

Strategic Management

Definitions of strategy

Oxford Dictionary: The art of war, especially the planning of movements of troops and ships etc., into favorable positions; plan of action or policy in business or politics etc.

Alfred D. Chandler Jr.: The determination of the long run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.

Kenneth Andrews: Strategy is the pattern of objectives, purposes or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.

In short: Strategy is an action a company takes to attain superior performance

The Origins of Strategy

Know the other and know yourself: Triumph without peril.

Know nature and know the situation: Triumph completely.

- Sun Tzu (~360 B.C.)

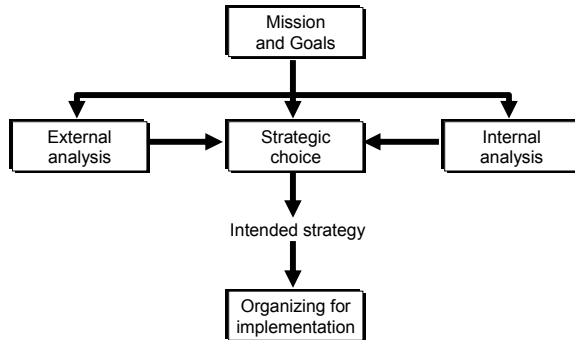
- Business strategy is a young field – but its roots go back to early military strategy.
- Strategy comes from the Greek word *strategos*, which is formed from *stratos*, meaning army, and *-ag*, meaning *to lead*.

Henry Mintzberg's definitions of strategy

Strategy as

- Plan - intended course of action
- Pattern - consistency in stream of decisions and actions
- Position - firm's location in the environment
- Perspective - collective view of the world based on experience

Strategic management process



Introduction to Business - Nurul Indarti

5

1. Mission and major goals

- The **mission** sets out why the organization exists and what it should be doing.
 - Example: Mission of an airline → satisfying the needs of individual and business travellers for high-speed transportation at a reasonable price to all major destinations
- **Major goals** specify what the organization hopes to fulfill in the medium to long term
 - Example: attaining superior performance is placed at the top

Introduction to Business - Nurul Indarti

6

Purpose of Goal Setting

- Goal setting provides direction and guidance for managers at all levels.
- Goal setting helps firms allocate resources.
- Goal setting helps to define corporate culture.
- Goal setting helps managers assess performance.

Introduction to Business - Nurul Indarti

7

Kinds of Goals

Regardless of a company's *purpose* and *mission*, every firm has:

- **Long-term Goals**
 - Goals set for an extended time, typically 5 years or more into the future
- **Intermediate Goals**
 - Goals set for a period of 1 to 5 years into the future
- **Short-term Goals**
 - Goals set for the very near future, typically less than 1 year

Introduction to Business - Nurul Indarti

8

Four main characteristics of well-constructed goals:

- Precise and measurable
- Address crucial issues
- Challenging but realistic
- Specify a time period



2. External analysis

- Analysis of the organization's external competitive environment to identify:
 - **Opportunities:** conditions in the environment that a company can take advantage of to become more profitable
 - **Threats:** conditions in the environment that endanger the integrity and profitability of the company's business

External analysis

Three interrelated environments should be examined:

- The immediate, or industry, environment in which the organization operates
 - Assessment of the competitive structure (e.g. competitive position, major rivals, impact of globalization on competition within an industry)
- The national environment
 - Assessment of whether the national context within which a company operates facilitates the attainment of competitive advantage (e.g. regulation, tax, etc.)
- The wider macroenvironment
 - Examining macroeconomic, social, government, legal, international, technological factors that may affect the organization

External analysis

Three interrelated environments should be examined:

- The immediate, or industry, environment in which the organization operates
 - Assessment of the competitive structure (e.g. competitive position, major rivals, impact of globalization on competition within an industry)
- The national environment
 - Assessment of whether the national context within which a company operates facilitates the attainment of competitive advantage (e.g. regulation, tax, etc.)
- The wider macroenvironment
 - Examining macroeconomic, social, government, legal, international, technological factors that may affect the organization

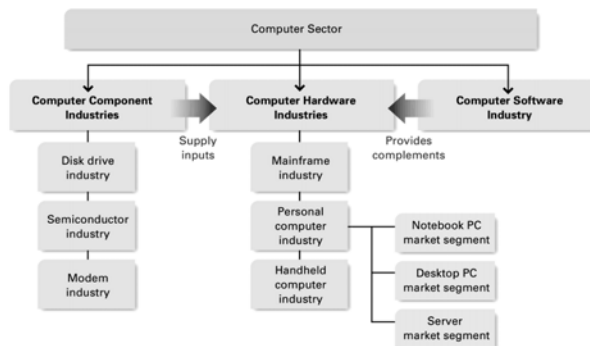
Defining an industry

- **Industry**
 - A group of companies offering products or services that are close substitutes for each other
- **Competitors**
 - Rival companies that serve the same basic customer needs

Defining an industry (cont'd)

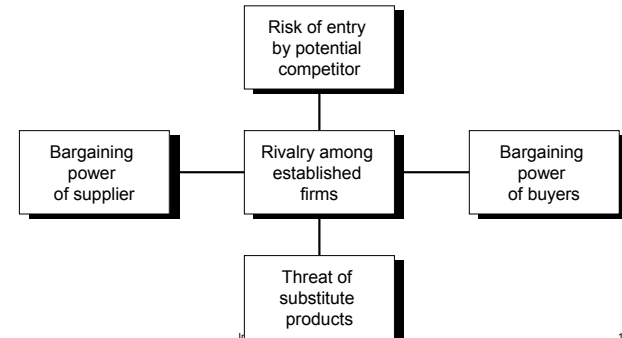
- **Sector**
 - A group of closely related *industries*
- **Market segments**
 - Distinct groups of customers within a market that can be differentiated from each other based on their distinct attributes and demands
- **Changing industry boundaries**

The computer sector: industries and segments



Analyzing industry structure

- **Porter's five forces model**



Risk of entry by potential competitors

● Barriers to entry

○ Brand loyalty

○ Absolute cost advantage

- Superior production operations and processes
- Control of particular inputs required for production
- Access to cheaper funds because existing companies represent lower risks than new entrants

Risk of entry by potential competitors

● Barriers to entry (cont'd)

○ Economies of scale

- Cost reductions from mass producing a standardized output
- Discounts on bulk purchases of inputs
- Advantages of spreading fixed costs over a large production volume
- Cost savings from marketing and advertising for a large volume of output

○ Customer switching costs

○ Government regulation

Rivalry among established companies

● Industry competitive structure

- Fragmented vs. consolidated (oligopoly or monopoly)

● Industry demand

● Exit barriers

- Investments in assets of little or no alternative value or that cannot be sold
- High fixed costs of exit
- Emotional attachments to an industry
- Economic dependence
- Need to maintain an expensive collection of assets in order to participate effectively in an industry

The bargaining power of buyers

● Buyers are most powerful when

- The industry that is supplying a particular product or service is composed of many small companies and the buyers are large and few in number
- Buyers purchase in large quantities
- The supply industry depends on the buyers for a large percentage of its total orders
- Switching costs are low
- It is economically feasible for buyers to play one supplier against another
- Buyers can threaten to produce the product themselves

The bargaining power of suppliers

- Suppliers are most powerful when
 - There are few substitute products
 - The industry is not an important customer to the supplier
 - Switching costs are high for companies switching to a different supplier
 - Suppliers can threaten to compete directly with buyers by entering their industry
 - Buyers cannot threaten to enter the suppliers' industry

Substitute products

- Many substitute products
 - Are a threat and limit the price that companies in one industry can charge for their product, and thus industry profitability
- Few or weak close substitutes
 - Gives the industry the opportunity to raise prices and earn additional profits

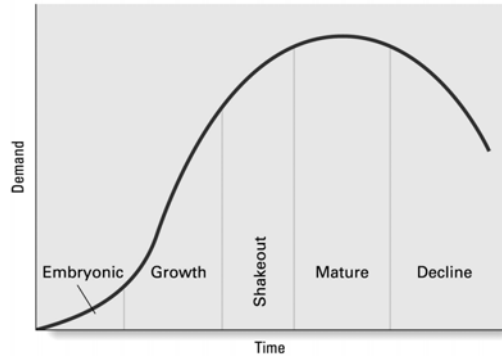
A sixth force: complementors

- When complementors are important and their number is increasing
 - Demand and profits in the industry are boosted
- When complementors are weak
 - Industry growth can slow and profits can be limited

Industry life cycle analysis

- The strength and nature of the five forces change as an industry evolves through its life cycle
- Managers must anticipate how the forces will change as the industry evolves and formulate appropriate strategies

Stages of the industry life cycle



25

Limitations of models for industry analysis

- Life cycle issues
 - The embryonic stage can sometimes be skipped
 - Industry growth can be revitalized
 - The time span of the stages can vary
- Innovation and change
 - Innovation can unfreeze and reshape industry structure
 - An industry may be hypercompetitive, with permanent and ongoing change

Introduction to Business - Nurul Indarti

26

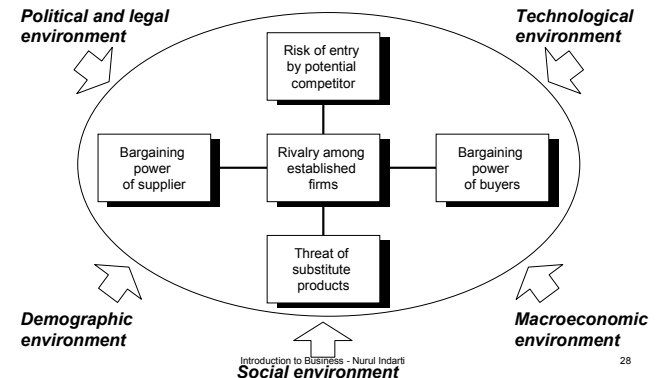
Limitations of models for industry analysis (cont'd)

- Company differences
 - The importance of company differences within an industry or strategic group can be underemphasized
 - The individual resources and capabilities of a company may be more important in determining profitability than the industry or strategic group

Introduction to Business - Nurul Indarti

27

The role of macroenvironment



Introduction to Business - Nurul Indarti

28

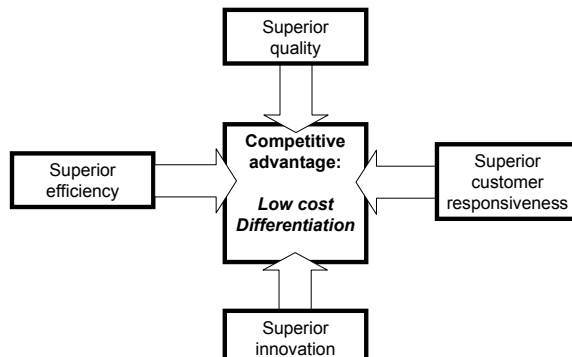
The global and national environments

- Globalization of production and markets
 - Lower barriers to cross-border trade and investment
 - National differences in the cost and quality of factors of production
 - “Home” and “foreign” markets and competitors are blurring
 - Intensified rivalry
 - Intensified rate of innovation
 - Many new markets are open

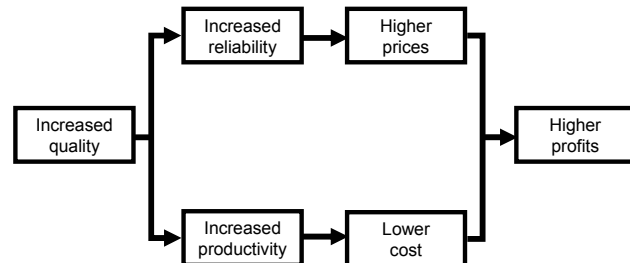
3. Internal analysis

- Analysis of the organization’s internal operating environment to identify **strengths** and **weaknesses**
- Issues:
 - Identifying the quantity and quality or resources available to the organization
 - Building and maintaining a competitive advantage → requires superior efficiency, quality, innovation, and customer responsiveness

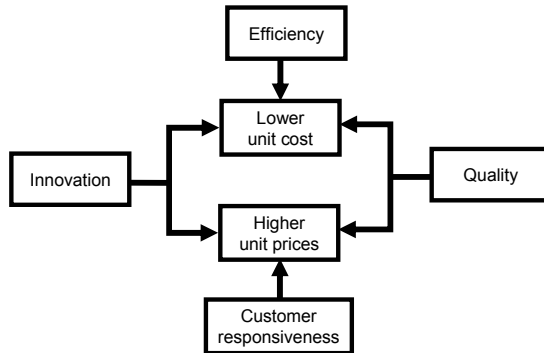
Generic building block of competitive advantage



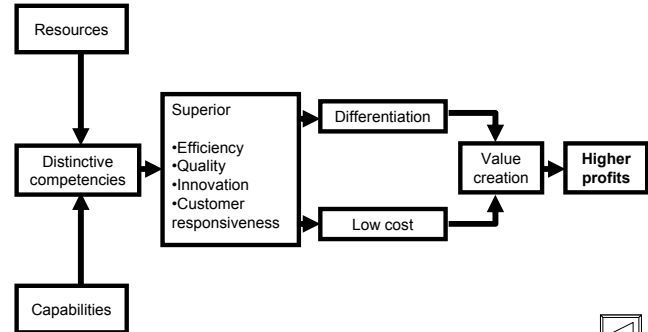
Impact of quality on profits



Impacts of efficiency, quality, customer responsiveness, and innovation on unit costs and prices



The roots of competitive advantage



4. Strategic choice

- Selection of strategies that build on the organization's strengths and correct its weaknesses in order to take advantage of external threats
- The process of choosing among the alternatives generated by a SWOT analysis
- Levels in strategic choice:
 - Business-level strategy
 - Functional-level strategy
 - Global strategy
 - Corporate-level strategy

Business-level strategy

- Issues:
 - Customer's needs (**what** is to be satisfied)
 - Customer groups (**who** is to be satisfied)
 - Distinctive competencies (**how** customer's needs are to be satisfied)



Source: D. F. Abell, *Defining the Business: The Starting Point of Strategic Planning* (Englewood Cliffs, Prentice Hall, 1980), p. 7.

Porter's generic business-level strategies

- **Cost leadership**
 - Being the lowest cost producer in the industry
 - Compete on price, sell for less, still make profit eg No Name goods, Hyundai cars
 - Hold price to that of rivals and make higher profits as costs are lower
- **Differentiation**
 - Unique in one or more lines valued by buyers (e.g. Honda motorcycles, Body Shop products)
- **Focus**
 - Tailored strategies to serve selected segments or a group of segments in an industry

Business-level strategy (3)

- Choices on product, market, and distinctive competencies and generic competitive strategies

	Cost leadership	Differentiation	Focus
Product differentiation	Low (principally by price)	High (principally by uniqueness)	Low to high (price or uniqueness)
Market Segmentation	Low (mass market)	High (many market segment)	Low (one or a few segments)
Distinctive competency	Manufacturing and materials management	Research and development, sales, and marketing	Any kind of distinctive competency

Type of business-level strategies

<i>Offers low-priced products to customers</i>	<i>Offers products to only one group of customers</i>	Focused cost-leadership strategy	Cost-leadership strategy
<i>Offers unique or distinctive products to customers</i>	<i>Offers products to many kinds of customers</i>	Focused differentiation strategy	Differentiation strategy

[back](#)

Ansoff's Product/Market Matrix

	Present Product	New Product
Present Market	Market Penetration	Product Development
New Market	Market Development	Diversification

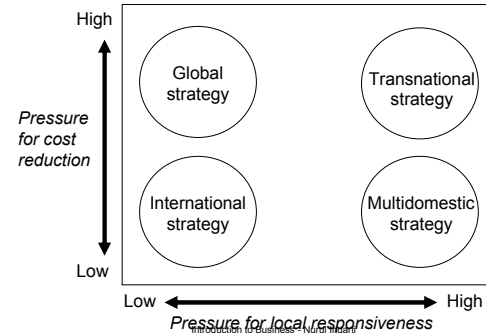
Functional level strategy

- Strategies directed at improving the effectiveness of *operations* within a company, e.g.
 - Manufacturing
 - Marketing
 - Materials management
 - Product development
 - Customer service

[back](#)

Global strategy

- Four different strategies:



Strategic choice

- International
 - Try to create value by transferring valuable skills and products to foreign markets where indigenous competitors lack those skills and products
 - Example: IBM, P&G, McD
- Multidomestic
 - Orient companies toward achieving maximum local responsiveness.
 - Fully customized product and marketing strategy.
 - Example: Unilever (?), Coca-Cola (?)

Strategic choice (cont'd)

- Global
 - Focus on increasing profitability by obtaining the cost reduction that come from experience-curve effects and location economies.
 - Example: Motorola, Nike
- Transnational
 - Trying to achieve all objectives of other strategies
 - Example: General Motor

Pressure for local responsiveness

- Differences in consumer tastes and preferences
- Differences in infrastructure and traditional practices
- Differences in distribution channels
- Host government demands

Pros and cons of different strategies

Strategy	Advantages	Disadvantages
<i>International</i>	•Transfer of distinctive competencies to foreign market	•Lack of local responsiveness •Inability to realize location economies •Failure to exploit experience-curve effect
<i>Multidomestic</i>	•Ability to customize product offerings and marketing in accordance with local responsiveness	•Inability to realize location economies •Failure to exploit experience-curve effect •Failure to transfer distinctive competencies to foreign market
<i>Global</i>	•Ability to exploit experience-curve effect •Ability to exploit location economies	•Lack of local responsiveness
<i>Transnational</i>	•Ability to exploit experience-curve effect •Ability to exploit location economies •Ability to customize product offerings and marketing in accordance with local responsiveness •Obtaining benefits of global learning	•Difficulties in implementation because of organizational problems

Choice of entry mode

- Exporting
- Licensing
 - An arrangement whereby a foreign licensee buys the rights to produce a company's product in the licensee's country for negotiated fee
- Franchising
 - A specialized form of licensing in which franchiser not only sell intangible property (normally a trademark) to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business.
- Joint venture
- Wholly owned subsidiaries
 - Subsidiaries in which the parent company owns 100% of the subsidiary's stock

[back](#)

Corporate level strategy

- What businesses should we be in to maximize the long-run profitability of the organization?
- Type of corporate level strategies:
 - Vertical integration
 - Integrating operations from inputs of the operations into the disposal of output of the operations
 - Diversification
 - Strategic alliances
 - Outsourcing

5. Implementation

- Designing organizational structure
- Designing control systems
- Matching strategy, structure, and control
- Managing strategic change

Emergent and deliberate strategies



Source: Adapted from H. Mintzberg and A. McHugh, *Administrative Science Quarterly*, Vol. 30, No. 2, June 1985.

Hamel's 10 principles on strategy

1. Strategic planning isn't strategic
2. Strategy making must be subversive
3. The bottleneck is at the top of the bottle
4. Revolutionaries exist in every company
5. Change is not the problem; engagement is

Hamel's 10 principles on strategy

(cont'd)

6. Strategy making must be democratic
7. Anyone can be a strategy activist
8. Perspective is worth 50 iq points
9. Top-down & bottom-up are not alternatives
10. You can't see the end from the beginning

Strategic leadership

- Vision and consistency
- Commitment
- Being well informed
- Willingness to delegate and empower
- The astute use of power
- Emotional intelligence

Emotional intelligence

- Self-awareness
- Self-regulation
- Motivation
- Empathy
- Social skills

Challenges to strategic decision making

- Cognitive biases (e.g.)
 - Prior hypothesis bias
 - Escalating commitment
 - Reasoning by analogy
 - Representativeness
- Groupthink

Processes for improving decision making

