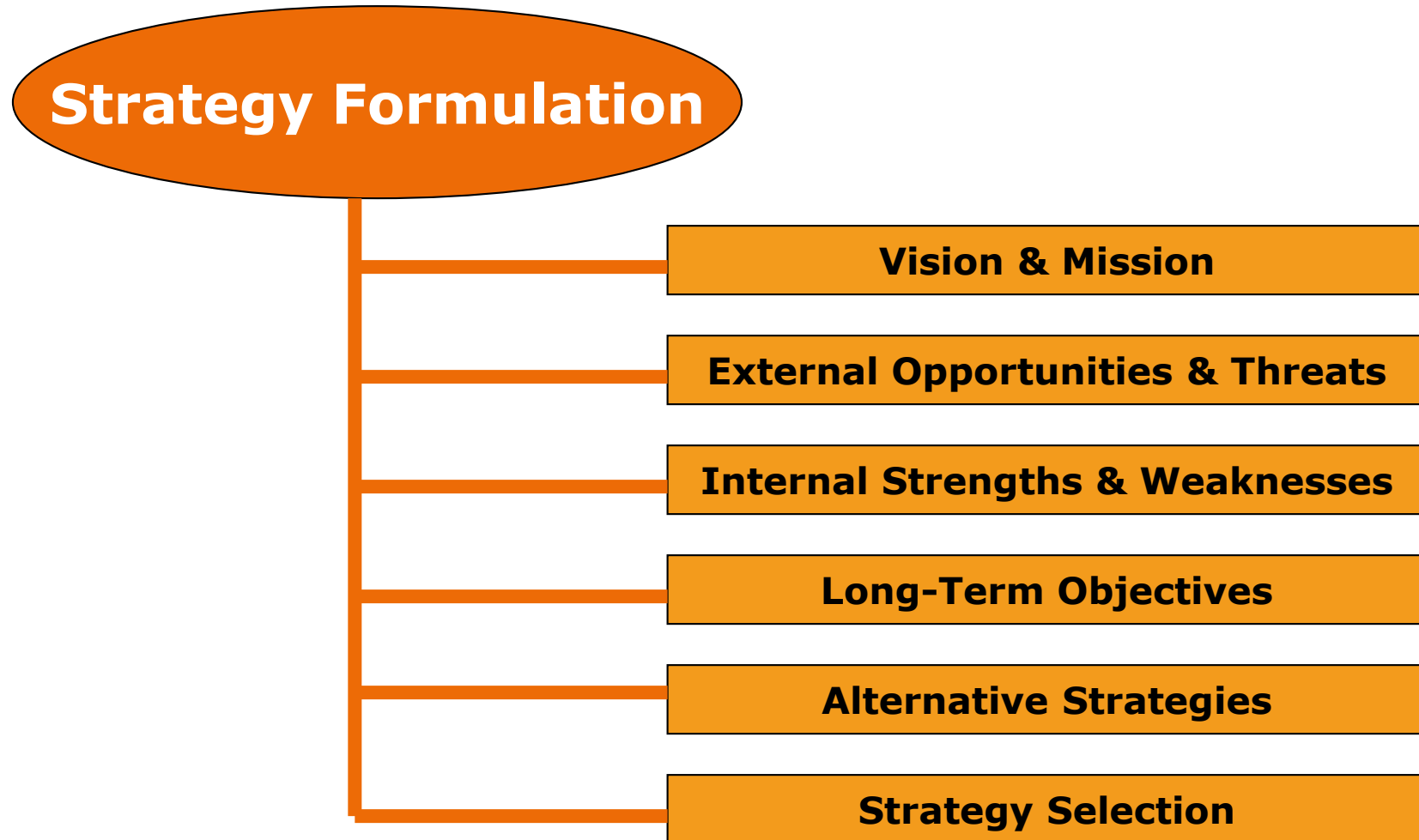
Strategic Management

Strategic management achieves a firm's success through integration:



Management	Marketing
Finance/Accounting	Production/Operations
Research & Development	MIS

Strategic Management

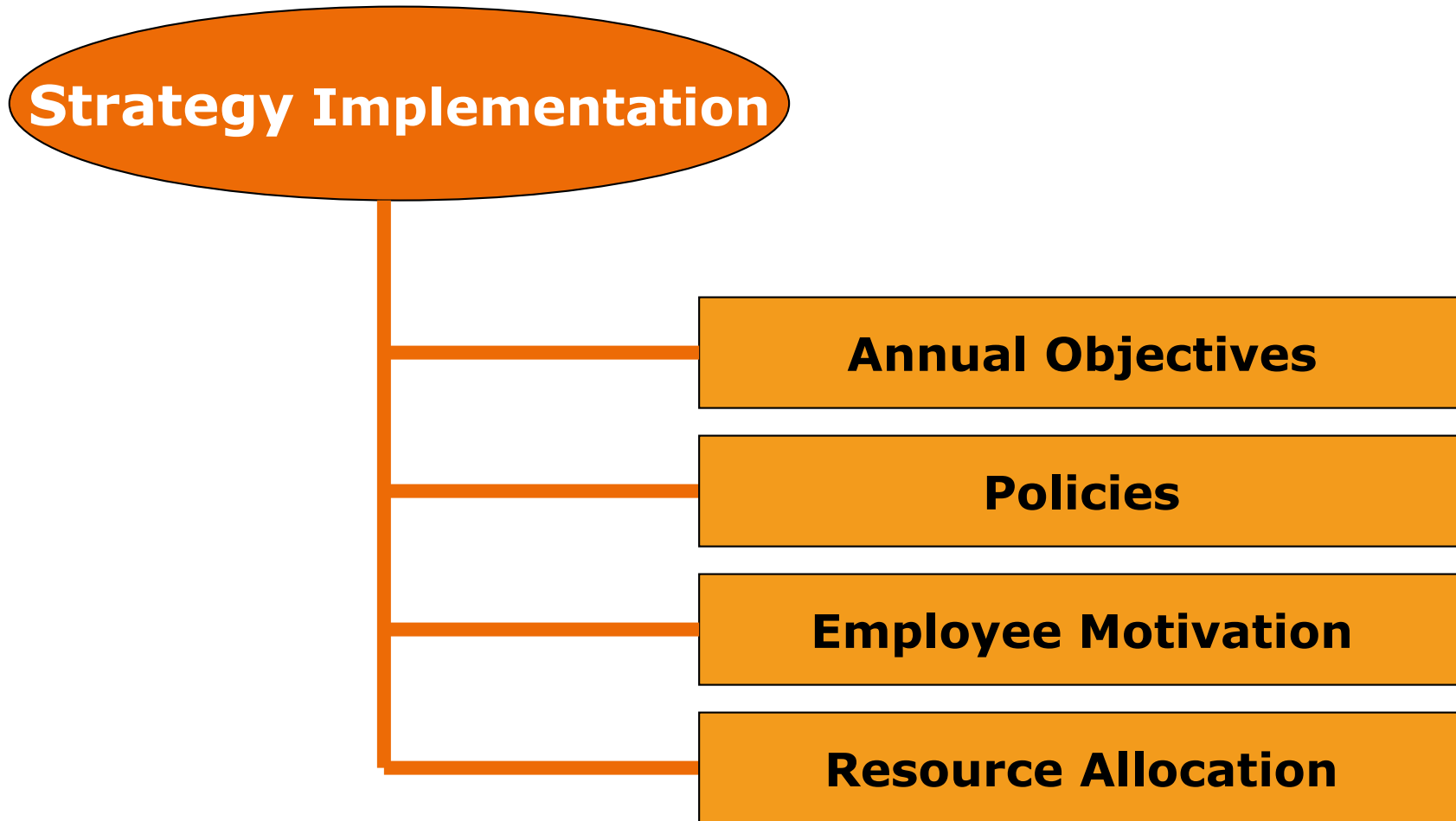


Strategy Formulation

Issues in Strategy Formulation

- New business opportunities
- Businesses to abandon
- Allocation of resources
- Expansion or diversification
- International markets
- Mergers or joint ventures
- Avoidance of hostile takeover

Strategy Implementation

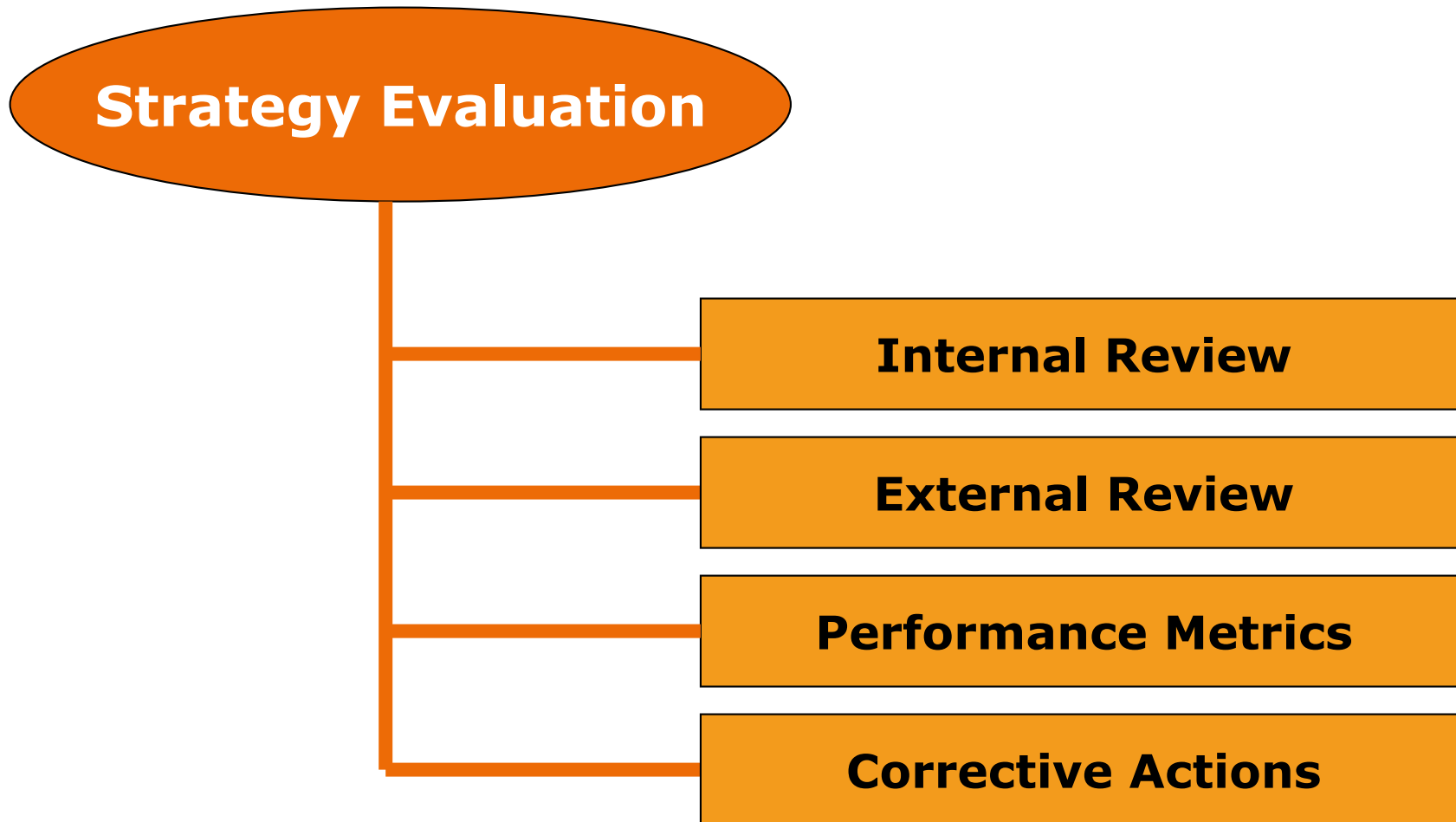


Strategy Implementation

The Action Stage of Strategic Management

- Is the most difficult stage
- Involves mobilization of employees & managers
- Interpersonal skills are critical
- There must be consensus on goal pursuits

Strategy Evaluation



Strategy Evaluation

Final Stage of Strategic Management

- Subject to future modification
- Today's success is no guarantee of future success
- New and different problems
- Complacency leads to demise

Prime Task of Strategic Management

*"Think through the overall mission of a business. Ask the key question: **What is our Business?**"*

Peter Drucker

Integrating Intuition & Analysis

The strategic management process attempts to organize quantitative and qualitative information under conditions of uncertainty.

Integrating Intuition & Analysis

Intuition is based on:

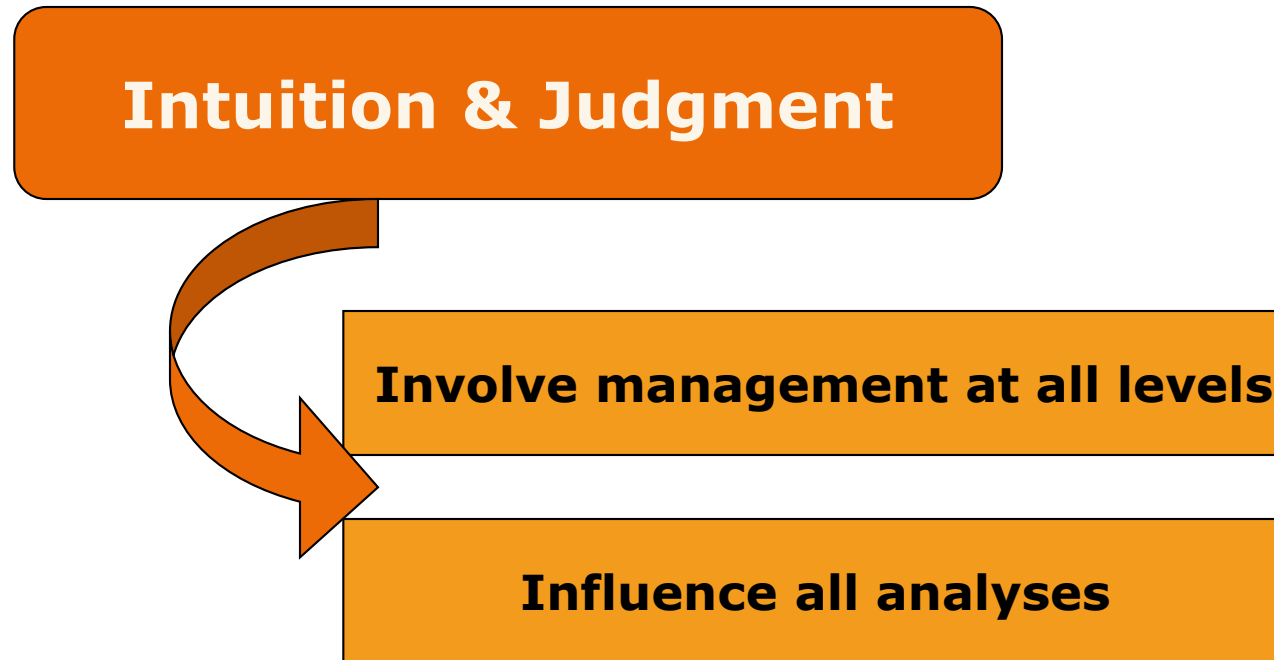
- Past experiences
- Judgment
- Feelings



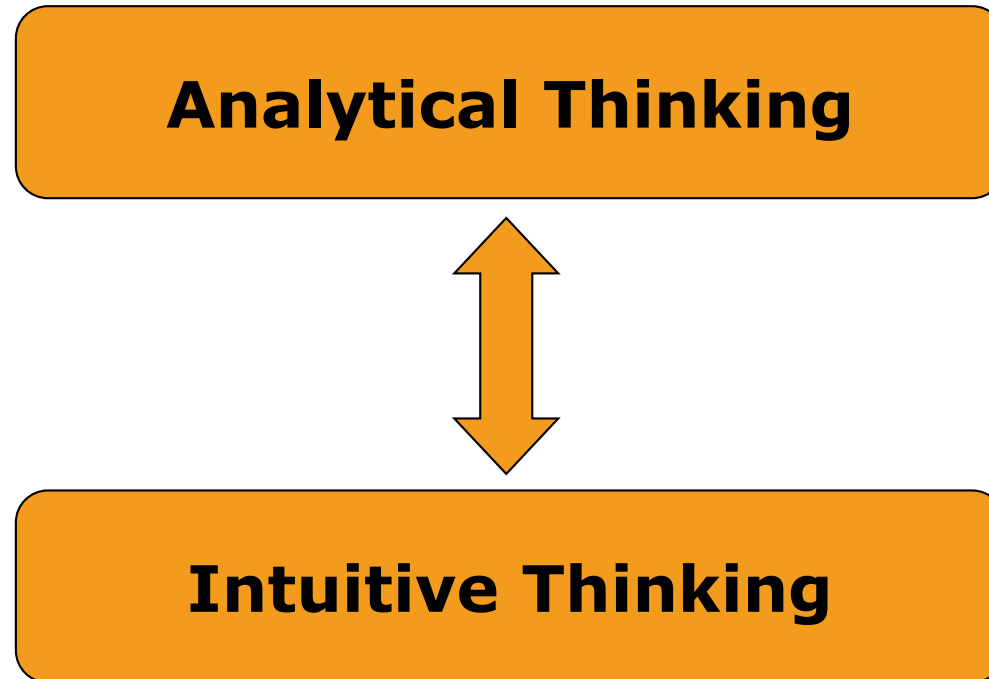
Intuition is useful for decision making in:

- Conditions of great uncertainty
- Conditions with little precedent

Integrating Intuition & Analysis



Integrating Intuition & Analysis



Integrating Intuition & Analysis

In the Arab world, there is a cultural tendency to emphasize the role of intuition and imagination in decision making.

There are companies which, because of luck and ample opportunities, have experienced tremendous growth.

Adapting to Change

Organizations must monitor events

- Ongoing process
- Internal and external events
- Timely changes

Strategic Management is Gaining and Maintaining Competitive Advantage

Competitive Advantage:

Anything that a firm does especially well compared to rival firms

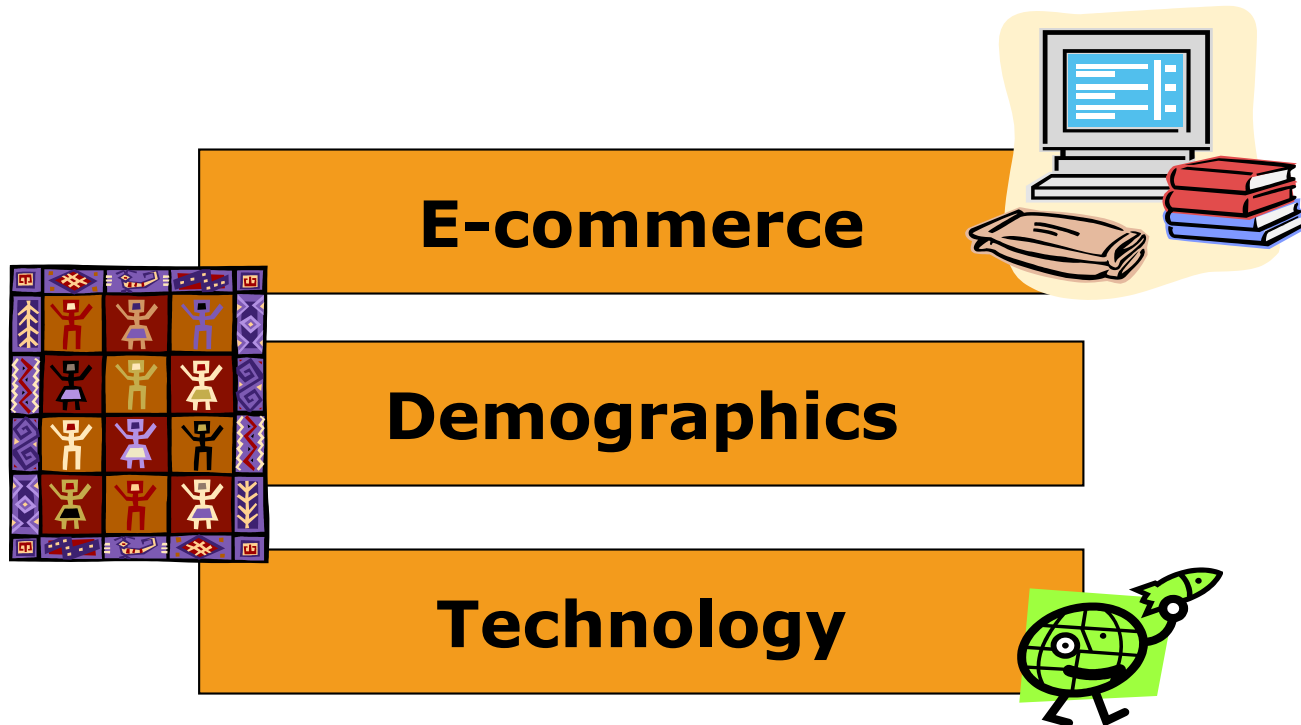
Achieving Sustained Competitive Advantage

1. Adapting to change in external trends, internal capabilities, and resources
2. Effectively formulating, implementing, and evaluating strategies



Adapting to Change

Rate & magnitude of change is increasing dramatically



Adapting to Change

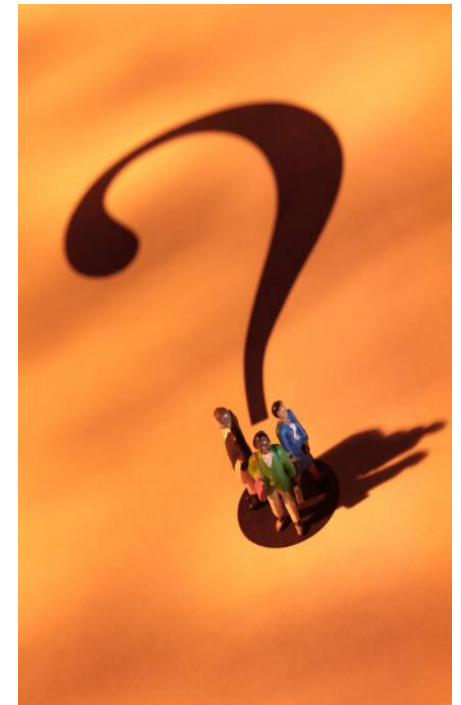
Effective Adaptation to change requires long-term focus



Adapting to Change

Key Strategic Management Questions

- What kind of business should we become?
- Are we in the right fields?
- Are there new competitors?
- What strategies should we pursue?
- How are our customers changing?



Key Terms

The Strategists – Those that affect a firm's success or failure:

- Chief Executive Officer (CEO)
- Chief Strategy Officer (CSO)
- President
- Owner
- Board Chair
- Executive Director

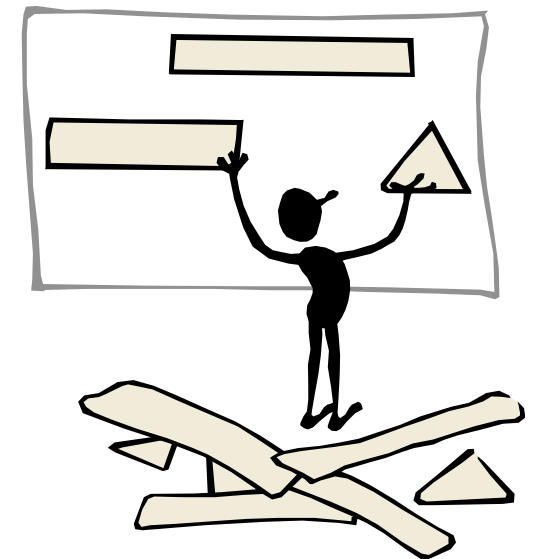
Key Terms

Vision Statement:

What do we want to become?

Mission Statement:

What is our business?



Opportunities and Threats (External)

External opportunities and threats are largely beyond the control of a single organization.

Opportunities and Threats (External) Cont'd...

Analysis of Trends:

- Economic
- Social
- Cultural
- Demographic/Environmental
- Political, Legal, Governmental
- Technological
- Competitors



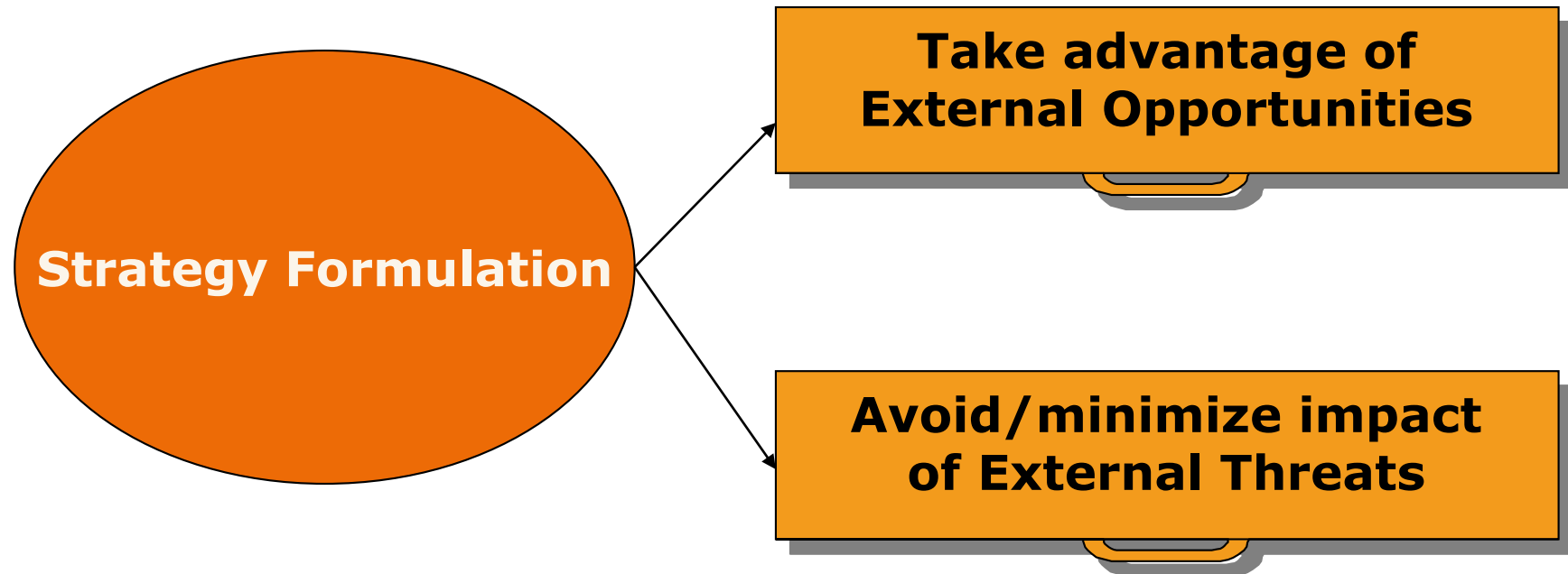
Key Terms

Environmental Scanning (Industry Analysis):

The process of conducting research and gathering and assimilating external information

Key Terms Opportunities & Threats

The basic tenet of strategic management:



Strengths and Weaknesses (Internal)

Strengths & Weaknesses (Internal):

Controllable activities performed especially well or poorly

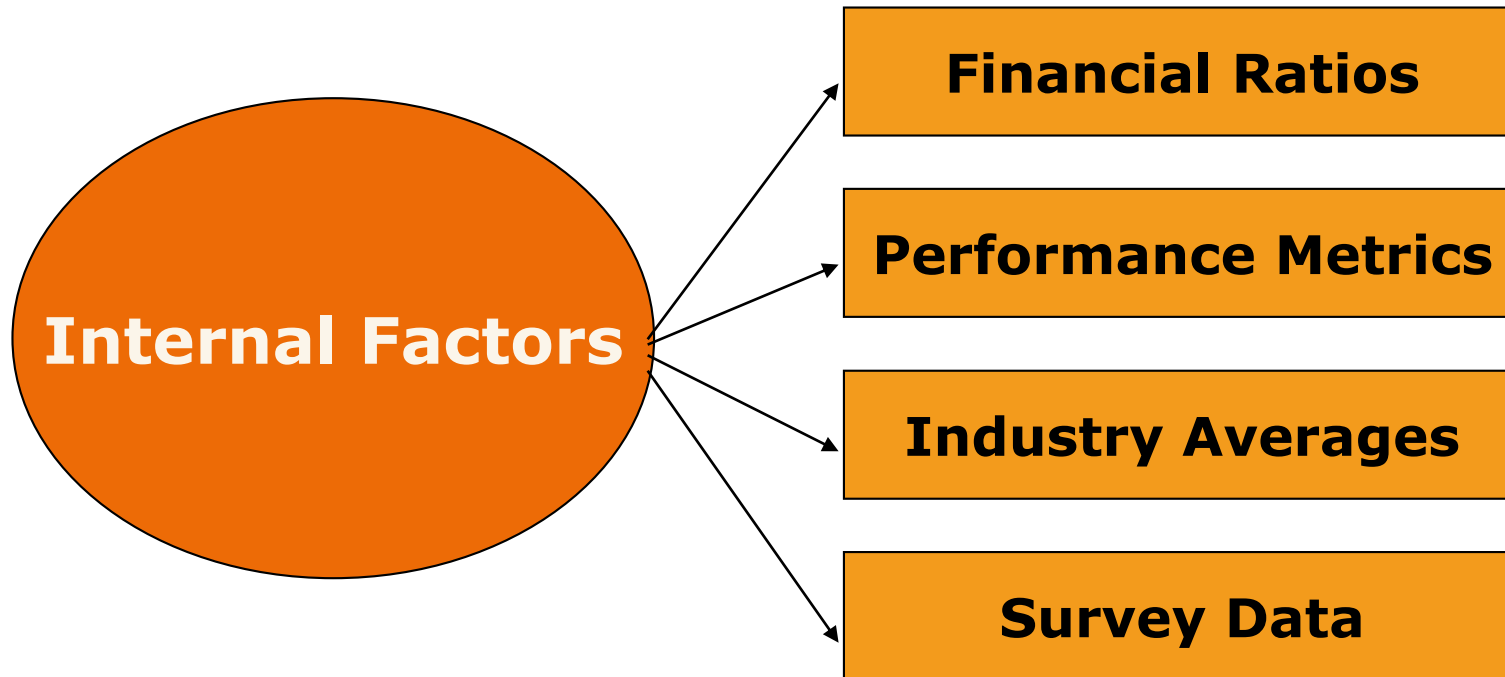
Strengths and Weaknesses (Internal) Cont'd...

Strengths and weaknesses are typically located in the functional areas of the firm, such as:

- Management
- Marketing
- Finance/Accounting
- Production/Operations
- Research & Development
- Computer Information Systems



Assessing the Internal Environment



Long Term Objectives

Long-term Objectives:

Mission-driven pursuit of specified results more than one year out

Long Term Objectives (Cont'd)

Long term objectives are essential for ensuring a firm's success. They:

- Provide direction
- Help with evaluation
- Create synergy
- Focus coordination
- Basis for planning, motivating, and controlling



Strategies

Strategies:

The means by which long-term objectives are achieved



Strategies (Cont'd)

Some examples of different strategies are:

- Geographic expansion
- Diversification
- Acquisition
- Market penetration
- Retrenchment
- Liquidation
- Joint venture

Key Terms

Annual Objectives:

Short-term milestones that firms must achieve to attain long-term objectives

Key Terms

Policies:

Means by which annual objectives will be achieved

Example Strategies in Action in 2009

Mohammed Abdulmohsin Al-Kharafi & Sons Company (MAK Group)

The MAK Group is one of the largest family-owned organizations in the Arab world. In 2008 it was listed among the top 100 companies in the Muslim world by Dinar Standard. In 2009 its annual turnover was over US\$5 billion; it operates in more than 25 countries around the world and has more than 120,000 employees. The company was established as a trading company more than 100 years ago and it has since developed into a large multi-national corporation.

Faced with limited local market and enriched with a large amount of cash, the company has embarked on an ambitious diversification strategy. Since 1956 the company has participated in a number of important projects in Kuwait, the Gulf States, Africa, the Caribbean, Asia, and Eastern Europe. It has various branches and subsidiaries in area related Construction, trade, and manufacturing in various parts of the world.

Example Strategies in Action in 2009 (Cont'd)

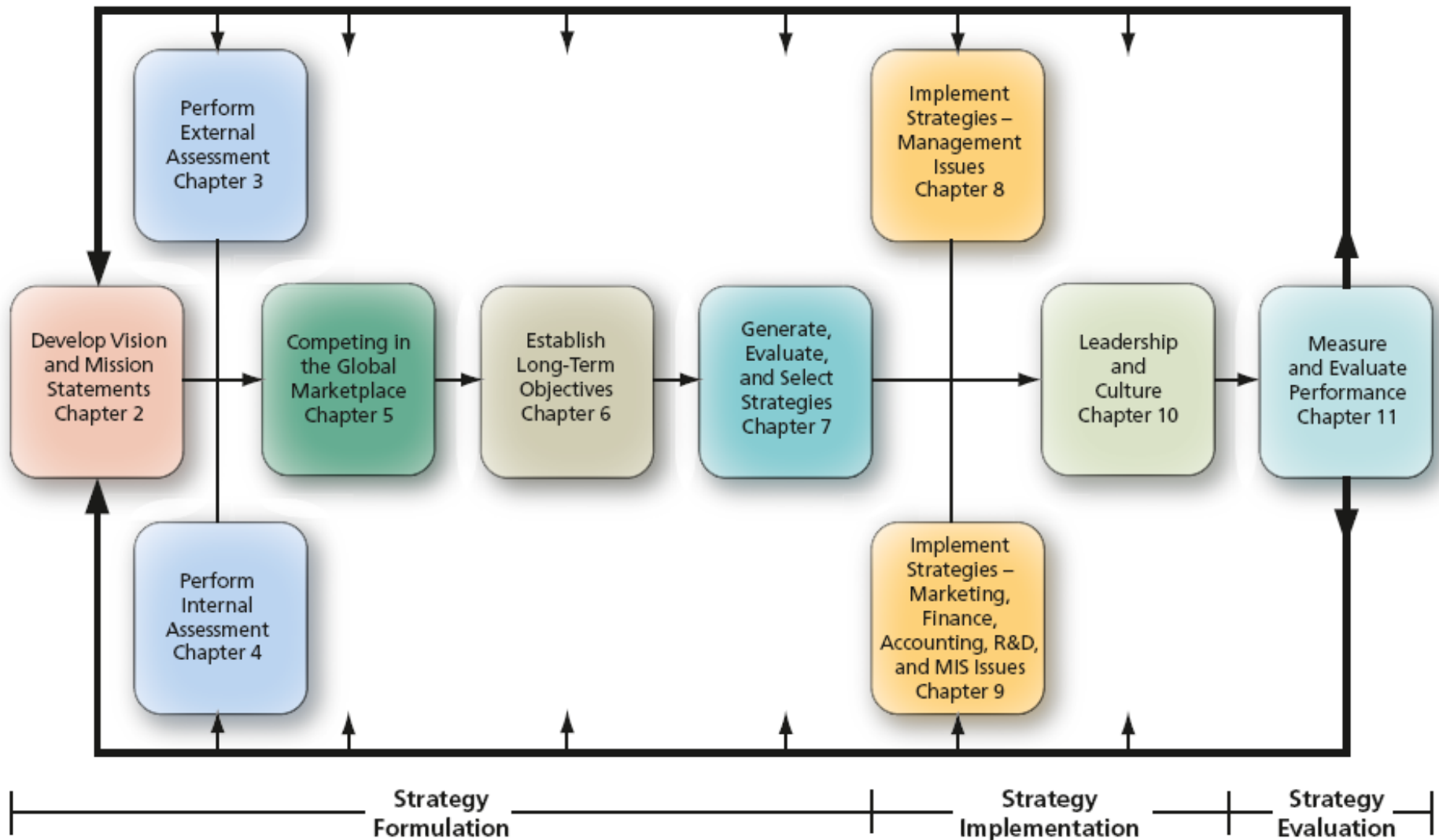
SKAB Group

“The SKAB Group is one of the largest private-sector business groups in Saudi Arabia with a variety of diversified but interconnected business enterprises, spanning such disciplines as environment protection and recycling, mineral-water bottling, contracting, the hospitality industry, real estate, shopping malls, travel and tourism, food products, and construction and maintenance.”

SKAB embarks on three major strategies to realize growth and market vitality: market expansion at home and abroad, partnership, and acquisition. Although the group is family-owned, it is managed by professional management team.

FIGURE 1-1

A Comprehensive Strategic-Management Model



Source: Adapted from Fred R. David, "How Companies Define Their Mission," *Long Range Planning* 22, no 3 (June 1988):40

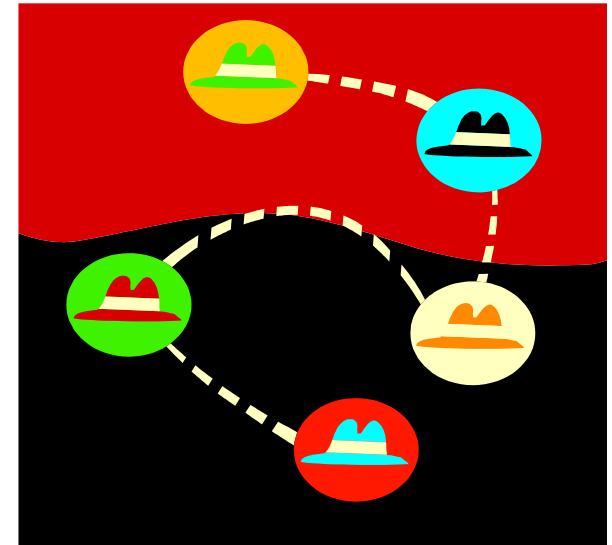
Strategic Management Model

Strategic Management Process

- Dynamic & continuous
- More formal in larger organizations

Strategic Management Model (Cont'd)

1. Identify Existing:
 - Vision
 - Mission
 - Objectives
 - Strategies
2. Audit external environment
3. Audit internal environment
4. Competing in the global market-place



Strategic Management Model (Cont'd)

5. Establish long-term objectives
6. Generate, evaluate, and select strategies
7. Implement selected strategies
8. Leadership and culture
9. Measure & evaluate performance

Benefits of Strategic Management

Strategic Management:

- Is proactive in shaping firm's future
- Initiates and influences firm's activities
- Helps to formulate better strategies that are systematic, logical, and rational

Benefits of Strategic Management

Financial Benefits

- Improvement in sales
- Improvement in profitability
- Productivity improvement



Benefits of Strategic Management

Nonfinancial Benefits

- Improved understanding of competitors' strategies
- Enhanced awareness of threats
- Increased employee productivity
- Reduced resistance to change
- Enhanced problem-prevention capabilities

Benefits of Strategic Management

Greenley

1. Identification of opportunities
2. Objective view of management problems
3. Improved coordination & control
4. Minimizes adverse conditions & changes
5. Decisions that better support objectives
6. Effective allocation of resources
7. Reduces resources and time spent correcting erroneous decisions

Benefits of Strategic Management

Greenley (Cont'd)

8. Internal communication among personnel
9. Integration of individual behaviors
10. Clarify individual responsibilities
11. Encourages forward thinking
12. Cooperative approach to tackling problems and opportunities
13. Encourages favorable attitude toward change
14. Gives discipline to business management

Why Some Firms Do No Strategic Planning

Reasons why some firms are resistant to strategic planning include:

- Poor reward structures
- Fire-fighting
- Chief executives' orientation
- Lack of access to needed resources
- Waste of time
- Too expensive
- Laziness
- Content with success

Why Some Firms Do No Strategic Planning (Cont'd)

- Fear of failure
- Overconfidence
- Prior bad experience
- Self-interest
- Fear of the unknown
- Honest difference of opinion
- Suspicion

Pitfalls in Strategic Planning

Being aware of potential pitfalls of strategic planning and being prepared to address them is essential to success.

Pitfalls in Strategic Planning

Some pitfalls to watch out for and avoid in strategic planning

- Using it to gain control over decisions and resources
- Doing it only to satisfy accreditation and regulatory requirements
- Too hastily moving from mission development to strategy formulation
- Failing to communicate the plan to employees
- Top managers making many intuitive decisions that conflict with the formal plan

Pitfalls in Strategic Planning

Some pitfalls to watch out for and avoid in strategic planning (Cont'd)

- Top managers not actively supporting the strategic planning process
- Failing to use plans as a standard for measuring performance
- Delegating planning to a 'planner' rather than involving all managers
- Failing to involve key employees in all phases of planning
- Failing to create a collaborative climate supportive of change

Pitfalls in Strategic Planning

Some pitfalls to watch out for and avoid in strategic planning (Cont'd)

- Viewing planning as unnecessary or unimportant
- Becoming so engrossed in current problems that insufficient or no planning is done
- Being so formal in planning that flexibility and creativity are stifled

Guidelines for Effective Strategic Management

Strategic Management must:

- Not become a self-perpetuating bureaucratic mechanism
- Not become ritualistic, stifled, orchestrated, too formal, predictable, and rigid
- Be a self-reflective learning process
- Words supported by numbers, rather than numbers supported by words
- Represent the medium for explaining strategic issues and organizational responses

Business Ethics & Strategic Management

Business Ethics:

Principles of conduct within organizations that guide decision making and behavior

Code of Business Ethics:

Provides basis on which policies can be devised to guide daily behavior and decisions in the workplace

Business Ethics & Strategic Management (Cont'd)

Good business ethics are prerequisite for good strategic management

Business Ethics & Strategic Management

Unethical Business Practices

Business practices that are always considered unethical include:

- Misleading advertising
- Misleading labeling
- Harm to the environment
- Insider trading
- Dumping flawed products on foreign markets

Business Ethics & Strategic Management

Unethical Business Practices (Cont'd)

- Poor product or service safety
- Padding expense accounts
- Lack of equal opportunities for foreign workers
- Overpricing
- Sweatshops
- Hiring child labor

Natural Environment Perspective

Using ISO 14000 Certification to Gain Strategic Advantage

- What are ISO 14000 & 14001?
- Requirements for ISO 14001
- Environmental Management Systems (EMS)

The Nature of Global Competition

International/multinational corporations:

- Parent company
- Host country

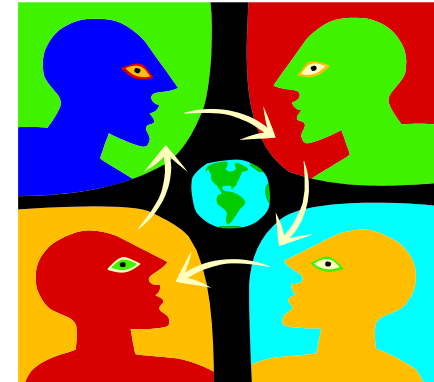


The Nature of Global Competition

Strategy implementation may be difficult

Cultural differences:

- Norms
- Values
- Work ethic



Advantages of International Operations

1. Absorb excess capacity/reduce unit costs
2. Extend the product life cycle
3. Low-cost production facilities
4. Less intense competition
5. Spread risk over wider markets



Ch 1 -66

Advantages of International Operations (cont'd)

- 6. Potential lower taxes
- 7. Joint ventures to build networks and knowledge
- 8. Foreign government incentives
- 9. Economies of scale



Disadvantages of International Operations

1. Difficult communications
2. Underestimate foreign competition
3. Cultural barriers to effective management
4. Require understanding of regional trade organizations
5. Complications arising from currency differences
6. Availability of market information

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