BASIC CONCEPTS OF STRATEGIC MANAGEMENT (PART 2)

Initiation of Strategy: Triggering Events

A triggering event is something that acts as a stimulus for a change in strategy. Bamford, Hoffman, Hunger, and Wheelen (2018) classified the following triggering events based on internal and external control of a firm:

Internal Environment

- **New Chief Operating Officer (CEO).** A change in strategy may involve a newly appointed officer who forces the people to question the reason for the company's existence.
- **Performance measure.** A change in strategy may involve a gap that exists when performance does not meet expectations. Sales and profits either are no longer increasing or may even be falling.
- **Threat of a change in ownership.** A change in strategy may involve a different firm that initiates a takeover by buying a company's common stock.

External Environment

- **External intervention.** A change in strategy may involve alterations in the supply chain, including demand, supply, and environmental risks. Unpredictable customer demands cause demand risks while supply risks are caused by interruptions to the flow of product, including raw materials in the supply chain. The environmental risks are usually related to economic, social, governmental, and climate factors, including the threat of terrorism.
- **Strategic inflection point.** A change in strategy may involve a major alteration in the company due to the introduction of new or disruptive technologies, a different regulatory environment, a change in customers' values, or a change in customers' preference.

Strategic Decision-Making

A distinguishing characteristic of strategic management is its emphasis on strategic decision-making. Unlike many other decisions, strategic decisions deal with the long-term future of an entire organization and have three (3) characteristics as follows:

- **Rare.** Strategic decisions are unusual and typically have no precedent to follow.
- **Consequential.** Strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels.
- **Directive.** Strategic decisions set precedents for lesser organizational problems and future actions throughout an organization.

According to Henry Mintzberg, the following are the most typical approaches or modes of strategic decision-making:

- **Entrepreneurial mode.** This states that strategy is made by one powerful individual. This mode is focused on the opportunities, not on business problems. Strategy is guided by the founder's own vision of direction and is exemplified by large, bold decisions. The dominant goal of this mode is the growth of a corporation.

EXAMPLE: Amazon.com, founded by Jeff Bezos, reflects Bezos' vision of using the Internet for marketing everything that can be bought.

- **Adaptive mode.** This is characterized by reactive solutions to existing problems, rather than a proactive search for new opportunities. Strategy is fragmented and is developed to move a corporation forward incrementally. This mode is typical of most universities, many large hospitals, a large number of governmental agencies, and a surprising number of large corporations.
  EXAMPLE: Encyclopedia Britannica Inc. operated successfully for many years in this mode, but it continued to rely on the door-to-door selling of its prestigious books long after dual-career couples made that marketing approach obsolete. Only after it was acquired in 1996 did the company change its door-to-door sales to television advertising and Internet marketing.
- **Planning mode.** This involves the systematic gathering of appropriate information for situation analysis, the generation of feasible alternative strategies, and the rational selection of the most appropriate strategy. It includes both the proactive search for new opportunities and the reactive solution of existing problems.
  EXAMPLE: IBM under CEO Louis Gerstner is a great example of the planning mode. When Gerstner accepted the position of CEO in 1993, he realized that IBM was in serious difficulty. Mainframe computers, the company's primary product line, were suffering a rapid decline both in sales and market share. An in-depth analysis of IBM's product lines revealed that the only part of the company that was growing were services, but it was a relatively small segment and not very profitable. Rather than focusing on making and selling its own computer hardware, IBM made the strategic decision to invest in services that integrated information technology.
- **Logical incrementalism.** This can be viewed as a synthesis of the planning, adaptive, and, to a lesser extent, the entrepreneurial modes. In this mode, top management has a reasonably clear idea of the corporation's mission and objectives, but, in its development of strategies, it chooses to use "an iterative process in which the organization probes the future, experiments, and learns from a series of partial commitments rather than through global formulations of total strategies." Thus, although the mission and objectives are set, the strategy is allowed to emerge out of debate, discussion, and experimentation. This approach appears to be useful when the environment is changing rapidly and when it is important to build consensus and develop needed resources before committing an entire corporation to a specific strategy.
  EXAMPLE: In the petroleum industry, corporate headquarters established the mission and objectives but allowed the business units to propose strategies to achieve them.

Strategic Decision Making Process

Bamford, Hoffman, Hunger, and Wheelen (2018) summarizes the steps in strategic decision-making process as follows:

1. **Evaluate current performance results.** The organizational performance must be assessed based on return on investment, profitability, current mission, objectives, strategies, and policies.
2. **Review corporate governance.** The organization must evaluate the performance of its board of directors and top management.
3. **Scan and assess the external environment.** The organization must determine the strategic factors that pose opportunities and threats.

4. **Scan and assess the internal corporate environment.** The organization must determine its strengths or core competencies and weaknesses.
5. **Analyze strategic factors.** The organization must pinpoint its problem areas and revise its corporate mission and objectives, as necessary.
6. **Generate, evaluate, and select the best alternative strategies.** The organization must identify the best course of action to solve an identified problem and achieve a set of objectives.
7. **Implement selected strategies.** The organization must implement strategies through company programs, budgets, and procedures.
8. **Evaluate implemented strategies.** The organization must monitor the implemented strategies through feedback systems and control of activities that ensures minimum deviation from original plans.

References

Bamford, C., Hoffman, A., Hunger, D., & Wheelen, T. (2018). *Strategic management and business policy:* Globalization*, innovation and sustainability* (15th ed.). United Kingdom: Pearson Education Limited.

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