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STRATEGIC MANAGEMENT

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Strategic Management

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Contents

1. Introduction

This compendium provides a comprehensive overview of the most important topics covered in a strategic t course at the Bachelor, Master or MBA level. The intention is to supplement renowned strategy textbooks such as Johnson and Scholes.

This compendium is designed such that it follows the structure of a typical strategy course.

Throughout this compendium theory is supplemented with examples and illustrations.

2. The Basis of Strategy: Structure

2.1 Introduction –definition ‘Structure’ is the allocation and control of work tasks

This implies power relationships based on the acceptance of managerial power by subordinates and society – this use of power is termed the ‘legitimacy’ of management – which Max Weber called its ‘authority’.

All organisations have some form of structure, based on ‘the established pattern of relationships among the individuals, groups and departments within it’

There are two structures -- a vertical structure of authority and responsibility where clear limits of financial authority exist, and a horizontal structure of groupings of activities designed to use the resources towards goal-attainment.

The horizontal structure can be changed from time to time, to suit the environment (see later sections on the internal and external environments).

The basic vertical structure of an organisation is a relatively static framework within which processes such as communication, leadership and decision-making take place.

In most organizations, structure will be illustrated in the form of a chart.

2.2 Functional Structure

This is the most common form of structure. This divides the organisation up into its main activities or functions (production, sales, accounting and so on) in which all similar specialist activities are grouped together into interdependent departments.

A manager is placed in charge of each function under the overall control of the owner or a senior manager.

2.2.1 Advantages of a functional structure

- Specialised resources are used efficiently.
- Quality is enhanced by other specialists from the same functional area.
- Opportunities exist for extensive division of labour.
- A career structure enables people to advance within their functional specialism.
- It is easier to manage specialists if they are grouped together, especially when the manager has the same experience.
- It fosters communication between specialists and enhances the development of skill and knowledge.

- It does not duplicate specialist resources throughout the organisation and promotes economies of scale.
- It is suited to conditions which stress functional specialism, where the environment is stable, and when the technology is routine, requiring little interdependence between departments.

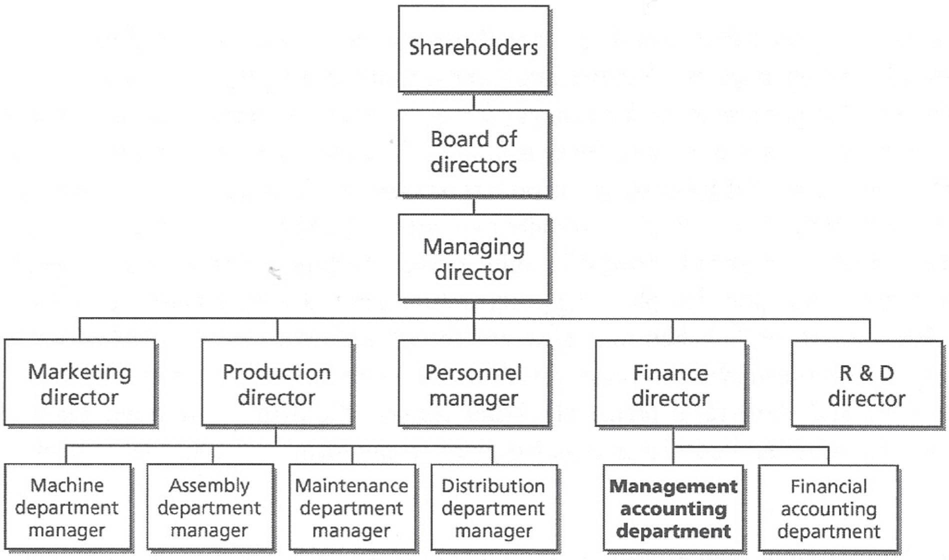


Figure 2.1 Functional structure

2.2.2 Disadvantages of a functional structure

Increased need for interdepartmental co-ordination and scheduling.

- Communication, co-ordination overload the vertical hierarchy.
- Inefficient co-ordination of functional departments.
- Responsibility for overall outcomes is unclear.
- Interdepartmental conflicts.
- Little creativity and innovation.
- Difficulties in identifying profitable and unprofitable products.

These problems are likely to occur with professionalism and a role culture where job demarcations are felt to be important. When the organisation reaches a certain size, they are likely to be exacerbated especially if it has developed a wide range of products or services. Burns and Stalker (1961) devised the term ‘mechanistic’ for firms where the interconnections are strong as they are unsuited to changeable environments and non-routine technologies.

A more flexible and responsive form is needed than the rigidly functional by adopting a holding company or a divisional structure in which profit centres based on particular products or geographical areas are created.

2.3 Divisional structure

A divisional structure (see Figure 2.2) can help to overcome the limitations of the holding company and/or a functional structure, as it contains within it functional specialists but groups its activities around products or geographical regions. These two ways of grouping activities are supposed to ensure a closeness to the customer which is not really possible in a functional structure.

2.3.1 Advantages of divisionalisation

- It provides excellent co-ordination across functional departments.
- Since departmental units are often small, as well as self-contained, employees identify with the product or project rather than their own function.
- Since each division can, for example, react to customer requirements, it is well suited to changeable environments.

It is particularly useful for large organisations. Cellular manufacturing can even be considered a kind of internal divisionalisation with an emphasis on internal customers, just-in-time links between different ‘products’ and the dynamism created through teamwork.

The emphasis on profit centres, should promote clear accountability, longer planning horizons, and the development of future senior executives with general management experience as divisional leaders.

Example: Alfred Sloan developed a true divisional structure for the disparate firms owned by General Motors Corporation in the 1930s, bringing together a central function to garner expertise from the different firms such as Pontiac, Cadillac and Chevrolet.
GM ‘leap-frogged’ over Ford, who had a functional structure, and has kept its lead ever since

2.3.2 Disadvantages of divisionalisation

- There may be a costly duplication of resources across departments.
- Specialists may become isolated and fail to further their specialist skills.
- Competing demands on people may create stress.
- Co-ordination across divisions is difficult.

Tension between the centre and divisions is a crucial problem of control. Too much control stifles innovation

Divisional CEOs gain too much power and can introduce wild excesses of spending on favoured ‘pet’ projects

Example: in Rolls-Royce the RB211 engine project overruns nearly bankrupted the company.

2.4 Product structure

People and resources are grouped according to an organisation's products. General Motors, has specific products - Chevrolet, Cadillac, Pontiac.

This enables technical excellence and concentration on fewer product lines, and a liaison with a smaller set of customers, realising more creativity in marketing and sales through focus, teamwork and goal consensus. This format is used most successfully where there is a variety of products, each addressing different markets.

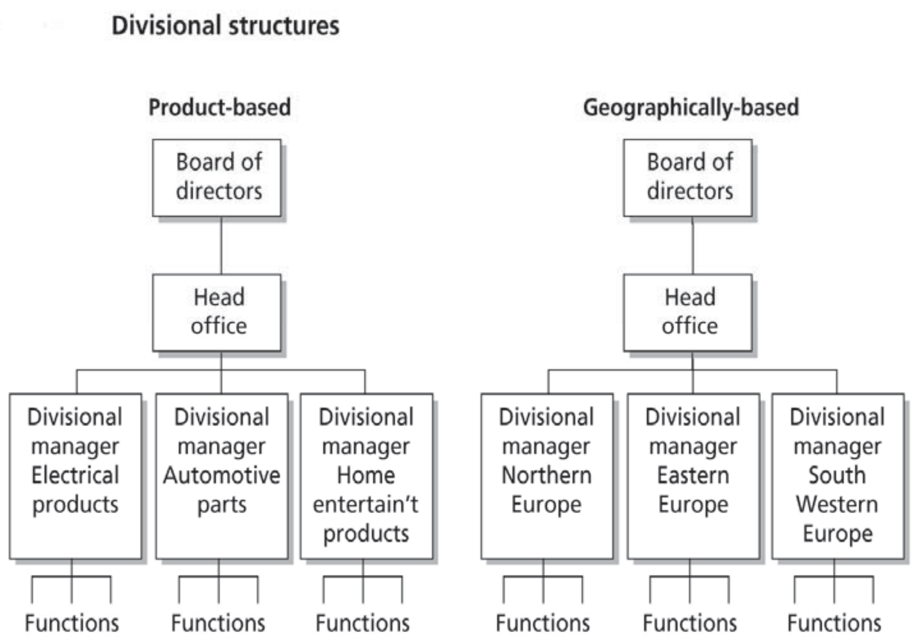


Figure 2.2 Divisional structures

2.5 Geographical structure

Where organisations have few products, such as IBM, they may group activities according to sales area and be literally closer to the customer.

This enables regional differences to appear in marketing research. In this way IBM gets to know the details of the businesses in an area and its sales team focus on local contacts eg meeting senior people from potential clients informally at the golf club or race track

2.6 Matrix structure

Divisionalisation may eventually have to be adapted to include formal mechanisms to promote closer inter-divisional collaboration: the result will be a matrix structure in which vertical and horizontal formal relationships are recognised.

A matrix structure seeks to add flexibility and lateral co-ordination to the traditional vertical hierarchy.

One way of doing this is to create project teams made up of members drawn from a variety of different functions or divisions: each individual then has a dual role, as he or she maintains functional/divisional responsibilities as well as membership of the project team.

Example: US President John F Kennedy demanded 'a man on the moon within ten years'. The achievement of this goal was apparently due to the new structure NASA adopted to link the functional specialists in the background departments intimately with the problem-solvers on the construction and research and development team for the Apollo mission. This mixture became known as a 'matrix'.

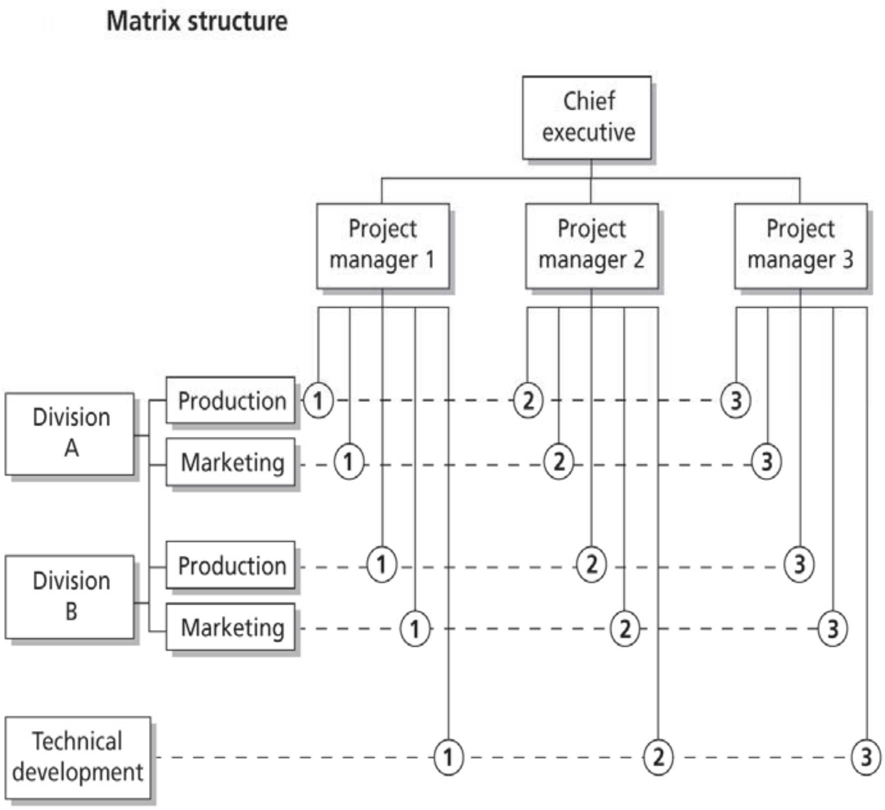


Figure 2.3

2.6.1 Advantages:

- improves decision-making by bringing a wide range of expertise to problems that cut across departmental or divisional boundaries;
- replaces formal control by direct contact;
- assists in the development of managers by exposing them to company-wide problems and decisions;
- improves lateral communication and co-operation between specialists.
- suits rapidly changing environments because the equal balance of power between functional and product management aids communication and co-ordination.

- facilitates adaptation to unfamiliar and unexpected problems. People can be flexibly relocated across products or projects, aiding the speedy implementation of new ones. Employees have the opportunity to develop either functional or general management skills.
- it is useful for medium-sized organisations with a medium number of products or for task-centred organisations.

2.4.2 Disadvantages:

- A lack of clear responsibility;
- Clashes of priority between product and function;
- Functions lose control of the psychological contract;
- Career development can often be stymied;
- Difficult for one specialist to appraise performance of another discipline in multi-skilled teams;
- Project managers are reluctant to impose authority as they may be subordinates in a later project;
- Employees may be confused by reporting to two bosses;
- Managers will need to be able to resolve interpersonal frictions and may need training in human relations skills;
- Managers spend a great deal of time in meetings to prioritise tasks.
- The complexity of the matrix structure makes it difficult to implement successfully.

Indeed some commentators are very critical of this form of organisation, and question whether it should be adopted at all.

Exercise:

Peters and Waterman (1982, p. 307) state:

‘Our favourite candidate for the wrong kind of complex response, of course, is the matrix organisation structure. People aren’t sure to whom they should report for what the organisation gets paralysed because the structure not only does not make priorities clear, it automatically dilutes priorities. In effect, it says to people down the line ‘everything is important: pay equal attention to everything.’

Q: How convinced are you by the criticisms of matrix structures put forward by Peters and Waterman? Do you think there are some types of situations when this form of organisation would work well?

2.7 Complex forms of organisation

2.7.1 Definition:

The complex forms attempt to overcome the inadequacies of other structures through collaboration between existing organisations.

2.7.2 Explanation

Why? These pressures are essentially economic and in response to Japanese and Pacific Rim, Chinese and Indian penetration of Western markets. At the same time globalisation means that scale economies are necessary to maintain price differentials and so mergers of parts of businesses where there is strategic fit is becoming commonplace.

How? Increasingly organisations are forming complicated vertical and horizontal relationships through demergers, downsizing, delayering and margin retreat from product scope and geographical spread.

What? Such organisations would range from co-operatives between organisations and their suppliers, to all forms of partnerships and alliances in which co-ordination of resources was based on co-operation between the parties concerned.

Mergers are a form of complex organization often defensive in nature. Mergers are increasingly common - such as the recent spate of financial institutions’ mergers following the credit crunch of 2007/8.

Joint ventures should mean that each sponsoring organisation has a degree of equity participation, while *partnerships* may not, and may or may not share assets.

Consortia are short-term legal entities with sunk costs from each of the partners and which terminate at the end of the project.

Alliance is a term used for a weaker non-legal-entity kind of operation where firms simply contract to work together on a gain-share/pain-share basis. Termination clauses would vary with the nature of the co-operation, as would sharing of facilities and the purchase of equipment.

Example: Various partnerships exist in the automotive industry – Renault engines in Volvo cars.

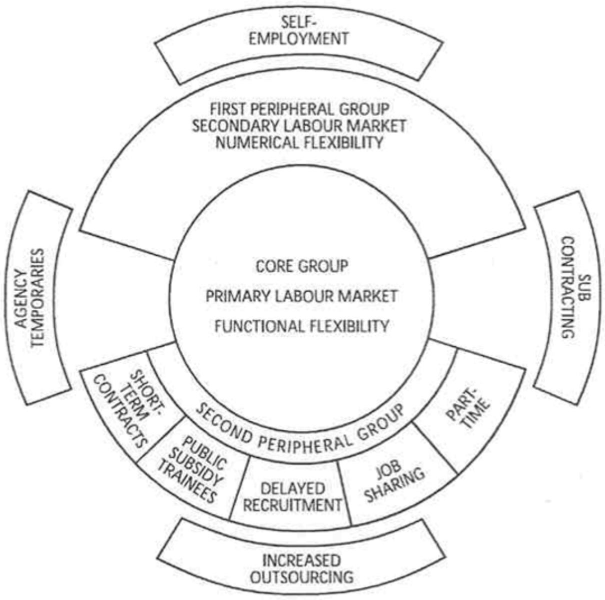
Networks have been described as a link between supplier and purchaser in the supply chain but a more accurate and useful division is between different suppliers, imitating the co-ordination methods employed within the firms.

Example: In Italy experiments have been made to introduce networks in technologically similar industries in areas called 'business districts' in the textile industry, contractors are based in the same region, work for several different firms, sometimes in alliances or partnerships with other contracts, sometimes as sole contract-holder. Technology transfer opportunities arise for the major textile firms as contractors learn the businesses of other firms.

2.7.3 The Flexible firm model

Atkinson's Flexible Firm Model was ntitled 'Manpower strategies of flexible organisations' and specified three types of flexibility and a diagram illustrating the most important two types – functional and numerical. **Functional flexibility** – was flexiblilty over tasks – staff capable of doing different things - core employees were well-trained and valuable **Numerical flexibility** – comprised employees in a First Peripheral Group - internal workers who are expected to be flexible by adding to the numbers already there; Second Peripheral Group – became more important – it involved part-time. temporary, jobshare, government schemes - external additions; subcontractors, agency temps; self-employment. Additionally there was **Financial Flexibility** – performance related pay, bonuses (lump sums) commission (rate or %).

The flexible firm



3. The Levels and Formulation of Strategy

3.1 Introduction - definition

There is a need in modern times for strategies to achieve agreed goals and objectives, giving a sense of purpose and direction to the organisation., because of recent technological and social changes and competition from rival organisations.

In ancient Greek, 'stratos' was the term for the army and so in military terms, 'strategy' referred to 'the act of the general' so a *strategy* is some sort of future plan of action, undertaken by senior management at a high level of abstraction.

A strategy is the mediating force or 'match' between the organisation and the environment'. (Hofer and Schendel)

3.2 Process of strategy

Strategic management is the organised development of the resources of the functional areas: financial, manufacturing, marketing, technological, manpower etc, in the pursuit of its objectives. It is the use of all the entity's resources,

Fig 3.1

It is a set of policies adopted by senior management, which guides the scope and direction of the entity. It takes into account the environment in which the company operates.

A sequence of developing plans that move from *general* to *specific* and *intent* to *action* would create several levels of planning, which could be illustrated in the triangle below.

Fig 3.2

Mission - Every organisation will have a purpose for its continued existence. A mission statement expresses their purpose and can therefore be a brief statement. It also links with the idea of Vision – how managers interpret the Mission for their colleagues.

Example the Avis car hire mission was simply ‘we try harder’

Objectives- do not only represent the end point of planning but are the ends towards which management activities and resource usage is directed. They therefore provide a sense of direction and a measure of success achievement.

Strategies - relate to broad areas of an enterprise's operations. Their purpose is to furnish a framework for more detailed tactical planning and action.

Tactics - are actions carried out to put into effect the details of a strategic decision – tactics can therefore be seen as the detailed implementation of a strategy. In addition, some tactical decisions will be made in response to changing circumstances.

Actions, programmes and rules - are the operational practices that will translate the intention of the tactics into action by individuals and are therefore detailed, short term and subject to immediate control.

3.3 Levels of strategy

Most academics classify strategies into *three levels*:

3.3.1 Corporate strategy - what business or businesses the firm should be in?

It relates to the future formula and structure of the company, and affects the rationale of the company and the business in which it intends to compete.

Example Racal Electronics' decision to float off Vodaphone as a separate company.

3.3.2 Competitive or business strategy - how each business attempts to achieve its mission within its chosen area of activity.

Here strategy is about which products or services should be developed and offered to which markets and the extent to which the customer needs are met whilst achieving the objectives of the organisation. A term that is often used in relation to business strategy is SBU, or strategic business unit. SBU means a unit within the overall corporate entity for which there is an external market for its goods and services, which is distinct from that of another SBU.

Example: Ford's MotorCo’s car division – an SBU - launched its Mondeo model, aimed at fleet car buyers, who had not favoured the Sierra, its predecessor.

3.3.3 Operational or functional strategies - how the different functions of the business support the corporate and business strategies. They are concerned with how the various functions of the organisation contribute to the achievement of strategy

It examines how the different functions of the business (marketing, production, finance etc) support the corporate and business strategies. Such corporate planning at the operational level is means oriented and most activities are concerned only with the ability to undertake directions.

Example: revising delivery schedules and drivers' hours to improve customer service or recruiting a German-speaking sales person to assist a UK company's sales drive in Europe.

However, the boundaries between the three categories are very indistinct and much depends upon the circumstances prevailing and the kind of organisation. Overall, corporate planning is concerned with the scope of an organisation's activities and the matching of these to the organisation's environment, its resource capabilities and the values and expectations of its various stakeholders.

3.4 Types of Strategy

Strategies may come about in different ways and Mintzberg has recognised that there are different modes of strategy formulation, which are described below.

The figure below shows the alternatives:

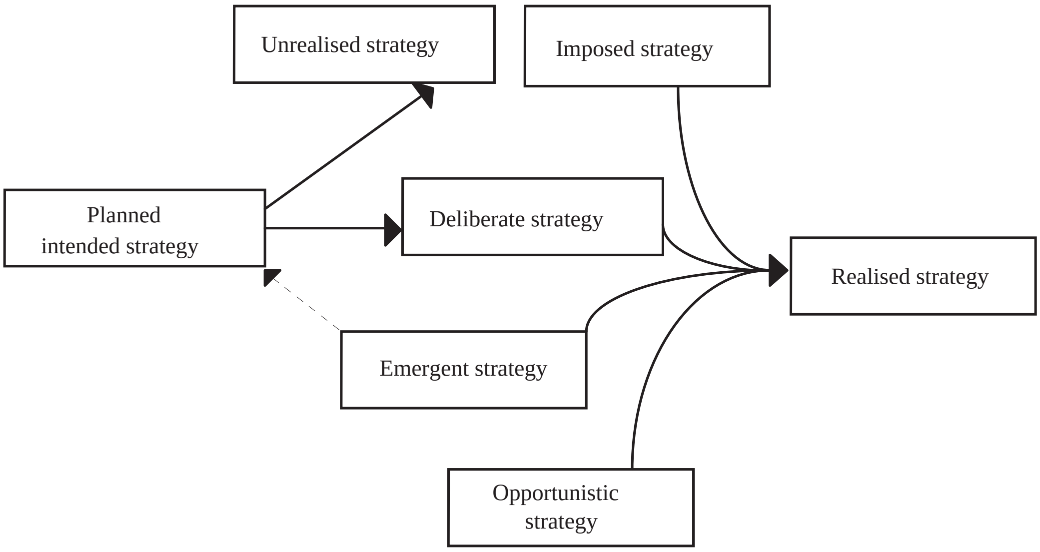


Fig 3.3

3.4.1 Planned intended and deliberate strategy - the Rational model

Planned or deliberate strategies come about where there are precise intentions, which are written down and imposed by a central leadership. Key features include a large number of controls to ensure surprise-free implementation in an environment, which is controllable, with managers who are able to ascertain, review and evaluate every option available, and they are then able to choose what appears to be the best option in the light of rational criteria. Often there is a specialist Strategy Department.

Organisations using this strategy should

- be large enough to afford the costs of formal analysis
- have goals that are operational, and must face
- operate in an environment that is reasonably predictable and stable.
- take a systematic and structured approach to its development.
- collect internal and external information and integrate decisions into a comprehensive strategy.
- focus on systematic analysis, particularly in the assessment of the costs and benefits of competing proposals.

Strategic planning is seen as a way of preparing for changes and providing direction for the organisation. It also allows the organisation to co-ordinate its activities internally.

3.4.2 Emergent Strategy

According to Mintzberg and Waters, strategies can be *deliberate* or *emergent* or a stage in-between. There is a corporate intent followed by its interpretation. Sometimes this intent is not formally written down but emerges over time as part of the culture,

Example 1 Top-down

A culture of like minded people who have values which coincide on a focus - on quality or a desire to be internationally known etc.

Example 2 Bottom-up

Out in the field, a salesman visits a customer. The product isn't right, and together they work out some modifications. The salesman returns to the company and puts the changes through; after two or three more rounds, they finally get it right. A new product emerges, which eventually opens up a new market. The company has changed strategic course'

3.4.3 Opportunistic Strategy

Strategies may come about in or entrepreneurial ways. An organisation may take advantage of changes in the environment or recognise new skills in an opportunistic manner. Alternatively, a firm may be set up by an entrepreneur because of an opportunity in the market place.

In the entrepreneurial mode, strategy-making is dominated by the active search for new opportunities, and is characterised by dramatic leaps forward in the face of uncertainty. Strategy is developed by significant bold decisions being made. Growth is the dominant goal of the organisations, and in uncertain conditions, this type of mode can result in the organisation making significant gains. Entrepreneurial mode - requires the strategy-making authority to rest with one powerful individual. The environment must be flexible, and the organisation oriented toward growth. These conditions are most typical of organisations that are small and/or young.

The organisation operating in this mode suggests by its actions that the environment is not flexible, it is a force to be confronted and controlled. Power is centralised in the chief executive, with an unwillingness to 'submit' to authority.

3.4.4 Imposed strategy

Strategy may be imposed on the organisation. Government policies may have an impact on the strategy; this has been the case for those public utilities recently privatised. Recession and threat of a takeover may force a strategy of cost cutting and retrenchment. Technological developments may cause an organisation to develop new products to replace the ones that have become obsolete.

3.4.5 Realised And Unrealised

The strategy however my be *reailsed* and thus be successfully implemented or it may fail and remain unrealised in practice.

3.5 Other Types of Strategic formulation

3.5.1 Muddling through

Lindblom has argued that the rational model in strategy simply does not reflect reality – and reject the very idea of formulation – managers just make on the spot decisions as issues arise and so just muddle through without a plan.

Lindblom therefore argued that strategic choice takes place by comparing possible options against each other and considering which would give the best outcome. Lindblom called this strategy 'successive limited comparisons'.

NB See also the adaptive mode below for a similar view.

Logical incrementalism - Definition

Logical incrementalism incorporates both the behavioural realism of 'muddling through' and the advantages of a planned, analytical approach. This view has been championed in particular by James Quinn

The outcome of this approach is a deliberate policy of small strategic changes within the framework provided by a general sense of strategic direction.

Managers have a view of where they want the organisation to be in the years to come, but they try to move towards that objective in an evolutionary way. They do this by attempting to develop a strong, secure but flexible core business whilst also continually experimenting with 'side issues'. Quinn argues that the decisions taken by management as part of this process should not be reviewed in isolation.

While managers are continually learning from each other, this results in continual testing and gradual strategy implementation, which provide improved quality of information to help decision-making. Because of this continual readjustment, the organisation should be in line with the environmental demands being placed on it.

Quinn's studies recognised that such experiments could not be the sole responsibility of the top managers but they should be encouraged to come from the lower levels of the organisation.

3.5.3 Crafting

Mintzberg likens strategy development to a potter crafting clay.

'The crafting image captures the process by which effective strategies come to be. The planning image, long popular in the literature, distorts those processes and thereby misguides organisations that embrace it unreservedly.'

It must be realised at the outset that there is no one best way of managing the strategy of an organisation. A flexible, reactive style may suit a small firm in a rapidly changing environment, whereas a large company may need to take a long term view and plan accordingly.

Strategies may come about in different ways and Mintzberg has recognised that there are different modes of strategy formulation, which are described below. His views on planned strategies dovetail with what we have already described as the rational model, but his other two modes of strategy formulation lead on to a wider discussion.

3.5.4 Adaptive mode

It is called the adaptive mode because it fits the description that managers give of how strategies come about in their organisations. They see their role as strategists as being involved in a continual proactive pursuit of a strategic goal, countering competitive moves and adapting to their environment whilst not rocking the boat too much.

This mode is commonly found in the public sector, non-profit making organisations and in organisations that face relatively stable environments. Strategies are developed as a result of the interaction and bargaining among various power/interest groups. As there is no one source of power or influence, strategies are not always automatically clear.

Major characteristics distinguish the adaptive mode of strategy-making:

- There is no one central source of power, no one simple goal.
- strategy-making reflects a division of power among stakeholders - unions, managers, owners, lobby groups, government agencies, and so on.
- The organisation cannot make decisions to 'maximise' any one goal such as profit or growth; rather it must seek solutions to its problems that satisfy the political forces of stakeholders.
- Strategy is characterised by a 'reactive' solution to existing problems rather than the 'proactive' search for new opportunities
- It seeks to reduce uncertainties by, for example, negotiating long-term purchasing arrangements to stabilise sources of supply.
- Decisions are in incremental, serial steps. .
- Strategy focuses on what is familiar, considering the convenient alternatives
- Disjointed decisions are characteristic sometimes contradictory.

4. Schools of strategy

4.1 Introduction - Definition - there are three 'schools' of strategy

4.2 The 'planning' school

Andrews, 1987, Ansoff, 1965

- based on past trends, forecasts and stable structures and environments
- uses a very bureaucratic a rational manner
- tries to achieving a 'fit' between the organisational strategy and its environment.
- Requires detailed and inflexible planning not suitable in turbulent markets.

	Existing product	New product
Present market	Expansion ie, increase in market penetration	Product development or innovation
New market	Market development (sometimes called 'exploration')	Diversification

Fig 4.1 The Ansoff Matrix

Example: used in mature, stable markets and industries, public sector.

4.3 The 'positional' school

- The focus is also on a rational, analytical approach of making strategy
- attempts to place the organisation and its products in a favourable market or environment.
- It is heavily based on performance measurement and decision making tools.
- Porter (1998) competitive advantage factors discussed in detail in other sections
- Boston Consulting Group Matrix - BCG - of four cells - cash cows, stars dogs and problem children, based on income from market share and on potential market growth
- GE Matrix a large three-dimensional matrix extending the BCG which is only two-dimensional

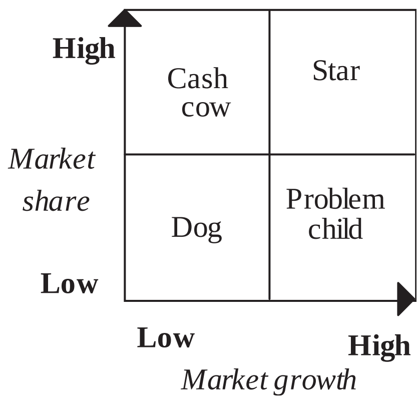


Fig 4.2 The BCG Matrix

4.4 The 'resource based' school

Robert Grant 1995,

- This looks to the internal environent instead of the market, and
- incorporates the 'core competence' approach of Prahalad and Hamel, 1994
- Based on an '*inside-out*' approach suggesting that the competitive advantage of an organisation is based on its own distinctive resources, capabilities and competences.
- Danger of ignoring the external environment.
- However Grant and others do not consider culture and HRM.

4.5 Key points

These schools are not important in individual analysis but in theoretical essays and assignments

5. Stakeholder theory

5.1 Introduction – definition of Stakeholders

groups or individuals that have an interest in the well-being of the company and/or are affected by the goals, operations or activities of the organisation or the behaviour of its members. They have a 'stake' in what the organisation does.

5.2 Explanation

Stakeholders can be broadly categorised into:

(a) internal stakeholders - employees, management, etc;
(b) connected stakeholders - customers, suppliers, competitors, etc;
(c) external stakeholders - government, pressure groups, etc.

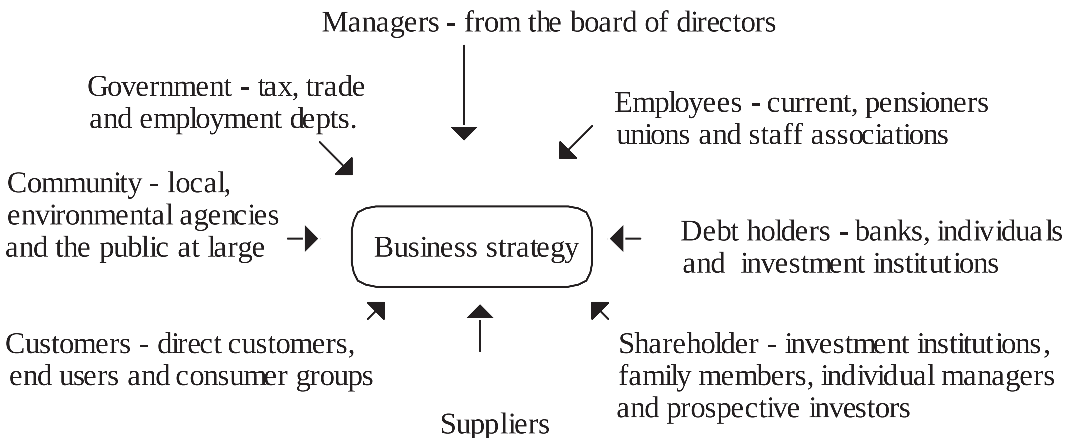


Fig 5.1

There are obviously close links between stakeholder theory and the adaptive mode of strategy, which is discussed elsewhere in this text.

5.2.1 Internal stakeholders

These include:

Entrepreneurs - who wish to 'do their own thing' - become financial magnates, develop their own technical or commercial ideas, be independent.

Managers - are likely to have a particular interest, and concern for, the size and growth of the organisation and its profitability, job security, status, power and prestige (office size, type of company car, number of staff working for them).

Non-managerial employees - normally concerned with improving pay and conditions and, particularly in the current economic situation, job security. Safety, freedom from discrimination, and industrial democracy are also of concern.

Employees are more productive when they have a sense of participation in the decisions affecting them. Human resource development has become a major organisational objective for many companies. West German companies have labour representation on management boards, and the Swedish company Volvo has pioneered the concept of job enrichment for assembly-line workers.

5.2.2 Connected stakeholders

These include:

Customers and final consumers **-** are interested in value for money, ethical advertising and consumer protection. A customer may be an institution, such as a hospital or government agency; it may be another firm, such as a distributor or manufacturer; or it may be an individual consumer.

Suppliers - want a fair price, regular business and payment on time. Every organisation purchases raw materials, services, equipment and labour from the environment and uses them to produce its output. What the organisation brings in from the environment will determine both the quality and the price of its final product.

Advances in inventory control and information processing have changed organisational relationships with suppliers. Some companies keep zero inventory, relying on several 'just in time' (JIT) deliveries each day. If JIT methods are in operation, this obviously results in a much closer relationship between organisations and suppliers, not only in terms of lead-time deliveries, but also in terms of quality control.

Competitors - competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry.

Competitors will therefore be concerned with the degree of rivalry between themselves in their own industry and the degree of potential rivalry or threat of entry from others.

Shareholders - are the owners of companies and are the suppliers of any additional risk capital, which may be required. The type of shareholder or shareholders that a company has, will largely determine the sort of information that can be gained from them. There are basically two main types of shareholder:

(i) institutions, usually of a large size; and
(ii) private shareholders, either individuals or small groups of investors.

An *institutional investor* is the general name given to those institutions, or firms, which make investments in stocks and other securities as principals but raise funds for investments from individuals and other firms. There are four main types of institutional investors.

Pension funds - These invest on behalf of the pension fund members in order to provide members with a retirement pension.

Insurance companies - These operate on behalf of holders of life and endowment policies.

Investment trust companies - These are limited liability companies, who invest in shares, property, etc, on behalf of their own shareholders.

Unit trusts - These are trusts, which invest on behalf of its unit holders.

5.5 External stakeholders

The external stakeholders include:

Governments –
seeking finance through taxation and other means
legislated activities which catch votes nd political support
Safety
Indstrial harmony
Deregulation/privatisation which aims to increase efficiency and competition.

Example after numerous deaths caused by fires in the homes, investigations revealed that the materials used in manufacturing armchairs and settees were contributing to the seriousness of the fires. Due to a lack of self-regulation by this industry the government had to legislate in respect of the materials that could be used in soft furniture.

Pressure groups – such as Friends of The Earth desire an improvement in the 'quality of life' through:

the reduction of pollution and
the maintenance of an ecological balance by ceasing to rely on non-renewable resources;
the minimisation of poverty,
assistance with local community projects
help with the young and elderly.

Example, the development of the catalytic converter as part of a car's exhaust system reduces engine performance and adds to the overall purchase price of a car. Managers, however, have no choice but to take into account today's current climate of broad and genuine concern for the environment.

6. External Analysis

6.1 Introduction – Definition: External Analysis

There are two parts or levels - Environmental analysis of the 'far' or ;macro' environment affecting all firms, and the industry analysis of the 'near' or 'micros' environment which is much more specific.

Benefits of external analysis include

- Increasing managerial awareness of environmental changes.
- Increasing understanding of the context in which industries and markets function.
- Increasing understanding of multinational settings.
- Improving resource allocation decisions.
- Facilitating risk management.
- Focusing attention on the primary influences on strategic change.
- Acting as an early warning system

6.2 Explanation

6.2.1 The far or macro environment

The macro-environment represents forces that affect all firms across all industries.

There are various suggestions as to how to define parts of an environment so as to understand them in depth. There are common issues such as the Polticial, Economic Social and Technological influences, the PEST factors. Sometimes these are extended:

- PESTEL separates out Legal from Political activity and adds Environmental.
- STEEPV adds Values or ethics
- SPENT adds Natural environment

The PEST classification is rather simple and we need to take account of the fact that when we refer to political factors we are including legislation arising from political activity as a key influence.

In more detail the aspects of the macro-environment are as follows:

Political factors act at three levels

Supranational (eg the EU) National, and Sub-national or local level..

Government active areas include

- Policies on healthcare, unemployment, exchange rates, inflation, economic growth
- Government employment and the public sector generally
- Fiscal policies on taxation
- Government Agencies regulating competition pollution and industrial relations
- Laws of various kinds such as those relating to protection of the environment or the safety of employees in the work place or those relating to Customer protection

Economic factors refer to all the key economic variables often related to Political action such as

- GDP gross national product
- growth,
- inflation,
- Central Bank lending rates
- Currency exchange rates
- Fiscal policy tax on corporations and individuals
- Regional issues like land process and labour rates
- Distribution of economic rewards in society

- Freedom to move monies
- Stock exchanges and money markets.

Social factors refer to

- attitudes, values and beliefs tastes of held by people including ethnic minorities.
- Culture: Attitude to work, savings and investment, ethics, etc.
- Demography: Size and structure of the workforce, population shifts, aging
- Social structure: class and segmentation of the market-

These affect economic factors and increasingly it is necessary to take account of the above list of factors not only at the domestic/national level but also at the global level as companies internationalise their activities.

Technological factors

These can be internal and external. Organizations use technology – not hardware but software too such as Quality Control – and produce products and services of varying complexity.

They include

- Goods and services.
- Production processes.
- Information and communications.
- Transport and distribution.
- information technology, computing and associated implications for production
- biotechnology and new industries..

How to use the analysis tools:

- Scan the macro-environment for actual or potential changes in the PEST factors.
- Assess the importance of the changes for the market, industry and business.
- Analyse each of the relevant changes in detail and the relationships between them.
- Assess the potential impact of the changes on the market, industry and business.

6.2.2 The 'near' environment

This is the 'Industry or competitive environment analysis' of Porter (1980).
His Five Forces' model of the competitive environment is as follows:

Figure 6.1

Barriers to entry: include such factors as capital requirements, economies of scale, product differentiation, switching costs, brand identity, access to distribution channels, and threat of retaliation. The higher the barriers to entry, the higher the potential profitability of the firms in the industry. Economies of scale.

- The capital requirement of entry.
- Access to distribution channels.
- Cost advantages independent of size.
- Expected retaliation.
- Legislation or government action.
- Differentiation.

Competitive rivalry: the intensity of competition depends on a number of factors whether or not a strong industry leader exists, the number of competitors (degree of concentration), the presence of exit barriers, the importance of fixed costs in determining capacity, degree of product differentiation and the growth rate of the industry.

Usually, rivalry is more fierce and intense when there is

- no industry leader,
- a large number of competitors,
- high fixed costs,
- high exit barriers,
- little opportunity to practise product differentiation and
- slow rates of growth.
- Extra capacity.

Supplier power is determined by such factors as importance of product to buyer, switching costs, degree of supplier concentration to an industry and the supplier's ability to enter an industry.

Supplier power is likely to be high when:

- there are few suppliers
- The cost of switching to another supplier is high.
- The brand of the supplier is powerful.
- There is a possibility of forward integration by the supplier.
- The supplier's customers are highly fragmented so their bargaining power is low.

Buyer power. The bargaining power of buyers depends on several factors, including buyer knowledge, purchase size, product function, degree of buyer concentration in an industry, degree of product differentiation and the buyers' ability to enter the industry.

Buyer power is likely to be high when:

- There is concentration of buyers.
- There is a large number of small operators in the industry.
- There are alternative sources of supply.
- Material costs are high.

- The cost of switching to another supplier is low.
- There is a threat of backward integration by the buyer

Threat of substitutes is important because they can de-stabilise the current industry structure by offering customers better-valued or more useful products.Forms of substitution:

- Product-for-product substitution.
- Substitution of need.
- Generic substitution.
- Product not a necessity

It is important to note that each industry will have its own unique interrelationship of the five forces and that the relative bargaining power of each of the five forces together determines the overall attractiveness or profitability in an industry.

7. Internal Analysis

7.1 Introduction and Definition of The Value Chain

Internal organisation can affect the cost and even the feasibility of some strategies. There must be a 'fit' between a strategy and the elements of an organisation. If the strategy does not fit well, it might be expensive, or even impossible, to make it work. This related to the Resource-Based view of the firm supported by Grant 1995.

7.1.1 The value chain can be defined as 'a framework to differentiate the value-adding activities in an organisation'. Ii comprises *primary* and *support* activities.

7.1.2 Below this section is a suggested audit of human resources and cultural aspects which are often hidden.

7.2 Explanation

Each of the activities can be considered as adding value to an organisation's products. For example, the activity of operations in a car assembly plant. While the separate components do have a value in that they can be sold and bought as individual items, as engines, wheels, etc., but when they are assembled into a complete vehicle then they have added value to customers far in excess of the individual parts.

The value chain can best be described by use of a diagram as follows:

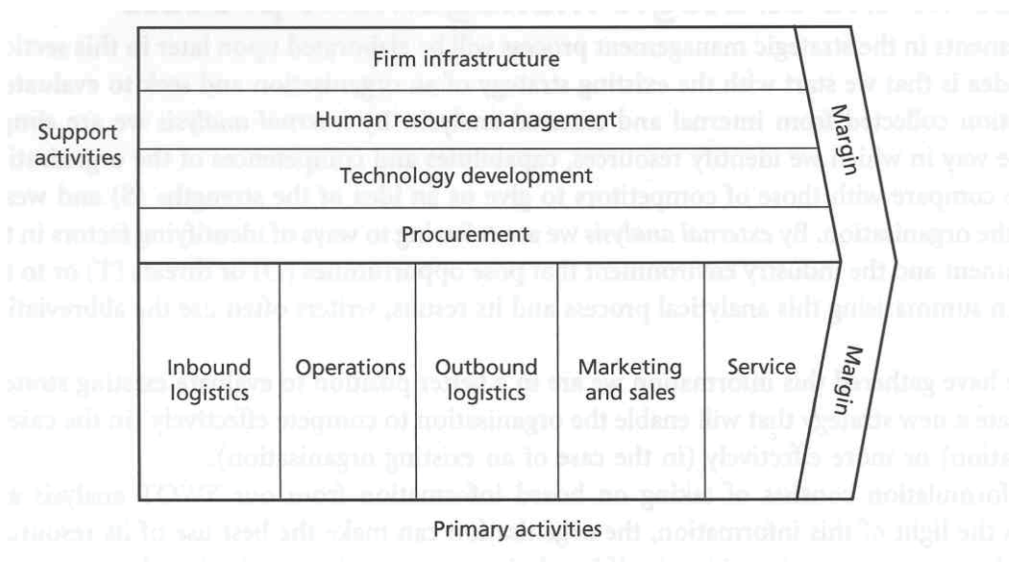


Figure 7.1 The value chain

7.2.1 The primary activities:

- *inbound logistics:*
  - these deal with the delivery. movement and handling of raw materials from suppliers;
- *operations:*
  - transformational activities which create end products from raw materials, inputs and
- *outbound logistics:*
  - refers to the processes which transfer products to distribution channels;
- *marketing/sales:*
  - includes such activities as advertising, promotion, product mix, pricing, working with buyers and wholesalers, and sales force issues;
- *service:*
  - customer service issues include warranty, repair, installation, customer support, product adjustment and modification.

7.2.2 The support activities:

- *procurement:*
  - the firm's purchasing of material and supplies for its activities;
- *technology development:*
  - focuses on improving the processes in primary value-adding activity;
- *human resource management:*
  - hiring, training, compensating, developing and relations with the firm's people;
- *infrastructure:*
  - a broad term for such activities as finance, accounting, legal, government relations.

7.3 Definition: margin:

The difference between the cost of operations and the income from sales.

7.4 Examples:

The flexible, entrepreneurial organisational structure of organisations such as 3M, where new project teams and divisions are continually created, is a key to its growth.

An established centralised organisation with a background oriented to one country may have difficulty implementing a diversification strategy requiring a decentralised organisation and an entrepreneurial thrust - as the UK retailer Marks and Spencer failed in its expansion into France.

7.5 The Human resource audit

There is a problem of the measurement of quality. The points below are essentially *quantitative* and give little or no direct indication of the way in which HR can be effective –such as in employee/industrial relations. Here the benchmarking of processes in a detailed *qualitative* survey can help.

Typical benchmarks are:

- Number of employees.
- Employee costs.
- Level of skills and capabilities
- Staff training and development.
- Employee motivation and morale.
- Industrial action –strikes etc
- Organisational structure.
- Recruitment and selection processes
- How the effectiveness of HR policies and procedure is monitored.

7.6. Culture:

7.6.1 Definition

'that set of beliefs, customs, practices, and ways of thinking that they come to share with each other through being and working together' (Stacey, 1996).

There are two types: *organisational* and *corporate*. The former is a deep-seated unconscious patterning; the latter often seen as four types f power and control operated through the organisational structure So the first is haerd to change the second easier.

7.6.2 Explanation: The importance of culture

- Employee motivation.
- Recruitment.
- Employee morale.
- Productivity and efficiency.
- Quality of product/service.
- Industrial relations.
- Innovation and creativity

7.6.3 Artefacts and evidence for *organisational* culture

The measures of culture can be seen typically in

- philosophy/ideas of the entrepreneur.
- activities of the organisation.
- competitive nature of the industry.
- management style.
- national/regional beliefs and attitudes.
- dependency of the organisation on technology
- status and location of offices and other buildings
- style/cost of buildings and furnishings.

7.6.4 How these come about: The Cultural web

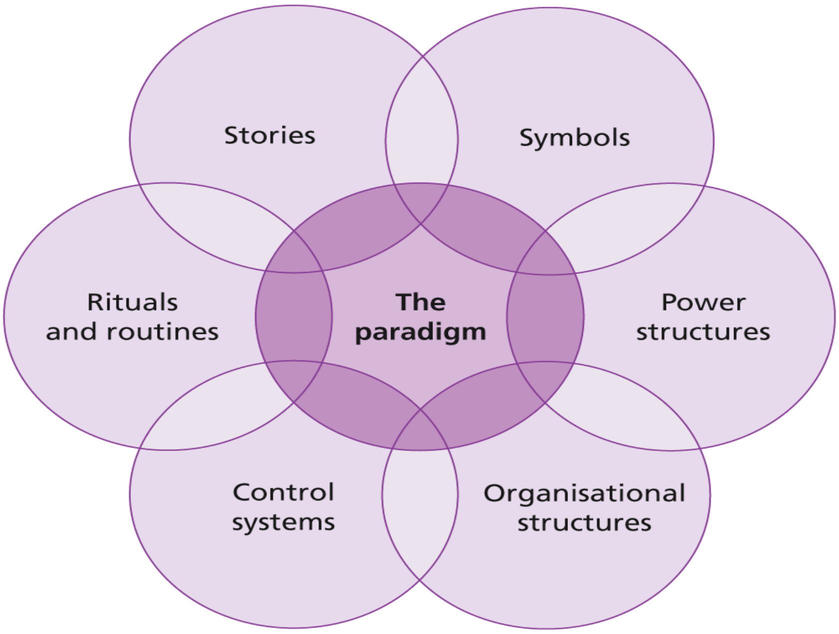


Fig 7.6 The Cultural web. This figure is replicated from Johnson, G. (1988) "Rethinking Incrementalism", *Strategic Management Journal* Vol 9 pp75-91

- Stories: Events and people from the past and present.
- Rituals and routines: Procedures for doing things within the organisation.
- Control systems: The level of control by which activities are controlled.
- Organisational structures: Formal and informal power relationships.
- Power structures: Groups/functions/departments of the organisation that are associated with the core assumptions of the organisation.
- Symbols: Logos, office layouts, titles, etc. that reflect hierarchy or difference.
- *Paradigm*: Encapsulates and reinforces the behaviours observed in the other elements of the web.

7.6.5 Corporate culture

Definition: Harrison called corporate cultures ‘organisational ideologies’ or ‘the way we do things round here’

Harrison’s questionnaire method produced four distinct types:

- *Power cultures*, based on one or a few powerful central individuals who motivate by a combination of patronage and fear, and make little use of written rules (this is likely to be the dominant type of culture in small, family-managed businesses).
- *Role cultures*, which are impersonal and rely on formalised rules and procedures to guide decision-making in a standardised, bureaucratic way (e.g. civil service and traditional, mechanistic mass-production organisations).

- *Task or achievement cultures*, which are typified by teamwork, flexibility and commitment to achieving objectives, rather than emphasis on a formal hierarchy of authority (perhaps typical of some advertising agencies and software development organisations, and the desired culture in large organisations seeking total quality management).
- *People or support cultures*, of two types. The first type is a constellation of stars, based on technical expertise of individual employees -- architects' and solicitors' practices, IT and management consultants. The organisation is what these few people possess as skills. Other types of organisation exist for the benefit of the members rather than external stakeholders, and are based on friendship, belonging and consensus (e.g. some social clubs, informal aspects of many organisations).

Clearly these need to match the external environment if at all possible.

8. SWOT Analysis

8.1 Introduction SWOT Analysis -definition

SWOT Analysis means the internal Strengths and Weaknesses and external Opportunities and Threats of an organisation.

8.2 Explanation

The central purpose of the SWOT analysis is to identify strategies that align, fit or match an organisation's resources and capabilities to the demands of the environment in which the organisation competes.

To put it another way, the purpose of the strategic alternatives generated by a SWOT analysis should be to build on organisation strengths in order to exploit opportunities and counter threats and to correct organisational weaknesses.

Strategic choice is the process of choosing among the alternatives generated by a SWOT analysis. The organisation has to evaluate various alternatives against each other with respect to their ability to achieve major goals. The process of strategic choice requires the organisation to identify the set of business-level, functional-level and corporate-level, strategies that would best enable it to survive and prosper in the fast-changing environment that is a feature of modern business.

8.2.1 Strengths.

- Core competencies in key areas.
- Adequate financial resources.
- Well-thought-of by buyers.
- An acknowledged market leader.
- Well-conceived functional area strategies.
- Access to economies of scale.
- Insulated (at least somewhat) from strong competitive pressures.
- Proprietary technology.
- Cost advantages.
- Better advertising campaigns.
- Product innovation skills.
- Proven management.
- Ahead on experience curve.
- Better manufacturing capability.
- Superior technological skills.

8.2.2 Weaknesses

- No clear strategic direction.
- Obsolete facilities.
- Profitability issues because…
- Lack of management depth and talent.
- Missing some key skills or competencies.
- Poor track record in implementing problems.
- Falling behind in R&D.
- Too narrow product line.
- Weak market image
- Weak distribution network.
- Below-average marketing skills.
- Unable to finance needed changes in strategy.
- Higher overall unit costs relative to key competitors

8.2.3 Opportunities

- Ability to serve additional customer groups or expand into new markets or segments.
- Ways to expand product line to meet broader range of customer needs.
- Ability to transfer skills or technological know-how to new products or businesses.
- Integrating forward or backward.
- Falling trade barriers in attractive foreign markets.
- Complacency among rival firms.
- Ability to grow rapidly because of strong increases in market demand.
- Emerging new technologies.

8.2.4 Threats

- Entry of lower-cost foreign competitors.
- Rising sales of substitute products.
- Slower market growth.
- Adverse shifts in foreign exchange rates and trade policies of foreign governments.
- Costly regulatory requirements.
- Vulnerability to recession and business cycle.
- Growing bargaining power of customers or suppliers.
- Changing buyer needs and tastes.
- Adverse demographic changes.

8.3 Some key points on SWOT

- Too much detail should be avoided. Keep each variable short.
- Many variables may be relative rather than absolute and therefore will require some judgement.
- Do not ignore ‘soft’ facts (e.g. organizational culture, leadership skills, etc).
- Prioritise and combine variables.
- Be realistic in its assessment.

SWOT is not strategy. It **only** provides a platform for planning for the future.

The SWOT process

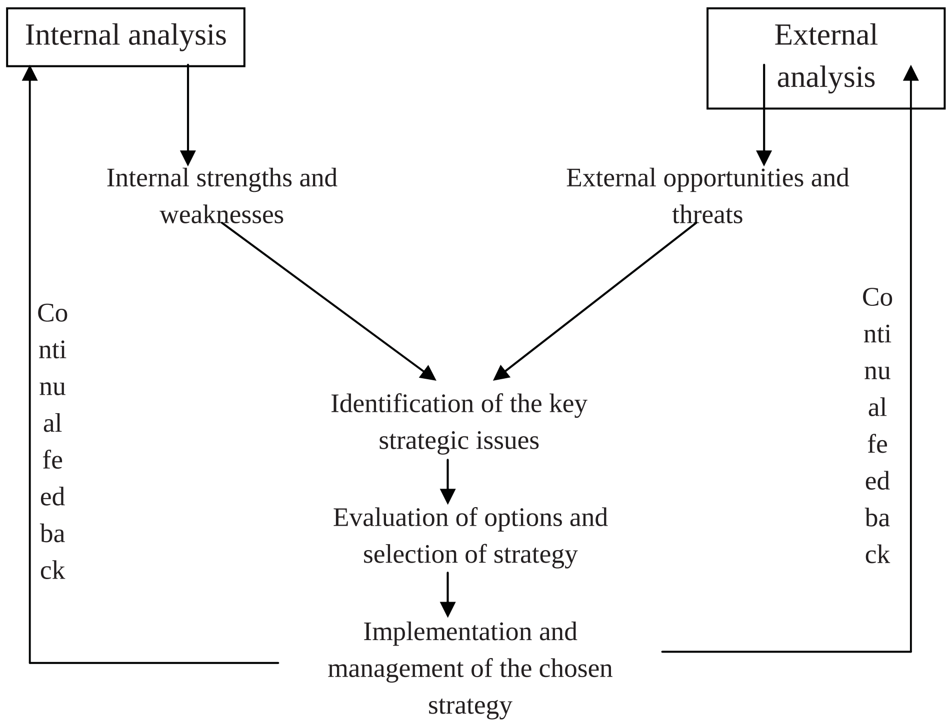


Fig 8.1 The Process

9. Generic Strategy

9.1 Introduction: Definition

The Generic strategy framework (Porter, 1984) comprises two alternatives each with two alternative scopes.

These are *Differentiation* and *Low-Cost Leadership* each with a dimension of *Focus* –broad or narrow.

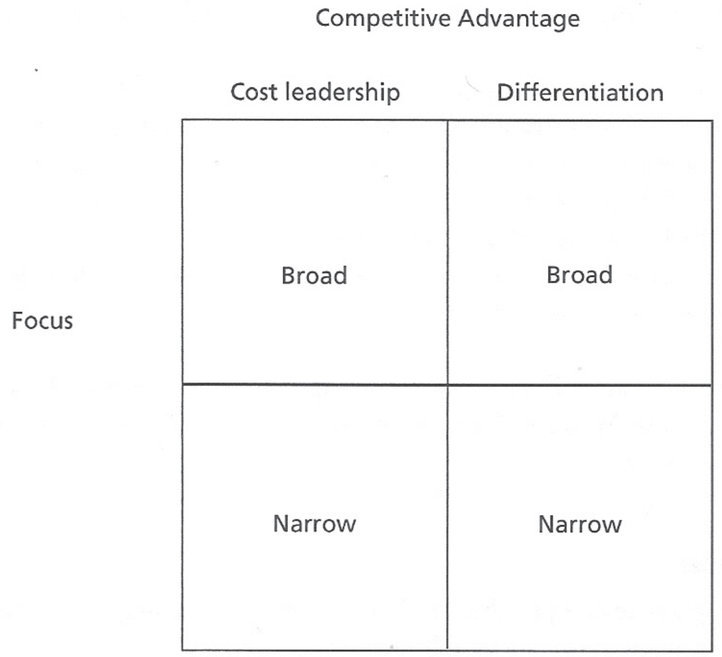


Figure 9.1 The generic business strategies

9.2 Explanation

A well-formulated competitive strategy, regardless of which type, is one that seeks to build a distinctive competence in some key activity and then uses it to create a competitive advantage over other firms

This attempts to avoid the 'muddling through' and forces managers to make decisions – hard decisions. The calculation of volume x margin = profit is used to highlight either volume as a goal or margin. Best of both world is high margin and high volume but in really expensive products are seldom seen by buyers as worth the extra cost if they are commonplace. This interacts with supply and demand curves – as supply increases so costs and prices go down due to scale effects.

Two broad types of competitive strategies enable the firm to build competitive advantage at the business level: low-cost leadership and differentiation. The strategies are also known as generic strategies, since they are widely applicable to firms of all sizes and in all industries.

9.2.1 Low-Cost leadership strategy

This aims to achieve competitive advantage by way of providing a product or service at a cost that is less than that of rivals. Competitive advantage arises when the firm is able to earn higher profits than its rivals by charging a product at market prices. Economic factors that sustain a low-cost leadership strategy include high economies of scale, high experience curve benefits, and varying degrees of vertical integration.

Benefits:

- Low production cost = higher profit.
- Allows the company to enter new markets.
- Most successful in price-sensitive markets.
- Creates barriers of entry to the industry

How to achieve cost leadership:

- Reduce unit costs (e.g. generic designs).
- Use cheaper materials.
- ‘No frills’ products.
- Increase productivity.
- Achieve economies of scale.
- Achieve ‘learning curves’.

9.2.2 Differentiation

Differentiation enables the firm to attempt efforts to distinguish its products from those of its rivals.

Differentiation strategies are based on

- providing products/services unique or different from those of competitors.
- providing customers with products or services that are perceived (or actually) higher in value than those offered by rivals.
- increasing the buyer’s satisfaction
- increasing the buyer’s perceived value.

Benefits:

- Product/service will command a higher price.
- Demand for product/service will be less price elastic.
- Above average profits can be earned.
- Creates barriers to entry to new businesses wishing to enter the industry.

How to achieve differentiation:

- Create products/services superior to competitors (e.g. design, performance, reliability).
- Offer superior after-sales service.
- Create superior supply chain.
- Create a strong brand.
- Offer superior product/service packaging

9.2.3 Focus - Broad or Narrow?

Broad

Benefits:

- Allows spreading the risk across the different media to widen the market.
- It makes barriers to entry to markets costly and complex.

How to achieve broad focus

- Identify a suitable distribution channels across markets such as internet, chain stores, mail order catalogues.
- Identify the specific needs, requirements and expectations of those channels.

- Establish the financial back-up is large enough to sustain the breadth.
- Analyse competition of the market especially price/delivery.
- Produce products/services that meet the basic, broad, generic customer requirements.
- Decide whether to go for a differentiation of cost leadership within this market niche (segment).

Narrow

focus seeks to provide high perceived value justifying a substantial price premium in a market niche.

Benefits:

- Requires a lower investment in resources since it is aimed at a market niche.
- Allows specialisation and greater knowledge of the niche market.
- It makes entry to new markets less costly and simpler.

How to achieve narrow focus

- Identify a suitable market customer group and its niche market (segment).
- Identify the specific needs, requirements and expectations of that group.
- Establish that the specific market niche (segment) is large enough to sustain the business.
- Analyse competition of the niche market.
- Produce products/services that meet the specific customer requirements.
- Decide whether to go for a differentiation of cost leadership within this market niche (segment).

9.4 Key Points

9.4.1 Some thoughts

- Cost leadership does not, in and of itself, sell products.
- Differentiation strategies can be used to increase sales volumes rather than to change a premium price.
- Price can sometimes be used to differentiate.
- A Generic strategy can not give competitive advantage.

9.4.2 An organisation may use a hybrid strategy.

Seeks simultaneously to achieve differentiation and a price lower than that of competitors
Strategy can be based on a combination of differentiation, price and cost control.
May be used as an entry strategy in a market of established competitors (loss leaders).

9.4.3 Other strategies may include

- Diversify - extending the operation into new and profitable markets.
- Go international - expand the operations into another country or countries.
- Grow by acquisition.
- Form a joint venture - to pool resources.
- Liquidate - by terminating an unprofitable product line or even dissolving the company.
- Retrench - by curtailing operations temporarily.

10. Strategy implementation

The implementation process can also be thought of as having several parts.

(i) Resource planning and the logistics of implementation. The process will address the problems of the tasks that need to be carried out and also the timing of them. There may need to be changes in the mix of resources required to implement the strategy and decisions will need to be taken about who is to be responsible for the changes.

(ii) The organisational structure may need to be changed, eg, from hierarchical to matrix or from centralised to decentralised.

(iii) The systems employed to manage the organisation may be improved. These systems provide the information and operational procedures needed in the organisation. It may be that a new information management system is required to monitor the progress of the strategy. Staff may need to be retrained or new staff recruited.

10.2 Contingency view

An alternative approach reflects systems concepts and a contingency view because it recognises that there is an inter-relationship between four major components.

Environmental opportunity (what the organisation might do).

Abilities and resources (what the organisation realistically can do) - an organisation might not be able to capitalise on a particular opportunity eg, market demand, if it does not have the necessary competencies or resources.

Responsibility to society - what the organisation should do.

Managerial interests and desires (what the organisation wants to do). An organisation is unlikely to succeed if its strategic plan is based on managerial interests without reference to opportunity, competence or societal responsibilities.

Integrating these four components of strategy formulation is a delicate and complex task. Being aware of them is an important first step; reconciling their implications and combining them into a viable strategy is more difficult. An organisation may not be able to capitalise on an environmental opportunity, such as market demand, if it does not have the necessary competence or resources. Similarly, an organisation is unlikely to succeed if its strategic plan is based on managerial interests, without reference to competence, opportunity or societal obligations.

10.3 Managing change

This is a huge topic but here are some of the main issues when moving the strategy to adapt to the environment..

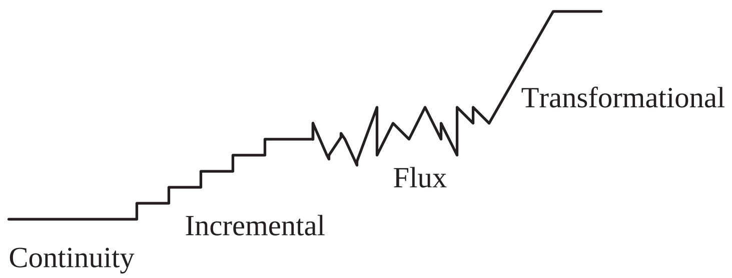


Fig 11.3 Change types

10.3.1 Continuity

Daft (1998) describes several features of this kind of gradual change over time:

- Continuous progression.
- Maintains equilibrium.
- Affects only one organisational part.
- Effected through the normal structure.
- New technology.
- Product improvement versus new product which create new markets.

10.3.2 Incremental or Step change

'Step change' describes a situation where the trend line for a particular factor stops becoming smooth and there is a significant and unexpected jump in direction upwards or downwards.

There have been significant step-changes such as political coups or elections, storms and environmental disasters which have changed the environment organisations must work in for ever.

Because step change is impossible or at least difficult to spot in advance, strategic planning has moved from trend analysis towards scenario planning.

10.3.3 Flux

This represents turbulence in the environment where trends are destroyed and existing cyclical activity is interrupted in a random way, possible by civil war and strife which ebbs and flows as power changes hands.

10.3.4 Transformational change

This aims to 'unfreeze' the present, affect change and re-freeze' the future changes according to Lewin's model of force-field analysis.

It typically involves

- frame-breaking burst
- entire organisation
- creating a new structure
- breakthrough technology
- reaches new equilibrium

10.4 Lewin's Force Field analysis