Chapter II
Strategic Management Principles

INTRODUCTION

Building on the understanding of the theories and models of firms, this chapter reviews the basic principles of strategic management of business enterprises. First, the basic principles of business strategy are explained. Only through in-depth understanding and diligent application of these principles will business executives be able to make strategic choices and craft an appropriate business strategy and the corresponding value configuration, business model, or e-business model for the firm.

Second, the role of corporate strategy and its relationships with business unit strategies are discussed. The discipline of strategic management is introduced together with the principles of strategy maps—a model which is explained and illustrated by case example of its application by a leading corporation in more detail in Chapter V as part of a strategic alignment discussion.

Third, the principles of strategic planning and the measurement of competitive strategy are described. These tasks ensure a corporate/business strategy is rigorously planned, resourced, and diligently executed to deliver the requisite strategic goals.

Following on from the resource-based and activity-based theories of firms discussed in Chapter I, this chapter describes the corresponding resource-based and activity-based strategies. In addition, with the increasing importance of corporate governance comes the need to ensure due consideration is given to ethics in information technology deployment. Theories for ethics in IT and their incorporation in IT strategy are still emerging. The basic issues for IT strategy developmental consideration are reviewed.

Fourth, to help managers develop sound business strategies for their firms, the chapter describes nine basic methods for business strategy analysis. From this analysis, firms will be able to analyze the needs for change from comparing the current state to the future target state of the business envisioned by the resultant business strategy.

Finally, to ensure firms will be able to leverage the strategic advantage that Internet technology may able to offer, this chapter continues from Chapter I's discussion of e-business models to explain the basic properties of e-strategies.

BASIC PRINCIPLES OF STRATEGY

Strategy is not about finding the universally best way of competing, nor is it an effort to be all things to every customer. Strategy is about defining a way of competing that delivers unique value in a particular set of uses or for a particular set of customers (Porter, 1985). Indeed, as Thompson and Strickland (2003, p. 3) postulate, "a company's strategy is the game plan management is using to stake out a market position, conduct its operation, attract and please customers, compete successfully, and achieve organizational objectives." To establish and maintain a distinctive strategic positioning, Porter (2001) stipulates that a company needs to follow six fundamental principles:

• It must start with the *right goal*: superior long-term return on investment. Only by grounding strategy in sustained profitability will real economic value be generated. Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it.
• A company's strategy must enable it to deliver a *value proposition*, or set of benefits, different from those that competitors offer.
• Strategy needs to be reflected in a *distinctive value configuration*. To establish a sustainable competitive advantage, a company must perform different activities than rivals or perform similar activities in different ways.
• Robust strategies involve *trade-offs*. A company must abandon or forego some product features, services, or activities in order to be unique at others.
• Strategy defines how all the elements of what a company does *fit* together. A strategy involves making choices throughout the value configuration that are independent; all a company's activities must be mutually reinforcing.
• Strategy involves *continuity* of direction. A company must define a distinctive value proposition that it will stand for, even if that means foregoing certain opportunities.

Thus, the value configuration or e-business model (described in Chapter I) that the firm will choose can only be determined after the firm has decided on its strategic goal and the distinct value proposition that it intends to deliver to win the target markets it wishes to serve and make profit from. The unique value configuration and strategic resources required to deliver that distinct value proposition are designed as part of the strategy creation process. Only then will it make sense to define the IT strategy, which specified the IT applications and infrastructure required to implement the value configuration and support and integrate the various strategic resources required to deliver the distinct value proposition. This will ensure that the IT strategy is aligned with the business strategy—a

40 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/chapter/strategic-management-principles/23740

Related Content

Applying Organizational Theories to Realize Adaptive IT Governance and Service Management
Andrew Dowseand Edward Lewis (2009). *Information Technology Governance and Service Management: Frameworks and Adaptations (pp. 313-332).*
www.irma-international.org/chapter/applying-organizational-theories-realize-adaptive/23699

Improving Climate Change Resilience in Global South Cities Through South-South Climate Finance
Dumisani Chirambo (2020). *International Journal of Entrepreneurship and Governance in Cognitive Cities (pp. 1-8).*
www.irma-international.org/article/improving-climate-change-resilience-in-global-south-cities-through-south-south-climate-finance/270268

Information Technology Service Management
Magdalena Arcilla, Jose A. Calvo-Manzano, Mercedes de la Cámara, Javier Sáenzand Luis Sánchez (2013). *IT Security Governance Innovations: Theory and Research (pp. 75-110).*
www.irma-international.org/chapter/information-technology-service-management/69416

Managing IT Security Relationships within Enterprise Control Frameworks
Brian Cusack (2009). *Information Technology Governance and Service Management: Frameworks and Adaptations (pp. 191-201).*
www.irma-international.org/chapter/managing-security-relationships-within-enterprise/23691

Business/IT Alignment through IT Governance Patterns in Portuguese Healthcare
Ruben Pereira, Miguel Mira da Silvaand Luís Velez Lapão (2014). *International Journal of IT/Business Alignment and Governance (pp. 1-15).*
www.irma-international.org/article/businessit-alignment-through-it-governance-patterns-in-portuguese-healthcare/110920