

Defining Strategic Management

Strategic management consists of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages. This definition captures two main elements that go to the heart of the field of strategic management.

First, the strategic management of an organization entails three ongoing processes: *analysis*, *decisions*, and *actions*. That is, strategic management is concerned with the *analysis* of strategic goals (vision, mission, and strategic objectives) along with the analysis of the internal and external environment of the organization. Next, leaders must make strategic decisions. These *decisions*, broadly speaking, address two basic questions: What industries should we compete in? How should we compete in those industries? These questions also often involve an organization's domestic as well as its international operations. And last are the *actions* that must be taken. Decisions are of little use, of course, unless they are acted on. Firms must take the necessary actions to implement their strategies. This requires leaders to allocate the necessary resources and to design the organization to bring the intended strategies to reality. As we will see in the next section, this is an ongoing, evolving process that requires a great deal of interaction among these three processes.

Second, the essence of strategic management is the study of why some firms outperform others. Thus, managers need to determine how a firm is to compete so that it can obtain advantages that are sustainable over a lengthy period of time. That means focusing on two fundamental questions: *How should we compete in order to create competitive advantages in the marketplace?* For example, managers need to determine if the firm should position itself as the low-cost producer, or develop products and services that are unique which will enable the firm to charge premium prices-or some combination of both.

Managers must also ask how to make such advantages sustainable, instead of highly temporary, in the marketplace. That is: *How can we create competitive advantages in the marketplace that are not only unique and valuable but also difficult for competitors to copy or substitute?*

Ideas that work are almost always copied by rivals immediately. In the 1980s, American Airlines tried to establish a competitive advantage by introducing the frequent flyer program. Within weeks, all the airlines did the same thing. Overnight, instead of competitive advantage, frequent flyer programs became a necessary tool for competitive parity, not competitive advantage. The challenge, therefore, is to create competitive advantage that is sustainable.

Michael Porter argues that sustainable competitive advantage cannot be achieved through operational effectiveness alone. Most of the popular management innovations of the last two decades-total quality, just-in-time, benchmarking, business process reengineering, outsourcing-all are about operational effectiveness. Operational effectiveness means performing similar activities better than rivals. Each of these is important, but none lead to sustainable competitive advantage, for the simple reason that everyone is doing them. Strategy is all about being different from everyone else. Sustainable competitive advantage is possible only through performing different activities from rivals or performing similar activities in different ways. Companies such

as Wal-Mart, Southwest Airlines, and IKEA have developed unique, internally consistent, and difficult to imitate activity systems that have provided them with sustained competitive advantage. A company with a good strategy must make clear choices about what it wants to accomplish. Trying to do everything that your rivals do eventually leads to mutually destructive price competition, not long-term advantage.

Dess, Gregory G., G.T. Lumpkin and Marilyn L. Taylor. Strategic Management. 2 ed. New York: McGraw-Hill Irwin, 2005.