

STRATEGIC MANAGEMENT

Lecture Plan

Revision of previous class

Strategic management process

Phase 1

Environmental analysis-tools
used

Methods of environmental
forecasting-

Learning objectives

At the end of the session you should be able to

1. understand the concept of strategy
2. distinguish the difference between environmental analysis and forecasting
3. understand the various methods of environment analysis

The Evolution in SM thinking

“Strategic management is an ongoing process that assesses the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented”

- Lamb 1984

EVOLUTION OF STRATEGIC MANAGEMENT

	1950s	1960s-early 70s	Mid-70s-mid-80s	Late 80s -1990s	2000s
DOMINANT THEME	Budgetary planning & control	Corporate planning	Positioning	Competitive advantage	Strategic innovation
MAIN ISSUES	Financial control	Planning growth &- diversification	Selecting sectors/markets. Positioning for leadership	Focusing on sources of competitive advantage	Reconciling size with flexibility & agility
KEY CONCEPTS& TOOLS	Capital budgeting. Financial planning	Forecasting. Corporate planning. Synergy	Industry analysis Segmentation Experience curve Portfolio analysis	Resources & capabilities. Shareholder value. E-commerce. — Knowledge Management—	Cooperative strategy. Complexity. Owning standards.
MANAGEMENT IMPLIC- ATIONS	Coordination & control by Budgeting systems	Corporate planning depts. created. Rise of corporate planning	Diversification. Global strategies. Matrix structures	Restructuring. Reengineering. Refocusing. Outsourcing.	Alliances & networks Self-Organiz ation & virtual organization

Historical development of Strategic Management

Birth of strategic management

originated in the 1950s and 60s

- Alfred D. Chandler, Jr.,
- Philip Selznick,
- Igor Ansoff,
- Peter F. Drucker

Alfred Chandler

- *Strategy and Structure*
- "structure follows strategy"

Philip Selznick

- Organization's internal factors with external environmental circumstances
 - SWOT analysis

Igor Ansoff

market penetration strategies

product development strategies

market development strategies

horizontal and vertical integration

diversification strategies

Corporate strategy

Peter Drucker

- **stressed the importance of objectives**
- **management by objectives (MBO)**

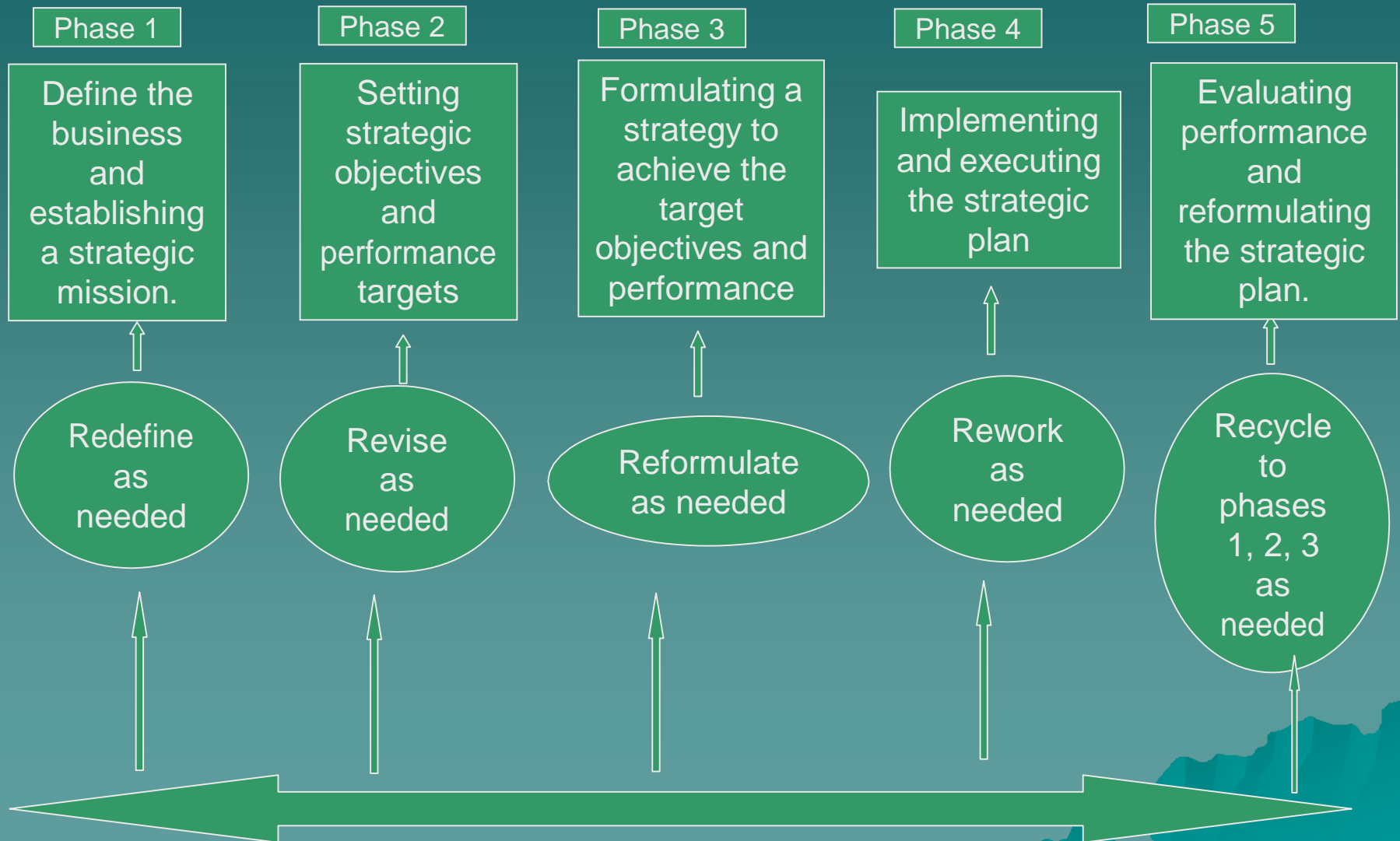
What is strategic management?

- ◆ A continuous, iterative process aimed at keeping an organization as a whole **appropriately matched to its environment** (Certo and Peter)
- ◆ Keeping the business **in tune with management and marketing forces** both outside and inside the firm

Benefits of strategic management

- ◆ Establish the mission
- ◆ Formulate philosophy
- ◆ Establish policies
- ◆ Setting objectives
- ◆ Developing strategy
- ◆ Plan the organizational structure
- ◆ Provide personnel
- ◆ Establish procedures
- ◆ Provide facilities
- ◆ Provide capital
- ◆ Set standards
- ◆ Establish programs and plans
- ◆ Control information
- ◆ Activate people

Strategic Management Process



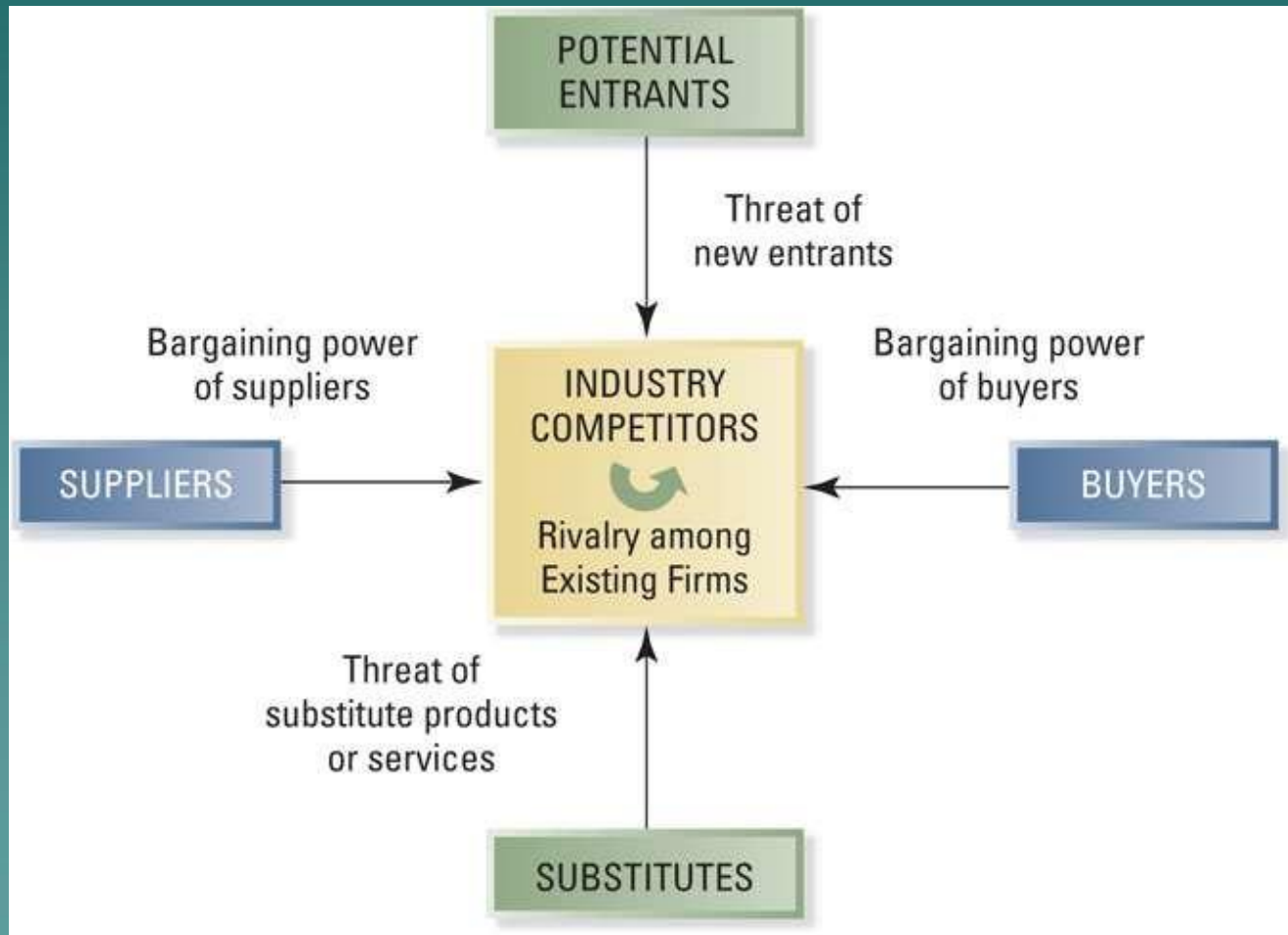
Steps to strategic management

- ◆ Define the Business and establishing a strategic mission (Environmental analysis)
- ◆ Setting Strategic objectives and performance targets (Establishing organizational direction)
- ◆ Strategy formulation
- ◆ Strategy implementation
- ◆ Strategic control

Analysis of Environment

- ◆ 1. Five Force model
- ◆ 2. PEST
- ◆ 3. SWOT Analysis
- ◆ 4. BCG matrix
- ◆ 5. Value chain analysis

1. Porter's Five Forces Model of Industry Competition



2. PEST

- **Political Factors**

- Government policy
- Government regulations that govern institutions mandatory functions
- Political stability and hence student political ideology and motives

- **Economic Factors**

- Type of economic policies and system
- Government interventions in the market
- Economic cycle stage (e.g. prosperity, recession, recovery)
- Comparative advantage in that country
- Unemployment rates
- Skill levels of work force

PEST.....

■ **Social Factors**

- Demographic factors – types of students and ethnic composition
- Types of students and their level of competency in languages and ICT
- Expectations – parents, students and employers
- Attitudes of stakeholders
- Learning habits, culture and diversity of stakeholders
- *Etc.*

■ **Technological Factors**

- Recent technological developments and opportunities
- Technology's likely impact on functions
- Impact on cost structure
- *Etc.*

3.SWOT

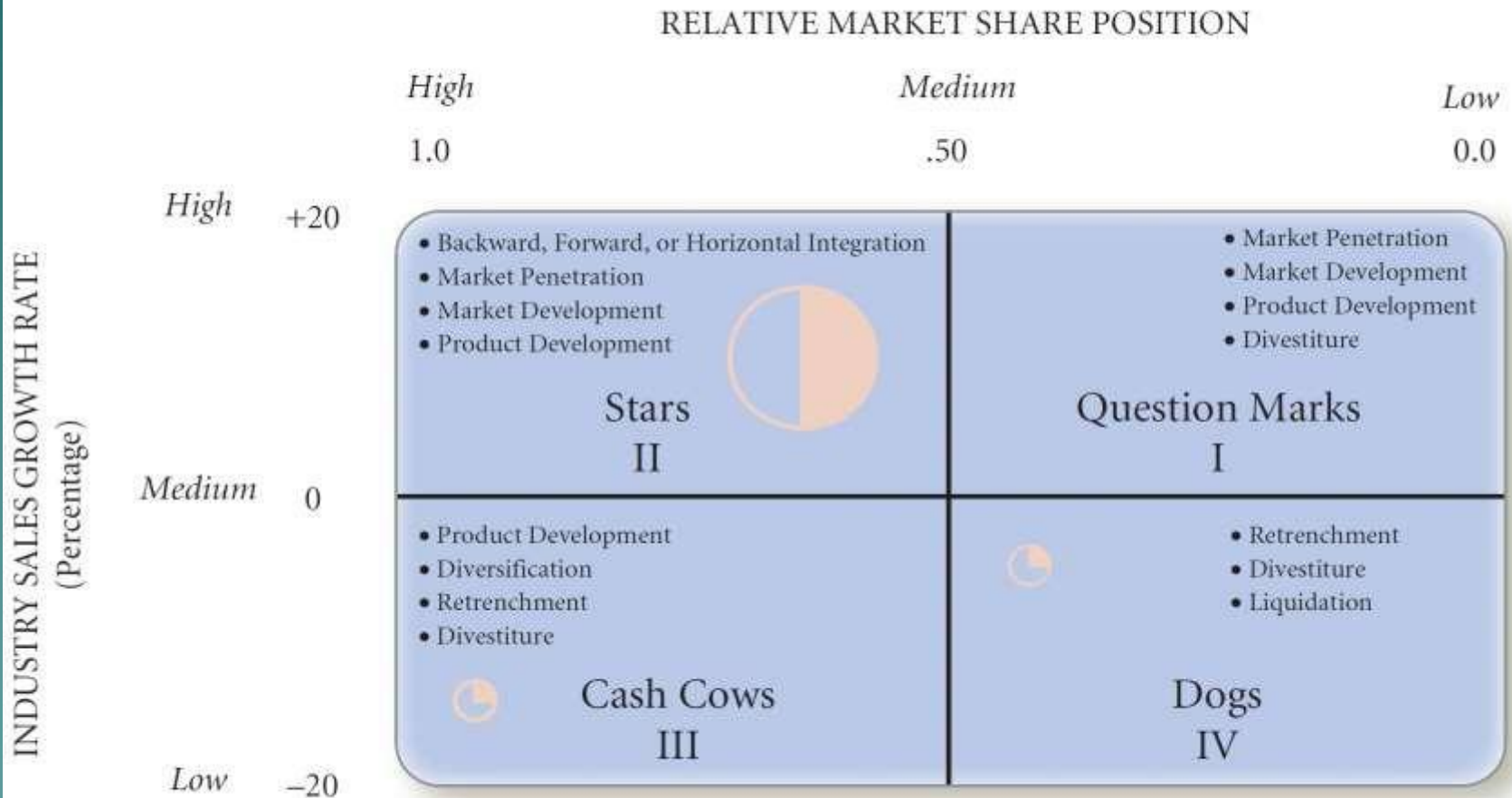
- **Internal environment : Strengths and Weakness**
- **External Environment: Opportunities and Threats**

4.

4. BCG Matrix

FIGURE 6-6

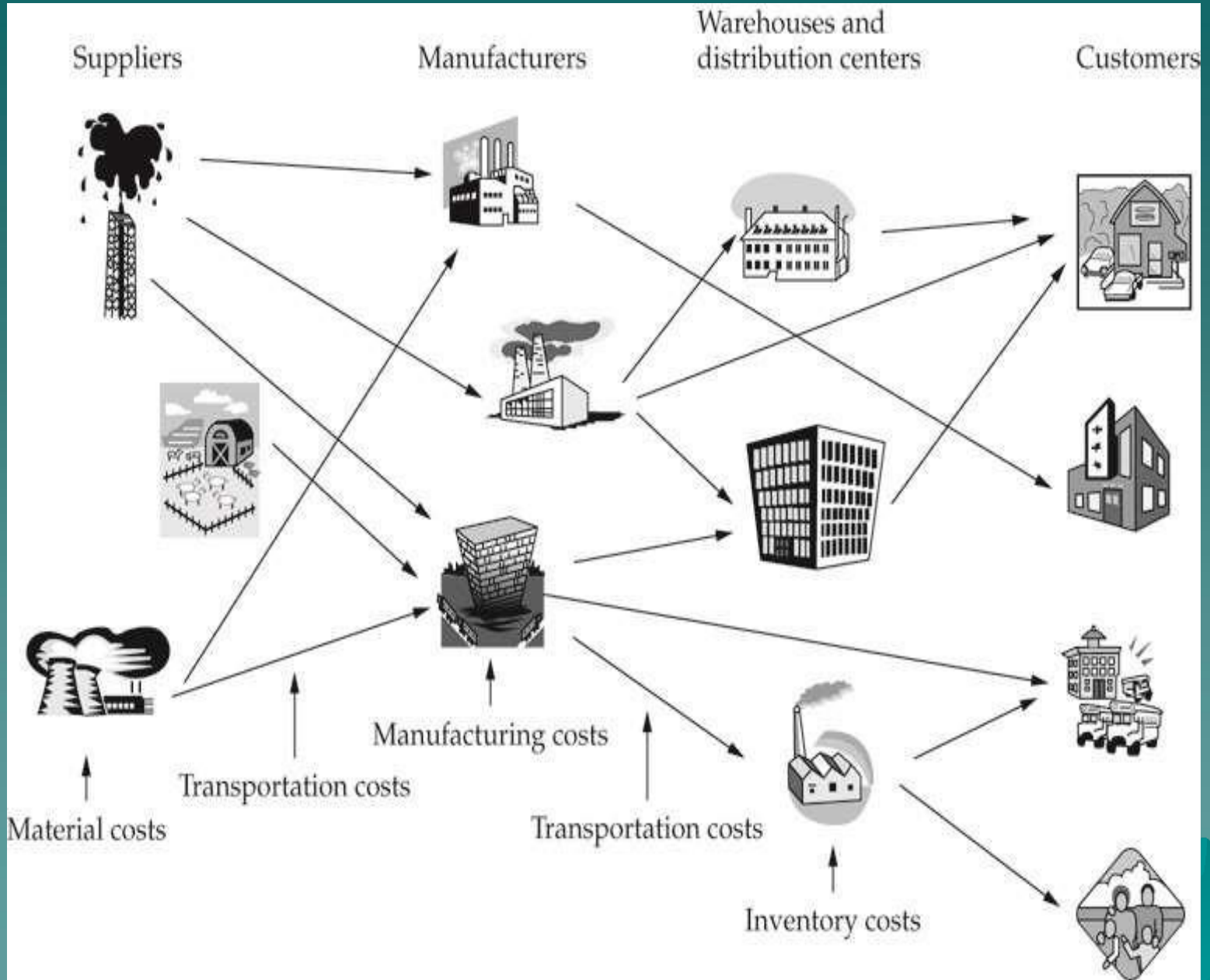
The BCG Matrix



Source: Adapted from Boston Consulting Group, *Perspectives on Experience* (Boston: The Boston Consulting Group, 1974).

5. Value Chain or Supply Chain Management

- ◆ Supply chain management is a set of approaches utilized to **efficiently integrate suppliers, manufacturers, warehouses, and stores**, so that merchandise is produced and distributed at the **right quantities, to the right locations, and at the right time**, in order to **minimize system wide costs while satisfying service** level requirements.



Forecasting

- ◆ Def: The process of predicting the values of a certain quantity, Q , over a certain time horizon, T , based on past trends and/or a number of relevant factors.
- ◆ In the context of OM, the most typically forecasted quantity is future demand(s), but the need of forecasting arises also with respect to other issues, like:
 - equipment and employee availability
 - technological forecasts
 - economic forecasts (e.g., inflation rates, money supplies).
- ◆ The time horizon depends on
 - the nature of the forecasted quantity
 - the intended use of the forecast

Forecasting future demand

- ◆ Product/Service demand: **The pattern of order arrivals and order quantities evolving over time.**
- ◆ Demand forecasting is based on:
 - extrapolating to the future. past trends observed in the company sales;
 - **understanding the impact of** various factors on the company future sales:
 - ◆ market data
 - ◆ strategic plans of the company
 - ◆ technology trends
 - ◆ social/economic/political factors
 - ◆ environmental factors
 - ◆ Etc

Types of Forecasts by Time Horizon

◆ Short-range forecast

– Usually < 3 months

◆ Job scheduling, worker assignments

◆ Medium-range forecast

– 3 months to 2 years

◆ Sales/production planning

◆ Long-range forecast

– > 2 years

◆ New product planning

Quantitative
methods

Detailed
use of
system

Design
of system

Qualitative
Methods



Methods of environmental forecasting

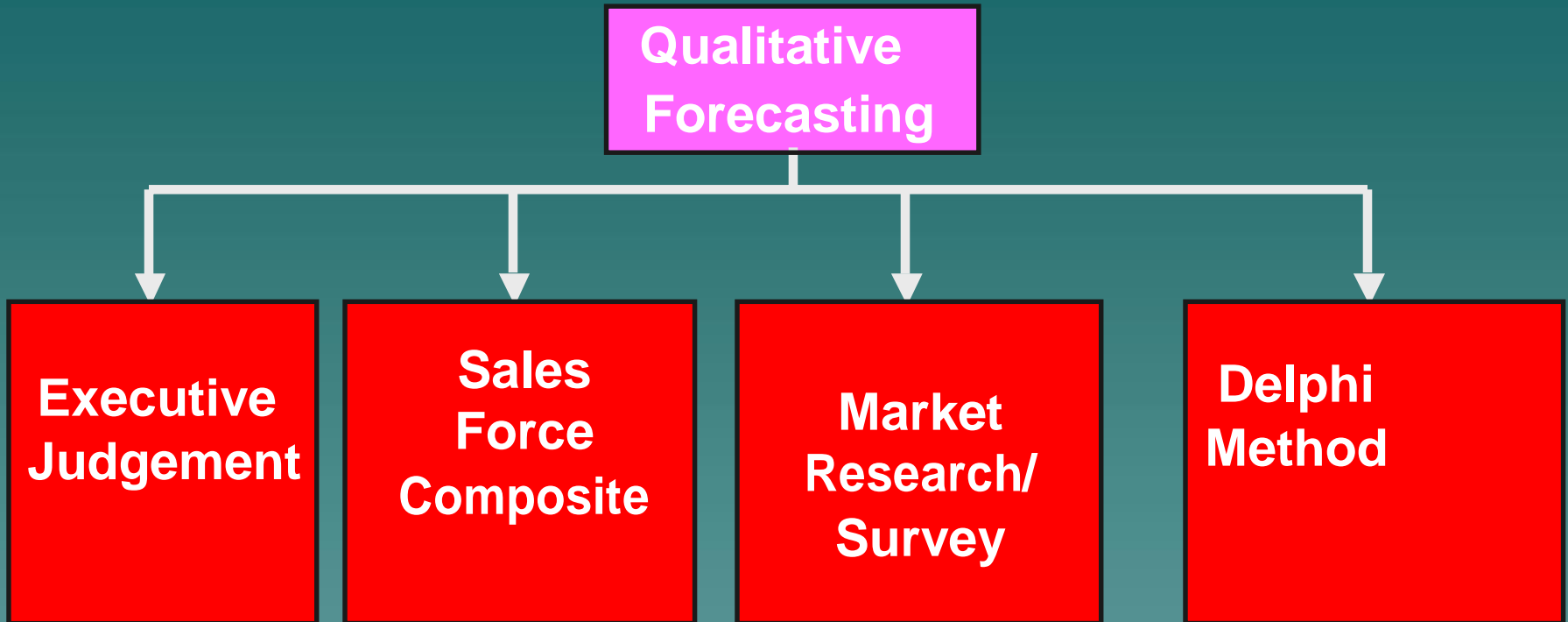
- ◆ Expert opinion
- ◆ Projecting trends
- ◆ Trend correlation (specific to industry)
- ◆ Cross-impact analysis
- ◆ Multiple scenarios
- ◆ Demand/hazard forecasting

Basically forecasting is of two types

Qualitative methods

Quantitative Methods

Qualitative Forecasting Methods



Smoothing

Qualitative Methods

Briefly, the qualitative methods are:

Executive Judgment: Opinion of a group of high level experts or managers is pooled

Sales Force Composite: Each regional salesperson provides his/her sales estimates. Those forecasts are then reviewed to make sure they are realistic. All regional forecasts are then pooled at the district and national levels to obtain an overall forecast.

Market Research/Survey: Solicits input from customers pertaining to their future purchasing plans. It involves the use of questionnaires, consumer panels and tests of new products and services.

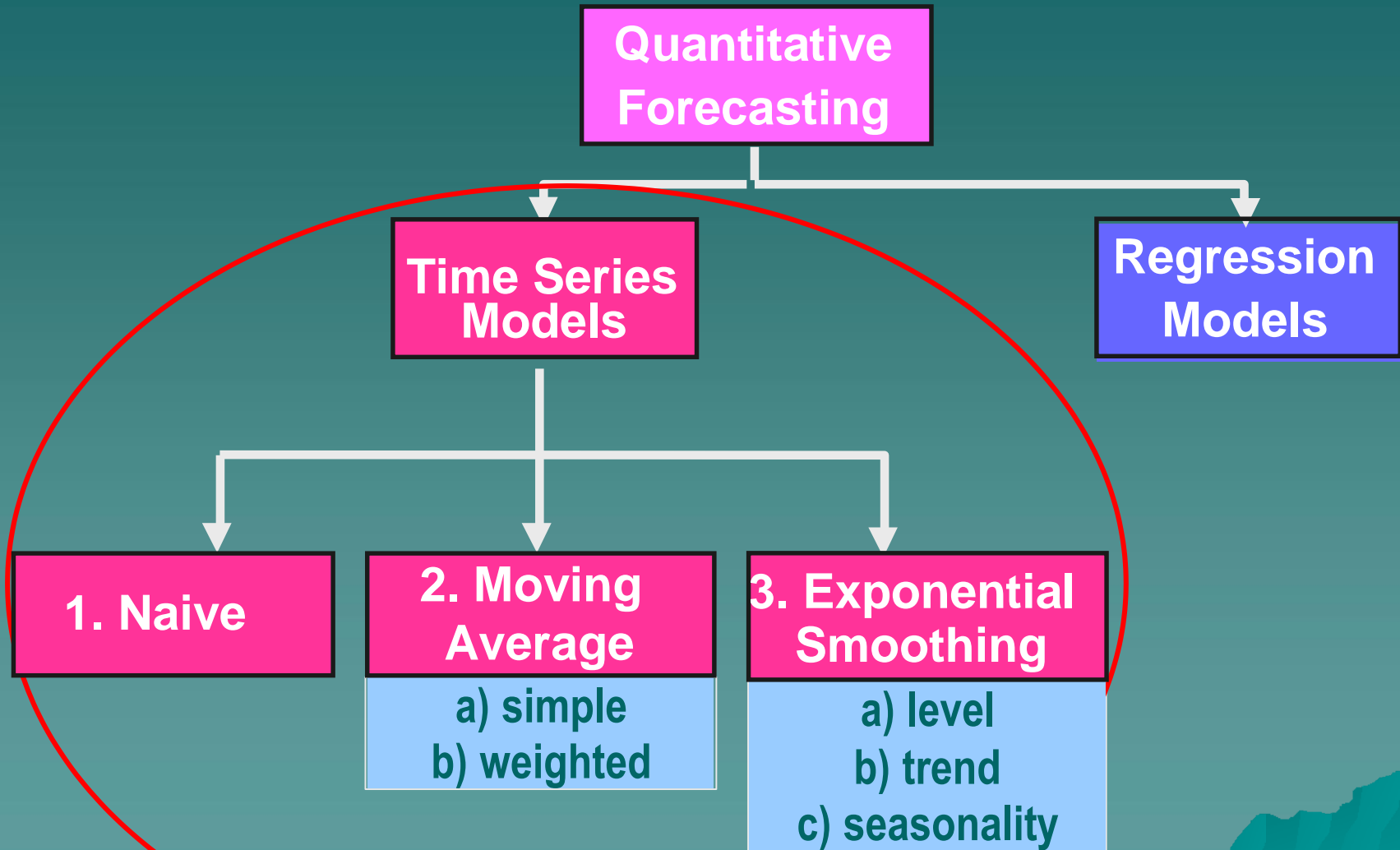
Qualitative Methods

Delphi Method: As opposed to regular panels where the individuals involved are in direct communication, this method eliminates the effects of group potential dominance of the most vocal members. The group involves individuals from inside as well as outside the organization.

Typically, the procedure consists of the following steps:
Each expert in the group makes his/her own forecasts in form of statements

- The coordinator collects all group statements and summarizes them
- The coordinator provides this summary and gives another set of questions to each group member including feedback as to the input of other experts.
- The above steps are repeated until a consensus is reached.

Quantitative Forecasting Methods



Time Series Models

- ◆ **Try to predict the future based on past data**
 - **Assume that factors influencing the past will continue to influence the future**

Thank you



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alone, we're delicious...
together, we're **YUM!**



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our vision

Our passion, as a restaurant company, is to put a YUM on people's faces around the world, satisfying customers every time they eat our food and doing it better than any other restaurant company. KFC, Pizza Hut, Taco Bell, Long John Silvers and A&W offer customers food they crave, comeback value, and customer-focused teams. The unique eating experiences in each of our brands make our customers smile and inspire their loyalty for life. Toward that end, our 725,000 associates around the world are trained to be customer maniacs.



Our Mission Statement

We at Yum! Brands, Inc., pledge to conduct our business according to this set of truths, which we believe to be the foundation for building the best restaurant company in the world.

- ✓ **People Capability First** . . . *Satisfied customers and profitability follow.*
- ✓ **Respond to the Voice of the Customer** . . . *Not just listen.*
- ✓ **The Restaurant General Manager is Our #1 Leader** . . . *Not senior management.*
- ✓ **Run Each Restaurant As If It's Our Only One** . . . *Avoid the trap of the averages.*
- ✓ **Recognition Shows You Care** . . . *People leave when you don't.*
- ✓ **Great Operations and Marketing Innovation Drive Sales** . . . *No finger pointing.*
- ✓ **Operation Discipline Through Process and Standards** . . . *Consistency, "not program of the month."*
- ✓ **Franchisees Are Vital Assets** . . . *Operate as one system, not two.*
- ✓ **Quality in Everything We Do** . . . *Especially the food.*

Key objective areas

- ◆ Market standing
- ◆ Innovation
- ◆ Productivity
- ◆ Resource levels
- ◆ Profitability
- ◆ Manager performance and development
- ◆ Worker performance and attitude
- ◆ Social responsibility

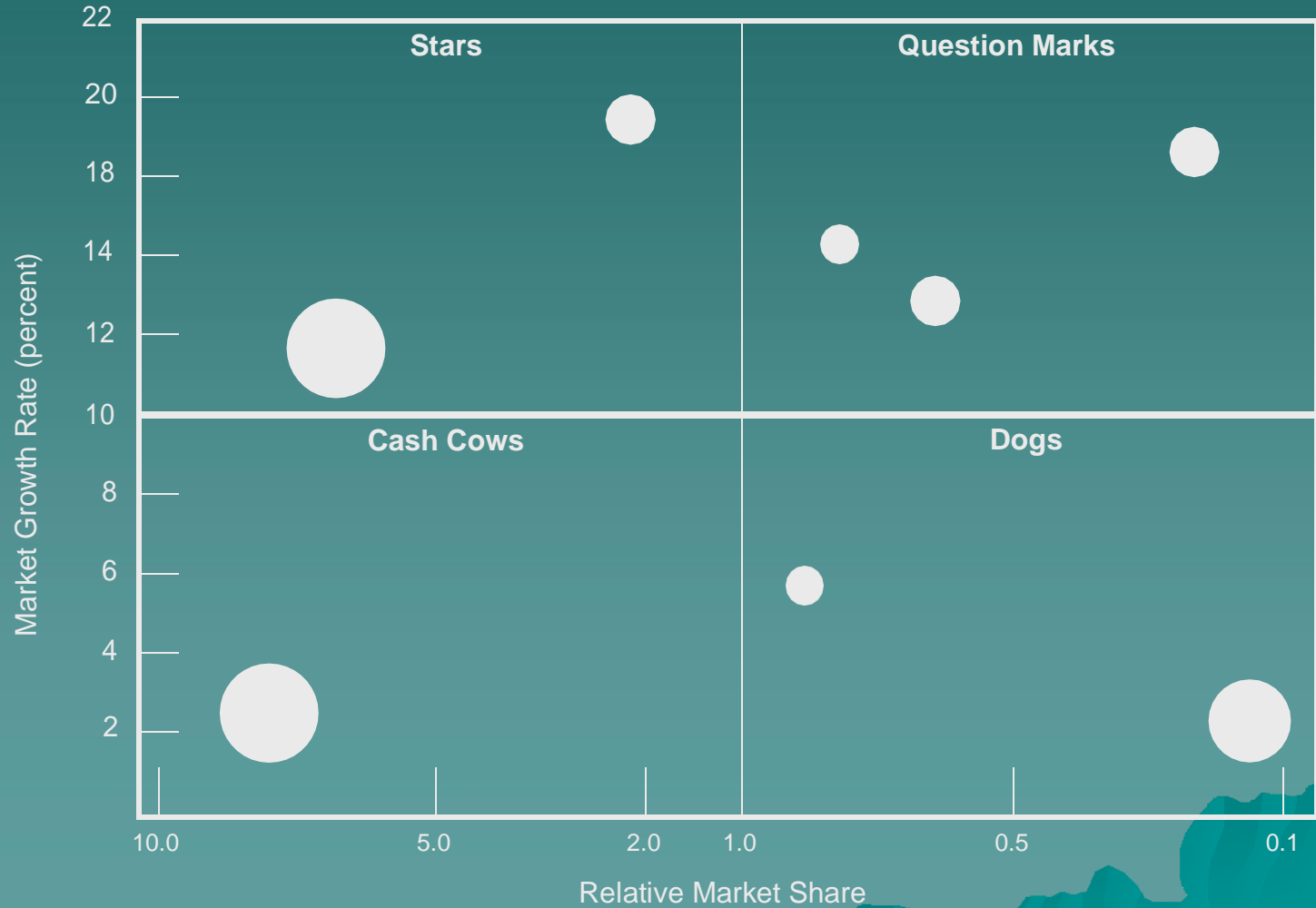
Types of objectives

- ◆ Profitability
- ◆ Growth
- ◆ Market share
- ◆ Social responsibility
- ◆ Employee welfare
- ◆ Product Quality
- ◆ Service
- ◆ R&D
- ◆ Diversification
- ◆ Efficiency
- ◆ Financial stability
- ◆ Resource conservation
- ◆ Mgt & labor developmentt

Strategy formulation

- ◆ What are the purpose and objective of the organization?
- ◆ Where is the organization presently going?
- ◆ What critical environmental factors does the organization currently face?
- ◆ What can be done to achieve organizational objectives more effectively in the future?

Growth-share matrix



Formulating business strategies

- ◆ Structural analysis of competitive forces
 - Threat of new entrants
 - Bargaining power of suppliers
 - Bargaining power of buyers
 - Threat of substitute products
 - Rivalry among existing competitors
 - Strategic alternatives

Scenario Analysis

- ◆ Confronting Assumptions
- ◆ Recognizing the degree of uncertainty
- ◆ Mental Maps
- ◆ Mapping the uncertainty
- ◆ Conflict and Dilemma
- ◆ Phases: Research, Scenario building, Application and Dissemination

Formulating functional strategies

- ◆ Operations strategy
- ◆ Financial strategy
- ◆ Marketing strategy
- ◆ Human resource strategy

Competitive Strategy

- ◆ Overall cost leadership
- ◆ Differentiation
- ◆ Focus

Strategy implementation

- ◆ Commander approach
- ◆ Organizational change approach
- ◆ Collaborative approach
- ◆ Cultural approach
- ◆ Crescive approach

Commander approach

- ◆ Manager determines “best” strategy
- ◆ Manager uses power to see strategy implemented
- ◆ Three conditions must be met
 - Manager must have power
 - Accurate and timely information is available
 - No personal biases should be present

Commander approach

◆ Limitations

- Can reduce employee motivation and innovation

◆ Advantages

- Managers focus on strategy formulation
- Works well for younger managers
- Focuses on objective rather than subjective

Organizational change approach

- ◆ Focuses on the organization
- ◆ Behavioral tools are used
- ◆ Includes focusing on the organization's staffing and structure
- ◆ Often more effective than Commander
- ◆ Used to implement difficult strategies

Organizational change approach

◆ Limitations

- Managers don't stay informed of changes occurring within the environment
- Doesn't take politics and personal agendas into account
- Imposes strategies in a "top-down" format
- Can backfire in rapidly changing industries

Collaborative approach

- ◆ Enlarges the Organizational Change Approach
- ◆ Manager is a coordinator
- ◆ Management team members provide input
- ◆ Group wisdom is the goal

Collaborative approach

◆ Advantages

- Increased quality and timeliness of information
- Improved chances of effective implementation

◆ Limitations

- Contributing managers have different points of view and goals
- Management retains control over the process

Cultural approach

- ◆ Includes lower levels of the company
- ◆ Breaks down barriers between management and workers
- ◆ Everyone has input into the formulation and implementation of strategies
- ◆ Works best in high resource firms

Cultural approach

- ◆ Advantage
 - More enthusiastic implementation
- ◆ Limitations
 - Workers should be informed, intelligent
 - Consumes large amounts of time
 - Strong company identity becomes handicap
 - Can discourage change and innovation

Crescive approach

- ◆ Addresses formulation and implementation simultaneously
- ◆ Subordinates develop, champion, and implement strategies on their own
- ◆ “Bottoms-up” approach
- ◆ Ultimate strategy is sum of all “successful” approaches

Crescive approach

◆ Advantages

- Encourages middle management to participate
- Strategies are more operationally sound

◆ Limitations

- Resources must be available
- Tolerance must be extended

Strategic control

- ◆ Typically consists of three steps
 - Monitoring performance
 - Comparing performance to standards
 - Taking corrective action where needed

Balance Score Card & Strategy Map

- ◆ Customer Perspective
- ◆ Financial Perspective
- ◆ Internal Business Process Perspective
- ◆ Learning and Growth Perspective

Corporate Planning Process

Target Setting

Gap Analysis

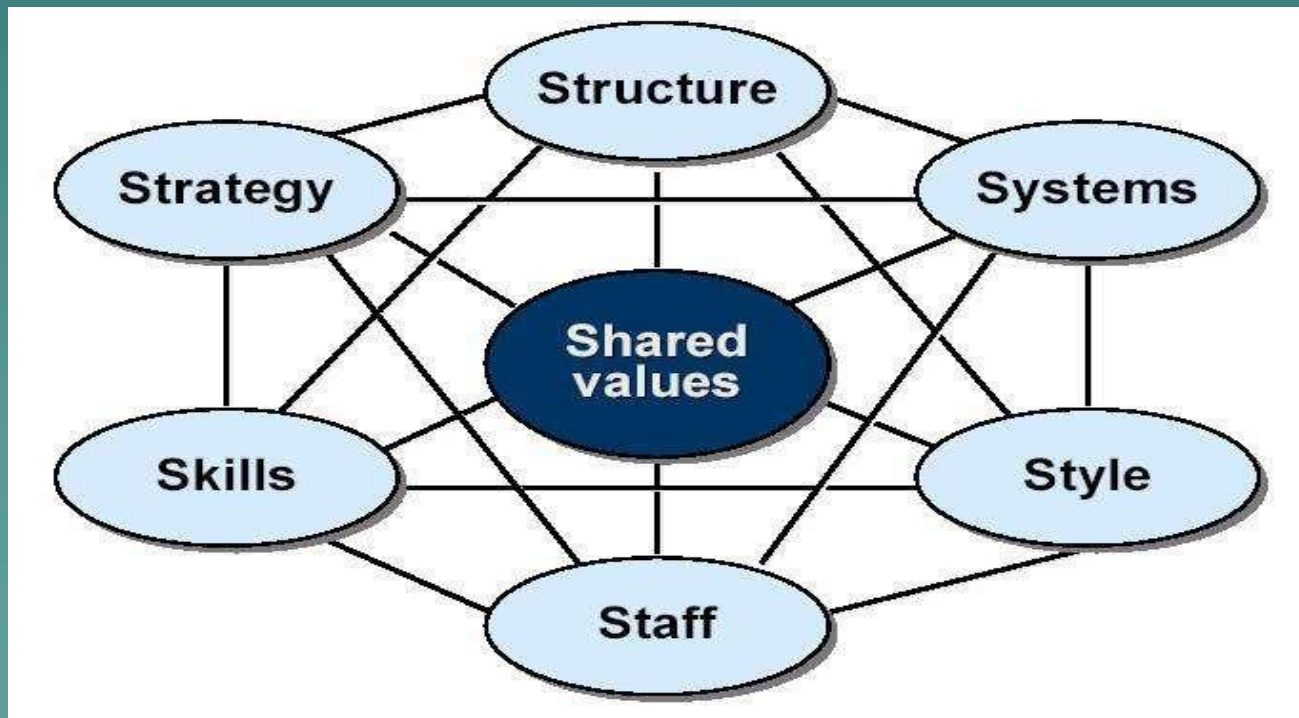
Strategic Appraisal

Strategic Formation

Strategic Implementation

Organizational implications of different strategies.

- ◆ Using McKinsey 7S framework for looking at strategies implication.



Different School of thought on Strategy

- ◆ The Design School
- ◆ The Planning School
- ◆ The Positioning School
- ◆ The Entrepreneurial School
- ◆ The Cognitive School
- ◆ The Learning School
- ◆ The Power School
- ◆ The Cultural School
- ◆ The Environmental School
- ◆ The Configuration School

The Turbulent 21st Century

Collapse of New Economy

- Dot.com bubble bursts
- TMT recession

Corporate Scandals

- Enron, WorldCom, Parmalat
- Jack Welch's retirement package

International competition intensifies

- China as Workshop of the World
- Outsourcing to LDCs

War

- Invasion of Afghanistan & Iraq
- Civil wars in Congo, Liberia, Sudan, Somalia

The Curse of Terrorism

- Sept. 11, 2001
- Suicide bombings in Israel, Iraq, Saudi Arabia, Turkey, Afghanistan

Decline of Multilateralism

- Collapse of Doha round
- Trade wars between US, EU, China
- Weakening of UN

Age of Disbelief

Unstable Currencies

US\$ declines by >50% against Euro 2002-04

Fear of Disease

- SARS, Mad Cow, Bird Flu

Directions in Strategic Management Practice—Trends of the 1990s

Key Trends of the 1990s:

- Quest for shareholder value
- Adjusting to increased turbulence & more intense competition

Influential Strategy Concepts:

- Modern financial analysis
—shareholder value, economic profit, option theory
- Core competences and intangible assets
- Dynamically competitive markets
—“*hypercompetition*”
- Competitive advantage through alliances, networks, and standards

Major Themes of Business Strategy:

- Cost cutting—squeezing overhead, business process re-engineering, increasing labor productivity
- Outsourcing/refocusing/divestment
- Performance management and incentive alignment

Forces Shaping Company Strategies

2001.....

Future Sources of Profit

Limits of downsizing/cost cutting
Where are future sources of profit?

The Business Environment

- Uncertainty
- Stalling of economic liberalization
- Intense competition

Concepts & Theories

- Resources & capabilities as basis for competitive advantage
- Knowledge-based theory of the firm
- Option theory
- Complexity theory

Technology

Continued advances in ICT

Demands of society

- Social & environmental responsibility
 - Ethics & fairness
 - Quest for meaning

Emerging Developments

STRATEGY

- Multiple competitive advantages/multiple capabilities
- Innovation / New Product Development / New Business Development
- Alliances & networks

MANAGEMENT SYSTEMS

- Knowledge management (incl. best-practice transfer)
- Redesigning incentive systems
- Rethinking performance management
- Capturing human creativity

ORGANIZATION STRUCTURE

- Reconciling flexibility & integration
- Modular structures
- Multidimensional structures
- Informal organization & self-organization

The Need to Redesign Organizations

THE PAST

Emphasis on control

Single performance goal

Decisions located centrally

Simple structures, unified line of command

Organization by design



THE FUTURE

Emphasis on co-ordination

Multiple performance goals

Decisions located where relevant knowledge exists

Multidimensional structures
Diffused authority, but clear responsibilities

Self organization

Emerging Organizational Forms

Organizing for capability development



Shifting emphasis of organization design from *control* to *coordination*

From unitary to parallel structures



Separate coordination structures for different processes. E.g. 3M's product development structure; separate structures for TQM and change management

Process-based organizations



Organizing around business processes
Organizing around corporate processes

- entrepreneurial process
- competence building process
- renewal process

Project-based organization



E.g. engineering cos., consulting firms, also manufacturing cos. e.g. Oticon

Network and virtual organization



E.g. electronics in Silicon Valley, clothing and packaging equipment in Italy

Q&A

Thank You