Chapter 1: Mastering Strategy: Art and Science

Learning Objectives

After reading this chapter, you should be able to understand and articulate answers to the following questions:

1. What is the difference between strategic management and strategy?
2. Why does strategic management matter?
3. What are intended, emergent, and realized strategies?
4. What is the history of strategic management?
5. What is the basic strategic management process?

1.1 Introduction

Successful organizations have found that a strategic management process helps them achieve their goals within a dynamic and competitive environment. Strategic management is a comprehensive process designed for firms to best use their resources and capabilities to provide superior firm performance. Analysis of the external, competitive, and internal environments help shape the strategies that a firm pursues to be successful. Strategies are broad goals that, as accomplished, help the organization move forward toward its vision.

Strategy formation goes back to ancient times, particularly used in warfare. Although not perfect, the strategic management process creates a framework for an organization to look outside of itself and set a course for success. The remaining chapters in this textbook walk students through this framework, providing tools for diagnosing the external, competitive, and internal environments to the development and implementation of strategies. The process should always be performed with a framework of corporate ethics and values to limit the temptation to cross the line where an organization should not go.

Figure 1.1: Elon Musk, CEO of Tesla

Will Tesla Make It?

On January 7, 2020, Tesla Inc. became the most valuable US automaker in history. Valued at $81.39 billion, Tesla passed Ford Motor Company as most valuable. Approximately two weeks later, Tesla passed Volkswagen to become the second most valuable car company worldwide. Still well behind Toyota, which has a $233 billion market capitalization, Tesla's growth is unprecedented in the automotive industry. Can Tesla become number one worldwide?

Despite tremendous growth, Tesla has its share of problems as well. Its founder, Elon Musk, tweeted that the company's stock price was too high; sending the stock tumbling, the Model 3 lost Consumer Reports recommendations, and COVID-19 shutdowns of factories slowed production. These problems raise serious questions. Will Elon's Twitter use continue to cause problems? Are the quality problems going to tank Tesla's growth? Can Tesla emerge from the COVID-19 shutdown successfully?

The company faces stiff competition from automakers attempting to regain their footholds in a highly aggressive market. Competitors are attempting to compete in the same areas as Tesla. Porsche's Taycan, a Tesla competitor, got a huge win with a purchase from Bill Gates. As competitors continue to develop autonomous capabilities and better electric batteries, will Tesla continue to dominate US auto markets?

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Figure 1.1: Maurizio Pesce. Elon Musk at Tesla Factory Fremont CA. CC BY 2.0. Retrieved from https://flic.kr/p/emx5tu.

1.2 What is Strategic Management?

Defining Strategic Management

Issues such as those currently faced by Tesla are the focus of **strategic management** because they help answer the key question examined by strategic management–"Why do some firms outperform other firms?" More specifically, strategic management examines how actions and events involving top executives (such as Elon Musk), firms (Tesla), and industries (the electric car market) influence a firm's success or failure. Strategic management involves the utilization or planned allocation of resources to implement major initiatives taken by executives on behalf of stakeholders to improve performance of firms in an environment. Formal tools exist for understanding these relationships, and many of these tools are explained and applied in this book. But formal tools are not enough; creativity is just as important to strategic management. Mastering strategy is therefore part art and part science.

This introductory chapter is intended to enable students to understand what strategic management is and why it is important. Because strategy is a complex concept, we begin by explaining what strategy is. Types of strategies and the history and critique of strategic management are introduced. Lastly, students are presented with the process of strategic management that firms use.

Figure 1.2: Strategic management within a firm is accomplished by a team of senior people.

Defining **strategy** is not simple. Strategy is a complex concept that involves many different processes and activities within an organization. It involves goals and objectives that an organization needs to achieve to be successful in the marketplace. The development of these goals, however, requires a strategic management process to be done correctly and thoroughly.

A strategy is typically a higher level, broad goal, without a lot of specifics. It is long-term in nature. It provides the direction that an organization wants to move toward to be more successful. New or revised strategies may be developed as a result of changes in the business environment, such as what happened during the COVID-19 pandemic. Firms also routinely revise or create new strategies, often annually, by assessing and reacting to external and competitive forces and to maximize organizational performance. By identifying their resources and capabilities, firms attempt to deploy these through strategies that will give them a competitive advantage, so consumers will buy their product or service instead of a competitor's.

Section Video

What is Strategic Management? What does Strategic Management mean? [03:48]

The video for this section further explains strategic management and strategies.

You can view this video here: https://youtu.be/g-wf6A0ailA.

Key Takeaway

- Strategic management focuses on firms and the different strategies that they use to become and remain successful. Firms develop strategies, or longer range goals, to achieve success in the competitive marketplace. In the dynamic environment in which firms exist, firms may alter their strategies as conditions change.

Exercises

1. Have you developed a strategy to manage your career? Should you make it more detailed? Why or why not?
2. What business that you visit regularly seems to have the most successful business model? What makes the business model work?

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Figure 1.2: fauxels (2019). "Photo of people looking on laptop." CC BY-SA 4.0. Retrieved from https://www.pexels.com/photo/photo-of-people-looking-on-laptop-3182812/.

Video Credits

Audiopedia. (2017, April 4). *What is strategic management? What does strategic management mean?* [Video]. YouTube. https://youtu.be/g-wf6A0ailA.

1.3 Intended, Emergent, and Realized Strategies

A few years ago, a consultant posed a question to thousands of executives: "Is your industry facing overcapacity and fierce price competition?" All but one said "yes." The only "no" came from the manager of a unique operation—the Panama Canal! This manager was fortunate to be in charge of a venture whose services are desperately needed by shipping companies and that offers the only simple route linking the Atlantic and Pacific Oceans. The canal's success could be threatened if transoceanic shipping were to cease or if a new canal were built. Both of these possibilities are extremely remote, however, so the Panama Canal appears to be guaranteed to have many customers for as long as anyone can see into the future.

When an organization's environment is stable and predictable, strategic planning can provide enough of a strategy for the organization to gain and maintain success. The executives leading the organization can simply create a plan and execute it, and they can be confident that their plan will not be undermined by changes over time. But as the consultant's experience shows, only a few executives—such as the manager of the Panama Canal—enjoy a stable and predictable situation. Because change affects the strategies of almost all organizations, understanding the concepts of intended, emergent, and realized strategies is important (Table 1.1). Also relevant are deliberate and unrealized strategies. The relationships among these five concepts are presented in Figure 1.3, "A Model of Intended, Deliberate, and Realized Strategy" (Mintzberg & Waters, 1985).

Table 1.1 Strategic Planning and Learning: Intended, Emergent, and Realized Strategies

Intended Strategy	Emergent Strategy	Realized Strategy
David McConnell aspired to be a writer. When his books weren't selling he decided to give out perfume as a gimmick.	The perfumes McConnell gave out with his books were popular, inspiring the foundation of the California Perfume Company.	The company changed its name to Avon in 1939, and its direct marketing system remained popular for decades. Avon is now available online and in retail outlets worldwide.
When father and son team Scott and Don Rasmussen were fired from the New England Whalers, they envisioned a cable television network that focused on sports events in the state of Connecticut.	As the network became successful, ESPN has branched out beyond the local softball games and demolition derbies that were first broadcasted.	ESPN is now billed as the worldwide leader in sports, owning several ESPN affiliates as well as production of ESPN magazine, ESPN radio, and broadcasting for ABC.
In 1977, a cash-strapped advertiser gave a radio station managed by Lowell Paxson 112 electric can openers to pay off an overdue bill. The can openers were offered over the air for $9.95 and quickly sold out.	An idea emerged. Soon the radio station featured a regular show called "Suncoast Bargaineers." In 1982, Paxson and a partner launched the Home Shopping Club on local cable television in Florida.	The Home Shopping Network evolved into a retail powerhouse selling on their own channel on television. With the increased popularity of online shopping and competitors like Amazon, their success has faltered.

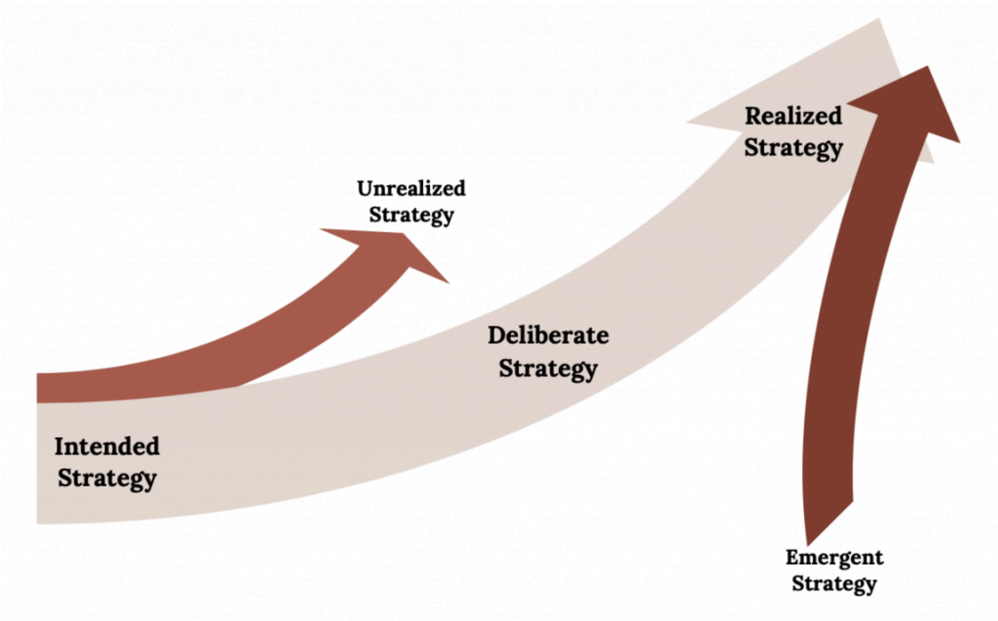

Figure 1.3: A Model of Intended, Deliberate, and Realized Strategy

Intended Strategy

An **intended strategy** is the strategy that an organization hopes to execute. Intended strategies are usually described in detail within an organization's strategic plan. When a strategic plan is created for a new venture, it is called a business plan. As an undergraduate student at Yale in 1965, Frederick Smith had to complete a business plan for a proposed company as a class project. His plan described a delivery system that would gain efficiency by routing packages through a central hub and then pass them to their destinations. A few years later, Smith started Federal Express (Funding Universe, n.d.), a company whose strategy closely followed the plan laid out in his class project. FedEx has achieved a ranking among the World's Most Admired Companies according to Fortune magazine. Certainly, Smith's intended strategy has worked out far better than even he could have dreamed (Donahoe, 2011; Memphis Business Journal, 2011).

Emergent Strategy

Emergent strategy has also played a role at Federal Express. An emergent strategy is an unplanned strategy that arises in response to unexpected opportunities and/or challenges. Sometimes emergent strategies result in disasters. In the mid-1980s, FedEx deviated from its intended strategy's focus on package delivery to capitalize on an emerging technology: facsimile (fax) machines. The firm developed a service called ZapMail that involved documents being sent electronically via fax machines between FedEx offices and then being delivered to customers' offices. FedEx executives hoped that ZapMail would be a success because it reduced the delivery time of a document from overnight to just a couple of hours. Unfortunately, the ZapMail system had many technical problems that frustrated customers. Even worse, FedEx failed to anticipate that many businesses would simply purchase their own fax machines. ZapMail was shut down, and FedEx lost hundreds of millions of dollars following its failed emergent strategy. In retrospect, FedEx made a costly mistake by venturing outside of the domain that was central to its intended strategy: package delivery (Funding Universe, n.d.).

Emergent strategies can also lead to tremendous success. Southern Bloomer Manufacturing Company was founded to make underwear for use in prisons and mental hospitals. Many managers of such institutions believe that the underwear made for retail markets by companies such as Calvin Klein and Hanes is simply not suitable for the people under their care. Instead, underwear issued to prisoners needs to be sturdy and durable to withstand the rigors of prison activities and laundering. To meet these needs, Southern Bloomers began selling underwear made of heavy cotton fabric.

An unexpected opportunity led Southern Bloomer to go beyond its intended strategy of serving institutional needs for durable underwear. Just a few years after opening, Southern Bloomer's performance was excellent. It was servicing the needs of about 125 facilities, but unfortunately, this was creating a vast amount of scrap fabric. An attempt to use the scrap as stuffing for pillows had failed, so the scrap was being sent to landfills. This was not only wasteful but also costly.

One day, co-founder Don Sonner visited a gun shop with his son. Sonner had no interest in guns, but he quickly spotted a potential use for his scrap fabric during this visit. The patches that the gun shop sold to clean the inside of gun barrels were of poor quality. According to Sonner, when he "saw one of those flimsy woven patches they sold that unraveled when you touched them, I said, "Man, that's what I can do" with the scrap fabric. Unlike other gun-cleaning patches, the patches that Southern Bloomer sold did not give off threads or lint, two by-products that hurt guns' accuracy and reliability. The patches quickly became popular with the military, police departments, and individual gun enthusiasts. Before long, Southern Bloomer was selling thousands of pounds of patches per month. A casual trip to a gun store unexpectedly gave rise to a lucrative emergent strategy (Wells, 2002).

Realized Strategy

A **realized strategy** is the strategy that an organization actually follows. Realized strategies are a product of a firm's intended strategy (i.e., what the firm planned to do), the firm's deliberate strategy (i.e., the parts of the intended strategy that the firm continues to pursue over time), and its emergent strategy (i.e., what the firm did in reaction to unexpected opportunities and challenges). In the case of FedEx, the intended strategy devised by its founder many years ago—fast package delivery via a centralized hub—remains a primary driver of the firm's realized strategy. For Southern Bloomers Manufacturing Company, realized strategy has been shaped greatly by both its intended and emergent strategies, which center on underwear and gun-cleaning patches.

In other cases, firms' original intended strategies are long forgotten. An **unrealized strategy** refers to the abandoned parts of the intended strategy. When aspiring author David McConnell was struggling to sell his books, he decided to offer complimentary perfume as a sales gimmick. McConnell's books never did escape the stench of failure, but his perfumes soon took on the sweet smell of success. The California Perfume Company was formed to market the perfumes; this firm evolved into the personal care products juggernaut known today as Avon. For McConnell, his dream to be a successful writer was an unrealized strategy, but through Avon, a successful realized strategy was driven almost entirely by opportunistically capitalizing on change through emergent strategy.

Strategy at the Movies

The Social Network

Figure 1.4: The Social Network demonstrates how founder Mark Zuckerberg's intended strategy gave way to an emergent strategy via the creation of Facebook.

Did Harvard University student Mark Zuckerberg set out to build a billion-dollar company with more than 2.6 billion active users? Not hardly. As shown in 2010's The Social Network, Zuckerberg's original concept in 2003 had a dark nature. After being dumped by his girlfriend, a bitter Zuckerberg created a website called "FaceMash" where the attractiveness of young women could be voted on. This evolved first into an online social network called TheFacebook that was for Harvard students only. When the network became surprisingly popular, it then morphed into Facebook, a website open to everyone. Facebook is so pervasive today that it has changed the way we speak, such as the word friend being used as a verb. Ironically, Facebook's emphasis on connecting with existing and new friends is about as different as it could be from Zuckerberg's original mean-spirited concept. Certainly, Zuckerberg's emergent and realized strategies turned out to be far nobler than the intended strategy that began his adventure in entrepreneurship.

Key Takeaway

- Most organizations create intended strategies that they hope to follow to be successful. Over time, however, changes in an organization's situation give rise to new opportunities and challenges. Organizations respond to these changes using emergent strategies. Realized strategies are a product of both intended and realized strategies.

Exercises

1. What is the difference between an intended and an emergent strategy?
2. Can you think of a company that seems to have abandoned its intended strategy? Why do you suspect it was abandoned?
3. Would you describe your career strategy in college to be more deliberate or emergent? Why?

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1.4 The History of Strategic Management

Those who cannot remember the past are condemned to repeat it.

– George Santayana, *The Life of Reason*

Santayana's quote has strong implications for strategic management. The history of strategic management can be traced back several thousand years. Great wisdom about strategy can be acquired by understanding the past, but ignoring the lessons of history can lead to costly strategic mistakes that could have been avoided. Certainly, the present offers very important lessons; businesses can gain knowledge about what strategies do and do not work by studying the current actions of other businesses. But this section discusses two less obvious sources of wisdom: (1) strategy in ancient times and (2) military strategy. This section also briefly traces the development of strategic management as a field of study.

Strategy in Ancient Times

Perhaps the earliest-known discussion of strategy is offered in the Old Testament of the Bible (Bracker, 1980). Approximately 3,500 years ago, Moses faced quite a challenge after leading his fellow Hebrews out of enslavement in Egypt. Moses was overwhelmed as the lone strategist at the helm of a nation that may have exceeded one million people. Based on advice from his father-in-law, Moses began delegating authority to other leaders, each of whom oversaw a group of people. This hierarchical delegation of authority created a command structure that freed Moses to concentrate on the biggest decisions and helped him implement his strategies (Table 1.2 "Strategy in Ancient Times"). Similarly, the demands of strategic management today are simply too much for a chief executive officer (the top leader of a company) to handle alone. Many important tasks are thus entrusted to vice presidents and other executives.

In ancient China, strategist and philosopher Sun Tzu offered thoughts on strategy that continue to be studied carefully by business and military leaders today. Sun Tzu's best-known work is *The Art of War*. As this title implies, Sun Tzu emphasized the creative and deceptive aspects of strategy.

Strategic management borrows many ideas from ancient uses of strategy over time. The following anecdotes provide a few notable examples of historical actions that remain relevant for the study of modern strategy. Indeed, the Greek verb strategos means "army leader" and the idea of stratego (from which we get the word strategy) refers to the idea of destroying one's enemies through the effective use of resources.

Table 1.2 Strategy in Ancient Times

1491 BC:
Moses uses hierarchical delegation of authority during the exodus from Egypt. Dividing a large set of people into smaller groups creates a command structure that enables strategies to be implemented.
500 BC:
Sun Tzu's The Art of War provides a classic handbook on military strategy with numerous business applications, such as the idea "to win without fighting is the best." This type of approach was used by businesses, such as Gap Inc. when they decided to create their own stores rather than competing for shelf space for their clothing within traditional department stores.
70 BC:
Roman poet Virgil tells the story of the Trojan horse, a classic strategic ploy where the Greek forces hid a select number of soldiers in a large wooden horse that the Trojan army took into their heavily guarded city gates. Once inside the city, Greek soldiers were able to open the gates and allow in reinforcements which eventually led to the end of the war.
c. 530:
King Arthur rules Britain. Legend says he made his famed round table so that no one, including him, would be seen as above the others. His mission to find the Holy Grail serves as an exemplar for the importance of the central mission to guide organizational actions.

One of Sun Tzu's ideas that has numerous business applications is that winning a battle without fighting is the best way to win. Apple's behavior in the personal computer business offers a good example of this idea in action. Many computer makers such as Toshiba, Acer, and Lenovo compete with one another based primarily on price. This leads to price wars that undermine the computer makers' profits. In contrast, Apple prefers to develop unique features for its computers, features that have created a fiercely loyal set of customers. Apple boldly charges far more for its computers than its rivals charge for theirs. Apple does not even worry much about whether its computers' software is compatible with the software used by most other computers. Rather than fighting a battle with other firms, Apple wins within the computer business by creating its own unique market and by attracting a set of loyal customers. Sun Tzu would probably admire Apple's approach.

Perhaps the most famous example of strategy in ancient times revolves around the Trojan horse. According to legend, Greek soldiers wanted to find a way to enter the gates of Troy and attack the city from the inside. They devised a ploy that involved creating a giant wooden horse, hiding soldiers inside the horse, and offering the horse to the Trojans as a gift. The Trojans were fooled and brought the horse inside their city. When night arrived, the hidden Greek soldiers opened the gates for their army, leading to a Greek victory. In modern times, the term Trojan horse refers to gestures that appear on the surface to be beneficial to the recipient but that mask a sinister intent. Computer viruses also are sometimes referred to as Trojan horses.

A far more noble approach to strategy than the Greeks' is attributed to King Arthur of Britain. Unlike the hierarchical approach to organizing Moses used, Arthur allegedly considered himself and each of his knights to have an equal say in plotting the group's strategy. Indeed, the group is thought to have held its meetings at a round table so that no voice, including Arthur's, would be seen as more important than the others. The choice of furniture in modern executive suites is perhaps revealing. Most feature rectangular meeting tables, perhaps signaling that one person—the chief executive officer—is in charge.

Another implication for strategic management offered by King Arthur and his Knights of the Round Table involves the concept of mission. Their vigorous search to find the Holy Grail (the legendary cup used by Jesus and his disciples at the Last Supper) serves as an exemplar for the importance of a central mission to guide organizational strategy and actions.

Lessons Offered by Military Strategy

Key military conflicts and events have shaped the understanding of strategic management (Table 1.3). Indeed, the word strategy has its roots in warfare. The Greek verb strategos means "army leader" and the idea of stratego (from which we get the word strategy) refers to defeating an enemy by effectively using resources (Bracker, 1980).

A book written nearly five hundred years ago is still regarded by many as an insightful guide for conquering and ruling territories. Niccolò Machiavelli's 1532 book *The Prince* offers clever recipes for success to government leaders. Some of the book's suggestions are quite devious, and the word Machiavellian is used today to refer to acts of deceit and manipulation.

Two wars fought on American soil provide important lessons about strategic management. In the late 1700s, the American Revolution pitted the American colonies against mighty Great Britain. The Americans relied on nontraditional tactics, such as guerilla warfare and the strategic targeting of British officers. Although these tactics were considered by Great Britain to be barbaric, they later became widely used approaches to warfare. The Americans owed their success in part to help from the French navy, illustrating the potential value of strategic alliances.

Nearly a century later, Americans turned on one another during the Civil War. After four years of hostilities, the Confederate states were forced to surrender. Historians consider the Confederacy to have had better generals, but the Union possessed greater resources, such as factories and railroad lines. As many modern companies have discovered, sometimes good strategies simply cannot overcome a stronger adversary.

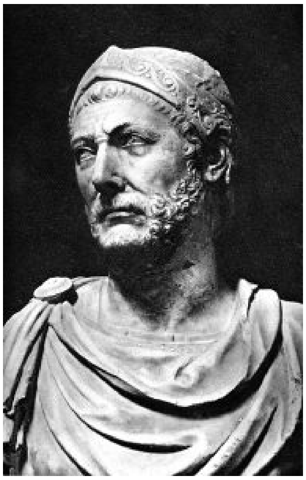

Figure 1.5: General Hannibal from Carthage, who led his troops on elephants to cross the Alps to attack the Romans.

Two wars fought on Russian soil also offer insights. In the 1800s, a powerful French invasion force was defeated in part by the brutal nature of Russian winters. In the 1940s, a similar fate befell German forces during World War II. Against the advice of some of his leading generals, Adolf Hitler ordered his army to conquer Russia. Like the French before them, the Germans were able to penetrate deep into Russian territory. As George Santayana had warned, however, the forgotten past was about to repeat itself. Horrific cold stopped the German advance. Russian forces eventually took control of the combat, and Hitler committed suicide as the Russians approached the German capital, Berlin.

Five years earlier, Germany ironically had benefited from an opponent ignoring the strategic management lessons of the past. In ancient times, the Romans had assumed that no army could cross a mountain range known as the Alps. An enemy general named Hannibal put his men on elephants, crossed the mountains, and caught Roman forces unprepared. French commanders made a similar bad assumption in 1940. When Germany invaded Belgium (and then France) in 1940, its strategy caught French forces by surprise.

The top French commanders assumed that German tanks simply could not make it through a thickly wooded region known as the Ardennes Forest. As a result, French forces did not bother preparing a strong defense in that area. Most of the French army and their British allies instead protected against a small, diversionary force that the Germans had sent as a deception to the north of the forest. German forces made it through the forest, encircled the allied forces, and started driving them toward the ocean. Many thousands of French and British soldiers were killed or captured. In retrospect, the French generals had ignored an important lesson of history: do not make assumptions about what your adversary can and cannot do. Executives who make similar assumptions about their competitors put their organizations' performance in jeopardy.

Strategic management often borrows lessons as well as metaphors from classic military strategy. For example, major business decisions are often categorized as "strategic" while more minor decisions (such as small changes in price or the opening of a new location) are referred to as "tactical" decisions. Here are a few select examples of classic military strategies that hold insights for strategic decisions today.

Table 1.3 Classic Military Strategy

1532:
Machiavelli's book *The Prince* offers clever recipes for success to government leaders. Some of the book's suggestions are quite devious, and the word Machiavellian comes to refer to acts of deceit and manipulation.
1775:
The American Revolutionary War between the United States and Great Britain begins. Weaker American forces win the war in part by relying on nontraditional tactics such as guerrilla warfare and the strategic targeting of British officers. They also depend on help from the French navy, illustrating the potential value of strategic alliances.
1815:
Napoleon's defeat at Waterloo demonstrates how spreading resources too thin can result in defeat of even one of the most famed militaries of all time.
1865:
The American Civil War ends. Historians consider the Confederacy to have had better generals, but the Union possessed greater resources. Sometimes good strategies simply cannot overcome a stronger adversary.
1944:
Following a series of deceptions designed to confuse and fool German forces, the Allies launch the D-Day invasion in an effort to liberate Europe from Nazi control.

Strategic Management as a Field of Study

Universities contain many different fields of study, including physics, literature, chemistry, computer science, and engineering. Some fields of study date back many centuries (e.g., literature), while others (such as computer science) have emerged only in recent years. Strategic management has been important throughout history, but the evolution of strategic management into a field of study has mostly taken place over the past century. A few of the key business and academic events that have helped the field develop are discussed next.

The ancient Chinese strategist Sun Tzu made it clear that strategic management is partially art. But it is also part science. Major steps toward developing the scientific aspect of strategic management were taken in the early twentieth century by Frederick W. Taylor. In 1911, Taylor published *The Principles of Scientific Management*. The book was a response to Taylor's observation that most tasks within organizations were organized haphazardly. Taylor believed that businesses would be much more efficient if management principles were derived through scientific investigation. In *The Principles of Scientific Management*, Taylor stressed how organizations could become more efficient through identifying the "one best way" of performing important tasks. Implementing Taylor's principles was thought to have saved railroad companies hundreds of millions of dollars. Although many later works disputed the merits of trying to find the "one best way," Taylor's emphasis on maximizing organizational performance became the core concern of strategic management as the field developed.

Also in the early twentieth century, automobile maker Henry Ford emerged as one of the pioneers of strategic management among industrial leaders. At the time, cars seemed to be a luxury item for wealthy people. Ford adopted a unique strategic perspective, however, and boldly offered the vision that he would make cars the average family could afford. Building on ideas about efficiency from Taylor and others, Ford organized assembly lines for creating automobiles that lowered costs dramatically. Despite his wisdom, Ford also made mistakes. Regarding his company's flagship product, the Model T, Ford famously stated, "Any customer can have a car painted any color that he wants so long as it is black." When rival automakers provided customers with a variety of color choices, Ford had no choice but to do the same.

Figure 1.6: The Model T Ford, the first production car produced on an assembly line.

The acceptance of strategic management as a necessary element of business school programs took a major step forward in 1959. A widely circulated report created by the Ford Foundation recommended that all business schools offer a capstone course. The goal of this course would be to integrate knowledge across different business fields such as marketing, finance, and accounting to help students devise better ideas for addressing complex business problems. Rather than seeking a "one best way" solution, as advocated by Taylor and Harvard's business policy course, this capstone course would emphasize students' critical thinking skills in general and the notion that multiple ways of addressing a problem could be equally successful in particular. The Ford Foundation report was a key motivator that led US universities to create strategic management courses in their undergraduate and master of business administration programs.

Although strategy has been important throughout history, strategic management as a field of study has largely developed over the past century. Below are a few key business and academic events that have helped the field evolve.

Table 1.4 The Modern History of Strategic Management

Year	Notable event
1909	Ford first produces its classic Model T.
1911	Frederick W. Taylor publishes *The Principles of Scientific Management*.
1912	The precursor to the modern strategic management course was created at Harvard Business School under the title of "Business Policy."
1925	A&W Root Beer becomes America's first franchised restaurant chain.
1959	The Ford Foundation recommends that business school curricula include a capstone course that integrates knowledge across business fields in order to help solve complex business problems.
1962	Alfred Chandler publishes *Strategy and Structure: Chapters in the History of the Industrial Enterprise*.
1962	Sam Walton opens the first Wal-Mart in Arkansas, relying on a strategy that emphasized low prices and high levels of customer service.
1980	The *Strategic Management Journal* is created.
1995	The launch of Amazon.com by founder Jeff Bezos is perhaps the pivotal event in creating internet-based commerce.
2001	Enron Corporation declares bankruptcy after a series of disclosures reveal that the firm's stellar performance had been a product of fraud and corruption.
2005	Thomas Friedman's book *The World is Flat: A Brief History of the Twenty-First Century* suggests that many advantages that firms in developed countries like the United States take for granted are disappearing.
2010	Walmart becomes the largest company in the world.
2018	Apple becomes the first company to be worth $1 trillion.
2020	Walmart is still the highest revenue producing company in the world.

In 1962, business and academic events occurred that seemed minor at the time but that would later give rise to huge changes. Building on the business savvy that he had gained as a franchisee, Sam Walton opened the first Walmart in Rogers, Arkansas. Relying on a strategy that emphasized low prices and high levels of customer service, Walmart grew to 882 stores with a combined $8.4 billion dollars in annual sales by 1985. A decade later, sales reached $93.6 billion across nearly 3,000 stores. In 2010, Walmart was the largest company in the world. In recent years, Walmart has arguably downplayed customer service in favor of cutting costs. Time will tell whether deviating from Sam Walton's original strategic positioning will hurt the company.

Two pivotal events that firmly established strategic management as a field of study took place in 1980. One was the creation of the *Strategic Management Journal*. The introduction of the journal offered a forum for researchers interested in building knowledge about strategic management. Much like important new medical findings that appear in *the Journal of the American Medical Association* and *The New England Journal of Medicine*, the *Strategic Management Journal* publishes path breaking insights about strategic management.

The second pivotal event in 1980 was the publication of *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Harvard professor Michael Porter. This book offers concepts such as five forces analysis and generic strategies that continue to strongly influence how executives choose strategies more than thirty years after the book's publication. Given the importance of these concepts, both five forces analysis and generic strategies are discussed in detail in Chapter 3 “Evaluating the External Environment” and Chapter 6 “Selecting Business-Level Strategies”, respectively.

Many consumers today take web-based shopping for granted, but this channel for commerce was created recently. The 1995 launch of Amazon by founder Jeff Bezos was perhaps the pivotal event in creating internet-based commerce. In pursuit of its vision “to be earth’s most customer-centric company,” Amazon has diversified far beyond its original focus on selling books and has evolved into a dominant retailer. Powerful giants have stumbled badly in Amazon’s wake. Sears had sold great varieties of goods (even including entire houses) through catalogs for many decades, as had JCPenney. Neither firm created a strong online sales presence to keep pace with Amazon, and both eventually dropped their catalog businesses. As often happens with old and large firms, Sears and JCPenney were outmaneuvered by a creative and versatile upstart.

Ethics have long been an important issue within the strategic management field. Attention to the need for executives to act ethically when creating strategies increased dramatically in the early 2000s when a series of companies such as Enron Corporation, WorldCom, Tyco, Qwest, and Global Crossing were found to have grossly exaggerated the strength of their performance. After a series of revelations about fraud and corruption, investors in these firms and others lost billions of dollars, tens of thousands of jobs were lost, and some executives were sent to prison.

Like ethics, the implications of international competition are of central interest to strategic management. Provocative new thoughts on the nature of the international arena were offered in 2005 by Thomas L. Friedman. In his book *The World Is Flat: A Brief History of the Twenty-First Century*, Friedman argues that many of the advantages that firms in developed countries such as the United States, Japan, and Great Britain take for granted are disappearing. One implication is that these firms will need to improve their strategies if they are to remain successful.

Looking to the future, it appears likely that strategic management will prove to be more important than ever. In response, researchers who are interested in strategic management will work to build additional knowledge about how organizations can maximize their performance. Executives will need to keep track of the latest scientific findings. Meanwhile, they also must leverage the insights that history offers on how to be successful while trying to avoid past mistakes.

Key Takeaway

- Although strategic management as a field of study has developed mostly over the last century, the concept of strategy is much older. Understanding strategic management can benefit greatly by learning the lessons that ancient history and military strategy provide.

Exercises

1. What do you think was the most important event related to strategy in ancient times?
2. In what ways are the strategic management of business and military strategy alike? In what ways are they different?
3. Do you think executives are more ethical today as a result of the scandals in the early 2000s? Why or why not?

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Figure 1.5: Verlag, Phaidon. “A marble bust, reputedly of Hannibal, originally found at the ancient city-state of Capua in Italy.” Public Domain. Retrieved from https://commons.wikimedia.org/wiki/File:Mommsen_p265.jpg.

Figure 1.6: ModelTMitch. “1925 Ford Model T touring, built at Henry Ford’s Highland Park Plant in Dearborn, Michigan.” CC BY-SA 4.0. Cropped. Retrieved from https://commons.wikimedia.org/wiki/File:1925_Ford_Model_T_touring.jpg.

1.5 Contemporary Critique of Strategic Management

This book focuses attention on the widely accepted approaches that frame the contemporary practice and understanding of strategic management. The field of strategic management has always had its critics, and, as with any academic discipline, this criticism has challenged the field to adapt and improve over time. Over time, both practitioners and scholars have voiced concerns about various areas of the strategic management process, and this section summarizes the general critiques to deepen your own ability to critically consider the processes of strategic management in your own organizations and career.

The kinds of concerns about strategic management differ depending upon who is voicing them. From the perspective of firm managers or executives, commonly expressed concerns target the high levels of investment required in order to get more benefit than cost from an effective strategic management process. For strategic management to be done well, it is typically a complex process that is high in cost, time, and difficulty (Cameron, 2019; Katsanos, 2019). Further, some decision makers are skeptical of the ability of strategic management to achieve its goal: to accurately anticipate an unknown future (Cameron, 2019; Llopis, 2019). Some critics go so far as to suggest that committing to a strategy may limit a firm's ability to respond to a changing environment when companies "make future decisions on obsolete data" (Cameron, 2019). In the opening paragraph of Michael Raynor's bestselling book *The Strategy Paradox*, he says:

"Most strategies are built on specific beliefs about the future. Unfortunately, the future is deeply unpredictable. Worse, the requirements of breakthrough success demand implementing strategy in ways that make it impossible to adapt should the future not turn out as expected. The result is the Strategy Paradox: strategies with the greatest possibility of success also have the greatest possibility of failure" (2007, p. 1).

In his book, Mr. Raynor goes on to discuss that survivorship bias is an issue because the strategies of firms that survive are evaluated more than those that fail. The issue of survivorship bias also is a research area within the field of strategic management. Additionally, other strategy scholars raise concerns about how the dominant approaches to strategic management reinforce existing assumptions about power and inequalities within organizations (e.g., affecting gender, race, etc.) and in the global market (i.e., reproducing the same "winners" and "losers") (Knights & Morgan, 1991; Levy et al., 2011; Montgomery et al., 1989).

Some critiques focus on the inadequacies of specific strategic tools or theories. For example, some scholars challenge existing firm-level, resource-based approaches for its inability to adequately assess and capture changing contexts and capabilities (resource-based approaches are introduced in Chapter 5) (Bromiley & Fleming, 2002; Teece, 2019). Finally, the field of strategic management has been critiqued for being too concerned with achieving immediate, business "results" (Montgomery et al., 1989), and at other times, for not being attuned enough to the real-time, practical needs of business (Pricop, 2012).

It is evident that there are plenty of reasons to think critically about how a firm's decision makers choose to engage in their strategic management processes. Ultimately, responsibility for determining a firm's strategic approach is left to the discretion of the firm's executive team. While the theories, tools, and resources introduced throughout this text are well-researched, time-tested, and best practices in the field of strategic management, no approach is perfect, nor is it intended to be.

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1.6 Understanding the Strategic Management Process

Strategic management is a process that involves building a careful understanding of how the world is changing, as well as a knowledge of how those changes might affect a particular firm. CEOs, such as late Apple founder Steve Jobs, must be able to carefully manage the possible actions that their firms might take to deal with changes that occur in their environment. We present a model of the strategic management process in Figure 1.7, "Overall Model of the Strategic Management Process". This model also guides our presentation of the chapters contained in this book.

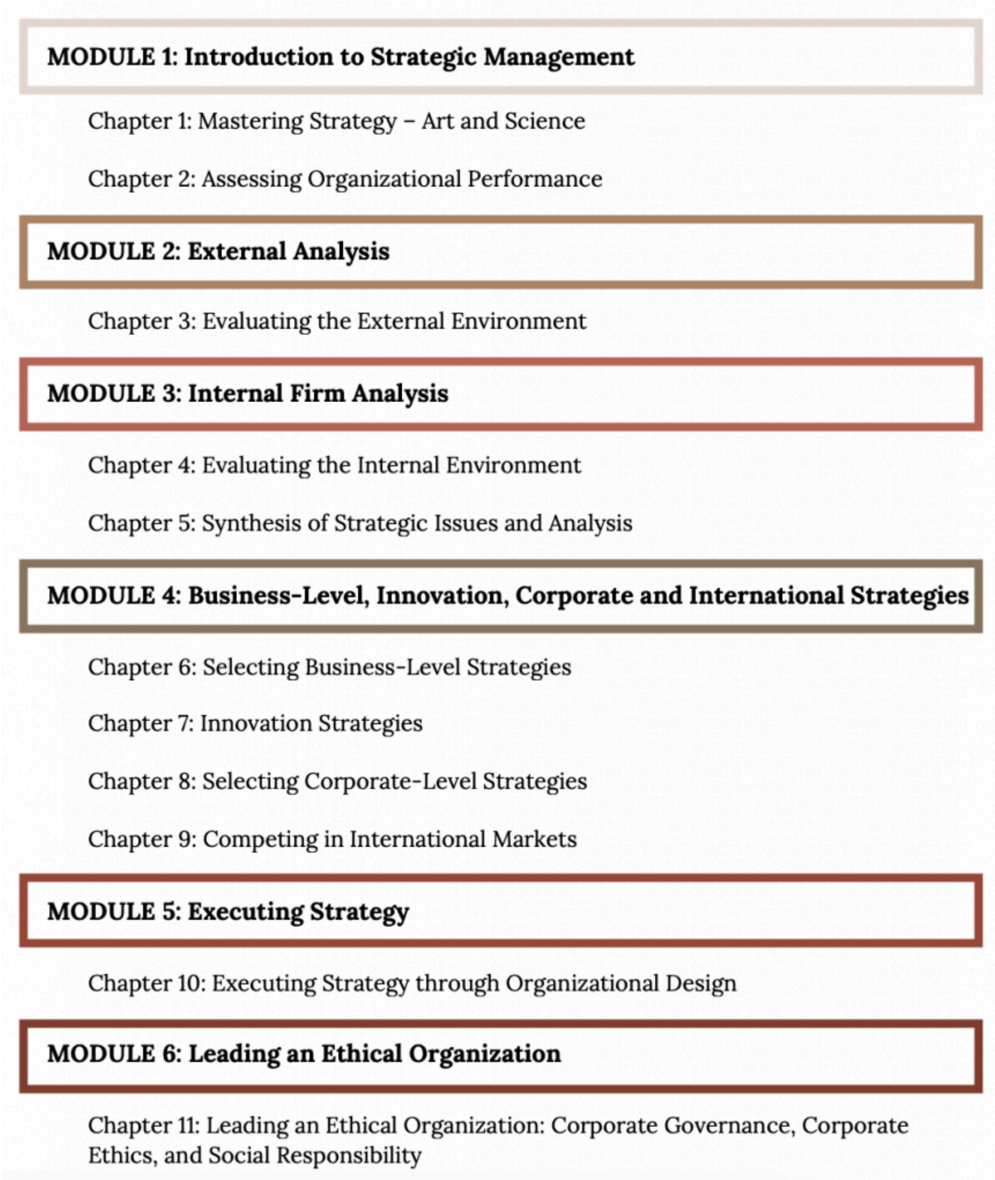

Figure 1.7: Overall Model of the Strategic Management Process

The strategic management process begins with an understanding of strategy and performance. As we have noted in this introductory chapter, strategic management is both an art and a science, and it involves multiple conceptualizations of the notion of strategy drawn from recent and ancient history. In Chapter 2 "Assessing Organizational Performance", we focus on how the organization's mission and vision shape the development of the firm's strategy. Consequently, how managers understand and interpret the performance of their firms is often central to understanding strategy.

Environmental and internal scanning is the next stage in the process. Managers must constantly scan the external environment for trends and events that affect the overall economy, and they must monitor changes in the particular industry in which the firm operates. For example, Apple's decision to create the iPhone demonstrates its ability to interpret that traditional industry boundaries that distinguished the cellular phone industry and the computer industry were beginning to blur. At the same time, firms must evaluate their own resources to understand how they might react to changes in the environment. For example, intellectual property is a vital resource for Apple. Between 2008 and 2010, Apple filed more than 350 cases with the US Patent and Trademark Office to protect its use of such terms as apple, pod, and safari (Apple Inc.).

A classic management tool that incorporates the idea of scanning elements both external and internal to the firm is SWOT (strengths, weaknesses, opportunities, and threats) analysis. Strengths and weaknesses are assessed by examining the firm's internal resources, while opportunities and threats refer to external events and trends. The value of SWOT analysis parallels ideas from classic military strategists such as Sun Tzu, who noted the value of knowing yourself as well as your opponent. Chapter 3 "Evaluating the External Environment" examines the topic of evaluating the external environment in detail, and Chapter 4 "Evaluating the Internal Environment" presents concepts and tools for managing firm resources. Synthesizing the information gained in the external and internal analysis into a SWOT framework is addressed in Chapter 5. The SWOT is then used to formulate the strategic issue(s) that the firm must deal with as it formulates strategies.

Figure 1.8: The importance of knowing yourself and your opponent is applicable to the knowledge of strategic management for business, military strategy, and classic strategy games such as chess.

Strategy formulation is the next step in the strategic management process. This involves developing specific strategies and actions. Certainly, part of Apple's success is due to the unique products it offers the market, as well as how these products complement one another. A customer can buy an iPod that plays music from iTunes—all of which can be stored in Apple's Mac computer (Inside CRM Editors, n.d.). In Chapter 6 "Selecting Business-Level Strategies", we discuss how selecting business-level strategies helps to provide firms with a recipe that can be followed that will increase the likelihood that their strategies will be successful. In Chapter 7, "Innovation Strategies", we present insights on the role innovation plays in strategy development and implementation. Chapter 8 "Selecting Corporate-Level Strategies" focuses on selecting corporate-level strategies, and Chapter 9 "Competing in International Markets" presents possibilities for firms competing in international markets. Strategy implementation is the final stage of the process. One important element of strategy implementation entails crafting an effective organizational structure and corporate culture. For example, part of Apple's success is due to its consistent focus on innovation and creativity that Steve Jobs described as similar to that of a start-up. Chapter 10 "Executing Strategy through Organizational Design" offers ideas on how to manage these elements of implementation. The final chapter explores how to lead an ethical organization through corporate governance, social responsibility, and sustainability.

Section Video

Strategic Management Process [04:35]

The video for this lesson explains the strategic management process.

You can view this video here: https://youtu.be/o0U0gwvnhek.

Key Takeaway

- Strategic management is a process that requires the ability to manage change. Consequently, executives must be careful to monitor and to interpret the events in their environment, to take appropriate actions when change is needed, and to monitor their performance to ensure that their firms are able to survive and, it is hoped, thrive over time.

Exercises

1. Who makes the strategic decisions for most organizations?
2. Why is it important to view strategic management as a process?
3. What are the four steps of the strategic management process?
4. How is chess relevant to the study of strategic management? What other games might help teach strategic thinking?

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Figure 1.8: Shirinsokhan, Mahmoudreza. "Chess" CC BY-NC 2.0. Retrieved from https://flic.kr/p/bPNmxi.

Video Credits

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1.7 Conclusion

This chapter provides an overview of strategic management and strategy. Ideas about strategy span many centuries, and modern understanding of strategy borrows from ancient strategies as well as classic military strategies. You should now understand that there are numerous ways to conceptualize the idea of strategy, and that effective strategic management is needed to ensure the long-term success of firms. The study of strategic management provides tools to effectively manage organizations, but it also involves the art of knowing how and when to apply creative thinking. Knowledge of both the art and the science of strategic management is needed to help guide organizations as their strategies emerge and evolve over time. Such tools will also help you effectively chart a course for your career as well as to understand the effective strategic management of the organizations for which you will work.

Exercises

1. Think about the best and worst companies you know. What is extraordinary (or extraordinarily bad) about these firms? Are their strategies clear and focused or difficult to define?
2. If you were to write a "key takeaway" section for this chapter, what would you include as the material you found most interesting?