Chapter 1

Basic Concepts of Strategic Management

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Strategic Management

• Set of managerial decisions and actions that determines the long-run performance of a company
• As opposed to “strategic planning”? 
Benefits

• Clearer sense of strategic vision for the firm
• Sharper focus on what is strategically important
• Improved understanding of a changing environments
Learning Organization

• An organization skilled at creating, acquiring, and transferring knowledge, and at *modifying its behavior* to reflect changes in new knowledge

• Organization adjust defensively to changing environment

• And, offensively use knowledge to improve organizations position in environment

• Very critical to gain competitiveness…!
Skills of Learning Organization

• Solving problems systematically
• Experimenting with new approaches
• Learning from own & other’s experiences
• Transfer knowledge quickly through the organization
Basic Model of Strategic Management

• Environmental scanning
• Strategy formulation
• Strategy implementation
• Evaluation & control
Strategic Management Model:

Environmental Scanning
- External
  - Societal Environment: General forces
  - Task Environment: Industry analysis
- Internal
  - Structure: Chain of command
  - Culture: Beliefs, expectations, values
  - Resources: Assets, skills, competencies, knowledge

Strategy Formulation
- Mission: Reason for existence
- Objectives: What results to accomplish by when
- Strategies: Plan to achieve the mission & objectives
- Policies: Broad guidelines for decision making

Strategy Implementation
- Programs: Activities needed to accomplish a plan
- Budgets: Cost of the programs
- Procedures: Sequence of steps needed to do the job

Evaluation and Control
- Performance: Actual results

Feedback/Learning
Environmental Variables

- Internal Environment
  - Structure
  - Culture
  - Resources

- Task Environment
  - Shareholders
  - Suppliers
  - Labor unions
  - Trade Associations
  - Creditors
  - Communities

- Socio-cultural Forces
- Governments
- Special interest groups
- Customers
- Creditors

- Political-Legal Forces
- Economic Forces
- Technological Forces

- Societal Environment
Misi

- What the company does in a long term overall purpose?
- Reason for organization’s existence.
- Not to broad… not to narrow!
Visi

• What will the company look like in the future?
• Example:
  – “To be the world mobile communication leader (VISI), enriching the lives of individuals and business customers in the networked society (MISI)”
Objectives

• Measurable targets that the organization is setting to move towards its vision.
• Characteristics of an objective:
  – unambiguous & result oriented
  – measurable, verifiable and not too numerous
  – relevant, achievable
  – consistent with higher level objectives
• Contoh:
  “Reduce manufacturing cost by 10% each year for the next five years”.  

Strategies

• Corporate strategy
• Business strategy
• Functional strategy
Corporate strategy

• General attitude toward all of its business
• Typically fit in these categories:
  – Stability
  – Growth
  – Retrenchment
Business strategy

• At business unit or product level
• Improvement of competitive positioning in market
• 2 category:
  – competitive strategy
  – cooperative strategy
Functional Strategy

• Taken by functional area (R&D, marketing, IS, HR) to achieve business unit objectives

• Use distinctive competence

• Example:
  – R&D: invent vs innovate vs immitate
  – Marketing: pull by advertising
Policy

• Broad guidelines for decision making that links the formulation of strategy to implementation

• Example:
  – Cannibalize existing product line to introduce new products (supports Intel’s strategy of market leadership)
  – “No questions asked” for return policy (supports differentiation by excellent customer service)
  – Project that will reduce quality, even if it reduces cost, will not be approved (supports product quality strategy)
Trigger Event

Change of strategy may be triggered by:

– New CEO
– External intervention
– Change of ownership
– Performance gap
– Strategic inflection point: when a major change to the environment (technology, regulation, etc.)
Characteristic of Strategic Decision

• Rare: unusual
• Consequential: demand substantion resource & commitment
• Directive: sets precedents for future decision & actions
Strategic Decision Making Process