

Strategic Management

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MGM414

Lecture 1



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Chapter

01

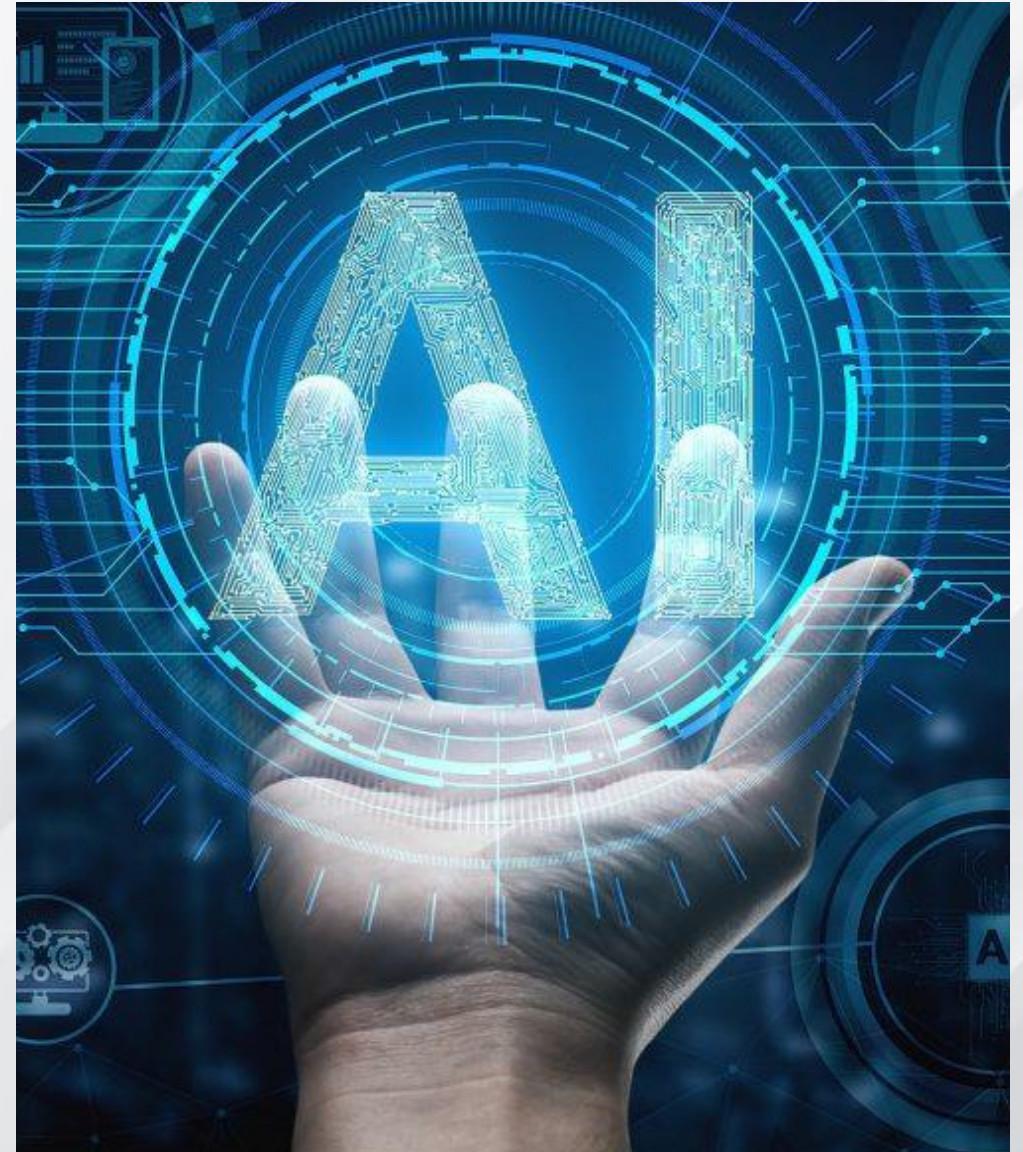
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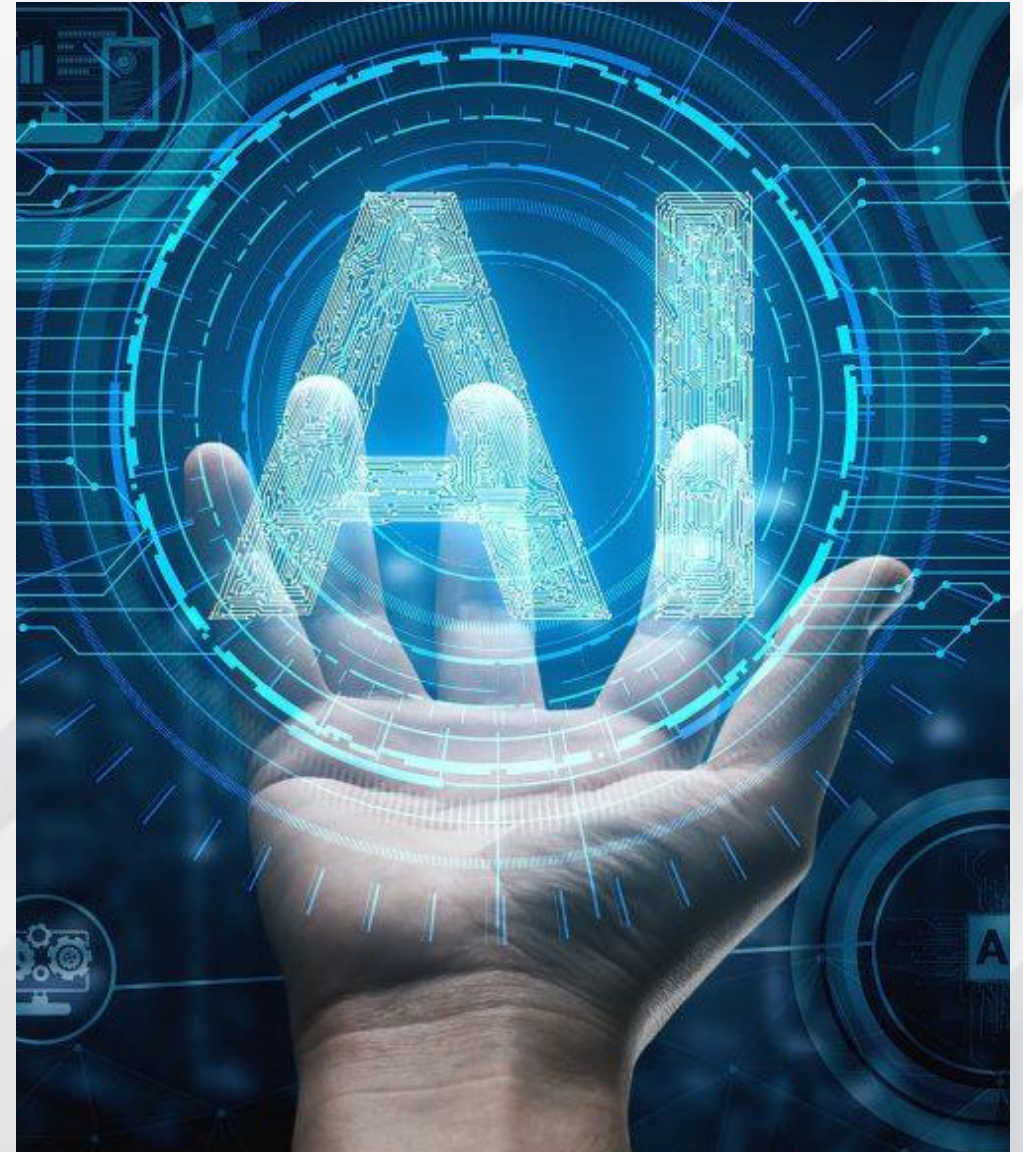
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Strategic Management

Strategic management involves developing and implementing plans to help an organization achieve its goals and objectives. This process can include formulating strategy, planning organizational structure and resource allocation, leading change initiatives, and controlling processes and resources.



Chapter

01

What Is Strategy?

Strategy is the set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors.



Chapter

01

A good strategy

A good strategy enables a firm to achieve superior performance. It consists of three elements:

1. A diagnosis of the competitive challenge.
2. A guiding policy to address the competitive challenge.
3. A set of coherent actions to implement the firm's guiding policy.



Chapter

01

A successful strategy

A successful strategy requires three integrative management tasks—analysis, formulation, and implementation.



Chapter

01

What Is Strategic management?

Strategic management is the integrative management field that combines *analysis*, *formulation*, and *implementation* in the quest for competitive advantage.

It also enables you to think like a general manager to help position your organization for superior performance. The *AFI strategy framework* embodies this view of strategic management.

Chapter

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1.1 What Strategy Is: Gaining and Sustaining Competitive Advantage

Strategy is a set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors. To achieve superior performance, companies compete for resources:

New ventures compete for financial and human capital, existing companies compete for profitable growth, charities compete for donations, universities compete for the best students and professors, sports teams compete for championships, and celebrities compete for media attention.



Chapter

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The Competitive challenge

A good strategy needs to start with a clear and critical diagnosis of the competitive challenge. Musk, Tesla's co-founder and CEO, describes himself as an “engineer and entrepreneur who builds and operates companies to solve environmental, social, and economic challenges.”



The Competitive challenge

Tesla was founded with the vision to “accelerate the world’s transition to sustainable transport.” To accomplish this mission, Tesla must build zero-emission electric vehicles that are attractive and affordable. Beyond achieving a competitive advantage for Tesla, Musk is working to set a new standard in automotive technology. He hopes that zero-emission electric vehicles will one day replace gasoline-powered cars.

Competitive
Challenges

Chapter

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A Guiding policy

After the diagnosis of the competitive challenge, the firm needs to formulate an effective guiding policy in response. The formulated strategy needs to be consistent, often backed up with strategic commitments such as sizable investments or changes to an organization's incentive and reward system—big changes that cannot be easily reversed.



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A Guiding policy

Without consistency in a firm's guiding policy, employees become confused and cannot make effective day-to-day decisions that support the overall strategy. Without consistency in strategy, moreover, other stakeholders, including investors, also become frustrated.



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Define competitive advantage

- Competitive advantage is always judged relative to other competitors or the industry average.
- To obtain a competitive advantage, a firm must either create more value for customers while keeping its cost comparable to competitors, or it must provide the value equivalent to competitors but at a lower cost.
- A firm able to outperform competitors for prolonged periods of time has a sustained competitive advantage.

What is competitive advantage?

Competitive advantage is always relative, not absolute. To assess competitive advantage, we compare firm performance to a benchmark—that is, either the performance of other firms in the same industry or an industry average. A firm that achieves superior performance relative to other competitors in the same industry or the industry average has a competitive advantage. In terms of stock market valuation, **Tesla** has appreciated much more in recent years than **GM**, **Ford**, or **Chrysler**, and thus appears to have a competitive advantage, at least on this dimension.

Competitive advantage examples

A firm that is able to outperform its competitors or the industry average over a prolonged period has a sustainable competitive advantage. **Apple**, for example, has enjoyed a sustainable competitive advantage over **Samsung** in the smartphone industry for over a decade since its introduction of the **iPhone** in 2007. Other phone makers such as **Microsoft** (which purchased **Nokia**) and **BlackBerry** have all but exited the smartphone market, while new entrants such as **Xiaomi** and **Huawei** of China are trying to gain traction.

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Vision, Mission, and Values

Describe the roles of vision, mission, and values in a firm's strategy;

- A vision captures an organization's aspirations. An effective vision inspires and motivates members of the organization.
- A mission statement describes what an organization actually does—what its business is—and why and how it does it.
- Core values define the ethical standards and norms that should govern the behavior of individuals within the firm.

Vision, Mission, and Values



Vision, Mission, and Values

The first step to gain and sustain a competitive advantage is to define an organization's vision. The first step to gaining and sustaining a competitive advantage is to define an organization's vision, mission, and values. Managers must ask the following questions:

- Vision. What do we want to accomplish ultimately?
- Mission. How do we accomplish our goals?
- Values. What commitments do we make, and what Protection barriers do we put in place, to act both legally and ethically as we pursue our vision and mission?

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Vision

A vision captures an organization's aspiration and spells out what it ultimately wants to accomplish. An effective vision pervades the organization with a sense of winning and motivates employees at all levels to aim for the same target, while leaving room for individual and team contributions.



Tesla's vision is to accelerate the world's transition to sustainable transport. The goal is to provide affordable zero-emission mass-market cars that are the best in class.

SpaceX is a spacecraft manufacturer and space transport services company, also founded by **Elon Musk**, whose inspirational vision is to make human life multi planetary. To achieve this goal, **SpaceX** aims to make human travel to Mars not only possible but also affordable. Moreover, **SpaceX** also sees a role in helping establish a self-sustainable human colony on

Vision

Employees in visionary companies tend to feel part of something bigger than themselves. An inspiring vision helps employees find meaning in their work. Beyond monetary rewards, it allows employees to experience a greater sense of purpose. People have an intrinsic motivation to make the world a better place through their work activities. This greater individual purpose in turn can lead to higher organizational performance.



Visionary companies

Such as 3M, General Electric, Procter & Gamble (P&G), and Walmart, provide more aspirational ideas that are not exclusively financial. The upscale retailer Nordstrom's vision, for example, is to provide outstanding service every day, one customer at a time. Visionary companies often outperform their competitors over the long run.



Chapter

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Evaluate the strategic implications of product-oriented and customer-oriented vision statements.



Evaluate the strategic implications of product-oriented and customer-oriented vision statements.

- Product-oriented vision statements define a business in terms of a good or service provided.
- Customer-oriented vision statements define business in terms of providing solutions to customer needs.
- Customer-oriented vision statements provide managers with more strategic flexibility than product-oriented missions.
- To be effective, visions and missions need to be backed up by hard-to-reverse strategic commitments and tied to economic fundamentals.

Product-oriented vision statements

A product-oriented vision defines a business in terms of a good or service provided. Product-oriented visions tend to force managers to take a more myopic view of the competitive landscape. Consider the strategic decisions of U.S. railroad companies. Railroads are in the business of moving goods and people from point A to point B by rail. When they started in the 1850s, their short-distance competition was the horse or horse-drawn carriage. There was little long-distance competition (e.g., ship canals or good roads) to cover the United States from coast to coast.



Customer-oriented vision statements

A customer-oriented vision defines a business in terms of providing solutions to customer needs. For example, “We provide solutions to professional communication needs.” Companies with customer-oriented visions can more easily adapt to changing environments. In contrast, companies that define themselves based on product-oriented statements (e.g., “We are in the typewriter business”) tend to be less flexible and thus more likely to fail.



Customer-oriented vision statements

Alibaba: To make it easy to do business anywhere.

Amazon: To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online.

Better World Books: To harness the power of capitalism to bring about reading and writing and opportunity to people around the world.

Facebook: To make the world more open and connected.

GE: To move, cure, build, and power the world.



Customer-oriented vision statements

Google: To organize the world's information and make it universally accessible and useful.

Nike: To bring inspiration and innovation to every athlete in the world.

SpaceX: To make human life multi planetary.

Tesla: To accelerate the world's transition to sustainable energy.

Walmart: To be the best retailer in the hearts and minds of consumers and employees.



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Mission

Building on the vision, organizations establish a mission, which describes what an organization actually does—that is, the products and services it plans to provide, and the markets in which it will compete. People sometimes use the terms vision and mission interchangeably, but in the strategy process, they differ.



Mission

- A vision defines what an organization wants to accomplish ultimately, and thus the goal can be described by the infinitive form of the verb starting with to.
- A mission describes what an organization does; it defines how the vision is accomplished and is often introduced with the preposition by. Accordingly, we can recast



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Values

While many companies have powerful vision and mission statements, they are not enough. An organization's values also need to be clearly articulated in the strategy process. A core values statement matters because it provides touchstones for the employees to understand the company culture. It offers bedrock principles that employees at all levels can use to deal with complexity and resolve conflict. Such statements can help provide the organization's employees with a moral compass.



Values

Organizational core values are the ethical standards and norms that govern the behaviour of individuals within a firm or organization. Strong ethical values have two important functions. First, ethical standards and norms underlay the vision statement and provide stability to the strategy, thus laying the groundwork for long-term success. Second, once the company is pursuing its vision and mission in its quest for competitive advantage, they serve as guardrails to keep the company on track.



Justify why anchoring a firm in ethical core values is essential for long-term success.

- Ethical core values underlay the vision statement to ensure the stability of the strategy, and thus lay the groundwork for long-term success.
- Ethical core values are the Protection barriers that help keep the company on track when pursuing its mission and its quest for competitive advantage.

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1.3 The AFI Strategy Framework

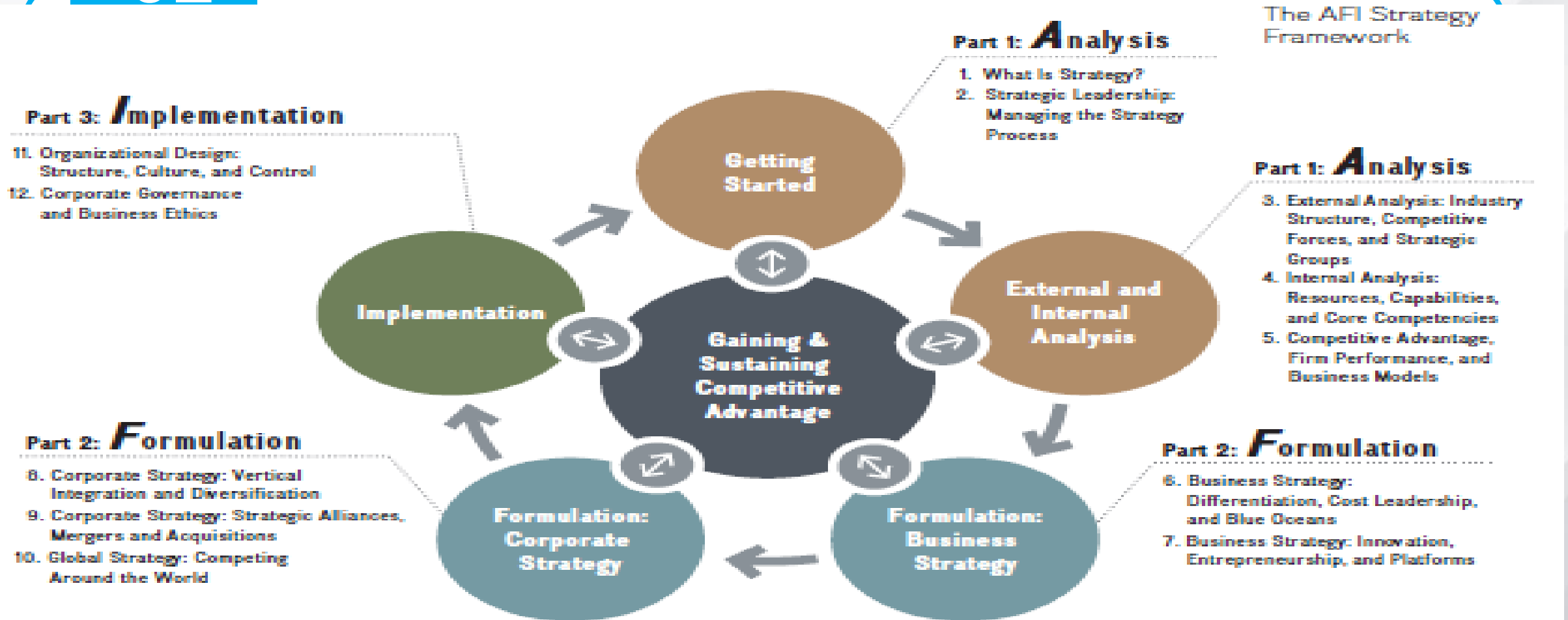
The AFI strategy framework;

- (1) explains and predicts differences in firm performance.
- (2) helps managers formulate and implement a strategy that can result in superior performance.

Effectively managing the strategy process is the result of three broad tasks:

- 1. Analyze (A)**
- 2. Formulate (F)**
- 3. Implement (I)**

The AFI Strategy Framework



The AFI Strategy Framework

Strategy Analysis (A) Topics and Questions

- Strategic leadership and the strategy process: What roles do strategic leaders play? What is the firm's process for creating strategy and how does strategy come about? What is the relationship between stakeholder strategy and competitive advantage?
- External analysis: What effects do forces in the external environment have on the firm's potential to gain and sustain a competitive advantage? How should the firm deal with them?

The AFI Strategy Framework

Strategy Analysis (A) Topics and Questions

- Internal analysis: What effects do internal resources, capabilities, and core competencies have on the firm's potential to gain and sustain a competitive advantage? How should the firm leverage them for competitive advantage?
- Competitive advantage, firm performance, and business models: How does the firm make money? How can one assess and measure competitive advantage? What is the relationship between competitive advantage and firm performance?

The AFI Strategy Framework

Strategy Formulation (F) Topics and Questions

- Business strategy: How should the firm compete: cost leadership, differentiation, or value innovation?
- Corporate strategy: Where should the firm compete: industry, markets, and geography?
- Global strategy: How and where should the firm compete: local, regional, national, or international?

1.3 The AFI Strategy Framework

Strategy Implementation (I) Topics and Questions

- Organizational design: How should the firm organize to turn the formulated strategy into action?
- Corporate governance and business ethics: What type of corporate governance is most effective? How does the firm anchor strategic decisions in business ethics?

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Chapter 01

Implications for Strategic Leaders

Strategy is the art and science of success and failure. The difference between success and failure lies in an organization's strategy. A good strategy defines the competitive challenge, provides a guiding policy, and is implemented by coherent actions.



Implications for Strategic Leaders

- To create a powerful foundation upon which to formulate and implement a good strategy, strategic leaders need to articulate an inspiring vision and mission backed up by ethical core values. Customer-oriented or problem-defining vision statements are often correlated with firm success over long periods of time. This is because they allow firms strategic flexibility to change in order to meet changing customer needs and exploit external opportunities.

Implications for Strategic Leaders

A good strategy is more likely when strategic leaders apply the three-step AFI strategy framework:

- 1. Analyze the external and internal environments.
- 2. Formulate an appropriate business and corporate strategy.
- 3. Implement the formulated strategy through structure, culture, and controls.

Implications for Strategic Leaders

- Keep in mind that strategic leaders are making decisions under conditions of uncertainty and complexity. They must carefully monitor and evaluate the progress toward key strategic objectives and make adjustments by fine-tuning any strategy as necessary. We discuss how this is done in the next chapter where we focus on strategic leaders and the strategic management process.



Thank You