

WORK2210: Strategic Management

Week 1: What is strategy?

Week 2: Formulating Strategy – Looking Outside

Week 3: Business Level Strategies

Week 4: Formulating Strategy: Looking Inside

Week 5 & 6: Balanced Scorecard (BSC) and Strategy Maps

Week 7: Dynamic Capabilities and Simple Rules

Week 8 & 9: Strategy and Society

Week 10: Strategy and Innovation and Scenario Planning

Week 11: Reflexive Strategy

Week 12: Strategy as Practice (SAP)

Week 1: What is strategy?

Background

- Strategic management ranks as one of the most prominent, influential and costly stories told in organisations
- Effects outcomes for customers, influences employee's lives and motivation and success of the organisation

Influencers

- More about the external environment
 - Military tradition of strategy (rules and orders)
 - War teaches strategy
 - Strategy forms the plan of the war, and to this end it links together the series of acts which are to lead to the final decision, that is to say, it makes the plans for the separate campaigns and regulates the combats to be fought in each
 - Strategies were orders carried out by others
 - Legacy of this view
 - Isolated genius
 - Corporations as hierarchies
 - Pervasive military discourse
 - Economics (rationality)
 - Rational planning
 - Profit maximisation
 - A.P Sloan – 'a firm's fundamental strategic problem was positioning of the firm in those markets in which maximum profits could be earned'
 - A.D Chandler – 'the determination of the basic, long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for those goals'
 - Structure follow strategy
 - Igor Ansoff – strategy as a common thread across four main areas of a firm's activities. Founder of strategic management – created a book called corporate strategy – was originally an administrative term or action
 - Decision making and positioning are the key concepts around Ansoff's viewpoint
 - Consulting firms translated these ideas from academia to a company context
 - Strategy is created at the intersection of an external appraisal of threats and opportunities facing an organisation and an internal appraisal of its strengths and weaknesses (SWOT)
 - Michael Porter (positioning and structure)
 - Strategy formulation is seen as analytical where strategies are generic
 - There's a clear separation between formulation and implementation – it's a matter of control
 - Sees strategy as the creation of a unique or valuable position involving a different set of activities

Challenges to these ideas

- Looks more at internal capabilities and processes
 - Karl Weick – when people are making decisions, under conditions of bounded rationality
 - When people think they have enough information to make a decision
 - Satisficing – under conditions of bounded rationality, we make decisions – we can't spend too much time on gathering information as this wastes resources
 - Organisations are collections of choices
 - Mintzberg – strategy as a process, it is continuous and iterative
 - Sees strategy as a process within which strategy emerges from a combination of influences within the organisation

- Represents a set of pragmatic compromises between various stakeholders in the organisation

Deliberate versus emergent strategy

Deliberate strategy (Plan)	Emergent strategy (Process)
Close relationship between intended and realised strategy	No intention, rather clear pattern of behaviour
Focus on external	Continuum – intention, choice and pattern of formation
Focus on fit	

Strategy

- Concerns both organisation and environment
- Is complex
- Affects overall welfare of the organisation
- Never purely deliberate
- Involves various thought processes
- Strategic management's four characteristics
 - Interdisciplinary
 - Externally focused
 - Internally focused
 - Future focused
- In strategy, firms will need to develop clearer nonmarket strategies and integrate them more rigorously with their market strategies. And they will need to do this amid greater uncertainty about the future state of markets, regulation, and profit prospects and greater pressure from a diverse range of stakeholders for a broader assortment of outcomes

Readings

What is strategy?; Porter

- Companies must be flexible to respond rapidly to competitive and market changes and benchmark continuously to achieve best practice
- Must outsource to gain efficiencies
- Positioning was once the heart of strategy and is now seen as too static for dynamic markets today as rivals can quickly copy any market position
- Some barriers to competition are falling as regulation eases and markets become global
- Companies investing more in leaner organisational practices
- Failure to distinguish between operational effectiveness and strategy
- Many companies have been unable to translate operational efficiencies arising from productivity, quality and speed through TQM, benchmarking, outsourcing, partnerships and change management into sustainable profitability
- Operational effectiveness: necessary but not sufficient
 - A company can outperform rivals only if it can establish a difference that it can preserve
 - Must deliver greater value at a lower cost or do both
 - Cost advantage arises by performing activities more efficiently than competitors
 - Operational effectiveness means performing similar activities better than rivals perform them and includes efficiency – allows a company better utilise its inputs by reducing defects in products or developing better products faster
 - Strategic positioning means performing different activities from rivals or performing similar activities in different ways
 - For example: get more out of their inputs, eliminate wasted effort, employ more advanced technology, motivate employees better or have more insight
 - Improved operational effectiveness is insufficient also because of competitive convergence – the more organisations benchmark, the more they begin to look alike
- Strategy rests on unique activities

- Competitive strategy is about being different and means deliberately choosing a different set of activities to deliver a unique mix of value
- For example, IKEA targets young furniture buyers who want style at a low cost through using a tailored set of activities that make it work. Self-service, self-assembling and hence low costs – trade off service for cost
- Strategic positions emerge from three sources
 - Producing a subset of an industry’s products or services (variety based)
 - Serving most or all the needs of a particular group of customers on a needs basis
 - Segmenting customers who are accessible in different ways through access based positioning – less common. For example, rural versus urban based segmentation of customers
- Positioning can be broad or narrow depending on the desires and needs of the company and who it wishes to serve
- A sustainable strategic position requires trade-offs
 - A competitor can reposition itself to match the superior performer
 - Strategic position is not sustainable unless there are trade-offs with other positions
 - Trade-offs occur when activities are incompatible – one of more thing necessitates over the other
 - For example, Neutrogena’s marketing strategy looks more like a drug company rather than a soap maker and they must trade off on deodorants and skin softeners that many customers desire in their soap to live up to their positioning of being ‘kind to the skin’
 - Trade-offs arise for three reasons
 - Inconsistencies in image or reputation – a company known for delivering one kind of value may lack credibility and confuse customers or undermine its reputation if it attempts to deliver two inconsistent things at the same time
 - Activities themselves – different positions require different product configurations, equipment, employee behaviour, skills and management systems. These create inflexibilities
 - Arise from limits on internal coordination and control – choosing to compete one way and not another, management makes organisational priorities clear
 - They create the need for choice and limit what a company offers
 - False trade-offs between cost and quality occur when there is redundant or wasted effort, poor control or accuracy or weak coordination
 - Strategy is made of trade-offs in competing and choosing what not to do
- Fit drives both competitive advantage and sustainability
 - Positioning also determines how activities relate to one another
 - Strategy is about combining activities
 - Fit locks out imitators by creating a chain that is as strong as its strongest link
 - One activity’s value to customers can be enhanced by a company’s other activities
 - Important as activities affect one another
 - Types of fit
 - Simple consistency between each activity (function) and the overall strategy
 - For example, low cost strategy – minimises portfolio turnover and does not need highly compensated managers
 - Limits advertising and relies on public relations and word of mouth
 - Ensures that the advantages accumulate and do not erode
 - Activities are reinforcing
 - Once guests have tried Neutrogena in a luxury hotel, they are more likely to purchase it in the drugstore or ask someone about it
 - Optimisation of effort
 - The Gap - minimising the need to carry large in-store inventory by restocking daily

- Fit among activities is fundamental to the sustainability of that advantage created – harder for a rival to imitate an array of interlocked activities
- Fit means that poor performance in one activity will degrade the performance in others so that weaknesses are exposed and receive more attention to be fixed
- Rediscovering strategy
 - Threats to strategy come from outside the company because of changes in technology or behaviour of competitors
 - The desire to grow has the most perverse effect on strategy as it appears to constrain growth
 - Pressures to grow lead the managers to broaden the position by extending product lines, adding new features, imitating competitor's popular services, matching processes and making acquisitions
 - Should focus on deepening a strategic position rather than broadening and compromising it
 - Deepening a position means making the company's activities more distinctive, strengthening fit and communicating strategy better to customers who value it