Strategic Planning 3A

Only study guide for

MNG3701

Semesters 1 & 2

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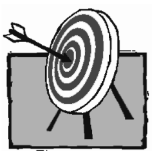
Lesson 1

The evolution of management theories

Before we start our study on strategic planning, it is important to understand where exactly strategic management fits into the organisation. It is also important to understand the value that strategic management adds to the business organisation.

Those of you who have studied management before are aware of the different management tasks or functions and the various roles that they play in the business organisation. However, some of you have not studied management before and for you it is important to understand what management is and how it relates to strategy. The purpose of this lesson is therefore to introduce you to the general management principles and to explain where **strategic management** fits into the management activities of the organisation. We do this by explaining what management is and how it has evolved through the years. We also pay special attention to responsible management and how it relates to strategic management.

Note: There are instances where the words “business”/“business organisation” and “organisation” are used interchangeably throughout the lessons. However, it is important to note that we make use of the word “organisation” when referring to a range of entities including both profit and non-profit entities. While “business/business organisation” is used when specifically referring to entities that are profit driven, strategic management principles in general are applicable to a broader range of entities.

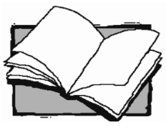


Lesson outcomes

After you have studied this lesson, please make sure that you can do the following:

- Explain the evolution of the management thought.
- Distinguish between traditional and contemporary management thought.
- Differentiate between responsible competitiveness and irresponsible competitiveness.
- Discuss the different stakeholders who have an impact on the organisation with specific reference to their expectations of the organisation.
- Explain the relationship between responsible management and strategic management.

1.1 THE EVOLUTION OF THE MANAGEMENT THOUGHT



Read through the chapter orientation of chapter 1 in your prescribed textbook.

The concept of management is not new, it has been around for many years. It can be traced back to at least 3000 years before the birth of Christ, a time where Sumerian priests kept records of business transactions (Pindur, Rogers & Kim, 1995).

Before we delve into the different management theories, let's start by clarifying the concept of 'management'.

What exactly is "management"?

Management is defined as a **process of working with and through others to achieve the organisational objectives** in a changing environment. Management can also be defined as **the people** who manage the process of working with and through others to achieve organisational objectives.

Management essentially has four characteristics.

It is a process consisting of **four interrelated tasks**, namely **planning, organising, leading** and **control.**

It involves **working with** and **through others**.

It aims to achieve **organisational goals and objectives**, balance effectiveness ("doing the right things") and efficiency ("doing things right") and make the most of limited resources.

It takes place in **an ever-changing environment** that consists of three sections, namely the **internal environment**, the **market environment** (industry) and the **remote environment** (macro-environment).

Study the following learning outcomes in chapter 1 of your textbook:
LO1: Present an overview of the traditional theories of management, (section 1.1).

From when an organisation is established, and as organisations grow, the management process increases in complexity, prompting the question– **what is the best way to manage an organisation**? When we study the evolution of management theory, this is the one recurring question that management theorists attempt to answer. This means that, over the years, many different approaches to management have been devised. Below is a summary of some of these management approaches.

Summary of the Traditional theories of management.

SCIENTIFIC APPROACH

According to F W Taylor, scientific management is to find the **'one best way' to perform each task.** To do that, each manager must follow **four principles**.
Frank (1868- 1924) and Lillian Gilbreth (1878-1972) are best known for their use of motion studies to **simplify work**, but they also made significant contributions to the employment of disabled workers and industrial psychology. Motion studies were not only used to simplify work, but also to **improve productivity and to reduce the level of effort required to safely perform a job.**
Henry Gantt (1861-1919) best known for the **Gantt chart**, but he also made significant contributions to management with respect to **pay-for-performance plans and the training and development of workers**. A Gantt chart visually indicates what tasks must be completed at which times to complete a project.

BUREAUCRATIC MANAGEMENT

Max Weber (1864-1920) was a German sociologist who viewed bureaucracy as the exercise of control based on knowledge, experience or expertise rather than ruling by virtue of favouritism or personal or family connections. People in a bureaucracy would **lead by virtue of their knowledge, experience and expertise**. Furthermore, the aim of bureaucracy (according to Weber) is not to protect authority, but to **achieve an organisation's goals in the most efficient way possible**. Weber identified seven elements that he believed characterise bureaucracies.

ADMINISTRATIVE MANAGEMENT

Henri Fayol (1841-1925) had an interest in those actions that had an impact on the productivity of businesses. Fayol argued that the success of a business generally **depends much more on the administrative ability of its leaders** than on their technical ability. Furthermore, Fayol stated that managers need to perform five managerial functions if they are to be successful, namely planning, organising coordinating, commanding and control.

In addition, this approach also identified 14 principles of management, namely the division of work, authority and responsibility, discipline, unity of command, unity of direction, subordination of individual interest to general interest, remuneration, centralisation, scalar chain, order, equity, stability of tenure of personnel, initiative and esprit de corps.

THE HUMAN RELATIONS APPROACH TO MANAGEMENT

The human relations approach to management **focuses on people, particularly the psychological and social aspects of work**. This approach to management views people not as extensions of the machinery and equipment that are used in organisations, but as valuable organisational resources.

Mary Parker Follet and Elton Mayo made important contributions to the human relations approach to management.

OPERATIONS MANAGEMENT

Operations management is concerned **with the transformation or conversion of inputs into goods and services as efficiently as possible**. Operations management involves the daily production of goods and services. Operations management uses quantitative, or mathematical approaches to find ways to increase an organisation’s productivity and profitability and to improve the quality of its products and services.

QUALITY MANAGEMENT

Quality management can be described as the **act of overseeing all activities and tasks needed to maintain a desired level of excellence**. In business, quality management will include four components namely planning for quality, quality assurance, quality control and continuous quality improvement. Deming is often regarded as the father of quality management.

THE SYSTEMS APPROACH TO MANAGEMENT

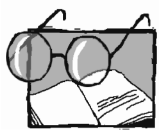
The systems approach to management views the organisation as a system, comprising of various subsystems, which are simply **smaller systems within larger systems**. It is a line of thought that stresses the interactive nature and interdependence of external and internal factors in an organisation.

THE CONTINGENCY APPROACH TO MANAGEMENT

The contingency approach to management, states that the **application of management principles depends on the specific situation** that managers face at a given point in time in the business. The contingency approach acknowledges that every business, even every department or unit within the same business, is unique. Every business exists in a unique environment (micro-, market and macro-environment) with unique goals and strategies. **Managers therefore need to adapt their management approaches to suit the unique situation of the business.** The contingency approach to management emphasizes that there are no universal management theory or approach.

In this section we identified and explained the traditional theories of management, we also examined how the theories evolved over the years. In the next section we look at how the traditional theories of management evolve to responsible management.

1.2 RESPONSIBLE MANAGEMENT



Study the following learning outcomes in chapter 1 of your textbook:
LO 2: Explain how the traditional theories of management evolve to responsible management, (section 1.2).

The world is characterised by different challenges such as global warming, global health crises, overpopulation, poverty and hunger, severe draught in some countries and floods in others, corruption, income inequality and so on. The traditional management approaches have been blamed for many of these ailments. While recognising the value of management practices and functions, there is a renewed need for more responsible approaches to management that considers a wider range of stakeholders, the environment, sustainable business practices and sound governance. For this module, we emphasise the need for a responsible approach to management (Botha, 2022).

Responsible management is a type of management that **integrates sustainability**, **responsibility, and ethics into managerial practices** (Laasch & Conaway, 2015). Responsible management is not new. Discussions of responsible management date back to the 1920s, long before discussions about business sustainability, responsibility, and ethics surfaced (Laasch, 2016).

Table 1 below shows when the discussions started and how it evolved over the years.

YEAR	**AUTHOR**	**DISCUSSION**
1920s	Wallace B. Donham	Highlighted an idealistic image of managers' social role and responsibility.
1927	Mary Parker-Follett	Envisioned management as a profession with a key role in society's welfare through the efficient provision of needed goods.
1951,1953	Bowen Abrahams	Descriptions of the responsibility of the businessman, with a genuine concern for "management's responsibilities in a complex world.
1962	Donham	Management was failing to fulfil

		its societal role and to act responsibly.
1970	Milton Friedman	Managers should not engage into social responsibility and may therefore be expected to be irresponsible.
1971-2010	Carroll, 1999; Montiel, 2008; Schwartz & Carroll, 2008	Shifting attention from the individual to the organisational level -fields of corporate social responsibility, corporate citizenship, corporate sustainability, social enterprise, and business ethics.

Source: (Laash, 2018).

As can be seen in Table 1 above, the responsible management discussions started by highlighting an idealistic image of **managers**' social role and responsibility. It then evolved by shifting attention from the manager to the **organisation** - this is where fields such as of corporate social responsibility, corporate citizenship, corporate sustainability, social enterprise, and business ethics emerged. While not denying its significance, these discussions have distracted from <u>the original concern for the individual manager</u> (Laash,2018).

The responsible management discussion is different from organisation-level discussions, because it **focuses on the individual and processes of responsible managers and management**. By so doing it puts managers front and center and task them with responsible management practices (Prahalad, 2010).

In this section we established that responsible management is about the integration of **S**ustainability, **R**esponsibility and **E**thics into the managerial practices of 'normal' managers. The following section explores each of the three concepts.

1.2.1 SUSTAINABILITY

Traditionally, the primary goal/outcome of business organisations was to realise a profit and thereby satisfying the needs and expectations of its owners (or shareholders). However, in the modern business world, a much broader perspective is used to evaluate the performance of a business organisation. Businesses are expected to perform in three areas, which is referred to as the **triple bottom line.** The triple bottom line not only focusses on the expectation of shareholders (profit), but simultaneously on the expectations of **all other stakeholders**, namely **people and the planet.** Therefore, to be regarded as sustainable, a business organisation needs to deliver the following outcomes:

- be **profitable**;
- take responsibility for the **physical environment** in which it operates (environmental responsibility) (planet); and
- meet its **social responsibilities towards the community** in which it operates (people).

Take note of the definition of SD and SDGs in the prescribed book.

'sustainable development (SD)'. 'The human ability to ensure that the current development meets the needs of the present **without compromising the ability of future generations** to meet their own needs'

Activity

Use an organisation of your choice to explain its purpose and desired outcomes. Do you think this organisation is sustainable? Justify your answer.

Feedback

The purpose of a business organisation is to create value.

The performance of the business is determined by how well It reaches the following desired outcomes:

- *profit for the owner/shareholders*
- *environmental responsibility (planet)*
- *social responsibility (people)*

1.2.2 RESPONSIBILITY

In the context of responsible management, responsibility focuses on **stakeholder engagement with the aim to optimise stakeholder value**. As indicated in the previous section, the triple bottom line not only focusses on the expectation of shareholders (profit), but simultaneously on the expectations of all other stakeholders. **Who are the stakeholders of an organisation**? In theory, there are different views of who constitute the stakeholders of an organisation. These are considered as either 'narrow' or 'broader' views of stakeholders.

THE 'NARROW' VIEW ON STAKEHOLDERs	**THE 'BROADER' VIEW ON STAKEHOLDERS**
Attempts to define relevant groups in terms of their direct relevance to the organisation's core economic interest. This view considers only stakeholders who are directly linked to the organisation – it focuses on where the organisation conducts its business and includes employees, suppliers, customers and financial institutions.	Looks beyond the stakeholders within the organisation and includes those that are on the outside. This view is oriented towards the social responsibility of organisations as it adds other stakeholders, such as the broader community, local and/or national economy, non-governmental organisations and any other person or group of people who are affected by an organisation's activities.

Source: (Botha,2022).

Activity

Find the word "stakeholders" in the key terms at the beginning of Chapter 1 in your textbook. In your own words, **explain what a stakeholder is**. Once you have done that, explain what the following stakeholders expect of the organisation:

- Customers
- Suppliers
- The community
- Organised labour

Feedback

A stakeholder is any person or group of people that have, or claim to have, an interest in an organisation and its activities.

- *Customers want quality products and excellent service.*
- *Suppliers want to be paid on time.*
- *The community expects the business organization to give back to them/invest in them by supporting community projects and contributing to the community in the form of sponsorships and financial contributions to worthy causes.*
- *Organised labour would like the organisation (the employer) to treat employees with fairness, dignity and respect.*

1.2.3 ETHICS

What do we mean by ‘ethics’? Is it the same as ‘business ethics’?

Ethics deals with **the character of an individual** and the **moral rules that govern and limit our conduct**. Ethics investigates questions of **what is right and what is wrong, what is duty and what is obligation, and what is moral responsibility**. Ethics refers to the participation in social values, standards, norms and customs, which ultimately guide human behaviour (Botha, 2022).

As indicated in previous sections, with the traditional view of management, the defining purpose of a business is maximising owner value over the long term (Sternberg 2000: 32). **This view generates tension for ethics** because the focus of ethics is people, their rights and their welfare (Cragg, 1997). Furthermore, this view that focuses on owner wealth **contradicts African cultures** (Adeleye, Muthuri, & Amaeshi, 2020). For example, the philosophical thought system known as Ubuntu which is part of the African culture, is defined as ‘a pervasive spirit of caring and community, harmony and hospitality, respect and responsiveness -that bind individuals and groups display for one another’ (Mangaliso, 2001: 24). Ubuntu has a strong humanistic orientation, this is in sharp contrast of the traditional view of maximising shareholder wealth (Adeleye, *et al*. 2020).

Business ethics is the study of what constitutes right and wrong, or good and bad human conduct in a **business context**. The concept of ‘Business Ethics’ is considered by some as an oxymoron. Some believe that business and ethics do not go hand in hand. However, this notion creates false dilemmas on business practices -the illusion that a business can either be morally good or profitable, or that doing good and doing well, are often incompatible (Freeman, 1994).
Integrating and applying ethical standards to business and management practices seem to be a challenge, because economic goals seem to be more important than other considerations. But this is a misperception, ethical issues are as much an integral part of economics and commerce as accounting, finance, marketing, and management (Werhane & Freeman, 1999).

Activity

Conduct research and write a 1-page essay where you explain why 'business ethics' is not an oxymoron.

Feedback

An essay consists of an introduction body and conclusion.

An essay must start with an introduction. The aim of the introduction is to introduce key concepts and issues that will be dealt with in the essay, in this case 'business ethics'.

The introduction is followed by the body, consisting of different paragraphs. Important aspects to remember:

- *You needed to use PARAGRAPHS and SUBPARAGRAPHS to structure your essay.*
  - *These paragraphs must have meaningful headings and subheadings that are numbered.*
  - *Avoid using bullet points when writing essays.*
  - *You can have headings such as business ethics, how it differs from ethics, what is meant by oxymoron, why business ethics is not an oxymoron.*

The body is followed by the conclusion. In a conclusion you sum up your essay, without introducing new ideas. The goal is to reiterate and summarise the essay's body and leave readers with a final impression. Remember to keep it simple and short.

In this section we explored the three concepts of **S**ustainability, **R**esponsibility and **E**thics. The following section examines the relationship between responsible management and strategic management.

1.3 RESPONSIBLE MANAGEMENT AND STRATEGIC MANAGEMENT

Study the following learning outcome in chapter 1 of your textbook:

LO 3: Debate the drivers of responsible management, (section 1.3).

LO 4: Explain the relationship between strategy and responsible management, (section 1.4).

Before we examine the relationship between responsible management and strategic management, we start by understanding what strategic management all is about. Strategic management is the process whereby organisational strategies are crafted and implemented with the aim of achieving sustained competitive advantage (Botha, 2022).

The overall goal of strategic management is **to achieve a sustained competitive advantage**. An organisation has a sustainable competitive advantage if it has the **ability (or potential) to perform better than its rivals over the long term.** A responsible organisation aims to achieve a sustained competitive advantage while creating value for society and the environment by integrating responsible business factors and principles in the strategic management process. We differentiate between responsible competitiveness and irresponsible competitiveness as follows:

RESPONSIBLE COMPETITIVENESS	**IRRESPONSIBLE COMPETITIVENESS**
Defined as the achievement of competitive advantage for an organisation through the strategic management process, while also creating above average responsible business performance.	Irresponsible competitiveness occurs when an organisation is competitive at the cost of society and the environment.

Source: (Botha, 2022).

Activity

Conduct research on The Foschini Group (TFG) and read its latest annual report. Explain how responsible sourcing and globalisation drives the organisation towards responsible competitiveness.

Feedback

Start by providing the theory under each driver then apply to TFG as requested above.

- *Responsible sourcing can be defined as a function whereby participating actors (the business and its suppliers) are equally accountable for the ethicality and sustainability during the supplying, purchasing, manufacturing and retailing of goods and services. —For TFG…..(add your application)*
- *Globalisation involves operating beyond borders, it gives organisations opportunities to keep costs low, for example, by operating in countries where labour costs are significantly lower. These actions, although cost effective and profit inducing, could have a downside – globalisation may also come at the cost of social and/or environmental and ethical considerations – TFG deals with this by…. (add your application)*

Now that we have established the aim of strategic management, we proceed to examine the relationship between responsible management and strategic management. The relationship between responsible management and strategy can be understood from two perspectives, namely a broad and a narrow perspective, distinguished below.

BROAD PERSPECTIVE	NARROW PERSPECTIVE
Refers to any advantage that a business could potentially reap from activities related to society and the natural environment. Such advantages can be achieved in ways that are unrelated to the field of strategic management.	Refers to the field of strategic management and how responsible business can support the strategic management process and serve to create responsible competitiveness. In other words, **the integration of responsible management principles and factors into the strategic management process** to create responsible competitiveness.

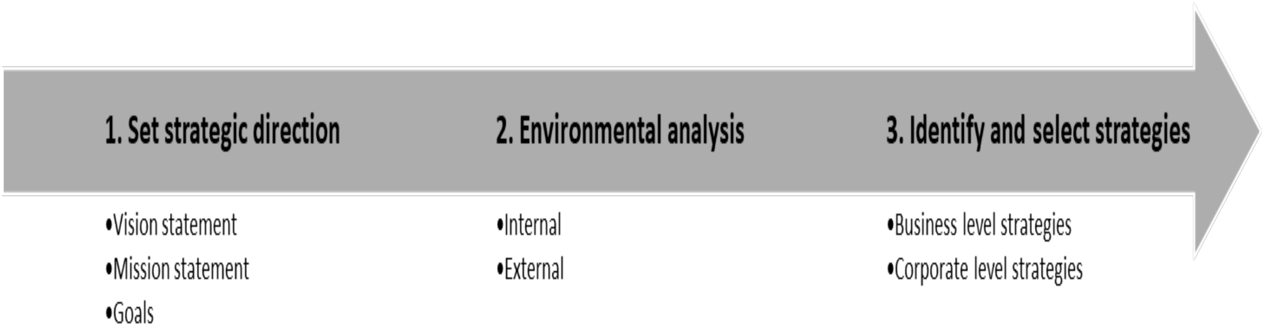
Source: (Botha, 2022).

The narrow perspective refers to the integration of responsible management principles and factors into the strategic management process. So far, we have established what responsible management is all about. In Chapter 3 of the textbook, you will learn more about the strategic management process. There are different perspectives to strategic management. For example, according to the traditional perspective, strategic management consists of three stages, namely, strategic planning, strategy implementation and strategy review and control. This perspective supports a linear approach as depicted below:

Figure 1: Strategic Management process

As depicted in figure 1 above, strategic management starts with strategic planning (which is the focus of this module). Each of these phases can be broken down further. For example, figure 2 below indicates that the strategic planning phase starts with the setting of the strategic direction (Lesson 3). This is where the strategic direction is established and most often expressed as a vision and mission statement. It is then followed by an environmental analysis of both the internal and the external environment (Lesson 4 & 5). The strategic planning phase then concludes by identifying and selecting the appropriate strategy or strategies (Lesson 6). **With the narrow perspective, responsible management principles are integrated in each of the stages of the strategic management process.**

Figure 2: Strategic planning phase



Activity

1. Conduct research on the Mr Price group and evaluate its commitment towards the SDGs.
2. Would you regard the Mr Price group as a responsible business? Substantiate your answer.

Feedback

There are 17 SDG goals. Use this link to learn more about each one of them, https://www.unglobalcompact.org/sdgs/17-global-goals

Your evaluation should indicate how the group is performing on each goal.

Based on the evaluation performed, comment on whether the Mr group is a responsible organisation or not.

1.4 CONCLUSION

In this lesson we established that the concept of management is not new, it has been around for many years. The evolution of management thought highlighted that there are various traditional approaches to management. We also established that the traditional management approaches have been blamed for many issues such as global warming, global health crises, overpopulation, poverty and hunger, severe draught in some countries and floods in others, corruption, income inequality and many more. Thus, creating the need for a responsible approach to management We paid special attention to responsible management and its principles and how these relate to strategic management.

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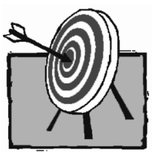
Lesson 2

The role of strategic management in an organisation

The purpose of this lesson is to find out what exactly strategic management is and how it is practised in an organisation. We will look at the components of strategic management, the universal principles of strategic management and the role of strategic management in realising the outcomes of an organisation. The different levels of strategy in the organisation will also be explored, with specific reference to the decision-makers at each level. We will also look at the meaning of strategic success, with specific reference to the characteristics of a successful strategy. The chapter concludes with a contemporary strategic management framework that will be used throughout the textbook to guide you through the strategic management process.

2.1 INTRODUCTION

In lesson 1 you learnt that the purpose of a business organisation is to create value for its stakeholders and that it has to perform in three areas to be considered as successful. According to the triple bottom line, they have to be profitable, environmentally responsible and socially responsible. There are mainly three levels of management, namely top management, middle management and lower-level management who have to ensure that the business organisation meets these outcomes. Top management formulate goals and strategies (strategic planning) and have to ensure that these are implemented. Middle management, or functional managers, are responsible for implementing the goals and strategies that top management has formulated. Lower-level managers manage the day- to-day activities to ensure that the business runs effectively (doing the right things) and efficiently (doing things right).



Lesson outcomes

After you have studied this lesson, please make sure that you can do the following:

- Explain what strategic management is, with specific reference to the components of the strategic management process.
- Explain the role of strategic management in realising the desired outcomes of an organisation.
- Distinguish between the different levels of strategy in an organisation.
- Explain the meaning of strategic success.

2.2 STRATEGIC MANAGEMENT AND ITS COMPONENTS

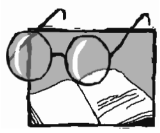
Highlight the following key terms in the beginning of chapter 2 in your prescribed textbook:

- ***Strategic***
- ***Strategic***
- ***Strategic***
- ***Strategy***
- ***Strategic***

The purpose of strategic management is to achieve a competitive advantage for the business that will add value to its stakeholders. A competitive advantage may be achieved in many different ways and top management can use various strategies (methods) to create such a competitive advantage. The textbook defines strategic management as **"the process for planning, implementing and controlling the strategy of the organisation".** It therefore consists of three components, namely strategic planning, strategic implementation and strategic control. Figure 2.1 illustrates these components in a very simplistic way. The focus of MNG3701 is on the first component of strategic management, namely strategic planning.

Figure 2.1: The characteristics of management

2.3 THE UNIVERSAL PRINCIPLES OF STRATEGIC MANAGEMENT



Study the following learning outcome in chapter 2 of your textbook:

LO 2: Identify and explain the universal principles of strategic management, (section 2.2, 2.2.1– 2.2.7).

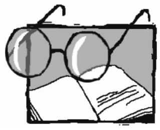
To put the strategic management process into perspective, we are going to take a brief look at some universal principles of strategic management. In your textbook these principles are illustrated by the very relevant case study of Discovery Bank, which will provide you with valuable insight into this topic. The universal principles of strategic management (Venter, 2022) are as follows:

1. Strategy is **ultimately about change,** as it moves the organisation from where it is, to where it would like to be.
2. Strategy takes a l**ong-term view** as it focuses on the long-term sustainability of a business.
3. Strategy is **complex,** as the organisation operates in an environment that is constantly changing and is often very unpredictable. As a result of this, strategic managers have to deal with high levels of uncertainty and risk.
4. Strategy has an **internal and external** focus. Because strategy involves moving the whole organisation in a specific direction, it is crucial that managers understand not only what is happening inside (resources and capabilities), but also what is happening outside the business (opportunities and threats). These factors will have an influence on the choice of strategy and the way in which it will be implemented.
5. Strategy is both **deliberate and emergent.** Those specific strategies that an organisation pursues – like low-cost leadership or differentiation – are deliberately chosen. However, strategies are developed, implemented and influenced by individuals, which means that strategies sometimes "emerge" that were not initially planned. It is therefore important when we are involved in developing and/or implementing a strategy, that we understand who the strategists are, how and why they make decisions and what motivates them. According to this perspective, not only top managers are strategists, but also any other individual who has an influence on how the resources are allocated.
6. Strategy involves **various thought processes**. Some thought processes are rational and cognitive, for instance when strategic workshops are conducted to formulate strategies. Strategists also have to think analytically so that they can determine how the external as well as the internal environments have an impact on the strategic options. In order to formulate strategies, managers

have to think creatively to determine possible strategic options. Lastly, strategic decisions are often influenced by political processes. Strategists will not necessarily agree on the best course of action to achieve strategic goals and may use their sphere of power and influence or persuasive (or dissuasive) language to sway others towards their preference. Strategists are ultimately, like all human beings, social and political beings. They are influenced by their background (e.g., education, culture and religion) and personality in their quest for status and power. It is, therefore, almost impossible to expect strategic decisions to be entirely objective and rational.

7. Strategy happens at **different levels**. We will explore this further in section 6 of this lesson.

2.4 THE ROLE OF STRATEGIC MANAGEMENT IN REALISING THE DESIRED OUTCOMES OF AN ORGANISATION



Study the following learning outcome in chapter 2 of your textbook:

LO 3: Define strategy and explain its importance to the organization, (section 2.3, 2.3.1–2.3.4).

Paragraph 2.3.1 of your textbook very clearly explains that strategy is about gaining a **competitive advantage** and about **long-term survival.** It is not just doing "business as usual", but it is about deliberately steering the organisation into the direction of its strategic goals. This process takes place over a long period of time and requires a large commitment of resources. In this context, strategy is defined as the **direction provided by the actions and decisions of strategists in pursuit of organisational goals.** Although strategic management reaches across all business functions and across all managerial levels, achieving the strategic goals ultimately remains the responsibility of top management.

According to Venter (2022) the role of strategic management is to:

- steer the organisation into a coherent future direction.
- provide a framework to guide the decision-making processes in the business as all decisions have to be aligned with the strategy.
- combine the inputs of various stakeholders and to communicate the outcome back to ensure that everyone follows the same strategy.
- inspire, unite and motivate the staff in organisation.

The purpose of strategic management is to ensure that the organisation applies the following four key elements (Venter, 2022):

- A **clear and consistent strategic direction** outlining what the organisation wants to achieve
- A **profound understanding of the external environment** to align the organisation with the opportunities and threats
- Strategic role players must have an **objective knowledge of the resources and capabilities** of the organisation and also **understand their value** in building a competitive advantage.
- The **structure, systems, culture, functions and operations** of the organisation must be **aligned** to ensure that strategic plans, programmes, projects and so forth are implemented effectively.

According to Venter (2022) strategic management is **ultimately about consistently aligning the organisation with its internal and external environments**. The challenge is to ensure that the organisation makes the best possible use of its resources and capabilities (strengths) to benefit from the opportunities and to avoid or steer around the threats in its external environment. Changes in the external environment will therefore very often require strategies to be changed accordingly.

2.5 THE DIFFERENT LEVELS OF STRATEGY IN THE ORGANISATION

Page back to principle 7 in section 2.2.7 of your prescribed book and read through it again.

Strategising (taking strategic decisions) takes place at different levels of the organisation. In order to explain the levels at which strategic decisions are taken, we distinguish between corporations and single businesses. A corporation is an entity that consists of various businesses. For example, Spur Corporation has several business outlets like Spur Steak Ranches, Panarottis Pizza and Pasta, John Dory's, Hussar Grill, RocoMamas and Casa Bella. Edcon is a corporation with businesses like Edgars, CNA and Boardmans.

At corporate level, the board of directors have to take strategic decisions that encompass the whole group of businesses. In this context, Edcon might decide to buy an additional business like, for instance, PNA. This kind of strategic decision entails the acquisition of an additional business. As most corporations are listed on the stock market, their primary goal is to create value for their shareholders.

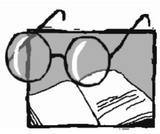
At business level, the strategic decisions taken by top management are about how to build and sustain a competitive advantage for the particular business in the specific industry or market that they operate in, for instance the restaurant industry, the clothing industry or the cell phone market (which is part of the telecommunications industry). The strategies developed at this level are called business-level strategies and include strategies like low-cost leadership and differentiation. We are going to explore these strategies in lesson 6.

Strategic decisions are also taken at functional level, for instance when Cell C decides to launch a new cell phone package, the marketing manager has to develop a marketing strategy outlining how this new service will be launched to the market. Operations managers will take decisions at operational (shop floor) level. The shift manager will, for instance, make a decision with regard to the amount of overtime that is required to reach the production objectives for a specific period. Table 4.1 below compares different decision-making entities (corporations, single businesses, functional areas and operational departments) with one another with regard to the level of strategy and the individuals who make strategic decisions.

Table 2.1 The different levels of strategy in the business organisation

DECISION-MAKING ENTITIES	Corporation	Single business	Functional area (marketing, finance, procurement, production, public relations etc.)	Operational departments
LEVEL OF STRATEGY	Corporate-level strategy	Business-level strategy	Functional or tactical level strategy	Operational-level strategy
DECISION-MAKERS	Board of directors	Chief executive officer / Directors	Functional managers / Staff in functional areas	First-line managers / Front-line managers / Supervisors / Operational managers

2.6 THE MEANING OF STRATEGIC SUCCESS



Study the following learning outcome in chapter 2 of your textbook:

LO 5: Explain how the success of a strategy can be measured, (section 2.5).

According to Grant (2016) a successful strategy has certain characteristics. He refers to the success of Lady Gaga in the music industry. In March 2017 her net worth was estimated as $ 275 million (Woods, 2017). Grant contributes her success to "the presence of a soundly formulated and effectively implemented strategy". The four characteristics that he identifies are:

- **The goals of the organisation are consistent and long-term.** Lady Gaga displays a focused commitment to career goals that she is pursuing steadfastly. On the following link, https://www.slideshare.net/AntonellaAmoruso1/lady-gagas-social-media-strategy you can view her social media strategy for 2017.
- **The organisation has a profound understanding of the competitive environment.**
  Lady Gaga's strategy displays an awareness of the changing economics of the music business; the marketing potential of social media. In 2016 she had 18.7 million Instagram followers and on average 40% of these followers engaged with her by liking or commenting on her posts.
- **There is an objective appraisal of resources. Lady Gaga deploys her resources effectively.** She is also aware of the limits of her resources. In this case she draws upon the variety of talents in her Haus of Gaga (her personal creative team).
- **Effective implementation.** The size of Lady Gaga's following is testimony to her effectiveness in implementing her strategy.

Activity

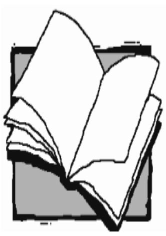
Access Lady Gaga's 2017 social media strategy on the following link: https://www.slide- share.net/AntonellaAmoruso1/lady-gagas-social-media-strategy

Note the following with regard to this strategy:

(1) The information in the social media audit – very detailed (pages 4 and 5)
(2) The information about her followers – very detailed (page 6)
(3) The comparison of Lady Gaga with her biggest three competitors in terms of their social media presence (page 8)
(4) The social media policy on page 16 and the critical response plan on pages 17 and 18
(5) Pages 19 to 22 that outlines how results will be measured and reported

Points 1 to 3 above illustrate the fact that Lady Gaga has a sound strategy that is based on detailed information about her followers and her competitors. The policy, critical response plan and control measures 4 and 5) point to the steps that they take to ensure successful implementation of this strategy.

2.7 A CONTEMPORARY STRATEGIC MANAGEMENT FRAMEWORK



Read through the following learning outcome in chapter 2 of your textbook:

LO 6: Discuss a contemporary strategic management framework, (section 2.6)

In Figure 2.4 of your textbook, you will find an integrated framework of strategic management that will be used throughout the textbook to guide you through the strategic management process. Read through section 2.6 in your textbook and ensure that you understand the different components of this model. The section of the model that is relevant for this module is **strategy formation** (section 2.6.1). You will see that strategy formation has three elements, namely process, context and content. Certain general **processes** are used to develop a strategy. We will discuss these processes in lesson 3 (chapter 3 of your prescribed book).

Strategy always takes place within a certain **context.** This means that the strategic decisions have to be made in an internal and external environment, influenced by various factors. Your prescribed book provides the example of an organisation in Botswana which is influenced by international, continental, national, industry and internal issues. The context of **strategy** formation will be discussed in lessons 4 and 5 (chapters 5 and 6 of your prescribed book). The last element refers to the **content** of the strategy that is developed, in other words, what it exactly entails. There are different business-level strategies and each of them have specific characteristics. These business level strategies are discussed in lesson 6 (chapter 7 of your prescribed book).

2.8 CONCLUSION

The role of strategic management is to steer the organisation in a desired direction and to provide a framework within which decisions can be made. A clear strategy will assist management at all levels to make decisions that support one another and ultimately ensure that the goals and objectives of the organisation are achieved.

A business is successful when it is profitable, adds value to its stakeholders and meets its social and environmental responsibilities. Strategies are successful when the strategic goals are consistent and long-term orientated, and when the organisation has a profound understanding of its business environment, appraises resources objectively and implements strategies effectively.

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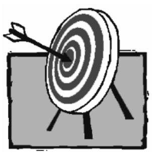
Lesson 3

Setting strategic direction

There is a saying that "if you don't know where you're going, any road will get you there". This is also true for organisations. It is very important that organisations know exactly where they would like to go and to strategically plan the path to get there. The purpose of this lesson is to explain the process involved in setting the direction of the organisation.

Before we focus on strategic direction setting, we will first attend to the process perspective on strategic management and the three steps in this process. Thereafter the focus will be on strategic planning and specifically, strategic direction setting.

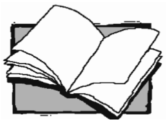


Lesson outcomes

After you have studied this lesson, please make sure that you can do the following:

- ♦ Discuss the process perspective on strategic management.
- ♦ Critically compare the process perspective on strategic management with the strategy- as-practice perspective.
- ♦ Explain the role of strategic direction in strategic management.
- ♦ Identify and explain the components of strategic direction setting.
- ♦ Distinguish between a vision statement and a mission statement.
- ♦ Discuss the characteristics of a well-formulated vision statement.
- ♦ Discuss the components of a well-formulated mission statement.
- ♦ Appraise the vision statement to determine whether it meets the characteristics of a well-formulated vision.
- ♦ Evaluate the mission statement to determine whether it meets the requirements of a well-formulated mission statement.
- ♦ Explain the characteristics of well-formulated strategic goals.
- ♦ Appraise strategic goals to determine whether they demonstrate the characteristics of well-formulated strategic goals.

3.1 INTRODUCTION



Read the opening case and the chapter orientation of chapter 3 in your prescribed textbook.

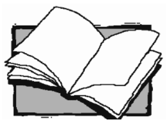
From the Capitec case study it is very clear that Capitec knew from the start exactly where they were going. According to their CEO the focus of the bank was, is, and will remain, "to deliver simplified banking that is affordable and easy to access through personal service". The case study points out that the foundation of Capitec's success is its commitment to its strategy, which is crafted for the medium and longer term.

3.2 THE PROCESS PERSPECTIVE ON STRATEGIC MANAGEMENT

Study the following learning outcome in chapter 3 of your prescribed book:
LO 1: Explain the process perspective on strategic management, (section 3.1).

The traditional view of strategic management regards it as a process with distinct stages or phases. In reality, strategic management takes place in a complex and dynamic environment that is constantly changing. This reality requires organisations to continuously analyse their environment, assess their strategic position and adapt their strategic actions in order to keep in touch with what is happening in their environment. Strategic management therefore entails continuous maneuvering to ensure that the organisation moves in its desired direction despite changes in its environment. The prescribed book views strategic management from a practice perspective, focusing on the "doing" part of strategic management, in other words, the strategic maneuvering referred to above.

Chapter 3 of the prescribed book focuses on the process (traditional) perspective, as this perspective is helpful in explaining the steps that strategists have to follow to manage strategically. Figure 3.1 in the prescribed book depicts the phases of the process perspective of strategic management, namely strategic planning, strategy implementation and strategic control (Davis, 2022).



Read paragraphs 3.1.1 – 3.1.3 of your prescribed book in conjunction with figure 3.1 in the prescribed book and make sure that you can explain the three phases of strategic management.

Activity

Identify and briefly explain the three phases in the process perspective on strategic management.

3.3 CRITICISING THE PROCESS PERSPECTIVE ON STRATEGIC MANAGEMENT

Study the following learning outcome in chapter 3 of your textbook:

LO2, paragraph 3.2: Criticise the process perspective on strategic management.

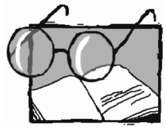
As mentioned, the biggest critique of the process perspective on strategic management is that it does not consider the complexity of the environment sufficiently. This approach also assumes that top management and senior managers formulate strategies, while the other managers (middle managers and first-line managers/supervisors) are responsible for the implementation of these strategies. In reality, strategy is formulated through a process of conversation and input from all levels in the organisation and inputs from various stakeholders. It is therefore not a linear process, but rather a dynamic and complex process that is influenced by many different factors. As a result, strategy is something that the people in the organisation do constantly do.

Activity

Based on the theory you have covered in LO2 of your prescribed book, critically compare the process perspective on strategic management with the strategy-as-practice perspective. You can present your answer in paragraph format or on a table. Your answer should point out at least four differences between the two perspectives.

SUGGESTED ANSWER:	
PROCESS PERSPECTIVE (TRADITIONAL VIEW)	***STRATEGY-AS-PRACTICE PERSPECTIVE***
It does not consider the complexity of the environment.	*It considers the complexity of the environment and continuously adapts to what happens in this environment.*
It views strategy as a linear process with consecutive phases.	*It is a continuous process of conversation and input from stakeholders at all levels of the organisation.*
It assumes that only top management and senior management formulate strategies and other managers are responsible for the implementation of the strategies.	*Managers at all levels of the organisation is involved in the formulation of strategy as the inputs of all stakeholders are considered.*
Strategy is something that the organisation has.	*Strategy is something that the people in the organisation do.*

3.4 EXPLAIN THE ROLE OF STRATEGIC DIRECTION IN STRATEGIC PLANNING



Study the following learning outcome in chapter 3 of your textbook:

LO4: Explain strategic planning, recognise the strategic direction and environmental analysis in organisations and integrate the principles of responsible management in strategic planning, (section 3.4, 3.4.1–3.4.2).

As stated before, this module focuses only on strategic planning, which consists of three steps, namely:

- Setting the direction of the organisation
- Analysing the internal and external environment of the organisation
- Selecting appropriate competitive strategies for the organisation

In this lesson we are concerned with the first step, namely deciding on the future direction of the organisation. Setting the future direction is extremely important as it represents the starting point for a carefully planned and implemented strategy. It provides focus and ensures that all the actions of the organisation are directed at the same goals and therefore moving in the same direction.

Table 3.1 (Davis, 2022) in your prescribed book provides six advantages of having a clear strategic direction. Write down these advantages **in your own words** in the box below:

The advantages of having a clear strategic direction: 1. 2. 3. 4. 5. 6.

3.4.1 The components of strategic direction

The process of strategic direction setting involves strategic thinking to determine the direction in which the organisation would like to move forward – in other words, the organisation has to determine where it currently is and where it would like to be at some future point in time (usually five to ten years). As illustrated below, there is a gap between the current situation of the organisation and the place where it would like to be at a specific time in the future. The next step would therefore be to determine the goals and objectives that the organisation has to pursue in order to get to where they want to be. The value of having strategic direction is that the goals and objectives that are formulated will all focus on where the organisation would like to go, namely, in the same direction (as depicted in figure 3.2 of the prescribed book).

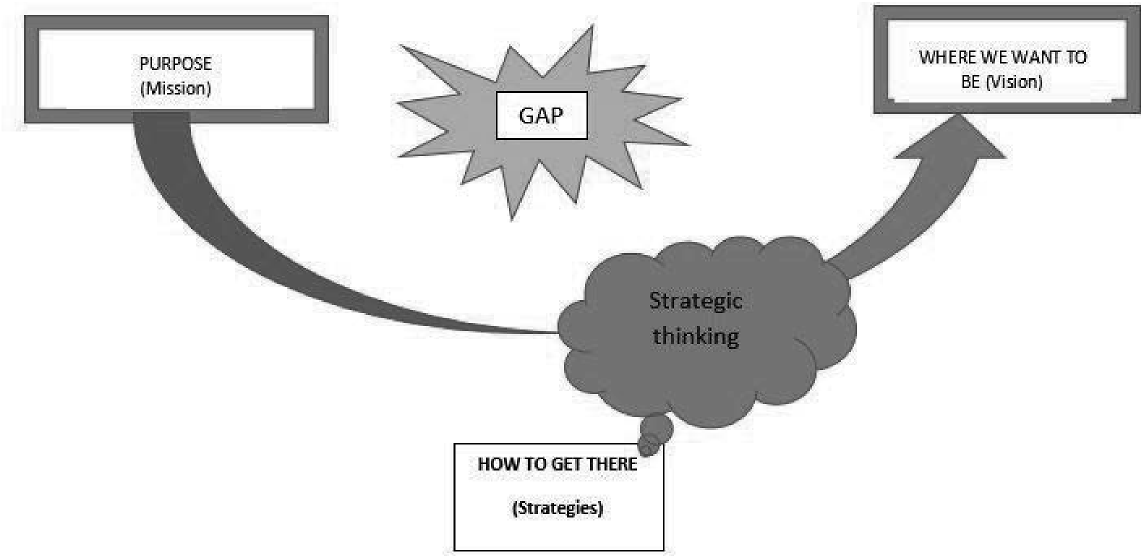


Figure 3.1: The strategic direction-setting process

Two statements define the strategic direction of the organisation. The **mission statement** describes the purpose of the organisation, and it should be in support of the vision. The **vision statement** tells you where you want to be sometime in the future. Not all organisations have vision statements. Some have only mission statements. What is most important is the fact that the organisation must have a clear vision of where they are going/what they are working towards.

3.4.1.1 The vision statement

The vision statement expresses a desired future position, and it is often referred to as the dream of the organisation. The vision must be a powerful, ambitious, imaginable and specific statement that has the ability to inspire the whole organisation (Davis, 2022). Look at the examples that the prescribed book provides of Katlego Global Logistics and Grinrod Limited.

There is no specific format for a vision statement. However, according to Davis (2022), the vision statement should present a clear picture of where the organisation would like to be in the future. It should also be easy to understand, explain and communicate. Lastly, it should be flexible enough to allow the organisation to adapt to changes in the environment.

Let us look at the vision statement of Standard Bank to establish whether it meets the requirements above. According to their website, their vision is as follows (Anon, 2015): *"Our vision is to be the leading financial services organization in, for and across Africa, delivering exceptional client experiences and superior value."*

This vision statement is future oriented, powerful and ambitious, as they strive to be the leading financial services organisation in, for and across Africa, not only in South Africa. It is also specific and motivational in the sense that it points out that delivering exceptional client experiences and superior value are key to fulfilling their vision.

Activity

Critically evaluate the vision of Edcon below to determine whether it meets the requirements of a good vision statement (Anon, 2018).

"Our vision is to ensure that Edcon's stores remain 'The Places to Go' in our chosen markets and to entrench our position as Southern Africa's largest non-food retailer."

After you have done that, make suggestions as to how the vision statement of Edcon could be improved. Based on these suggestions, develop your own vision statement for Edcon.

Use a table with the following column headings to structure your answer: characteristics, yes/no, reason(s) for your answer.

EAVALUATION TABLE

SUGGESTED ANSWER		
CHARACTERISTIC	***Yes/ No***	***REASON(S) FOR YOUR ANSWER***
Is it future oriented?	*No*	*It is not really future oriented, because it states that they would like to REMAIN "The Places to Go". This statement does not indicate that Edcon would like to expand its market, but that it would be happy to remain where they are.*
Is it powerful?	*Yes*	*To a certain extent as it refers to Edcon as "Africa's largest non-food retailer".*
Is it ambitious?	*No*	*No, since it signifies that Edcon is quite happy to stay where they are with regard to their market position.*
Is it imaginable?	*Yes*	*They are already Southern Africa's largest non-food retailer.*
Is it motivational?	*No*	*They are already where they want to be. All they want to do is to remain there and to entrench their position. It does not tell us what they want to become (their dream).*
Does it guide decision-making?	*Yes*	*It tells you where Edcon would like to be in the future.*
Is it flexible enough to allow the organisation to respond to changes in the environment?	*Yes*	*It refers to "our chosen markets", which means that they have the flexibility to change the markets that they focus on.*
Is it easy to communicate, explain and understand?	*Yes*	*It uses simple, specific language.*

SUGGESTIONS TO IMPROVE THE VISION STATEMENT OF EDCON

Make it more future oriented, ambitious, specific and motivational.

MY SUGGESTED VISION STATEMENT FOR EDCON

Our vision is to ensure that Edcon's stores are "The Places to Go" for the middle-income market and to become Africa's largest non-food retailer.

3.4.2 The mission statement

A mission statement provides an explanation of what the organisation does and why it exists. It is often referred to as a purpose statement. A well-formulated mission statement should provide at least the following information:

- The **product and/or service** that the organisation offers
- The **target market(s)** that the organisation serves
- The **method (technology)** used to deliver this product or service to the market
- **Commitment to stakeholders** (customers, business partners and employees): The prescribed book (Davis, 2022) cites the example of City Lodge Hotels that states: "We will be recognised as the preferred Southern African hotel group. Through dedicated leadership, teamwork and kindness we will demonstrate our consistent commitment to delivering caring service with style and grace. We will constantly enhance our Guest experience through our passionate people, ongoing innovation and leading edge technology. Our integrity, values and ongoing investment in our people and hotels will provide exceptional returns to stakeholders and ensure continued, sustainable growth. Through acts of kindness we will make a positive difference to our guests, our colleagues, our communities and our environment."
- The organisation's **orientation towards survival and growth**: This is often expressed through stating their commitment toward economic objectives. Note the example of ADvTECH in the prescribed book (Davis, 2022): "We aim to BUILD and grow a high- quality organisation in education, training and placement that is widely recognised for passionate commitment and success in enriching people's lives and future. We aim to GROW a reputation for our ability to make a real difference to the people we serve, for our connectedness and partnerships with African and global markets and players, for the relevance, quality and usefulness of our offerings, and for the enterprising and agile way in which we tackle our task. We will ACHIEVE this by focusing on our customers and taking a lead from our markets, by our innovative approach, especially in harnessing the power of technology, and by striving for excellence and sustainability in all we do."
- The **organisational philosophy**: This provides an indication of how the organisation plans to do business and it is often linked to ethical standards. Refer the example of Premier Hotel and Resorts that is provided in your prescribed book (Davis, 2022): "We are a professional, passionate, caring and empowering company that encourages innovation and engagement. We are a learning organisation committed to the retention and development of our people as an essential part of building strong, respectful and enduring guest relationships. Our staff are motivated, friendly and obsessive about enhancing the guest experience through meeting and exceeding expectations for quality service."
- **Organisational values:** Principles that set the standard of how the organisation wants to do business. The values of an organisation are so important that many organisations actually have separate value statements.

In the activity below you will be required to evaluate the mission statement of Shoprite Holdings Ltd to determine whether it meets the requirements of a good mission statement.

Activity

Shoprite Holdings – Our **mission** is to deliver low prices in a world-class shopping environment to customers across the African continent. We bring choice, quality products and job creation to communities in all the countries we serve.

Available from: https://www.shopriteholdings.co.za/group/our-mission.html. Accessed: 30 August 2018

Evaluate this mission statement to determine whether it meets the requirements of a well-formulated mission statement. Afterwards, make recommendations as to what additional information Shoprite could include in their mission statement.

Feedback

See suggested answer below:

DOES THE MISSION STATEMENT OF SHOPRITE HOLDINGS LTD TELL YOU ABOUT THE FOLLOWING?	***Yes/No***	***EXCERPT FROM THE MISSION STATEMENT***
The product and/or service	*Yes*	*"low prices in a world-class shopping environment"; "choice, quality products";*
The market	*Yes*	*"customers across the African continent"*
The method (technology) used to deliver this product or service to the market	*No*	

The Shoprite mission is very comprehensive and addresses all the important issues, except for the technology it uses to get the products to their customers.

Activity

Conduct an internet search on Toyota's global vision, and the mission and value statement of Toyota South Africa.

https://www.toyota-global.com/company/vision_philosophy/toyota_global_vision_2020. html

http://www.toyota.co.za/corporate/about

http://www.toyota.co.za/corporate/the-toyota-way

Whilst the global vision and core values are excellent, the mission statement of Toyota SA could be more comprehensive. Can you identify three additional things that Toyota SA could incorporate into their mission statement?

3.4.3 Strategic goals

As illustrated in figure 1, once the strategic direction has been set, strategic goals and objectives must be formulated **to indicate what the organisation has to do to move from where it is to where it would like to be**. It is important to ensure that the organisation stays on track as far as the achievement of goals and objectives are concerned. Progress must be monitored and if deviations occur, they have to be corrected. It is therefore very important that strategic goals and objectives are **measurable in terms of money, units, figures and percentages**. In order to measure goals, they should also be **specific,** so that everyone knows exactly what has to be done. Goals should also be **attainable and realistic** to ensure that those who have to achieve them believe that they can obtain them and are therefore motivated to work towards them. Finally, a well-formulated goal is linked to a **specific time period** to provide individuals with deadlines they have to work towards.

The SMART principles can be used to formulate good strategic goals. It says that strategic goals should be:

S – specific

M – measurable

A – achievable

R – realistic

T – linked to time

Table 3.2 in the prescribed book illustrates the difference between well-formulated and poorly formulated strategic goals.

According to Davis (2022), over and above meeting the SMART principles, strategic goals should also:

- be congruent with the components of the mission statement
- be congruent with the overall strategic direction of the organisation
- focus on the key performance areas of the organisation (the next section will focus on the use of the Balanced Scorecard to identify these areas)
- be acceptable – people tend to pursue goals that are consistent with their preferences and perceptions.
- be flexible – organisations function in a turbulent business environment, which makes it necessary to allow for goals to be modified due to changing circumstances

A tool that can be used to translate the strategic direction of the organisation into goals and targets is the balanced scorecard (BSC). This tool ensures that the strategic goals are balanced in the sense that they are formulated from four perspectives, namely: **the financial perspective, the customer perspective, the learning and growth perspective and the business process perspective**.

As illustrated in figure 3.3 of the prescribed book, four questions, based on the four perspectives, are asked to facilitate the formulation of goals and targets for a specified period (Davis, 2022). Carefully work through the examples in table 3.3 to see how these perspectives are used to develop SMART goals for the organisation. Also work through the case study of CellMobile for a practical example of how the balanced scorecard is utilised in practice.

Activity

Critically evaluate the following three strategic goals of Cellsmart Ltd to determine whether they meet the requirements of well-formulated goals.

Once you have evaluated them, make suggestions as to how these goals can be improved.

Cellsmart Ltd has the following strategic goals:

(1) To increase the profitability of the business over the next year.
(2) To introduce a new cell phone package that more customers will be able to afford.
(3) To ensure an increase in the number of employees who study further.

Feedback

See suggested answer below.

S – specific: Not one of these objectives are specific

M – measurable: Not one of these objectives are measurable

A – achievable: It is not possible to say whether these objectives are achievable, because information about the business is not provided.

R – realistic: It is not possible to say whether these objectives are realistic, because information about the business is not provided.

T – time: Not one of these objectives are linked to time.

Suggestions on how these objectives can be improved:

To increase the profitability of the business with 10% by 28 February 2024.

To introduce a new cell phone package for the lower-income group by 1 October 2023.

To ensure an increase in the number of employees who hold post-graduate qualifications by the end of February 2024.

To ensure an increase in the number of employees who study further with 10% by the end of February 2021.

3.5 THE LAST TWO STEPS IN THE STRATEGIC PLANNING PROCESS

The last two steps in the strategic planning process are environmental analysis and the choice of an appropriate business level strategy for the organisation. As the organisation is complex and dynamic, it is important to continuously scan this environment to ensure that the strategies remain relevant.

The purpose of scanning the external and internal environments is to identify opportunities, threats, strengths and weaknesses. The external environmental analysis will be discussed in lesson 4 and the internal environmental analysis in lesson 5. Thereafter, the selection of an appropriate business level strategy will be deliberated upon in lesson 6.

3.6 THE LAST TWO PHASES IN STRATEGIC MANAGEMENT

Strategy implementation is the second phase in the strategic management process. The purpose of strategy implementation is to ensure alignment between the strategic direction and the strategies, and the actions taken by top management and managers at the other levels, to realise the strategic direction and strategies of the organisation. However, this may be a challenging process and will be dealt with in **MNG3702.**

The third phase of the strategic management process is the review and control phase. As you know, organisations exist in an environment that is constantly changing and therefore strategic direction, strategies and the implementation thereof have to be monitored and reviewed continuously. This phase of the strategic management process will also be discussed in **MNG3702.**

3.7 CONCLUSION

In this lesson you were introduced to the process perspective on strategic management that identifies the different phases in the strategic management process. According to the process approach, strategic management consists of three phases, namely strategic planning, implementation and control.

Once the different phases of the strategic management process had been identified, the focus shifted to strategic planning, with specific reference to setting strategic direction. You were introduced to the vision and mission statements as well as the criteria for vision and mission statements to be effective.

Lastly, the formulation of strategic goals that will enable the organisation to move forward towards their vision was explained. You were also provided with the necessary tools to assess the strategic direction of an organisation.

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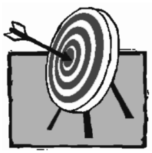
Lesson 4

Analysing the external environment of the organisation

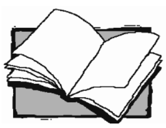


Lesson outcomes

After you have studied this lesson, please make sure that you can do the following:

- Explain the purpose of environmental analysis in strategic management.
- Explain the different environments in which organisations operate.
- Explain the different models that organisations can use to analyse the external business environment, with specific reference to the purpose of each model.
- Use a suitable model to analyse the remote (macro-) environment of an organisation.
- Discuss the challenges that organisations face when doing business in Africa and recommend actions that they can take to overcome these challenges.
- Use a suitable model to analyse the industry of a business.

4.1 INTRODUCTION



Read through the opening case and the chapter orientation of chapter 5 in your prescribed textbook.

No business organisation operates in isolation. It is surrounded by an external environment with a variety of role players and factors that impact on the success and survival of the organisation. These make up the context in which the organisation does its business. The external environment of the business consists of the remote or macro-environment and the market environment. The market environment, on the other hand, consists of the industry in which the organisation operates, and the operating environment which includes financial intermediaries, unions, activist groupings and other relevant stakeholders. In this lesson the various stakeholders that influence the business environment will be investigated. Attention will also be paid to the various external factors that influence the business environment. You will be provided with tools (models) to analyse the external environment of the business and to identify and evaluate the opportunities and threats that face the business.

4.2 THE PURPOSE OF ENVIRONMENTAL ANALYSIS IN STRATEGIC MANAGEMENT

Study the following learning outcomes in chapter 5 of your prescribed book:

LO 1: Recognise the implications of corporate citizenship for managing and governing organisations, (section 5.1).

LO2: Explain the process of strategic analysis, (section 5.2).

The purpose of environmental analysis is to determine the opportunities, threats, strengths and weaknesses of an organisation. This information is then combined with the strategic direction (as discussed in lesson 3) of the organisation to facilitate the formulation of business-level strategies.

Organisations do not exist in isolation; they form part of a bigger environment (context). This environment has certain factors that have an influence on the organisation. Some of these factors could present opportunities which could influence the profitability and growth of the organisation positively. Woolworths focuses on the upper income market and the growing affluence of the black consumers' market is an opportunity to increase their sales and their profits.

The external environment also presents threats that could be harmful to the organisation if appropriate action is not taken to combat them. The lack of infrastructure in Africa, with specific reference to the lack of shopping malls and decent roads, threatens Woolworth's plans to expand into Africa.

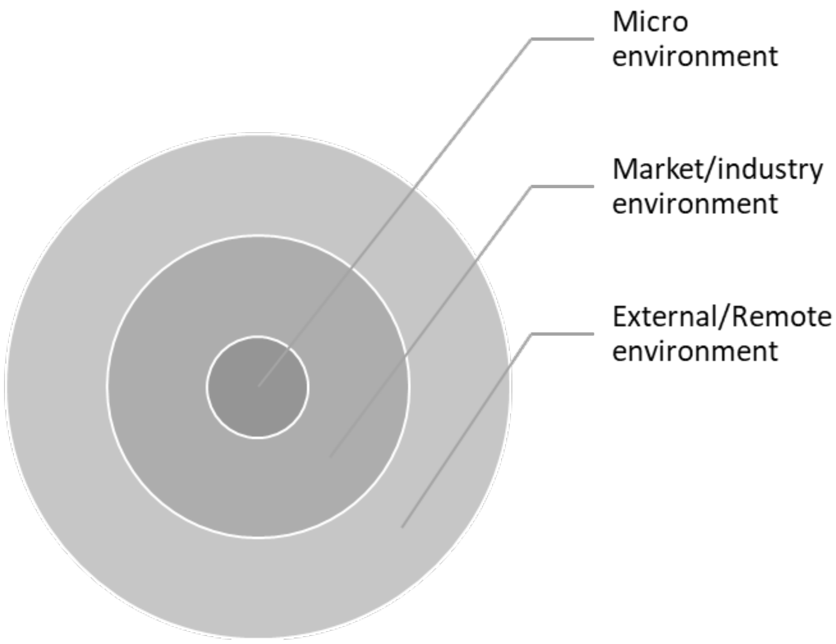
For example, the natural environment – there are a lot of demands on organisations to perform in a certain way. There is great pressure on organisations to act in such a way that their activities contribute to the sustainability of the natural environment, as well as the communities in which they exist. Amos and Pearse (2022) refers to the United Nations Global Compact that calls on organisations around the world to align their strategies and operations with universal principles related to human rights, labour, the environment and anti-corruption. They are also expected to deal not only with their customers, but also with other external stakeholders like the community, government, activist groups, competitors and the media.

An opportunity is a favourable condition in the external environment that the organisation could use to its advantage. On the other hand, a threat is an unfavourable condition in the external environment that could be harmful to the organisation. Strengths and weaknesses are identified through an internal environment analysis and will be dealt with in lesson 5.

As figure 5.1 below depicts, the environment of the business organisation consists of three sections, namely:

- The remote area/macro-environment (political, economic, social-cultural, technological, legal, environment/natural, and global sub-environments)
- The market environment (customers, competitors, the labour market, unions, intermediaries and suppliers)
- The internal environment (functions, policies, strategies, goals, resources)

Figure 5.1: Environment of the business organisation



Activity

1. *Distinguish between Environment of the business organisation. Illustrate your answer with practical examples of your own.*
2. *Use examples to explain opportunities and threats.*
3. *Use examples to explain Strengths and weaknesses.*

4.3 ANALYSING THE REMOTE ENVIRONMENT

Study the following learning outcome in chapter 5 of your prescribed book:

LO3: Explain the levels and related analytical tools of the external context and identify sustainability and responsibility consideration, (section 5.3).

LO4: Identify and analyse the external context to recognise strategic imperatives at the global and regional levels, (section 5.4).

LO5: Identify and analyse the external context to recognise strategic imperatives at the national and local levels, (section 5.5).

As indicated in figure 5.3, there are different levels to the external/remote environment. It can be broken down into several levels, from large-scale and remote global factors down to the organisation's more immediate context. Table 5.1 provides an overview of the levels and some of the tools available for analysis at that level, as well as some of the sustainability and responsibility considerations.

The organisation has no control over the remote environment. It will therefore only be able to react to what is happening in this environment. The PESTEL (G) analysis is a framework or tool (model) that can be used to analyse the remote environment. It identifies the different environmental factors in the remote environment and once each of these areas has been analysed, the purpose is to identify opportunities and threats that are relevant to a particular organisation.
According to Amos and Pearse (2022) the acronym PESTEL(G) stands for the following factors: political, economic, socio-cultural, technology, environment (natural environment) – as outlined in your prescribed textbook.

Study section 5.4 of the prescribed book and ensure that you understand exactly what each of the 7 PESTLE(G) factors entails.

Activity

Provide a brief explanation of the factors that you have to analyse in order to identify opportunities and threats in the remote environment.

The prescribed book also looks at the external environment from a global and a regional perspective. These perspectives explain the context in which strategists take decisions.

4.3.1 Global and regional levels

Global influences refer to those factors in the international context which ultimately have a bearing on the organisation. On the other hand, regional influences are in closer geographic proximity. This could refer to the African continent, sub- Saharan Africa, and the Southern African Development Community (SADC) region from a South African perspective.

There are several strategic issues that plague Africa and sub-Saharan Africa in particular. These include; lack of infrastructure, lack of industrial development, political instability, high levels of poverty, corruption, inefficiencies in the public sector, skills shortage.

Access the following website to view the country profile of Comoros: https://www.bbc.com/news/world-africa-13229685. On this website you will also be able to access the country profiles of other African countries. It will provide you with interesting information and references to other interesting websites.

Activity

Conduct research and do the following:

1. *Briefly outline five global trends that will have an influence on organisations in the next 30 years.*
2. *Briefly outline five regional trends that will have an influence on organisations in the next 10 years.*
3. *Write down the names of the SADC countries.*
4. *Discuss the challenges inherent in these countries.*
5. *What are the main objectives of the SADC group of countries?*
6. *What is the Bottom of the Pyramid market (BOP market)?*
7. *What types of business are generally more inclined to be successful in the BOP market?*
8. *Who are the BRICS countries and what do they have in common?*

4.3.2 National and local levels

Just as PESTLEG can be applied at the global and regional level to identify key factors affecting business, it can also be applied at the national level. Study section 5.5 of the prescribed book and ensure that you understand exactly what analysing the national and local levels entails.

Activity

Woolworths scenario

Access the links below, then answer the questions that follow:

https://www.woolworthsholdings.co.za/wp-content/uploads/2017/12/WHL_INTEGRATED_REPORT_2017.pdf

https://www.woolworthsholdings.co.za/wp-content/uploads/2017/12/WHL_Good_Business_Journey_Report_2017.pdf

https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Economics_Unit/ Research/EconomicResearch/Ratings_actions_24-November_2017.pdf

http://www.africatrademagazine.com/news.html?start=2007

https://www.bizcommunity.com/Article/196/182/99138.html

https://www.foodstuffsa.co.za/woolies-aggressive-growth-

path/

QUESTIONS

(1) Use a suitable model to **analyse** the remote/macro-environment of Woolworths with specific reference to the case study. Then **identify** opportunities and threats that Woolworths face in this environment.
(2) Discuss the obstacles or challenges that Woolworths will face when doing business in Africa. Use practical examples related to Woolworths to support your answer.

Feedback

See suggested answer below:

QUESTION 1

The PESTLE(G) model is the suitable model to analyse the remote/macro-environment of Woolworths. Below, each factor is explained and thereafter, for each factor information derived from analysing the case study is supplied:

Political factors

The political environment includes aspects such as the government, their political policies and interventions, as well as the political stability in the country.

2017 was a particularly challenging year for South Africans. Political turmoil and low economic growth resulted in the downgrade of South Africa's credit rating to junk status. Consumer confidence has been significantly depressed as a result of the downgrade and the continued political uncertainty.

Economic factors

The economic environment includes economic factors like the economic growth rate, inflation, interest rates and exchange rates.

Stricter credit conditions, higher tax rates and high levels of unemployment resulted in lack of growth and consumer confidence which directly influenced consumer spending, particularly in the Clothing and General Merchandise markets. Woolworths is, however, confident that their strategies will deliver future-fit businesses capable of long-term profitable growth, continued market share gains, and sustainable value creation for all stakeholders.

Market conditions in 2018 are likely to be constrained by the same economic conditions that affected performance during 2017. It is likely that there will be more structural change both in South Africa and Australia.

Sociocultural factors

The sociocultural environment includes social values, culture, lifestyles and demographics. It includes anything that has an influence on society.

Woolworths employs more than 44 000 employees in 14 countries, who deliver value to millions of customers on a daily basis.

Historically high household debt, low wage growth, and high levels of underemployment are negatively affecting the Australian retail market.

The face of global retailing is evolving quickly, with online shopping experiencing growth rates in excess of in-store shopping, and footfall in malls decreasing by up to 50% in the past five years over busy shopping seasons. Within online shopping, mobile is experiencing the strongest growth. Online shopping has created more price-savvy consumers who expect the in-store experience to add value, and to be relevant, personalised, and entertaining, while experiencing an efficient and effective online shopping alternative.

Along with the rise in online shopping, customers are also increasingly directing their spending towards experiences and entertainment.

The upcoming generation is strongly supportive of good corporate citizenship. They want to know what retailers care about and how the act of buying can be a force for good. In April 2007, Woolworths launched their Good Business Journey – a bold plan to make a difference in eight key areas on their journey towards sustainability: Energy, Water, Waste, Sustainable Farming, Ethical Sourcing, Transformation, Social Development and Health and Wellness. The WSA Corporate Social Investment (CSI) initiative strives to make a meaningful contribution to communities through the activities of The Woolworths Trust in education, food security, child safety, and employee community involvement, donations of surplus food and clothing and educational programmes.

To Woolworths, ethical sourcing means building meaningful value-sharing relationships with stakeholders and suppliers to ensure that the products they source are in accordance with their exacting requirements, and that these products are created in safe facilities, by workers whose human rights are protected and are paid a fair wage. This includes a new food store design that creates a food destination that celebrates Australian living and puts eating at the heart of the customer experience.

The way in which businesses speak to customers will also shift dramatically. Retailers will no longer have the loudest or most important voice – this will belong to the customer – and businesses will need to pursue personalised, transparent, and active dialogues with customers. Increased personalisation will extend further into appealing tailored products, services and rewards. Stores will need to take on many different forms with deliberate variations in formats and offerings to best meet the diverging needs of our customers. Furthermore, the physical store will need to be re-imagined to deliver a truly unique in-store experiences and will remain a critical way to engage and connect with customers

Technological factors

These include factors such as research and development, new products and processes, and new technologies. The innovation and technology fields have grown exponentially in recent years. They are continuously driving the development of new products and services, thereby creating new industries.

The technologically driven WRewards loyalty programme allows Woolworths to track 67% of spending, making the Group more informed about its customers than it has ever been.

Two production facilities were commissioned by one of their key, exclusive suppliers, which provide them with innovative private label produce and prepared food ranges. According to Moir: "Along with our shared Group knowledge and expertise, we will continue to bring our customers the best of the world in foods with premium private label product and excellent food services."

Mobile and related technologies are enabling consumers to interact with each other and with global retailers directly. This affects every part of the customer journey – from researching products and prices *before purchase, to post-purchase feedback. According to Moir, retail is likely to change more within the next five years than it has done in the last 50 years due to rapid technological developments and an increasingly digitally connected customer.*

Environmental factors

In April 2007, Woolworths launched their Good Business Journey – a bold plan to make a difference in eight key areas on their journey towards sustainability: Energy, Water, Waste, Sustainable Farming, Ethical Sourcing, Transformation, Social Development and Health and Wellness.

Woolworths and their suppliers are dedicated to selling products that cause minimum harm to the natural environment. Working with private label suppliers to improve farming practices, they help to improve soil health, protect water supply, restore biodiversity, support rural livelihoods, help communities adapt to climate change, and ultimately help ensure that they produce sufficient food and raw materials to meet the needs of their customers. "Our potential impact is strengthened through partnerships, so we work with a range of organisations such as WWF-SA, Food Animal Initiative, Better Cotton Initiative and Leather Working Group, to drive further progress against responsible sourcing goals and to develop strategies to reduce the impact of our operations."
Through using recycled material in their packaging, Woolworths is dedicated to reducing the consumption of virgin raw materials from their operations. They also support the growth of the green economy through waste recycling initiatives and making it possible for customers to recycle more easily. The launch of their "green" milk bottles containing 30% plant-based substrate made from sugarcane waste in late 2016 was a significant milestone for Woolworths packaging. The renewable polymer replaces typical oil-based plastics and is 100% recyclable in South Africa. This builds on Woolworths' commitment to look at alternative ways to develop products and packaging. Woolworths was the first retailer in SA to offer packaging made out of recycled polyethylene terephthalate (rPET) plastic bottles and has since incorporated rPET into numerous other products including jeans, t-shirts, duvet and pillow inners, as well as reusable bags. It is estimated that 8.5 million plastic bottles are diverted from landfill each year through this process.

Legal factors

Legal factors include factors such as regulations and laws with which organisations must comply.
There is no reference to legal factors in the case study.

Global factors

Organisations are operating in an increasingly global economy. Global trends have the potential to significantly affect and challenge strategists and leaders.

Woolworths aims to open 15 stores in sub-Saharan Africa, including in Kenya, Mauritius and Namibia. Paula Disberry said expansion into the fast-growing continent could be faster if there were more shopping malls. "The biggest challenge we see is finding good shopping malls. I'd love to have 650 stores rather than 65 stores, but the locations simply don't exist and that's our biggest inhibiter," Disberry said.

Opportunities:

- *There is a rise in online shopping.*
- *Customers are increasingly directing their spending towards experiences and entertainment.*
- *Retail is likely to change more within the next five years than it has done in the last 50 years due to rapid technological developments and an increasingly digitally connected customer. This could be a huge opportunity if Woolworths develop and adapt strategies to take advantage of this phenomenon.*
- *Woolworths are working on a new food store design that creates a food destination that celebrates Australian living and puts eating at the heart of the customer experience.*
- *The innovation and technology fields have grown exponentially in recent years. They are continuously driving the development of new products and services, thereby creating new industries.*
- *Opening new stores in sub-Saharan Africa, including in Kenya, Mauritius and Namibia*
- *The upcoming generation is strongly supportive of good corporate citizenship. They want to know what retailers care about and how the act of buying can be a force for good. This is a great opportunity for Woolworths as they are so dedicated to environmental and social responsibility. They must just ensure that their involvement in these activities is communicated to the consumer.*

Threats:

- *Historically high household debt, low wage growth, and high levels of underemployment are negatively impacting the Australian retail market.*
- *There are not enough shopping centres in Africa, and this inhibits Woolworths' growth in the rest of Africa.*
- *Retail is likely to change more within the next five years than it has done in the last 50 years due to rapid technological developments and an increasingly digitally connected customer. This could be a huge threat for Woolworths if they would like to continue with their business approach without altering it to accommodate this change.*

QUESTION 2

Woolworths will face the following obstacles/challenges when doing business in Africa, especially in sub-Saharan Africa:

1. Lack of infrastructure

The lack of roads, harbours, electricity, ICT networks and railroads may seriously affect an *organisation's supply chain and distribution system; even its ability to implement a cross-border strategy.*

There is a lack of shopping malls in Africa, which restricts the expansion of Woolworths into Africa.

2. Lack of industrial development

Most countries in Africa apply primary resource development in mining and agriculture but fail to develop for example, industries for beneficiation or further processing, resulting in dependence on imports for local consumption and lower country productivity.

This will affect Woolworths in the sense that their processed products will have to be imported from other countries. This will have a huge impact on their costs.

3. Political instability

From a business perspective, this may take the form of erratic and unpredictable government decisions or national and regional conflicts that may lead to uncertainty in markets and volatility and making strategic decisions riskier.

This may interrupt the day-to-day activities of Woolworths.

4. High levels of poverty

In most developing countries in Southern Africa (South Africa, Botswana, Namibia, Zambia and Lesotho) as well as the Comores and the Central African Republic, there is a wide income inequality gap between the rich and the poor[4]. In addition, poverty eradication remains one of the greatest challenges in the region. A Southern African Development Community (SADC) Regional Vulnerability Assessment and Analysis Synthesis Report in 2016 indicated that 40% of all SADC citizens were living in abject poverty[5]. The high levels of poverty and living conditions of the poor makes high-quality nutrition, education and healthcare inaccessible and unaffordable.

As Woolworths focuses on the higher income group, this might mean that the people in African countries would not be able to afford their products. This will have a negative effect on their market share and profitability.

5. Corruption

While levels of corruption may be a global phenomenon not solely confined to Africa, it significantly differs between countries according to the Corruption Perceptions Index 2017[6]. The index, which ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and business people, uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean. New Zealand and Denmark rank highest with scores of 89 and 88 respectively. South Sudan and Somalia rank lowest with scores of 12 and 9 respectively. South Africa is ranked number 71 with a score of 43. The best performing region is Western Europe with an average score of 66 and the worst performing region is Sub-Saharan Africa with an average score 32. With the potential to generate anger and destabilise societies, the cumulative effect of corruption on organisations and economies could be massive.

Corruption will have a negative effect on the activities of Woolworths in African countries, especially if this corruption affects the daily activities and access to their supply chain.

6. An inefficient public sector

Sluggish and even negative economic growth that contributes to failure in alleviating poverty in sub-Saharan Africa can be at least partly attributed to an inefficient and unproductive public sector[7]. Public sector reform involves effectiveness, efficiency, accountability, performance management and ultimately, service delivery to society. Studies on public sector inefficiencies have shown that public sector management tends to prioritise the interests of the government (who is also the provider of public resources) – even when the government's interests are contrary to the needs of the people[8]. South African studies have shown that progress has remained slow and limited because of political interference, unaccountable civil servants, non-compliance with reforms and the overall decline in governance[9].

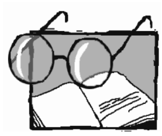
An inefficient public sector will influence the supply chain of Woolworths, especially where imports are concerned.

7. Lack of key human resource skills

Limited access to education at various levels often results in an over-supply of unskilled and semi-skilled labour and a lack of people with the requisite skills to drive economic growth and development[10]. Key findings of the World Economic Forum Report on the Future of Jobs and Skills in Africa 2017 indicate that 9% of employers surveyed in South Africa identified inadequately skilled workforces as a major constraint to their business and expects the pattern to worsen in the future. The report further states that in South Africa alone, 39% of core skills required across occupations will be wholly different by 2019[11].

Woolworths will have to invest a lot of money into the training of their workforce.

4.4 ANALYSING THE MARKET ENVIRONMENT OF AN ORGANISATION



Study the following learning outcome in chapter 5 of your prescribed book:

LO 6: Identify and analyse the external context to recognise strategic imperatives at the industry level, (section 5.6)

As pointed out earlier, the market/industry environment consists of customers, competitors, the labour market, unions, intermediaries and suppliers – all important stakeholders with which the organisation come in contact regularly. The industry is a component of the market environment. It can be defined as follows: An industry is a group of organisations that offer products and services that satisfy the same basic customer needs. Toyota, Nissan, Kia and Honda are all part of the automotive/motor industry. They offer different products for different markets. In the entry-level market they offer products that are close substitutes for one another, for instance the Toyota Aygo, Nissan Micra, Kia Picanto and Honda Brio.

As with the remote environment, the purpose of analysing the market environment is to identify opportunities and threats that a specific organisation face. In the following section we will focus specifically on **how to determine the attractiveness of a particular industry**. The outcome of this analysis will enable organisations to decide whether they would like to enter, remain in or exit the industry in which they operate.

Study the following section in your prescribed book: Industry-level: Porter's five forces analysis of competitors, to familiarise yourself with Porter's Five Forces Model.

Activity

Explain Porter's Five Forces model. Indicate when the power of each force will be high. Use a table like the one below to answer this question.

FORCE	***WHEN THE POWER OF THIS FORCE WILL BE HIGH***

Activity

Refer to the Woolworths links provided in previous sections for this activity.

Use a suitable model to analyse the food and clothing industry in South Africa. Once you have completed the analysis, identify opportunities and threats that Woolworths face in this industry.

Feedback

See suggested answer below:

FORCE	***RELATIVE TO WOOLWORTHS***
Customers	*As a result of their WRewards programme, Woolworths can tract almost 70% of their customers' spending, which means that they are very informed about their customers.* *Consumer confidence has been significantly depressed as a result of the downgrade of SA's credit rating and the continued political uncertainty. Stricter credit conditions, higher tax rates and high levels of unemployment have further exacerbated this. This lack of growth and consumer confidence directly impacts consumer spending, particularly in the Clothing and General Merchandise markets.* *One of Woolworths' big competitive advantages lies in the growing affluence of black consumers. "They aspire to the Woolworths brand even more than white consumers do," says Moir. He predicted that their core market will grow at 5% annually and 92% of the increase will comprise black consumers.* *Online shopping has created more price-savvy consumers who expect the in-store experience to add value and to be relevant, personalised and entertaining, while experiencing an efficient and effective online shopping alternative.* *Mobile and related technologies are enabling consumers to interact with each other and with global retailers directly. This affects every part of the customer journey – from researching products and prices before purchase, to post-purchase feedback. Along with the rise in online shopping, customers are also increasingly directing their spending towards experiences and entertainment.* *The Australian retail market continued to be negatively impacted by historically high household debt, low wage growth, and high levels of underemployment. This has led to*

	subdued consumer confidence and, along with increased competition from Northern Hemisphere entrants, resulted in unprecedented levels of promotional activity in the market. *The way in which we speak to our customers will also shift dramatically. Retailers will no longer have the loudest or most important voice – this will belong to the customer – and we will need to pursue personalised, transparent, and active dialogues with our customers. Increased personalisation will extend further into appealing tailored products, services, and rewards."* *According to Moir, retail is likely to change more within the next five years than it has done in the last 50 years due to rapid technological developments and an increasingly digitally connected customer. "These trends will influence the products and services we provide, how we present and sell our products, and even the type of stores we decide to build."*
Existing competitors	*In the food space, Pick n Pay and Checkers are the biggest competitors of Woolworths. They are wooing its competitors' grocery shoppers by extending its ranges, expanding stock-keeping units, offering more branded goods and introducing more bulk. Edgars is their biggest competitor in the clothing market.* *Both Edgars and Pick n Pay are not doing very well at the moment, which provides Woolworths with an opportunity to take some of their market share.*
Potential competitors	*Everyone is rushing into the middle-income market, including Massmart. Moir predicts that competition in the mid-market segment will become "very fierce".*
Substitute providers	*Any other food and clothing stores are substitute providers for Woolworths. Given the fact that consumers are becoming more inclined to shop online, online businesses like Spree will gain importance as competitors.*
Suppliers	*One of their key, exclusive suppliers commissioned two production facilities. This provided them with innovative private label produce and prepared food ranges. According to Moir: "Along with our shared Group knowledge and expertise, we will continue to bring our customers the best of the world in foods with premium private label product and excellent food services."* *The face of global retailing is evolving quickly, with online shopping experiencing growth rates in excess of in-store shopping, and footfall in malls decreasing by up to 50% in*

	the past five years over busy shopping seasons. In online shopping, mobile is experiencing the strongest growth.
Complementors	*Accessories that complement clothing like handbags and jewellery are important products that could be sold with the clothes that Woolworths sell.*

Opportunities:

- *Because Woolworths is so informed about the buying behaviour of their customers, they have the opportunity to ensure that their products and stores meet the requirements of customers.*
- *The growing affluence of black consumers: it is predicted that the core market of Woolworths will grow at 5% annually and 92% of the increase will comprise black consumers.*
- *There is a huge opportunity to expand the online shopping offering of Woolworths, since consumers exceedingly prefer to shop online instead of going to shopping malls.*
- *Both Edgars and Pick n Pay are not doing very well at the moment, which provides Woolworths with an opportunity to take some of their market share.*

Threats:

- *The lack of growth and consumer confidence in South Africa and Australia directly impact consumer spending, particularly in the Clothing and General Merchandise markets.*
- *The footfall in malls is decreasing. It decreased by up to 50% in the past five years over busy shopping seasons.*

As we all know, the external environment is constantly changing. It is therefore imperative that businesses constantly scan their industry to ensure that they can timeously adapt to the changes that take place in this environment. In addition to the Porter's Five Forces, strategists can also analyse a specific competitor in the industry in detail by applying the **four-corner analysis** to predict what the competitor will do in the future. The tool focuses on the competitors current strategy and capabilities, what motivates the competitor by analysing what drives them and their management assumptions (Amos & Pearse, 2022).

Look at the interesting reading in the Strategy Practice box that illustrates how the four-corner analysis can be applied in the soft drink industry

Activity

*strategic leaders can analyse a particular competitor in the industry in detail by applying **the four-corner analysis** to predict what a particular competitor will do in the future. Briefly explain this tool.*

4.5 INTEGRATED EXTERNAL ANALYSIS OF AN ORGANISATION

Study the following learning outcome in chapter 5 of your prescribed book:

LO 8: Consolidate an integrated external analysis of an organisation, (section 5.8).

The prescribed book analyses the external environment on different levels, namely:

1. Global and Regional,
2. National and Local
3. Industry Suppliers, Competitors & Customers
4. The Organisation and its functions (Read through).

Note: please focus on the first three, read through the fourth one.

After analysing each environment, you need to identify opportunities and threats. **If you have performed an analysis at all the different levels, then the findings of the analysis need to be consolidated**. Opportunities and threats serve as input into the strategic planning of the organisation to formulate strategy. This strategy is then implemented to give effect to an organisation that performs sustainably as a responsible organisation that is integrated into society and creates value (Amos & Pearse, 2022).

4.6 CONCLUSION

As organisations do not exist in isolation, they have to stay in tune with the external environment in order to be sustainable and successful. They must analyse the external environment in order to identify opportunities and threats that could influence the long- term survival and success of the organisation.

Based on the opportunities and threats that organisations identify, they have to determine what they can influence and what not. The secret to success and survival is being agile and ambidextrous – influence those parts of the environment over which you can exercise some control, while adapting to environmental circumstances that are beyond your control or too costly to influence.

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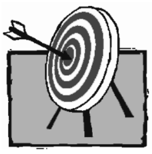
Lesson 5

Analysing the internal environment of the organisation



Lesson outcomes

After you have studied this lesson, please make sure that you can do the following:

- Use a suitable model to analyse the internal environment of the organisation to identify strengths and weaknesses.
- Distinguish between the following approaches to internal analysis:
  - Resource-based view (RBV)
  - Functional analysis
  - Value chain analysis

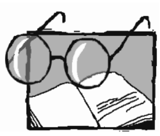
5.1 INTRODUCTION

As we highlighted in lesson 4, organisations do not operate in isolation. They operate in the external environment which consists of the remote or macro-environment and the market environment. We learnt that there are certain opportunities and threats in these environments that have a significant influence on the organisation. In this lesson the focus shifts to the internal or micro-environment of the organisation. The internal or micro-environment is composed of all elements that are found inside the organisation. Such elements are to a great extent within the control of the organisation. These are elements such as the vision and mission statements, functions, policies, strategies, goals, resources and many more.

Strategy practitioners often ask questions such as, ‘‘What makes us distinctive or unique?”;” Why do some and not other customers buy from us?”; “Why are we profitable?”. Typical answers might refer to the organisation’s” technical know-how”, ”responsiveness to market needs”, ”design and engineering capability”, or “financial resources”. The common theme among these responses is that management deems some organisation-specific resources and capabilities to be crucial in explaining an organisation’s performance” (Amit & Schoemaker, 1993:33).

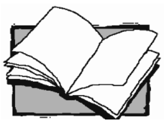
In this lesson we focus on the role of the organisation's resources and capabilities in the development and implementation of a strategy to achieve the goals of the organisation. We begin the lesson by differentiating between resources, capabilities and core competencies and focus on the importance thereof in strategic management.

5.2 THE IMPORTANCE OF RESOURCES, CAPABILITIES AND CORE COMPETENCIES IN STRATEGIC MANAGEMENT



Study the following learning outcome in chapter 6 of your prescribed book:

LO 1: Explain the importance of resources, capabilities and core competencies in strategic management, (section 6.1).



Read through the chapter orientation in the prescribed book. You will see that strategists have to match the resources and capabilities inside the organisation with opportunities in the external environment in order to formulate successful strategies. Resources and capabilities are the primary source of competitive advantage as these enable the organisation to differentiate itself from competitors. It therefore forms the basis of strategy formulation.

5.2.1 What is the relationship between resources, capabilities and core competencies?

Before we continue, it is important that you have a basic understanding of the three concepts illustrated in figure 1 below. Although these concepts form a critical part in the formulation of strategies, their meaning is often taken for granted and not fully understood (Mooney, 2007). Note the definitions, the characteristics of and the relationship between the three concepts.

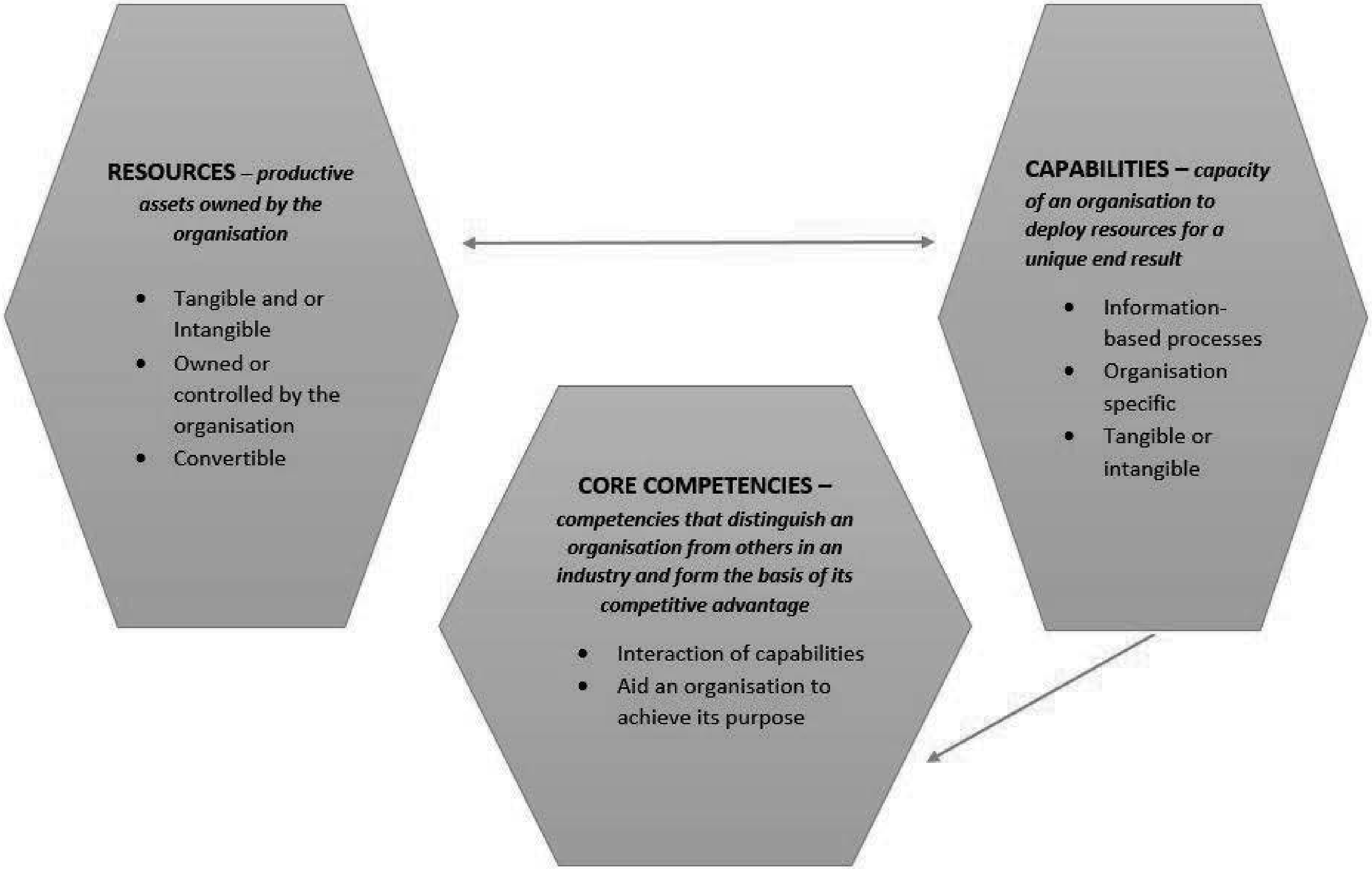


Figure 5.1: The relationship between resources, capabilities and core competencies
Source: Adapted from Amit & Schoemaker (1993).

Figure 5.1 above depicts the relationship between resources, capabilities and core competencies. As can be seen from the figure, resources can be tangible or intangible. Capabilities are those "things" that an organisation does well and is often related to processes and systems. Deploying the resources of the organisation through the use of certain capabilities could result in core competencies that provide the organisation with a competitive advantage. For instance, Woolworths has a loyalty programme (intangible resource) that, through the use of technology (tangible resource) enables them to constantly monitor their customers' buying behaviour (capability) and ensure that they target the right customers with the right promotions and deals. This provides them with a marketing capability that contributes to their unique customer service (core competence).

5.2.1.1 Resources

As explained in section 6.1.1 of the prescribed book, resources are the productive assets owned by organisations that are used to transform inputs to outputs. As already indicated above, a resource is either tangible or intangible. Make sure that you can explain the difference between tangible and intangible resources. The table below provides some examples of tangible and intangible resources.

Table 5.1: Examples of tangible and intangible resources

Tangible resources	Intangible resources
• Equipment • Money • Structures • Technology used • Location	• Reputation of the organisation • Employee know-how • Perception of quality • Ability to innovate • Participative management style

Resources can be grouped into five primary categories which are explained in the prescribed book. These include financial resources, physical resources, human resources, organisational resources and technological resources. In the "Practising Strategy" section you will find examples of resources that First National Bank had at their disposal when they started Discovery Medical Aid.

Resources can be used as a basis for the formulation and implementation of strategies, but not all are strategically relevant for the strategic direction of the organisation. Those that are relevant should be identified and exploited accordingly. Resources alone do not result in a competitive advantage. They have to be transformed through capabilities to become core competencies that would lead to a competitive advantage.

5.2.1.2 Capabilities

An organisation is viewed as a bundle of resources and capabilities (Amit & Schoemaker, 1993). We have already touched on resources in the previous section. This section will focus on capabilities. Read section 6.1.2 in the prescribed book again. You will see that capabilities are defined as the capacity of an organisation to deploy resources for a unique end result (Nieuwenhuizen, 2022). Capabilities are organisation-specific clusters of activities such as business processes, routines and systems developed through complex interactions between tangible and intangible resources over time. It reflects what an organisation excels at compared to other organisations.

Capabilities are usually found in a particular functional area (also see our discussion on functional analysis in section 4.1 of this lesson). For example, there are marketing capabilities (refer to figure 5.2), production capabilities, distribution and logistics capabilities and human resource management capabilities. Even though capabilities are usually found in particular functions, this does not mean that resources that reside in other functions and across the organisation cannot be exploited (Javidan, 1998). For example, Discovery's capabilities to develop new businesses is very much linked to its overall corporate image. Therefore, its marketing strategies attempt to take advantage of the company's reputation.

In the "Practising Strategy" section in your prescribed book you will see that Discovery has a capability to develop strong brands like Discovery Vitality. They do that through the combination of financial resources, human resources and organisational resources. As can be seen from figure 5.2, the combination and interaction of financial and human resources and intellectual property results in a branding capability.

Figure 5.2: The link between resources and capabilities

Source: (Nieuwenhuizen, 2022)

Activity

Read through the opening case and the Practising Strategy box in your prescribed book and do the following:

(1) Provide examples of any four resources that Discovery will need to establish their bank.
(2) With the use of examples, explain how Discovery Bank can make use of resources to develop capabilities.

Feedback

See suggested answer below:

1)

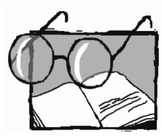
- *financial resources: capital to market the new venture.*
- *physical resources: office space and equipment.*
- *human resources: new employees.*
- *technological resources: computers and an established information technology system.*

2) Discovery Bank can combine financial resources and employee know-how to create technological capabilities that will add unique value for their customers and contribute towards developing a sustainable competitive advantage.

5.2.1.3 Core competencies

Employee know-how, reputation and a strong market share are some of the intangible resources that form the basis for capabilities that can contribute to an organisation's success. However, an organisation needs core competencies (also referred to as distinctive capabilities) for it to develop and maintain a sustainable competitive advantage. Core competencies are those capabilities or competencies that are unique to an organisation. Therefore, these competencies differentiate an organisation from its competitors (Hall, 1992). In the case of Discovery, their branding and marketing capabilities are distinctive because these capabilities differentiate them from their competitors. Their branding and marketing capability could therefore be regarded as a core competency. Figure 6.3 in the prescribed book illustrates the link between resources, capabilities, core competencies, strategy, competitive advantage and organisational performance. Read through the "Practising Strategy" section in Section 6.1.3 to see how Discovery uses their core competencies of new business development, branding and marketing to expand their competitive advantage.

5.3 HOW DO RESOURCES AND CAPABILITIES BECOME CORE COMPETENCIES?



Study the following learning outcome in chapter 6 of your prescribed book:
LO 2: Explain the appraisal of the value of resources and capabilities, (section 6.2).

Discovery's branding and marketing core competency is not something that happened overnight. It was developed over time through organisational processes, using different resources and capabilities. Section 6.2 of the prescribed book explains that for capabilities and resources to become core competencies that result in a competitive advantage, they have to meet certain conditions (have certain characteristics).

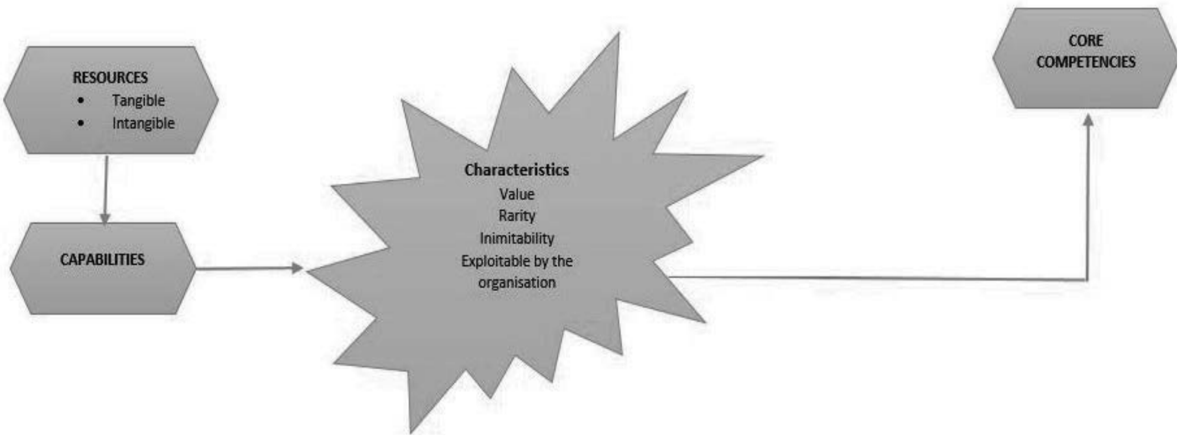


Figure 5.3: Resources, capabilities and VRIO

As you can see from figure 5.3, for resources and capabilities to become core competencies, they should be valuable (V), rare (R), inimitable and non-substitutable (I), and exploitable by the organisation (O). Each of these VRIO measures can be used to test the strategic value of an organisation's resources and capabilities. Read through section 6.2 of the prescribed book and specifically ensure that you can explain the VRIO principles and understand the examples the author used to illustrate these characteristics.

In certain instances, resources and capabilities meet some but not all conditions resulting in a weaker competitive advantage. This is illustrated in table 5.2 below.

Table 5.2: Outcomes from combinations of the four characteristics (VRIO)

Valuable?	Rare?	Inimitable?	Exploitable by organisation ?	Competitive advantage	Performance
No	No	No	No	Competitive disadvantage	Below-average returns
Yes	No	No	Yes/No	Competitive parity	Average returns
Yes	Yes	No	Yes/No	Temporary competitive advantage	Above-average returns
Yes	Yes	Yes	Yes	Sustainable competitive advantage	Above-average returns

Source: Adapted from Hitt, Ireland & Hoskisson (2007).

Table 5.2 indicates that when resources and capabilities are not valuable, not rare, imitable and not exploitable by the organisation, they result in a competitive disadvantage and therefore yield below-average returns. On the contrary, when resources and capabilities are valuable, rare, inimitable and exploitable by the organisation, they result in a sustainable competitive advantage and yield above-average returns. Figure 5.4 below illustrates how these concepts link together and result in excellent profitability.

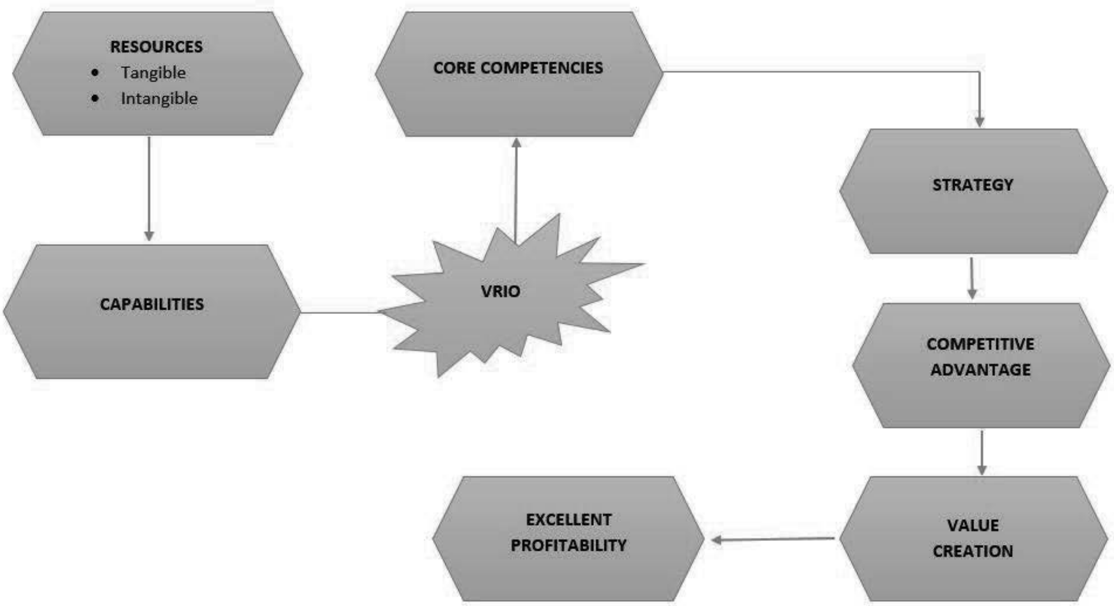


Figure 5.4: The link between resources, capabilities, strategy and competitive advantage

Source: Adapted from Nieuwenhuizen (2022).

Figure 5.4 is a visual illustration of the concepts that we have covered so far. It also shows us how the various concepts link together. The figure can be summarised as follows: resources on their own add little value. In order for resources to be valuable they need to be strategically deployed in various functional areas in the form of business processes and activities, thereby developing capabilities inside the organisation. Resources and capabilities need to possess the VRIO characteristics for them to result in core competencies. Javidan (1998) argues that core competencies add greater value because they expand the boundaries of capabilities; they result from interactions among capabilities. For example, Discovery has a good MIS (management information system) capability. It generates high- quality information about its customers and uses it as a base for targeting customers for new products. It also possesses the capabilities to develop new financial products to serve its customers better. Discovery realises maximum value by combining and leveraging its capabilities.

It is through the identification of core competencies that strategists are able to strategise better and achieve a competitive advantage, create value for the customer and achieve excellent profitability for the organisation. In practice, Discovery Health is a good example of this. Jonathan Broomberg, the CEO of Discovery Health says that the organisation’s profitability is a result of its competitive advantage, which is achieved through a number of business factors, including continuous innovation and greater operational efficiency driven by management excellence, and by large investments in advanced systems and customer service technologies (Lameez, 2018).

In this section we identified and explained the concepts of resources, capabilities and core competencies and how they result in a competitive advantage. As we conclude this section, note that these concepts form the core of the internal environment of the organisation. Therefore, when we analyse the internal environment, these concepts are the foci of the analysis. In the next section we explore the resource-based view (RBV) model.

Activity

Spur Corporation scenario

Access the links below, then answer the questions that follow:

1. *https://www.spurcorporation.com/operational-profile/market-environment/*
2. *https://www.spurcorporation.com/wp-content/uploads/2018/11/Integrated-Annual-Re- port-2018_2.pdf*
3. https://www.fin24.com/Companies/Retail/Spur-restaurant-sales-top-R6bn-20150910

4. https://www.iol.co.za/business-report/companies/spurs-interim-restaurant-sales-rise-to-r39bn-19053775

QUESTION:

What are the characteristics that resources and capabilities need to possess in order for them to become core competencies? Answer the question by giving a **thorough discussion of each of the four characteristics** and illustrate *your answer with* **practical examples** from the Spur Corporation scenario.

Feedback

See suggested answer below:

Value *– Implies the ability of the organisation to transform a resource into a product or service at a lower cost or with a higher value to the consumer. Capabilities are valuable when they enable an organisation to implement a strategy that improves efficiency and effectiveness. Spur has great intangible resources such as their brand name and the reputation that they have with their target customers. These resources create value for the organisation since they enable Spur to implement their strategy efficiently. For example, children from many South African households enjoy the Spur experience created by the exciting kids' play areas, the Secret Tribe loyalty club, the amazing edutainment Spur Tribe magazine, spectacular kids' birthday parties, free balloons and many more.*

Rarity *– A valuable resource and/or capability that an organisation owns that the other organisations do not have, and that is not generally available in the open market. Spur does not have rare resources or capabilities of any significance.*

Inimitability *(it cannot easily be imitated) – Inimitable and core competencies are valuable, unique and complex resources including intangible resource such as reputation, networks, client trust and intellectual property. Capabilities such as knowledge, the culture of the organisation, skills and experience that make it difficult for competitors to copy what an organisation is doing result in a sustained competitive advantage. The recipes that Spur uses for their food, the culture that they have created and the kind of service that they offer to their customers are complex resources that cannot easily be imitated by competitors. You can only get a Spur experience from a Spur restaurant and this results in a competitive advantage for the corporation.*

Organisation *(structure and policies) – The organisation's structure and systems should be suitable for a specific competitive advantage. If an organisation cannot be geared to exploit a resource or capability, it will have little value. The management of the Spur Corporation is aware of both the potential competitive advantage and the action required to realise it. This is evident in their business model and financial performance. Spur's structure and systems are suitable for this kind of a model, and as a result, the corporation has been doing relatively well and has gained a competitive advantage in an environment of continued slowdown in middle-income spending as indicated by the CEO of the Spur Corporation.*

5.4 THE RESOURCE-BASED VIEW OF INTERNAL ANALYSIS

Study the following learning outcome in chapter 6 of your prescribed book:
LO 3: Explain the resource-based view of an organisation's internal analysis, (section 6.3).

The Resource-based view (RBV) is a model used to analyse the internal environment of the organisation in order to identify its internal strengths and weaknesses. It determines where the organisation can build competitive advantage, superior performance and customer value (Nieuwenhuizen, 2022). A central premise of this view is that organisations compete on the basis of their resources and capabilities (Peteraf & Bergen, 2003).

RBV is a useful strategic tool for strategy practitioners. While strategising, they use the model to analyse an organisation's resource position – in other words, to determine whether a resource is a strength or weakness and formulate strategies to exploit the strengths and counter the weaknesses. For example, an organisation that wants to enter a new industry could use its current resources to develop a product for that industry. Discovery had to tap into some of its existing resources as it was developing and launching Discovery Bank.

Nieuwenhuizen (2022) identified important considerations that could assist you in identifying the strengths and weakness of an organisation. You can read more about them in section 6.3 of the prescribed textbook.

It is important that you do not get confused between the RBV and SWOT analysis. As you already know by now, a SWOT analysis helps strategy practitioners to determine an organisation's strengths, weaknesses (internal/micro-environment), opportunities and threats (external/macro-environment). SWOT is used to analyse both micro and macro-environments, whereas the RBV only focuses on the internal environment with an emphasis on resources and how they can be exploited through capabilities to build a sustainable competitive advantage.

Activity

Read through the opening case in your prescribed book and do the following:

Use the RBV model to analyse the internal environment of Discovery Bank. In your analysis do the following: Explain by means of an example from the given case the resource position (strength or weakness) of Discovery Bank.

Feedback

See suggested answer below:

- *Human resource – they now have a strong team of people – **Strength**.*
- *Financial resources – R1.5 billion has already been invested in the project – **Strength**.*
- *Technological resources – Existing database for target market – Discovery Bank will target essentially the same market as its health and insurance businesses, namely the "mass affluent market" – **Strength**.*
- *Capability – Core competence – Innovation – What Discovery brings to the banking industry is the ability to innovate and a lot of experience in disrupting other industries – they were, after all, the company that revolutionised health insurance in South Africa – and millions of loyal Vitality customers - **Strength**.*
- *Skills and reputation – Lack of experience in the banking sector – What they do not have, is extensive experience of operating a bank successfully – **Weakness.***

5.5 IDENTIFYING THE RESOURCES, CAPABILITIES AND CORE COMPETENCIES OF AN ORGANISATION

Study the following sections of LO 4 in chapter 6 of your prescribed book:

- Section 6.4.1
- Section 6.4.2

Explain the identification of capabilities and core competencies to create value according to the functional area and value chain analysis.

An organisation's resources, capabilities and core competencies can be identified, classified and analysed either (1) according to its functional areas, or (2) through an analysis of its value chain. We will start by looking at the functional analysis; then we will proceed to the value chain analysis (read through section 6.4.1 and section 6.4.2 of the prescribed book).

Before we look at the functional analysis, we would like to remind you that capabilities and competencies are the same. However, core competencies (also referred to as distinctive capabilities) are those capabilities or competencies that distinguish an organisation from others in an industry and form the basis of its competitive advantage, strategy and performance. Thus, capabilities can become core competencies of an organisation.

5.5.1 Functional analysis

Management is an interdisciplinary science. However, there are basic functional areas that are found in any organisation, namely;

- finance
- marketing
- production
- purchasing (procurement)
- public relations (corporate communications)
- human resources
- administration

These functional areas can be used as a basis to identify resources, capabilities and core competencies. For example, the human resources function is concerned with recruiting and maintaining a satisfactory and satisfied workforce. It is a specialised branch of management concerned with the management of staff in the workplace. Therefore, within this functional area strategists need to determine if their employees possess any know-how that is unique to their organisation and that can be considered a core competence and result in a sustainable competitive advantage. See the examples that are provided in section 6.4.1 of your prescribed book.

5.5.2 Value chain analysis

As explained in Lesson 1, the purpose of an organisation is to create value for its stakeholders. This value is created through the process of transforming inputs (resources) into products and services. The value chain is therefore a set of activities that the organisation performs to create value for its customer and other stakeholders. According to Michael Porter (1998), there are two categories of actives in the value chain, namely primary and support activities. These activities are explained in section 6.4.2 of the prescribed book. Table 3 distinguishes the primary activities of the value chain from the support activities.

Table 3: The difference between primary activities and support activities of the value chain

Primary activities	Support activities
Contribute directly to the transformation of inputs and adds value to out- puts /end product. They include: • Production (operations) • Outbound logistics • Marketing and sales • Customer services	Do not directly add customer value. They include: • Administration and infrastructure • Human resource management • Procurement • Technology development

Take note of the figure 6.5 in the prescribed book. Ensure that you can **identify** and **explain** both the primary and support activities of the value chain.

In the following section we will study the contribution of resources, capabilities and core competencies towards the competitive advantage and sustainable competitive advantage of organisations.

Activity

Read through "Practising Strategy" in section 6.1.1 of the prescribed book. From this case study, identify the following:

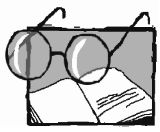
- functional areas
- 3 primary activities
- 3 support activities

Feedback

Basic functional areas that are found in any organisation include: finance, marketing, production, purchasing (procurement), public relations (corporate communications), human resources and administration.

Primary activities	Support activities
Contribute directly to the transformation of inputs and add value to outputs /end product. The primary activities include: • Production (operations) • Outbound logistics • Marketing and sales • Customer services	Do not directly add customer value. The support activities include: • Administration and infrastructure • Human resource management • Procurement • Technology development

5.6 THE CONTRIBUTION OF RESOURCES, CAPABILITIES AND CORE COMPETENCIES TOWARDS COMPETITIVE ADVANTAGE AND SUSTAINABLE COMPETITIVE ADVANTAGE



Study the following learning outcome in chapter 6 of your prescribed book:

LO 5: Discuss the contribution of resources, capabilities and core competencies towards the competitive advantage and sustainable competitive advantage of an organization, (section 6.5).

Nieuwenhuizen (2022) explains that when two or more organisations compete within the same industry, one organisation has a competitive advantage over its rivals when it performs (or has the potential to perform) better than its rivals. Organisations can achieve competitive advantage in two ways: through differentiation or through cost leadership.

Organisations pursuing the **differentiation strategy** can produce products and services that are superior in value to those of competitors. Those who pursue cost leadership can produce products or services at a significantly lower cost than their competitors (cost leadership). For differentiators, competitive advantage is achieved through combining resources, capabilities and core competencies to produce products and services of superior quality. For cost leaders, production efficiency is important.

Activity

Read through "Practising Strategy" in section 6.5 of the prescribed book for examples of companies that pursue competitive advantage through the use of differentiation and cost leadership strategies.

As indicated above, organisations achieve a competitive advantage when they perform consistently better than the market average. However, for them to achieve this, they first have to combine their resources and capabilities in such a way that their core competencies do allow superior product differentiation, or alternatively, substantially lower costs than their competitors (Nieuwenhuizen, 2022). Either a differentiating or cost leadership strategy can be achieved through different capabilities, such as the following:

- The ability to produce high-quality products,
- The ability to innovate,
- Responsiveness to customers,
- Efficiency (economies of scale, economies of learning, designing products for more economical production, using new technologies, reducing unnecessary costs and leveraging location advantages).

Activity

Read through the "Managerial perspective" in section 6.5 of the prescribed book for examples of how these capabilities can contribute to differentiation or cost leadership.

Differentiation and cost leadership are also referred to as business level strategies. These strategies will be explored in more detail in lesson 6.

5.7 CAPTURING THE VALUE GENERATED BY RESOURCES AND CAPABILITIES

Nieuwenhuizen (2022) explains that even when resources are inherently valuable and meet the VRIO (value, rarity, inimitability and organisation) conditions it does not necessarily mean that the organisation will have the capacity to take advantage of and benefit from them. If the organisation cannot capture sufficient value to justify its investment in developing unique resources and capabilities, it will not be able to achieve competitive advantage. The factors that determine the value of resources are competitive advantage, appropriability, sustainability and exploitability. These concepts are relevant in the strategy implementation phase and will therefore be explored further in MNG3702.

5.8 CONCLUSION

Analysing the internal environment of the organisation is centred on the strategic value of resources and capabilities and their role in establishing a sustainable competitive advantage. Various models are used to analyse the internal environment. We have focused on the resource-based view, functional analysis and value chain analysis.

In this lesson we learnt four key concepts. First, we explored the idea of strategic resources, as the tangible and intangible assets of the organisation. We then introduced the concept of capabilities and learnt that it is only when resources are combined to develop capabilities that they become a revenue-generating asset. The third concept that we introduced is core competencies (also known as distinctive capabilities). These are the few very important capabilities of the organisation to do things differently and better than its competitors, providing the organisation with a competitive advantage.

This lesson was concluded by a discussion on how organisations can achieve a competitive advantage through either differentiation or cost leadership. These strategies are referred to as generic strategies or business-level strategies. In lesson 6 we will further explore the business-level strategies that organisations use to achieve competitive advantage in a particular industry.

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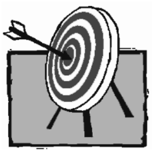
Lesson 6

Developing appropriate business-level strategies

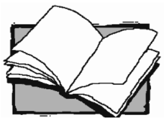


Lesson outcomes

After you have studied this lesson, please make sure that you can do the following:

- Distinguish between different business-level strategies that businesses can use to achieve its strategic goals.
- Critically evaluate the choice of business-level strategy for a specific business.
- Recommend a suitable business-level strategy for a specific type of business.

6.1 INTRODUCTION



Read through the following learning outcome in chapter 7 of your prescribed book:

LO 1: Articulate the nature and use of strategic goals and strategic choices in providing strategic direction (section 7.1).

This section of the prescribed book provides a comprehensive summary of everything we have learnt so far. We see that the purpose of strategic planning is to set the direction of the organisation and to decide on appropriate strategies that will provide a sustainable competitive advantage. These strategic decisions are taken at different levels, namely at corporate level, business level and functional level. Corporate-level decisions culminate in corporate strategies, while business level- and functional level-decisions result in business strategies and functional strategies respectively.

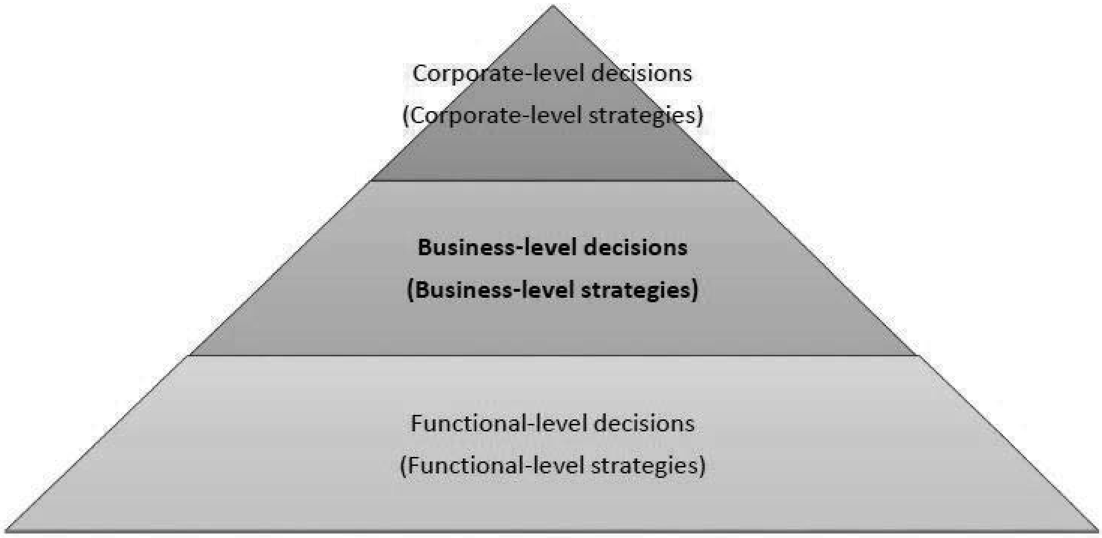


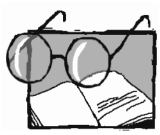
Figure 6.1: Levels of strategy

Source: Adapted from Louw & Venter (2010).

As can be seen from the figure, each level of decision-making represents a different type of strategy. Corporate-level strategies focus on creating corporate value and synergy, business-level strategies focus on creating and sustaining a competitive advantage in a particular industry and lastly, functional-level strategies focus on how to execute corporate-level and business-level strategies (Louw & Venter, 2010) in the organisation.

In this lesson we will focus our attention specifically on business-level strategies. The focus in this chapter will therefore be on the specific industry in which a business organisation finds itself, whether it is the clothing industry, the food industry or the motor industry. You will learn more about corporate-level strategies in subsequent strategic management modules.

6.2 BUSINESS-LEVEL STRATEGIC OPTIONS



Study the following learning outcome in chapter 7 of your prescribed book:

LO 4: Differentiate between the various business-level strategies for creating and sustaining competitive advantage (section 7.4).

One of the questions that strategists have to answer when strategising is "how to compete successfully in the industry" in which the business organisation finds itself. There are different business-level strategies that the organisation can use to compete in its industry, but in order to choose the most appropriate strategy(ies), strategists have to know why consumers buy their products. Is it because their products/services are cheaper? Is it because their products/ services are different from those of competitors or is it because their products/services provide the consumer with more value for his/her money? Answering these questions will indicate to the organisation what the appropriate strategy is to follow. The concept of generic strategies was introduced in the previous lesson where we indicated that organisations can achieve a competitive advantage either by **differentiation**, **cost leadership** or a combination of the two (**best cost**) (Porter, 1985). These strategies and their variations are depicted in figure 7.4 in the prescribed textbook. **Focus strategy** will be dealt with in later sections of the lesson. Jansen van Rensburg (2022) confirms that when customers are asked why they buy a specific product, it generally boils down to the following three reasons:

- *It is cheaper*
- *It is different*
- *It provides better value for money*

These reasons underpin the first three generic business-level strategies that an organisation can pursue in order to compete successfully in an industry. In the following section we will discuss each of these business-level strategies.

6.2.1 Cost leadership (or low-cost provider) strategy

Cost leadership strategy, also referred to as the “no-frills” strategy, gains a competitive advantage by maintaining a lower overall cost base (Louw & Venter, 2010). Examples of organisations that follow this kind of strategy include PEP stores; Kulula.com; Mr Price. Refer to the example on practising strategy in the prescribed book, to see how Unilever positions the Surf brand using the low-cost provider strategy.

According to Lazenby (2018), this strategy is characterised by the following features:

- It targets a broader section of the market.
- It sustains its competitive advantage by maintaining a lower cost base than its competitors.
- It offers basic products and services without “frills”.
- It continuously looks for ways to reduce costs without compromising the quality of products and services.

It is very important to note that cost leadership does not necessarily mean low price. Lowering both production cost and price could actually mean that an organisation does not make any additional profit due to its low-cost strategy (Jansen van Rensburg, 2022). The three scenarios below are a good illustration of this:

CURRENT SCENARIO:		
Price = R120	Cost = R60	Profit = R60
SCENARIO 1: Lower costs and lower price:		
Price = R100	Cost = R40	Profit = R60
SCENARIO 2: Lower costs and price kept the same:		
Price = R120	Cost = R40	Profit = R80

Figure 6.2: Examples of cost scenarios

As can be seen from scenario 1, a low-cost provider can charge a lower price and still make the same level of profit as a result of lower costs. Scenario 1 can also be applied when an organisation aims to gain a bigger market share, whereas scenario 2 can be applied when aiming to increase profit.

6.2.2 Differentiation strategy

Following this strategy is a way for an organisation to differentiate itself from competitors, as it aims to produce products and services that are unique across the industry (Louw & Venter, 2010). This strategy is suitable when customers are not price sensitive and are willing to pay a premium price for the "uniqueness" they value in a product or service. The strategy may focus on either a broad or a narrow buyer segment (Jansen van Rensburg, 2022).

The following example illustrates a situation where this strategy may be suitable: you are the owner of a small gardening shop. With the spring season in full swing you are preparing for the high demand of gardening products and services for the summer season. You realise that in order to compete successfully with the rivals in your area who also sell gardening products and services, you will need to gain a competitive advantage. To do this, you need to offer something that is unique and valuable; something that will attract customers to your store. It must be something that is so appealing that customers are even willing to pay a higher price for it. A differentiation strategy would be suitable in this case. An example of differentiating yourself from competitors could be through improving your customer service by opening a gardening advisory section within the shop. Here you can provide guidance and sell gardening books. You can even offer gardening classes to beginners, and much more.

Organisations following a differentiation strategy offer unique products to customers who value differentiated features more than they value lower price. Other examples of organisations following this kind of strategy include BMW and Woolworths. Look at the example on practising strategy in the prescribed book to see how Unilever positions the Skip brand using the broad differentiation strategy. According to Lazenby (2018), this strategy is characterised by the following features:

- It targets a broader or niche section of the market (it can be broad or focused).
- It sustains its competitive advantage by offering customers products or services that are attractive and unique from those offered by competitors.
- The emphasis is on uniqueness of product or service features.
- It charges a premium price for products or services offered.

6.3 Best-cost provider strategy

There are cases where neither a cost leadership nor a differentiation strategy is suitable. Such cases necessitate a best-cost provider strategy (Louw & Venter, 2010). The best- cost provider strategy is a combination of low cost and differentiation strategies. It gives customers more value for their money by offering upscale product features at a lower production cost than competitors (Jansen van Rensburg, 2022). Organisations can follow this strategy to serve a broad or narrow target market (Lazenby, 2018). An example of an organisation that follows this kind of strategy is McDonald's. McDonald's SA has a strict quality control process in place. Their set quality standards ensure consistent quality from suppliers. They also use standardisation to try and achieve the lowest cost possible per service offering (which then results in affordable prices). As a result, they offer the best value possible for their customers.

According to Lazenby (2018), this strategy is characterised by the following features:

- It targets customers who are value-focused.
- It sustains its competitive advantage by giving customers value for money.
- Products or services offered have appealing and upscale features.
- It focuses on best value by either providing features at a lower price than that of competitors or matching competitor price whilst providing better features.

6.4 Focus strategy

The strategies we have discussed up to now were based on broad market segments, for instance: broad cost leadership (Pep Stores, Kulula and Mr Price) and broad differentiation (BMW and Woolworths). A focus strategy (either focused cost leadership or focused differentiation) involves targeting a niche market and offering products and services to that particular market while excluding others (Jansen van Rensburg, 2022). Therefore, the main differentiator between a broad and a focused strategy is that a focused strategy is aimed at serving the needs of a limited group of customers, while a broad strategy focuses on serving a broad section of the market (Lazenby, 2018).

The table below provides examples of broad and focused strategies.

Table 1: Example of business-level strategies

ECONOMY *These strategies rely on reducing production costs and increasing sales volume.*	**PREMIUM** *These strategies rely on achieving high profit margins.*
Broad low-cost strategy • Toyota Etios	Broad differentiation strategy • Mercedes-Benz C-Class
Focused low-cost strategy • Suzuki Celerio	Focus differentiation strategy • Aston Martin Vantage AMR

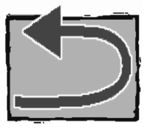
Table 1 shows the difference between broad and focused strategies. Looking at the economy side of the table, the focus is on *reducing production costs and increasing sales volume*. Here we have the Toyota Etios. This car is targeted at a broad section of the market. It sells high volumes and repeatedly falls within South Africa's 10 bestselling passenger cars (*Car magazine*, 2018). Consumers in this market are not looking for "frills". They are concerned about quality and are price sensitive. Still on the economy side of the table we also have the Suzuki Celerio. This car is targeted at a niche section of the market, namely at students and first-time buyers. This segment has competitors such as Toyota Aygo and Volkswagen Up. The Suzuki Celerio has the lowest price (and possibly cost) compared to its rivals.

Looking at the premium side of the table, the focus is on *achieving high profit margins*. Mercedes-Benz is one of the best-selling luxury brands in the world. The C-Class is a best seller among the Mercedes-Benz range of cars (Taylor, 2018). Mercedes-Benz uses a broad differentiation strategy to position this car in the market. It appeals to a broad section of the market and is sold at a premium for its luxury features. On the premium side of the table, we also have the Aston Martin Vantage AMR which targets a niche market of luxury sports car enthusiasts. The car is unique and match the requirements and taste of the targeted customers. Customers are willing to pay a premium for this luxury sports car.

Activity

Conduct some research on Shoprite (by visiting the nearest Shoprite store or through an internet search) and answer the following questions:

- *Identify the business level strategy followed by Shoprite.*
- *Provide reasons to substantiate the answer given in a) above.*



Feedback

When answering this question look for the following:

- *whether the products that Shoprite is selling are cheaper, different, and more value for money*
- *Where are the stores located? Who is the target market?*

6.5 Evaluating strategic choices

Study the following learning outcome in chapter 7 of your prescribed book:
LO 5: Explain the evaluation of strategic choices (section 7.5).

After identifying potential business-level strategies, an organisation needs to evaluate these options to choose the most appropriate one. (Jansen van Rensburg, 2022). In this section we focus our attention on the evaluation of strategic choices. Figure 2 below highlights the key evaluation criteria that strategists use to evaluate strategies. Read section 7.5 of the prescribed book for a detailed explanation of each criterion.

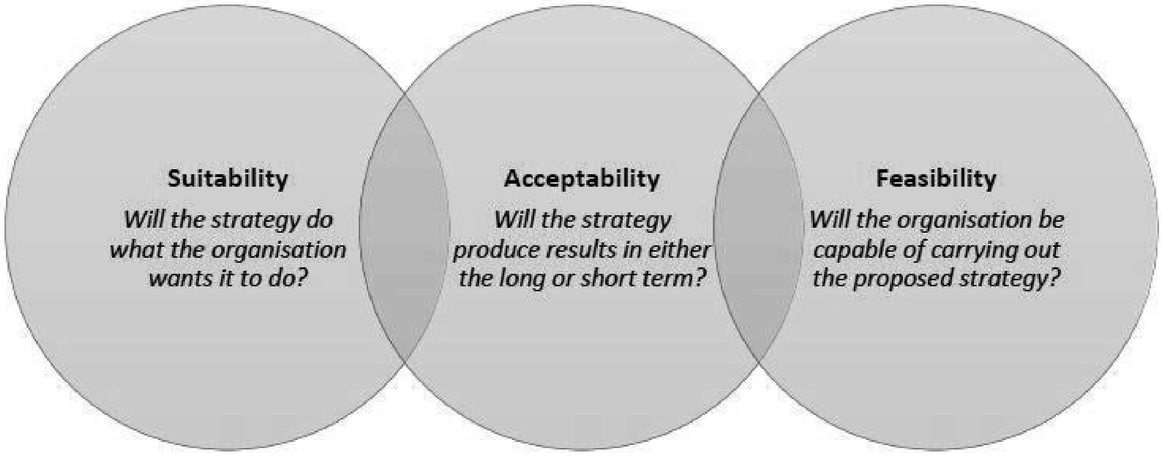


Figure 6.3: Key evaluation criteria

Suitability

A suitable strategy does what the organisation wants it to do, while considering its context. Suitability, also referred to as appropriateness, considers whether the proposed strategies are suitable for the context of the organisation (Louw & Venter, 2010). Suitable strategies need to exploit external opportunities and internal strengths, whilst also overcoming external threats and internal weaknesses (Jansen van Rensburg, 2022). For example, if an organisation has identified its financial resources to be a weakness, a differentiation strategy would not be suitable because such a strategy requires a huge capital investment. Such an organisation would rather go with a cost leadership strategy since it gains a competitive advantage by maintaining a lower overall cost base.

Acceptability

The acceptability of a proposed strategy option is determined by expected performance outcomes (Jansen van Rensburg, 2022). Therefore, the question to answer here is "Will the strategy produce results in either the long or short term?" (Louw & Venter, 2010). The following three considerations help strategists when answering this question:

- Risk.
- return (the financial benefits which stakeholders are expected to receive from each strategic option).
- stakeholder reaction.

Feasibility

This criterion answers the question, "Will the organisation be capable of carrying out the proposed strategy?". A proposed strategy option is feasible when the organisation has, or is in a position to obtain, the necessary resources and capabilities required to implement it (Jansen van Rensburg, 2022).

Activity

Spur Corporation group scenario

Access the links below, then answer the questions that follow:

https://www.spurcorporation.com/operational-profile/market-environment/
https://www.spurcorporation.com/wp-content/uploads/2018/11/Integrated-Annual-
Report-2018_2.pdf
https://www.fin24.com/Companies/Retail/Spur-restaurant-sales-top-R6bn-20150910
https://www.iol.co.za/business-report/companies/spurs-interim-restaurant-sales-rise- to-r39bn-19053775

QUESTION:

The Spur corporation group is composed of different brands. Identify business-level strategies pursued by the Spur Corporation group. Conduct additional research and illustrate your answer with **practical examples**.

Feedback

See suggested answer below:

The Hussar Grill *– follows the differentiation strategy.*
The brand is positioned as one of South Africa's premier grill rooms – offering perfectly aged succulent steaks, delectable house specialities with an amazing award-winning wine selection ... they even give you an option to bring your own favourite wine, at no charge. The restaurants are located in upmarket areas such as Waterfall and Morningside. Since it is a premium brand, they charge a premium price for their products and services.

Spur steak ranches *– Follows the best cost provider strategy*
The brand has as earned a reputation for tasty, nutritious, value-for-money meals. It offers upscale meals and service at reasonable prices compared to that of competitors – such as a warm, relaxed, family-friendly environment; generous portions of great-tasting food; the Secret Tribe loyalty club, the amazing edutainment Spur Tribe magazine, spectacular kids' birthday parties and many more.

Captain DoRegos *– follows the low-cost strategy.*
Looking at the different brands under the Spur Corporation group, the Captain DoRegos brand was positioned as low-cost provider. When you walked into the Captain Doregos' outlets you could see the simplicity in the design of the shops; there were no frills as compared to a Hussar Grill. However, note that, as of 1 March 2018, this brand is no longer part of the group.

6.6 CONCLUSION

In this lesson we focused on business-level strategies. We highlighted that business- level strategies deal with how organisations compete in the industry in which they find themselves. Five generic business-level strategies were identified. The most important differences among these strategies are: whether an organisation's target market is broad or narrow, whether the organisation is pursuing a competitive advantage linked to low cost or product differentiation or a combination of the two. We concluded the lesson by learning that strategies are evaluated against three key evaluation criteria, namely suitability, acceptability and feasibility. The outcome of the evaluation determines whether the potential strategy has a strategic fit within the industry environment or not.

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