

FUNDAMENTALS OF STRATEGIC MANAGEMENT

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Presentation

This book is designed as a basic support for the higher education of undergraduates in Business Administration and Management and other similar degree courses who have an interest in subjects related to Management and Strategy, and who are studying the syllabus in English. The text is especially recommended for short courses, and has been adapted to the teaching methods proposed by the European Higher Education Area (Bologna Process).

It may also be of great use as an introduction to the subject for post-graduate students on courses at universities, business schools and similar institutions, in subjects related to Strategy, as well as a required reference tool for all those professionals and business executives who from a practical perspective assume a predominantly applied view of business and are responsible for managing and advising firms.

Through this three-pronged approach, the book is an introductory handbook that covers the more salient issues and problems that make up the theoretical corpus of the management model referred to as Strategic Management.

The content

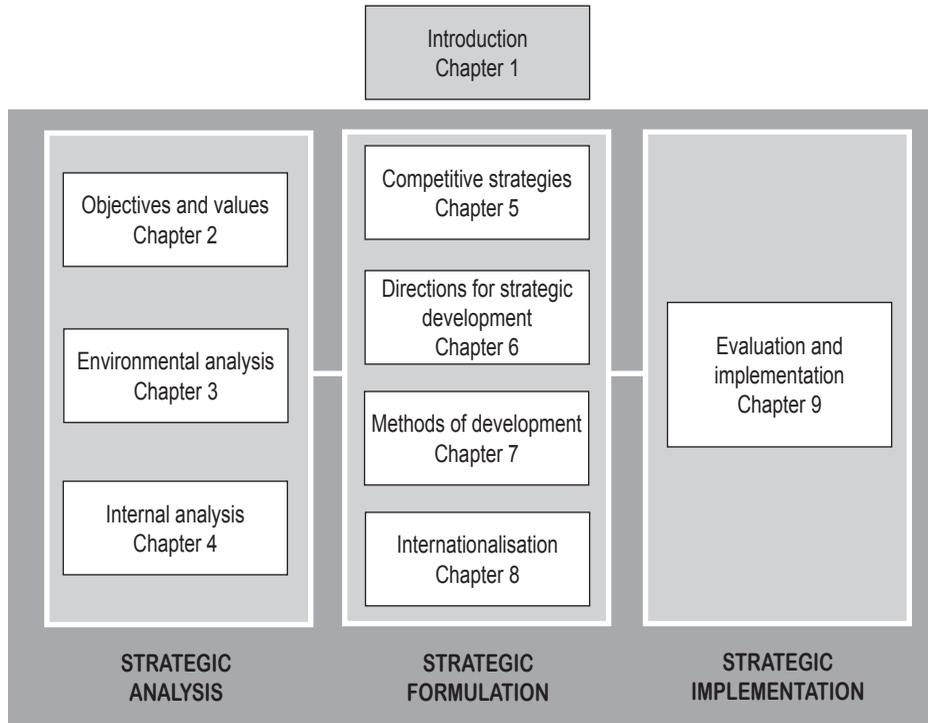
The book analyses the Strategic Management model as a prevailing paradigm in Management. This model seeks to interpret the development of business activity in order to enable it to effectively respond both to the opportunities and favourable situations that the external environment presents, as well as to those other threats and challenges that might also emerge. All this without losing sight of the internal resources, capabilities and strengths the firm itself possesses, and any weaknesses it may still have.

The result of the confluence of these factors is a point of departure that provides a platform for establishing the various alternatives or courses of action that permit a firm to achieve its established goals. The process culminates in the implementation of these alternatives. This is, in essence, Strategic Management.

In view of this, we shall consider that Strategic Management has three main parts or blocks: Strategic Analysis, Strategic Formulation and Strategic Implementation. These three parts are used to organise the different blocks of text, as well as the various chapters and content that make up each block, as can be seen in figure 0.

Chapter 1 is introductory and seeks to present the basic fundamentals of what is understood by Strategic Management. It therefore defines the concept of strategy and the difference between the various levels: corporate, competitive and functional. The different phases of the process are also analysed by adopting a strictly rational approach to decision-making, and certain considerations regarding the actual field of Strategic Management are also provided.

Figure 0: Structure of book



Following this introduction, the text addresses **Strategic Analysis**, with the first part (**Chapter 2**) considering the matter of identifying a firm's objectives. The first issue raised focuses on who establishes these objectives, as regards the existence of other stakeholders, especially managers, as opposed to shareholders, and the ability the latter have to control them. This is an area referred to as corporate governance. The section places particular importance on the concepts of mission, vision and strategic objectives for the identification of general guidelines for a firm's operations. The chapter concludes by considering the corporate values expressed by the assumption of principles of corporate social responsibility and ethical conduct.

Strategic Analysis contains a further two parts: environmental and internal analysis. Environmental analysis (**Chapter 3**) investigates all those factors in the environment that affect a firm's operations. In turn, regarding this external analysis, a distinction is usually drawn between the general and competitive environments. The former studies the factors that, from a generic point of view, influence managers' behaviour; and techniques such as the environment's strategic profile and industrial districts will be considered. The latter, the competitive environment, focuses on the type of business the firm pursues, and to do so it will use Porter's five-forces analysis, industry segmentation and an analysis of competitors.

Internal analysis (**Chapter 4**) tackles those factors that are specific to the firm and, therefore, within its decision-making powers. There are different instruments of analysis depending on which the company's internal situation is revealed, such as: its identity, strategic profile, the value chain, and the SWOT analysis. Note should be taken of the importance that needs to be given in this field to the analysis of resources and capabilities, as a theory explaining why different firms operating in the same industry have different competitive advantages.

As mentioned earlier, the purpose of this entire first part is to identify the opportunities and threats the environment poses for the firm's operations, as well as the strengths and weaknesses it has. The foundations are thus laid for the establishment of different strategies.

This leads into the second part of the book dealing with **Strategic Formulation**. This block will study strategies at corporate or firm level and strategies at business level. The main focus at corporate level is the definition of the scope of the firm or sum of businesses in which it seeks to compete and the different types of development and growth. At business level, and once the businesses have been defined, the key issue is to decide on how to compete more effectively and be successful in each one of them; in other words, discovering how to gain a competitive advantage.

Strategies at business level are the focus of **Chapter 5**, which studies basic competitive strategies and strategies based on the industry's degree of maturity. Following an introduction on creating and sustaining a competitive advantage, the chapter delves further into the two classical advantages propounded by Porter: cost leadership and differentiation advantage. The analysis is rounded off by an extension of the original model that also identifies hybrid competitive situations. A subsequent analysis is made of the possible strategies to be followed for emerging, mature and declining industries.

Corporate strategies are included in chapters 6 to 8. These cover business development strategies –expansion and diversification–, the types or methods of development –both internal and external– and internationalisation strategies.

Development strategies refer to the expediency of continuing to operate with the same products and/or markets or enter and/or leave new businesses. These strategies are dealt with in **Chapter 6**, which analyses the main reasons for following one or the other, as well as the different types they may entail: expansion, related diversification, unrelated diversification, vertical integration and restructuring, both of existing businesses and of the firm's own business portfolio.

Chapter 7 is devoted to the study of business development methods, distinguishing between internal and external development. The chapter focuses especially on external development, analysing both merger and acquisition processes, and alliances. They all include an investigation into the motives, advantages, drawbacks, types and problems involved in their management.

Finally within this block, **Chapter 8** deals with internationalisation strategy, analysing the concept of multinational firm, the reasons for internationalisation, the factors and strategies

for global industries, the ways of entering foreign markets and the specific issues facing a multinational firm, with reference to aspects such as offshoring, commercial and cultural factors, the management of human resources and structural design.

The third and final part of the book is devoted to **Strategic Implementation**, being contained in **Chapter 9**. This chapter deals with the process of evaluating and selecting strategies according to criteria of suitability, feasibility and acceptability, the issues surrounding the practical implementation of the strategy in which three main aspects stand out: organisational design, management and leadership systems and corporate culture, as well as the planning and control systems that complete the process of Strategic Management.

All the chapters contain practical examples of the application to real company practices of those aspects deemed of greatest interest and regarding which sufficient data have been made available. The overriding aim has been to find applications on well-known Spanish firms, and whenever this has not been possible, on well-known foreign firms operating in Spain. These examples seek to illustrate the theoretical content by revealing, even if only partially, the firms' true circumstances. The book concludes with a bibliography that includes all the references cited throughout the text and which have provided the general background for the drafting of the content.

About this first edition

The purpose of this text is to provide an introductory handbook to Strategic Management that summarises its most important aspects. This has involved an analysis of its more significant components based largely on our reference manual, Guerras and Navas (2007): *La Dirección Estratégica de la Empresa. Teoría y Aplicaciones* (Thomson Reuters-Civitas, 4th edition).

Nevertheless, the book includes a series of novelties regarding that manual that are worth highlighting. Firstly, the content has been revised and updated to reinforce its relevance from both an educational and a professional perspective. This has involved a major effort in terms of both the theoretical content, in order to include its most pertinent and modern aspects, as well as regarding the applications, which have largely been replaced and/or refreshed, with a view to making the text more accessible and easier to study for any reader.

Secondly, with a view to adapting the text to the guidelines of the European Higher Education Area (Bologna Process), and besides the aforementioned company applications, other educational features have been included that contribute to this objective. Thus, each chapter describes the objectives pursued, with a figure of the general model that highlights the location of each chapter; a summary box with the main ideas included, self-assessment exercises for revising and evaluating the knowledge acquired, activities to be undertaken involving practical tasks that can be developed on the basis of the content, and suggestions for further reading that refer the reader to other specific references of interest for each one of the topics addressed.

Thirdly, the text incorporates two types of links to websites in order to provide the supplementary knowledge and information that cannot be included in the book for reasons of space, but which may be of great interest. The first of these, called “**Access the Web**”, refers the reader to this book’s website (*www.guerrasynavas.com*) to link up with the new applications or short cases posted there. The second of these, called “**Analysis**”, refers to the web addresses of different academic journals featuring scholarly papers that provide an in-depth treatment of certain topics, from both a theoretical and a practical perspective. There are also occasional references to the websites for the documentation, organisations and institutions cited in the text, where the full document can be found or additional information is available on the institution mentioned.

These links appear, as appropriate, in the form of notes in the margin on the pages. It should be noted that these websites were operational at the time this book went to press, so the authors cannot guarantee they will remain accessible over time.

In short, our aim has been to provide students and professionals with a better working tool that will enable them to gain a broader and more updated perspective on the content of Strategic Management.

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The authors
Somosaguas (Pozuelo) and
Vicálvaro (Madrid),
May 2013

Foreword

Strategic management emerged as a field more than fifty years ago. Since then, the body of knowledge on the strategic direction and management of the enterprise –the primary domain of the field– has continued to grow.

Broadly, one can think of strategic management as comprised of three aspects: which industries to compete in, on which basis to compete in an industry, and the actual execution of the strategy. The first is what is known as corporate strategy, which shapes the general direction of the enterprise and determines the scope of the firm and the product-markets in which it competes. Mergers and acquisitions, diversification, strategic alliances and the like are among the key corporate strategy topics.

The second is competitive strategy, which focuses on how firms position themselves in an industry and establish the basis for their competitiveness, e.g. cost, differentiation, innovativeness, etc. For effective competitive positioning, both an external and internal focus is important. The former focuses on the environmental and industry conditions as well as competitive rivalry among firms, whereas the latter focuses on the firm's own resources and capabilities and how these inform its strengths and weaknesses. Managers of firms need to analyze how external and internal considerations, together, underpin the firm's competitive strategy and competitive advantage.

The third is what is known as strategy execution or implementation. Even if firms have chosen in which product-markets to compete and the basis upon which to compete in these markets, this remains largely a theoretical exercise unless they can effectively carry it out. This involves issues like firm structure, control systems, governance, etc. In fact one can argue that competitive advantage arises not just from having an effective competitive strategy but also the ability to implement it.

Whereas the above three aspects are what one would consider its core, yet the field of strategic management is a living entity that continues to evolve. In recent years, there have been two significant developments. First, with increasing globalization and lowering of barriers in commerce among nations, the international aspects of strategy have become part and parcel of strategic management. Topics here range from managing the global enterprise to location strategy to modes of entry. Second, as a result of the recent economic crisis and financial scandals, there has been a noticeable shift away from the erstwhile dominant shareholder model to a more comprehensive stakeholder model which recognizes the importance of the impact of a broader range of stakeholders on firm strategy and competitive advantage. These include customers, suppliers, employees, governments and other institutions.

In light of the above, the book *Fundamentals of Strategic Management* by professors Navas and Guerras is one that deserves to be commended. For one, it is comprehensive in its reach and covers all the topics outlined above. Second and importantly, the professors

are highly experienced in their field and, besides their theoretical knowledge, have informed their approach and treatment of the subject with knowledge directly gleaned from years of teaching university students and managers at various levels over the years. In addition to a coherent conceptual framework, they use numerous examples to illustrate key ideas and link it back to the theory. As a result, the book has an applied focus which makes it appealingly accessible to students and practitioners of strategic management. With many of the examples and illustrations discussing Spanish firms, the appeal of this book should be even more attractive for readers and practitioners from Spain and, more broadly, Latin America.

Strategic management is a complex subject since it incorporates such a wide range of issues at so many levels. Moreover, in the current environment characterized by rapid rates of technological change, globalization and the emergence of competitors from emerging economies, the strategic challenges faced by firms and key decision makers are increasingly complex and urgent. A good book on the topic –comprehensive, systematic, informative and easy to read– would perform a useful role in aiding senior managers in their decision-making and should be an essential part of their tool-kit. In this regard, Professors Navas and Guerras make an excellent contribution.

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