MANAGEMENT STRATEGIC

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Introduction to Strategic Management And Business Policy

Basic Concepts of Strategic Management

Ecomagination is GE's commitment to address challenges, such as the need for cleaner, more efficient sources of energy, reduced emissions, and abundant sources of clean water. And we plan to make money doing it. Increasingly for business, "green" is green. Immelt announced in a May 9, 2005, conference call that the company planned to more than double its spending on research and development from $700 million in 2004 to $1.5 billion by 2010 for cleaner products ranging from power generation to locomotives to water processing. The company intended to introduce 30 to 40 new products, including more efficient lighting and appliances, over the next two years. It also expected to double revenues from businesses that made wind turbines, treat water, and reduce greenhouse-emitting gases to at least $20 billion by 2010. In addition to working with customers to develop more efficient power generators, the company planned to reduce its own emission of greenhouse gases by 1% by 2012 and reduce the intensity of those gases 30% by 2008. In 2006, GE's top management informed the many managers of its global business units that in the future they would be judged not only by the usual measures, such as return on capital, but that they would also be accountable for achieving corporate environmental objectives.

Ecomagination was a strategic change for GE, a company that had previously been condemned by environmentalists for its emphasis on coal and nuclear power and for polluting the Hudson and Housatonic rivers with polychlorinated biphenyls (PCBs) in the 1980s. Over the years, GE had been criticized for its lack of social responsibility and for its emphasis on profitability and financial performance over social and environmental objectives. What caused GE's management to make this strategic change? In the 18 months before launching its new environmental strategy, GE invited managers from companies in various industries to participate in two-day "dreaming sessions" during which they were asked to imagine life in 2015—and the products they, as customers, would need from GE. The consensus was a future of rising fuel costs, restrictive environmental regulations, and growing consumer expectations for cleaner technologies, especially in the energy industry. Based on this conclusion, GE's management made the strategic decision to move in a new direction. According to Vice Chairman David Calhoun, "We decided that if this is what our customers want, let's stop putting our heads in the sand, dodging environmental interests, and go from defense to offense." Following GE's announcement of its new strategic initiative, analysts raised questions regarding the company's ability to make Ecomagination successful. They not only questioned CEO Immelt's claim that green could be profitable as well as socially responsible, but they also wondered if Immelt could transform GE's incremental approach to innovation to one of pursuing riskier technologies, such as fuel cells, solar energy, hydrogen storage, and nanotechnology. Other companies had made announcements of green initiatives, only to leave them withering on the vine when they interfered with profits. For example, FedEx had announced in 2003 that it would soon be deploying clean-burning hybrid trucks at a rate of 3,000 per year, eventually cutting emissions by 250,000 tons of greenhouse gases. Four years later, FedEx had purchased fewer than 100 hybrid vehicles, less than 1% of its fleet! With hybrid trucks costing 75% more than conventional trucks, it would take 10 years for the fuel savings to pay for the costly vehicles. FedEx management concluded that breaking even over a 10-year period was not the best use of company capital. As a result of this and other experiences, skeptics felt that most large companies were only indulging in greenwash when they talked loudly about their sustainability efforts, but followed through with very little actual results. CEO Immelt had put his reputation at risk by personally leading GE's Ecomagination initiative. Skeptics wondered if the environmental markets would materialize and if they would be as profitable as demanded by GE's shareholders. Would a corporate culture known for its pursuit of the Six Sigma statistics-based approach to quality control be able to create technological breakthroughs and new green businesses? If Immelt was correct, not only would GE benefit, but other companies would soon follow GE's lead. If, however, he was wrong, Immelt would have led his company down a dead end where it would be difficult to recover from the damage to its reputation and financial standing. According to a 25-year veteran of GE,"Jeff is asking us to take a really big swing....This is hard for us."

1.1 The Study of 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.

PHASES OF STRATEGIC MANAGEMENT

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. Over time, business practitioners and academic researchers have expanded and refined these concepts. 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 requestedtoproposethefollowingyear'sbudget.Projectsareproposedonthebasisofvery little analysis, with most information coming from within the firm. The sales force usuallyprovidesthesmallamountofenvironmentalinformation.Suchsimplisticoperational 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 longterm planning, managers attempt to propose five-year plans. At this point they consider projects that may take more than one year. 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: Frustrated with highly political yet ineffectual five-year plans, 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. Ex-military experts develop competitive intelligence units. 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. Such top-down planning emphasizes formal strategy formulation and leaves the implementation issues to lower management levels. 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, from various departments and workgroups. They develop and integrate a series of strategic plans aimed at achieving the company's primary objectives. 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. Instead of a large centralized planning staff, internal and external planning consultants are available to help guide group strategy discussions. Although top management may still initiate the strategic planning process, the resulting strategies may come from anywhere in the organization. Planning is typically interactive across levels and is no longer top down. People at all levels are now involved. General Electric, one of the pioneers of strategic planning, led the transition from strategic planning to strategic management during the 1980s.8 By the 1990s, most other corporations around the world had also begun the conversion to strategic management.

BENEFITS OF STRATEGIC MANAGEMENT

Strategic management emphasizes long-term performance. Many companies can manage short-term bursts of high performance, but only a few can sustain it over a longer period of time. For example, of the original Forbes 100companies listed in 1917, only 13 have survived to the present day. 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. Research reveals that organizations that engage in strategic management generally outperform those that do not. The attainment of an appropriate match, or "fit," between an organization's environment and its strategy, structure, and processes has positive effects on the organization’s performance. Strategic planning becomes increasingly important as the environment becomes more unstable. For example, studies of the impact of deregulation on the U.S. railroad and trucking industries found that companies that changed their strategies and structures as their environment changed outperformed companies that did not change.13 A survey of nearly 50 corporations in a variety of countries and industries found the three most highly rated benefits of strategic management to be:

- Clearer sense of strategic vision for the firm.
- Sharper focus on what is strategically important.
- Improved understanding of a rapidly changing environment.

A recent survey by McKinsey & Company of 800 executives found that formal strategic planning processes improve overall satisfaction with strategy development. To be effective, however, strategic management need not always be a formal process. It can begin with a few simple questions:

1. Where is the organization now? (Not where do we hope it is!)
2. If no changes are made, where will the organization be in one year? two years? five years? 10 years? Are the answers acceptable?
3. If the answers are not acceptable, what specific actions should management undertake? What are the risks and payoffs involved

Bain&Company’s2007 Management Tools and Trends survey of 1,221global executives revealed strategic planning to be the most used management tool—used by 88% of respondents. Strategic planning is particularly effective at identifying new opportunities for growth and in ensuring that all managers have the same goals. Other highly-ranked strategic management tools were mission and vision statements (used by 79% of respondents), core competencies (79%), scenario and contingency planning (69%), knowledge management (69%), strategic alliances (68%), and growth strategy tools (65%). A study by Joyce, Nohria, and Roberson of 200 firms in 50 sub industries found that devising and maintaining an engaged, focused strategy was the first of four essential management practices that best differentiated between successful and unsuccessful companies. Based on these and other studies, it can be concluded that strategic management is crucial for long-term organizational success. Research into the planning practices of companies in the oil industry concludes that the real value of modern strategic planning is more in the strategic thinking and organizational learning that is part of a future-oriented planning process than in any resulting written strategic plan. Small companies, in particular, may plan informally and irregularly. Nevertheless, studies of small- and medium-sized businesses reveal that the greater the level of planning intensity, as measured by the presence of a formal strategic plan, the greater the level of financial performance, especially when measured in terms of sales increases. Planning the strategy of large, multidivisional corporations can be complex and time consuming. It often takes slightly more than a year for a large company to move from situation assessment to a final decision agreement. For example, strategic plans in the global oil industry end to cover four to five years. The planning horizon for oil exploration is even longer—up to 15 years. Because of the relatively large number of people affected by astrategic decision in a large firm,aformalized,more sophisticated system is needed to en sure that strategic planning leads to successful performance. Otherwise, top management becomes is olated from developments in the business units, and lower-level managers lose sigh tof the corporate mission and objectives.

1.2 Globalization and Environmental Sustainability: Challenges to Strategic Management

Not too long ago, a business corporation could be successful by focusing only on making and selling goods and services within its national boundaries. International considerations were minimal. Profits earned from exporting products to foreign lands were considered frosting on the cake, but not really essential to corporate success. During the 1960s, for example, most U.S. companies organized themselves around a number of product divisions that made and sold goods only in the United States. All manufacturing and sales outside the United States were typically managed through one international division. An international assignment was usually considered a message that the person was no longer promotable and should be looking for another job. Similarly, until the later part of the 20th century, a business firm could be very successful without being environmentally sensitive. Companies dumped their waste products in nearby streams or lakes and freely polluted the air with smoke containing noxious gases. Responding to complaints, governments eventually passed laws restricting the freedom to pollute the environment. Lawsuits forced companies to stop old practices. Nevertheless, until the dawn of the 21stcentury, most executives considered pollution abatement measures to be a cost of business that should be either minimized or avoided. Rather than clean up a polluting manufacturing site, they often closed the plant and moved manufacturing offshore to a developing nation with fewer environmental restrictions. Sustainability, as a term, was used to describe competitive advantage, not the environment.

IMPACT OF GLOBALIZATION

Today, everything has changed. Globalization, the integrated internationalization of markets and corporations, has changed the way modern corporations do business. As Thomas Fried-man 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. For example, the inter-connected nature of the global financial community meant that the mortgage lending problems of U.S. banks led to a global financial crisis in 2008. The worldwide availability of the Internet and supply-chain logistical improvements, such as containerized shipping, mean that companies can now locate anywhere and work with multiple partners to serve any market. 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. Nike and Reebok, for example, manufacture their athletic shoes in various countries throughout Asia for sale on every continent. Many other companies in North America and Western Europe are outsourcing their manufacturing, software development, or customer service to companies in China, Eastern Europe, or India. Large pools of talented software programmers, English language proficiency, and lower wages in India enables IBM to employ 75,000 people in its global delivery centers in Bangalore, Delhi, or Kolkata to serve the needs of clients in Atlanta, Munich, or Melbourne.

In stead of using one international division to manage every thing outside the home country, large corporations are now using matrix structures in which product units are interwoven with country or regional units. International assignments are now considered key for anyone interested in reaching top management. 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. For example, General Electric moved a major research and development lab for its medical systems division from Japan to China in order to learn more about developing new products for developing economies. Microsoft's largest research center outside Redmond, Washington, is in Beijing. According to Wilbur Chung, a Wharton professor, "Whatever China develops is rolled out to the rest of the world. China may have a lower GDP per-capita than developed countries, but the Chinese have a strong sense of how products should be designed for their market." 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. See the Global Issue feature to learn how regional trade associations are forcing corporations to establish a manufacturing presence wherever they wish to market goods or else face significant tariffs. These associations have led to the increasing harmonization of standards so that products can more easily be sold and moved across national boundaries. International considerations have led to the strategic alliance between British Airways and American Airlines and to the acquisition of the Miller Brewing Company by South African Breweries (SAB), among others.

IMPACT OF ENVIRONMENTAL SUSTAINABILITY

Environmental sustainability refers to the use of business practice store duce a company'simpact upon the natural, physical environment. Climate change is playing a growing role in business decisions. More than half of the global executives surveyed by McKinsey & Company in 2007selected"environmental issues, including climate change,"as the most important issue facing them over the next five years. A 2005 survey of 27 large, publicly-held, multinational corporations based in North America revealed that 90% believed that government regulation was imminent and 67% believed that such regulation would come between 2010 and 2015. According to Eileen Claussen, Presiden tof the Pew Centeron Global Climate Change:

There is a growing consensus among corporate leaders that taking action non climate change is a responsible business decision. From market shifts to regulatory constraints, climate change poses real risks and opportunities that companies must begin planning for today, or risk losing ground to their more forward-thinking competitors. Prudent steps taken now to address climate change can improve a company's competitive position relative to its peers and earn it a seat at the table to influence climate policy. With more and more action at the state level and in creasing scientific clarity, it is time for businesses to craft corporate strategies that address climate change.

Porter and Reinhardt warn that "in addition to understanding its emissions costs, every 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." Swiss Re, the world's second-largest reinsurer, estimated that the overall economic costs of climate catastrophes related to climate change threatens to double to $150 billion per year by 2014. The insurance industry's share of this loss would be $30–$40 billion annually. 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.

1. **Regulatory Risk:** Companies in much of the world are already subject to the Kyoto Protocol, which requires the developed countries (and thus the companies operating within them) to reduce carbon dioxide and other greenhouse gases by an average of 6% from 1990 levels by 2012. The European Union has an emissions trading program that allows companies that emit greenhouse gases beyond a certain point to buy additional allowances from other companies whose emissions are lower than that allowed. Companies can also earn credits toward their

emissions by investing in emissions abatement projects outside their own firms. Although the United States withdrew from the Kyoto Protocol, various regional, state, and local government policies affect company activities in the U.S. For example, seven Northeastern states, six Western states, and four Canadian provinces have adopted proposals to cap carbon emissions and establish carbon-trading programs.

2. **Supply Chain Risk:** Suppliers will be increasingly vulnerable to government regulations—leading to higher component and energy costs as they pass along increasing carbon-related costs to their customers. Global supply chains will be at risk from anincreasing intensity of major storms and flooding. Higher sea levels resulting from the melting of polar ice will create problems for seaports. China, where much of the world's manufacturing is currently being outsourced, is becoming concerned with environmental degradation. In 2006, 12 Chinese ministries produced a report on global warming foreseeing a 5%–10% reduction in agricultural output by 2030; more droughts, floods, typhoons, and sandstorms; and a 40% increase in population threatened by plague. The increasing scar city of fossil-based fuel is already boosting transportation costs significantly. For example, Tesla Motors, the maker of an electric-powered sports car, transfer red assembly of battery packs from Thailand to California because Thailand' slow wages were more than off set by the costs of shipping thousand-pound battery packs across the Pacific Ocean. Although the world production of oil had leveled off at 85 million barrels a day by 2008, the International Energy Agency predicted global demand to increase to 116 million barrels by 2030. Given that output from existing fields was falling 8% annually, oil companies must develop up to seven million barrelsa day in additional capacity to meet projected demand. Nevertheless, James Mulva, CEO of Conoco Philips, estimated in late 2007 that the output of oil will realistically stall at around 100 million barrels a day.
3. **ProductandTechnologyRisk:** Environmental sustainability can be a prerequisite to profitable growth. For example, world wide investments in sustainable energy (including wind, solar, and water power) more than doubled to $ 70.9 billion from 2004 to 2006. Sixty percent of U.S. respondents to an Environics study stated that knowing a company is mindful of its impact on the environment and society makes them more likely to buy their products and services. Carbon-friendly products using new technologies are becoming increasingly popular with consumers. Those automobile companies, for example, that were quick to introduce hybrid or alternative energy cars gained a competitive advantage.
4. **Litigation Risk:** Companies that generate significant carbon emissions face the threat of lawsuits similar to those in the tobacco, pharmaceutical, and building supplies (e.g., asbestos) industries. For example, oil and gas companies were sued for greenhouse gas emissions in the federal district court of Mississippi, based on the assertion that these companies contributed to the severity of Hurricane Katrina. As of October 2006, at least 16 cases were pending in federal or state courts in the U.S. "This boom let in global warming litigation represents frustration with the White House's and Congress' failure to come to grips with the issue," explained John Echeverria, executive director of Georgetown University's Environmental Law & Policy Institute.
5. **Reputational Risk:** A company's impact on the environment can heavily affect its overall reputation. The Carbon Trust, a consulting group, found that in some sectors the value of a company's brand could be at risk because of negative perceptions related to climate change. In contrast, a company with a good record of environmental sustainability may create a competitive advantage in terms of attracting and keeping loyal consumers, employees, and

investors. For example, Wal-Mart's pursuit of environmental sustainability as a core business strategy has helped soften its negative reputation as a low-wage, lowbenefit employer. By setting objectives for its retail stores of reducing greenhouse gases by 20%, reducing solid waste by 25%, increasing truck fleet efficiency by 25%, and using 100% renewable energy, it is also forcing its suppliers to become more environmentally sustainable. Tools have recently been developed to measure sustainability on a variety of factors. For example, the SAM (Sustainable Asset Management) Group of Zurich, Switzerland, has been assessing and documenting the sustainability performance of over 1,000 corporations annually since 1999. SAM lists the top 15% of firms in its Sustainability Yearbook and classifies them into gold, silver, and bronze categories. Business Weekpublished its first list of the world's 100 most sustainable corporations January 29, 2007. The Dow Jones Sustainability Indexes and the KLD Broad Market Social Index, which evaluate companies on a range of environmental, social, and governance criteria are used for investment decisions. Financial services firms, such as Goldman Sachs, Bank of America, JPMorgan Chase, and Citigroup have adopted guidelines for lending and asset management aimed at promoting clean-energy alternatives.

6. **Physical Risk:** The direct risk posed by climate change includes the physical effects of droughts, floods, storms, and rising sea levels. Average Arctic temperatures have risen four to five degrees Fahrenheit (two to three degrees Celsius) in the past 50 years, leading to melting glaciers and sea levels rising one inchper decade. Industries most likely to be affected are insurance, agriculture, fishing, forestry, real estate, and tourism. Physical risk can also affect other industries, such as oil and gas, through higher insurance premiums paid on facilities in vulnerable areas. Coca-Cola, for example, studies the link ages between climate change and water availability interms of how this will affect the location of its new bottling plants. The warming of the Tibetan plateau has led to a thawing of the permafrost—thereby threatening the newly-completed railway line between China and Tibet. (See the Environmental Sustainability Issue feature for a more complete list of projected effects of climate change.)

Although global warming remains a controversial topic, the best argument in favor of working toward environmental sustainability is a variation of Pascal's Wager on the existence of God: The same goes for global warming. If you accept it as reality, adapting your strategy and practices, your plants will use less energy and emit fewer effluents. Your packaging will be more biodegradable, and your new products will be able to capture any markets created by severe weather effects. Yes, global warming might not be as damaging as some predict, and you might have invested more than you needed, but it's just as Pascal said: Given all the possible outcomes, the upside of being ready and prepared for a "fearsome event" surely beats the alternative.

1.3 Theories of Organizational Adaptation

Globalization and environmental sustainability present real challenges to the strategic management of business corporations. How can any one company keep track of all the changing technological, economic, political–legal, and sociocultural trends around the world and make the necessary adjustments? This is not an easy task. Various the or ies have been proposed to account for how organizations obtain fit with their environment. The theory of population ecology, for example, proposes that once an organization is successfully established in a particular environmental niche, it is unable to adapt to changing conditions. In ertia prevents the organization from changing. The company is thus replaced (is bought out or goes bankrupt) by other organizations more suited to the new environment. Although it is a popular theory in sociology, research fails to support the arguments of population ecology. Institution theory, in contrast, proposes that organizations can and do adapt to changing conditions by imitating other successful organizations. To its credit, many examples can be found of companies that have adapted to changing circumstances by imitating an admired firm's strategies and management techniques. The theory does not, however, explain how or by whom success ful new strategies are developed in the first place. The strategic choice perspective goes one step further by proposing that not only do organizations adapt to a changing environment, but they also have the opportunity and power to reshape their environment. This perspective is supported by research indicating that the decisions of a firm's management have at least as great an impact on firm performance as overall industry factors.46 Because of its emphasis on managers making rational strategic decisions, the strategic choice perspective is the dominant one taken in strategic management. Its argument that adaptation is a dynamic process fits with the view of organizational learning theory, which says that an organization adjusts defensively to a changing environment and uses knowledge offensively to improve the fit between itselfanditsenvironment.Thisperspectiveexpandsthestrategicchoiceperspectivetoinclude people at all levels becoming involved in providing input into strategic decisions. In agreement with the concepts of organizational learning theory, an increasing number of companies are realizing that they must shift from a vertically organized, top-down type of organization to a more horizontally managed, interactive organization. They are attempting to adapt more quickly to changing conditions by becoming "learning organizations."

1.4 Creating a Learning Organization

Strategic management has now evolved to the point that its primary value is in helping an organization operate successfully in a dynamic, complex environment. To be competitive in dynamic environments, corporations are becoming less bureaucratic and more flexible. In stable environments such as those that existed in years past, a competitive strategy simply involved defining a competitive position and then defending it. As it takes less and less time for one product or technology to replace another, companies are finding that there is no such thing as a permanent competitive advantage. Many agree with Richard D'Aveni, who says in his book Hyper competition that any sustainable competitive advantage lies not in doggedly following a centrally managed five-year plan but in stringing together a series of strategic short-term thrusts (as Intel does by cutting into the sales of its own offerings with periodic introductions of new products).48 This means that corporations must develop strategic flexibility—the ability to shift from one dominant strategy to another.49 Strategic flexibility demands a long-term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization—an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behavior to reflect new knowledge and insights. Organizational learning is a critical component of competitiveness in a dynamic environment. It is particularly important to innovation and new product development. For example, both Hewlett-Packard and British Petroleum (BP) use an extensive network of informal committees to transfer knowledge among their cross-functional teams and to help spread new sources of knowledge quickly. Siemens, a major electronics company, created a global knowledge-sharing network, called Share Net, in order to quickly spread information technology throughout the firm. Based on its experience with Share Net, Siemens established People Share Net, a system that serves as a virtual expert marketplace for facilitating the creation of cross-cultural teams composed of members with specific knowledge and competencies. Learning organizations are skilled at four main activities:

- Solving problems systematically
- Experimenting with new approaches

- Learning from their own experiences and past history as well as from the experiences of others
- Transferring knowledge quickly and efficiently throughout the organization

Business historian Alfred Chandler proposes that high-technology industries are defined by “paths of learning” in which organizational strengths derive from learned capabilities. According to Chandler, companies spring from an individual entrepreneur’s knowledge, which then evolves into organizational knowledge. This organizational knowledge is composed of three basic strengths: technical skills, mainly in research; functional knowledge, such as production and marketing; and managerial expertise. This knowledge leads to new businesses where the company can succeed and creates an entry barrier to new competitors. Chandler points out that once a corporation has built its learning base to the point where it has become a core company in its industry, entrepreneurial startups are rarely able to successfully enter. Thus, organizational knowledge becomes a competitive advantage. Strategic management is essential for learning organizations to avoid stagnation through continuous self-examination and experimentation. People at all levels, not just top management, participate in strategic management—helping to scan the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures, and evaluation techniques. For example, Motorola developed an action learning format in which people from marketing, product development, and manufacturing meet to argue and reach agreement about the needs of the market, the best new product, and the schedules of each group producing it. This action learning approach overcame the problems that arose previously when the three departments met and formally agreed on plans but continued with their work as if nothing had happened.55 Research indicates that involving more people in the strategy process results in people not only viewing the process more positively, but also acting in ways that make the process more effective.56 Organizations that are willing to experiment and are able to learn from their experiences are more successful than those that are not.57 For example, in a study of U.S. manufacturers of diagnostic imaging equipment, the most successful firms were those that improved products sold in the United States by incorporating some of what they had learned from their manufacturing and sales experiences in other nations. The less successful firms used the foreign operations primarily as sales outlets, not as important sources of technical knowledge.58 Research also reveals that multidivisional corporations that establish ways to transfer knowledge across divisions are more innovative than other diversified corporations that do not.59

1.5 Basic Model of Strategic Management

Strategic management consists of four basic elements:

1. Environmental scanning
2. Strategy formulation
3. Strategy implementation
4. Evaluation and control

FIGURE 1–1
Basic Elements of the Strategic Management Process

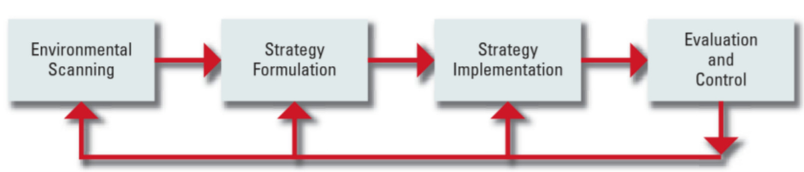
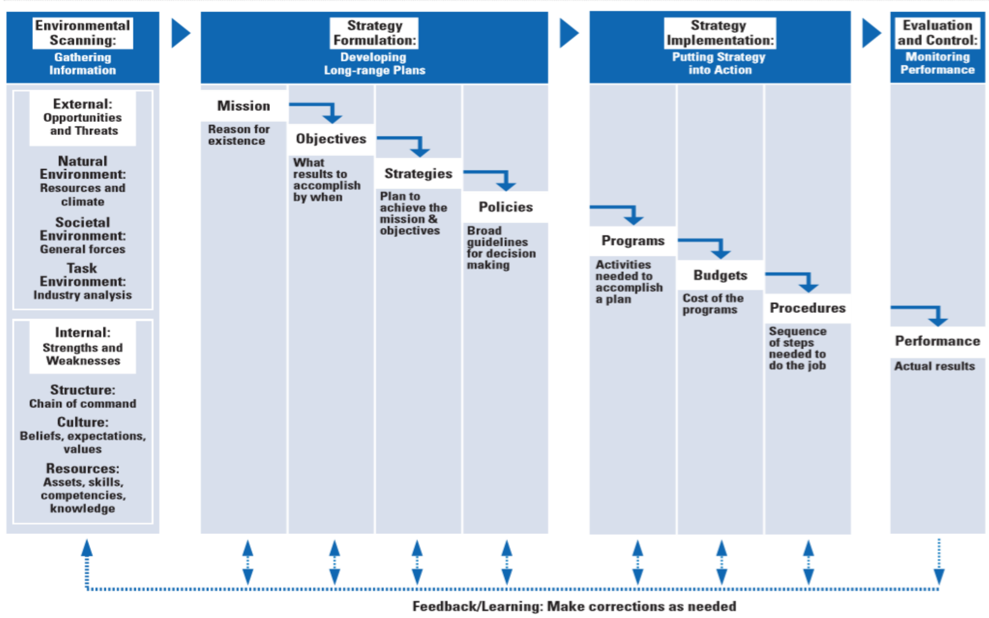


Figure 1–1 illustrates how these four elements interact; **Figure 1–2** expands each of these

Figure 1–1illustrates how these four elements interact; Figure 1–2 expands each of these elements and serves as the model for this book. This model is both rational and prescriptive. It is a planning model that presents what a corporation shoulddo in terms of the strategic management process, not what any particular firm may actually do. The rational planning model predicts that as environmental uncertainty increases, corporations that work more diligently to analyze and predict more accurately the changing situation in which they operate will outperform those that do not. Empirical research studies support this model.60 The terms used in Figure 1–2 are explained in the following pages.

FIGURE 1–2 Strategic Management Model



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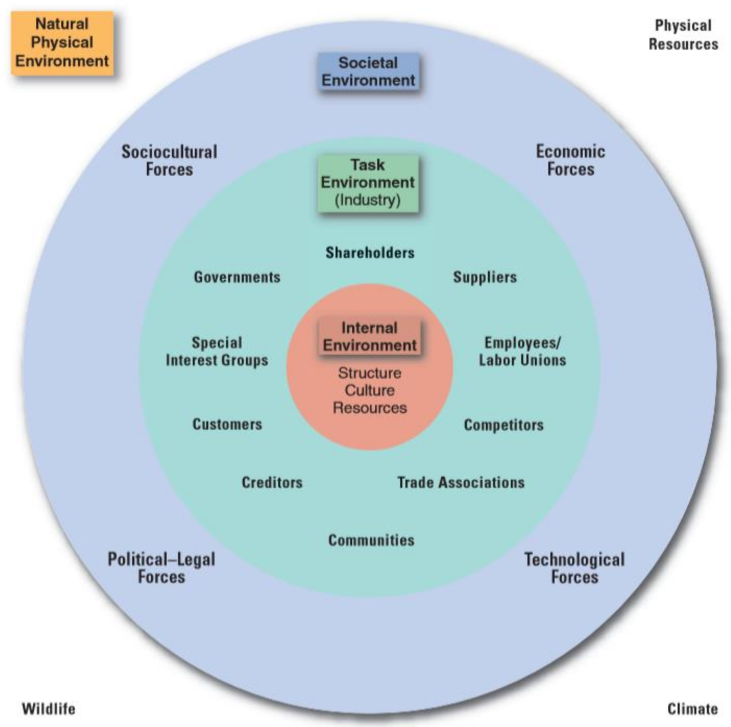
ENVIRONMENTAL SCANNING

Environmental scanning is the monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identify strategic factors—those external and internal elements that will determine the future of the corporation. The simplest way to conduct environmental scanning is through SWOT analysis. SWOT is an acronym used to describe the particular Strengths,Weaknesses, Opportunities, and Threats that are strategic factors for a specific company. The external environment consists of variables (Opportunities and Threats) that are outside the organization and not typically within the short-run control of top management. These variables form the context within which the corporation exists. Figure 1–3 depicts key environmental variables. They may be general forces and trends within the natural or societal environments or specific factors that operate within an organization's specific task environment—often called its industry. (These external variables are defined and discussed in more detail in Chapter 4.) The internal environment of a corporation consists of variables (Strengths and Weaknesses) that are within the organization itself and are not usually within the short-run control of top management. These variables form the context in which work is done. They include the corporation's structure, culture, and resources. Key strengths form a set of core competencies that the corporation can use to gain competitive advantage. (These internal variables and core competencies are defined and discussed in more detail in Chapter 5.)

FIGURE 1–3 Environmental Variables



STRATEGY FORMULATION

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 (SWOT). It includes defining the corporate mission, specifying achievable objectives, developing strategies, and setting policy guidelines. Mission An organization's mission is the purpose or reason for the organization's existence. It tells what the company is providing to society—either a service such as housecleaning or a product such as automobiles. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from other firms of its type and identifies the scope or domain of the company's operations in terms of products (including services) offered and markets served. Research reveals that firms with mission statements containing explicit descriptions of customers served and technologies used have significantly higher growth than firms without such statements. A mission statement may also include the firm's values and philosophy about how it does business and treats its employees. It puts into words not only what the company is now but what it wants to become—management's strategic vision of the firm's future. The mission statement promotes a sense of shared expectations in employees and communicates a public image to important stakeholder groups in the company's task environment. Some people like to consider vision and mission as two different concepts: Mission describes what the organization is now; vision describes what the organization would like to become. We prefer to combine these ideas into a single mission statement. Some companies prefer to list their values and philosophy of doing business in a separate publication called a values statement. For a listing of the many things that could go into a mission statement, see Strategy Highlight 1.1. One example of a mission statement is that of Google: To organize the world's information and make it universally accessible and useful. Another classic example is that etched in bronze at Newport News Shipbuilding, unchanged since its founding in 1886: We shall build good ship shere—at aprofit if we can—at aloss if we must—but always good ships. A mission may be defined narrowly or broadly in scope. An example of a broad mission statement is that used by many corporations: "Serve the best interests of shareowners, customers, and employees." A broadly defined mission statement such as this keeps the company from restricting itself to one field or product line, but it fails to clearly identify either what it makes or which products/markets it plans to emphasize. Because this broad statement is so general, a narrow mission statement, such as the preceding examples by Google and Newport News Shipbuilding, is generally more useful. A narrow mission very clearly states the organization's primary business, but it may limit the scope of the firm's activities in terms of the product or service offered, the technology used, and the market served. Research indicates that a narrow mission statement may be best in a turbulent industry because it keeps the firm focused on what it does best; whereas, a broad mission statement may be best in a stable environment that lacks growth opportunities.

Objectives Objectives are the end results of planned activity. They should be stated as action verbs and tell what is to be accomplished by when and quantified if possible. The achievement of corporate objectives should result in the fulfillment of a corporation's mission. In effect, this is what society gives back to the corporation when the corporation does a good job of fulfilling its mission. For example, by providing society with gums, candy, iced tea, and carbonated drinks, Cadbury Schweppes, has become the world's largest confectioner by sales. One of its prime objectives is to increase sales 4%–6% each year. Even though its profit margins were lower than those of Nestlé, Kraft, and Wrigley, its rivals in confectionary, or those of Coca-Cola or Pepsi, its rivals in soft drinks, Cadbury Schweppes' management established the objective of increasing profit margins from around 10% in 2007 to the mid teens by 2011.66 The term goal is often used interchangeably with the term objective. In this book, we prefer to differentiate the two terms. In contrast to an objective, we consider a goal as an open ended statement of what one wants to accomplish, with no quantification of what is to be achieved and no time criteria for completion. For example, a simple statement of "increased profitability "is thus a goal, not an objective, because it does not state how much profit the firm wants to make the next year. A good objective should be action-oriented and begin with the word to.Anexampleofanobjectiveis"toincreasethefirm'sprofitabilityin2010by10%over2009."
Some of the areas in which a corporation might establish its goals and objectives are:

- Profitability (net profits)
- Efficiency (low costs, etc.)
- Growth (increase in total assets, sales, etc.)

- Shareholder wealth (dividends plus stock price appreciation)
- Utilization of resources (ROE or ROI)
- Reputation (being considered a “top” firm)
- Contributions to employees (employment security, wages, diversity)
- Contributions to society (taxes paid, participation in charities, providing a needed product or service)
- Market leadership (market share)
- Technological leadership (innovations, creativity)
- Survival (avoiding bankruptcy)
- Personal needs of top management (using the firm for personal purposes, such as providing jobs for relatives)

Strategies A strategy of a corporation forms a comprehensive master plan that states how the corporation will achieve its mission and objectives. It maximizes competitive advantage and minimizes competitive disadvantage. For example, even though Cadbury Schweppes was a major competitor in confectionary and soft drinks, it was not likely to achieve its challenging objective of significantly increasing its profit margin within four years without making a major change in strategy. Management therefore decided to cut costs by closing 33 factories and reducing staff by 10%. It also made the strategic decision to concentrate on the confectionary business by divesting its less-profitable Dr. Pepper/Snapple soft drinks unit. Management was also considering acquisitions as a means of building on its existing strengths in confectionary by purchasing either Kraft’s confectionary unit or the Hershey Company. The typical business firm usually considers three types of strategy: corporate, business, and functional.

1. Corporate strategy describes a company’s overall direction in terms of its general attitude toward growth and the management of its various businesses and product lines. Corporate strategies typically fit within the three main categories of stability, growth, and retrenchment. Cadbury Schweppes, for example, was following a corporate strategy of retrenchment by selling its marginally profitable soft drink business and concentrating on its very successful confectionary business.
2. Business strategy usually occurs at the business unit or product level, and it emphasizes improvement of the competitive position of a corporation’s products or services in the specific industry or market segment served by that business unit. Business strategies may fit within the two overall categories, competitive and cooperative strategies. For example, Staples, the U.S. office supply store chain, has used a competitive strategy to differentiate its retail stores from its competitors by adding services to its stores, such as copying, UPS shipping, and hiring mobile technicians who can fix computers and install networks. British Airways has followed a cooperative strategy by forming an alliance with American Airlines in order to provide global service. Cooperative strategy may thus be used to provide a competitive advantage. Intel, a manufacturer of computer microprocessors, uses its alliance (cooperative strategy) with Microsoft to differentiate itself (competitive strategy) from AMD, its primary competitor.
3. Functional strategy is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage. Examples of research and development (R&D) functional strategies are technological followership (imitation of

the products of other companies) and technological leadership (pioneering an innovation). For years, Magic Chef had been a successful appliance maker by spending little on R&D but by quickly imitating the innovations of other competitors. This helped the company to keep its costs lower than those of its competitors and consequently to compete with lower prices. In terms of marketing functional strategies, Procter & Gamble (P&G) is a master of marketing "pull"—the process of spending huge amounts on advertising in order to create customer demand. This supports P&G's competitive strategy of differentiating its products from those of its competitors. Business firms use all three types of strategy simultaneously. A hierarchy of strategy is a grouping of strategy types by level in the organization. Hierarchy of strategy is a nesting of one strategy within another so that they complement and support one another. (See Figure 1–4.) Functional strategies support business strategies, which, in turn, support the corporate strategy(ies). Just as many firms often have no formally stated objectives, many firms have unstated, incremental, or intuitive strategies that have never been articulated or analyzed. Often the only way to spot a corporation's implicit strategies is to look not at what management says but at what it does. Implicit strategies can be derived from corporate policies, programs approved (and disapproved), and authorized budgets. Programs and divisions favored by budget increases and staffed by managers who are considered to be on the fast promotion track reveal where the corporation is putting its money and its energy.

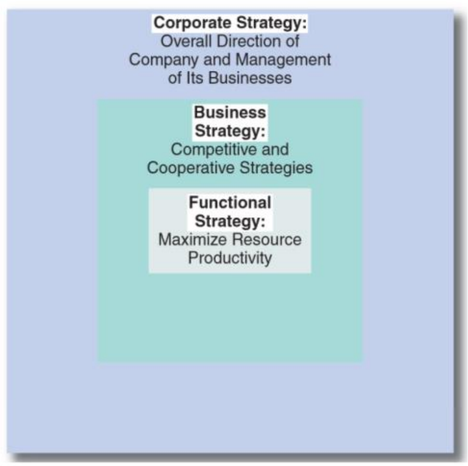


FIGURE 1–4 Hierarchy of Strategy

Policies

A policy is a broad guideline for decision making that links the formulation of a strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives, and strategies. For example, when Cisco decided on a strategy of growth through acquisitions, it established a policy to consider only companies with no more than 75 employees, 75% of whom were engineers. Consider the following company policies:

3M: 3M says researchers should spend 15% of their time working on something other than their primary project. (This supports 3M's strong product development strategy.)

- **Intel:** Intel cannibalizes its own product line (undercuts the sales of its current products) with better products before a competitor does so. (This supports Intel's objective of market leadership.)
- **General Electric:** GE must be number one or two wherever it competes. (This supports GE's objective to be number one in market capitalization.)
- **Southwest Airlines:** Southwest offers no meals or reserved seating on airplanes. (This supports Southwest's competitive strategy of having the lowest costs in the industry.)
- **Exxon:** Exxon pursues only projects that will be profitable even when the price of oil drops to a low level. (This supports Exxon's profitability objective.) Policies such as these provide clear guidance to managers throughout the organization. (Strategy formulation is discussed in greater detail in Chapters 6, 7, and 8.)

STRATEGY IMPLEMENTATION

Strategy implementation is a process by which strategies and policies are put into action through the development of programs, budgets, and procedures. This process might involve changes within the overall culture, structure, and/or management system of the entire organization. Except when such drastic corporatewide changes are needed, however, the implementation of strategy is typically conducted by middle- and lower-level managers, with review by top management. Sometimes referred to as operational planning, strategy implementation often involves day-to-day decisions in resource allocation. Programs A program is a statement of the activities or steps needed to accomplish a single-use plan. It makes a strategy action oriented. It may involve restructuring the corporation, changing the company's internal culture, or beginning a new research effort. For example, Boeing's strategy to regain industry leadership with its proposed 787 Dreamliner meant that the company had to increase its manufacturing efficiency in order to keep the price low. To significantly cut costs, management decided to implement a series of programs:

- Outsource approximately 70% of manufacturing.
- Reduce final assembly time to three days (compared to 20 for its 737 plane) by having suppliers build completed plane sections.
- Use new, lightweight composite materials in place of aluminum to reduce inspection time.
- Resolve poor relations with labor unions caused by downsizing and outsourcing. Another example is a set of programs used by automaker BMW to achieve its objective of increasing production efficiency by 5% each year: (a) shorten new model development time from 60 to 30 months, (b) reduce preproduction time from a year to no more than five months, and (c) build at least two vehicles in each plant so that production can shift among models depending upon demand.

Budgets A budget is a statement of a corporation's programs in terms of dollars. Used in planning and control, a budget lists the detailed cost of each program. Many corporations demand a certain percentage return on investment, often called a "hurdle rate," before management will approve a new program. This ensures that the new program will significantly add to the corporation's profit performance and thus build shareholder value. The budget thus not only serves as a detailed plan of the new strategy in action, it also specifies through pro forma financial statements the expected impact on the firm's financial future. For example, General Motors budgeted $4.3 billion to update and expand its Cadillac line of automobiles. With this money, the company was able to increase the number of models from five to nine and to offer more powerful engines, sportier handling, and edgier styling. The company reversed its declining market share by appealing to a younger market. (The average Cadillac buyer in 2000 was 67 years old.) Another example is the $8 billion budget that General Electric established to invest in new jet engine technology for regionaljet airplanes. Management decided that an anticipated growth in regional jets should be the company's target market. The program paid off when GE won a $3 billion contract to provide jet engines for China's new fleet of 500 regional jets in time for the 2008 Beijing Olympics.

Procedures Procedures, sometimes termed Standard Operating Procedures (SOP), are a system of sequential steps or techniques that describe in detail how a particular task or job is to be done. They typically detail the various activities that must be carried out in order to complete the corporation's program. For example, when the home improvement retailer Home Depot noted that sales were lagging because its stores were full of clogged aisles, long checkout times, and too few salespeople, management changed its procedures for restocking shelves and pricing the products. Instead of requiring its employees to do these activities at the same time they were working with customers, management moved these activities to when the stores were closed at night. Employees were then able to focus on increasing customer sales during the day. Both UPS and FedEx put such an emphasis on consistent, quality service that both companies have strict rules for employee behavior, ranging from how a driver dresses to how keys are held when approaching a customer's door. (Strategy implementation is discussed in more detail in Chapters 9 and 10.)

EVALUATION AND CONTROL

Evaluation and controlis a process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems. Although evaluation and control is the final major element of strategic management, it can also pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again. Performanceis the end result of activities. It includes the actual outcomes of the strategic management process. The practice of strategic management is justified in terms of its ability to improve an organization's performance, typically measured in terms of profits and return on investment. For evaluation and control to be effective, managers must obtain clear, prompt, and unbiased information from the people below them in the corporation's hierarchy. Using this information, managers compare what is actually happening with what was originally planned in the formulation stage. For example, when market share (followed by profits) declined at Dell in 2007, Michael Dell, founder, returned to the CEO position and reevaluated his company's strategy and operations. Planning for continued growth, the company's expansion of its computer product line into new types of hardware, such as storage, printers, and televisions, had not worked as planned. In some areas, like televisions and printers, Dell's customization ability did not add much value. In other areas, like services, lower-cost competitors were already established. Michael Dell concluded, "I think you're going to see a more streamlined organization, with a much clearer strategy." The evaluation and control of performance completes the strategic management model. Based on performance results, management may need to make adjustments in its strategy formulation, in implementation, or in both. (Evaluation and control is discussed in more detail in Chapter 11.)

FEEDBACK/LEARNING PROCESS

Note that the strategic management model depicted in Figure 1–2 includes a feedback/learning process. Arrows are drawn coming out of each part of the model and taking information to each of the previous parts of the model. As a firm or business unit develops strategies, programs, and the like, it often must go back to revise or correct decisions made earlier in the process. For example, poor performance (as measured in evaluation and control) usually indicates that something has gone wrong with either strategy formulation or implementation. It could also mean that a key variable, such as a new competitor, was ignored during environmental scanning and assessment. In the case of Dell, the personal computer market had matured and by 2007 there were fewer growth opportunities available within the industry. Even Jim Cramer, host of the popular television program, Mad Money, was referring to computers in 2008 as “old technology” having few growth prospects. Dell’s management needed to reassess the company’s environment and find better opportunities to profitably apply its core competencies.

1.6 Initiation of Strategy:Triggering Events

After much research, Henry Mintzberg discovered that strategy formulation is typically not a regular, continuous process: “It is most often an irregular, discontinuous process, proceeding in fits and starts. There are periods of stability in strategy development, but also there are periods of flux, of groping, of piecemeal change, and of global change.” This view of strategy formulation as an irregular process can be explained by the very human tendency to continue on a particular course of action until something goes wrong or a person is forced to question his or her actions. This period of strategic drift may result from inertia on the part of the organization, or it may reflect management’s belief that the current strategy is still appropriate and needs only some fine-tuning. Most large organizations tend to follow a particular strategic orientation for about 15 to 20 years before making a significant change in direction. This phenomenon, called punctuated equilibrium, describes corporations as evolving through relatively long periods of stability (equilibrium periods) punctuated by relatively short bursts of fundamental change (revolutionary periods).74 After this rather long period of fine-tuning an existing strategy, some sort of shock to the system is needed to motivate management to seriously reassess the corporation’s situation. Atriggering eventis 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’ sex is tence.
- 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.
- 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. Unilever is an example of one company in which a triggering event forced management to radically rethink what it was doing. See Strategy Highlight 1.2 to learn how a slumping stock price stimulated a change in strategy at Unilever.

1.7 Strategic Decision Making

The distinguishing characteristic of strategic management is its emphasis on strategic decision making. As organizations grow larger and more complex, with more uncertain environments, decisions become increasingly complicated and difficult to make. In agreement with the strategic choice perspective mentioned earlier, this book proposes a strategic decision-making framework that can help people make these decisions regardless of their level and function in the corporation.

WHAT MAKES A DECISION STRATEGIC

Unlike many other decisions, 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. One example of a strategic decision with all of these characteristics was that made by Genentech, a biotechnology company that had been founded in 1976 to produce protein-based drugs from cloned genes. After building sales to $9 billion and profits to $2 billion in 2006, the company's sales growth slowed and its stock price dropped in 2007. The company's products were reaching maturity with few new ones in the pipeline. To regain revenue growth, management decided to target autoimmune diseases, such as multiple sclerosis, rheumatoid arthritis, lupus, and 80 other ailments for which there was no known lasting treatment. This was an enormous opportunity, but also a very large risk for the company. Existing drugs in this area either weren't effective for many patients or caused side effects that were worse than the disease.

Competition from companies like Amgen and Novartis were already vying for leadership in this area. A number of Genentech's first attempts in the area had failed to do well against the competition. The strategic decision to commit resources to this new area was based on a report from a British physician that the Genentech's cancer drug Rituxan eased the agony of rheumatoid arthritis in five of his patients. CEO Arthur Levinson was so impressed with this report that he immediately informed Genentech's board of directors. He urged them to support a full research program for Rituxan in autoimmune disease. With the board's blessing, Levinson launched a program to study the drug as a treatment for rheumatoid arthritis, MS, and lupus. The company deployed a third of its 1,000 researchers to pursue new drugs to fight autoimmune diseases. In 2006, Rituxan was approved to treat rheumatoid arthritis and captured 10% of the market. The company was working on some completely new approaches to autoimmune disease. The research mandate was to consider ideas others might overlook. “There’s this tremendous herd instinct out there,” said Levinson. “That’s a great opportunity, because often the crowd is wrong.”

MINTZBERG’S MODES OF STRATEGIC DECISION MAKING

Some strategic decisions are made in a flash by one person (often an entrepreneur or a powerful chief executive officer) who has a brilliant insight and is quickly able to convince others to adopt his or her idea. Other strategic decisions seem to develop out of a series of small incremental choices that over time push an organization more in one direction than another.

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. The company reflected Bezos’ vision of using the Internet to market books and more. 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. Encyclopaedia Britannica Inc., operated successfully for many years in this mode, but it continued to rely on the door-to-door selling of its prestigious books long after dual-career couples made that marketing approach obsolete. Only after it was acquired in 1996 did the company change its door-to-door sales to television advertising and Internet marketing. The company now charges libraries and individual subscribers for complete access to Brittanica.com and offers CD-ROMs in addition to a small number of its 32-volume print set.
- 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. IBM under CEO Louis Gerstner is an example of the planning mode. When Gerstner accepted the position of CEO in 1993, he realized that IBM was in serious difficulty. Mainframe computers, the company’s primary product line, were suffering a rapid decline both in sales and market share. One of Gerstner’s first actions was to convene a two-day meeting on corporate strategy with senior executives. An in-depth analysis of IBM’s product lines revealed that the only part of the company that was growing was services, but it was arelatively small segment and not very profitable. Rather than focusing on making and selling its own computer hardware, IBM made the strategic decision to invest in services that integrate dinformation technology. IBM thus decided to provide a complete set of services from building systems to

defining architecture to actually running and managing the computers for the customer—regardless of who made the products. Because it was no longer important that the company be completely vertically integrated, it soldoffits DRAM, disk-drive, and laptop computer businesses and exited software application development. Since making this strategic decision in 1993, 80% of IBM's revenue growth has come from services.

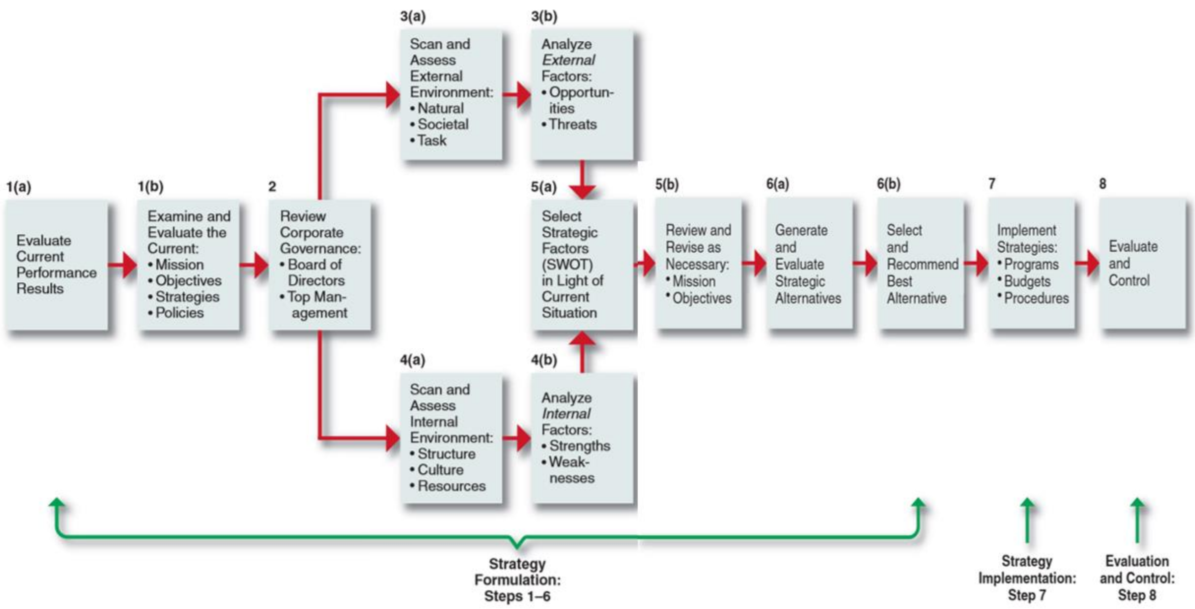
- Logical incrementalism: A fourth decision-making mode can be viewed as a synthesis of the planning, adaptive, and, to a lesser extent, the entrepreneurial modes. In this mode, top management has a reasonably clear idea of the corporation's mission and objectives, but, in its development of strategies, 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."83 Thus, although the mission and objectives are set, the strategy is allowed to emerge out of debate, discussion, and experimentation. 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. In his analysis of the petroleum industry, Grant described strategic planning in this industry as "planned emergence." Corporate headquarters established the mission and objectives but allowed the business units to propose strategies to achieve them.

STRATEGIC DECISION-MAKING PROCESS: AID TO BETTER DECISIONS

Good arguments can be made for using either the entrepreneurial or adaptive modes (or logical incrementalism) in certain situations.85 This book proposes, however, that in most situations the planning mode, which includes the basic elements of the strategic management process, is a more rational and thus better way of making strategic decisions. Research indicates that the planning mode is not only more analytical and less political than are the other modes, but it is also more appropriate for dealing with complex, changing environments. We therefore propose the following eight-step strategic decision-making process to improve the making of strategic decisions (see Figure 1–5):

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 governance—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.
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 strategyin 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.

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.



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1.8 The Strategic Audit :Aid to Strategic Decision-Making

The strategic decision-making process is put into action through a technique known as the strategic audit. A strategic audit provides a checklist of questions, by area or issue, that enables a systematic analysis to be made of various corporate functions and activities. (See Appendix 1. A at the end of this chapter.) Note that the numbered primary headings in the audit are thesame as the numbered blocks in the strategic decision-making process in Figure 1–5. Beginning with an evaluation of current performance, the audit continues with environmental scanning, strategy formulation, and strategy implementation, and it concludes with evaluation and control. A strategic audit is a type of management audit and is extremely useful as a diagnostic tool to pinpoint corporatewide problem areas and to highlight organizational strengths and weaknesses. A strategic audit can help determine why a certain area is creating problems for a corporation and help generate solutions to the problem. A strategic audit is not an all-inclusive list, but it presents many of the critical questions needed for a detailed strategic analysis of any business corporation. Some questions or even some areas might be inappropriate for a particular company; in other cases, the questions may be insufficient for a complete analysis. However, each question in a particular area of a strategicauditcanbebrokendownintoanadditionalseriesofsub-questions.Ananalystcandevelop these sub-questions when they are needed for a complete strategic analysis of a company.