

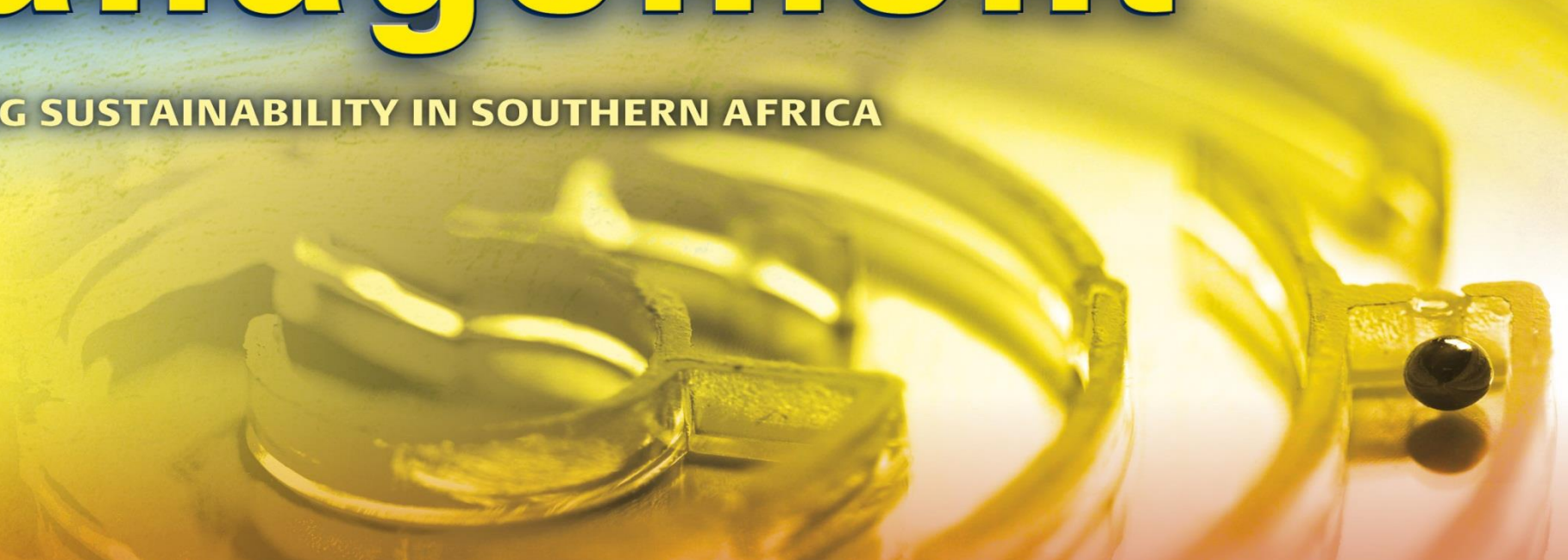
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SOUTHERN AFRICA

THIRD EDITION

Strategic Management

DEVELOPING SUSTAINABILITY IN SOUTHERN AFRICA

**LYNETTE LOUW
PEET VENTER**



Chapter 1

Introduction – The nature of strategic management

Learning outcomes

After reading this chapter, you should be able to:

- explain the essence of strategy
- demonstrate an understanding of strategy development and perspectives of strategy
- discuss the nature and role of strategy
- explain the concept of strategic management
- formulate an argument on the different perspectives of managing strategically
- identify and explain the elements of the
- strategic management process
- identify and explain the tests for a winning strategy
- demonstrate an understanding of strategic paradoxes.

Overview

- The purpose of this chapter is to:
 1. Introduce the nature of strategic management
 2. Provide a guide to the structure and content of this textbook by means of the strategic management framework

1.1 Introduction

- Managing an organisation in the competitive landscape of the twenty-first century is a highly complex task, and has an impact on organisational leadership, strategies, and organisational architecture.
- Among the reasons for the heightened complexity are increasingly competitive business practices, the inclination towards strategic flexibility to accommodate change, the emergence of networked organisations, and the concern for sustainability and business ethics in the global arena.
- It is vital that leaders think strategically about how they achieve a competitive advantage for the organisation.
- Leaders need to understand where they fit into the global competitive landscape, what it means to be a sustainable global organisation, and how they can contribute towards strategic development, change, and transformation.

1.1 Introduction continued

- When thinking strategically about their organisation's current situation and future prospects in a competitive landscape, management is faced with four critical questions:
 - Where are we now?
 - Where do we want to go?
 - How will we get there?
 - How are we doing?

1.1 Introduction continued

- To answer the first question, ‘Where are we now?’, management should consider an organisation’s:
 - competitive positioning
 - its resources and dynamic capabilities
 - the appeal and innovative value added to its products and services
 - the extent to which it meets the needs and expectations of its customers and stakeholders
 - its environmental integrity
 - its current performance

1.1 Introduction (cont.)

- The second question, ‘Where do we want to go?’, refers to the strategic direction that management believes the organisation should adopt. The answer to the third question, ‘How will we get there?’, depends on:
 - how strategy is formulated at the different organisational levels based on customer needs, stakeholder expectations, integration with the environment, and ethical perspectives
 - the influence of leadership, values, organisational culture, and organisational architecture on strategy implementation
- Finally to answer the last question, ‘How are we doing?’, requires that strategic leaders:
 - manage the performance of the organisation by means of strategic control measures and appropriate feedback.

1.1 Introduction continued

- It is important to note that:
 - All organisations require strategies to achieve their purpose, whether they are in developed or developing countries, large or small, profit-seeking or not for-profit, private or from the public sector.
 - Sustaining a competitive advantage is influenced by the organisation's engagement with government, environmental focus (process improvement and products/services), and socio-economic development.
 - Many organisations are realising that the opportunities represented by the large emerging markets demand an entirely new way of thinking in terms of sustainability.
 - The overarching imperative to support developing nations in their quest for better livelihoods, human rights, and environmental integrity is a challenge, and the business community, ranging from small organisations to multinational corporations, has an important role to play.

1.2 The essence of strategy

1.2.1 Strategy conceptualised

- The concept of strategy dates back to ancient Athens of 500 BC, and the documentation of Sun Tzu's *The art of war*, written about 500 BC.
- Strategy has always been considered to be a key element of managerial activity, and is still offered as a capstone course at business schools.
- But what does strategy really mean? Table 1.1 below offers selected definitions to illustrate the complexity of the concept of strategy.

Selected definitions of strategy

Table 1.1 Selected definitions of strategy⁸

Strategy: a plan, method or series of actions designed to achieve a specific goal or effort.

Wordsmyth Dictionary

The determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.

Alfred Chandler, *Strategy and structure*

A strategy is the pattern or plan that integrates an organisation's major goals, policies and action sequences into a cohesive whole. A well-formulated strategy helps marshal and allocates an organisation's resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents.

James Brian Quinn, *Strategies for change: Logical Incrementalism*

What business strategy is all about is, in a word, competitive advantage ... The sole purpose of strategic planning is to enable a company to gain, as efficiently as possible, a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way.

Kenichi Ohmae, *The mind of the strategist*

Without a strategy the organisation is like a ship without a rudder, going around in circles.

Joel Ross and Michael Kami – Business authors and consultants

Strategy is the direction and scope of an organisation over the long term which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations.

Gerry Johnson, Kevan Scholes, and Richard Whittington,
Exploring corporate strategy, texts and cases

Strategy conceptualised (cont.)

- Strategy can be regarded as a game plan indicating the choices a manager needs to make, for example about how to:
 - attract and meet customer needs
 - compete successfully
 - develop the necessary dynamic capabilities
 - grow the organisation
 - manage the organisational architecture
 - achieve performance targets by implementing strategy successfully.

1.2.1 Strategy conceptualised (cont.)

Table 1.2 The vocabulary of strategy¹¹

TERM	DEFINITION	A PERSONAL EXAMPLE
Vision or strategic intent	Desired future state – the aspiration of the organisation	To run the Comrades marathon
Mission	Overriding purpose inline with the values or expectations of stakeholders	Be healthy and fit
Goal	General statement of aim or purpose	Lose weight and strengthen muscles
Objective	Quantification (if possible) or more precise statement of the goal	Lose 5 kg by 1 September and run the marathon next year
Unique resources and core capabilities	Resources, processes, or skills that provide competitive advantage	Proximity to a fitness centre, supportive family and friends, and past experience of a successful diet
Strategies	Long-term direction	Associate with a collaborative network such as a running club, exercise regularly, compete in local marathons, follow an appropriate diet
Control	Monitor action steps to assess effectiveness of strategies and actions, and modify strategies and/or actions as necessary	Monitor weight, kilometres run, and measure times. If progress satisfactory, continue with strategies and actions; if not, consider other strategies and actions.

1.2.2 The historical origins of the concept of strategy

- The concept of strategy derives from the Greek word *strategos*, meaning ‘a general’.
- *Strategos*, in turn, derives from *stratos* (the army) and *agein* (to lead).
- So, originally, strategy was associated with the military – the ‘art of leading the army’.
- Sun Tzu’s primal work, *The art of war*, written about 500 BC, is regarded as the first formal article on strategy

1.2.2 The historical origins of the concept of strategy (cont.)

- It was only in the twentieth century that the concept of strategy gained importance in the business world.
- Military and business operations share some common concepts and principles, particularly strategy and tactics.
- A tactic is a plan for a specific action, while strategy is the overall scheme for leveraging resources to obtain a competitive advantage.
- Strategic decisions, whether in the military or business sphere, share common characteristics:
 - Strategy is concerned with long-term direction and sustainable success.
 - Strategy exploits the links between the internal and external environments – the so-called strategic link.
 - Strategies require major resources.
 - Strategies are likely to affect the whole organisation.
 - Strategies are shaped by the values and expectations of stakeholders.
 - Strategies are directed by vision – the ability to move forward.

1.2.3 Strategy development in the twentieth and twenty-first centuries

- *During the early 20th century:*
 - FW Taylor in the USA
 - Henri Fayol in France
 - Henry Ford (1908–1915)
 - 1912 Harvard Business School: business policy capstone courses
 - Alfred Sloan from General Motors (1920–35)
 - Peter Drucker (1954): proactive planning to shape the organisation's environment
 - Philip Selznick (1957): distinctive competence: core concept of the resource-based organisational perspective

1.2.3.1 Strategy in the twentieth century

- Second World War: game theory originated- the formal study of conflict and cooperation.
 - Game theoretic concepts apply whenever the actions of several agents are interdependent.
 - These agents may be individuals, groups, firms, or any combination of these.
- Von Neumann and Morgenster's *The Theory of Games and Economic Behaviour* (1944)
- 1950s to 1970s:
 - Two environmental factors accelerated the development of strategy: rate of change and spread of wealth
 - Research focused on general management and business policy issues
 - Making decisions and maintaining co-ordination in increasingly large and complex organisations

1.2.3.1 Strategy in the twentieth century (cont.)

- Strategy was essentially defined as a process
- Sub-processes:
 - Identification and analysis of threats and opportunities
 - Respond to aforementioned by formulating strategic plans
 - Implementation of strategic plans
 - Design control systems for implementation processes

1.2.3.1 Strategy in the twentieth century (cont.)

- *1970s: circumstances: major increase in oil prices*
 - Increased international competition
 - Focus on the analysis of the external environment
 - Strategy viewed as a quest for positioning and market leadership
- *Late 1980s and early 1990s*
 - Internal organisational environment
 - Long-term strategy resulted from developments in resource-based and dynamic capabilities viewpoints

1.2.3.2 Strategy into the twenty-first century

- At the beginning of the twenty-first century, key theoretical developments that influenced the rethinking of contemporary business models included the application of game and complexity theories to business, and the analysis of the disruptive effect of technology.
- In 2001, Ilbury and Sunter advocated the re-emergence of scenario planning as a valuable tool in preparing for possible different futures.
- Other developments included the:
 - diagnosis of the twenty-first century competitive landscape and the impact of globalisation
 - strategic use of knowledge in organisations
 - application of real options thinking, risk management, and scenario planning.

1.2.3.2 Strategy into the twenty-first century (cont.)

- Managers and academics had to rethink previous business models during the early twenty-first century.
- This rethinking was influenced, among others, by the 2008-2009 recession.
- Becoming disillusioned with ‘shareholder value capitalism’, there is a renewed interest in corporate social responsibility, business ethics, and sustainability.
- Sustainability implies that organisations can achieve a competitive advantage with above-average returns by creating value, managing ethically, and being sustainable, corporate global citizens with social, environmental, and economic integrity.

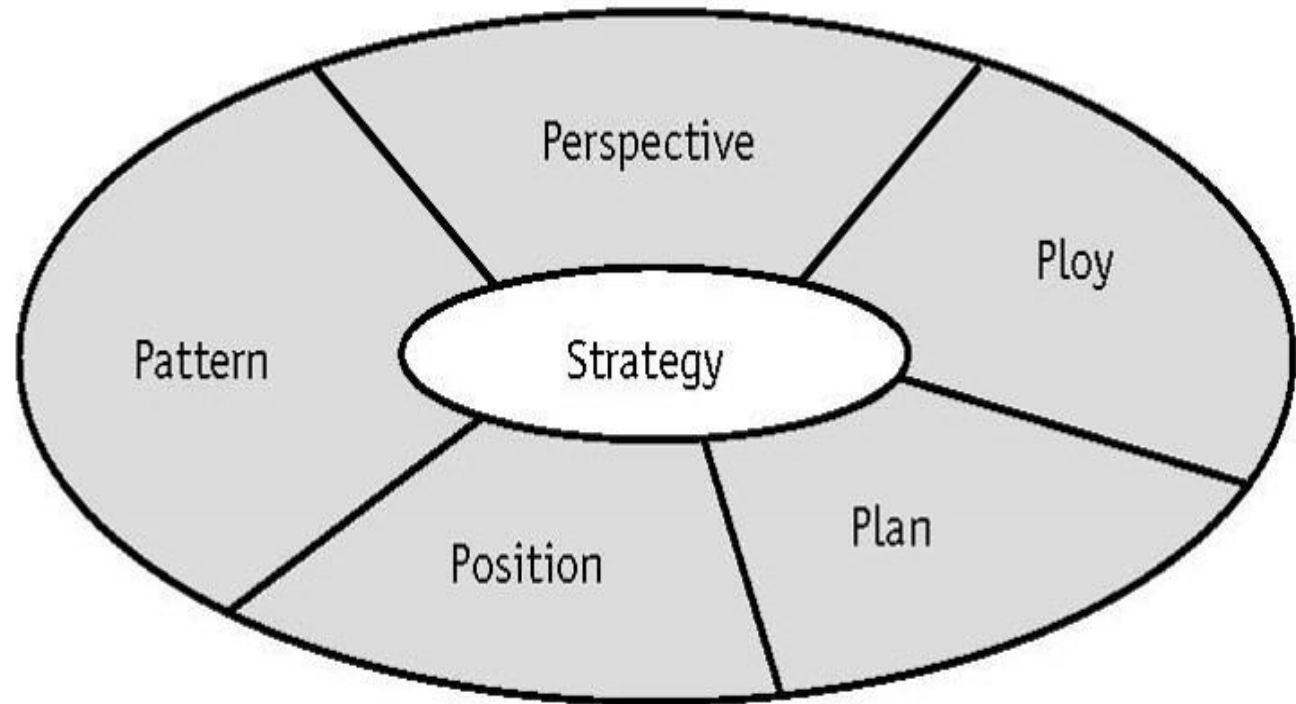
1.3 The nature and role of strategy

1.3.1 The five Ps of strategy

- Strategy as:
 - Plan
 - Pattern
 - Position
 - Perspective
 - Ploy

Figure 1.1 The five Ps of strategy

FIGURE 1.1 The five Ps of strategy



The five Ps of strategy (cont.)

- *Strategy as plan*

- Provides overall direction and a course of action
- Views strategic decision-making as a formal, logical, top-down structured process
- Strategy is formulated through a rational analysis of the organisation, its performance and external environment
- Process of conception; formal in nature
- Implemented through organisational layers, structure and control systems
- Attain a match or strategic link between the internal organisational capabilities and external possibilities
- Basis of the resource-based and dynamic capabilities perspectives

The five Ps of strategy (cont.)

- *Strategy as a position*
 - Particular products in particular markets
 - Strategy looks downwards (meeting customer needs) and outwards towards the external competitive market
- *Strategy as a perspective*
 - Refers to the organisation's way of doing things
 - Interpretative view
 - Future strategies based on the adaptation of past and on the collective experience of individuals and the way of doing things embedded in the cultural web of an organisation
 - Strategy looks inside the organisation – inside the mindset of the collective strategists, and 'upwards' toward the strategic purpose, intent and direction of the organisation

The five Ps of strategy (cont.)

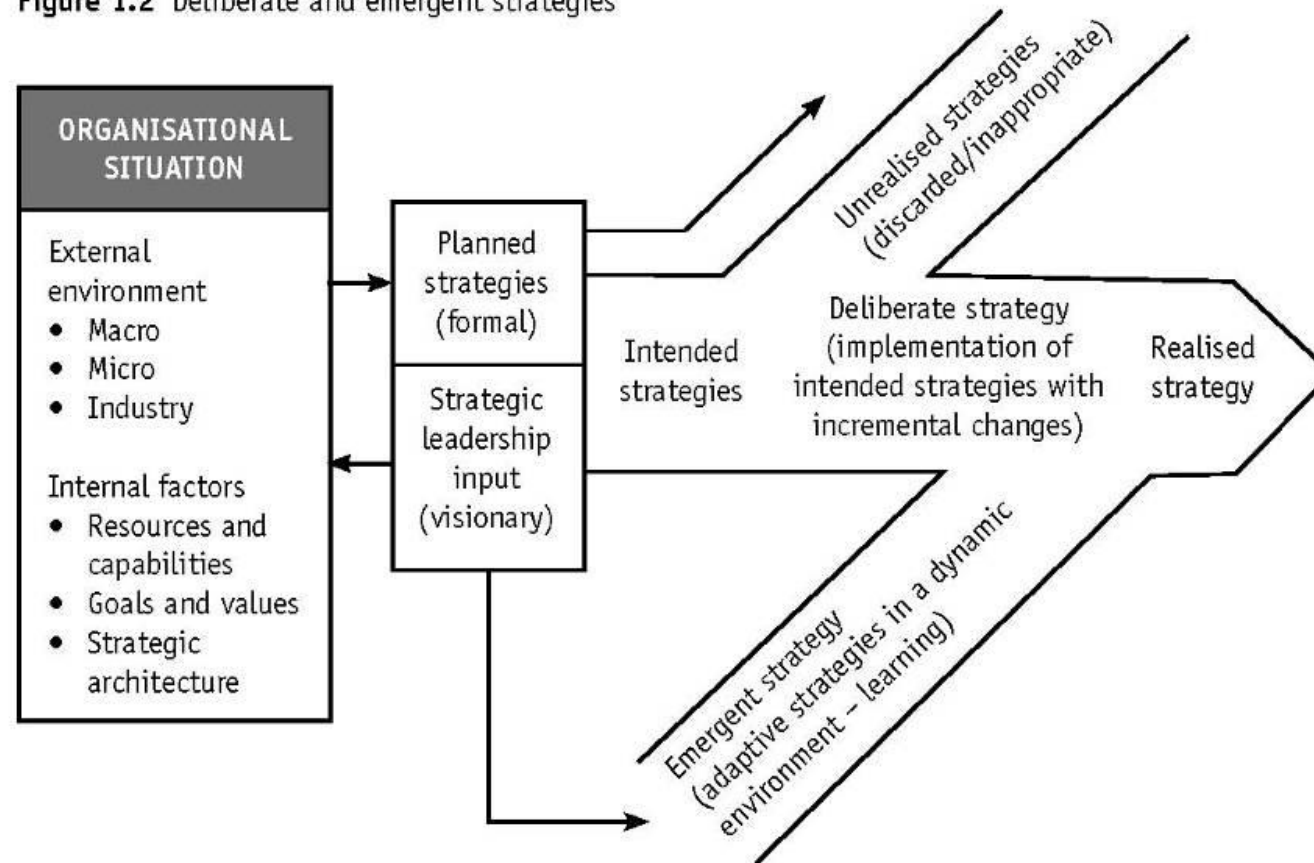
- *Strategy as a ploy*
 - A specific maneuver to outwit a competitor
 - For example, impression of expanding capacity is created by purchasing land to discourage a competitor from building a new plant – strategy is therefore a threat
- *Strategy as a pattern*
 - Consistent behaviour over time
 - Example: Cheap products pursue a low-cost strategy
 - As a pattern (looking at past behaviour), strategies also evolve out of their past – realised strategy
 - Intended strategy – envisioned strategy of top management achieved by manager

The five Ps of strategy (cont.)

- Intended strategies that are fully realised are referred to as *deliberate strategies*
- Those not realised are referred to as *unrealised strategies* or *abandoned strategies*
- When the pattern realised is not explicitly intended, it is referred to as an *emergent strategy*:
 - Unplanned responses to unforeseen circumstances; not a product of formal top-down planning

The five Ps of strategy (cont.)

Figure 1.2 Deliberate and emergent strategies



1.3.2 Levels of strategy

- The primary objective of strategy is to achieve a sustained competitive advantage as this leads to above-average returns (increased profitability).
- Once an organisation has analysed, developed and formulated its strategy, it needs to implement the strategy successfully.
- Three levels of strategy formulation, Table 1.4:
 - Corporate level strategy
 - Business level strategy
 - Functional level strategy

1.3.2 Levels of strategy (cont.)

Table 1.4 Levels of strategy and decision-making hierarchy

STRATEGY LEVELS	STRATEGIC PERSPECTIVE	KEY QUESTIONS	DECISION-MAKING RESPONSIBILITY
Business strategy	Determining competitive strategy and achieving competitive advantage – business, product, or service	<ul style="list-style-type: none"> • What is our sustainable competitive advantage? • What value do we add? Where? Why? How? • What markets should we compete in? • What competencies and capabilities do we need? • Who are our customers? • How can we innovate? 	Orchestrated by the general manager of each line of business, with advice and input from the heads of functional areas in each line of business
Corporate strategy	Overall purpose, scope, range, and diversity of the organisation – organisational perspective	<ul style="list-style-type: none"> • What is the purpose of the organisation? • What type of business are we conducting? • What business should we be conducting? • What is our overall direction for the future? • What is our leadership style and organisational culture? • What is our attitude towards strategic change? 	Orchestrated by the CEO or MD, Board of Directors, and other senior executives
Functional strategy	Source of competitive advantage in terms of activities, processes, practices, and resources	<ul style="list-style-type: none"> • What is the role of this department, or function, in delivering business level strategy? • How is strategy implemented and coordinated at functional levels? • Does the organisational architecture support strategy implementation? 	Crafted by the heads of functional sections with the involvement of key employees

1.4 Strategic management

- Concerned with the overall effectiveness and choice of direction in a dynamic, complex, and ambiguous environment.
- Strategic decisions have long-term implications and concern the entire organisation.
- Strategic management encompasses more than strategic decision-making and the strategic planning process.
- It has to ensure that strategy is implemented, that is that strategies are working in practice.
- Strategic management refers to the management processes that define the organisation's goals for value creation and distribution, and design the way the organisation will be composed, structured, and coordinated in pursuing its goals for value creation and distribution.
- It is the process by which organisations determine what value is needed and how to add that value, and enables organisations to cope effectively with the myriad of demands place on them from within and without.

1.4 Strategic management (cont.)

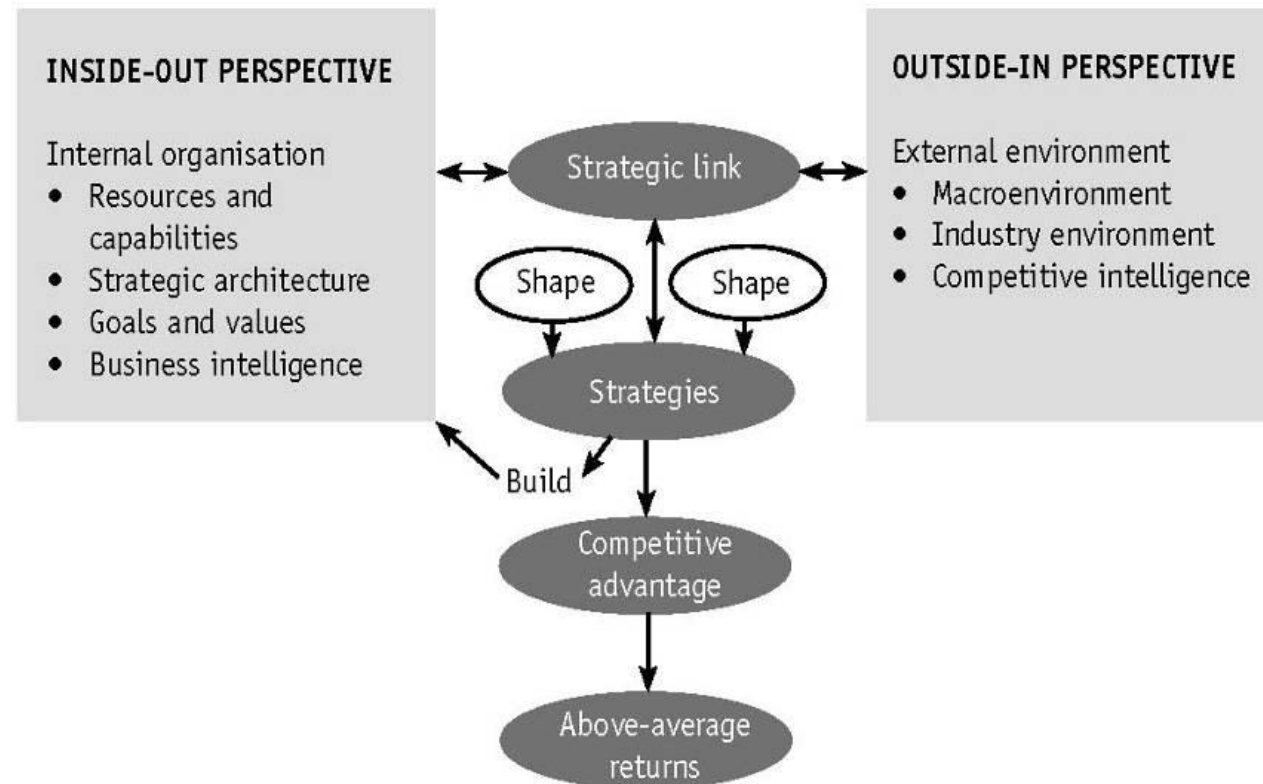
- Strategic management is concerned with:
 - *Strategic planning* or the thinking aspect of strategy (setting the strategic direction within a stakeholder context)
 - analysing the external and internal organisational environments, facilitated by strategic decision enablers
 - developing and formulating effective strategies that balance the organisation's internal environment with its external environment.
- In doing so, strategic managers are responsible for establishing a clear direction for the organisation and a means of getting there, which requires the creation of strong competitive positions
- *Strategy implementation* or the doing aspect of strategy.
 - In effective strategy implementation, the organisational architecture (that is processes, structure, systems, knowledge, skills, abilities, technology, and organisational culture), leadership activities, strategic performance management, control and reporting are synergistically integrated to achieve effective performance.
 - *Integrating sustainability* into the strategies

1.5 Perspectives on managing strategically

- The factors in the organisation's internal environment that influence what it is able to do can be divided into three groups, namely:
 - resources and capabilities
 - strategic architecture (structure, systems and processes)
 - goals and values
- To achieve a competitive advantage, strategy has to be consistent with the organisation's internal environment and its external environment (macro- and industry environments).

Figure 1.3 Strategy link perspective

Figure 1.3 Strategy link perspective



1.5.1 The inside-out perspective

- Strategies should be designed and developed around the organisation's resource and dynamic capabilities
- Take advantage of the opportunities in the external environment
- Resources and dynamic capabilities are leveraged by 'stretching' resources and capabilities to achieve a competitive advantage and/or yield new opportunities
- The ability to be innovative and strategically flexible is critical
- Resource-based and dynamic capabilities viewpoints form the basis

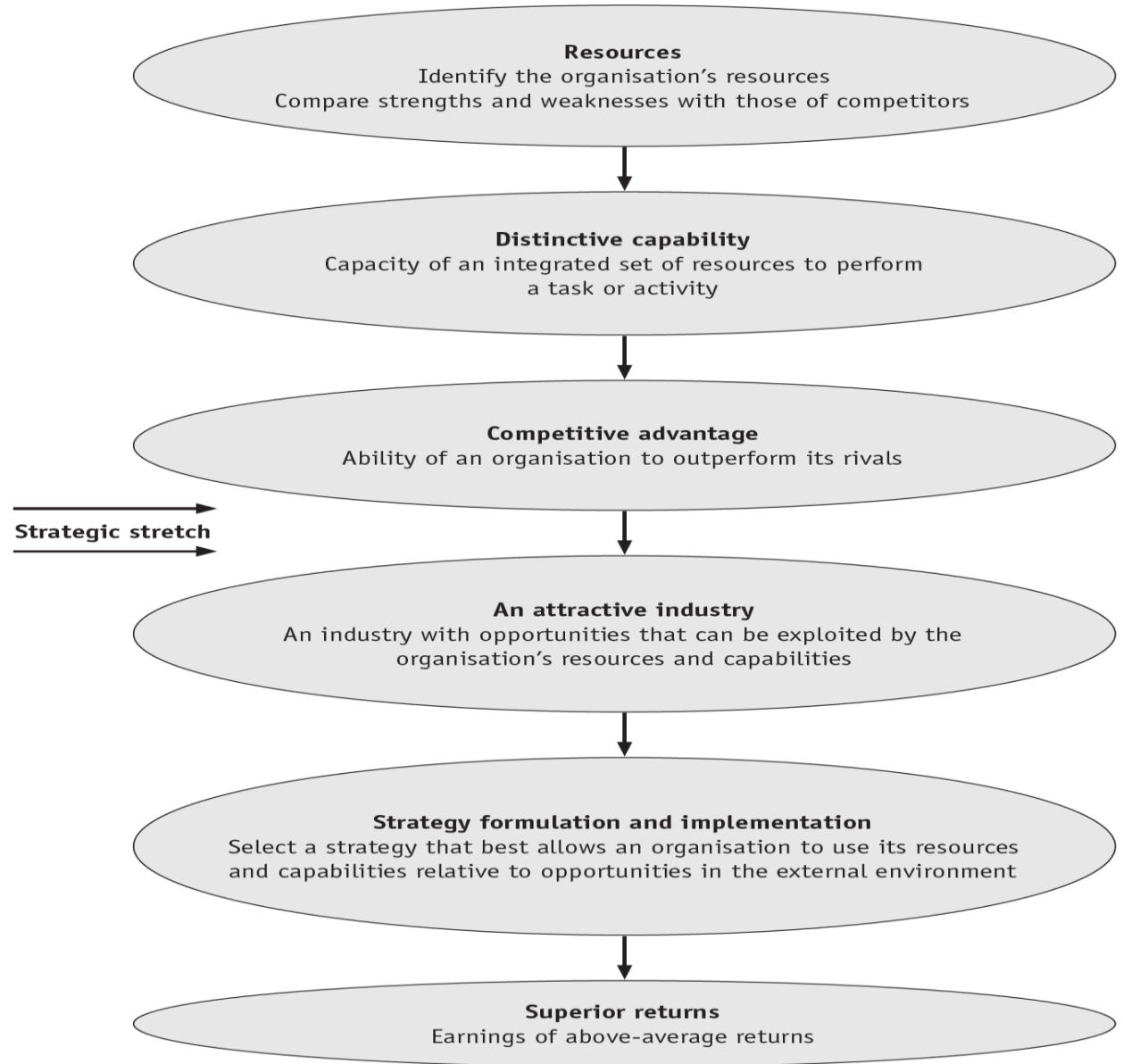
1.5.1.1 Resource-based and dynamic capabilities viewpoints

- Core of the resource-based viewpoint (RBV)
- Answer question: ‘What can this organisation do for me?’
- Resources that are valuable, rare, costly to imitate and non-substitutable value-creating strategies contribute towards achieving sustainable competitive advantage and above-average returns
- Value-creating strategies that other competitors are unable to duplicate or are too costly to imitate lead to a **competitive advantage**
- **Value** refers to the contribution that strategic leaders make to their organisations, products, customers and stakeholders
- Value is created through flexibility and innovation
- **Strategic flexibility:** sets of capabilities in different areas of operation that add value to how an organisation responds to external opportunities and challenges in a dynamic and uncertain environment
- Core or *distinctive capabilities* are distinctive skills that yield a competitive advantage.
- *Dynamic capabilities* are activities and processes that strategic leaders employ to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments, and which become the source of sustained competitive advantage

1.5.1.1 Resource-based and dynamic capabilities viewpoints (cont.)

- The ability to stretch resources and capabilities is largely dependent on the organisation's strategic architecture.
- The ability to manage architecture strategically is supported by effective functional processes and strong technological capabilities
 - *Internally*, organisations must behave in a coordinated manner that creates synergy by integrating functions, systems, processes, people, and structure, that is sustainable systems thinking. For example, Woolworths' functional capabilities and brand technology create both an image and a capability that enable it to trade in clothes, foods, cosmetics, household furnishings, and credit.
 - *Externally*, integrating value-adding networks contribute to adding value in the value chain. For example, one of SABMiller's key success factors is its ability to integrate distribution channels of external partners into its outbound value chain.

Figure 1.4 Inside-out perspective of superior returns⁸¹



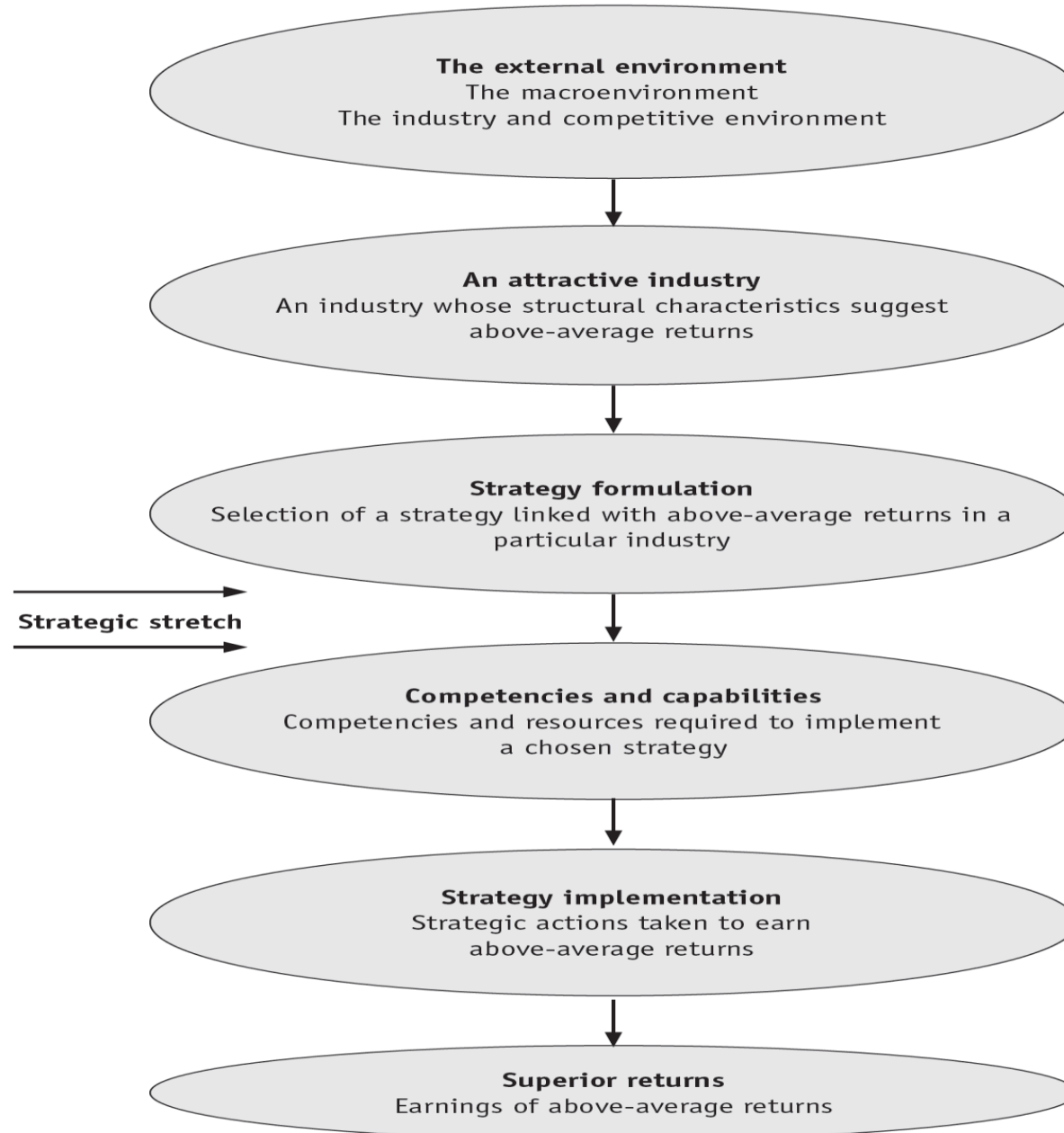
1.5.1.2 The importance of goals and values

- ***Goals and values cannot be ignored***
- Values as the standards by which all employees set priorities and define the rules that should be followed to achieve a sustainable competitive advantage
- 21st century environment, values such as flexibility, speed, innovation, integration are pertinent
- Key assessment of 'good strategic management' is whether clear and consistent values have permeated the organisation

1.5.2 The outside-in perspective

- Also referred to as market-driven strategy
- Strategies should be designed and developed as determined by the market needs and an understanding of and response to the external environment
- Organisation identifies opportunities in the external environment, facilitated by competitive intelligence, creatively defines its competitive industry, then adapts its resources and dynamic capabilities to take advantage of these; known as **strategic fit**
- The key to this perspective is competing successfully in an attractive (that is profitable) industry, with the external environment as the initiator of strategy.
- Competing in an attractive industry requires the organisation to develop new resources and dynamic capabilities to establish a first-mover advantage.

Figure 1.5 Outside-in perspective of superior returns⁹



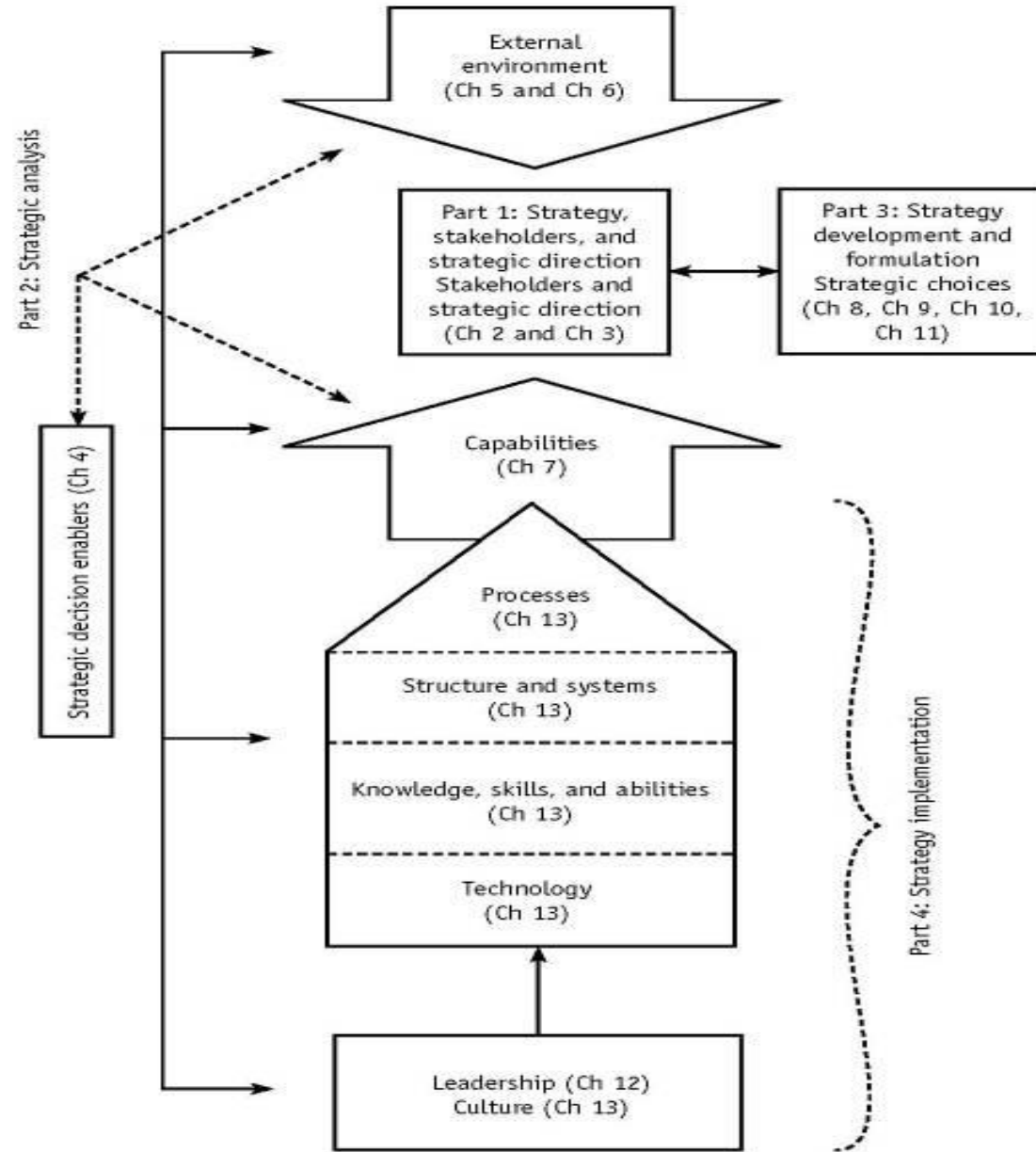
1.6 The strategic management process

- Strategic management process includes:
 - An understanding of the organisation's strategic direction and stakeholders, strategic analysis, strategy development and formulation and strategy implementation
 - A combination of the commitments, decisions and actions required for an organisation to achieve strategic competitiveness and earn above-average returns
 - Both the prescriptive (rational and logical) and emergent (intuition, creativity, experience and emotion) approaches to strategy
 - Figure 1.4 below: Strategic management framework

1.6.1 Sustainable organisation and strategic direction

- To achieve this, an organisation that is sustainable integrates corporate social responsibility, stakeholder claims, corporate citizenship, and the environmental context into its strategies
- The manner in which strategic leaders respond to, and manage economic, social, and environmental relationships, and how they engage with their stakeholders, has a direct impact on the organisation's long-term success and its ability to create value, that is sustainability

Figure 1.4 Strategic management framework



1.6.2 Strategic analysis

- Facilitated by the infrastructure of strategic decision enablers, the organisation undertakes an analysis of its environments in order to address the question, 'What is our current situation?'.
- Strategic analysis consists of analysing and evaluating the strategic link between the opportunities and threats in the external environment of the organisation (outside-in perspective) and its internal strengths and weaknesses (inside-out perspective).
- From the outside-in perspective, the organisation identifies opportunities in the external environment (political-legal, economic, sociocultural, demographic, technological, and natural environment) aspects and creatively defines its competitive industry and then adapts its resources and dynamic capabilities to take advantage of these.

1.6.2 Strategic analysis (cont.)

- The internal environment refers to the organisation's strategic ability to innovate as determined by its resources and capabilities (inside-out perspective) when creating customer value and building competitive advantage.
- According to the inside-out perspective, an organisation should design and develop its strategies around its resources, and distinctive and dynamic capabilities to take advantage of the opportunities in the external environment.

1.6.3 Strategy development and formulation

- After an organisation has analysed its external and internal environments facilitated by the network of strategic decision enablers, it needs to develop and formulate its strategies.
- The organisation now needs to answer the key question, ‘Where are we going?’
- Strategies at business level are often referred to as competitive strategies because they relate to the organisation’s deliberate decisions on how to:
 - meet customers’ needs
 - counter the competitive efforts of competitors or rivals
 - cope with existing market conditions
 - sustain or build competitive advantage in a single line of business.

1.6.4 Strategy implementation

- ‘How will we get there and how are we doing?’
- Strategies chosen and developed have to be implemented
- Chapter 12 addresses leadership as the key driver of effective strategy implementation
- Chapter 14 discusses business performance management, strategic control which includes the balanced score card and aspects of risk management, and sustainable reporting.
- The balanced score card, as part of the strategy implementation monitoring system, is one means of addresses the question, ‘How are we doing?’.

1.7 Tests for a winning strategy

- Five important questions
 - Goodness of fit test
 - How well does the strategy fit the organisation's situation?
 - Competitive advantage test
 - Is strategy helping the organisation achieve a sustainable competitive advantage?
 - Performance test
 - Is strategy resulting in above-average organisational performance by adding value?
 - Social impact test
 - Is strategy contributing towards the expectations of stakeholders?
 - Environmental ecosystem test
 - Is strategy contributing towards the protection of and sustainability of natural resources and the ecosystem?

1.7 Tests for a winning strategy (cont.)

- A winning strategy has the following characteristics:
 - There is a strategic link between the organisation's internal and external environments.
 - It builds a competitive advantage.
 - It improves organisational performance.
 - It meets the expectations of stakeholders.
 - It aligns itself with environmental requirements in a global context

1.8 Strategic paradoxes

- Paradox 1: Past and future
- Paradox 2: Intended and emergent strategy
- Paradox 3: Reactive or proactive approach to strategy
- Paradox 4: Inside-out or outside-in driven strategies
- Paradox 5: Profitability versus sustainability

Discussion questions

1. Explain the concept of strategy in your own words, and briefly explain the five Ps of strategy.
2. Distinguish between intended, deliberate, emergent, and realised strategy.
3. Discuss the roles of different management levels in strategic management. In your opinion, what would be an important consideration, given the challenges of the twenty-first century competitive landscape?
4. Explain competitive advantage, above-average returns, and value-creating capabilities. Why are these concepts important for an organisation's performance?
5. Distinguish between the inside-out and outside-in perspectives in analysing strategy

Discussion questions (cont.)

6. Explain what is meant by strategic management and discuss the dynamic nature of the strategic management process.
7. Critically evaluate the merits of each of the tests of a winning strategy.
8. Advise top management on how the strategic paradoxes would affect their strategic effectiveness.