The Nature of Strategic Management

LEARNING OBJECTIVES

After studying this chapter, you should be able to do the following:

1-1. Describe the strategic-management process.

1-2. Discuss the three stages of activities for strategy formulation, implementation, and evaluation activities.

1-3. Explain the need for integrating analysis and intuition in strategic management.

1-4. Define and give examples of key terms in strategic management.

1-5. Describe the benefits of engaging in strategic management.

1-6. Explain why some firms do not engage in strategic planning.

1-7. Describe the pitfalls in doing strategic planning.

1-8. Discuss the connection between business and military strategies.

1-9. Explain how this course can enhance a student's employability.

ASSURANCE-OF-LEARNING EXERCISES

The following exercises are found at the end of this chapter:

SET 1: Strategic Planning for Coca-Cola

EXERCISE 1A: Gather Strategy Information for Coca-Cola Company

EXERCISE 1B: Enter Coca-Cola Vitals into the Strategic Planning Template

SET 2: Strategic Planning for My University

EXERCISE 1C: Perform SWOT Analysis for My University

SET 3: Strategic Planning to Enhance My Employability

EXERCISE 1D: Perform SWOT Analysis on Myself

SET 4: Individual versus Group Strategic Planning

EXERCISE 1E: How Detrimental Are Various Pitfalls in Strategic Planning?

MyLab Management

Improve Your Grade!

If your instructor is using MyLab Management, visit **www.pearson.com/mylab/management** for videos, simulations, and writing exercises.

Chapter 1 provides an overview of strategic management, introduces a practical, integrative model of the strategic-management process (illustrated in Figure 1-1), and defines basic activities and terms in strategic management. The primary focus of this textbook is on "learning by doing." From this text, students learn "how to do strategic planning." The integrative model reveals the *"layout of this text"* and the *"process of strategic planning"* so students can follow the journey in a meaningful way.

An exciting new feature of this edition at the beginning of each chapter is an exemplary strategist capsule to showcase a famous strategist for doing an exemplary job applying strategic-planning concepts, tools, and techniques. The first person featured for excellent strategic-management practices is Vince Lombardi, former head coach and General Manager of the Green Bay Packers professional football team. At the end of each chapter, a new, one-page, mini-case on a company is provided with respective questions that apply various concepts, tools, and techniques presented.

LO 1.1 What Is Strategic Management?

Strategic management is 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, and information systems to achieve organizational success. Strategic management can also be defined as the executive-level activity of distributing resources across products and regions to gain a sustainable competitive advantage over rivals.

Firms have liberty to compete many different ways in a variety of geographic areas, so decisions must be made regarding what markets to enter, what markets to avoid, which competitor's space to invade, and which to avoid. A firm's survival can hinge on these decisions being right; this textbook unveils the process needed for making effective strategic decisions. For example, Westinghouse Electric's recent strategy to build a new generation of nuclear power plants was ill formulated and thus resulted in bankruptcy and eventual acquisition (in 2018) by Canada's Brookfield Business Partners LP.

EXEMPLARY **STRATEGIST** SHOWCASED

Coach Vince Lombardi

The legendary football coach of the Green Bay Packers, Vince Lombardi (1913–1970) changed a losing culture into a winning culture. Founded in 1919 and headquartered in the small, frigid Wisconsin town of Green Bay, the Packers are the only nonprofit, community-owned major league professional sports team in the United States. The third-oldest franchise in the National Football League (NFL), the Packers were perennial losers until Vince Lombardi took over in 1959 as head coach and general manager. The very existence of the Packer franchise was in jeopardy when Lombardi arrived in Green Bay. Coming off a 1–10–1 season and 11 straight losing seasons, Lombardi led the Packers to 3 NFL championships in his first 7 seasons. The Pro Football Hall of Fame says: "Lombardi is arguably the greatest football coach of all time and is on the short list of history's greatest coach, regardless of sport." Because of his success as both a manager and strategist, Lombardi became a national symbol of single-minded determination to win. The following quotes from Vince Lombardi reveal his basic strategy for winning, which was based on building character, commitment, and setting an exemplary example:

1. Winning is not everything, but making the effort to win is.
2. The objective is to win—fairly, squarely, decently, by the rules, but to win.

CSU Archives/Everett Collection Inc/Alamy Stock Photo

3. The difference between a successful person and others is not a lack of strength and not a lack of knowledge, but rather a lack of will.
4. Winning is a habit. Watch your thoughts, they become your beliefs. Watch your beliefs, they become your words. Watch your words, they become your actions. Watch your actions, they become your habits. Watch your habits, they become your character.

Source: Based on Michael Mink, "Coach Vince Lombardi Set A Superb Standard," *Investors Business Daily*, (February 5, 2016): A3.

Formulating strategies such as deciding what to produce and where, when, and how to compete is what leads to a sustainable competitive advantage. Even the best strategies must be implemented well through operational- or tactical-level activities like hiring and motivating employees, cutting costs, benchmarking, outsourcing, securing financing, and keeping facilities warm (or cool). Implementation activities are vitally important and must be monitored by strategists, but effectively formulated strategies, more so than operational tactics, is generally what leads to sustained competitive advantages.

To gain a sustainable competitive advantage, firms need to provide unique products and services. Uniqueness matters. For example, Apple's computers, iPads, and iPhones all run on Apple's unique operating system; the only way to have an iPhone is to also be a user of Apple's operating system. To assure "effective uniqueness," firms must accept concessions in the strategy process to gain a sustainable competitive as exemplified in the Apple example. Another example is Rolex, and the company not offering cheaper lines of watches. Rolex has resisted increasing market share by offering new cheaper product lines to attract new customers. Instead, Rolex has maintained its unique reputation and market share as the top luxury watch brand in the world. Rolex, and all successful firms, thus make tradeoffs and tough decisions throughout the process of developing, producing, and selling products.

Chapter 2 discusses core values, vision, and mission—items that represent the starting point for developing and nurturing a firm's uniqueness. Everything in strategy flows from a particular firm's core values, vision, and mission, and all successful firms are different (unique) from rival firms in some key ways.

The term *strategic management* is used at many colleges and universities as the title for the capstone course in business administration. This course integrates material from all business courses, and in addition, introduces new strategic-management concepts and techniques being widely used by firms. Two special features of this text are a Cohesion Case (on Coca-Cola) and end-of-chapter assurance-of-learning exercises, as described in Table 1-1.

Strategic Planning

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,

TABLE 1-1 A Cohesion Case and Assurance-of-Learning Exercises

A distinguishing, popular feature of this text is the Cohesion Case, named so because a written case on a company (Coca-Cola) appears at the end of this chapter, and then all other subsequent chapters feature end-of-chapter assurance-of-learning exercises to apply strategic-planning concepts, tools, and techniques to the Cohesion Case company. Coca-Cola is a well-known, well-managed global firm undergoing strategic change. By working through the Coca-Cola–related exercises, students become well prepared to develop an effective strategic plan for any company (case) assigned to them. Case analysis is a core part of almost every strategic-management course globally.

We are thrilled to provide new sets of end-of chapter assurance-of-learning exercises. All exercises have been carefully designed to "assure learning" by applying chapter concepts, tools, and techniques in a fun and meaningful way to best assure that competence is gained in particular employability skills discussed near the end of this chapter. The four sets of assurance-of-learning exercises that appear at the end of each chapter are as follows:

Set 1: Strategic Planning for Coca-Cola—Exercises that apply chapter material to the Coca-Cola Cohesion Case Company; these exercises ready students for doing case analysis as "knowledge application and analysis" and "information technology" skills are honed.

Set 2: Strategic Planning for My University—Exercises that apply chapter material to your college or university; these exercises ready students for doing case analysis in nonprofit organizations as "business ethics and social responsibility" and "data literacy" skills are honed.

Set 3: Strategic Planning to Enhance My Employability—Exercises that apply chapter material to individuals instead of companies; these exercises prepare students for making career choices and enable students to apply strategy tools, techniques, and concepts to enhance their own career.

Set 4: Individual versus Group Strategic Planning—Exercises that apply chapter material by comparing the effectiveness of individual versus group decisions; these are fun in-class group activities that yield "a winning individual and a winning group" for each exercise as critical-thinking and collaboration skills are honed.

implementation, and evaluation, with *strategic planning* referring only to strategy formulation. The purpose of strategic planning 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 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 an athletic 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 are so slim 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 Strategic-Management Model

The **strategic-management model** shown in Figure 1-1 is a widely accepted, comprehensive depiction of the strategic-management process.[1] The process conveyed does not guarantee success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic-management process are shown in the model, which appears on the opening page of all subsequent chapters with appropriate area of the model shaded to show the particular focus of the chapter. This text is organized around the model because it reveals how organizations actually do strategic planning. There are three important questions to answer in preparing a strategic plan:

Where are we now?

Where do we want to go?

How are we going to get there?

Identifying an organization's existing vision, mission, objectives, and strategies is the logical starting point for strategic management because a firm's present situation and condition may preclude certain strategies and may even dictate a particular course of action. Every organization has a vision, mission, objectives, and strategy, even if these elements are not consciously designed, written, or communicated. The answer to where an organization is going can be determined largely by where the organization has been!

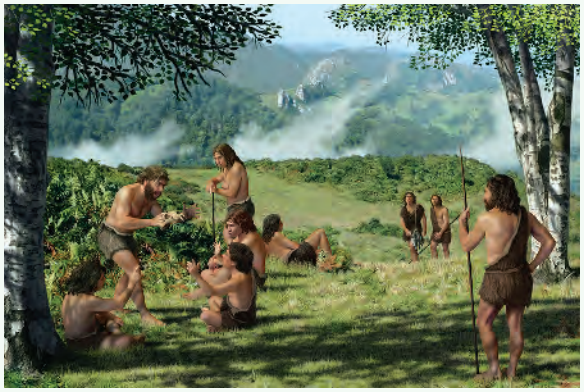
The strategic-management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. For instance, various third-world countries coming online could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives might require a change in policy; or a major competitor's change in strategy might require a change in the firm's mission. The activities represented in Figure 1-1 are not independent silos; they represent an interrelated process. Thus, activities for strategy formulation, implementation, and evaluation should be performed on a continual basis, not just at the end of the year or semiannually. *The strategic-management process never really ends.*

In Figure 1-1, perhaps the most important "activity" is the feedback loop because strategy must be thought of as a "verb rather than a noun." The stages of strategic management (formulation, implementation, and evaluation) are so fluid as to be virtually indistinguishable when one starts and the other ends. Continuous feedback enables firms to readily adapt to changing conditions; when anyone is preparing an external or internal assessment or even implementing strategies, they should be mindful of the firm's vision and mission. The feedback loop reveals that a change in any strategic-planning activity can impact any or all other activities. For example, changes in a firm's mission can impact all other activities; *everything a firm does should be mission driven*.

Note in Figure 1-1 that business ethics, social responsibility, environmental sustainability, and international issues impact all activities in the model, as discussed in Chapters 10 and 11, respectively. Regarding business ethics, recent research revealed in the Ethics Capsule 1 concludes that "trustworthiness" is the most important variable in doing business.

ETHICS CAPSULE 1

What Ethics Variable Is Most Important in Doing Business?



MAURICIO ANTON/Science Photo Library/Getty Images

Who Is This Approaching?

Three professors from Harvard Business School, Amy Cuddy, Susan Fiske, and Peter Glick, recently revealed in a new book, *Presence*, that the most important variable in doing business with someone you do not know is trustworthiness. The authors say that within seconds of meeting someone, people determine first and foremost the extent that the person is trustworthy. They say that variable is far more important than competence, intelligence, looks, strength, height, and numerous other variables.

Professor Cuddy explains, "From an evolutionary perspective, it was more crucial to our survival that we know quickly whether a person(s) deserves our trust." In other words, for nearly a million years of man's evolution, when people first met other people, they assessed within seconds whether the new person(s) was trustworthy, meaning is this person going to steal from us or try to kill us. Trustworthiness, these authors report, was always assessed before competence (i.e., can this person start a fire or catch a fish). Cuddy says competence is evaluated today only after trust is established because physically and psychologically, man today is the result of various traits being promoted and others extinguished over the millennia, and trustworthiness is number one according to these researchers.

Curry, Fiske, and Glick go on to say that focusing too much today on displaying your strengths or that you are smart, whether in a job interview or in seeking to do business with someone, can backfire. Cuddy says, "A warm, trustworthy person who is also strong elicits admiration, but only after you've established trust does your strength become a gift, rather than a threat."

Based on Jenna Goudreau, A Harvard psychologist says people judge you based on 2 criteria when they first meet you, http://www.aol.com/article/2016/01/16/a-harvard-psychologist-says-people-judge-you-based-on-2-criteria/21298315/?cps=gravity_4816_5749740174701162847

The strategic-management process is not as cleanly divided and neatly performed in practice as the strategic-management model suggests. Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organization. To develop a strategic plan, many organizations conduct formal meetings semiannually to discuss and update the firm's vision, mission, opportunities, threats, strengths, weaknesses, strategies, objectives, policies, and performance. These meetings are commonly held off premises and are called **retreats**. The rationale for periodically conducting strategic-management meetings away from the work site is to encourage more creativity and candor from participants. Good communication and feedback are needed throughout the strategic-management process.

Application of the strategic-management process is typically more formal in larger and well-established organizations. Formality refers to the extent that participants, responsibilities, authority, duties, and "basic approach" are objective and clear rather than subjective and vague. Smaller businesses tend to be less formal. Firms that compete in complex, rapidly changing environments, such as technology companies, tend to be more formal in strategic planning. Firms that have many divisions, products, markets, and technologies also tend to be more formal in applying strategic-management concepts. Greater formality in applying the strategic-management process is usually positively associated with organizational success.[2]

Stages of Strategic Management

LO 1.2

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, 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 alternative 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 efficiently. Strategy implementation includes developing a strategy-supportive culture, creating an organizational structure, redirecting marketing efforts, preparing budgets, developing and using information systems, devising tactics, 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 strategies 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 on 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 constantly change. 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.

Formulation, implementation, and evaluation of strategy activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional. 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.

Peter Drucker says the prime task of strategic management is thinking through the overall mission of a business—

> that is, of asking the question, "What is our business?" This leads to the setting of objectives, the development of strategies, and the making of today's decisions for tomorrow's results. This clearly must be done by a part of the organization that can see the entire business; that can balance objectives and the needs of today against the needs of tomorrow; and that can allocate resources of men and money to key results.[3]

LO 1.3 Integrating Analysis and Intuition

Edward Deming once said, "In God we trust. All others bring data." The strategic-management process can be described as an objective, logical, systematic approach for making major decisions in an organization. It attempts to organize qualitative and quantitative information in a way that allows effective decisions to be made under conditions of uncertainty. Yet strategic management is not a pure science that lends itself to a nice, neat, one-two-three approach.

Based on past experiences, judgment, and feelings, most people recognize that **intuition** is essential to making good strategic decisions. Some managers and owners of businesses profess to have extraordinary abilities for using intuition alone in devising brilliant strategies. For example, Will Durant, who organized General Motors (GM), was described by Alfred Sloan as "a man who would proceed on a course of action guided solely, as far as I could tell, by some intuitive flash of brilliance. He never felt obliged to make an engineering hunt for the facts. Yet at times, he was astoundingly correct in his judgment."[4] Albert Einstein acknowledged the importance of intuition when he said, "I believe in intuition and inspiration. At times I feel certain that I am right while not knowing the reason. Imagination is more important than knowledge because knowledge is limited, whereas imagination embraces the entire world."[5]

Although some organizations today may survive and prosper because they have intuitive geniuses managing them, most are not so fortunate. Most organizations can benefit from integrating intuition and analysis in decision making. Choosing an intuitive or analytic approach to decision making is not an either–or proposition. Managers at all levels in an organization inject their intuition and judgment into strategic-management analyses. Analytical thinking and intuitive thinking complement each other.

Operating from the I've-already-made-up-my-mind-don't-bother-me-with-the-facts mode is not management by intuition; it is management by ignorance.[6] Drucker says, "I believe in intuition only if you discipline it. 'Hunch' artists, who make a diagnosis but don't check it out with the facts, are the ones in medicine who kill people, and in management kill businesses."[7] In a sense, the strategic-management process is an attempt to duplicate what goes on in the mind of a brilliant, intuitive person who knows the business and assimilates and integrates that knowledge through analysis in formulating strategies.

As Henderson notes:

> The accelerating rate of change today is producing a business world in which customary managerial habits in organizations are increasingly inadequate. Experience alone was an adequate guide when changes could be made in small increments. But intuitive and experience-based management philosophies are grossly inadequate when decisions are strategic and have major, irreversible consequences.[8]

Adapting to Change

The strategic-management process is based on the belief that organizations should continually monitor internal and external events and trends so that timely changes can be made as needed. The rate and magnitude of changes that affect organizations are increasing dramatically, as evidenced by how the drop in oil prices caught so many firms by surprise. Firms, like organisms, must be "adept at adapting" or they will not survive.

To survive, all organizations must astutely identify and adapt to change, as the Chinese Mobike Company does as revealed in the Global Capsule 1 on page 38. The strategic-management process is aimed at allowing organizations to adapt effectively to change over the long run. Waterman noted:

> In today's business environment, more than in any preceding era, the only constant is change. Successful organizations effectively manage change, continuously adapting their bureaucracies, strategies, systems, products, and cultures to survive the shocks and prosper from the forces that decimate the competition.[9]

The need to adapt to change leads organizations to key strategic-management questions, such as "What kind of business should we become?" "Are we in the right field(s)?" "Should we reshape our business?" "What new competitors are entering our industry?" "What strategies should we pursue?" "How are our customers changing?"; and "Are new technologies being developed that could put us out of business?"

Online commerce is forcing hundreds of brick-and-mortar retailers to change or liquidate. The fashion retailer Bebe Stores recently announced it is closing all its 168 stores and going online only. Yarden Research reports that 29.1 percent of retail sales of general merchandise, apparel and accessories, and furniture in America is now purchased online. Companies such as Macy's and Target are converting more and more of their retail store space to warehouse/distribution area rather than being open for customer shopping.

GLOBAL CAPSULE 1

Mobike: Global Bike Renting Takes off Like a Jet Plane

On a political map, the boundaries between countries may be clear, but on a competitive map showing the real flow of financial and industrial activity, as well as idea sharing, the boundaries have largely disappeared. The speedy flow of information has eaten away at national boundaries so that people worldwide readily see for themselves how other people live and work. We have become a borderless world with global citizens, global competitors, global customers, global suppliers, global distributors, and global entrepreneurs.


Natasha-Aleksandra/Shutterstock

Follow Me Biking

There are millions of start-up businesses rolling out services globally. For example, Mobike in Beijing, China, is a bicycle-sharing business with more than 100 million users who use the company's 6 million "connected" bikes. Members pay a fee for the privilege and retrieve a bike from one docking station and return it to another, but recently Mobike members simply download the company app, find a bike near them, scan a code to unlock it, and then drop the bike off wherever they like. GPS and wireless technology built into the bike enable Mobike to track the bike's whereabouts. No docking stations are needed. This type of small business likely would be viable in many cities all over the globe.

In the United States, the largest bike-share fleet resides in Dallas, Texas where 18,000 bikes flood Dallas streets and users are not required to use racks; racks are required in New York City. The rackless business model is the norm in China, but there, and in Dallas, bikes end up in trees, creeks, yards, and block sidewalks.

Source: Based on Clifton Leaf, "Ideas Know No Borders," *Fortune*, August 1, 2017, p. 10. Also, Ken Smith, "A Bike-Share Invasion From China," *Bloomberg Businessweek*, November 13, 2017, p. 22. Also, Eliot Brown, "It's the Wild West for Bike Sharing," March 27, 2018, p. B4.

LO 1.4 Key Terms in Strategic Management

Before we further discuss strategic management, we should define ten key terms: *competitive 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 any activity a firm does especially well compared with activities done by rival firms, or any resource a firm possesses that rival firms desire. For example, having fewer fixed assets than rival firms can provide major competitive advantages. Apple Inc. has virtually no manufacturing facilities of its own, whereas rival Sony owns 57 electronics factories. Apple relies almost entirely on contract manufacturers for production of its products.

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

1. Continually adapting to changes in external trends and events and internal capabilities, competencies, and resources.
2. Effectively formulating, implementing, and evaluating strategies that capitalize on those factors.
3. Offering products that are unique and not easily duplicated by rivals.
4. Accepting tradeoffs by deciding what not to do; no firm can be everything to everybody.

Strategists

Strategists are the individuals most responsible for the success or failure of an organization. They have various job titles, such as *chief executive officer, chief strategy officer, president, owner, chair of the board, executive director, chancellor, dean,* and *entrepreneur.* Jay Conger, professor of organizational behavior at the London Business School and author of *Building Leaders*, says, "All strategists have to be chief learning officers. We are in an extended period of change. If our leaders aren't highly adaptive and great models during this period, then our companies won't adapt either, because ultimately leadership is about being a role model."

Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist).

The chief strategy officer (CSO) position has become common in many organizations. Hundreds of companies have appointed a new chief strategy officer in the last couple of years, including Talon International, TeleTech, Fleet Complete, Ringler Associates, LRES, Amber Engine, Beaver-Visitec International, Momentum Worldwide, PGi, TIA, World Surf League, Bank of Hawaii, Snapdeal, Oramed, Saatva, Centrillion, Geisinger Health System, and Amplifi Commerce.

Strategists differ as much as organizations do, and these differences must be considered in the formulation, implementation, and evaluation of strategies. Strategists differ in their attitudes, values, ethics, willingness to take risks, concern for social responsibility, concern for profitability, concern for short-run versus long-run aims, and management style; some will not even consider various types of strategies because of their personal philosophies. The founder of Hershey, Milton Hershey, built the company so that he could afford to manage an orphanage. From corporate profits, Hershey today cares for about 850 boys and 950 girls in its boarding school for pre-K through grade 12.

Athletic coaches are also strategists. Football, basketball, baseball, soccer, and in fact many athletic contests are often won or lost based on a team's game plan. For example, a basketball coach may plan to fast break and play up-tempo, rather than play more half-court, if the players are smaller and faster, or if the team has more depth than the opposing team. Some inspirational, strategic-planning-related quotes from legendary National Football League (NFL) coaches are provided in Table 1-2.

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 as revealed through numerous examples in Chapter 2.

TABLE 1-2 Eight Famous, Strategic-Planning–Relevant Quotes from NFL Coaches

1. "Perfection is not attainable. But if we chase perfection, we can catch excellence."—*Vince Lombardi, Head Coach Green Bay Packers (1959–1967)*
2. "Leadership is a matter of having people look at you and gain confidence . . . If you're in control, they're in control."—*Tom Landry, Head Coach Dallas Cowboys (1960–1988)*
3. "If you want to win, do the ordinary things better than anyone else does them, day in and day out."—*Chuck Noll, Head Coach Pittsburgh Steelers (1969–1991)*
4. "Leaders are made, they are not born. They are made by hard effort, which is the price which all of us must pay to achieve any goal that is worthwhile."—*Vince Lombardi, Head Coach Green Bay Packers (1959–1967)*
5. "You fail all the time, but you aren't a failure until you start blaming someone else."—*Bum Phillips, Head Coach Houston Oilers (1975–1980), New Orleans Saints (1981–1985)*
6. "Success demands singleness of purpose."—*Vince Lombardi, Head Coach Green Bay Packers (1959–1967)*
7. "Stay focused. Your start does not determine how you're going to finish."—*Herm Edwards, Head Football Coach of the New York Jets (2001–2005), Kansas City Chiefs (2006–2008), and Arizona State University (2018 to present).*
8. "Nobody who ever gave his best regretted it."—*George S. Halas, Head Coach Chicago Bears (1933–1942, 1946–1955, 1958–1967)*

Source: A variety of sources.

A **mission statement** is an "enduring statement of purpose that distinguishes one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms."[10] 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 and serves as a constant reminder to its employees of why the organization exists and what the founders envisioned when they put their fame and fortune (and names) at risk to breathe life into their dreams.

External Opportunities and Threats

External opportunities and **external threats** refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future. Opportunities and threats are largely beyond the control of a single organization, thus, the word *external*. Some general categories of opportunities and threats are listed in Table 1-3. Dollars, numbers, percentages, ratios, and quantification are essential so strategists can assess the magnitude of opportunities and threats and take appropriate actions. For example, in Table 1-3, rather than saying "Marketing is moving rapidly to the Internet," strategists need to conduct research and find, for example, that "spending on online advertisements globally is rising 18 percent annually and represents about 44 percent of total advertising spending in the USA." Strategies must be formulated and implemented based on specific factual information to the extent possible because so much is at stake in having a good game plan.

External trends and events are creating a different type of consumer and consequently a need for different types of products, services, and strategies. A competitor's strength could be a threat, or a rival firm's weakness could be an opportunity. A basic tenet of strategic management is that firms need to formulate strategies to take advantage of external opportunities and avoid or reduce the impact of external threats. For this reason, identifying, monitoring, and evaluating external opportunities and threats are essential for success. This process of conducting research and gathering and assimilating external information is sometimes called **environmental scanning** or *industry analysis*. Lobbying is one activity that some organizations use to influence external opportunities and threats.

Internal Strengths and Weaknesses

Internal strengths and **internal weaknesses** are an organization's controllable activities that are performed especially well or poorly. They arise in the activities of management, marketing, finance/accounting, production, and information systems of a business. Identifying and

TABLE 1-3 Some General Categories of Opportunities and Threats

- Consumers's expectation for green operations and products is rising 8 percent annually in Western Europe.
- Internet marketing is growing 11 percent annually in the United States.
- Commodity food prices rose 6 percent the prior year.
- Oil and gas prices declined 18 percent in the last twelve months.
- Computer hacker problems are increasing 14 percent annually.
- Interest rates are 4 percent but rising in the United States.
- State and local governments's finances worsened 12 percent last year.
- The number of births declined 5 percent annually in many countries over the last three years.
- The gross domestic product (GDP) of Brazil fell from 6 percent to 5 percent in the last year.
- Competitor XYZ just introduced product ABC at a 10 percent lower price than our product.
- Social-media networking is growing 9 percent annually in China.

evaluating organizational strengths and weaknesses in the functional areas of a business is an essential strategic-management activity. Organizations strive to pursue strategies that capitalize on internal strengths and improve internal weaknesses.

Strengths and weaknesses are determined relative to competitors. *Relative deficiency or superiority is important information*. Also, strengths and weaknesses can be determined by elements of *being* rather than *performance.* For example, a strength may involve ownership of natural resources or a historic reputation for quality. Strengths and weaknesses may be determined relative to a firm's own objectives. For instance, high levels of inventory turnover may not be a strength for a firm that seeks never to stock-out.

In performing a strategic-management case analysis, it is important to be as *divisional* as possible when determining and stating internal strengths and weaknesses. In other words, for a company such as Walmart, saying, "Sam Club's revenues grew 11 percent in the recent quarter," is far better than saying "Walmart's revenues grew 6 percent in the recent quarter." Being divisional enables strategies to be more effectively formulated and targeted. This is important because all firms must allocate resources across divisions (segments) of the firm (that is, by product, region, customer, or whatever the various units of the firm are), such as Walmart's Sam's Club compared with Walmart Supercenters, Walmart Mexico, or Walmart Europe.

Both internal and external factors should be stated as specifically as possible, using numbers, percentages, dollars, and ratios, as well as comparisons over time to rival firms. *Quantification is important because strategies will be formulated and resources allocated based on this information.* The more specific the underlying external and internal factors, the more effectively strategies can be formulated and resources allocated. Determining the numbers takes more time, but survival of the firm often is at stake, so doing some research and incorporating numbers associated with key factors is essential.

Internal factors can be determined in a number of ways, including computing ratios, measuring performance, and comparing to past periods and industry averages. Various types of surveys also can be developed and administered to examine internal factors, such as employee morale, production efficiency, advertising effectiveness, and customer loyalty.

Long-Term Objectives

Objectives can be defined as specific results that an organization seeks to achieve in pursuing its mission. Long term means more than one year. Objectives are essential for organizational success because they provide direction; aid in evaluation; foster synergy; reveal priorities; focus coordination; and provide a basis for effective planning, organizing, motivating, and controlling activities. Objectives should be challenging, measurable, consistent, reasonable, and clear. In a multidimensional firm, objectives are needed both for the overall company and each division.

Headquartered in New York City, Foot Locker, Inc. recently posted the following long-term objectives on its corporate website (paraphrased):

1. Annual revenues: $7.5 billion
2. Annual revenues per square foot: $500
3. EBIT margin: 11 percent
4. Profit margin: 7 percent
5. Return on invested capital: 14 percent
6. Inventory turnover: 3+ times

In contrast, Macy's, Inc.'s *Annual Report* lists as objectives to "to grow sales profitably" and "to maximize total shareholder return." Avoid vagueness like this throughout a strategic-planning project!

Strategies

Strategies are the means by which **long-term objectives** will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint venture. Strategies are potential actions that require top-management decisions and significant amounts of the firm's resources.

They affect an organization's long-term prosperity, typically for at least five years, and thus are future oriented. Strategies also have multifunctional and multidivisional consequences and require consideration of both the external and internal factors facing the firm.

Strategies currently being pursued by Amazon are described in Table 1-4.

TABLE 1-4 Amazon's Strategies

The world's largest bookseller, Amazon, is surprisingly embracing the brick-and-mortar bookstore retail format it's been killing for 20 years. Amazon's physical bookstore front fits with the company's increasing reliance on storefronts including AmazonBooks, Amazon Go, and AmazonFresh Pickup to build sales and meet customers where they are. AmazonBooks now has more than 10 physical stores. Another reason for Amazon's new strategy is that physical bookstores are experiencing something of a comeback. From 2010 to 2017, the number of independent bookstores increased by nearly 30 percent. These stores are capitalizing on a loyal customer base that appreciates the value of a real bookstore that hosts readings and events, offers conversation and discussion areas, and enables in-store browsing and discovery. Amazon also recently acquired the brick-and-mortar grocery store chain Whole Foods Market. Entire industries are being rocked or crushed by Amazon's competitive size, scale, diversity, automation, and prowess.

Source: Based on Jeremy Bowman, "3 Reasons Amazon Is Opening a Brick-and-Mortar Bookstore Chain," https://www.aol.com/article/finance/2017/06/07/3-reasons-amazon-is-opening-a-brick-and-mortar-bookstore-chain/22130842/

SWOT Analysis

Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis is an important matching 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.[11] Matching key external and internal factors is a critically important activity in strategic planning. Note in Table 1-5 that the resultant strategies 1, 2, 3, and 4 are SO, WO, ST, and WT strategies, respectively. SWOT analysis is explained further in Chapter 6, but the matching of external with internal factors to generate strategies results in a SWOT Matrix as illustrated in Figure 1-2.

Annual Objectives

Annual objectives are short-term milestones that organizations must achieve to reach long-term objectives. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized. They must also be established at the corporate, divisional, and functional levels in a large organization. Annual objectives should be stated in terms of management, marketing, finance/accounting, and production accomplishments. A set of annual objectives is needed for each long-term objective. These

TABLE 1-5 Matching Key External and Internal Factors to Formulate Strategies

Key Internal Factor	Key External Factor	Resultant Strategy
S1: Demand for Dunkin Donuts up 6 percent annually (internal strength)	+ O1: Desire for healthy products up 8 percent annually (external opportunity)	= SO1: Dunkin Donuts eliminated all artificial dyes and colors in its donuts in 2018
W1: Insufficient production capacity by 1 million units annually (internal weakness)	+ O2: Exit of two major foreign competitors from the area (external opportunity)	= WO1: Purchase competitors' production facilities
S2: R&D has developed four new products in twelve months (internal strength)	+ T1: Sugary drink consumption is declining 5 percent annually (external threat)	= ST1: Spend $1 million to promote healthiness of four new products
W2: Poor employee morale (internal weakness)	+ T2: Healthcare costs rose 7 percent last year (external threat)	= WT1: Implement a new corporate wellness program

	S	W
O		
T		

	STRENGTHS (S)	WEAKNESSES (W)
	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.
OPPORTUNITIES (O)	SO STRATEGIES	WO STRATEGIES
1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	1. 2. ETC.	1. 2. ETC.
THREATS (T)	ST STRATEGIES	WT STRATEGIES
1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	1. 2. ETC.	1. 2. ETC.

FIGURE 1-2
The Basic SWOT Matrix Format

objectives are especially important in strategy implementation, whereas long-term objectives are particularly important in strategy formulation. Annual objectives provide the basis for allocating resources.

Policies

Policies are the means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives. Policies are guides to decision making and address repetitive or recurring situations. Usually, policies are stated in terms of management, marketing, finance/accounting, production/operations, R&D, and MIS activities. They may be established at the corporate level and apply to an entire organization, at the divisional level and apply to a single division, or they may be established at the functional level and apply to particular operational activities or departments.

Like annual objectives, policies are especially important in strategy implementation because they outline an organization's expectations of its employees and managers. Policies allow consistency and coordination within and between organizational departments. For example, IBM recently instituted a new policy requiring employees to work from an IBM office rather than working remotely, reversing a 30-year policy. IBM had previously for decades boasted that more than 40 percent of its employees worked remotely, but the company's new policy is aimed at improving employee collaboration and accelerating the pace of work. The policy is also aimed at reversing IBM's two consecutive quarters of declining revenue. Several large companies are following the IBM lead, recalling at-home employees, including Yahoo, Bank of America, and Aetna Inc.

LO 1.5 Benefits of Engaging in Strategic Management

Strategic management allows an organization to be more proactive than reactive in shaping its own future; it allows an organization to initiate and influence (rather than just respond to) activities, and thus, to exert control over its own destiny. Small business owners, chief executive officers, presidents, and managers of many for-profit and nonprofit organizations have recognized and realized the benefits of strategic management.

Historically, the principal benefit of strategic management has been to help organizations formulate better strategies through the use of a more systematic, logical, and rational approach for decision making. In addition, the process, rather than the decision or document, is also a major benefit of engaging in strategic management. Through involvement in the process (i.e., dialogue and participation), managers and employees become committed to supporting the organization. *A key to successful strategic management is communication, and it may be the most important word in all of management.* Figure 1-3 illustrates this intrinsic benefit of a firm engaging in strategic planning; note that all firms need all employees "on a mission" to help the firm succeed.

Dale McConkey said, "Plans are less important than planning." The manner in which strategic management is carried out is therefore exceptionally important. A major aim of the process

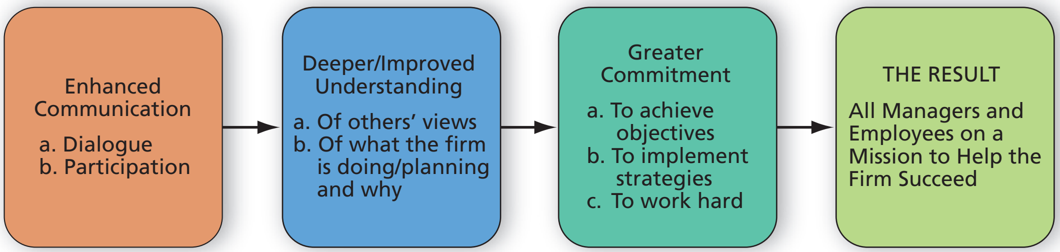


FIGURE 1-3
Benefits to a Firm that Does Strategic Planning

is to achieve understanding and commitment from all managers and employees. Understanding may be the most important benefit of strategic management, followed by commitment. When managers and employees understand what the organization is doing and why, they often feel a part of the firm and become committed to assisting it. This is especially true when employees also understand links between their own compensation and organizational performance. Managers and employees become surprisingly creative and innovative when they understand and support the firm's mission, objectives, and strategies. A great benefit of strategic management, then, is the opportunity that the process provides to empower individuals. **Empowerment** is the act of strengthening employees' sense of effectiveness by encouraging them to participate in decision making and to exercise initiative and imagination and rewarding them for doing so. *You want your people to run the business as it if were their own.*

Strategic planning is a learning, helping, educating, and supporting process, not merely a paper-shuffling activity among top executives. Strategic-management dialogue is more important than a nicely bound strategic-management document. A strategist must avoid developing a strategic plan alone and then present the plan to operating managers to execute. Through involvement in the process, line managers must become "owners" of the strategy. *Ownership of a strategic plan by the people who have to execute the plan is a key to success in any organization.*

Although making good strategic decisions is the major responsibility of an organization's owner or chief executive officer, both managers and employees must also be involved in strategy formulation, implementation, and evaluation activities. Participation is a key to gaining commitment for needed changes. An increasing number of corporations and institutions are using strategic management to make effective decisions. But strategic management is not a guarantee for success; it can be dysfunctional if conducted haphazardly.

Financial Benefits

Organizations that use strategic-management concepts are generally more successful, showing significant improvement in sales, profitability, and productivity, compared to firms without systematic planning activities. High-performing firms tend to do systematic planning to prepare for future fluctuations in their external and internal environments. Firms with management systems that use strategic-planning concepts, tools, and techniques generally exhibit superior long-term financial performance relative to their industry.

High-performing firms seem to make more informed decisions with good anticipation of both short- and long-term consequences. In contrast, firms that perform poorly often engage in activities that are shortsighted and do not reflect good forecasting of future conditions. Strategists of low-performing organizations are often preoccupied with solving internal problems and meeting paperwork deadlines. They typically underestimate their competitors' strengths and overestimate their own firm's strengths. They often attribute weak performance to uncontrollable factors such as a poor economy, technological change, or foreign competition.

More than 100,000 businesses in the United States fail annually. Business failures include bankruptcies, foreclosures, liquidations, and court-mandated receiverships. Although many factors besides a lack of effective strategic management can lead to business failure, the planning concepts and tools described in this text can yield substantial financial benefits for any organization.

Nonfinancial Benefits

Besides helping firms avoid financial demise, strategic management offers other tangible benefits, such as enhanced awareness of external threats, improved understanding of competitors' strategies, increased employee productivity, reduced resistance to change, and a clearer understanding of performance–reward relationships. Strategic management enhances the problem-prevention capabilities of organizations because it promotes interaction among managers at all divisional and functional levels. Firms that have nurtured their managers and employees, shared organizational objectives with them, empowered them to help improve the product or service, and recognized their contributions can turn to them for help in a pinch because of this interaction.

In addition to empowering managers and employees, strategic management often brings order and discipline to an otherwise floundering firm. It can be the beginning of an efficient and effective managerial system. Strategic management may renew confidence in the current business strategy or point to the need for corrective actions. The strategic-management process provides a basis for identifying and rationalizing the need for change to all managers and employees of a firm; it helps them view change as an opportunity rather than as a threat. Some nonfinancial benefits of a firm using strategic management are increased discipline, improved coordination, enhanced communication, increased forward thinking, improved decision making, increased synergy, and more effective allocation of time and resources.

LO 1.6 Why Some Firms Do No Strategic Planning

Some firms do not engage in formal strategic planning, and some firms do engage in strategic planning but receive little support from managers and employees. Ten reasons (excuses) often given for minimal or no strategic planning in a firm are as follows:

1. No formal training in strategic management
2. No understanding of or appreciation for the benefits of planning
3. No monetary rewards for doing planning
4. No punishment for not planning
5. Too busy "firefighting" (resolving internal crises) to plan ahead
6. View planning as a waste of time because no product/service is made
7. Laziness; effective planning takes time and effort; time is money
8. Content with current success; failure to realize that success today is no guarantee for success tomorrow;
9. Overconfidence
10. Prior bad experience with strategic planning done sometime, somewhere

LO 1.7 Pitfalls in Strategic Planning

Strategic planning is an involved, intricate, and complex process that takes an organization into uncharted territory. It does not provide a ready-to-use prescription for success; instead, it takes the organization through a journey and offers a framework for addressing questions and solving problems. Being aware of potential pitfalls and being prepared to address them is essential to success.

There are some pitfalls in doing strategic planning; avoid the following:

- Using strategic planning to gain control over decisions and resources
- Doing strategic planning only to satisfy accreditation or regulatory requirements
- Too hastily moving from mission development to strategy formulation
- Not communicating the plan to employees, who continue working in the dark
- Top managers making many intuitive decisions that conflict with the formal plan
- Top managers not actively supporting the strategic-planning process
- Not using plans as a standard for measuring performance
- Delegating planning to a "planner" rather than involving all managers
- Not involving key employees in all phases of planning
- Not creating a collaborative climate supportive of change
- Viewing planning as unnecessary or unimportant
- Viewing planning activities as silos comprised of independent parts
- Becoming so engrossed in current problems that insufficient or no planning is done
- Being so formal in planning that flexibility and creativity are stifled[12]

LO 1.8 Comparing Business and Military Strategies

A strong military heritage underlies the study of strategic management. Terms such as *objectives, mission, strengths*, and *weaknesses* were first formulated to address problems on the battlefield. According to *Webster's New World Dictionary, strategy* is "the science of planning and directing large-scale military operations, of maneuvering forces into the most advantageous position prior to actual engagement with the enemy."[13] The word *strategy* comes from the Greek *strategos*, which refers to a military general and combines *stratos* (the army) and *agos* (to lead). The history of strategic planning began in the military. A key aim of both business and military strategy is "to gain competitive advantage." In many respects, business strategy is like military strategy, and military strategists have learned much over the centuries that can benefit business strategists today.

Both business and military organizations try to use their own strengths to exploit competitors' weaknesses. If an organization's overall strategy is wrong (ineffective), then all the efficiency in the world may not be enough to allow success. Business or military success is generally not the happy result of accidental strategies. Rather, success is the product of both continuous attention to changing external and internal conditions and the formulation and implementation of insightful adaptations to those conditions. The element of surprise provides great competitive advantages in both military and business strategy; information systems that provide data on opponents' or competitors' strategies and resources are also vitally important.

A fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with an assumption of *competition*, whereas military strategy is based on an assumption of *conflict*. In a military setting there is generally one winner, but in business there are usually multiple winners. For example, several firms can win in the hamburger business; you do not have to confront McDonald's head on, instead offer a different mix of burgers, restaurant design, and customer service and still be successful. This example explains competition and avoiding conflict with a larger player such as McDonald's. In military situations, it is often impossible to avoid conflict with the larger army. Business strategists have access to valuable insights that military thinkers have refined over time. Superior strategy formulation and implementation can overcome an opponent's superiority in numbers and resources.

Born in Pella in 356 BCE, Alexander the Great was king of Macedon, a state in northern ancient Greece. Tutored by Aristotle until the age of 16, Alexander had created one of the largest empires of the ancient world by the age of thirty, stretching from the Ionian Sea to the Himalayas. Alexander was undefeated in battle and is considered one of history's most successful commanders. He became the measure against which military leaders even today compare themselves, and military academies throughout the world still teach his strategies and tactics. Alexander the Great once said, "Greater is an army of sheep led by a lion, than an army of lions led by a sheep." This quote reveals the overwhelming importance of an excellent strategic plan for any organization to succeed.

Both business and military organizations must adapt to change and constantly improve to be successful. Too often, firms do not change their strategies when their environment and competitive conditions dictate the need to change. Gluck offered a classic military example of this:

> When Napoleon won, it was because his opponents were committed to the strategy, tactics, and organization of earlier wars. When he lost—against Wellington, the Russians, and the Spaniards—it was because he, in turn, used tried-and-true strategies against enemies who thought afresh, who were developing the strategies not of the last war but of the next.[14]

Sun Tzu's *The Art of War* has been applied to many fields well outside of the military. Much of the text is about how to fight wars without actually having to do battle: It gives tips on how to outsmart one's opponent so that physical battle is not necessary. As such, the book has found application as a training guide for many competitive endeavors that do not involve actual combat, such as in devising courtroom trial strategy or acquiring a rival company. Similarities can be construed from Sun Tzu's writings to the practice of formulating and implementing strategies among businesses today. Table 1-6, on page 48, provides narrative excerpts from *The Art of War*; which of the principles listed do you believe are most applicable or analogous to companies as compared to armies?

TABLE 1-6 Excerpts from Sun Tzu's *The Art of War* Writings

- Strategic planning is a matter of vital importance to the state: a matter of life or death, the road either to survival or ruin. Hence, it is imperative that it be studied thoroughly.
- Strategic planning is based on deception. When near the enemy, make it seem that you are far away; when far away, make it seem that you are near. Hold out baits to lure the enemy. Strike the enemy when he is in disorder. Avoid the enemy when he is stronger. Attack the enemy where he is unprepared. Appear where you are not expected.
- A speedy victory is the main object in strategic planning. If this is long in coming, weapons are blunted and morale depressed. When the army engages in protracted campaigns, the resources of the state will fall short. Thus, while we have heard of stupid haste in war, we have not yet seen a clever operation that was prolonged.
- Generally, in strategic planning the best policy is to take a state intact; to ruin it is inferior to this. To capture the enemy's entire army is better than to destroy it; to take intact a regiment, a company, or a squad is better than to destroy it. For to win one hundred victories in one hundred battles is not the epitome of skill. To subdue the enemy without fighting is the supreme excellence. Those skilled in war subdue the enemy's army without battle.
- The art of using troops is this: When ten to the enemy's one, surround him. When five times his strength, attack him. If double his strength, divide him. If equally matched, you may engage him with some good plan. If weaker, be capable of withdrawing. And if in all respects unequal, be capable of eluding him.
- Know your enemy and know yourself, and in a hundred battles you will never be defeated. When you are ignorant of the enemy but know yourself, your chances of winning or losing are equal. If ignorant both of your enemy and of yourself, you are sure to be defeated in every battle.
- He who occupies the field of battle first and awaits his enemy is at ease, and he who comes later to the scene and rushes into the fight is weary; those skilled in war bring the enemy to the field of battle rather than being brought there by him.
- Analyze the enemy's plans so that you will know his deficiencies as well as his strengths. Agitate him to ascertain the pattern of his movement. Lure him out to reveal his dispositions and position. Launch probing attacks to decipher strengths and weaknesses.
- Avoid strength. Strike weakness. Anyone able to win the victory by modifying his tactics in accordance with the enemy situation may be said to be divine.
- If you decide to go into battle, do not announce your intentions or plans. Project "business as usual."
- Unskilled leaders work out their conflicts on battlefields. Brilliant strategists rarely go to battle; they achieve their objectives through tactical positioning well in advance of confrontation.
- When you do decide to challenge another company (or army), much calculating, estimating, analyzing, and positioning bring triumph. Little computation brings defeat.
- Skillful leaders do not let a strategy inhibit creative counter-movement. Thus, commands from a distance should not interfere with spontaneous maneuvering at the point of attack.
- When a decisive advantage is gained over a rival, skillful leaders do not press on. They hold their position and give their rivals the opportunity to surrender or merge. Never allow your forces to be damaged by those who have nothing to lose.

Note: The word *strategic planning* is substituted for *war* or *warfare.*
Source: Based on *Sun Tzu's The Art of War* Writings, 1910, Lionel Giles.

LO 1.9 Developing Employability Skills

The how-to, skills-oriented, practical approach of this textbook's content and layout enables students to gain numerous career-enhancing (employability) skills that experts say are vital for success in the twenty-first-century workplace. "**Employability**" skills include actual tools, techniques, and concepts being used by businesses and learned by students using this text; the skills can be grouped into 6 broad categories and 14 specific categories, as shown in Table 1-7.

TABLE 1-7 Employability Skills to Be Gained by Students Using This Text

Broad Skills to Be Developed

1. Critical thinking: to define and solve problems and make decisions or form judgments about a particular situation or set of circumstances.
2. Collaboration: to work with colleagues on reports, presentations, and projects.
3. Knowledge application and analysis: to learn a concept and then apply that knowledge to other challenges.
4. Business ethics and social responsibility: to know in your heart that good ethics is good business.
5. Information technology: to enhance one's word-processing, spreadsheets, database, presentation, and software skills.
6. Data literacy: to access, assess, interpret, manipulate, summarize, and communicate data.

Specific Skills to Be Gained; Learn How to:

1. Develop a three-year strategic plan for any for-profit or nonprofit company or organization.
2. Write and evaluate vision and mission statements.
3. Conduct an external and internal strategic planning assessment.
4. Formulate strategies using SWOT analysis.
5. Develop and use a BCG and IE portfolio matrix analysis.
6. Develop and use a QSPM analysis.
7. Determine an appropriate set of recommendations with associated costs for any firm.
8. Develop and use perceptual maps to better position firms versus rival companies.
9. Determine the value of any firm using various corporate valuation methods.
10. Perform EPS-EBIT analysis to determine the extent that debt versus stock should be used to raise needed capital for the firm.
11. Develop and use value chain analysis, balance scorecards, and financial ratio analysis.
12. Evaluate corporate structures and develop effective organizational charts.
13. Develop and use projected financial statements to support any proposed strategic plan.
14. Use a popular corporate strategic planning Excel template.

Means Used to Develop Skills

This text has:

11 concise chapters organized around a practical, integrative strategic-planning model

61 end-of-chapter assurance-of-learning exercises organized in four effective, fun categories

355 end-of-chapter review questions

30 brand-new, student-friendly cases on companies in the news undergoing change

11 mini-cases with chapter relevant questions

1 Cohesion Case on Coca-Cola at the end of this chapter and many associated end-of-chapter exercises

1 popular Excel-based, Strategic Planning Template widely used by both companies and students doing strategic planning (see the author website at www.strategyclub.com)

750 chapter MyLab questions written by the authors

750 case MyLab questions written by the authors

IMPLICATIONS FOR STRATEGISTS

Figure 1-4 reveals that to gain and sustain competitive advantages, a firm must create and nurture a clear vision and mission, and then systematically formulate, implement, and evaluate strategies. Consistent business success rarely happens by chance; it most often results from careful planning followed by diligent, intelligent, hard work. If the process were easy, every business would be successful. Consistent success requires that strategists gather and assimilate relevant data, make tough trade-off decisions among various options that would benefit the firm, energize and reward employees, and continually adapt to change. To survive and prosper, a business must gain and sustain at least several major competitive advantages over rival firms. In the process, many attractive options will be discarded in favor of a few; strategic planning in a sense can be defined as "choosing what not to do."

The strategic-management process represents a systematic means for creating, maintaining, and strengthening a firm's competitive advantages. This text provides step-by-step guidance throughout the process to help strategists gain and sustain a firm's competitive advantages. As the eleven chapters unfold, more than one hundred key elements of the process, ranging from developing portfolio matrices to managing workplace romance, are examined to help strategists lead the firm in delivering prosperity to shareholders, customers, and employees. The 11 chapters provide a clear, planned, journey through the strategic-management process, with numerous highlights accented along the way, so strategists can perform essential analyses and anticipate and resolve potential problems in leading their firm to success. Use the free Excel template at www.strategyclub.com to keep your firm's strategic-planning process track.

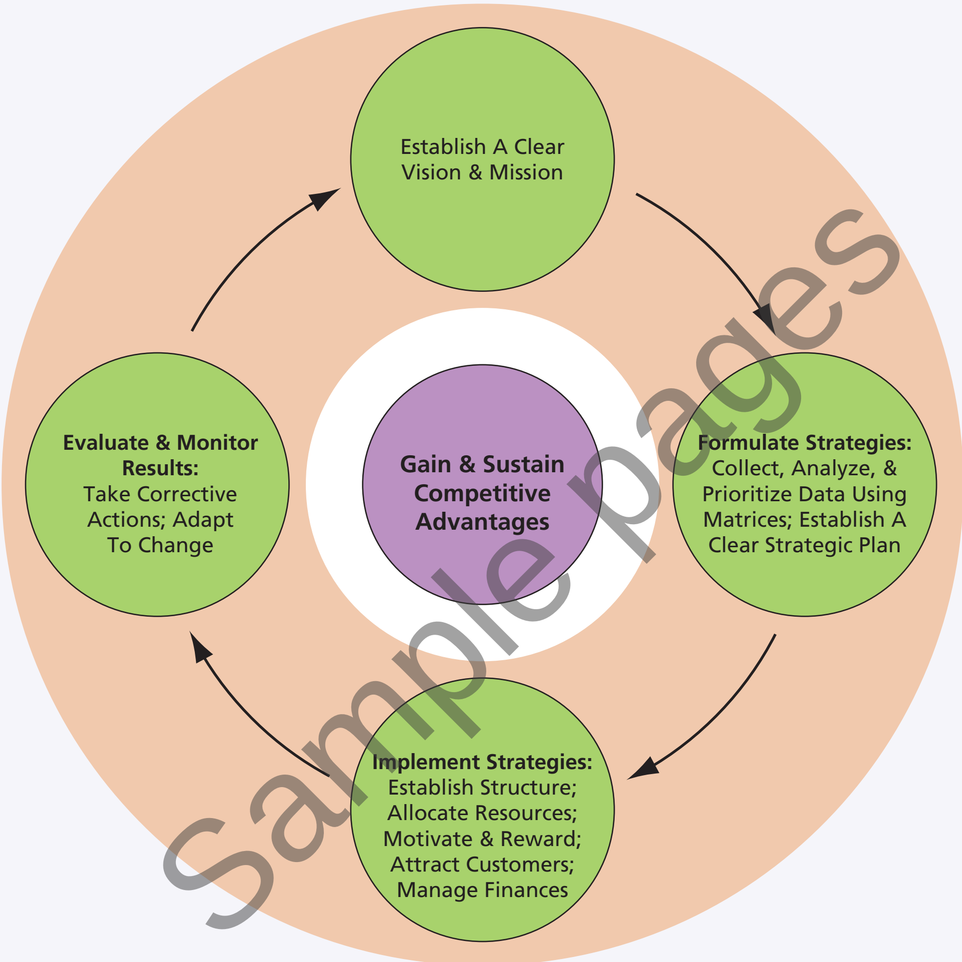


FIGURE 1-4
How to Gain and Sustain Competitive Advantages

IMPLICATIONS FOR STUDENTS

In performing strategic-management case analysis, emphasize throughout your project, beginning with the first page or slide, where your firm has competitive advantages and disadvantages. More importantly, emphasize throughout how you recommend the firm sustain and grow its competitive advantages and how you recommend the firm overcome its competitive disadvantages. Pave the way early and often in your presentation for what you ultimately recommend your firm should do over the next three years. The notion of competitive advantage should be integral to the discussion of every page or PowerPoint slide. Therefore, avoid being merely *descriptive* in your written or oral analysis; rather, be *prescriptive*, insightful, and forward-looking throughout your project.

For all the reasons given in Table 1-8, use the free Excel strategic planning template at www.strategyclub.com to develop your three-year strategic plan for any assigned case company.

TABLE 1-8 Twelve Reasons Students (and Companies) Use the Strategic Planning Template at www.strategyclub.com

1. To save time in preparing a strategic-management case analysis; enables user to focus on the "thinking rather than the mechanics" of developing matrices and performing analyses.
2. To follow the correct process in formulating and implementing strategies.
3. To avoid mistakes in math calculations, plotting points, and drawing graphs.
4. To develop professional-looking charts, graphs, and matrices.
5. To develop existing and projected financial ratios.
6. To correctly place firms in BCG and IE portfolio matrices.
7. To examine many different scenarios for using debt versus stock to raise needed capital, using EPS-EBIT analysis.
8. To vary weights and ratings in matrices and to see the resultant impact on total weighted scores.
9. To more easily share information with team members and colleagues.
10. To more easily develop projected financial statements to reveal the expected impact of various strategies.
11. To develop skills with perceptual mapping or product positioning.
12. To gain experience using actual corporate strategic planning software; many business jobs require proficiency in Excel, which students gain in using the template.

Chapter Summary

All firms have a strategy, even if it is informal, unstructured, and sporadic. All organizations are heading somewhere, but unfortunately some organizations do not know where they are going. The old saying "If you do not know where you are going, then any road will lead you there!" accents the need for organizations to use strategic-management concepts and techniques. The strategic-management process is becoming more widely used by small firms, large companies, nonprofit institutions, governmental organizations, and multinational conglomerates alike. The process of empowering managers and employees has almost limitless benefits.

Organizations should take a proactive rather than a reactive approach in their industry, and they should strive to influence, anticipate, and initiate rather than just respond to events. The strategic-management process embodies this approach to decision making. It represents a logical, systematic, and objective approach for determining an enterprise's future direction. The stakes are generally too high for strategists to use intuition alone in choosing among alternative courses of action. Successful strategists take the time to think about their businesses, where they are with their businesses, and what they want to be as organizations; and then they implement programs and policies to get from where they are to where they want to be in a reasonable period of time.

It is a known and accepted fact that people and organizations that plan ahead are much more likely to become what they want to become than those that do not plan at all. A good strategist plans and controls his or her plans, whereas a bad strategist never plans and then tries to control people! This text is devoted to providing you with the tools necessary to be a good strategist.

Key Terms and Concepts

annual objectives (p. 42)
competitive advantage (p. 38)
employability (p. 48)
empowerment (p. 45)
environmental scanning (p. 40)
external opportunities (p. 40)