Your road to success

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LEVEL 6 BUSINESS STRATEGY AND DECISION-MAKING

ABE OFFICIAL STUDY GUIDE

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Author: Lynette Borrow MBA, MCIM, Cert Ed (FE), ALAM
Reviewer: Colin Linton MRes MBA PGCHE DipM DipFS FCIB FCIM FCIPS FCIEA FHEA FInstLM

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Using your study guide

Welcome to the study guide **Level 6 Business Strategy and Decision-Making**, designed to support those completing an ABE Level 6 Diploma.

Below is an overview of the elements of learning and related key capabilities (taken from the published syllabus).

Element of learning	Key capabilities
Element 1 – Strategic concepts in contemporary business organisations	• Ability to adopt a critical approach to concepts of strategy and strategic thinking in their application to a business organisation • Ability to assess whether a particular approach to strategic development is appropriate for different contexts and situations *Critical thinking, strategic thinking, strategic development, decision-making*
Element 2 – Strategic capability in context	• Ability to assess organisational strategic capability for future proofing and response to changes in the business environment *Assessing capabilities, analysis, future proofing, decision-making, leadership, planning, change management, flexibility, commercial awareness, competitor awareness*
Element 3 – Strategic formation: option development in a business context	• Ability to develop a range of options based on strategic capability, cognisant of the nature, aims, direction of the organisation and potential approach and methods of implementation *Options development and evaluation, strategic decision-making, analysis, organisational development*
Element 4 – Strategic decision-making	• Ability to conceptualise decision-making in different contexts • Ability to apply models, forecasting techniques and scenario-building approaches • Ability to evaluate options to assist in strategic decision-making in context *Problem solving, critical thinking, teamwork, communications, analysis, forecasting, scenario building, strategic decision-making*

This study guide follows the order of the syllabus, which is the basis for your studies. Each chapter starts by listing the syllabus learning outcomes covered and the assessment criteria.

L6 descriptor

Knowledge descriptor (the holder…)	Skills descriptor (the holder can…)
• Has advanced practical, conceptual or technological knowledge and understanding of a subject or field of work to create ways forward in contexts where there are many interacting factors • Understands different perspectives, approaches or schools of thought and the theories that underpin them. • Can critically analyse, interpret and evaluate complex information, concepts and ideas.	• Determine, refine, adapt and use appropriate methods and advanced cognitive and practical skills to address problems that have limited definition and involve many interacting factors. • Use and, where appropriate, design relevant research and development to inform actions. • Evaluate actions, methods and results and their implications

The study guide includes a number of features to enhance your studies:

'Over to you': activities for you to complete, using the space provided.

Case studies: realistic business scenarios to reinforce and test your understanding of what you have read.

'Revision on the go': use your phone camera to capture these key pieces of learning, then save them on your phone to use as revision notes.

'Need to know': key pieces of information that are highlighted in the text.

Examples: illustrating points made in the text to show how it works in practice.

Tables, graphs and charts: to bring data to life.

Reading list: identifying resources for further study, including Emerald articles (which will be available in your online student resources).

Source/quotation information to cast further light on the subject from industry sources.

Highlighted words throughout denoting **glossary terms** located at the end of the study guide.

Note

Website addresses current as of August 2017.

Chapter 1

Concepts and Approaches to Strategy

Introduction

> *Strategy is the direction and scope of an organisation over the long term which achieves advantage for the organisation through its configuration of resources within a changing environment to meet the needs of markets and to fulfil stakeholder expectations.*
>
> *Johnson, Scholes and Whittington* (2008)[1]

This description by Johnson, Scholes and and Whittington (2008)[2] has been heralded as the definitive definition of business **strategy**, capturing key ideas such as **direction**, **scope**, recognition of long-term thinking, the need to be adaptable and the importance of responding to the needs of **stakeholders**.

In this chapter, we will explore how other writers and business experts have defined strategy and consider these theories in the context of global factors that have changed both the nature of business, as well as the idea of what can be described as long term.

Approaches to strategy are determined by the type of business, the **sector** it operates in, and organisational circumstances on which it builds strategic thinking and **decision-making**. A large **corporate** company may have well-established internal processes for the formation of a five-year strategy; others, driven by **entrepreneurism**, changes to the **business environment** and organisational structures, cultures, and internal demands, develop a strategy from need or due to changing dynamics. For the small business or start-up, there may be no discernible strategy at the beginning of a company's life.

This chapter considers these factors, the overall approach to strategic decision-making and its development in today's dynamic business contexts.

Learning outcome

On completing this chapter, you will be able to:

1. **Critically evaluate strategic concepts and different approaches to strategy in diverse, contemporary and challenging business contexts**

Assessment criteria

1. **Critically evaluate strategic concepts and different approaches to strategy in diverse, contemporary and challenging business contexts**

   1.1 Critically discuss the concept of strategy in business contexts

   1.2 Demonstrate an understanding of strategic thinking and formation in different business sectors and structures

   1.3 Evaluate approaches to strategic development in different contexts and circumstances

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1 Johnson, G., Scholes, K. and Whittington, R. (2008), *Exploring Corporate Strategy*, 8th edition, Prentice Hall
2 Ibid.

1.1 Critically discuss the concept of strategy in business contexts

Definitions

Apart from Johnson, Scholes and Whittington's comprehensive strategy description focusing on stakeholder expectations, it also refers to gaining an advantage over competitors. Both Peter Drucker (1994)[3] and Michael Porter (1995)[4] considered strategy as gaining **competitive advantage** over other companies. The concept of strategy originated with the ancient Greeks (*strategos* is a combination of the Greek words for "army" [*stratus*] and "to lead" [*agein*])[5]. Armies are competitive and aim to win wars. In this case, the battle is not over the possession of land, but over market domination.

The ancient Greeks expected their strategic commanders to have the physical stamina to fight and the energy to lead and army, but also the mental ingenuity to devise military **tactics**. Frontinus (1st century AD) suggested that everything achieved by the strategists should be "characterised by foresight, advantage, enterprise or resolution."[6] In the modern business environment, Porter described competitive strategy as about being different, "It means deliberately choosing a different set of activities to deliver a unique mix of value."[7]

Wright et al. (1992) talks of strategy as "top management's plans to attain outcomes consistent with the organisation's **mission** and **goals**."[8] Similar to Johnson, Scholes and Whittington's version that strategy is ultimately about creating and realising plans.

Mintzberg (2007)[9] mentions strategy as a "pattern in a stream of decisions." In his text *Strategy Safari*, co-authored with Ahlstrand and Lampel (2009)[10], he also refers to the five Ps of strategy – plans, patterns, positions, perspectives, and ploys:

- **Plans** – intended strategy – direction, guide or course of action in the future;
- **Patterns** – **realised strategy** – strategies achieved usually based on the past, but not always intended;

3 Daly, P., Walsh, J. S. (2010) "Drucker's theory of the business and organisations: challenging business assumptions", *Management Decision*, Vol. 48 Issue: 4, pp. 500-511
4 Porter, M. E. (1987) "From Competitive Advantage to Corporate Strategy." *Harvard Business Review*, Vol. 65 Issue 3
5 Cummings, S. (1993), *Brief Case*: *The First Strategists*. Long Range Planning, Vol. 26., Issue 3, pp. 133-135
6 Ibid.
7 Porter, M. E. (1996), "What is Strategy", *Harvard Business Review*, Vol 74 Issue 6, pp. 61-78
8 Wright, P., Pringle, C., and Kroll, M. (1992), *Strategic Management: Text and Cases*, Needham Heights MA, Allyn and Bacon
9 Mintzberg, H., (2007), *Tracking Strategies: Toward a General Theory*, Oxford University Press
10 Mintzberg, H., Ahlstrand, B., Lampel, J. (2008), *Strategy Safari*, 2nd edition, Pearson Education Canada

- **Position** – deliberate selection of strategy to position the organisation to match the market and external factors (aka **outside-in**). In other words, developing a particular service to target a specific market;
- **Perspective** – considers the market from the organisation's perspective, its ideals and **vision**, and then promotes strategies based on these from inside the organisation to exploit the market (aka **inside-out**);
- **Ploy** – a specific manoeuvre designed to outwit an opponent or competitor. While this may be a tactic it is also introducing a strategy to offer advantage; for example, instigating a **price war** to undermine a competitor's position.

As this unit is also about decision-making in a strategic context, it is worth remembering that the *Business Dictionary* defines decision-making as "the thought process of selecting a logical choice from the available options."[11] This logic suggests strategy is more about planning and many business experts also promote this concept.

Characteristics of strategy

Decision-making happens at all levels and every stage of business activity. However, strategic decisions should be differentiated from those considered as day-to-day or routine. The characteristics of an issue usually determine what may be defined as strategic and what are considered operational – although strategy should be developed at all levels of the business.

Johnson, Scholes and Whittington say that strategic decisions are about the consideration of the following issues:

Long-term direction – generally considered as spanning more than five years, but advances in technology may drive changes far more rapidly. Alternatively, Baghai et al. (2000)[12] refer to horizons rather than time spans. Relating these to profit potential: • Horizon 1 = extension and defence of core business • Horizon 2 = building emerging businesses • Horizon 3 = creation of viable options.
The scope of activities – this provides boundaries, limiting organisational activities by, for example, geography, business sector, business operation/model and/or market.
Gaining an **advantage** over competition – through **market share**, superior product, and value or a low-cost base (**business model**) leading to higher profits.
Market positioning – such as a **niche market** or more broad-based approach to appeal to a wide range of customers.
Effective exploitation of organisational **resources** and **competencies,** e.g. technology or brand.
The values and expectations of powerful players and influencers (**stakeholders**) on business decision-making and future strategy.

Table 1: Analysis of Johnson, Scholes and Whittington's definition of strategy

REVISION on the go

11 Business Dictionary n.d., *Decision making* [online]. Retrieved from: http://www.businessdictionary.com/definition/decision-making.html [Accessed on: 24 August 2017]
12 Baghai, M., Coley, S. and White, D. (2000), *The Alchemy of Growth*, Texere Publishers.

Consequently, strategic decision-making is usually characterised by:

- **Complexity** – multiple factors – internal and external to the business, likely to have implications for decision-making.
- **Uncertainty** and **ambiguity** – the future is uncertain – the more complex and long-term, the less surety there is for any predicted outcome.
- **Operational activities** – affected by strategy if not led by it. If the two are not aligned, the best strategy will fail.
- An effective strategy is **holistic** – adopting a helicopter view still requires **integration** of activities within the organisation and outside – requiring leadership and management skills to negotiate agreements and deal with problems that cross boundaries and interests at all levels. Robust **relationships** and external networks are critical to the implementation of a strategy. This includes customers, suppliers, and distributors, but may also consider business partners and competitors.
- **Change** – often the driver of strategic decisions, **"C" or "sea" change** is on a large scale and will have an impact on the organisation and its stakeholders.

Levels of strategy

! NEED TO KNOW

In the previous section, we determined that strategy was holistic – affecting all aspects of the organisation and at a minimum of three levels.

Corporate level – particularly relevant in multinational organisations. The strategy focuses on the overall scope of all the business activities, considering individual **strategic business units (SBU)** in the context of their contribution to the whole and their links with other parts of the business portfolio. Considerations of market share, investments, including **foreign direct investment (FDI)** share prices, strategic **alliances** and partnerships and other major projects feature heavily in the work of those engaged in corporate strategic decision-making.

Business level – concentrates on the principal activities of individual companies that generate income and profit. In organisations with simple structures, corporate- and business-level strategy will be the same thing. However, business-level strategy can also refer to the individual companies that form part of a corporate group. In this case, these SBUs must be distinctive from others in the group – either in terms of products, markets or services. However, individual SBU strategies should demonstrate strategic fit with clear links with the corporate whole and not adversely impacting others in the group.

Operational level – directed towards effective delivery of corporate- and business-level strategies, at an operational level. The focus is on the integration of resources and processes, including **functional area** strategies such as finance, marketing, human resources, and operations.

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No man is an island, entire of itself

John Donne (1624)

Increasingly, organisational strategy centres on inter-organisational relationships – often its **supply chain**, competitors and major influencers such as the intra-corporate structures of which it is a part all have an impact on the direction and success of the company. Development of these external linkages is commonly known as **network-level** strategy.

Vocabulary of strategy

While the strategy concepts may be subject to debate with management experts and authors proffering many different definitions, in practice terminology is often similar. Students of business strategy should become familiar with the vocabulary of strategy, which is often derived from ancient Greek origins.

Term	Definition
Mission	Overarching purpose of the organisation in line with values or expectations of stakeholders.
Vision or strategic intent	Aspiration to have a role in the business environment that aligns with the organisation's own perspectives.
Core values	Principles guiding an organisation's internal conduct/behaviour as well as its relationship with the external world; emanates positive cultures and captured as a slogan; sometimes differs from the financial imperatives of profit.
Goal	General statement or aim of the organisation.
Objectives	A quantification of the goal, usually stated in SMART terms (specific, measurable, achievable/agreed, realistic, time-bound).
Strategic **capability**	Resources, activities, and processes enabling the organisation to operate successfully within its market. Some will be unique and provide competitive advantage.
Strategies	Long-term, broad-based actions to achieve goals.
Tactics	Means of achieving strategy – often a series of complex short-term activities to attain the longer-term objectives.
Strategic management	Involving formulation and implementation of major initiatives taken by top management, consider resources and assessment of the internal and external environments in which the organisation competes.
Business model	The business method – a description of the means to achieve the vision, mission, and goals; how a business runs, what and how it sells, produces and distributes its goods and services. Also, considers its approach to costs and customer value. A successful business model will give competitive advantage.
Monitoring, control and evaluation	Assesses effectiveness of strategies and actions, then modifies and adapts them to keep on track or create improvements.

Table 2: Vocabulary of strategy

REVISION on the go

Businesses often publish their **strategic purpose** in the form of a mission statement, informing the reader what the organisation is about and in broad terms what it aims to be, why it exists and how it intends to achieve its aims.

Other statements include intentions on vision and values and articulate specific objectives (**SMART**) indicating the direction of travel and scope of strategy for a given period.

While businesses may not always be consistent in their use of terminology, a review of an organisational website gives some guidance on how organisations use the vocabulary of strategy in context. In the case study below, Tata Steel states how it perceives its vision.

CASE STUDY: VOCABULARY OF STRATEGY – TATA STEEL

As a company, Tata Steel has redefined the way it operates to become outstanding within the global steel industry in terms of value creation and corporate citizenship. The Tata group's main commitment is to its ethical business practices and people-oriented vision.

Vision

Tata Steel aspire to be the global steel industry benchmark for corporate citizenship as well as value creation. They have taken several steps to do this, with their key focuses being on:

People: Tata Steel has developed a culture of team work, nurturing talent, enhancing leadership capability and working in a spirit of pride and passion.

Products: They aim to deliver premium products and services, of trustworthy standards.

Innovation: They strive to develop leading-edge solutions in technology, processes, and products.

Conduct: They ensure that employees operate within a safe workplace; furthermore, they respect the environment and care for local communities.

Mission

Tata Steel strives to strengthen India's industrial base, utilizing technology and a high level of productivity to add value to the local economy.

Source: http://www.tatasteel.com/corporate/our-organisation/vision-mission-values/

OVER TO YOU

Activity 1: Vocabulary of strategy

Review Tata Steel's vision and mission statements in the case study above and the analysis of Johnson, Scholes and Whittington's definition of strategy (Table 1).

1. **Breakdown Tata's vision and mission under the headings described in Table 1.**
2. **Write a vision and mission statement *for you* personally (over the next 5–10 years) using Johnson, Scholes and Whittington's principles. Would this help to guide you and others in the direction you wish to take your career now and in the future?**

The business context

Approaches to strategy consider the context in which business organisations operate. Different types of business and sectors have entirely different approaches to strategy and its development.

Two major factors determine a company's approach:

1 The **nature/structure** of the business and its ownership:

Whether a corporate, with global reach or a range of SBUs, multidivisional in a national/regional context, a **small to medium-sized enterprise (SME)** or even a **microbusiness**.

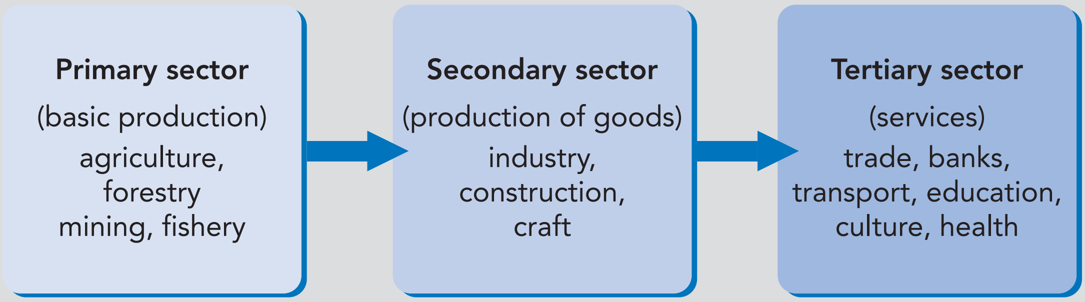
As in the Tata Steel example, most corporates publish their strategic context publicly. Reasons for this suggest concern for "**positioning**" and engendering loyalty and support from stakeholders – including investors, employees and customers, as well as wider markets and communities. They also provide clarity for strategic planning.

Less clear may be the strategic aims of an SME or microbusiness. Heavily influenced by the business owners, either entrepreneurial or with a specific skillset for which a market has been identified and demand created, SMEs follow a path determined by the views and abilities of its owners. Unlikely to be articulated fully, strategies exist, albeit limited to shorter-term intent related to profits, manageable growth and development or perhaps just survival. In these instances, communications regarding vision or values may not be evident as the focus will be, at best, customer-centric and/or sales/profit generation within a quality framework.

2 Business sector and scope of business activity:

The second major factor influencing strategy will be the business sector in which the organisation operates. Industries are divided primarily in two ways – by sector type, e.g. the food or motor industries and then by the role played in the supply chain, e.g. the primary, secondary and tertiary sectors of the economy (e.g. extraction of raw materials and agriculture; manufacturing or processing; distribution, retail and services).

> *"A supply chain is the network of all the individuals, organisations, resources, activities and technology involved in the creation and sale of a product, from the delivery of source materials from the supplier to the manufacturer, through to its eventual delivery to the end user. The supply chain segment involved with getting the finished product from the manufacturer to the consumer is known as the distribution channel."*
>
> *Margaret Rouse*[13]



Source: www.regionales.wirtschaften.de

Figure 1: Sectoral structure of an economy

Figure 1 breaks up the supply chain into the recognised primary (extractive and agricultural elements of raw material supply), secondary (manufacturing and production) and tertiary (distribution and services).

In practice, a business sector or industry will be subdivided into components, each company involved having a different business model and strategy depending on its position within that sector and its scale of operation, you can see an example below:

Industry sector:	Food
Sub-sector:	Bread
Primary sector industry:	Wheat farmer, grain mill/processor, storage
Secondary sector industry:	Bread manufacturer, e.g. bakery
Tertiary sector industry:	Distributor and retailer, e.g. transport/supermarket

Table 3: Industry sectors

13 Rouse, M. (2013), *Supply chain* (SC) [online]. Retrieved from: http://whatis.techtarget.com/definition/supply-chain [Accessed on: 24 August 2017]

So it becomes clear that the wholesale bread manufacturer with a fully-automated production facility, selling bread on a universal scale, will have an entirely different approach to and priorities for their strategy from that of the artisan baker, seen as a craftsperson with a narrow, niche market and yet both are in the same industry and at the same level of economic activity.

! NEED TO KNOW

Standard Industrial Classification (SIC)

Did you know that the Standard Industrial Classification (SIC) list originated in the USA as a means of categorising different business activities into industries and economic sectors? These classifications have been adopted widely by many countries as a means of identifying economic activity and to sort businesses into groups for taxation purposes. There are nearly 100,000 different classifications covering primary, secondary and tertiary economic activities.

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OVER TO YOU

Activity 2: Strategy in business context

Choose three companies which are related as they form a supply chain (e.g. a farm provides grain to a bakery, the bakery provides bread to a delicatessen).

Fill in the table below with the relevant information about your chosen companies based on the example provided.

Example:

Economic activity	Industry/sub-sector	Strategic aim/intent
Primary	Farm	To produce the raw material for other industries, such as vegetables, dairy, meat, grains, etc.
Secondary	Artisan bakery	To produce high-quality bread for specialist retailers and restaurants.
Tertiary	Delicatessen	To produce meals for consumers using high-quality, fresh ingredients.
Economic activity	**Industry/sub-sector**	**Strategic aim/intent**
Primary		
Secondary		
Tertiary		

1.2 Demonstrate an understanding of strategic thinking and formation in different business sectors and structures

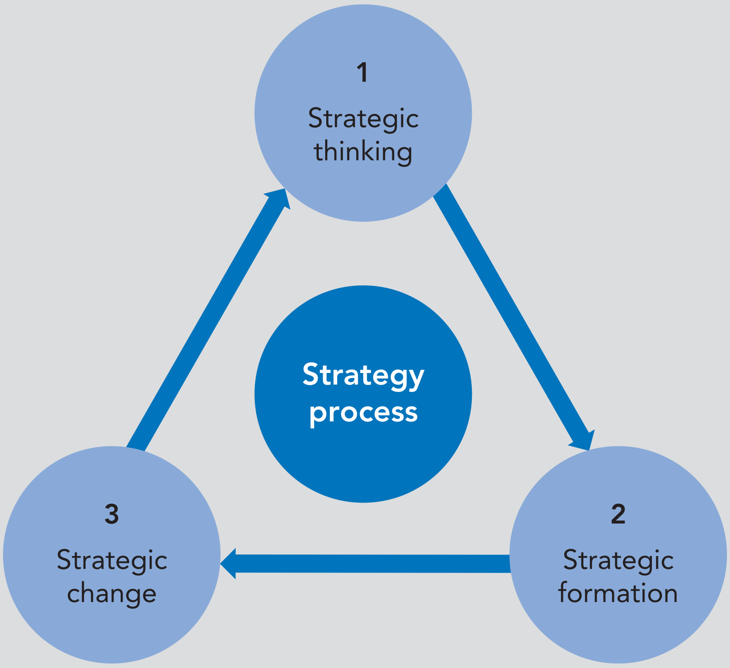


Figure 2: The strategy process

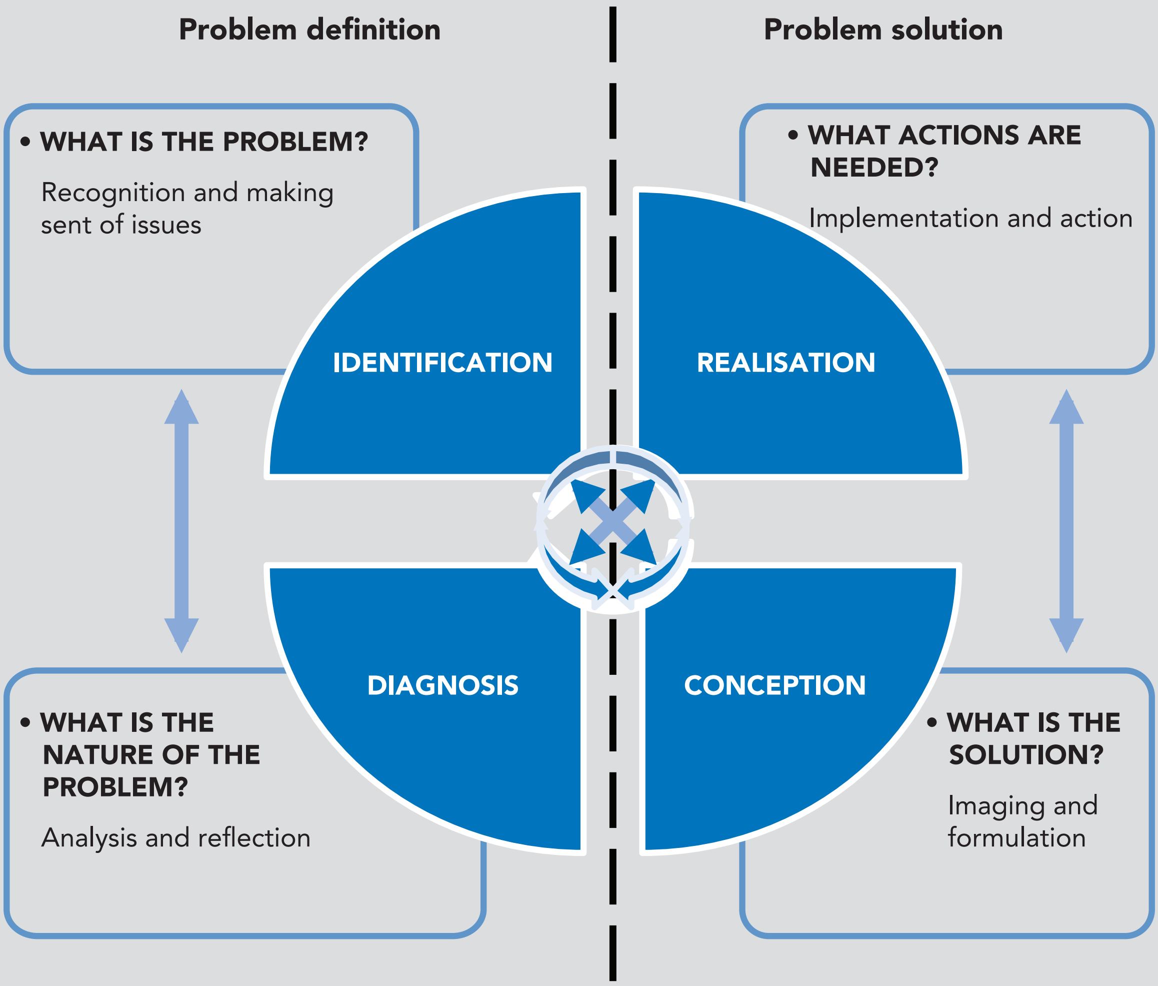
Strategy is not just about an idea for gaining competitive advantage, but the means whereby the ideas (strategic thinking) are formulated into approaches to achieving those ideas (strategic formation). Next, these are translated into specific actions to attain the goals (strategic change). In this next section, we will be focusing on the first two elements of the strategic process before considering how this will impact on different sectors and organisational contexts and structures.

Strategic thinking

Logic versus creativity

De Wit and Meyer (2004)[14] consider the most appropriate way of organising strategic thought as being through a process of reasoning, both logical and structured. They saw this process in two principal parts: the identification and diagnosis of a problem and the realisation and conception of the solution (see also Chapter 4).

14 De Wit, B. and Meyer, R. (2004), *Strategy – Process, Content, Context: An International Perspective*, 3rd edition, Thomson.



Source: Adapted from De Wit and Meyer (2004)

Figure 3: Elements of a strategic reasoning process

REVISION on the go

Most strategists and entrepreneurs would argue that intuition has a valuable role to play, sourced as it is through knowledge developed through experience, where quantification is difficult and a holistic vision hard to imagine. De Wit and Meyer regard this as a paradox between logic and creativity. It is the sense of intuition and creativity that allows the decision-making process to explore unknown futures, and without this an exclusive reliance on rationality can lead to what is known as "**paralysis by analysis**".

The tension between creative strategy development and logic has been punctuated by some seriously flawed business developments (e.g. battery fires in Samsung Galaxy Note 7). In some cases scientific discoveries, such as new insecticides to make progress in the fight against hunger, have accidentally resulted in the discovery of nerve agents such as sarin, which has been used as a deadly chemical weapon.

Equally, a lack of intuition or critical vision has highlighted some of the biggest examples of strategic short-sightedness.

CASE STUDY: LOGIC VERSUS CREATIVITY

1 **Some well-known quotes…**

- "Aeroplanes are interesting toys but of no military value."
  (Marshal Ferdinand Foch, French military general, 1919)
- "Who the hell wants to hear actors talk?"
  (H.M. Warner, co-founder of Warner Bros., 1927)
- "I think there is a world market for maybe five computers."
  (T. Watson, chairman of IBM, 1943)
- "We don't like their sound and guitar music is on the way out."
  (Decca Recording, rejecting the Beatles, 1962)
- "640K ought to be enough for anybody."
  (Bill Gates, regarding the 640KB RAM limit of computers, 1981)

https://www.brainyquote.com/quotes

What might have changed if these people had altered their views earlier?

2 **A valuable tale…**

Kodak – producer of the first digital camera, in 1977

Technology continuously changes the landscape of industry; some businesses adapt to these changes and thrive, but others continue to business in the same manner, regardless of how the industry has changed, sticking to outdated operational methods.

Kodak experienced a major technological change within the camera industry with the advent of digital camera. The Kodak company filed a patent for one of the first digital cameras (which could store images of about 100kb) back in 1977. However, the profits from film were extremely high, so they didn't pursue marketing digital technology to the public.

In later years, even when it was clear the market was moving to digital, Kodak continued to focus on traditional film cameras. When it finally got into the digital market, Kodak was making sales at a loss; yet the company still failed to make strong gains against other manufacturers who had been producing digital cameras for years.

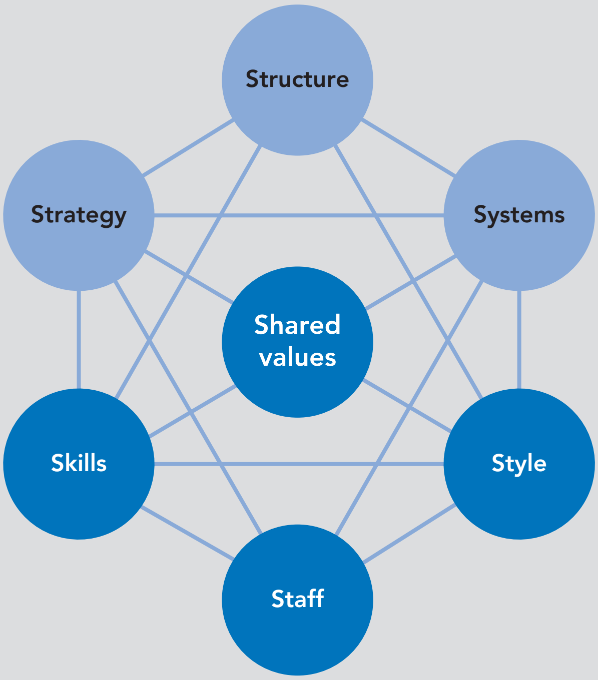
www.forbes.com/sites/chunkamui/2012/01/18/how-kodak-failed/

Organisational culture

Cultural dimensions have a major role to play in the process of strategic thinking. Organisational cultural factors are probably the single biggest influencer in strategy development. Grinyer and Spender[15] say culture is the starting point for creating strategy and if corporate performance is unsatisfactory in the strategy implementation phase, the organisation might seek to change the basis of that culture.

Rationality is high where structured, logical cultures exist. However, for an SME or an entrepreneurial company, creativity may well take the lead in how the business develops. Core values or the model/ **paradigm** of the organisation are the articulation of the embedded culture within the business. Two well-known organisational models that centre on core values or company paradigm are **McKinsey's 7S framework**[16] and Johnson, Scholes and Whittington's **Cultural Web**[17]; both are depicted below.

15 Grinyer, P. H. and Spender, J. C. (1979), *Turnaround – Managerial Recipes for Strategic Success,* Associated Business Press.
16 Waterman, R., Peters, T. and Phillips, J. (1980), *"Structure is not organization", Business Horizons, Vol. 23, Issue 3, pp. 14-26.*
17 Johnson, G., Scholes, K. and Whittington, R. (2008), *Exploring Corporate Strategy,* 8th edition, FT Prentice Hall.



McKinsey's 7S framework recognises that the source of strategy stems from the shared values (culture) of the organisation. It is perceived that the "hard" elements (strategy, structure, and systems) form part of the defined organisational infrastructure of the business.

The "soft" elements (shared values, skills, staff and style) demonstrate the more intuitive (creative) culture of the business.

Figure 4: McKinsey's 7S framework

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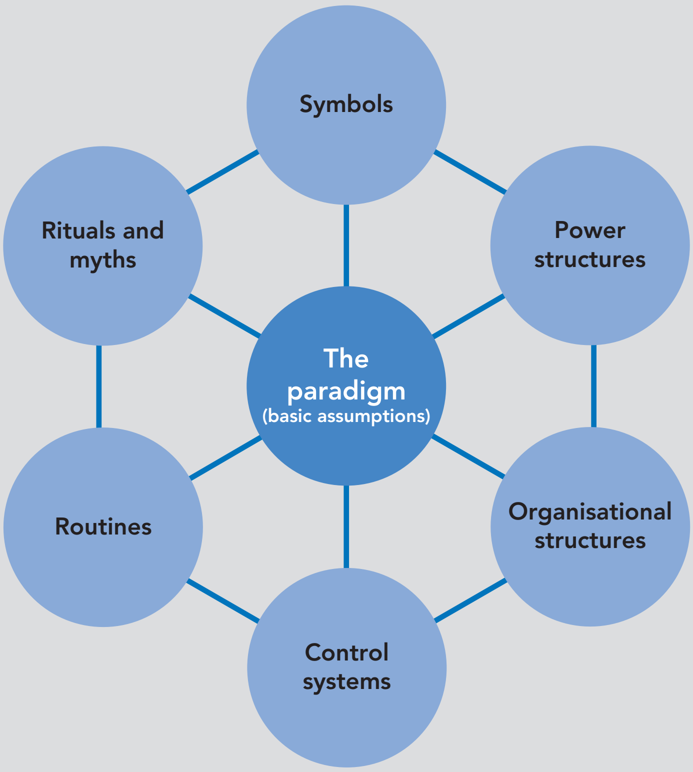


"The cultural web shows the behavioural, physical and symbolic manifestations of a culture that inform and are informed by the taken-for-granted assumptions or paradigm of an organisation." (Johnson et al. 2017)

Cultural webs exist inside **all** organisations and may have developed organically over time. Strategies to change culture can be developed, but they have to be done consciously and persistently as it is recognised to be one of the hardest change strategies to effect.

Source: Johnson, Scholes and Whittington (2008)

Figure 5: The cultural web

REVISION on the go

One of the notable differences between the 7S framework and the cultural web is that the former can be designed through strategic decisions, whereas the latter has evolved informally and represents reality rather than an idealised structure. In cultural change, the model can be used to identify which areas have to develop in order to achieve an aspirational or desirable culture.

International cultural dimensions

Another factor creating tensions between logic and creativity is strategic thinking as part of an international dimension. The Dutch social psychologist and anthropology and management professor Geert Hofstede has undertaken extensive research on the effect of national cultures on organisational behaviour, identifying a number of distinctive cultural dimensions, including:

1. **Power distance (PD)**: Identifies cultures of equality and inequality within organisations. Countries displaying high levels of PD include Hong Kong, Iran, and Spain, whereas those with low PD include Germany, Australia and USA.
2. **Uncertainty avoidance (UA)**: Reflects the propensity of a national culture to feel threatened by uncertainty. High UA characteristics are displayed by France and many Latin American countries, whereas the Netherlands and Scandinavian countries show low to medium UA.
3. **Individualistic cultures (I)**: Concerns the focus some nations have on individualistic behaviour as opposed to collective behaviour in society. USA and UK display highly-individualistic characteristics. In contrast, Portugal, India and Greece take a collective approach.
4. **Masculinity (M)**: Refers to those characteristics perceived to be masculine, such as assertiveness and competitiveness (e.g. Italy, Germany, Japan), or those with more perceived feminine traits including caring, quality of life and concern for the environment (e.g. the Netherlands and Scandinavia).

! NEED TO KNOW

Clearly, influence from the dominant national culture in an organisation will have a direct impact on the thinking of the strategist. While some companies make conscious efforts to be culturally neutral, particularly where they have a global presence, others take on the mantle of the pervading or most influential culture. In these instances, organisations will adopt one of three categories.

Ethnocentric culture – where the organisation adopts the dominant culture – in a **multinational corporation (MNC)** this would normally be the originating country. However, there could be a conflict with the demands of a largely domestic workforce.

Polycentric cultures – where multiple cultures are allowed to develop within the organisation depending on where individual SBUs are located. In other words, each SBU would be run as a domestic business.

Geocentric culture – a hybrid version seeking to link the philosophy of the corporate head with recognition for the need for independent operations in a subsidiary.

REVISION on the go

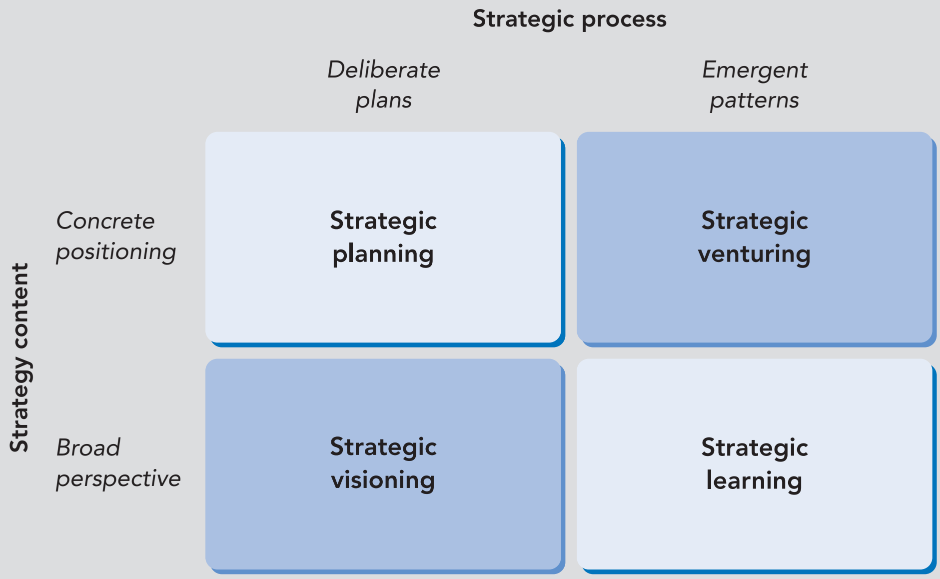
Strategy formation

If approaches to strategy and strategic thinking can be diverse, the strategic formation is equally complex and almost entirely dependent on the nature of the organisation, its market place and the structure of the business. Mintzberg et al.[18] divided the strategy process into 10 areas based on one of two principles: process-driven (prescriptive) and approach-driven (descriptive).

18 Mintzberg H., Ahlstrand, B. and Lampel, J. (2009), *Strategy Safari*, 2nd edition, FT Prentice Hall.

The former comprises design, planning and positioning and the latter suggests strategy formation is driven by organisational cultural characteristics, such as: **entrepreneurialism**, cognition, learning, power, culture, environment (**market-led**) and configuration (patterns of organisation). This is reviewed in more detail in Chapter 4: Strategic decision-making.

You will recall at the beginning of this chapter we referred to Mintzberg's five Ps of strategy – plans, patterns, positions, perspectives, and ploys. Putting aside "ploys", Mintzberg also linked these to the schools of strategy formation as well as the development of strategy itself (see Figure 6 below).



Source: Adapted from Mintzberg et al.[18]

Figure 6: Approaches to strategy formation

Strategy in context

Learners are reminded that although strategic thinking and formation are governed by the business sector and the stage in the supply chain, differences exist as a result of individual cultures, leadership, size, and stage of development. Nonetheless, patterns emerge indicating a type of group-think in the way that some industries/sectors develop. Issues and change drivers are often the same for players in the market and significantly, key employees will have knowledge and experience often from employment with a number of different organisations and competitors operating in a particular sector.

School	Strategy formation process	Characteristics
Design	Conceptual	Prescriptive and formulaic, strategies are based on values and are rarely changed – simple, informal and easily communicated. The "little black dress" of the strategy world, the design school principles are generally embedded in both planning and positioning schools.

19 Mintzberg, H., Ahlstrand, B. and Lampel, J. (2009), *Strategy Safari*, 2nd edition, FT Prentice Hall.

School	Strategy formation process	Characteristics
Planning	Formal	Prescriptive, procedural and deliberate, based on objectives drawn from the business environment, developed through a hierarchy of management (corporate, business, functional and operations).
Positioning	Analytical	Prescriptive and generic to the organisation. Strategies are developed through modelling, such as scenario planning or applying tools such as Porter's five forces and the **Boston Consulting Group growth-share (BCG) matrix**[19].
Entrepreneurial	Visionary	Descriptive, personal and almost entirely driven by the leader. Usually based on intuition, judgement, wisdom, experience, and insight. Gives a sense of direction, is flexible and subject to change.
Cognitive	Mental	Descriptive, subjective and interpretive. Decisions are based on knowledge, experience and thought processes to engineer/construct the business strategy and then test it.
Learning	**Emergent**	Descriptive – based on how actions have been taken or developed. Sometimes known for logical incrementalism – building in small steps, often reactive and responsive to events, but may embrace internal initiatives or ventures championed by individuals and not necessarily management.
Power	Negotiation	Descriptive, based on relationships, influence and market place politics; characterised by coalitions and networks, game-playing and manoeuvre.
Cultural	Collective	Descriptive based on collective cognition through social interaction and shared beliefs; organisational resources form the foundation of competitive advantage.
Environmental	Reactive	Descriptive, subordinate and responsive to the external environment (outside-in or market-led). Rooted in contingency management theory that strategy depends on the situation.
Configuration	Transformative	Descriptive based on periods of well-defined stability and structure through patterns and sequences, interspersed with periods of transition that transform through change into another structure or configuration.

Source: Adapted from Mintzberg et al. [20]

Table 4: Ten schools of strategy formation

20 Cited in Johnson, G. Whittington, R., Scholes, K., Angwin, D. and Rener, P. (2017), *Exploring Strategy*, 11th edition, Pearson.
21 Mintzberg, H., Ahlstrand, B. and Lampel, J. (2009), *Strategy Safari*, 2nd edition, FT Prentice Hall.

Well-established corporations in a relatively stable sector, characterised by high investment and capital projects, focus on Mintzberg's prescriptive strategies (e.g. planning and positioning) but are mindful of the influence of power in established networks (e.g. large-scale civil engineering or construction).

However, the technology entrepreneur, having made millions exploiting social media, will adopt an entirely different approach. The strategy is likely to be visionary, entrepreneurial and emergent.

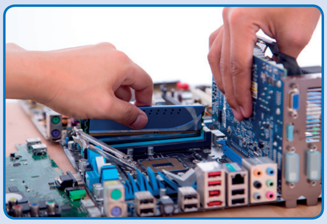
National high street retailers have to react to threats from internet-based providers. They may consider a range of positioning, learning, power, negotiation, environmental and configuration in response to an imminent threat.

High profile organisations, such as Tata Steel, may have vision, but cognitive, power, planning and environmental strategies must all play a part in strategy development.

CASE STUDY: STRATEGY IN CONTEXT – DELL'S BUSINESS MODEL

Dell's business model, "**assemble to order**", gave it predominance in the market. It forced Compaq and HP to merge and others to drop out of the market.

Source: http://www.dell.com/learn/us/en/vn/corp-comm/cr-ca-business-model



OVER TO YOU

Activity 3: Strategy development in different contexts

This activity is all about identifying different approaches to strategy development based on:

- **business sector;**
- **level of economic activity – primary, secondary, tertiary;**
- **size and scope of business.**

Tasks:

1. **Identify three business sectors which are of interest to you and about which you should have some knowledge. You could consider retail, manufacturing, agriculture, petrochemicals, technology, pharmaceuticals, etc.**
2. **Identify the types of sub-sectors or businesses that operate at each of the economic levels of activity (primary, secondary, tertiary). Identify specific companies you can research for each level. Try to use a variety of large companies and SMEs.**
3. **Based on Mintzberg's 10 schools of strategy development, consider what approaches each organisation has taken to strategy formation. Why do you think these approaches have been taken?**
4. **Are there similarities between different levels of economic activity, the nature of the sector, the size of the business? Why do you think this is?**

1.3 Evaluate approaches to strategic development in different contexts and circumstances

Earlier, we discussed strategy concepts and how they may differ in execution dependent upon factors, some of which are uncertain and rely upon the industry, structure, and scope of activities; others concern situational factors, especially organisational culture and leadership. In this section, we shall examine how these factors manifest themselves in an overall approach to strategy development. We will also consider the drivers for change that encourage – and in some cases, force – development.

Strategic approaches

Organisational attitudes

At the core of an organisation's strategic approach is a paradox – the choice between a strategy that focuses on markets as opposed to one that focuses on resource leverage. In other words businesses that look outward for long-term value from customers as opposed to those relying on their own strengths and internal resources to provide an effective/efficient offer to the marketplace. This is known as outside-in or inside-out strategy. Fundamentally, it is the drive to deliver value to customers (outside-in) or alternatively value to shareholders (inside-out). Mintzberg et al.[22] perceive this as the positioning school of strategy formation, but if these approaches are based on core or shared values (as articulated in a vision or mission statement), then they will become the perspective for the foreseeable future.

22 Mintzberg, H., Ahlstrand, B. and Lampel, J. (2009), *Strategy Safari*, 2nd edition, FT Prentice Hall.

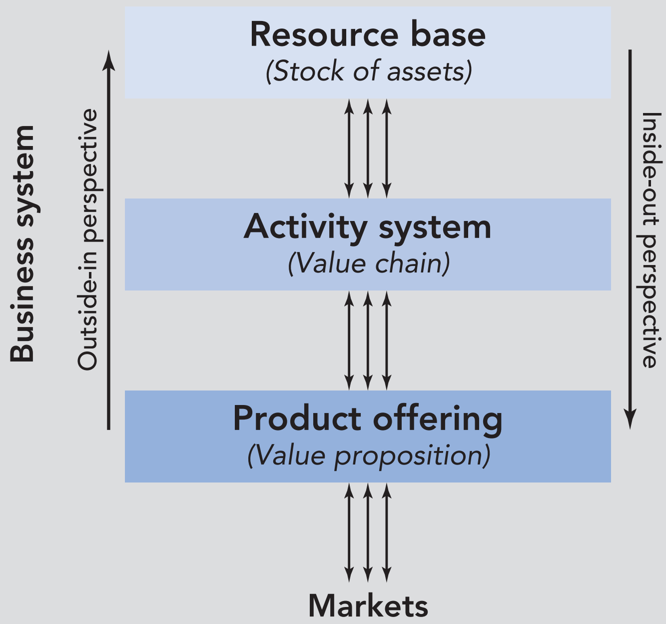
Market-led (outside-in)

A manager's focus is about adapting to the demands of the market, using insight, market intelligence, and business environmental analysis to foresee market direction and identify attractive opportunities. The organisation's energies are directed towards satisfying market demands, building a resource and capability base, and responding to market changes to gain competitive advantage.

Resource-based (inside-out)

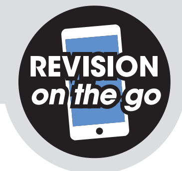
Managers adopting a **resource-based** approach believe that strategies should be centred on the strengths of the company, its resources and competences. These then drive product development first and foremost before seeking the markets in which to sell them.

At first glance, these two perspectives are opposites, but both styles form part of the business system and complement each other. After all, market demand without goods to satisfy is no more viable than a well-resourced company without a market to sell to.



Source: Adapted from De Wit and Myer (2004)[25]

Figure 7: Market-led vs resource-led business systems

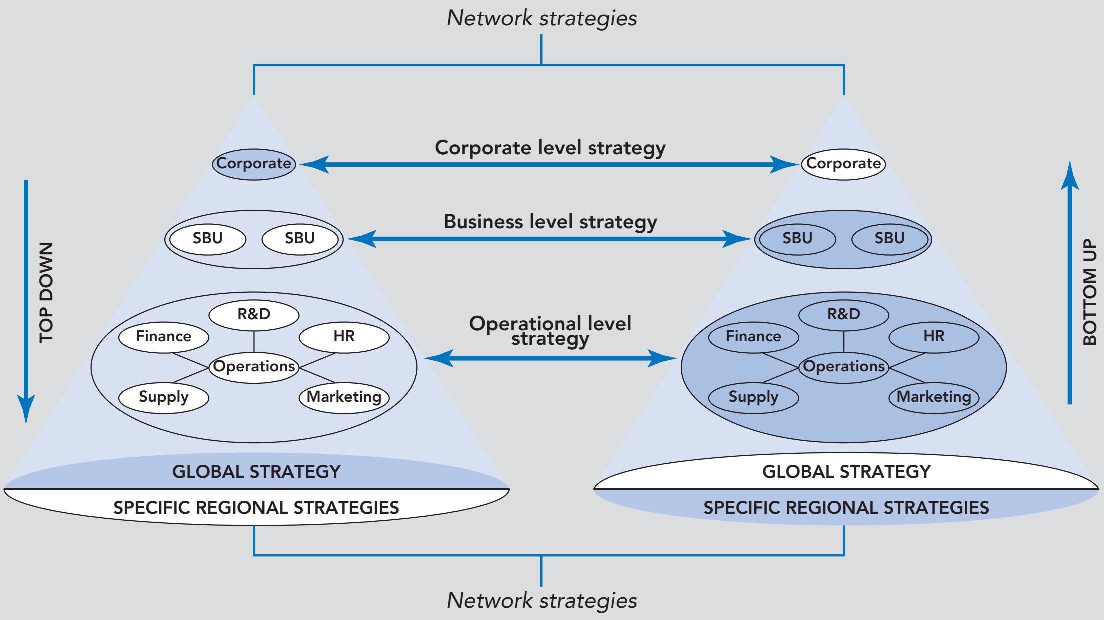


Strategy structures

The strategic hierarchy

The corporate structure, organisational activity levels (corporate, business and operational) and corporate- and supply-chain networks are all part of a **strategic hierarchy**.

23 De Wit, B. and Meyer, R. (2004), *Strategy: Process, Content, Context – An International Perspective*, 3rd edition, Thomson.



Source: Adapted from Hahn (1991)

Figure 8: Strategy development – the strategic hierarchy

Traditional or corporate enterprises with established and structured businesses will often take a **top-down** approach to strategy development. In effect the corporate head takes responsibility for direction – however big or diverse the SBUs are. Inevitably, such a business will also have a holistic view of strategy. Strategies developed under such a regime will appear consistent, with SBUs conforming to a global strategy, potentially leading to a one-size-fits-all business, however diverse its components. Conversely, the organisation which has a **bottom-up** approach tends to be more democratic, focusing on regional strategies as oppose to global business-thinking. Those in the top-down hierarchy are expected to conform to direction from above, whereas in bottom-up, it is likely, depending on the level of interest from above (some might say – interference) that the direction will be driven by business and operational management. In this case, at best the **corporate parent** will act as a facilitator (the network provider). In this instance the scope of strategic activities may be limited to geographical or sector interests. For example, The Virgin Group is an international corporate **conglomerate** investor in consumer sectors of travel and leisure, telecoms and media, music and entertainment, financial services and health and wellness. Each company within the group will be responsible for its own geographical and sector strategy.

Corporate structures

It is worth considering the nature of the relationship between the corporate head and its various subsidiaries (SBUs). The first stage in understanding this process is an examination of the roles and activities of each of the corporate hierarchy components. In Figure 9 below, there are three types of corporate business structures.

1 The **macro-pyramid** model – the corporate operates as a single business with strategic, management and operational activities. It directs its subsidiaries in a controlled hierarchy. The subsidiaries may have responsibility for management and operational activities, but report directly to the corporate head, who oversees all strategic activity. In this instance, interactions between multiple subsidiaries are limited and most communications funnelled through the corporate parent. Examples are likely to be multisite organisations with a single business activity, such as a large retailer like Walmart.

2 The **umbrella model** – both corporate and business levels have responsibilities for strategy, management, and operational activities. The SBU is likely to be responsible for specific regional direction. The head office provides facilities and support for common services, including human resource management, marketing support, financial, and accounting services, information and technology structures as well as procurement. Communication will be two-way between the corporate head and the SBU with a direct interface with the services. In many cases, there will be little interaction between individual SBUs unless they are part of the same supply chain with activities co-ordinated through central services. Examples of organisations that operate in this manner include LexisNexis, motor manufacturers such as Peugeot and Nissan and of course relationships between franchisors and franchisees such as McDonald's and Subway, where the business design is formulaic.

3 Inter(national) conglomerate – most likely to operate on a global scale, the corporate directorate has a limited strategic role to play; their *raison d'être* is investment and share markets. To this end, they have little part to play in the strategic, management and operational activities of individual SBUs. Expectations are concerned with **return on investment (ROI)** and profit maximisation. Targets are set with expectations that these will be realised – how this is to be achieved will be of little interest. The SBUs will often be diverse in nature and likely to have little in common with others in the portfolio. Any potential linkages will be exploited directly between SBUs. Examples are The Tata Group (India) and Fosun International (China).

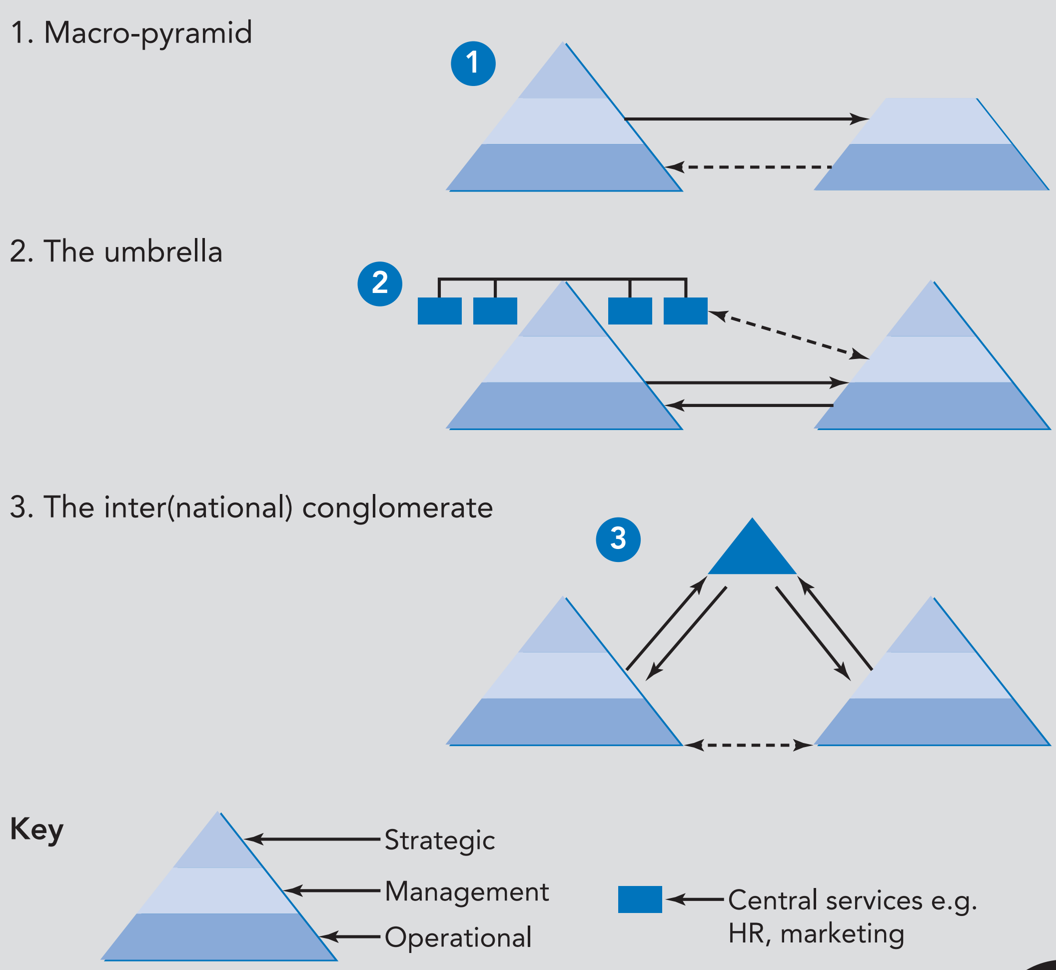


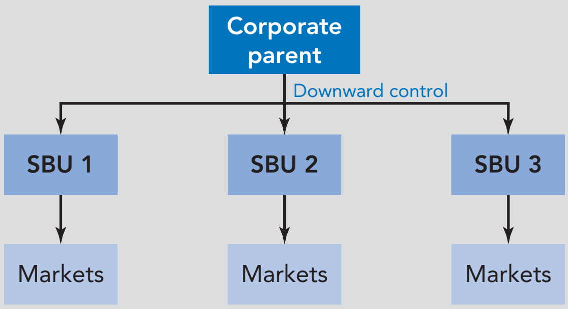
Figure 9: Corporate hierarchy and structures

REVISION on the go

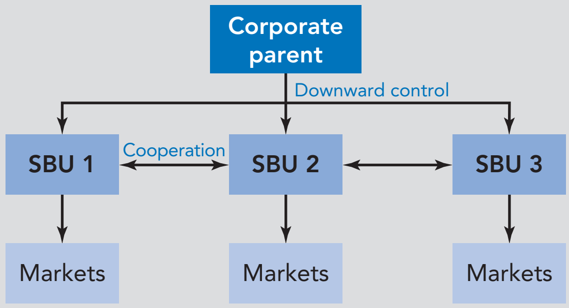
Corporate parenting

Closely linked to the corporate hierarchy above, is the role of the corporate head in its relations with the individual SBUs. Patterns of control emerge based on organisational format/structure, or make-up of the individual SBUs, corporate leadership, and culture. Figure 10 illustrates examples of the main types of corporate parent – the portfolio manager, **synergy** manager and parental developer. In (1) there is a hierarchical distance between parent and child – much as we saw with the international conglomerate, (2) more closely links to the macro-pyramid, whereas (3) may relate more directly to the umbrella model. However, there is a warning that each organisation should be considered individually as generalisations often have a habit of being wrong or unhelpful.

1. **Portfolio manager**
   The corporate parent directs individual SBUs who have no, or limited, commonality with others in the group. Downward control is usually target-driven, focusing on financial targets.



2. **Synergy manager**
   Although the corporate parent directs strategy for the SBUs, it endeavours to find commonality and synergy between the various members to encourage economic of scale and complementary and beneficial ways of working.



3. **Parental developer**
   The corporate parent cooperates closely with all the SBUs, supporting and encouraging them to work with each other. The objective is to develop relationships so that all the components of the business proactively work together for individual SBU and corporate success.

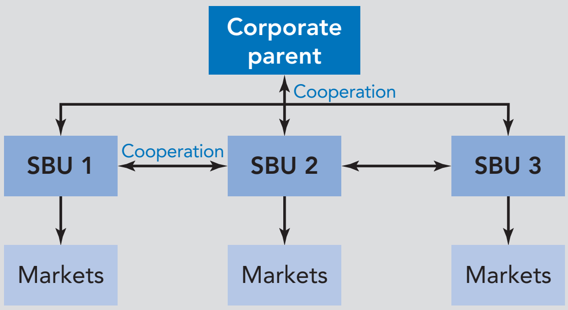


Figure 10: Role of corporate parent

CASE STUDY: FOSUN INTERNATIONAL LTD.

Key facts

Fosun International has over 35 different subsidiary companies, with interests in diverse industries and countries including China, Hong Kong, Luxembourg, Portugal, UK, and USA. With a turnover of US$12bn and 56,000 employees, it features as number 434 in Forbes, top 500 companies.

Fosun International Ltd. engages in the manufacturing and selling of pharmaceutical and healthcare products, property development, manufacture and sale of iron and steel products, mining and ore processing of various metals, asset management, operation and investment in the insurance business and various other investments.

The business operates in insurance; pharmaceuticals, healthcare and cosmetics; property; steel; mining; retail, leisure and media service; finance and other investments; asset management.

The insurance **segment** engages in the operations and investments in the insurance sector. The pharmaceuticals and healthcare segment is involved in the research and development, manufacturing, sale and trading of pharmaceutical and healthcare products. The property segment is engaged in the development and sale of properties in China. The steel segment engages in the manufacturing, sale and trading of iron and steel products. The mining segment is involved in the mining and ore processing of various metals. The retail, services, finance and other investments segment comprise, principally, the management of investments in retail, service, finance and other business. The asset management segment operates through the platform as corporation funds, partnership funds and trusts. Fosun International was founded on 24 December 2004, and is headquartered in Shanghai, China.

Case study: https://www.forbes.com/companies/fosun-international/

Strategy drivers

Business experts and authors confirm that the drivers which significantly influence strategy development stem from external pressures – business environmental and/or sector changes – or internal influences, such as changes in leadership or business circumstances. Most would agree that external factors probably have the greatest influence on an organisation's decision to change or develop new strategies (external challenges are discussed in later chapters in more detail). These then affect decisions relating to internal structures, organisation and operations with consequent impact on markets – customers, competitors, suppliers etc.

We can infer that strategy development is a reactive rather than proactive process. Yet, organisations having insight into future trends, accurately predicting change or forecasting futures with a likelihood of success are simply in a better position to adapt, reconfigure and resiliently follow a new direction.

The strategy lenses

Johnson et al. (2017)[24] discuss three key dimensions of managing strategy – rationality (logic and structure) **innovation** (ideas and change-driven concepts) and legitimacy (analysis and discourse sustaining managerial power). These are put into the context of strategy development through four different perspectives, known as the **strategy lenses**).

24 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017), *Exploring Strategy,* 11th edition, Pearson.

	Design	Experience	Variety	Discourse
Strategy develops through…	Logical process of analysis and evaluation.	Experience, assumptions and taken-for-granted ways of doing things.	Ideas coming from a variety of people in and around the organisation.	Managers seeking influence, power, and legitimacy through the language they use.
Assumptions about organisations	Mechanistic, hierarchical, rational systems.	Cultures based on experience, legitimacy and past success.	Complex, diverse and spontaneous systems.	Arenas of power and influence shaped by discourse.
Role of top management	Strategic decision makers.	Enactors of their experience.	Creators of context.	Manipulators of language.
Key implications	Undertake careful and thorough analysis of strategic issues.	Recognise that people's experience is central but also needs challenging.	Be sensitive to ideas from the bottom, the periphery and even outside the organisation.	See through the strategy language to uncover hidden assumptions and interests.

Source: Johnson et al. (2017)[27]

Table 5: The strategy lenses perspectives

REVISION on the go

Strategic drift

Well-performing organisations often go through extended periods of equilibrium where little development (or growth[26]) occurs. Johnson, Scholes and Whittington (2008) and others suggest this period be described as **strategic drift**.

> *Strategic drift is the tendency for strategies to develop incrementally on the basis of historical and cultural influences but fail to keep pace with a changing environment*
>
> *Johnson, Scholes and Whittington (2008)*[27]

For a large, successful business, strategic drift occurs after periods of sustained achievement. This often results from complacency, **market myopia** or managerial/organisational inertia. Most companies go through such phases. Their ability to survive and reignite previous success depends on the strength of market share, resource infrastructure, and the timely exploitation of strategies and managerial capabilities to develop radical measures to refocus organisational direction.

The concept of **industry/sector life cycles** says that eventually all businesses die, but that is not strictly true. Some industries are just better at innovating and redirecting their energies to take the lead or respond to changes in the business environment.

25 Johnson, G., Whittington, R., Scholes K., Angwin, D. and Regnér, P. (2017), *Exploring Strategy,* 11th edition, Pearson.
26 Note: growth in this context is real growth, i.e. in excess of inflation or gross national/domestic product of the country and market
27 Johnson, G., Scholes K. and Whittington, R. (2008), *Exploring Corporate Strategy,* 8th edition, FT Prentice Hall.

Innovation

> *Innovation involves deliberate application of information, imagination and initiative in deriving greater or different values from resources, and includes all processes by which new ideas are generated and converted into useful products.*
>
> *www.businessdictionary.com*[28]

Innovations can be divided into two groups:

- **Evolutionary innovation** – continuous or dynamic evolution, often related to the development of technology, leading to different ways in which the business processes its activities e.g. automated production and distribution.
- **Revolutionary innovation** – discontinuous or radical change that disrupts the market, e.g. social media and online business models.

In both, innovation spells risk with an unpredictable outcome. However, revolutionary products and technologies bear the greatest **risk** because they open up new, unproven markets with high development costs and great uncertainty. **Market followers** or imitators take much less risk as the innovation has been partly established. Examples: IBM with its PC against Apple Computer, Compaq with its cheaper PCs against IBM, and Dell with its even cheaper clones against Compaq.

Contemporary challenges

Macro-environmental developments have always been the main cause for the strategic change in organisations, however large or small. Many business students analyse the business environment through the acronym **PESTLE**, an analysis tool used by marketers and strategists to monitor the external marketing environment and its impact on an organisation. In this section, key macro-environmental themes impacting on all businesses are highlighted. There is a general perception that when building a future strategy, organisations should be responsive to these, but will have little influence over their progress. In the case below, it is clear that companies whose income exceeds many national **GDPs** and state revenues, have influence in the wider **macro-environment** and sometimes, because of the sectors in which they operate, can drive the future of the global macro-environment covering all areas of the PESTLE analysis.

! NEED TO KNOW

PESTLE is an acronym describing the external factors that will affect business strategy and decision-making. The acronym stands for Political, Economic, Social/demographic, Technological, Legal and Environmental. All businesses are affected by these factors though impact will differ depending upon the sector and nature of the business. The PESTLE is often known as the uncontrollable macro- or external factors as a company usually has little control over them, but must respond in its policies and procedures. Occasionally a very large corporate will have significant influence in these areas – particularly when innovative technology can change the way in which the external environment operates.

REVISION on the go

28 Business Dictionary n.d., *Price to earnings (PE) ratio* [online]. Retrieved from: http://www.businessdictionary.com/definition/price-to-earnings-PE-ratio.html [Accessed on: 24 August 2017]

CASE STUDY: THE POWER OF THE CORPORATE GIANT

1. Walmart (10)
2. State Grid (14)
3. China National Petroleum (15)
4. Sinopec Group (16)
5. Royal Dutch Shell (18)
6. Exxon Mobil (21)
7. Volkswagen (22)
8. Toyota Motor (23)
9. Apple (25)
10. BP (27)

The table lists the top 10 global corporates by revenue. The numbers in brackets represent their position if ranked against a list of the world's global economies. Walmart would sit in tenth position in the world. The State Grid (of China) comprising three separate Chinese companies would sit fourteenth. All three companies have greater annual revenue than South Korea (US$300bn). Royal Dutch Shell comes ahead of Mexico and Sweden, while Exxon Mobil, Volkswagen, and Toyota Motors are bigger than India's state revenue. Likewise, Apple and BP exceed the state revenues for Switzerland, Norway, and Sweden.[28]

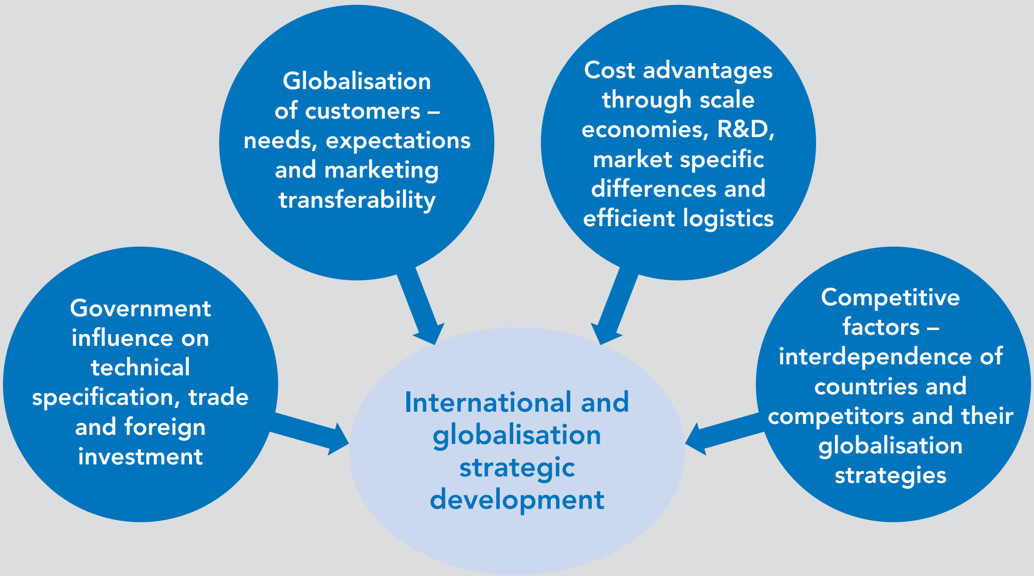
Source: Global Justice Now (2016), 10 biggest corporations make more money than most countries in the world combined [online]. *Retrieved from: http://www.globaljustice.org.uk/news/2016/sep/12/10-biggest-corporations-make-more-money-most-countries-world-combined [Accessed on: 17 August 2017]*

The influence of economic globalisation

Arguably, since one tribe traded with another, transporting raw materials, agricultural produce and goods from one place to another, there has been a march towards **globalisation**. The western industrial revolution during the 18th and 19th centuries created powerful big businesses which fuelled worldwide trade. This retrenched because of the two world wars in the early and mid-20th century. However, the end of hostilities in 1945, spawned a number of global agreements and organisations, such as the **International Monetary Fund** (1945) and the **General Agreement on Tariffs and Trade (GATT)**, which was then superseded by the **World Trade Organisation (WTO)** in 1994 – leading to an expansion of global economic development. The rise of the internet and technology-enhanced mass media communications has transformed consumer lifestyles and expectations, and the way we produce, buy, and sell our products and services.

Yip (1995) identified a number of factors that determine the extent to which an industry/sector embraces globalisation.

29 Figures are based on government revenue and in some cases GDP is significantly higher (e.g. Russian GDP is in excess of US$1.3trn).



Source: Yip (1995)[29]

Figure 11: Drivers of global strategy

Dominant **MNCs** in search of scale economies and sourcing efficiencies have been able to benefit from incentives offered by national governments – by relocating production facilities to low-cost countries while selling profitably to wealthy industrial economies. Currently, public dissatisfaction with the relentless globalisation of trade and market control abound. Chief among these are accusations that emerging and developing nations show bias towards the established rich nations; there is unscrupulous exploitation of indigenous resources (raw materials) workforce (parity of pay – i.e. workers in developing countries receive very little pay in comparison with counterparts in developed countries); homogenisation of goods and services that fail to promote culturally-specific style or product preference. Most recently, societal and political changes have shown a public-wide dissatisfaction with the ever-increasing inequality between rich and poor.[31] "With the richest 10% owning 87% of all the country's wealth, Russia is rated the most unequal of the world's major economies."[32]

The rise in **trading blocs** (there are over 20 registered trading blocs at present)[33] has partly supported globalisation. More recently, these trading blocs, often developed due to geographical expediency and common cultures and language, have started to revaluate global patterns of trade to support regional strategies.

While protectionism has always existed, the opening up of markets and free trade (left to its natural course without tariffs, quotas, or other restrictions) particularly between partners of a trading agreement has been welcomed. Political changes in areas such as the **European Union (EU)** including Britain's exit from the EU (**Brexit**), the slogan "America First" adopted in the 2016 US

30 Adapted from Yip, G. (2003), *Total Global Strategy II,* FT Prentice Hall, cited in Johnson, G., Scholes, K. and Whittington, R. (2008), *Exploring Corporate Strategy,* 8th edition, FT Prentice Hall.
31 Allen, K. (2017), *"ILO warns of rise in social unrest and migration as inequality widens"* [online]. Retrieved from: https://www.theguardian.com/business/2017/jan/12/ilo-warns-of-rise-in-social-unrest-and-migration-as-inequality-widens [Accessed on: 24 August 2017]
32 Walker, S. (2017), *"Unequal Russia: is anger stirring in the global capital of inequality?"* [online]. Retrieved from: https://www.theguardian.com/inequality/2017/apr/25/unequal-russia-is-anger-stirring-in-the-global-capital-of-inequality [Accessed on: 24 August 2017]
33 Bacchus, R. (2017), *"REGIONAL TRADE BLOCKS, TARIFFS AND TRADE BARRIERS"* [online]. Retrieved from: http://www.rosalienebacchus.com/articles/RegionalTradeBlocks.html [Accessed on: 24 August 2017]

presidential election, ongoing political strife in the Middle East and uncertainties created when trade and business activity generally is linked to politics (including nationalism, movement of people, arms trade, cyber-attacks), all signal a threat to the uncontrollable growth of globalisation. Now, the challenge is now more about trying to achieve corporate demands yet recognising, celebrating and promoting local needs. This is known as **glocalisation**.

Mega-trends

Study in 2016 by the multinational services network, Price Waterhouse Cooper (PWC)[34] identified five major global shifts affecting how the world population will live and work. A snapshot from this and the PWC team's predictions for global challenge and change are highlighted below:

1. **Social/demographic change** – set to rise by 1 billion by 2030, the world's population growth will focus on Africa, with a decline in developed countries. Ageing population ratios will have a huge impact on social and welfare policies.
   - Examples:

     Average age = Japan 53; Nigeria 23.

     Ratio of working age adults vs retired – Japan 1.5:1; Nigeria 15:1.

   Other challenges:
   - increasing gap between the very richest and the very poorest;
   - rise in youth unemployment;
   - a rise in women in the workforce and the economic benefits from having more women working at board level;
   - higher levels of economic migration[35]
   - attitudes to multicultural and pluralistic cultures.
2. **Urbanisation** – the global urban population increases by 1.5 million every week. With 85% of GDP generated from cities, governments need to create the infrastructure to support this population growth. In developed cities the focus is on the environment (including to reduce pollution) and improving quality of work and life, transport, and smart technology. In sub-Saharan Africa, where there is increased drought and more extreme climatic change, more pressing issues exist about ensuring security and stability, accessing education and adequate housing, water, and electricity as well as food and medical care
3. **Shift in global economic power** – by 2050, India could replace the USA as the second largest economy. Since 2014, commodity prices have collapsed slowing the growth of emerging economies such as China and dampening demand; in Africa the world's poorest, dependent on commodities such as oil, gas and minerals, have been devastated by the price collapse.
4. **Climate change and resource scarcity** – by 2030 global demand for food, water and energy will be up by 35%, 40%, and 50% respectively; global warming and the subsequent rise in sea levels will force 150–200 million people to relocate – a phenomenon known as environmental refugees. The continued rise in burning fossil fuels, CO_2 and other gases will drive the search for renewable energy sources e.g. potential water shortages (only 25% of fresh water can be accessed currently).
5. **Technology drivers** – adoption of digital and mobile technologies e.g. 12% of the adult population in Sub-Saharan Africa have a mobile money account whereas only 2% have it worldwide. Traditional forms of business selling through intermediaries, such as retailers, are

34 Lancefield, D. (2017), *"Megatrends: 5 global shifts changing the way we live and do business"* [online]. Retrieved from: https://www.pwc.co.uk/issues/megatrends.html [Accessed on: 24 August 2017]
35 For example: 93% in Africa, 81% in Latin America and 74% in the Middle East all saying that they would like to work outside their home country at some point in their career.

being wiped out by direct online channels; social media, artificial intelligence, and digital connectivity. All are now an increasing part of daily experience and expectations, which has seen sector growth in data management, fuelled by an explosion of information.

OVER TO YOU

Activity 4: Strategy formation trends

Select a multinational organisation of your choice, with diverse business interests.

HINT: You may wish to use Tata Steel, Fosun International or one of the other top international conglomerates on which to base your research.

Tasks:

From the information you have researched about your selected company:

1. **Identify the range of activities in which they are involved, group them into appropriate sectors and create an organisational structure. Suggest the nature of the corporate structure and the role taken by the corporate parent.**
2. **Evaluate the likely importance and impact of the global challenges identified in Section 1.3 at a:**
    - **a) corporate-level (the parent)**
    - **b) business-level (the SBUs and subsidiary groups/sectors).**

READING LIST

- De Wit, B. and Meyer, R. (2004), *Strategy: Process, Content, Context,* 3rd edition, Thomson Learning.
- Johnson, G., Scholes, K. and Whittington, R. (2008*), Exploring Corporate Strategy, 8th edition,* FT Prentice Hall.
- Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017), *Exploring Strategy*, 11th edition, Pearson.
- Mintzberg, H., Ahlstrand, B. and Lampel, J. (2009), *Strategy Safari*, 2nd edition, FT Prentice Hall.

Summary

In this first chapter of the study guide, we have covered the following:

- Strategic concepts: definitions, characteristics, levels of strategy within business contexts.
- The strategy process: strategic thinking and the tensions between logic and creativity, organisational and international cultures, how strategies are formed and comparisons between deliberate and emergent strategies.
- Strategy development: drivers and challenges, the paradox of approaches and corporate structures, the dynamic contemporary global forum.

While business experts may present different perspectives, most agree that "one-size" certainly does not "fit-all". While patterns of strategic approaches emerge based on sector, business circumstances and life cycle, global challenges in an increasingly, technologically-connected world will impact, almost universally, on strategy development. Although this chapter has focused on the global business perspective, these challenges have resonance for even the smallest business in the most remote and economically-emergent nation.

In this chapter, learners have been asked to critically evaluate strategic concepts and different approaches to strategy in diverse, contemporary and challenging business contexts. We have looked at concepts of business organisations, frameworks, and foundations on which strategy is developed, looking at issues of ambiguity, complexity and uncertainty to contribute to a debate – not only concerning the very nature of strategy but why, how and the basis on which it is formed.

Chapter 2

Assessing Capability

Introduction

> *Both the business environment and individual firms are dynamic systems, constantly in flux, achieving a fit between the two is an ongoing challenge.*
>
> *De Witt and Meyer (2004)*

In Chapter 1, we looked at concepts and different approaches to strategy in diverse, contemporary and challenging business contexts, identifying the paradox between market-led and resource-led approaches (outside-in and inside-out perspectives). This paradox is about developing managerial strategies to achieve a strategic fit or alignment between the organisation and its markets, however this is to be realised.

The strategic capability has been defined as the "business' ability to successfully employ competitive strategies that allow it to survive and increase its value over time."[35] It is universally accepted that effective assessment of that capability can only take place once there is completion of:

- analysis of the issues affecting the current and future external macro-environment;
- evaluation of developments in the industry/business sector and markets in which the organisation operates;
- internal appraisal of the resources, competences and its configuration (business model).

In this chapter, we shall examine these three elements by applying a variety of techniques and models to enable assessment of key issues, the establishment of strategic position and businesses capability to survive, compete and grow in a dynamic and changing global economic environment.

Learning outcome

On completing this chapter, you will be able to:

2 Critically assess an organisation's capability to respond to changes and developments in the business environment

Assessment criteria

2 Critically assess an organisation's capability to respond to changes and developments in the business environment

2.1 Interpret relevant changes and developments in specified industry sectors and business structures

2.2 Critically discuss current issues which could affect strategic development for a specified sector

2.3 Evaluate the basis of strategic capability and nature of competitive advantage through the internal structures and operations of the business

2.4 Evaluate strategic capability in a specified business environment

35 Hartman, D. (n.d.), *"What Is Strategic Capability?"* [online]. Retrieved from: http://smallbusiness.chron.com/strategic-capability-15828.html [Accessed on: 24 August 2017]

2.1 Interpret relevant changes and developments in specified industry sectors and business structures

The business environment

An enterprise's business environment has been described as an onion with layers, at the heart of which is the organisation itself.

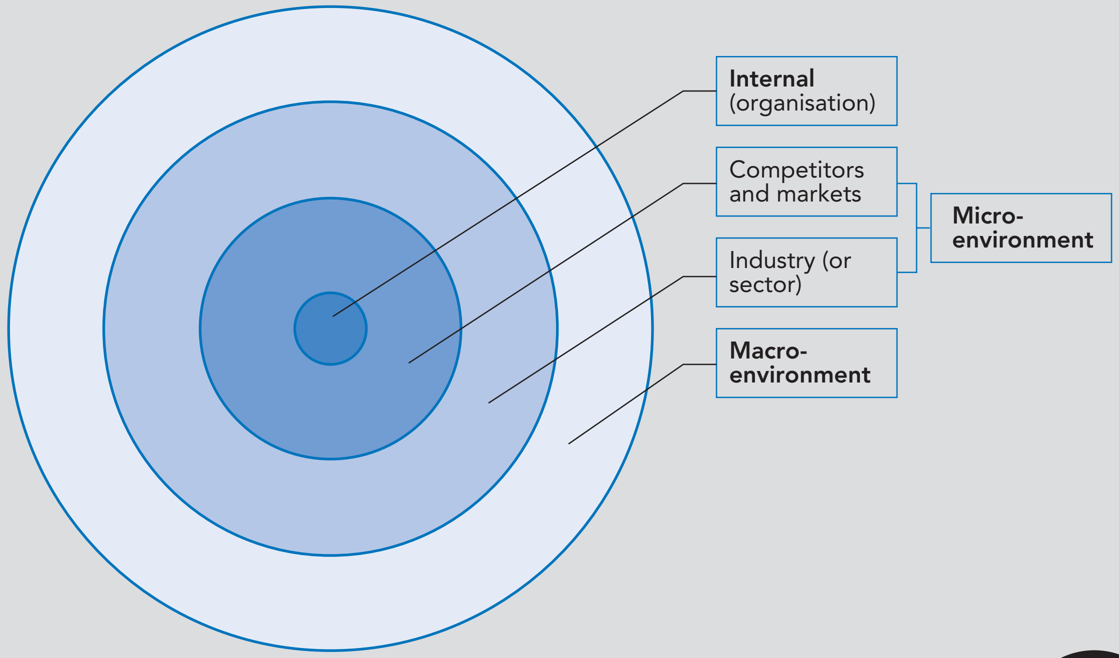


Figure 1: The business environment

History, trends, issues, and predictions of each layer, contribute to factors for exploration when developing a strategy. Generally, the further from the centre, the less control the organisation has to change or influence strategic developments. Therefore, it is the responsibility of strategic management to ensure that whether market-led or resource-based, its strategies align with those of its business environment.

Macro-environment

Based on Figure 1, the first step in analysis is to investigate the macro-environment. Note: investigations starting from 'outside-in' assume a market-led orientation.

The PESTLE analysis

! NEED TO KNOW

PESTLE analysis

To understand trends in the macro-environment, it is important to analyse factors affecting an individual industry/sector in the business environment. These are assessed using the acronym PESTLE – Political, Economic, Social, Technological, Legal and Environmental (ecological) ethical. The factors contributing to this analysis are changing all the time, so too is the emphasis, e.g. the importance of business ethics and education have been highlighted as recent major trends.

REVISION on the go

Business students learn to use the PESTLE analysis to better understand the trends for each of the six external factors. Such analyses are often based on history and are generic in nature. A criticism of this approach is that:

a little consideration has been given to prediction – the past may not be an accurate predictor of the future;

b forcing issues under the headings of an acronym can easily lead to the analyst overlooking some key facts;

c external factors have not been tailored specifically to an industry/sector or market. The strategist must consider the likely impact of local, national or global events and business developments on specific companies within a market in order to suggest how best to develop appropriate strategies.

Johnson et al.[36] consider these as a combination of non-market and market environments. The former are factors likely to impact industry and society on a broad scale, whereas the latter will focus on issues having a direct influence on a specific market. Non-market issues are often thought to be far too complex, remote and unpredictable to be considered realistically when identifying opportunities for strategy development and yet, a strategic manager with a degree of foresight and operating perhaps through the **strategic lens** of variety (see Chapter 1), may be able to see the difference between unlikely opportunities from predictions.

While the PESTLE analysis will, with some degree of accuracy, establish historic and current factors, the next step is forecasting futures from three perspectives of change:

- **Mega-trends** – global scope movements that can be forecast with some degree of longevity and accuracy (see PWC study in Chapter 1).
- **Inflexion points** – denoting a sharp change in direction caused by an unexpected external event that offers real positive growth opportunities or results in a potential collapse that demands changes, if a business or an aspect of a business is to survive.
- **Weak signals** – less noticeable are peripheral, random or fragmented signs in seemingly unrelated areas that may augur an unpredicted future. Initially, such signs can be overlooked, but if a series of apparently disconnected facts emerge, there may be pressure to consider these more carefully when strategies are developed.

36 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017), *Exploring Strategy*, 11th edition, Pearson.

While macro mega-trends may seem remote, particularly to the SME or one with only local or at best national scope, the analysis can be channelled to the local business (micro-environment).

The PESTLE analysis can be structured by building layers that are applicable at global, national/regional (non-market) and sector (market) levels. Table 5 in the case study below illustrates its use by providing a snapshot of current issues impacting the tourist industry.[37] Combined with analysis of other factors, a picture emerges from predictions that can lead to forecasts of likely futures for this industry.

CASE STUDY: PESTLE ANALYSIS

PESTLE analysis for the tourist industry

PESTLE	Global non-market issue	Local/market impact	Comments/examples
Political	Terrorist attacks	Tourist industry affected by cancellations and drop in visitor numbers – affects income and employment.	**Paris**: hotel occupancy rates fell by 21% after the attacks. **Turkey**: tourism down 10% in the year after bombings. **13 months**: average time to recover from an attack.
Economic	Collapse in national currency	Increase in visitor numbers and higher expenditure as better value.	**Mexico**: 84% of visitors come from countries using US dollars. As the dollars rose so did international visitors. **China and Japan**: divergent currency performance with China up and Japan down. Impact – visitors from China to Japan have surged whereas year-on-year drop from Japan to China.
Social/ demographic	Increase in global middle classes	Tourist destinations (hotels and services) gear facilities, attractions and entertainment to meet increased demand.	Global increase in **middle classes** to 3.2 billion 2020 and 4.9 billion by 2030. **Asia-Pacific** (mainly China and India) represents two-thirds of the global middle class and contributes to 59% of all consumption. Seeking value for money, discounted tickets, religious and dietary requirements.

37 The tourist sector has been chosen as an example as it has global coverage, contributes to economies at local level (including some of the poorest nations) and is impacted directly by developments in all areas of the macro-environment.

PESTLE	Global non-market issue	Local/market impact	Comments/examples
Technology	One cell phone per person; 65% searches start on mobile phones.	Mobile devices account for 30% of online travel value.	**Sales** of global online travel intermediaries = 25% of total sales. **Online Travel Agencies (OTAs)** e.g. Trivago and Expedia spent US$2.8bn on digital advertising in 2014.
Legal/ethical	FDI supporting tourist development demand changes in laws.	Social customs – diet, traditions, behaviours: Loss of authenticity – homogenisation of customs, "local souvenirs" produced elsewhere, financial exploitation. Disease e.g. ebola, Zika virus, or impact on endangered species.	**All-inclusive packages** – control local market attractions. **Traditions** – become a "show" for tourism. **Maldives** – resorts mainly funded by European tour operators; 50% labour imported.
Environmental (ecological)	Land degradation, including deforestation and water shortages.	Impact on ecosystems and land resources in tourist destinations.	**Kenya** – hotels built on fragile coastal and marine systems. Overuse of **water** for golf courses, swimming pools. **60% air pollution** caused by air travel. **Phuket, Thailand** – 2016 three islands shut down because of excessive tourists. Thailand's **National Park** closed – coral bleaching and damage to the ecosystem. **Ecuador** restricts visitors to the Galápagos Islands (c170,000 pa).

Source: Tourism Megatrends Report[38]

Table 1: PESTLE analysis for global tourism (example)

A point to consider from the above is the apparent negative factors affecting businesses in the sector. Arguably changes potentially affecting the status quo are reactive and not always seen as positive, or legal, or even opportunities. Rather, they are perceived as threats requiring a response. However, many of the weak signals referred to earlier can be viewed positively and provide a glimmer of opportunity for strategy development in a particular market.

38 Tutek, E. (2015), *Tourism Megatrends Report* [online]. Retrieved from: http://horwathhtl.com/2015/12/09/tourism-megatrends-report/ [Accessed on: 22 August 2017]

Data sources

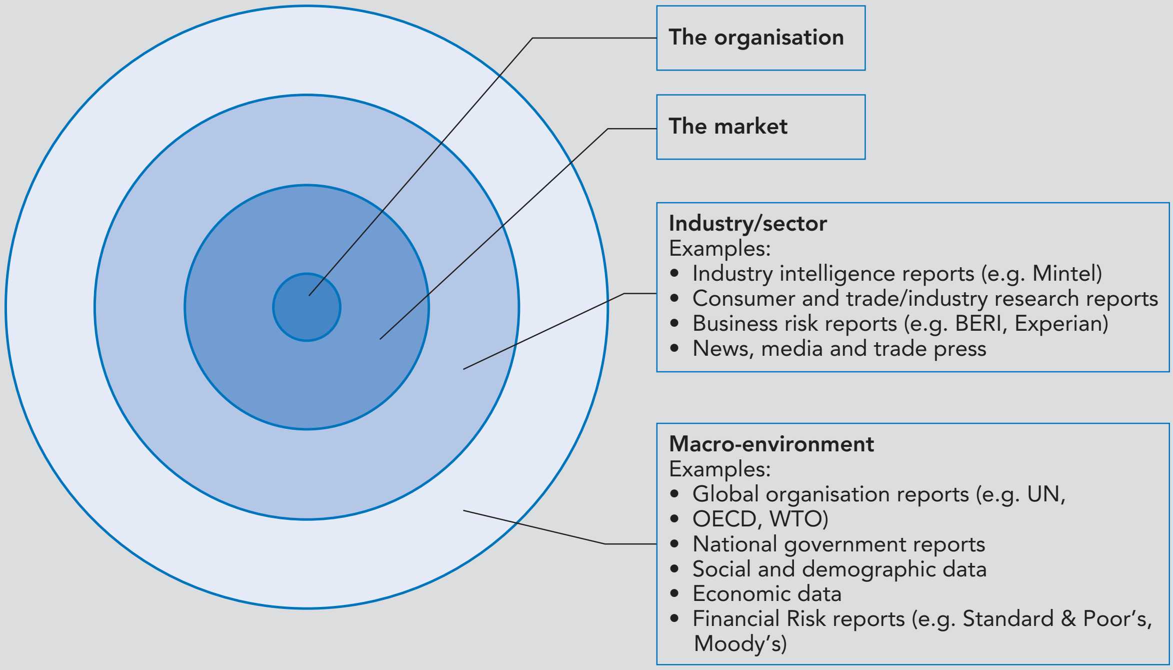


Figure 2: Sources of information in the macro-environment and industry/sector

OVER TO YOU

Activity 1: PESTLE – Trends and predictions in different sectors

Select two different industries from primary, secondary and tertiary sectors on which to base your research. For example, choices might be 1) mining (extractive) and 2) banking (services). You should choose industries which are relevant to your local economy or those which are familiar to you.

Tasks:

1. **Identify the non-market current issues and mega-trends for global economies for the next 10 years (minimum) and organise them into the main PESTLE elements.**
2. **Analyse how these impact on your selected industries and in your local business environment.**
3. **What are your predictions for changes that your local business environment may need to consider if it is to respond to them (at global and local level)?**
4. **Make sure you support your points with data and justification.**

Industry 1:

Industry 2:

Industries, sectors and markets

The next layer of the business environmental onion to consider is the industry, its sectors and associated markets. This is collectively known as the micro-environment and combines competitors, markets, customers, industry/sector, suppliers, supply chain, etc. In the next section (1.2) we will be using a range of tools to help this analysis. First, it is important for the strategic manager to define clearly and differentiate the nature and structure of the industry and its sectors and an enterprise's specific market (or competitive environment).

Porter[39] defines this as follows:

- **Industry (sector)** – "a group of firms producing products and services that are essentially the same". Examples include, automobile industry or the health sector. Some industries can be defined by their scope of operations within a specific geographic area – similar to the market definition below.
- **Market** – "a group of customers for specific products or services that are essentially the same" (e.g. a particular geographic market and/or product such as toothpaste).

Industry types

Economists define industry into three distinctive types:

- **Monopoly** – industries characterised by the dominance of one firm, often with a unique product or service. There are few rivals and high barriers to entry. In some cases, monopolies are politically engineered; in others (e.g. Microsoft Office or Facebook) the monopoly exists because of high user numbers.
- **Oligopoly** – characterised by a few large firms operating in an industry with high barriers to entry, so therefore limited competition. Given limited rivalry, competitors need to take account of the actions of those forming the oligopoly. Examples include mining, oil or gas companies that work together to manage pricing and product development strategies.
- **Perfect competition** – barriers to entry are low, with many equal rivals operating in the industry – usually offering similar products/services; often characterised by the number of small businesses such as restaurants and hairdressers. Few industries can be described as having perfect competition, but some experience **hyper-competition** in which frequent and aggressive actions by competitors, such as high-profile marketing and price cuts, lead to destabilisation, price wars and loss of competition.

39 Porter, M. E. (1980), *Competitive Strategy: Techniques for Analysing Industries and Competitors*, NY: Free Press.

Strategic groups

> *Strategic groups reflect the possible diversity of positions in an industry*
>
> *McGee and Thomas (1986)*[40]

An industry may be diverse in size and operations and markets and business models may differ significantly. **Strategic groups** are characterised by similarities between the members. They have similar strategic structures or business models, compete on similar bases and have comparable combinations of products and services. In a competitive environment, competition is best understood by the examination of rival companies in the same business group – **benchmarking** like-for-like.

Scope of activities
• Extent of product (or service) diversity • Extent of geographic coverage • Number of market segments served • Distribution channels used
Resource commitment
• Number of brands • Marketing effort • Vertical integration • Product or service quality • Technological leadership (leader or follower) • Size of organisation

Source: Adapted from Johnson et al. (2017)[41]

Table 2: Characterising strategic groups

REVISION on the go

Strategic groups can be mapped visually at both industry and market (segment) level. In Figure 3 the global petroleum industry has been segmented based on its position in the supply chain (**upstream** – at a stage in the process of gas or oil extraction and production before the raw material is ready for refining and **downstream** – a stage in the process after the raw material is ready for refining) and also its global coverage. Each group represents a specific market within this sector.

40 McGee, J. and Thomas, H. (1986), "Strategic groups; theory, research and taxonomy", *Strategic Management Journal*, Vol. 7, Issue 2, pp.141–160.
41 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017), *Exploring Strategy*, 11th edition, Pearson.

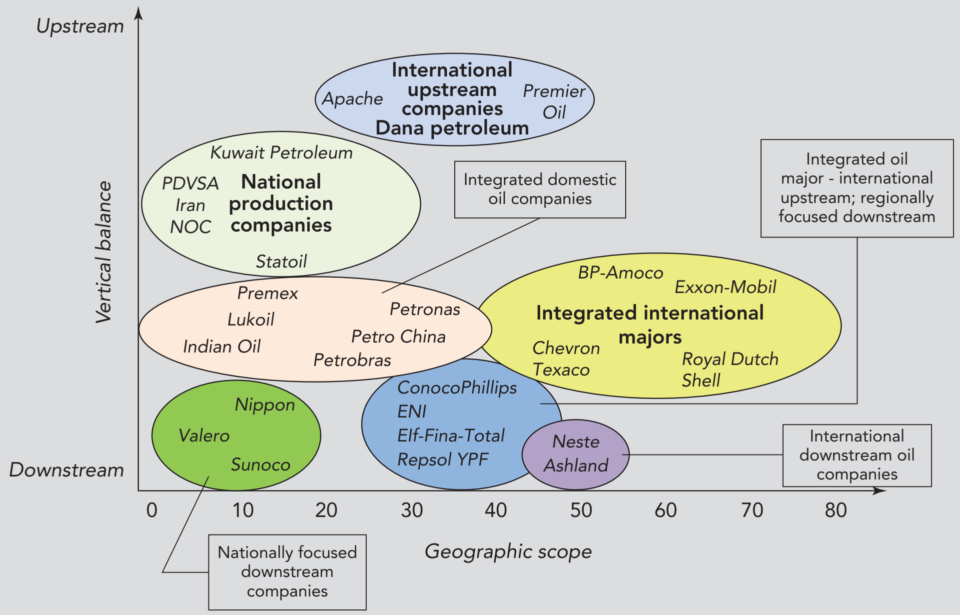
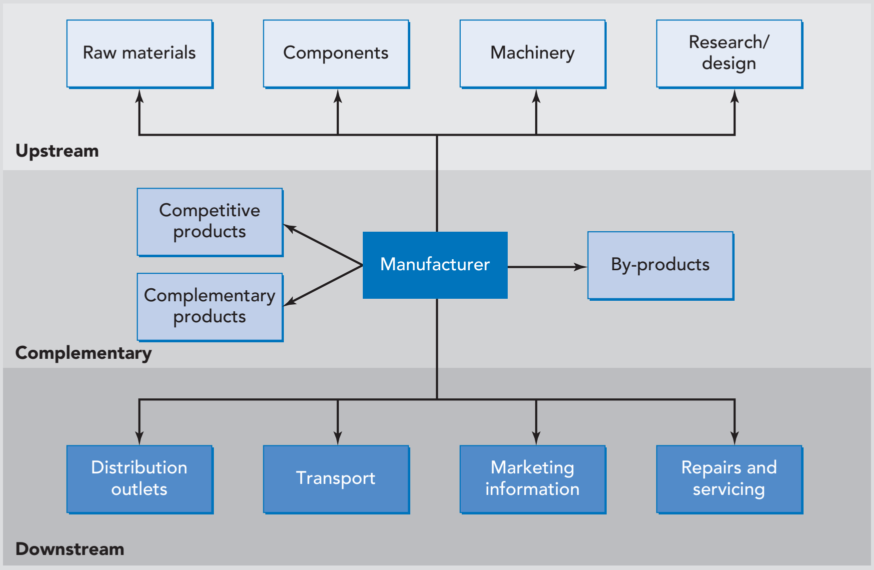


Figure 3: Strategic groups within the global petroleum industry

Identifying participants in a particular group enables focus on direct rivals. However, limiting the analysis to one market segment hampers the strategic manager in understanding the wider picture of the industry. Competitor rivalry exists when members of one strategic group perceive opportunities in another and leapfrog into that sector. This is particularly difficult for existing organisations when the new company is significantly larger or more influential.

Greater understanding of sectors and related segments can be understood from Figure 4, depicting the market from a manufacturer's perspective, the diagram features the sub-segments that operate in its market.[42]

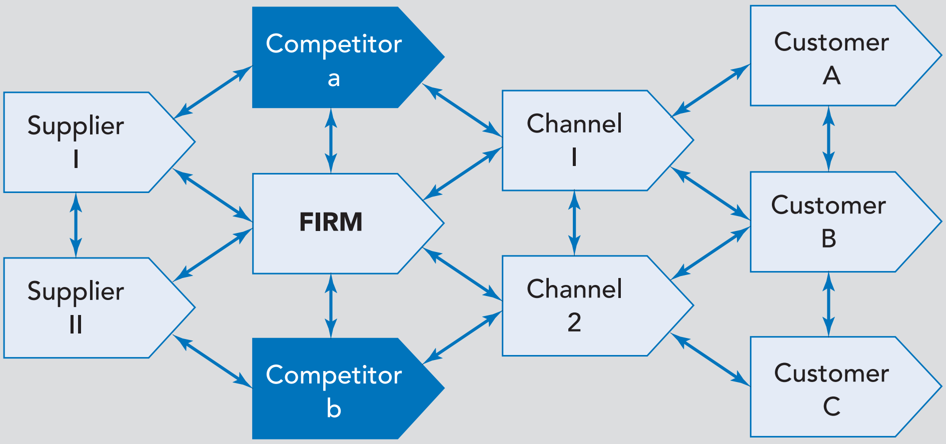


Source: Adapted from Johnson, Scholes and Whittington (2008)

Figure 4: Market structure of a manufacturer

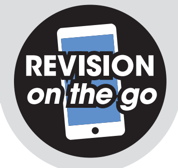
42 Johnson, G., Scholes, K. and Whittington, R. (2008), *Exploring Corporate Strategy*, 8th edition, FT Prentice Hall.

Direct competitors' segments will closely resemble this structure; in most cases overlapping to form of what Michael Porter[43] calls the **value system** – when the enterprise is part of a network of organisations involved in the production and delivery of an offering to the end customer. Figure 5 illustrates the interactions between different organisations within a particular market/segment. For strategic management, in-depth understanding of participants in the system and the areas of common ground and interactions between them is a valuable source of business intelligence.



Source: Adapted from M. E. Porter

Figure 5: The value system



Market segments

There is a difference between sector segmentation (as shown in Figure 5) and market (or customer) segmentation). Market segmentation is defined as: "the process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs, wants, or demand characteristics. Its objective is to design a **marketing mix** that precisely matches the expectations of customers in a targeted segment."[44]

Bases for market segmentation

Factor	Consumer markets	Industrial/organisational markets
Characteristics of people/organisations	Age, gender, ethnicity, income, family size, life cycle stage, location, lifestyle.	Industry, location, size, technology profitability, management.
Purchase/use situation	Size of purchase, brand loyalty, purchase importance and use, purchasing behaviour, choice criteria.	Application, purchase importance, purchase volume frequency, purchasing procedure, choice criteria, distribution channel.

43 Porter, M. E. (1998), *Competitive Strategies: Techniques for Analyzing Industries and Competitors*, NY: Free Press
44 Business Dictionary n.d., *Market segmentation* [online]. Retrieved from: http://www.businessdictionary.com/definition/market-segmentation.html [Accessed on: 24 August 2017]

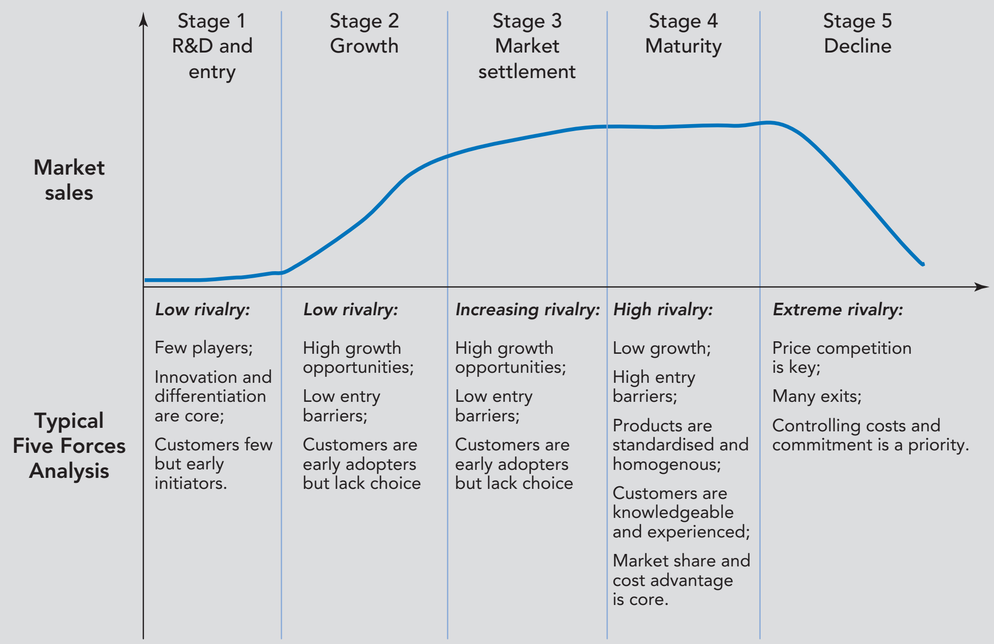
Factor	Consumer markets	Industrial/organisational markets
User needs and preference for product characteristics	Product similarity, price preference, brand preferences, desired features, quality.	Performance requirements, supplier support, brand preferences, desired features, quality, service requirements.

Table 3: Bases for market segmentation

Industry structure dynamics

Earlier in this chapter, we established that external environmental changes probably have the greatest influence on directional change strategy (macro-environment). Two other factors contribute to the uncertainties and dynamism of a particular industry or sector:

- **Industry life cycle** – reflecting the structure of the product life cycle, the industry life cycle is based on market size, consisting of phases of the life expectancy of a particular industry. However, the development and growth phases are followed by **shake-out**, then maturity and decline. Figure 6 depicts the industry life cycle, but also considers it in terms of **Porter's five forces competitive analysis**, which will be discussed in Section 2.2.



Source: Johnson, Scholes and Whittington (2008)

Figure 6: Industry life cycle

- **Customer values** – as sectors are dynamic, so too are the markets they serve. The rise of a global middle class with better education, disposable income and rapid access to information through the internet and mobile communications, has led to a rapid rise in customer product/service knowledge and awareness. Savvy customers have greater expectations, which consequently impacts on a forward-thinking, customer-centric organisation.

! NEED TO KNOW

Changes in customer values increasingly drive their expectations. Steven Howard[46] identified the following areas on which customers are likely to focus value judgements:

- features, functions and the ability to customise solutions;
- choices and flexibility;
- relationships with suppliers based on trust and rewarded with loyalty;
- sufficient knowledge and information to make rational judgements and decisions;
- complete and full satisfaction;
- speed and convenience.

This list provides a practical day-to-day picture of individual customer views. Expectations of specialisation and expertise in a particular aspect of business also add credibility and reassurance.[47]

REVISION on the go

> *"At a low level, customer value can be viewed as the attributes of a product that a customer perceives to receive value from. At a higher level, customer value can be viewed as the emotional payoff and achievement of a goal or desire. When customers derive value from a product, they derive value from the attributes of the product as from the attribute performance and the consequence of achieving desired goals from the use of the product."*

Woodruff (1997)[47]

Underlying customer core values are influenced by the impact of changes in the external environment. Woodruff's quotation refers to derived value from the "emotional payoff and achievement of a goal or desire". Today, both consumers and companies operating in business-to-business markets (**B2B**) have expectations of an emotional payoff that is driven by PESTLE factors, including technological, environmental (ecological) and ethical satisfactions. In a business, relationships with society are promoted through value statements, **corporate and social responsibility (CSR)** policies and community and supplier engagement. These are often publicly stated on websites. The expectation is that those with shared values would act similarly and that this would inspire customer loyalty. Failure to live up to this expectation may lead to reputational loss, contract termination and consequent profit damage if customers turn to other brands.

This development has led to a change in business value assessment from focusing on profits, ROI and shareholder satisfaction, to now include social, environmental (ecological) and financial dimensions – known as the **triple bottom line** or the 3 Ps – people, planet, and profit.

45 Howard, S. (2000), *"Changing Customer Values"* [online]. Retrieved from: http://www.howard-marketing.com/wp-content/uploads/2010/09/Changing-Customer-Values.pdf [Accessed on: 24 August 2017]
46 See also Parasuraman, A., Zeithaml, V.A. and Berry, L.L. (1988), "SERVQUAL: a multiple item scale for measuring customer perceptions of service quality", *Journal of Retailing*, Vol. 64, pp. 12-40.
47 Woodruff, R. B. (1997), "Customer Value: the next source for competitive advantage", *Journal of the Academy of Marketing Science*, Vol. 25, Issue 2, p. 139

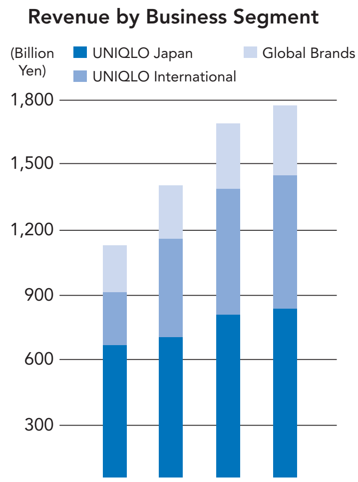
> *The triple bottom line (TBL) captures the essence of sustainability by measuring the impact of an organisation's activities on the world . . . including both its profitability and shareholder values and its social, human and environmental capital.*

Andrew Savitz [48]

CASE STUDY: TRIPLE BOTTOM LINE IN PRACTICE

UNIQLO (fast retailing)

"UNIQLO clothes offer unique value to everyone, everywhere. UNIQLO negotiates directly with material suppliers around the world, placing large orders to ensure steady access to world-class natural materials We also work with top synthetic fiber manufacturers to develop new functional materials. UNIQLO is known and loved by consumers worldwide for its ability to challenge the conventional wisdom of clothing."

People	Planet	Profit
"Respect for the individual is a paramount concern. [We] fight to eradicate child and forced labour, employ people with disabilities, support the socially vulnerable, empower women, promote diversity, and effectively manage human resources globally."	"12.81 million items of used clothing to donate to refugees and displaced persons through our All-Product Recycling Initiative 10 Million Ways to HELP Project. I want to use our clothing manufacture and retail business and our numerous clothes-related CSR activities to deliver joy and happiness, and help make the world a better place."	
"Ensuring ethical working conditions in production."	"... works to accurately measure environmental impact of its entire supply chain and to minimize that impact in each process."	
"Improving the conditions and lives of workers by listening to our diverse stakeholders."	"To create a more sustainable world, we strive to leverage the power of business to grow together with society."	

Source: Adapted from http://www.fastretailing.com/eng/group/strategy/uniqlobusiness.html

48 Savitz, A. (2013), *The Triple Bottom Line: How the Best-Run Companies are Achieving Economic, Social and Environmental Success – and How You Can Too*, Wiley.

Entrepreneurship and innovation

> *Entrepreneurship is a process by which individuals, teams or organisations identify and exploit opportunities for new products or services that satisfy a need in the market*
>
> *Johnson et al. (2017)*[49]

Entrepreneurship and innovation go hand-in-hand. In uncertain and dynamic environments the ability to recognise trends and marketplace gaps, then identify a realistic opportunity to satisfy potential demand is a key skill and a necessary ability for strategic development. For the strategic manager operating within a corporate, entrepreneurship translates more closely with **intra-preneurship** – a recent concept that recognises that employees of a company have the attributes of entrepreneurs and often takes risks in an effort to solve problems.

Entrepreneurs such as Steve Jobs (Apple), Gurbaksh Chahal (Click Agents and Blue Lithium), and Jack Ma (Alibaba Group) are noted not only for their success in technology, but also for their abilities to be serial entrepreneurs in related technologies through the constant and successful development of new ideas.

A response to (or driver for) the triple bottom line is the growth of **social entrepreneurship** – the creation of independent organisations to mobilise ideas and resources which address social problems. These companies are commercial revenue creators and profit generators, but their income is not-for-profit and frequently they are co-operatives in terms of structure. The range of activities is varied, with some building successful international reputations (e.g. Traidcraft). Others are more likely to be developed by local groups or individuals designed to provide employment and opportunity for the local community.

What is noticeable about **social enterprises** is that where innovation in large organisations is mainly driven by technology, social enterprise generates ideas from individuals in local difficulties, using often traditional means to achieve their ends. Some are able to exploit new technologies to further their aims.

Invariably, innovation comes from either product or process. Technology innovations tend to be both. Steve Jobs' reputation was based on the Apple Mac computer first. Subsequent development of the Apple smartphone was first product-driven, but it was the process (mobile communications) that revolutionised the market. Both Chahal and Ma built their enterprises through the exploitation of the internet (the former through internet-based advertising and the latter as an online retailer).

New developing industries (product innovation) favour the smaller enterprise (e.g. Tesla), but real gains can be made by large businesses with substantial resources and the abilities to develop process innovations. They can revolutionise a business model and generate scale economies, gaining both profit and often market share for the innovator. Examples include: assembly line automation of the Model T Ford in the 1930s, the Dell business model of distribution and IKEA flat-pack furniture.

Anxieties surround the need to protect **intellectual property** during **research and development (R&D)**, so patent and intellectual property security have been a major facet of innovation. This is known as a closed model of innovation. More prevalent now is open innovation, which involves the deliberate spread of knowledge to accelerate and enhance market impact. History shows that protection often inhibits or limits market uptake and can have consequences for

49 Johnson G., Whittington R., Scholes K., Angwin, D. and Regnér. P. (2017), *Exploring Strategy*, 11th edition, Pearson.

the original innovator. Examples include, Rank Xerox lost control of the plain paper copier market and Kodak's failure to exploit its technology in the digital market.

While **first-movers** (a company that aims to be the first to establish itself in a given market) do have major advantages (experience curve, scale benefits, acquisition and exploitation of possibly scarce resources and reputation) these can be outweighed by a judicious and careful follower. Late movers benefit from imitation at much less expense and the advantage of learning from the mistakes made by the pioneers.

Dynamic trends impact

So far this section has focused on the uncertainties in the macro-environment, the structures of industries and market sectors, the sector life cycle and the formation of strategic groups with consideration for developments in customer values. We've looked at the triple bottom line and discussed trends in entrepreneurship and innovation.

In light of all this, the strategic manager could be forgiven for being overwhelmed and at risk of indecision. A major problem exists when the range and complexities of external environmental and sector issues are such that the organisation has neither an appropriate level of understanding, resource or competence capability to focus on which issues are important and which may be ignored. Some would argue that it is better to have no plan, than a poorly executed one.

At this point of our assessment of capability, it is probably worth evaluating the key issues identified from the PESTLE analysis (non-market and market (sector) issues) for their likely impact and relevant importance to the business. This is a somewhat crude assessment of what may or may not be important for the organisation to address.

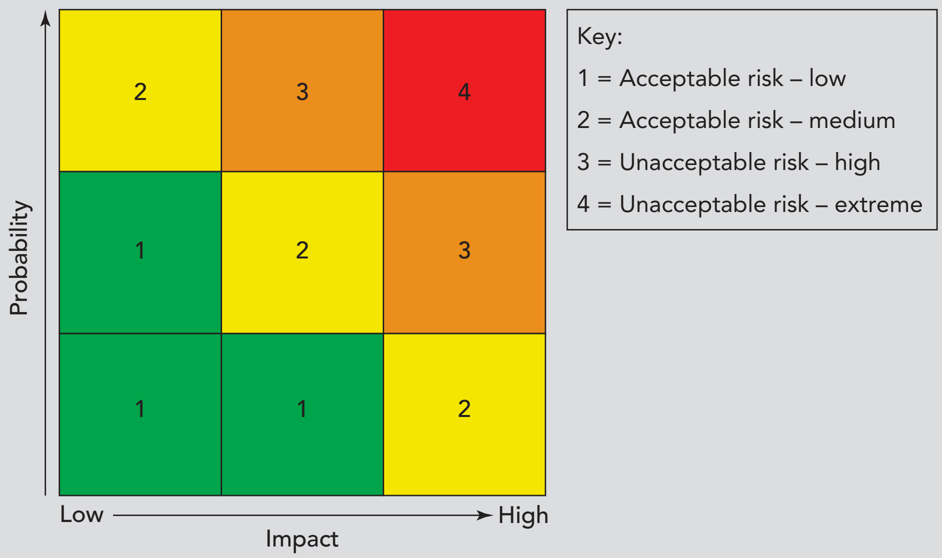


Figure 7: Impact/probability matrix

It's important to understand both the impact and the level of risk for the organisation if it chooses to ignore a trend or issue in the external environment. Earlier in the chapter, it was noted that many organisations choose to ignore external factors as they are simply too complex to deal with. There is some merit in this, but only if the impact is not that great or others in the sector take a similar view. The danger is that an issue may hide potential opportunities or worse, significant threats.

OVER TO YOU

Activity 2: Industry/sector evaluation

In Activity 1 (PESTLE), you identified two industries on which to base your research. For this task, use them again.

Tasks:

1. Analyse the industry type (monopoly, oligopoly etc.) and strategic groups, identifying key players in the sector including those in your local and regional environment.
2. Explore the structure of one of the sub-sectors. You may wish to scope these by geography.
3. What are the key characteristics of the sector – in terms of life cycle, developments in customer profiles and values, attitudes to the triple bottom line, entrepreneurship, and innovation?
4. From your analysis identify key trends and issues (non-market and market) directly affecting or likely to impact these sectors. How important are these likely to be?

2.2 Critically discuss current issues which could affect strategic development for a specified sector

This section covers a detailed analysis of the direct competitive market in which a business operates, employing a range of techniques and tools that can be used to assess the impact and possible responses to changes in the business environment and market, and how these can be summarised to provide insight into the key opportunities and threats facing organisations.

Market positioning

Students of business benefit from a range of useful business modelling tools which when applied to a particular market, provide valuable insight into the dynamics of the key players. **Business intelligence (BI)** refers to technologies, applications, and practices for the collection, integration, analysis, and presentation of business information. Its purpose is to support better decision-making. In a world of BI, companies such as Innotas use sophisticated software systems to manipulate portfolio data for predictive analytics and insight into market futures; application and data visualisation help interpretation, but such software is based on some of the models discussed below.

Porter's five forces model

Originally developed in the 1980s, Porter assumed most businesses exist in a competitive environment pressurised by forces from all parts of the sector, and intend to gain a competitive advantage over rivals and others, including suppliers and buyers.

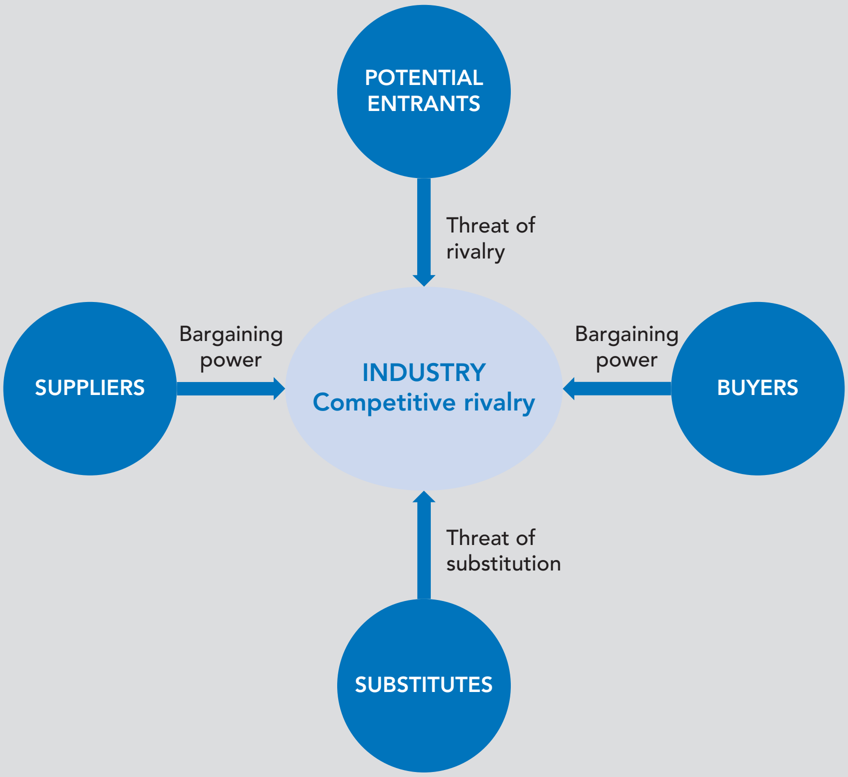


Figure 8: Porter's five forces model of competitive markets

The five forces model is a valuable tool to evaluate the extent to which rivalry, threats, and bargaining power exists, the likely actions and reactions of the various players to sector trends, and how environmental factors will impact on strategic decisions. Each element of the five forces is analysed for the degree of rivalry, bargaining power and threat determining whether these are low, medium or high forces.

- **Competitive rivalry** – the industry structure (monopoly, oligopoly, perfect competition) the number of competitors and stage of the sector life cycle all impact on the degree of rivalry. A high number of competitors, possibly during the growth phase of a market, tends to create rivalries as competitors seek to gain market share. This would be classified as a high force risk (in hyper-competition, this would be assessed as extreme rivalry). Competition is more limited in monopolies or oligopolies, but in the latter no less intense. Other factors that increase rivalry include high entry/exit costs and low **differentiation** in the market. For example, **commodity markets** where customers readily switch to competitors on the basis of price.
- **Potential entrants** – new entrants to markets increase rivalry. Where there are high barriers to entry, e.g. high investment costs, limited opportunities to build economies of scale, restricted access to supply and distribution, lack of experience and the prospect of retaliation from existing competitors. Plus legal inhibitors such as government protection of domestic players through tariffs and business ownership, will all contribute to reduce the potential of new entrants into a market.
- **Substitutes** – direct substitutes offer similar benefits to the customer but are different in some way e.g. travel alternatives – train versus aeroplane. Indirect substitutes may be quite different from

one another and less obvious to identify or even deal with, e.g. consumer spending of disposable income – money spent on non-essentials reflecting life-style choices – holidays versus fashion. Price/performance ratio is critical to substitution as are switching costs to outside a sector/market.

- **Buyer power** – often driven by price and quality sensitivities. In markets where there are few buyers or purchases, value is high, buyer power increases and suppliers can be squeezed. Equally, low switching costs will increase buyer influence. For example, when commodities and standardised products are readily available, it is easy for buyers/consumers to select suppliers based on the lowest price. Losing customers in this way can have a massive impact on profits so customer influence on business decisions such as pricing becomes much greater). The advent of online markets has led to buyers that form part of the traditional distribution channel becoming competitors because of increasing tendencies of consumers to buy direct. In industrial buying (the procurement of goods, items, and services that will be used by a company during production), price sensitivities occur where there is little impact on quality and there is pressure to reduce costs.
- **Supplier power** – supplier markets come in many different forms. Not only do suppliers provide materials and equipment to produce a good service, but also supply labour and finance. Power increases where there are few suppliers, which makes switching costs high. In this instance in the supply chain buyers (industry/market competitors) are intermediaries and suppliers can sell directly to the end user. In these examples, suppliers are able to increase prices, which has a detrimental impact on the profits of their buyers (the industry/market).

Fortunately, not all businesses exist in markets with such a challenging atmosphere of high competitive forces. More recent business thinking says that industries can in fact benefit from a partnership approach to relationship management, and network with the various stakeholders in the market. This can create a form of market dependency, where different elements of the supply chain are locked in, often by technology. For example, switching from the Windows operating system would create communication problems with supplier and buyer networks. The effect of Porter's five forces analysis on these types of networks can be analysed through the value system (see Figure 8 above).

In Figure 9, the relationship of network and complementary effects (as both competitive and co-operative forces) is illustrated within the context of the five forces framework.

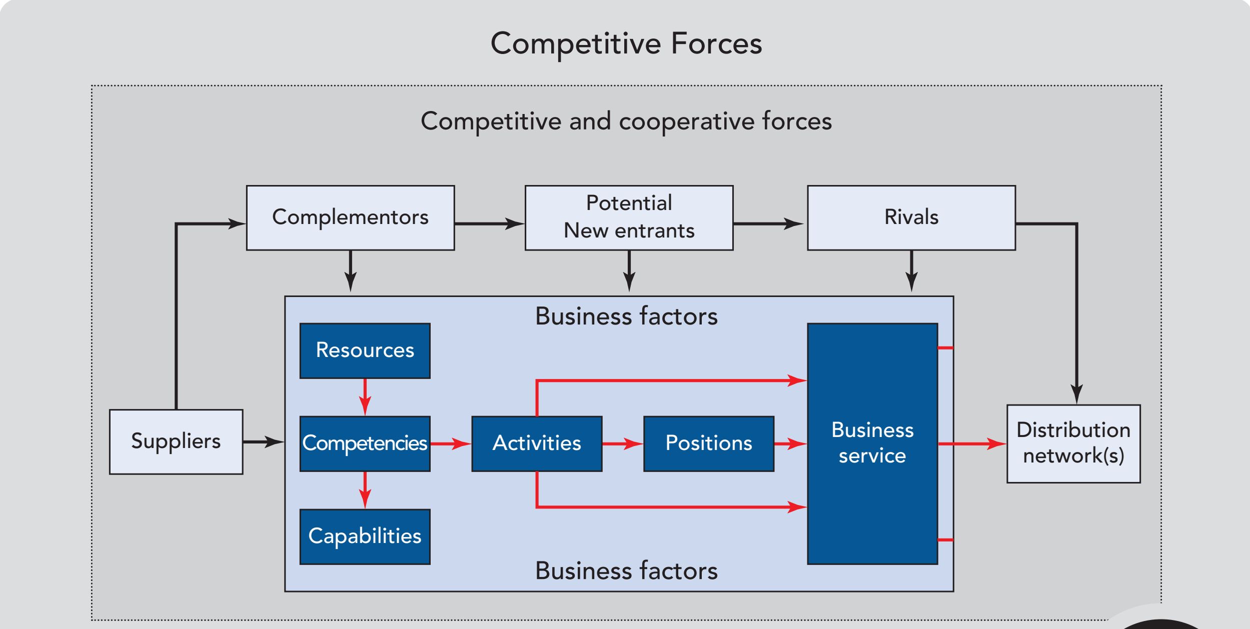


Figure 9: Porter's five forces model of competitive markets

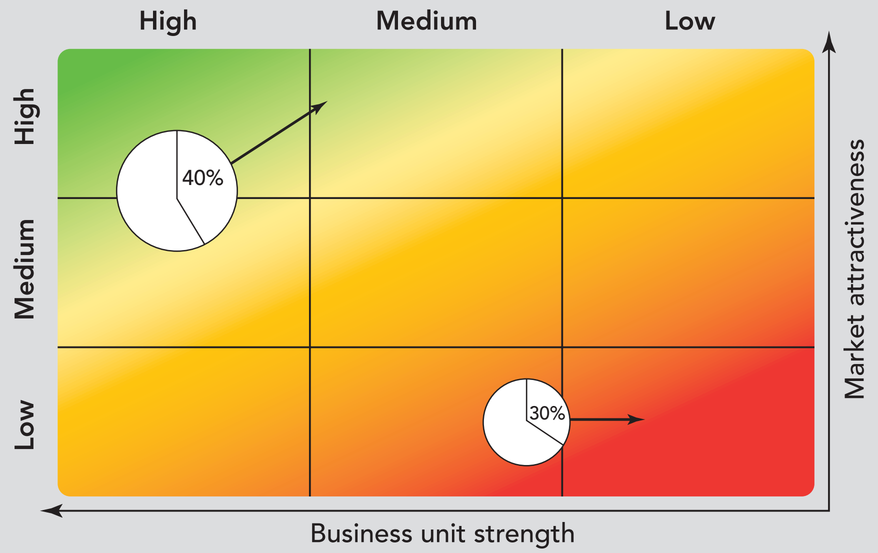
REVISION on the go

GE-McKinsey multifactor matrix (GE matrix)

For the strategist, the **GE-McKinsey multifactor matrix** is one of a number of **portfolio** matrices that can be adapted to reflect different markets or company perspectives. Additionally, the matrix is both multifactor and multifunction, providing analysis of the current relationships between businesses and the markets, a forecast of direction based on trends, and suggests a focus for strategies in the future. However, it does not provide solutions.

GE McKinsey Multifactor Matrix

GE-McKinsey is a framework that evaluates business portfolio, provides further strategic implications and helps to prioritise the investment needed for each business unit (BU).



Source: Adapted from David, F.R. (2009). Strategic Management: Concepts and Cases. 12th ed. FT Prentice Hall

Figure 10: GE McKinsey multifactor matrix

In Figure 10, the market (the strategic group and/or geographic segment) is evaluated for overall attractiveness to provide growth and profit. Each market is depicted by the circle that indicates the size of that particular segment. Business units operating in that market are assessed by percentage market share (the pie chart), then rated by both business unit strength and market attractiveness. High attractiveness indicates current and potential long-term growth in an expanding and profitable market share.

Predictions are made based on the market's future direction. The shading in the diagram above is based on a traffic lights system giving an interpretation of the likely attractiveness of the specified market. For example, the segment plotted in the green zone above, merits investment, whereas predictions for the business unit in the amber/red zone indicate a poor outlook.

Market perception mapping

Another good positioning matrix is the perceptual map of a market based on customer perception of the brand value of individual businesses. The advantage of using a perceptual map is that it reflects the opinions of customers rather than a market's (or individual business) perception of itself. Other advantages stem from customers unwittingly identifying which companies are true competitors; further research of products/brands can also elicit where customers envisage potential gaps in the market.

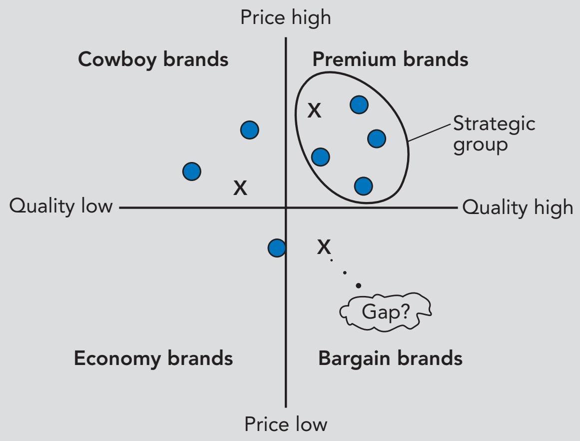


Figure 11: Market perception positioning map

REVISION on the go

Alternative futures – scenario analysis

> *Scenario analysis is all about alternative worlds and parallel universes and may include black swans, but stops short of meteor strikes.*
>
> *www.lumina.com*

Johnson et al. (2017)[50] suggest that these are plausible alternative views. At this stage, scenarios are not about strategies for development, but providing reasoned futures and how these might be responded to or played out by the market. **Scenario analysis** is a structured way of thinking about the future. Using scenarios as a planning tool is discussed in more detail in the next chapter, Strategy formation, Section 3.5.

What if? Scenarios

A good starting point for scenario development is to predict alternative futures through the PESTLE analysis with the simple question, "What if?"

In the case study on page 35, looking at how the macro-environment has an effect in the global travel industry, PESTLE factors were used as generalised statements of (independent) current events/facts. Scenario analysis puts together these generalised statements of often unrelated facts and links industry and market attitudes and behaviours to develop a range of alternative futures for businesses involved in a particular sector.

50 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017), *Exploring Strategy*, 11th edition, Pearson.

Example: What if?

> *The increase in middle-class holiday travellers (ageing population) may lead to a surge in up-market holiday resorts, with golf courses etc. This may require further development of road infrastructure (capital projects), lead to greater employment opportunities and revenue earners; yet cause further degradation to the environment in designated areas of natural beauty.*

Market-led opportunities and threats

So far, we have discussed the analysis of alternative futures based on research of the external market environments, and the benefits of using PESTLE and Porter's five forces model as frameworks for predicting scenarios. Outputs from this can be summarised in the form of market-led opportunities and threats (factors external to the organisation) that frequently influence strategic decision-making. While data analysis and model applications such as the GE-McKinsey matrix and accurate scenarios are helpful in painting a credible picture, subjectivity and bias are inevitable – because futures are interpretations of perception and because of the very nature of uncertain markets.

Students are aware that identified opportunities can also be a threat. When developing such a list, it is important to be mindful of the issues identified in the chart below.

Opportunities	Threats
• Is this a real opportunity – an area unexploited? • Where are the opportunities, existing or new to the world? • **Red ocean** or **blue ocean**[51]? • Relevant to the organisation? • Accessible? Is it also a possible threat?	• Is the threat strategic or operational? • How important is it? What is its impact? • Does it affect all the competition or is it from the competition? • Could it also be an opportunity? • What's the urgency?

Table 4: Checklist for the evaluation of opportunities and threats

REVISION on the go

The compiled list of opportunities and threats should be realistic. An opportunity must be exploitable and a threat should have sufficient impact to warrant action. The aim is to counter the threats and take advantage of the opportunities.

51 Kim and Mauborgne, (2015), *Blue Ocean Strategy* [online]. Retrieved from: http://www.blueoceanstrategyaustralia.com.au/what-is-bos/red-vs-blue/ [Accessed on: 24 August 2017]

CASE STUDY: OPPORTUNITIES AND THREATS

Indian tourism industry

Opportunities	Threats
• Growing market: growth in tourism 7% year-on-year; increase in employment in sector 2%, representing 7% GDP • FDI (Investment): allocation by Indian government now approved at 100% giving access to India market • Five-year tax holiday for foreign investors (expectation of US$11.41bn inbound investment over two years)[53] • Booming IT: outsourcing, the internet and social media contributing to increasing tourist traffic • Culture: increase in popularity of Indian movies leading to interest in travel locations • Growth of wellness/health tourism: 20% per annum gains by 2017 – for health • Value of rupee: depreciation against US dollars • Monument preservation: "Clean India" Movement • Visitor attractions: fairs and carnivals (such as Goa, Kumbha Mela, Varanasi ghats and Pushkar, Elephant festival)	• Security risks at tourist destinations e.g. terrorist activities such as Mumbai 2008, and also depiction of gender issues in the news due to recent tourist murders/ abuses of women • Increase in crime: WEF T&T 2015 puts India 97/141 nations for crime • Widespread poverty: image of beggars upset visitors. India gangs are considered to be exploiting tourists through begging networks • Unregulated environmental imbalances: including disposal of waste and pollution threaten to the environment • Extreme weather risks: e.g. sea level rises, monsoons and scorching summers

Source: Agrawal, V. (2016)[54]

52 This means that foreign investors in India will not need to pay tax on any income generated for five years. It is expected that there will be US$11.4bn of foreign investment in the Indian market.
53 Agrawal, V. (2016), "A Review of Indian Tourism Industry with SWOT Analysis ", *Journal of Tourism & Hospitality*, Vol. 5, Issue 1

OVER TO YOU

Activity 3: Market analysis – opportunities and threats

Use your research from Activity 1 or the case studies on PESTLE and the Indian tourism industry in the case study above to formulate your response to the tasks below.

Tasks:

1. **Research the competitive market environment of your chosen sector (the tourism industry or one of your previous choices).**
2. **Prepare an analysis based on:**
   a) **Porter's five forces**
   b) **GE-McKinsey matrix**
3. **Identify scenarios using techniques suggested in the study guide.**
4. **Suggest a range of opportunities and threats for your chosen sector.**

2.3 Evaluate the basis of strategic capability and the nature of competitive advantage through the internal structures and operations of the business

Analysis of the external and market environments responds to market-led (outside-in) business orientations. In other words, once the business understands the dynamics and futures for the macro- and competitive environments, it is in a better position to fit its own strategies to meet those developments. The competitive advantage is achieved through the capability of the organisation to structure and harness its resources and competency to fit market needs.

Competitive advantage

> *Competitive advantage is the unique ability of a firm to utilise its resources effectively, managing to improve customer value and position itself ahead of the competition. In other words, it's something that a company does better than its competitors because of some proprietary process, service, or brand.*

www.myaccountingcourse.com[54]

54 My Accounting Course n.d. *Competitive Advantage* [online]. Retrieved from: http://www.myaccountingcourse.com/accounting-dictionary/competitive-advantage [Accessed on: 24 August 2017]

Porter considered that the basis of competitive advantage lay in the enterprise's ability to gain superiority through its business model. He considered that organisations had to determine a particular proposition that was clear to its markets and focus its energies on achieving that. In his model of generic strategies, he identified two approaches for distinctiveness – **cost leadership** and differentiation.

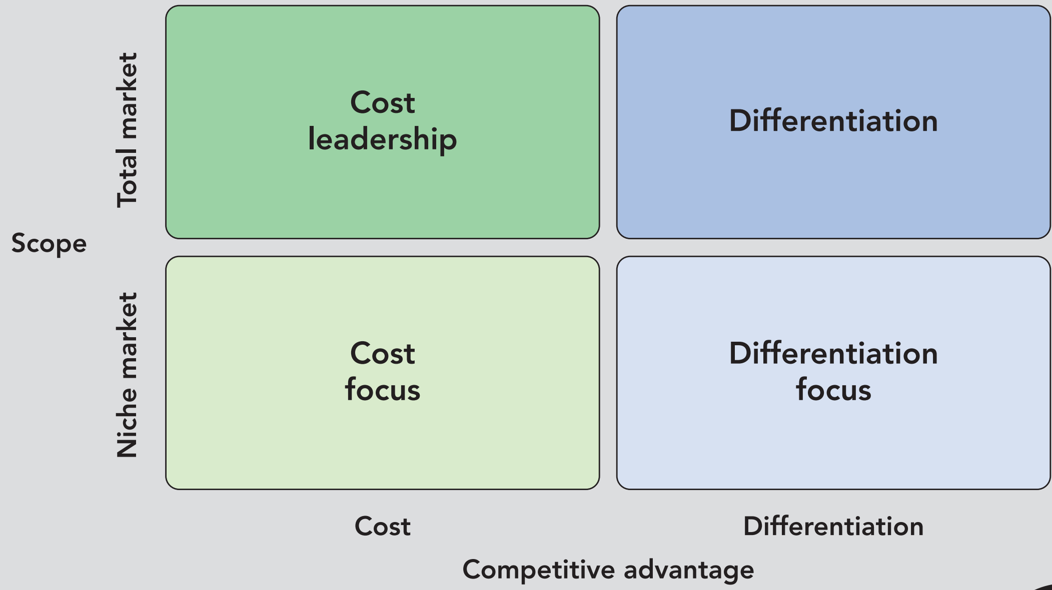


Figure 12: Porter's generic strategies

NEED TO KNOW

Cost leadership – is when a business's operating costs are significantly lower than its competitors, giving advantage through greater efficiencies and profitability. In price-sensitive markets with commercially aware customers, market share can be gained rapidly through price-cutting strategies – a cycle driven by scale economies.

Differentiation – this approach focuses on the perception of what is unique – and difficult to imitate, a superior brand, adding-value, specialisation, customisation and service. Success and profits are gained because customer value is based on satisfaction rather than price.

The third element for consideration focuses on the **scope** of selected markets or a specific segment. Porter scoped cost leadership and differentiation into market segment coverage (total or niche).

Leading corporate executive coach Joel Garfinkle suggested five additional capabilities that could give competitive advantage – innovation, operational effectiveness, technology-based strategies, adaptability (negotiating waves of change, e.g. Apple), information advantage – BI and data management.[55]

55 Garfinkle, J., n.d., 7 *Strategies to Define your Competitive Advantage* [online]. Retrieved from: http://garfinkleexecutivecoaching.com/articles/business-intelligence-and-company-strategy/do-you-know-the-seven-strategies-to-define-your-competitive-advantage [Accessed on: 17 July 2017]

CASE STUDY: BROAD VERSUS NICHE APPROACH

The car manufacturer Ford take a broad-based approach, with a range of vehicles that appeal to a wide market. Profits are achieved through economies of scale and affordability (low cost).

Toyota's range may be as broad as Ford's, but the largest company in the market is known for differentiation through a reputation for added value in its core markets and features, such as its hybrid versions. Another car manufacturer in this segment is BMW.

The Tato Nano brand was developed purely for low-cost production and affordability, (low-cost niche) whereas Tesla is well-known for its niche in high-performance electric vehicles (focused differentiation).

Ford and Toyota have a broad range of cars with their sub brands, while the others have specialist, niche target markets and fewer selections.

Resource-based capability

Earlier, we discussed the concept of resource-based strategy (inside-out). This assumes resources e.g. tangible assets, such as machines and buildings, as well as intangibles such as internal organisational knowledge and processes, drive competitive advantage for the inside-out. However, Prown (cited in Lubar and Kingery, 1993)[56] refers to resources as interacting with internal and connected stakeholders to produce what he says is "material culture" often articulated as the values of the organisation.

Johnson, Scholes and Whittington said that advantage was achieved through "configuration of resources"[57], suggesting that while the resources (tangible and intangible) are of importance, alone, they will not bring competitive advantage. Rather, it is how they are used and organised that will provide the basis of capability. Economist and management theorist Wernefelt[58] and later corporate strategists Prahalad and Hamel[59], discussed the concept of dynamic capabilities, including the ability to identify and exploit resources that lead to high profits and build **entry barriers** to discourage new entrants. An entry barrier is the existence of high start-up costs or other obstacles that prevent new competitors from easily entering an area of business. Other strategies on which business capability is also defined are striking a balance between exploitation of existing resources and development of new ones, and resource procurement strategies, even maximising the potential of imperfect resources.

Professor and strategist expert, Barney, established the analytical technique **VRIO: value, rareness, imitability, organisation**. These are four criteria by which distinctive resources and capabilities can be assessed as a basis for competitive advantage.

Value	A resource or capability must be valued by customers, with the capacity to improve organisational efficiency and effectiveness, and respond to environmental opportunities and threats.
Rarity	A rare resource or capability will be possessed by few or no competitors. Its rarity should be unique, such as a prime location.

56 Lubar, S. and Kingery, W. D. K. eds (1993), *History from Things: Essays on Material Culture*, Washington DC: Smithsonian Institution Press
57 Johnson, G., Scholes, K. and Whittington, R. (2008), *Exploring Corporate Strategy*, 8th edition, FT Prentice Hall
58 Wernefelt, B. (1984), "A Resource-based view of the Firm", *Strategic Management Journal*, Vol. 5, No. 2, pp. 171-180
59 Prahalad, C. and Hamel, G. (1990), "The Core Competence of the Corporation", *Harvard Business Review*, Vol. 68, Issue 3, pp. 79-91

Inimitability	Resources and capabilities should be difficult or costly for competitors to imitate.
Organisational support	The organisation should be structured and organised appropriately to exploit resources and capabilities. Current thinking considers culture and organisational knowledge and learning as key sources of competitive advantage.

Table 5: The VRIO analytical technique

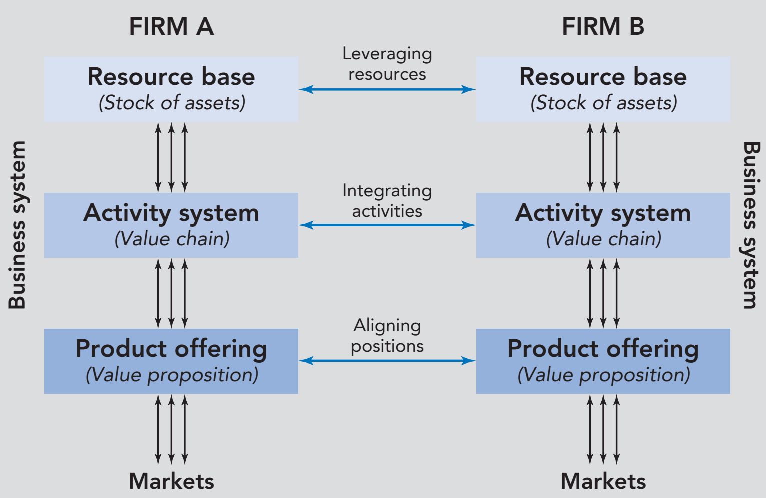
REVISION on the go

In earlier versions of the theory Barney considered the fourth criterion as substitutability. In other words, the resource/capability should not just be difficult to imitate, but also **not** substitutable.

Dynamic capabilities

In environments subject to rapid change, assessment of VRIO may be academic as all four criteria become increasingly irrelevant with uncertain futures and external, industry and market changes. Four other tests exist which may help to determine whether identified resources and/or capabilities can be classed as VRIO, or whether these are at best temporary advantages.

- **Transferability** – extent to which the resource/capability is transferable to take advantages of changes in demand.
- **Robustness** – extent to which the resource/capability is sufficiently and consistently effective.
- **Sustainability** – potential longevity of the resource/capability in changing markets and demand.
- **Networks** – effectiveness of **synergies** gained from robust intra-corporate networks[60] and inter-organisation relationships (suppliers, competitors, distribution). De Wit and Meyer considered these relationships could be effective in promoting competitive advantage through the combined leverage of resources, co-ordination and integration of activities and/or by aligning complementary products and services.



Source: De Wit and Meyer (2004)

Figure 13: Inter-organisational co-operation objectives

REVISION on the go

60 Intra-corporate networks refers to the links/networks existing between different, independent subsidiaries of a conglomerate.

2.4 Evaluate strategic capability in a specified business environment

In this final section of Chapter 2, we examine the specific elements of resource capability forming the basis of strengths and weaknesses and how these can be assessed alongside the opportunities and threats identified earlier in the chapter.

Resource audit

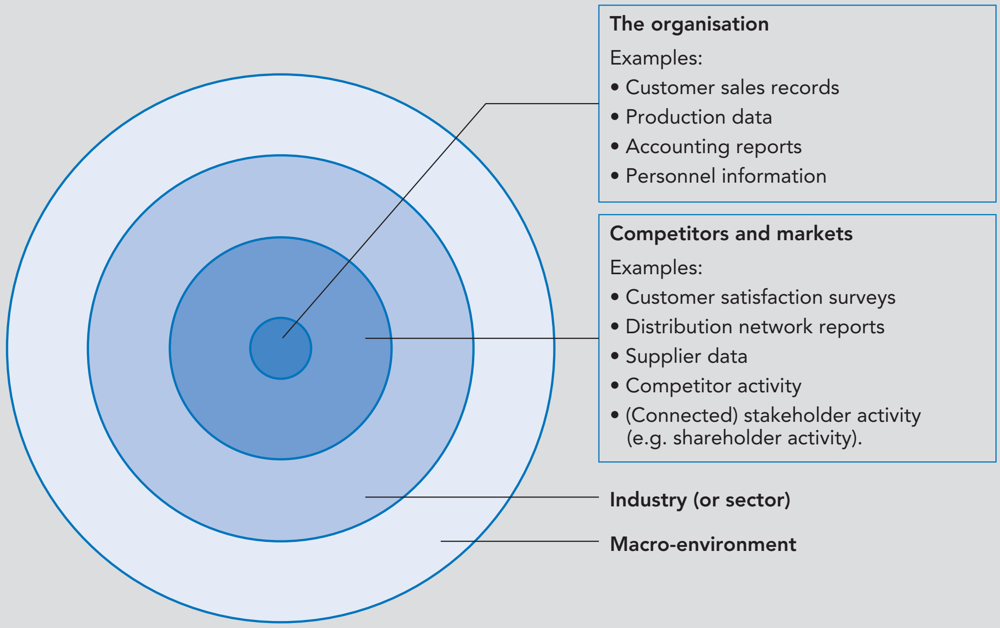


Figure 14: Resource audit – sources of information (the organisation and competitors and markets)

> *A business resource is an economic or productive factor required to accomplish an activity, or as means to undertake an enterprise and achieve a desired outcome.*

Business Dictionary[61]

Productive factors may be physical attributes or competency (e.g. skills). The Business Dictionary expands its definition to name human (labour), financial (capital), physical (land and equipment) and knowledge/skills (competences including energy, entrepreneurship, information, expertise, management and time) as being factors contributing to a business's resource-base.

> *Competence: a cluster of related abilities, commitments, knowledge and skills that enable an organisation to act effectively.*

Business Dictionary[62]

61 Business Dictionary n.d., *Price to earnings (PE) ratio* [online]. Retrieved from: http://www.businessdictionary.com/definition/price-to-earnings-PE-ratio.html [Accessed on: 24 August 2017]
62 Business Dictionary n.d., *Competence* [online]. Retrieved from: http://www.businessdictionary.com/definition/competence.html [Accessed on: 24 August 2017]

An objective and comprehensive[63] audit of the firm's resources is the first stage of evaluating a business's strengths and capabilities.

Physical (tangible) resources		Competences	
Fixed assets[63]	Land Buildings	**Business strategy model**	Organisation of activities to achieve customer value.
	Production facilities Equipment Technology		
Financial	Capital Reserves	**Business configuration**	Structural optimisation and operational effectiveness
	Cash and availability Debtors	**Human skills**	Knowledge, business intelligence Experience Technical and technological skills
Human	Labour force – numbers, location, labour mix and attributions	**Culture**	Leadership and management Stakeholder relationships Foresight and the organisational learning
Intangible assets			
Marketing assets – brand value, corporate image, trademarks, product mix, global distribution, customer retention and satisfaction, price/quality perceptions.			
R&D – knowledge economic effectiveness, patents, intellectual property rights, entrepreneur/intrapreneur culture, rate of successful innovation.			

Table 6: Resources and competences

REVISION on the go

Resource and capability analysis

There are a plethora of techniques and models developed to facilitate resource/capability assessment. The business student will have applied many of them in previous studies and reference has already been made to organisational structure models such as the McKinsey 7S framework and the value system. In this section, we will be signposting some of the major techniques used to assess resource capability. In "Revision on the go" below, students are reminded of some of the key techniques previously studied.

63 Comprehensive because it may be an unappreciated resource element that may provide a particular strength when reviewed in consideration of the opportunities and threats identified for the business sector.
64 Note: fixed assets are depreciating assets and can rapidly become dated (especially technology).

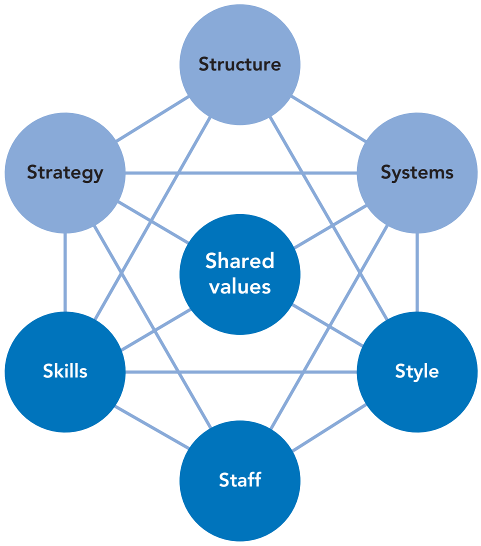
Resource assessment

Resource/competence	Audit activity	Technique/tools
1. Financial resources	Analysis of financial statements including directors' summary statements, reported on website	Interpretation of trading and profit and loss accounts and balance sheets Ratio analysis (see below) Share value trends Benchmarked comparisons with competitors

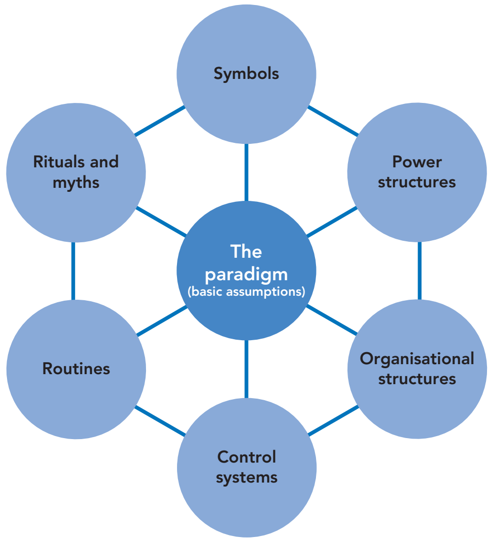
Profitability ratios	
Gross profit margin	$= \frac{\textit{gross profit}}{\textit{revenue}} \times 100$
Gross profit mark-up	$= \frac{\textit{gross profit}}{\textit{cost of sales}} \times 100$
Net or Operating profit	$= \frac{\textit{operating profit}}{\textit{revenue}} \times 100$
Overheads in relation to revenue	$= \frac{\textit{overheads (expenses)}}{\textit{revenue}} \times 100$
Return on capital employed (ROCE)	$= \frac{\textit{operating profit}}{\textit{capital employed}} \times 100$
Liquidity ratios	
Net current asset ratio	$= \frac{\textit{current assets}}{\textit{current liabilities}}$
*Liquid capital ratio** *also known as the Acid test	$= \frac{\textit{current assets – stock}}{\textit{current liabilities}}$
Inventory turnover	$= \frac{\textit{opening stock + closing stock} \div 2}{\textit{cost of sales}} \times 365 \text{ days}$
Capital structure ratio (%) *Gearing*	$= \frac{\textit{debt (loans + preferance shares)}}{\textit{equity (reserves + ordinary shares)}} \times 100$

Many of the largest companies summarise their financial performance with comparisons from the previous year as part of their annual report to investors. These can be found on their websites and is a useful ready-made assessment of financial position – although generally interpreted to present the company's performance in a positive light.

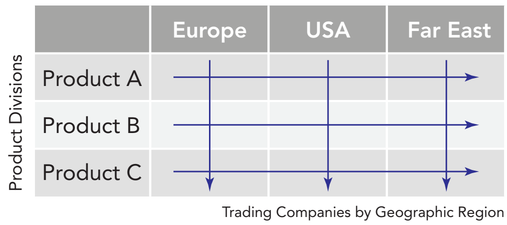
Resource/competence	Audit activity	Technique/tools
2. Organisational configuration	Business structure, organisation, leadership, and management	McKinsey 7S framework and culture (see below) Organisation chart Stakeholder analysis



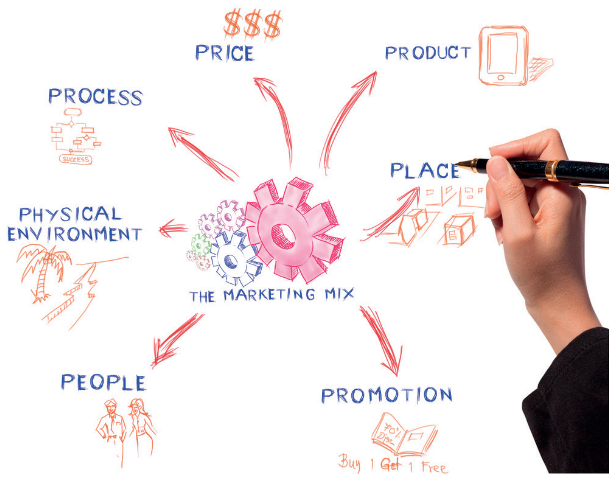
(a) McKinsey 7S framework



(b) Cultural web



3. Organisational structures – matrix organisation



4. Marketing mix – measurement and analytics

Hint: Company websites provide useful sources of information – structures, results, and strategies

REVISION on the go

Analyses of this nature are never entirely complete, but further models considered important for the strategic manager are evaluated below.

1 **BCG matrix** – evaluates a firm's products or business units on the basis of market share and growth.
2 Porter's **value chain** (co-ordination of internal activities for the creation of goods and services).
3 Resource/competence matrix.

Product/service mix

Assessment of the various products and services that make up an SBU's proposition can be evaluated through the (BCG matrix in Figure 14(a)). Each product is assessed for its position in the market (growth and market share relative to the biggest competitor). The BCG matrix's value lies in holistic portfolio examination and the contribution each part makes to the ongoing success and development of the business. The BCG matrix also links effectively with the product life cycle, from market entry (question marks in the diagram) proceeding in an anticlockwise direction before declining. The most cash-absorbing phases of the product life cycle are during development (R&D) and the early stages of launch and growth. This model can be adapted to reflect SBUs in a corporate portfolio or even give an international dimension to show the value of a firm's overall performance, country by country. Below is an explanation of the BCG matrix.

1. Stars: the business units or products that have the best market share and generate the highest profits. Monopolies and first-to-market products are frequently termed stars. However, because of their high growth rate, stars also consume large amounts of cash. Stars can eventually become cash cows if they sustain their success until a time when the market growth rate declines. Companies should place most of their investment here.
2. Cash cows: these are business units or products that have a high market share but low growth prospects. They provide the cash required to turn question marks into market leaders, cover the administrative costs of the company, fund R&D, service the corporate debt, and pay dividends to shareholders. Companies are advised to invest in cash cows to maintain the current level of productivity.
3. Dogs: these are units or products that have both a low market share and a low growth rate. They frequently break even, neither earning nor consuming a great deal of cash. Dogs are generally considered cash traps because businesses have money tied up in them.
4. Question marks: these are also known as problem children, and are parts of a business that has high growth prospects but a low market share. They consume a lot of cash but bring little in return. They can lose money, however, because they can grow rapidly, they do have the potential to turn into stars. Companies are advised to invest in question marks if the product has potential for growth or to sell if it does not.

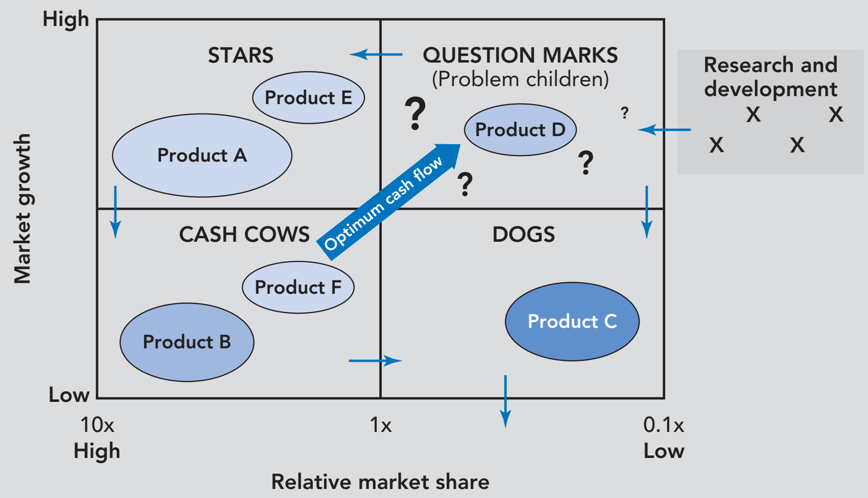


Figure 15 (a): BCG matrix

REVISION on the go

The BCG matrix is also valuable for assessment of product impact on financial earnings and cash flow as illustrated in Figure 15(b). Based only on forecast position of individual products in the matrix, it is relatively simple to predict likely net financial returns.

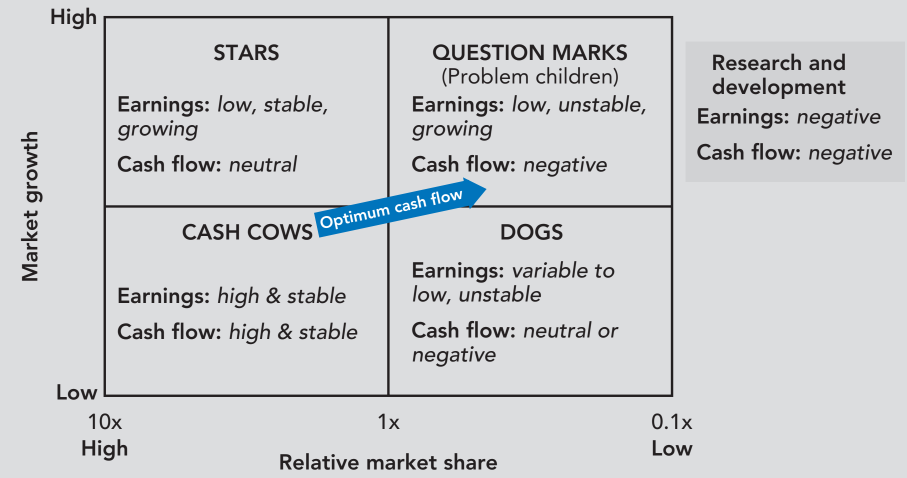


Figure 15 (b): Earnings and cash flow: BCG matrix

Marketing mix strategy (see Revision on the go: item 4 marketing mix strategy) is as important as financial management. A study for General Electric (1960s)[65] recommended assessment of the impact of market-led strategy. This highlighted the results of key strategic decisions and became known as **PIMS (Profit impact of market strategy)**. PIMS elements are summarised by profit, growth, cash flow, value enhancement and share price.

Value chain

In Section 2.1, Figure 5, we identified the market as a network of individual companies interacting with each other through inter-organisational links and relationships to form a market (value system). Porter's value chain (Figure 16) depicts interactions within organisational framework. Primary activities are the income generators of the business; support activities are essential in improving primary activity effectiveness. Optimisation of support efficiencies will reduce the cost-base and enhance the primary returns to maximise profit margins.

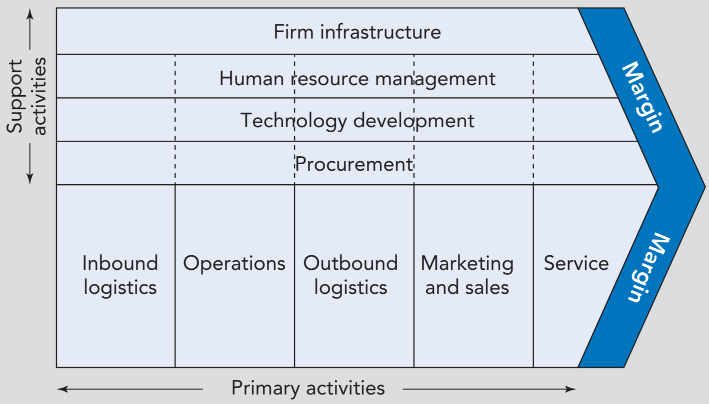


Figure 16: Porter's value chain[65]

The effectiveness of a value chain cannot be measured just by assessment of the individual elements (resource and competence configuration) but notably by the linkages and networks that make up a firm's unique business model.

65 The PIMS project was started by Sidney Schoeffler working at General Electric in the 1960s, managed by the Marketing Science Institute in the early 1970s, and has been administered by the American Strategic Planning Institute since 1975.
66 Porter, M. E. (1985) *The Competitive Advantage: Creating and Sustaining Superior Performance*, NY: Free Press

Strategic capability evaluation

> *Strategic capability: The ability to perform at the level required to survive and prosper. It is underpinned by the resources and competences of the organisation*
>
> *Johnson, Scholes and Whittington (2008)*[67]

Strategic capability appraisal defines the perceived strengths and weaknesses (see Table 6) of the organisation. These are assessed in relation to their relevance to the opportunities and threats identified earlier. The criteria by which a strength or weakness is judged to be significant in an assessment of capability is determined by VRIO characteristics (see Table 4).

In Figure 17, **threshold resources** and competences are basic requirements for any business to survive and earn a living in a marketplace, without these, the organisation will fail and has no more than ordinary capabilities – not strengths.

However, competitive advantage comes from certain **unique resources** and core competences that give demonstrable gains over rivals, providing the basis to outperform competitors or give better value for money.

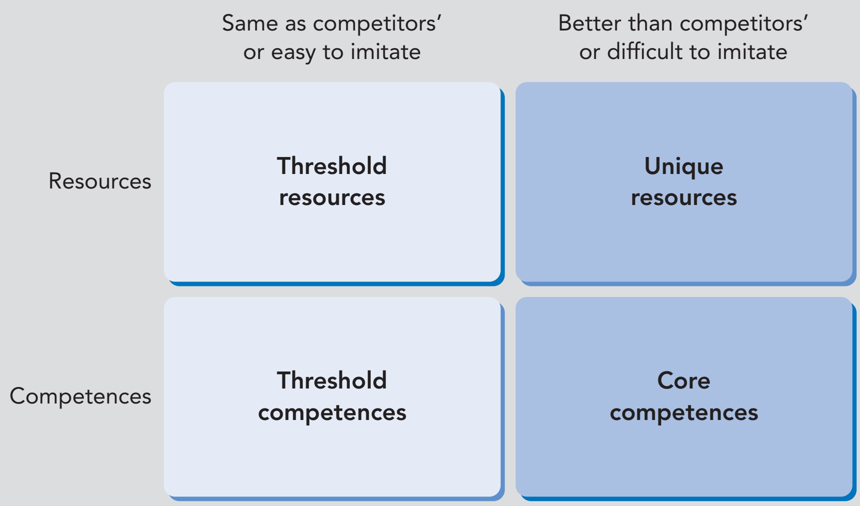


Figure 17: Strategic capability: resource and competence

Global business theorist and professor Teece (2007)[68] suggests that even unique resources and core competences become common or redundant in constantly changing, fast-moving and highly-competitive markets. So, a core competence can simply be the insight and ability to respond effectively to market changes. The successful business also needs strengths in what is termed dynamic capabilities:

Sensing – constant intelligence-gathering and awareness of market developments; investment in R&D – opportunities and threats.

Seizing – capability to seize opportunities for new products/services, business processes and other activities to gain market share advantage.

67 Johnson, G. Scholes, K. and Whittington, R. (2008), *Exploring Corporate Strategy*, 8th edition, FT Prentice Hall.
68 Helfat, C.E., Finkelstein, S., Mitchell, W., Peteraf, M., Singh, H., Teece, D.J., and Winter, S. (2007), *Dynamic Capabilities: Understanding Strategic Change in Organisations*, Malden M.A.: Blackwell Publishing.

Reconfiguring – renewal and reconfiguration of capabilities and investments in technologies, manufacturing processes and markets (Johnson et al. 2017)[69].

Benchmarking

Benchmarking gives the strategic manager an opportunity to make comparisons with outputs from other business operations and so make more realistic judgements on a like-for-like basis. Benchmarking is most often used when assessing others in the same sector, but can also be useful when establishing best-in-class performance in an aspect of business operations.

Summarising strengths and weaknesses

This chapter ends with a checklist of strategic capability developed from strengths and weaknesses in relation to previously identified opportunities and threats.

Strengths	Weaknesses
• Is your value chain better or worse than competitors? • Does the company understand what customers value? • Does your strength give added value? • Will your strength be relevant in a dynamic business environment? • Can you use your strength to exploit an opportunity or counter a threat to gain competitive advantage? • Is it robust? Could it also be a weakness?	• What impact does this weakness have on your business? • How relevant and important is it in a dynamic business environment? • Could it also be a strength? • Is it a **critical success factor** to survive and be successful? • Can it be overcome to exploit an opportunity or counter a threat in a dynamic environment? • Is it urgent that it is addressed? Can it be overcome and the position recovered?

Table 7: Assessing strengths and weaknesses

Perceived wisdom states that a strength is only a strength if it is relevant and exploitable to give the advantage in a changing environment and that a weakness is only a weakness if its impact threatens the core survival and success of the business, and that it cannot be addressed or overcome.

OVER TO YOU

Activity 4: Strengths and weaknesses

Tata hotels and realty brands including the prestigious Taj group of hotels form part of the Tata group portfolio. You should undertake your research of the capabilities of the Taj group using their corporate websites and other internet-based research and reviews.

69 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017), *Exploring Strategy*, 11th edition, Pearson.

Tasks:

1 **Using the tools and techniques summarised in this chapter, make an evaluation of the hotel and reality brands of the Tata group with particular reference to the Taj group of hotels.** ***(Hint: full details on particular aspects of individual business units with the Tata group may not be readily available so it will be necessary to make assumptions, provided you can justify these).***

2 **Summarise your findings of strategic capability in the form of a strengths and weaknesses assessment. This should be appraised in relation to opportunities and threats identified in the previous activity.**

3 **Compare Taj group with Marriott Hotels (now one of the largest hotel chains operating in India).**

4 **Summarise Taj group's strategic capabilities to exploit opportunities and counter the threats identified in the Indian tourist market.**

Sources:

- ***http://www.tata.com/aboutus/index/About-us;***
- ***http://www.tata.com/brandshowcase.html***
- ***https://www.tajhotels.com/***
- ***http://www.rediff.com/money/report/foreign-hotel-chains-push-indian-majors-on-backfoot/20161020.htm***

READING LIST

- De Wit, B. and Meyer, R. (2004), *Strategy: Process, Content, Context*, 3rd edition, Thomson Learning.
- Johnson G., Scholes, K. and Whittington, R. (2008) *Exploring Corporate Strategy*, 8th edition, FT Prentice Hall.
- Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017), *Exploring Strategy*, 11th edition, Pearson.
- Mintzberg, H., Ahlstrand, B. and Lampel, J. (2009), *Strategy Safari*, 2nd edition, FT Prentice Hall.

Summary

In this chapter, we have discussed and analysed the business environment in which organisations operate. A thorough evaluation of strategic capability is recognised as a time-consuming, data-driven process covering the complete scope of external, industry sector, market and internal factors that contribute to organisational capability. This chapter has focused in some detail on the reasons why this analysis is important and the models, tools, and techniques to be considered when undertaking such an exercise. However, it should be recognised that these do not cover all the potential options for analysis.

The chapter has also considered the intangible (often cultural) dimensions that can spell success (or failure). Again, without full insight into the actual workings of the company, it is difficult to make informed judgements with justification, yet this process is necessary to understand the dimensions of the business environment in a particular sector or from the viewpoint of a particular company.

In order to understand a company's capability to be successful in a dynamic environment, summaries of current and future trends are outlined through interpretation of potential opportunities and threats for the business and its relative strengths and weaknesses.

As a final additional point, it should be noted that in strategic management, organisations use a continuous process for data collection and interpretation – there are many specialist and sophisticated data analysis tools and software for just this purpose. Clearly, these tools are not readily available to the student of strategy. However, the global nature of business offers the opportunity to delve into most major company's activities through often detailed information on company websites and coupled with research activities through the internet, a reasonably accurate picture can be drawn. This way we can usefully gain a realistic insight into the strategic developments of sectors and the comparative incumbents operating within a given market.

Chapter 3

Strategic Options

Introduction

A strategy is a road map for a business.

In Chapter 1, we discussed **Mintzberg's 10 schools of strategy formation** and how approaches to strategy development were generally based on culture, management, and leadership within the context of a dynamic and competitive environment.

Chapter 2 provided insight into the tools and techniques used for assessing strategic capability to gain a competitive advantage as a planned-for, continuous analytical process. However, such analysis, often drawn from inconsistent data in a rapidly changing environment, is often ambiguous, complex, and our understanding of situations and future outcomes can be vague. For large corporations, the prescriptive approach can provide a recognisable and justifiable structure on which to base strategy formation.

In Chapter 3 we will follow a similar route, exploring strategy creation as a structural process, using techniques, tools and models to predict alternative futures from a range of options (some of which have been referred to previously).

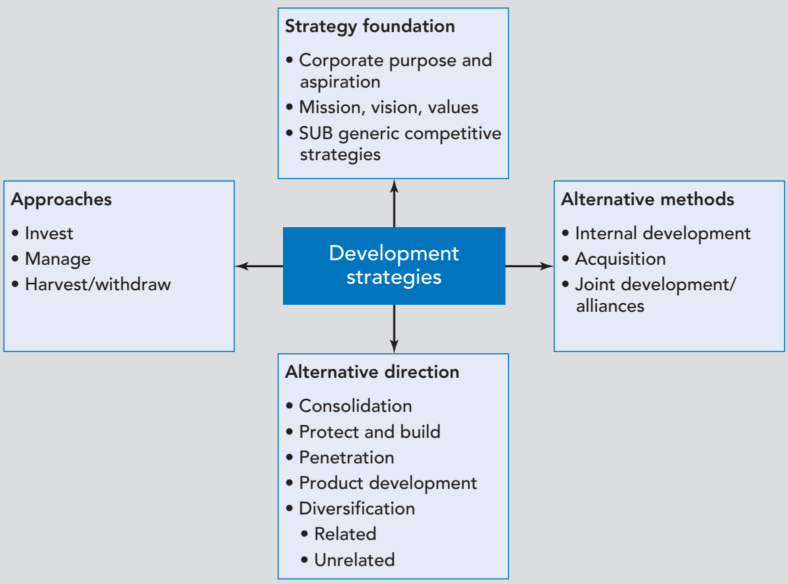


Figure 1: Strategy development

Level 6 Business Strategy and Decision-Making

Learning outcome

On completing this chapter, you will be able to:

3 Critically evaluate an appropriate range of development options on which to base business strategy

Assessment criteria

3 Critically evaluate an appropriate range of development options on which to base business strategy

3.1 Assess the appropriateness of current bases of organisational purpose and strategies

3.2 Critically review directional strategy frameworks for organisational development

3.3 Evaluate alternative approaches and methods for implementation of a business strategy

3.4 Apply a range of models to generate justifiable strategic options which will facilitate strategic decision-making in a given organisational situation

3.5 Evaluate appropriate different scenarios for successful strategic development

3.1 Assess the appropriateness of current bases of organisational purpose and strategies

Corporate purpose

The corporate purpose of an enterprise can be defined as its primary concern and reason for existence. Corporate purposes provide the framework for establishing and managing hierarchical organisations, and controlling the business decisions and activities.[69] For example, if the prime purpose is to provide profit for the firm, then its intent, aims, and goals should be focused on that. Equally, for a not-for-profit organisation, the purpose may be to provide a specific service for beneficiaries. Unlike many other aspects of organisational strategy, corporate purpose rarely changes and is probably the one constant. However, though the corporate purpose may remain the same, the manner in which this is achieved will change subject to changing influences in social and demographic opinion.

A number of elements contribute to the concept of corporate purpose (sometimes expressed as a value statement). Johnson, Scholes and Whittington (2008)[70] suggested those influences are **corporate governance**, **business ethics**, organisational culture, and stakeholders. This is shown below in Figure 2.

Source: adapted from Johnson, Scholes and Whittington (2008)

Figure 2: Corporate purpose – influences on strategy

Corporate governance

Corporate governance is the framework of rules and practices a board of directors adheres to in order to ensure transparency accountability and fairness in an organisation's relationship with its stakeholders. It ties in with the concept of business ethics, which are moral principles that guide the way an organisation behaves.

69 Kokemuller, N., n.d., *General Corporate Purposes Definition* [online]. Retrieved from: http://smallbusiness.chron.com/general-corporate-purposes-definition-65747.html [Accessed on: 24 August 2017]
70 Johnson, G., Scholes, K., Whittington, R. (2008) *Exploring Corporate Strategy*, 8th edition. FT Prentice Hall

The wider, external influences of societal expectations of the company and its role in the community are normally found in an organisations' policies and activities.

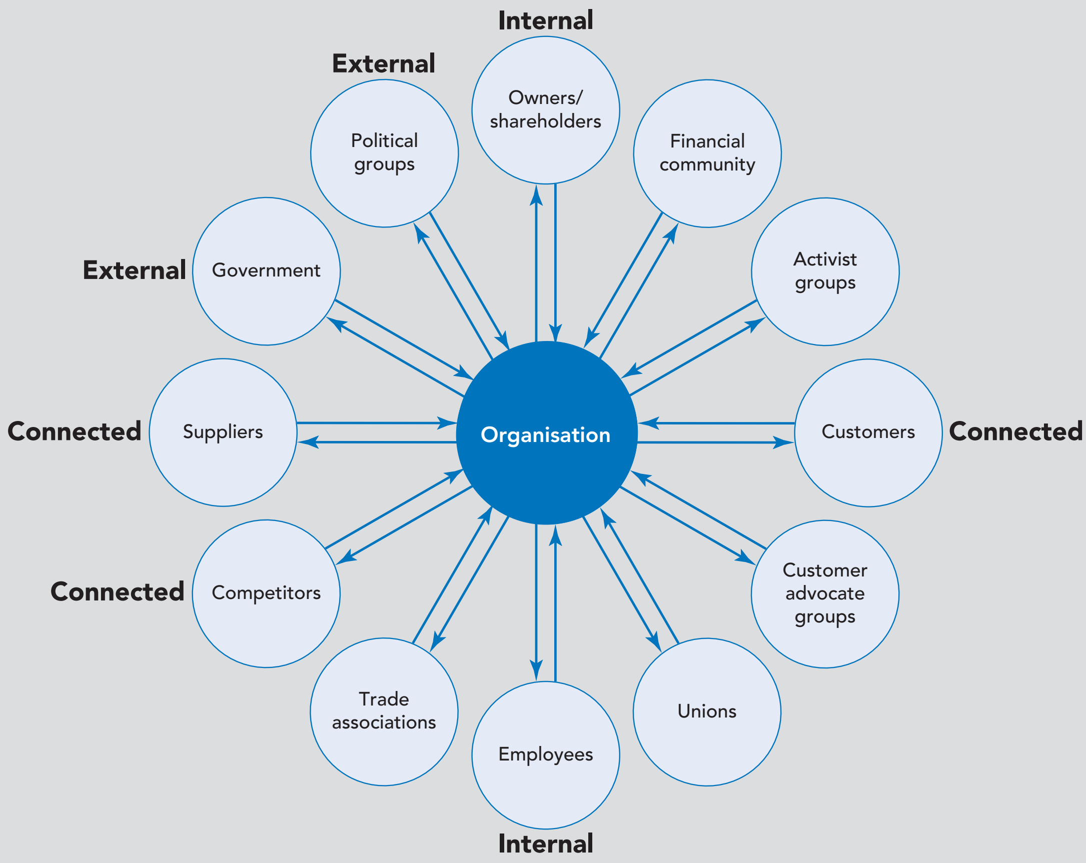
Stakeholder analysis

Each organisation has a unique mix of stakeholders whose opinions, influence and relationship with it form part of its cultural dimension, and in turn contribute to its corporate purpose. These stakeholders are usually divided into groups – external, connected and internal – similar to the analysis of the business environment. Stakeholders have needs and expectations, and these form the basis on which to set goals.

For example:

- Shareholders need ROI and expect dividends and share value benefits.
- Employees need to be paid according to their contracts and to work in a safe environment, but they also expect training, career development and to be treated fairly and equally.

Figure 3 typifies the range of stakeholders in a large organisation.



Source: adapted from Johnson, Scholes and Whittington (2008)

Figure 3: Stakeholder analysis

The quality of leadership, management, technical operational know-how, experience and motivation are all contributors to capability assessment, and stakeholders should be appraised with this in mind. There is a pecking order of stakeholders based on their value to the organisation – assessment of relative importance and interest is often evaluated through the **Mendelow's stakeholder power/interest matrix** (see Chapter 4). However, from the perspective of strategy formation, the organisation has a responsibility to ensure it fulfils the needs and expectations of stakeholders and also closely monitors the organisational benefits gained from specific stakeholder relationships.

OVER TO YOU

Activity 1: Stakeholder needs and expectations

Research the Raj Group of Hotels.

Based on Figure 3:

1. **Identify the key stakeholders (internal, connected and external) of Raj Group of Hotels.**
2. **Suggest the needs and expectations of each of the identified stakeholders.**
3. **Rank by importance which of the stakeholders will be the most influential in determining the corporate purpose of the business.**

Mission, vision and values

An organisation's corporate purpose is often incorporated as part of their mission, vision and values statements, "the operating philosophies or principles that guide an organisation's internal conduct as well as its relationship with its customers, partners, and shareholders."[71]

71 Business Dictionary n.d., *Corporate values* [online]. Retrieved from: http://www.businessdictionary.com/definition/corporate_values.html [Accessed on: 24 August 2017]

Unlike the unchanging purpose of a company, its mission, vision and values will develop over time – even if only a little. The way these are expressed has gone from single phrase slogans (e.g. in 1989, British Airways, "the world's favourite airline"), to more extensive and detailed statements, such as that of the Tata group below.

CASE STUDY: TATA GROUP

Corporate purpose

The main commitment of the Tata group is improving the quality of life of the communities in which they operate. They aim to lead the market and achieve global competitiveness.

Values

There are five core values which underpin the way that the Tata group does business. These are:

- **Integrity:** They strive to be fair, honest, transparent and ethical in their conduct.
- **Excellence:** They strive to achieve the highest standards of quality in their products.
- **Unity:** They strive to build authentic and collaborative relationships based on trust and mutual respect by investing time and money into developing the skills of their staff and strengthening connections with their business partners.
- **Responsibility:** They strive to integrate environmental and social concerns in their conduct.
- **Pioneering:** They strive to be innovative, forward-thinking and to incorporate customer feedback into their future developments.

Mission

To improve the quality of life within the communities they operate in globally, and to show trustworthy leadership.

Source: http://www.tata.com/aboutus/articlesinside/Values-and-purpose

The change in emphasis largely stems from global regulatory requirements for corporate transparency and accountability to its shareholders and wider stakeholder communities. Nonetheless, this level of detail offers clues about how the business intends to conduct itself to achieve its overarching mission. This is known as the "business model".

The business model

In Chapter 2, we discussed the idea of achieving competitive advantage through superior management of the organisation's business model. Porter's generic strategy model (Chapter 2, Figure 12) presented various approaches that could be taken to achieve this goal.

In this section, the business model forms the basis on which the business organises its activities. "A business model is the conceptual structure supporting the viability of a business, including its purpose, its goals and its ongoing plans for achieving them."[72]

In Porter's generic strategies, a business model is seen from the organisation's perspective and it is suggested that at any one time, the focus of activities should be determined by the principles of cost leadership and differentiation, within the agreed scope of the business' market.

Alternatively, Bowman (1995)[73] argued that the business model should be perceived from the viewpoint of the market and customers (outside-in). Bowman describes this as strategic positioning, and refers to it in his model as the **strategy clock**. So the axes of the strategy clock model (Figure 4) are based on perceived added value and sale price. Unlike Porter, this model is not static as Bowman recognised that over time, to continue to compete effectively and respond to challenges and changing dimensions of a market, the model is likely to require adaptation.

The strategy clock

Bowman identified eight zones in which operators in a market could be positioned on the clock:

Zone 1: No frills – Minimally-priced products/services with no added value. Customers expect nothing beyond basic needs to be met.

Zone 2: Low price – Companies positioning themselves as the low-cost leaders in the market. Their products are of low price and low value, but customer expectations can be achieved.

Zone 3: Hybrid – Here the organisation combines a mixture of low price and higher value. Not always considered beneficial as a long-term strategy (it could affect profit margins), but is useful short-term to gain market share, particularly in a new market.

Zone 4: Differentiation – Almost an exact replica of Porter's definition of differentiation except this is seen from the market viewpoint. Companies offer customers the highest level of perceived added value. High-quality branding can play a key role in this strategy.

Zone 5: Focused differentiation – As with Porter, focused differentiation is directed at niche markets. This strategy aims to position a product at the highest price levels, where customers buy the product because of the high perceived value. This the positioning strategy adopted by luxury brands. However, an SBU-directed strategy to differentiate markets and business models will protect and enhance specific brands.

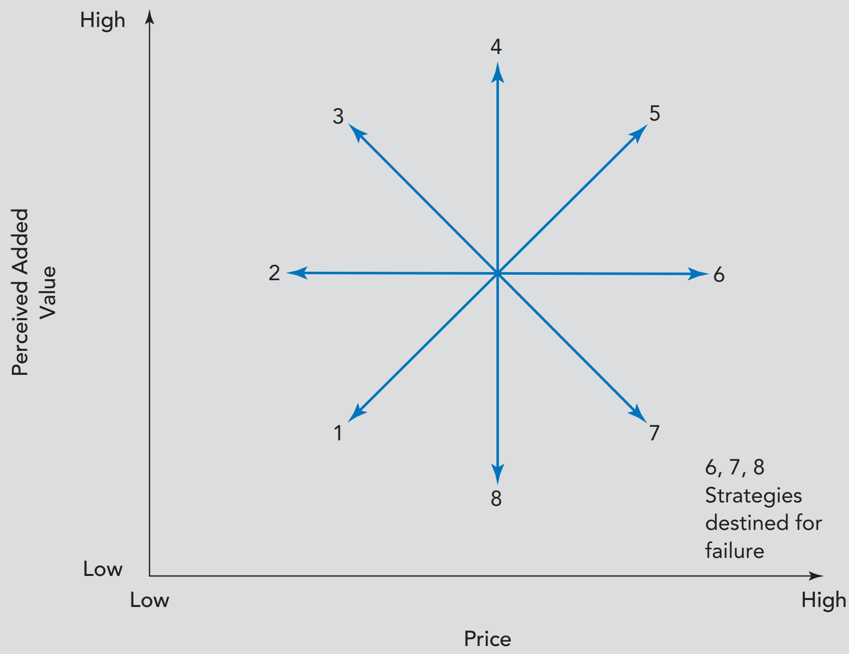
The final three positions are strategies destined for failure – not ones a company would select as positioning strategies. These are non-competitive positions, but could be sustained for a relative short period of time, perhaps because of urgent cash flow issues, for example. Under exceptional circumstances, including lock-in clauses, customers may have no choice but accept to high prices and low benefits.

Zone 6: **Increased price with standard value –** The business sets high prices without offering anything extra in perceived terms. If customers continue to buy at these high prices, the profits can be high, but eventually customers will find a better product.

Zone 7: **Increased price with low value –** Often only one business offers a product. In theory the monopolist controls the price, but monopolies are tightly regulated to prevent them from holding customers hostage.

Zone 8: Standard value with high price – This is a poor choice in any competitive market.

72 Rouse, M. (2013), *Business model* [online]. Retrieved from: http://whatis.techtarget.com/definition/business-model [Accessed on: 24 August 2017]
73 Bowman, C. and Faulkner, D. (1995) *The Essence of Competitive Strategy,* FT Prentice Hall



Source: Adapted from Bowman and Faulkner (1995)

Figure 4: The strategy clock

An organisation selects an entry point on the clock based on its basic business model (cost or differentiation) and then may move clockwise or anticlockwise to respond to marketplace changes or expectations. Leapfrogging strategies from one position across the clock to another are not considered effective. While zones 1–5 are advantageous to the business, 6, 7 and 8 are all potential failures. Even the most successful of companies may find themselves slipping unwittingly into the failure zones. The car market provides some very good examples, the most notable being Toyota, who have had to deal with safety issues and recalls driven by cutting corners.

CASE STUDY: STRATEGIES DESTINED FOR FAILURE

Toyota 2009–2011

Key points:

Between January 2009 and February 2010, Toyota recalled about five million cars worldwide for faulty accelerator pedals, brakes in Auris, Prius and Yaris models and steering issues on the Corolla. A number of deaths and serious injuries were attributed to these failures. Employees admitted to focusing on saving the company money by shortcutting safety measures. The chairman appeared before the congressional hearing into the crisis and the company faced criminal charges.

Source: https://www.theguardian.com/business/2010/jan/29/timeline-toyota-recall-accelerator-pedal

So generic strategies are determinants of the overall framework of the business model and the organisation's position in the market. Lack of clarity about position on the clock could lead to a lack of clarity about the market position and accusations of being stuck in the middle.

OVER TO YOU

Activity 2: Strategy clock

1. **Use well-known global motor vehicle brands (e.g. Toyota, Ford, Jaguar Land Rover, Tesla, Tata Motors) and position the brands on the strategy clock. Are any stuck in the middle? What are the implications? Justify your opinions.**
2. **Have you noticed any changes in direction over time? Show the direction of travel for the brands.**

3.2 Critically review directional strategy frameworks for organisational development

Once the foundations of strategic purpose and business models are agreed, strategy development considers the direction in which an organisation will take to:

- achieve its horizon goals (see Chapter 1, Table 1);
- exploit the market opportunities and counter the threats (see Chapter 2).

TOWS matrix

At this point, it is worth looking at the popular **strengths, weaknesses, opportunities and threats (SWOT)** assessment methodology to identify a range of strategies worthy of consideration for the future direction of the business.

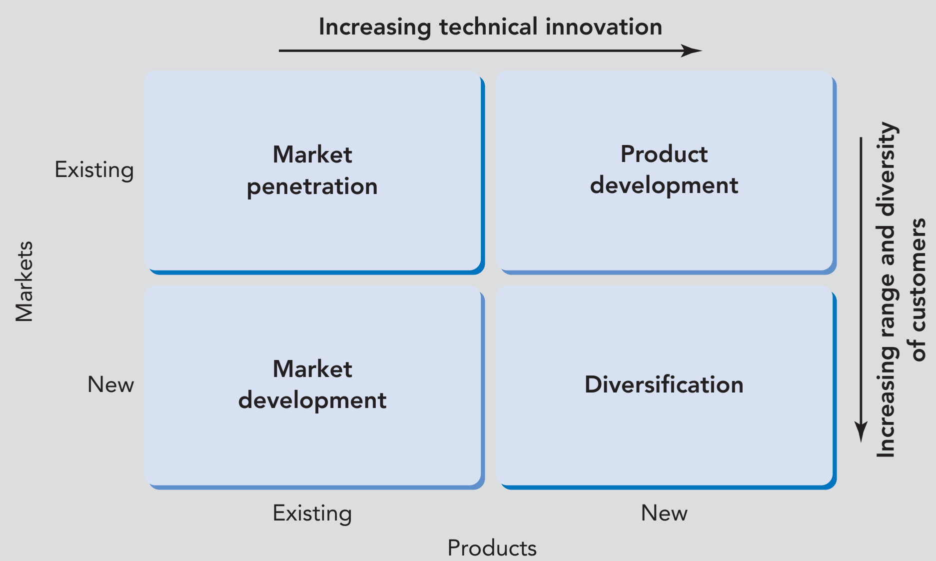
A useful development from the SWOT analysis is the **TOWS matrix** (which examines threats and opportunities first and weaknesses and strengths last). Depicted in Figure 5, the TOWS matrix takes each threat and opportunity identified, linking these with capabilities and issues identified through weaknesses and threats. Positioning in the matrix determines the nature of the outcome. So, for example, factors such as a good brand reputation and a new market opportunity may offer an option based on an aggressive or offensive strategy, known as SO – using strengths (S) and maximising opportunities (O). Conversely, major losses coupled with threats from new and more powerful competitors may signal the need to have a TW exit strategy as the business is unlikely to survive – looking to avoid threats (T) and minimise weaknesses (W). The significance of TOWS is that it translates the SWOT into meaningful (and ideally specific) strategies on which to base future development. It also creates alerts about the nature of those strategies and the necessity of taking action. Defensive strategies may not always be negative but come after a period of **flux** and/or growth in which consolidation of market position is a preferred option (ST – using strengths and minimising threats). Likewise, exit strategies may be appropriate if an SBU operation is not easily aligned with the rest of the group. In this case, possible sell-off or exit from a viable business may be considered practical.

Instructions: List three strengths, weaknesses, opportunities and threats which will be the strategic focus.		
	Strengths 1............................ 2............................ 3............................	**Weaknesses** 1............................ 2............................ 3............................
Opportunities 1............................ 2............................ 3............................	**SO** **Key area** Offensive strategy	**OW** Defensive strategy Needs investment
Threats 1............................ 2............................ 3............................	**ST** Defensive strategy Requires care	**TW** **Key area** Possible exit strategy

Figure 5: The TOWS matrix

Ansoff's directional matrix

The core of most directional strategies is based on products (or services) and the markets they serve. **Ansoff's directional matrix**[74] (Figure 6) is a quick and simple way to think about the risks of growth. Its creator, Igor Ansoff, was known as the father of strategic management. As with other models, Ansoff's can be adapted to suit different circumstances. Although a product/market model, an organisation can use it to identify the most suitable strategies for its SBUs. Unlike generic business models, Ansoff's matrix does not presume that organisations should stick to one strategy at any one time (although resources could be dissipated if strategies are not focused). Rather, it presents options, sequencing and timescales to be considered in the planning and implementation phase.



Source: adapted from Ansoff (1988)

Figure 6: Ansoff's product/market growth matrix

74 Ansoff, H. I. (1988) *Corporate Strategy*, London: Penguin

Directional selection will be determined by alignment to TOWS matrix outcomes taking account of market developments, including the rate of technical innovation (new product development) and the level of glocalisation (the diversity of customers and access to greater numbers of markets resulting from political and socio-economic factors).

A market penetration strategy assumes a product/service is in the early or development stage of its life cycle and the market has the capacity for exploitation and growth. This may also happen after market entry or even shakeout phases when periods of consolidation takes place or the company's position can be enhanced through a policy of protecting and building.

Worthy of further examination is the extent to which product development is truly innovative as a result of adaptive changes including technology improvements. Market development considers new segments or market entry through internationalisation.

Internationalisation

Market development through internationalisation is a favoured option. Globalisation and trading blocs including the **EU**, **FDI** incentives in emerging countries, growth drivers in economic powerhouses (**Brazil, Russia, India, China (BRIC)** and **Mexico, Indonesia, Nigeria, Turkey (MINT)**) contribute to the attractiveness of international market development.

Businesses should consider the advantages to be gained from selecting one country over another and their options for entering the market there.

! NEED TO KNOW

Porter's diamond, a model that is designed to help explain the competitive advantage that nations or groups possess due to certain factors available to them, suggests comparisons are made between countries based on four closely interconnected aspects:

1 Factor conditions of production – economic resources and other features leading to a competitive advantage for domestic businesses based around the availability of infrastructure resources or cultural and linguistic capabilities to compete successfully in the market.

2 Demand conditions – the nature of demand in the selected country. Target market size and preferences including national loyalties are potential sources of competitive advantage, but to whom? Will the primarily country/host nation always have competitive advantage?

3 Firm's strategy, structure, and market rivalry – evaluated from two perspectives: domestic firms already in the market, and potential new entrants. For the former, assessments are based on the success of existing markets and players, and the capability of the potential entrant to gain competitive advantage in what may or may not be an established market.

4 Related and supporting industries – availability and capability of the complementary supply chain to support both existing companies and potential entrants.

REVISION on the go

Generic and long-term **strategic intent** is governed by commitment to internationalisation and political pressures for either globalisation or local responsiveness. Methods of international market entry range from simple export, licensing/franchising, **joint venture** operations or the acquisition of wholly-owned subsidiaries. These choices are dependent on the conditions identified through Porter's diamond (see also **strategic method** alternatives in Figure 7).

Figure 7 illustrates the product/market segment options available to companies operating in a business-to-business market targeting the transport sector (e.g. computer systems). This can be adapted easily for an international market with customer groups substituted for individual nations or trading blocs.

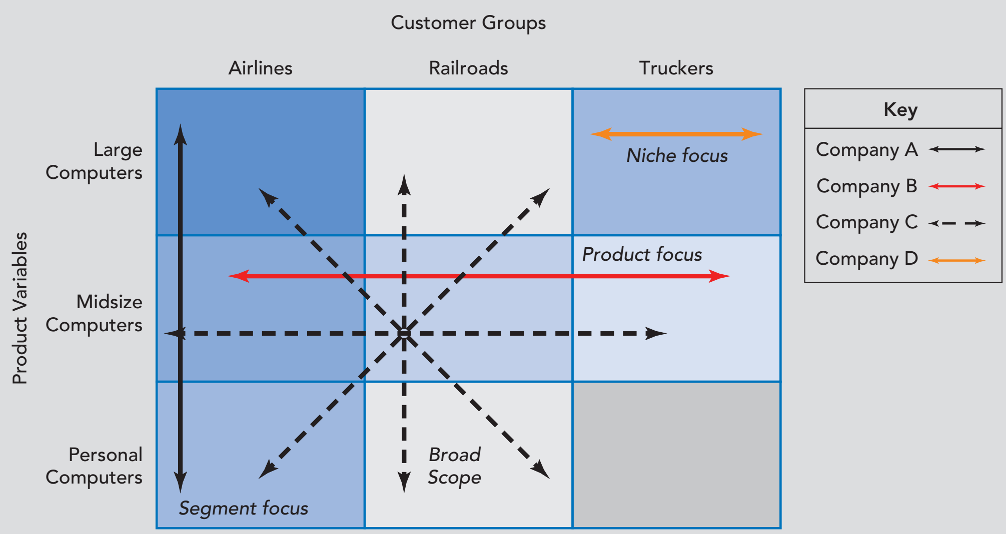


Figure 7: Segment-by-segment diversification

Diversification

Diversification focuses on increasing the range of products and markets. This can be segmented through **related diversification** – a process that takes place when a business expands its activities into product lines that are similar to those it currently offers. For example, a manufacturer of computers might begin making calculators as a form of related diversification of its existing business. Company C in Figure 7 illustrates related diversification by diversifying from its core business of midsize computers in railroad companies to providing both large and personal computers to a range of companies operating in the transport sector (airlines, railroads and truckers). Though diversified, the company still sells computers and its customers are all in transport.

Related diversification can also be effected through **supply chain management (SCM)** including strategies that encompass **vertical**, **horizontal** and **concentric** development (Figure 7).

> *Supply chain management (SCM) is the active streamlining of a business' supply-side activities to maximise customer value and gain a competitive advantage in the marketplace.*
>
> *Investopedia*[75]

Unrelated diversification is considered as the riskiest strategy, likely decided at corporate level. Johnson et al. (2017)[76] refer to this as conglomerate diversification in which the company moves entirely into a new field that has no relation to any of its existing businesses. Such a strategy will be formed as a response to perceived opportunities or may reflect terminal threats to aspects of its existing portfolio – examples include the Virgin Group and the Easy Group.

75 Investopedia, n.d, *Supply Chain Management - SCM* [online]. Retrieved from: http://www.investopedia.com/terms/s/scm.asp [Accessed on: 15 July 2017]
76 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017) *Exploring Strategy*, 11th edition. Pearson

Portfolio development

In Chapter 2, Section 1.2 and Section 1.4, we discussed models such as the GE McKinsey and BCG matrices as a means of assessing current trends, future trajectories for products/services and SBU forecasts in a given market.

These models also provide the strategic manager with directional options about the broader nature of inter-relational synergies to be gained from the entire portfolio. Next we will examine how these can be used as part of the evaluation of alternative approaches and methods, in order to identify strategies that will form the basis for a firm's future activities to achieve their goals.

OVER TO YOU

Activity 3: Strategy clock

In this activity, use the brands mentioned in Chapter 2, Activity 4 as a basis for your research into directional options.

Tasks:

1. **Examine the key brands of the Tata hotels and realty segment, and refer back to the SWOT analysis completed for this strategic group (Chapter 2).**
2. **Build a TOWS matrix based on your findings.**
3. **Translate these into directional options using Ansoff's matrix for each of those brands.**
4. **Can synergy be created through related (or unrelated) diversification which exploits the products/markets offered by other companies in the Tata hotels and realty segment?**

3.3 Evaluate alternative approaches and methods for implementation of a business strategy

In this section we will explore the alternative approaches and methods a business can adopt to support both generic and directional strategies in pursuit of goals outlined in its corporate purpose (mission, vision and values) and to exploit strategies developed through the TOWS matrix.

Strategic approach alternatives

Models such as the GE McKinsey matrix and TOWS framework suggest there are a number of alternative approaches, but each advises that the decision taken depends on the competitive position of both the industry and the business within it. That, coupled with future trends for that market – stage in life cycle and prospects for competitive advantage – will contribute to the final outcome.

Alternative approaches are identified as those based on:

1. **Investment:** Further investment (to achieve profits and market share) will be the driver where there are key business strengths and potential for market growth and gaining strategic advantage.
2. **Portfolio and positioning management:** Driven by either market-led (outside-in) or resource-led (inside-out) principles, substantive gains can be achieved through:
   - Selected investment and portfolio management: Market-led strategies include seeking market share and competitive advantage through repositioning, brand value development and the range of marketing mix strategies (7Ps[77]).
   - Optimisation of operational effectiveness: Resource-led strategies for profit maximisation through value chain efficiency – supply chain regulation through SCM relationship management and internal controls of procurement, inventories, production, distribution, information, and technology systems.
3. **Harvesting and/or divestment:** Relating to businesses or SBUs positioned in the danger zones (e.g. the red area of the GE McKinsey matrix or the dogs in the BCG matrix). **Harvesting** concerns management of the portfolio to maximise revenue (cash dog) in the short term before **divestment**. This strategy is likely to be used at the end of the product life cycle or when replacement products are launched.

Alternative future positioning models

Similar to the GE McKinsey matrix, but with a slight refinement of focus is the **Shell directional policy matrix (SDPM)**.

Business' competitive capabilities	Prospects for sector profitability: Unattractive	Average	Attractive
Weak	Disinvest	Phased withdrawal	Double or quite
Average	Phased withdrawal	Custodial growth	Try harder
Strong	Cash generation	Growth leader	Leader

Source: adapted from the Chartered Institute of Marketing[78]

Figure 8: Shell directional policy matrix (SDPM)

REVISION on the go

77 The extended marketing mix (7Ps) comprises Product, Price, Place and Promotion and is extended to include People, Process and Physical evidence which are considered important when evaluating the marketing mix for services.
78 Adapted from Chartered Institute of Marketing Post-graduate Diploma in Marketing (2010) tutor notes (www.cim.co.uk)

The SDPM starts from the perspective of future prospects – not just for growth but more importantly for profitability. The business is considered not just in terms of strengths, but its future and potential capabilities for success. Dependent upon its position, SDPM gives clear guidance for the way a business should focus its strategies.

The **Arthur D. Little (ADL) matrix** takes this process further by suggesting that a strategic approach should be determined by an organisation's market share and leadership position and the stage in the sector life cycle.

		Industry life cycle			
		Embryonic	**Growth**	**Mature**	**Decline**
Competitive Position	**Dominant**	All out push for share. Hold position.	Hold position. Hold share.	Hold position. Grow with industry.	Hold position.
	Strong	Attempt to improve position. All out push for share.	Attempt to improve position. Push for share.	Hold position. Grow with industry.	Hold position or harvest.
	Favourable	Selective or all out for share. Selective attempt to improve position.	Attempt to improve position. Selective push for share.	Custodial or maintenance. Find niche and attempt to protect.	Harvest or phased out withdrawal.
	Tenable	Selectively push for position.	Find niche and protect it.	Find niche and hang on or phased out withdrawal	Phased out withdrawal or abandon.
	Weak	Up or out.	Turnaround or abandon.	Turnaround, orphaned out withdrawal.	Abandon.

Table 1: ADL consulting group matrix

The ADL matrix suggests that to achieve these goals it may take a combination of strategies:

- market strategies
- product strategies
- management and systems strategies
- technology strategies
- retrenchment strategies
- operations strategies.

These will be considered in Chapter 4.

Strategic method alternatives

In this section, we consider the overarching principles by which a business can achieve its goals through organisational re-engineering[79] and structure. These fall into three categories:

1 **organic** or natural development;

2 **mergers and acquisitions (M&A)**;

3 joint ventures (JV) and **alliances**.

1 Organic or natural development

Organic development is based on the premise of achieving growth through building on existing capabilities. Considered a default, safe option, there are many advantages for adopting this approach:

- Existing knowledge and experience can be cost-effective and enhance the learning of the organisation in core business. Specialist knowledge and skills can be protected.
- Spreading cost of investment is possible if the organisation is planning developments within its existing resource capability.
- Limits third-party constraints – the business is not dependent on availability (or non-availability) of suitable partners, nor problems in making appropriate alliances or contracts.
- Strategic independence – as above, the freedom from third-party demands or compromises, can help in forging the strategy with a clear plan not limited by partnership opinion and resource demands.
- Cultural management – organic development preserves the existing cultural dynamics of the business (though not necessarily the structural dimension). This also has the advantage of potentially enabling a speedier approach to development.

There are disadvantages of a reliance on organic development. Although a safe option, existing operational flaws can slow developments and may not enable the business to realise its potential because of the limitations of existing weaknesses. Lack of exposure to outside influences, resources, and learning which is achievable through strategic alliances may also restrict development.

However, Johnson et al. (2017)[80] suggest that corporate entrepreneurship is a form of organic development enabling radical directional change, yet developed through existing resources and capabilities. For example, the Easy Group has a diverse portfolio of businesses, developed through internal capability yet characterised by radical differences in business sectors.

One of the biggest issues for organic development is not just resource-based leverage, but ensuring the acquisition of often cutting-edge resources and competences which are able to meet the challenge of major strategy change. This comes at a cost; financial capabilities to resource and underpin requirements may be sought through additional share issues or borrowing in the short- or long- term. Competences may be achieved through the costly acquisition of global talent.

Corporate entrepreneurship is achievable through synergies gained from different SBUs within the corporate conglomerate. A good case for financial and complementary support can be made by the corporate parent to encourage investment in new projects by individual SBUs.

79 Re-engineering is the "Fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical measures of performance such as cost, service, and speed." Read more: http://www.businessdictionary.com/definition/reengineering.html

80 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér P. (2017) *Exploring Strategy*, 11th edition. Pearson

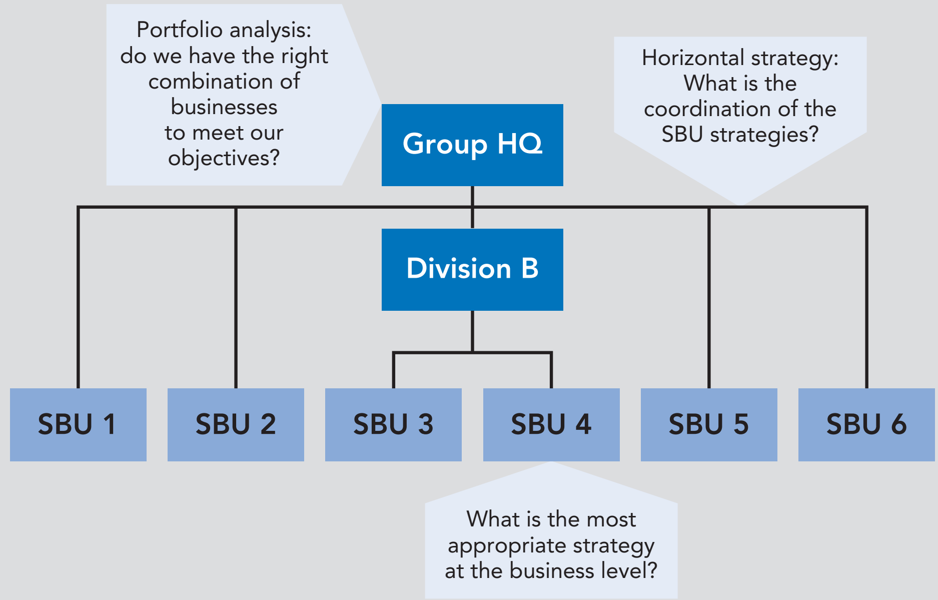


Figure 9: Organic growth in a corporate conglomerate

REVISION on the go

2 Mergers and acquisitions

Acquisition of resources and competences through mergers and acquisitions is an entirely different commitment. In corporate terms, both entail strategic management attention to mix the structures, resources, processes and operations of different businesses.

> *A merger is a mutually agreed decision for joint ownership – a combination of two or more companies.*

> *Acquisition is where an organisation develops its resources and competences by taking over other organisations.*

Investopedia[81]

Mergers and acquisitions (M&A) are about contractual ownership of a business. A merged company is one that combines companies of approximately equal size and equal value – though not necessarily exactly the same competences or skillsets. The participating companies in a merger will have mutual dependency so it is anticipated they will bring equal value to the relationship and synergies will be created to give added value to the combined business.

In acquisitions, there will be a dominant party taking control by acquiring the stock of a majority of shareholders (often paying above market-value as an incentive). In this instance, the acquired firm will be in unbalanced dependence.

81 Business Dictionary n.d., *Mergers and acquisitions* [online]. Retrieved from: http://www.businessdictionary.com/definition/mergers-and-acquisitions.html [Accessed on: 24 August 2017]

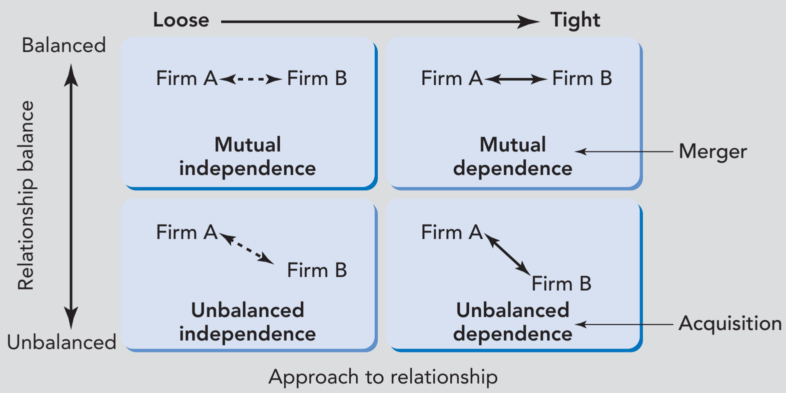


Figure 10: Relationship dependencies between firms

The rationale behind M&A concerns achievement of competitive gain – usually related to market place issues such as survival or consolidation in a saturated market, convergence in mature markets, gaining market dominance through activity extension or geographic sweep, increase in market-driven capabilities including R&D. Financial motives include resource bundling and financial efficiencies. Many M&As take place in order for the businesses to gain corporate advantage, having little to do with business operational activities. These include share price drivers (usually said to increase during M&A negotiations) tax advantages and the potential for **asset stripping** – the practice of taking over a company and selling each of its assets separately at a profit without regard for the company's future.

Motives for M&A concern synergies or benefits gained by all companies involved. However, the role of stakeholders, particularly senior managers, should not be underestimated. Personal ambition can drive M&A regardless of any real value creation for the participating companies. In some situations, competitors will manoeuvre to ensure the balance of the Five Forces (see Chapter 2, Section 2.2). Increasingly, M&A deals are blocked by **anti-trust regulations** for fear of global business monopolies e.g. Comcast's US$45bn offer for Time Warner Cable.

Figure 11: M&A stakeholder interests

The numbers and size of M&A deals are at a record high (partly due to a significant increase in Chinese global acquisitions). M&A activity is cyclical and one M&A deal encourages others to follow suit. However, M&A has had a chequered history. While Exxon/Mobil in 1999 and Disney/Pixar in 2006 have been heralded as major successes, others such as AOL/Time Warner which cost US$164bn in 2000 ended in an acrimonious split in 2009 after nearly bankrupting both companies.

It is significant that similarities in culture and organisational structures tend to be hallmarks of M&A success, whereas failures are often attributed to failures in the management of the M&A process, that destroy value rather than enhance it. Here are some of the risks involved:

- **Share prices/earnings** can drop due to acquisition and development costs.
- **Resource and competences** may not be exploited effectively or synergy gained with potential to diminish existing focus/capability.
- **Cost efficiencies and scale economies** are not achieved due to lack of synergy, change management costs, unrealistic expectation of scale economies, or redundancy costs.
- **Stakeholder expectations for growth or shareholder speculation** fails to be realised due to acquisition costs, with growth not being achieved or actually being diminished.

3 Joint ventures and alliances

An alternative to **organic growth** that may extend company capabilities beyond what's feasible or the intrinsically unreliable strategy of M&A is some form of joint development or alliance. Several permutations exist – from a loose network to a more permanent contractual obligation (e.g. joint venture). These relationships are often appropriate when pursuing a specific, sometimes transient goal.

Form of Alliance	The Influences		
	Changing markets	**Resources**	**Motives**
Loose • Networks • Informal/ opportunistic partnerships	Rapid and/ or changes in the market and business environment	• Each partners' assets are drawn from own resources and managed separately. • Informal nature of relationship indicates a high risk of partner asset loss	• No opportunity for spreading financial risk • Has no or little impact on political and/or cultural compatibilities between organisations
Contractual • Sub-contracting • Licensing • Franchising	Incremental or average change in the market and business environment	• Assets/investments by each partner are agreed according to role in contract and managed independently • Moderate risk – at end of contract period	• Will spread risk to an extent between parties. • Offers specialised roles of the individual partners • Will impact on political and/or cultural operations within contractual limits of agreement.
Ownership • Joint ventures • Consortia	Any change in market or business environment is gradual	• Dedicated and specific assets/investments in venture are managed collectively • Low risk of withdrawal by individual member of alliance	• Limits and dilutes financial risk of venture • Provides a favourable climate for changing/ developing political and/or cultural compatibilities and organisational learning

Source: Johnson, Scholes and Whittington (2008)[82]

Table 2: Types of strategic alliances

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82 Johnson, G., Scholes, K. and Whittington, R. (2008) *Exploring Corporate Strategy*, 8th edition. FT Prentice Hall

The reasons for such arrangements are:

- exploitation of joint or specialised strengths (expertise);
- exploration of opportunities (R&D or markets);
- creation of **critical mass**;
- **co-specialisation**;
- knowledge and learning acquisition.

Unlike M&A, such alliances may not involve the entire enterprise, but specific aspects depending on the purpose and nature of the alliance. Significant benefits can be gained through focused joint arrangements – these may be expedient and temporary as circumstances change.

Joint ventures and alliances

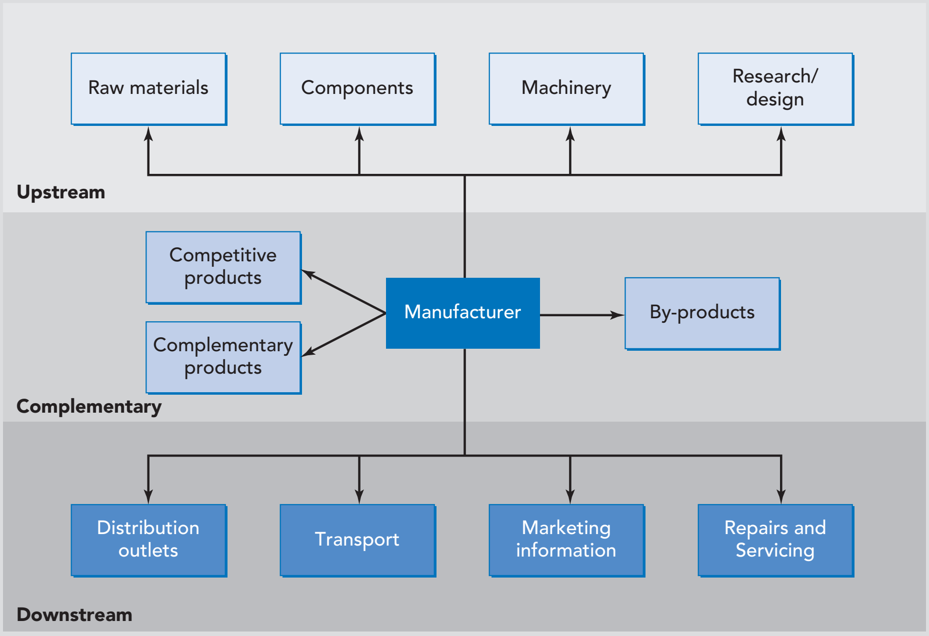

Figure 12: Supply chain management

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OVER TO YOU

Activity 4: Strategic development: approaches and methods

This activity is based on your previous research into the Indian tourist market and Raj hotel group.

Tasks:

1. **Using Figure 12 above as a guide, prepare a chart based on the supply chain of the Indian tourist market, naming example organisations, where possible, in appropriate categories.**
2. **Identify opportunities for M&A or joint ventures/alliances within the diagram.**
3. **Suggest a rationale for selecting the type of arrangement and the benefits of it.**
4. **What are the likely issues or pitfalls?**

3.4 Apply a range of models to generate justifiable strategic options which will facilitate strategic decision-making in a given organisational situation

Throughout this study guide, we have considered many approaches and models to be used to analyse strategic situations and capabilities, formulating options for the basis, direction and methods that an enterprise can follow in pursuit of its strategic purpose and goals. The result may be an array of choices formed from generic business models, identified through layers of strategic levels (corporate, business and networks) and options stemming from market-led positioning and/or resource-based planning and exploitation.

Paralysis by analysis?

Now we pull together concepts and the tools from Chapters 2 and 3 to provide a summary of options for assessment in readiness for strategy selection (discussed in Chapter 4). This section summarises and revises market–led and resource-based strategic development tools, techniques and models and when and how to apply them.

However, there is significant overlap with many of the techniques, such as BCG or GE-McKinsey matrices, serving more than one purpose (analysis, formation and option development). Business Intelligence consultancies use sophisticated software systems and applications to manipulate analytics, predictive data, scope and evaluate options to justify proposals for strategy formation. Even a strategic planning department will have access to internal, market and macro-environmental information on a continuously updated basis – the benefits of the 21st century internet.

For the student of strategy, application of these techniques through analysis and modelling is primarily to gain insight and understanding of the principles of business development and the process of establishing the basis, direction and methods to achieve competitive advantage.

Another important factor is organisational complexity. A single business with a relatively simple **product portfolio** and supplier/customer relationships is much easier to assess than a complex multinational conglomerate. This type of enterprise divides its subsidiaries into distinctive SBUs – a student studying a conglomerate such as the Tata group is advised to focus on segments unless examining corporate relations.

Given the range of tools and techniques which we have covered so far, learners may ask, “Which are the most important?” Of course, all are important, but some are more relevant in particular circumstances. Learners are advised to be discriminatory, but be able to demonstrate knowledge, understanding and skills based on the:

- enterprise under review (sector and business structure);
- circumstances and drivers of strategy development;
- appropriateness of available information (VARIO: valid, authentic, relevant, current and sufficient);
- logistics of assessment completion (facilities, time available, depth and breadth of analysis requirements).

Option output summary

If paralysis by analysis is to be avoided, it is useful to gain a clear understanding of the process of analysing whether the output meets expectations. In Figure 13, the stages of strategy option formation are summarised into 4–5 phases.

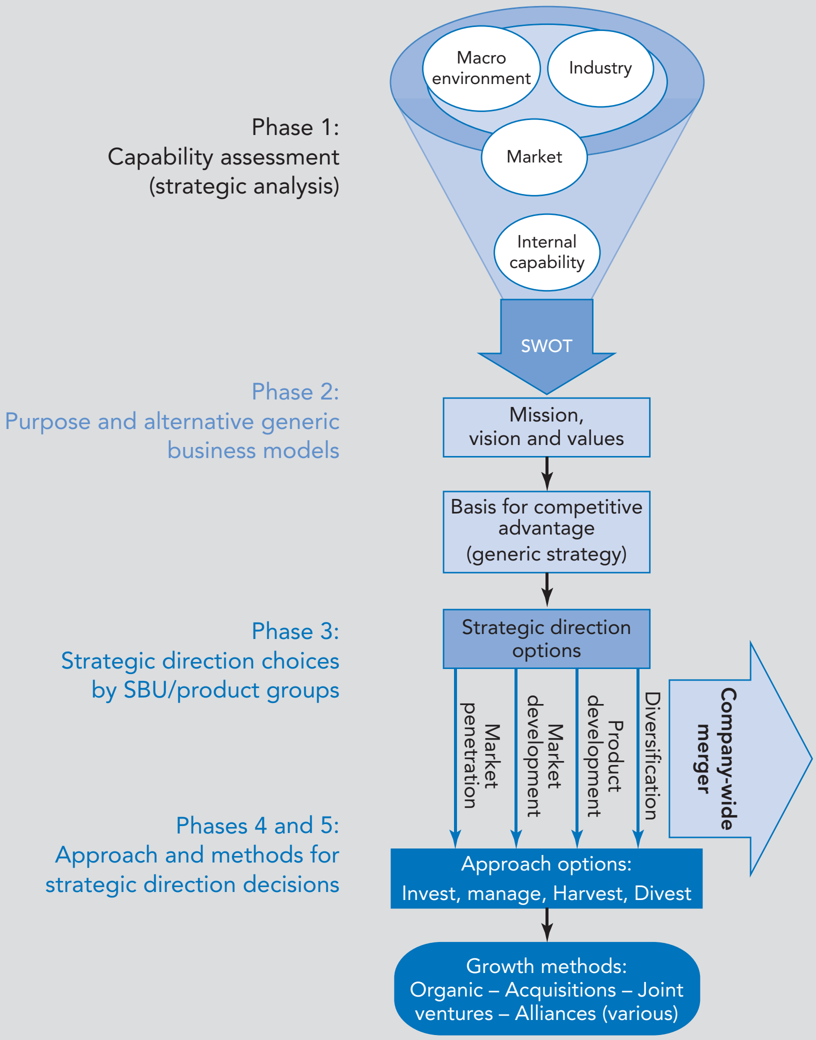


Figure 13: Option development process

Each phase has distinctive qualities and requires different skills in development:

Phase 1: Capability assessment depends on analysis of current and predicted trends summarised through assessment of the relative strengths and weaknesses to exploit opportunities or counter identified threats (SWOT).

Phase 2: Strategic purpose and generic strategies are usually defined by the current aims and business model. These may not change substantially.

Phase 3: This is the key phase for determining the strategic direction to be taken with various products/markets (Ansoff). Strategic options are developed based on life cycle and market position (identified through analysis). Options are developed from SBU or product/market perspectives.

Phase 4: Strategic approaches can be decided upon as defined by competitive capability and market profit potential (GE McKinsey matrix/SDPM/ADL) for each SBU or product group.

Phase 5: Growth methods options will be determined by the strategy approaches (Phase 4) and current business capability to be successful in pursuit of the strategies identified in Phase 3.

Realistically, the number of available options at the each stage of the process is likely to be limited. Approach options should be relatively clear from direction and position mapping, leaving exploration of alternative methods dependent on factors outlined above.

OVER TO YOU

Activity 5: Option output summary

In previous activities, you have explored the stages in strategic development for the Raj hotels and realty divisions of the Tata group.

Tasks:

1. **Summarise the work completed so far, structuring this in the same sequences as in Figure 13 above.**
2. **Make sure any gaps are filled and there is a clear thread through the process (this helps ensure you are better able to justify your options).**
3. **Write a mission statement that reflects the corporate purpose, overall business model, direction, scope and approach.**
4. **Highlight the various options (not selection) for each phase (See Figure 13, phases 2–5) of strategy development (basis, direction, approach and method).**

Example: Tesla Motor Company

Phase 1 – SWOT;

Phase 2 – Generic strategy = focused differentiation;

Phase 3 – Direction (adapted) = product development (value electric cars) and related diversification (battery storage);

Phase 4 – Organic growth (using specialist knowledge and resources);

Phase 5 – Strategic alliances (e.g. Tesla and Panasonic for the development of solar batteries)

3.5 Evaluate appropriate different scenarios for successful strategic development

> *"Scenario development is predicated on the assumption that if you cannot predict the future, then by speculating upon a variety of them you might open up your mind and even, perhaps, hit upon the right one."*

(Mintzberg et al. 2009)[83]

83 Mintzberg, H., Ahlstrand, B. and Lampel, J. (2009) *Strategy Safari*, 2nd edition. FT Prentice Hall

While the work of the strategic manager may be about developing options, planning and managing the strategic future of an enterprise, in many cases critical decisions may be made by other influential stakeholders.

Futures are uncertain, the unexpected and unexplained happens, risks can be high and the strategic manager will be judged by their success in achieving goals, whether or not they were the final arbiters for the decisions taken. It is the responsibility of the strategic manager to justify recommendations through outlining best and worst case scenarios.

In this final section of Chapter 3, we will explore how the "What if?" alternative futures discussed in Chapter 2 can be used to assess (a) options for alternative outcomes and (b) impact on strategies.

Scenario process and methodology

> *Scenario development is 'a creative process much like writing a novel with a plot beginning with current reality. It is generally used to assess the risk associated with a key decision being considered.'*[84]

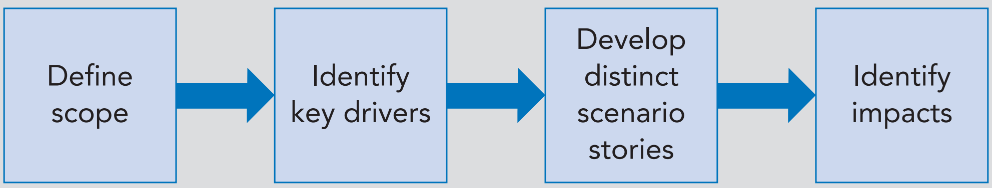
The process for testing options developed as part of strategy formation should consider the following:

Scope – SBU specific, founded on options for strategic basis, direction, approach and method identified previously.

Key drivers – factors, forecasts, and players in the macro-environment, industry, market and organisation (including stakeholders) that are likely to make a material difference to potential outcomes of the change options identified.

Scenario stories – a series of storylines, even detailed simulations involving a range of plots built from the key player actions (characters in the story). Scenario plots must take into account the stage of business and sector development and incorporate issues, such as sector life, business cycles PESTLE futures and internal change issues (strengths and weaknesses).

Impacts – each story outcome is assessed for its impact on the option and the business (see Figure 14).



Source: adapted from Johnson et al. (2017)

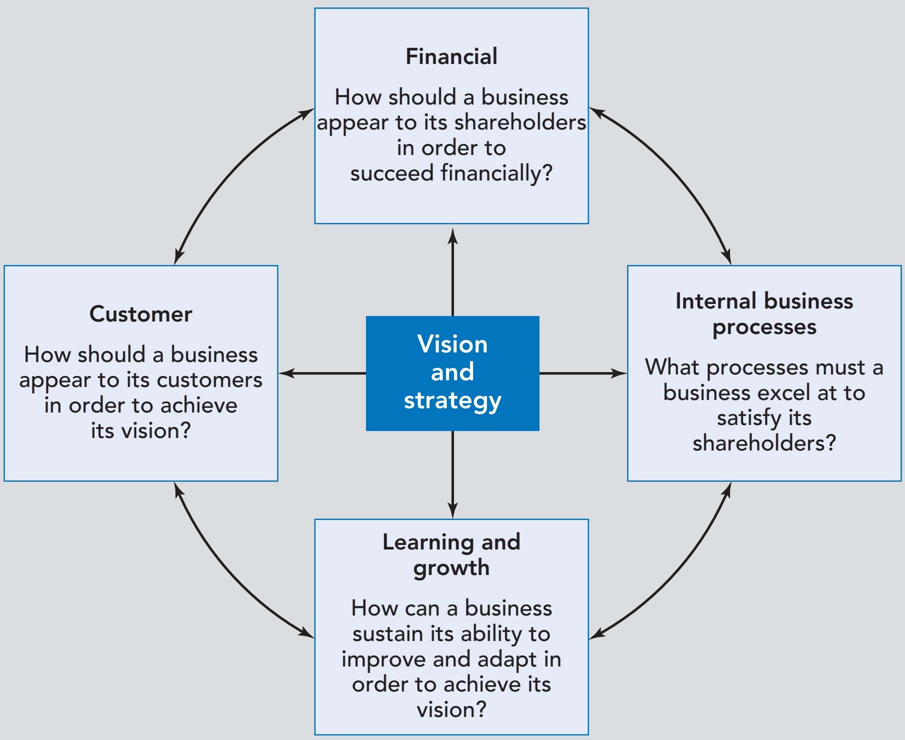
Figure 14: The scenario process

84 Three Sigma Inc. (2002), *A Scenario Planning Process* [online]. Retrieved from: http://www.threesigma.com/scenario_process.htm [Accessed on: 14 July 2017]

This process is unlikely to be effective if scenarios are developed by an individual whose perspectives are coloured by the limitations of knowledge and experience – therefore likely to be biased or short-sighted. While autocratic or entrepreneurial decision-making may be appropriate in some instances and cultures, many organisations recognise that different viewpoints and collective wisdom in complex situations may lead to a more acceptable outcome if key stakeholders or experts are involved in decision-making. Decisions arrived at by a logical process of **consensus** also gain buy-in, commitment and affirmation. Even those in disagreement with any outcome can respect the process under which the decision has been made.

Balanced scorecard

Internal stakeholders from a variety of positions within the organisation can be effective facilitators of scenario development through processes such as mind-mapping, but other more structured processes also exist. The **balanced scorecard (BSC)** (see Figure 15) can be used to understand the needs and expectations of internal stakeholders with scenarios developed from the scoped options.



Source: adapted from Kaplan and Norton (1993)[85]

Figure 15: Balanced scorecard

The BSC provides a good basis on which to garner opinion from staff within the organisation in a bottom-up approach to strategy formulation.

The **Delphi technique** is a more formalised, structured approach to scenario development by consensus, either utilising the skills from within the company or using experts.

85 Kaplan, R. S., Norton, D. P. (1993), "Putting the Balanced Scorecard to Work", *Harvard Business Review*, Vol. 71, Issue 5, pp. 134-147. See also http://www.balancedscorecard.org/

Delphi technique

Based on an ancient Greek process, the Delphi technique[86] involves managing the viewpoints of a group of individuals (with an average size of 20) selected for expert opinion or knowledge of the different perspectives. Given the issues and key contributory factors, the participants, working independently, develop detailed and justified suggestions for alternative actions. Once collected, these ideas are sent out anonymously to all the participants for review and refinement. This process continues until some form of consensus has been achieved and agreed with all parties. One benefit is that each stage of the idea development process is articulated after careful objective reflection and justification and not subject to the types of pressures created by group interactions. Anonymity is considered an important factor in this.

Scenario risk assessment

Ultimately the purpose of scenario storylines should translate into strategic action through the options identified.

However, each option requires some form of risk assessment. Excessive scenarios may lead to confusion, so should be realistic and manageable. Salleh (2013)[87] suggests that typically, predictions are defined by best, middle and worst-case scenarios. Schwartz (1991)[88] categorised scenarios as evolution, revolution, part of a **business cycle**, infinite expansion, lone ranger (innovation outside of norm or inertia), changing **demographics** and culture.

Sensitivity to impact on option outcomes is an important and uncertain factor. Eventually, the decision to proceed should be justified after assessing the strategy option's resilience or vulnerability in different business conditions.

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Scenario risk assessment

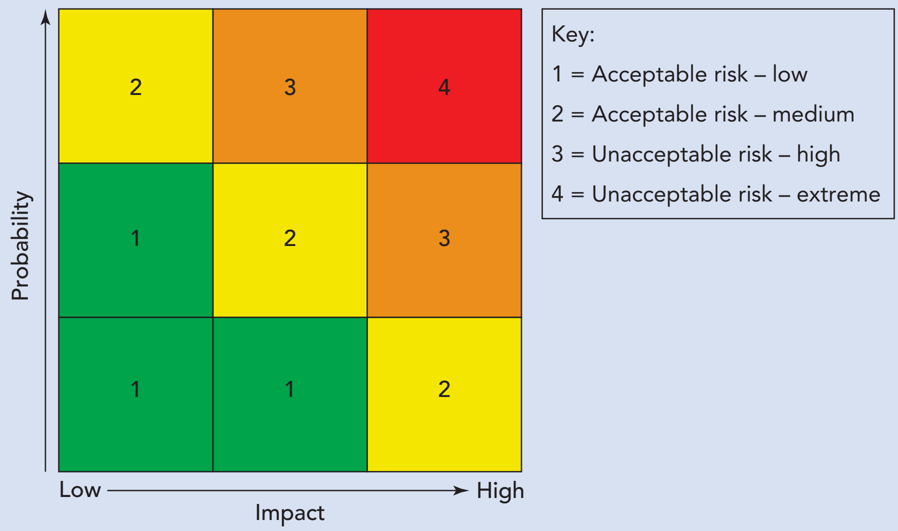

Figure 16: Scenario risk assessment

86 Investopedia, n.d., *Delphi method* [online]. Retrieved from: http://www.investopedia.com/terms/d/delphi-method.asp [Accessed on: 14 July 2017]
87 Salleh, S. (2013), *Estimating Risk: the importance of Scenario Analysis* [online]. Retrieved from: http://lumina.com/blog/estimating-risk-the-importance-of-scenario-analysis [Accessed on: 14 July 2017]
88 Schwartz, P. (1997), *The Art of the Long View: Planning for the Future in an Uncertain World*, John Wiley & Sons

Other dependencies contributing to potential resilience will also include market positioning. In a given scenario, the actions of a market leader with large market share will be very different from that of a new entrant, even if backed by a large multinational corporate parent.

Scenarios also offer a potential for **future-proofing** a business in case of predicted adverse effects (see Chapter 4).

OVER TO YOU

Activity 6: Scenario development

Tasks:

1. **Based on the options developed in your previous activities, work with colleagues to build scenario storylines for each of the options in relation to Raj hotels and realty. These should cover best, middle and worst-case scenarios.**
2. **Assess for risk – the impact on the organisation and probability that the risk will occur.**
3. **Discuss the capability/vulnerability of the Raj hotel group to withstand the risks that have been identified.**

READING LIST

- De Wit, B. and Meyer, R. (2004) *Strategy: Process, Content, Context*, 3rd edition. Thomson Learning
- Johnson, G., Scholes, K. and Whittington, R. (2008) *Exploring Corporate Strategy*, 8th edition. FT Prentice Hall
- Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017) *Exploring Strategy*, 11th edition. Pearson
- Mintzberg, H., Ahlstrand, B. and Lampel, J. (2009) *Strategy Safari*, 2nd edition. FT Prentice Hall

Summary

This chapter has covered each of the stages of strategy formation from the analysis of the organisation's strategic capability as summarised in the SWOT analysis (see Chapter 2). Looking into the formulation of strategy has led us to considering concepts of competitive advantage through market-led and resourced-based approaches.

The chapter has adopted Mintzberg's prescriptive framework and has applied many recognised and well-practised techniques and modelling tools in order to cover the following ground:

- Purpose of the enterprise and its strategic business model.
- Development of strategic direction options, using tools such as Ansoff's growth matrix.

- Approaches to strategic development – through investment, managed strategies, harvesting, and divestment.
- Methods – organic growth, ownership strategies (mergers and acquisitions), contractual (joint ventures and supply chain management) and a range of alliances, including network management.

Finally, we discussed scenario development to assess the options for, and possibly impact of, alternative futures.

In the final chapter, we shall examine the evaluation and decision-making processes that are used to formulate strategic actions.

Chapter 4

Strategic Decision-Making

Introduction

> *Strategic decision-making is the thought process behind selecting the most logical choice from the available options.*

The decision-making process should be logical, sequential and potentially objective. Professor of strategic management Said Elbanna and commerce professor John Child suggest that the strategic decision-making process has three dimensions: rationality, intuition, and political behaviour (in a business context, "political" relates to powerful stakeholder interface with the enterprise to influence decision-making outcomes). Additionally, there are moderating variables related to specific environmental and organisational factors as well as decision-making effectiveness within the organisation.

In this final chapter, we examine strategic decision-making influences and processes in the context of diverse organisations, structures, and cultures. We will also consider Elbanna and Child's three dimensions, focusing mostly on the application of rationality.

Given the ambiguity and uncertainty of forecasting futures in a dynamic business environment, this chapter will also use the scenarios developed in Chapter 3 to justify and future-proof a business when unexpected circumstances actually occur.

Learning outcome

On completing this chapter, you will be able to:

4 Apply techniques to support recommendations for strategic decision-making in different contexts

Assessment criteria

4 Apply techniques to support recommendations for strategic decision-making in different contexts

- 4.1 Examine approaches to strategic management in different contexts
- 4.2 Apply decision-making techniques and tools
- 4.3 Evaluate identified options against specified criteria using decision-making techniques
- 4.4 Make recommendations for strategic development in a specified business and organisational context

4.1 Examine approaches to strategic management in different contexts

Strategic intent

Strategic decision management begins with an understanding of circumstances and factors that determine the need for decisions to take a particular course of action. To achieve a specific structured goal or as part of a continuous process of development, the formulaic approaches in Chapters 2 and 3 require a manager to analyse, then define and plan a clear strategy to determine the future direction of the enterprise. This is known as strategic intent. Specific structured goals tend to be developed through rational analysis. These are then articulated as objectives (see Chapter 1, Section 1.1 on the vocabulary of strategy.) **SMART objectives** (specific, measurable, achievable/agreed, realistic and time-bound) are an articulation of the intended outcomes that can be proven to succeed or fail. Rational objectives translate into what is known as intended strategy. Once configured into a series of actions to meet objectives, the deliberate strategy should achieve its goal (and then this then becomes the realised strategy).

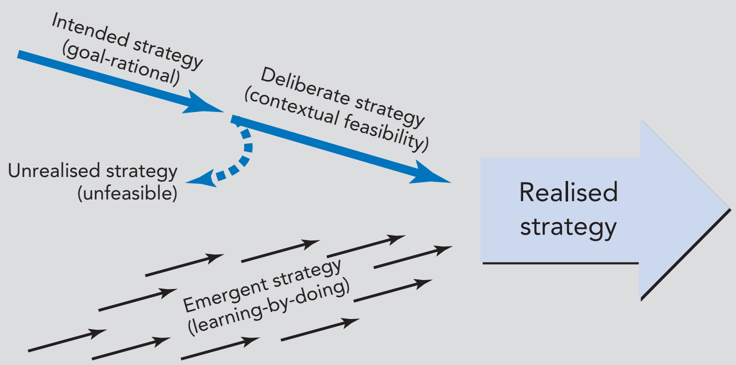

Figure 1: Strategies – deliberate and emergent

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Figure 1 demonstrates that goal-rational intended strategies may not be realisable and may become unrealised strategies. Some reasons for this may be that the strategy has not been well thought through, circumstances have changed or there is a mismatch between intentions and decisions made in general responsiveness to emergent or local issues. The ability of an organisation to adapt to unforeseen factors is widely regarded as a key capability in a dynamic business context.

Businesses, and economies, tend to be part of a cycle. Periods of manageable growth are often followed by periods of disruption – these drive businesses to innovate and develop new strategies leading to greater success in the future. Failed strategies may signal terminal decline. A state of flux inevitably leads to strategic decision-making, even where there was none before. While proactivity may foresee flux and strategies can be developed to ensure the business moves directly through to a growth phase, a more reactive response is likely, especially where there is instability. Successful growth is usually followed by a period of consolidation. With growth momentum slowing, equilibrium[89] will follow before the organisation moves forward again. The inability to find a viable and workable strategy during flux will lead to failure.

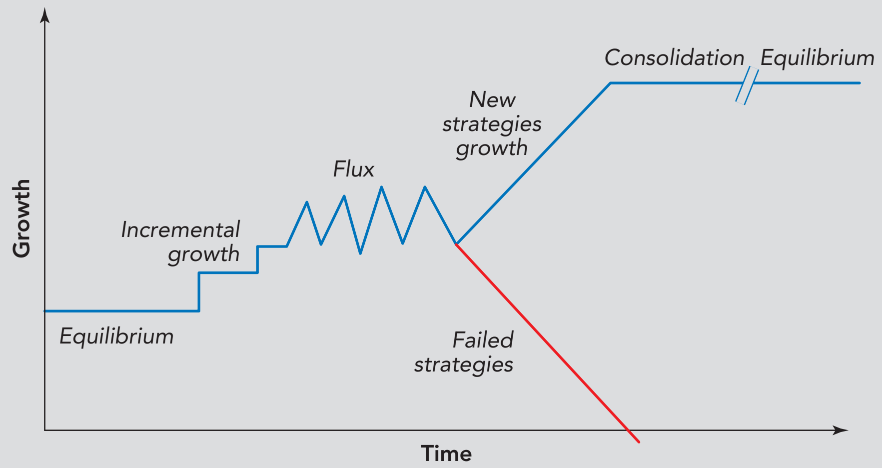


Figure 2: Stages in the business cycle

Strategic decision circumstances

Alternative factors also contribute to the decisions and the manner in which these are made. Johnson, Scholes and Whittington (2008)[90] refers to these circumstances as:

- **Planned** – an organised approach which is part of a cycle of planning (e.g. a five-year strategic plan from 2017-2022).
- **Enforced** – strategic actions made in response to an emerging or exceptional (almost exclusively adverse) issue that forces action.
- **Learning** – also emergent, but in this case demonstrates the organisation's ability (often entrepreneurial) to develop strategies to take advantage of perceived opportunities.
- **Command** – specifically made in response to demands from influential authorities (e.g. changes in the law or those made by regulatory authorities, direct strategic change – an SBU under instruction to change direction at the command of the corporate parent).

Strategy decision preferences

In Chapter 1, Table 3 referred to Mintzberg's concept of the 10 schools of strategy formation. Although Mintzberg divided his schools of strategy formation into two groups, prescriptive and descriptive, the former is more about strategic decision-making as part of a logical process (probably involving all three elements). The latter group (descriptive) indicates the organisation's natural inclination to approach strategic decision-making and strategy formation in a particular manner.

89 Equilibrium does not mean there is no growth. During a period of consolidation and equilibrium, growth should rise in line with GDP but not necessarily exceed it. Certainly, it does not require any significant change in strategy or conduct of the business.
90 Johnson, G., Scholes, K. and Whittington, R. (2008) *Exploring Corporate Strategy*, 8th edition. FT Prentice Hall

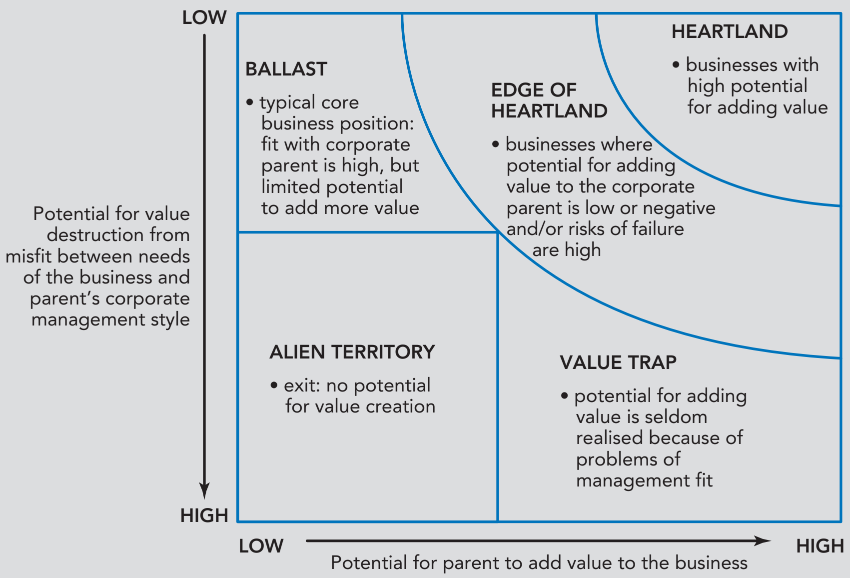
Based on the circumstances outlined above, Mintzberg's 10 schools are relevant particularly when related to emergent strategies. Clearly, there is overlap between these schools of thought and perspectives change based on conscious need and the desire to transform or modify strategies in consideration of the factors outlined above.

Leadership and organisational factors

Other factors impacting on the nature of decision-making and the style of strategy outcomes relate to organisational leadership structures (e.g. autocratic, participative, hierarchical) see also McKinsey's 7S Framework (Chapters 1 and 2) and the relationships and approach to corporate parenting in a multinational conglomerate. Attitudes to strategic options are also determined by the strategic fit of proposals to the SBU, the corporate portfolio and the benefits to the enterprise.

In conglomerates with diverse interests, fit factors may not be particularly important, but ROI will be, so command factors may influence decisions. Fit factors refer to the extent to which the individual SBUs have common or linked products, markets and interests that offer coherence to the conglomerate's product portfolio and have the potential of adding value through synergistic activities.

Hierarchical structures of authority – top-down or bottom-up, centralised or decentralised will impact overall strategy. Blackenship and Miles (1968)[91] said managerial decision-making was linked to the relationship between hierarchical position, size, and span of control plus dimensions of managerial decision-making (including perceived influence on superiors). The **Ashridge Parenting Matrix** (Figure 3) is designed to identify the potential for the corporate parent to add value to an individual SBU (*x*-axis) and to group SBUs by their fit with the corporate parent's and other subsidiaries' organisational structure and strategies. In Figure 3, for example, SBUs falling into "alien territory" are likely to be disposed of, whilst those in "heartland" have great potential value to the corporate parent and are likely to be the subject of heavy investment.



Source: adapted from Goold et al. (1994)[92]

Figure 3: Ashridge Parenting Matrix

91 Blankenship, L. V. and Miles, R. E. (1968) "Organizational structure and managerial decision making", *Administrative Science Quarterly*, Vol 13, pp. 106-120
92 Goold, M. and Alexander, M. (1994) *Corporate Level Strategy*, Wiley

Size factors may determine whether an organisation opts for a **centralised** or **decentralised** structure. Centralisation has advantages – decisions are generally speedier and considered more conclusive and are less likely to be subject to compromise because of **diffused authority** (Mullins, 1999)[93].

Shareholder/stakeholder influences

Strategy development is increasingly influenced by the expectations and opinions of the business' shareholders and stakeholders. The rise in corporate governance regulation has been a major contributor and companies are expected to be more transparent about their decisions. Recognising the influence of wider stakeholder groups can impact positively or negatively should they not act in a manner deemed to be in the interests of the wider community. Inevitably tensions arise between shareholder and stakeholder interests and expectations, and sometimes it can be seen as a balancing act to satisfy both parties.

	Shareholder model	Stakeholder model
Benefits	For investors: • Risks are reduced • There is a higher rate of return For the economy: • Entrepreneurship is encouraged • Inward investment is encouraged For management: • They have independence	For investors: • Management is monitored more closely • Decision horizons are longer term For stakeholders: • High-risk decisions are deterred
Disadvantages	For investors: • Management is difficult to monitor For the economy: • There is a risk of concentrating on short-term projects or objectives for immediate profit For management: • There is a risk of top management greed	For management: • Potential interference • Decision-making is slower • Less independence For the economy: • The financing of opportunities for growth is reduced

Source: adapted from Johnson, Scholes and Whittington (2008)[94]

Figure 4: Shareholder versus stakeholder model of governance

While models of governance (stakeholder versus shareholder) may be appropriate to reflect the general principles on which companies consider values and approach to the conduct of its activities, strategic stakeholder opinions are likely to require closer examination when evaluating development options.

Mendelow's power and interest matrix (Figure 5) can be used effectively to show the likely reactions to strategic options. The expectations of those in power are likely to be most influential in selecting options,

93 Mullins, L. (1999) *Management and Organisational Behaviour*, 8th edition. FT Prentice Hall
94 Johnson, G., Scholes, K. and Whittington, R. (2008) *Exploring Corporate Strategy*, 8th edition. FT Prentice Hall

but outcomes from the strategic action are dependent upon those groups who have the highest level of interest in the success of the strategy (e.g. senior management or the corporate parent). Employees as individuals have low power, yet collectively (e.g. as part of a trade union and other less formal groupings) can derail strategic plans – including exercising a deliberate or unconscious strategy of non-compliance. Shareholders, even heads of corporate conglomerates, though powerful, may have little interest in SBU strategies, but still expect the best possible ROI and share value.

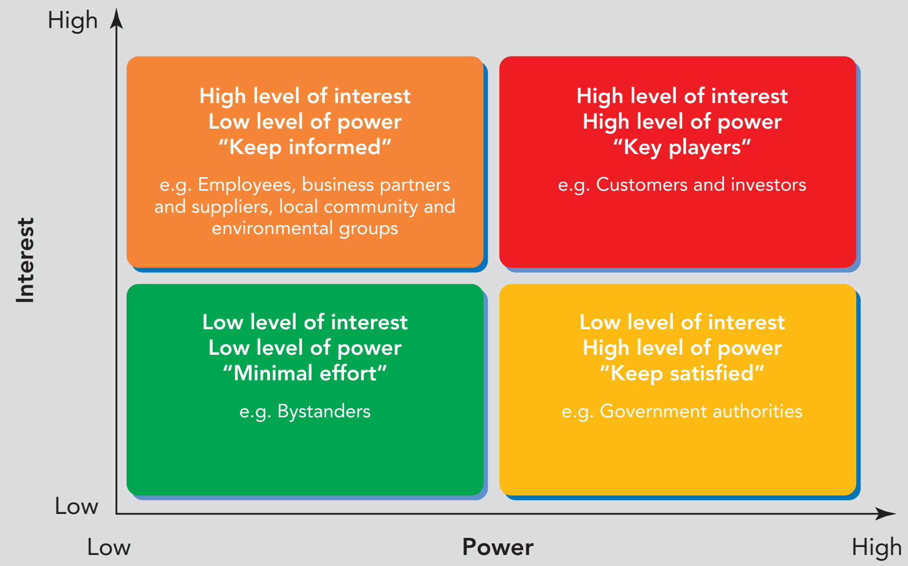


Figure 5: Mendelow's power/interest matrix

OVER TO YOU

Activity 1: Strategic intent

In Chapters 2 and 3 we used the Raj hotel group and Indian tourist market to build a series of options on which to base group strategy. Undertake the following tasks with this in mind.

Tasks:

1. **Evaluate the factors strategic managers should consider when proposing the strategic options identified.**
2. **Develop draft SMART objectives based on the options.**
3. **Evaluate the nature of the market and the companies involved – are strategies generally goal-driven or emergent?**
4. **What schools of strategy formation (Mintzberg) are evident in the group development so far and why?**
5. **To what extent do the strategic options fit with the wider Tata group portfolio? Where would you place them on the Ashridge matrix?**
6. **Consider Mendelow's power/interest matrix from the Raj group's perspective. Plot the various stakeholder groups into the matrix. Which groups are of most concern?**

4.2 Apply decision-making techniques and tools

Throughout this study guide, we have referred to: factors influencing what and how strategic decisions are made and what outcomes are likely; leadership and management styles; hierarchical structures and the role of the corporate parent; and methodologies such as scenario development through consensus (Delphi).

In this section, we focus on sequentially-based decision-making processes that are used to underpin strategic decision-making, and in some cases, form the basis of implementation of the strategy and the tactical means to achieve it.

Approaches to decision-making

Vroom and Yetton (1973)[95] determined that approaches to decision-making should consider not only the situational and hierarchical structures but also:

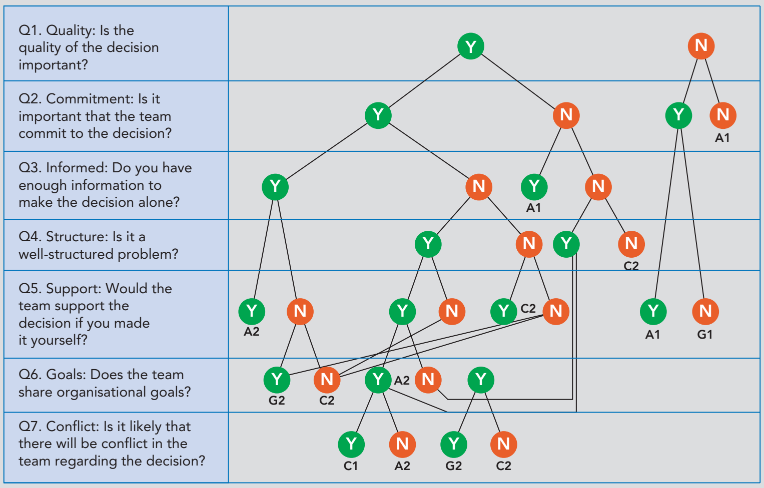
Decision quality – critical ("right") decisions need to be well resourced (people, time, information) to ensure recommendations are well thought through and have gained approval from relevant stakeholders, whose input is vital for success.

Team commitment – decisions likely to have a major impact on teams are best agreed through a collaborative approach.

Time constraints – time-sensitive decisions tend to cause pressure on the decision-maker and are therefore likely to prevent the involvement of others or thorough research before a final decision is made. However, the quality of the decision and the ability to deliver results may be greatly improved if agreed collaboratively with others.

The Vroom-Yetton model (Figure 6) uses a **decision-tree** to evaluate the most appropriate conditions for adopting one of three approaches to management decision-making – autocratic, consultative and collaborative. The decision tree requires a series of yesz/no answers to seven questions, the outcomes of which result in five distinctive approaches to management decision-making.

- **A1 – Autocratic:** Management make the decision based on existing information without further input from the team.
- **A2 – Autocratic:** The team is consulted only to obtain specific information or details required before management make the final decision.
- **C1 – Consultative:** The team is advised of the situation. Opinions are sought from individual members, but there is no group discussion. The manager makes the final decision.
- **C2 – Consultative:** The team meet for a group discussion and give suggestions, but the manager makes the final decision.
- **G2 – Collaborative:** Managers and team work together to reach consensus. The manager's role is then facilitative.



Source: Vroom and Yetton (1973)[96]

Figure 6: Vroom-Yetton decision-making model

95 Vroom, V. and Yetton P. (1973) *Leadership and Decision-making*, University of Pittsburgh Press
96 Ibid.

Problem solving

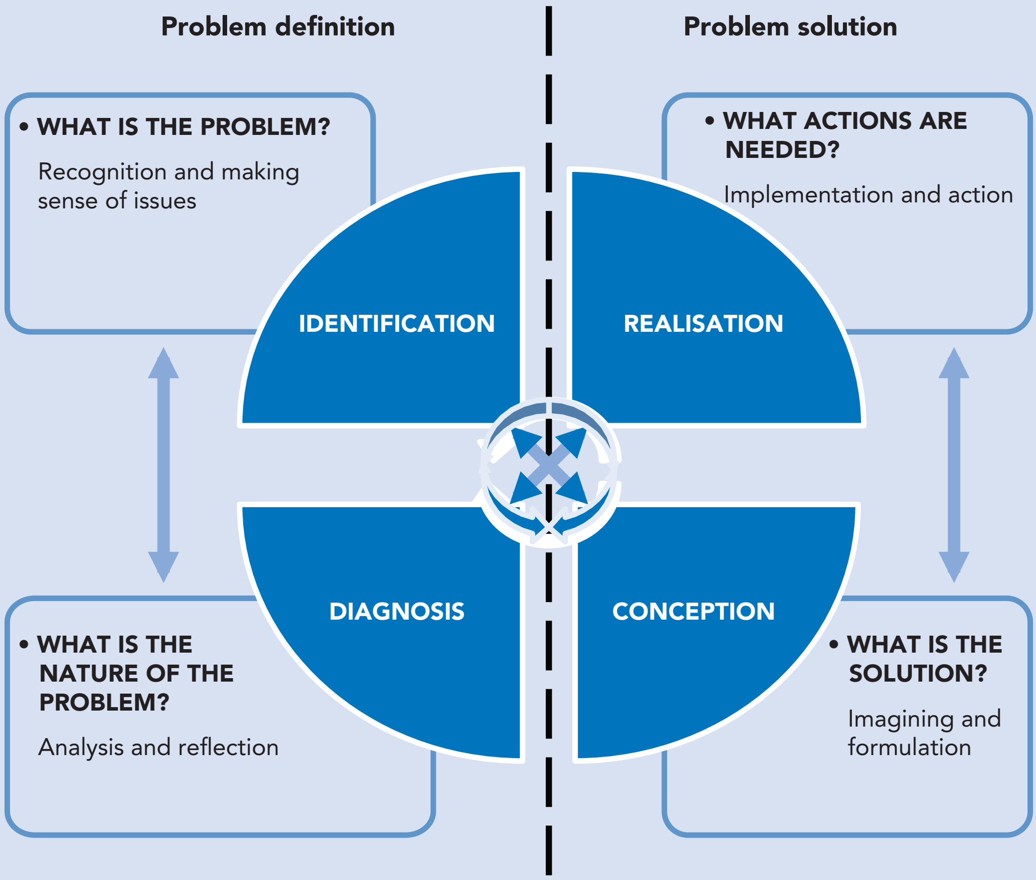
Regardless of preferred strategy formation and leadership decision-making, most processes stem from problem solving.

The Business Dictionary defines problem solving as: "The process of working through details of a problem (or issue) to reach a solution."[97]

Isaksen and Treffinger (1985)[98] perceive problem solving to be a structured, but creative process with many contributory factors, the outcomes of which provide solutions to often poorly defined or ambiguous situations.

! NEED TO KNOW

Creative problem solving

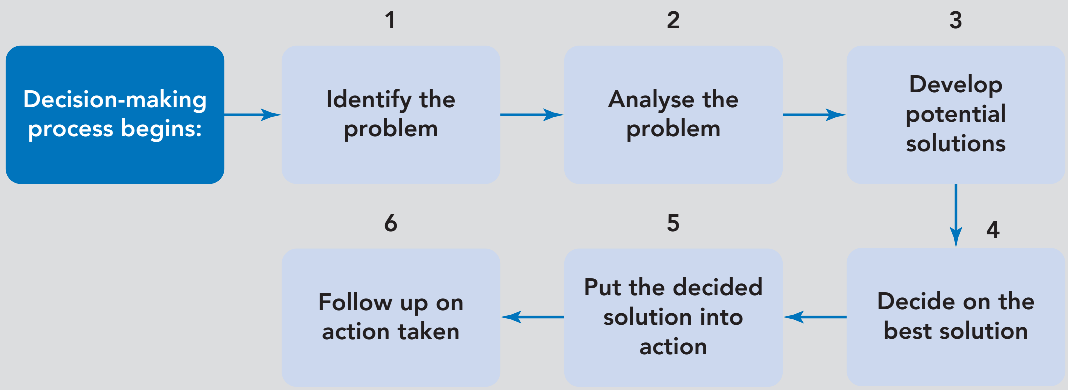


Source: adapted from De Witt and Meyer (2004)[99]

Figure 7: Strategic reasoning/problem solving process

Drucker (1968)[100] preferred a scientific approach (Figure 7) recognising that conclusions are reached through a process of developing alternative solutions and then deciding how best to act on them. This can be achieved via a series of analytical decisions including those options to be discarded and those that are important to take forward.

97 Business Dictionary n.d., *Problem solving* [online]. Retrieved from: http://www.businessdictionary.com/definition/problem_solving.html [Accessed on: 24 August 2017]
98 Isaksen, S. and Treffinger, D. (1985) *Creative Problem Solving: The Basic Course*, New York: Bearly Limited
99 De Wit, B. and Meyer, R. (2004) *Strategy: Process, Content, Context – An International Perspective*, 3rd edition, Thomson.
100 Drucker, P. (1968) *The Practice of Management*. London, Pan Publishers



Source: Adapted from Drucker (1968)

Figure 8: Decision-making process

Competitor response strategies (game theory)

Decision-making should factor in competitor strategies and demand immediate response to deflect any threat posed by competitor action. Such strategies are usually developed between a tight-knit group of executives, particularly in highly competitive markets. Although co-operation between rivals has benefits for the market, most companies continue to form strategies to gain superiority over their competitors. In hyper-competitive environments (where there is constant change), decisions are made to gain market share through price/quality advantage – although longer-term strategies (through M&A, for example) may achieve market dominance.

> *Game theory is the process of modelling the strategic interaction between two or more players in a situation containing set rules and outcomes […] The economic application of game theory can be a valuable tool [to aide] any strategic interaction between two or more firms.*
>
> *Daniel McNulty*[101]

Similar to the principles of chess, **game theory** encourages strategists to plan ahead by determining moves and counter-moves to gain the advantage, by anticipating the actions of competitors and the consequent impact on the organisation and market. Based on mathematical principles, game theory is very logical, using reason and insight to understand and predict competitor responses and then consider how best to counter them – both prior to and after the event. Principles of game theory work best when viewed holistically in situations where there are multiple interdependencies or where there is a potential for unintended consequences. For example, a **price war** could lead to convergence in the market which reduces viability or profitability. The unintended consequence may be the development of a more advanced product by a new entrant, which renders the original players in the market obsolete.

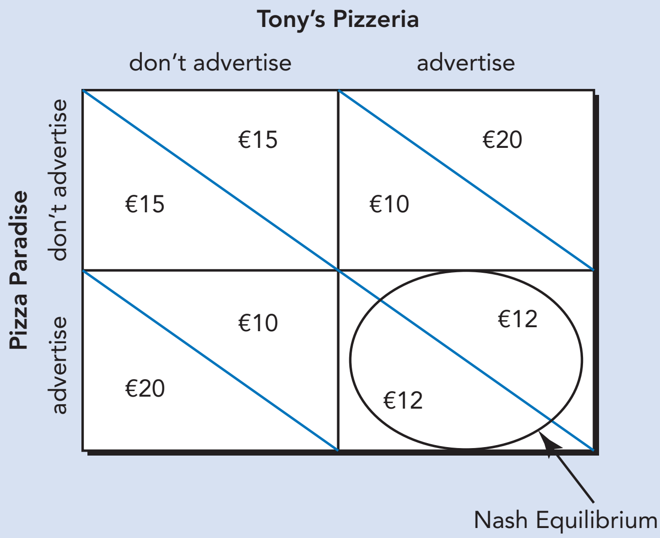
This may have been avoided or anticipated by applying game theory, but many strategic business revolutions have stemmed from its application. For example, the success of low-cost air travel can be directly attributed to application of game theory by the national airlines to low cost carriers in the 1970s and later by Virgin Atlantic in the 1990s. Other examples include: Microsoft's investment in Apple and partnership with Intel to counter the dominance of IBM; Japanese photocopier manufacturers' response to the seemingly unassailable position of Rank Xerox in the plain paper copier market.

101 McNulty, D., n.d., *The Basics Of Game Theory* [online]. Retrieved from: http://www.investopedia.com/articles/financial-theory/08/game-theory-basics.asp [Accessed on: 17 July 2017]

CASE STUDY: GAME THEORY PRISONER'S DILEMMA

Game theory and oligopoly behaviour

Tony's Pizzeria vs. Pizza Paradise



The "players" are the firms: Two pizzerias, Tony's Pizzeria and Pizza Paradise.

The "moves" are the actions the firms can take; the pizzerias can either advertise around town or not advertise.

The "payoffs" are the profits the firms will earn; advertising increases firms' costs, but can also increase revenues.

Even though both firms would be better off by saving money not advertising, such an outcome is unstable since each firm would have an incentive to advertise if its competitor did not. The equilibrium outcome of the game is that both firms will advertise.

The circled option is known as the "**Nash Equilibrium**", which is the outcome where neither firm has anything to gain by unilaterally changing only its own strategy.

Source: https://www.quora.com/Game-Theory-What-is-the-prisoners-dilemma-in-laymans-terms

Game theory (also known as **prisoner's dilemma**) is used to play out a series of moves aimed at achieving enterprise objectives. Mathematical calculations are used to determine probabilities and the level of interdependencies.

4.3 Evaluate identified options against specified criteria using decision-making techniques

Most supporters of the design, planning and positioning schools suggest that strategy in practice cannot be determined until there is a clear set of SMART objectives on which to base decisions. As achieving goals is the prime purpose for decision-making, options are then evaluated based on their probability of meeting or exceeding the objectives.

Success criteria-based option evaluation

> *Success criteria are the standards by which the project will be judged at the end to decide whether or not it has been successful in the eyes of the stakeholders.*

Elizabeth Harrin (2017)[102]

102 Harrin, E. (2017) *The Definitive Guide to Project Success Criteria* [online]. Retrieved from: https://www.girlsguidetopm.com/the-definitive-guide-to-project-success-criteria/ [Accessed on: 24 August 2017]

The **gap analysis** example (Figure 8) highlights a corporate growth objective (to reach £60m in sales). Strategic development options are evaluated, based on forecasting and benchmarking, to determine how the company will meet these objectives.

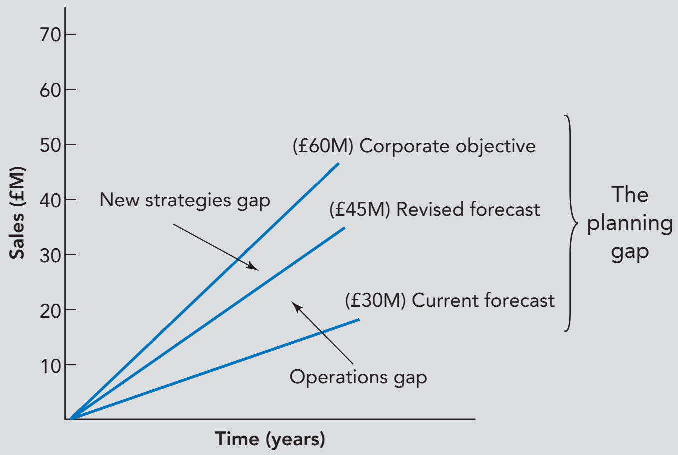


Figure 9: Gap analysis (example)

Gap analysis

"A process used in business to identify the requirements that will enable a company to close the gap between its current level of performance utilizing existing resource allocations and its potential performance based on the optimum allocation and integration of resources. Gap analysis provides the basis for determining whether desired outcomes are realistic based on time, money and human resources available to achieve them."

Source: http://www.investorwords.com

REVISION on the go

Gap analysis helps businesses to visualise the space between current forecasts (if there is no change) and predetermined corporate objectives, suggesting whether the gap can be bridged using operational refinements or requires a more strategic approach to planning. The **success criteria** can be determined at different levels. Based on Figure 8, strategies may be appropriate to achieve operational improvements in performance, building to the attainment of corporate objectives.

Balanced scorecard

Criteria established through models such as the BSC can be extended to establish a) targets for each perspective and b) critical success factors on which decision outcomes depend.

The advantage of using the BSC is that it develops strategic action holistically with success criteria determined for each of the four perspectives. Strategic options are then evaluated to satisfy the various stakeholder groups involved for each perspective. Most organisations using BSC encourage departments in the organisation to assess options from departmental viewpoints to get a greater understanding of the realities of option potential (see Vroom and Yetton[103]).

103 Vroom, V. and Yetton, P. (1973) *Leadership and Decision-making*, University of Pittsburgh Press

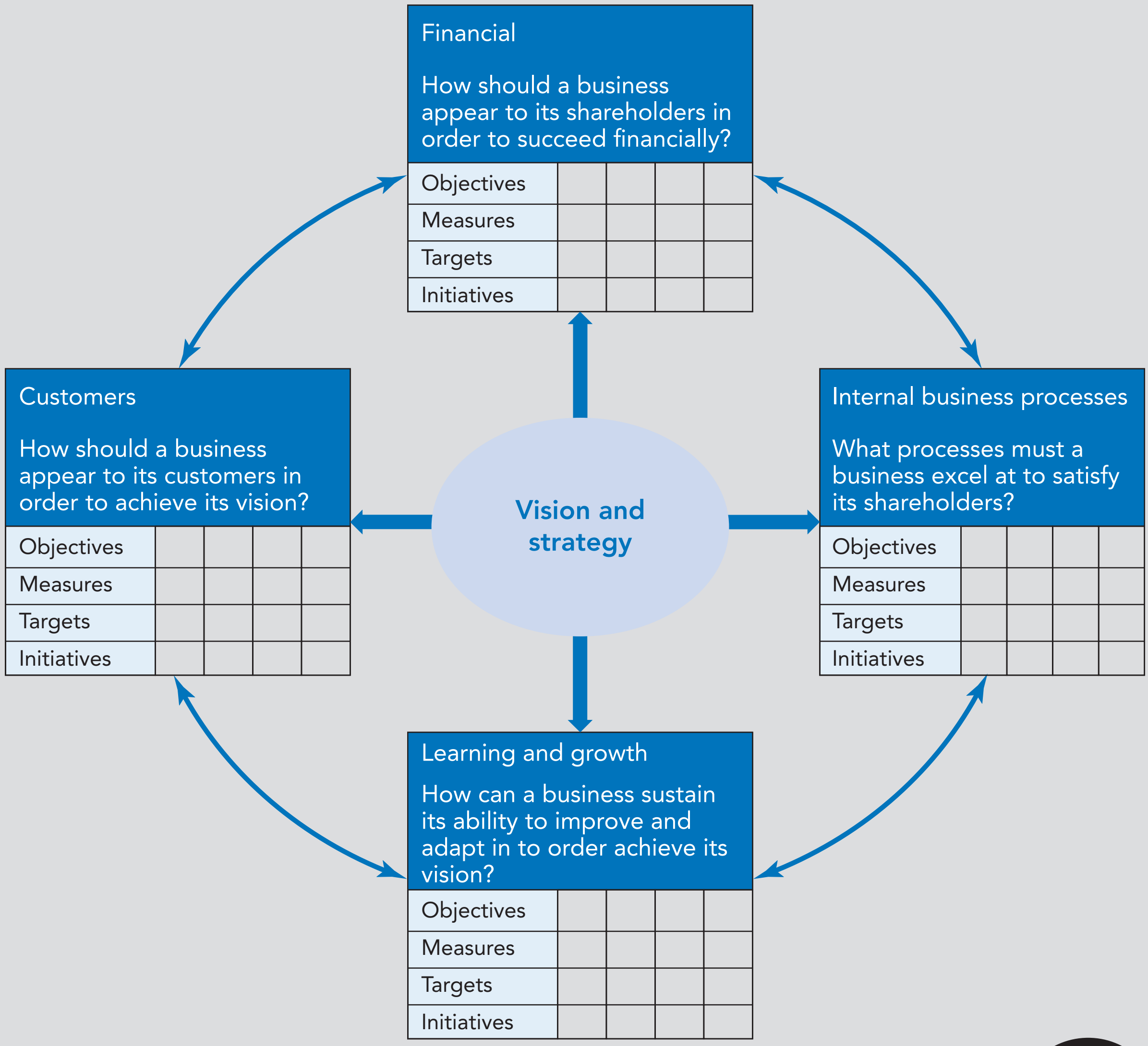


Figure 10: The balanced scorecard (planning diagram)

Value chain

Like the BSC, the value chain is also a source of evaluation from employees. In this case, success criteria focus on profit margins and cost-effectiveness (to enhance margins). An options strategy can be evaluated from the different perspectives of each primary and support activity (in other words what impact a proposed business strategy will have for each of the primary and support activities in terms planning, investment and budgets, development, management and operations), linkages between current business activities and departments explored and feedback given. This not only informs decision-making, but also provides a basis for planning. (See Chapter 2, Figure 16: Porter's value chain).

Fishbone diagram (Ishikawa)

Similarly, **Ishikawa's**[104] **fishbone diagram** can be adapted to establish the impact on the success criteria of a strategic option, evaluated from defined perspectives (e.g. internal viewpoints such as financial or marketing impacts, market perspectives, such as from stakeholders or the supply chain, or

104 Ishikawa, K. (1985) *What is Total Quality Control? The Japanese Way*, Prentice Hall

subsidiary opinions, which are gleaned from those who may not be directly impacted by a proposed strategy, but may offer insight from a different perspective).

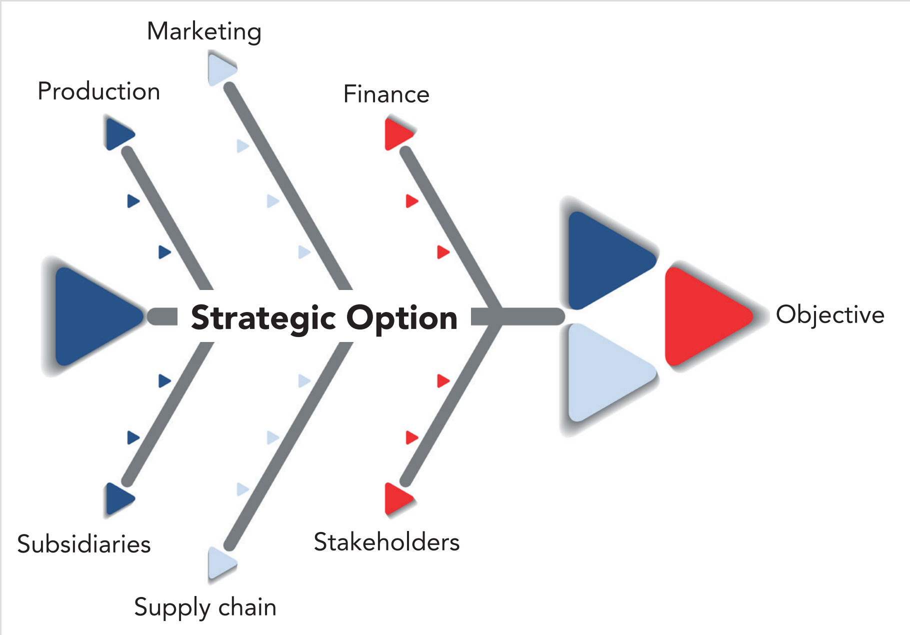


Figure 11: Fishbone diagram (Ishikawa) – adapted for strategic option evaluation

REVISION on the go

Success criteria – SAFe overview

This section introduces an evaluative process that assesses options for their ability to meet the desired goals – specifically to ensure that decisions made are justified. Johnson et al.[105] have termed this **suitability, acceptability and feasibility evaluation (SAFe)**.

Suitability

Suitability is concerned with rationality – whether a specific strategy option addresses the key issues, identified opportunities and analysed threats, and whether it capitalises on the strengths and remedies the weaknesses.

Additionally, it takes a wider perspective of strategic position – the business within its environment – and appraises the extent to which the proposals fit with the enterprise's strategic aims, culture, structure, circumstances and networks, competitive and market predictions and forecasts, and situation applicability and compatibility.

Source analyses include PESTLE, Porter's five forces competitive analysis, strategic groups, resources and capabilities, the value chain and cultural web.

Issues against which to evaluate the options include major environmental changes, industry convergence and supply-chain management, limiting competitive rivalry and repositioning.

Suitability of the option should be considered in relation to strategic direction (Ansoff) and use of organic development, M&A, and any alliances.

105 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017) *Exploring Strategy*, 11th edition,. Pearson

Acceptability

> ***Acceptability** – risk, return and stakeholder reactions*

Acceptability evaluation relates to the needs and expectations of stakeholders. Options should be considered for acceptability in terms of meeting expectations regarding risk (sensitivity and financial), returns and stakeholder (internal, connected and external) value and approval. This latter point includes many contemporary global business concerns, such as legal/regulatory frameworks (corporate governance), ethics (CSR) and cultural and demographic dimensions. Stakeholders are considered in the broadest sense, including competitors (see game theory in Section 4.2).

Feasibility

Feasibility focuses on whether the proposals are viable and realistic in practice. Feasibility interrogation of a strategy option concerns:

- the ability to finance the proposal (capital and cash flow);
- human resource capability – are skills currently available?
- obtaining and integrating resource requirements (including information and technology).

Related capability issues involve operational (production) and logistics feasibility (supply chain, distribution, and accessibility to specified new markets).

OVER TO YOU

Activity 2: Success criteria

This activity draws on your research of the Raj group of hotels from previous chapters. Strategic options and SMART objectives developed earlier should inform your answers to the following.

Tasks:

1. **Competitor response (based on game theory). What are the likely responses to Raj hotel competitors in the Indian markets (e.g. Marriott)? Suggest a range of moves and counter-moves to one or more of your strategic options.**
2. **Use at least one of the following to develop an evaluative opinion of the strategies from perspectives of the different models: BSC, value chain and/or Ishikawa's fishbone diagram. Plot these on the relevant models, identifying any critical success factors that would need to be addressed for the option to work.**
3. **Consider the options using SAFe criteria. Suggest how well they meet the original SMART objectives.**

4.4 Make recommendations for strategic development in a specified business and organisational context

With the exception of the **small and medium-sized enterprises (SMEs)** with authoritative/autocratic leadership, a strategic manager must first satisfy him/herself of the efficacy of any proposed strategy and then put together a case justifying it to influential stakeholders who may be the final arbiters of the decision to proceed. Should the strategic manager present a single option as a proposal, it is likely it will be questioned with some suspicion. It is the responsibility of the strategist to provide decision-makers with highlights of key issues from the strategic analysis, and suggestions for a small number of defined and evaluated options with clearly justified recommendations for selection.

So, in this final section, we apply screening and other analytical techniques, to evaluate and justify recommendations for strategy selection. Thought should be given to future-proofing and risk management to meet targets and minimise the impact of failure.

Performance forecast measurement

Decision-makers use projected outcomes of strategic initiatives to base judgements and their final selection for strategy development. These can be assessed in terms of:

- **Economic performance** – direct measures of success of proposed strategies:

  Product/markets – sales growth and market share;

  Profitability – profit margins and ROCE/ROI;

  Financial markets – share price movement.
- **Effectiveness** – overall organisational performance considering internal operational efficiency and impact of strategy proposals on the external environment (e.g. CSR). Useful assessment tools for these include the BSC and triple bottom line (profit, power, planet; see Chapter 2).

These evaluative factors can be substantiated by using performance comparisons such as:

- organisational targets (including trends and previous success in meeting goals);
- economic and business trends over time – business, sector and economic life cycles;
- benchmarking with competitors.

Inevitably, previous outturns that demonstrate success in meeting performance targets influence decision-maker confidence in the enterprise's ability to achieve its defined goals.

SAFe (suitability, acceptability and feasibility evaluation)

A number of techniques (quantitative and qualitative) should be applied to SAFe criteria to support proposals and justify strategy selection.

Suitability evaluation techniques

Johnson et al. (2017)[106] suggest five techniques are employed to evaluate strategic options for suitability:

1. Ranking;
2. Decision trees;
3. Life-cycle analysis – evaluation of options based on stage of the sector (see Chapter 2);
4. Scenarios – options evaluated for likely activities of stakeholders as a result of strategic selection (see Chapter 3);
5. Bases for gaining competitive advantage – evaluation through VRIO (see Chapter 2).

Techniques 3, 4 and 5 have been discussed in previous chapters; 1 and 2 are discussed below in greater detail.

1 Ranking

Ranking or scoring techniques can be employed to assess each option in relation to the organisation's strategic position.

106 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017) *Exploring Strategy*, 11th edition, Pearson

In most cases a ranking exercise, which is illustrated in the Heineken case study below, may be considered rather subjective or crude so justified evidence is required. Further refinements are achievable by removing the least likely (say those ranked B or C) leaving A valued options only. Further assessments based on other aspects of the SAFe criteria would help determine which of the three A categories to select (see Table 1).

CASE STUDY: RANKING OPTIONS

Heineken

Strategic options	Key strategic factors							Ranking
	Slowing global market	High developing country growth	Creation of AB In Bev-SABMiller giant	Consumers shift to craft beers in mature markets	Fits with technical competence	Fits with sector know-how	Builds on reputation for corporate sustainability	
Grow Heineken Premium	?	✓	x	x	✓	✓	✓	4-2 (B)
Introduce cider and Weiss beer	✓	?	?	✓	✓	?	?	3-0 (A)
Merge with Carlsberg	✓	✓	✓	x	✓	✓	?	5-1 (A)
Merge with Diageo	✓	✓	✓	✓	X	?	?	4-1 (A)
Acquire Moulson Coors (US)	X	✓	✓	x	✓	✓	?	4-2 (B)
Fund local craft beers	?	?	x	✓	?	?	x	1-2 (C)

Key

✓ = favourable; x = unfavourable; ? = uncertain

A = most favourable; B= possible; C = unsuitable

Source: Refreshing Heineken adapted from Johnson et al. (2017)[107]

Table 1: Ranking options – Heineken

In the case study above, options ranked as A are not mutually exclusive, so it is possible that all three strategic options are recommended and selected. Further decisions about prioritisation and risk evaluation might also become an influence.

107 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017) *Exploring Strategy*, 11th edition,. Pearson

Table 2 indicates that options can be ranked using numeric scoring against each element of specified SAFe criteria.

Option	Suitability	Acceptability	Feasibility	Total
1 Do nothing	2	0	2	4
2 Consolidate segments	2	1	3	6
3 Expand overseas	1	1	1	3
4 Launch new up market brand	3	3	3	9
5 Open retail outlets	3	3	1	7
6 Diversify	0	2	1	3

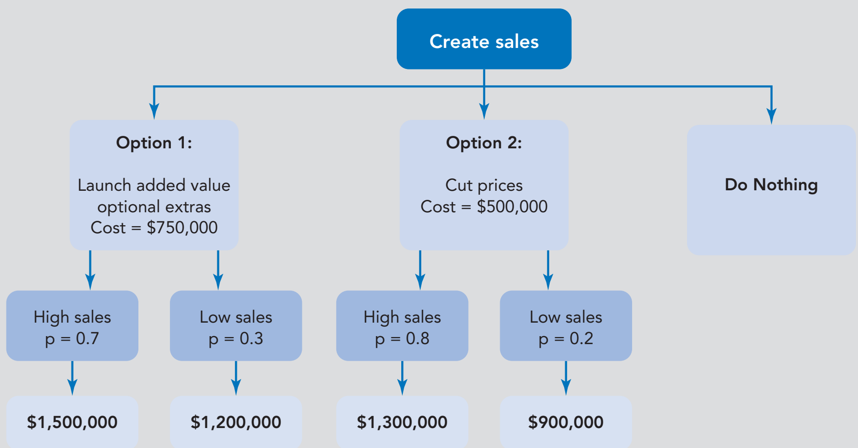
Table 2: Suitability, acceptability, and feasibility scoring based on strategic direction options

2 Decision trees

> *Decision trees are flowchart graphs or diagrams that help explore all of the decision alternatives and their possible outcomes.*
>
> *www.businessnewsdaily.com*[108]

Decision trees build successive criteria used to evaluate options. Options are then eliminated as additional criteria are introduced. To become more effective and to justify judgements, quantitative values for options are preferable. This means using estimates and probabilities to calculate likely outcomes. Financial evaluation of capital investments are employed to facilitate judgements of ROI. In other examples, margins of tolerance are used (best and worst case estimates). The decision tree helps to decide between options and whether a course of action is likely to give benefit.

A decision tree uses best and worst case forecasts to predict outcomes of particular strategic options. Calculations are made on probabilities for each option (denoted by p =).



Source: www.tutor2u.com

Figure 12: Decision tree (example)

108 Brooks, C. (2014) *What Is a Decision Tree?* [online]. Retrieved from: http://www.businessnewsdaily.com/6147-decision-tree.html [Accessed on: 17 July 2017]

Acceptability evaluation techniques

As indicated above, acceptability criteria is based on three aspects: risk, return and (stakeholder) reaction. In this section, we explore these in greater detail.

1 Risk

Risk evaluation uses mathematical techniques to gauge likely outcomes as a result of changes in dependent factors. Like decision trees and other models, some of these are expressed in terms of best/worst case scenarios as well as impact/probability.

Johnson et al. (2017)[109] suggest risk should be assessed for:

- **Sensitivity** – based on "What if?" How a predicted outcome or option could be impacted by changes in previously identified assumptions. For example: if forecast sales are predicted to grow by 5%, what would the impact of an interest rate rise? How sensitive would the market be for a change of this nature?

> *A sensitivity analysis is: a technique used to determine how different values of an independent variable impact a particular dependent variable under a given set of assumptions.*
>
> *www.investopedia.com*[110]

- **Financial risk** – concerns key financial obligations that may be affected by a strategic decision to select a given option. Options are then assessed for their impact on:
  - level of gearing (the amount of debt owed by the company);
  - liquidity – working capital and cash flow (e.g. the amount of money available to pay immediate bills).
- **Break-even analysis** – "Break-even point analysis is a measurement system that calculates the margin of safety by comparing the amount of revenues or units that must be sold to cover fixed and variable costs associated with making the sales."[111]

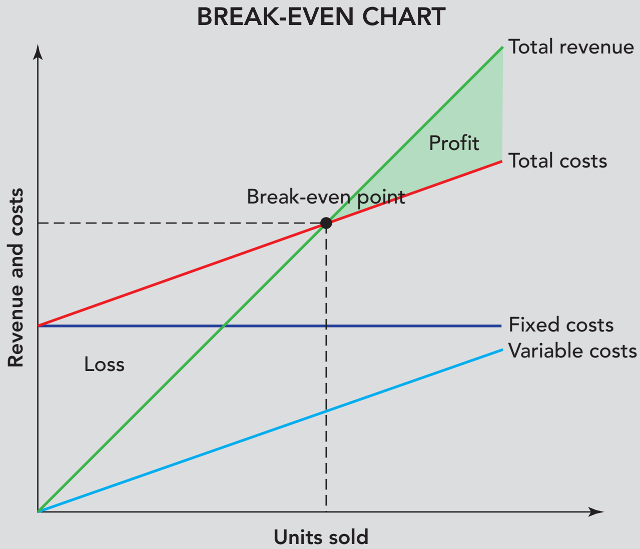
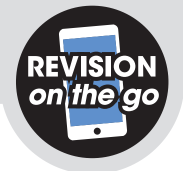


Figure 13: Break-even chart



109 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017) *Exploring Strategy*, 11th edition,. Pearson
110 Investopedia n.d. *Sensitivity Analysis* [online]. Retrieved from: http://www.investopedia.com/terms/s/sensitivityanalysis.asp [Accessed on: 17 July 2017]
111 My Accounting Course n.d. *Break-Even Point* [online] Retrievevd from: http://www.myaccountingcourse.com/financial-ratios/break-even-point [Accessed on: 17 August 2017]

2 Return

Evaluations of the estimated returns from a strategic initiative are based on investment appraisal techniques.

No business decision can be made without a realistic assessment of the financial returns and implications of investment. ROI is usually judged by profitability, cost-benefit, and shareholder value.

! NEED TO KNOW

Three commonly used methods to calculate ROI are:

Return on capital employed (ROCE) – this measures the earning power of resources used in the implementation of a particular option.

Payback period – the time estimated for returns on an investment to reach break-even point.

Discounted cash flow (DCF) – an investment appraisal tool: this assumes that money invested has greater value now than at the end of the payback period. Calculations are made to discount the value based on factors such as inflation and the extra cash flow generated from the investment on a year-by-year basis to the anticipated end of the project.

Difficulties arise with these forecasts due to: problems of uncertainty, focus on tangible costs and benefits (hence the need to use other measures for acceptability), and difficulties with making accurate assumptions about sales levels or investment costs.

REVISION on the go

Cost-benefit analysis (CBA) – in many cases, simply calculating financial returns may provide too narrow a focus. There may be many other benefits. Returns are often impossible to calculate effectively. For example, the direct returns on a brand enhancement campaign may be difficult to measure. For public infrastructure projects, monetary valuations are difficult, but cost-benefit analyses ensure management consider other contributory factors when making choices. The upcoming case study on mega-infrastructure projects is a good example.

This attribution of monetary value in a cost-benefit analysis may include multiplier or linkage benefits, e.g. increased trade, visitors, associated income advantages to the local economy such as employment and amenity benefits (for example, if an investment is made in a new road it may be difficult to justify but improved access to the town and amenities such as libraries and swimming pools can be of great advantage to the populace even if there is no direct return on investment). Assessing such benefits can be difficult and contradictory, generating opposing viewpoints and including negative elements, e.g. higher pollution and noise leading to additional costs and burden of increased health risk and the need for greater noise insulation (see upcoming case study).

Shareholder value – an important feature of financial returns contributing to strategy evaluation is through assessment of anticipated shareholder returns. Two measures are analysed – estimated share price increase or decrease and dividend pay-outs during the investment period (total shareholder return), and "economic" (actual) profit, which is a company's operating profit (as a result of investment adoption in a specific strategy) minus the cost of that investment. The difficulty with the shareholder value approach is the tendency for such assessments to focus on short-term payback.

On the face of it, projecting financial returns is an excellent way of justifying strategic alternatives, e.g. the greater the ROI, the more beneficial. Johnson et al.[112] suggest caution because of other

112 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017) *Exploring Strategy*, 11th edition, Pearson

factors including longer-term benefits and strategic knowledge that can come from an otherwise failed project. They suggest that financial and strategic returns and risks should be evaluated together, emerging options should be considered and valued, strategies should be built to cope with uncertainty, and finally potentially high-risk projects should be valued more optimistically.

CASE STUDY: RISK AND RETURNS

Major infrastructure projects

Building and maintaining safe infrastructure is crucial, and can be life-saving. For example, having well-designed sewage and water supply systems in place keeps diseases such as cholera at bay. Also, without protective water systems there would be significant damage to land; for instance, the North Sea Protection Works guards the Netherland's low-lying landscape.

Infrastructure can also have a transformative effect on the economy. For example, the international airport in Dubai is the busiest airport in the world, and it accounts for 21% of employment in Dubai as well as 27% of the **gross domestic product (GDP)**. The Panama Canal accounts for a significant share of Panama's GDP.

However, there are risks associated with any major infrastructure project, and not everything can be expected to go smoothly. The Panama Canal and Dubai International Airport projects have both overrun their planned time-frame for completion and initial budgets.

It is estimated that nine out of ten major infrastructure projects (that cost US$1bn or more) go over budget. On average, rail projects go over budget by 44.7%; bridges and tunnels go over budget by 35%; and roads go over budget by 20%. These projects often have an expected Return On Investment (ROI) of 20% ROI, which leaves the country's government to pay for the rest.

It is also common for projects to overrun their planned time-frame for completion. It took more than 12 years for the metro system in Salvador, Brazil, to become operational in 2012, and most of the work is still unfinished. A US$3.9bn project to rebuild the 59-year-old Tappan Zee Bridge in New York has taken 10 years just to get started; all the while, the costs of maintaining the bridge continue to increase.

While these major infrastructure projects undoubtedly have a positive social impact in the long run, the short-term premise that financial outlays must be recovered often becomes a barrier to taking action. Even much-needed infrastructure projects are often delayed, especially in areas of the world where the financial revenue from a project is unlikely to cover the total cost of the build.

Source: http://www.mckinsey.com/industries/capital-projects-and-infrastructure

3 Reaction of stakeholders

Previously we discussed stakeholder mapping as a means of establishing the extent to which stakeholders will endorse and support a strategy (Figures 4 and 5). While stakeholder approval is clearly beneficial, the strategic evaluation must focus on crucial stakeholder interests that could derail a proposal (however beneficial it may be for the business). These are summarised below:

Owners/shareholders: Support from shareholders is vital if their interests are at stake e.g. strategy involving new share issues may limit existing shareholders voting power.

Bankers: Their concerns will be protection of any loans – risk, liquidity and the ability of the business to repay debt.

Regulators: Regulators in industries such as pharmaceuticals, utilities or financial services can prevent or overrule strategies, particularly if they involve geographic or safety-related issues.

Government agencies: Impact in many areas, e.g. anti-competitive or potentially monopolistic situations and the stance of a particular government to FDI.

Employees and unions: May resist strategies that jeopardise members such as redundancies or relocation.

Local communities: Their main concern is how organisations contribute to the local economy, as well as their ethics and CSR.

Customers – May review future purchase conditions and go elsewhere.

Feasibility evaluation

Ultimately many strategic decisions are concerned not just with the prospective returns but simply whether it is feasible for the organisation to even embark upon the proposed strategy (e.g. do they have or can they acquire the resources?). To summarise evaluation techniques, these revolve around:

1 Financial feasibility

Financial feasibility is considered from three perspectives:

- Funding requirements
- Cost of capital
- Business risk

Feasibility of investment opportunity is dependent on the life cycle stage of the business (we have already discussed this in relation to product/product groups and the BCG). Similar principles apply here at start-up and growth phases e.g. funding requirements are high with little or no returns, particularly at start-up when owner-funds may be the only ones available (very high-risk). As the life cycle progresses, expectations of investment are less and returns are higher. It is unlikely that investors would understand the benefits of investment strategies at the decline stage.

2 People and skills

The issues here relate to impact evaluation of a particular strategy adoption on the existing workforce. Feasibility evaluation needs to establish whether the business can re-engineer its systems, structures, competencies to meet the strategic objectives – or alternatively acquire the requisite skills. Considerations include: work organisation, rewards, work relationship, training and development and building motivation to adopt the strategic option. Costs (CBA) need consideration and using the BSC (learning and development perspective) can provide a useful evaluation.

3 Integrating resources

Projects should also be assessed for viability to efficiently and effectively integrate the resources required for workable management. Analysis tools previously used (such as the value chain, BSC and inter-organisational co-operation) are all models on which to base this appraisal; see Chapter 2, Figures 13 and 16, and Chapter 3, Figure 9.

Future-proofing

Final evaluation, recommendation, and selection of strategies should also consider the challenges of using a wide range of evaluative criteria and models that may inevitably lead to divergent conclusions or, at best, mixed messages.

Issues of concern relate to:

- conflicting conclusions and management interpretation;
- consistency between elements of strategy (basis, direction and approach);
- ability to change direction, review strategy selection if circumstances in implementation render it unfeasible;
- strategy in action may look very different from the planned approach (see schools of strategy formation);
- potential misrepresentation of the strategy (including bias and self-interest).

It is responsible for the strategic manager to consider realistic probabilities of actual events that may impact on planned objectives, and then to suggest possible options for recovery and future-proof the strategy in the event of the unexpected. Any presentation to influential decision-makers should suggest not only best/worst case scenarios, but also identify alternative directions or approaches in the event of failing to meet objectives.

Risk identification and mitigation

> *Risk is defined as unknowns that have measurable probabilities, while uncertainty involves unknowns with no measurable probability of outcome.*
>
> *www.reference.com*[113]

No analyst can predict everything, but evaluation and recommendation of options should be assessed for risk in the event of failure to meet targets, but also in the event of overachievement. Throughout this study guide, reference has been made to risk evaluation, and tools such as break-even analysis and organisational gearing (indebtedness) and other ratios can all be used to pinpoint minimum acceptable levels of return (see Section 4.3 on SAFe). Tolerances such as the identification of the best- and worst-case scenarios and the margin of error or sensitivity analyses are used in decision-making (see the decision tree example in Figure 11 of this chapter).

We have also discussed risk assessment based on probability and impact (see Chapter 2, Figure 7).

Any recommendation for strategic action should be regarded as a project, even though at this stage no development or implementation management plans are in place; it is worth considering risk management evaluation techniques in order to anticipate scenarios and interpret impact.

RAID (risk, assumptions, issues, dependencies)

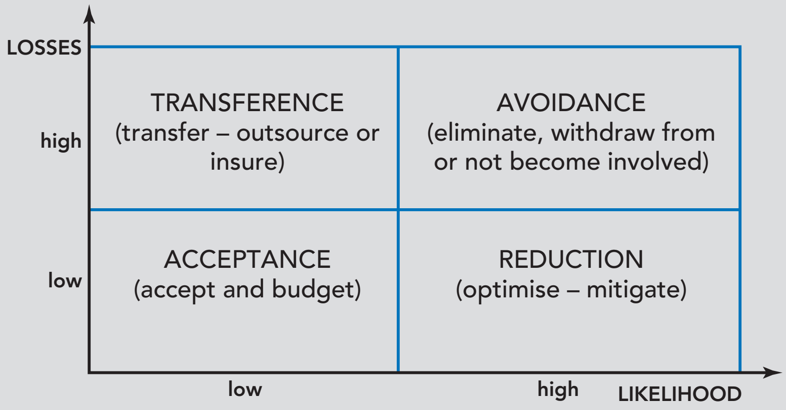
- identifies risks (scoring them on the basis of impact/probability see above);
- lists the assumptions helped to inform the proposed strategy scored by priority;
- includes any issues arising because of the proposal's selection (e.g. the need to build new facilities to increase capacity);
- links any dependencies (e.g. failure to select a particular strategy might lead to the closure of part of the business with impact on revenue and employment).

113 Reference n.d. *Why is investing important?* [online]. Retrieved from: https://www.reference.com/business-finance/investing-important-7e7f64e516978234 [Accessed on 17 July 2017]

FMECA (failure modes, effects and criticality analysis)

FMECA is a quality management tool designed by the US military and is particularly relevant for product development (Ansoff). The purpose is to assess the way in which the proposed strategy might fail (FM), the effects and their criticality for the consequences of failure (ECA). As with RAID and other risk analysis tools, this can be scored using a RAG (Red, Amber, Green traffic light system) rating approach.

Strategy recommendations should identify the likelihood and impact of risk and also indicate the potential to overcome and counter the issues identified.



Source: https://projectmanagers.org/managing-cost-risks/

Figure 14: Risk response

REVISION on the go

During the appraisal process, it may not be worthwhile for any proposal falling into the avoidance category to be presented as a viable possibility to the strategic decision-maker. However, awareness of the option and justification for exclusion is certainly worth consideration.

OVER TO YOU

Activity 3: Strategy recommendation

Use the work completed in previous activities relating to Raj hotels and realty to complete this activity.

Tasks:

1. **Employ SAFe techniques to at least two comparative options identified previously. You should try out ranking for suitability, assessing for acceptability through the "3 Rs" (Risk, Return and Reaction of stakeholders) and consider the feasibility of the proposals. Compare the two options. On the basis of your evaluation, which appears to be the most advantageous?**
2. **Now review the options using RAID and FME(C)A analyses. How would you prioritise the outcomes? What strategic approach could be adopted to future-proof the strategy?**
3. **Review your findings for the strategic development of the Raj group. Have your option preferences changed in any way over the analysis process? Present your final selection for strategic development.**

READING LIST

- De Wit, B. and Meyer, R. (2004) *Strategy: Process, Content, Context*, 3rd edition,. Thomson Learning
- Johnson, G., Scholes, K. and Whittington, R. (2008) *Exploring Corporate Strategy*, 8th edition,. FT Prentice Hall
- Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017) *Exploring Strategy*, 11th edition,. Pearson
- Mintzberg, H. I., Ahlstrand, B. and Lampel, J. (2009) *Strategy Safari*, 2nd edition,. FT Prentice Hall
- Paul, D., Cadle, J. and Yeates, D. (eds) (2017) *Business analysis*, 3rd edition,. British Computer Society

Summary

> *"The challenge is to pierce the fog of uncertainty and develop great foresight into the whereabouts of tomorrow's markets."*
>
> *Hamel and Prahaldad (1994)*[114]

114 Hamel, G. and Prahalad, C. (1994) *Competing for the Future*, Harvard Business School Press

It is not easy to predict the outcome of strategic action given the ambiguity and complexity of assessment of uncertain markets and often conflicting business futures. The reputation gained for foresight and successful strategic decision-making by some entrepreneurs (or intrapreneurs) could be put down to a degree of luck. Hamel and Prahalad (1994) asserted that future business success would be dependent on the early identification of market change, adding*:* "Some management teams were simply more 'foresightful' than others. Some were capable of imagining products, services, and entire industries that did not yet exist and then giving them birth."

This chapter suggests that foresight (innovation, creativity, and entrepreneurship as defined by Mintzberg et al.[115]) may require rather more analytical evaluation and justification for it to be recommended for strategic development. This is partly because of the inherent nature of strategic development and the complexities of the business environment and stakeholder interests, as well as decision-making influences.

The chapter has examined strategic decision-making environments and techniques, criteria for selection, quantitative and qualitative measurements and analysis for ranking and comparing options. It has also suggested ways in which strategy proposals can be assessed for risk and future-proofing.

Strategic decisions can then be made to reassure stakeholders that due diligence has been employed and the outcomes of such evaluations presented with the best possible knowledge of certainty.

115 Mintzberg, H. I., Ahlstrand, B. and Lampel, J. (2009) *Strategy Safari*, 2nd edition, FT Prentice Hall

Appendix

The following table summarises tools and techniques from this study guide. It is divided into two sections.

Part 1 relates to the analysis tools that form the basis of external, industry/market and internal analysis of future trends and strategic capability, including sources of competitive advantage.

Part 2 focuses on strategy formation and **option development**, which is the process of developing a range of options for future strategy. At first, the range and processes may seemdaunting, and certainly external, industry, market, and internal data sources are extensive.

Summary of key tools and models for strategic analysis and formation

Part 1: Situational analysis										
Strategic phase	Tool/model	Key features	Strategic analysis		Competitive advantage	Strategic formation			Approach/ method	Section ref
			Current	Potential		Purpose	Basis	Direction		
Macro	PESTLE.	External or macro-environmental issues.	✓	✓						2.1
Industry	Strategic groups.	Structure of industry and major market groups.	✓		Potential opportunities.			✓	Investment segment entry.	2.1 Fig 3
Industry/ market	Market structure.	Market structure based on upstream, complementary, downstream activities.	✓	✓	Supply chain management.			✓	Investment growth methods.	2.1 Fig 4
Industry/ market	Value system.	Structure and interactions between players in a market.	✓	✓	Supply chain/ market management.				Network management.	2.1 Fig 5
Industry/ market	Segmentation.	Division of market by customer groups.	✓							2.1 Table 3
Industry	Industry life cycle.	Stage of life cycle; market dynamics.	✓	✓			✓		Approach and method based on stage.	2.1 Fig 6
Market	Porter's five forces analysis.	Level of power, threats, and rivalry in a given market.	✓	✓						2.2 Fig 9

Part 1: Situational analysis (continued)										
Strategic phase	**Tool/model**	**Key features**	**Strategic analysis**		**Competitive advantage**	**Strategic formation**			**Approach/ method**	**Section ref**
			Current	**Potential**		**Purpose**	**Basis**	**Direction**		
Market	GE McKinsey matrix.	SBU positioning, based on market share, competitiveness, and market attractiveness.	✓	✓	Positioning advantage based on strengths.				Approach based on position.	2.2 Fig 10
Market	Market perception map.	Brand or strategic groupings by market perception.	✓	✓	Can identify potential gaps.				Managed method.	2.2 Fig 11
Macro and market	Opportunities and threats.	Summary assessment based on potential and impact.		✓				✓		2.2 Table 4
Macro and market	Impact and probability.	Likely impact and probability of future external/market factors.		✓				✓		2.1 Fig 7
Internal capability	Porter's generic strategies.	Organisational business model based on cost leadership or differentiation.	✓		Inside-out competitive advantage.		✓		Resource-based.	2.3 Fig 12 and 3.1
Internal	Financial analysis.	Interpretation of trends through annual financial statements.	✓	✓						2.4 RoG (1)
Internal	Marketing and brand value.	Analysis of marketing effectiveness through marketing mix activities.	✓		Brand reputation. NPD success distribution.				**PIMS (Profit Impact of Marketing Strategy).**	2.4 RoG
Internal	Human resources.	Labour force – physical and skills; leadership and learning.	✓	✓	Unique competences.					2.4
Internal capability	Resources and competences.	Identification of threshold and unique resources/core competences.	✓		Difficult to imitate give competitive advantage.			✓	Ratio analysis.	2.4 Fig 17
Internal capability	VRIO.	Checklist of assessing distinctive resources and competences.	✓		Based on distinctive capability.					2.3 Table 5

Part 1: Situational analysis (continued)										
Strategic phase	Tool/model	Key features	Strategic analysis		Competitive advantage	Strategic formation			Approach/ method	Section ref
			Current	Potential		Purpose	Basis	Direction		
Internal capability	Inter-organisational objectives.	Co-operation objectives through resources, activities or product offering.	✓	✓	Network management.				Method – JV, alliances.	2.3 Fig 13
Internal capability	McKinsey 7S framework.	Shared values focus on strategy, structure, systems, skills, staff, and style.	✓	✓	Organisational framework and values coherence.	✓			Strategy development (Mintzberg's 10 Schools).	1.2 / 2.4 RoG (a)
Internal	Cultural web.	Real culture based on the paradigm.	✓	✓	Potential for adjusting to meet potential change.	✓				1.2 / 2.4 RoG (b)
Internal	BCG matrix.	Assessment of product portfolio through (a) growth and market share (b) profit impact.	✓	✓				✓		2.4 Figs 15 (a) and (b)
Internal capability	Porter's value chain.	Assessment of effectiveness of company's primary and support activities to create margins.	✓	✓	Best practice should ensure optimisation of activities.				Supports organic growth.	2.4 Fig 16
Internal capability	Benchmarking.	Comparison between best in sector and in class.	✓	✓					Best practice comparison.	2.4
Internal capability	Strengths and weaknesses.	Summary assessment in relation to opportunities and threats.	✓	✓						2.4 Table 5

Part 2: Strategy formation and option development (continued)

Strategic phase	Tool/model	Key features	Strategic analysis		Competitive advantage	Strategic formation			Approach/ method	Section ref
			Current	Potential		Purpose	Basis	Direction		
Purpose	Corporate purpose and influences.	Influence of business ethics, corporate governance, organisational culture and stakeholders.	✓	✓		✓			Basis for mission.	3.1 Fig 2
Purpose	Stakeholder groups.	Identification of key stakeholders' needs and expectations.	✓	✓		✓				3.1 Fig 3
Basis	Strategy clock.	Position potential based on market perceptions of value and price.	✓	✓	Potential for first/early mover advantage.		✓		See also Porter's generic.	3.1 Fig 4
Direction	TOWS matrix.	Strategy options developed from SWOT.		✓				✓		3.2 Fig 5
Direction	Ansoff's growth matrix.	Potential product/market development.		✓				✓		3.2 Fig 6
Direction	Segment-by-segment diversification.	Illustration based on product/market segment development.		✓				✓	Potential approach/ method strategies.	3.2 Fig 7
Approach	Shell directional policy matrix.	Identified strategies based on sector profitability and capability.		✓					Approach.	3.3 Fig 8
Approach	Arthur D Little matrix.	Strategies based on market position and sector life cycle stage.		✓					Approach.	3.3 Table 1

Part 2: Strategy formation and option development (continued)

Strategic phase	Tool/model	Key features	Strategic analysis		Competitive advantage	Strategic formation			Approach/ method	Section ref
			Current	Potential		Purpose	Basis	Direction		
Method	Organic growth (corporate conglomerate).	Synergies through corporate conglomerate development.		✓	Synergy through shared corporate parent.				✓	3.3 Fig 9
Method	Relationship dependencies.	Merger and acquisition conditions and loose networks.			Economies of scale and synergy.				✓	3.3 Fig 10
Method	Types of alliances.	Forms of relationships and influencing factors.			Effective networks can yield competitive advantage.				✓	3.3 Table 2
Method	Revision: JV and alliances.	Inter-organisational cooperation and supply chain management.		✓					✓	3.3 Fig 12

REVISION on the go

Glossary

Acceptability One of the criteria by which a strategic option is evaluated to see if it will meet stakeholder approval (risk, return and (stakeholder) reaction).

Alliances Collaborative arrangements between two or more independent businesses.

Ansoff's directional matrix Marketing model used to facilitate product/market development as part of an enterprise's directional strategy.

Anti-trust regulations Also referred to as "competition laws" are statutes developed by the US government to protect consumers from predatory business practices by ensuring that fair competition exists in an open market economy.

Approaches Development approaches including investment, managed portfolio, harvesting, and divestment.

Arthur D. Little (ADL) matrix Approaches to strategy development based on market position and sector life cycle.

Ashridge parenting matrix An evaluation of SBUs based on degree and nature of value to the corporate conglomerate.

Asset stripping The practice of taking over a company (usually in financial difficulties) and selling each of its assets separately at a profit without regard for the company's future.

Balanced scorecard (BSC) A performance metric stemming from vision and strategy and used in strategic management to identify and improve various internal functions and their resulting external outcomes. It is also used to measure and provide feedback to organisations.

Basis (of strategy) Foundation of business strategy, includes corporate purpose and generic strategies (the business model).

Blue ocean These companies, in contrast to red ocean companies, access untapped market space and create demand, and so they have the opportunity for highly profitable growth. In blue oceans, competition is irrelevant. Imitators arise, but experience shows there is a wide window of opportunity to stay ahead of imitators.

Boston Consulting Group growth-share (BCG) matrix Evaluates a firm's products or business units on the basis of market share and growth, relative to the business with the largest market share in that sector.

Benchmarking The purpose of benchmarking is to understand and evaluate the current position of a business or organisation in relation to best practice and to identify areas and means of performance improvement.

Bottom-up A strategy that is developed, agreed and communicated by the grass roots of the organisation and filtered up through the hierarchy to the top of the organisation. At this point decisions are usually refined by agreement before becoming part of the organisational goals and strategies. See also top-down and the strategy hierarchy.

Brazil, Russia, India, China (BRIC) Collective group of nations known for their rapid economic development.

Break-even analysis Used to determine when a business will be able to cover all its expenses and begin to make a profit. The break-even point is reached when revenue equals all business costs.

Brexit Britain's exit from the EU. It was coined from the referendum in the United Kingdom in 2016.

Business cycle The normal economic pattern that is characterised by four stages: expansion, peak, contraction, and trough. The business cycle constantly repeats itself and the economy is always in flux.

Business environment See macro-environment.

Business ethics Moral principles that guide the way a business behaves.

Business intelligence (BI) This refers to technologies, applications, and practices for the collection, integration, analysis, and presentation of business information. The purpose is to support better business decision-making.

Business (level) strategy Concerned with development of activities relevant for the business, e.g. leveraging resources, integrating and managing activities and the value proposition.

Business model This describes the means or method by which a business gains value and profit e.g. operating from a low-cost base with minimal or no borrowing.

Business-to-business (B2B) This refers to trading between companies (as opposed to business to consumer – B2C).

"C" or "sea" change the term is frequently used in business and IT (information technology) contexts. C-Change is a capital "C" or major change and derives from more commonly used "sea" change which is a significant and/or systemic transformation.

Capability (strategic) Set of capacities, resources, and skills (competencies) and linkages (networks) that create a long-term competitive advantage for an organisation.

Centralised decision-making Hierarchical structure where all decisions and processes are handled strictly at the top or the executive level. Decentralised decision-making in which daily operations and responsibilities are delegated by top management to middle- and lower-level managers within the organisation.

Co-specialisation Physical assets, human resources and the intellectual property of more than one company are developed together over time and are more valuable in combination than separately, giving firms sustainable competitive advantage.

Commodity markets Trade in the primary economic sector rather than manufactured products. Soft commodities are agricultural products such as wheat, coffee, cocoa, and sugar. Hard commodities are mined, such as gold and oil.

Competencies (core or threshold) The capabilities, abilities, skills, proficiencies, expertise, and experience that a business has, which enables it to be viable within its market. Core competencies are those which are unique or give it a competitive advantage over rivals, whereas threshold competencies are those essential for survival.

Competitive advantage An edge over rivals and an ability to generate greater value for a firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralise the advantage.

Conglomerate (corporate) A corporation that is made up of a number of different, seemingly unrelated businesses. In a conglomerate, one company owns a controlling stake in a number of smaller companies, which conduct business separately.

Consensus decision-making A creative and dynamic way of reaching an agreement between all members of a group. A group using consensus is committed to finding solutions that everyone actively supports, or at least can live with.

Core values A principle that guides an organisation's internal conduct as well as its relationship with the external world. Core values are usually summarised in the mission statement or in a statement of core values.

Corporate governance A system of rules, practices, and processes by which a company is directed and controlled.

Corporate (level) strategy Decisions a business makes that affect the entire organisation. Financial performance, mergers and acquisitions, human resource management and the allocation of resources are considered part of the corporate level strategy.

Corporate parent Owns enough voting stock in another firm to control management and operations and influencing or electing its board of directors.

Corporate and social responsibility (CSR) A company's sense of responsibility towards the community and environment in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by setting up or contributing towards educational and social programmes, and (3) by earning adequate returns on the employed resources. The term generally applies to efforts that go beyond what may be required by regulators or environmental protection groups.

Cost-benefit analysis (CBA) Attempts to predict the financial impacts and other business consequences of an action. The purpose is to weigh the total costs from an action or decision against the total benefits. This usually includes both financial and non-financial costs and benefits.

Cost leadership Describes a way to establish the competitive advantage. Cost leadership means the lowest cost of operation in the industry.

Critical mass The size a product, market or company needs to reach in order to efficiently and competitively participate in the market. This is also the size attained in order to sustain growth and efficiency.

Critical success factor (CSF) A management term for an element that is necessary for an organisation or project to achieve its mission.

Cultural web The set of shared values and norms that characterise an organisation; "how we do things round here". Cultural web is the interrelated factors within an organisation that make up its cultural ethos.

Decision-making The process by which individuals and organisations resolve to take action on behalf of an organisation.

Decision tree A decision support tool that uses a tree-like graph or model of decisions and their possible consequences, including chance events, resource costs, and utilities.

Delphi technique A systematic forecasting method that involves structured interactions between a groups of experts on a subject for the purpose of achieving well-thought-through consensus.

Demographics The study of a population based on factors such as age, race, sex, etc. Governments, corporations and non-government organisations use demographics to learn more about a population's characteristics for many purposes, including policy development and economic market research.

Differentiation The action or process of distinguishing between two or more things or people e.g. packaging can be a source of product differentiation.

Diffused authority Diffusion means to spread. In this case it means spreading responsibility and authority throughout the organisation. Responsibility for outcomes is diffused, but so is the collective responsibility.

Direction (strategic) Generally relates to business activities (products and markets) strategic direction determines the route to achieving business objectives. Ansoff's matrix is widely used to examine business directional options.

Discounted cash flow (DCF) A valuation method used to estimate the attractiveness of an investment opportunity. DCF analysis uses future cash flow projections and discounts them to arrive at a present value estimate, which is used to evaluate the potential for investment.

Diversification The process of a company enlarging or varying its range of products or field of operations. Related diversification concerns developments from existing products or markets into a new segment or with an adapted product. Unrelated diversification takes the company into a completely new business and market in which it has no experience.

Divestment The action or process of selling off subsidiary business interests or investments.

Downstream See supply chain.

Drivers of change Internal or more likely external factors that drive the decision to change the basis, direction, approach and methods employed in the business.

Emergent (strategy) A pattern of action that develops over time in an organisation in the absence of a specific mission and goals, or despite its mission and goals.

Entrepreneurialism Defined as starting new businesses, or getting involved with new ventures or ideas. An entrepreneur is a person who organises, operates, and assumes the risk for a business venture.

Entry barriers The existence of high start-up costs or other obstacles that prevent new competitors from easily entering an area of business.

Ethnocentric (business cultures) The parent company transfers its own culture to the subsidiary company, thereby infusing beliefs and practices into the foreign country.

European Union (EU) The largest, oldest and most developed of the trading blocs. The EU comprises 28 nations (including the UK at the time of writing – 2017) and features a customs union (free trade), single market as well as shared legal and political institutions.

Five forces competitive analysis (Porter) An analysis tool used to determine the intensity of rivalry within an industry. The five forces are competitor rivalry, bargaining power of suppliers and customers and the threats from substitutes and new entrants.

Foreign direct investment (FDI) Made by a company in one country for either establishing business operations or acquiring business assets in another country, such as ownership or controlling interest in a foreign company.

First-movers Companies that aim to gain an advantageous and perhaps insurmountable market position by being the first to establish themselves in a given market.

Flux A period of constant and disruptive change. See also Business Cycle.

FMECA Failure modes, effects and criticality analysis; a step-by-step approach for identifying all potential and existing possible failures in a strategy. "Failure modes" mean the ways, or modes, in which something might fail. "Effects analysis" refers to studying the (critical) consequences of those failures.

Future-proofing The process of anticipating the future and developing methods of minimising the effects of shocks and stresses from future events.

Game theory Analysis of strategies for dealing with competitive situations where the outcome of a participant's choice of action depends critically on the actions of others (generally competitors or others in the supply chain – see also prisoner's dilemma).

Gap analysis A technique that businesses use to determine what steps need to be taken in order to move from its current state to its desired, future state. Also called need-gap analysis, needs analysis, and needs assessment.

General Agreement on Tariffs and Trade (GATT) A legal agreement between many countries, which promotes international trade by reducing or eliminating trade barriers such as tariffs or quotas – it forms the basis of the World Trade Organisation (WTO).

GE-McKinsey multifactor matrix A commonly used strategy tool that offers a systematic approach for a multinational corporation to prioritise its investments among its business units.

Generic competitive strategy matrix (Porter, 1979) A commonly used matrix defining the ways in which a business can gain competitive advantage – through cost leadership, differentiation and focus (see also business model).

Geocentric (culture) A company with offices in multiple nations that operates to achieve global objectives as well as local objectives. The subsidiaries contribute unique competencies as part of a whole rather a set of separate business units.

Gross domestic product (GDP) The monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Globalisation The process by which the world is becoming increasingly interconnected as a result of massively increased trade and cultural exchanges which leads to the increased interconnectedness of national economies.

Glocalisation A combination of the words "globalisation" and "localisation" used to describe a product or service that is developed and distributed globally, but is also fashioned to accommodate the user or consumer in a local market.

Goals What a company expects to accomplish over a specific period of time.

Harvesting The term "harvesting" relates to the concept in agriculture of harvesting the crop once it is ripe. In business this means maximising sales and profits from a product/service to optimise return on investment, before the product goes into decline and ceases to be viable. It is an approach to strategy whereby maximum profits from a product or SBU are extracted, prior to a divestment or exit strategy.

Hyper-competition A situation in which there is a lot of very strong competition between companies, markets are changing very quickly, and it is easy to enter a new market so that it is not possible for one company to keep a competitive advantage for a long time.

Impact/probability matrix Defines the impact and probability of an event to facilitate planning. Every risk event, whether it is a threat or an opportunity, has two characteristics: the probability that it might happen and the impact it would have if it did.

Individualistic cultures (I) Based on Hofstede's research into how international cultures, individual uniqueness and self-determination are valued. A person is all the more admirable if they are a "self-made man" or "makes up their own mind".

Industry/sector life cycle Traces the evolution of a given industry based on the business characteristics commonly displayed in each phase. Industries are born when new products are developed, with significant uncertainty regarding market size, product specifications, and main competitors. Consolidation and failure whittle down an established industry (shake-out) as it grows, and the remaining competitors minimise expenses as growth slows (maturity) and demand eventually wanes.

Innovation Process involving the deliberate application of information, imagination and initiative in deriving greater or different values from resources, and includes all processes by which new ideas are generated and converted into useful products. In business, innovation often results when ideas are applied by the company in order to further satisfy the needs and expectations of the customers.

Inside-out See resource-based.

Intellectual property Knowledge, creative ideas, or expressions that have commercial value and are protectable under copyright, patent, service mark, trademark, or trade secret laws from imitation, infringement, and dilution. Intellectual property includes brand names, discoveries, formulas, inventions, knowledge, registered designs, software, and works of artistic, literary, or musical nature. It is one of the most readily tradable properties in the digital marketplace.

Intrapreneurship The term used to describe entrepreneurial activity conducted from within a company – usually describes innovative strategies designed to improve internal systems, production, technology and other methods that improve efficiency and increase productivity and profit margins.

Ishikawa's fishbone diagram Also called a cause and effect diagram – is a visualisation tool for categorising the potential causes of a problem in order to identify its root causes. Alternatively, it can be used to create tactics for each area of the business in order to meet its overall objectives.

Joint venture (JV) An independent business set up by two or more companies for a specific business enterprise in which the parties will invest resources – finance, skills and assets often bringing specialist expertise to a development e.g. Swatch (watches) and Mercedes (cars) created the Smart car.

Long-term direction Traditionally differentiates strategy from tactical activities, long term was perceived to be five years or more. However, due to the dynamic nature and rapid innovations of some industries e.g. technology, "long" term has to be considered by industry, and strategic agility is sometimes seen as more important.

Macro-environment The external elements that exist outside of a company's control that can significantly impact its performance and ability to compete. Also often described as the external business environment, it is a condition that exists within an economy as a whole rather than a particular business or sector. Often analysed through the acronym PESTLE.

Macro pyramid Organisational structure adopted by a large multinational or multidivisional organisations in which head office controls strategy (and its own management/operational activities) but delegates management and operations to local subsidiaries or branches.

Market followers Organisations that limit investment and development of products in portfolio to adaptation of innovator (or first mover) developments.

Market-led (outside-in) An approach to strategy based on developing internal resources to respond to market changes and needs, often known as market orientation as the market drives the strategy.

Market myopia Strategies of businesses that continue to focus on past successful practices or fail to recognise changes in needs and expectations of customers and the marketplace – leading to falling profits and market share.

Market positioning Business strategies which position brands and products expressly to target a particular customer segments.

Marketing assets Intangible assets on which a value is placed because of its perceived benefit to customers and contribution to company revenue. These will include brand value, customer service perceptions, intellectual property rights and patents.

Marketing mix Known as the 7Ps the marketing mix elements (product, price, promotion, place and service elements – people, process, physical evidence) should be planned to create a holistic, integrated and coherent marketing strategy for the business.

Masculinity (M) A national culture that tends to be assertive and focused on competition; part of Geert Hofstede's analysis of the characteristics of international and country cultures.

McKinsey's 7S framework A structured approach to developing a unique framework for a business centred around shared values – the other S-factors are structure, strategy and systems (hard factors) and staff, skills and style (soft elements).

Mega-trends Describing external factors that are impacting on global demographics and economies (not limiting this to any national or regional change).

Mendelow's stakeholder power/interest matrix A matrix by which stakeholder groups (including sub-segments) are assessed for their power and influence over the decisions made by an organisation

Mergers and acquisitions (M&A) An approach to strategic development through ownership of businesses. Mergers join two or more companies together as equals – they are likely to be of similar size and power and to be successful should have similar cultures. Acquisitions occur when one dominant enterprise acquires the shares of another, so incorporating it into its own organisation either as an integral part or as part of a conglomerate of SBUs.

Microbusiness One with less than five employees.

MINT Acronym for fast-growing emerging nations – Mexico, Indonesia, Nigeria, Turkey.

Mintzberg's 10 schools of strategy formation Prescriptive (design, planning, positioning) and descriptive (entrepreneurialism, cognition, learning, power, culture, environment, configuration).

Mission The overall general aim for the business.

Monopoly Industry with only one dominant player in the market. This can be by political design or for the provision of utilities or in capitalist economies, where one player has dominant control e.g. Microsoft Windows environment because of difficulties for customers to switch suppliers.

Multinational corporation (MNC) An enterprise with subsidiaries in several countries. It will generally have a regional approach to strategy rather than a global organisation, where the focus is standardisation (see also polycentric).

Nash equilibrium In game theory (the prisoner's dilemma), Nash equilibrium indicates that no player (company) will gain advantage if a proposed strategy is adopted. It's also related to price wars.

Network (level) The level of strategy that is concerned with a company's relationships and strategies with it linkages. This could be the supply chain or concerned with alliances and joint ventures as well as corporate conglomerate intra-organisational relations.

Niche market One that is focused on a narrow market segment.

Oligopoly An industry with a small number of powerful players in a particular market. For example, 90% of U.S. media outlets are owned by six corporations: Walt Disney, Time Warner, CBS Corporation, Viacom, NBC Universal and Rupert Murdoch's News Corporation.

Operational (level) Strategies developed for specific areas of the business activities, often known as the functional areas such as marketing, human resources, finance, production.

Option development (strategic) The process of developing a range of options for future strategy. Depending on circumstances this will start on the basis of a company's business model (generic) through to product/market strategies (direction) and the overall approach (investment, managed strategies and harvesting/divestment) and the means to achieve this (organic, M&A, joint ventures and alliances).

Organic growth When business growth is achieved through natural means using the company's existing capabilities and resources.

Outside-in See market-led.

Paradigm The core of the cultural web – this will be the central ethos and belief system of the organisation.

Paralysis by analysis The organisation's and analysts' tendency to invest resources in extensive collection and analysis of data, without then using it to go ahead with a suitable strategy because data constantly changes in the context of complexity and uncertainty.

Payback period The time estimated for returns on an investment to reach break-even point.

Perfect competition The situation prevailing in a market in which buyers and sellers are so numerous and well informed that all elements of monopoly are absent. And the market price of a commodity is beyond the control of individual buyers and sellers.

PESTLE Acronym used to analyse the external business environment or macro-environment. Components are social/demographic, technological, economic, environmental, political, legal and ethical.

Polycentric (cultures) Businesses with a polycentric orientation adopt the belief that every country is unique and needs a different approach to match cultural and societal norms. A company uses a country-specific business and marketing strategy to develop and build its presence (see also MNC).

Porter's diamond Properly referred to as the Porter diamond theory of national advantage, is a model that is designed to help understand the competitive advantage nations or groups possess due to certain factors available to them, and to explain how governments can act as catalysts to improve a country's position in a globally competitive economic environment.

Positioning (market) An effort to influence consumer perception of a brand or product relative to the perception of competing brands or products. Its objective is to occupy a clear, unique, and advantageous position in the consumer's mind.

Power distance (PD) One of Geert Hofstede's international cultural dimensions. Low or high power distance describes the power discrepancy between those in authority and subordinates. Power distance defines the degree to which people accept hierarchical authority and how far they are willing to subordinate themselves.

Price war A short term tactic to gain market share in a highly-competitive and price-sensitive market by reducing the price to below that of competitors who respond on a tit-for-tat basis.

It can lead to short-term collapse of prices, but may result in exits by weaker players. Ultimately prices will return to previous levels.

Prisoner's dilemma (see also game theory) A paradox in decision analysis in which two individuals acting in their own self-interest pursue a course of action that does not result in the ideal outcome.

Product portfolio The full range of an enterprise's product offer including those from launch to point of withdrawal.

Profit impact of marketing strategies (PIMS) A database covering over 3,000 businesses in Europe and North America which contains information on firms' sales, market shares, investment and market characteristics (growth rates, concentration, customer power, etc.). This establishes associations between these variables and firms' profit performance and provides a study of the things that influence the profitability of companies in different industries.

Purpose (strategic) The overarching reason for the existence of the business in relation to meeting its stakeholder (including shareholder) needs and expectations – often captured in the vision, mission and values statements.

Realised strategy Actual strategic outcome that may have been planned, adapted from plan or emerged as a result of changed circumstances (see also emergent).

Red ocean These companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth reduce. Products become commodities and cut-throat competition turns the ocean bloody red.

Research and development (R&D) A business activity that focuses on the development of new product or service.

Resource-based (inside-out) An approach to strategy using internal resource capabilities to drive market strategies. Often used when companies have specialist knowledge and expertise and can drive innovation from within, creating markets for their products (e.g. Apple).

Resources – threshold and unique Financial, human and physical assets. Threshold resources are those that are the minimum required to operate in a particular market whereas unique resources are those which are difficult or impossible to imitate and give competitive advantage e.g. the location of a store will be unique and could give a competitive advantage.

Return on capital employed (ROCE) A financial ratio that measures a company's profitability and the efficiency with which its capital is employed. ROCE is calculated as: ROCE = earnings before interest and tax (EBIT)/ capital employed; a higher ROCE indicates more efficient use of capital.

Return on investment (ROI) Usually expressed as a percentage and is typically used for personal financial decisions, to compare a company's profitability or to compare the efficiency of different investments. The return on investment formula is: ROI = (net profit/cost of investment) x 100.

Risk In a business context, this is the possibility that a company will have lower than anticipated profits or experience a loss. Business risk is influenced by numerous factors, including sales volume, per-unit price, input costs, competition, overall economic climate and government regulations.

Risk, assumptions, issues, dependencies (RAID) acronym for risk analysis of a project proposal that can be applied to strategic option evaluation.

Scenario analysis Is a process of analysing possible future events by considering alternative outcomes (sometimes called "alternative futures").

Scope The extent of a companies' business activities and markets including the sector of operation, range of products and/or services, target markets and geographic spread.
It provides a boundary beyond which the organisation does not operate (although could provide a basis for diversification).

Sector (business) A specific market or strategic group in which the company operates. A sector can also be subdivided into segments. The sector may be part of a much bigger industry e.g. the software application sector is part of the IT industry, but has a number of segments including specialist B2B software and games applications for consumers.

Segment A subdivision of a sector or target market with specific characteristics.

Sensitivity (analysis) In a business context, this is the sensitivity of a product or market to change (often in price). Analysts assess the degree to which a change in external factors or price change will impact sales e.g. price elasticity.

Shake-out This refers to a period marked by slowing growth in which weaker participants will exit the market, leaving only the stronger players.

Shareholder value analysis (SVA) Determines the financial value of a company by looking at the returns it gives its shareholders. It is based on the view that the objective of company is to maximise the wealth of company shareholders.

Shell directional policy matrix (SDPM) Similar to GE McKinsey matrix, SDPM focuses on business sector prospects for profitability and organisational competitive capability to recommend the approach to strategy development.

Small and medium-sized enterprises (SME) Small enterprises are generally those with less than 25 employees; medium enterprises are those with 25–250 employees. Companies with less than five employees are often known as microbusinesses. Above 250 a company is deemed a large business.

SMART objectives Acronym – specific, measurable, achievable (or attainable/agreed), realistic, time-bound. SMART objectives are an articulation of a broader set of goals, and give a clear set of targets for organisations to aim for and by which they will be measured.

Social enterprises Organisations that apply commercial strategies to maximise improvements in human and environmental well-being. This may include maximising social impact alongside profits for external shareholders.

Stakeholders A party that has an interest in a company, and can either affect or be affected by the business. The primary stakeholders are investors, employees, and customers. However, the modern theory of the idea goes beyond this original notion to include additional stakeholders such as a community, government or trade association.

Standard industrial classification (SIC) A code which is used to classify business establishments and other standard units by the type of economic activity in which they are engaged.

Strategic business units (SBU) Profit centres with a distinct identity. They will be responsible for their own operations, staffing, and marketing. However, they will often be part of a much larger corporation.

Strategic drift Usually occurs when organisations are unable to keep pace with the changes that happen in their immediate environment, which in turn leads to their slow and gradual demise.

Strategic groups Group of companies operating and usually competing within the same sector and offering products and/or services to the same target market.

Strategic hierarchy Epitomised by the organisational structure, the hierarchy determines the layers of business influence (the pecking order) and whether decisions are made top-down or bottom-up.

Strategic intent Declaration of the course that the management of a business plans on taking the company over a future time frame; often interchangeable with the mission statement, but gives the impression of focus.

Strategic lenses Devised by Johnson et al. (2008)[116], the concept represents four different ways in which organisations view strategy (design, experience, variety, discourse).

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116 Johnson, G., Scholes, K. and Whittington, R. (2008) *Exploring Corporate Strategy*, 8th edition, FT Prentice Hall

Strategic methods Those used to fulfil strategic direction and overarching approaches. Methods include, organic growth, mergers and acquisitions and all forms of alliance and networks such as joint ventures and trade associations.

Strategy An action that managers take to attain one or more of the organisation's goals.

Strategy clock Developed by Cliff Bowman[117], the strategy clock develops Porter's generic strategies to 8 points based on price and perceived customer value. It can be used to map competitors and to plan the basis of strategies to gain competitive advantage.

Strengths, weaknesses, opportunities, and threats (SWOT) A popular assessment methodology to summarise and analysis an organisation's internal strengths and weaknesses in relation to its external opportunities and threats.

Success criteria The standards by which the project will be judged at the end to decide whether or not it has been successful in the eyes of the stakeholders.

Suitability, acceptability, feasibility evaluation (SAFe) – An acronym adopted by Johnson et al.[118] as criteria for evaluating a strategic option.

Supply chain "Upstream" and "downstream" are general business terms referring to a company's location in the supply chain. The closer to the end user a function or firm is, the further downstream it is said to be. Raw material extraction/production are elements of the supply chain considered to be upstream (see also supply chain management).

Supply chain management (SCM) The active streamlining of a business' supply-side activities to maximise customer value and gain a competitive advantage in the marketplace.

Synergy The concept that the value and performance of two companies/SBU or business activities combined will be greater than the sum of the separate individual parts.

Tactics Means by which a strategy is planned and carried out, and ad hoc activities meant to deal with the demands of the moment in order to move from one milestone to another in pursuit of the overall goal. In an organisation, the strategy is decided by the board of directors, and tactics by the department head for implementation by the junior employees.

Top-down See strategic hierarchy.

TOWS matrix Strategies from opportunities and threats, developed from the SWOT analysis and designed to exploit strengths and counter weaknesses. They are grouped by priority into S-O, O-W, S-T, T-W.

Trading blocs A type of intergovernmental agreement, often part of a regional intergovernmental organisation, where regional barriers to trade, including tariffs and non-tariff barriers, are reduced or eliminated among the participating states.

Triple bottom line Measures a company's degree of social responsibility, its economic value and its environmental impact; intended to advance the goal of sustainability in business practices to include social and environmental issues to measure the total cost of doing business. The elements of the triple bottom line are referred to as "people, profits and planet." (from Elkington 1997)[119].

Umbrella model International organisational structure in which corporate head provides functional services such as marketing and information systems to its satellite or subsidiary organisations, who are usually responsible for the strategy and management of their individual businesses. This structure is also appropriate for franchising organisations.

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117 Bowman. C and Faulkner, D. (1995) *The Essence of Competitive Strategy,* Prentice Hall

118 Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regnér, P. (2017) *Exploring Strategy*, 11th edition, Pearson

119 Elkington, J. (1997) *Cannibals with Forks*: *Triple Bottom Line of 21*st *Century Business,* Capstone

Uncertainty avoidance (UA) Part of Geert Hofstede's international cultural dimensions[120], UA is a society's tolerance for uncertainty and ambiguity. It reflects the extent to which members of a society attempt to cope with anxiety by minimising uncertainty.

Upstream (supply chain) General business terms referring to a company's location in the supply chain. Raw material extraction or production are elements considered to be upstream (see also downstream).

Value chain (Porter) Helps to identify links in the process of delivering goods and services to a customer and the value added that can be derived when the individual elements work together to form the most efficient outcome.

Value, rareness, imitability, organisation (VRIO) Acronym for an analytical technique to evaluate a company's resources and capabilities and the potential for competitive advantage.

Value system Derived from the value chain, the enterprise is part of a network of organisations involved in the production and delivery of an offering to the end customer known as a value system.

Vision An aspirational description of what an organisation would like to achieve or accomplish in the mid- or long-term future.

Vroom, Yetton and Jago decision-making model (1973) A leadership approach to decision-making based on contingency or situational leadership and using decision trees to arrive at a logical approach to decision-making.

World Trade Organisation (WTO) The only global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the majority of the world's trading nations and ratified in their parliaments (see also GATT).

120 https://geert-hofstede.com/