**TOPIC 1**

**The Nature of Strategic Management**

**Defining Strategic Management**

*Strategic management* can be defined as the art and science of formulating, implementing,and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and information systems to achieve organizational success. The term *strategic management* in this text is used synonymously with the term *strategic planning.* The latter term is more often used in the business world, whereas the former is often used in academia. Sometimes the term *strategic management* is used to refer to strategy formulation, implementation, and evaluation, with *strategic planning* referring only to strategy formulation. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; *long-range planning,* in contrast, tries to optimize for tomorrow the trends of today.

The term *strategic planning* originated in the 1950s and was very popular between the mid-1960s and the mid-1970s. During these years, strategic planning was widely believed to be the answer for all problems. At the time, much of corporate America was “obsessed” with strategic planning. Following that “boom,” however, strategic planning was cast aside during the 1980s as various planning models did not yield higher returns. The 1990s, however, brought the revival of strategic planning, and the process is widely practiced today in the business world.

A strategic plan is, in essence, a company’s game plan. Just as a football team needs a good game plan to have a chance for success, a company must have a good strategic plan to compete successfully. Profit margins among firms in most industries have been so reduced by the global economic recession that there is little room for error in the overall strategic plan. A strategic plan results from tough managerial choices among numerous good alternatives, and it signals commitment to specific markets, policies, procedures, and operations in lieu of other, “less desirable” courses of action.

The term *strategic management* is used at many colleges and universities as the subti-tle for the capstone course in business administration. This course integrates material from all business courses.

**Stages of Strategic Management**

The *strategic-management process* consists of three stages: strategy formulation, strategy implementation, and strategy evaluation. *Strategy formulation* includes developing a vision and mission, identifying an organization’s external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy-formulation issues include deciding what new businesses to enter, what businesses to abandon, how to allocate resources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover.

Because no organization has unlimited resources, strategists must decide which alter-native strategies will benefit the firm most. Strategy-formulation decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time. Strategies determine long-term competitive advantages. For better or worse, strategic decisions have major multifunctional consequences and enduring effects on an organization. Top managers have the best perspective to understand fully the ramifications of strategy-formulation decisions; they have the authority to commit the resources necessary for implementation.

*Strategy implementation* requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance.

Strategy implementation often is called the “action stage” of strategic management. Implementing strategy means mobilizing employees and managers to put formulated strate-gies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation hinges upon managers’ ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose.

Interpersonal skills are especially critical for successful strategy implementation. Strategy-implementation activities affect all employees and managers in an organization. Every division and department must decide on answers to questions, such as “What must we do to implement our part of the organization’s strategy?” and “How best can we get the job done?” The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives.

Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modification because external and internal factors are constantly changing. Three fundamental strategy-evaluation activities are (1) reviewing external and internal factors that are the bases for current strategies, (2) measuring performance, and (3) taking corrective actions. Strategy evaluation is needed because success today is no guarantee of success tomorrow! Success always creates new and different problems; complacent organizations experience demise.

Strategy formulation, implementation, and evaluation activities occur at three hierarchi-cal levels in a large organization: corporate, divisional or strategic business unit, and func-tional. By fostering communication and interaction among managers and employees across hierarchical levels, strategic management helps a firm function as a competitive team. Most small businesses and some large businesses do not have divisions or strategic business units; they have only the corporate and functional levels. Nevertheless, managers and employees at these two levels should be actively involved in strategic-management activities.

**Key Terms in Strategic Management**

Before we further discuss strategic management, we should define nine key terms: competi-tive advantage, strategists, vision and mission statements, external opportunities and threats, internal strengths and weaknesses, long-term objectives, strategies, annual objectives, and policies.

*Competitive Advantage*

Strategic management is all about gaining and maintaining competitive advantage. This term can be defined as “anything that a firm does especially well compared to rival firms.” When a firm can do something that rival firms cannot do, or owns something that rival firms desire, that can represent a competitive advantage. For example, in a global economic reces-sion, simply having ample cash on the firm’s balance sheet can provide a major competitive advantage. Some cash-rich firms are buying distressed rivals. For example, BHP Billiton, the world’s largest miner, is seeking to buy rival firms in Australia and South America. Freeport-McMoRan Copper & Gold Inc. also desires to expand its portfolio by acquiring distressed rival companies. French drug company SanofiAventis SA also is acquiring dis-tressed rival firms to boost its drug development and diversification. Cash-rich Johnson & Johnson in the United States also is acquiring distressed rival firms. This can be an excellent strategy in a global economic recession.

Having less fixed assets than rival firms also can provide major competitive advan-tages in a global recession. For example, Apple has no manufacturing facilities of its own, and rival Sony has 57 electronics factories. Apple relies exclusively on contract manufac-turers for production of all of its products, whereas Sony owns its own plants. Less fixed assets has enabled Apple to remain financially lean with virtually no long-term debt. Sony, in contrast, has built up massive debt on its balance sheet.

CEO Paco Underhill of Envirosell says, “Where it used to be a polite war, it’s now a 21st-century bar fight, where everybody is competing with everyone else for the customers’ money.” Shoppers are “trading down,” so Nordstrom is taking customers from Neiman Marcus and Saks Fifth Avenue, T.J. Maxx and Marshalls are taking customers from most other stores in the mall, and even Family Dollar is taking revenues from Wal-Mart.9 Getting and keeping competitive advantage is essential for long-term success in an organization. The Industrial/Organizational (I/O) and the Resource-Based View (RBV) theories of orga-nization (as discussed in Chapters 3 and 4, respectively) present different perspectives on how best to capture and keep competitive advantage—that is, how best to manage strategi-cally. Pursuit of competitive advantage leads to organizational success or failure. Strategic management researchers and practitioners alike desire to better understand the nature and role of competitive advantage in various industries.

Normally, a firm can sustain a competitive advantage for only a certain period due to rival firms imitating and undermining that advantage. Thus it is not adequate to simply obtain competitive advantage. A firm must strive to achieve sustained competitive advantage by

(1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and by (2) effectively formulating, implementing, and evaluat-ing strategies that capitalize upon those factors. For example, newspaper circulation in the United States is steadily declining. Most national newspapers are rapidly losing market share to the Internet, and other media that consumers use to stay informed. Daily newspaper circulation in the United States totals about 55 million copies annually, which is about the same as it was in 1954. Strategists ponder whether the newspaper circulation slide can be halted in the digital age. The six broadcast networks—ABC, CBS, Fox, NBC, UPN, and WB—are being assaulted by cable channels, video games, broadband, wireless technologies, satellite radio, high-definition TV, and digital video recorders. The three original broadcast networks captured about 90 percent of the prime-time audience in 1978, but today their combined market share is less than 50 percent.

An increasing number of companies are gaining a competitive advantage by using the Internet for direct selling and for communication with suppliers, customers, creditors, part-ners, shareholders, clients, and competitors who may be dispersed globally. E-commerce allows firms to sell products, advertise, purchase supplies, bypass intermediaries, track inven-tory, eliminate paperwork, and share information. In total, e-commerce is minimizing the expense and cumbersomeness of time, distance, and space in doing business, thus yielding better customer service, greater efficiency, improved products, and higher profitability.

The Internet has changed the way we organize our lives; inhabit our homes; and relate to and interact with family, friends, neighbors, and even ourselves. The Internet promotes endless comparison shopping, which thus enables consumers worldwide to band together to demand discounts. The Internet has transferred power from businesses to individuals. Buyers used to face big obstacles when attempting to get the best price and service, such as limited time and data to compare, but now consumers can quickly scan hundreds of vendor offerings. Both the number of people shopping online and the average amount they spend is increasing dramatically. Digital communication has become the name of the game in marketing. Consumers today are flocking to blogs, short-post forums such as Twitter, video sites such as YouTube, and social networking sites such as Facebook, MySpace, and LinkedIn instead of television, radio, newspapers, and magazines. Facebook and MySpace recently unveiled features that further marry these social sites to the wider Internet. Users on these social sites now can log on to many business shopping sites with their IDs from their social site so their friends can see what items they have purchased on various shop-ping sites. Both of these social sites want their members to use their IDs to manage all their online identities. Most traditional retailers have learned that their online sales can boost in-store sales as they utilize their Web sites to promote in-store promotions.

**Vision and Mission Statements**

Many organizations today develop a vision statement that answers the question “What do we want to become?” Developing a vision statement is often considered the first step in strategic planning, preceding even development of a mission statement. Many vision statements are a single sentence. For example, the vision statement of Stokes Eye Clinic in Florence, South Carolina, is “Our vision is to take care of your vision.”

Mission statements are “enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm’s operations in product and market terms.”12 It addresses the basic question that faces all strategists: “What is our business?” A clear mission statement describes the values and priorities of an organization. Developing a mission statement compels strategists to think about the nature and scope of present operations and to assess the potential attractiveness of future markets and activities. A mission statement broadly charts the future direction of an organization. A mission statement is a constant reminder to its employees of why the organization exists and what the founders envisioned when they put their fame and fortune at risk to breathe life into their dreams.

**CHAPTER 2**

**The Business Vision and Mission**

**What Do We Want to Become?**

It is especially important for managers and executives in any organization to agree on the basic vision that the firm strives to achieve in the long term. A vision statement should answer the basic question, “What do we want to become?” A clear vision provides the foundation for developing a comprehensive mission statement. Many organizations have both a vision and mission statement, but the vision statement should be established first and foremost. The vision statement should be short, preferably one sentence, and as many managers as possible should have input into developing the statement.

**What Is Our Business?**

Current thought on mission statements is based largely on guidelines set forth in the mid-1970s by Peter Drucker, who is often called “the father of modern management” for his pioneering studies at General Motors Corporation and for his 22 books and hundreds of articles. Harvard Business Review has called Drucker “the preeminent management thinker of our time.”

Drucker says that asking the question “What is our business?” is synonymous with asking the question “What is our mission?” An enduring statement of purpose that distinguishes one organization from other similar enterprises, the mission statement is a declaration of an organization’s “reason for being.” It answers the pivotal question “What is our business?” A clear mission statement is essential for effectively establishing objec-tives and formulating strategies.

Sometimes called a creed statement, a statement of purpose, a statement of philoso-phy, a statement of beliefs, a statement of business principles, or a statement “defining our business,” a mission statement reveals what an organization wants to be and whom it wants to serve. All organizations have a reason for being, even if strategists have not consciously transformed this reason into writing. As illustrated in Figure 2-1, carefully prepared state-ments of vision and mission are widely recognized by both practitioners and academicians as the first step in strategic management.

Some strategists spend almost every moment of every day on administrative and tactical concerns, and strategists who rush quickly to establish objectives and implement strategies often overlook the development of a vision and mission statement. This problem is widespread even among large organizations. Many corporations in America have not yet developed a formal vision or mission statement.3 An increasing number of organizations are developing these statements.

Some companies develop mission statements simply because they feel it is fashion-able, rather than out of any real commitment. However, as described in this chapter, firms that develop and systematically revisit their vision and mission statements, treat them as living documents, and consider them to be an integral part of the firm’s culture realize great benefits. Johnson & Johnson (J&J) is an example firm. J&J managers meet regularly with employees to review, reword, and reaffirm the firm’s vision and mission. The entire J&J workforce recognizes the value that top management places on this exercise, and these employees respond accordingly.

**Vision versus Mission**

Many organizations develop both a mission statement and a vision statement. Whereas the mission statement answers the question “What is our business?” the vision statement answers the question “What do we want to become?” Many organizations have both a mission and vision statement.

It can be argued that profit, not mission or vision, is the primary corporate motivator. But profit alone is not enough to motivate people.4 Profit is perceived negatively by some employees in companies. Employees may see profit as something that they earn and management then uses and even gives away to shareholders. Although this perception is undesired and disturbing to management, it clearly indicates that both profit and vision are needed to motivate a workforce effectively.

When employees and managers together shape or fashion the vision and mission state-ments for a firm, the resultant documents can reflect the personal visions that managers and employees have in their hearts and minds about their own futures. Shared vision creates a commonality of interests that can lift workers out of the monotony of daily work and put them into a new world of opportunity and challenge.

**The Process of Developing Vision and Mission Statements**

As indicated in the strategic-management model, clear vision and mission statements are needed before alternative strategies can be formulated and implemented. As many man-agers as possible should be involved in the process of developing these statements because through involvement, people become committed to an organization.

A widely used approach to developing a vision and mission statement is first to select several articles about these statements and ask all managers to read these as background information. Then ask managers themselves to prepare a vision and mission statement for the organization. A facilitator, or committee of top managers, should then merge these statements into a single document and distribute the draft statements to all managers. A request for modifications, additions, and deletions is needed next, along with a meeting to revise the document. To the extent that all managers have input into and support the final documents, organizations can more easily obtain managers’ support for other strategy formulation, implementation, and evaluation activities. Thus, the process of developing a vision and mission statement represents a great opportunity for strategists to obtain needed support from all managers in the firm.

During the process of developing vision and mission statements, some organiza-tions use discussion groups of managers to develop and modify existing statements. Some organizations hire an outside consultant or facilitator to manage the process and help draft the language. Sometimes an outside person with expertise in developing such statements, who has unbiased views, can manage the process more effectively than an internal group or committee of managers. Decisions on how best to com-municate the vision and mission to all managers, employees, and external con-stituencies of an organization are needed when the documents are in final form. Some organizations even develop a videotape to explain the statements, and how they were developed.

An article by Campbell and Yeung emphasizes that the process of developing a mission statement should create an “emotional bond” and “sense of mission” between the organization and its employees.5 Commitment to a company’s strategy and intellectual agreement on the strategies to be pursued do not necessarily translate into an emotional bond; hence, strategies that have been formulated may not be implemented. These researchers stress that an emotional bond comes when an individual personally identifies with the underlying values and behavior of a firm, thus turning intellectual agreement and commitment to strategy into a sense of mission. Campbell and Yeung also differentiate between the terms vision and mission, saying that vision is “a possible and desirable future state of an organization” that includes specific goals, whereas mission is more associated with behavior and the present.

**Importance (Benefits) of Vision and Mission Statements**

The importance (benefits) of vision and mission statements to effective strategic management is well documented in the literature, although research results are mixed. Rarick and Vitton found that firms with a formalized mission statement have twice the average return on shareholders’ equity than those firms without a formalized mission statement have; Bart and Baetz found a positive relationship between mission state-ments and organizational performance; BusinessWeek reports that firms using mission statements have a 30 percent higher return on certain financial measures than those without such statements; however, some studies have found that having a mission state-ment does not directly contribute positively to financial performance.6 The extent of manager and employee involvement in developing vision and mission statements can make a difference in business success. This chapter provides guidelines for developing these important documents. In actual practice, wide variations exist in the nature, composition, and use of both vision and mission statements. King and Cleland recom-mend that organizations carefully develop a written mission statement in order to reap the following benefits:

1. To ensure unanimity of purpose within the organization

2. To provide a basis, or standard, for allocating organizational resources

3. To establish a general tone or organizational climate

4. To serve as a focal point for individuals to identify with the organization’s purpose and direction, and to deter those who cannot from participating further in the organization’s activities

5. To facilitate the translation of objectives into a work structure involving the assignment of tasks to responsible elements within the organization

6. To specify organizational purposes and then to translate these purposes into objectives in such a way that cost, time, and performance parameters can be assessed and controlled.

**Characteristics of a Mission Statement**

*A Declaration of Attitude*

A mission statement is more than a statement of specific details; it is a declaration of attitude and outlook. It usually is broad in scope for at least two major reasons. First, a good mission statement allows for the generation and consideration of a range of feasi-ble alternative objectives and strategies without unduly stifling management creativity. Excess specificity would limit the potential of creative growth for the organization. However, an overly general statement that does not exclude any strategy alternatives could be dysfunctional. Apple Computer’s mission statement, for example, should not open the possibility for diversification into pesticides—or Ford Motor Company’s into food processing.

Second, a mission statement needs to be broad to reconcile differences effectively among, and appeal to, an organization’s diverse stakeholders, the individuals and groups of individuals who have a special stake or claim on the company. Thus a mission statement should be reconcilatory. Stakeholders include employees, managers, stock-holders, boards of directors, customers, suppliers, distributors, creditors, governments (local, state, federal, and foreign), unions, competitors, environmental groups, and the general public. Stakeholders affect and are affected by an organization’s strategies, yet the claims and concerns of diverse constituencies vary and often conflict. For example, the general public is especially interested in social responsibility, whereas stockholders are more interested in profitability. Claims on any business literally may number in the thousands, and they often include clean air, jobs, taxes, investment opportunities, career opportunities, equal employment opportunities, employee benefits, salaries, wages, clean water, and community services. All stakeholders’ claims on an organization cannot be pursued with equal emphasis. A good mission statement indicates the relative attention that an organization will devote to meeting the claims of various stakeholders.

*A Customer Orientation*

A good mission statement describes an organization’s purpose, customers, products or services, markets, philosophy, and basic technology. According to Vern McGinnis, a mis-sion statement should (1) define what the organization is and what the organization aspires to be, (2) be limited enough to exclude some ventures and broad enough to allow for creative growth, (3) distinguish a given organization from all others, (4) serve as a frame-work for evaluating both current and prospective activities, and (5) be stated in terms sufficiently clear to be widely understood throughout the organization.14

A good mission statement reflects the anticipations of customers. Rather than developing a product and then trying to find a market, the operating philosophy of organizations should be to identify customers’ needs and then provide a product or service to fulfill those needs.

**Mission Statement Components**

Mission statements can and do vary in length, content, format, and specificity. Most practitioners and academicians of strategic management feel that an effective statement should include nine components. Because a mission statement is often the most visible and public part of the strategic-management process, it is important that it includes the following nine components:

1. Customers—Who are the firm’s customers?

2. Products or services—What are the firm’s major products or services?

3. Markets—Geographically, where does the firm compete?

4. Technology—Is the firm technologically current?

5. Concern for survival, growth, and profitability—Is the firm committed to growth and financial soundness?

6. Philosophy—What are the basic beliefs, values, aspirations, and ethical priorities of the firm?

7. Self-concept—What is the firm’s distinctive competence or major competitive advantage?

8. Concern for public image—Is the firm responsive to social, community, and environmental concerns?

9. Concern for employees—Are employees a valuable asset of the firm?

**CHAPTER 3**

**The External Assessment**

**The Nature of an External Audit**

The purpose of an external audit is to develop a finite list of opportunities that could benefit a firm and threats that should be avoided. As the term finite suggests, the external audit is not aimed at developing an exhaustive list of every possible factor that could influence the business; rather, it is aimed at identifying key variables that offer actionable responses. Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats. Figure 3-1 illustrates how the external audit fits into the strategic-management process.

**Key External Forces**

External forces can be divided into five broad categories: (1) economic forces; (2) social, cul-tural, demographic, and natural environment forces; (3) political, governmental, and legal forces; (4) technological forces; and (5) competitive forces. External trends and events, such as the global economic recession, significantly affect products, services, markets, and organizations worldwide. The U.S. unemployment rate climbed to over 9 percent in July 2009 as more than 2.5 million jobs were lost in the United States in 2008—the most since 1945 when the coun-try downsized from the war effort. The rate is expected to rise to 10.1 percent. All sectors witness rising unemployment rates, except for education, health-care services, and govern-ment employment. Many Americans are resorting to minimum wage jobs to make ends meet.

Changes in external forces translate into changes in consumer demand for both indus-trial and consumer products and services. External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the type of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors. Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.

The increasing complexity of business today is evidenced by more countries developing the capacity and will to compete aggressively in world markets. Foreign businesses and coun-tries are willing to learn, adapt, innovate, and invent to compete successfully in the market-place. There are more competitive new technologies in Europe and Asia today than ever before.

**The Process of Performing an External Audit**

The process of performing an external audit must involve as many managers and employees as possible. As emphasized in earlier chapters, involvement in the strategic-management process can lead to understanding and commitment from organizational members. Individuals appreciate having the opportunity to contribute ideas and to gain a better understanding of their firms’ industry, competitors, and markets.

To perform an external audit, a company first must gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. Individuals can be asked to monitor various sources of information, such as key magazines, trade journals, and newspapers. These persons can submit periodic scanning reports to a committee of managers charged with performing the external audit. This approach provides a continuous stream of timely strategic information and involves many individuals in the external-audit process. The Internet provides another source for gathering strategic information, as do corporate, university, and public libraries. Suppliers, distributors, salespersons, customers, and com-petitors represent other sources of vital information.

Once information is gathered, it should be assimilated and evaluated. A meeting or series of meetings of managers is needed to collectively identify the most important opportunities and threats facing the firm. These key external factors should be listed on flip charts or a chalk-board. A prioritized list of these factors could be obtained by requesting that all managers rank the factors identified, from 1 for the most important opportunity/threat to 20 for the least important opportunity/threat. These key external factors can vary over time and by industry. Relationships with suppliers or distributors are often a critical success factor. Other variables commonly used include market share, breadth of competing products, world economies, foreign affiliates, proprietary and key account advantages, price competitiveness, technologi-cal advancements, population shifts, interest rates, and pollution abatement.

Freund emphasized that these key external factors should be (1) important to achiev-ing long-term and annual objectives, (2) measurable, (3) applicable to all competing firms, and (4) hierarchical in the sense that some will pertain to the overall company and others will be more narrowly focused on functional or divisional areas.1 A final list of the most important key external factors should be communicated and distributed widely in the organization. Both opportunities and threats can be key external factors.

**The Industrial Organization (I/O) View**

The Industrial Organization (I/O) approach to competitive advantage advocates that external (industry) factors are more important than internal factors in a firm achieving competitive advantage. Proponents of the I/O view, such as Michael Porter, contend that organizational performance will be primarily determined by industry forces. Porter’s Five-Forces Model, presented later in this chapter, is an example of the I/O perspective, which focuses on analyzing external forces and industry variables as a basis for getting and keeping competitive advantage. Competitive advantage is determined largely by competitive positioning within an industry, according to I/O advocates. Managing strategically from the I/O perspective entails firms striving to compete in attractive industries, avoiding weak or faltering industries, and gaining a full understanding of key external factor rela-tionships within that attractive industry. I/O research provides important contributions to our understanding of how to gain competitive advantage.

I/O theorists contend that external factors in general and the industry in which a firm chooses to compete has a stronger influence on the firm’s performance than do the internal functional decisions managers make in marketing, finance, and the like. Firm performance, they contend, is primarily based more on industry properties, such as economies of scale, barriers to market entry, product differentiation, the economy, and level of competitiveness than on internal resources, capabilities, structure, and operations. The global economic recession’s impact on both strong and weak firms has added credence of late to the notion that external forces are more important than internal. Many thousands of internally strong firms in 2006–2007 disappeared in 2008–2009.

The I/O view has enhanced our understanding of strategic management. However, it is not a question of whether external or internal factors are more important in gaining and maintaining competitive advantage. Effective integration and understanding of both exter-nal and internal factors is the key to securing and keeping a competitive advantage. In fact, as discussed in Chapter 6, matching key external opportunities/threats with key internal strengths/weaknesses provides the basis for successful strategy formulation.

**Economic Forces**

Increasing numbers of two-income households is an economic trend in the United States. Individuals place a premium on time. Improved customer service, immediate availability, trouble-free operation of products, and dependable maintenance and repair services are becoming more important. People today are more willing than ever to pay for good service if it limits inconvenience.

Economic factors have a direct impact on the potential attractiveness of various strategies. For example, when interest rates rise, funds needed for capital expansion become more costly or unavailable. Also, when interest rates rise, discretionary income declines, and the demand for discretionary goods falls. When stock prices increase, the desirability of equity as a source of capital for market development increases. Also, when the market rises, consumer and business wealth expands.

An economic variable of significant importance in strategic planning is gross domes-tic product (GDP), especially across countries. Table 3-2 lists the GDP of various countries in Asia for all of 2009. Unlike most countries in Europe and the Americas, most Asian countries expect positive GDP growth in 2009.

Trends in the dollar’s value have significant and unequal effects on companies in different industries and in different locations. For example, the pharmaceutical, tourism, entertainment, motor vehicle, aerospace, and forest products industries benefit greatly when the dollar falls against the yen and euro. Agricultural and petroleum industries are hurt by the dollar’s rise against the currencies of Mexico, Brazil, Venezuela, and Australia. Generally, a strong or high dollar makes U.S. goods more expensive in overseas markets. This worsens the U.S. trade deficit. When the value of the dollar falls, tourism-oriented firms benefit because Americans do not travel abroad as much when the value of the dollar is low; rather, foreigners visit and vacation more in the United States.

A low value of the dollar means lower imports and higher exports; it helps U.S. companies’ competitiveness in world markets. The dollar has fallen to five-year lows against the euro and yen, which makes U.S. goods cheaper to foreign consumers and combats deflation by pushing up prices of imports. However, European firms such as Volkswagen AG, Nokia Corp., and Michelin complain that the strong euro hurts their financial performance. The low value of the dollar benefits the U.S. economy in many ways. First, it helps stave off the risks of deflation in the United States and also reduces the U.S. trade deficit. In addition, the low value of the dollar raises the foreign sales and profits of domestic firms, thanks to dollar-induced gains, and encourages foreign countries to lower interest rates and loosen fiscal policy, which stimulates worldwide economic expansion. Some sectors, such as consumer staples, energy, materials, technology, and health care, especially benefit from a low value of the dollar. Manufacturers in many domestic industries in fact benefit because of a weak dollar, which forces foreign rivals to raise prices and extinguish discounts. Domestic firms with big overseas sales, such as McDonald’s, greatly benefit from a weak dollar.

Between March and June 2009, the U.S. dollar weakened 11.0 percent against the euro, due to the growing United States debt, which may soon exceed $12 trillion. Table 3-3 lists some advantages and disadvantages of a weak U.S. dollar for American firms.

Rising unemployment rates across the United States have touched off a race among states to attract businesses with tax breaks and financial incentives. New Jersey has promised to send a $3,000 check to every small business that hires a new employee. Minnesota is offering tax-free zones for companies that create “green jobs.” Colorado has created a $5 million fund for banks that open credit lines for small businesses. To minimize risk in incentive deals, may states write in claw-back provisions that require companies to return funds if they fail to create the promised number of jobs.

The slumping economy worldwide and depressed prices of assets has dramatically slowed the migration of people from country to country and from the city to the suburbs. Because people are not moving nearly as much as in years past, there is lower and lower demand for new or used houses. Thus the housing market is expected to remain very sluggish well into 2010 and 2011.

**Social, Cultural, Demographic, and Natural Environment Forces**

Social, cultural, demographic, and environmental changes have a major impact on virtually all products, services, markets, and customers. Small, large, for-profit, and nonprofit organizations in all industries are being staggered and challenged by the opportunities and threats arising from changes in social, cultural, demographic, and environmental variables. In every way, the United States is much different today than it was yesterday, and tomor-row promises even greater changes.

The United States is getting older and less white. The oldest members of America’s 76 million baby boomers plan to retire in 2011, and this has lawmakers and younger taxpayers deeply concerned about who will pay their Social Security, Medicare, and Medicaid. Individuals age 65 and older in the United States as a percentage of the population will rise to 18.5 percent by 2025.

By 2075, the United States will have no racial or ethnic majority. This forecast is aggravating tensions over issues such as immigration and affirmative action. Hawaii, California, and New Mexico already have no majority race or ethnic group.

The population of the world surpassed 7.0 billion in 2010; the United States has just over 310 million people. That leaves billions of people outside the United States who may be interested in the products and services produced through domestic firms. Remaining solely domestic is an increasingly risky strategy, especially as the world population continues to grow to an estimated 8 billion in 2028 and 9 billion in 2054.

Social, cultural, demographic, and environmental trends are shaping the way Americans live, work, produce, and consume. New trends are creating a different type of consumer and, consequently, a need for different products, different services, and different strategies. There are now more American households with people living alone or with unrelated people than there are households consisting of married couples with children. American households are making more and more purchases online. Beer consumption in the United States is growing at only 0.5 percent per year, whereas wine consumption is growing 3.5 percent and distilled spirits consumption is growing at 2.0 percent.2 Beer is still the most popular alcoholic beverage in the United States, but its market share has dropped from 59.5 percent in its peak year of 1995 to 56.7 percent today. For a wine company such as Gallo, this trend is an opportunity, whereas for a firm such as Adolph Coors Brewing, this trend is an external threat.

**Political, Governmental, and Legal Forces**

Federal, state, local, and foreign governments are major regulators, deregulators, subsi-dizers, employers, and customers of organizations. Political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organizations.

For industries and firms that depend heavily on government contracts or subsidies, political forecasts can be the most important part of an external audit. Changes in patent laws, antitrust legislation, tax rates, and lobbying activities can affect firms significantly. The increasing global interdependence among economies, markets, governments, and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.

In the face of a deepening global recession, countries worldwide are resorting to pro-tectionism to safeguard their own industries. European Union (EU) nations, for example, have tightened their own trade rules and resumed subsidies for various of their own indus-tries while barring imports from certain other countries. The EU recently restricted imports of U.S. chicken and beef. India is increasing tariffs on foreign steel. Russia perhaps has instituted the most protectionist measures in recent months by raising tariffs on most imports and subsidizing its own exports. Russia even imposed a new toll on trucks from the EU, Switzerland, and Turkmenistan. Despite these measures taken by other countries, the United States has largely refrained from “Buy American” policies and protectionist measures, although there are increased tariffs on French cheese and Italian water. Many economists say the current rash of trade constraints will make it harder for global economic growth to recover from the global recession. Global trade is expected to decrease 2.1 percent in 2009 compared to an increase of 6.2 percent in 2008.3 Russia has said that “protective tariffs are necessary to allow Russian companies to survive the recession.” This view unfortunately is also the view at an increasing number of countries.

Governments are taking control of more and more companies as the global economic recession cripples firms considered vital to the nation’s financial stability. For example, France in 2009 took a 2.35 percent equity stake in troubled car-parts maker Valeo SA. President Nicolas Sarkozy of France has created a $20 billion strategic fund to lend cash to banks and car-makers as many governments become more protectionist. The United States of course also is taking equity stakes in financial institutions and carmakers and is “bailing out” companies too.

The UK government in 2009 took a 95 percent stake in the banking giant Royal Bank of Scotland Group PLC in a dramatic move toward nationalization. The government gave the bank $37 billion and insured another $300 billion of the bank’s assets. The UK govern-ment also recently increased its stake in Lloyds Banking Group PLC to 75 percent. Similarly, the U.S. government has taken over Fannie Mae and Freddie Mac and has raised its stake even in Citigroup to 40 percent.

As more and more companies around the world accept government bailouts, those companies are being forced to march to priorities set by political leaders. Even in the United States, the federal government is battling the recession with its deepest intervention in the economy since the Great Depression. The U.S. government now is a strategic man-ager in industries from banking to insurance to autos. Governments worldwide are under pressure to protect jobs at home and maintain the nation’s industrial base. For example, in France, Renault SA’s factory in Sandouville is one of the most unproductive auto factories in the world. However, Renault has taken $3.9 billion in low-interest loans from the French government, so the company cannot close any French factories for the duration of the loan or resort to mass layoffs in France for a year.

Political relations between Japan and China have thawed considerably in recent years, which is good for the world economy because China’s low-cost manufactured goods have become essential for the functioning of most industrialized nations. Chinese premier Wen Jiabao addressed the Japanese parliament in 2007, something no Chinese leader has done for more than 20 years, and Japanese prime minister Shinzo Abe has visited Beijing. Japan’s largest trading partner is China, and China’s third-largest trading partner is Japan—after the European Union, number one, and the United States, number two.

**Technological Forces**

Revolutionary technological changes and discoveries are having a dramatic impact on organizations. CEO Chris DeWolfe of MySpace is using technology to expand the firm’s 1,600-person workforce in 2009 even as the economic recession deepens. MySpace expects a 17 percent increase in revenue in 2009. Nearly half of the site’s 130 million members worldwide are 35 and older, and 76 million of the members are from the United States. This compares to rival Facebook that has 150 million members worldwide but only 55 million in the United States. MySpace is continually redesigning the site and revamping the way its members can manage their profiles and categorize their friends, and enabling consumers to listen to free streaming audio and songs. Doug Morris, CEO of Universal Music Group, says, “There is a lot of conflict between technology and content, and Chris has successfully brought both together.”4

The Internet has changed the very nature of opportunities and threats by altering the life cycles of products, increasing the speed of distribution, creating new products and services, erasing limitations of traditional geographic markets, and changing the historical trade-off between production standardization and flexibility. The Internet is altering economies of scale, changing entry barriers, and redefining the relationship between industries and various suppliers, creditors, customers, and competitors.

**CHAPTER 4**

**The Internal Assessment**

**The Nature of an Internal Audit**

All organizations have strengths and weaknesses in the functional areas of business. No enterprise is equally strong or weak in all areas. Maytag, for example, is known for excellent production and product design, whereas Procter & Gamble is known for superb marketing. Internal strengths/weaknesses, coupled with external opportunities/threats and a clear statement of mission, provide the basis for establishing objectives and strategies. Objectives and strategies are established with the intention of capitalizing upon internal strengths and overcoming weaknesses.

**Key Internal Forces**

It is not possible in a strategic-management text to review in depth all the material presented in courses such as marketing, finance, accounting, management, management information systems, and production/operations; there are many subareas within these functions, such as customer service, warranties, advertising, packaging, and pricing under marketing.

For different types of organizations, such as hospitals, universities, and government agencies, the functional business areas, of course, differ. In a hospital, for example, func-tional areas may include cardiology, hematology, nursing, maintenance, physician support, and receivables. Functional areas of a university can include athletic programs, placement services, housing, fund-raising, academic research, counseling, and intramural programs. Within large organizations, each division has certain strengths and weaknesses.

A firm’s strengths that cannot be easily matched or imitated by competitors are called distinctive competencies. Building competitive advantages involves taking advantage of distinctive competencies. For example, 3M exploits its distinctive competence in research and development by producing a wide range of innovative products. Strategies are designed in part to improve on a firm’s weaknesses, turning them into strengths—and maybe even into distinctive competencies.

**The Process of Performing an Internal Audit**

The process of performing an internal audit closely parallels the process of performing an external audit. Representative managers and employees from throughout the firm need to be involved in determining a firm’s strengths and weaknesses. The internal audit requires gathering and assimilating information about the firm’s management, marketing, finance/accounting, production/operations, research and development (R&D), and man-agement information systems operations. Key factors should be prioritized as described in Chapter 3 so that the firm’s most important strengths and weaknesses can be determined collectively.

Compared to the external audit, the process of performing an internal audit provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole organization. This is a great benefit because managers and employees perform better when they understand how their work affects other areas and activities of the firm. For example, when marketing and manufacturing managers jointly discuss issues related to internal strengths and weaknesses, they gain a better appreciation of the issues, problems, concerns, and needs of all the functional areas. In organizations that do not use strategic management, marketing, finance, and manufacturing managers often do not inter-act with each other in significant ways. Performing an internal audit thus is an excellent vehicle or forum for improving the process of communication in the organization. Communication may be the most important word in management.

Performing an internal audit requires gathering, assimilating, and evaluating information about the firm’s operations. Critical success factors, consisting of both strengths and weaknesses, can be identified and prioritized in the manner discussed in Chapter 3. According to William King, a task force of managers from different units of the organization, supported by staff, should be charged with determining the 10 to 20 most important strengths and weaknesses that should influence the future of the organization. He says:

The development of conclusions on the 10 to 20 most important organizational strengths and weaknesses can be, as any experienced manager knows, a difficult task, when it involves managers representing various organizational interests and points of view. Developing a 20-page list of strengths and weaknesses could be accomplished relatively easily, but a list of the 10 to 15 most important ones involves significant analysis and negotiation. This is true because of the judgments that are required and the impact which such a list will inevitably have as it is used in the formulation, implementation, and evaluation of strategies.

Strategic management is a highly interactive process that requires effective coordination among management, marketing, finance/accounting, production/operations, R&D, and management information systems managers. Although the strategic-management process is overseen by strategists, success requires that managers and employees from all functional areas work together to provide ideas and information. Financial managers, for example, may need to restrict the number of feasible options available to operations managers, or R&D managers may develop products for which marketing managers need to set higher objectives. A key to organizational success is effective coordination and under-standing among managers from all functional business areas. Through involvement in performing an internal strategic-management audit, managers from different departments and divisions of the firm come to understand the nature and effect of decisions in other functional business areas in their firm. Knowledge of these relationships is critical for effectively establishing objectives and strategies.

A failure to recognize and understand relationships among the functional areas of business can be detrimental to strategic management, and the number of those relation-ships that must be managed increases dramatically with a firm’s size, diversity, geographic dispersion, and the number of products or services offered. Governmental and nonprofit enterprises traditionally have not placed sufficient emphasis on relationships among the business functions. Some firms place too great an emphasis on one function at the expense of others. Ansoff explained:

During the first fifty years, successful firms focused their energies on optimizing the performance of one of the principal functions: production/operations, R&D, or marketing. Today, due to the growing complexity and dynamism of the environment, success increasingly depends on a judicious combination of several functional influ-ences. This transition from a single function focus to a multifunction focus is essen-tial for successful strategic management.2

Financial ratio analysis exemplifies the complexity of relationships among the functional areas of business. A declining return on investment or profit margin ratio could be the result of ineffective marketing, poor management policies, research and development errors, or a weak management information system. The effectiveness of strategy formulation, implementation, and evaluation activities hinges upon a clear understanding of how major business functions affect one another. For strategies to succeed, a coordinated effort among all the functional areas of business is needed. In the case of planning, George wrote:

We may conceptually separate planning for the purpose of theoretical discussion and analysis, but in practice, neither is it a distinct entity nor is it capable of being separated. The planning function is mixed with all other business functions and, like ink once mixed with water, it cannot be set apart. It is spread throughout and is a part of the whole of managing an organization.

**The Resource-Based View (RBV)**

Some researchers emphasize the importance of the internal audit part of the strategic-management process by comparing it to the external audit. Robert Grant concluded that the internal audit is more important, saying:

In a world where customer preferences are volatile, the identity of customers is changing, and the technologies for serving customer requirements are continually evolving, an externally focused orientation does not provide a secure foundation for formulating long-term strategy. When the external environment is in a state of flux, the firm’s own resources and capabilities may be a much more stable basis on which to define its identity. Hence, a definition of a business in terms of what it is capable of doing may offer a more durable basis for strategy than a definition based upon the needs which the business seeks to satisfy.4

The Resource-Based View (RBV) approach to competitive advantage contends that inter-nal resources are more important for a firm than external factors in achieving and sustaining competitive advantage. In contrast to the I/O theory presented in the previous chapter, propo-nents of the RBV view contend that organizational performance will primarily be determined by internal resources that can be grouped into three all-encompassing categories: physical resources, human resources, and organizational resources.5 Physical resources include all plant and equipment, location, technology, raw materials, machines; human resources include all employees, training, experience, intelligence, knowledge, skills, abilities; and organizational resources include firm structure, planning processes, information systems, patents, trademarks, copyrights, databases, and so on. RBV theory asserts that resources are actually what helps a firm exploit opportunities and neutralize threats.

The basic premise of the RBV is that the mix, type, amount, and nature of a firm’s inter-nal resources should be considered first and foremost in devising strategies that can lead to sustainable competitive advantage. Managing strategically according to the RBV involves developing and exploiting a firm’s unique resources and capabilities, and continually main-taining and strengthening those resources. The theory asserts that it is advantageous for a firm to pursue a strategy that is not currently being implemented by any competing firm. When other firms are unable to duplicate a particular strategy, then the focal firm has a sustainable competitive advantage, according to RBV theorists.

For a resource to be valuable, it must be either (1) rare, (2) hard to imitate, or (3) not easily substitutable. Often called empirical indicators, these three characteristics of resources enable a firm to implement strategies that improve its efficiency and effective-ness and lead to a sustainable competitive advantage. The more a resource(s) is rare, non-imitable, and nonsubstitutable, the stronger a firm’s competitive advantage will be and the longer it will last.

Rare resources are resources that other competing firms do not possess. If many firms have the same resource, then those firms will likely implement similar strategies, thus giving no one firm a sustainable competitive advantage. This is not to say that resources that are common are not valuable; they do indeed aid the firm in its chance for economic prosperity. However, to sustain a competitive advantage, it is more advantageous if the resource(s) is also rare.

It is also important that these same resources be difficult to imitate. If firms cannot easily gain the resources, say RBV theorists, then those resources will lead to a competitive advantage more so than resources easily imitable. Even if a firm employs resources that are rare, a sustainable competitive advantage may be achieved only if other firms can-not easily obtain these resources.

The third empirical indicator that can make resources a source of competitive advantage is substitutability. Borrowing from Porter’s Five-Forces Model, to the degree that there are no viable substitutes, a firm will be able to sustain its competitive advan-tage. However, even if a competing firm cannot perfectly imitate a firm’s resource, it can still obtain a sustainable competitive advantage of its own by obtaining resource substitutes.

The RBV has continued to grow in popularity and continues to seek a better under-standing of the relationship between resources and sustained competitive advantage in strategic management. However, as alluded to in Chapter 3, one cannot say with any degree of certainty that either external or internal factors will always or even consistently be more important in seeking competitive advantage. Understanding both external and internal factors, and more importantly, understanding the relationships among them, will be the key to effective strategy formulation (discussed in Chapter 6). Because both external and internal factors continually change, strategists seek to identify and take advantage of positive changes and buffer against negative changes in a continuing effort to gain and sustain a firm’s competitive advantage. This is the essence and challenge of strategic man-agement, and oftentimes survival of the firm hinges on this work.

**Integrating Strategy and Culture**

Relationships among a firm’s functional business activities perhaps can be exemplified best by focusing on organizational culture, an internal phenomenon that permeates all departments and divisions of an organization. Organizational culture can be defined as “a pattern of behavior that has been developed by an organization as it learns to cope with its problem of external adaptation and internal integration, and that has worked well enough to be considered valid and to be taught to new members as the correct way to perceive, think, and feel.”6 This definition emphasizes the importance of matching external with internal factors in making strategic decisions.

Organizational culture captures the subtle, elusive, and largely unconscious forces that shape a workplace. Remarkably resistant to change, culture can represent a major strength or weakness for the firm. It can be an underlying reason for strengths or weaknesses in any of the major business functions.

Cultural products include values, beliefs, rites, rituals, ceremonies, myths, stories, legends, sagas, language, metaphors, symbols, heroes, and heroines. These products or dimensions are levers that strategists can use to influence and direct strategy for-mulation, implementation, and evaluation activities. An organization’s culture compares to an individual’s personality in the sense that no two organizations have the same culture and no two individuals have the same personality. Both culture and personality are enduring and can be warm, aggressive, friendly, open, innovative, conservative, liberal, harsh, or likable.

At Google, the culture is very informal. Employees are encouraged to wander the halls on employee-sponsored scooters and brainstorm on public whiteboards provided everywhere.

**Marketing**

Marketing can be described as the process of defining, anticipating, creating, and fulfilling customers’ needs and wants for products and services. There are seven basic functions of marketing: (1) customer analysis, (2) selling products/services, (3) product and service planning, (4) pricing, (5) distribution, (6) marketing research, and (7) opportunity analy-sis.16 Understanding these functions helps strategists identify and evaluate marketing strengths and weaknesses.

**Customer Analysis**

Customer analysis—the examination and evaluation of consumer needs, desires, and wants—involves administering customer surveys, analyzing consumer information, evalu-ating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies. The information generated by customer analysis can be essential in developing an effective mission statement. Customer profiles can reveal the demographic characteristics of an organization’s customers. Buyers, sellers, distributors, salespeople, managers, wholesalers, retailers, suppliers, and creditors can all participate in gathering information to successfully identify customers’ needs and wants. Successful organizations continually monitor present and potential customers’ buying patterns.

**Selling Products/Services**

Successful strategy implementation generally rests upon the ability of an organization to sell some product or service. Selling includes many marketing activities, such as advertis-ing, sales promotion, publicity, personal selling, sales force management, customer rela-tions, and dealer relations. These activities are especially critical when a firm pursues a market penetration strategy. The effectiveness of various selling tools for consumer and industrial products varies. Personal selling is most important for industrial goods compa-nies, and advertising is most important for consumer goods companies.

U.S. advertising expenditures are expected to fall 6.2 percent in 2009 to $161.8 billion.17 One aspect of ads in a recession is that they generally take more direct aim at competitors, and this marketing practice is holding true in our bad economic times. Nick Brien at Mediabrands says, “Ads have to get combative in bad times. It’s a dog fight, and it’s about getting leaner and meaner.” Marketers in 2009 also say ads will be less lavish and glamorous in a recession. Table 4-4 lists specific characteristics of ads forthcoming in late 2009 and 2010 in response to the economic hard times people nationwide and worldwide are facing. Total U.S. online advertising sending is expected to decline 0.3 percent to $36.9 billion in 2009, after growing 8.5 percent in 2008.

A 30-second advertisement on the Super Bowl in 2009 was $3 million. The NBC net-work airing the Super Bowl took in $206 million of ad revenue from the broadcast as just over 95 million people watched the Pittsburgh Steelers defeat the Arizona Cardinals in Super Bowl XLIII. The most watched television show in history was the 1983 season finale of M\*A\*S\*H, which drew 106 million viewers.

Visa in 2009 launched a $140 million advertising campaign that includes print, TV, outdoor, and Internet ads designed to persuade consumers that debit cards “are more convenient, safer, and secure than cash or checks.”

Pharmaceutical companies on average reduced their spending on consumer advertising of prescription drugs by 8 percent in 2008 to $4.4 billion. This was the first annual decrease since 1997 in their efforts to get patients to request a particular medicine from their doctor.

Determining organizational strengths and weaknesses in the selling function of marketing is an important part of performing an internal strategic-management audit. With regard to advertising products and services on the Internet, a new trend is to base advertising rates exclusively on sales rates. This new accountability contrasts sharply with traditional broadcast and print advertising, which bases rates on the number of persons expected to see a given advertisement. The new cost-per-sale online advertising rates are possible because any Web site can monitor which user clicks on which advertisement and then can record whether that consumer actually buys the product. If there are no sales, then the advertisement is free.

**CHAPTER 5**

**Strategies in Action**

**Long-Term Objectives**

Long-term objectives represent the results expected from pursuing certain strategies. Strategies represent the actions to be taken to accomplish long-term objectives. The time frame for objectives and strategies should be consistent, usually from two to five years.

**The Nature of Long-Term Objectives**

Objectives should be quantitative, measurable, realistic, understandable, challenging, hier-archical, obtainable, and congruent among organizational units. Each objective should also be associated with a timeline. Objectives are commonly stated in terms such as growth in assets, growth in sales, profitability, market share, degree and nature of diversification, degree and nature of vertical integration, earnings per share, and social responsibility. Clearly established objectives offer many benefits. They provide direction, allow synergy, aid in evaluation, establish priorities, reduce uncertainty, minimize conflicts, stimulate exertion, and aid in both the allocation of resources and the design of jobs. Objectives pro-vide a basis for consistent decision making by managers whose values and attitudes differ. Objectives serve as standards by which individuals, groups, departments, divisions, and entire organizations can be evaluated.

Long-term objectives are needed at the corporate, divisional, and functional levels of an organization. They are an important measure of managerial performance. Many practi-tioners and academicians attribute a significant part of U.S. industry’s competitive decline to the short-term, rather than long-term, strategy orientation of managers in the United States. Arthur D. Little argues that bonuses or merit pay for managers today must be based to a greater extent on long-term objectives and strategies. A general framework for relating objectives to performance evaluation is provided in Table 5-1. A particular organization could tailor these guidelines to meet its own needs, but incentives should be attached to both long-term and annual objectives.

Without long-term objectives, an organization would drift aimlessly toward some unknown end. It is hard to imagine an organization or individual being successful without clear objectives (see Tables 5-2 and 5-3). Success only rarely occurs by accident; rather, it is the result of hard work directed toward achieving certain objectives.

**Financial versus Strategic Objectives**

Two types of objectives are especially common in organizations: financial and strategic objectives. Financial objectives include those associated with growth in revenues, growth in earnings, higher dividends, larger profit margins, greater return on investment, higher earn-ings per share, a rising stock price, improved cash flow, and so on; while strategic objectives include things such as a larger market share, quicker on-time delivery than rivals, shorter design-to-market times than rivals, lower costs than rivals, higher product quality than rivals, wider geographic coverage than rivals, achieving technological leadership, consistently getting new or improved products to market ahead of rivals, and so on.

Although financial objectives are especially important in firms, oftentimes there is a trade-off between financial and strategic objectives such that crucial decisions have to be made. For example, a firm can do certain things to maximize short-term financial objec-tives that would harm long-term strategic objectives. To improve financial position in the short run through higher prices may, for example, jeopardize long-term market share. The dangers associated with trading off long-term strategic objectives with near-term bottom-line performance are especially severe if competitors relentlessly pursue increased market share at the expense of short-term profitability. And there are other trade-offs between financial and strategic objectives, related to riskiness of actions, concern for busi-ness ethics, need to preserve the natural environment, and social responsibility issues. Both financial and strategic objectives should include both annual and long-term performance targets. Ultimately, the best way to sustain competitive advantage over the long run is to relentlessly pursue strategic objectives that strengthen a firm’s business position over rivals. Financial objectives can best be met by focusing first and foremost on achieve-ment of strategic objectives that improve a firm’s competitiveness and market strength.

**Not Managing by Objectives**

An unidentified educator once said, “If you think education is expensive, try ignorance.” The idea behind this saying also applies to establishing objectives. Strategists should avoid the following alternative ways to “not managing by objectives.”

• Managing by Extrapolation—adheres to the principle “If it ain’t broke, don’t fix it.” The idea is to keep on doing about the same things in the same ways because things are going well.

• Managing by Crisis—based on the belief that the true measure of a really good strategist is the ability to solve problems. Because there are plenty of crises and prob-lems to go around for every person and every organization, strategists ought to bring their time and creative energy to bear on solving the most pressing problems of the day. Managing by crisis is actually a form of reacting rather than acting and of letting events dictate the what and when of management decisions.

• Managing by Subjectives—built on the idea that there is no general plan for which way to go and what to do; just do the best you can to accomplish what you think should be done. In short, “Do your own thing, the best way you know how” (sometimes referred to as the mystery approach to decision making because subordinates are left to figure out what is happening and why).

• Managing by Hope—based on the fact that the future is laden with great uncertainty and that if we try and do not succeed, then we hope our second (or third) attempt will succeed. Decisions are predicated on the hope that they will work and the good times are just around the corner, especially if luck and good fortune are on our side!

**The Balanced Scorecard**

Developed in 1993 by Harvard Business School professors Robert Kaplan and David Norton, and refined continually through today, the Balanced Scorecard is a strategy eval-uation and control technique.3 Balanced Scorecard derives its name from the perceived need of firms to “balance” financial measures that are oftentimes used exclusively in strategy evaluation and control with nonfinancial measures such as product quality and customer service. An effective Balanced Scorecard contains a carefully chosen combina-tion of strategic and financial objectives tailored to the company’s business. As a tool to manage and evaluate strategy, the Balanced Scorecard is currently in use at Sears, United Parcel Service, 3M Corporation, Heinz, and hundreds of other firms. For example, 3M Corporation has a financial objective to achieve annual growth in earnings per share of 10 percent or better, as well as a strategic objective to have at least 30 percent of sales come from products introduced in the past four years. The overall aim of the Balanced Scorecard is to “balance” shareholder objectives with customer and operational objec-tives. Obviously, these sets of objectives interrelate and many even conflict. For example, customers want low price and high service, which may conflict with shareholders’ desire for a high return on their investment. The Balanced Scorecard concept is consistent with the notions of continuous improvement in management (CIM) and total quality management (TQM).

**Integration Strategies**

Forward integration, backward integration, and horizontal integration are sometimes col-lectively referred to as vertical integration strategies. Vertical integration strategies allow a firm to gain control over distributors, suppliers, and/or competitors.

**Forward Integration**

Forward integration involves gaining ownership or increased control over distributors or retailers. Increasing numbers of manufacturers (suppliers) today are pursuing a forward inte-gration strategy by establishing Web sites to directly sell products to consumers. This strat-egy is causing turmoil in some industries. For example, Microsoft is opening its own retail stores, a forward integration strategy similar to rival Apple Inc., which currently has more than 200 stores around the world. Microsoft wants to learn firsthand about what consumers want and how they buy. CompUSA Inc. recently closed most of its retail stores, and neither Hewlett-Packard nor IBM have retail stores. Some Microsoft shareholders are concerned that the company’s plans to open stores will irk existing retail partners such as Best Buy.

Automobile dealers have for many years pursued forward integration, perhaps too much. Ford has almost 4,000 dealers compared to Toyota, which has fewer than 2,000 U.S. dealers. That means the average Toyota dealer sold, for example, 1,628 vehicles in 2007 compared to 236 vehicles for Ford dealers. GM, Ford, and Chrysler are all reducing their number of dealers dramatically.

The Canadian company Research in Motion (RIM) opened its first online store for BlackBerry applications in April 2009. RIM is looking to tap a market for software made popular by Apple and its iPhone. BlackBerry users can download the new RIM storefront from the main RIM Web site, but then they need to buy applications using PayPal.

An effective means of implementing forward integration is franchising. Approximately 2,000 companies in about 50 different industries in the United States use franchising to distribute their products or services. Businesses can expand rapidly by fran-chising because costs and opportunities are spread among many individuals. Total sales by franchises in the United States are annually about $1 trillion.

In today’s credit crunch reduced availability of financing, franchiser firms are more and more breaking tradition and helping franchisees out with liquidity needs. For example, RE/MAX International will finance 50 percent of its initial $25,000 franchise fee. Coverall Cleaning Concepts lends up to $6,800 of its initial franchise fee. Persons interested in becom-ing franchisees should go onto franchising blogs, such as Bleu MauMau, Franchise-Chat, Franchise Pundit, Rush On Business, Unhappy Franchisee, and WikidFranchise.org. These sites offer inside news, advice, and comments by people already owning franchise businesses.

**Backward Integration**

Both manufacturers and retailers purchase needed materials from suppliers. Backward integration is a strategy of seeking ownership or increased control of a firm’s suppliers. This strategy can be especially appropriate when a firm’s current suppliers are unreliable, too costly, or cannot meet the firm’s needs.

When you buy a box of Pampers diapers at Wal-Mart, a scanner at the store’s checkout counter instantly zaps an order to Procter & Gamble Company. In contrast, in most hospitals, reordering supplies is a logistical nightmare. Inefficiency caused by lack of control of suppliers in the health-care industry, however, is rapidly changing as many giant health-care purchasers, such as the U.S. Defense Department and Columbia/HCA Healthcare Corporation, move to require electronic bar codes on every supply item purchased. This allows instant tracking and recording without invoices and paperwork. Of the estimated $83 billion spent annually on hospital supplies, industry reports indicate that $11 billion can be eliminated through more effective backward integration.

**Horizontal Integration**

Horizontal integration refers to a strategy of seeking ownership of or increased control over a firm’s competitors. One of the most significant trends in strategic management today is the increased use of horizontal integration as a growth strategy. Mergers, acquisi-tions, and takeovers among competitors allow for increased economies of scale and enhanced transfer of resources and competencies. Kenneth Davidson makes the following observation about horizontal integration:

The trend towards horizontal integration seems to reflect strategists’ misgivings about their ability to operate many unrelated businesses. Mergers between direct competitors are more likely to create efficiencies than mergers between unrelated businesses, both because there is a greater potential for eliminating duplicate facili-ties and because the management of the acquiring firm is more likely to understand the business of the target.

**CHAPTER 6**

**Strategy Analysis and Choice**

**The Nature of Strategy Analysis and Choice**

As indicated by Figure 6-1, this chapter focuses on generating and evaluating alternative strategies, as well as selecting strategies to pursue. Strategy analysis and choice seek to determine alternative courses of action that could best enable the firm to achieve its mission and objectives. The firm’s present strategies, objectives, and mission, coupled with the external and internal audit information, provide a basis for generating and evaluating feasible alternative strategies.

Unless a desperate situation confronts the firm, alternative strategies will likely represent incremental steps that move the firm from its present position to a desired future position. Alternative strategies do not come out of the wild blue yonder; they are derived from the firm’s vision, mission, objectives, external audit, and internal audit; they are consistent with, or build on, past strategies that have worked well.

**The Process of Generating and Selecting Strategies**

Strategists never consider all feasible alternatives that could benefit the firm because there are an infinite number of possible actions and an infinite number of ways to implement those actions. Therefore, a manageable set of the most attractive alternative strategies must be developed. The advantages, disadvantages, trade-offs, costs, and benefits of these strategies should be determined. This section discusses the process that many firms use to determine an appropriate set of alternative strategies.

Identifying and evaluating alternative strategies should involve many of the man-agers and employees who earlier assembled the organizational vision and mission state-ments, performed the external audit, and conducted the internal audit. Representatives from each department and division of the firm should be included in this process, as was the case in previous strategy-formulation activities. Recall that involvement provides the best opportunity for managers and employees to gain an understanding of what the firm is doing and why and to become committed to helping the firm accomplish its objectives.

All participants in the strategy analysis and choice activity should have the firm’s external and internal audit information by their sides. This information, coupled with the firm’s mission statement, will help participants crystallize in their own minds particular strategies that they believe could benefit the firm most. Creativity should be encouraged in this thought process.

Alternative strategies proposed by participants should be considered and discussed in a meeting or series of meetings. Proposed strategies should be listed in writing. When all feasible strategies identified by participants are given and understood, the strategies should be ranked in order of attractiveness by all participants, with 1 = should not be imple-mented, 2 = possibly should be implemented, 3 = probably should be implemented, and 4 = definitely should be implemented. This process will result in a prioritized list of best strategies that reflects the collective wisdom of the group.

**A Comprehensive Strategy-Formulation Framework**

Important strategy-formulation techniques can be integrated into a three-stage decision-making framework, as shown in Figure 6-2. The tools presented in this framework are applicable to all sizes and types of organizations and can help strategists identify, evaluate, and select strategies.

Stage 1 of the formulation framework consists of the EFE Matrix, the IFE Matrix, and the Competitive Profile Matrix (CPM). Called the Input Stage, Stage 1 summarizes the basic input information needed to formulate strategies. Stage 2, called the Matching Stage, focuses upon generating feasible alternative strategies by aligning key external and internal factors. Stage 2 techniques include the Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix, the Strategic Position and Action Evaluation (SPACE) Matrix, the Boston Consulting Group (BCG) Matrix, the Internal-External (IE) Matrix, and the Grand Strategy Matrix. Stage 3, called the Decision Stage, involves a single technique, the Quantitative Strategic Planning Matrix (QSPM). A QSPM uses input information from Stage 1 to objectively evaluate feasi-ble alternative strategies identified in Stage 2. A QSPM reveals the relative attractiveness of alternative strategies and thus provides objective basis for selecting specific strategies.

All nine techniques included in the strategy-formulation framework require the inte-gration of intuition and analysis. Autonomous divisions in an organization commonly use strategy-formulation techniques to develop strategies and objectives. Divisional analyses provide a basis for identifying, evaluating, and selecting among alternative corporate-level strategies.

Strategists themselves, not analytic tools, are always responsible and accountable for strategic decisions. Lenz emphasized that the shift from a words-oriented to a numbers-oriented planning process can give rise to a false sense of certainty; it can reduce dialogue, discussion, and argument as a means for exploring understandings, testing assumptions, and fostering organizational learning.1 Strategists, therefore, must be wary of this possibil-ity and use analytical tools to facilitate, rather than to diminish, communication. Without objective information and analysis, personal biases, politics, emotions, personalities, and halo error (the tendency to put too much weight on a single factor) unfortunately may play a dominant role in the strategy-formulation process.

**The Input Stage**

Procedures for developing an EFE Matrix, an IFE Matrix, and a CPM were presented in Chapters 3 and 4. The information derived from these three matrices provides basic input information for the matching and decision stage matrices described later in this chapter.

The input tools require strategists to quantify subjectivity during early stages of the strategy-formulation process. Making small decisions in the input matrices regarding the relative importance of external and internal factors allows strategists to more effectively generate and evaluate alternative strategies. Good intuitive judgment is always needed in determining appropriate weights and ratings.

**The Matching Stage**

Strategy is sometimes defined as the match an organization makes between its internal resources and skills and the opportunities and risks created by its external factors.2 The matching stage of the strategy-formulation framework consists of five techniques that can be used in any sequence: the SWOT Matrix, the SPACE Matrix, the BCG Matrix, the IE Matrix, and the Grand Strategy Matrix. These tools rely upon information derived from the input stage to match external opportunities and threats with internal strengths and weaknesses. Matching external and internal critical success factors is the key to effectively generating feasible alternative strategies. For example, a firm with excess working capital (an internal strength) could take advantage of the cell phone industry’s 20 percent annual growth rate (an external opportunity) by acquiring Cellfone, Inc., a firm in the cell phone industry. This example portrays simple one-to-one matching. In most situations, external and internal relationships are more complex, and the matching requires multiple alignments for each strategy generated. The basic concept of matching is illustrated in Table 6-1.

Any organization, whether military, product-oriented, service-oriented, govern-mental, or even athletic, must develop and execute good strategies to win. A good offense without a good defense, or vice versa, usually leads to defeat. Developing strategies that use strengths to capitalize on opportunities could be considered an offense, whereas strategies designed to improve upon weaknesses while avoiding threats could be termed defensive. Every organization has some external opportunities and threats and internal strengths and weaknesses that can be aligned to formulate feasible alternative strategies.

**The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix**

The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix is an important match-ing tool that helps managers develop four types of strategies: SO (strengths-opportunities) Strategies, WO (weaknesses-opportunities) Strategies, ST (strengths-threats) Strategies, and WT (weaknesses-threats) Strategies.3 Matching key external and internal factors is the most difficult part of developing a SWOT Matrix and requires good judgment—and there is no one best set of matches. Note in Table 6-1 that the first, second, third, and fourth strategies are SO, WO, ST, and WT strategies, respectively.

SO Strategies use a firm’s internal strengths to take advantage of external opportuni-ties. All managers would like their organizations to be in a position in which internal strengths can be used to take advantage of external trends and events. Organizations generally will pursue WO, ST, or WT strategies to get into a situation in which they can apply SO Strategies. When a firm has major weaknesses, it will strive to overcome them and make them strengths. When an organization faces major threats, it will seek to avoid them to concentrate on opportunities.

WO Strategies aim at improving internal weaknesses by taking advantage of external opportunities. Sometimes key external opportunities exist, but a firm has internal weak-nesses that prevent it from exploiting those opportunities. For example, there may be a high demand for electronic devices to control the amount and timing of fuel injection in automobile engines (opportunity), but a certain auto parts manufacturer may lack the tech-nology required for producing these devices (weakness). One possible WO Strategy would be to acquire this technology by forming a joint venture with a firm having competency in this area. An alternative WO Strategy would be to hire and train people with the required technical capabilities.

ST Strategies use a firm’s strengths to avoid or reduce the impact of external threats. This does not mean that a strong organization should always meet threats in the external environ-ment head-on. An example of ST Strategy occurred when Texas Instruments used an excellent legal department (a strength) to collect nearly $700 million in damages and royalties from nine Japanese and Korean firms that infringed on patents for semiconductor memory chips (threat).

Rival firms that copy ideas, innovations, and patented products are a major threat in many industries. This is still a major problem for U.S. firms selling products in China.

WT Strategies are defensive tactics directed at reducing internal weakness and avoid-ing external threats. An organization faced with numerous external threats and internal weaknesses may indeed be in a precarious position. In fact, such a firm may have to fight for its survival, merge, retrench, declare bankruptcy, or choose liquidation.

A schematic representation of the SWOT Matrix is provided in Figure 6-3. Note that a SWOT Matrix is composed of nine cells. As shown, there are four key factor cells, four strategy cells, and one cell that is always left blank (the upper-left cell). The four strategy cells, labeled SO, WO, ST, and WT, are developed after completing four key factor cells, labeled S, W, O, and T. There are eight steps involved in constructing a SWOT Matrix:

1. List the firm’s key external opportunities.

2. List the firm’s key external threats.

3. List the firm’s key internal strengths.

4. List the firm’s key internal weaknesses.

5. Match internal strengths with external opportunities, and record the resultant SO Strategies in the appropriate cell.

6. Match internal weaknesses with external opportunities, and record the resultant WO Strategies.

7. Match internal strengths with external threats, and record the resultant ST Strategies.

8. Match internal weaknesses with external threats, and record the resultant WT Strategies.

Some important aspects of a SWOT Matrix are evidenced in Figure 6-3. For example, note that both the internal/external factors and the SO/ST/WO/WT Strategies are stated in quantitative terms to the extent possible. This is important. For example, regarding the sec-ond SO #2 and ST #1 strategies, if the analyst just said, “Add new repair/service persons,” the reader might think that 20 new repair/service persons are needed. Actually only two are needed. Always be specific to the extent possible in stating factors and strategies.

It is also important to include the “S1, O2” type notation after each strategy in a SWOT Matrix. This notation reveals the rationale for each alternative strategy. Strategies do not rise out of the blue. Note in Figure 6-3 how this notation reveals the internal/external factors that were matched to formulate desirable strategies. For example, note that this retail computer store business may need to “purchase land to build new store” because a new Highway 34 will make its location less desirable. The notation (W2, O2) and (S8, T3) in Figure 6-3 exemplifies this matching process.

The purpose of each Stage 2 matching tool is to generate feasible alternative strate-gies, not to select or determine which strategies are best. Not all of the strategies developed in the SWOT Matrix, therefore, will be selected for implementation.

The strategy-formulation guidelines provided in Chapter 5 can enhance the process of matching key external and internal factors. For example, when an organization has both the capital and human resources needed to distribute its own products (internal strength) and distributors are unreliable, costly, or incapable of meeting the firm’s needs (external threat), forward integration can be an attractive ST Strategy. When a firm has excess pro-duction capacity (internal weakness) and its basic industry is experiencing declining annual sales and profits (external threat), related diversification can be an effective WT Strategy.

**CHAPTER 7**

**Implementing Strategies: Management**

**and Operations Issues**

**The Nature of Strategy Implementation**

Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation)! Although inextricably linked, strategy implementa-tion is fundamentally different from strategy formulation. Strategy formulation and imple-mentation can be contrasted in the following ways:

• Strategy formulation is positioning forces before the action.

• Strategy implementation is managing forces during the action.

• Strategy formulation focuses on effectiveness.

• Strategy implementation focuses on efficiency.

• Strategy formulation is primarily an intellectual process.

• Strategy implementation is primarily an operational process.

• Strategy formulation requires good intuitive and analytical skills.

• Strategy implementation requires special motivation and leadership skills.

• Strategy formulation requires coordination among a few individuals.

• Strategy implementation requires coordination among many individuals.

Strategy-formulation concepts and tools do not differ greatly for small, large, for-profit, or nonprofit organizations. However, strategy implementation varies substantially among different types and sizes of organizations. Implementing strategies requires such actions as altering sales territories, adding new departments, closing facilities, hiring new employees, changing an organization’s pricing strategy, developing financial budgets, developing new employee benefits, establishing cost-control procedures, changing advertising strategies, building new facilities, training new employees, transferring managers among divisions, and building a better management information system. These types of activities obviously differ greatly between manufacturing, service, and governmental organizations.

**Management Perspectives**

In all but the smallest organizations, the transition from strategy formulation to strategy imple-mentation requires a shift in responsibility from strategists to divisional and functional man-agers. Implementation problems can arise because of this shift in responsibility, especially if strategy-formulation decisions come as a surprise to middle- and lower-level managers. Managers and employees are motivated more by perceived self-interests than by organizational interests, unless the two coincide. Therefore, it is essential that divisional and functional managers be involved as much as possible in strategy-formulation activities. Of equal importance, strategists should be involved as much as possible in strategy-implementation activities.

Management issues central to strategy implementation include establishing annual objectives, devising policies, allocating resources, altering an existing organizational structure, restructuring and reengineering, revising reward and incentive plans, minimizing resistance to change, matching managers with strategy, developing a strategy-supportive culture, adapting production/operations processes, developing an effective human resources function, and, if necessary, downsizing. Management changes are necessarily more extensive when strategies to be implemented move a firm in a major new direction. Managers and employees throughout an organization should participate early and directly in strategy-implementation decisions. Their role in strategy implementation should build upon prior involvement in strategy-formulation activities. Strategists’ genuine personal commitment to implementation is a necessary and powerful motivational force for managers and employees. Too often, strategists are too busy to actively support strategy-implementation efforts, and their lack of interest can be detrimental to organizational success. The rationale for objectives and strategies should be understood and clearly communicated throughout an organization. Major competitors’ accomplishments, products, plans, actions, and performance should be apparent to all organizational members. Major external opportunities and threats should be clear, and managers’ and employees’ questions should be answered. Topdown flow of communication is essential for developing bottom-up support.

Firms need to develop a competitor focus at all hierarchical levels by gathering and widely distributing competitive intelligence; every employee should be able to benchmark her or his efforts against best-in-class competitors so that the challenge becomes personal.

For example, Starbucks Corp. in 2009–2010 is instituting “lean production/operations” at its 11,000 U.S. stores. This system eliminates idle employee time and unnecessary employee motions, such as walking, reaching, and bending. Starbucks says 30 percent of employees’ time is motion and the company wants to reduce that. They say “motion and work are two different things.”

**Annual Objectives**

Establishing annual objectives is a decentralized activity that directly involves all managers in an organization. Active participation in establishing annual objectives can lead to acceptance and commitment. Annual objectives are essential for strategy implementation because they (1) represent the basis for allocating resources; (2) are a primary mechanism for evaluating managers; (3) are the major instrument for monitoring progress toward achieving long-term objectives; and (4) establish organizational, divisional, and departmental priorities.

Considerable time and effort should be devoted to ensuring that annual objectives are well conceived, consistent with long-term objectives, and supportive of strategies to be implemented. Approving, revising, or rejecting annual objectives is much more than a rubber-stamp activity. The purpose of annual objectives can be summarized as follows:

Annual objectives serve as guidelines for action, directing and channeling efforts and activities of organization members. They provide a source of legitimacy in an enterprise by justifying activities to stakeholders. They serve as standards of performance.

**Policies**

Changes in a firm’s strategic direction do not occur automatically. On a day-to-day basis, policies are needed to make a strategy work. Policies facilitate solving recurring problems and guide the implementation of strategy. Broadly defined, policy refers to specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints, and limits on the kinds of administrative actions that can be taken to reward and sanction behavior; they clarify what can and cannot be done in pursuit of an organization’s objectives. For example, Carnival’s Paradise ship has a no smoking policy anywhere, anytime aboard ship. It is the first cruise ship to ban smoking comprehensively. Another example of corporate policy relates to surfing the Web while at work. About 40 percent of companies today do not have a formal policy preventing employees from surfing the Internet, but software is being marketed now that allows firms to monitor how, when, where, and how long various employees use the Internet at work.

**Resource Allocation**

Resource allocation is a central management activity that allows for strategy execution.

In organizations that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated according to priorities established by annual objectives.

Nothing could be more detrimental to strategic management and to organizational success than for resources to be allocated in ways not consistent with priorities indicated by approved annual objectives.

All organizations have at least four types of resources that can be used to achieve desired objectives: financial resources, physical resources, human resources, and technological resources. Allocating resources to particular divisions and departments does not mean that strategies will be successfully implemented. A number of factors commonly prohibit effective resource allocation, including an overprotection of resources, too great an emphasis on short-run financial criteria, organizational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge.

**CHAPTER 8**

**Implementing Strategies: Marketing, Finance/Accounting, R&D, and MIS Issues**

**The Nature of Strategy Implementation**

The quarterback can call the best play possible in the huddle, but that does not mean the play will go for a touchdown. The team may even lose yardage unless the play is executed (implemented) well. Less than 10 percent of strategies formulated are successfully implemented! There are many reasons for this low success rate, including failing to appropriately segment markets, paying too much for a new acquisition, and falling behind competitors in R&D. Johnson & Johnson implements strategies well.

Strategy implementation directly affects the lives of plant managers, division managers, department managers, sales managers, product managers, project managers, personnel managers, staff managers, supervisors, and all employees. In some situations, individuals may not have participated in the strategy-formulation process at all and may not appreciate, understand, or even accept the work and thought that went into strategy formulation. There may even be foot dragging or resistance on their part. Managers and employees who do not understand the business and are not committed to the business may attempt to sabotage strategy-im Current Marketing Issues

Countless marketing variables affect the success or failure of strategy implementation, and the scope of this text does not allow us to address all those issues. Some examples of marketing decisions that may require policies are as follows:

1. To use exclusive dealerships or multiple channels of distribution

2. To use heavy, light, or no TV advertising

3. To limit (or not) the share of business done with a single customer

4. To be a price leader or a price follower

5. To offer a complete or limited warranty

6. To reward salespeople based on straight salary, straight commission, or a

combination salary/commission

7. To advertise online or not

A marketing issue of increasing concern to consumers today is the extent to which companies can track individuals’ movements on the Internet—and even be able to identify an individual by name and e-mail address. Individuals’ wanderings on the Internet are no longer anonymous, as many persons still believe. Marketing companies such as DoubleClick, Flycast, AdKnowledge, AdForce, and Real Media have sophisticated methods to identify who you are and your particular interests.1

Marketing of late has become more about building a two-way relationship with consumers than just informing consumers about a product or service. Marketers today must get their customers involved in their company Web site and solicit suggestions from customers in terms of product development, customer service, and ideas. The online community is much quicker, cheaper, and effective than traditional focus groups and surveys.plementation efforts in hopes that the New

**Principles of Marketing**

Today a business or organization’s Web site must provide clear and simple instructions for customers to set up a blog and/or contribute to a wiki. Customers trust each others’ opinions more than a company’s marketing pitch, and the more they talk freely, the more the firm can learn how to improve its product, service, and marketing. Marketers today monitor blogs daily to determine, evaluate, and influence opinions being formed by customers.

Customers must not feel like they are a captive audience for advertising at a firm’s Web site.

American Express, and Citigroup all now have Facebook or MySpace pages. UMB Financial of Kansas City, Missouri, tweets about everything from the bank’s financial stability to the industry’s prospects. Steve Furman, Discover’s director of e-commerce, says the appeal of social networking is that it provides “pure, instant” communication with customers.

When the big three U.S. automakers were asking lawmakers for bailout funding, all three firms launched extensive Internet marketing campaigns to garner support for their requests and plans for the future. Ford’s online marketing campaign was anchored by the Web site www.TheFordStory.com. In addition to a new Web site of its own, Chrysler launched a new marketing YouTube Channel named Grab Democracy and also posted ad information to its blog. GM employed similar marketing tactics to drive visitors to its main Web site. Once any controversial topic arises in a company or industry, millions of people are out there googling, yahooing, aoling, youtubing, facebooking, and myspacing to find out more information in order to form their own opinions and preferences.

Although the exponential increase in social networking and business online has created huge opportunities for marketers, it also has produced some severe threats.

Perhaps the greatest threat is that any king of negative publicity travels fast online. For example, Dr Pepper recently suffered immensely when an attorney for the rock band Guns N’ Roses accused the company of not following through on giving every American a soft drink if they released their album Chinese Democracy. Other examples abound, such as Motrin ads that lightheartedly talked about Mom’s back pain from holding babies in slings, and Burger King’s Whopper Virgin campaign, which featured a taste test of a Whopper versus a McDonald’s Big Mac in remote areas of the world. Even Taco Bell suffered from its ads that featured asking 50 Cent (aka Curtis Jackson) if he would change his name to 79 Cent or 89 Cent for a day in exchange for a $10,000 donation to charity. Seemingly minor ethical and questionable actions can catapult these days into huge public relations problems for companies as a result of the monumental online social and business communications. For example, Domino’s, the nation’s largest pizza delivery chain, spent a month in 2009 trying to dispel the video on YouTube and Facebook showing two of its employees doing gross things to a Domino’s sub sandwich, including passing gas on salami.

**Product Positioning**

After markets have been segmented so that the firm can target particular customer groups, the next step is to find out what customers want and expect. This takes analysis and research. A severe mistake is to assume the firm knows what customers want and expect.

Countless research studies reveal large differences between how customers define service and rank the importance of different service activities and how producers view services.

Many firms have become successful by filling the gap between what customers and producers see as good service. What the customer believes is good service is paramount, not what the producer believes service should be.

Identifying target customers to focus marketing efforts on sets the stage for deciding how to meet the needs and wants of particular consumer groups. Product positioning is widely used for this purpose. Positioning entails developing schematic representations that reflect how your products or services compare to competitors’ on dimensions most important to success in the industry. The following steps are required in product positioning:

1. Select key criteria that effectively differentiate products or services in the industry.

2. Diagram a two-dimensional product-positioning map with specified criteria on eachaxis.

3. Plot major competitors’ products or services in the resultant four-quadrant matrix.

4. Identify areas in the positioning map where the company’s products or services could be most competitive in the given target market. Look for vacant areas (niches).

5. Develop a marketing plan to position the company’s products or services appropriately.

Because just two criteria can be examined on a single product-positioning map, multiple maps are often developed to assess various approaches to strategy implementation.

Multidimensional scaling could be used to examine three or more criteria simultaneously, but this technique requires computer assistance and is beyond the scope of this text

Some rules for using product positioning as a strategy-implementation tool are the following:

1. Look for the hole or vacant niche. The best strategic opportunity might be an unserved segment.

2. Don’t serve two segments with the same strategy. Usually, a strategy successful with one segment cannot be directly transferred to another segment.

3. Don’t position yourself in the middle of the map. The middle usually means a strategy that is not clearly perceived to have any distinguishing characteristics. This rule can vary with the number of competitors. For example, when there are only two competitors, as in U.S. presidential elections, the middle becomes the preferred strategic position.

**CHAPTER 9**

**Strategy Review, Evaluation, and Control**

Strategy evaluation is becoming increasingly difficult with the passage of time, for many reasons. Domestic and world economies were more stable in years past, product life cycles were longer, product development cycles were longer, technological advancement was slower, change occurred less frequently, there were fewer competitors, foreign companies were weak, and there were more regulated industries. Other reasons why strategy evaluation is more difficult today include the following trends:

1. A dramatic increase in the environment’s complexity

2. The increasing difficulty of predicting the future with accuracy

3. The increasing number of variables

4. The rapid rate of obsolescence of even the best plans

5. The increase in the number of both domestic and world events affecting organizations

6. The decreasing time span for which planning can be done with any degree of certainty

A fundamental problem facing managers today is how to control employees effectively in light of modern organizational demands for greater flexibility, innovation, creativity, and initiative from employees. How can managers today ensure that empowered employees acting in an entrepreneurial manner do not put the well-being of the business at risk? Recall that Kidder, Peabody & Company lost $350 million when one of its traders allegedly booked fictitious profits; Sears, Roebuck and Company took a $60 million charge against earnings after admitting that its automobile service businesses were performing unnecessary repairs. The costs to companies such as these in terms of damaged reputations, fines, missed opportunities, and diversion of management’s attention are enormous.

When empowered employees are held accountable for and pressured to achieve specific goals and are given wide latitude in their actions to achieve them, there can be dysfunctional behavior. For example, Nordstrom, the upscale fashion retailer known for outstanding customer service, was subjected to lawsuits and fines when employees underreported hours worked in order to increase their sales per hour—the company’s primary performance criterion. Nordstrom’s customer service and earnings were enhanced until the misconduct was reported, at which **The Process of Evaluating Strategies**

Strategy evaluation is necessary for all sizes and kinds of organizations. Strategy evaluation should initiate managerial questioning of expectations and assumptions, should trigger a review of objectives and values, and should stimulate creativity in generating alternatives and formulating criteria of evaluation.3 Regardless of the size of the organization, a certain amount of management by wandering around at all levels is essential to effective strategy evaluation. Strategy-evaluation activities should be performed on a continuing basis, rather than at the end of specified periods of time or just after problems occur. Waiting until the end of the year, for example, could result in a firm closing the barn door after the horses have already escaped.time severe penalties were levied against the firm.

**Measuring Organizational Performance**

Another important strategy-evaluation activity is measuring organizational performance.

This activity includes comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives. Both long-term and annual objectives are commonly used in this process. Criteria for evaluating strategies should be measurable and easily verifiable. Criteria that predict results may be more important than those that reveal what already has happened. For example, rather than simply being informed that sales in the last quarter were 20 percent under what was expected, strategists need to know that sales in the next quarter may be 20 percent below standard unless some action is taken to counter the trend. Really effective control requires accurate forecasting.

Failure to make satisfactory progress toward accomplishing long-term or annual objectives signals a need for corrective actions. Many factors, such as unreasonable policies, unexpected turns in the economy, unreliable suppliers or distributors, or ineffective strategies, can result in unsatisfactory progress toward meeting objectives. Problems can result from ineffectiveness (not doing the right things) or inefficiency (poorly doing the right things).

Many variables can and should be included in measuring organizational performance.

Typically a favorable or unfavorable variance is recorded monthly, quarterly, and annually, and resultant actions needed are then determined.

Determining which objectives are most important in the evaluation of strategies can be difficult. Strategy evaluation is based on both quantitative and qualitative criteria.

Selecting the exact set of criteria for evaluating strategies depends on a particular organization’s size, industry, strategies, and management philosophy. An organization pursuing a retrenchment strategy, for example, could have an entirely different set of evaluative criteria from an organization pursuing a market-development strategy. Quantitative criteria commonly used to evaluate strategies are financial ratios, which strategists use to make three critical comparisons: (1) comparing the firm’s performance over different time periods, (2) comparing the firm’s performance to competitors’, and (3) comparing the firm’s performance to industry averages.

**Taking Corrective Actions**

The final strategy-evaluation activity, taking corrective actions, requires making changes to competitively reposition a firm for the future. As indicated in Table 9-5, examples of changes that may be needed are altering an organization’s structure, replacing one or more key individuals, selling a division, or revising a business mission. Other changes could include establishing or revising objectives, devising new policies, issuing stock to raise capital, adding additional salespersons, differently allocating resources, or developing new performance incentives. Taking corrective actions does not necessarily mean that existing strategies will be abandoned or even that new strategies must be formulated.

The probabilities and possibilities for incorrect or inappropriate actions increase geometrically with an arithmetic increase in personnel. Any person directing an overall undertaking must check on the actions of the participants as well as the results that they have achieved. If either the actions or results do not comply with preconceived or planned achievements, then corrective actions are needed.

No organization can survive as an island; no organization can escape change. Taking corrective actions is necessary to keep an organization on track toward achieving stated objectives. In his thought-provoking books Future Shock and The Third Wave, Alvin Toffler argued that business environments are becoming so dynamic and complex that they threaten people and organizations with future shock, which occurs when the nature, types, and speed of changes overpower an individual’s or organization’s ability and capacity to adapt. Strategy evaluation enhances an organization’s ability to adapt successfully to changing circumstances.

Taking corrective actions raises employees’ and managers’ anxieties. Research suggests that participation in strategy-evaluation activities is one of the best ways to overcome individuals’ resistance to change. According to Erez and Kanfer, individuals accept change best when they have a cognitive understanding of the changes, a sense of control over the situation, and an awareness that necessary actions are going to be taken to implement the changes.

Strategy evaluation can lead to strategy-formulation changes, strategy-implementation changes, both formulation and implementation changes, or no changes at all. Strategists cannot escape having to revise strategies and implementation approaches sooner or later.

Hussey and Langham offered the following insight on taking corrective actions: Resistance to change is often emotionally based and not easily overcome by rational argument. Resistance may be based on such feelings as loss of status, implied criticism of present competence, fear of failure in the new situation, annoyance at not being consulted, lack of understanding of the need for change, or insecurity in changing from well-known and fixed methods. It is necessary, therefore, to overcome such resistance by creating situations of participation and full explanation when changes are envisaged.

Corrective actions should place an organization in a better position to capitalize upon internal strengths; to take advantage of key external opportunities; to avoid, reduce, or mitigate external threats; and to improve internal weaknesses. Corrective actions should have a proper time horizon and an appropriate amount of risk. They should be internally consistent and socially responsible. Perhaps most important, corrective actions strengthen an organization’s competitive position in its basic industry. Continuous strategy evaluation keeps strategists close to the pulse of an organization and provides information needed for an effective strategic-management system. Carter Bayles described the benefits of strategy evaluation as follows:

Evaluation activities may renew confidence in the current business strategy or point to the need for actions to correct some weaknesses, such as erosion of product superiority or technological edge. In many cases, the benefits of strategy evaluation are much more far-reaching, for the outcome of the process may be a fundamentally new strategy that will lead, even in a business that is already turning a respectable profit, to substantially increased earnings. It is this possibility that justifies strategy evaluation, for the payoff can be very large.