

**STRATEGIC MANAGEMENT - 2**

**THE STRATEGIC MANAGEMENT PROCESS**

The **strategic management process** is an eight-step process that encompasses strategic planning, implementation, and evaluation.

- A. The first step is identifying the organization's current mission, objectives, and strategies.
  - 1. Every organization needs a **mission**, which defines the purpose of the organization. What is the organization's reason for being in business?
  - 2. It's also important to identify the organization's current objectives and strategies, as well.
  
- B. Step 2 is analyzing the external environment. It's important to analyze the environment because, to a large degree, it defines management's strategic options.
  - 1. A successful strategy is one that aligns well with the environment.
  - 2. This step is complete when managers have an accurate grasp of what is taking place in the external environment and are aware of important trends that might affect the organization.
  
- C. The third step is identifying opportunities and threats. After analyzing the external environment, managers need to assess what opportunities to exploit and what threats to avoid.
  - 1. **Opportunities** are positive external environmental factors.
  - 2. **Threats** are negative external environmental factors.
  
- D. Step 4 is analyzing the organization's resources. In this internal analysis, managers are looking at the organization's specific assets, skills, and work activities.
  - 1. Managers look for **core competencies**, which are an organization's major value-creating skills, capabilities, and resources that determine its competitive advantage.
  - 2. This step forces managers to realize that every organization, no matter how large or powerful, is constrained in some way by its resources and skills.
  
- E. Step 5 is identifying strengths and weaknesses. The analysis in step 4 should lead to a clear assessment of the organization's internal resources.
  - 1. **Strengths** are those activities the firm does well or the unique resources it controls.
  - 2. **Weaknesses** are those activities the firm doesn't do well or the resources it needs but doesn't possess.
  - 3. One area that's often overlooked in this step is an analysis of the organization's culture and its strengths and weaknesses.
    - a. Remember that culture is the organization's personality.
    - b. The strength of the culture is a result of how much employees understand and support the shared values.
    - c. A strong culture should make it easy for managers to convey to employees the organization's distinctive competencies. However, the strong culture will make it more difficult to change, if needed.
    - d. Strategic choices will also be influenced by the culture's tolerance of risk and innovation and how performance is rewarded.
    - e. The culture can also promote or hinder an organization's strategic actions.
  - 4. The merging of steps 3 and 5 results in a **SWOT analysis**, which is an analysis of an organization's strengths, weaknesses, opportunities, and threats. It brings together the internal and external analyses in order to identify a strategic niche the organization might exploit.
  - 5. In light of the SWOT analysis, managers need to reevaluate the organization's current mission

and objectives.

F. Step 6 is formulating strategies. Strategies need to be established for the corporate, business, and functional levels of the organization. In formulating strategies, managers hope to give the organization a competitive advantage.

G. The next step is implementing strategies. The strategies must now be put into action. Strategies are only as good as their implementation.

H. The eighth (and final) step in the strategic management process is evaluating results. Managers must evaluate the results to determine how effective their strategies have been and what corrections are necessary.

### **The role of competitive analysis in strategy formulation**

Before an effective strategy to gain a competitive advantage can be formulated, the organization's competitive situation needs to be carefully analyzed.

- A. A SWOT ANALYSIS is one method for doing so. The SWOT analysis involves assessing organization strengths (S) and weaknesses (W), as well as environmental opportunities (O) and threats (T).
1. Strengths and weaknesses apply to internal characteristics.
    - a. A **strength** is an internal characteristic that has the potential of improving the organization's competitive situation.
    - b. A **weakness** is an internal characteristic that leaves the organization potentially vulnerable to strategic moves by competitors.
  2. Opportunities and threats are found in the external environment.
    - a. An **opportunity** is an environmental condition that offers significant prospects for improving an organization's situation relative to competitors.
    - b. A **threat** is an environmental condition that offers significant prospects for undermining an organization's competitive situation.