STRATEGIC MANAGEMENT PRACTICE

READINGS IN STRATEGIC MANAGEMENT

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Preface

The study of strategic management and business policy demands that we understand how the art and science of managing strategically is actually accomplished. Textbooks focus on a theory that provides a critically important basis by which the experiences of individual companies can be generalized to new situations faced by strategists. Often, however, the business examples that are briefly abstracted in textbooks are so shallow in content and vague in meaning that we are left uncertain and suspicious as to their value. Additionally, textbook authors are typically perceived as removed from the practice of strategic management, or at best, reporters of current business actions. While this perception is rarely a fact, it may well be the case that practicing managers are also an important source of information from whom we can learn about the realities of strategy formulation, implementation, and control.

The conclusion that we have reached is simply that despite their inestimable value as instructional tools, textbooks need to be supplemented with input by and about the actual behaviors, experiences, attitudes, and preferences of company executives. In response to this need, we have assembled *Strategic Management Practice*.

This book is no random assembly of loosely connected readings. Rather, it is a carefully selected and coordinated set of 29 articles that provides an up-to-date overview of strategic management in action from the perspective of practicing executives. While most authors would be justifiably reluctant to try to provide "how-to" dictates in an article, the selections in this book were chosen in part because they contain useful observations about how strategic planning and action can be productively managed.

The articles are arranged in four sections around four themes: the strategic management process, competitive environment analysis, alternative company strategies, and strategy implementation. We believe that these themes represent key issues of investigation under any of several varied pedagogical approaches to the study of strategic management.

The articles themselves were written by some of the most prominent and insightful executives and scholars in the field of strategic management. The works were carefully reviewed for quality and interest level by 13 successful and popular journals that target executive readership. The original publishers of the articles that you will read are the *Academy of Management EXECUTIVE*, *Business*, *Business Horizons*, *California Management Review*, *Consultation*, *Journal of Business Strategy*, *Journal of Engineering Technology Management*, *Journal of Small Business Management*, *Management Review*, *Managerial Planning*, *Planning Review*, *Sloan Management Review*, and *Small Business Reports*.

Abstracts of the articles have been positioned in front of the book's four sections. These abstracts provide incisive overviews of the theme and key points of each article. While these are not article summaries and thus cannot substitute for the actual study of the articles themselves, the abstracts will help readers to anticipate the kinds of knowledge and insights that each article is likely to yield.

As consultants and practitioners ourselves, we rely on the information that is contained in the articles that we selected for this book. We hope that they provide you with similar kinds of valuable insights and, by so doing, that they contribute to your strategic management practice.

In using this book, we hope that you share our enthusiasm both for the rich subject matter of strategic management and for the articles that we have selected. We value your recommendations and appreciate hearing from you. Jack can be reached at the School of Business Administration, George Mason University, Fairfax, VA 22030, or by telephone at (703) 323-4361. Richard's address is College of Business Administration, University of South Carolina, Columbia, SC 29208; his telephone number is (803) 777-5961.

Jack Pearce
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PART I

The Strategic Management Process

Strategic management is the set of decisions and actions that result in the formulation, implementation, and control of strategies designed to achieve the objectives of an organization. Thus, strategic management involves a process by which major planning activities are undertaken and coordinated. Among these activities are the determination of the company mission; assessment of the firm's resources and capabilities; analysis of the firm's external competitive environment; assessment of the company's strategic options; and determination of the firm's long-term objectives and master strategy. Other activities involve: the development of short-term objectives, annual and functional strategies, and operational policies; design of implementation strategies involving budgeted resource allocations; matching of tasks, people, technologies, and reward systems; and development of monitoring and control systems to gauge strategic performance. Strategic management processes also involve the activation of all of the activities.

The focus of this first set of eight articles is to provide you with alternative ways of viewing and integrating the activities of strategic management into a carefully coordinated process. Having completed the readings, you will be in an excellent position to decide which approach is best for the situation that you are studying or even to generate a slightly modified process to address special planning needs that your strategic management situation has created.

The final two articles in this section address major tasks that characterize all perspectives on the strategic management process: specification of the company mission and development of the firm's objectives.

Abstracts

AN EXECUTIVE-LEVEL PERSPECTIVE ON THE STRATEGIC MANAGEMENT PROCESS

Strategic management is acknowledged by corporate executives as their principal approach to determining and directing the efforts of their firms for the long term. The problem for most planning executives who are as yet uncommitted to a strategic management system is that of determining the ways by which this "new" approach differs from their current framework for planning.

The focus of this article is to provide an executive-level perspective on the management process of strategy formulation and implementation. The emphasis is on the major components of the process and their interrelationships, followed by a critical evaluation of the system's strengths and limitations.

Because of the similarity among general models of the strategic management process, it is possible to develop one eclectic model which is representative of the foremost thought in the area. The basic components of almost all strategic management models are very similar: company mission, company profile, external environment, interactive opportunity analysis and strategic choice decision making, long-term objectives, grand strategy, annual objectives, operating strategies, implementation of strategy, and review and evaluation. The objective of the process pertains to the formulation and implementation of strategies which result in a long-term achievement of the company's mission and a near-term achievement of its aims.

There are several important implications of strategic management as a process. First, it means that a change in any components of the system will affect several or all other components. A second implication is the sequential nature of strategy formulation and evaluation. A third implication of strategic management as a process is the necessity for feedback from implementation, review, and evaluation to the early stage components of the process. A final implication is the need to view the process as a dynamic system.

It is also important to understand the limitations of strategic management models so as not to diminish their overall impact by overlooking their weaknesses. In this article, three such limitations will be stressed; namely, that most models are wholistic, descriptive, and nonpolitical.

THE STRATEGIC MANAGEMENT PROCESS: A MODEL AND TERMINOLOGY

The purpose of this article is to present a model for the terms and expressions used in describing it.

Strategic management is concerned with making and implementing decisions about an organization's future direction. Basically, strategic

management can be broken down into two phases: strategic planning and strategy implementation. Strategic planning involves making decisions with regard to:

1. Determining the organization's mission, which includes a statement of both philosophy and purpose.
2. Formulating policies to guide in establishing objectives, choosing a strategy, and implementing the chosen strategy.
3. Establishing long- and short-term objectives to meet the organization's mission.
4. Determining the strategy or strategies to pursue in achieving the organization's objectives.

Strategy implementation is concerned with making decisions related to developing an organizational structure to achieve the strategy, ensuring effective performance of activities necessary to accomplish the strategy, and monitoring the effectiveness of the strategy in achieving organizational objectives.

The organization's mission statements, policies, objectives, and strategy are not mutually exclusive components of the strategic planning process. Rather they are highly interdependent and inseparable. Because of their interdependence, all of the steps in the strategic management process need to be examined when a strategy fails. Likewise, all of the steps need to be examined when a strategy is successful in order to ensure future successes.

THE NEW STRATEGIC PLANNING BOOM: HOPE FOR THE FUTURE OR A BUREAUCRATIC EXERCISE?

Strategic planning is an increasingly important part of the business world. It functions not as a means of tactical development, but as an attempt to assess and prepare for likely changes in technology, ideology, politics, and environment. For strategic planning to succeed, preknowledge and preinformation concerning the future must be an integral part of the planning. Regardless of the model or system used, strategic planning involves:

1. Adjustment to the inevitable by anticipation or a refusal to accept inevitability.
2. Consideration of society.
3. A choice of goals and means to those goals.
4. Prediction of unintended side effects.
5. Management of risk and uncertainty.

Strategic planners need to develop a theory of change by using accounting, statistics, economics, and social psychology. Strategic planners also need to act responsibly and ethically with a clear perception of the impact that planning has on society and labor. Last, planners should learn to take advantage of available power, resources, and information.

TOUGH QUESTIONS FOR DEVELOPING STRATEGIES

The real cost of an unfocused strategy dialogue between corporate and operating management is felt when the strategy fails to deliver the promised outcomes. Most problems are eventually traced to unrealistic assumptions, distorted resource allocations, or a lack of management commitment. At the heart of all efforts at improvement is the development of robust and mutually acceptable criteria for testing and refining business strategies.

While the impulse to make unrealistic assumptions colors all forecasts, the real reasons are more deeply rooted in the way managers cope with ambiguity. The author identifies three sources of bias: anchoring, selective perception, and illusion of control. These three problems are compounded when top management has unrealistic expectations and requires operating management to make commitments that may not be possible.

Corporate allocations of resources for maximum impact are often thwarted by the "gamesmanship" of operating managers manipulating the planning process to serve their own ends. The resulting distortions are magnified when the measures of prospective performance used to compare strategies are themselves misleading. The result is a bias toward short-run payoffs from investment in mature businesses.

Strategy failures often boil down to a lack of cohesion and commitment by management. A lack of cohesion is often evident in strategies that have evolved over time and are held together by shaky alliances among functional departments. However, the consequences of a lack of cohesion and resulting absence of commitment to integrated action are greatest when the business embarks on a new strategy.

To avoid the predictable reasons for strategy failure, the author provides a series of evaluation criteria for corporate and operating managers. These criteria are cast in the form of seven "tough" questions that are understood and accepted as appropriate ground rules by all participants in the strategic dialogue. These criteria pertain to suitability, validity, feasibility, consistency, vulnerability, adaptability, and financial desirability. Strategies that do not meet these criteria are unlikely to succeed.

THE STRATEGY AUDIT

Strategic errors can be most costly, even threatening the survival of the affected enterprise. One potentially useful approach to avoid this problem is to conduct an annual audit of corporate strategy. Such a strategy audit should not take the form of a backward-looking critique of what has been done. Rather, it should be designed to take full advantage of the experience and expertise of the board of directors in determining the best strategy for guiding the corporation in the future.

Companies encounter a number of pitfalls in developing a sound strategy, such as habit and paper entrepreneurialism, or they may undertake dangerous cure-alls such as unwise portfolio management and diversification. Executives are hindered in strategy formulation by such factors as lack of objectivity, pressures for performance, and inexperience. A regular systematic strategy audit by the board can reveal inconsistencies and weaknesses and, thus, provide a stimulus for corrective action.

The well-planned audit will address such issues as whether the firm is adequately informed about its markets, what resources will be required to implement a chosen strategy, and whether provision has been made for employing the strategy as a guide for operating decisions. In auditing overall corporate strategy, directors must also be sensitive to broader corporate issues. These include objectives, finance, scope of operations, and organization.

PRINCIPLES OF STRATEGIC PLANNING APPLIED TO INTERNATIONAL CORPORATIONS

Much of the information on strategic planning models ignores the unique problems of firms engaged in international business. In this article the authors examine strategic planning models in an international arena by analyzing the conceptual difficulties the models encounter when applied to international firms and by noting issues multinational corporations need to include in their plans.

The authors explore the problems of strategic planning in the global marketplace by first examining the firm's external situation for opportunities and threats, then performing an internal analysis to determine the firm's strengths and weaknesses, and finally developing strategies to capitalize on the strengths, pursue the opportunities, and thwart the threats.

Among the issues discussed are foreign government industrial policies (including nationalization and protectionism); international finance; joint ventures; and the impact of global operations on the experience curve, market segmentation, and portfolio planning.

CORPORATE MISSION STATEMENTS: THE BOTTOM LINE

Developing a mission statement is an important first step in the strategic planning process. Nevertheless, the components of mission statements are among the least empirically examined issues in strategic management. Thus, the research reported in this paper focuses on the nature and role of mission statements in organizational processes; its goal is to improve our understanding of the link between strategic planning and firm performance.

The findings of this study support the idea that the inclusion of eight desired components in a mission statement is positively associated with a firm's financial performance. Furthermore, the findings suggest that corporate philosophy, self-concept, and public image are especially important components to include in an organizational mission statement. A comprehensive mission statement should provide a basis for making better strategic decisions which, in turn, should contribute to improved organizational performance.

The authors further argue that organizations that differ dramatically in such areas as profit motive, stakeholders, and geographic marketplaces will differ in the components included in their mission statement. For optimal effectiveness, mission statements need to be as distinctive as the relatively unique competitive situations in which organizations conduct their strategic planning.

OBJECTIVES AND ALTERNATIVES IN THE CONTEXT OF SYSTEMS ANALYSIS AND MBO

Setting objectives and developing alternatives are essential steps in the systems analysis framework for problem solving. This paper considers tasks and techniques designed to improve analysis and communication in systems analysis and also management by objectives (MBO) planning. Fundamental tasks are proposed with respect to setting objectives and developing alternatives.

The identification of major needs or goals, objectives, and subobjectives is a complex process whereby broad needs or goals are explicitly developed and then broken down into more specific objectives and subobjectives. After identifying needs, objectives, and subobjectives, and developing a hierarchical structure, the alternative ways of achieving the objectives must be developed and evaluated. These alternative ways can be specified explicitly as sets of activities or tasks in order to specify each alternative set of activities more completely and precisely for management planning and control purposes.

The significance of the tasks is discussed in both the context of the systems analysis framework and in the context of the management by objectives approach to planning. In addition, managerial techniques to accomplish the fundamentals are described and demonstrated. A short case study is presented in order to clarify the proposed system of tasks and techniques.

Reading 1

An Executive-Level Perspective on the Strategic Management Process

John A. Pearce II

Strategic management is increasingly being acknowledged by corporate executives as their principal approach to determining and directing the efforts of their firms for the long term. One recent study found that 49 percent of the predominately *Fortune* 500 firms that responded to a mail questionnaire were engaged in "complete" strategic planning. These firms had written long-range plans covering at least three years which were rated as comprehensive, systematic, and future oriented. An additional 35 percent of the respondents were classified as involved in some, but not all, major phases of strategic management planning.[1] However, the approach has not experienced similar adoption rates across the wide spectrum of American businesses. This is particularly true among firms which do not employ permanent personnel with responsibilities exclusively in planning, among smaller firms, and within certain industries. A recent survey of banking institutions with total assets in excess of $10 million found that only 33 percent of the respondents had long-range plans with at least a two-year time horizon. The research also found the expected positive relationship between bank size and involvement in strategic management planning. Sixty percent of the banks reporting over $500 million in total assets prepared long-range plans, while less than 27 percent of the banks with $10 to $50 million took similar action.[2]

However, the trend favoring a strategic management orientation is clear and accelerating, particularly as evidence mounts attesting to its favorable bottom-line impact.[3] The problem for most planning executives who are as of yet uncommitted to a strategic management system is that of determining the ways by which this "new" approach differs from their current framework for planning.[4] There is an understandable reluctance to restructure existing systems, with the associated inherent cost, before the pros and cons of the proposed method are clear. The focus of this article is to provide an executive-level perspective on the management process of strategy formulation and implementation. The emphasis will be on the major components of the process and their interrelationships, followed by a critical evaluation of the system's strengths and limitations.

THE STRATEGIC MANAGEMENT PROCESS

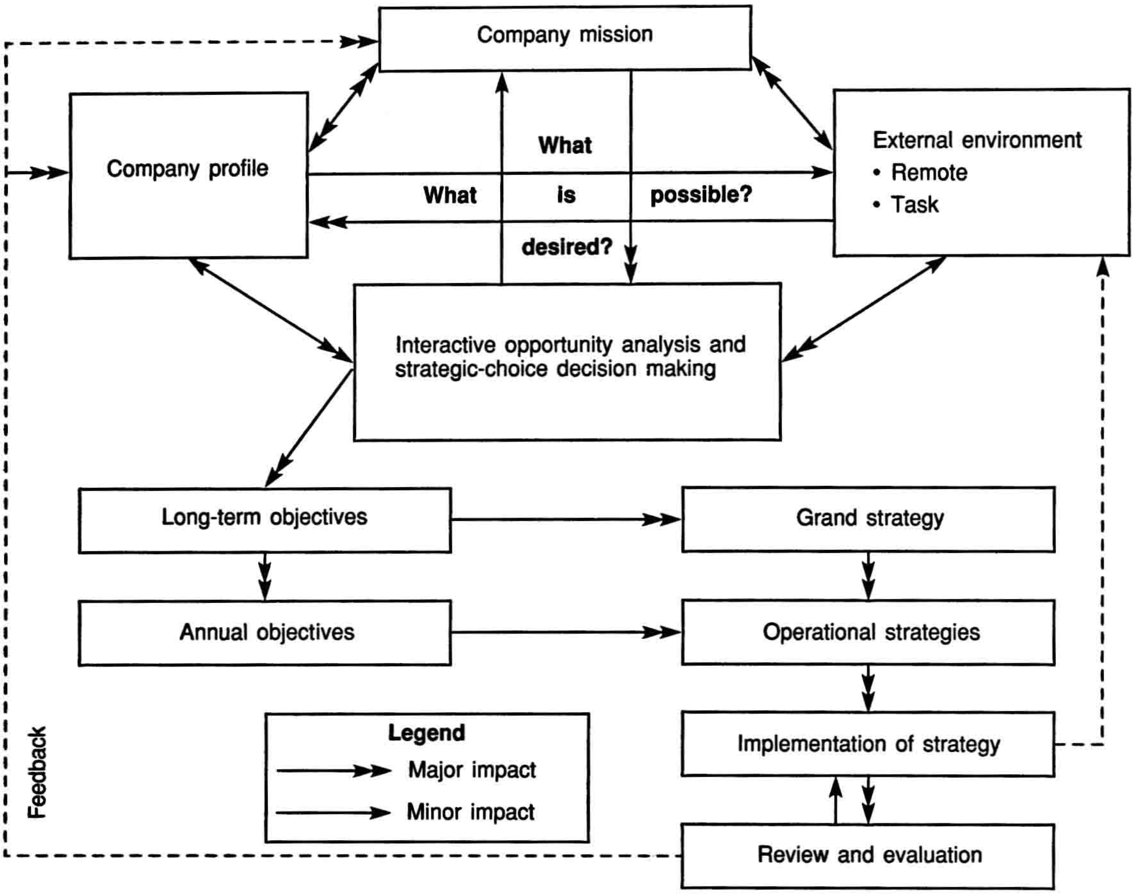
The processes which businesses use as a means to formulate and direct their strategic management activities vary among companies. Sophisticated planning organizations, like General Electric, Procter & Gamble, and IBM, have developed more detailed processes than similarly sized, less formal planners. Small businesses which rely on the strategy formulation skills and limited time of an entrepreneur typically exhibit very basic planning concerns when contrasted with larger firms in their industries. Understandably, firms with diverse operations due to their reliance on multiple products, markets, or technologies also tend to utilize more complex strategic management systems. Nevertheless, the basic components of almost all strategic management models are very similar.[5]

Because of the similarity among general models of the strategic management processes, it is possible to develop one eclectic model which is representative of the foremost thought in the area. One such effort, the Strategic Management Model, is shown in Figure 1. It provides a visual display of the major components of the entire strategic management process. The model also shows conceptually how the components are related and their sequence throughout the process.

COMPONENTS OF THE STRATEGIC MANAGEMENT MODEL

In this section the components of the Strategic Management Model will be defined and briefly described. The majority of the components will be familiar, but the discussion which accompanies them will indicate the new scope, priorities, relationships, and imperatives of strategic management.

FIGURE 1 Strategic Management Model



Company Mission

The mission of a business is the fundamental, unique purpose that sets it apart from other firms of its type and that identifies the scope of its operations in product and market terms. The mission is a general, enduring statement of company intent. It embodies the strategic decision makers' business philosophy; it implies the image the company seeks to project; it reflects the firm's self-concept; and it indicates the principal product or service areas and the primary customer needs which the company will attempt to satisfy. Further, it suggests the prioritized goals of the firm in terms of survival, growth, and profitability. In short, the mission describes the product, market, and technological