

MGMT 670: Week 1 Lecture

Week 1: Strategy, business models, competitive advantage, vision, mission, objectives. Students will learn that business strategy is the business's long term goals. They will learn how to create the mission and vision statements and objectives to achieve the strategic vision of the company. They will learn how to identify the business model used by a business.

Learning Objectives:

1. Discuss business strategy and the strategic management process.
2. Differentiate between the vision and mission statements and how to create them.
3. Identify a company's objectives and discuss how they contribute to a company's strategy.
4. Learn the three tests of a winning strategy.
5. Identify the model used by a business.

What is Strategy?

According to Watkins (2007), **business strategy** is “a set of guiding principles that, when communicated and adopted in the organization, generates a desired pattern of decision making. A strategy is therefore about how people throughout the organization should make decisions and allocate resources in order accomplish key objectives.” BusinessDictionary.com (n.d.) defines **strategic management** as “The systematic analysis of the factors associated with customers and competitors (the external environment) and the organization itself (the internal environment) to provide the basis for maintaining optimum management practices. The objective of strategic management is to achieve better alignment of corporate policies and strategic priorities.” These two definitions give insight into the topics we'll be studying this semester.

Identifying Your Organization-Wide Strategies



Strategic Planning

Why do some companies outperform others? They create and execute an effective strategic plan. A **strategic plan** “is a carefully crafted set of steps that a firm intends to follow to be successful” (“Defining strategic management and strategy,” 2012). The goal of every company is to gain **competitive advantage**: “the strategic advantage one business entity has over its rival entities within its competitive industry. ... Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to

outperform its competitors” (“Competitive advantage,” 2016). Such attributes can include natural resources, skilled personnel, and new technologies (“Sustainable competitive advantage,” 2016).

The strategic plan is just one element of the direction leaders define for their organization. An effective strategic plan follows from a vision statement, a mission statement, and clear objectives (goals) for achieving its mission and vision. The strategy plan is how the business accomplishes those objectives.

Vision

The **vision statement** is usually created first. “An organization’s vision describes what the organization hopes to become in the future. Well-constructed visions clearly articulate an organization’s aspirations” (“Vision, mission, and goals,” 2012). Although most business leaders agree that a strong vision is essential to an organization’s success, most also admit that crafting an effective vision is difficult, and some organizations find that even having a good vision statement does not mean employees embrace it (“Vision, mission, and goals,” 2012). Therefore, “having a well-formulated vision employees embrace can therefore give an organization an edge over its rivals” (“Vision, mission, and goals,” 2012).

How to Write a Vision Statement that Inspires



Mission

A **mission statement** “states the reasons for an organization’s existence. Well-written mission statements effectively capture an organization’s identity and provide answers to the fundamental question “Who are we?”” (“Vision, mission, and goals,” 2012). A good mission statement explains why employees and other stakeholders should support the organization. A mission statement tells why the organization exists: what role does it play in society? A vision statement looks to the future, whereas a mission statement talks about the present and past of the organization.

How to Write a Mission Statement



Objectives

Once the company has its vision and mission statements, it next needs to create objectives (or goals) (Barnat, n.d.a). **Objectives or goals** are “narrower aims that should provide clear and tangible guidance to employees as they perform their work on a daily basis” (“Vision, mission, and goals,” 2012). The key to crafting effective objectives is to make them SMART:

- Specific
- Measureable
- Achievable (or Aggressive)
- Realistic
- Time-Bound

How to Set SMART Goals



The objectives should take into account the market in which the company operates, its customers, and its financial objectives. Objectives “must be capable of being converted into specific targets and specific

assignments” (Barnat, n.d.a). “Objectives should be established at least in eight key areas:

- Marketing
- Innovations
- Human Resources
- Physical and Financial Resources
- Productivity
- Social Responsibility
- Profit Requirements” (Barnat, n.d.a).

“The corporate objectives affect the entire organization; divisional objectives are those derived from the corporate objectives, department are derived from the divisional objectives, and so forth, right down to the individual level” (Barnat, n.d.a). It’s important to note that the mission and objectives of an organization are not immutable. When circumstances change, so must the mission and objectives. “A variety of factors, such as new technology, new government regulation, and different stakeholders demands, can render good objective[s] obsolete” (Barnat, n.d.a).

Choosing Your Strategic Objectives



Strategic Process

The strategic management process has seven steps:

1. Environmental scan
2. Customer analysis
3. Competitor analysis
4. Analyze alternatives
5. Sustainability analysis
6. Strategic investment
7. Implementation (Bradley, 2005).

Three Tests of a Winning Strategy

Once a strategy has been decided on (or when comparing multiple strategies), a company should assess whether it can be a winning strategy. A winning strategy passes three tests:

1. The Goodness of Fit Test
2. The Competitive Advantage Test
3. The Performance Test.

Goodness of Fit: “A good strategy is well matched to the company's situation - both internal and external factors and its own capabilities and aspirations” (Barnat, n.d.b). **Competitive Advantage Test:** “A good strategy leads to sustainable competitive advantage. The bigger the competitive edge that a strategy helps build, the more powerful and effective it is” (Barnat, n.d.b). **Performance Test:** “A good strategy boosts company performance. Two kinds of performance improvements are the most telling: gains in profitability and gains in the company's long-term business strength and competitive position” (Barnat, n.d.b).

The Three Tests of a Winning Strategy

The Competitive Advantage Test

Is the strategy resulting in better strategic performance?

The Goodness of Fit Test

How well does the strategy fit the firm's situation?

The Performance Test

Is the strategy producing better financial performance?

To qualify as a winning strategy, a strategy has to *pass all three tests*

A.G. Lafley Defines Effective Business Strategy



What type of **market** in which the company competes should also be considered when developing a strategy. “The major types of market structure include monopoly, monopolistic competition, oligopoly, and perfect competition” (“Definition of perfect competition,” 2016).

When considering the role of **customers** in developing a strategy, ask, “Which segments do we serve and which do we choose not to serve? If you haven't thought about which customers you're not serving, you probably don't have your strategy cleanly articulated, because in each segment there's a set of people that you probably don't want to be serving” (Bradley, 2005). The strategy chosen can determine how a company can use its core capabilities to provide benefits sought by potential customers (Narayandas, 2005).

The strategy a company chooses to pursue is often directly tied to its **business model**, “the plan implemented by a company to generate revenue and make a profit from operations” (“Business model,” n.d.). In essence, the business model is the way the company makes money.

Note for students in the public and nonprofit sectors

While some of the strategy concepts and ideas (e.g., competitors and competitive advantage) may not seem familiar or appear relevant in your work context, you will come to understand that most of what you read about and do this semester is actually really important for ALL organizations and their managers. Even though different in scope, length, and the extent to which they have been formally articulated, all organizations have a mission of some sort. The same is true for vision, goals, objectives, and the importance for managers of figuring out what needs to change and how to make that happen. Thus, in this initial class assignment and in those that follow, those in the public and on-profit sectors will have the exciting task of interpreting and adapting the ideas we'll explore so they make sense in their organizations. Doing this will serve to distinguish you from other managers in your organizations and, once you have completed this course successfully, should be incorporated in your resume as a noteworthy accomplishment. Please take time to read the resources in the “Strategy in Nonprofits” section of the Webliography. In the meantime, please never hesitate to reach out and consult with your faculty member whenever you have questions.

Let's end this week with this thought: “Great strategies come from great strategic planning processes” (Rivkin, 2005).

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