StuDocu.com

Week 1-12 - Strategic Management - PPT Slides

Strategic Management (Royal Melbourne Institute of Technology)

BUSM3125 Strategic Management

Week 1
Course Overview

Lecturer: Nigel Munro-Smith

RMIT UNIVERSITY

About this Course

- One hour lecture each week
- Two hour tutorials in weeks 2, 4, 6, 8, 10 & 12
- Ongoing research and online activities - includes preparing for tutorial discussions

- Note: will not be offered in first semester 2013

Assessment

Two individual assignments

- Case Analysis – Business Strategy (50%)
  - Length: 2250 words
  - Due: 23rd August
  - Australian firm

- Case Analysis – Strategy Evaluation & Implementation (50%)
  - Length: 2250 words
  - Due: 11th October
  - International firms

Changes from last semester: no presentations, no exam, no group work

The Textbook and the Online Material

Those who purchase new textbooks will have access to “mystrategylab”

- This online resource includes a computer simulation that offers you the chance to “practice” strategic decision making and see the results.
- It also has self-test questions and audio and video files (eg interviews of managers about the practice of management)

Feedback from past students who used mystrategylab is very positive.

- In myRMIT (Blackboard) you will find other supporting material, suggested activities and guidance on preparing your case analyses.
- Applying the analytical tools to a variety of organisations would be invaluable practice.
- Relying solely on the textbook is not recommended if you aspire to a HD. Read widely.
- *Please come to tutorials prepared* – otherwise tutes risk turning into mini-lectures!

Strategic Management is a "Capstone" course

- It was designed to a final year course that assumes you already know a lot about business
- For this reason we do not cover the following topics:
  - Leadership
  - Managing change
  - Organisation structure and design
  - Organisation culture

- The key things we look for are:
  - Effective integration of the models/tools
  - Application of the theory to real-life organisations

Definitions of strategy (1)

- '..the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resource necessary for carrying out these goals'
  Alfred Chandler

- 'Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value'
  Michael Porter

Sources:
A.D. Chandler, *Strategy and Structure: Chapters in the History of American Enterprise, MIT Press, 1963, p. 13*
M.E. Porter, 'What is strategy?', *Harvard Business Review, 1996, November–December, p. 60*

Definitions of strategy (2)

- '..a pattern in a stream of decisions'

  Henry Mintzberg

- '..the long-term direction of an organisation'

  Exploring Strategy

Sources:

H. Mintzberg, *Tracking Strategy: Toward a General Theory, Oxford University Press, 2007, p. 3*

Strategic decisions

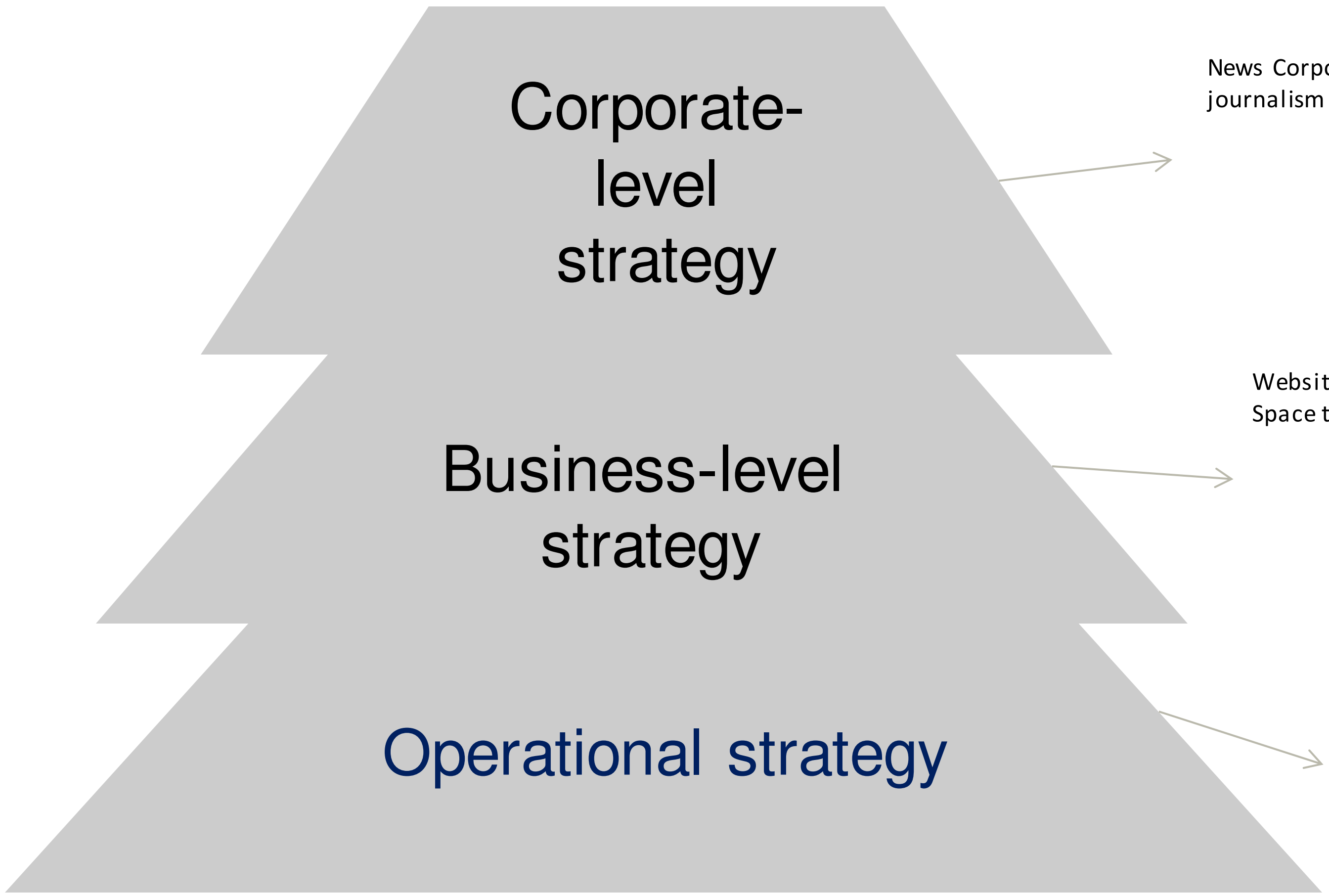
Strategic decisions are about:

- The **long-term** direction of an organisation
- The **scope** of an organisation's activities
- Gaining **advantage** over competitors
- Addressing changes in the **business environment**
- Building on resources and competences (**capability**)
- **Values and expectations** of stakeholders

Therefore they are likely to:

- Be **complex** in nature
- Be made in situations of **uncertainty**
- Affect **operational** decisions
- Require an **integrated** approach (both inside and outside an organisation)
- Involve considerable **change**

Levels of strategy (1)



News Corporation diversifying from print journalism into social networking.

Website and marketing improvements at My Space to attract more users.

MySpace engineers increasing processing Capacity.

Levels of strategy (2)

- ***Corporate-Level Strategy*** is concerned with the overall purpose and scope of an organisation and how to add value to business units.
- ***Business-Level Strategy*** is concerned with the way a business seeks to compete successfully in its particular market.
- ***Operational Level Strategy*** is concerned with how different parts of the organisation deliver the strategy in terms of managing resources, processes and people.

Strategy statements

Strategy statements should have three main themes:

- the fundamental ***goals*** that the organisation seeks, which draw on the stated mission, vision and objectives
- the ***scope*** or domain of the organisation's activities
- and the particular advantages or ***capabilities*** it has to deliver all these.

Working with strategy (1)

All managers are concerned with strategy:

- *Top managers* frequently formulate and control strategy but may also involve others in the process.
- *Middle and lower level managers* have to meet strategic objectives and deal with constraints.
- *All managers* have to communicate strategy to their teams.
- All managers can contribute to the formation of strategy through ideas and feedback.

Working with strategy (2)

Organisations may also use strategy specialists:

- Many large organisations have in-house *strategic planning or analyst roles*.
- *Strategy consultants* can be engaged from one of many general management consulting firms (e.g. Accenture, IBM Consulting, PwC).
- There are a growing number of *specialist strategy consulting firms* (e.g. McKinsey &Co, The Boston Consulting Group).

Strategy's three branches (1)

- CONTEXT – *internal and external.*

- CONTENT – *strategic options.*

- PROCESS – *formation and implementation*.

Strategy's three branches (2)

Context (internal and external)	Content (strategic options)	Process (formation and implementation)
Research:	**Research:**	**Research:**
Industry analysis	Choice	Strategic planning
Cultural analysis	and	Choice and change
Resource-based view	performance	Strategy-as-practice

The exploring strategy model

Strategic position (1)

The strategic position is concerned with the impact on strategy of the *external environment*, the organisation's *strategic capability* (resources and competences), the organisation's *goals* and the organisation's *culture.*

Strategic position (2)

Fundamental questions for Strategic Position:

- What are the *environmental opportunities and threats*?
- What are the organisation's *strengths and weaknesses?*
- What is the basic *purpose* of the organisation?
- How does *culture* shape strategy?

Strategic choices (1)

Strategic choices involve the options for strategy in terms of both the *directions* in which strategy might move and the *methods* by which strategy might be pursued.

Strategic choices (2)

Strategic choices (3)

Fundamental questions for Strategic Choice:

- How should business units *compete*?
- Which businesses to include in the *portfolio*?
- Where should the organisation *compete internationally?*
- Is the organisation *innovating* appropriately?
- Should the organisation *buy* other companies, form *alliances* or *go it alone*?

Strategy in action (1)

Strategy in action is about how strategies are *formed* and how they are *implemented.*

The emphasis is on the *practicalities* of managing.

Strategy in action (2)

Strategy in action (3)

Fundamental questions for Strategy in Action

- Which strategies are *suitable, acceptable and feasible?*
- What kind of *strategy-making process* is needed?
- What are the required *organisation structures* and *systems*?
- How should the organisation manage necessary *changes*?
- Who should do what in the *strategy process*?

BUSM3125 Strategic Management

Week 2
External Environment Analysis

Lecturer: Nigel Munro-Smith

www.rmit.edu.au

RMIT UNIVERSITY

The focus of weeks 2 - 4:
The strategic position

- How to analyse an organisation's position in the ***external environment.***
- How to analyse the determinants of ***strategic capability*** – resources, competences and the linkages between them.
- How to understand an ***organisation's purposes***, taking into account ***stakeholder expectations***.

Learning outcomes (1)

- Analyse the broad macro-environment of organisations in terms of political, economic, social, technological, environmental ('green') and legal factors ***(PESTEL).***

- Identify key drivers in this macro-environment and use these key drivers to construct alternative ***scenarios*** with regard to environmental change.

Learning outcomes (2)

- Use ***Porter's five forces analysis*** in order to define the attractiveness of industries and sectors and to identify their potential for change.
- Use these various concepts and techniques in order to recognise ***threats and opportunities*** in the marketplace.

Layers of the business environment

The PESTEL framework (1)

The PESTEL framework categorises environmental influences into six main types:

political, economic,

social, technological,

environmental legal

Thus PESTEL provides a comprehensive list of influences on the possible success or failure of particular strategies.

The PESTEL framework (2)

- ***Political Factors:*** For example, Government policies, taxation changes, foreign trade regulations, political risk in foreign markets, changes in trade blocks (EU).

- ***Economic Factors:*** For example, business cycles, interest rates, personal disposable income, exchange rates, unemployment rates, GDP trends.

- ***Socio-cultural Factors:*** For example, population changes, income distribution, lifestyle changes, consumerism, changes in culture and fashion.

The PESTEL framework (3)

- *Technological Factors:* For example, new discoveries and technology developments, ICT innovations, rates of obsolescence, increased spending on R&D.

- *Environmental ('Green') Factors:* For example, environmental protection regulations, energy consumption, global warming, waste disposal and re-cycling.

- *Legal Factors:* For example, competition laws, health and safety laws, employment laws, licensing laws, IPR laws.

Key drivers for change:

- The environmental factors likely to have a high impact on the success or failure of strategy.
- For example, the birth rate is a key driver for those planning nursery education provision in the public sector.
- Typically key drivers vary by industry or sector.

Using the PESTEL framework

- Apply *selectively* –identify specific factors which impact on the industry, market and organisation in question.
- Identify factors which are *important currently* but also consider which will become *more important in the next few years.*
- Use *data* to support the points and analyse trends using up to date information
- Identify opportunities and threats – the main point of the exercise!

Scenarios

KEY CONCEPT

Scenarios are detailed and plausible views of how the environment of an organisation might develop in the future based on key drivers of change about which there is a high level of uncertainty.

- Build on PESTEL analysis .
- Do not offer a single forecast of how the environment will change.
- An organisation should develop a few alternative scenarios (2–4) to analyse future strategic options.

Carrying out scenario analysis (1)

- Identify the most *relevant scope of the study* – the relevant product/market and time span.
- Identify *key drivers of change* – PESTEL factors that have the most impact in the future but have uncertain outcomes.
- For each key driver *select opposing outcomes* where each leads to very different consequences.

Carrying out scenario analysis (2)

- *Develop scenario 'stories' -* That is, coherent and plausible descriptions of the environment that result from opposing outcomes
- *Identify the impact of each scenario* on the organisation and evaluate future strategies in the light of the anticipated scenarios.
- *Scenario analysis is used* in industries with long planning horizons for example, the oil industry or airlines.

Scenarios for the global financial system, 2020

	Slow geo-economic shift	Rapid geo-economic shift
Harmonised financial coordination	**Re-engineered Western-centrism**	**Rebalanced multilateralism**
Discordant financial coordination	**Fragmented protectionism**	**Financial regionalism**

Industries, markets and sectors

An industry is a group of firms producing products and services that are essentially the same. For example, automobile industry and airline industry.

A market is a group of customers for specific products or services that are essentially the same (e.g. the market for luxury cars in Germany).

A sector is a broad industry group (or a group of markets) especially in the public sector (e.g. the health sector)

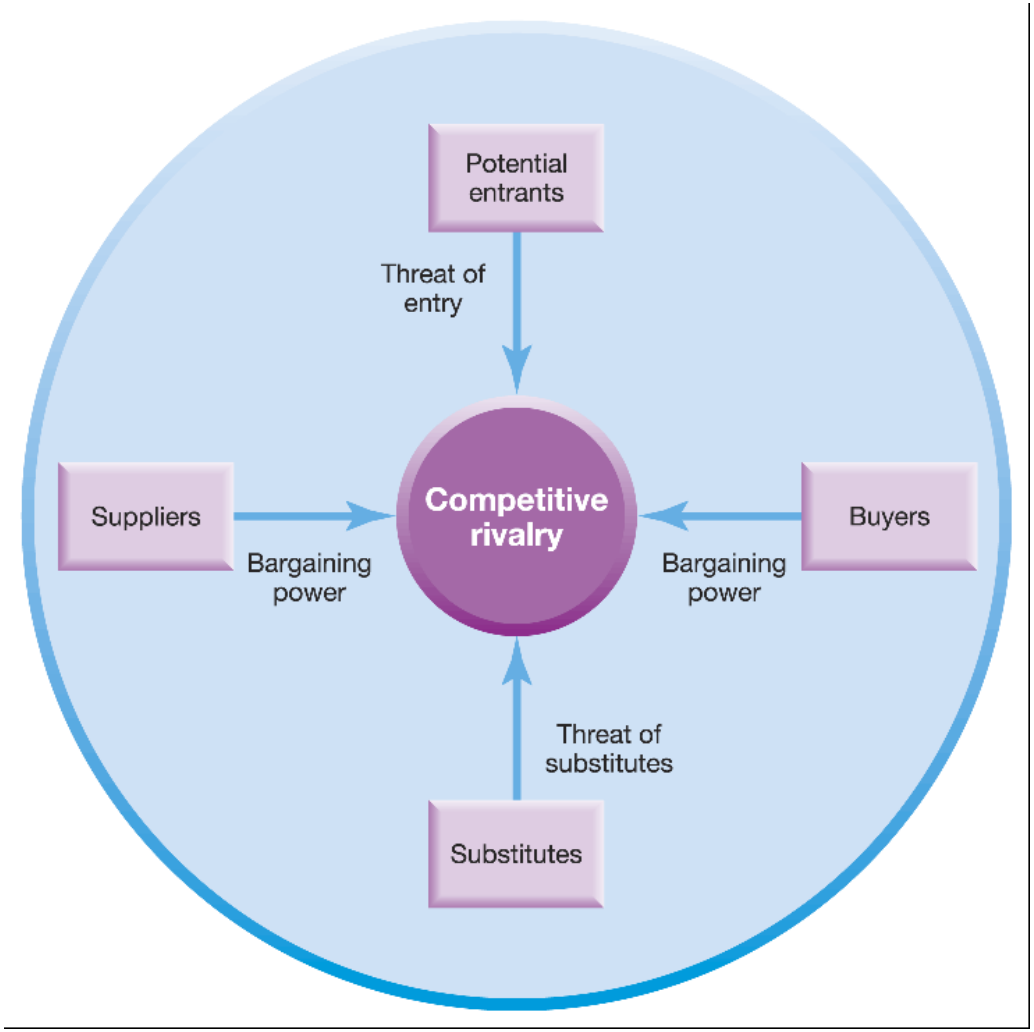
Porter's five forces framework

KEY CONCEPT

Porter's five forces framework helps identify the attractiveness of an industry in terms of five competitive forces:

- ***the threat of entry,***
- ***the threat of substitutes,***
- ***the bargaining power of buyers,***
- ***the bargaining power of suppliers and***
- ***the extent of rivalry between competitors.***

The five forces constitute an industry's 'structure'.



Source: Adapted with the permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group, from *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Michael E. Porter. Copyright © 1980, 1998 by The Free Press. All rights reserved

The five forces framework (2)

The Threat of Entry & Barriers to Entry

- The threat of entry is low when the barriers to entry are high and vice versa.
- The main barriers to entry are:
  - Economies of scale/high fixed costs
  - Experience and learning
  - Access to supply and distribution channels
  - Differentiation and market penetration costs
  - Government restrictions (e.g. licensing)
- Entrants must also consider the expected retaliation from organisations already in the market

The five forces framework (3)

Threat of Substitutes

Substitutes are products or services that offer a similar benefit to an industry's products or services, but by a different process.

Customers will switch to alternatives (and thus the threat increases) if:

- The price/performance ratio of the substitute is superior (e.g. aluminium maybe more expensive than steel but it is more cost efficient for some car parts)
- The substitute benefits from an innovation that improves customer satisfaction (e.g. high speed trains can be quicker than airlines from city centre to city centre)

The five forces framework (4)

The bargaining power of buyers

Buyers are the organisation's immediate customers, not necessarily the ultimate consumers.

If buyers are powerful, then they can demand cheap prices or product / service improvements to reduce profits .

Buyer power is likely to be high when:

- Buyers are concentrated
- Buyers have low switching costs
- Buyers can supply their own inputs (backward vertical integration)

The five forces framework (5)

The bargaining power of suppliers

Suppliers are those who supply what organisations need to produce the product or service. Powerful suppliers can eat into an organisation's profits.

Supplier power is likely to be high when:

- The suppliers are concentrated (few of them).
- Suppliers provide a specialist or rare input.
- Switching costs are high (it is disruptive or expensive to change suppliers).
- Suppliers can integrate forwards (e.g. low cost airlines have cut out the use of travel agents).

The five forces framework (6)

Rivalry between competitors

Competitive rivals are organisations with similar products and services aimed at the same customer group and are direct competitors in the same industry/market (they are distinct from substitutes).

The degree of rivalry is increased when :

- Competitors are of roughly equal size
- Competitors are aggressive in seeking leadership
- The market is mature or declining
- There are high fixed costs
- The exit barriers are high
- There is a low level of differentiation

Implications of five forces analysis

- Identifies the *attractiveness* of industries – which industries/markets to enter or leave.
- Identifies *strategies to influence* the impact of the forces, for example, building barriers to entry by becoming more vertically integrated.
- The forces may have a *different impact on different organisations* e.g. large firms can deal with barriers to entry more easily than small firms.

Issues in five forces analysis

- Apply at the most *appropriate level* – not necessarily the whole industry. E.g. the European low cost airline industry rather than airlines globally.
- Note the *convergence* of industries – particularly in the high tech sectors (e.g. digital industries - mobile phones/cameras/mp3 players).
- Note the importance of *complementary* products and services (e.g. Microsoft windows and McAfee computer security systems are complements). This can almost be considered as a sixth force.

Critical success factors (CSFs)

- ***Critical success factors*** are those factors that are either particularly valued by customers or which provide a significant advantage in terms of cost.
- Critical success factors are likely to be an important source of competitive advantage if an organisation has them (or a disadvantage if an organisation lacks them).
- Different industries and markets will have different critical success factors (e.g. in low cost airlines the CSFs will be punctuality and value for money whereas in full service airlines it is all about quality of service).

The most important reason for environmental analysis is to identify

OPPORTUNITIES AND THREATS

BUSM3125 Strategic Management

Week 4
Strategic Purpose
SWOT Analysis

Lecturers:
Dr Jacinta Ryan
A Prof Carlene Boucher

RMIT UNIVERSITY

SWOT analysis

SWOT summarises the strengths, weaknesses, opportunities and threats likely to impact on strategy development.

INTERNAL ANALYSIS	*STRENGTHS*	*WEAKNESSES*
EXTERNAL ANALYSIS	*OPPORTUNITIES*	*THREATS*

The SWOT matrix

		Internal factors	
		Strengths (S)	**Weaknesses (W)**
External factors	**Opportunities (O)**	**SO Strategic options** Generate options here that use srengths to take advantage of opportunities	**WO Strategic options** Generate options here that take advantage of opportunities by overcoming weaknesses
	Threats (T)	**ST Strategic options** Generate options here that use srengths to avoid threats	**WT Strategic options** Generate options here that minimise weaknesses and avoid threats

Dangers in a SWOT analysis

- Long lists with *no attempt at prioritisation.*
- *Over generalisation* – sweeping statements often based on biased and unsupported opinions.
- SWOT is used as *a substitute for analysis* – it should result from detailed analysis using the frameworks in Chapters 2 and 3.
- SWOT is *not used to guide strategy* – it is seen as an end in itself.

Mission statements

- ***A mission statement*** aims to provide employees and stakeholders with clarity about the overriding purpose of the organisation
- A mission statement should answer the questions:

'What business are we in?'

'How do we make a difference?'

'Why do we do this?'

Disney – Mission Statement

- "We create happiness by providing the finest in entertainment for people of all ages, everywhere.".

Apple - Vision Statement

- Apple is committed to bringing the best personal computing experience to students, educators, creative professionals and consumers around the world through its innovative hardware, software and Internet offerings.

Strategic Intent

- B2B is our strategy which we use to enhance effectiveness and interdisciplinarity. We seek to minimise the barriers between faculties and disciplines, and between blue sky research and research of more immediate impact. The name B2B captures the idea of the practical application of research, as in “Bench to Bedside” in medicine, or “Bench to Building” in architecture.

Core Values:

- The “Marriott Way” is built on fundamental ideals of service to associates, customers and community. These ideals serve as the cornerstone for all Marriott associates fulfilling the “Spirit to Serve.”

Our Core Business Values:

- We do what we say.
- We do it with respect.
- We do it fairly.
- We do it with integrity.
- We execute with speed.
- We take prudent risks.
- We work as a team.
- We are accountable for our actions.
- We make tough decisions.
- We are performance driven.

Vision statements

- ***A vision statement*** is concerned with the desired future state of the organisation; an aspiration that will enthuse, gain commitment and stretch performance.

- A vision statement should answer the question :

'What do we want to achieve?'

Statement of corporate values

- ***A statement of corporate values*** should communicate the underlying and enduring core *'principles'* that guide an organisation's strategy and define the way that the organisation should operate.
- Such core values should remain intact whatever the circumstances and constraints faced by the organisation.

Objectives

- ***Objectives*** are statements of specific outcomes that are to be achieved.
- Objectives are frequently expressed in:
  financial terms (e.g. desired profit levels)

  market terms (e.g. desired market share)

  and increasingly

  social terms (e.g. corporate social

  responsibility targets)

Strategy, environment, capabilities and key stakeholders

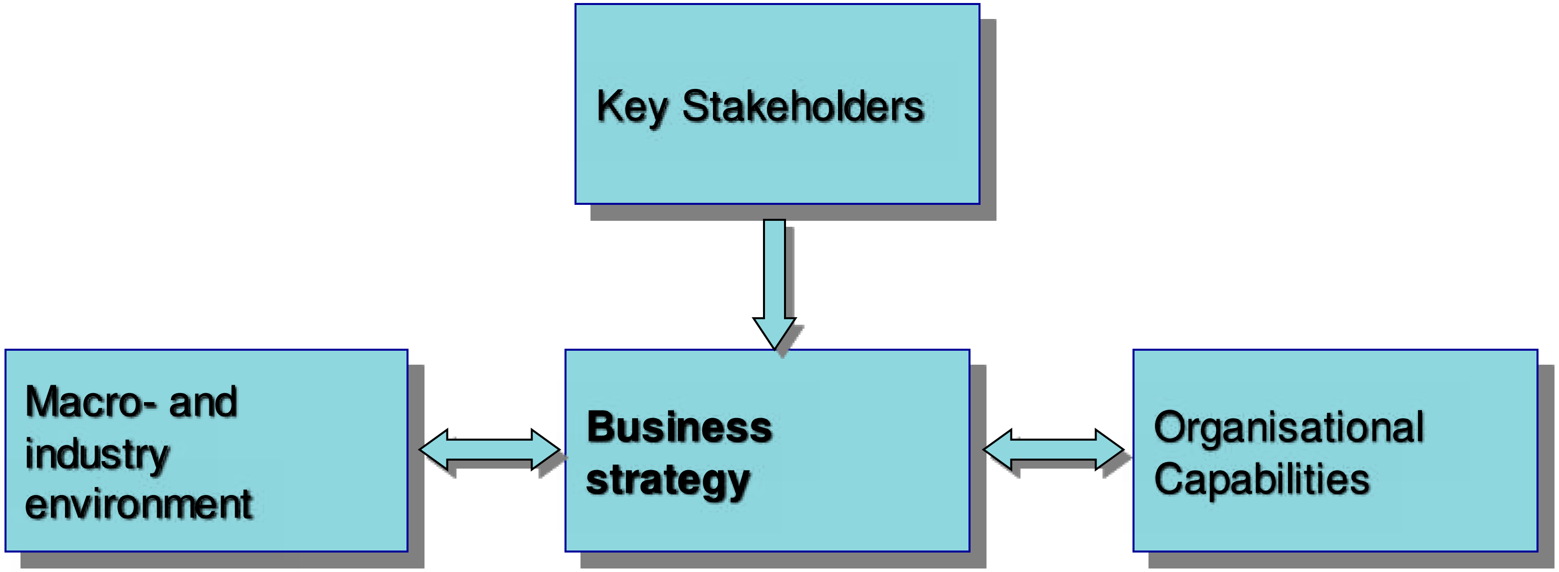
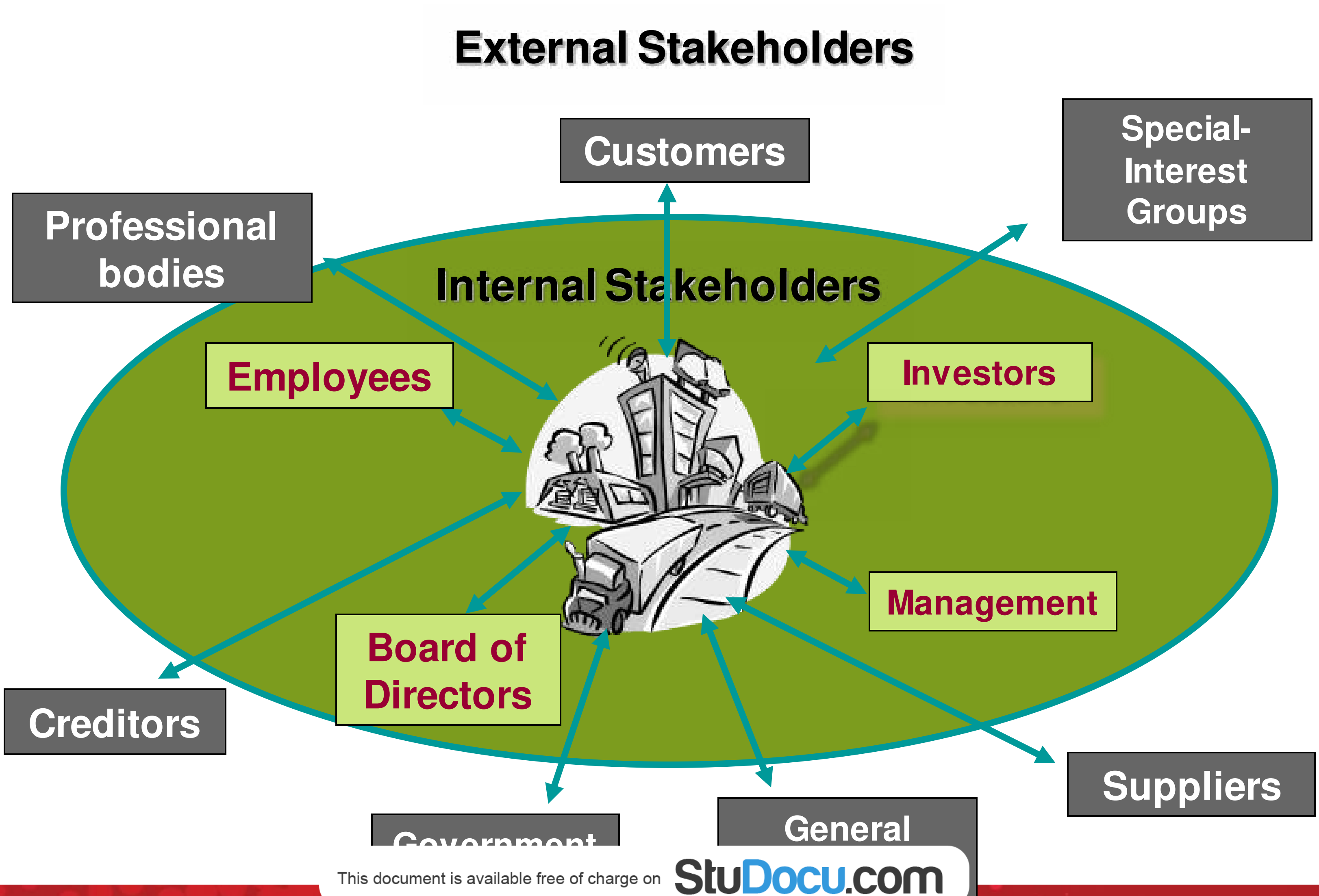


Figure 2.1

Organisations exist within an environment

Organisation stakeholders



Who are the stakeholders?

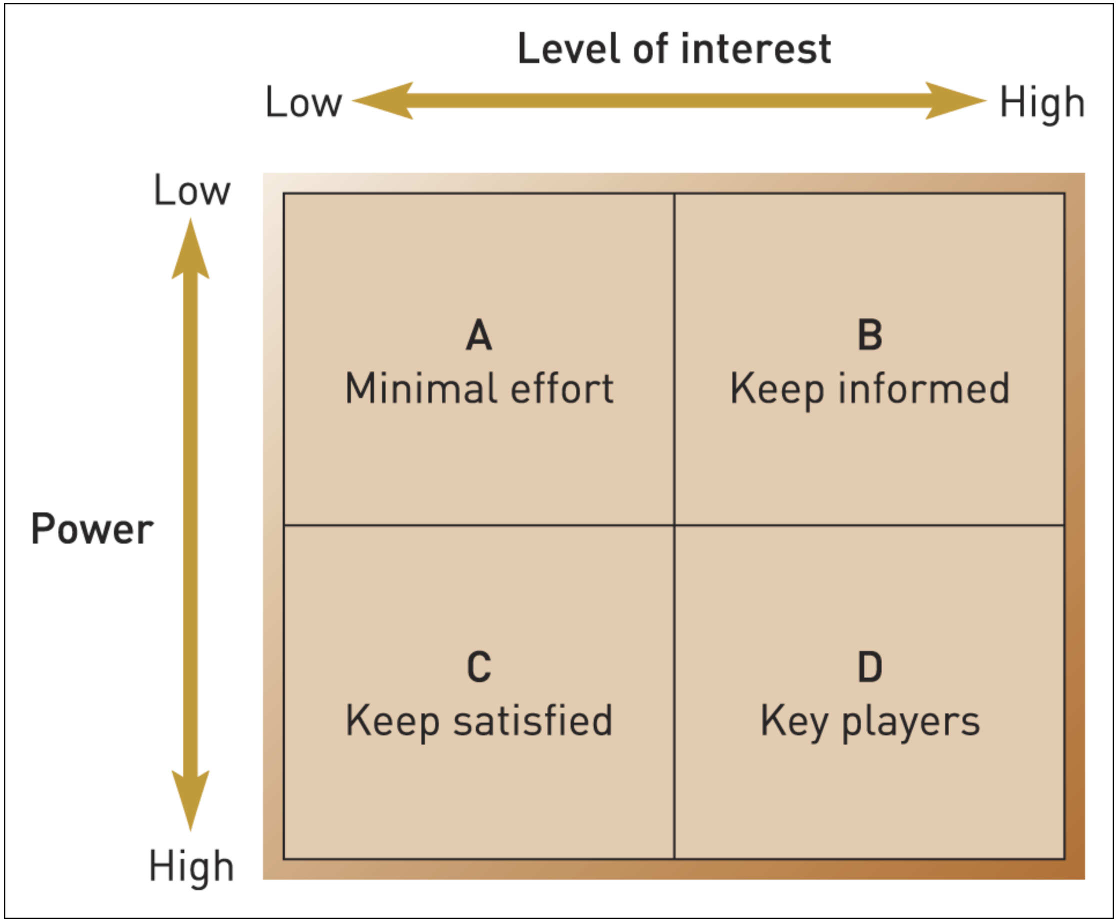
Stakeholders are those individuals or groups who depend on an organisation to fulfil their own goals and on whom, in turn, the organisation depends.

Stakeholders of a large organisation

Stakeholder conflicts of expectations

- In order to grow, short-term profitability, cash flow and pay levels may need to be sacrificed.
- ‘Short-termism’ may suit managerial career aspirations but preclude investment in long-term projects.
- When family businesses grow, the owners may lose control if they need to appoint professional managers.
- New developments may require additional funding through share issue or loans. In either case, financial independence may be sacrificed.
- Public ownership of shares will require more openness and accountability from the management.
- Cost efficiency through capital investment can mean job losses.
- Extending into mass markets may require a reduction in quality standards.
- In public services, a common conflict is between mass provision and specialist services (e.g. preventative dentistry or heart transplants).
- In large multinational organisations, conflict can result because of a division’s responsibilities to the company and also to its host country.

Stakeholder mapping: the power/interest matrix



Stakeholder mapping issues

- Determining purpose and strategy – whose expectations need to be prioritised?
- Do the actual levels of interest and power reflect the corporate governance framework?
- Who are the key blockers and facilitators of strategy?
- Is it desirable to try to reposition certain stakeholders?
- Can the level of interest or power of key stakeholders be maintained?
- Will stakeholder positions shift according to the issue/strategy being considered.

BUSM3125 Strategic Management

Week 5
Business Strategy

Lecturer: Dr Jacinta Ryan

www.rmit.edu.au

RMIT UNIVERSITY

Strategic business units (SBUs)

KEY CONCEPT

A strategic business unit (SBU) supplies goods or services for a distinct domain of activity.

- A small business has just one SBU.
- A large diversified corporation is made up of multiple businesses (SBUs).
- SBUs can be called 'divisions' or 'profit centres'
- SBUs can be identified by:
  - Market based criteria (similar customers, channels and competitors).
  - Capability based criteria (similar strategic capabilities).

The purpose of SBUs

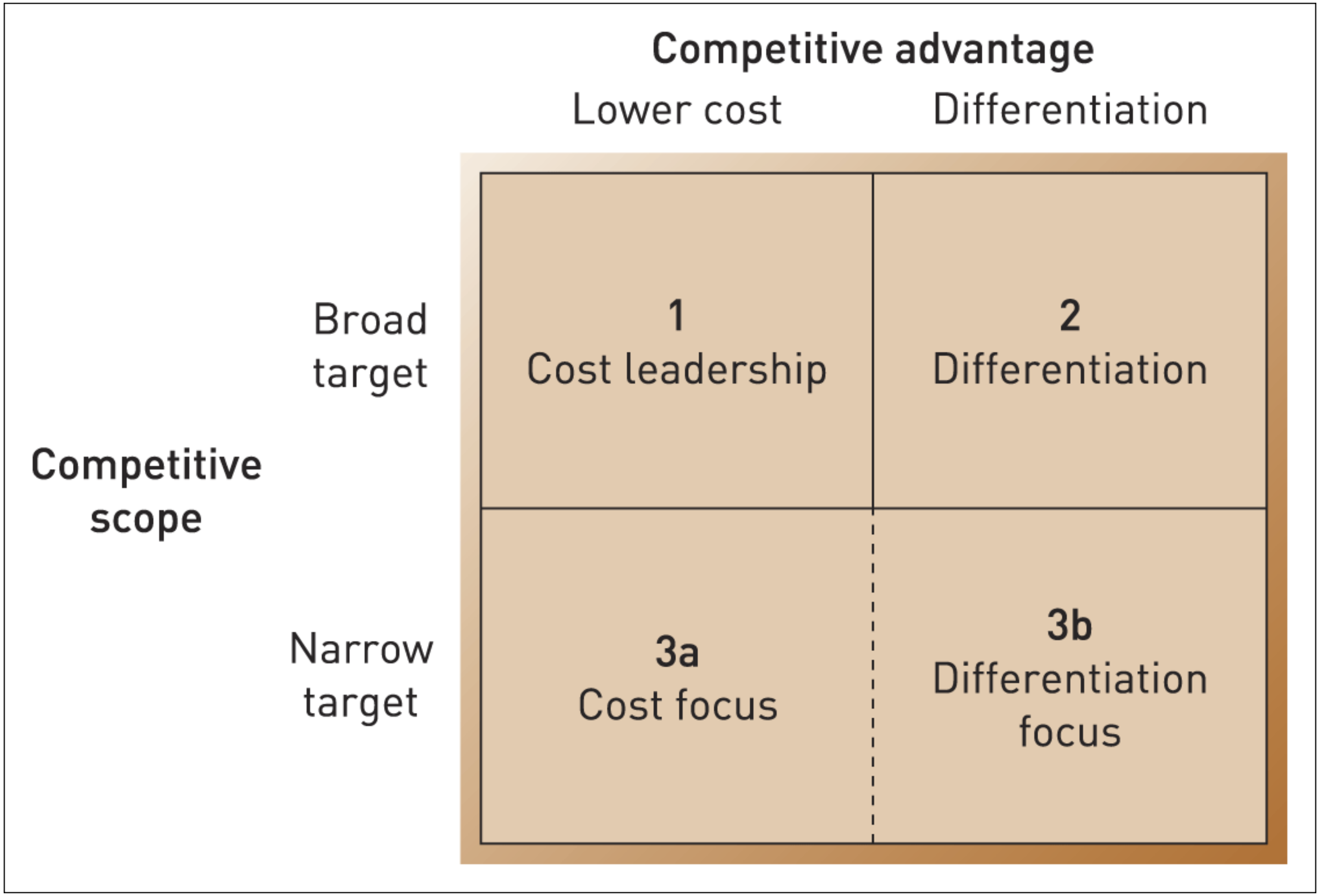
- *To decentralise initiative* to smaller units within the corporation so SBUs can pursue their own distinct strategy.
- To allow large corporations to *vary their business strategies* according to the different needs of external markets.
- *To encourage accountability –* each SBU can be held responsible for its own costs, revenues and profits.

Generic strategies

KEY CONCEPT

- **Porter** introduced the term ***'Generic Strategy'*** to mean basic types of competitive strategy that hold across many kinds of business situations.
- ***Competitive strategy*** is concerned with how a strategic business unit achieves competitive advantage in its domain of activity.
- ***Competitive advantage*** is about how an SBU creates value for its users both greater than the costs of supplying them and superior to that of rival SBUs.

Three generic strategies



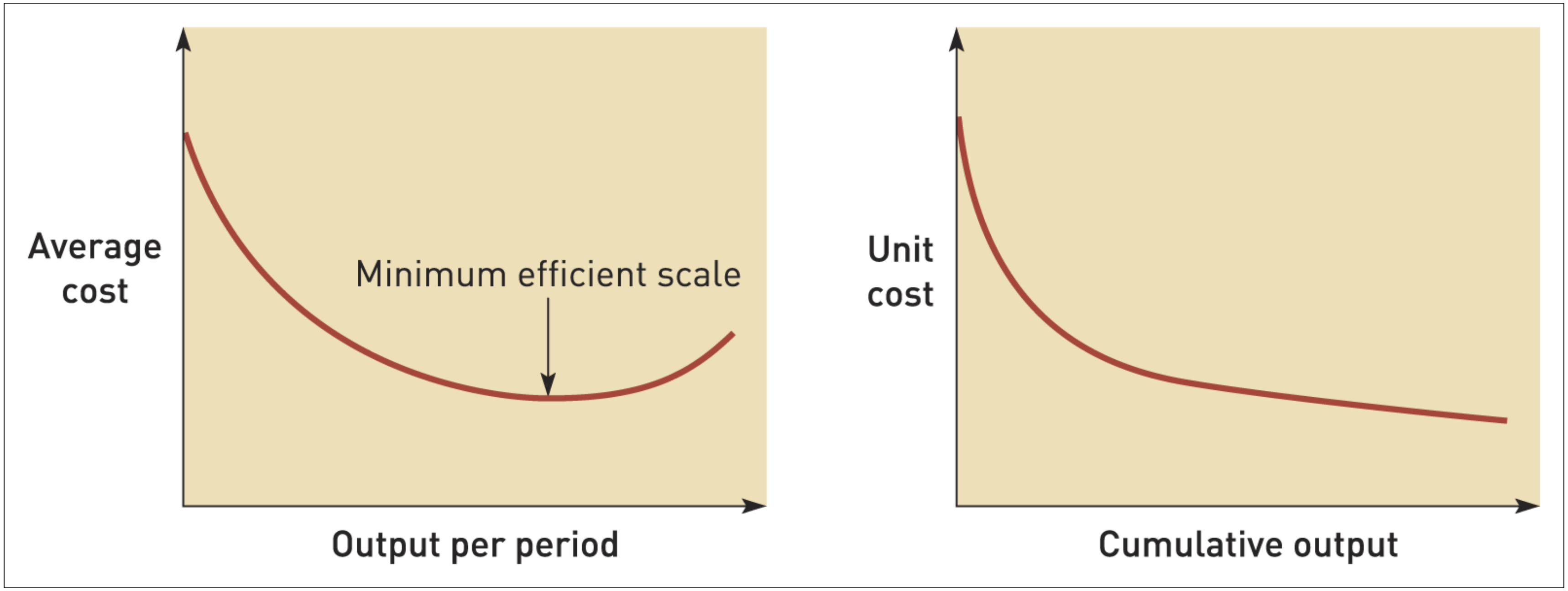
Cost-leadership

Cost-leadership strategy involves becoming the lowest-cost organisation in a domain of activity.

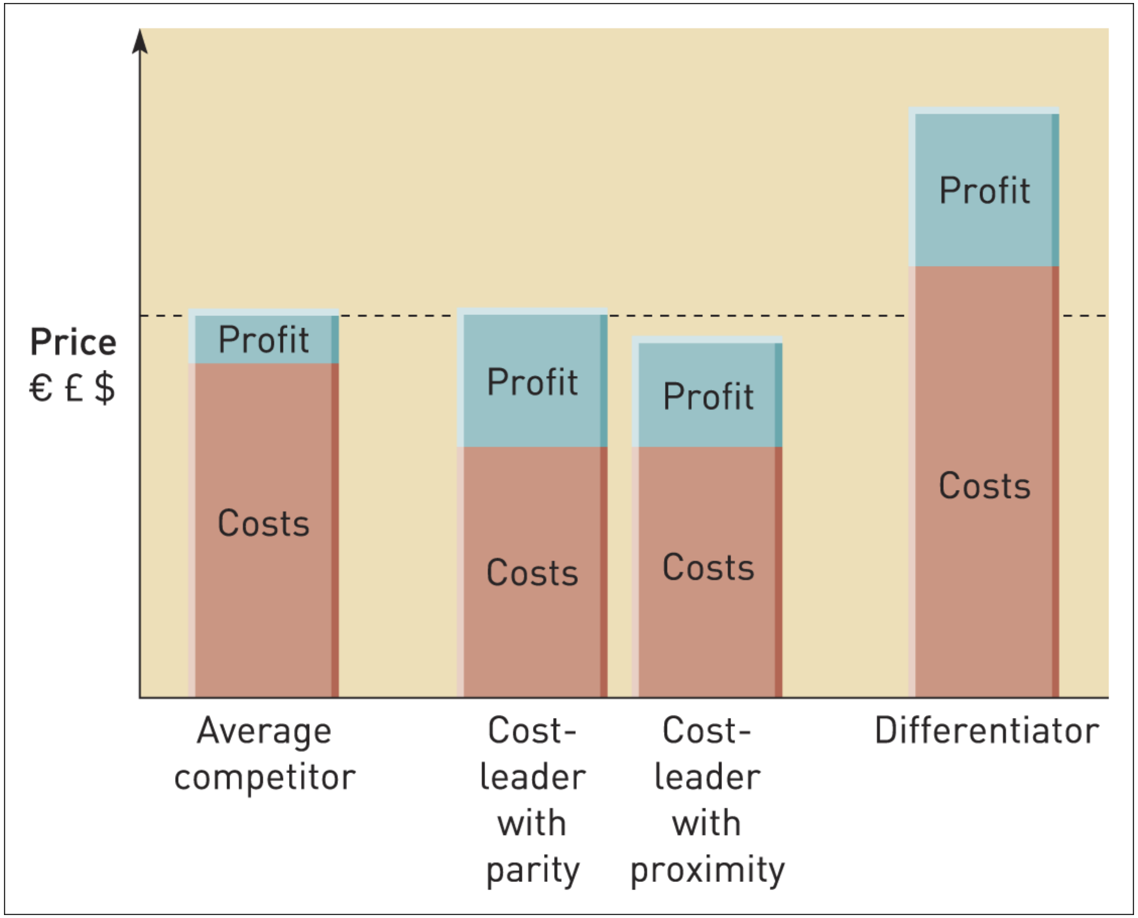
Four key cost drivers that can help deliver cost leadership:

- *Lower input costs.*
- *Economies of scale.*
- *Experience.*
- *Product process and design.*

Economies of scale and the experience curve



Costs, prices and profits for generic strategies



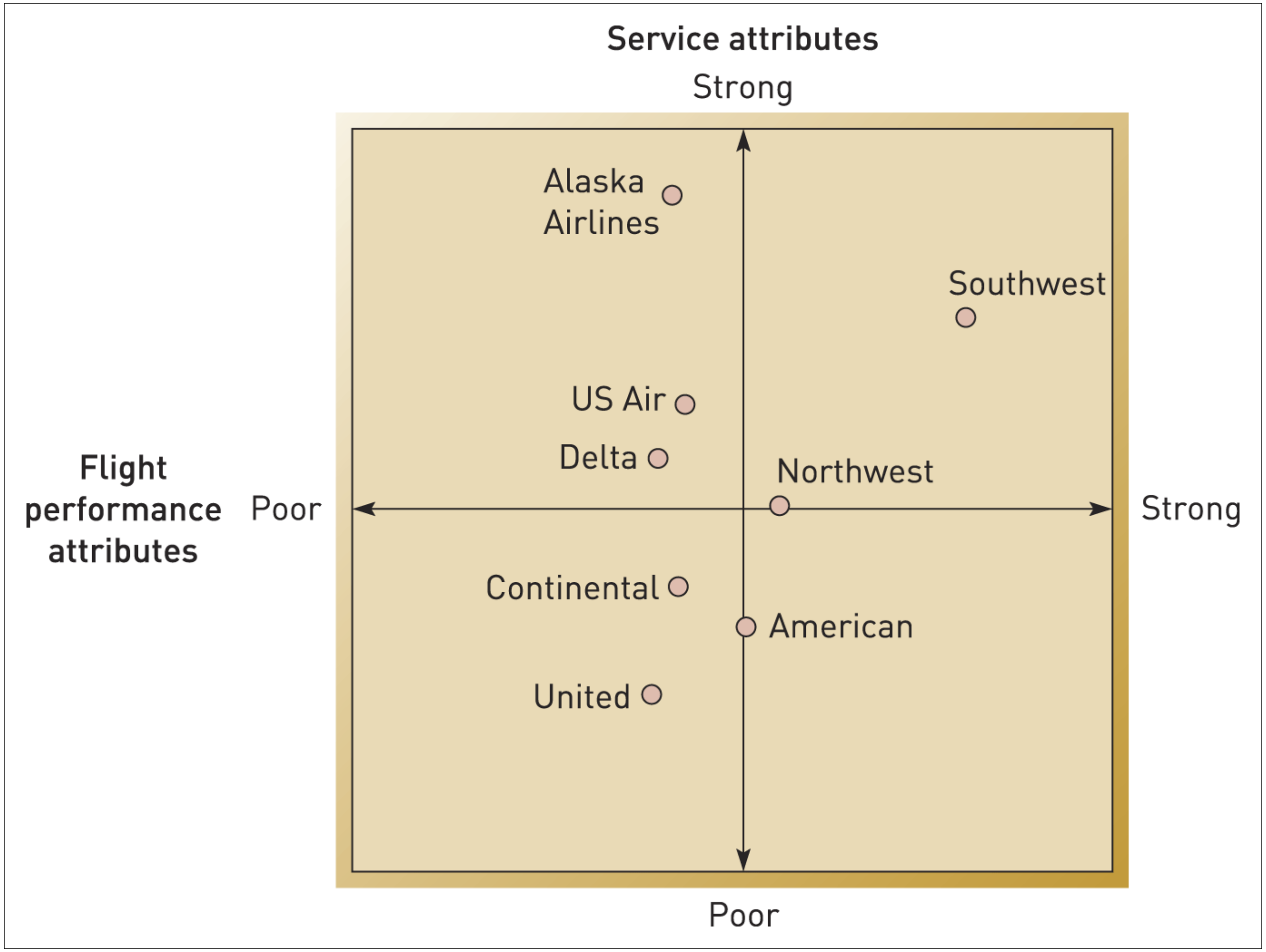
Differentiation strategies

Differentiation involves uniqueness along some dimension that is sufficiently valued by customers to allow a price premium.

Two key issues:

- The *strategic customer* on whose needs the differentiation is based.
- *Key competitors* – who are the rivals and who may *become* a rival.

Differentiation in the US airline industry



Focus strategies (1)

A focus strategy targets a narrow segment of domain of an activity and tailors its products or services to the needs of that specific segment to the exclusion of others.

Two types of focus strategy:

- *cost-focus strategy* (e.g. Ryanair).
- *differentiation focus strategy* (e.g. Ecover).

Focus strategies (2)

Successful focus strategies depend on at least one of three key factors:

- *Distinct segment needs.*
- *Distinct segment value chains.*
- *Viable segment economics.*

‘Stuck in the middle’?

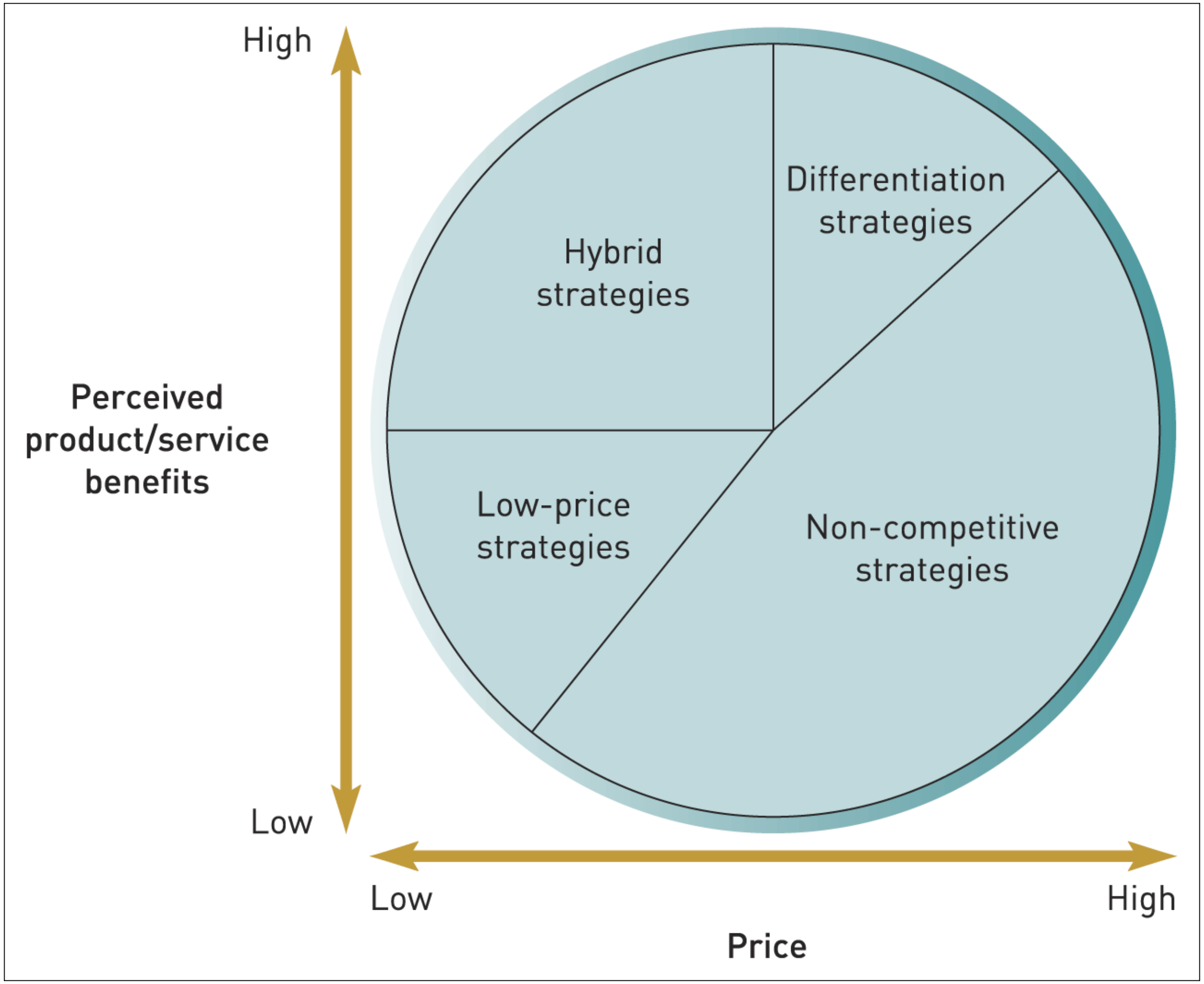
Porter’s argues:

- It is best to choose which generic strategy to adopt and then stick rigorously to it.
- Failure to do this leads to a danger of being ‘*stuck in the middle*’ i.e. doing no strategy well.
- The argument for pure generic strategies is controversial. Even Porter acknowledges that the strategies can be combined (e.g. if being unique costs nothing).

Combining generic strategies

- A company can create separate strategic business units each pursuing different generic strategies and with different cost structures.
- Technological or managerial innovations where both cost efficiency and quality are improved.
- Competitive failures – if rivals are similarly ‘stuck in the middle’ or if there is no significant competition then ‘middle’ strategies may be OK.

Strategy clock



Strategy clock - differentiation

- Strategies in this zone seeks to provide products that offer benefits that differ from those offered by competitors.
- A range of alternative strategies from:
  - *differentiation without price premium (12 o'clock) – used to increase market share.*
  - *differentiation with price premium (1 o'clock) – used to increase profit margins.*
  - *focused differentiation (2 o'clock) – used for customers that demand top quality and will pay a big premium.*

Strategy clock – low price

Low price combined with:

- *low perceived product benefits* focusing on price sensitive market segments – *a 'no frills' strategy* typified by low cost airlines like Ryanair.
- *lower price than competitors* while offering similar product benefits – aimed at increasing market share typified by Asda /Walmart in grocery retailing.

Strategy clock - hybrid

- Seeks to simultaneously achieve differentiation and low price relative to competitors.
- Hybrid strategies can be used:
  - *to enter markets and build position quickly.*
  - *as an aggressive attempt to win market share.*
  - *to build volume sales and gain from mass production.*

Strategy clock – non-competitive

- Increased prices without increasing service/product benefits.
- In competitive markets such strategies will be doomed to failure.
- Only feasible where there is strategic ‘lock-in’ or a near monopoly position.

Strategic lock-in

- ***Strategic lock-in*** is where users become dependent on a supplier and are unable to use another supplier without substantial switching costs.

- Lock-in can be achieved in two main ways:
  - *Controlling complementary products or services.* E.g. Cheap razors that only work with one type of blade.
  - *Creating a proprietary industry standard.* E.g. Microsoft with its Windows operating system.

Strategic Groups

KEY CONCEPT

Strategic groups are organisations within an industry or sector with similar strategic characteristics, following similar strategies or competing on similar bases.

- These characteristics are different from those in other strategic groups in the same industry or sector.

- There are many different characteristics that distinguish between strategic groups.

- Strategic groups can be mapped on to two dimensional charts – maps. These can be useful tools of analysis.

Characteristics for identifying strategic groups

It is useful to consider the extent to which organisations *differ* in terms of **characteristics** such as:

Scope of activities

- Extent of product (or service) diversity
- Extent of geographical coverage
- Number of market segments served
- Distribution channels used

Resource commitment

- Extent (number) of **branding**
- **Marketing effort** (e.g. advertising spread, size of salesforce)
- Extent of **vertical integration**
- Product or service **quality**
- **Technological leadership** (a leader or follower)
- **Size** of organisation

Figure 2.7

Strategic groups in the Indian pharmaceutical industry

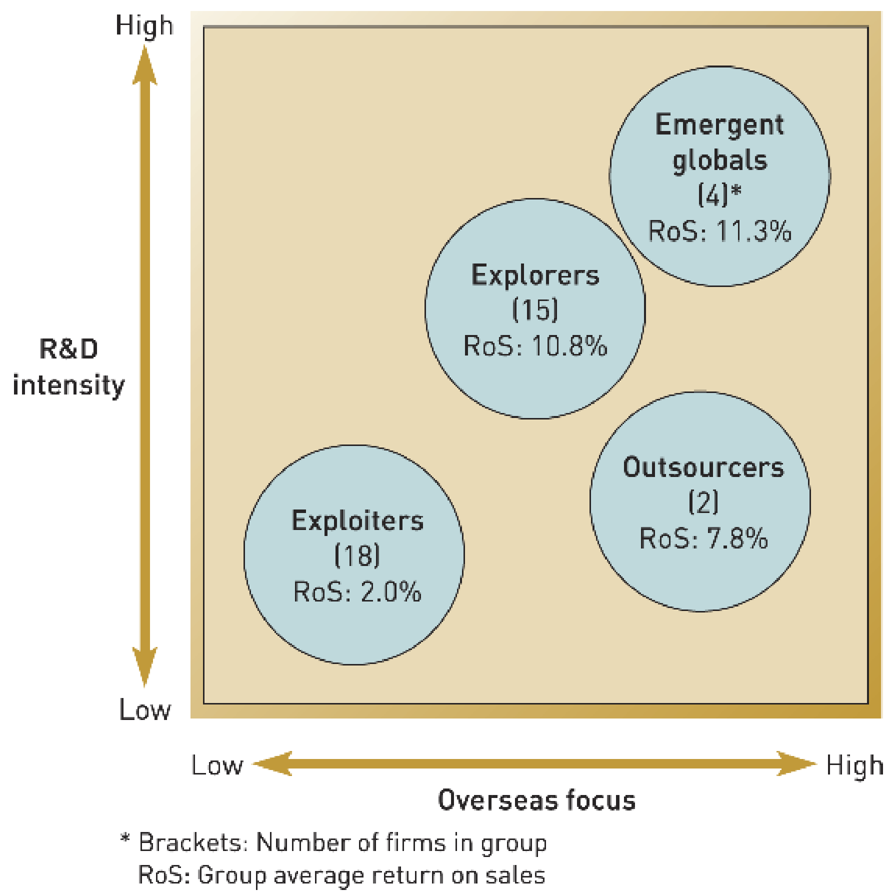


Figure 2.8

Uses of strategic group analysis

- ***Understanding competition*** - enables focus on direct competitors within a strategic group, rather than the whole industry. (E.g. Tesco will focus on Sainsburys and Asda)
- ***Analysis of strategic opportunities*** **-** helps identify attractive 'strategic spaces' within an industry.
- ***Analysis of 'mobility barriers'*** i.e. obstacles to movement from one strategic group to another. These barriers can be overcome to enter more attractive groups. Barriers can be built to defend an attractive position in a strategic group.

Market segments

KEY CONCEPT

A market segment is a group of customers who have similar needs that are different from customer needs in other parts of the market.

- Where these customer groups are relatively small, such market segments are called ‘niches’.
- Customer needs vary. Focusing on customer needs that are highly distinctive is one means of building a secure segment strategy.
- Customer needs vary for a variety of reasons -these factors can be used to identify distinct market segments.
- Not all segments are attractive or viable market opportunities – evaluation is essential.

BUSM3125 Strategic Management

Week 6
Strategy Evaluation

Lecturer: Nigel Munro-Smith

RMIT UNIVERSITY

Assignment Reminder

- Due August 23rd (Thursday)
- Submit online (via Blackboard)
- Turnitin is now integrated into Blackboard
- See "how to" guide on myRMIT/Blackbaord
- Make sure you have enough academic references

We aim to return your work in the week 8 tutorials.

Why Evaluate Strategy?

- Past performance: understand and learn from past successes and failures
- Potential future strategies: we may have great ideas but what will work for us? Of the various strategies we could implement, which ones are the best?

Feedback from current/past strategies is a vital part of evaluating future strategies.

The SAFe criteria

Suitability	• Does a proposed strategy address the *key opportunities and constraints* an organisation faces?
Acceptability	• Does a proposed strategy meet the *expectations of stakeholders?* • Is the level of risk acceptable? • Is the likely return acceptable? • Will stakeholders accept the strategy?
Feasibility	• Would a proposed strategy *work in practice?* • Can the strategy be financed? • Do people and their skills exist or can they be obtained? • Can the required resources be obtained and integrated?

Suitability

Suitability is concerned with assessing which proposed strategies address the key opportunities & constraints an organisation faces, through an understanding of the strategic position of an organisation.

It is concerned with the overall *rationale* of the strategy:

- Does it exploit the opportunities in the environment and avoid the threats?
- Does it capitalise on the organisation's strengths and strategic capabilities and avoid or remedy the weaknesses?

Suitability of strategic options in relation to strategic position (1)

Concept	Figure/Table/ Illustration	Helps with understanding	Suitable strategies address (examples)
PESTEL	Ill. 2.1	Key environmental drivers Changes in industry structure	Industry cycles Industry convergence Major environmental changes
Scenarios	Ill. 2.2	Extent of uncertainty/risk Extent to which strategic options are mutually exclusive	Need for contingency plans or 'low-cost probes'
Five forces	Fig. 2.2 Ill. 2.3	Industry attractiveness Competitive forces	Reducing competitive intensity Development of barriers to new entrants
Strategic groups	Fig. 2.8	Attractiveness of groups Mobility barriers Strategic spaces	Need to reposition to a more attractive group or to an available strategic space

Suitability of strategic options in relation to strategic position (2)

Concept	Figure/Table/ Illustration	Helps with understanding	Suitable strategies address (examples)
Strategic capabilities	Figs 3.2, 3.5 Ill. 3.5	Industry threshold standards Bases of competitive advantage	Eliminating weaknesses Exploiting strengths
Value chain	Figs 3.5, 3.6	Opportunities for vertical integration or outsourcing	Extent of vertical integration or possible outsourcing
Cultural web	Fig. 5.5 Ill. 5.4	The links between organisational culture and the current strategy	The strategic options most aligned with the prevailing culture

Some examples of suitability (1)

Strategic option	Why this option might be suitable in terms of:	
	Environment	Capability
Directions		
Retrenchment	Withdraw from declining markets Maintain market share	Identify and focus on established strengths
Market penetration	Gain market share for advantage	Exploit superior resources and capabilities
Product development	Exploit knowledge of customer needs	Exploit R&D
Market development	Current markets saturated New opportunities for: geographical spread, entering new segments or new uses	Exploit current products and capabilities
Diversification	Current markets saturated or declining	Exploit strategic capabilities in new arenas

Some examples of suitability (2)

Strategic option	Why this option might be suitable in terms of:	
	Environment	Capability
Methods		
Organic development	Partners or acquisitions not available or not suitable	Building on own capabilities Learning and competence development
Merger/acquisition	Speed Supply/demand P/E ratios	Acquire capabilities Scale economies
Joint development	Speed Industry norm Required for market entry	Complementary capabilities Learning from partners

Suitability – screening techniques

There are several useful techniques:

- ***Ranking.***
- ***Using scenarios.***
- ***Screening for competitive advantage.***
- ***Decision trees.***
- ***Life cycle analysis.***

Acceptability (1)

Acceptability is concerned with whether the expected performance outcomes of a proposed strategy meet the expectations of stakeholders.

Acceptability (2)

There are three key aspects of acceptability - the ‘3 R’s’:

- *Risk.*
- *Return.*
- *Reactions (of stakeholders).*

Risk

- ***Risk*** concerns the extent to which the outcomes of a strategy can be predicted.

- Risk can be assessed using:
  - *Sensitivity analysis.*
  - *Financial ratios – e.g. gearing and liquidity.*
  - *Break-even analysis.*

Return

- ***Returns*** are the financial benefits which stakeholders are expected to receive from a strategy.
- Different approaches to assessing return:
  - *Financial analysis.*
  - *Shareholder value analysis.*
  - *Cost–benefit analysis.*
  - *Real options.*

Reaction of stakeholders

- Stakeholder mapping and the power/interest matrix can be used to:
  - *understand the political context of strategies.*
  - *understand the political agenda.*
  - *gauge the likely reaction of stakeholders to specific strategies.*
- If key stakeholders find a strategy to be unacceptable then it is likely to fail

Feasibility

Feasibility is concerned with whether a strategy could work in practice i.e. whether an organisation has the capabilities to deliver a strategy

Two key questions:

- Do the resources and competences currently exist to implement the strategy effectively?
- If not, can they be obtained?

Financial feasibility

Need to consider:

- The *funding* required.
- *Cash flow* analysis and forecasting.
- *Financial strategies* needed for the different 'phases' of the life cycle of a business.

People and skills (1)

Three questions arise:

- Do people in the organisation currently have the *competences* to deliver a proposed strategy?
- Are the *systems* to support those people fit for the strategy?
- If not, can the competences be *obtained or developed?*

People and skills (2)

Critical issues that need to be considered:

- *Work organisation* – will this need to change?
- *Rewards* – are the incentives appropriate?
- *Relationships* – will people interact differently?
- *Training and development* – are current systems appropriate?
- *Staffing* – are the levels and skills of the staff appropriate?

Integrating resources

- The success of a strategy depends on the management of many resource areas, for example:
  - *people,*
  - *finance,*
  - *physical resources,*
  - *information,*
  - *technology and*
  - *resources provided by suppliers and partners.*
- It is essential to integrate resources – inside the organisation and in the wider value network.

Biggest challenge in evaluating future strategies:

<u>Forecasting</u>, especially,

- Consumer behaviour (especially their uptake of new products)
- Competitor behaviour
- The economy (especially interest rates, exchange rates, input prices)

Easier to forecast are,

- Government policy
- Social trends

Evaluation criteria

Four qualifications:

- *Conflicting conclusions* and the need for management judgement.
- *Consistency* between the different elements of a strategy is essential.
- The *implementation and development* of strategies might reveal unanticipated problems.
- Strategy development in *practice* – it isn't always a logical or even rational process.

BUSM3125 Strategic Management

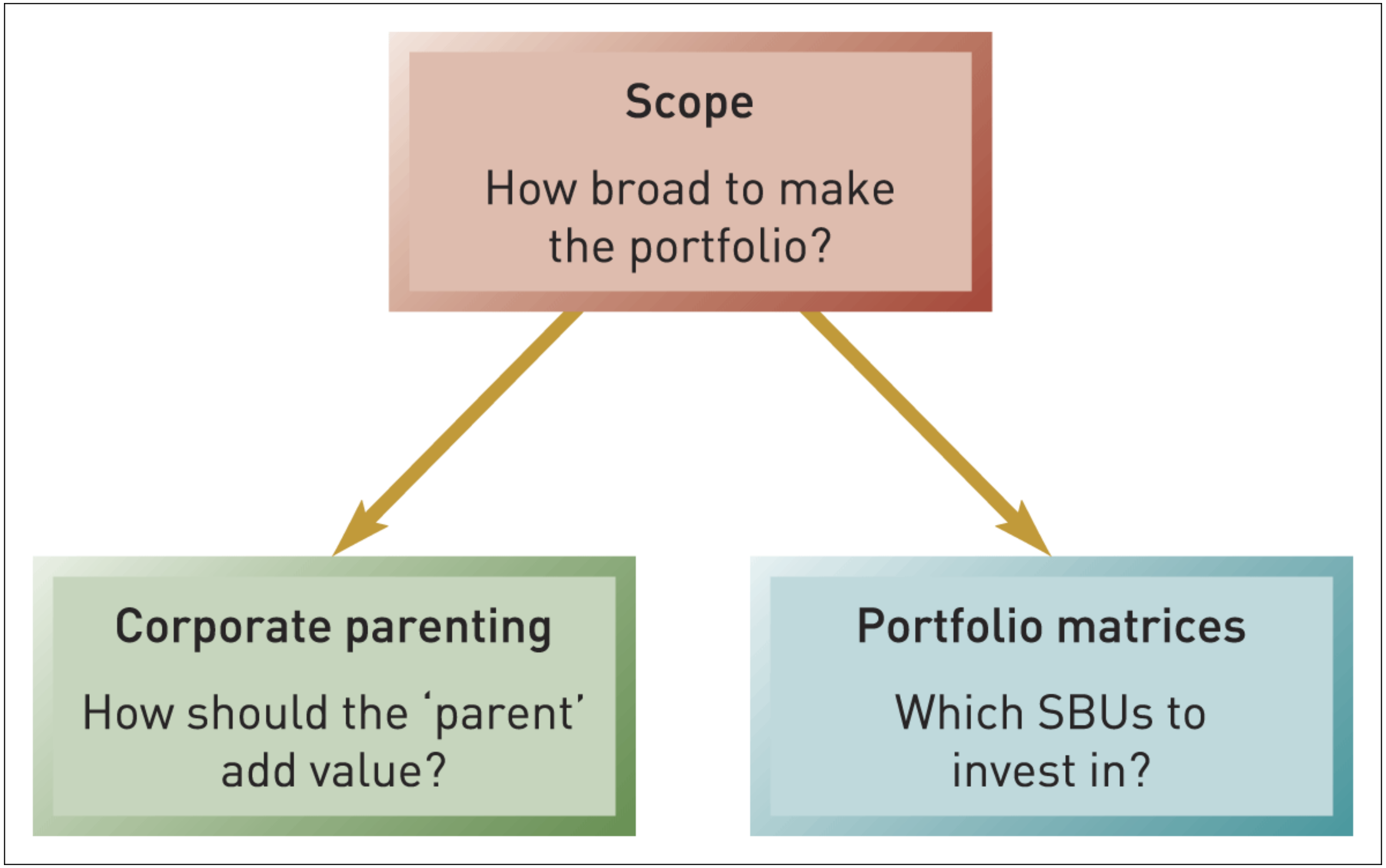
Week 7
Corporate Strategy & Diversification

Lecturer: Nigel Munro-Smith

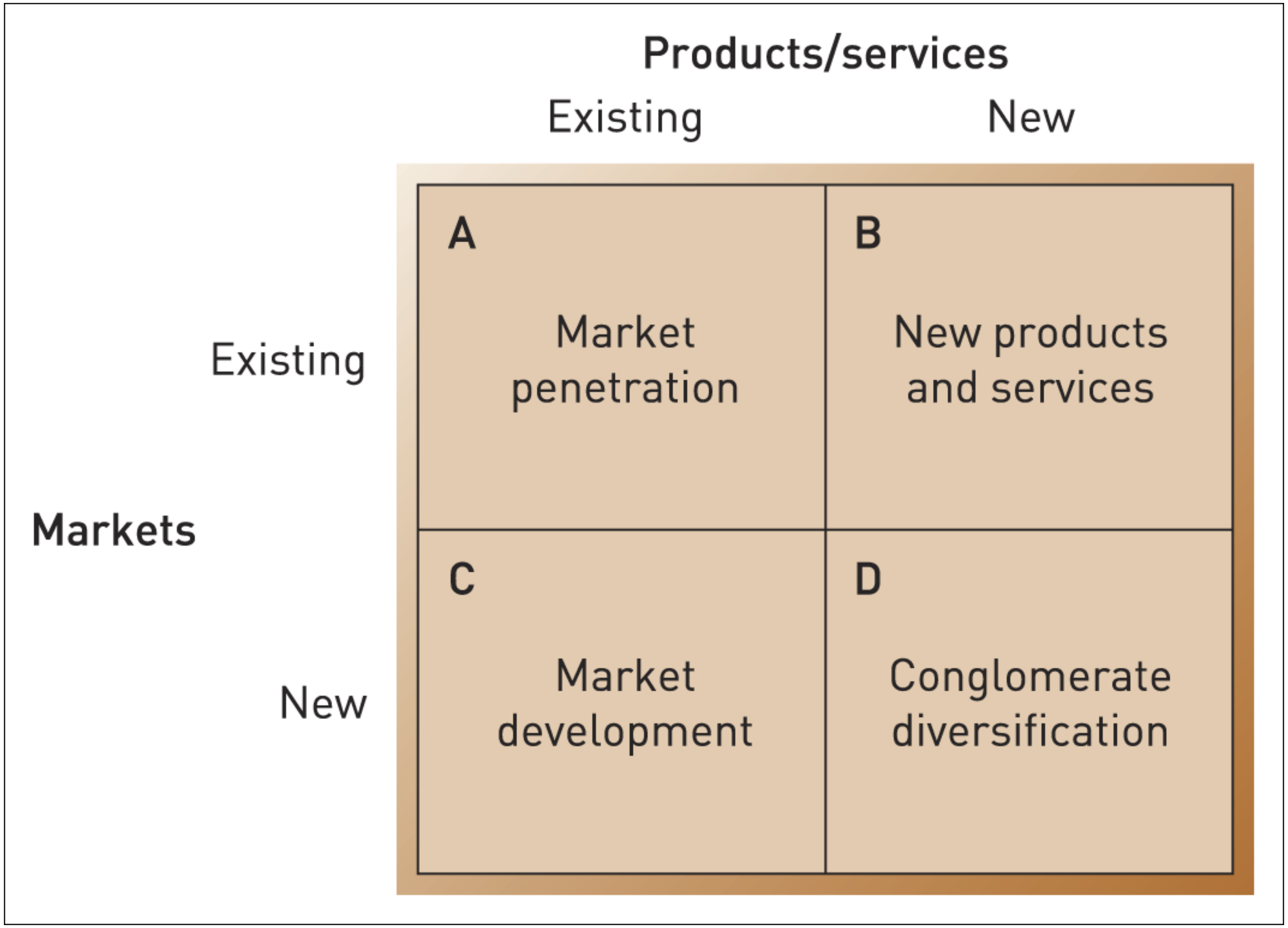
www.rmit.edu.au

RMIT UNIVERSITY

Strategic directions and corporate-level strategy



Corporate strategy directions



Diversification

- ***Diversification*** involves increasing the range of products or markets served by an organisation.
- ***Related diversification*** involves diversifying into products or services with relationships to the existing business.
- ***Conglomerate (unrelated) diversification*** involves diversifying into products or services with no relationships to the existing businesses.

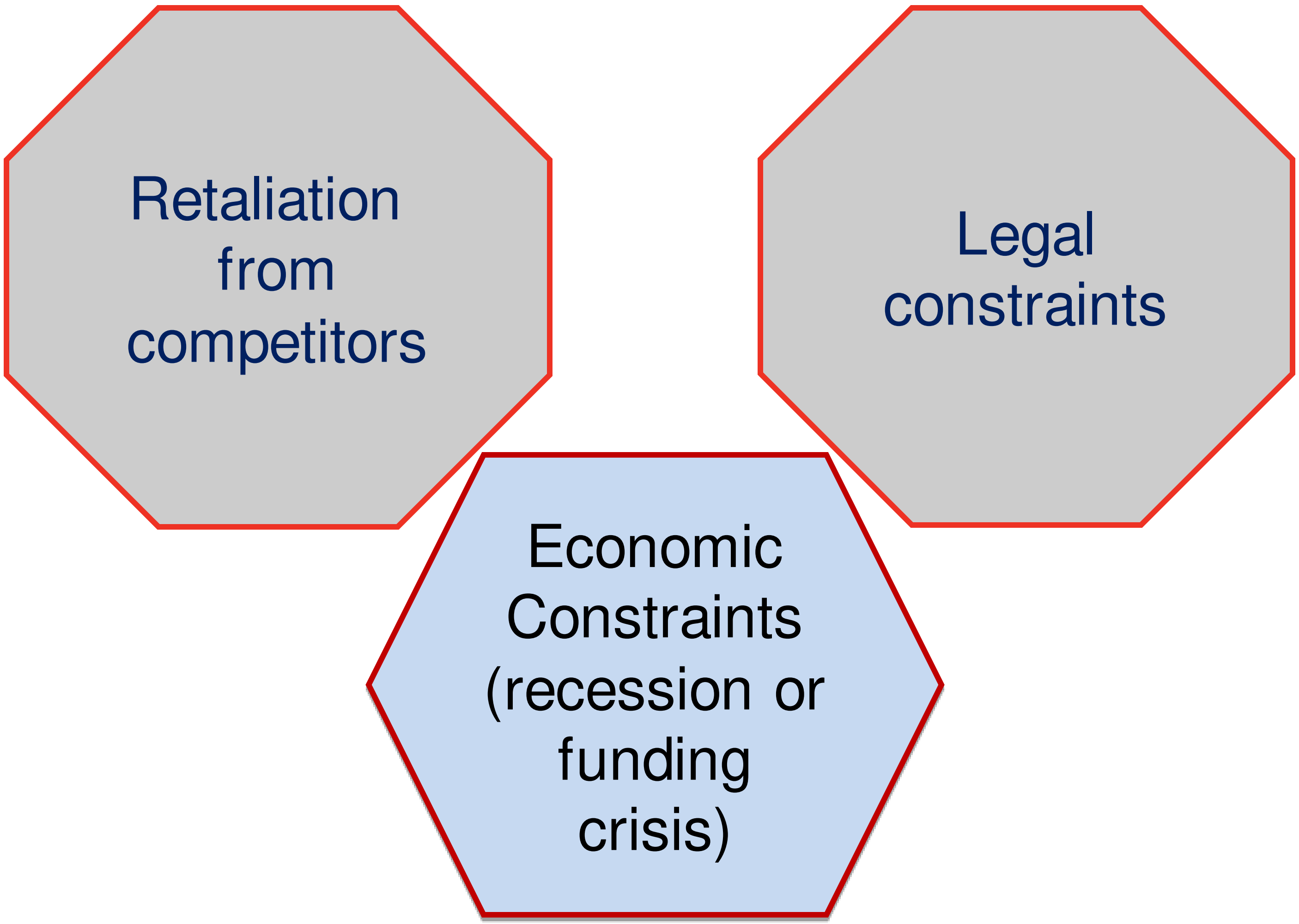
Market penetration

Market penetration refers to a strategy of increasing share of current markets with the current product range.

This strategy:

- *strategic capabilities; builds on established*
- *scope is unchanged; means the organisation's*
- *increased power; leads to greater market share and with buyers and suppliers;*
- *economies of scale; and provides greater and experience curve benefits.*

Constraints of market penetration



Consolidation & retrenchment

- ***Consolidation*** refers to a strategy by which an organisation focuses defensively on their current markets with current products.

- ***Retrenchment*** refers to a strategy of withdrawal from marginal activities in order to concentrate on the most valuable segments and products within their existing business.

Product development

Product development refers to a strategy by which an organisation delivers modified or new products to existing markets.

- This strategy :
  - *involves varying degrees of related diversification (in terms of products);*
  - *can be an expensive and high risk*
  - *may require new strategic capabilities*
  - *typically involves project management risks.*

Market development (1)

Market development refers to a strategy by which an organisation offers existing products to new markets

Market development (2)

This strategy involves varying degrees of related diversification (in terms of markets) it;

- *may also entail some product development (e.g. new styling or packaging);*
- *can take the form of attracting new users (e.g. extending the use of aluminium to the automobile industry);*
- *can take the form of new geographies (e.g. extending the market covered to new areas – international markets being the most important);*
- *must meet the critical success factors of the new market if it is to succeed;*
- *may require new strategic capabilities especially in marketing.*

Conglomerate diversification

Conglomerate (or unrelated) diversification takes the organisation beyond both its existing markets and its existing products and radically increases the organisation's scope.

Drivers for diversification

- Exploiting *economies of scope* – efficiency gains through applying the organisation's existing resources or competences to new markets or services.
- Stretching *corporate management competences.*
- Exploiting *superior internal processes*.
- Increasing *market power*.

Synergy

Synergy refers to the benefits gained where activities or assets complement each other so that their combined effect is greater than the sum of the parts.

N.B. Synergy is often referred to as the

'2 + 2 = 5' effect.

Value-destroying diversification drivers

Some drivers for diversification which may involve value destruction (negative synergies):

- *Responding to market decline,*
- *Spreading risk and*

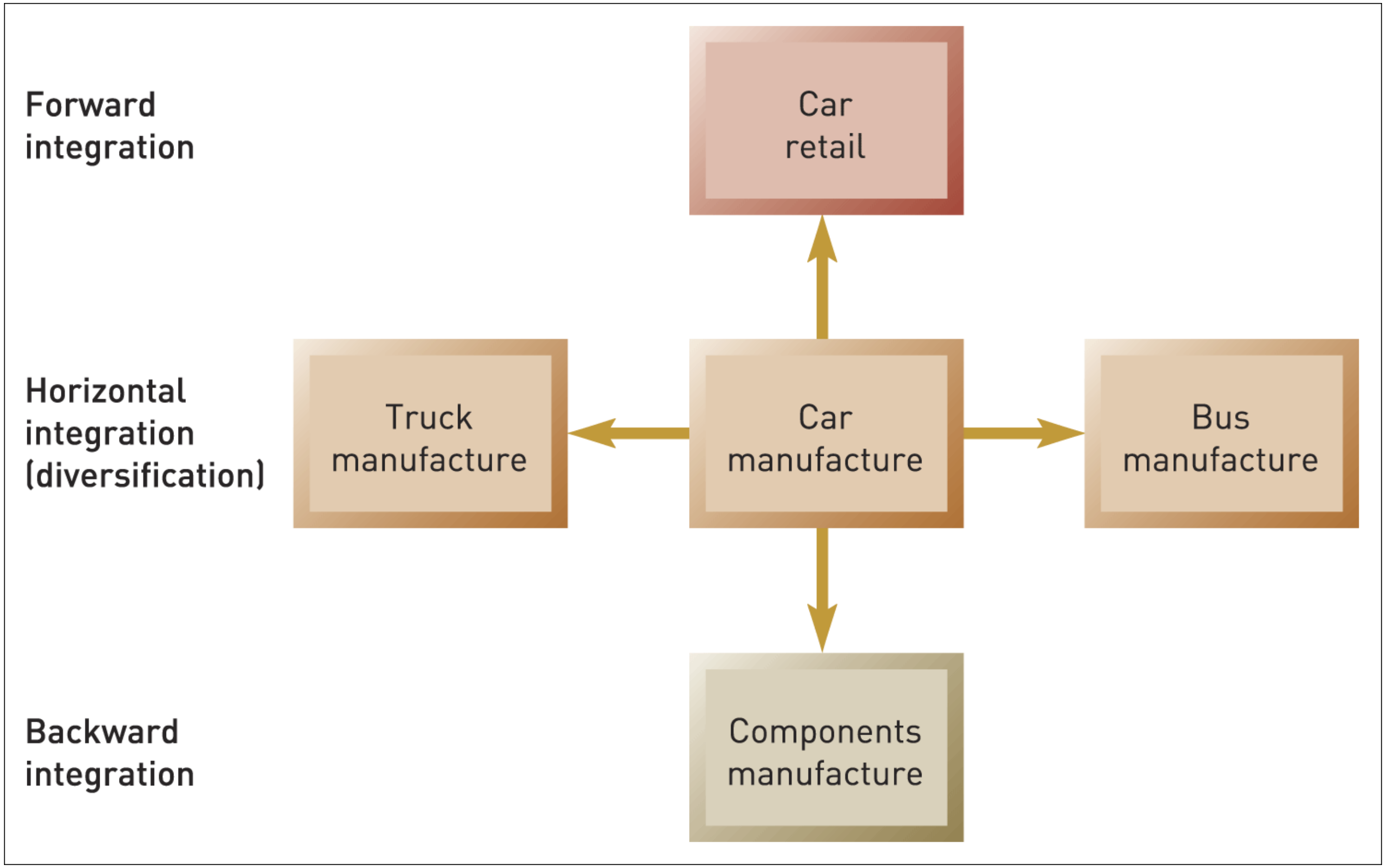
N.B. Despite these being common justifications for diversifying, finance theory suggests these are misguided.

- *Managerial ambition.*

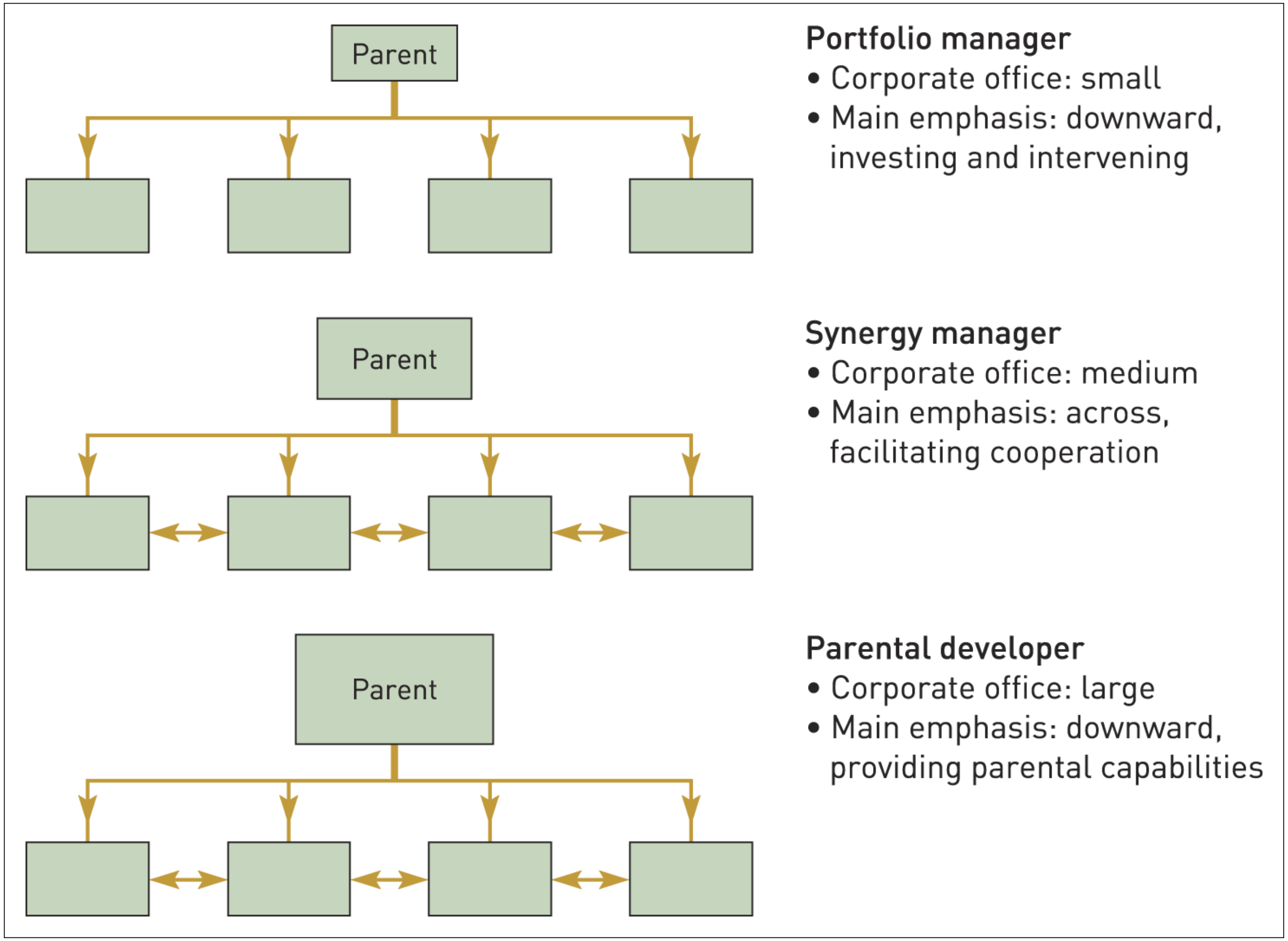
Vertical integration

- ***Vertical integration*** describes entering activities where the organisation is its own supplier or customer.
- ***Backward integration*** refers to development into activities concerned with the inputs into the company's current business.
- ***Forward integration*** refers to development into activities concerned with the outputs of a company's current business.

Diversification and integration options



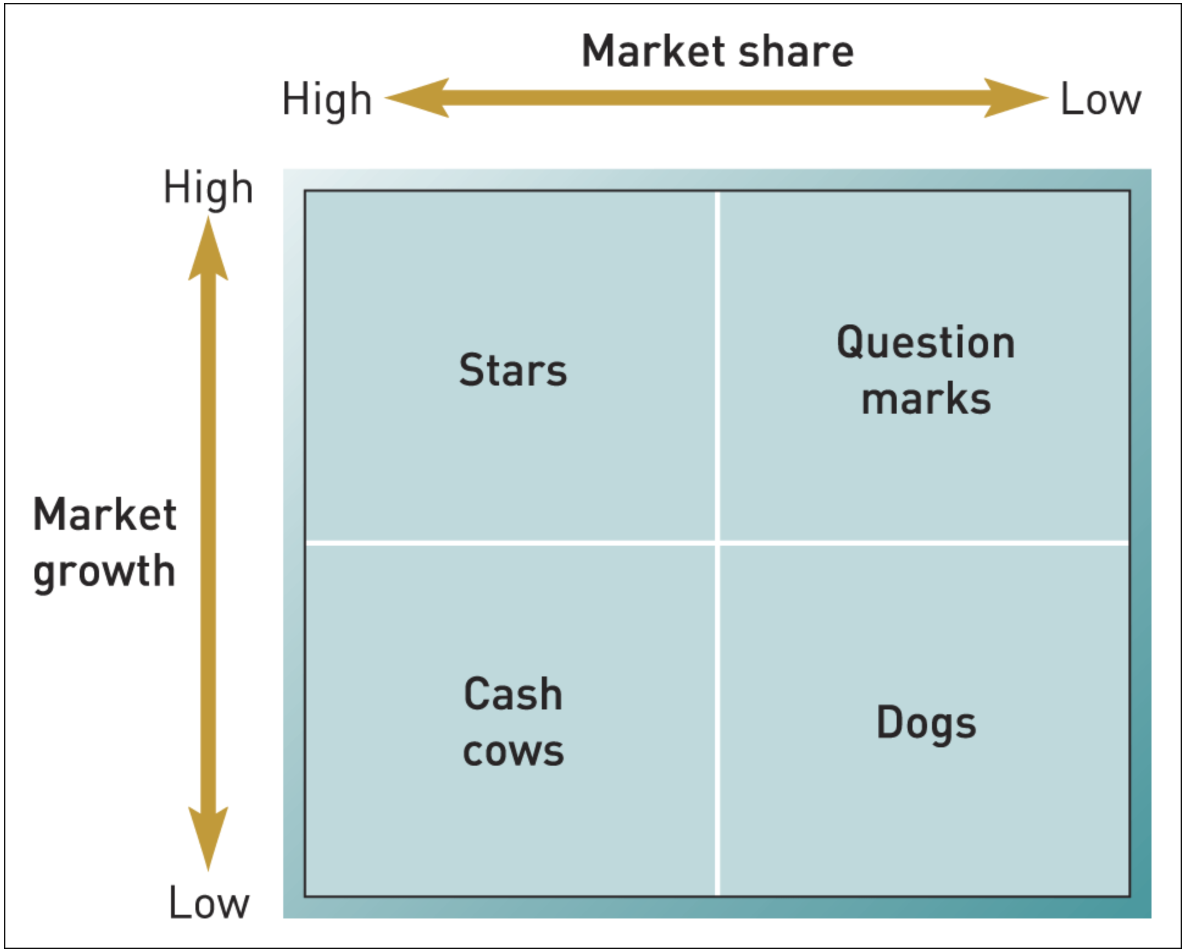
Corporate rationales (1)



Corporate rationales (2)

- ***The portfolio manager*** operates as an active investor in a way that shareholders in the stock market are either too dispersed or too inexpert to be able to do.
- ***The synergy manager*** is a corporate parent seeking to enhance value for business units by managing synergies across business units.
- ***The parental developer*** seeks to employ its own central capabilities to add value to its businesses.

The growth share (or BCG) matrix (1)



The growth share (or BCG) matrix (2)

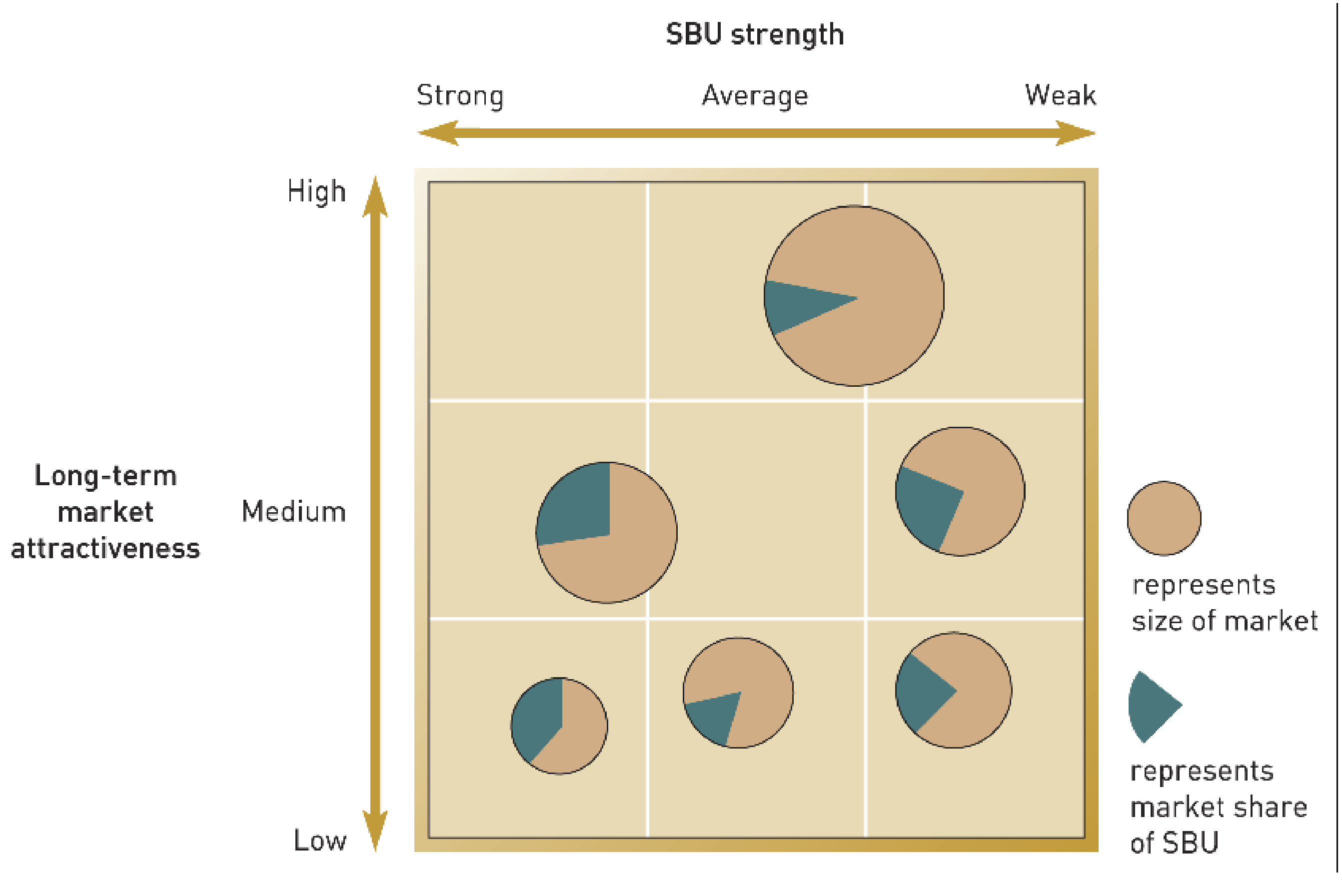
- ***A star*** is a business unit which has a high market share in a growing market.
- ***A question mark (or problem child)*** is a business unit in a growing market, but it does not have a high market share.
- ***A cash cow*** is a business unit that has a high market share in a mature market.
- ***A dog*** is a business unit that has a low market share in a static or declining market.

The growth share (or BCG) matrix (3)

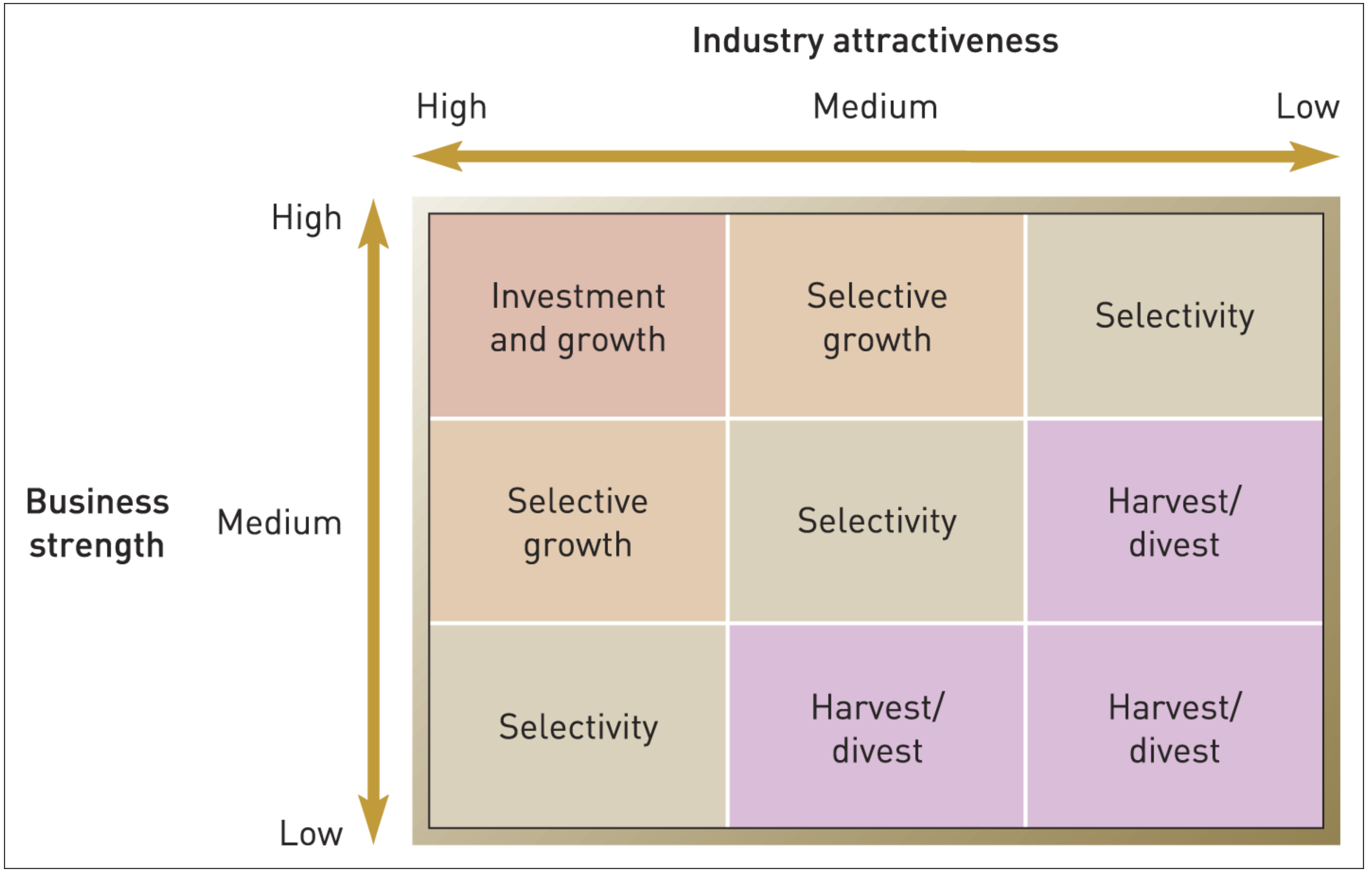
Problems with the BCG matrix:

- *definitional vagueness,*
- *capital market assumptions,*
- *motivation problems,*
- *self-fulfilling prophecies and*
- *possible links to other business units.*

The directional policy (GE–McKinsey) matrix (1)



The directional policy (GE–McKinsey) matrix (2)



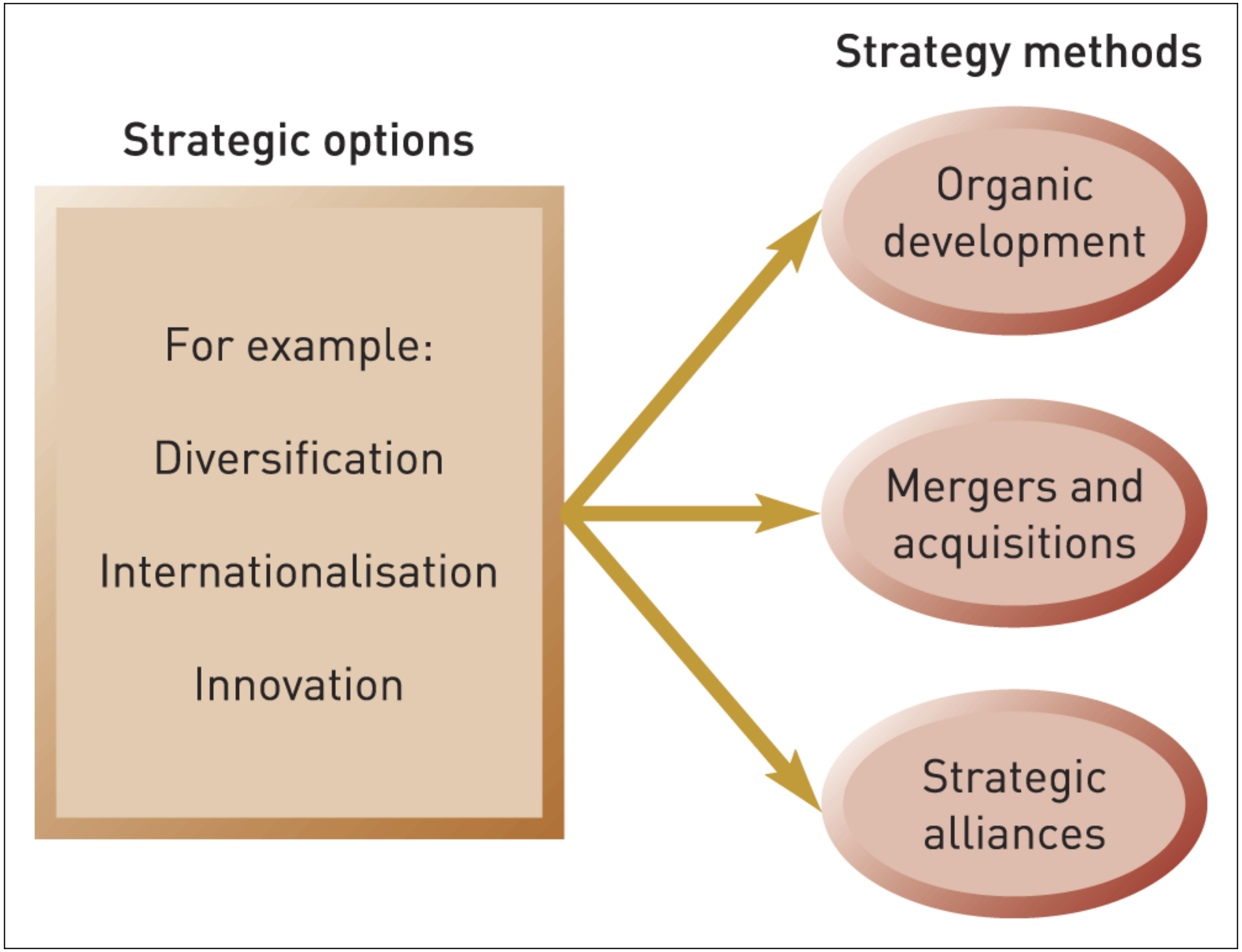
BUSM3125 Strategic Management

Week 8
Mergers, Acquisitions and Alliances

Lecturer: Nigel Munro-Smith

RMIT UNIVERSITY

Strategy methods



Organic development

Organic development is where a strategy is pursued by building on and developing an organisation's own capabilities. This is essentially the 'do it yourself' method.

Advantages of organic development

- *Knowledge and learning* can be enhanced.
- *Spreading investment over time* – easier to finance.
- *No availability constraints* – no need to search for suitable partners or acquisition targets.
- *Strategic independence* – less need to make compromises or accept strategic constraints.

Corporate entrepreneurship

Corporate entrepreneurship refers to radical change in the organisation's business, driven principally by the organisation's own capabilities.

For example, *Amazon's* development of *Kindle* using its own in house development .

Mergers and acquisitions

KEY CONCEPT

- ***A merger*** is the combination of two previously separate organisations, typically as more or less equal partners.

- ***An acquisition*** involves one firm taking over the ownership ('equity') of another, hence the alternative term 'takeover'.

Strategic motives for M&A

Strategic motives can be categorised in three ways:

- *Extension – of scope in terms of geography, products or markets.*
- *Consolidation – increasing scale, efficiency and market power.*
- *Capabilities – enhancing technological know-how (or other competences).*

Financial motives for M&A

There are three main financial motives:

- *Financial efficiency* – a company with a strong balance sheet (cash rich) may acquire/merge with a company with a weak balance sheet (high debt).
- *Tax efficiency* – reducing the combined tax burden.
- *Asset stripping or unbundling – selling off bits of the acquired company to maximise asset values.*

Managerial motives for M&A

M&A may serve managerial self-interest for two reasons:

- *Personal ambition* – financial incentives tied to short-term growth or share-price targets; boosting personal reputations; giving friends and colleagues greater responsibility or better jobs.
- *Bandwagon effects* – managers may be branded as conservative if they don't follow a M&A trend; shareholder pressure to merge or acquire; the company may itself become a takeover target.

Target choice in M&A

Two main criteria apply:

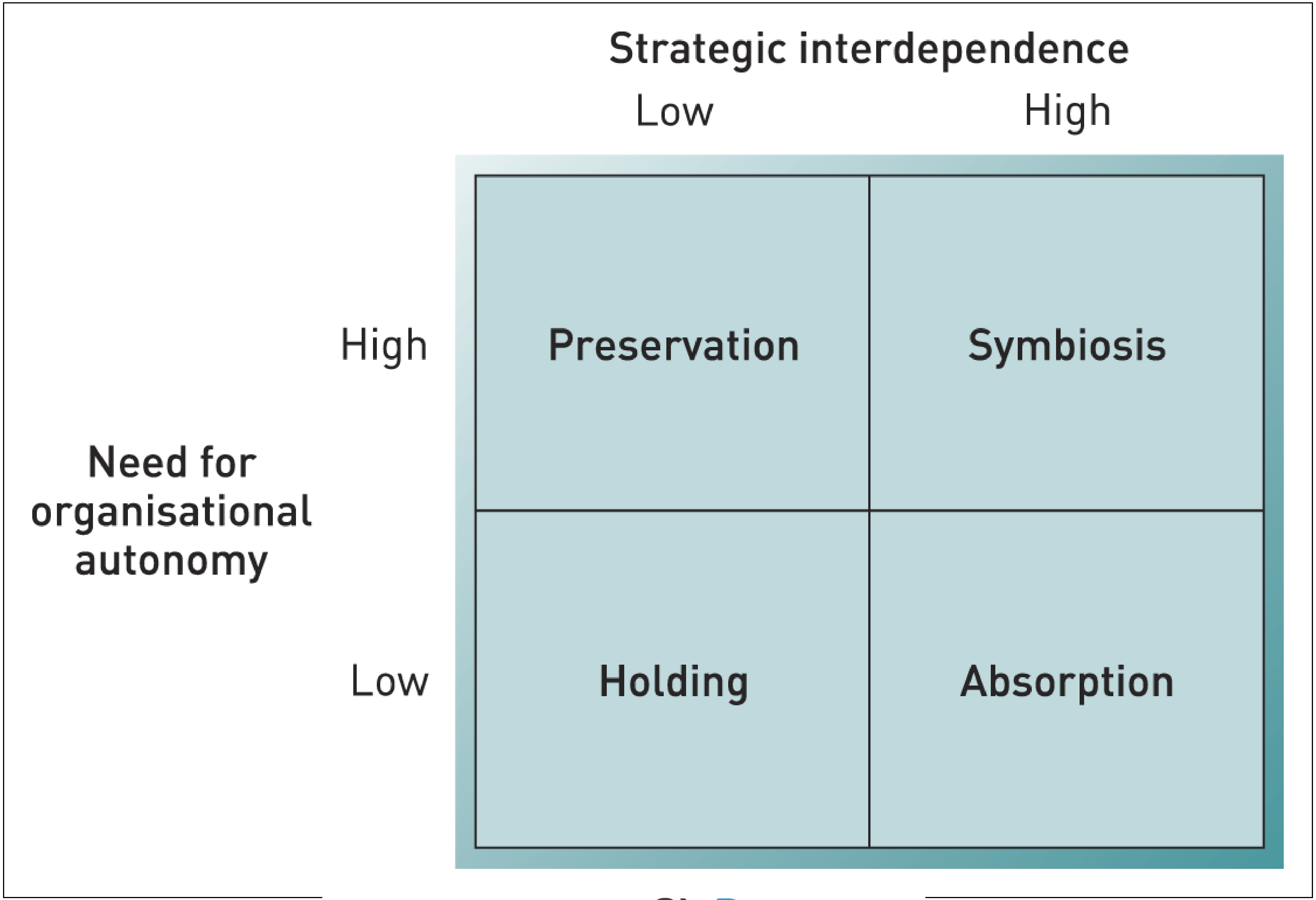
- *Strategic fit* – *does* the target firm strengthen or complement the acquiring firm's strategy? (N.B. It is easy to over-estimate this potential synergy).
- *Organisational fit* – is there a match between the management practices, cultural practices and staff characteristics of the target and the acquiring firm?

Valuation in M&A

Getting the offer price correct is essential:

- Offer the target too little, and the bid will be unsuccessful.
- Pay too much and the acquisition is unlikely to make a profit net of the original acquisition price. (‘*the winner’s curse*’).
- Acquirers do not simply pay the current market value of the target, but also pay a ‘*premium for control*’.

Integration in M&A



Integration in M&A

Approaches to integration:

- *Absorption* – strong strategic interdependence and little need for organisational autonomy. Rapid adjustment of the acquired company's strategies, culture and systems.
- *Preservation* – little interdependence and a high need for autonomy. Old strategies, cultures and systems can be continued much as before.
- *Symbiosis* – strong strategic interdependence, but a high need for autonomy. Both the acquired firm and acquiring firm learn and adopt the best qualities from each other.
- *Holding* – a residual category – with little to gain by integration. The acquisition will be 'held' temporarily before being sold on, so the acquired unit is left largely alone.

Strategic alliances

KEY CONCEPT

- ***A strategic alliance*** is where two or more organisations share resources and activities to pursue a strategy.
- ***Collective strategy*** is about how the whole network of alliances of which an organisation is a member competes against rival networks of alliances.
- ***Collaborative advantage*** is about managing alliances better than competitors.

Types of strategic alliance

There are two main kinds of ownership in strategic alliances:

- ***Equity alliances*** involve the creation of a new entity that is owned separately by the partners involved.

- ***Non-equity alliances*** are typically looser, without the commitment implied by ownership.

Equity alliances

- The most common form of equity alliance is the ***joint venture***, where two organisations remain independent but set up a new organisation jointly owned by the parents.
- ***A consortium alliance*** involves several partners setting up a venture together.

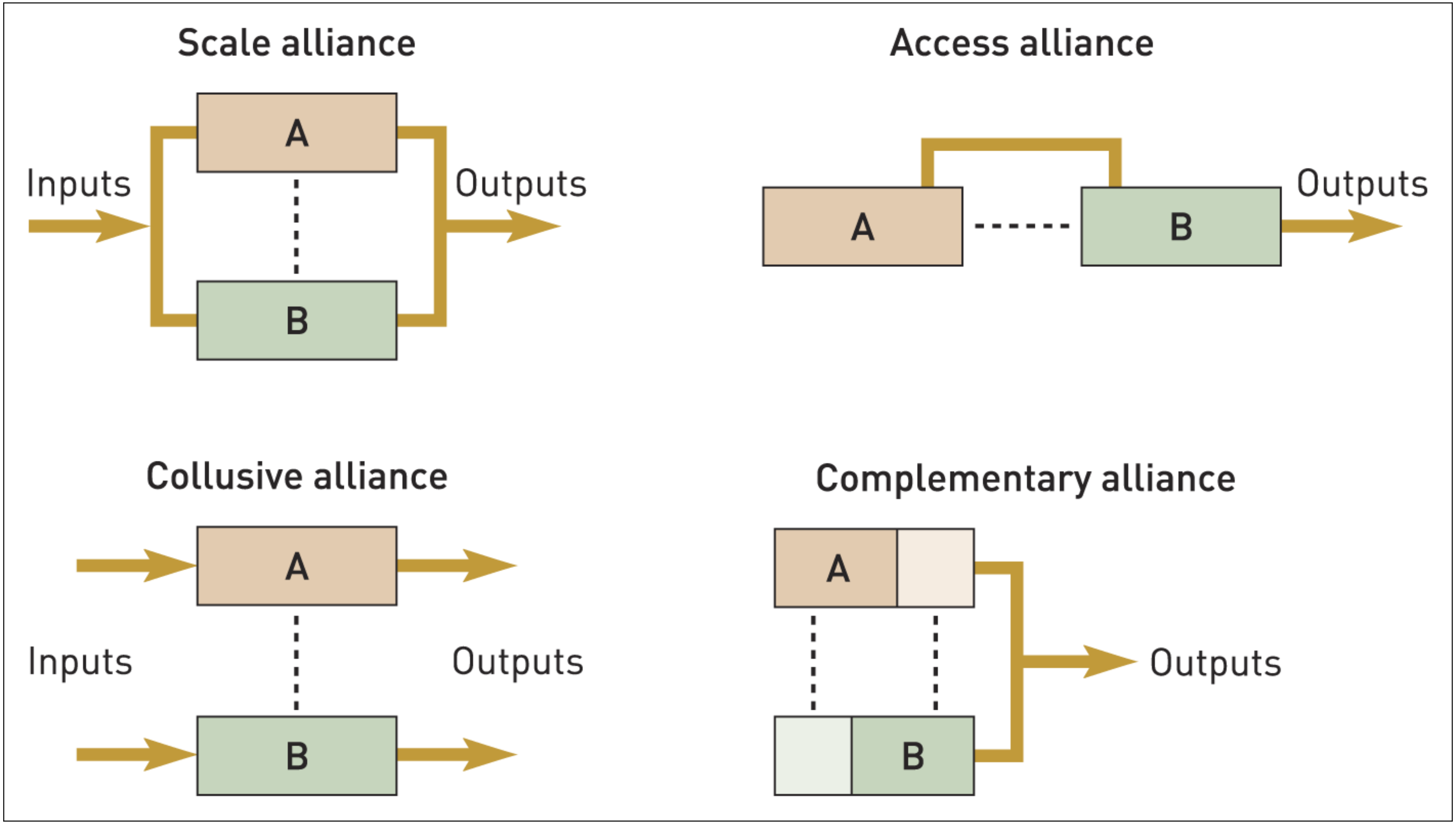
Non-equity alliances

- Non-equity alliances are often based on contracts.
- Three common forms of non-equity alliance:
  - *Franchising.*
  - *Licensing.*
  - *Long-term subcontracting.*

Motives for alliances

- ***Scale alliances*** – lower costs, more bargaining power and sharing risks.
- ***Access alliances*** – partners provide needed capabilities (e.g. distribution outlets or licenses to brands)
- ***Complementary alliances –*** bringing together complementary strengths to offset the other partner's weaknesses.
- ***Collusive alliances –*** to increase market power. Usually kept secret to evade competition regulations.

Strategic alliance motives

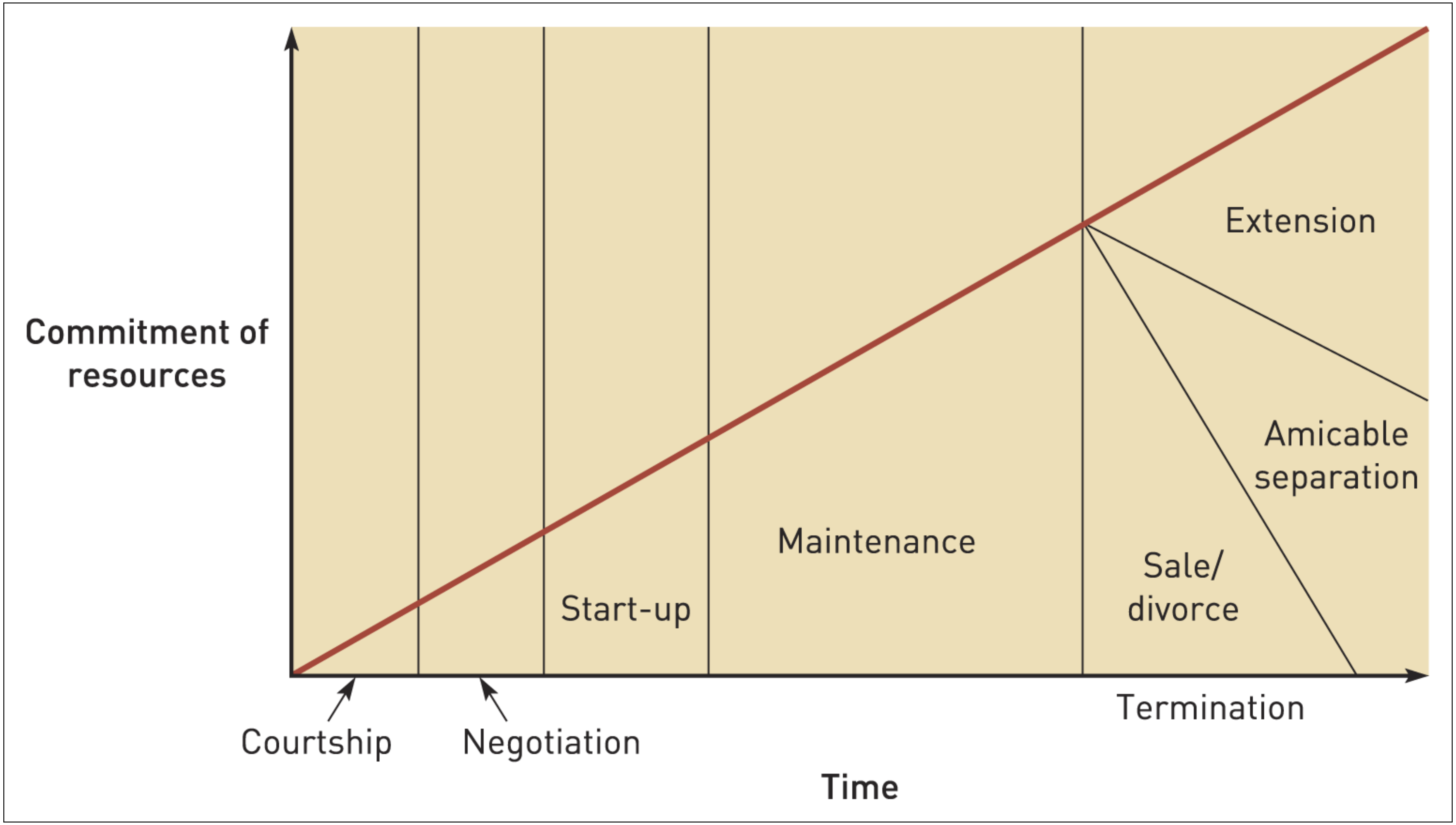


Strategic alliance processes

Two themes are vital to success in alliances:

- ***Co-evolution*** – the need for flexibility and change as the environment, competition and strategies of the partners evolve.
- ***Trust*** – partners need to behave in a trustworthy fashion throughout the alliance.

Alliance evolution



Comparing acquisitions, alliances and organic development

	Buy	Ally	DIY
High urgency	Fast	Fast	Slow
High uncertainty	Failures potentially saleable	Share losses and retain buy option	Failures likely unsaleable
Soft capabilities important	Culture and valuation problems	Culture and control problems	Cultural consistency
Highly modular capabilities	Problem of buying whole company	Ally just with relevant partner unit	Develop in new venture unit

Comparing acquisitions, alliances and organic development

Four key factors in choosing the method of strategy development:

- ***Urgency*** – internal development may be too slow, alliances can accelerate the process but acquisitions are quickest.
- ***Uncertainty*** – an alliance means risks are shared and thus a failure does not mean the full cost is lost.
- ***Type of capabilities*** – acquisitions work best with 'hard' resources (e.g. production units) rather than 'soft' resources (e.g. people). Culture clash is the big issue.
- ***Modularity of capabilities*** – if the needed capabilities can be clearly separated from the rest of the organisation an alliance may be best.

Key success factors

	M&A	Alliances
Similar	Strategic fit Organisational fit Valuation	Strategic fit Organisational fit Valuation
Different	Hostile option Integration Divesture	Courtship Co-evolution Termination

BUSM3125 Strategic Management

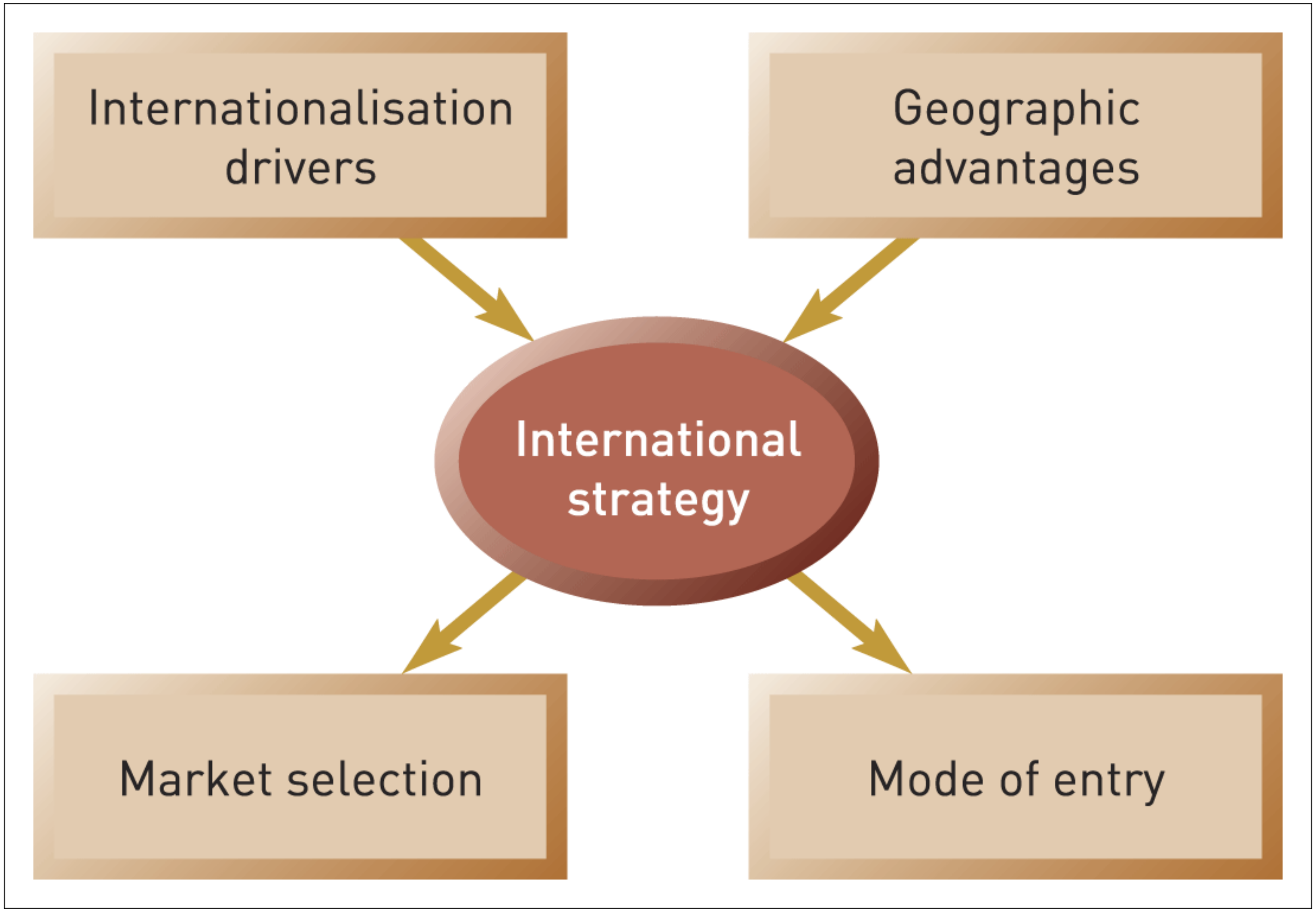
Week 9
International Strategy

Lecturer: Nigel Munro-Smith

www.rmit.edu.au

RMIT UNIVERSITY

International strategy framework



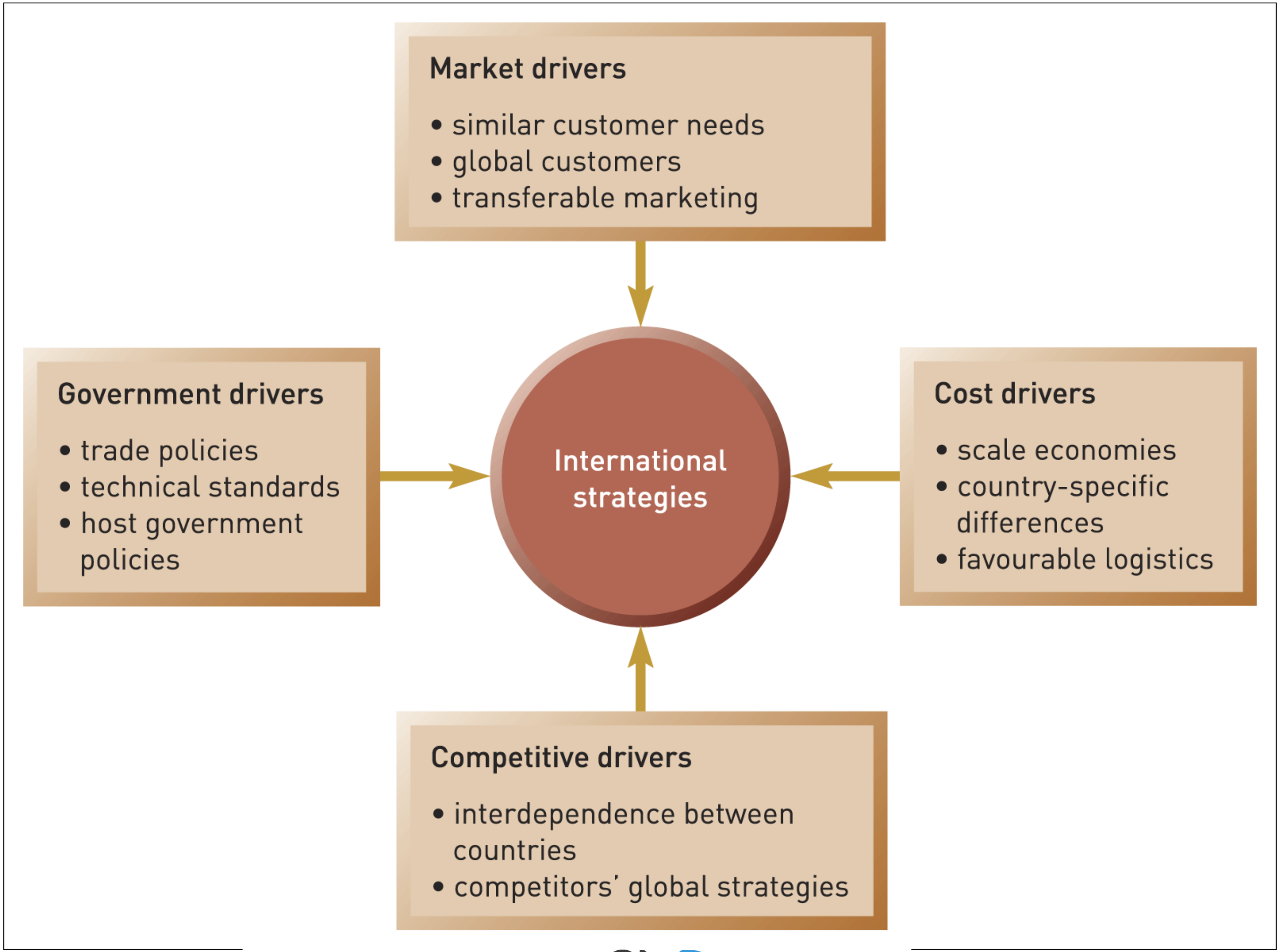
International v global strategy

- ***International strategy*** refers to a range of options for operating outside an organisation's country of origin.

- ***Global strategy*** involves high coordination of extensive activities dispersed geographically in many countries around the world.

N.B. Global strategy is just one kind of international strategy.

Internationalisation drivers



Location advantages: Porter's diamond (1)

- ***Porter's Diamond*** – *explains* why some locations tend to produce firms with sustained competitive advantages in some industries more than others.

➢ ***The four drivers in Porter's Diamond*** stem from:

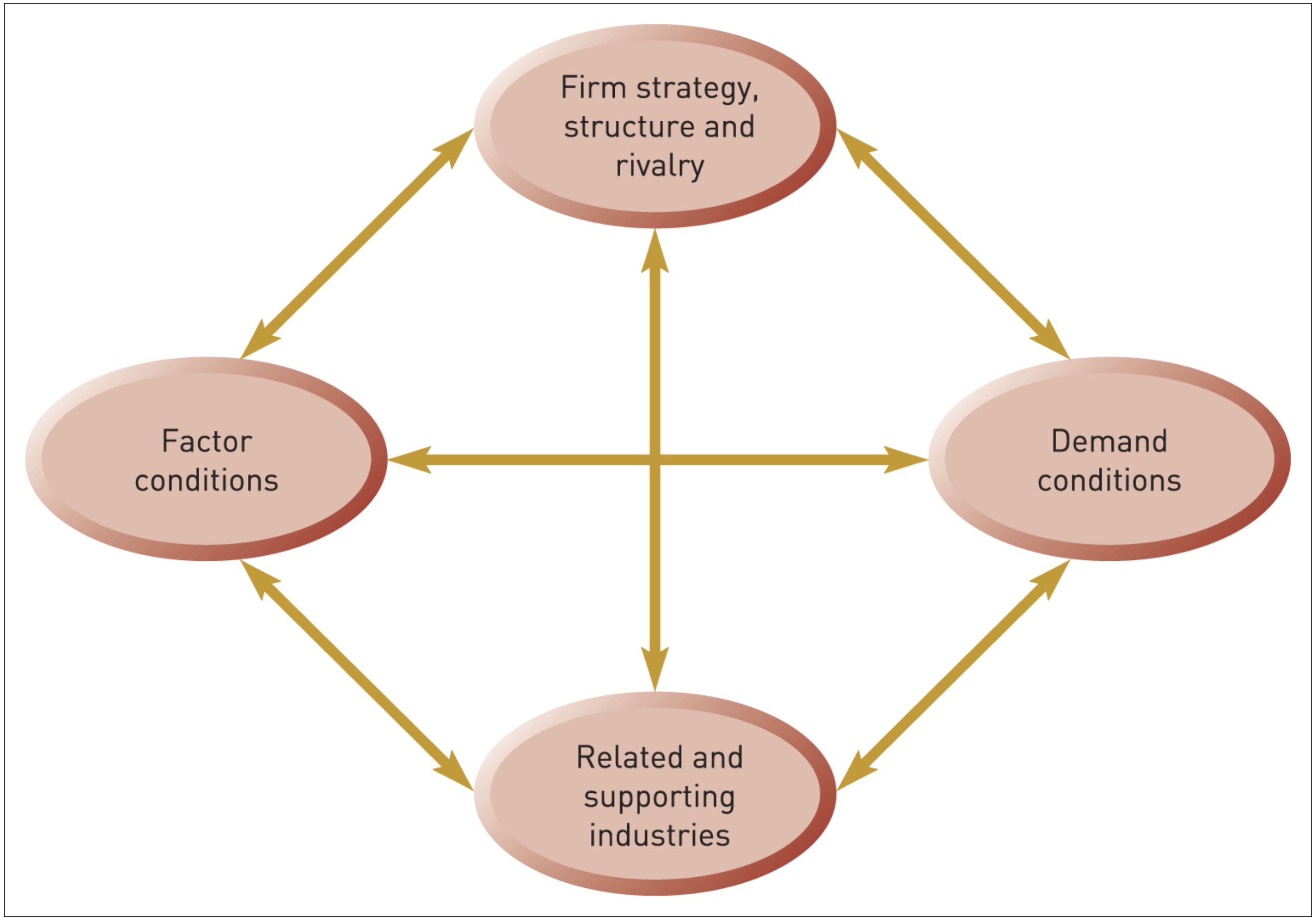
➢ *local factor conditions*

➢ *local demand conditions*

➢ *local related and supporting industries*

➢ *local firm strategy structure and rivalry*.

Location advantages: Porter's diamond (2)



Global sourcing

Global sourcing refers to purchasing services and components from the most appropriate suppliers around the world regardless of their location.

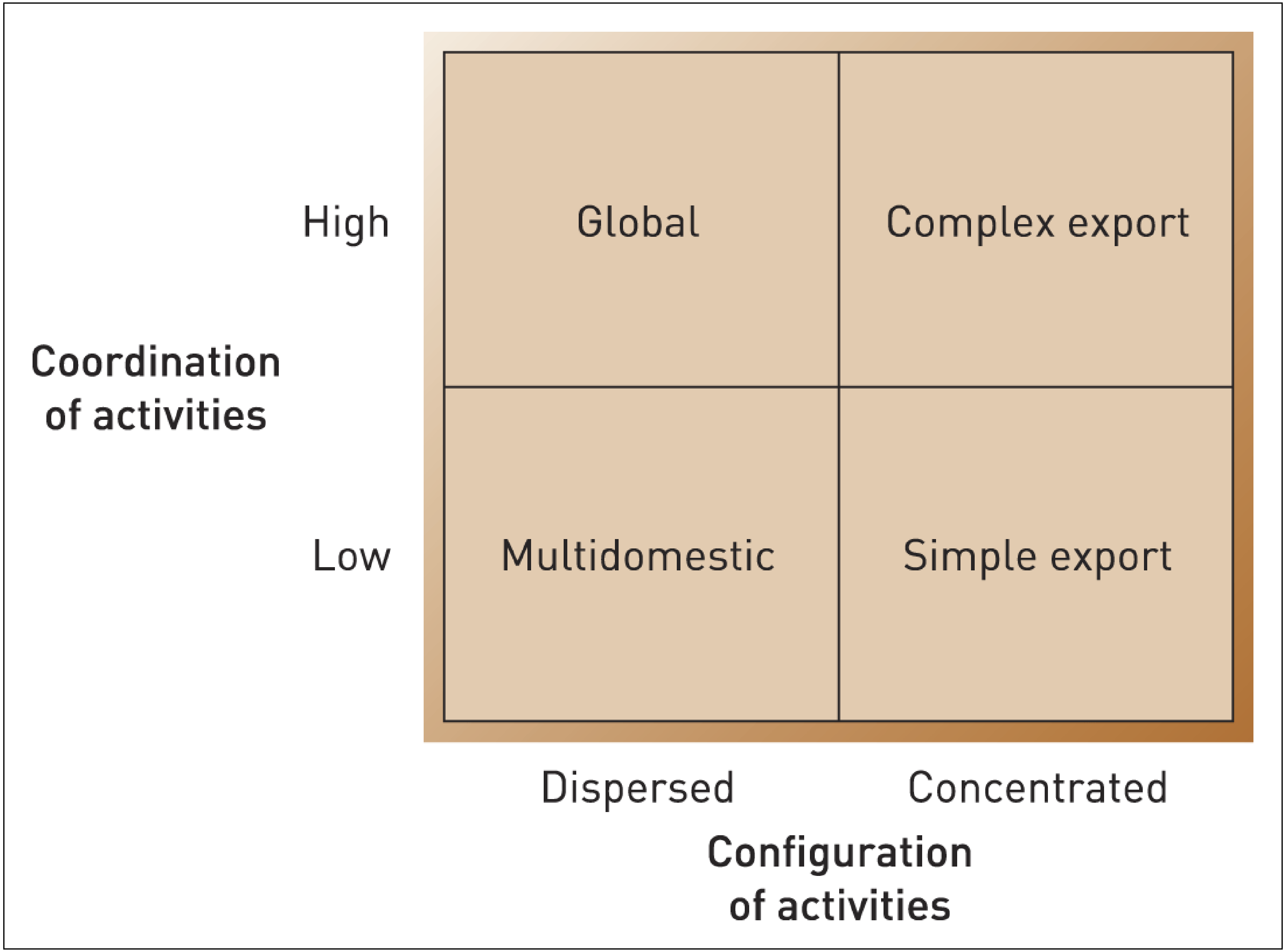
The advantages include:

- *Cost advantages* include labour costs, transportation and communications costs, taxation and investment incentives.
- *Unique local capabilities*.
- *National market characteristics and reputation.*

The global–local dilemma

The global–local dilemma relates to the extent to which products and services may be *standardised* across national boundaries or need to be *adapted* to meet the requirements of specific national markets.

International strategies



Market characteristics

Four elements of the *PESTEL framework* are particularly important in comparing countries for entry:

- *Political.* Political environments vary widely between countries and can alter rapidly.
- *Economic.* Key comparators are levels of Gross Domestic Product and disposable income which indicate the potential size of the market.
- *Social.* Factors like population characteristics and lifestyle as well as cultural differences.
- *Legal.* Countries vary widely in their legal regime.

The CAGE framework

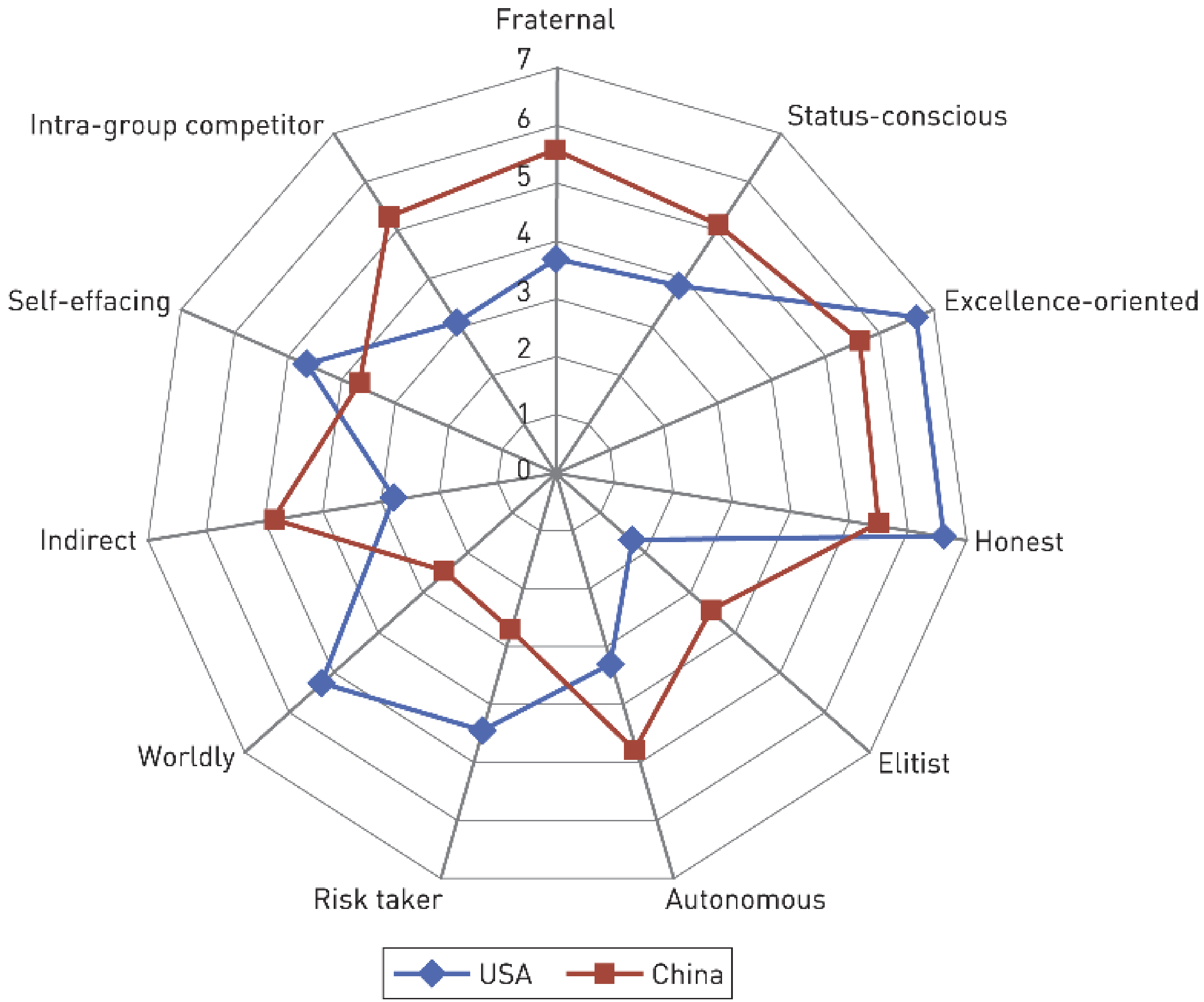
Cultural distance

Administrative and political distance

Geographic distance

Economic/ wealth distance

International cross-cultural comparison



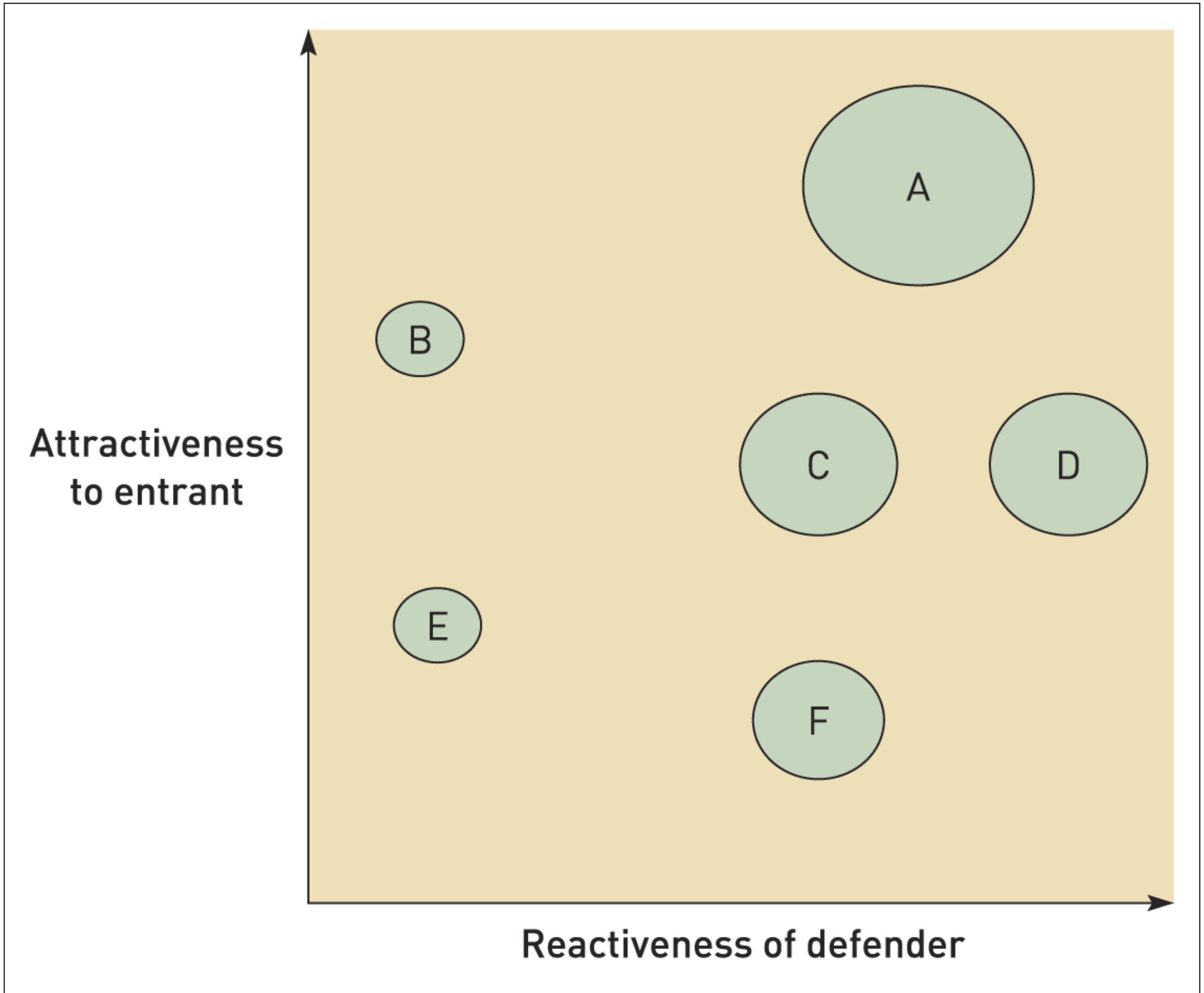
Note: Based on a … ted here).

Assessing country markets

Country markets can be assessed according to three criteria:

- *Market attractiveness to the new entrant*
- *The likelihood and extent of defenders' reaction*
- *Defenders' clout – the relative power of defenders to fight back.*

International competitor retaliation



The staged international expansion model

The staged international expansion model proposes a sequential process whereby companies gradually increase their commitment to newly entered markets, as they build market knowledge and capabilities.

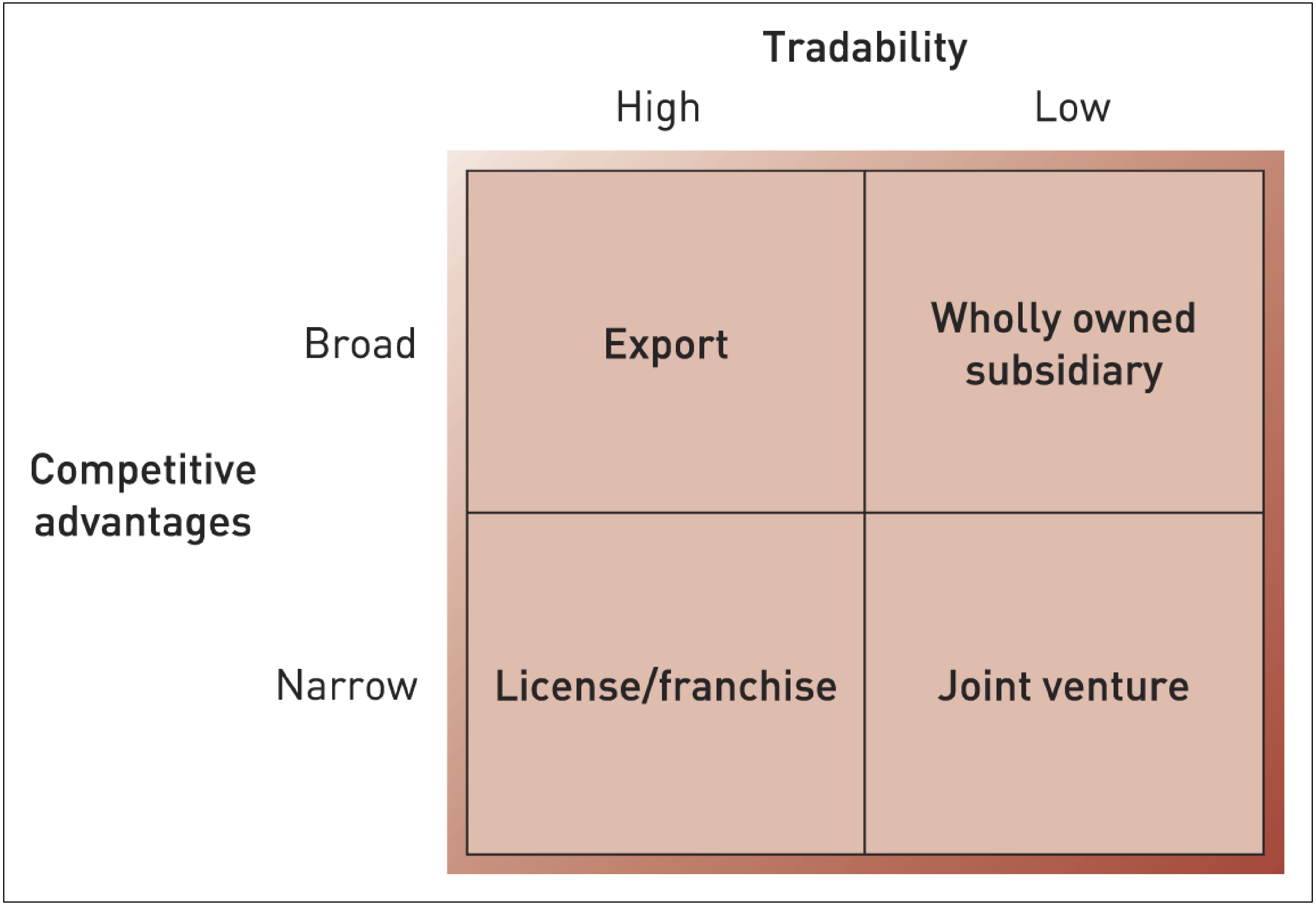
This is challenged by two phenomena:

- *'Born-global' firms* - new small firms that internationalise rapidly (usually in new technologies)
- *Emerging-country multinationals* - building unique capabilities in the home market but exploiting them in international markets very quickly.

Modes of entry

- Exporting
- Joint ventures and alliances
- Licensing
- Foreign direct investment

Modes of international market entry



Exporting

Advantages

- No need for operational facilities in host country
- Economies of scale in the home country
- Internet can facilitate exporting marketing opportunities

Disadvantages

- Lose any location advantages in the host country
- Dependence on export intermediaries
- Exposure to trade barriers
- Transportation costs

Joint ventures and alliances

Advantages

- Shared investment risk
- Complementary resources
- Maybe required for market entry

Disadvantages

- Difficult to find good partner
- Relationship management
- Loss of competitive advantage
- Difficult to integrate and coordinate

Licensing

Advantages

- Contractual source of income
- Limited economic and financial exposure

Disadvantages

- Difficult to identify good partner
- Loss of competitive advantage
- Limited benefits from host nation

Foreign direct investment

Advantages

- Full control
- Integration and coordination possible
- Rapid market entry through acquisitions
- Greenfield investments are possible and may be subsidised

Disadvantages

- Substantial investment and commitment
- Acquisitions may create integration/ coordination issues
- Greenfield investments are time consuming and unpredictable

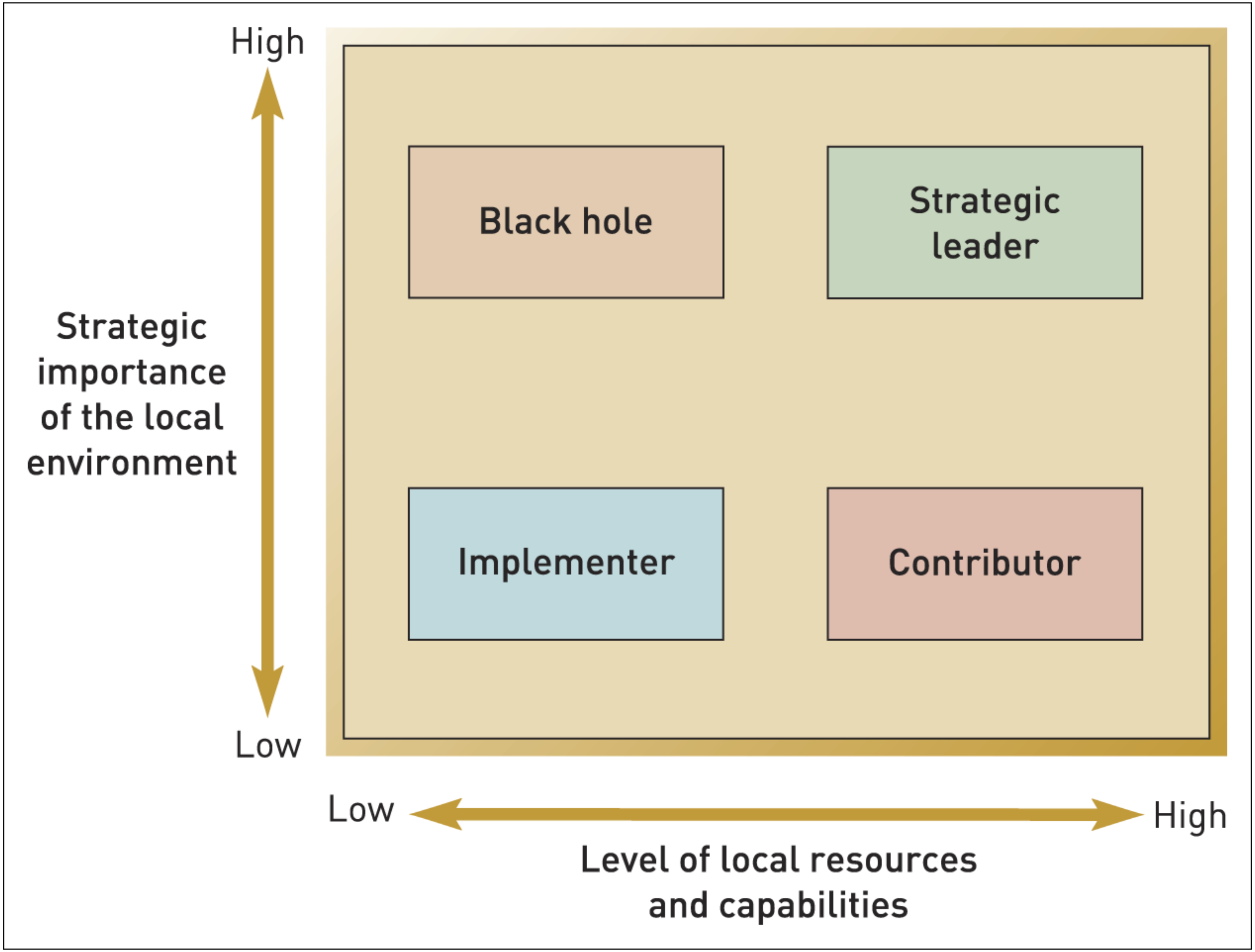
Internationalisation and performance

Inverted U-curve – complexity may erode the advantages of internationalisation

Service sector disadvantages – internationalisation may only work well for manufacturing firms

Internationalisation and product diversity

Roles in an international portfolio



BUSM3125 Strategic Management

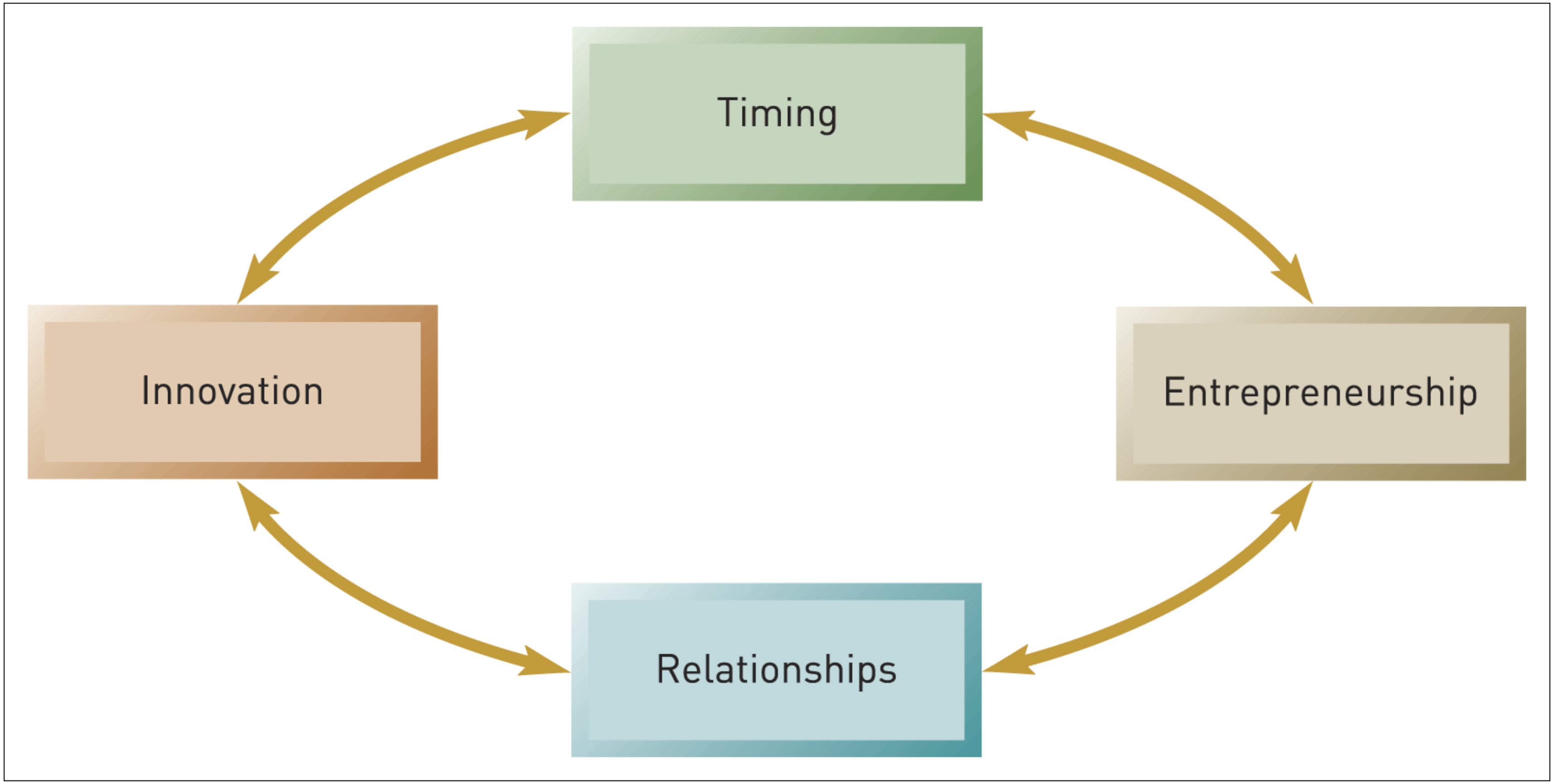
Week 10
Innovation & Entrepreneurship

Lecturer: Nigel Munro-Smith

www.rmit.edu.au

RMIT UNIVERSITY

The innovation–entrepreneurship framework



Innovation

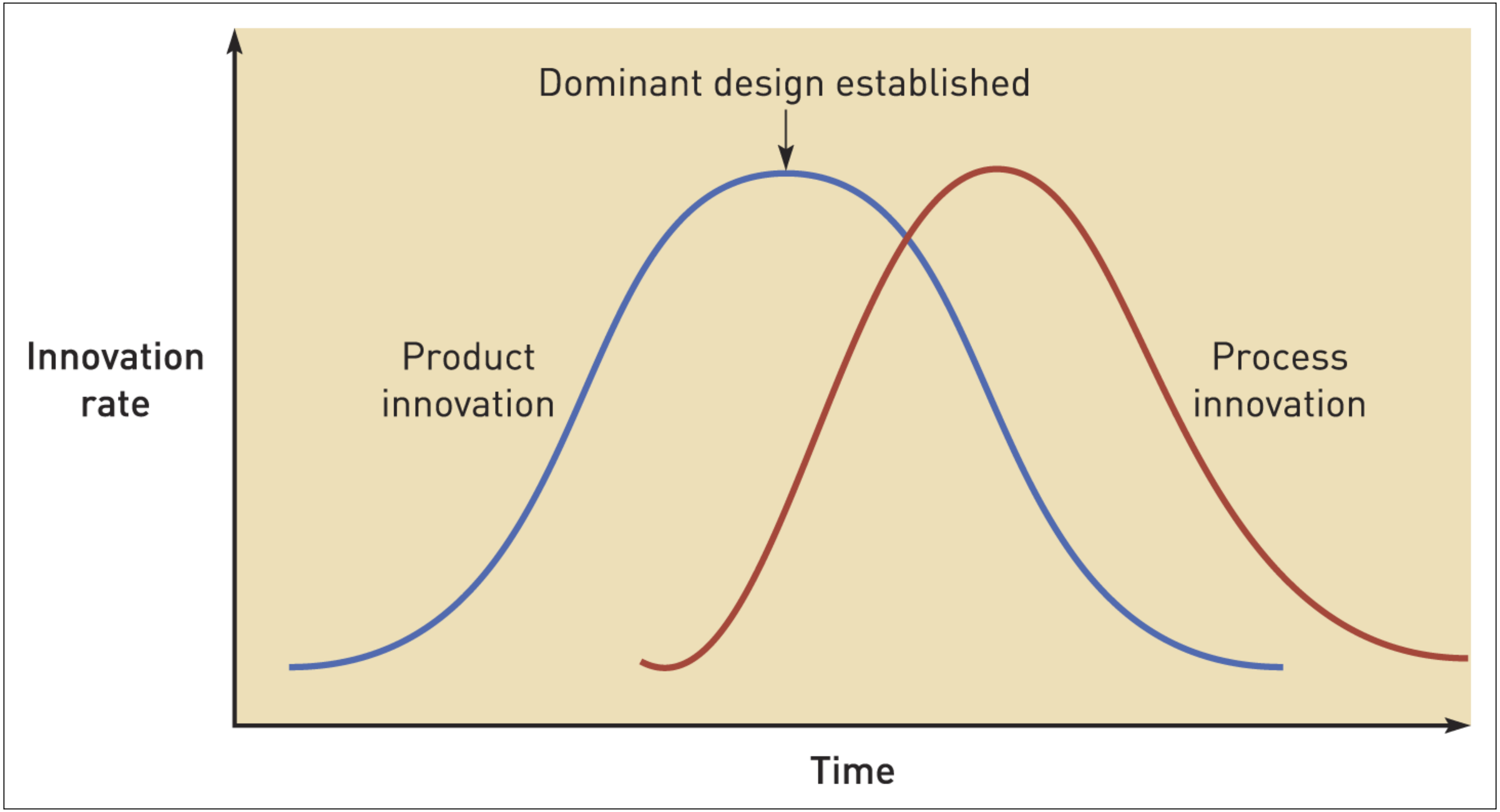
Innovation involves the conversion of new knowledge into a new product, process or service and the putting of this new product, process or service into actual use.

Innovation dilemmas (1)

Technology push or market pull:

- ***Technology push*** is the view that it is the new knowledge created by technologists or scientists that pushes the innovation process.
- ***Market pull*** is the view that it is the pull of users in the market that is responsible for innovation. ***'Lead users'*** are of particular importance.

Product and process innovation



Implications of product/ process innovation model

- New developing industries favour product innovation.
- Maturing industries favour process innovation.
- Small new entrants have greatest opportunities in early stages of an industry.
- Large incumbent firms have advantage in later stages.

Innovation dilemmas (2)

Product or process innovation:

- ***Product innovation*** relates to the final product (or service) to be sold, especially with regard to its features.
- ***Process innovation*** relates to the way in which a product is produced and distributed, especially with regard to improvements in cost or reliability.

Innovation dilemmas (3)

Open or closed innovation:

- ***'Closed' innovation*** – the traditional approach to innovation relying on the organisation's own internal resources – its own laboratories and marketing departments. Innovation is secretive, anxious to protect intellectual property and avoid competitors free-riding on ideas.
- ***'Open' innovation*** involves the deliberate import and export of knowledge by an organisation in order to accelerate and enhance its innovation. Exchanging ideas openly is seen as likely to produce better products more quickly.

Innovation dilemmas (4)

The balance between open and closed innovation depends on:

- *Competitive rivalry* – if it is intense closed innovation is better.
- *'One-shot' or continuous innovation* - open innovation is best where innovation is continuous.
- *Tight-linked innovation* – closed innovation is best in order to avoid inconsistent elements.

Platform leadership

Platform leadership refers to how large firms consciously nurture independent companies through successive waves of innovation around their basic technological ‘platform’.

Innovation dilemmas (5)

Technological or business-model innovation:

- ***A business model*** describes how an organisation manages incomes and costs through the structural arrangement of its activities.
- Business model innovation involves re-organising all the elements of a business into new combinations. This can involve innovation in:
  - *The product.* It may redefine what the product or service is and how it is produced.
  - *The selling.* It may change the way in which the organisation generates its revenues – its selling and distribution activities.

Innovation diffusion

Diffusion is the process by which innovations spread amongst users. This can vary with respect to both speed and extent.

Supply side determinants of diffusion

- Degree of improvement
- Compatibility
- Complexity
- Experimentation
- Relationship management

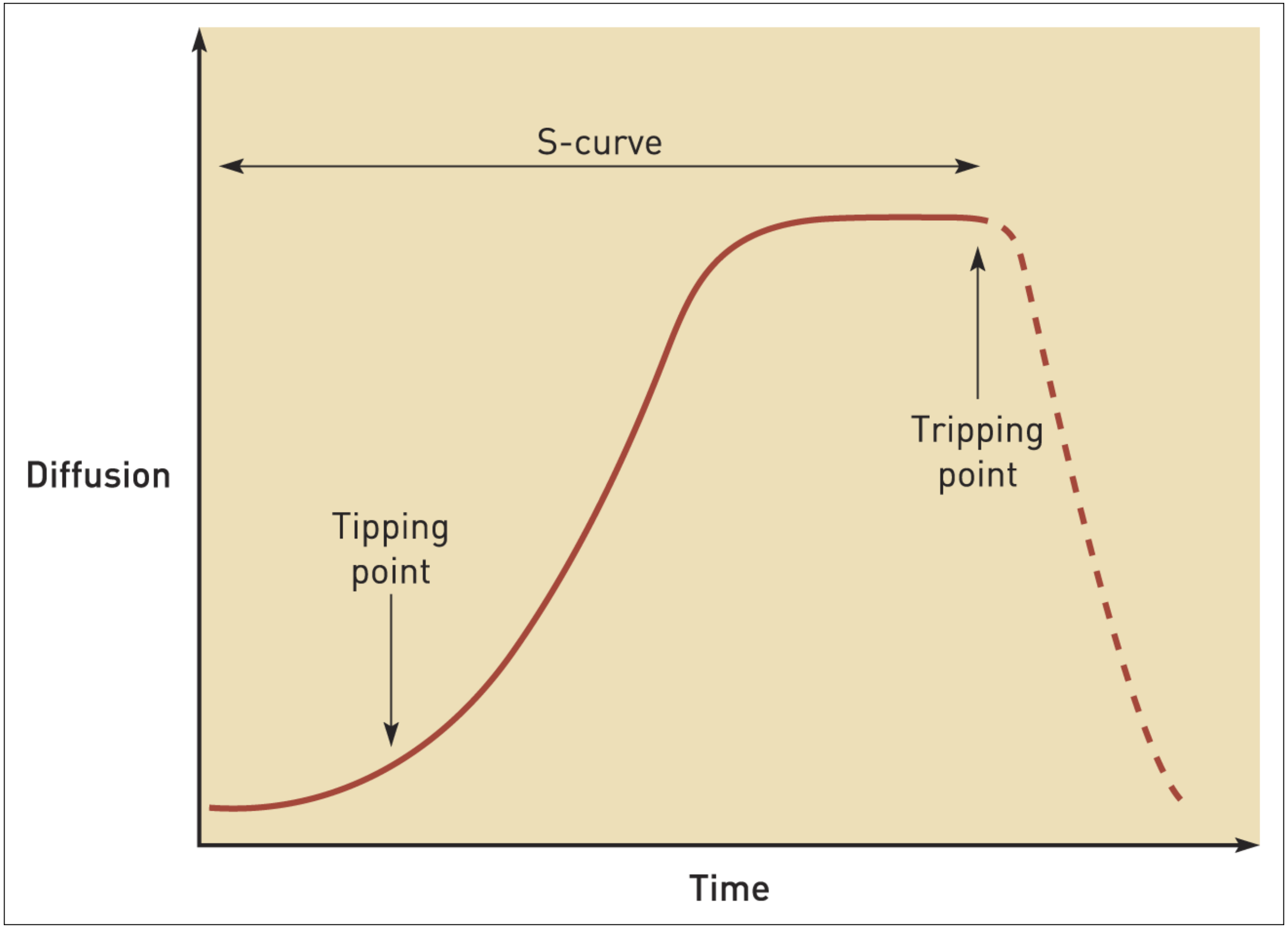
Demand side determinants of diffusion

Market awareness

Network effects

Customer innovativeness

The diffusion S-curve



Decision points indicated by S-curve

Timing of the tipping point

Timing of the plateau

Extent of diffusion

Timing of the tripping point

- ***A tipping point*** is where demand for a product or service suddenly takes off, with explosive growth.
- ***The tripping point*** is the opposite of the tipping point, when demand collapses – sometimes drastically but often more gradually.

What is a first-mover?

KEY CONCEPT

First-mover advantage exists where an organisation is better off than its competitors as a result of being first to market with a new product, process, or service. However there are also some disadvantages.

First-mover advantages

Experience curve benefits

Scale benefits

Pre-emption of scarce resources

Reputation

Buyer switching costs

Late-mover advantages

Free-riding – imitating pioneer's strategies but more cheaply

Learning – from the mistakes made by pioneers

First or second?

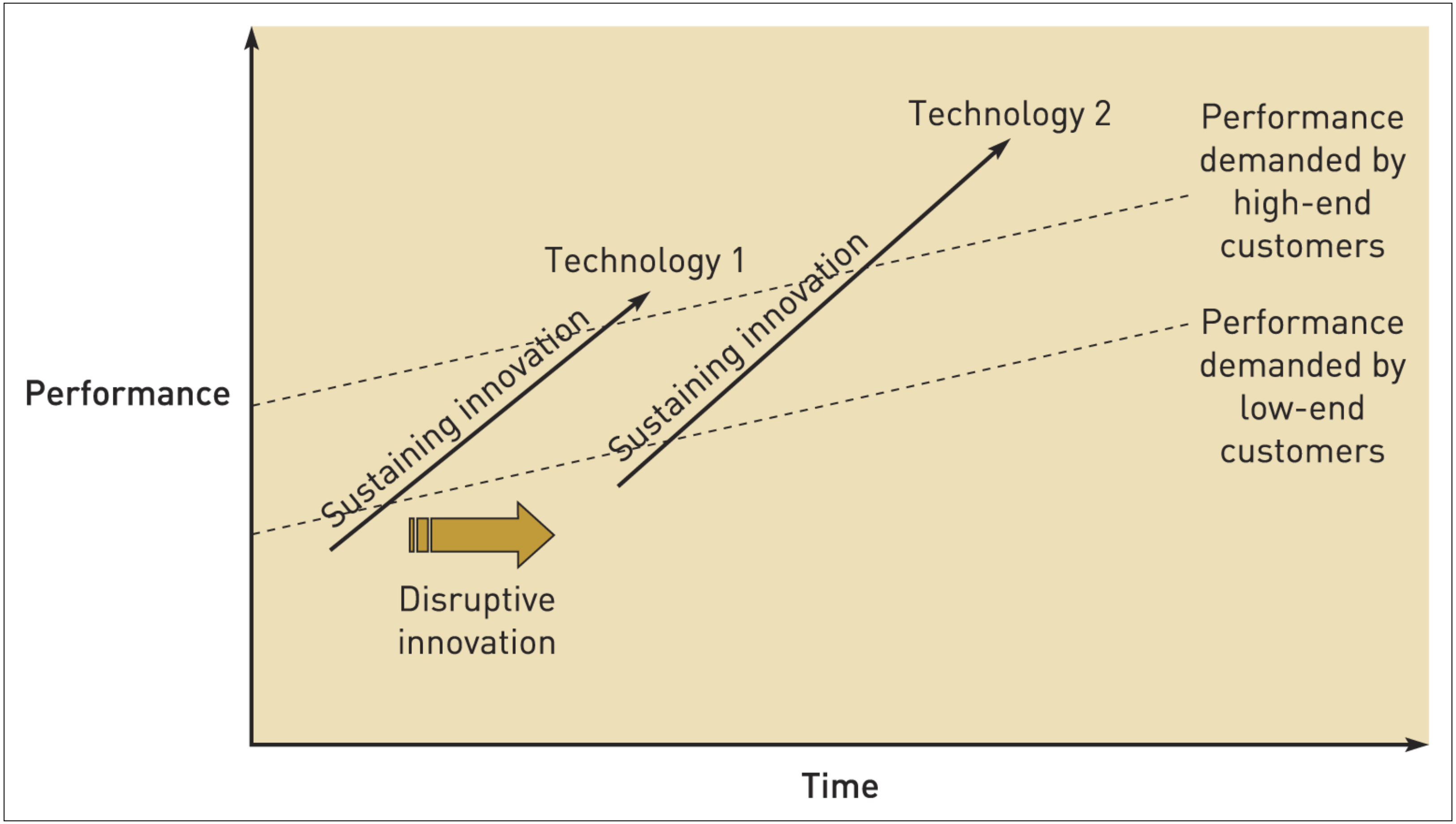
Three contextual factors in choosing between innovating and imitating:

- *Capacity for profit capture*
- *Complementary assets*
- *Fast-moving arenas*

What is a disruptive innovation?

Disruptive innovation creates substantial growth by offering a new performance trajectory that, even if initially inferior to the performance of existing technologies, has the potential to become markedly superior.

Disruptive innovation (1)

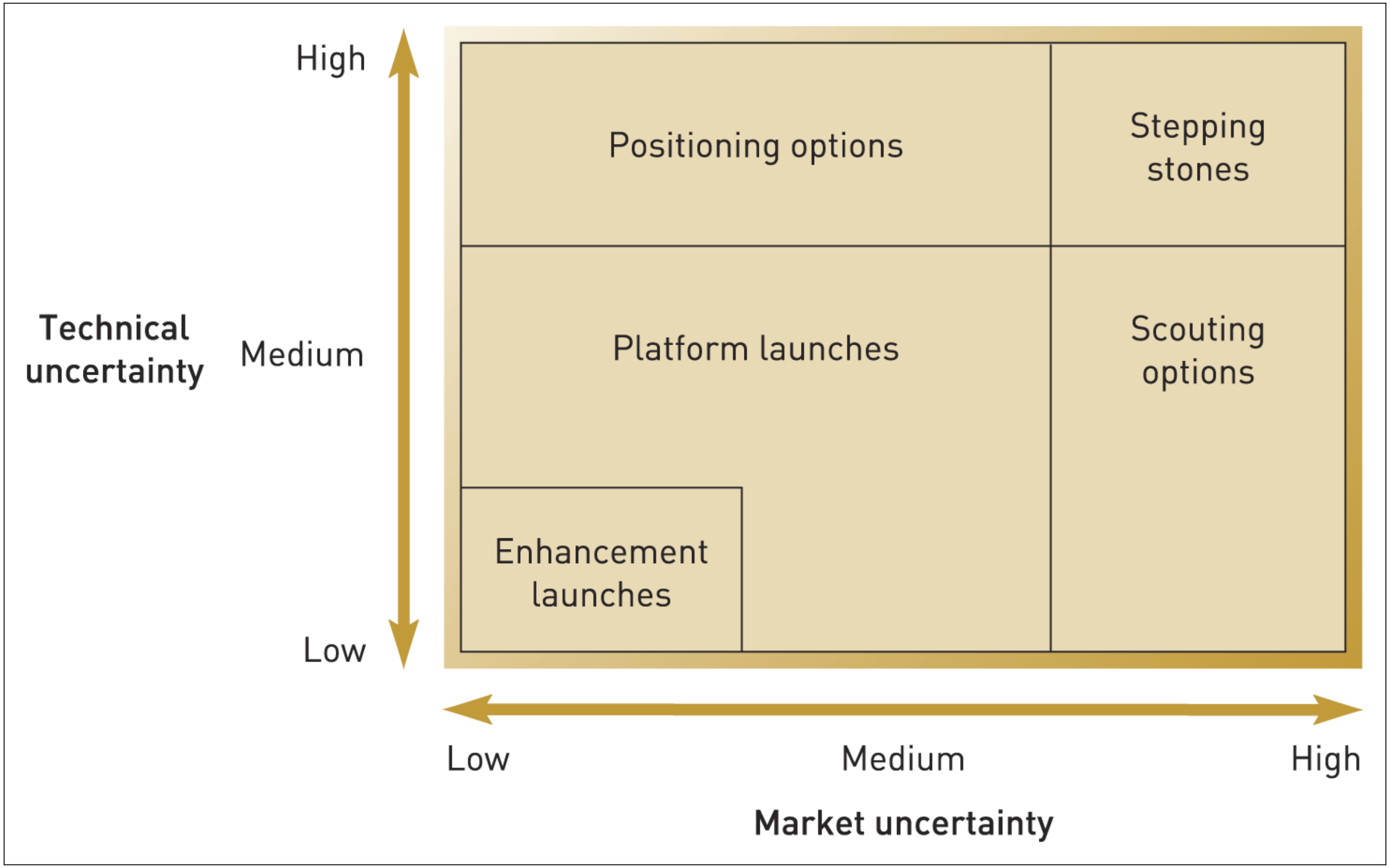


Disruptive innovation (2)

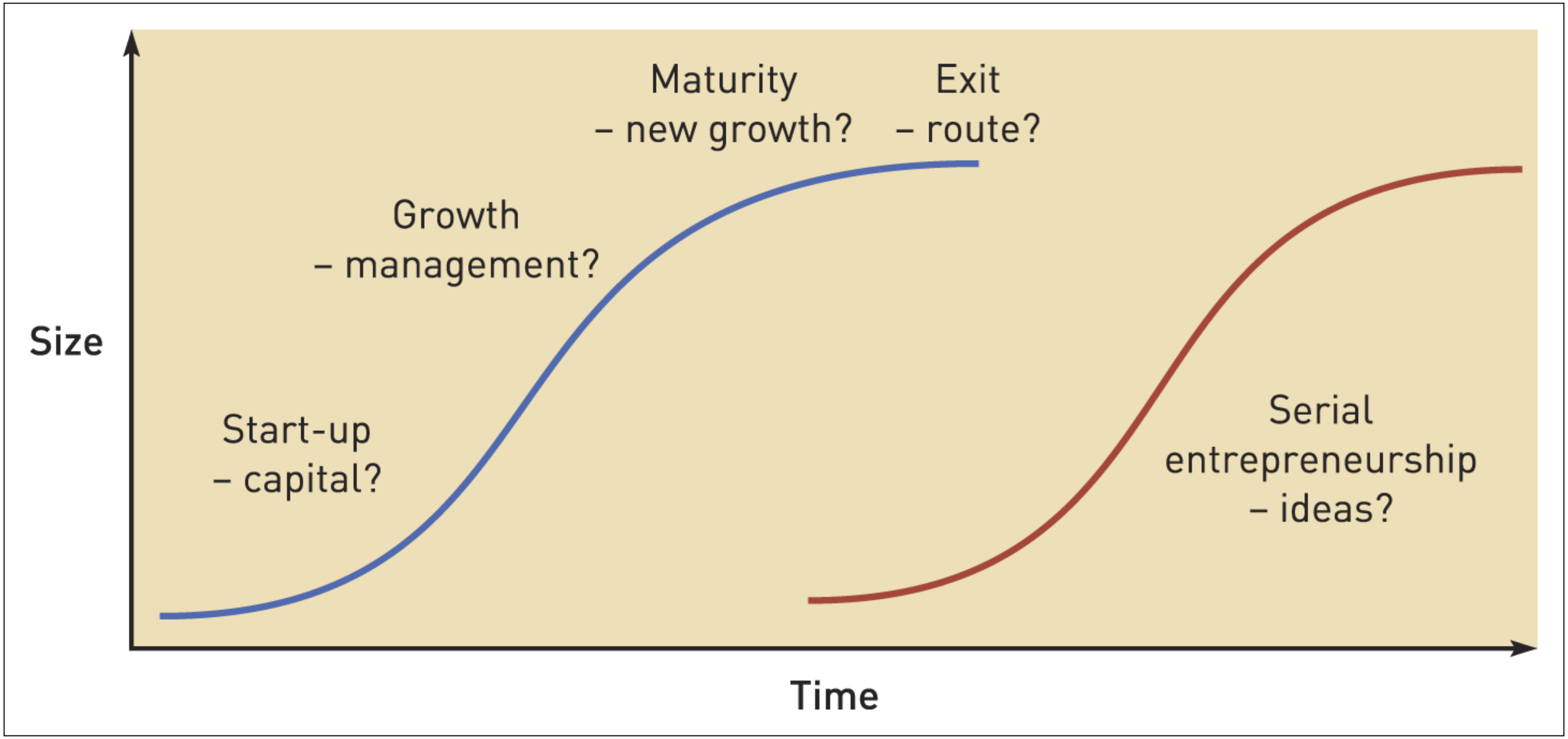
Incumbents can follow two policies to help keep them responsive to potentially disruptive innovations:

- *Develop a portfolio of real options* (limited investments that keep opportunities open for the future);
- *Develop new venture units* – small, innovative businesses with relative autonomy.

Portfolio of innovation options



Stages of entrepreneurial growth



Entrepreneurial relationships

Entrepreneurship often involves managing relationships with other companies:

- *Corporate venturing* – investing externally in new ventures thereby protecting early-stage ventures from internal bureaucracy and by spreading risk.
- *Spin-offs (or spin-outs)* – the generation of small innovative units from larger organisations.
- *Ecosystems* – fostering communities of connected suppliers, agents, distributors, franchisees, technology entrepreneurs and makers of complementary products.

Social entrepreneurship

Social entrepreneurs are individuals and groups who create independent organisations to mobilise ideas and resources to address social problems, typically earning revenues but on a not-for-profit basis.

Social entrepreneurship decisions

Social mission

Organisational form

Business model

BUSM3125 Strategic Management

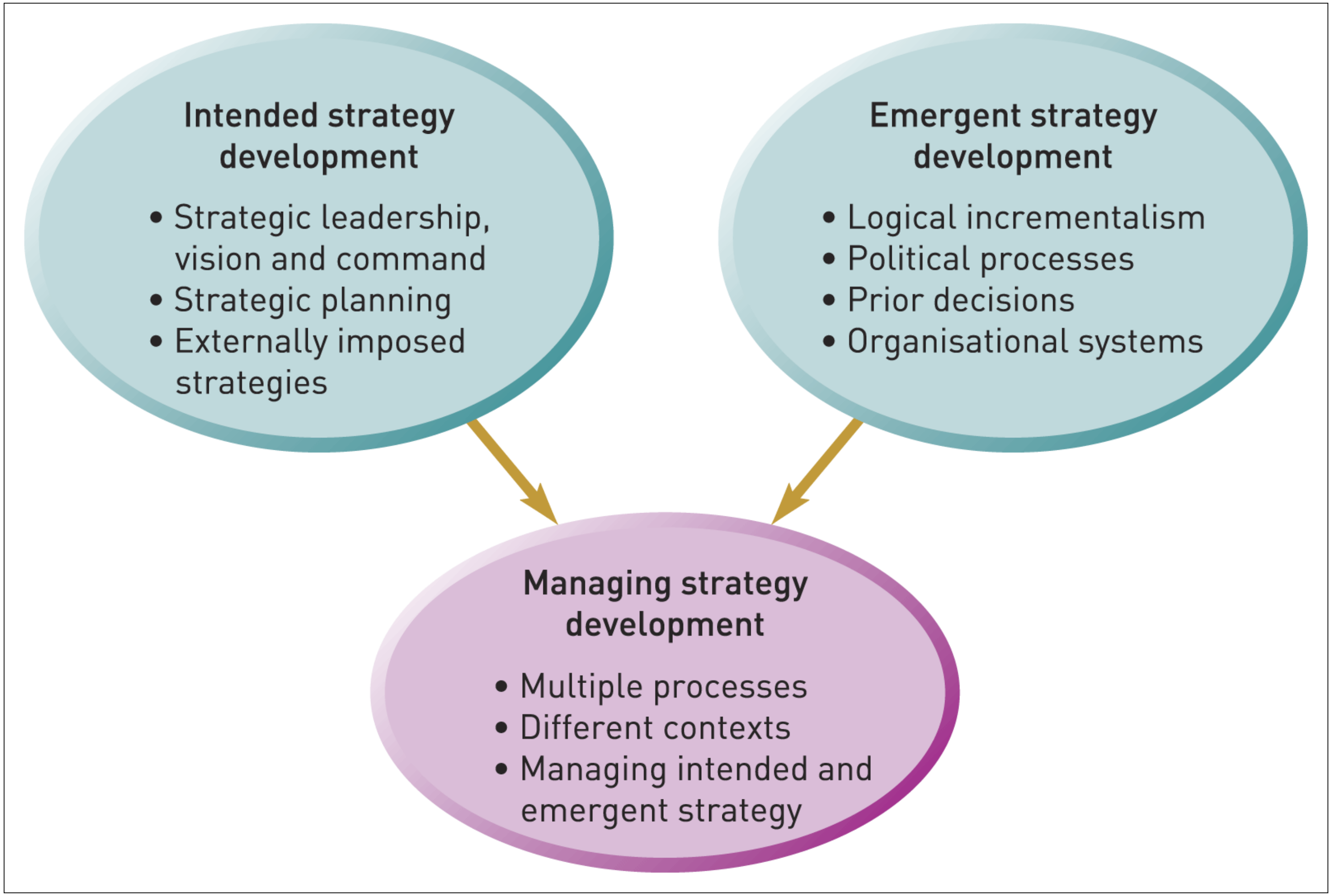
Weeks 11 & 12
Strategy Development & the Practice of Strategy

Lecturer: Nigel Munro-Smith

www.rmit.edu.au

RMIT UNIVERSITY

Strategy development processes



Intended strategy

An ***intended strategy*** is deliberately formulated or planned by managers.

This may be the result of strategic leadership, strategic planning or the external imposition of strategy.

Strategic planning systems

Strategic planning systems take the form of systematised, step-by-step, procedures to develop an organisation's strategy.

Stages of strategic planning

Initial guidelines from corporate centre

Business-level planning

Corporate-level integration of business plans

Financial and strategic targets agreed

The role of strategic planning

Strategic planning may play several roles within an organisation:

- ***Formulating strategy***: a means by which managers can understand strategic issues.
- ***Learning*** – a means of questioning and challenging the taken-for-granted.
- ***Co-ordinating*** business-level strategies within an overall corporate strategy.
- ***Communicating*** intended strategy and providing agreed objectives or strategic milestones.

Benefits of planning

There are additional psychological benefits:

- can provide opportunities for *involvement,*
- leading to a sense of ownership,
- provides *security* to managers and
- re-assures managers that the strategy *is 'logical'.*

Dangers associated with planning

- Confusing strategy with the plan.
- Detachment from reality.
- Paralysis by analysis.
- Lack of ownership.
- Dampening of innovation.

Externally imposed strategy

Strategies may be imposed by powerful external stakeholders:

- Government can determine strategy in public sector organisations (e.g. police).
- Government can shape strategy in regulated industries (e.g. utilities).
- Multinational companies may have elements of strategy imposed (e.g. forming local alliances).
- Business units may have their strategy imposed by head office (e.g. part of a global strategy).
- Venture capital firms may impose strategy on companies they buy into.

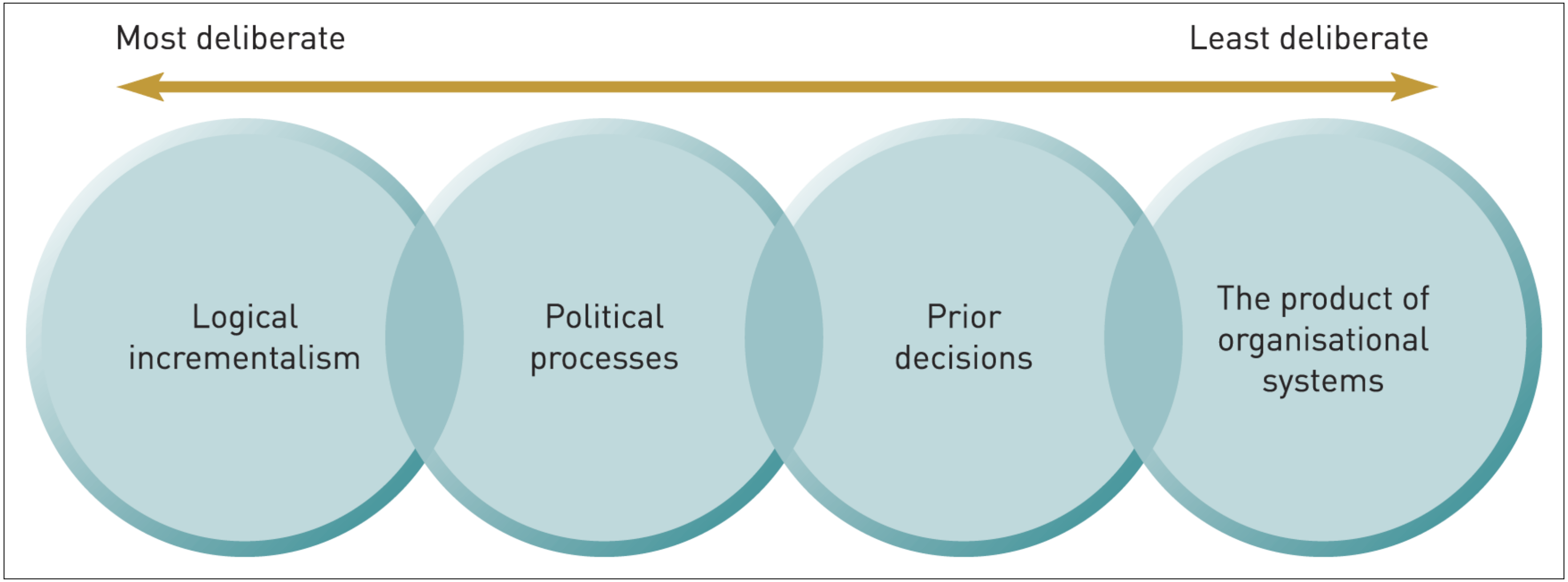
Emergent strategy

KEY CONCEPT

An ***emergent strategy*** comes about through a series of decisions - a pattern which becomes clear over time:

……not a 'grand plan', but a developing pattern in a stream of decisions.

Emergent strategy development processes



Logical incrementalism (1)

Logical incrementalism is the development of strategy by experimentation and learning – from partial commitments rather than through formulations of total strategies.

Logical incrementalism (2)

Four characteristics of logical incrementalism:

- ***Environmental uncertainty*** – constant scanning of the environment and adapting to change.
- ***General goals*** – avoiding too early commitment to specific goals.
- ***Experimentation*** – 'side bet' ventures to test out new strategies.
- ***Co-ordinating emergent strategies*** – drawing together an emerging pattern of strategy from subsystems.

Strategy and political processes

The political view of strategy development is, that strategies develop as the outcome of bargaining and negotiation among powerful interest groups (or stakeholders).

Strategy continuity and prior decisions

Continuity is likely to be a feature of strategy because of:

- ***Emergent strategy as managed continuity*** – each strategic move is informed by the rationale of the previous move.
- ***Path-dependent strategy development*** – strategic decisions can be a result of historical pre-conditions.
- ***Organisation culture and strategy development*** – strategy is the outcome of the taken-for-granted assumptions, routines and behaviours in organisations.

Strategy and organisational systems

- Strategy development = the outcome of *managers making sense* of and dealing with strategic issues by applying established ways of doing things.
- Strategy development is influenced by the *systems and routines* with which managers are familiar in their particular context.

Challenges for managing strategy development

- *Multiple strategy development processes* – most organisations will develop strategy involving several approaches.
- *There is no one right* way to develop strategy but the context can be important.
- *Organisational ambidexterity* – *exploiting* existing capabilities while *exploring* new capabilities.

Perceptions of strategy development

Perceptions of strategy development – strategy will be seen differently by different people:

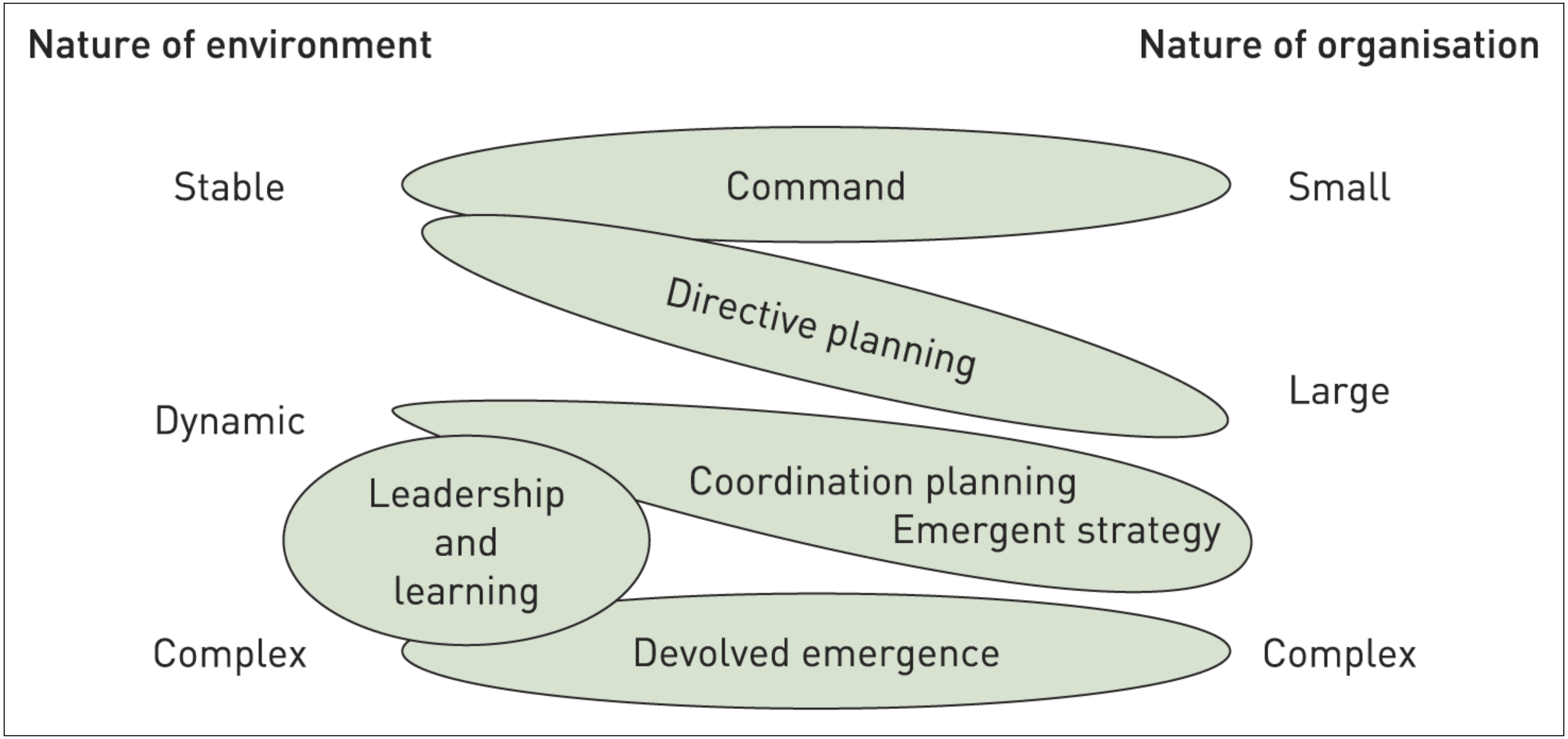
- Senior executives see strategy in terms of intended, rational, analytic planned processes, whereas middle managers see strategy as the result of cultural and political processes.
- Managers in public-sector organisations see strategy as externally imposed because their organisations are answerable to government bodies.
- People who work in family businesses see more evidence of the influence of powerful individuals, who may be the owners of the businesses.

Strategy development and organisational context

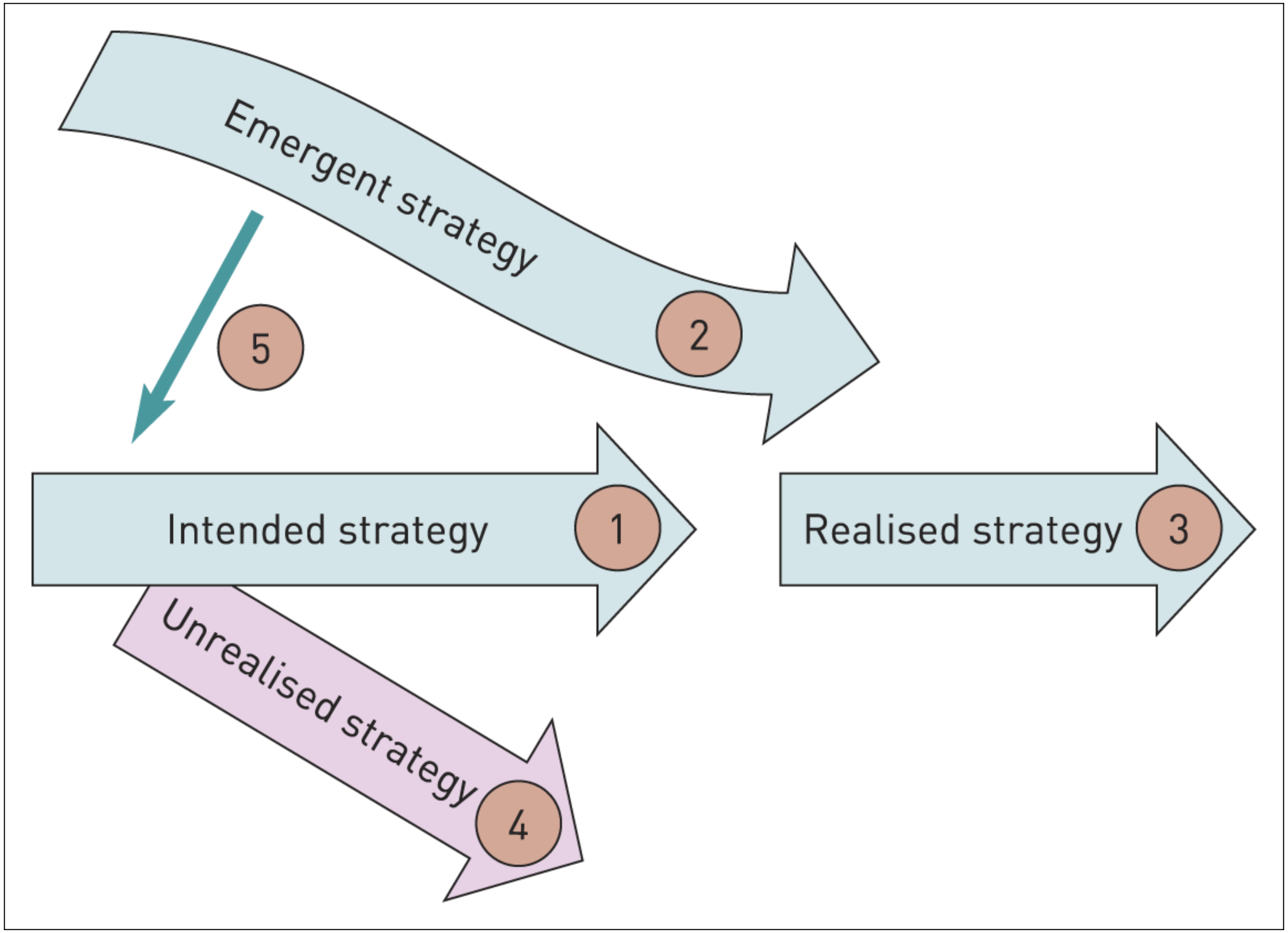
Strategy development processes will differ according to context:

- *Organisational characteristics differ* – in size, technology and diversity.
- *The nature of the environment differs* – it may be stable or dynamic; simple or complex.
- *Life cycle effects* – development processes will evolve and change over the life cycle.

Strategy development contexts



Strategy development routes

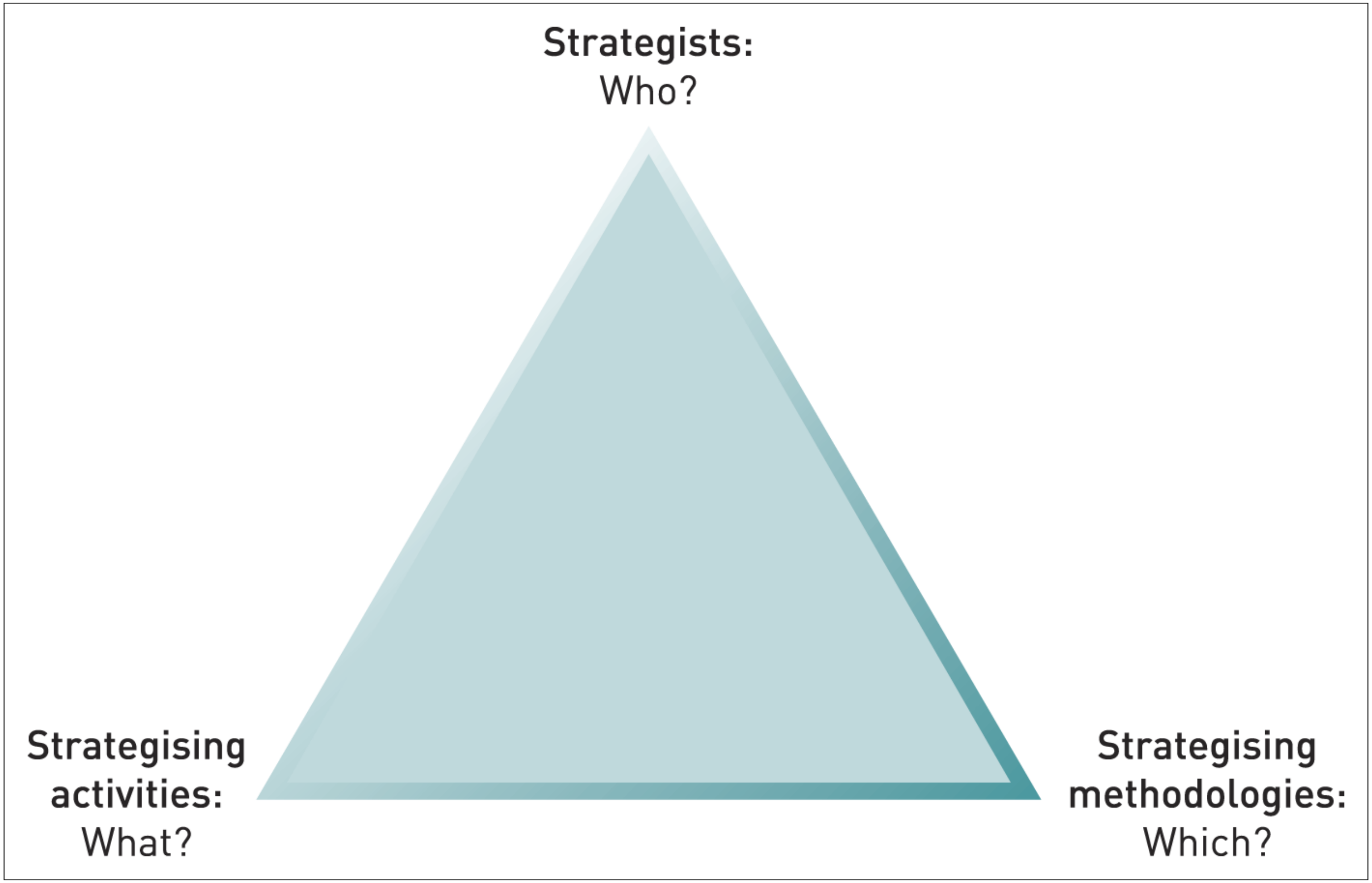


Managing intended and emergent strategy

There are four important implications:

- ***Awareness*** – is the intended strategy actually being realised?
- ***The role of strategic planning*** – needs to be clear (and it may be more about co-ordinating emergent strategies).
- ***Managing emergent strategy*** – even established routines and cultural norms can be managed.
- ***The challenge of strategic drift*** – recognising that strategy can come adrift and making the required changes in culture and the paradigm.

The pyramid of strategy practice



The strategists: Who?
(1) top managers and directors

Chief Executive Officer

Top management team

Non-executive directors

The strategists: Who?
(2) strategic planners

Strategic planners, sometimes known as strategy directors or corporate development managers are managers with a formal responsibility for co-ordinating the strategy process.

Tasks performed by strategic planners

Information and analysis

Managers of the strategy process

Special projects

The strategists: Who?
(3) middle managers

Four roles middle managers have in relation to the management of strategy:

- *Information source – knowledge and experience;*
- *'Sense-making' of strategy – translating strategy into a message that is locally relevant;*
- *Reinterpretation and adjustment of strategic responses as events unfold*;
- *Champions of ideas that can be the foundation of new strategies.*

Middle managers and strategy

Middle managers increase their influence on strategy when they have:

- *Key organisational positions.*
- *Access to organisational networks.*
- *Access to the organisation's 'strategic conversation'.*

The strategists: Who?
(4) roles of strategy consultants

Analysing, prioritising,
and generating options

Transferring knowledge

Promoting strategic decisions

Implementing strategic change

Strategy consultants

Three ways to improve outcomes from strategy consulting:

- *Professionalise purchasing* of consulting services;
- *Develop supervisory skills* to manage consulting projects;
- *Partner effectively* – project teams should include a mix of consultants and managers from the client organisation.

Strategy skills

Three qualities managers need to contribute to high-level strategy-making:

- *Mastery of analytical concepts and techniques;*
- *Social and influencing skills;*
- *Group acceptance as a player – respect.*

Strategic issue-selling

Strategic issue-selling is the process of gaining the attention and support of top management and other important stakeholders for strategic issues.

Guidelines for strategic decision-making

- Build multiple simultaneous alternatives
- Track real-time information
- Seek the views of trusted advisors
- Aim for consensus, but not at any cost (challenge through conflict can be useful)
- Harness intuition

Guidelines for developing intuitive capabilities

- Recognise the importance of intuition (i.e. ‘open up the closet’)
- Don’t mix up your ‘I’s (instinct, insight and intuition)
- Elicit good feedback
- Get a feel for your batting average – benchmark your intuitions
- Use imagery not just words
- Play devil’s advocate
- Capture and validate your intuitions

Strategy methodologies

Strategy workshops

Strategy projects

Hypothesis testing

Business cases and strategic plans

Strategy workshops

Strategy workshops (or strategy away-days) involve groups of executives working intensively for one or two days, often away from the office, on organisational strategy.

Strategy workshops

Workshops designed to question existing strategy or develop new strategy should:

- Employ *strategy concepts* and tools.
- Use a *specialist facilitator* to focus discussion and ensure participants contribute.
- Enjoy the visible *support of the workshop sponsor* (who may well be the CEO).
- *Diminish everyday functional and hierarchical roles* – to remove inhibitions and get away from normal routines.

Strategy workshops and action

If workshops are going to lead to effective action then there should be:

- *an agreed list of actions which are then widely circulated,*
- *project groups established to follow up,*
- *nesting of workshops in a series; and*
- *visible commitment by top management to workshop outcomes.*

Strategy projects

Strategy projects involve teams of people assigned to work on particular strategic issues over a defined period of time.

Strategy projects – requirements

A clear brief or mandate

Top management commitment

Milestones and reviews

Appropriate resources

Hypothesis testing

Hypothesis testing is a methodology used particularly in strategy projects for setting priorities in investigating issues and options.

Business cases

- ***A business case*** provides the data and argument in support of a particular strategy proposal, e.g. investment in new equipment.
- A business case should:
  - *Focus on strategic needs.*
  - *Be supported with key data.*
  - *Provide a clear rationale.*
  - *Demonstrate solutions and actions.*
  - *Provide clear progress measures.*

Strategic plans

- ***A strategic plan*** provides the data and argument in support of a strategy for the whole organisation.

- A strategic plan has the following elements:
  - *Mission, goals and objectives statement.*
  - *Environmental analysis.*
  - *Capability analysis.*
  - *Proposed strategy.*
  - *Resources required.*
  - *Required changes in structures, systems and culture.*