Unit 1.1 – Strategy & Organizational Systems Model

Introduction:

SPEAKER: Who do you want to be in life?

We all ask ourselves this question throughout our lives, and sometimes we change our minds about who we want to be and what we want to do.

To answer this question, we think about what we're good at.

We think about the opportunities that we have, and we think about where we're most likely to succeed or most likely to fail.

In the process of answering this question of who we want to be in life, we rule out some things; and we identify a set of possibilities.

In the process, we usually identify too many things, more than we could possibly do, and we need to narrow our vision of ourselves for the future to avoid failure due to lack of focus.

Those of us most likely to succeed select realistic possibilities, we define our dream, we find our focus, and we make good decisions that help us chase our dreams with likely success.

Organizations need to do the same kinds of things to be successful.

Organizations ask what they want to be, and they continue to ask this question as they evolve.

Sometimes organizations change their minds about what they want to be and about what they want to do.

To answer this question of what they want to be, organizations think about what they're good at, what opportunities they have, and where they would be likely to succeed or fail.

In the process, organizations rule some things out; and they identify a set of possibilities.

In the process, they often identify too many things, more than they could do, and they need to narrow to avoid failure due to lack of focus.

The organizations that are most likely to succeed select realistic possibilities, they define their dream, they find their focus, and they make good decisions that help them chase their dreams with likely success.

This is what organizational strategy does for an organization.

We will begin by discussing this as defining an organization's mission, vision, and strategic objectives and then finding and following the path to success.

Enduring Ideas:

As we talk about organizational strategy, please keep in mind several important enduring ideas.

First, organizations use strategy as an attempt to find and gain competitive advantage.

Second, organizational strategy defines the interface between an organization and its external environment.

Organizations attempt to develop strategy that will produce a good match between who and what they are and the environment in which they operate.

Effective strategies require alignment of strategies throughout the organization.

Each unit must have an appropriate strategy and execute it effectively.

And the contributions of each unit need to be aligned so they feed upward to drive overall organizational success.

Strategy creates an identity for organizations.

It creates a focus for organizations.

Strategy defines success for organizations and it identifies the path to achieving that success.

Does Strategy Matter?

There has been quite a bit of research on organizational strategy.

The big question asked by this research has been does strategy matter?

Organizations spend a lot of time, energy, and resources developing and executing on strategy; so it would be nice to know whether or not it makes a difference.

Let's take a look at the results of some of that research.

The first thing that comes through very clearly is that organizations that have a well developed strategic plan have better focus.

The second thing that comes through is that the behavior of the members of organizations is much more systematic, it's orderly, it's intentional, it's focused on that mission.

A third thing that is clear is that a good strategic plan informs the deployment of organizational resources.

Because of that, they tend to be used more effectively and more efficiently.

Much of what members of organizations do every day is to make decisions -- decisions about what to work on, decisions about what to invest in, decisions about priorities, decisions about assignments.

The research shows that organizations that have good strategic plans make better decisions.

The strategic plan provides a reference point.

If I understand my strategic plan, any time I make a decision when I look at the alternatives, when I consider the criteria, when I make a choice of what to pursue, the strategy informs me and helps me understand what the appropriate decision would be.

Related to this is the issue of guesswork.

Now we usually don't call it guesswork.

We usually call it the art of management decision making, but there is a matter of guesswork here.

When these decisions are made, organizations that have good strategic plans require less guessing, less of the art, more of the science.

Managers who make decisions in organizations report that they are comfortable that they are making appropriate decisions because their decisions are anchored in strategic objectives.

The research also shows that organizations that have good strategic plans make less bad decisions.

The decision making is guided better.

The decisions that are made are better.

Better means that the decisions are more likely to lead to organizational success.

And finally, at a higher level, at a more macro level, organizations that have a good strategic plan are more likely to be identified externally as successful organizations.

They're more likely to outperform their competitors.

In short, organizations that have a good strategic plan are likely to gain competitive advantage from the guidance provided by that strategic plan.

Why Use Models?

We're going to use a model to help guide us as we address the topics in this course.

Organizations use models.

We're going to look at an organizational systems model and focus on the various systems in an organization that come into play as organizations pursue success.

That leads to the question why models?

What is the purpose of using a model in this course, in an organization, in a sports team?

What's the purpose of using a model?

First, a model can provide us with a framework that can help us understand very large or very complex issues.

Issues that could be difficult to digest in their entirety without a model that helps us identify and understand the pieces.

Models can help us break very complex issues into discrete pieces that are manageable pieces, manageable to learn about and manageable to use.

Very importantly for a course like this, models can help us integrate new knowledge that we acquire with our existing knowledge and beliefs.

Models can help us integrate our new experiences with our previous experiences and with our previously acquired knowledge.

So models can provide a very important integrating and sense making function for us.

We're using a model in this course to help us achieve these ends -- to help you learn, to help you bring even more value from your existing knowledge and your existing experiences, and to help frame your future experiences to help you better understand them and to manage them more effectively.

Organizational Systems Model:

A major theme in this course is leadership - individuals as leaders and organizations as playing leadership roles.

Our model, our systems model, defines the eight major topics that we address in this course.

Leadership is that overriding topic, and the other topics are shown in this graphic.

Major focus for us is the external environment and how we can adapt to that environment using the components of this model.

External Environments:

The external environment is very complex.

One of the things that organizations need to do as they develop and execute strategic plans is to pay a lot of attention to their external environment and that requires research on their external environment.

Some of the factors that organizations need to look at as they understand their context, their external environment, might include government regulators, government enforcers, legal issues, might include society in general, could include the technology that the organization uses and interfaces with.

Certainly for organizations, the external economy plays a major role.

The things that organizations can do and should do can be very different depending on external economic conditions.

Shareholders and other stakeholders have expectations of organizations.

They're part of the external environment that cannot be ignored as organizations make their decisions.

Organizations also have to think about their competitors -- what they have done, what they're doing now, what they're likely to do in the future.

And most importantly, organizations need to think about their customers - what your relationship has been with them in the past, what it is today, and what it needs to be in the future.

So the external environment can be very complicated.

And the goal of strategy is to understand that external environment and find a fit for our organization that works well given the past, current, and future external environment.

Unit 1.2 - The Strategic Management Process

Strategic Management Process:

SPEAKER: We're going to spend a fair amount of time on the strategic management process. We have a model that will help guide us through the five primary steps of strategic planning, and we will spend a fair amount of time looking at each of these stages of the strategic planning process. We'll talk first about establishing mission, vision, and strategic objectives.

We'll talk about how to assess our current and potential future reality through a SWOT analysis that looks at the strengths, weaknesses, opportunities, and threats facing the organization. Then we'll formulate the grand strategy, an operational plan, for the organization. Following that, we'll talk about how we implement a strategy, how we execute on our plan. And finally we'll talk about ways to maintain strategic control to make sure that we are making progress toward achieving our defined success and that we're doing so in the specified manner. We'll take a look at each of these five stages of the strategic management process.

The Process:

Organizations typically begin the strategic planning process by establishing a mission, a vision, and a set of strategic objectives.

Step 1: Establish the Mission, Vision, and Strategic Objectives:

A mission statement is an organization's response to the basic question why do we exist? Who are we? The mission statement should specify why the organization exists. A mission statement, if it's good, should take into effect the internal capabilities of the organization and the external realities of the environment in which the organization exists. A good mission statement should reflect the interests and values of the organization's stakeholders including those inside and outside of the organization.

Just a note, we're going to talk about mission and vision statements as separate statements. Quite a few organizations, however, combine their mission and vision statements; and that's just fine as long as a combined mission and vision statement includes both the components of a mission and the components of a vision.

So again mission statement specifies to those inside and outside the organization why the organization exists, and it defines what the organization is.

UW-Madison's Mission Statement:

Every organization and every major unit in an organization should have a mission statement. Let's take a look at some potential mission statements for some organizations that I know very well. And as I describe these potential mission statements to you, I'd like you to think about the extent to which they communicate effectively why the organization exists.

Let's look at the University of Wisconsin-Madison and let's try a mission statement that sounds like the following. The University of Wisconsin-Madison exists to develop and disseminate knowledge. By doing so, we will enhance the quality of life for all and enhance the effectiveness of organizations and the well-being of society.

Does that mission statement communicate clearly to you? And I have another question for you about this mission statement. Does this differentiate UW-Madison from any other university? These are things we will need to think about as we develop mission statements for our own organization.

Now, let me try another mission statement that has been proposed for the University of Wisconsin-Madison. This one goes like this. The University of Wisconsin-Madison will provide a learning environment in which faculty, staff, and students can discover, examine critically, preserve and transmit the knowledge, wisdom, and values that will help ensure the survival of this and future generations and improve the quality of life for all.

Which of those two potential mission statements makes more sense to you? More importantly, how could you write an even better mission statement for the University of Wisconsin-Madison? A good mission statement defines the domain of the organization. And when we define a domain, we talk about what's included and what is excluded from the focus of the organization.

The first of these mission statements, which is helpful but not quite there yet, makes clear that the university exists to develop knowledge and to disseminate knowledge; and it also identifies the purpose of developing and disseminating knowledge. And that purpose is focused on the impact that the developed knowledge and the disseminated knowledge can have on individuals and organizations in society.

School of Business Mission Statement:

Let's try a mission statement for the Wisconsin School of Business at the University of Wisconsin-Madison, a subunit of the overall university. The Wisconsin School of Business exists to develop and disseminate organizational knowledge that will enhance the effectiveness of organizations and their members.

That's a more narrow mission statement. It appears to be compatible with the UW-Madison mission statement because the mission statement for the Wisconsin School of Business also focuses on developing knowledge and disseminating knowledge for the benefit of others. But we've narrowed it a bit by specifying that we're going to focus on developing and disseminating organizational knowledge, particularly business knowledge.

Again I would invite you to ask does this statement give you a good understanding of why the organization exists and the domain of activities that the Wisconsin School of Business is likely to pursue? How could you make it better?

Facebook's Mission Statement:

Let's take a look at some for-profit business organizations and what they've done with mission statements. Let's start by taking a look at Facebook and their published mission statement. Facebook says that it's the Facebook mission to give people the power to share and to make the world more open and more connected. Given that mission statement, there is a very wide range of activities that Facebook might choose to engage in. Anything that enables people to share, anything that might make the world more open, anything that might help connect people in the world would be open as potential legitimate activities for Facebook to pursue given this mission statement.

Apple's Mission 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. Now, built into the Apple mission statement is the word best. This is making a public statement that Apple should not choose to pursue activities unless they can produce best in class results. Apple says that is a significant part of their mission, to pursue the best in a particular domain. The domain? Personal computing. The audience? Students, educators, creative professionals, and other consumers around the world. This mission statement should inform decision makers in the organization what is legitimate to pursue and what should not be pursued.

The Vision Statement:

Now let's take a look at vision statements. Remember that a mission statement specifies why an organization exists. A vision statement on the other hand is forward looking. A vision statement focuses on where an organization hopes to go and what they hope to achieve in the future. Usually vision statements will reference important benchmarks, important achievements, important metrics that the organization relies on.

Usually vision statements will have stretch goals in order to inspire, in order to motivate the members of the organization. Typically a vision statement will have multiple time points. Very common would be a one-year, three-year, and five-year time point where the organization says a year from now, this is where we hope to be;

three years from now, we hope to be further and this is where we hope to be in three years; five years from now, this is where we hope to be.

I will note however that even though one, three, and five years are common time frames for vision statements, the appropriate time frame depends on the organization. To a brand new start-up organization, a vision for the future could be one month, three months, and five months in the future.

So when organizations develop their vision, they want to focus on the things that are most important to them. They want to push themselves. They want to inspire. And they want to focus on time points that make the most sense to people both inside and outside the organization.

Zappos:

Let's take a look at the vision statement specified by Zappos. The published vision statement of Zappos says, one day 30% of all retail transactions in the U.S. will be done on-line. When that is the case, people will buy from the company with the best service and the best selection. Zappos.com will be that on-line store. Clearly the vision of Zappos identifies a vision for the industry -- 30% of retail sales being done on-line -- and a vision for Zappos as becoming the go-to choice for consumers as an on-line store that will provide the best service and the best selection. This vision should inspire, should inform, and should guide the decisions that are made inside of Zappos.

Mission, Vision, and Strategic Objectives:

The mission statement says this is why we exist. The vision statement says this is what we hope to be in the future. These inform the strategic objectives of the organization; and in turn, the strategic objectives inform the mission and vision of the organization. It's an iterative process. Strategic objectives define success for an organization. When an organization is asked how will you know when you've succeeded, they should tell you about their strategic objectives. Those strategic objectives define what success means to an organization.

Unit 1.3 – Measuring Strategic Objectives

Measuring Strategic Objectives:

SPEAKER: A very significant question for organizations is how should we define success and how should we measure success? This is at the very core of guiding the decision making of the organization and its members. Strategic objectives are statements of definable and measurable accomplishments that define success. And when these objectives are achieved, the organization will have fulfilled its mission and reached its vision.

When we talk about strategic objectives, we have to talk about two things. First, we need to talk about conceptual definitions; and then we need to talk about operational definitions. Think of a conceptual definition as being somewhat of a conversational definition of success. It's what people talk about. Where the operational strategic objectives are what people in organizations measure.

Now, it's important that we have conceptual definitions so that we can talk to one another easily. For example, I might have a conceptual definition of success that's focused on sales revenue; and I might even set a goal for the future in my vision of having a 14% growth in sales revenue. That's a useful conceptual definition because it communicates we want growth, we want sales revenue growth, and when placed into the vision it helps me understand how much of revenue growth I hope to achieve in the future. That helps me make judgments about how aggressive to be. And it also might inspire me or discourage me if it's specified inappropriately.

But even something that sounds as specific as we want 14% sales revenue growth could be interpreted a lot of different ways. Operational definitions are intended to remove the ambiguity in what we mean by a statement as simple as we want 14% revenue growth from our sales.

Think for example about the following. When we measure revenue from sales, when we measure revenue growth, do we measure at the time that an order is placed or do we measure our revenue at the time that an order is filled or do we measure revenue based on the time when we actually receive the revenue from the sale? Operational definitions will make that clear.

I hope you can see how people might make different decisions if success is defined based on an order being placed versus an order being filled versus money actually being received for filling that order. If I were a sales rep and I knew I was being evaluated based on the volume of orders that I received, I would do anything that it takes to increase my sales revenue including cutting costs to my product to increase the revenue through greater volume of sales. But that might not be a good thing for the organization.

That's why good operational strategic objectives specify exactly how we will measure success. Most organizations would not define revenue growth based on the time that orders are placed. They might define it based on when orders are filled. But what really matters for the bottom line of an organization is when the revenue is received. Let's be very careful and very explicit as we convert our conceptual definitions -- oh, yeah, I want revenue growth from sales -- to operational definitions that say this is exactly how we will measure this component of our success.

Evaluation Guide:

Most organizations develop mission, vision, and strategic objective statements that require a lot of work and require multiple iterations before the organization feels that they're just right, that they accurately capture why the organization exists, adequately specify where they want to be in the future, and fully and completely and clearly define how success will be measured. As we create mission, vision, and strategic objectives, let's think about some of the factors that we should consider as we evaluate how good they are.

When we look at our mission statement, we need to ask does this truly capture why the organization exists? If we show this mission statement to members of the organization, will they agree that this is an accurate capture of why the organization exists? When we specify our strategic objectives, we should review them and ask do these objectives clearly, unambiguously, and appropriately define the best way to measure success on this component of our objectives?

When we look at the vision statement, we need to evaluate whether it's focused on appropriate strategic objectives. We need to evaluate whether it's realistic. We need to evaluate whether it's inspirational and whether it's understood by the stakeholders inside and outside the organization. We also need to make sure that organizational members believe in the mission and the vision statement for the organization. If they don't believe, they will not have much impact on the choices that members make.

We also need to know that organizational members fully understand what the strategic objectives are because that will narrow their thinking as they make decisions. It will focus their decision making; and it will enable them to better seek, receive, and use feedback as they make progress toward achieving their strategic objectives.

For all of these -- mission, vision, and strategic objectives -- we need to also consider the issues of deficiency and contamination. The idea of deficiency is that a mission or vision or strategic objectives have something important that's missing. When we look for deficiency, we're basically asking is that all of it? Is there anything that's an important reason why we exist? Or is there anything that's an important part of where we hope to be in the future? Or is there anything important of how we measure success that is not included in our mission, vision, and strategic objective statements? To address this, we ask the question: Is there anything missing that's an important part of why we exist, where we want to be, and how we define success?

The idea of contamination is that we put things into our mission, vision, or strategic objective statements that do not need to be there. They might be interesting. They might be desirable. But if they are not a core part of why we exist, they're contaminating the mission statement. If they're not a core part of where we want to be in the future, they're confounding our chase for success in the future. If they're not a key part of how we define success, they can be distracting and can lead to decisions that chase objectives that are not core objectives.

Let's make sure that before we adopt and use our mission, vision, and strategic objectives that we've evaluated them using these criteria and that we've improved them to the best of our ability. When we can do that, we will have a mission that helps us understand who we are and why we exist, a vision that gives us a view of the future, and strategic objectives that tell us what to measure, how to measure it, and what to chase as we pursue success and competitive advantage.

Operational Plans:

We're going to talk quite a bit now about what are often called grand strategies or operational strategies. Sometimes called operational plans. These are an attempt to define the path to achieving the mission, vision, and strategic objectives. Often these grand strategies, these operational strategies, these operational plans need to be changed. They might need to be changed if we discover they're not working for achieving our strategic objectives, for taking us to our vision for the future. They might need to be changed because the external environment has changed. They might need to be changed because our internal capabilities have changed.

The focus of these operational plans is to define and guide the path to achieving the strategic objectives. Decisions and actions and investments in our organizations are really only relevant if we can explain how and why that decision, that action, that investment is likely to help the organization achieve one or more of its strategic objectives. That's why we develop these grand strategies, these operational plans.

This by the way is where we often search for continuous improvement. We might conclude that we're doing a reasonable job with our mission. We're making progress toward our vision. And we're doing okay on our strategic objectives. But when we search for continual improvement, when we search for incremental improvement, we're usually looking at those operational plans and saying what can we change in the way we do business that would help us better achieve our objectives or help us more efficiently achieve our objectives.

Next we will begin our search to identify the range of potential grand strategies, operational plans, that can help us as we chase our strategic objectives.

Unit 1.4 – Stage 2: Access Current Reality

Access Current Reality:

SPEAKER: Stage two of the strategic management process involves assessing current reality, and sometimes projecting future reality. This is where we often do what's known as a SWOT, S-W-O-T, analysis: Strengths, Weaknesses, Opportunities, and Threats. The assessment of the internal and the external environment is critically important in the strategic management process.

SWOT Analysis:

Here, we're assessing current reality, and we're looking at things like where the organization stands now, what is working, what might be done differently to enhance efficiency, or to improve effectiveness as we pursue our mission.

Strengths:

An important part of this SWOT analysis is to look inside the organization and to find existing strengths. We want to make sure we identify the existing strengths so that we can use them, we can capitalize on them. As we search for strengths, as we scan our internal environment looking for strengths, we will often start by looking at work processes. We will ask how do we currently accomplish our work? Do we have processes in place that are effective and efficient? Can we capitalize on those strong work processes?

Then we're likely to look at the organization's culture, the values, the norms, the beliefs that are shared by members of the organization. A strong, healthy organizational culture should be treated as a significant asset and a clear strength for the organization. A strong, healthy culture can lead to a situation where members of the organization search for and find and pursue opportunities for driving strength for the organization. It can be a tremendous asset.

Usually we'll look at our staff and our human resource assets and we will ask what strengths do we currently have? Do we have the right number of people on staff? Do we have the right mix of people on staff? And looking at the human resource capabilities, what knowledge do we have? What skills do we have? What learning abilities do we have? What experiences do we have? What human resource assets do we have that are a current or potential strength for our organization, that can help us pursue and achieve our vision and strategic objectives. It's important to systematically scan these assets that are related to the people in the organization so that we know where their strengths lie and can make sure to capitalize on those strengths.

Our scan will typically also look at the products or the services that we provide, and will seek out the products or services that we currently provide that are particularly strong. We want to make sure if we have a product line or service line that's particularly strong, that we're fully leveraging that strength, so we scan for our best products, our best services.

We also look at our production capacity. Do we have the capacity to increase production if we have the opportunity to sell more product or service? So we not only look at how we're achieving our work and how well we're achieving our work, but we look for opportunities to enhance our production levels. And it's important for us to know, if we do have the capability of ratcheting up our production levels.

We also want to look at the image of the organization, and we'll look at two images, really: The internal image that impacts the people inside the organization, and the impact of our image on external stakeholders as well. If the members of our organization believe that the image of the organization is one that they respect, one that they identify with, one that they're connected to, that image that employees see and feel every day is likely to drive them to give more; likely to drive them to be proactive in finding ways that they can contribute to the success of the organization.

The image of the organization externally can also be a big strength for an organization. I know we're focused on internal strengths right now, but this is an example of an internal strength that has strong potential for positive external impact: The image of an organization, the brand of an organization, if you will, can have a strong impact on the decision making of external stakeholders; suppliers and customers and regulators. We want to search for that image, that brand strength that we currently possess.

Finally, we need to look at our financial resources. Clearly, this is critical to any organization. We need to evaluate whether we have the financial resources that will enable us, in a sustainable manner, to continue to engage in the activities that will drive us to that vision, and help us achieve those strategic objectives and gain competitive advantage. We also, need to identify the strengths of our current financial situation that will carry forward for us into the future.

There are other items that we might include in an internal scan, but, searching for strengths, we scan internally, and we ask the question, what have we got now and what are we developing that are strengths internally that will help us successfully pursue our strategic objectives and reach our vision.

Weaknesses:

It's important that our internal scans also search for weaknesses. A lot of individuals don't like to think much about their weaknesses, and organizations are often the same. They do their internal scan, they're excited about focusing on their strengths, but they're reluctant to identify their weaknesses. However, scanning for internal weaknesses is at least as important as scanning for internal strengths. It is the internal weaknesses that will best explain why we fail to achieve our strategic objectives, why we fail to reach our vision.

The internal scan's focus on weaknesses can help us identify opportunities for ways to improve the organization by directly addressing those weaknesses. Neutralize the weakness; hopefully, turn them into strengths. As we scan for weaknesses, we look at the same factors that we scanned when we looked for strengths. So, we begin by looking at work processes, and we ask, where are the things that we don't do well? What work processes are we not great at? We then turn to looking at the culture, and we ask, are there components of our organization's culture that are actually weaknesses, that might either hinder our ability to succeed, or at the very least fail to give a boost to our search for success? For example, a culture that emphasizes individual performance and does so to the extreme, might create so much competition in an organization that individuals will not help one another succeed; indeed, might prevent others from succeeding. Clearly, that would be a cultural weakness if we had that sort of organizational culture.

We then turn to staff and human resources, and we're looking for areas where we have insufficient staffing, or excessive staffing that creates a weakness for us, and we focus very heavily on the knowledge, the skills, the learning abilities, and the experiences of our workforce. When we look for weaknesses, we're asking is there knowledge that would help us succeed that our workforce does not possess? Are there skills that would help us succeed that our workforce does not have? Are there learning abilities that our workforce needs to adapt to changes going forward that they do not have? And are there experiences that would have helped our workforce drive success but that are experiences that are missing in our workforce?

We also want to look at weaknesses in product quality. Where are our weakest products? That will later lead to decision making about whether to eliminate a product, or whether to fix a product, and either neutralize the weakness or turn it into a strength.

We'll look at our production capacity and ask where we have weaknesses. If we think we have a strong product or service, if we think demand is increasing, but we do not have the production capacity to meet that demand, we have identified weakness in our production capacity.

Again, we want to look at our image. Is there anything about the organization's image that discourages the members of our organization, that makes them not care about the organization, that discourages them from even wanting to see the organization succeed? And is there anything about our image or brand that is having a negative impact externally, for our customers, for our suppliers, for our regulators?

Finally, we'll look again at financial resources, and we will focus on where our weaknesses are, where are we struggling to finance our current activities, where are we paying too much for our money, where do we have a situation that's not financially sustainable as we move forward?

So, the internal scan also needs to identify the key weaknesses. An organization could simply look at this weakness analysis and say now we know why we will fail, or they could use this weakness analysis as an opportunity to drive improvement in the organization that's focused on those issues most in need of improvement.

Opportunities:

Now it's time to scan externally. Let's begin by looking for opportunities in the external environment. We're looking to identify those opportunities that are relevant to our organization as having potential to help us better achieve our strategic objectives and reach our vision for the future.

We often begin this scan of the external environment looking for market segment opportunities. Markets can be quite segmented. They can be segmented by price, by quality, by style, by design. We are looking for the market segments where we perhaps are currently doing well, but most importantly, we're looking for segments where we have opportunity. This might be an opportunity to expand in a segment where we're already doing business, or it might be an opportunity to enter a new segment; maybe a different price point; maybe a different style; maybe a different design; maybe a different target audience.

Our external scan includes an analysis of the industry and of our competitors, and it looks for the competitive advantages that others have gained in our industry, and it looks for opportunities for us to gain competitive advantage given what others are doing. So, for example, if we see that there's a part of the country where our competitors have not capitalized on opportunities, that might be a special opportunity for us. If we identify a price point that competitors have not gone after, that might present an opportunity for us. If we identify a competitor who's struggling with quality, that a might give us an opportunity to pursue by competing against that particular competitor. We might also include in this scan looking at our industry, broadly-defined, to find those subcomponents of the industry where there's more or less competition; where we have less threat, and therefore more opportunity to pursue a particular part of the industry.

Part of our external scan as we seek opportunities is to look at technology. We want to look at opportunities for us to deploy our current technological capabilities in new places in the external environment. So, one of the things we're clearly looking for when we do our external scan for opportunities is where can we use what we're already good at to do something new out there? The second part of the technological scan is to look at technologies and technological applications being used by other organizations that we're not currently using or that we're not currently good at. We want to identify technologies that we might want to adopt, that would in turn give us an opportunity to be more effective or more efficient.

Also included in our scan of the external environment is looking at the government and what the government is up to. The government can provide a wide range of incentives, the government can control taxes, the government regulates what we can do and cannot do. By looking at current government positions -- local, regional, national, international -- we can identify opportunities to engage in business practices that might contribute to our success.

For example, the U.S. Government has placed a huge emphasis on improving the mileage of the US car fleet. Now, that can present a challenge to some organizations, but those emerging government regulations might also create an opportunity. The car company Tesla is capitalizing on that opportunity. As we record this, the U.S. Government is providing substantial tax benefits to people who purchase an electric car. Tesla has recognized that by producing an electric car that has attractiveness in and of its own, they can also enhance their business by capitalizing on this trend to enhance the tax advantages for the consumer. That's not just Tesla that's doing that. Quite a few other car manufacturers are doing that. Today, Nissan with its Leaf, BMW with its i series, are capitalizing on those government actions.

Staying in the electric car domain, the U.S. Government, state governments, local governments, are also pushing hard to create charging stations for electric cars. Understanding where those charging station opportunities are being pushed and developed and encouraged by government action can inform a car company that makes electric cars of where the opportunities are to target the sales of their electric cars.

Sometimes government scan is looking at simply tax rates that might influence whether an organization sees an opportunity to do production in one state versus another state, or one country versus another country. In the news today was another discussion of the fact that Ireland is the most common location for the global headquarters for US multinational corporations. Today, US corporate tax rates are about 35% and Ireland's corporate tax rate is about 12%. When an organization scans the environment and identifies that, they might find an opportunity to reduce their tax burden. However, I will caution that this can be related to the image that an organization creates. A company might save money by locating offshore, but if it damages their image and their brand sufficiently, that could be more than counterbalanced by the negative impact of the damage done to the brand and the image.

Threats:

Our external scan needs to also look at current and emerging threats in all of the areas where we look for opportunities. A heavily-saturated market segment can be an indicator that profit margins are about to decline. An industry competitive analysis that shows us an increasing number of competitors, increasing effectiveness of competitors, can clue us that we're going to have to do better, at better price, because our competitors are doing that.

Our scan of technology may show that some of the technologies that we are currently using are starting to fail, are starting to become obsolete. It may show us that our competitors are adopting new technologies that are more effective and more efficient. All of these create significant threats for us.

We also have to look at potential threat from government action. This could be government action to change taxes; it could be government action to manage environmental issues; it could be government action to impact wages that we need to pay employees; it could be government action in some countries that could actually involve a country nationalizing or appropriating our business in their country. Our external scan needs to look for potential threats as well as potential opportunities. The components we look at are the same when we search for opportunities and threats. Keep in mind, when we identify threats, this might suggest to us that we want to move away from those threats and not do business in that domain, or it might indicate that we need to change how we're doing business to manage that threat.

Southwest: Internal Strengths:

Let's take a look at a SWOT analysis that was done on Southwest Airlines. The SWOT analysis of Southwest Airlines identified three very important internal strengths. The first of these is financial. Southwest is profitable, has been profitable, is producing a good return on investment. It is making money by selling its product: Clearly a current strength of the company. They're making sufficient profit, that they are stockpiling cash.

A second internal strength identified from the SWOT analysis related to the demand for the Southwest product. Southwest has had good customer demand for its product. That demand is growing. So, clearly, a current strength for Southwest is customers like the company, and an increasing number of companies are being attracted to the company.

The third internal strength has to do with the image or the brand of Southwest Airlines. Southwest currently has a highly-respected brand, particularly among leisure travelers. So, the internal scan for the SWOT analysis at

Southwest Airlines revealed some very important strengths: Financially strong, strong demand, and great brand value.

Southwest: Internal Weaknesses:

The SWOT analysis of Southwest Airlines, however, also identified some internal weaknesses. First, Southwest has rejected the concept of unbundling. Unbundling is when an airline, instead of selling a ticket that covers the cost of everything associated with the trip -- buying the ticket, reserving seats, obtaining a pillow or a blanket, checking in, having a snack, checking a bag. The idea of bundling is that all of those would be included in the one price of a ticket. You pay once, you get it all. The trend in the airline industry is to unbundle in an effort to drive greater revenue. Southwest has resisted this unbundling trend. They've used it to their advantage, they've used it in advertising campaigns. However, when a scan is done of Southwest and we look at their finances, even though they're making great money right now, they are not generating revenue for checking bags, carrying on big bags, making reservations, booking seats, and that sort of thing. So the SWOT analysis of Southwest actually identified this as a strategic weakness.

A second strategic weakness identified from the SWOT analysis is that Southwest is not offering the product that its competitors are offering, and that is the extent of legroom product at a premium price. All seats Southwest, more or less have the same legroom. All passengers get the same legroom. The competitors are providing standard legroom at a standard price, but then upcharging for additional legroom, additional services. Southwest has again used this in their ads, everybody gets the same, however the SWOT analysis identified this as a weakness, because Southwest is failing to derive revenue by selling this up-priced opportunity, or giving it to its most valued, most frequent travelers. As a result, a weakness is that Southwest is considered to have an outdated product; clearly a strategic weakness.

Southwest: External Opportunities:

The external scan of the SWOT analysis for Southwest Airlines identified some huge potential opportunities for the company. Southwest traditionally has been a US domestic carrier. That's where they've done their business, that's where they've found their customers, and that is where they've made their money. However, the SWOT analysis identified emerging international markets as a huge opportunity for Southwest Airlines. They have just begun to capitalize on those opportunities. The SWOT analysis suggests that going forward, this is a major opportunity for the airline.

A second, somewhat related opportunity for Southwest is to partner with non-US airlines; and there are two ways this partnership can yield value, can create opportunity for Southwest. First, partnering with international airlines means that Southwest could become the provider of the US domestic leg for passengers who arrive in the US on a foreign carrier. Having a partnership with those international airlines, with code shares and joint ticketing could mean that Southwest could capitalize on a lot of foreign customers without even having to provide the foreign routes, with a partnership, they can pick up in the US, where the foreign carrier drops the international traveler.

A second way that Southwest could capitalize on partnerships with foreign carriers is to capitalize on the opportunity to partner with foreign carriers to actually share responsibility for delivering routes. All of the other major US carriers are doing this, and it's considered an efficient opportunity to have two airlines marketing the same set of seats, and efficiently providing service, where one airline serves somewhere else, the other airline serves others. Great opportunity according to this SWOT analysis.

Another opportunity for Southwest Airline is the repeal of the Wright Amendment. This is the impact of an external decision by government that has reduced the restrictions on which airports Southwest Airlines can fly in and out of. This has created an opportunity most immediately for Southwest in the Texas markets, but it's having impacts for them in other markets around the US as well. So there have been government restrictions that have prevented Southwest from doing business where they wanted to. The repeal of this Wright Amendment now creates opportunities for Southwest to expand into some potentially very lucrative markets.

Southwest: External Threats:

The SWOT analysis for Southwest Airlines also looked for external threats. Several key external threats were identified. The first set of external threats came from other airlines. I'd like to talk first about legacy airlines: The Delta, United, American Airlines. Southwest, in part, drove its success by differentiating itself from Delta, United, and American, and by pricing its tickets at a lower level than did the legacy airlines. Recently, however, the external scan shows that there is a trend for the legacy airlines to create a lower-fare class for some tickets on its flights, and to set the pricing for those lower-priced tickets to be competitive with the prices that Southwest is charging. If this works for the legacy airlines, that promise better service, that promise a bigger route system, this new pricing strategy of the legacy competitors could be a significant threat to the future success of Southwest Airlines.

There's another set of airlines that the SWOT analysis identified as providing external threats, and that is the other low-cost airlines: The Frontier Airlines, the Spirit Airlines, and the other, smaller regional airlines that emerge and compete with Southwest. These other discount carriers are cutting costs and cutting hard, so they're threatening the very position that helped Southwest gain a competitive advantage for the leisure traveler. Together, the lower costs from legacy carriers for a subset of tickets, the more competitively-priced fares from the discount carriers, are providing huge potential threats for Southwest.

Another external threat identified has to do with cost: Labor cost, airplane cost, supply cost, the cost of using gates at airports, landing fee costs, tax costs -- a lot of costs are increasing, and these are threatening an airline that has a relatively thin profit margin because of their low product pricing.

Perhaps even a greater threat is the volatility of some of the key costs that an airline like Southwest has. In the last decade, the cost of jet fuel has fluctuated more than 100%; up, down, up, down. That volatility in pricing of fuel, which constitutes the largest cost to Southwest Airlines means that there's a significant challenge for Southwest, because they might market and sell tickets, and between the time they sell their tickets and the time the trip is full, the price of fuel could increase or decrease significantly. Both the increasing costs of labor and materials and supplies and operational expenses, and the volatility of costs, jointly provide significant financial threat to the future of Southwest Airlines.

And finally, the third threat is actually a threat to an internal factor at Southwest, and that's the culture at Southwest Airlines. Southwest has built a strong, healthy culture that has helped to drive its success and has helped to give it a competitive advantage. There are now outside pressures that are threatening that strong, healthy culture. When Southwest employees see employees of other airlines and of related industries being paid more, receiving better benefits, having different workloads, being treated better, that is a threat to the culture of Southwest Airlines. It's a very strong, healthy culture. I'm not suggesting that it has been damaged to a significant extent, but it is at significant risk. So, Southwest has to recognize these three factors that present strong external threat, and either take action to defuse those threats, or to avoid the impact of those threats. They have to manage those threats if they want to succeed going forward.

Unit 1.5 – Stage 3: Formulate Grand Strategy

Step 3: Formulate the Grand Strategy:

SPEAKER: The third step of the Strategic Management Process involves defining our grand strategy, our operational strategy. This is where we explore possibilities for achieving our strategic objectives and reaching our vision for the future. There is no one best grand strategy for every organization and every set of strategic objectives and every vision.

This is the search for the right grand strategy, the right operational strategy that will maximize an organization's probability of their investments leading to success and competitive advantage.

We started by identifying the mission, why the organization exists. Then we formulated a vision for the future, where we'd like to go. We defined success when we looked at strategic objectives, and we identified how we would measure success.

Once we've done that, we did our external and internal scans. We identified internal strengths and weaknesses, external opportunities and threats. Now that we're aware of the strengths, the weaknesses, the opportunities, and the threats, now that we've defined our mission, our vision, and our strategic objectives, it's time to ask what is the best operational plan, the best grand strategy for achieving those objectives?

Paths to Success:

The third step of the strategic management process involves defining our grand strategy, our operational strategy. This is where we explore possibilities for achieving our strategic objectives and reaching our vision for the future.

There is no one best grand strategy for every organization and every set of strategic objectives and every vision. This is the search for the right grand strategy, the right operational strategy, that will maximize an organization's probability of their investments leading to success and competitive advantage.

Growth Strategy:

Sometimes after an organization defines its strategic objective, its vision for the future is to grow. When their external and internal scans indicate that the strengths and the opportunities are there to do so and that the weaknesses and threats can be remedied or managed, the organization will decide to adopt a growth strategy.

There are a lot of ways that an organization can pursue growth. For example, an organization might conclude that it needs to improve its product or service to make it more attractive to customers, thus resulting in increased market share. Or they might design their product with a little design twist that makes it attractive to a new subset of consumers.

Another way to drive growth is to expand operations. Perhaps taking responsibility for more of the distribution process or more of the manufacturing process.

Sometimes growth will be driven not by improving products or processes, but by creating new products or services. This is an opportunity. It's an opportunity that requires developing something new, which means investing in research and development or another way to obtain new products and services.

Sometimes growth is not driven organically by creating or improving products, by creating better processes, but sometimes rather than creating growth organically, organizations will go out and acquire their growth. They will find another company that owns intellectual property, that owns production capability, that owns market share, that owns channels. They will acquire that company and use the acquisition of that company to drive growth for the company. When acquisitions are done, company A acquires company B, and company B no longer exists.

When a merger occurs company A and company B combine to one new company. Let's call it company C, the combined company. At that point neither company A nor company B exists any longer.

The idea of creating, using a merger to create a growth strategy is to bring the assets, the capabilities, the market share, the products, the people from two companies together to create synergy and to create a stronger, new combined company that has a better chance of growth than either company A or company B would have had on its own.

Example: Google:

Let me give you an example of how Google has engaged in both organic growth and growth through acquisition. Google has a large research team that is constantly working on improving its products, increasing its market share, increasing its advertising yield, developing new products. However, Google has recognized that by itself it cannot do everything that it needs to do to achieve its growth objectives.

Google has made a strategic decision to drive its growth by strategically acquiring other companies that will bring to Google either new products or new markets or new customers.

In fact, in the last decade Google has executed over 200 acquisitions, spending billions of dollars on these acquisitions. Google has adopted a growth strategy that is a combination of organic using its current people, its current intellectual property to grow the company while it, in parallel, acquiring other companies to accelerate the growth process.

Stability Strategy:

Most organizations would be happy if they could always adopt a growth strategy. But the realities of internal and external scans often suggest to an organization that growth, particularly aggressive growth, is unlikely given environmental circumstances, given their capabilities. In that situation organizations will often choose, as a short-term or maybe even longer term strategy, a strategy of remaining stable.

In some ways this is a sustainability without growth strategy for an organization. An organization that is engaged in a stability strategy may feel that they've been growing too fast, that their rapid growth has led to errors, that their rapid growth has created problems. They may feel that rapid growth has damaged their culture or their brand or their relationships inside and outside of the organization. In that situation an organization might choose to adopt, at least for a while, a stability strategy. Slow it down, don't make too many new changes. Try to do what we currently do well and continue to do it well.

With a stability strategy, organizations will often focus on continuous improvement of effectiveness and efficiency rather than radical improvement. This strategy is saying even if we would like to grow quickly, we think right now the reality is we should try to remain as a successful, stable organization.

Defensive Strategy:

The realities of SWOT analysis and those scans of the internal and external environment often lead to the conclusion that an organization is in trouble. Its success is at risk, its competitive advantage is at risk, its survival might even be at risk.

In that situation organizations are likely to adopt a defensive strategy, often called a survival strategy. Hopefully this is a short to medium term strategy for an organization that can later move to a more stable or growth focus as an organization.

The kinds of things organizations tend to do when they're in a defensive strategy sometimes involve cost-cutting. They might freeze wages, they might freeze hiring, they might tighten expenditures. In a defensive strategy companies might be looking for a way to minimize their costs.

Another thing that sometimes is done with a defensive strategy is to look for assets that are at greatest risk or that are yielding the least value to the organization and sell them off.

That kind of reinforce the idea that a defensive strategy is often a survival strategy. A strategy that's been adopted so the organization can survive for another day when it seeks stability or growth.

Sometimes the defensive strategy will involve phasing out products or services to streamline, to focus on core products and services. Sometimes it will involve divesting an entire portion of the business, maybe a business unit that's part of the organization.

Sometimes a defensive strategy is more extreme and might involve declaring bankruptcy. In fact, I mentioned earlier the legacy air carriers in the U.S., all of them have recently come out of a defensive strategy era. While they were in that defensive strategy era, they reduced cost, they sold off assets, they phased out products and services, they reduced the number of seats they were flying. Many of them sold parts of their business.

All of them declared bankruptcy as a way to try to survive. They retrenched. Defensive strategies are intended to help the organization survive until it's capable of becoming more stable and then becoming a growth organization.

No organization that I know aspires to long-term defensive strategy. This is a strategy that's adopted when survival is necessary in hopes that the environment will change and stability or growth may be pursued in the future.

Example: Legacy Airlines:

It might provide some insight if we take a look at what's happened with the legacy airlines over the last two decades. United, American, Delta, for example.

During that period these airlines began with strong growth strategies. Their environment scans showed them clear opportunity for growth and manageable threats. Their strategic objectives were set high, they developed grand strategies to grow and for the most part they did so successfully.

But the environment changed. Sometimes due to catastrophic events, sometimes due to evolutionary events. The environment changed for those airlines. When it did those airlines identified they could no longer chase strong growth strategies and instead reverted to stability strategies. Those stability strategies enabled them to continue to be profitable, but they didn't show growth. When they didn't show grow, shareholders are not happy, earnings are not as high. But they felt it was the appropriate thing to do given the realities of their SWOT analyses, and then things got worse.

The environment changed and became even more challenging, and all of those airlines entered defensive strategies. In fact, they did virtually everything we talked about with defensive strategies. They cut costs, they laid people off, they reduced product lines, they sold assets, and they all entered bankruptcy as a way to survive. These legacy airlines spent quite a bit of time with defensive grand strategies. In fact, many wondered whether any of them would survive. In reality, a number of the legacy airlines no longer exist.

Subsequently, however, these three remaining legacy airlines, United, American, and Delta, found a way to, again, adopt stability grand strategies, to strive not for rapid growth, but reasonable, stable profitability, and that strategy drove their approach to their decision-making and their business activities.

After they reached stability they did new analyses, new SWOT analyses, and concluded it was time again for growth. And slowly began to adopt growth strategies and more aggressiveness. Why?

Because their environmental analyses told them that the opportunities were increasing, the threats were becoming more manageable, they had built strengths that enabled them to move forward, and that their weaknesses were under reasonable control.

It is not uncommon to see organizations, and sometimes entire industry segments, go from growth to stability to defensive to stability to growth and, over time, cycle through those grand strategies. Failing to change the grand strategy can lead to organizational failure or failure to achieve positive opportunities.

Unit 1.6 – Stage 3: Formulate Grand Strategy

Porter's Four Competitive Strategies:

Without doubt, the best known individual who has pushed the idea of gaining competitive advantage through adopting and following an appropriate strategy is Michael Porter. Michael Porter argues that businesses must focus on their areas, capability areas, where they have a distinct advantage relative to their competitors, particularly in their target markets. The need to concentrate on one type of competitive advantage to achieve a distinct position in that market, trying to be all things to all people. It's very unlikely to generate success, according to Porter, their two dimensions along which strategies can be defined. First is the source other competitive advantage. For example, low-cost or product differentiation. The second is the scope are that competitive advantage whether it's narrow or broad this defines for routes to gaining competitive advantage. Let's take a look at each of those in a little more detail.

Cost Leadership:

The first to the four approaches identified by Porter for gaining competitive advantage is to seek cost leadership. This involves focusing on lower costs through a broad range a product offerings. This approach, to be successful, really depends quite a bit on economies of scale in order to obtain that low cost advantage. It requires a company to focus heavily on economies throughout the organization, always looking for cost savings. It requires a mindset and a culture that's supportive always seeking always finding always implementing opportunities to cut costs to gain and maintain at strategic competitive advantage. An example that this might be a company that makes generic products for supermarkets. What they're seeking to gain competitive advantage is to have a low-cost across all other product lines in short this type of company would want to be known is a company that can always be relied on to deliver low-cost, and a company that seeks this has stated to themselves and others we will seek find and capitalize on competitive advantage by being the best keeping costs down for all other products or services.

Differentiation:

The second way to seek to gain and to capitalize on competitive advantage is to use this strategy that broadly differentiates a company from its competitors that sends a signal that day as a company, that their products that their services are distinct. This focuses on creating an identity that will be recognized and valued by the customer. This requires the organization to spend a lot of its time a lot of its energy and a lot of its resources seeking ways to continue to further distinguish and differentiate their products from those of competitors. This is the organization that, when another company develops a product that's similar to their current products, is ready to roll out their next product that's yet even more different and better differentiated. What are the advantages that this strategy is that effort company is able to produce products and services that are distinct, differentiated, and desirable. They can consistently charge a higher price for their products. A good example of this is Apple. Apple was well-known for having relatively high prices for their products compared to most other competition. What Apple's strategy focuses on is not low-cost, but rather high differentiation, creating an identity %uh Apple what it is what its products are with the thought being that when Apple brings out a product, the first reaction up a customer will be to assume that it's different and that it will be better. That enables a company like Apple to charge a premium because they differentiated.

Cost-Focused:

A third approach to gaining competitive advantage focuses again on cost, but this time, focused cost competitive advantage. Where the broad cost competitive advantage is attempting to be known as a company that has products or services that are all priced at a low point. This focused cost strategy identifies a small cluster of products or services and focuses on finding a way to produce low-cost for that particular set of products or services. This is a strategy that's often used by a small firm or start-up firm that's trying to compete against an established company. So what the company would do with focused low cost is to say we don't think we can beat our competitors and cost on everything, but we think there's a niche where we can produce low-cost. We will capitalize on that and we will use that focused cost advantage to gain our market entry and to build our name in that niche as a low-cost provider in that particular niche. This is a strategy that works well for some companies. One example love this is Sun Country Airlines, which as an airline, has airplanes, flies people from one place to another, but their strategy is to focus on a particular part at the airline industry. That particular part that Sun Country focuses on his leisure travelers who are flying for the most part on charter flights that are packaged in bundled into vacation packages. What Sun Country has chosen to do is to provide low-cost air transportation focused on a niche that is air transport, leisure travelers, resort travel part of a bundle.

Focused Differentiation:

A fourth potential strategy is to have a focused differentiation strategy. But what this does is to focus not on creating an image that the entire company is different or creating the image that every product or every service but the company is different from the competition, but instead with a focused differentiation strategy, a company attempts to identify small cluster of target segments and to make those different. Sometimes, the company will differentiate these focused products from their other products where a broad differentiation strategy requires that the company creates and identity and image a brand the consumers will assume produces products that are always different from the competition with the focus differentiation a company identifies a sub-sector, a segment up what they're doing and differentiates that segment. This differentiation could be focused on products or could be focused on a segment of customers. When focused on product, the company is saying this particular product line is different. It's different from what we do with our other products and it is different from what other companies are doing when the focus differentiation is on a customer. It says to that subset of customers we have developed products or services that are created just for you, because you are different and other customers, whether company does their focus differentiation based on products for customers or both, they're seeking a way to charge a premium for their products and services, because this subset of other products are viewed as premium products or services. An example of this can be found at the Toyota Motor Company. Toyota is known as a company that has and identity that's related to reliability, fuel efficiency, and a couple other factors, but Toyota has decided that in their strategic portfolio, they would like to include a focused differentiated segment, and the way they've done that is to create the Lexus Brand. What Toyota is saying with the Lexus brand is that all of their products are good, but we want to separate out a subset of our products as being particularly special, luxury products and we're creating these for a subset out the marketplace, where they're far more people who want to buy Corolla or Camry. We also have this focus differentiated product line with Lexus that's targeted at something that's really different from the other cars we make that's really special compared to cars made by other companies and that is targeted at a particular upscale audience.

Strategy Portfolios:

One of the other issues that organizations have to think about when they develop, implement, and evolve their strategy is the degree to which they want to diversify the nature of what they're doing. So this brings in the idea that companies not only think about a strategy, but they think about the strategy portfolio. So we're going to take a look at four examples of differing levels of diversification in a strategic portfolio. We will look at a strategy that's not diversified, that focuses on a single product or very closely related product line. We will look at an unrelated diversification strategy. We will look at a related diversification strategy and we will look at globalization as another way to diversify the strategic portfolio.

Single Product:

Some companies, particularly young companies, will adopt a single product focus. Now this doesn't necessarily mean they only make one product but it means they make a very narrow set of products. There's only one product family in their product line. An example of this is Jamba Juice, which has used a single project, very non-diversified strategic approach to seek success. Jamba Juice other companies that focus on a single product model try to capitalize on some of the benefits of having a non-diversified strategy. For example, Jamba Juice and others can really master that very narrow set of products because that's what they focus on. Because that's their core business. They're very focused on mastering and becoming the best at that particular product. They also can gain experience correcting errors in process errors and products. They can become really good at finding ways to upgrade that narrow products at and because they're so focused, they can often find those errors and find those opportunities for improvement much more quickly than a company that has a very diverse product line. A single product focus also makes it easier to pay attention to the competition. There's a smaller subset of competitors. There's a smaller subset of competing products so it enables competitor research to be more focused and often more effective. Unfortunately there are also some very significant risk associated with this. The primary risk have a single product strategy is that if something goes wrong with that particular product or product line, the entire company will suffer and can suffer very badly. Panera Bread is an example of a company that has been very much single product focused, and during periods where the population has become very sensitive to the consumption of carbohydrates, because at the very nature of Panera bread, the company experienced significant and very quick declines in consumption. In fact, if you study Panera Bread over the years, they've moved away from a very narrow single product focus in response to some of these challenges.

Unrelated Diversification:

Companies recognize that it's very risky to focus on only one product for one very narrow products at because if something goes bad with that one, everything goes bad for the company. So that motivates companies to look for ways to diversified so that they are doing business in more than one market more and more than one product type. One way to diversify is to do what's known as unrelated diversification. An example of this might be a company that starts out by being a toy maker but decides to add to its product line paper products, so they've diversified into pretty much unrelated areas. They're doing it with good intentions, trying to protect themselves against the risk of catastrophic company failure due to a problem with a single product line. What they do is they say well, let's do something else. Let's do a second thing or a second and a third thing that are very different from our first product line. Let's do that so that we have a diverse portfolio that is protected against the downside risk one product line failing. This strategy also has risks however because an engaging in a business with unrelated products and product lines requires really quite broad experience quite broad expertise so when a company diversifies in an unrelated area, they almost have to start over in that area and acquiring the knowledge that's needed to succeed with that new product line developing the skills that are necessary to produce and market maintain that product line and to develop the experience that will help them become effective. It also can be difficult to obtain synergy and manufacturing or synergy and marketing. Synergy and advertising when your multiple products are totally unrelated makes it difficult for example to run an ad that would promote multiple product lines because they're so unrelated the final risk with this unrelated diversification strategy is that companies that pursue this can lose focus when they go back to their mission statement and ask who are we why do we exist they can become confused are we a toy company earlier paper company so the unrelated diversification strategy is to seek new business opportunities, new products, new services that are unrelated to your existing products and services.

Related Diversification:

Most companies are motivated to seek diversification. Some do so with on related products. Some diversify with related products, so like giving an example, consider a shoe store where a single product focus got the company started, drove its early success but the company realized that it was very risky to rely solely on that one type of product. So they expand. But they expand into related products. Products like purses, belts, other dress accessories. So what a company is doing with related diversification is creating new products, new product lines, but that enable the company to draw all on their existing knowledge and skills and experiences to draw on their existing expertise in quite often to target the same customers because the products are related. Some of these benefits include the reduction of risk that you get with any diversification. It also can lead to efficiencies in the management of the organization, the management of the product lines because your existing management team already has a good understanding other core customer base of the types for products that are involved the industries that are involved. We can often see synergy with this related diversification strategy. We will see a shoe company running a promotion that promotes a combination of shoes and belts shoes and purses for belts and purses or accessories. The risk is that departing from a single product strategy, an organization has a little less focus with the related diversification but it's considerably better focus then we would have with unrelated diversification.

Global Diversification:

A very different way to diversifying an organization's strategic portfolio is to do so through global diversification. With this approach rather than changing the types of products or services that the organization focuses on the market focus has changed and it's changed geographically. The potential benefit this is to reduce volatility and sales and profitability while enhancing the potential for return. By getting to new markets, we hope to reduce volatility because even though the global economy is connected throughout the world, regional and local economies are often different than other regional and local economies and other parts of the world so with a globally diversified focus of an economy is particularly strong in one part of the world that will give a special boost to the overall effectiveness of the globally diversified company. If the economy becomes particularly weak in one part of the world, that will hurt the company and the company's business in that part of the world, but it will not destroy the company because they're likely to be having success in other geographic areas. So global diversification is a nice approach to reduce risk by having diverse customer base to potentially increase your profitability by having a larger customer base. But it does come with some very significant risk and managing these risks often requires very different knowledge, skills, capabilities, and experiences, then managing the products or services themselves. So for example whenever company diversifies globally, it is exposing itself to currency fluctuations. If a company sells product in a country consumers aren't typically paying with the local currency the value of their currency can change substantially compared to the home country currency this could be a favorable change, or an unfavorable change, but it does introduce a new risk and its new risk that is totally unrelated to the products and the risk associated with the products where the company already has expertise global diversification can also be expense. So one of the downsides to diversifying globally is there can be a very high startup cost in a new region or in a new country. So this requires very high investment, often an investment that would be higher than the cost of investing in the development of a new product line. There are a lot of other political and economic and social risk that an organization faces when they go global. For example a company has two understand and manage the risk that governments impose when they change taxes when they change regulations when they, in the extreme, when they might nationalize a piece a business that you have in their country.

The BCG Matrix:

The Boston Consulting Group has developed a framework that can be quite useful for describing, from a different perspective, what an organization's strategic portfolio looks like they talk about looking at pieces up the organization's business and describing those pieces as stars for cash cows, or question marks or dogs We're going to take a look each of those four to give you an idea what each of these is and then we'll look at some examples.

Stars, ?'s, Cash Cows, and Dogs:

A piece of an organization's strategy piece of their business that is considered a star is one that has both high-growth and high market share. It's called a star because on both the most important dimensions that to find success for an organization this star piece a business is one that seems to be producing although the results high-growth high market share high profits clearly most organizations would like to have a lot of stars. Unfortunately, it's very challenging to create a star and to maintain a star. Sometimes stars become different types of segments in a portfolio. Some pieces have an organization's business. According to the Boston Consulting Group model that BCG model if you will are called question marks these tend to be risky new ventures that have the potential for very high payoff but also have a significant risk of meaningful failure. Organizations are different in there tolerance for uncertainty. They're different in their risk aversity. Question marks are risky when an organization pursues a totally new product or a totally new market or totally new pricing strategy. It is unclear there's a question mark about the probability of success. Most organizations when they pursue a question mark understand this may end up as a failure although we hope it becomes star, question marks we hope will become stars or cash cows. Unfortunately they sometimes become dogs. We mentioned a star piece of our business as having high success on almost every dimension profitability growth market share its fairy very difficult to maintain all of that for a piece a business over the long term competitors a piece of that and they come after you and it makes it hard to maintain a piece a business as a star. Another piece of a portfolio can be called a cash cow this is this is a piece a business that has slow-growth but it still has a high market share and it still has a good financial return a good profit return for the company they're called cash cows because they don't move quickly they're not stars but they do bring in the cash. They're not bringing in the cash in a rapidly increasing manner, but they are consistently bringing in profitability to the company it's not a star but it's a reliable producer of success. When we look at the portfolio of an organization, we often find pieces that can be best described as dogs. These are pieces in the business that have low growth that have low market share generally they have low profitability. When an organization looks at their portfolio of business and they find a dog this is a candidate for either fixing or eliminating. It's very unlikely you can turn a dog into a star, but organizations look at their dogs and ask is there any way we can turn this into a cash cow that will produce long-term benefit for us. If not, organizations often need to make the tough decision of eliminating a trusted product or trusted service or a trusted long-term part of your success market segment.

Examples:

Let's look at two companies and see where parts of their business are positioned from this perspective.

Southwest Airlines:

Let's take a look at Southwest Airlines, and let's think about whether their primary product lines are stars, cash cows, or dogs. Let's think about the degree to which their strategy appears to be diversified or single product. Let's take a lot given the message that's ignored in this video and given the other things you know about Southwest Airlines would you consider this to be an organization that has pursued a diversified strategy or would you be more likely to classify it as an organization that is single product, that is discounted basic service, mainline air travel customers. Would you consider it to be a star cash cow a dog? Most would consider the business of Southwest Airlines to be predominately cash cow. Over the years they have begun as a star. When they entered the market, they entered with a small amount of market share, but they very quickly gained market share. They very quickly gained profitability and they did so with a very focused strategy. We get you from here to there. We do it at a low cost and we do it with fun. Subsequent to that, Southwest reached the point where the product was no longer a star. There were competitors; the legacy airlines were competing today most would classify the core business of Southwest Airlines to be a cash cow. It is not growing quickly although it is growing it is generating profits that are reliable and consistent, more so than any other airline in the industry. So most would look at Southwest and say it's a primarily single product, not very diversified company that has established itself as a cash cow organization. The next step for Southwest appears to be the exploration of ways to diversify its business. It has quite a few options as this is being recorded, a primary consideration for Southwest has been to look at global diversification. As you watch this, you will be able to observe how southwest has evolved its strategy and the extent to which they've diversified their products, or have diversified their market, you'll be able to identify whether they've been able to create some new stars, or if they've been content to continue as a cash cow organization, or whether some other previous stars in cash cows have started to become dogs. So this is an interesting challenge for you; look at an organization like Southwest and ask how diversified is it. Why did they choose that and what is the result: star, cash cow, or dog?

Coca-Cola:

Coca-Cola is a good example of an organization that is diversified in quite a few ways. One-way Coca-Cola’s diversified is to diversify globally. Coca-Cola is all over the world and they have strategies that involve developing a very diversified portfolio globally. They do that to manage their risk and they do that to chase big growth opportunities, But Coca-Cola has also adopted what can best be described as a related diversification strategy if we take a look at their product. So here's the Boston Consulting Group strategy again, strategy framework again. If we look at Coca-Cola products, we see that they have some stars. So right now Dasani bottled water is a big star for Coca-Cola. It has had rapid growth, it has high market share, and very high profitability. Everything you would hope all other products would have. They also have their old reliable cash cow products Coca-Cola, Diet Coca-Cola, and related traditional soft drinks. They also have some dogs. They placed a bet on Hi-C and Hi-C has failed them. Hi-C has declining market share, declining profitability. It is a piece a business that Coca-Cola owns that can best be classified as a dog. As you watch this, find out if Coca-Cola has reacted by eliminating that dog, dropping or selling it off, or if Coca-Cola instead has pursued methods for converting this dog into a cash cow. Coca-Cola also has an approach of, I'm including question marks in their portfolio currently, the Full Throttle energy drink is considered one other question marks in the Coca-Cola portfolio. Coca-Cola has made a bet that, given what is happening around the world today, that a drink like full throttle and energy drink focused on healthy, happy people has the potential to become the next star for Coca-Cola. So if you look at this mix this just a subset of Coke's portfolio. They have a base set of cash cow products on which they rely but to grow the company and to grow the company's profitability they also need some stars, and they have at least one of those and the Dasani bottled water line. They realize that current star with Dasani is likely to become at best a cash cow they made a bet on Hi-C, hoping it would become the next star and subsequently the next cash cow, but that appears to be failing, and they're making current bets on products like full throttle in hopes that it will become the next star and then the next cash cow. We can see the overall strategy. Coca-Cola's very systematic we need cash cows, we need to make bets with question marks to create stars in the process will end up with some dogs. We either need to fix them or get rid of them, and a company like Coca-Cola recognizes that this a very dynamic process. If they stuck with this mix of products, they would end up eventually with a mix of only cash cows and dogs. They're not happy with that, so they've got a pretty complete portfolio.

Unit 1.7 – Stage 4: Strategy Implementation

Stage 4: Implement the Strategy

So far we've been talking about how to identify a strategic portfolio that will enable an organization to achieve its strategic objectives and reach its vision for the future. Once we've developed that strategy, we have to implement that strategy successfully and maintain that strategy successfully or we will end up without success

We're going to talk a bit about how to implement or execute the organization's strategy as we talk about how to implement the organization strategy and how to manage it over time, we will draw very heavily on almost every other topic from this course. We will draw for example on change management that talks about how to move from a current status quo to a new strategic status quo. We will talk about leadership and how leaders play a very important role in not only defining the strategy, but executing the strategy. We'll talk about the culture of the organization and how a culture can facilitate the effective implementation of the strategy, or can hinder it. But for now let's just talk briefly about the fact that creating a strategy creating a strategic portfolio is not enough. We also need to execute effectively and we need do so in a manner where we have aligned the various pieces of the organization

Strategy Implementation:

When we talk about implementation and alignment, we're talking about what actually happens day-to-day what happens. What does the organization do? Where does the organization invest? What kinds of decisions does the organization make? Once that strategy is created, the task for the organization and its members is to make sure that that strategy is implemented, because doing so will lead to the achievement of the strategic objectives

Organizational Alignment:

Let's talk briefly about the idea of alignment in an organization. There are two big parts of alignment that we have to talk about. The first is that we need to make sure that the work of each part up the organization not only produces the desired results for that part of the organization, but it does so in alignment with the overall goals of the organization, and an alignment with the work that's been done by other part to the organization. That's a major part of the alignment challenge. But there are other parts the alignment challenge as well. We're going to look at it short clip from the CEO of Zappos. In this clip, Tony will talk about primarily a different kind of alignment and that is aligning the culture of the organization with the strategy of the organization, and the hopes that culture will help drive success

Tony Hseih Zappos CEO on company culture at International CES 2013:

INTERVIEWER: I want to really step into the internet time machine... think 1990s.

TONY: Yeah, so LinkExchange was found in with my college roommate and we specialized in online banner advertising, and grew that to about a hundred or so people on and then ended up selling the company to Microsoft two and a half years later in 1998 , and what a lot of people don't know is the real reason why we ended up selling the company and the real reason was it just ended up not being a fun place to work anymore. The company culture when completely downhill. When it was just, and I remember in the early days, might just five or ten of us, even when I was 20 of us, it was actually a lot of fun. We were hiring friends, and friends of friends, and working round the clock, and growing, and pretty exciting times but we didn't know any better to pay attention to company culture, and at some point we made one hire that was may be great for the culture, and then and then that person made other hires and then just kind of when we went from to employees, the company culture just kind of slowly started going downhill and just woke up one morning realizing that I was dreading going to the office at my own company.

What's interesting is that books like "Good to Great" by Jim Collins, or "Tribal Leadership" have shown that through the research, companies that have strong cultures actually outperformed companies that don't, all other things being equal in the long run. So it's not just a feel-good thing; it actually is a good long-term business strategy.

What the research has shown is that it actually doesn't matter what your values are, which actually kind of surprised me; it's not like some certain values are better than others. What matters is that you actually have them, and you commit to them as an organization, and then you align the entire organization around those values, and the power actually comes from the alignment, not from what the specific values are. So there is no right or wrong in terms of what's the right culture values, it's more what's the right fit.

Commentary:

Most of you are probably familiar with the Zappos organization, most of you are probably familiar with what they do. I think Tony's comments should have given you an idea of how important culture is as part is a path to successfully implementing their strategy, and achieving their objectives.

Unit 1.8 – Alignment Examples

Alignment Examples:

SPEAKER: When we heard from the CEO of Zappos, we heard an example of the importance alignment of culture and strategy.

Let's also take a look at some examples of how organizations need to align the activities of individual departments, individual parts of the organization so that the overall work of those departments is aligned, creates synergy, and feeds upward success.

HR Department:

Consider, for example, the work that's done in a human resources department. Consider that a human resources department has its own strategic objectives, that has its own strategy, has its own operational plan for achieving its objectives. But keep in mind that the reason that organizations have human resource departments is in the belief that having an effective human resource department will contribute to firm level of success and help achieve the strategic objectives.

Let's look at some specific examples of some of the things that human resource departments do as they attempt to contribute to and be aligned with the higher level interests of the organization.

HR Department Functions:

Just quickly some of the things they chart us, they engage in recruiting and training and performance management. They work with relationships with employees. They help to design jobs so that they're effective and appropriate and rewarding. They select the best people. They train those people. They develop those people. They design systems to pay those people, to motivate them to focus on the most important work. They provide incentives to them to come to the company, stay with the company, produce effectively, and they provide benefits that not only attach employees to the company, but protect the well-being of employees.

Human resources has all of these types of specific responsibilities, and they have strategic objectives within the human resources department on each of these factors. But keep in mind that the real reason that the human resources department exists is to provide a contribution upward to the higher level success of the organization while also engaging in activities that are well aligned with what the other units in the organization are doing.

The better the human resources department achieves its objectives, the better the people, the better motivated the people in all other parts of the organization.

Accounting / Finance Department:

Another common unit in organizations involves accounting and financial practices. Again, just as was true for human resources, they have their own set of objectives, they have their own strategy. They have their own measures of success. Again, as was the case for the human resource department, this accounting or financial unit is focused on producing results that contribute upward to higher level success in the organization, and in producing results that are well aligned with the needs of the other parts of the organization.

Without the right money, without the right support, without the right management of finances, no other part of the organization will be able to succeed.

Accounting / Finance Department Practices:

Accounting departments, finance departments, sometimes they're combined, sometimes they're separate. But they're focused on specific activities like preparing a budget and creating reports on budgets and identifying exceptions. Helping to create a competitive position economically. Preparing reports that go to shareholders and stakeholders. Dealing with all of the stakeholders of the organization on financial issues. They also pay attention to financial impact of defective products that come out of a manufacturing piece of the organization. A cost of labor that is used for production and for management. They make projections for the future.

Again remember, although this financial focused part of the organization has its own goals and objectives for everything that does, it's only there that in the belief that if they do their work well, it will support the success of other parts of the organization and also drive upward success.

Marketing Department:

One last example relates to marketing, marketing strategy, marketing practices. Most organizations will have some form of marketing department. They might have separate marketing and sales. They might have separate marketing, sales, and marketing research. But these are major functions in the organization that are very different than what human resources does. Very different than what accounting and finance does.

But it is an important part of the organization, not because it achieves its own objectives, but because by achieving their own objectives they drive upward success and they facilitate the success of other parts of the organization.

Marketing Practices:

These units focus on customers. They focus on developing customer loyalty. They focus on developing promotions and advertising, developing market share. Looking at segmentation, trying to create awareness, developing relationships, communication. They also often get involved in training in working with human resources.

Marketing has a very different set of activities than accounting and finance and human resources. They have different measures of internal success. Again they mean something important to the organization because they contribute to upward success and facilitate the success of other parts of the organization.

Wrap-up:

Later in the course we're going to talk about how to define appropriate structure for an organization. It's that structure that puts human resources in a department, accounting into a department, puts marketing in a department. In effect, when we design a structure we separate parts of the organization.

The key alignment question is how can we take these pieces of the organization, that are all very important, and instead of having them work at cross purposes, how can we align the work that they are doing so that together they contribute to higher level success, so that together they contribute to one another's success, so that together they create synergies. This is the key alignment question. We need to think about it now. We will pursue it in more detail when we talk about designing structure and control systems.

Unit 1.9 – Stage 5: Maintain & Control

Step 5: Maintain & Control:

PROFESSOR: I just mentioned that organizations focus on designing a structure for the organization that facilitates the integration of the work across various units in the organization and the alignment of those.

We also need to think about strategic control. The strategy and the operational plans and our alignment plans, if they all work, if they all work exactly right will create a beautiful, effective achievement of strategic objectives.

But the strategic plans are not always exactly right. The operational plans are not always exactly right. The alignment does not always happen perfectly. We really need to monitor the degree to which our strategy is being followed, the degree to which our operational plans are successful, the degree to which we, in reality, have alignment in the organization.

This involves a strategic control process which basically, making sure that what we plan to do is not only happening, but the results we were chasing are actually occurring. Strategic control.

Strategic Control:

To maintain strategic control requires us to do a lot of monitoring. We have to monitor how strategy is being designed, how strategy is being executed. We need to identify what the results are. Strategic control also involves making adjustments when appropriate. Adjustments in strategy, adjustments in execution, adjustments in alignment.

Virtually every one of our remaining course topics helps to play a role in this strategic control process.

Maintaining Strategic Control:

Our model for the course shows that strategy is key to the success of the organization, but the execution and control of the strategic process relies on how we structure the organization, it relies on the culture, it relies on the human resources in the organization, how we manage teams, how we innovate, how we manage change and how we lead the organization.

Strategy is our starting point. Tells us who we are, what we want to be, how we define success. It develops a grand plan for achieving that success and reaching our vision for the future. But to get there we need all of these other capabilities in our organization. And we'll try to get you there.

Wrap-up:

Remember our enduring ideas. Organizations use strategy to gain competitive advantage. Strategy provides the interface between the organization's internal environment and its external environment. Effective strategies require the alignment of all organizational systems.

Remember that strategy creates an organizational identity. It provides focus. It defines success. And it identifies the path to achieving success.