Introduction to Strategic Management

'Strategy' Defined and its Major Aspects

- **Strategy** is those *decisions that have high medium- to long-term impact* on the activities of the organisation, including the analysis leading to the *resourcing and implementation* of those decisions, to *create value for key stakeholders* and to outperform competitors (i.e. *achieve sustainable competitive advantage*).
- The strategic management process consists of four main components:
    - (1) strategic analysis, (2) formulation, (3) implementation and (4) evaluation
- *Strategic planning* constitutes only *strategic analysis* and the *formulation* of vision, mission, objectives and strategies. In contrast *strategic management* deals with the management of the entire organisation and includes the *implementation* and *evaluation* processes.
- Why do organisations need strategy?
    - The world is competitive – if you fail to innovate and improve, you will become irrelevant and will decline (for example, Kodak).
    - Think of a world of organisations without strategies – firms would be aimless and reactive, rarely innovating and never driving improvements in product/service quality and hence economic growth.
- The definition highlights seven aspects of strategy:
    - 1. *Strategy is about decision making*: with decisions based on rational analysis of organisations, their customers, and their industry competitors.
    - 2. *Strategy is about long-term (3 years) impacts of important decisions for the organisation (all which affect competitive advantage)*: impacts can be positive/negative and include:
        - What product range to sell?
        - Which geographic market to serve?
        - Where to locate operating facilities?
        - How to structure the compensation/reward system?
        - What activities to outsource/insource?
        - What information systems to use?
    - 3. *Strategy is about 'organisations' and not simply 'businesses' or 'corporations'*: i.e. strategy is also relevant to not-for-profit organisations – stakeholders' performance and beating competitors (i.e. other not-for-profits) are important for all organisations.
    - 4. *Strategy is about creating value for customers and key stakeholders*
    - 5. *Strategy is about the integration and focus of organisation functions*: strategic decisions are designed to impact on the whole organisation, not just a particular function or activity. Decisions about what particular geographic market to serve does not simply affect the marketing function, but also:
        - Operations (where to produce)
        - Logistics (how to store and transport to serve the market)
        - Personnel (which market to hire in)
        - Finance (where to locate accounting)
    - 6. *Strategy is about implementation of the decisions*: while many organisations are good at strategic thinking and analysis (i.e. strategic *planning*), they need to implement it, which is critical to successful strategy. This is the '*management'* part of strategic management.

- 7. *Strategy is about outperforming competitors*: if the organisation does nothing differently, it is unlikely to create any special value for its customers and key stakeholders. The end purpose of strategy is to do something better than competitors and so to outperform them. This is also relevant to public sector organisations who do not have 'competitors' because their work can be outsourced, and they can be closed down, or privatised.
- Strategy is invariable about choices and, as such, trade-offs. It is virtually impossible to be everything to everyone, so organisations make choices around what they will do and what they will not do.
    - This includes choices about how the organisation will operationalise its objectives.
- Together, the elements of strategy aim to assist an organisation in achieving its long-term aims, which is the essence of operating an organisation, whatever its size or nature.
- The essential question in strategy is:
    - Why do some organisations perform better than others?
    - *How can my organisation perform better than my competitors?*

The Development of Strategic Thought: A Brief History

- The first academic books on strategy where developed for teaching business policy at the Harvard Business School, and Ansoff's book on corporate planning, both published in 1965.
- *Strategy as the task of the top management:* The essence of the model in both books was to *match the internal resources and capabilities of the organisation (referred to then as the organisation's strengths and weaknesses) with the demands of the environment (referred to then as its opportunities and threats).*
    - The Crafting the resulting organisational strategy was seen as the province of the CEO, who had to evaluate the organisation's position, decide which strategy to choose and arrange for implementation of that strategy
    - The position of corporate planner was created and planning departments came into existence in organisations at this time to assist the CEO with the detailed tasks of strategic planning.
- *Development of corporate strategy and associated techniques:* In the late 1960s, many USA industries underwent a conglomerate diversification merger and acquisition wage.
    - However, the techniques of strategy at this time were largely designed for *business* strategic analysis and it was unclear what techniques or processes a multi-business corporation could use to determine its multi-business or *corporate strategy*.
    - As a result, in the late 1960s and early 1970s, consulting firms developed business portfolio techniques for multi-business corporations. For example, the Boston Consulting Group (BCG) developed a 2 x 2 market growth/relative market share matrix that categorised businesses as dogs, question marks, stars, or cash cows, depending on the analysis of their relative position. From this analysis, corporations tried to balance their portfolio mix of businesses.
- *Focusing on industry and competitive analysis:* In 1980, Michael Porter produced a book which said that firms could position themselves within an industry by offering products or services that gave them a sustainable competitive advantage, which would enable them to achieve superior performance to that of competitors.
    - In 1985 Porter produced another book which suggested that there were only three generic strategies for achieving sustainable competitive advantage: low delivered cost, differentiation, and focus.

- *Focussing internally: the resource-based view:* In 1990, Prahalad and Hamel developed the concept that strategy could be developed from within, by leveraging organisational resources.
    - Resources, including tangible and intangible assets and know-how, could, if well-managed, be 'bundled together' to form a unique and defensible portfolio of capabilities that would sustain competitive advantage over time.
- *Extending to dynamic processes and capabilities: learning and knowledge:*
    - In 1990, Senge developed the concept of the learning organisation, based on systems theory. He argued that organisations should simply react to observed problems, but should understand the systemic cause(s) of the problem and address those causes.
    - In the late 1990s, the concept of dynamic capabilities was developed to investigate how firm capabilities could emerge over time.
    - A knowledge-based view emphasised knowledge as a special, unique and complex capability that could create competitive advantage.
- *External focus revised*: in 1994, Hammel and Prahalad argued that organisations should be concerned with stretching themselves for the future of their industry, rather than having others create the future for them.
    - This approach stressed the important roles of innovation and growth for those organisations that wanted to survive in an increasingly uncertain and fast-changing world.
    - *Game theory* is a theory designed to explain the interactions between competitors over time. D'Aveni, in 1994, argued that organisations needed to think ahead of their competitors, and understand their likely reactions when developing their own strategy.
- *Stakeholder interests; sustainability/corporate responsibility*: by the 2000s, a key emerging issue was whether the organisation should be run for the benefit or shareholders or all stakeholders.
    - These theories argue that organisations have a responsibility to be socially responsible and to promote the best interests of all their stakeholders, not just shareholders (e.g. local communities, employees and the natural environment).
    - While sustainability of environmental performance is an important consideration in terms of strategy, social responsibility is gaining increased attention.

Current Theories of Strategy

- Economics-based theories:
    - *Structure-conduct-performance/positioning theory*: by understanding the structure of the industry, conduct of competitors and industry performance, the organisation can position itself to develop a sustainable competitive advantage.
    - *Transaction cost economics theory*: whether the organisation or the market is the best way to provide a particular good/service depends on the transactions incurred by each alternative form.
    - *Agency theory*: managers are agents for owners, so controls or incentives must be established to encourage them to act in the interests of shareholders.
    - *Game theory*: analyses the nature of competitive interactions to reveal how an organisation can influence behaviour and actions of rivals to increase its profits.
- Organisation behaviour-based theories:
    - Behavioural theory: assumes that a firm has several goals based on having several stakeholders each with their own goals. They must then make satisficing decisions.
    - Managerial theory: managers act in the organisations best interest.