

Chapter 1: What is strategy and who is involved?

SHORT ANSWER QUESTIONS – ANSWERS

1. What is strategic management?

Answer:

- Strategic management is the process through which organizations analyze and learn from their internal and external environments.
- Through strategic management organizations establish strategic direction, create strategies that are intended to help achieve established goals and execute those strategies, all in an effort to satisfy key organizational stakeholders.

2. What are the key aspects of strategic management?

Answer:

- The *strategy* itself. The establishment of a clear direction for the organization and for every business, product and service, and a means for getting there which requires the creation of strong competitive positions.
- *Implementation* of strategies in order to yield effective performance.
- *Creativity and innovation* needed to ensure that the organization is responsive to pressures for change and that strategies are improved and renewed.
- Ability to manage *strategic change*, both continuous, gradual, incremental changes and more dramatic, discontinuous changes.

3. What is the difference between deliberate and emergent strategies?

Answer:

- The traditional school of thought concerning strategy formulation supports the view that managers respond to the environmental forces by making decisions that are consistent with a preconceived strategy. In other words, strategy is deliberate.
- Deliberate strategy implies that managers plan to pursue an intended strategic course.
- In some cases, strategy simply emerges from a stream of decisions. Managers learn as they go.
- An emergent strategy is one that was not planned or intended. According to this perspective, managers learn what will work through a process of trial and error.

4. What is strategic thinking and what are its characteristics?

Answer:

- Strategic thinking is the term used to describe the innovative aspects of strategic management.
- Its characteristics include a focus on strategic intent, a long-term perspective, consideration of the past and the present, a systems perspective, the ability to seize unanticipated opportunities, and a scientific approach.

5. What are the four general ways of approaching strategic tensions?

Answer:

- As a puzzle. A strategy tension that is viewed as a puzzle leads to a need for managers to unravel the problem, to understand it, before arriving at the optimum answer to the puzzle.

- As a dilemma. A strategy tension that is a dilemma is a vexing problem with two possible solutions, neither of which is logically the best. Dilemmas present problem-solvers with difficult either/or choices, each with its own advantages and disadvantages, but neither clearly superior to the other.
- As a trade-off. A strategy tension that is a trade-off is a problem situation in which there are many possible solutions, each striking a different balance between two conflicting pressures. Managers adopting this approach accept the conflict between two opposites and strive to find the appropriate balance between them.
- As a paradox. A strategy tension viewed as a paradox frames the situation as having two seemingly contradictory, or even mutually exclusive, factors that both appear true. With a paradox no real solution is possible, as there is no way to logically integrate the two opposites into an internally consistent understanding of the problem.

6. Define strategic competitiveness and above-average returns. What is the relationship between strategic competitiveness and returns on investment?

Answer:

- Strategic competitiveness is achieved when the firm successfully formulates and implements a value-creating strategy.
- Above-average returns are returns in excess of what investors expect to earn from other investments with similar risk levels.
- Firms will only be able to earn above-average returns if they develop a competitive advantage.
- Competitive advantage derives from a strategy that competitors cannot duplicate or find too costly to imitate.

7. Hypercompetition is a characteristic of the current competitive landscape. Define hypercompetition and identify its primary drivers. How can organizations survive in a hypercompetitive environment?

Answer:

- Hypercompetition is a condition of rapidly escalating competition based on price-quality positioning, competition to create new knowledge and establish first-mover advantage, and competition to protect or invade established product or geographic markets.
- In hypercompetition, firms aggressively challenge their competitors and markets are assumed to be inherently unstable and changeable.
- The two primary drivers of hypercompetition are the global economy and rapid technological change.
- To survive in a hypercompetitive environment firms need strategic flexibility. This demands continuous learning which allows firms to develop new skills so that they can adapt to the changing environment and to consistently engage in change.

8. What are the five critical questions that the field of strategy seeks to answer?

Answer:

- *Why are firms different?* Companies share many operational characteristics yet have differing degrees of success in the marketplace. The study of strategy helps us understand those things that contribute to the superior performance of some firms.
- *How are competitive differences sustained?* Many companies outperform rivals for a quarter or two. Yet truly excellent companies do well over extended periods of time.
- *What is special about strategic decisions?* Managers make scores of decisions every day - that is, after all, one of the primary responsibilities of management. Still, very few of those decisions can be characterized as strategic in nature.

- *What is the nature of strategy in a multi-business firm?* We wish to know *how* a business competes successfully with its rivals. The process of strategic management for a multi-business (diversified) firm must take into account additional goals and objectives, including the creation of a high-performing portfolio of businesses.
- *How is strategic effectiveness measured?* The typical methods used to measure a firm's market effectiveness are financial performance indicators which are of significant interest to stockholders. Yet others – employees and suppliers, for example – also have a stake in the prosperity and survival of a firm. They may view effectiveness through different lenses, requiring managers to use a variety of measures of success.

9. Briefly describe some of the important elements in the strategic management process.

Answer:

- Organizations work toward superior performance. Superior performance is, in part, defined by the organization's managers but it is also determined by external constituencies such as capital markets.
- Analysis and formulation constitute the first stages of strategy creation. The firm must set its direction using a vision and a mission. It must analyze both the external environment and its internal activities and capabilities. The results of these analyses inform the creation of the firm's basic strategic direction.
- The implementation of a strategy requires that adjustments be made as the company encounters changing markets and moves by rivals. Implementation also includes the internal coordination of activities so that the firm has a high likelihood of meeting its goals.
- An ongoing activity in the strategic management process is evaluation, or feedback. The company must have in place metrics that tell it whether the adopted strategy is a success or needs to be changed in large or small ways.

10. To what extent should a firm be committed to a particular strategy versus making frequent changes in the strategy?

Answer:

- Strategy is a way of being able to anticipate change and respond to it. However, since not all technological, economic, environmental and political changes can always be anticipated, when it becomes obvious that it no longer fits reality, then a change in strategy is appropriate.
- Although the strategy may need to be changed it does not follow that it is pointless to have one. After all, a strategy is intended to move you toward a goal and you are more likely to reach the goal if you have a plan than if you merely float along.

PROBLEMS – ANSWERS

1. What are the primary aspects of the strategic management process?

Answer:

- *Analysis.* Analysis involves the development of an understanding of the external environment and internal organization.
 - These analyses are completed to identify opportunities and threats in the external environment and to decide how to use the resources, capabilities and core competencies in the firm's internal organization to pursue opportunities and overcome threats.
- *Formulation.* With knowledge about its external environment and internal organization, the firm forms its vision and mission and makes decisions as to what strategies to utilize to provide returns to shareholders.

- These decisions involve the selection of business-level strategies, which are the firm's actions designed to exploit its competitive advantage over rivals, and its corporate level strategy, which is the firm's scope, which ranges from a single product market to unrelated, diversified firms competing in multiple product markets. The ability to utilize a strategy will be impacted by competing firms.
- Formulation involves the selection of mechanisms such as acquisition and restructuring the firm's portfolio of businesses and the use of cooperative strategies to form a partnership to share resources and capabilities in order to develop a competitive advantage. The firm must also make decisions on its span, business-level strategies and mechanisms for international expansion.
- *Implementation.* Implementation is putting the formulated plan into action. Implementation is facilitated by different mechanisms used to govern firms, the use of appropriate organizational structure and mechanisms to control the firm's operations, the patterns of strategic leadership appropriate for the firm's strategy and competitive environments and the use of strategic entrepreneurship as a path to continuous innovation.

2. Briefly describe the two strategic imperatives with which every company must contend.

Answer:

- Companies must become aware of the strategic imperatives of opportunity recognition and value creation.
- The need for opportunity recognition stems from turbulent environments and short product life cycles that pose a threat to firms' existing products. This threat is exacerbated by global competition.
- Managers must be able to exploit emerging opportunities that meet the evolving needs of customers (even if those needs are cultivated by rivals) rather than rely on past successes.
- The imperative of value creation arises from the differences among customers as they balance product and service attributes that best fulfil their needs. It is the primary goal of strategy.
- Value creation calls for a thorough examination of the firm's activities so that investments are made where customers are most likely to find value.
- Firms that add value in desirable areas of their operations will be able to distribute the returns to stockholders and employees as well as customers.